

SENATE FINANCE COMMITTEE

April 8, 2014

1:46 p.m.

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CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 1:46 p.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 Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Mike Hawker; David Teal, Director, Legislative Finance Division; Michael Hanley, Commissioner, Department of Education and Early Development.

SUMMARY

CSHB 263(HSS)

EXTEND SENIOR BENEFITS PAYMENT PROGRAM

CSHB 263(HSS) was HEARD and HELD in committee for further consideration.

CSHB 278(FIN)am

EDUCATION: FUNDING/TAX CREDITS/PROGRAMS

CSHB 278(FIN)am was HEARD and HELD in committee for further consideration.

PRESENTATION: EDUCATION FUNDING

#hb263

CS FOR HOUSE BILL NO. 263(HSS)

"An Act extending the Alaska senior benefits payment program."

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REPRESENTATIVE MIKE HAWKER, explained the legislation. The legislation would extend the Alaska senior benefits payment program. He stated that the program was slated to sunset on June 30, 2013, and the bill would move the sunset six years. The program paid benefits to seniors who had very low or moderate income. The benefits had three levels, and were determined by the individuals' standings with regards to the federal poverty level as an index. The monthly benefits could be \$250 per month for someone who was at 75 percent of the federal poverty level; \$175 per month for someone at 100 percent of the federal poverty level; and \$125 per month for someone at 175 percent of the federal poverty level.

Co-Chair Meyer wondered if the bill originated after the Longevity Bonus Program was eliminated. Representative Hawker replied in the affirmative. He explained that the Longevity Bonus Program was eliminated in 2003, and was replaced by a short-lived senior assistance program that existed for one year in 2004. Another program, "The Senior Care Program" also failed. He explained that he had worked with the Mental Health Trust to design the current program with the intent that it would be a durable and long-lasting program. He felt that it reached the intended beneficiaries as effectively and efficiently as possible.

Co-Chair Meyer agreed that the program was very effective.

Co-Chair Kelly looked at the second page of the Department of Health and Social Services (DHSS) fiscal note, and noted that analysis showed a different payment than the other fiscal notes.

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Co-Chair Kelly rescinded his question.

Co-Chair Meyer queried the reason for the six year extension. Representative Hawker replied that there were already two three year terms of the program. He felt that the program has proven its ability to reach the intended beneficiary population. He stressed that the beneficiaries were Alaska's most impoverished seniors, and most vulnerable populations, he hoped that the six year extension would give those individuals some comfort and durability of the program.

Co-Chair Meyer wondered why the fiscal note reflected an increase of 2.8 percent. Representative Hawker responded that the program was growing, and the annual grant expenditures also were expected to grow.

Co-Chair Meyer CLOSED public testimony.

CSHB 263(HSS) was HEARD and HELD in committee for further consideration.

#hb278

CS FOR HOUSE BILL NO. 278(FIN) am

"An Act increasing the base student allocation used in the formula for state funding of public education; relating to the exemption from jury service for certain teachers; relating to the powers of the Department of Education and Early Development; relating to high school course credit earned through assessment; relating to school performance reports; relating to assessments; establishing a public school and school district grading system; relating to charter schools and student transportation; relating to residential school applications; relating to tenure of public school teachers; relating to unemployment contributions for the Alaska technical and vocational education program; relating to earning high school credit for completion of vocational education courses offered by institutions receiving technical and vocational education program funding; relating to schools operated by a federal agency; relating to a grant for school districts; relating to education tax credits; establishing an optional municipal tax exemption for privately owned real property rented or

leased for use as a charter school; requiring the Department of Administration to provide a proposal for a salary and benefits schedule for school districts; making conforming amendments; and providing for an effective date."

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^PRESENTATION: EDUCATION FUNDING

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation, "Funding Public Education in Alaska" (copy on file). He stated that the amount that each school receives and the amount of money that the state allocates for education were two different things.

Mr. Teal looked at slide 2, "C1: Statutory Base Student Allocation (BSA)."

The BSA is sometimes used as a measure of K-12 funding. While the BSA is a major factor in K-12 funding, it is not a valid stand-alone measure because the foundation formula includes adjustment factors that have changed over time.

