

SENATE FINANCE COMMITTEE

April 9, 2014

9:33 a.m.

[9:33:45 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:33 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 Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Michael Hanley, Commissioner, Department of Education and Early Development; Grey Mitchell, Assistant Commissioner, Department of Labor and Workforce Development; Angela Rodell, Commissioner, Department of Revenue; Senator John Coghill.

SUMMARY

SB 119 BUDGET: CAPITAL

SB 119 was SCHEDULED but not HEARD.

CSHB 278(FIN) am

EDUCATION: FUNDING/TAX CREDITS/PROGRAMS

CSHB 278(FIN)am 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."

[9:35:21 AM](#)

MICHAEL HANLEY, COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, spoke to a sectional analysis (copy on file) of the bill and related that certain components of the legislation were specific to the Department of Labor and Workforce Development (DOL) and the Department of Revenue (DOR). He stated that Section 1 of the bill consisted of clean-up language and that it allowed for jury service exemptions for certain teachers in low-performing schools.

Co-Chair Kelly requested that Commissioner Hanley skip over conforming-language sections of the bill and speak to the sectional portions that were the meat of the legislation. Commissioner Hanley responded in the affirmative.

Vice-Chair Fairclough inquired which sectional analysis was being presented. Co-Chair Kelly noted that the sectional analysis in his packet was different.

Vice-Chair Fairclough requested a brief at ease.

9:37:12 AM

AT EASE

9:38:05 AM

RECONVENED

Co-Chair Kelly stated that the document that the committee would be working with was notated in the lower right-hand corner and was prepared by M. Herman on 4/8/14; it was in landscape format.

Commissioner Hanley continued to speak to the sectional analysis of the bill and related that Section 2 required school districts to allow high school students to prove their proficiency and gain credit by testing out of a course; the current language in the bill allowed for testing out of any subject. He explained that the governor had originally had language in the bill that required districts to have assessments in the core areas of math, language arts, science, social studies, and world languages. He offered that some subjects that were experiential in nature did not lend themselves to an assessment. He stated that Section 4 of the bill prohibited the Department of Education and Early Development (DEED) from entering into a contract that would cede its authority over its standards and assessments. He explained that there had been a perception that the department had given something away when it had joined the Smarter Balanced Assessment Consortium and that the language in Section 4 restricted DEED from giving up its autonomy and authority over its standards.

Commissioner Hanley continued to speak to a sectional analysis of the bill and related that Section 5 was a report to DEED from school districts and added another component to the information that was garnered from school districts; the report included information for students who have parents in the active military. He reported that Section 6 on page 5 established a new accountability system for Alaska's schools. He explained that as a result of the waiver received from the No Child Left Behind Act, there had

been a new accountability system implemented to get away from the adequate yearly progress (AYP) that was no longer adequate or an accurate measurement of schools; DEED had moved to the Alaska School Performance Index (ASBI) and used a 5-star rating system. He stated the other night, the House added language to the bill that would require DEED to grade its schools on an A through F basis; Section 8 established the definitions of what that A through F criteria would be. He stated that Section 9 of the bill added integrity to the local process of applying for a new charter school. He explained that charter schools were operated within school districts and needed to go to the local school board; language had been added in Section 9 that specified that the answer from that school board needed to be in writing and be based on findings of fact and conclusions of law. Section 9 also allowed for appeal to commissioner of DEED if there was a denial from a school board.

Commissioner Hanley continued to address a sectional analysis of the bill and related that Section 10 allowed the commissioner of DEED to review a charter school's appeal on the findings of fact and conclusion of law; the commissioner could remand the decision back for further consideration, suggest an approval to the state board, or agree with the denial. He added that a reconsideration of the appeal needed to be conducted within 90 days. He stated that Section 11 of the bill continued to focus on equity for charter schools and spoke to charter schools having the first right of refusal to lease space from the district in which they reside; the section also allowed charter schools to negotiate a lease agreement for true operational costs. He explained that a charter-school budget was defined and shall not be less than the amount generated by the students enrolled in that charter school. He recalled that David Teal, who was the director of the Legislative Finance Division, had spoken the previous day to the amount that was generated by students, which included things like the base student allocation (BSA), the geographic-cost factor, the special education component, and the vocational technology education; Section 12 specified that the budget for a charter school could not be less than the amount that its students generate in that formula minus the administrative fee that the district could retain for the work that it did on behalf of a charter school. He added that Section 12 limited the administrative fee to 4 percent.

