

SENATE FINANCE COMMITTEE
February 6, 2014
9:06 a.m.

9:06:42 AM

CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 9:06 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Lyman Hoffman

ALSO PRESENT

Tim Lamkin, Staff, Senator Gary Stevens; Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; Jeanmarie Davis, Director, Division of Support Services, Department of Natural Resources; Sana Efird, Assistant Commissioner, Department of Health and Social Services.

PRESENT VIA TELECONFERENCE

Rachel Etcher, Petersburg School District; Rick Dormer, Principal, Petersburg School District; Gene Stone, Assistant Superintendent, Mat-Su School District; Steve Atwater, Superintendent Kenai Peninsula, Soldotna; Mike Coons, Self, Palmer.

SUMMARY

SB 111 REPEAL SECONDARY SCHOOL EXIT EXAM

SB 111 was HEARD and HELD in committee for further consideration.

SB 155 SUPPLEMENTAL/CAPITAL/OTHER APPROPRIATIONS

SB 155 was HEARD and HELD in committee for further consideration.

#sb111

SENATE BILL NO. 111

"An Act repealing the secondary student competency examination and related requirements; and providing for an effective date."

9:07:03 AM

Co-Chair Meyer continued public testimony for SB 111.

RACHEL ETCHER, PETERSBURG SCHOOL DISTRICT (via teleconference), testified in favor of the legislation. She stated that much of her school's staff time was spent preparing for the six days of testing required for the secondary student competency examination. She stated that the competency tests disrupted teaching routines and limited teaching time. She stressed that collecting, accounting for, and shipping the tests consumed valuable staff time. She felt that greater student needs could be served during the time-consuming test days. She stated that a number of students had not been able to display their abilities and potential with the tests, due to anxiety related to the high stakes of the exam.

RICK DORMER, PRINCIPAL, PETERSBURG SCHOOL DISTRICT (via teleconference), spoke in favor of eliminating the secondary student competency examination and the related requirements. He stated that the test was not an adequate representation of students' skills. He explained that two of the district's students failed the test by one point, which prevented them from earning a diploma. He informed the committee that some students were dropping out of high school as early as 15 and 16 years old because of the required exam.

9:10:54 AM

GENE STONE, MAT-SU, ASSISTANT SUPERINTENDENT MAT-SU SCHOOL DISTRICT (via teleconference), spoke in support of the legislation. He stated that students suffered disproportionate consequences for failing the high school qualifying exam. His school district supported alternative assessment such as the Scholastic Assessment Test (SAT), the American College Test (ACT), Armed Services Vocational Aptitude Battery (ASVAB) or WorkKeys exams that could provide institutions and employers with a clear picture of a student's readiness for work, military, college or vocational training.

[9:12:48 AM](#)

STEVE ATWATER, SUPERINTENDENT KENAI PENINSULA, SOLDOTNA (via teleconference), spoke in favor of the legislation. He strongly believed that the exam had outlived its intended purpose. He pointed out that the exam's intention was to provide a quality control for the school districts in Alaska. He believed that the Kenai district had the required quality control, making the exam unnecessary. He added that greater than 95 percent of his district's students passed the test, but the distraction and burden of the test were unnecessary.

Co-Chair Meyer asked if Mr. Atwater knew of other available methods to accurately measure a student's education. He understood that the governor supported the use of SAT, ACT or WorkKeys as tools for evaluation.

Mr. Atwater agreed with the governor's proposal of using the SAT and ACT tests to determine competency. He also believed that the school districts possessed an adequate amount of quality control. He wished to see an end of course exam administered by each district.

[9:14:50 AM](#)

Vice-chair Fairclough asked about the historical graduation rates following implementation of the qualifying exam. She noted a reported increase in graduation rates following the implementation of the qualifying exam. She highlighted that the state saw a graduation rate of 62.9 percent increase to 71.7 percent in 2013.

Mr. Atwater replied that the initial impact of the exam was positive, and the increase in graduation rates was

attributable to the accountability brought forth by No Child Left Behind.

