

SENATE FINANCE COMMITTEE

April 2, 2013

6:05 p.m.

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CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 6:05 p.m.

MEMBERS PRESENT

Senator Kevin Meyer, Co-Chair
Senator Anna Fairclough, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

Senator Pete Kelly, Co-Chair

ALSO PRESENT

Christine Marasigan, Staff, Senator Kevin Meyer; Michael Hanley, Commissioner, Department of Education and Early Development; Elizabeth Sweeney Nudelman, Director, School Finance and Facilities, Department of Education and Early Development; Representative Mike Chenault, Sponsor; Sharon Kelly, Staff, Representative Mike Chenault; Kris Curtis, Legislative Auditor, Division of Legislative Audit.

SUMMARY

SB 47 STIPEND FOR STATEWIDE BOARDING SCHOOL

CSSSB 47(FIN) was REPORTED out of committee with a "do pass" recommendation and with a fiscal impact note from the Department of Education and Early Development.

SB 57 LITERACY, PUPIL TRANSP, TEACHER NOTICES

CSSB 57(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Education and Early Development and two previously published fiscal impact notes: FN2 (EED) and FN3 (EED).

CSHB 30(FIN)

STATE AGENCY PERFORMANCE AUDITS

CSHB 30 was HEARD and HELD in committee for further consideration.

#sb47

SENATE BILL NO. 47

"An Act increasing the monthly stipend available for students attending a statewide boarding school operated by a school district; and providing for an effective date."

[6:06:35 PM](#)

Vice-Chair Fairclough MOVED to ADOPT the proposed committee substitute for SB 47, Work Draft 28-LS0408\G (Mischel, 4/1/13), as a working document.

Co-Chair Meyer OBJECTED for discussion.

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CHRISTINE MARASIGAN, STAFF, SENATOR KEVIN MEYER, relayed that the only change was the insertion of a July 1, 2013 effective date (Section 5, page 2). The Department of Education and Early Development (DEED) had indicated that the change would remove \$1,681 from Fiscal Note 1.

MICHAEL HANLEY, COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, confirmed that the change to the effective date would remove the need for supplemental funding, while maintaining funding for the next school year.

Co-Chair Meyer asked if DEED supported the legislation. Commissioner Hanley replied in the affirmative. The department was particularly supportive of the funding that would enable it to continue existing programs.

Senator Dunleavy inquired how the legislative budget subcommittees would interact with the process related to the legislation. Co-Chair Meyer replied that Co-Chair Kelly could answer the question at a later time.

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Co-Chair Meyer WITHDREW his OBJECTION. There being No further OBJECTION, Work Draft 28-LS0408\G was ADOPTED.

Vice-Chair Fairclough pointed to a DEED fiscal note that included a general fund cost of \$3,321,300 for FY 14; additional operating funds would be distributed through FY 19.

Vice-Chair Fairclough MOVED to REPORT CSSSSB 47(FIN) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSSSSB 47(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Education and Early Development.

Senator Dunleavy retracted his earlier question and noted that it had been related to another piece of legislation.

#sb57

SENATE BILL NO. 57

"An Act relating to parental involvement in education; adjusting pupil transportation funding; amending the time required for employers to give tenured teachers notification of their nonretention; and providing for an effective date."

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Vice-Chair Fairclough MOVED to ADOPT the proposed committee substitute for SB 57, Work Draft 28-LS0474\P (Mischel, 3/29/13).

Co-Chair Meyer OBJECTED for discussion.

CHRISTINE MARASIGAN, STAFF, SENATOR KEVIN MEYER, explained that the fiscal years 2014, 2015, and 2016 had been added to Section 4, page 2, line 14. The change maintained the

Consumer Price Index (CPI) language, but placed a three-year time limit on the provision.

Co-Chair Meyer asked for verification that the bill version before the committee was "P." Ms. Marasigan replied in the affirmative. Co-Chair Meyer asked Ms. Marasigan to repeat where the change occurred in the bill. Ms. Marasigan replied that the fiscal years were inserted in Section 4, page 2, lines 15 through 16.