Commissioner Hanley continued to address the sectional analysis and related that Section 13 was new and was added in the House Finance Committee; the section allowed for charter schools that were starting out to apply for start-up funding in the amount of \$500 per student that was enrolled in the charter school. He explained that the start-up money was a one-time funding source for start-up costs. He stated that Section 15 was similar to the language in Section 4 of the bill that prevented DEED from giving up its authority with its assessments and standards; Section 15 prevented DEED from spending any money on the implementation of the common-core standards. He explained that common-core standards were developed by the National Governors Association and the Council of Chief State School Officers and noted that 46 states have adopted the standards. He pointed out that Alaska had referenced the common-core standards, but that it had its own set of standards that were comparable and equal in rigor.

[9:44:47 AM](#)

Commissioner Hanley continued to address the sectional analysis. He explained that the State Board of Education provided an annual report to legislature that was typically presented to both the House and Senate Education Committees and that Section 16 added another component to the report that included recommendations to the legislature around educational spending and efficiencies. He observed that new a reporting component was added in the House side and opined that the language seemed a little outside of the statutory purview of the State Board of Education. He offered that board was a policy entity more than a fiscal board and thought that the idea that it would recommend methods of spending to the legislature seemed to be beyond its purview; regardless, the idea was that the board would at least come to the legislature with recommendations on education. He stated that Section 17 was created for recognizing some equity in funding for charter schools and pointed out that transportation was a separate formula that was also generated by students. He explained that districts received funding for transportation based on its number of students and that Section 17 designated that a charter school had to have a minimal level of funding for transportation along routes that it currently served. He directed the committee's attention to line 7 on page 11 of

the bill and quoted the minimum level of responsibility for school districts to provide for transportation:

at a minimum, provide transportation services for students enrolled in the charter school on a space available basis along the regular routes that the students attending schools in an attendance area in the district are transported

Commissioner Hanley continued to address a sectional analysis of the bill. He related that the intent behind Section 17 was that charter-school students generated funding for the school and that they should also receive services, including transportation. He reported that Section 18 included the state's boarding schools like Mt. Edgecombe in the requirement to provide opportunities for students to test out of the courses that previously had been spoken to at the beginning of the meeting. He stated that in order for a district to apply to open a residential school, it needed to do so during an open-application period. He explained that the commissioner of DEED could currently open an application as deemed appropriate and recalled that he opened one the prior year; he did not think that any open-application periods had been opened prior to that by a commissioner. Section 19 specified that the application period shall be opened annually, but did not require the commissioner to approve new schools. He thought that the opportunity should be there for schools and districts to apply for residential schools. He noted that one thing that was missing from Section 19, which that had been in governor's original bill, was the increase in boarding stipends; this component was currently a part of SB 113. He noted that SB 113 had been considered by the legislature the previous year and that the legislature had increased the funding for boarding stipends, but not to the extent that was requested in the bill. He stated that the numbers were the same in the current year and that the idea behind increasing the stipends was to come close the actual cost of housing students in the residential schools.

[9:48:28 AM](#)

Commissioner Hanley continued to address a sectional analysis of the bill. He spoke to Sections 20, 21, and 22 and pointed out they were BSA components. He stated that the governor had put in \$85 in order to get discussion started regarding increasing the BSA. He stated that the

House had increased the \$85 to \$185 and had kept the amounts of \$58 and \$58 in subsequent years that the governor had recommended. He noted that at the end of the bill, the House had also included \$30 million as one-time funding that would be distributed using the formula. He related for comparison to the \$30 million that providing a \$185 BSA represented about a \$46 million cost. He stated that Section 23 discussed tenure for teachers in Alaska and moved the tenure period from 3 years to 5 years. He observed that the change in tenure was added in the house, but that he was unsure how it would improve scores or the education system; however, it was determined that holding off on tenure for an additional 2 years would be a better route. He observed that Section 24 allowed smaller communities that had less than 5,500 people to provide tenure for their teachers in 2 years less than the standard. He explained that if the current tenure in the bill stayed at 5 years, Section 24 would allow these smaller communities to offer tenure at 3 years.

