

**ALASKA STATE LEGISLATURE
HOUSE EDUCATION STANDING COMMITTEE**

February 4, 2013

8:01 a.m.

MEMBERS PRESENT

Representative Lynn Gattis, Chair
Representative Lora Reinbold, Vice Chair
Representative Gabrielle LeDoux
Representative Dan Saddler
Representative Paul Seaton
Representative Peggy Wilson
Representative Harriet Drummond

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 27

"An Act relating to student counts, unreserved school operating fund balances, restrictions on school district money, and estimates for public school funding; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 27

SHORT TITLE: STUDENT COUNT ESTIMATES

SPONSOR(S): REPRESENTATIVE(S) FEIGE, COSTELLO, GATTIS

01/16/13	(H)	PREFILE RELEASED 1/7/13
01/16/13	(H)	READ THE FIRST TIME - REFERRALS
01/16/13	(H)	EDC, FIN
02/04/13	(H)	EDC AT 8:00 AM CAPITOL 106

WITNESS REGISTER

REPRESENTATIVE ERIC FEIGE
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As the bill sponsor, introduced HB 27.

MICHAEL PASCHALL, Staff
Representative Eric Feige
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 27 on behalf of the sponsor,
Representative Feige.

LUKE FULP, Chief Business Official
Business & Operations
Matanuska-Susitna Borough School District
Palmer, Alaska

POSITION STATEMENT: Answered questions during presentation of
HB 27.

PETE LEWIS, Superintendent
Fairbanks North Star Borough School District
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 27.

LARRY DEVILBISS, Mayor
Matanuska-Susitna Borough
Palmer, Alaska

POSITION STATEMENT: Testified during discussion of HB 27.

ELIZABETH NUDELMAN, Director
School Finance and Facilities Section
Department of Education and Early Development (EED)
Juneau, Alaska

POSITION STATEMENT: Answered questions during discussion of HB
27.

PEGGY COWAN, Superintendent
North Slope Borough School District
Barrow, Alaska

POSITION STATEMENT: Testified during discussion of HB 27.

DUNCAN WARE, Superintendent
Delta/Greely School District
Delta Junction, Alaska

POSITION STATEMENT: Testified in support of HB 27.

CARL ROSE, Executive Director
Association of Alaska School Boards (AASB)
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 27.

BILL MCLEOD, Superintendent

Dillingham City School District
Dillingham, Alaska

POSITION STATEMENT: Testified in support of HB 27.

ACTION NARRATIVE

8:01:55 AM

CHAIR LYNN GATTIS called the House Education Standing Committee meeting to order at 8:01 a.m. Representatives Gattis, Reinbold, P. Wilson, Drummond, Seaton, Saddler, and LeDoux were present at the call to order.

HB 27-STUDENT COUNT ESTIMATES

8:02:49 AM

CHAIR GATTIS announced that the only order of business would be HOUSE BILL NO. 27 "An Act relating to student counts, unreserved school operating fund balances, restrictions on school district money, and estimates for public school funding; and providing for an effective date."

8:03:04 AM

REPRESENTATIVE ERIC FEIGE, Alaska State Legislature, said that the genesis of the proposed bill was based on both his personal experience and reported observations of school superintendents in his district. He explained that the bill addresses school budgeting using student counts taken during the year for which the funding is applied, even though the planning for this funding began 10-11 months prior to the actual count. He pointed out that this format requires that school administrators plan for a variety of possibilities.

8:05:13 AM

MICHAEL PASCHALL, Staff, Representative Eric Feige, Alaska State Legislature, said that funding is often cited as a major issue for education, and indicated that the bill provides better means for school districts to budget money which they receive. He noted that the committee has heard from the Department of Education and Early Development (EED) with a presentation on

average daily membership (ADM) and the formula calculation for the base student allocation (BSA).

