

HOUSE FINANCE COMMITTEE
March 31, 2014
8:35 a.m.

8:35:38 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 8:35 a.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

Representative Mark Neuman, Vice-Chair
Representative Lindsey Holmes

ALSO PRESENT

Angela Rodell, Commissioner Designee, Department of Revenue; Daniel George, Staff, Co-Chair Stoltze; Michael Hanley, Commissioner, Department of Education and Early Development; Kathy Lea, Deputy Director, Division of Retirement and Benefits, Department of Administration; Andy Mills, Special Assistant to the Commissioner, Department of Administration; Beth Leibowitz, Assistant Ombudsman, Office of the Ombudsman.

PRESENT VIA TELECONFERENCE

Linda Lord-Jenkins, State Ombudsman, Anchorage

SUMMARY

HB 21 FOUR-DAY SCHOOL WEEK

CSHB 21(FIN) was REPORTED out of committee with no recommendation and with one new zero fiscal note from Department of Education and Early Development and one new zero fiscal note from Department of Administration.

[Note: Action to report CSHB 21(FIN) from committee was rescinded on April 1, 2014. Further discussion on the bill and fiscal notes occurred and the bill was reported out of committee at that time. See minutes for the April 1, 2014, 8:30 a.m. meeting for detail.]

HB 127 OMBUDSMAN

HB 127 was HEARD and HELD in committee for further consideration.

^CONFIRMATION HEARING: ANGELA RODELL, DEPARTMENT OF REVENUE

[8:37:03 AM](#)

Co-Chair Stoltze

ANGELA RODELL, COMMISSIONER DESIGNEE, DEPARTMENT OF REVENUE, introduced herself as the commissioner designee for the Department of Revenue (DOR). She gave a brief overview of her public service and education history. She revealed that her work as a financial advisor and investment banker in New York City first connected her with the Alaska Housing Finance Corporation (AHFC). She shared that her visit state in 1996 had made a lasting impression on her. She felt that Alaska had weathered well its oil price based, volatile financial system and had continued to develop and grow while attracting new residents. She relayed that she jumped at the opportunity for the position of Deputy Director for the Department of Revenue. She appreciated the opportunity to influence discussions and make a difference. She looked forward to future opportunities.

[8:42:34 AM](#)

Representative Gara appreciated the polite nature of the commissioner designee. He expressed dismay about SB 21 and the latest revenue forecast from DOR.

Ms. Rodell appreciated the kind words. She spoke to Alaska's future maneuvering in light of the national financial climate.

[8:45:28 AM](#)

Representative Gara wondered if the commissioner was working on the issue of reducing the over 7 percent student loan interest rate in the state.

Ms. Rodell replied that she was on the board of the corporation and had reviewed multiple options for improvement. She said that currently the market penalized student loan borrowers who had no collateral. She relayed that the federal government had applied structures governing loan programs. She mentioned a statute passed by the legislature that provided assistance to the corporation through a letter of credit that would help to recalibrate the balance sheet and make them more competitive.

[8:48:15 AM](#)

Representative Costello asked what Ms. Rodell thought the state's greatest challenges would be in the future, and how the designee was suited face the challenges.

Ms. Rodell replied that the state would need to maintain patience in order to see through to fruition the policies that had been enacted. She mentioned SB 21, and explained that it would take time to see how the new tax regime worked and would generate results. She felt that the greatest challenge facing the state was the willingness to be patient and to take on some risk for huge benefits 5 to 10 years in the future.

[8:50:19 AM](#)

Representative Thompson asked whether Ms. Rodell would be able to successfully lead the department with possibly fewer personnel due to Alaska's lean economic future.

Ms. Rodell replied that she had complete confidence in the department's staff. She stressed that she strove to arrive at solutions to operating with less. She felt that the investment in technology coupled with the creativity of the staff would continue to deliver positive results for the state.

[8:51:56 AM](#)

Representative Munoz asked how Ms. Rodell viewed the state's financial future. She wondered how the state's retiree security compared to Virginia and Illinois.

Ms. Rodell replied that the state was on solid financial footing because of its reserve position. She applauded the legislators for not taking the reserves for granted. The unfunded liability provided the flag for investors and outsiders. She noted that the actuarial required contributions were always made and benefits were always paid. She felt that it was incumbent on the state to meet its responsibility in term of past obligations. She said that Virginia had figured out a way to include the funding requests. Illinois turned funding of pensions and retirement into one-shot questions each year, and started using it to balance, or not balance, their budget, causing their unfunded liability to grow.