Co-Chair Meyer surmised that the insertion of the fiscal years equated to a three-year sunset provision. Ms. Marasigan replied in the affirmative.

Co-Chair Meyer mentioned a \$45,000 fiscal note.

Vice-Chair Fairclough noted that the bill had three fiscal notes. The first note was from DEED and had a fiscal impact of \$45,400.

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Co-Chair Meyer asked the department to explain Fiscal Note 3.

Senator Bishop remarked that the public comment on the fiscal notes had been positive.

ELIZABETH SWEENEY NUDELMAN, DIRECTOR, SCHOOL FINANCE AND FACILITIES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, relayed that the bill had three fiscal notes. She addressed one note that would deposit funds into the Public Education Fund and provided for a 2.5 percent CPI increase for FY 14 through FY 16; costs included \$736,300 for FY 14, \$1,502,000 for FY 15, and \$3,435,800 for FY 16. The funds would provide a CPI increase for three years for the pupil transportation program.

Co-Chair Meyer WITHDREW his OBJECTION. There being No further OBJECTION, Work Draft 28-LS0474\P was ADOPTED.

Vice-Chair Fairclough MOVED to REPORT CSSB 57(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 57(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Education and Early Development and two previously published fiscal impact notes: FN2 (EED) and FN3 (EED).

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AT EASE

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RECONVENED

#hb30

CS FOR HOUSE BILL NO. 30(FIN)

"An Act relating to performance reviews, audits, and termination of executive and legislative branch agencies, the University of Alaska, and the Alaska Court System; and providing for an effective date."

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REPRESENTATIVE MIKE CHENAULT, SPONSOR, stated that HB 30 was an investment in Alaska's future; it would implement a review of departments and agencies over a 10-year period to determine efficiencies and effectiveness through missions, measures, and core services. He referred to legislation from prior years that would have provided the Department of Corrections (DOC) budget subcommittee with an audit to reference during the current session. He believed it was impossible for the House and Senate Finance Committees to sufficiently review and approve a \$10 billion budget during a 90-day session. He noted that while budget hearings during the interim allowed legislators to become more familiar with departments, HB 30 represented an action plan to make changes in the process. He stated that the legislature's job was not to micromanage departments, but to ensure that funding was the right amount for the right service or project, at the right time, and within the state's financial means.

Representative Chenault communicated that the bill would implement a review of department operations and would compare them to best practices from other states and organizations (e.g. the National Council of State Legislatures) in order for the state to efficiently and effectively meet its constitutional mandates. He believed

the process would significantly enhance the legislature's ability to responsibly handle the state's finances. He thanked the committee for its time.

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SHARON KELLY, STAFF, REPRESENTATIVE MIKE CHENAULT, directed attention to back up documents contained in members files (copy on file). She relayed that department staff was available to answer questions pertaining to the legislation. She shared that the authority for sunset audits existed in current law under AS 44.66; the authority for the sunset of boards and commissions existed under the statute. She stated that unfortunately the audits related to state agencies included dates and the last date was 1983. No cycle date had been included; therefore, there had been no authority to continue the audits. She referred to the sponsor's preparation of prior legislation (HB 166) and cited advice from Legislative Legal Services related to the legislative intent of the bill:

...that there was a need for an effective and regular system of scrutiny of the programs and activities of agencies and the establishment of periodic reviews would help the governor and the legislature determine the need for the continued existence of each of the agencies.

Ms. Kelly relayed that HB 30 revised the process of performance reviews. The sponsor and staff had referenced the Texas Sunset Commission during the bill preparation (a fact sheet was included in members' packets). She detailed that the commission had been implemented 30 years earlier and had staff of 32 including senior and regular analysts; the commission had a budget of slightly above \$2 million per year plus reappropriations. She elaborated that the commission had eliminated 58 agencies and had consolidated 12 agencies. The commission recommendations had saved Texas approximately \$800 million since its establishment.