[8:06:08 AM](#)

MR. PASCHALL, referred to the "Public School Funding Program Overview" handout [included in members' packets], and directed attention to page 8, to point out that the current process utilizes an estimated foundation number. He explained that HB 27 would change this method from estimations to actual numbers. Identifying slide 2, "Application of ADM to BSA," of the PowerPoint entitled "HB 27 Application of Average Daily Membership to Base Student Allocation," he explained that the school district budgeting process estimated student enrollment in January, conducted a student count in October, and received a count confirmation the following January. He noted that the school district received funding from July through March based on the estimated funding, and then received funding from April through June based on any adjustment to the confirmed student count. He established that the proposed bill would switch the budget period and the confirmation period, so that the fiscal year expenditures would begin with a calculated hard number instead of an estimate. He referred to the hold harmless provision included in the proposed bill, which would allow for supplemental funding to the school district in April through June for any large increase in enrollment which resulted in additional costs earlier in the school year.

[8:09:13 AM](#)

MR. PASCHALL moved on to slide 3, "Variations in ADM Projections," and offered examples of student counts that were too high and too low, and highlighted the variation in percentages from student count fluctuations for small school districts and large school districts.

[8:10:36 AM](#)

REPRESENTATIVE P. WILSON asked for clarification.

MR. PASCHALL explained that, as funding was based on an estimate, the payment distributions could be either too high or too low depending on the actual numbers. Although the payment would be adjusted in the last quarter of the fiscal year, it would not be known until almost mid-way through the fiscal year.

[8:11:42 AM](#)

REPRESENTATIVE LEDOUX asked about any recourse if the estimate was too high.

MR. PASCHALL replied that funding within the existing formula provided 12 equal payments based on the projection, so the actual payment in the final quarter was adjusted up or down based on the payments in the previous three quarters.

[8:12:20 AM](#)

REPRESENTATIVE SEATON asked for more information about the funding examples on slide 3.

MR. PASCHALL explained that these examples were for district-wide numbers, not individual schools.

[8:13:18 AM](#)

CHAIR GATTIS offered her belief that the impact from the estimates was easier for larger school districts to absorb, and would have a much greater effect on smaller school districts.

MR. PASCHALL opined that even the large districts would report that a small percentage for student differential had a significant financial impact.

REPRESENTATIVE SEATON reflected that a small school had a school size multiplier, and it would be necessary to consider the entire formula and its effect on the funding. He asked if the previous school year hard number was any more accurate than an estimate which would include projected transfers and pre-school additions.

[8:15:40 AM](#)

MR. PASCHALL agreed that the school district would use the actual numbers to budget for the up-coming school year. He pointed out that the adjustment would be received in the following year over a twelve month period.

REPRESENTATIVE SEATON asked to clarify that the additional funding would not be received until the following year.

MR. PASCHALL explained that the money would be received the following year, although it would be based on that year's current enrollment. He noted that the "hold harmless" provision could be invoked if there was a drastic change to the student numbers.

[8:17:09 AM](#)

MR. PASCHALL introduced slide 4, "Statewide Average Daily Membership Fiscal Year 1988-2011," and noted that the average had been relatively flat for the past decade. He moved on to slide 5, "Statewide ADM FY 2002-2011," and pointed out that there had been a statewide 2.7 percent decrease in student population. Indicating slide 6, "The Biggest Losses," he reported that the portrayed districts had the largest enrollment drops. He noted that slide 7, "The Biggest Gains," reflected the modest gains for some districts, with the exception of a continual gain by the Matanuska-Susitna Borough School District.

[8:19:04 AM](#)

MR. PASCHALL explained that budgeting with actual numbers still required adjustment for unanticipated changes and that the reserve funds were used to pay for these adjustments. He reported that historically school districts had been allowed to retain 10 percent of their operating fund in a reserve account. In 2011, the Government Financial Officers Association issued a new best practice, which suggested a reserve account balance equal to two months of operating expenditure, about 16.6 percent. He stated that proposed HB 27 recommended an increase of the reserve account balance to 15 percent, in order to allow

the school board more autonomy for capital purchases, significant repairs, or changes in operating environment.

[8:20:54 AM](#)

REPRESENTATIVE LEDOUX asked for the rationale to any limit for the reserve account balance.