GREY MITCHELL, ASSISTANT COMMISSIONER, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, spoke to the sectional analysis of the bill and directed the committee's attention to Section 25 and in particular to page 14, lines 15 through 31 of bill; the main change was located on line 17 and extended the Technical and Vocational Education Program (TVEP) through June 30 of 2017. He explained that the governor's version of the bill had originally established a sunset state of 2024 and that the administration would prefer that sunset date to allow the regional training centers more stability to develop training programs in light of large projects on the horizon; additionally, it would allow them to more effectively meet industry needs. He spoke to Section 26 and in particular to page 15, lines 1 through 28, which added performance requirements for TVEP recipients to establish and document dual credit articulation agreements with school districts to allow for high school students to get school credit for technical and vocational training.

[9:51:45 AM](#)

AT EASE

[9:52:34 AM](#)

RECONVENED

Mr. Mitchell continued to speak to a sectional analysis of the bill and related that Section 26 also removed former Sections 4 and 5 from the bill; Sections 4 and 5 of the previous version of the bill had dealt with student and employer related satisfaction related to the training. He concluded that Sections 4 and 5 had been removed because they were subjective measures and were not viewed in the same categories as the other performance measures; paragraph 6 was added to Section 26 to allow DOL to collect performance and financial information or develop regulations to collect performance and financial information from TVEP participants. He spoke to Section 27 and in particular to lines 29 through 31 on page 15 and lines 1 through 4 on page 16. He stated that Section 27 was amended to require institutions receiving TVEP funding to establish and maintain at least one articulation agreement for dual credit for high school students who were taking a vocational education course; furthermore, it allowed the DOL to establish a penalty of 20 percent of the TVEP funding in the following year if a participant did not comply with the performance or reporting requirements. He directed the committee's attention to Section 28 on page 16 and in particular to lines 5 through 12; this section established the definitions for what an articulation agreements and dual credits were.

[9:54:53 AM](#)

ANGELA RODELL, COMMISSIONER, DEPARTMENT OF REVENUE, addressed a sectional analysis of the bill and related that Section 29 gave municipalities the expressed authority if they chose to exempt property used for charter schools from their local property tax. She stated that Sections 30-41 all related to tax credits that were offered for donations and noted that the tax credits were replicated based on the individual tax that the credit was allowed to be applied to; some sections applied to the corporate income tax, the fisheries tax, the fisheries resource landing tax, and the mining tax, which was why the same language was replicated over the course of Sections 30 through 41. She stated that Section 30 had originally been for a tax credit for instruction research and educational support for the University of Alaska, as well as two and four year colleges; this had been extended to also include public and private non-profit elementary and secondary schools. She reported that the ability of a donation for an intercollegiate sports tournament had been removed from the

bill as an eligible qualifier for the tax credit. She continued to speak to Section 30 and related that funding for scholarships had been added for the cost of dual-credit courses, tuition and text books, registration, on-campus room and board, transportation costs, and other program costs. She stated that the construction of residential housing, childhood early learning and development programs that were provided by non-profit corporations, as well as science, technology, engineering, and math programs that were provided by a non-profit or a school district were all added as eligible uses for the tax-credit donations; donations to any of those programs throughout the state would qualify for a tax credit under the corporate income tax, the state's fisheries tax, fishery resource landing tax, and the mining tax.

[9:57:30 AM](#)

Commissioner Hanley clarified that the residential facilities were for the state's proved residential schools and a tax credit would be provided because there was no other way to fund the schools.

Commissioner Hanley continued to speak to the sectional analysis of the bill and noted that Section 42 repealed a statute that was noticed by the House; the statute was no longer in effect and mostly spoke to the Bureau of Indian Affairs' schools and the absorption of those school districts. He stated that Section 43 removed a sunset for a provision that allowed Alaska to apply for federal grants for starting up charter schools; Alaska had received some of those grants about six or seven years prior, but had not received any recently. Section 43 allowed the state to continue to at least have the opportunity to apply for those federal grants as they became available. He stated that Section 44 contained the applicability language related to the teacher-tenure provisions and that Section 47 required the Department of Administration (DOA) to submit a written report to the legislature on January 1 of 2016 in regards to implementing a state-wide salary and benefits service for school districts. He stated that Section 48 contained the \$30 million in one-time funding that was added by the House and would be distributed by the adjusted average daily membership; the remaining sections contained effective dates.