[8:56:09 AM](#)

Representative Guttenberg thought that Ms. Rodell's confidence was reassuring. He wondered how the state would balance the opposing forces of moving from a taxing regulatory agency to being a commercial partner.

Commissioner Rodell replied that balancing the two would provide a challenge for Alaska. She believed that only being a taxing regulatory agency placed the state in an adversarial role that cost the state time, legal fees, and lost revenue collection. By moving into a commercial partnership the state would move onto the same side of the table as industry and would ensure that revenues were not impacted as they had been in the past. She believed that the change would result in future revenue growth to the state, ensure commercialization of North Slope gas, and get gas to Alaskans.

[8:59:37 AM](#)

Representative Guttenberg queried Ms. Rodell's experience working with other entities involved in commercial and regulatory processes.

Commissioner Rodell replied that the closest comparison she could offer included privatizing the electric system in

California, which had failed miserably. She worked with the state on an \$11 billion bail out of the privatization effort. She believed that the experience, although not directly connected to the oil and gas issues of Alaska, provided her enough skills to handle a large project in a regulatory environment.

[9:01:26 AM](#)

Co-Chair Austerman discussed volatility of being a resource export state. He wondered whether Ms. Rodell had considered the work that would need to be done by the state in its new commercial partner role.

Commissioner Rodell replied that the state had over \$100 billion under the management Alaska Permanent Fund Corporation and the Department of Revenue. She believed that there were tremendous financial resources in the state that could be used to stimulate the growth of an industry. She thought that there was an opportunity to generate different types of work; technology had changed how the world worked and the state needed to look beyond natural resources for generating jobs. She said that management of asset allocation would continue to need to be monitored in order to ensure that the state maintained a certain amount of revenue. She said that hedging against oil production and oil price had been discussed and would continue to be considered. She relayed that some policies were easier and less expensive to pursue when there were more resources and a better rating. She stressed that people were more willing to lend money to an entity with plenty of money and a good credit rating.

[9:05:24 AM](#)

Co-Chair Austerman commented that it would take some time to change the economics of a state that was based on nonrenewable resources. He was hopeful that the economic base would be determined sooner rather than later.

Representative Gara paraphrased quote from Roger Marks in a March 28, 2014, Alaska Dispatch article that spoke to the state's scoping investment and 25 percent responsibility in the gasline. He expressed concern that the risk the state was taking was disproportionate to the benefit it would reap.

[9:08:24 AM](#)

Commissioner Rodell replied that government take in Alaska included federal take. She said that BP, Exxon and ConocoPhillips would take on all of the liabilities associated with federal income tax. She shared that the royalty in value vs. royalty in-kind study had highlighted what the royalty take would need to be; in most other countries the royalty take was significantly reduced and production tax take was increased. In Alaska royalty went not only to the state general fund, but also to the permanent fund. The department had made a conscience effort to not ask for any reduction in royalty, which meant that the other factor for adjustment would be the production tax. She disagreed with Mr. Mark's assessment. She said that there was a possibility that the gasline would not go forward, but the state should still be at the investment table.

Co-Chair Stoltze supported the advancement of Ms. Rodell's name for the appointment as commissioner.

[9:13:40 AM](#)

Representative Costello MOVED to advance the name of Angela Rodell for appointment as commissioner for the Department of Revenue. This name will be forwarded to the full membership for the Legislature in joint session for consideration and a final vote. There being NO OBJECTION, it was so ordered.

[9:14:36 AM](#)

AT EASE

[9:16:31 AM](#)

RECONVENED

#hb21

HOUSE BILL NO. 21

"An Act relating to the length of a school week; and providing for an effective date."

[9:16:41 AM](#)

Representative Costello MOVED to ADOPT the proposed committee substitute for HB 21, Work Draft 28-LS0137\S, (Mischel, 3/30/14).

Co-Chair Stoltze OBJECTED for the purpose of discussion.

DANIEL GEORGE, STAFF, CO-CHAIR STOLTZE, discussed the CS. He explained that the version before the committee mentioned "alternate school term" in place of "four day school week." He said that Sections 1 and 2 of the bill defied the criteria required for school boards to address their application to pursue a calendar that was less than 172 total days. A section was added to provide an alternative "Days of Service" chart, in which teachers could receive credits toward their retirement and benefits while working in a shortened calendar year.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered. The CS was adopted.