MR. PASCHALL speculated that, as the legislature would prefer not to fund a school district with money that was not being spent, there was a limit placed on the reserve account.

[8:21:58 AM](#)

REPRESENTATIVE SEATON referred to the proposed bill, page 9, line 9, and read:

A district may not accumulate in a fiscal year an unreserved portion of its year-end fund balance in its school operating fund... greater than 15 percent of its expenditures for that fiscal year.

He observed that this referred to an unreserved portion, and asked if there was also a reserved, or any other, portion for accumulated funds.

MR. PASCHALL deferred to the Department of Education and Early Development (EED) for a more detailed response about reserve accounts.

[8:23:12 AM](#)

MR. PASCHALL directed attention to slide 9, "Returned Funds," and explained that these two municipalities, Fairbanks North Star Borough and Matanuska-Susitna Borough School District, had chosen to allocate funding to the schools and, at year's end, to recoup any unspent funds. He explained that this money was removed from the reserve fund and re-allocated into capital accounts. He pointed out that the school operating expenses, and the reserve fund, were funded by both the municipality and the State of Alaska. He acknowledged that it was questionable

whether the money reclaimed by the municipality was, in fact, its money or the state's money.

[8:24:22 AM](#)

REPRESENTATIVE LEDOUX, assessing that most entities spent all of the allocated funding, asked if this was not the same for these school districts.

MR. PASCHALL offered his belief that a school district began operation using financial information which assumed certain funding, but this did not become actual financial information until January, which could then impact funding.

[8:25:30 AM](#)

REPRESENTATIVE P. WILSON asked if the school district was allowed to retain 10 percent.

MR. PASCHALL directed attention to slide 9, which illustrated that the Matanuska-Susitna Borough took \$1.3 million from the Matanuska-Susitna Borough School District at year's end, leaving a reserve balance of 0.6 percent.

[8:26:19 AM](#)

REPRESENTATIVE DRUMMOND reflected that the Anchorage School District was required to maintain a joint fund balance of 8.25 percent with the Municipality of Anchorage which preserved a joint bond rating.

MR. PASCHALL replied that not all the boroughs withdrew the school district reserve funds. He specified that his office had not received any objections from any school districts pertaining to the provisions in the proposed bill. He allowed that, as this was a significant issue for both the Fairbanks North Star Borough and the Matanuska-Susitna Borough, the aforementioned provision was added to the proposed bill.

[8:27:43 AM](#)

REPRESENTATIVE P. WILSON asked to clarify how a statute could allow a school district to retain 10 percent of operating expenses in a reserve account, yet the borough was able to remove that funding.

MR. PASCHALL opined that a school district was allowed, but not required, to keep the money. He suggested that a legal interpretation was necessary.

[8:28:39 AM](#)

REPRESENTATIVE LEDOUX asked why the school districts did not spend this reserve money on necessary items, as opposed to returning the money to the borough.

MR. PASCHALL deferred to the Matanuska-Susitna Borough School District.

[8:29:48 AM](#)

LUKE FULP, Chief Business Official, Business & Operations, Matanuska-Susitna Borough School District, explained that it was not sound fiscal policy to spend in order to alleviate any year-end funding reserves. He pointed out that having only \$268 thousand to return to the Borough from an original operating budget of \$220 million reflected very strategic financial planning. He stated that the fund balance provision in proposed HB 27 would "definitely help us in allowing us to hold a reserve that really is commensurate with the size of budget we're trying to operate." He communicated that although it would not be two months of operating expenses, it would allow a smooth annual expenditure transition for funding shortfalls.

REPRESENTATIVE LEDOUX asked if proposed HB 27 would prohibit the boroughs from taking the excess funds.

MR. PASCHALL expressed his agreement.

[8:31:39 AM](#)

REPRESENTATIVE SEATON asked if there was concern that the borough would not fund to the school district an amount equivalent to the reserve fund.