Co-Chair Kelly requested that Commissioner Hanley pretend that there were parents in the room and explain how the bill made education better for Alaskans. Commissioner Hanley replied that the legislation did several things; one was that it included additional funding for the state's schools and districts that actually went to the schools and districts as opposed to things that didn't reach the schools. He explained that the bill also removed a few barriers and added new opportunities for students. He spoke about the opportunity to test out of a class He recalled previous testimony that some of the state's charter schools were struggling with funding and finding leases; the bill removed some of the barriers on charter schools, created equity, clarified what funding generated by students really was, and provided opportunities for charter-school students to have transportation like other students in the district. He noted that the bill also provided incentives for Alaska's public entities to join with the state in increasing educational opportunities. He stated that Alaska's residential schools were proven models that had been very effective for students in rural and urban Alaska; the bill provided an annual opportunity for school districts to open new residential schools. He hoped that eventually, the bill would support residential schools to a greater extent.

[10:01:57 AM](#)

Senator Hoffman directed the committee's attention to Section 47, which required DOA to conduct a statewide salary and benefit report by January 1 of 2016. He inquired if the study would include a cost of living adjustment (COLA) element as it related to rural teachers. Commissioner Hanley replied that the component was added in the House and that he would have to check regarding the intent on how DOA would conduct the report. He added that the section in question had not been part of the governor's original bill and was only added recently.

Senator Hoffman thought that if the section did not contain a COLA adjustment for rural teachers, it would be difficult to hire teachers in those areas. He observed that rural districts continued to have problems regarding hiring and that one of the ways that they were able to hire competent teachers was to have a different salary structure than urban schools.

Vice-Chair Fairclough commented that the committee had already gone through a process to evaluate benefits other than salary for school districts in a survey that was conducted for an insurance pooling issue. She wanted to make sure that as the Senate reviewed the survey, the committee did not ask for duplicate information or something that was already collected. She wondered what the administration would do differently in acquiring the data on the health and benefit side of the equation.

[10:04:16 AM](#)

Senator Hoffman wondered if Commissioner Hanley was ready to give a comparison between what level of funding the Senate had provided in the operating budget versus the level of funding that the House provided in HB 278. Commissioner Hanley responded that he could give a general comparison of the 2 levels. He reported that in the House, the \$185 in the BSA translated to about \$46 million and that including the \$30 million appropriation, the House had provided about \$75 million to \$76 million; part of that was a one-time allocation, while part was in the BSA. He stated that the Senate had added a \$100 million, which translated to about a \$400 increase to the BSA and that House's funding level translated to about \$300 BSA increase. He noted that another difference was that the Senate had all of the funding as a one-time appropriation.

[10:05:36 AM](#)

AT EASE

[10:07:28 AM](#)

RECONVINED

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Vice-Chair Fairclough noted that there had been a question about broadband before the AT EASE and stated that the Legislative Budget and Audit Committee had been working with Senator Olson's office on broadband and the necessity of taking a closer look at how the state's schools were setup in their ability to communicate electronically. She noted that there was a survey done on schools and that the committee was trying to ascertain what those actual hardware positions were that was specific to individual districts, what options and abilities there were to connect those areas, and what the required level would be to carry

data. She noted that the issue on broadband for schools was unresolved for the Senate and that she did not think it would be resolved in the current session. She understood that broadband survey would not be completed until the following session.

Co-Chair Kelly requested Commissioner Hanley to comment on the E-Rate legislation and thought it should be discussed along with broadband. Commissioner Hanley stated that he could give a high level overview, but that it had been several days since he had reviewed the bill. He stated that the idea behind the E-Rate bill was simply to bring all of the state's schools up to a minimum level of 10 megabits per second of bandwidth; additionally, it would increase the bandwidth 10 percent for those schools that were already at the minimum level. He stated that the bill would set a floor for expectations of broadband across the state.

Co-Chair Kelly inquired if the fiscal note on the E-Rate bill was around \$13 million. Commissioner Hanley responded that it was somewhere in that area, but that it increased in the out-years.

[10:09:46 AM](#)

Senator Olson noted that the bill converted DEED from an A through F system for grading its schools as opposed to the star system and inquired what the reason was for that change. Commissioner Hanley replied that DEED had behaved very intentionally when it received its waiver to move to a star system; he related that the star system was similar to rating system for a hotel and represented a place for improvement. He recalled that going to the star system was a hugely public process and that there had been a lot feedback from people across the state. He stated that the A through F system had been introduced in the House, but opined that an F still denoted failing. He was unsure how the A through F system would motivate students, particular in small rural areas, where there were no other schools in town; he added that a student could not really directly impact a school's score. He opined that the A through F system seemed to have detrimental consequences rather than providing motivation. He understood that the sponsor of the amendment in the House believed that having an A through F system would motivate students in schools, as well as parents.