Representative Wilson endorsed the changes reflected in the new bill version. She said that the bill would allow school districts to operate regularly based on the number of days in session, or on an alternative schedule based on hours.

[9:20:34 AM](#)

Representative Costello relayed that other states had adopted the practice of measuring the school year in hours. She believed that the practice would provide for greater flexibility for crafting curriculum specific to communities and families. She believed that innovative methods should be explored for delivering education across the state.

[9:22:17 AM](#)

Representative Guttenberg discussed Page 2, line 16. He asked how the public comment would be gathered and presented to the commissioner.

Representative Wilson responded that discussion and public comment would take place at community meetings.

Representative Guttenberg understood that it would be up to the school districts to demonstrate to the commissioner that a meeting was held and that public comment was taken.

Representative Wilson agreed. She stressed that a vote of some sort must occur by district or school in order to determine support. She stressed the importance of not micromanaging districts in order to give them flexibility.

[9:25:07 AM](#)

Representative Gara understood that school boards would have to adopt any changes put forth by communities. He cited stipulations in Section 2.

Representative Wilson replied that a community meeting would occur first in order to assess the majority consensus. She stated that the intent of the bill was to achieve higher attendance rates and to enable student participation in sports and other activities. She said that another discussion would occur at the school board level where public testimony would again be taken.

Representative Gara surmised that the school board would make the ultimate decision on the school schedule.

[9:28:18 AM](#)

Representative Wilson replied in the affirmative. She clarified that the bill required that there be a public comment period and that the public opinion, not just the school board's decision, be taken into consideration by the commissioner.

Representative Gara requested assurances that students would be required to be in school for a certain number of hours, regardless of the number of days, and that there would be no changes in retirement benefits for teachers.

[9:30:16 AM](#)

Representative Wilson said that the bill addressed the retirement issue; teachers would receive the full year's retirement credit.

Co-Chair Stoltze OPENED public testimony.

Co-Chair Stoltze CLOSED public testimony.

Co-Chair Stoltze warned of the complications and possible litigation that could arise from altering schedules.

MICHAEL HANLEY, COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, replied that the ability for an alternate calendar was in current statute. He shared that the language of the statute specified that the hours needed to be equivalent to a 180 school year. He said that the schedule could be crafted in order to meet the time requirements for retirement benefits. He referenced Page 2, line 3, which stated that the hours no longer needed to meet the equivalent of a 180 day school year. He furthered that the hours currently referenced in statute were minimal floor hours and were used for situations in which disasters took place and calendars needed to be adjusted. He said that by removing the 180 connection the school district would be allowed to approve a calendar that met the minimal number of hours and could result in up to 7 weeks less of instruction for students. He felt that shortening the school year would not be beneficial to students. He felt that very few school districts would switch to an alternative schedule and those would likely be small districts that had unique situations.

[9:36:47 AM](#)

KATHY LEA, DEPUTY DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, testified that teacher's working for a school district that had received approval from the Department of Education and Early Development to be on an alternate school term would receive a year's worth of service toward retirement.

Co-Chair Stoltze asked about the contract negotiations. He understood the responsibility to fund, but wondered what would happen if the change was unsuccessful and had to be reversed mid-year.

[9:38:06 AM](#)

Representative Wilson replied that contracts would need to be renegotiated. She believed that some schools would embrace the idea and that others would not take advantage of the opportunity.

Co-Chair Stoltze reiterated that it would be difficult to reverse from a four day week back to a five day week.

[9:41:03 AM](#)

Representative Munoz asked how many hours students were required to be in school during the 180 days.

Commissioner Hanley replied that the school day was 6.5 hours long; typically 1020 hours in the 180 day school year.

Representative Munoz understood that the proposal in the bill would lower the hours by 120.

Commissioner Hanley replied yes, that it would allow the minimum number of hours. He clarified that the district currently had a 180 day school year with 10 of those days being in-service days.

[9:42:47 AM](#)

Representative Gara understood that the bill would result in some districts offering less school hours.

Commissioner Hanley replied that the minimal hours recognized a minimum school day set at 4 hours for younger students, and 5 hours for older. He said that that was in statute to recognize days with parent conferences or early release. He said that there were no school districts that operated daily for 4 or 5 hours, but for longer periods of time. He stressed that even though the minimum was there, when the 180 or 170 student days was in place, over 1000 hours was typical.

Representative Gara asked if student would be attending school for the same number of hours or less under the legislation.