[9:17:31 AM](#)

AT EASE

[9:19:18 AM](#)

RECONVENED

MIKE COONS, SELF, PALMER (via teleconference) testified in favor of the legislation. He called attention to the change found on the last page of the bill, lines 25-29. He stated that the change impacted young adults. He hoped that the exam could transition out of use with minimal impact on the students. He stated that a poor transition was limiting for Alaska's students. He spoke against HB 278, section 2, which also impacted the legislation.

[9:23:23 AM](#)

Co-Chair Meyer CLOSED public testimony.

Co-Chair Meyer stated that the governor's education omnibus bill contained similar intent. He intended to bring the bill back to committee when the omnibus bill was heard.

[9:24:21 AM](#)

Senator Dunleavy pointed out that the bill addressed issues other than the high school qualifying exam. He noted items regarding parental inputs, and system reporting included in the bill. He opined that the bill resulted from SB 36, legislation that was proposed more than one decade ago. He advocated for agency testimony prior to merging SB 111 with the governor's omnibus legislation. He recommended retaining those tools proven to assist education evaluations.

[9:25:25 AM](#)

Co-Chair Meyer discussed the fiscal note, which provided a credit.

TIM LAMKIN, STAFF, SENATOR GARY STEVENS, spoke to the concern about transition language. He clarified that the 2017 phase-out provided an opportunity for students who

failed the exam to take it again. The language was consistent with the governor's bill.

9:27:01 AM

Vice-chair Fairclough asked if the state had a support contract to implement the legislation on an annual basis.

Mr. Lamkin replied that he was not acquainted with the details of the contract.

SB 111 was HEARD and HELD in committee for further consideration.

9:27:38 AM

AT EASE

#sb155

SENATE BILL NO. 155

"An Act making supplemental appropriations, capital appropriations, and other appropriations; amending appropriations; repealing appropriations; making appropriations to capitalize funds; and providing for an effective date."

9:30:40 AM

RECONVENED

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself. She wished to provide an overview of the supplemental request. She noted the presence of department representatives in the committee room. The supplemental requests were not anticipated when the budgets passed last spring. The total supplemental request was \$53,370,100. She referred to the summary document (copy on file), the accompanying 8-page spreadsheet (copy on file) and the back-up material detailing each request by bill section (copy on file). She noted that less than \$1 million of the request was for state agency operations. Approximately \$48 million of the request was related to two items; fire suppression and disaster relief. Approximately \$2 million existed in settlements that were negotiated throughout the year along with \$2.4 million for emergency repairs not covered by disaster relief funds.

[9:32:57 AM](#)

She introduced the spreadsheet: "FY2014 Supplemental Bill" (copy on file).

Ms. Rehfeld discussed Line 1 on page 1 of 8. The item addressed the Office of Public Advocacy in the Department of Administration. The request was for \$193 thousand in general funds to address caseload capacity and appellant backlog issues. She stated that the Office of Management and Budget (OMB) had worked hard to avoid a supplemental request for the Office of Public Advocacy and the Public Defender Agency. Both agencies experienced significant caseload increases, which created the backlog. She noted that OMB was considering the item for a budget amendment.

Ms. Rehfeld continued with line 3 and a similar request from the Public Defender Agency. The request was \$650 thousand in general funds for caseload capacity and appellant backlog.

Ms. Rehfeld moved to line 4, which addressed the Department of Military and Veterans Affairs and the Alaska Military Youth Academy. The requested \$48 thousand of general funds would enable a fund source change addressing the one-time payment approved last year by the legislature.

[9:34:58 AM](#)

Ms. Rehfeld continued with line 5 of the spreadsheet. The request was for the Department of Natural Resources and the 2014 fire suppression activity. The request would provide general funds for expenditures incurred under the Declaration of Disaster Emergency process for the fall 2013 fire season. Additional authorization for this purpose was requested each year due to the unpredictable cost of each fire season. She added that the Department of Natural Resources worked closely with federal partners when firefighting on Alaskan lands. The portions deemed state responsibility were brought forward in the supplemental bill. The request was for \$22,769,400 in general funds.

[9:35:44 AM](#)

Co-Chair Meyer asked about the \$22 million request. He wondered how the particular fire was started. He recalled

concern that the military caused the fire and the federal government ought to be billed.