The formula for K-12 funding is:  
Basic Need=Student Count (ADM) with Adjustment Factors  
BSA

Mr. Teal highlighted slide 3, "C2: Converting Head Count to Students that are Funded."

Adjustment factors - for school size, geographic needs students, vocational education and others - have changed over time, especially since FY 08.

Because funding depends on adjusted ADM (AADM), the conversion from AND to AADM is a critical part of the funding formula.

As shown in the graph, the student count (for funding purposes) was 1.6 times the head count in FY 04. In FY 14, the student count (for funding purposes) was 1.6 times the head count.

Note that ADM has remained at roughly 130,000 over time, but that AADM has increased from 210,000 to 247,000. At any given BSA, a higher AADM means more money.

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Mr. Teal addressed slide 4, "CS: BSA Adjusted for Factor Changes."

Mathematically, applying an adjustment factor to the student count is identical to applying the factor to the BSA.

$$\$5,680*(1.9*130,000)=(\$5,680*1.9)*130,000$$

In this graph, the ADM-to-AADM adjustment factor has been applied to the BSA.

The graph shows what the BSA would have been if the factor for converting the ADM to AADM in FY 13 had applied to all years.

The adjusted BSA in this graph can be used as a starting point for comparing K-12 funding over time.

Mr. Teal spoke to slide 5, "C4: Adjusted BSA in FY 13 Dollars."

When comparing expenditures over time, adjusting for inflation provides a more useful assessment of effective funding levels.

In contrast to Graph 3, which showed constant increases in the Adjusts GBSA since FY 08, this graph shows that inflation has eroded the real value of the Adjusted BSA since FY 11.

This graph is the base to which other state expenditures for K-12 education are added. All additional expenditures have been converted to a "BSA equivalent" at the rate of approximately \$100 BSA increase for each \$23 million spent.

Mr. Teal looked at slide 6, "C5: K-12 Expenditures per AADM (in FY 13 \$)."

Pupil transportation is a formula funded activity that fell from a BSA equivalent of \$321 in FY 04 to a low of \$263 in FY 12. It was boosted to \$300 in FY 13.

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Mr. Teal highlighted slide 7, "C6: K-12 Expenditures per AADM (in FY 13 \$)."

One-time funding (distributed according to the foundation formula) has often been used as an alternative to formula increases.

Mr. Teal addressed slide 8, "C7: K-12 Expenditures per AADM (in FY 13 \$)."

Capital Budget grants are grants for items that would normally be expected to be paid for with formula funds.

They have increased substantially in recent years, as they typically do when other funding is relatively flat.

The FY 14 budget contains \$21 million for capital projects associated with student safety and security enhancements or for fixed costs and energy relief to smaller schools.

Mr. Teal looked at slide 9, "C8: K-12 Expenditures per AADM (in FY 13 \$)."

Department of Education and Early Development (DEED) operating expenses for K-12 include state funds that are awarded as grants to school districts.

This source of funding for school districts is expected to increase because targeted grants provide a way to achieve specific goals at a lower cost and with greater certainty than increasing the BSA. Money allocated via formula cannot be targeted to achieve specific objectives.

Mr. Teal highlighted slid 10, "C9: K-12 Expenditures per AADM (in FY 13 \$)."

The state deposits money in retirement trust accounts on behalf of school districts.

Although the money does not benefit employees directly and cannot be used for other purposes, retirement assistance is a cost of providing K-12 education.

Mr. Teal address slide 11, "C10: K-12 Expenditures per AADM (in FY 13 \$)."

The state pays a large portion of school construction and major maintenance costs.

Although some argue that capital costs do not appear "in the classroom", the costs are incurred by the state as a necessary part of providing K-12 education.

Mr. Teal looked at slide 12, "General Fund Appropriation for K12 Education." The slide displayed exactly what was spent in dollars, which showed that education funding had increased. He stressed that the student account was declining, so the slide understated school funding on a per student basis. He felt that increases to school funding was in pace with inflation.

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Mr. Teal presented a spreadsheet titled, "FY 15 Projections--Converting Student Head Count to Adjusted ADM" (copy on file). He stated that the formula on the spreadsheet converted the student head count to adjust at ADM. The spreadsheet addressed some federal and local funding. He felt that the formula was not mathematically complex, but every factor affected districts differently. The policy decisions with education funding were always complex. The politics of determining the allocated funds per district was the difficult part of the process. The way money was generated had little to do with how the money must be spent. School districts were free to move money around to different schools, and to spend money as they wish. All of the levers in the formula work together, so increasing one lever may have more of an impact in one area than was anticipated.