MR. FULP replied that this would be a transparent public process, as the borough could analyze the school district resources, and determine the appropriation for the upcoming fiscal year. He stated that this approach was supported by the school district as the public would then know exactly how much education funding was given by the municipality. Referring to an earlier question regarding the legality for the removal of reserve funds by the borough, he noted that any remaining reserve funds above the minimum required could be removed by the borough.

[8:34:16 AM](#)

REPRESENTATIVE LEDOUX asked if there was anticipation for more money from the municipality if this provision was passed.

MR. FULP replied that he could not predict the amount of money, but the proposed provision would allow for a more transparent public process with the determination by the municipality of school funding appropriations.

[8:35:06 AM](#)

REPRESENTATIVE P. WILSON asked to clarify that if a borough allocated more funding than was required at the beginning of the year, it could appropriate the excess funding at the end of the year.

MR. FULP expressed his agreement.

REPRESENTATIVE P. WILSON asked if the proposed 5 percent increase would make a difference, or should the proposed bill be amended to only allow the appropriation of any reserve above 15 percent.

MR. FULP opined that the intent of the proposed bill was to eliminate any possibility for the borough to place additional restrictions on fund balances.

MR. PASCHALL added that Section 4 of the proposed bill stated that a borough may not take back funds that were originally appropriated for the school district.

[8:37:05 AM](#)

REPRESENTATIVE SEATON asked to clarify whether there was a greater risk for not enough funding during the current year if the borough was calculating the fund balance, as the increased student count would allow for more state funding in the following year. He asked if the borough could potentially not appropriate enough money.

MR. FULP, in response to Representative Seaton, offered his belief that this mechanism for school district budgeting still had many unknowns. He shared that the Matanuska-Susitna Borough School District had been working with the borough on a long-term funding plan. He noted that the Matanuska-Susitna Borough was split on opinion for the borough to appropriate the excess funding at the end of the budget period. He reported that House Bill 273, enacted in 2008, had approved a multi-year funding plan with an increase in the foundation formula, which allowed the school district to know the state funding three years in advance. He declared that this alleviated a great deal of financial uncertainty each year. However, the current year to year funding methodology for school districts required that the districts maintain the fund balances. He declared support for proposed HB 27, as it allowed the school district to maintain its fund balance which helped smooth over unforeseen operating cost shortfalls from year to year. He pointed out that, as the Matanuska-Susitna Borough School District student count was increasing, with prior year student count funding the district would need to maintain the fund balance in order to pay for expense increases until the funding was brought up to date.

[8:41:53 AM](#)

MR. PASCHALL presented a sectional analysis for proposed HB 27. He noted that Sections 1-3 were only necessary conforming language pertaining to previously made capital expenditures. He said that Section 4 prohibited the municipality from [taking] money from the schools, and created transparency in the budgeting process, so that the community at large would better understand how much money had been budgeted. He declared that Section 5 was additional conforming language. He explained that Section 6 contained the hold harmless provision to provide a school district with additional funding if there was any sharp increase in enrollment. He indicated that the fiscal note attached to the proposed bill had been prepared by Department of Education and Early Development (EED), although it was difficult to predict student counts.

[8:44:34 AM](#)

REPRESENTATIVE SADDLER directed attention to page 8, lines 21-31, and he asked to clarify the conditions in which a district would not qualify for supplemental funding.

MR. PASCHALL explained that this section allowed a school district having a significant enrollment increase, which did not qualify for supplemental funding based on the formula, the opportunity to request additional supplemental funding from the legislature to handle the unforeseen financial hardships that could occur. He offered an example for an increase in intensive needs students, as the cost of education for these students was 13 times greater.

REPRESENTATIVE SADDLER asked for further explanation.

MR. PASCHALL offered as an example that the reserve fund balances of school districts ranged from almost nothing to the maximum allowed, and therefore some school districts would not have the money to meet the necessary expenses.

REPRESENTATIVE SADDLER confirmed his understanding.

[8:48:25 AM](#)

REPRESENTATIVE LEDOUX asked to clarify what would happen in the subsequent year, if additional funds were made available during the current year under the hold harmless clause.

