

SENATE FINANCE COMMITTEE  
February 8, 2012  
9:02 a.m.

9:02:40 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Lesil McGuire, Vice-Chair  
Senator Johnny Ellis  
Senator Dennis Egan  
Senator Donny Olson  
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Senator Cathy Giessel; Representative Mike Hawker; Tim Grussendorf, Staff, Senator Lyman Hoffman; David Teal, Director, Legislative Finance Division; Michelle Strickler, Self; Monica Witter, Juneau Education Association; Jenny Malecha, Self; Max Mertz, Juneau Chamber Commerce; Marc Choate, Juneau School Board; Carl Rose, Executive Director, Association of Alaska School Boards; Molly Hillis, Self; Andi Story, Juneau School Board; Amy Lujan, Executive Director, Alaska Association of School Business Officials; John Alcantra, Government Relations Director, National Education Association (NEA) -Alaska; Mary Hakala, Coordinator, Science Technology Engineering Math Initiative; Adam Berkey, Self

PRESENT VIA TELECONFERENCE

Peggy Cowan, Barrow, Superintendent, North Slope School District; Melissa Borton, President, Kodiak Island Board of Education; Chad Stiteler, Chief Financial Officer,

Anchorage School District; Richard Rios, Acting Director for Career and Technical Education, Anchorage School District; Andre Layral, Executive Director, Alaska Association of Secondary School Principals; Adam Mokolke, President, Alaska Association of Secondary School Principals; Karie Boyd, Superintendent, Yukon Koyukuk School District; Steve Bradshaw, Sitka School District; Lisa Bush, Sitka; Charlie Wilber, Sitka; Pete Lewis, Superintendent, Fairbanks North Star Borough School District; Kristina Brophy, President, Fairbanks North Star Borough School District Board of Education; Cindy Jorgensen, Fairbanks; Anne Kilkenny, Mat-Su; Jill Showman, President, Mat-Su Education Association; Rob Thomason, Petersburg, Superintendent, Petersburg City School District

SUMMARY

SB 171 INCREASE BASE STUDENT ALLOCATION

SB 171 was HEARD and HELD in committee for further consideration.

SB 187 PENSION RESERVE FUND

SB 187 was HEARD and HELD in committee for further consideration.

#sb187

SENATE BILL NO. 187

"An Act creating the pension reserve fund; changing the manner in which employer contributions to the Public Employees' Retirement System of Alaska are calculated; repealing a requirement that the state make certain contributions, in addition to employer contributions, to pay the past service liabilities of the Public Employees' Retirement System of Alaska; preventing certain transfers to the Public Employees' Retirement System of Alaska from causing reductions in damage awards for wrongful or negligent conduct of third parties; adding to the duties of the Alaska Retirement Management Board; and providing for an effective date.

[9:04:03 AM](#)

TIM GRUSSENDORF, STAFF, SENATOR LYMAN HOFFMAN, stated that the main purpose of the bill was to establish a plan to eliminate the unfunded liability in the Public Employees Retirement System (PERS), without paying hundreds of millions of dollars in annual state assistance to the trust

fund. He explained that in FY08 the state took action to address the concerns of other political subdivisions of the state-managed PERS system. He noted that 60 percent of the unfunded liability was for state employees, but the other 40 percent was political subdivisions. He continued that in FY 08 a shared cost system had been adopted as a solution to the subdivision concerns; setting the employer contribution rates at 22 percent of payroll, and shifting the cost and excess of the percentage to the state. He relayed that the actions had not reduced the total cost of PERS, but had provided state financial assistance to the political subdivisions. He listed the events that had put the state in the position of having to make escalated annual contributions to the trust fund in order to keep the fund assets in-line with the accrued liabilities:

- the stock market crash
- the rising cost of healthcare
- the extended life expectancy of the covered population
- the lowering of the future investment expectations of the fund by the Alaska Retirement Benefit Board

Mr. Grussendorf stated that the combination of events had put the state assistance costs, the costs above 22 percent, at an escalating, unsustainable rate. He explained that state assistance to the PERS system had grown from \$108 million in FY 10; to \$165 million in FY11, \$242 million in FY12, and \$307 million in FY13. He reiterated that the cost of state assistance was projected to escalate; reaching a peak of \$533 million annually before turning downward near FY30. He illuminated that the legislation would create a separate reserve account that would supplement the PERS trust fund as needed to insure that the unfunded liability ratio was maintained at no less than 50 percent. He said that a \$2 billion infusion of funds was projected to save the state \$7.3 billion in annual payments over a 20 year period. He furthered that the plan would bring the PERS trust fund back on track and would allow the state to recover its original \$2 billion investment.