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Co-Chair Meyer remarked that there had been discussion regarding the formula. He wondered why the formula was such that a student at a larger high school would not receive the same amount of money as a student in a smaller high school. Mr. Teal responded that education in a small school was more expensive than the economies of scale. He explained that there were various factors that went into how the money was distributed.

Senator Olson shared that there were also extreme heating costs in some smaller districts, which added to the disparity in school district funds across the state.

Co-Chair Meyer wondered if there were some adjustments in the cost of living differences in the various areas in 2008 or 2009. Mr. Teal replied in the affirmative. He stated that there was an education task force that offered some recommendations, which he believed were fully implemented.

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Senator Hoffman stressed that the other body removed some cost of living differentials, so that provision was not in the current version. Mr. Teal agreed. The provision would have removed the top two brackets from the size factor, which would have increased the student count in the larger high schools. There would have been a gain of over 100 students in the student count, but he stressed that the provision had been removed from the bill. He felt that changing the formula without examining all aspects could have unforeseen consequences. He announced that education had changed, so the funding should also change.

Co-Chair Meyer felt that there had been consistent changes to the funding formula since 1997. He stated that there had been a local mil-rate adjustment, which reduced the amount of municipality contributions. Mr. Teal agreed that the mil-rate had recently changed. He stated that the reason for the change was because the mil-rate was declining. Therefore, the adjustment forced the mil-rate to remain at a certain level.

Co-Chair Meyer wondered if the mil-rate was at 2.9. Mr. Teal replied that the mil-rate was four full mils. Over fifteen years it had dropped to 4.65, because there was a limit on counting property value increases.

Co-Chair Meyer agreed that there should be discussion regarding adjusting the formula at any level. He argued that the larger schools faced greater problems than smaller schools. He announced that some high schools in Anchorage had armed police in the schools. Mr. Teal agreed.

Mr. Teal continued to discuss the spreadsheet. The slide highlighted each district. The size factor affected different districts in distinct ways. He remarked that the Aleutian School had 31 students, but those students would be counted as 79 students after they were considered in the size formula. He stated that Anchorage would face a 10 percent increase in student size in the formula, because it had larger schools so the size factor would not count them as highly as the smaller schools. He addressed the geographic factor in the formula, which was changed in 2006. The factor now compensated better for the differing operating costs across the state. Anchorage was considered the base, so it received no additional student count. The highest geographic factor was 2.12, which meant that the student count was basically doubled. He noted that the Aleutians had a 1.9 factor, so their count would grow from 79 students to 154 students. The total impact would add 28,000 students to the formula at a cost of \$160 million. He looked at the special needs and career factors. He felt that these factors were odd, because the purpose of the various factors in the formula were meant to adjust for differences from one district to another. The factors would give each school the same amount. He felt that the special needs factor could be removed, so the BSA could be increased by 20 percent.

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Co-Chair Kelly wondered if an increase to the BSA would have the same impact. Mr. Teal responded that BSA increase would multiply students.

Co-Chair Kelly asked for further explanation. Mr. Teal replied that there were 31 students in the Aleutian School. After adjusting for size, the count changed to 79 students. The geographic differential would then change the count to 154 students. Then there would be an addition of 20 percent with the special needs factor, which would be to 184. He stressed that multiplying the student count by the dollar amount would have a greater impact than multiplying the student amount.

Senator Dunleavy surmised that the special needs factor could be eliminated and replaced with a BSA increase, which would yield a similar result. Mr. Teal replied in the affirmative.

Senator Dunleavy wondered if the special needs column was retained for political reasons. Mr. Teal felt that the summation was fairly accurate.

Senator Dunleavy asked why the column was retained. Mr. Teal responded that he did not know. He explained that the factors in the formula were designed to compensate for differences.

Senator Dunleavy wondered if the following column could be removed. Mr. Teal jokingly agreed.