MR. PASCHALL explained that the fiscal note covered the supplemental funding to the school district.

REPRESENTATIVE LEDOUX asked for more clarification regarding subsequent funding.

MR. PASCHALL replied that additional expenditures could result from increases in student population.

MR. FULP explained that the aforementioned provision would impact growing school districts. He noted that for any school system there was scalability and it was occasionally necessary to have additional revenue to supplement actual needs for drastic changes.

[8:50:44 AM](#)

REPRESENTATIVE SEATON, directing attention to page 8, line 28 of the proposed bill, noted that the language was "for an increase in enrollment" and asked if this would go into effect if there were more special needs students, but no increase in enrollment. He asked if there could be application for supplemental funding if a school district was unable to fulfill its needs.

MR. PASCHALL expressed his agreement with the assessment, and explained that this section was an effort to cover the many contingencies that may arise and allow the legislature the ability to address unforeseeable events.

REPRESENTATIVE SEATON asked to clarify that every small school district would qualify for increased funding if there was a student count increase.

MR. PASCHALL concurred.

[8:54:53 AM](#)

REPRESENTATIVE SADDLER returned attention to page 8, line 30, and asked if the language "may request" should be replaced with "shall request."

MR. PASCHALL indicated that EED had been consulted during the drafting of the proposed bill. He offered his belief that this was an analysis by EED to determine an actual need, before including it in the budget. He stated that, otherwise, the legislature would be dictating to the governor what could be included in the supplemental budget, and he questioned its legality.

[8:57:00 AM](#)

MR. PASCHALL returned attention to Section 7 of the sectional analysis, and stated that this increased the reserve fund from 10 to 15 percent. He reflected that this could also be increased, if requested. He moved on to Section 8 which would apply the January student count to the following year rather than the existing year, as currently applied. He reported that Section 9 moved language from one portion of statute to another. He mentioned that Section 10 removed the student count estimates, and that Section 11 provided for an effective date.

[8:58:29 AM](#)

REPRESENTATIVE SADDLER, referring to the page 9, line 18 of the proposed bill, asked if the state still operated a statewide centralized correspondence study program.

MR. PASCHALL replied that he did not know if the program was still in place.

[8:59:14 AM](#)

REPRESENTATIVE SEATON referred to page 9, line 12, of the proposed bill, and asked for the reason to continue use of the October student count.

MR. PASCHALL explained that the only existing count was the October count, which allowed EED to certify the number by

January for its use in the spring budgeting by the school district.

REPRESENTATIVE SEATON asked to clarify that the October count would be applied to the upcoming budget year.

MR. PASCHALL agreed that the student count would apply to the upcoming year, so that the student count could be fixed in the budget and not require any adjustment.

[9:02:17 AM](#)

PETE LEWIS, Superintendent, Fairbanks North Star Borough School District, read from a prepared statement:

This piece of legislation addresses multiple issues as you've heard in the previous testimony and in presentation. It addresses student counts for funding purposes and this will allow school districts to be able to plan ahead knowing the approximate funding levels in the event of enrollment changes. That is a positive for us. HB 27 also increases the limit of the amount of unreserved school operating fund balance from 10 to 15 percent. Since the Fairbanks North Star Borough has a more restrictive local ordinance regarding fund balance, this change would not impact our district. And lastly the bill restricts the assembly's ability to re-appropriate or require the return of funds from the school district unless the district is over the unrestricted fund balance limit. With the proposed legislation, operating dollars would remain with the school district. Currently, a lapse ordinance exists in our Borough. The ordinance has required that operating fund dollars be moved to a borough school facilities maintenance fund, and to date, that's over \$4 million. The annual lapse amount has been capped at \$800,000 and the lapse calculation is really two pronged here in Fairbanks. The first is a calculation that looks at the operating revenue over expenditures regardless of the source of timing or source of that revenue. The second part looks at fund balance. Regardless of this legislation, our fund balance is capped at 7 percent of the local contribution amount, which in our case is just over \$3 million. So, we are nowhere close to the government financial officers association recommended amount of

fund balance. Our current fund balance is just under \$100,000 and the previous year it was at zero. HB 27 would keep operating dollars with classrooms and students where they belong. It makes the process transparent and clear for everyone involved. As you know, costs are high and many school districts are struggling to make ends meet. HB 27 is a move in the right direction, and we ask for your support.