Commissioner Hanley replied that it would be up to the districts. The bill would allow them to come forward with fewer days and fewer hours.

Representative Gara expressed concern that student would be attending school for fewer hours than they were currently.

Commissioner Hanley replied that currently all school districts exceeded the minimum number of hours. He said that shifting to 4 days a week, while keeping the school day the same number of hours, would reduce the student's time in school by 20 percent.

9:46:32 AM

Representative Edgmon asked why the schedule approval would be left up to the board and not the department.

Representative Wilson replied the decision would be a local one. She said that once the plan was determined by the school board it would advance to the department and the department would ensure that the plan met all of the necessary requirements.

Representative Edgmon asked why the board of education needed to be involved when the decision could be handled solely by the department.

9:48:06 AM

Commissioner Hanley replied that currently local school boards set the yearly calendars, which the bill maintained. The only change would be approval from the commissioner of the department when dropping below a certain number of days.

9:50:11 AM

Representative Munoz asked whether the commissioner already had the ability to approve the alternative schedule.

Commissioner Hanley replied yes.

Representative Munoz wondered whether the bill was necessary given the authority already offered to the commissioner.

Commissioner Hanley replied that the bill changed the time a teacher needed to work to achieve the full year of retirement credit.

Representative Wilson thought that the commissioner's authority was based on a 4 day school week.

Commissioner Hanley replied that the authority offered him the ability to approve an alternate calendar that fell below the currently required days. He noted that there were a significant number of alternative calendars that were already being used.

Representative Wilson believed that if that was the case then the main issue would be to ensure that teachers received the full year's retirement credit for working the alternate calendar years. She stressed that the intent of the bill was not about teachers working less, but addressed that a school with a 172 day calendar did not mean that students were in the school for all of the 172 days. She said that the alternate schedule was to improve attendance.

[9:54:10 AM](#)

Representative Thompson wondered whether shortening the school week would result in a better product.

Representative Wilson appreciated the concern. She believed that allowing flexibility to districts would improve attendance levels. She believed that the community lead decision making process was a safeguard.

[9:57:36 AM](#)

Representative Edgmon understood that the bill would put in place a pilot program that would enable school districts to better utilize custom calendar models. He expressed concern that only a small number of school districts statewide would be able to participate in the program. He relayed that in bush Alaska the schools were the pulse of the community during the school year. He expressed disbelief that any of the smaller schools would elect to shift to a 4 day week. He thought that the bill was idealistic and not realistic.

[9:59:52 AM](#)

Representative Costello asked if the conscience decision had been made by the sponsor to not involve a policy call in changing what was currently required in statute for the minimum hours for schools.

Representative Wilson responded that the 4 day school week was already statute and could be implemented by the school board without community involvement. She said that the issue that the bill addressed was the retirement portion. She felt that further discussions needed to be had with the commissioner concerning the parameters of the alternate schedule possibilities. She felt that any changes should be directed by a community decision. She thought that

community involvement in dramatic changes would be imperative in order for the change to be successful.

Co-Chair Stoltze clarified that the latest version of the bill did not categorize the program as a pilot program.

[10:02:35 AM](#)

Representative Costello asked if the legislature should increase the minimum hours of a school day in state statute.

Commissioner Hanley replied that a separate conversation was necessary to address the issue.

Representative Costello agreed. She stressed that the bill was not an effort to reduce the number of hours for schools, but was an effort to give schools more flexibility in their calendar.

ANDY MILLS, SPECIAL ASSISTANT TO THE COMMISSIONER, DEPARTMENT OF ADMINISTRATION, pointed out to the committee that Page 2, line 19. He spoke to AS 14.25.22, which spoke to a calendar for pension service credit for teacher that was 133 days or more.

Co-Chair Stoltze agreed that changes should be made with caution.

Mr. Mills replied that it would be something to watch for. He said that any changes to hours would be very much a part of the contract negotiations.

Co-Chair Stoltze asserted that absolutely changes would be addressed in the contract negotiation process.

Representative Gara expressed concern that districts would reduce the number of student school hours.

[10:09:19 AM](#)

Representative Wilson believed that the issue was a separate discussion. She said that the state currently did not mandate more than 172 days. She asked whether the success of a student was measured by the amount of hours spent in the classroom or test scores. She assured the committee that the bill would not change the amount of

hours currently required. The bill was meant to address the issue of retirement. She contended that the district needed support and flexibility rather than additional regulation.