Senator Dunleavy felt that other columns could be added, but the results would remain the same at 2.0 or 1.5. Mr. Teal replied that the formula was not as easy as simply focusing on the BSA.

Senator Hoffman wondered how much the BSA would increase, if the special needs factor was eliminated. Mr. Teal replied that removing the special needs column would decrease the funding by \$198 million, which would allow for an approximate BSA increase of roughly \$1000.

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Senator Hoffman surmised that the removal of the column would increase the BSA, while keeping the formula intact. Mr. Teal replied in the affirmative and furthered that some districts would lose money with the removal of the special needs column. He stressed that all of the factors worked together, but changing the formula affected the districts differently.

Co-Chair Kelly stressed that removing the 20 percent, while increasing the BSA would not be a good choice.

Co-Chair Meyer asked if Senator Dunleavy would like to increase the BSA to \$1000. Senator Dunleavy joked in response.

Co-Chair Meyer wondered if the complex formula was the reason that there was funding outside of the BSA. Mr. Teal replied that the BSA was the easiest way to adjust the formula, because every district would gain by the same percent. Adjusting other factors would change the percentage gains in each district.

Co-Chair Meyer wondered if special needs students were counted as five times the BSA, and intensive students were counted as up to 13 times the BSA. Mr. Teal responded that the special needs students were previously calculated in the same way that intensive students were counted. Intensive needs students were inserted into the formula, which was when the special needs column became 20 percent. Special needs did not add a particular amount, but intensive needs student was counted as 13 students, which increased funding. He remarked that the Aleutian East School had three intensive needs students, which counted as 39 total students.

Senator Dunleavy queried the problem with the special needs formula. Mr. Teal replied that he did not think there was a problem

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Senator Dunleavy queried the problem with education funding. Mr. Teal responded that the districts believe that they were not receiving enough money.

Senator Bishop looked at the intensive needs column, and wondered if the rural communities' intensive needs students would be counted as 13 students. Mr. Teal responded that intensive needs students would be counted as 13 students in every community.

Co-Chair Meyer felt that the intensive needs students in the larger schools received less money than the intensive needs students in the rural schools. Mr. Teal responded that it was all based on the end result in the formula, based on the other factors.

Senator Hoffman remarked that all school districts were in a position to change the funding. He remarked that heating costs could not be cut across the state. Every district faced elimination of teachers, which increased the class size. He reiterated that it was a statewide problem. He

noted that the major maintenance and school construction costs were separate issues, and should not be included in the conversation of funding for students and teachers. He also felt that capital improvements and grants should not be included in the BSA funding consideration.

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Co-Chair Kelly noted that every district had an intensive needs student counted as 13 students. He understood that those students were then multiplied by 1.20. He asked for further information on that factor. Mr. Teal replied that Anchorage had 47,000, but up to intensive needs, it increased to 63,000. Therefore, each Anchorage student counted as close to 1.30 students.

Co-Chair Kelly asked how Aleutian East School compared to the Anchorage School District. Mr. Teal replied that the Aleutian East School increased six times.

Senator Dunleavy queried the solution. He wondered if an inflation-proofed BSA was the answer.

Co-Chair Kelly interjected that Mr. Teal had offered his opinion often in recent years. Mr. Teal stated that there was not an easy solution to the education funding issue. He understood that there were many people that were attempting to educate children, but the state had a large budget deficit, which could not afford what the districts felt they deserved.

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Co-Chair Meyer queried the vocational and technical education factor. Mr. Teal replied that the factor was 1.5 percent for every district. It was not an adjustment factor, but simply increased each student equally.

Co-Chair Meyer wondered if that included the home school children. Mr. Teal replied that some home school students were enrolled in school through partial correspondence. The student could be split for those students.

Co-Chair Meyer surmised that the schools were occasionally audited. Mr. Teal agreed.

Mr. Teal continued to discuss the spreadsheet. He noted that the correspondence student cost was approximately \$49 million; and intensive needs costs cost \$170 million. The formula ended with the basic need of each student in the state. He stated that the basic need was not a head count multiplied by the BSA. The basic need was the head count multiplied by all of the factors within the formula, and then multiplied by the BSA. He stressed that the factors differed by school districts, so each district did not receive \$680 per student. There were substantial variations for each school districts.