Ms. Rehfeld responded that the supplemental request was a reflection of several fires. She stated that the request was based on the amount of federal funding available to pay for the cost of the forest fires. The legislature received letters from the administration reporting on the expenditures to date. She offered to have the Department of Natural Resources testify about the item.

[9:37:05 AM](#)

JEANMARIE DAVIS, DIRECTOR, DIVISION OF SUPPORT SERVICES, DEPARTMENT OF NATURAL RESOURCES, responded that the fire in question occurred primarily on federal land and did not contribute to the supplemental request. She echoed Ms. Rehfeld that the request included expenses from the entire 2014 fire season.

Co-Chair Meyer asked if the department was comfortable with the amount of money contributed by the federal government.

Ms. Davis clarified that the state would not incur the majority of expenses for that particular fire.

Co-Chair Meyer asked if the department was seeking further funding from the federal government to pay for the fire.

Ms. Davis replied that the state was in the process of exchanging bills with the federal government, but a completion of the exchange would not alter the request of \$22 million.

Co-Chair Meyer asked how much additional money was sought from the federal government for the fire in question.

Ms. Davis replied that the state sought \$33 million in reimbursement from the federal government for expenses related to state resources utilized in fighting a fire on federal land.

[9:39:35 AM](#)

Ms. Rehfeld continued with line 6. The request was from the Department of Revenue and the Treasury Division. The request was for \$19 thousand in public school trust fund

receipts. She noted that investment management fees were charged as a percent of the market value of invested assets under management. She pointed out that OMB observed an increase in the invested assets. She stated that page 2 of the spreadsheet displayed two other funds under investment management by the Treasury Division. She highlighted line 7 and a request for \$7 thousand from the retiree health insurance fund for the market value of their management fees. She continued with line 8 and the \$16 thousand request related to investment management of the Power Cost Equalization Endowment Fund.

Ms. Rehfeld stated that line 7 concluded the operating number section of the supplemental bill. She shifted to the capital component of the request.

[9:40:51 AM](#)

Ms. Rehfeld pointed out line 11 and the appropriation request of \$500 thousand to the Inter-Island Ferry Authority. The funding was designed to assist the ferry in providing daily service between Ketchikan and the Prince of Wales Island. The funds were considered vital to continue the transportation link.

Senator Dunleavy understood that the request was considered a capital request, but he noted the history of legislative contributions to the Inter-Island Ferry Authority. He recalled the prior years' spending. He wondered about a better plan to address the issue.

Ms. Rehfeld replied that OMB had communicated diligently with the Inter-Island Ferry Authority to create methods of assisting a more self-supporting system. She noted that the ferry initially planned a northern route, but recently released the route to reduce annual operating costs. She stated that the request was in the capital section as it was identified as a named recipient grant to the entity. She was reluctant to recommend that the request be identified as an annual ongoing appropriation. She preferred an annual conversation about state support of the effort. If the state was unable to support the ferry, the Alaska Marine Highway would resume service to Prince of Wales Island, which would increase complexity and state expense.

Senator Dunleavy welcomed a discussion about the ferry system.

[9:44:29 AM](#)

Co-Chair Meyer asked if state had a contract with the Inter-Island Ferry Authority.

Ms. Rehfeld replied that the state did not have a contract with the ferry authority. She noted that the Alaska Marine Highway used to travel to the Prince of Wales. When the ferry authority was formed in statute, they took over the responsibility. The service was provided through federal authorization and loans. The authority operated two vessels. The state provided some level of general fund support. The marine highway would resume service if the authority were not able to provide the ferry. The state expense would increase if the marine highway provided the service.

Senator Olson asked about the inception of the Inter-Island Ferry Authority and the state subsidy history.

Ms. Rehfeld replied that she could provide varied details. She stated that a fairly significant request was appropriated to help with debt service. She believed that contributions varied between \$300 thousand to \$500 thousand.

Senator Olson voiced concern about the marine highway's growing deficit.

[9:47:14 AM](#)

Co-Chair Meyer asked if both vessels were operating.

Ms. Rehfeld replied that the authority was operating only one of the vessels. The second vessel was available in the event that the operating vessel was in dry-dock.

[9:47:38 AM](#)

Senator Dunleavy asked how many people were taking the ferry rather than flying. He pointed out that bridges were also worthy capital projects, especially in the Interior region of Alaska.