Senator Olson surmised that Commissioner Hanley was not in favor of language that changed DEED to the A through F system. Commissioner Hanley responded in the affirmative and explained that the department had been acting intentionally when it had gone to the star system.

10:11:50 AM

Senator Olson noted that Section 24 on page 14 discussed rural school districts and requested clarification on what the definition of a small borough was. He noted that he had two boroughs in his Senate district that had populations that may or may not go above the threshold of 5,500 people. Commissioner Hanley understood that any borough that had less than 5,500 people was considered small; he did not see any other criteria offered and did not have any further insight into the subject.

Senator Olson surmised that Commissioner Hanley was not necessarily in favor of that distinction of what a small borough was. Commissioner Hanley understood that the intent behind having a shorter tenure for rural Alaska was to incentivize teachers to work in those areas, but was unsure if that was the intent of tenure. He stated that tenure was not designed as an incentive, but that it could be if used in that way. He noted that tenure was designed to give administrators and teachers an opportunity to prove their effectiveness before being provided with additional security in their job.

Senator Olson expressed concern about how the bill's tenure change might affect his district. He noted that if an educator went from the Nome public-school system, which was a single site school district, as opposed to the Bering Strait School District and then moved the Northwest Artic Borough School District, it would be unclear what exactly applied regarding tenure. Commissioner Hanley responded that the different districts in question could potentially have different tenure systems under the bill.

Senator Olson pointed to Section 47 on page 28, lines 10 through 15. He noted that it appeared that the state was attempting to establish a salary schedule in the section, but observed that the employees being affected were not state employees but were essentially employed by the school district. He noted that salaries and retirement were important to people and wondered if that those aspects

should be left up to districts in collective bargaining rather than being mandated in statute. Commissioner Hanley responded that the section did remove the authority to set salaries for teachers at the local level and moved that authority to the state level. He did not believe that the intent was to make the teachers state employees, but to determine their salaries at the state level. He thought that that Senator Olson was correct that the intent of that particular section was to look at a statewide-salary schedule.

10:15:32 AM

Senator Olson interpreted that DEED was not in favor of the change and that it wanted to continue with local control for the schools. Commissioner Hanley responded that the department was relatively neutral on the change and that it had not really seen what it would like yet; the change represented a plan to provide a recommendation to the legislature.

Co-Chair Kelly thought that one of the vexing things about education costs in Alaska was that most people were not satisfied with the education product that the state was getting. He added that Alaska had some great schools, students, and programs, but that, in general, people did not think that the state was getting the product it wanted from its education system. He expressed frustration that superintendents or other school district people complained about rising costs, but thought that there had not been a lot of effort by the school districts to control labor costs. He noted that some costs could not be controlled, but that there was some ability to have control over labor costs; the reason for the state-wide salary structure was because the districts did not, in general, seem to want to control those costs.

Senator Dunleavy inquired what the genesis of the 5-star rating system had been. Commissioner Hanley replied that one of the requirements for the waiver was that DEED needed to put in a separate accountability system. He explained that if AYP was scrapped, something needed to be implemented to measure schools and school districts with; this was what had driven DEED to create a different system.

Senator Dunleavy inquired what the goal of the star rating system was and how it would manifest itself in the state. Commissioner Hanley replied that the waiver was totally optional and that there was no compulsion to get one; however, if the state had stayed with AYP under a component of the No Child Left Behind Act, about 98 percent of the state's schools would have been deemed as failing. He reported that if DEED has stayed with AYP, it would have had to reach 100 percent efficiency in the current year and that it would have to be implementing school improvement plans and interacting with schools as if there were failing, even if a school might have a 85 percent success rate. He added that DEED felt like the AYP was an erroneous model and that getting out from under it represented an opportunity to build a better system. He reported that he was very happy with the Alaska School Performance Index and the new star rating system and explained that the feedback from superintendents and principals had been good. He offered that new system allowed school districts to have greater control and ownership over their scores, which had not happened with AYP or the No Child Left Behind Act and explained that the prior system had not provided a way to fix things within the system. He added that the new rating system also allowed DEED to provide resources to help the 1-star schools, which had been designated as a priority; it also provided the department with a chance to recognize some of its 5-star schools for their good work. He thought that the motivation for switching rating systems was the need for an honest system that reflected how Alaska's schools were doing.