[9:08:09 AM](#)

Mr. Grussendorf cited the sectional analysis (copy on file). He explained that Section 1 prevented money transfers from the proposed pension reserve fund, to the PERS system, from causing reductions in potential damage awards for wrongful or negligent conduct of third parties. He furthered that Section 2 added management of a proposed pension reserve fund to the primary mission of the Alaska Retirement Management Board (ARMB).

[9:08:39 AM](#)

Mr. Grussendorf continued that Section 3 added duties related to the management of the proposed pension reserve fund to the existing duties of the ARMB, which included making annual comparisons of the value of the assets of the PERS system and the value of the combined assets of the proposed pension reserve fund and the total liabilities of the PERS system. He explained that Section 4 established a pension reserve fund, allowed appropriations to the fund, and required money appropriated to the fund be spent on the past service liability of PERS or returned to the general fund.

[9:09:06 AM](#)

Mr. Grussendorf elaborated that Section 5 allowed the ARMB to determine the percentage rate that employer contributions to the PERS system were based on. He furthered that Section 6 added the requirement that; notwithstanding subsection (i), proposed in section 7 of the bill, the annual employer contribution rate may not be less than the rate sufficient to cover payment of employer contributions required for both the defined contribution plan of the PERS system and for the teachers' and public employees' health reimbursement arrangement plan trust fund, as required by the defined benefit plan of the PERS system.

[9:09:45 AM](#)

Mr. Grussendorf discussed Section 7, which required that the rate used to calculate employer contributions under Section 5 of the bill may not exceed 22 percent when the assets of PERS and the pension reserve fund, combined, are equal to or greater than 60 percent of the total of that system's liabilities.

[9:10:08 AM](#)

Mr. Grussendorf explained that Section 8 eliminated a reference to AS 39.35.280, in connection to retiree medical benefits, because AS 39.35.280 would be repealed by section 9 of the bill.

[9:10:19 AM](#)

Mr. Grussendorf concluded that Section 9 repealed AS 39.25.280, a law that required the state to annually contribute money to the past service liability of the PERS system in addition to the contributions the state made to the system as an employer. He added that Section 10 would establish an effective date of June 30, 2012.

[9:10:55 AM](#)

Senator Olson asked how the state acquiring \$7.2 billion three years after the initial \$2 billion deposit into the fund had been calculated.

Mr. Grussendorf deferred the question to the director of legislative finance. He added that modeling had been done by Buck Consultants that would be presented to the committee.

[9:11:38 AM](#)

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced the slide, "Cost of State Assistance to PERS -- with and without a \$2 Billion Deposit." He stated that the annual cost depicted on the graph appeared as a small and fairly flat line because the annual costs were in the \$100's of millions, while the scale of the graph was in billions. He stated that as the \$100's of millions in contributions accumulated, the graph reflected the total cost as it grew over time. He relayed that through FY12 the state had contributed approximately \$1 billion to the PERS trust. The graph illustrated that a one-time FY13 contribution of \$2 billion would allow the state to avoid \$2 billion in annual contributions by FY18, while maintaining an employer contribution rate no higher than 22 percent. He shared that the content of the graph had been determined by using a model produced by the actuarial company Buck Consultants. He added that the company was working on modifications to the model that would allow the state to work with the trigger mechanisms built into the legislation.

[9:14:26 AM](#)

Co-Chair Hoffman asked if the calculation of \$5.3 billion included the repayment of \$2 billion.

Mr. Teal replied in the negative. He clarified for the committee that the bill allowed for recovery of money in the long-term. He said that because of the large unfunded liability the state currently faced, too much money was being contributed to a closed system. He added that normal actuarial methods would cause over contribution to the fund. He explained that the bill backed away from that model and allowed the state to recover the \$2 billion in later years.