9:04:52 AM

REPRESENTATIVE P. WILSON asked whether this proposed bill would affect the borough funding to the school district.

MR. LEWIS replied that his school district was funded to approximately 75 percent of capacity for local contribution. He explained that the borough could choose to fund a facilities maintenance fund up front, and this would allow the school district to "plan better in a better way."

9:06:06 AM

REPRESENTATIVE SEATON, directing attention to page 9, line 8 of the proposed bill, asked if local ordinances could supersede the state regulations for the maximum balance in the school operating fund.

MR. LEWIS expressed his agreement.

9:07:24 AM

LARRY DEVILBISS, Mayor, Matanuska-Susitna Borough, stated that he had served on the school board as well as the city assembly. He offered his belief that it was "bad policy to take away the power of the body that's responsible for raising the money; any power that controls how that money is spent, is bad policy." He explained that school board members were elected with the responsibility "to spend the money to the maximum benefit of the education," but the assembly members were "elected to come up with raising that money, it's why you're given the taxing authority." He opined that those people elected for taxing and raising the money should have the maximum control over the

money. He pointed out that in his district the fund balance was negotiated, and he opined that there had been success in meeting the needs of the school district. He expressed his understanding of the school district need for funds to transition between budget cycles. He said that a forward funding formula was being worked on to enable the school district "to do business in a responsible way across one fiscal year to the next, and that's where the fund balance is always helpful to them." He noted that the current agreement with the school district was for a 50-50 split, but that it was negotiable.

[9:10:27 AM](#)

REPRESENTATIVE SEATON asked whether the Matanuska-Susitna Borough had a restrictive ordinance similar to Fairbanks, Alaska.

MAYOR DEVILBISS replied that he did not know who set the cap, but he did recognize the cap as a component of the borough code.

[9:11:36 AM](#)

ELIZABETH NUDELMAN, Director, School Finance and Facilities Section, Department of Education and Early Development (EED), said that she was available to answer questions.

[9:11:49 AM](#)

REPRESENTATIVE P. WILSON, directing attention to page 5, line 8 of the proposed bill, asked if it was necessary to include "council members" as some areas did not have an "assembly."

MS. NUDELMAN replied that she did not know, as that was specific language outside EED.

[9:12:58 AM](#)

REPRESENTATIVE SADDLER, referring to page 8, lines 21-31 of the proposed bill, asked if there were any situation where an increase to the student population of a district would not

exceed 3 percent or 200 students, yet could still cause a shortfall, necessitating a request for supplemental funding.

MS. NUDELMAN replied that EED had not previously worked with similar language, but she offered her belief that the circumstance could be found.

REPRESENTATIVE SADDLER surmised that an increase to special needs students, as discussed earlier, would automatically increase federal funding to the school district through the foundation formula.

MS. NUDELMAN opined that the language of the proposed bill was not clear as to how intensive needs students would be addressed, unless they coincided with an increase of enrollment.

REPRESENTATIVE SADDLER referred to page 8, line 30, and asked if this language gave EED the option to request supplemental funding, or should the language reflect an obligation to request supplemental funding in this situation.

MS. NUDELMAN explained that EED worked with the governor's budget annually, and she expressed that she was unsure for the best avenue to seek supplemental funding. She said that it may not be in the department's purview to seek supplemental funding when the language of the proposed bill stated "may"; however, if the proposed bill language said "shall", and this was found to be legally acceptable, then EED would seek supplemental funding. She suggested that the language needed clarity.

[9:16:32 AM](#)

REPRESENTATIVE P. WILSON mused that if EED was required to distribute the supplemental funding, then there would be "a bunch of people applying because they know they'll get it." She opined that, in this case, the use of "may" would be correct, as it would allow EED the option for awarding supplemental funding.