[10:20:19 AM](#)

Vice-Chair Fairclough thought that it was difficult when America was falling behind in the rankings in the world education market. She knew that teachers were working hard and had many new challenges in the classroom, but pointed out that America was losing ground in terms of how its students would compete in the world market. She recalled attending education conferences and trying to attend educational meetings in an effort to understand the perspective of what was happening. She thought that she was informed enough to know that some systems were exclusive and some were inclusive and that America was taking on more than other than others it might be compared to. She was trying to find footing in looking at Alaska's system for rural and urban students. She thought that Alaska was not

facing that America was losing ground on education and that that aspect had nothing to do with Alaska. She wanted the tools to identify why groups were gaining ground in front of America on education and needed to know that America's students could still compete in a global market. She noted what the federal government setting for hurdles for Alaskan students played into how Commissioner Hanley was responsible for setting a bar for Alaskan students to cross. She was unsure if an A through F system was the right way to go or whether the star system was; however, she thought that if Alaska had F or failing schools, it seemed that it was important for the state to know that and be able to act to change it. She acknowledged that she was not a teacher and had not been a school administrator and that she looked to Commissioner Hanley to provide leadership in how Alaska's students competed. She thought that maybe an F rating would make the state look a little bit harder at an area than a star rating. She understood concerns regarding how an F rating would help people in smaller communities, but wondered what the state's responsibility was if it was labeling a school as a 1-star school when it really had an F rating.

Co-Chair Kelly did not think that the committee or any legislator should be concerned about the self-esteem of a community. He stated that a community needed to know if a school was failing and should be outraged if that was the case. He did not want to implement a system that made people feel better about their school failing. He thought that a lot of people in the committee room were former teachers or administrators. He noted that self-esteem worked on children and that the state should be concerned about it; however, adults who were supposed to do their jobs were being discussed. He thought that if a school was failing and the adults who were required to make it succeed were failing, he wanted people to know about it; furthermore, a community should be outraged if they have a failing school and demand a better one. Commissioner Hanley agreed and thought that the state had not been honest with its kids in the past; He thought that the state needed to be honest with its students. He recalled that students had graduated high school, but had not been ready for the university and needed to take remedial classes. He noted that some students had graduated high school in Alaska, but had not been ready for careers or had not been able to pass the written exam to get into the military. He did not have any desire to continue the past and noted that the Alaska

needed to be honest with its communities, schools, and kids. He stated that DEED believed that the system that was in place, whether it was called a star or an F, was a way to look at deficiencies, strengths, and how to fix problems. He reported that DEED focused and prioritized 1-star schools and that the department would help those schools fix those deficits; the star system would allow the department to put responsibilities on schools to address deficits and was not hiding anything. He did not know that designating a school as a failure added to the conversation in a positive way and thought that the goal was honesty and addressing the current needs.

Commissioner Hanley responded to Co-Chair Kelly's comments and expressed concerns that the A through F system as it was listed in the bill was strictly based on progress. He wondered how an A through F system would affect schools that were at the 99th percentile and how these high-achieving schools would get adequate progress. He noted that a 99th percentile schools would get 5-stars in the current system, but could receive an F in the other system because it did not make enough progress; he was unsure how much progress could be achieved by a school that was already at the 99th percentile. He was unsure about the definitions of the A through F system, but stated that DEED's intent was to address needs in communities and not to try and hide them anymore.

[10:27:41 AM](#)

Co-Chair Kelly expressed appreciation that Commissioner Hanley had pointed out a nuance in the A through F system and thought that the commissioner's explanation had been a reasonable one.

Senator Bishop noted that the discussion was using general statements regarding what a failing school was versus a passing school, but that there had been little discussion about the kids and issues like bullying. He agreed that adults could take an A, B, C, D, or F, but that it could negatively affect some children that were transferring from one school to the next. He expressed strong feelings on the issue. He recalled that the commissioner had stated that a 99th percentile school could still be an F school under the A through F system. He recalled taking two 17-year-olds to a school to register for an apprenticeship program and that both kids had been stuck at a 3rd grade reading and math

level. He stated that today, those two individuals were journeymen operators making \$80,000 per year; he inquired if they were considered failures.