[9:15:52 AM](#)

Mr. Teal discussed the slide, "Projected Reserve Balances." The graph illustrated that the reserve balances would drop by \$2 billion with the deposit, but because the state was not making annual contributions the reserve balance would recover and end up being higher than it would if annual payments were to continue to be made. He observed that the balance would drop down given the numbers for projected oil revenue and expenditures.

[9:16:50 AM](#)

Mr. Teal turned to the chart, "PERS Actuarial Projection -- with \$2 billion Deposit to a Reserve Fund in FY13 (Buck Model)."

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Mr. Teal relayed that the chart showed the assets and liabilities of the fund. He stated that the goal was to match assets to liabilities. He explained that liabilities continued to increase in an open system; because the state had closed the system, as the last person under defined benefits retired, the curve would turn downward. He asserted that the concept embodied in the legislation was that the state did not need to follow standard actuarial methods, which would have the state chase the ever extending liability curve, and instead join the curve as it declined. He detailed that the bill would put \$2 billion into the reserve fund, which raised the funding ratio. He explained that the funding ratio was the ratio of assets to liabilities. He said that a 100 percent funded system meant that the assets and liabilities were equal, and the lower the number, the worse off the system. He stated that the current PERS funding liability was at 62 percent, the deposit would push it up towards 70 percent where it would hover and decrease back to 65 percent before it began to recover and went up to full funding. He noted that according to the graph where assets and liability were equal the state was at 100 percent funded. He highlighted that the chart illustrated the rate at which employers paid. He remarked that the rate was currently capped at 22 percent, and would remain at 22 percent until the funding ratio began to climb. He said that when the ratio began to climb the rate would fall towards the normal cost of the system and the state would begin to recover excess money from the fund. He likened the legislation to a very long-term loan to the retirement system.

[9:20:41 AM](#)

Mr. Teal offered that the logical progression was simply that the bill established a reserve fund because money contributed directly to the PERS trust fund could never be withdrawn. He said that putting the money into a reserve fund would keep it from being locked-up.

[9:21:11 AM](#)

Mr. Teal explained that the bill would establish transfer mechanisms. The first mechanism would be a 50 percent trigger that would ensure that money would move from the reserve account to the trust fund proper in order to maintain a 50 percent funding ratio. He admitted that the 50 percent number was arbitrary and that some could consider it too low, but that the model worked fine at 50 percent. He stated that the second transfer mechanism, at 95 percent, would allow the state to recover the loans. Once the fund was healthy enough to have a funding ratio of 95 percent, money would begin to flow back to the general fund. He relayed that the third trigger, at 60 percent, included the trust fund plus the reserve account and divided by liability. He communicated that the trigger was designed to prevent future legislatures from raiding the fund.

[9:24:11 AM](#)

Co-Chair Hoffman referred to the chart, "Cost of State Assistance to PERS -- with and without a \$2 Billion Deposit." He wondered if the 40 percent liability would be directly attributed to municipalities.

Mr. Teal responded that the ratio of 60:40 was the current standing. He said it could be argued that the state should not bear the responsibility to put up the entire \$2 billion to keep rates at 22 percent, and that municipalities should put up their 40 percent. Under that scenario the state would contribute \$1.2 billion and the municipalities would have to come up with \$800 million. He did not believe that municipalities would be able to come up with the funds. He furthered that it was a bonus to municipalities that they did not have to produce a share of the unfunded liability; however, they were continuing to pay a portion of the unfunded liability because they continued to pay the 22 percent rate, half of which was a contribution to past service costs. He stressed that the state was not absorbing the entire amount, but a large portion.

[9:26:18 AM](#)

Co-Chair Stedman stated that the committee would delve into further detail upon the next hearing of the legislation.

[9:26:34 AM](#)

Senator Ellis thanked Mr. Teal for working with his office on the legislation, particularly on the reserve fund concept.

[9:27:09 AM](#)

Senator Thomas asked whether conclusions and recommendations from the ARMB were reflected in the bill.