Ms. Kelly detailed that a 15 percent cut to the current budget would be approximately \$600 million. The sponsor believed HB 30 would significantly help the legislature as it began examining necessary reductions. The bill would establish a performance review process of Alaska's state departments, which would measure a department's work, efficiency, and effectiveness using objective criteria

including missions, measures, and core services; it laid out a systematic 10-year continuing review of each department, beginning with DOC.

Ms. Kelly addressed the sectional analysis (copy on file). Section 1 required the Legislative Finance Division to identify reductions as a result of the performance reviews. Sections 2 through 4 reenacted the performance reviews under the Division of Legislative Audit. Section 5 established the review order of departments. Section 6 outlined how the reviews would be conducted including the establishment of the review team, working with the departments, holding public hearings, completing the review process, presenting a report confidentially to the Legislative Budget and Audit Committee (LB&A), and lastly a public report to the finance committees. Sections 7 through 12 set an effective date of July 1, 2013 and made technical amendments including definitions and appropriate repeals.

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Senator Dunleavy asked for detail on what would occur in the upcoming two years if the bill became law. Ms. Kelly replied that the effective date of the bill was July 1, 2013. The Division of Legislative Audit would begin preparing and beginning in January DOC would start supplying information to the review team. A 10 percent cut would be included in the process and a public review would occur. Subsequently, the information would move through LB&A in December and would be presented to the legislature during the following session.

Senator Dunleavy asked if DOC would be the only department to undergo the process in the first year. Ms. Kelly replied in the affirmative. She elaborated that the Division of Legislative Audit had requested that the process begin with a smaller audit; the following year the Departments of Education and Early Development and Health and Social Services would undergo the process. Beginning with a smaller department would provide a year to work out any issues.

Senator Dunleavy surmised that the bill would implement an ongoing process where departments were not all audited simultaneously. He observed that decisions would be made related to several departments per year. Ms. Kelly answered in the affirmative. The bill included a 10-year period for

all departments to undergo reviews. She noted that the departments were listed in Section 6 of the legislation.

Vice-Chair Fairclough pointed to page 4 related to the review order. One department had indicated that a change in the review order should be considered. She wondered how the order had been determined. Ms. Kelly responded that a House subcommittee had reordered the list in order to look at the large departments near the beginning. The subcommittee believed the most significant savings would occur in the large departments.

Vice-Chair Fairclough asked whether departments would be grouped together for efficiency in the event that individuals were hired to assist with specific expertise. Ms. Kelly replied in the affirmative. The Department of Fish and Game, the Department of Environmental Conservation, and the Department of Natural Resources had been grouped together. Additionally, the Departments of Revenue, Public Safety, and Law had all been grouped together for review in 2022.

Senator Dunleavy pointed to page 4 and inquired about the inclusion of the foundation formula under the Department of Education and Early Development review. He surmised it would not include a study of the state's 53 school districts. He asked how the foundation formula would be included. Ms. Kelly responded that the foundation formula was put in statute approximately 10 to 12 years earlier. She furthered that the formula would be reviewed to ensure that it was working as intended.

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Senator Dunleavy believed that in order to include the foundation formula discussions with all 53 school districts would be necessary. Ms. Kelly responded in the affirmative.

Co-Chair Meyer believed that 1998 was the last time the foundation formula had been reviewed.

Representative Chenault confirmed that the foundation formula had been rewritten in 1998 under Senators Gary Wilken and John Torgerson.

Senator Hoffman augmented that special committees of the House and Senate had been appointed to examine the

foundation formula and substantial changes had been made. There had been a look at cost differential, intensive needs, and the Base Student Allocation.

Senator Dunleavy asked for verification that the department, but not the school districts, would be audited. Ms. Kelly replied that the school districts would not be audited. She clarified that the process would be a review, not an audit.

Co-Chair Meyer remarked on the bill's 30 cosponsors. He CLOSED public testimony.