[9:18:07 AM](#)

REPRESENTATIVE SEATON pointed out that the fiscal note indicated that 11 districts, or 20 percent of all the state districts, would qualify annually under the hold harmless provision. He asked how administration of this program would work.

REPRESENTATIVE SEATON, in response to Ms. Nudelman, clarified that page 8, line 24 stated that "the department shall provide supplemental funding" and yet the fiscal note did not reflect any cost for this procedure.

MS. NUDELMAN replied that the fiscal note had been calculated by comparing the preliminary 2013 adjusted average daily membership (ADM) at the school size point to the 2012 actual ADM. She said that it was not exactly clear where the supplemental funding would come from, but she suggested it would be a component of the funding formula, and the appropriation would be allocated as there were funds.

REPRESENTATIVE SEATON requested that EED provide a sequential, graphic explanation for how this could be implemented, as EED was required to provide the supplemental funding. He requested that information be provided for the district sizes of the 11 school districts indicated in the fiscal note. He then indicated page 9, line 8 of the proposed bill and asked if there were also reserved portions of the school operating fund, and if there was any interaction between reserved and unreserved funds.

MS. NUDELMAN replied that the law allowed for a fund balance of reserved and unreserved components. She stated that the reserved components were identified in regulation, and were for encumbrances, inventories, pre-paid expenses, self-insurance, and the piece of impact aide which districts used in the following year. She said that these five categories were separated out of the unreserved funds.

REPRESENTATIVE SEATON asked to clarify that, as the unreserved portion was being increased from 10 to 15 percent, it seemed as though the school district had the ability to move the funds between these categories to create a fund balance in excess of this 10 or 15 percent.

MS. NUDELMAN agreed that the cap on the fund balance was only for the unreserved component, so that any funds in the reserved component were not susceptible to the cap.

REPRESENTATIVE SEATON asked to have EED provide a sampling of reserved and unreserved balances from large, medium, and small school districts.

[9:25:55 AM](#)

REPRESENTATIVE SADDLER asked if there was currently a centralized correspondence program.

MS. NUDELMAN replied that there was not a centralized correspondence program throughout the state, but a correspondence program was now administered by the individual school districts.

REPRESENTATIVE SADDLER asked if the reference on page 9, line 18 was still valid.

MS. NUDELMAN replied that the reference should be reviewed for relevance.

[9:27:12 AM](#)

REPRESENTATIVE P. WILSON requested that EED recommend new language regarding the correspondence programs.

MS. NUDELMAN suggested that only the words on page 9, line 18 should be reconsidered.

[9:28:16 AM](#)

MR. PASCHALL confirmed that the proposed bill must interact with all existing statutes and that it would be necessary for Legislative Legal and Research Services to write amendments to the statute pertaining to all portions of the centralized correspondence program that were no longer in place. He noted that this could require not only an amendment, but a bill title change, as well.

[9:29:17 AM](#)

REPRESENTATIVE SADDLER suggested that the revisor of statutes may need to consider this for future actions.

[9:29:50 AM](#)

CHAIR GATTIS opened public testimony.

[9:30:30 AM](#)

PEGGY COWAN, Superintendent, North Slope Borough School District, said that the school board did not have a position on proposed HB 27. She explained that this bill "does not fix the budget gap," noting that her district had cut 30 positions over that last few years due to flat funding and increased expenditures. She spoke in support of the provisions proposed on page 4, line 28, Section 4, which allowed school districts to maintain a fund balance. She pointed out that the hold harmless provisions were important, and she provided an example of the increased enrollment from incoming children attending the pre-school program which then required an additional teacher for the current year.

[9:34:30 AM](#)

REPRESENTATIVE SEATON, referring to her example for increased enrollment, asked if the student estimate based on the previous year count was better for funding than an October count for the current year. He asked if there was a balance between incoming and graduating students.