Mr. Teal responded that the board had examined the option presented in the bill. He did not believe that the board supported, nor understood, the legislation. He thought that the board should be questioned directly. He noted that the board had reviewed a number of options, and that those options would be before the committee in the coming weeks.

[9:27:45 AM](#)

Co-Chair Stedman added that the board would be before the committee in the future.

[9:28:21 AM](#)

SB 187 was HEARD and HELD in committee for further consideration.

Co-Chair Stedman observed the fiscal note: NEW FN (DOR).

#sb171

SENATE BILL NO. 171

"An Act increasing the base student allocation used for public school funding; and providing for an effective date."

[9:29:24 AM](#)

SENATOR JOE THOMAS, FAIRBANKS, testified that SB 171 would provide stable, modest increases to the base student allocation (BSA) over a 3 year period. The increases would be as followed: FY13, \$125 per student; FY14, \$130 per student; FY 15, \$135 per student. He stated that the bill would give districts the ability to craft a responsible and conservative budget. The 3 year plan of modest increases, lower than the inflation rate, provided districts financial parameters for more accurate financial planning. He shared that the legislature had recently passed a similar 3 year plan, which had enabled school districts to count on reliable funding through BSA increases. He stressed that BSA increases were necessary for the education of Alaska's children and that the cost of education increased yearly along with all other costs included in the state budget. He noted that many districts were reporting large deficits for 2013, even with the increases provided by SB 171. He said that without the increase schools would have to make major cuts in staff and services, or municipalities would have to raise property taxes. He urged committee support for the legislation.

[9:31:14 AM](#)

Co-Chair Stedman discussed the fiscal notes: FN1 (DEED) and FN2 (DEED). He pointed out to the committee that the fiscal notes would be restated, as problems had been identified; the BSA increases were cumulative, which was not reflected in the note. He added that the costs beyond FY15 should be reflected in the note.

Co-Chair Stedman OPENED public testimony.

PEGGY COWAN, BARROW, SUPERINTENDENT, North Slope SCHOOL DISTRICT (via teleconference), spoke in strong support of SB 171. She stated that by adding to the BSA, the senate would be taking a leadership position in understanding that additional funding was the fuel that fed Alaska's schools. She added that the ongoing budget pressures faced by the North Slope School District each year included: energy, fuel, utilities, benefits, and healthcare. She shared that due to the loss of the National Preserve Petroleum Reserve Act Grant programs, infrastructure, and positions had been cut. She stressed that the district would face a \$3.2 million budget gap in 2013. She relayed that, despite being generous in the past, the borough was facing declining population and property values, which would hinder future financial aid to the district. She said that the increase proposed in the bill would result in \$600,000 for the district, which would help to avoid the full amount of staff and program cuts, and leave a remainder of \$2.5 million.

[9:36:01 AM](#)

MELISSA BORTON, PRESIDENT, KODIAK ISLAND BOARD OF EDUCATION (via teleconference), testified in support of SB 171. She stated that Kodiak was facing a \$3.5 million shortfall for the 2013; the equivalent of 36 teaching positions, or 9 percent of the current staff. Additionally, art and sports programs would suffer. She stressed that one-time funding did not help to meet district needs. She stated that failure to increase the BSA would lead to lay-offs, larger class sizes, and the elimination of many needed programs. She said that the bill would give the districts the ability to plan in advance for the education of students, and help maintain some financial security over time. She opined that in reality it would take a \$320 BSA increase to enable districts to keep up with expected costs.

[9:37:48 AM](#)

CHAD STITELER, CHIEF FINANCIAL OFFICER, ANCHORAGE SCHOOL DISTRICT (via teleconference), expressed support of SB 171. He shared that increases to the BSA were critical for the effective financial planning for school districts. He explained that in order to set the local mill rate for property taxes, the assembly required the district to

provide the budget in March for approval. He said that the budget that would be presented assumed no increase to the BSA, and included a \$10 million drop in state revenue, largely recognizing the one-time funds provided in 2012. He testified that both local and federal funding was expected to increase, but the cost of maintaining existing programs exceeded the increases. He explained that the current district budget included cuts of nearly \$23 million in services in order to balance. The cuts included contractual obligations and anticipated inflation increases of approximately \$15 million; less than a 3 percent increase. The increase was relatively low because the district had adopted a value based budget process that linked the districts values with the available resources. The process insured that when cuts were made the most effective programs were retained. While the budget process was a multi-year process, the district had been engaged in educational program evaluation and use of performance measurements. He said that using the data to identify efficiencies had helped guide the district when cutting services and redistributing funds to the most needed areas. He stressed that multi-year funding, with inflationary increases to the BSA, was imperative.