Senator Dunleavy commented that there had been a lot of discussion in the current year about school choice, much of it housed in the private school concept. He wondered whether a child could move from a 1-star school to a 4 or 5 -star public school with the assistance of the state or whether they were destined to remain in that school until it was fixed. Commissioner Hanley responded that there was not currently a system where the state would pay for a student to move to another community to attend a different school. He stated that in areas where there were more than one school, DEED was seeing more and more districts providing totally open enrollment in allowing students to move around within the district; however, there was not currently anything in place to support students moving from a small community to a large community.

10:32:00 AM

Senator Dunleavy thought that the state did have something like that in place. He noted that Mt. Edgecombe was directly under DEED and inquired if the state paid for kids to attend Mt. Edgecombe. Commissioner Hanley responded in the affirmative and added that it was a public school.

Senator Dunleavy noted that there were funds and a system already in place that allowed children to go to Mt. Edgecombe who might be in smaller communities; he inquired if this process could be reviewed to allow children from 1-star or 2-star school to have first dibs at Mt. Edgecombe, another regional boarding school, or anywhere. He noted that he was not trying to put the commissioner on the spot, but wanted his thoughts on the issue of school choice within the public school system. He wondered if someone really had school choice if they had no assistance to go. Commissioner Hanley thought that it would be a valuable thing to consider regarding the application process and that the only school that the department had any authority over in that regard was Mt. Edgecombe; although the state did have other residential schools, they were operated by local schools districts. He thought that adding criteria that factored in where a student came from could be a part of the application process.

Co-Chair Meyer was interested in how the BSA, the \$30 million outside of cap, and how TRS was dealt with in the bill. He noticed that the House had included testing out of classes in the bill and expressed concern that in the case of larger schools, testing out of hundreds of classes could be very expensive. He inquired what Commissioner Hanley's thoughts were on the issue. Commissioner Hanley responded that testing out of classes had also been in the governor's bill, but that the governor's version had language added that had specifically had in mind that it could be a burden for districts to have to develop an assessment for every subject. The part that had been removed from the bill was the specific language around the courses; currently, the bill stated that any subject could be tested out of. He reported that DEED preferred that only the core areas of math, language arts, science, social studies, and world languages be included for testing out.

[10:35:18 AM](#)

Co-Chair Meyer agreed and thought that allowing for testing out of the core courses would be achievable, but that it would be expensive and cumbersome to do so for all of the courses.

Co-Chair Meyer inquired if the committee had discussed charter schools and how they were dealt with in the legislation. Commissioner Hanley noted that charter schools were addressed in Section 9 of the bill and that it contained two components. He reported that one component was the removal of barrier and allowing an appeal process; the other component was to provide some equity for charter schools. He explained that the integrity of the local process allowed an appeal that required a district to say no to new charter schools based on fact and conclusion; furthermore, this needed to be put into writing. He thought that the new appeal system brought integrity to the process and noted that it allowed for an appeal to come to the commissioner of DEED. He reported that if a commissioner felt that a district's decision was not based on fact and law, they could send the decision to the state board for a final review. He added that there was also some language that the governor had originally put in and some additions regarding treating charter schools equitably and explained that charter schools had a different structure than other schools; they were run by an advisory policy committee that consisted largely of parents. He reported that the in

current language of the bill, the funding for a charter school could not be less than the funds generated by the students in that school. He explained that the equity part of the bill stated that the funds generated by students in a charter school included the special education, vocational and technical education components, but also required the consideration of transportation by the school district.

Commissioner Hanley continued to address Co-Chair Meyer's question and related that language had been added to the bill that allowed charter schools the first right-of-refusal for lease space. There was language that allowed municipalities to remove a private building that was being leased by charter schools from the tax rules; there was also language that added a \$500 per student grant to charter schools for startup money.

[10:38:17 AM](#)

Co-Chair Meyer inquired the \$500 per student grant was in the governor's bill or whether it had been added in the House. Commissioner Hanley replied that the component was added in the House Finance Committee. Co-Chair Meyer inquired if it was something he supported. Commissioner Hanley responded that the only negative part would be the responsibility for the fiscal component, which he thought was about \$168,000 based on passed trends. He thought that it was a way to help charter schools get on their feet and would equate to about \$75,000 to \$100,000 depending on the school's size.

Co-Chair Kelly inquired if school districts were not required to pass on money from the BSA to charter to schools. Commissioner Hanley replied that was incorrect.