9:48:05 AM

Ms. Rehfeld continued on page 2, line 12 and the request from the Department of Transportation and Public Facilities for \$2,408,100 for specific emergency repairs. She mentioned the list of the projects that did not qualify for disaster funds. The goal was to repair damaged areas due to flooding and ice jams, which resulted in substantial damage to public infrastructure. These projects are not eligible for reimbursement from the Federal Highway Administration or the Federal Emergency Management Agency. She noted that a list of specific projects was provided in the back-up notebooks.

9:48:54 AM

Ms. Rehfeld continued with page 3, which introduced the language appropriations. She noted that line 16 referred to bill section 6(a) and a request from the Department of Environmental Conservation to reappropriate approximately \$3.4 million of funds. The language would reappropriate balances from several smaller municipalities' water and sewer projects that were completed under-budget, stalled or cancelled. The unexpended and unobligated balances would be reappropriated to the Village Safe Water and Wastewater Infrastructure Projects.

Ms. Rehfeld moved to line 17 of the spreadsheet and section 6(b) of the bill from the Department of Environmental Conservation. The department requested a scope change for rood replacement at the Tower Road Tank in Haines.

Ms. Rehfeld continued with line 18 and a reappropriation for the Department of Health and Social Services of approximately \$81 thousand for Eligibility Information System Replacement.

Ms. Rehfeld discussed line 19 and the request form the Department of Law. She stated that the funding would provide for a section of judgments and settlements for \$1,570,200. She pointed out the list of the four settlement items located in the back-up. She noted line 20 and the language approved in the past to address additional judgments arising in the current fiscal year.

9:51:18 AM

Ms. Rehfeld moved on to page 4, line 21. The request was from the Department of Military and Veterans Affairs for a reappropriation of approximately \$350 thousand for Alcantra Facilities Projects and covered storage.

Ms. Rehfeld noted a second request from the Department of Military and Veterans Affairs for an estimate of approximately \$195 thousand to be used at Eielson Air Force Base for covered storage.

[9:51:54 AM](#)

Ms. Rehfeld continued with line 23 and another Department of Military and Veterans Affairs request for an arbitration settlement of \$111,300. The request was related to a situation at the Alaska Military Youth Academy.

[9:52:14 AM](#)

Ms. Rehfeld moved to page 5, line 24. The request contained a language section allowing the state to cover the cost of potential spring wildland fires. The estimate was \$5 million, which was similar to the amount included in the supplemental bill last year.

[9:53:00 AM](#)

Vice-chair Fairclough referred to page 25 of the back-up documents, which referred to the item discussed by Ms. Rehfeld. She pointed out the separate supplemental request for \$22 million discussed earlier. She asked if the spending ratio was common for the state as related to fire suppression spending.

Ms. Rehfeld replied in the affirmative.

Ms. Rehfeld continued with line 25 of the spreadsheet and a request from the Department of Transportation and Public Facilities. She explained that the request was for a legal settlement of \$100 thousand and the associated legal fees of \$64 thousand. The settlement was related to clean-up at the Old-Quinhagak Airport for a total request of \$164,000.

[9:53:53 AM](#)

Co-Chair Meyer asked about the clean-up.

Ms. Rehfeld replied that a building required clean-up at the airport due to the presence of hazardous materials. She stated that litigation ensued and the result was the judgment before the committee.

Senator Bishop stated that the hazardous materials were found in a former snow removal equipment building.

[9:54:48 AM](#)

Co-Chair Meyer opined that the cost of the clean-up was greater than he would have anticipated.

Senator Bishop pointed out that hazardous materials were expensive to dispose of.

Ms. Rehfeld continued with line 26 and a request from the Office of the Governor to amend the fuel allocation percentage. The legislature inserted the fuel trigger language several years ago, which helped all agencies address fuel and utility costs rather than contributing a base amount. The fuel trigger provided for necessary adjustments. She noted past variances in allocations. The University of Alaska displayed a shortfall. She recommended an increase in the university's percentage to 15 percent of the total, which would help to cover their costs.

[9:56:21 AM](#)

Ms. Rehfeld noted a proposed reduction in the fuel trigger for the FY 15 budget. Additional analysis would determine department impact. She stated that OMB would determine whether the percentages required further adjustment.