[9:41:06 AM](#)

RICHARD RIOS, ACTING DIRECTOR FOR CAREER AND TECHNICAL EDUCATION, ANCHORAGE SCHOOL DISTRICT (via teleconference), testified in strong support of SB 171. He stated that every district had critical need and that it made no sense to require them to purchase class room machinery, when there was no heat in the schools or teachers to instruct students. He requested that the committee research removing the limitations of SB 84 (passed in 2011) to expand its inclusion to middle schools. He noted that President Obama had identified the national need for better technical skills and training in more jobs. He stressed that technical education began much earlier than high school; middle schools needed assistance for technical programs as well.

[9:43:35 AM](#)

ANDRE LAYRAL, EXECUTIVE DIRECTOR, ALASKA ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS, FAIRBANKS (via teleconference), spoke in support of SB 171. He testified that the association supported the bill because the regular increases in the BSA would help districts and schools adequately plan year-to-year without the disruption caused by funding uncertainty each spring. He stressed that the increases were necessary in order to accommodate for persistent inflationary pressures faced by school districts in the areas of instruction, payroll, healthcare, transportation, and energy costs.

[9:45:09 AM](#)

ADAM MOKELKE, PRESIDENT, ALASKA ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS, WASILLA (via teleconference), testified in strong support of SB 171. He reiterated previous testimony that the BSA increase would allow for planning and budgeting without the uncertainty currently faced by school districts. He noted that his district was facing a 2 year deficit due to the lack of a BSA increase for 2011. He shared that the superintendent in the Mat-Su noted a 6 percent increase in operating costs for 2012. He contended that flat funding actually hurt education because flat funding did not allow schools to keep up with inflation.

[9:46:38 AM](#)

KARIE BOYD, SUPERINTENDENT, YUKON KOYUKUK SCHOOL DISTRICT (via teleconference), spoke in support of SB 171. She shared that the district consisted of 9 village schools ranging in enrollment from 12 to 80; all villages were fly-in except for 2. She added that the Raven Correspondence School serviced approximately 100 students. She highlighted that in 2011 the district had been removed from intervention status after 5 years. She attributed the improvement to strong professional development focus and very low teacher turn over. She stressed that having a steady growth in the BSA set in statute had allowed the district to offer competitive wages and benefits necessary for retaining teachers. She contended that in order for her districts to educate students who would be eligible for the Alaska Performance Scholarship course offerings would need to be increased, which would require more teachers. She opined that maintenance issues were an economic burden in the district and that schools had already taken measures to cut music, library, and art programs. She concluded that currently the district face a deficit of \$600,000.

[9:50:18 AM](#)

STEVE BRADSHAW, SITKA SCHOOL DISTRICT (via teleconference), testified in support of SB 171. He said that from the school districts perspective, the approximately \$80 per student that was given last year for energy relief meant that the \$125 dollar BSA proposed in the bill for FY13 would result in a \$45 dollar increase. He contended that \$45 did not begin to come close to meeting the rate of inflation. He opined that major tax breaks could be given to oil companies when the infrastructure that should be of major focus was Alaska's children. He felt that spending \$95 to \$100 million over the next three years was not a big price to pay, especially if the legislature was considering tax breaks for oil companies that had recently experienced record profits. He reiterated that Alaska's infrastructure was its children, and that the relief was necessary in order for school

districts to meet the goals set by both the districts and the state.