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Co-Chair Meyer asked the Division of Legislative Audit to explain the fiscal note and the division's involvement in the process.

KRIS CURTIS, LEGISLATIVE AUDITOR, DIVISION OF LEGISLATIVE AUDIT, communicated that the division saw its role in the process as a facilitator; the work group that compiled the bill had assigned the review responsibility to a team that would be facilitated by the division. She pointed to language on page 4 of the legislation designating that the division would annually ensure that the review team would conduct a performance review of the appropriate programs. Page 4, line 31 stated that the division "shall" hire individuals and contract with individuals to form a review team. The review team would be responsible for conducting and reporting on the review and its results. The team would be led by an expert in the field procured by the division using the rules adopted by Legislative Council.

Ms. Curtis continued that the review team would be led by an expert and would also be composed of division employees to serve as support. The division would monitor the contract to ensure that deliverables were met. The division would also facilitate the reporting process by providing support to the expert in the preparation and delivery of the report to LB&A. She clarified that the reviews under HB 30 were not audits and would not be conducted in accordance with auditing standards. The bill provided for consultant/expert reviews, which was vastly different than audits produced by the division. She communicated that the scope of the review would be approved by LB&A; she relayed that the committee would have a strong role in the process.

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Co-Chair Meyer observed that the reviews would be different than audits conducted by the division. He asked whether the reviews would conflict the division's current work. Ms. Curtis answered that the difference between an audit and the review was a different level of assurance (a higher level of assurance would require more hours and resources). The review under the bill was designed to be a leaner and quicker, which she believed to be important. She stated that the primary challenge for the division would be hiring experts.

Co-Chair Meyer asked how the process would work if a problem was located during the review. Ms. Curtis replied that the bill specified that the scope of the review would be approved and outlined by LB&A. She furthered that the bill outlined what the department would be required to produce and provide to the review team. She noted the information required by the departments was extensive. She detailed that the information built on what the departments were currently required to provide legislative budget subcommittees during session. Departments would provide information detailing whether their programs were authorized in statute and/or in the constitution; departments would also prioritize their services and recommend budget cuts to the review team. The review team would analyze the data for best practices and would look for areas where savings had been made in other states. The report would include various aspects dictated by the bill and would be seen first by LB&A; it would then become a public document and would be provided to the legislature at the beginning of session.

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Senator Hoffman asked whether the provision related to the foundation formula had been included in the Texas model. He observed that any changes to the formula would require legislation. He was unsure how the formula fit in with the review process unless school district input was included.

Ms. Curtis replied that during discussions on the legislation there had been concern that the foundation formula would be excluded in the review process. She

surmised that the formula had been included in response to the concern.

Ms. Kelly supplemented that the foundation formula was one of the largest budgets in the state; it had been included by the House in response to concern that it should be reviewed. The review team would determine how in depth the formula would be examined. She believed the review team would contact school districts. She furthered that the team may look to other states as examples and would make recommendations, which could be extensive or minimal.

Senator Hoffman asked whether states other than Texas had been reviewed during the development of the bill. Ms. Kelly responded that some other states had less extensive sunset reviews; however, only Texas had been looked to as a model.

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Vice-Chair Fairclough spoke from her position as the LB&A chair. The committee had recently reviewed agency performances under the prior year's audit and had located multiple places where departments had not addressed audit findings. She stated that the bill would be another vehicle to highlight information located by auditors. She wondered whether the sponsor or auditor had questions about how the items would be highlighted.

Ms. Curtis replied that the bill would require the review team to consider the department's progress in addressing findings. She stated that the bill could be considered as a follow up to findings.

Ms. Kelly communicated that the provision had been included in the bill in response to frustration by the prior legislative auditor that the departments did not respond to some findings.

Co-Chair Meyer discussed the schedule for the following day.

HB 30 was HEARD and HELD in committee for further consideration.

ADJOURNMENT

6:44:14 PM

The meeting was adjourned at 6:44 p.m.