[10:13:24 AM](#)

Representative Guttenberg asked whether there was an appeal process in place for those who could be opposed to changes in their districts.

Commissioner Hanley replied that items 1 through 3 on Page 2 listed the current requirements. He said that the current statute indicated that the school board would adopt a schedule that would be approved by the commissioner.

[10:15:40 AM](#)

Representative Costello discussed the two fiscal notes. Both had zero fiscal impact.

Co-Chair Stoltze stated that a letter of intent should be drafted to accompany the legislation that recognized unstated but potential future costs.

Representative Wilson agreed to include a letter of intent.

Representative Costello MOVED to REPORT CSHB 21(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 21(FIN) was REPORTED out of committee with no recommendation and with one new zero fiscal note from Department of Education and Early Development and one new zero fiscal note from Department of Administration.

[10:18:54 AM](#)

AT EASE

[10:21:18 AM](#)

RECONVENED

#hb127

HOUSE BILL NO. 127

"An Act clarifying that the Alaska Bar Association is an agency for purposes of investigations by the

ombudsman; relating to compensation of the ombudsman and to employment of staff by the ombudsman under personal service contracts; providing that certain records of communications between the ombudsman and an agency are not public records; relating to disclosure by an agency to the ombudsman of communications subject to attorney-client and attorney work-product privileges; relating to informal and formal reports of opinions and recommendations issued by the ombudsman; relating to the privilege of the ombudsman not to testify and creating a privilege under which the ombudsman is not required to disclose certain documents; relating to procedures for procurement by the ombudsman; relating to the definition of 'agency' for purposes of the Ombudsman Act and providing jurisdiction of the ombudsman over persons providing certain services to the state by contract; and amending Rules 501 and 503, Alaska Rules of Evidence."

[10:21:29 AM](#)

BETH LEIBOWITZ, ASSISTANT OMBUDSMAN, OFFICE OF THE OMBUDSMAN, offered a sponsor statement:

The Ombudsman Act (AS 24.55) has not changed much since enactment in 1975, which speaks well for its basic structure. The ombudsman requested and obtained some modifications of the Ombudsman Act in 1990. It has become apparent that the Ombudsman Act would benefit from updates to address several issues that have arisen since 1990.

The following is a brief sectional description of the bill:

- Section 1 of CSHB 127(JUD) provides that the ombudsman may receive a step increase in salary, rather than remaining Step A of Range 26 for the ombudsman's entire term or terms.
- Section 2 clarifies the ombudsman's authority to hire additional staff using a personal services contract pursuant to AS 24.55.060(f).
- Section 3 amends a section on the ombudsman's investigatory authority to refer simply to "agency" instead of "state agency." This brings the section into conformance with the rest of the Ombudsman Act (AS 24.55), which consistently

refers to the ombudsman's authority to investigate an administrative "agency."

- Section 4 prevents a general waiver of attorney-client privilege by an agency if it shares its attorney's advice with the Officer Ombudsman in order to explain the agency's actions.
- Section 5 improves the wording of the ombudsman's existing privilege not to testify or produce records regarding matters brought to the ombudsman's attention in the course of her duties.
- Section 6 modernizes the ombudsman's procurement authority.
- Sections 7 and 8 state that sections 4 and 5 are indirect court rule amendments because they modify evidentiary rules, and that therefore sections 4 and 5 only take effect if the legislation is approved by a two-thirds majority vote of each house, as required by Art. IV, Section 15 of the Constitution of the State of Alaska.

[10:26:41 AM](#)

LINDA LORD-JENKINS, STATE OMBUDSMAN, ANCHORAGE (via teleconference), supported the comments provided by her assistant.

Representative Guttenberg asked whether sections 4 and 5. applied when the ombudsman was not an attorney.

Ms. Leibowitz clarified that the section did not speak to attorney-client privilege. She said that the privilege was typical of ombudsman statutes and was designed to keep the ombudsman from being a witness in other forms of litigation.

Representative Guttenberg understood that the courts could not compel an ombudsman or their staff under Section 5.

Ms. Leibowitz replied that that was her understanding of the section.

[10:29:13 AM](#)

Co-Chair Stoltze asked about jurisdiction and interface between criminal activities of a statutorily empowered agency.

Ms. Lord-Jenkins replied nothing had changed in the way the office had historically handled those matters.

Co-Chair Stoltze CLOSED public testimony.

HB 127 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

10:32:07 AM

The meeting was adjourned at 10:32 a.m.