[9:53:18 AM](#)

LISA BUSH, PARENT, SITKA (via teleconference), testified in support of SB 171. She stressed that the state needed an educated workforce. She said that in order to provide for the expected workforce trained gap in marine sciences and fisheries students in Alaska needed to understand basic science concepts, as well as modern science techniques. She relayed that the access to the Pacific Ocean, and forests, gave Alaska the opportunity to have the greatest science programs in the country. She asserted that this would not occur without reliable, steady educational funding. She reiterated that school districts in the state needed to offer a strong K-12 education. She stated that as a business owner, and a person involved in Alaska scientific research and science education, she had witnessed directly the need to increase the BSA now. She noted that good schools would attract people from outside of Alaska that were thinking of relocating. She believed that the state was responsible to help the school districts meet the rising costs of health care and energy. She concluded that the bill reflected good financial planning on the part of the state.

[9:55:52 AM](#)

CHARLIE WILBER, SELF, SITKA (via teleconference), expressed support of 171. He stated that his two daughters had received a quality education from Sitka High and he wanted to ensure that other students received the same quality education. He shared that one of the first questions asked by interviewees for the Seafood Producers Cooperative was about the quality of the school systems in the state. He said that a strong school system not only attracted quality families, but it retained the families in the community. He shared that Sitka had experienced declining enrollments and increased expenses, which had made the budgeting process difficult.

[9:58:35 AM](#)

PETE LEWIS, SUPERINTENDENT, FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT (via teleconference), spoke in support of SB 171. He stated that an increase in the BSA would allow Fairbanks to keep some of the teachers who may otherwise lose their positions. He relayed that the district faced a shortfall of over \$12 million. He understood that the bill would generate \$3.3 million for the district, which would enable the district to keep some staff and allow for future financial planning.

[9:59:44 AM](#)

KRISTINA BROPHY, PRESIDENT, FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT BOARD OF EDUCATION, FAIRBANKS (via teleconference), testified in support of SB 171. She stressed the importance that students receive a quality education in Alaska schools. She shared that Fairbanks had recently seen positive results in its schools; the dropout rate had decreased in the last 6 years to fewer than 4 percent. She said that the dropout rate for Alaska Native students had been cut in half, while the graduation rate had increased by over 17 percent.

[10:01:00 AM](#)

CINDY JORGENSEN, SELF, FAIRBANKS (via teleconference), expressed support of SB 171.

[10:01:47 AM](#)

ANNE KILKENNY, SELF, MAT-SU (via teleconference), testified in support of SB 171. She stated that the legislation would retain approximately 36 teaching jobs in Mat-Su; roughly 300 statewide. She felt SB 171 would result in education more responsible citizens. She stressed that well educated students became productive members of society.

[10:05:19 AM](#)

JILL SHOWMAN, PRESIDENT, MAT-SU EDUCATION ASSOCIATION (via teleconference), spoke in support of SB 171. She echoed previous testimony that flat funding resulted in underfunding. She shared that in 2011, the Mat-Su lost approximately 40 teaching positions due to budget constraints. She furthered that some district schools were currently without full-time specialists, physical education, music programs, and libraries. She stated that many core classes carried a roster of well over 30 students each. She added that school nurses had been a casualty of budget cuts. She indicated that without an addition to the BSA, 142 jobs could be cut in the district.

[10:07:48 AM](#)

ROB THOMASON, PETERSBURG, SUPERINTENDENT, PETERSBURG CITY SCHOOL DISTRICT (via teleconference), testified in support of SB 171. He pointed out to the committee that in 2003-2004 Alaska was 10th nationally for per pupil education funding, falling to 22nd place in 2009-2010. He stated that the Petersburg School District had already reduced staff by 6 full-time positions over the last 3 years. He opined that declining enrollment when combined with increasing health insurance, personnel, and energy costs had been damaging. He noted that 48 percent of the 2011 graduating class had qualified for the governor's performance scholarship.

[10:09:53 AM](#)

MICHELLE STRICKLER, SELF, spoke in support of SB 171. She stated that she was a parent with several children in state's education state system. She noted that statewide graduation rates had improved, and that the state had improved at meeting the career and technical needs of students. She warned that without funding children would not feel safe, empowered, or respected. She felt that the bill did not go far enough to adequately fund districts.