MS. COWAN explained that, since 1999, her district only had an increased enrollment for three years. She noted that, as the upcoming year was projected for an increase in students, the district would not receive as much funding as a count during the current year. She opined that the school district would not reach the 3 percent threshold to qualify for supplemental funding. She expressed her appreciation for the "attempt at planning, certainly the hold harmless clauses are important

because of those very reasons, because if we do have more students and have to spend more money on them, then the hold harmless clauses ... are very significant for districts such as ours and others across the state."

[9:37:15 AM](#)

DUNCAN WARE, Superintendent, Delta/Greely School District, said that efficient planning was important, especially in times of austere budgets. He declared his support for proposed HB 27, as it was important for school districts to do adequate planning and be able to plan their funding. He reported that, although his school district had remained static, the hold harmless provisions were greatly advantageous. He reported that the percentage increase for the reserve funds was beneficial.

[9:39:00 AM](#)

REPRESENTATIVE SEATON asked to clarify that the school district's federal funding was in a reserved account, as opposed to an unreserved account.

MR. WARE replied that the impact aide, about \$38,000, and the supplemental funding from the Department of Defense, about \$53,000, had been designated by the school board to a reserve fund for curricula materials to support the classroom teachers.

[9:40:17 AM](#)

CARL ROSE, Executive Director, Association of Alaska School Boards (AASB), stated support by AASB for proposed HB 27. He said that the issues were complicated and there were arguments for both sides. He expressed his belief that dollars which were appropriated for education should be protected and be used for education. He agreed that once funds from municipalities were co-mingled with state and federal funds, it became unclear which funding remained. He expressed support for clarifying the percentage of funding to be protected. He pointed out that planning, especially during times of scarce resources, was extremely important. He noted that enrollment, adjusted average daily membership (ADM), and base student allocation were all

necessary elements to dictate levels of funding. He stated that proposed HB 27 would "be very helpful" for planning purposes.

[9:42:17 AM](#)

REPRESENTATIVE SEATON, directing attention to the hold harmless provision of 200 students or 3 percent, asked whether this should be adjusted for school size factors.

MR. ROSE replied that the adjusted ADM was the most important number. He offered his belief that the diversity of the state ensured that any decision would not work for everyone, and this would be true for this provision, as well.

[9:43:34 AM](#)

REPRESENTATIVE SADDLER asked if there would be any unintended consequences, including large amounts of additional funding being required.

MR. ROSE, in response to Representative Saddler, said that he was never able to foresee the unintended consequences. He opined that there was not going to be any overage for funding. Referring to the earlier discussions for "shall" versus "may", he shared that he preferred "shall" for an important issue, and "may" when the need for latitude is a component.

[9:45:01 AM](#)

BILL MCLEOD, Superintendent, Dillingham City School District, said that proposed HB 27 was a good bill for education. He shared that budget planning was difficult in Alaska, as it required use of the October enrollment count, and an early projection of revenue and expenses. He declared that the enrollment count was very important, as it was the driver for much of the funding. Using the known enrollment count from October of the current year for the next year's budget would be very helpful to his school district as the current enrollment was higher than the projected enrollment. He reported that rural Alaska had a shifting population base and that using the known enrollment for the projected funding would stabilize the

planning process. He suggested that the 3 percent threshold for the hold harmless provision might need to be adjusted for smaller, rural school districts to allow for declines or increases. He discussed that uses for the reserved fund was mandated, but the unreserved fund was less restrictive, and he asked for caution in making changes to the reserved funds. He pointed to the importance for the inclusion of intensive needs students in the regular enrollment count as the multiplier was especially important to a small school district. He stated the need for assurance for this funding, and that local governance could best decide the need and the allocation for expenditure.

[9:51:06 AM](#)

CHAIR GATTIS closed public testimony.

[9:51:14 AM](#)

REPRESENTATIVE DRUMMOND expressed interest in receiving comments specifically from the Anchorage School District and the Anchorage Assembly.

[9:51:54 AM](#)

CHAIR GATTIS announced that HB 27 would be held over.

[9:52:16 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Education Standing Committee meeting was adjourned at 9:52 a.m.