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Mr. Teal remarked that the required local effort as a percentage basic need varied greatly across the state. HE stated that the Anchorage School District received 20 percent of funding from the basic need result. He stressed that the local contribution was based on how much business property was in the community relative to residential property. A residential community would have a lower local effort percentage, so the communities with higher oil revenue received more local funds. Those communities had a cap on their required local effort. The local effort mattered because there was an offset dollar for dollar.

Mr. Teal addressed the Federal Impact Aid, but remarked that there was little control over that aspect.

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Senator Hoffman queried the reason Alaska received Federal Impact Aid. Mr. Teal responded that the Federal Impact Aid had to do with payments in lieu of taxes. It was intended for a federal presence on federal lands, like land on a military base.

Senator Hoffman wondered if the federal land included federal parks. Mr. Teal deferred to Commissioner Hanley.

Mr. Teal looked at comparison between FY 00 and FY 14, regarding who was contributing to the education funding. The slide showed that the basic need count declined, correspondence students increased, and regular students decreased. The basic need had increased by 70 percent, and required local effort had increased by 53 percent, despite the mil-rate decline. Federal Impact Aid had increased, but

was at an even lower rate. He stated that the state aid was basic need minus required local effort minus Federal Impact Aid and minus some other factors.

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Senator Bishop queried the number of people that understood the education funding formula. Mr. Teal replied that possibly 20 people understood the formula.

Co-Chair Meyer stressed that many people were not concerned about where the funding was derived, rather that there was any funding at all.

Co-Chair Kelly commented that he was the reason Mr. Teal was receiving so much publicity in recent years.

Co-Chair Meyer stressed that education funding was a difficult process, and asked for Commissioner Hanley's comments

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MICHAEL HANLEY, COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, felt that the presentation was well done regarding adding funding to the formula and manipulating the formula.

Co-Chair Meyer understood that the other body faced difficult discussions regarding school sizes. He asked about the issue of funding disparities between students of different school sizes. Commissioner Hanley responded that the MacDowell Group analyzed the data, and recognized the differences of efficiencies between a large and a small school. The analysis recognized a difference between a school with 250 student size and 400 student size. He stressed that the students were not valued at less than one. He noted the column of the left of the spreadsheet, which what the number of students, and as the funding moved through the formula, the students became proxies which recognized school size, geographic cost factors, and intensive needs.

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Co-Chair Meyer remarked that the MacDowell Study was conducted in 1997, so there were some antiquated results.

He wondered if there should be a new study. Commissioner Hanley replied in the affirmative.

Co-Chair Meyer commented that the state contributed more education funding when the mil-rate was adjusted, and the state received no credit for that contribution. He wondered if an adjustment back to raising municipal property taxes would benefit the schools, without costing the state any money. Commissioner Hanley responded that it would simply shift the purchaser of education. He agreed that the state did not receive credit for the mil-rate adjustment.

Senator Olson wondered if the foundation formula would be advantaging the rural student. Commissioner Hanley asked for clarification.

Senator Olson understood that the study may be outdated. He felt that the current formula disadvantaged the rural students, so much that a lawsuit pointed out that discrepancy. He felt that the formula could be rewritten to make those students equal to urban students. Commissioner Hanley responded that the formula's intention was solely equity. He felt that each component of the formula needed to be examined, and possibly rewritten.

Senator Olson remarked that there had been an amendment to Section 17. He queried Commissioner Hanley's opinion on the amendment. Commissioner Hanley replied that there was an important divide between the rural and urban districts. He explained that he worked hard to settle those discrepancies. He felt that the work was moving in the right direction.

Co-Chair Kelly queried the impact on rural schools. Commissioner Hanley replied that the funding was intended for schools above 400 students. Once 400 students was met, the funding was less.

Co-Chair Kelly queried what districts had decreased funding. Commissioner Hanley responded that there was a positive fiscal note. The districts did not have decreased funding, but the schools would have been funded in the size factor.

Co-Chair Kelly stressed that there was no money taken from rural Alaska, or any school district. Commissioner Hanley agreed.

Co-Chair Kelly stated that money was added to districts that were counted as less than one. Commissioner Hanley agreed.

CSHB 278(FIN)am was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

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The meeting was adjourned at 3:23 p.m.