[10:13:12 AM](#)

MONICA WITTER, JUNEAU EDUCATION ASSOCIATION, testified in support of SB 171. She stated that the benefits of the legislation were vast: from improving technology; to retaining highly qualified teachers, para and cultural educators, music teacher, librarians, and arts specialists. She spoke of a program that was designed to improve graduation rates called Advancement Via Individual Determination (AVID). She explained that the dilemma faced by the district was whether to expand the program beyond the middle school, or to cut effective programs and personnel. She said that the BSA increase would help the district to be innovative in the implementation of new technology and research based curriculum. She stressed that having access to modern technology increased student attendance rates, addressed a variety of learning styles, made learning enjoyable, and drew greater interest from the students. She continued that specialized educators were vital to student achievement, and were often the first individuals that gave high-risk students a positive school experience. She stated that larger class sizes caused teachers to spend more time on classroom management and less in innovative instruction.

[10:17:25 AM](#)

JENNY MALECHA, SELF, spoke in support of SB 171. She shared that her 5 year old son had type 1 diabetes and would be starting kindergarten in the fall. She expressed concern with the planned reduction in the number of registered nurses working in schools. She explained that her son required frequent blood sugar tests, multiple daily insulin injections, and monitoring for hyper and hypoglycemia. She was hopeful that with increased state funding her son would have music, art, gym, a clean school, and a registered nurse to keep him healthy and safe.

[10:18:55 AM](#)

MAX MERTZ, JUNEAU CHAMBER COMMERCE, voiced his support of SB 171. He felt that the BSA increase presented in the legislation was too modest. He presented the latest consumer

price index (CPI) numbers, which indicated that over the past 12 months, inflation in the country went up 3 percent; 6.3 percent in Anchorage. He stated that the scheduled increases proposed in the bill of 2.2 percent, each year over the next three years, were modest in light of the figures, and did not begin to cover the real cost of inflation. He furthered that medical care in Anchorage increased by 23 percent in 2011, and utility costs increased by 8.5 percent. He added that when increased medical costs were removed from the equation inflation in Anchorage was 5.8 percent. He believed that schools had been fiscally responsible. He understood that the vast majority of the budget went to salaries, and the vast majority of that to teacher's salaries. He felt that there was nowhere that the district could easily cut spending. He reiterated that strong schools would make Alaskan communities attractive to people relocating from the lower 48.

[10:22:02 AM](#)

MARC CHOATE, JUNEAU SCHOOL BOARD, testified in support of SB 171. He discussed the education budget as it related to the overall state budget. He felt that restricting the educational opportunities for the young people in the state would be detrimental to the state. He said that by fully funding education the state was investing in future leaders.

[10:23:59 AM](#)

CARL ROSE, EXECUTIVE DIRECTOR, ASSOCIATION OF ALASKA SCHOOL BOARDS, spoke in support of SB 171. He indicated that previous testimony had voiced the symptoms of a greater problem. He stated that there was no correlation between how revenue was calculated through enrollment and how increased operating costs were addressed. He offered that the only correlation was the BSA. He said if the BSA was inadequate that districts could not generate enough revenue to cover costs. He asserted that his testimony was a message for the entire legislature and the governor. He opined that the lack of an increase in the BSA for 2013 would mark 3 years of flat funding, and would throw the foundation formula off kilter. He stressed that the district needed the BSA to reach \$320 for FY13 simply to maintain current spending. He concluded that the association supported the legislation because it addressed an increase that was critically important and introduced the whole spectrum of forward funding.

[10:27:23 AM](#)

MOLLY HILLIS, SELF, spoke in support of SB 171. She praised the forward thinking of the intent of the legislation. She noted that studies showed that there had been upward achievement in Juneau schools. She said that the measuring

of adequate progress (MAP) testing in math indicated that every grade level had improved in 2011.