Co-Chair Kelly asked if the FY 15 budget would reflect an increase in the University's fuel allocation. He understood that the committee could not anticipate a final decision regarding the allocation when amendments were distributed.

Ms. Rehfeld responded in the affirmative. She did not anticipate that the information would be available to the committee by the 30th day.

Co-Chair Meyer asked if agencies other than the university were experiencing shortfalls.

Ms. Rehfeld replied that the university had the bulk of the requests for their statewide facilities. She added that the largest piece of the fuel trigger was the Department of Transportation and Public Facilities for equipment, facilities and marine highway needs. She believed that adjustments could be made to the Department of Transportation and Public Facilities allocation. She stated that OMB was relying on further analysis to make a final determination.

[9:58:48 AM](#)

Senator Bishop asked for consideration of Fairbanks and their electricity needs.

Ms. Rehfeld continued with Line 27 and Line 28 including adjustments to debt service related to eligible federal reimbursements for certain series of bonds issued. A fund switch from federal to general fund was requested on line 27, while line 28 addressed the federal funding available for reimbursement of the bonds.

[10:00:17 AM](#)

Ms. Rehfeld pointed to lines 29 and 30 with two pieces related to the international airports and their revenue bonds. She furthered that the international airport reviewed service funds and construction accounts to adjust for the maximum debt service cost.

Ms. Rehfeld discussed line 31 and a disaster relief funding request in the form of a fund capitalization. The requested amount was \$19,961,500. She mentioned the process of notification of the legislature with requests when disasters occur. She pointed out that \$5 million of capital general funds were allocated for the purpose of disaster relief.

[10:01:35 AM](#)

Ms. Rehfeld directed the committee's attention to line 32 and the request for language to address disaster relief efforts that might occur in the spring of 2014.

[10:02:23 AM](#)

Ms. Rehfeld spoke to line 33 and a series of ratifications. She stated that the ratifications were listed on the bottom of page 7 of the spreadsheet extending through page 8. She informed the committee that ratifications were zero-balancing. The items were transactions that occurred in a prior fiscal year. She pointed to a dollar amount attributed to funds that were disallowed or unrecoverable. She pointed to the list of ratifications and the accompanying appropriation number with a 12 at the end, indicating the fiscal year. She explained that line 42 addressed the ratification for the Department of Health and Social Services for senior and disability services from FY 09. The ratifications were an assortment of transactions that occurred in a prior fiscal year. In order for OMB to zero-balance the terminated appropriations, they must seek legislative approval for the ratifications.

[10:03:46 AM](#)

Ms. Rehfeld spoke to line 34 and a lapse of appropriations for capital projects.

[10:04:02 AM](#)

Ms. Rehfeld noted that line 35 referenced the disaster relief appropriation, which was placed in a fund. Line 36 encompassed the effective date of the bill, April 20, 2014.

[10:04:29 AM](#)

Vice-Chair Fairclough referenced tab 15, page 36 of the back-up. She asked about the ratification for the Department of Health and Social Services Medicaid shortfall of \$2,820,713. She read "based on projections, the department anticipated realizing savings in personal care and waivers, which were not realized." She requested further explanation.

[10:05:42 AM](#)

SANA EFIRD, ASSISTANT COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, stated that the incident occurred before her time with the department. She understood that the department had anticipated savings from the waiver for personal care services in the Medicaid program. The department asked for a decrement because the projections anticipated savings. Since the savings were not realized,

the request was made for ratification in this year's supplemental request.

Co-Chair Meyer applauded OMB on their efforts in creating a minimal supplemental request. He understood that the state could not control natural disasters.

Vice-chair Fairclough clarified that her inquiry did not have a negative intent. She realized that the department did indeed realize a vast amount of savings with the Medicaid services waivers.

Co-Chair Meyer stated that the committee questions were purely for education of the members.

Ms. Rehfeld commented that the departments were doing a fantastic job managing their budgets.

Senator Bishop commented about his time working with Department of Labor and Workforce Development.

Co-Chair Meyer stated that committee business was concluded. He announced that tomorrow's meeting was cancelled.

SB 155 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:08:00 AM

The meeting was adjourned at 10:08 a.m.