Co-Chair Kelly inquired if schools districts were required to pass on funding to charter schools that was appropriated outside of the BSA. Commissioner Hanley that theoretically, that was true. He stated that the idea was that the charter schools were funded in the same manner as other schools in the district.

Co-Chair Meyer noted that there was a lot interest in charter schools and that Commissioner Hanley thought that the \$500 per student grant was manageable from a fiscal perspective. He inquired if there was a cap on charter schools. Commissioner Hanley responded that there was no

longer a cap. Co-Chair Meyer inquired if the cap was removed. Commissioner Hanley replied in the affirmative.

Co-Chair Meyer inquired how the high school exit exam was addressed in the bill. Commissioner Hanley replied that the removal of high school exit exam had been taken out of the governor's version of the bill, but that it had been the focus of the administration. He understood that HB 220 was currently being considered by the Senate and that the bill repealed the exit exam. He did not believe that issue needed to be addressed in HB 278, but that DEED felt strongly that the time had come to repeal the high school exit exam.

Co-Chair Meyer agreed with Commissioner Hanley and was unsure if the SAT/ACT testing or WorkKeys was the right mechanism. Commissioner Hanley commented that the SAT/ACT was simply added as a choice; currently, Alaska's 11th graders were required to take WorkKeys, which was an assessment that gave people an idea of how they would fair in their career. He stated that the governor's intent in adding ACT/SAT testing was not to replace the exit exam, but to provide a choice for students; furthermore, WorkKeys, the ACT, and the SAT all qualified students for the Alaska Performance Scholarship.

[10:42:14 AM](#)

Co-Chair Meyer voiced frustration that the state was picking up a lot more of the share of the education funding, but that it was not getting credit for it. He recalled that 2 years prior, the legislature had changed the mill rate from 4.0 to 2.65, which meant that the state was picking up a larger share of the funding, while the municipalities were taking a smaller share. He thought that the mill rate could be discussed, but that the change had given cities extra money to use for other purposes. He noted that with school construction, the state funded 70 percent and that the municipalities picked up 30 percent if they could pass the bond. He noted that it was troublesome that the state had no control over the bonding of municipalities and that if one passed a school construction bill, the state automatically funded 70 percent; he added that he was not saying this was right or wrong, but noted that the state could not control or plan for this. He inquired if Commission Rodell had any thoughts on the issue. Commissioner Rodell thought that there were things

that the state could do to the School Debt Reimbursement Program that would fulfill the goals and capital needs of the school districts while still bringing the state more control over its match and debt costs. She recalled that DOR had heard from communities that might want to cash fund some of their capital costs instead of debt funding them; she thought that this was something that DOR might want to respect, but that there was currently no mechanism in place under school debt reimbursement for a community to cash fund some of its capital costs. She thought that DOR would be receptive to looking at different ways to amend the School Debt Reimbursement Program that allowed the state to have more control over its costs associated with that program without impacting the school districts' ability to fund the capital needs that were required.

Co-Chair Meyer noted that he would like to work on the issue further with Commissioner Hanley and Commissioner Rodell. He observed that he had many other questions, but yielded his time to other members in the recognition that there would more hearings on the bill.

[10:45:24 AM](#)

Senator Hoffman recalled having several discussions with Commissioner Hanley regarding the quality of education in rural Alaska and that he had the same discussions with three or four of the previous commissioners of DEED. He stated that the school district that had been discussed most intensely was the Yupiit School District and noted that DEED had taken oversight over that district. He wondered how that oversight had improved education in those three communities, as well as how the legislation would help the district and other like communities provide a better education to their students. Commissioner Hanley responded that a little over a year prior, he had worked with Willie Kasayulie, Mike Williams, and others on the Yupiit School Board and had determined that having a trustee there was not the best methodology; the trustee had been removed for over a year. He noted that DEED had provided resources directly to the Yupiit School District and that they had made some huge gains. He was really excited about the direction that the district was going and stated that the DEED had provided additionally funding and that the district had requested for opportunities to empower its advisory committees in each community and empower its teachers; DEED had paid for some of training

for that. He thought that the Yupiit School District was on an upward swing and that things had changed extensively over the last year and a half. He thought that the bill did not focus on rural or urban schools, but that it would raise all boats and would have an impact statewide. He concluded that the bill should benefit the Yupiit School District.

[10:47:55 AM](#)

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

SB 119 was SCHEDULED but not HEARD.

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ADJOURNMENT

[10:48:02 AM](#)

The meeting was adjourned at 10:48 a.m.