[10:29:03 AM](#)

ANDI STORY, JUNEAU SCHOOL BOARD, testified in support of SB 171. She stated that setting the BSA one year in advance would allow districts to plan educational programs with certainty, and would promote public confidence in schools. She added that it would allow for districts to meet key staff contract deadlines. She explained that the budget not being approved until the legislature adjourned in April resulted in the late retention and recruitment of quality teachers for Alaska schools. She furthered that the Department of Education and Early Childhood Development (DEED) and school districts invested hundreds of \$1000's into training and mentoring programs for teachers and often the investment was lost. She shared that Juneau's city charter deadline was March 31st for the district to present a balanced budget to the assembly, but since the legislature adjourned in April, the board, staff, and public spent unnecessary time revising budgets based on legislative action after the local process has begun. She reiterated that knowing the BSA ahead of time would prevent this situation and allow for budget efficiencies. She stated that in 2012 the district was cutting approximately \$5.8 million, on top of the \$4.1 million cut in 2011. She relayed that more than 65 school staff members would lose their jobs. She said that the Juneau Economic Development Council had estimated that the job losses would result in a negative economic impact to Juneau of nearly \$11.5 million.

[10:32:05 AM](#)

Co-Chair Hoffman commented that in the past 2 years the legislature had taken the position to forward fund education so that pink slips would not be sent out. He noted that although the BSA remained the same, there was forward funding for education in the budget. He noted that pink slips were prevalent in the past, which was why the committee had passed SB 87. He hoped that the public recalled the work done by the committee to improve forward funding for education.

Ms. Story though that the problem was a symptom of miscommunication between the school board and local legislators. She explained that when districts did not have a number for the BSA, regardless of forward funding, there was no mechanism for planning because there was no number indicated in the budget.

Co-Chair Hoffman responded that the most recent number passed by the legislature would be the number districts should employ. He said the last number passed by the

legislature was the number to use until the legislature took different action.

[10:34:39 AM](#)

AMY LUJAN, EXECUTIVE DIRECTOR, ALASKA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS, spoke in support of SB 171. She indicated that the association really liked the multi-year funding that was built into SB 171. She concluded that the legislature had funded regular increases to state government agencies in response to annual increases in wages, benefits, utilities, and other operating costs and the same consideration should be taken for the school districts.

[10:36:45 AM](#)

JOHN ALCANTRA, GOVERNMENT RELATIONS DIRECTOR, NATIONAL EDUCATION ASSOCIATION (NEA) - ALASKA, spoke in support of SB 171. He shared that the flat funding of the BSA for 2012 in the Mat-Su had resulted in an increase in student to teacher ratios from 25.2 children per classroom to 30.2, in one year. He indicated that NEA-Alaska recommended more funding to the BSA than SB 171 provided. He urged the committee to consider additional funding of the BSA.

[10:39:34 AM](#)

Senator Olson asked Mr. Alcantra to comment on prior funding and pink slips.

Mr. Alcantra responded that the work of prior legislatures had alleviated the issuance of pink slips. He reiterated previous testimony that it was unknown to districts how the legislature would fund until adjournment, so the cuts would have to be made according to flat funding figures. He added if positive movement happened with the BSA the district needed to work in retrograde. He commended the work of HB 273. He felt that the flat funding of the BSA had caused budgetary problems to resurface.

Senator Olson understood that the no matter how much money was put into forward funding there would still be a threat of issuing pink slips because the district was waiting to see what action the legislature would take before establishing their budget.

Mr. Alcantra indicated that Senator Olson was correct.

[10:42:36 AM](#)

MARY HAKALA, COORDINATOR, SCIENCE TECHNOLOGY ENGINEERING MATH INITIATIVE, spoke in support of SB 171. She discussed the value of multi-year formula increases. She explained that a formula approach offered an education dividend to schools that allowed schools to focus on improving learning

and instruction. She stressed that the multi-year formula approach allowed schools to focus on educating children. She expressed concern with the future of math and science education programs in the state.

[10:46:02 AM](#)

ADAM BERKEY, SELF, testified in support of SB 171. He related his frustration at Governor Parnell's approach to funding education. He stated that the state was failing its children. He stated that \$60 thousand per year salaries for teachers were a myth. He noted that a qualified teacher had to hold a master's degree which resulted in large student loans. He assured the committee that the money being spent on education was not making it to students, teacher's salaries, or into classrooms. He could not comment on administrative salaries. He expressed confusion as to where the funds were being allocated.

[10:49:31 AM](#)

Co-Chair Stedman CLOSED public testimony.

SB 171 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[10:49:52 AM](#)

The meeting was adjourned at 10:49 AM.