

SENATE FINANCE COMMITTEE  
April 14, 2014  
1:33 p.m.

[1:33:20 PM](#)

CALL TO ORDER

Vice-Chair Fairclough called the Senate Finance Committee meeting to order at 1:33 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

Heather Beggs, Staff, Representative Paul Seaton; Dan Debartolo, Director, Permanent Fund Dividend Division, Department of Revenue; Chris Christensen III, Associate Vice President for State Relations, University of Alaska; Michael Hanley, Commissioner, Department of Education and Early Development; Linda Thibodeau, Director, Libraries, Archives, and Museums; Erin Shine, Staff, Senator Anna Fairclough; Robbie Graham, Assistant Commissioner, Department of Commerce, Community and Economic Development; David Teal, Director, Legislative Finance Division; Elizabeth Nudelman, Director, School Finances and Facilities, Department of Education and Early Development;

PRESENT VIA TELECONFERENCE

Wanetta Ayers, Department of Labor and Workforce Development, Anchorage;

SUMMARY

SB 220 PERS/TRS STATE CONTRIBUTIONS

SB 220 was SCHEDULED but not HEARD.

CSHB 75(FIN)

CONTRIBUTION FROM PFD: AUDITS; UNIVERSITY

CSHB 75(FIN) was HEARD and HELD in committee for further consideration.

CSHB 278(FIN) am

EDUCATION

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

#hb75

CS FOR HOUSE BILL NO. 75(FIN)

"An Act amending certain audit requirements for entities receiving contributions from permanent fund dividends; requiring the three main campuses of the University of Alaska to apply to be included on the contribution list for contributions from permanent fund dividends; and requiring the university to pay an application fee for each campus separately listed on the contribution list for contributions from permanent fund dividends."

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HEATHER BEGGS, STAFF, REPRESENTATIVE PAUL SEATON, offered a sponsor statement for HB 75:

HB 75 allows greater participation in the Pick.Click.Give program by small non-profits that meet all of the eligibility requirements for the program, but do not participate due to the cost prohibitive audit requirement.

The creation of the popular Pick.Click.Give program by the 25th Alaska State Legislature gave Alaskans a simple and convenient option to donate to charities and non-profits of their choice. These organizations, which provide important services to our communities, rely on donations to function.

One criterion that must be met by organizations wishing to participate often stops smaller Alaskan

charities and non-profits from applying. This is the required financial audit for organizations with a total budget of \$250,000 or greater. The cost of the required financial audit for smaller groups is much greater than the donations received by these groups through the Pick.Click.Give program, which makes participation in the program impractical. Not only does this mean that these smaller groups will not receive donations through the program, some groups have found that exclusion from the program gives their supporters the mistaken impression that they are no longer certified non-profits.

This bill eases the financial burden on these organizations and allows Alaskans a more complete choice of organizations by eliminating the financial audit requirement for organizations that do not file a federal audit. This does not remove financial accountability. All Pick.Click.Give donation recipients must be 501(c)(3) tax-exempt organizations, which are required to file the form 990 annually with the IRS. The IRS form 990 was overhauled in 2008, is a public record and accessible online to donors. The annual filing now requires disclosure of not only detailed financial information, but governance practices, policies, program services, and other compliance measures. This rigorous test of accountability is already required and provides a complete picture of finance and management of a nonprofit. Additionally, an audit is required of organizations that expend \$500,000 or more in federal awards. These organizations will be required to submit a copy of this audit to the state. Entities that expend less than \$500,000 in federal funds still must still make their records available for review by the federal government.

This bill further requires each campus of University of Alaska to pay the \$250 application fee to participate in the program, just as all other eligible organizations do.

The Pick.Click.Give program encourages Alaskans to give back to their community by bringing the many worthy state programs right to their doorstep. Smaller non-profits nourish Alaskan communities on a personal level, open pathways for budding artistic talents and

provide educational opportunities that fit just right with community needs. These organizations deserve the chance to connect through Pick.Click.Give to the Alaskans they serve.

Ms. Beggs furthered that the bill would add a 7 percent coordination fee, which would begin in 2015, and be used for statewide marketing and outreach. The fee would be withheld from the annual payment to an organization, and be based on the contributions received through the program. She said that the Rasmuson Foundation had initially promised to fund the statewide outreach and marketing, but only for the first 3 years of the program, which made a plan for sustainability necessary. She said that non-profits that had been surveyed had expressed the desire for the marketing and outreach to continue and the percentage fee had decidedly been the best solution to keeping the program sustainable. She shared that there was a committee substitute that had been drafted that would correct the non-conforming sections of statute that the drafter had discovered. She said that the lasted version of the bill solved a number of oversights in the original legislation; The University did not object to paying the application fee, and a plan was being made for long-term sustainability.

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Vice-Chair Fairclough noted that there had been a drafting error in the latest version of the bill and that there would be a corrected CS before the committee at a later date.

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DAN DEBARTOLO, DIRECTOR, PERMANENT FUND DIVIDEND DIVISION, DEPARTMENT OF REVENUE, testified that the legislation would not make any fiscal changes to the operation of the division. He said that the division supported the current version of the bill. He relayed that once pledges were made to the program the 7 percent would be taken out of the distribution amount in October through December. He explained that the money would be held in a separate account and reported to the legislature as was required to appropriate into the next year's budget. He related that the division operated the program on the \$250 fee and would not be using donated monies to operate the program.

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CHRIS CHRISTENSEN III, ASSOCIATE VICE PRESIDENT FOR STATE RELATIONS, UNIVERSITY OF ALASKA, testified that the University had no issues with paying the application fee. He noted that since the inception of the program the donated amount had risen from \$7,000 to \$28,000. He shared that for the last 2 years Exxon Mobile had matched all raised funds.

Vice-Chair Fairclough related that one of the issues pointed out by the non-profit community was that the University could list all of its campuses in the program and non-profits were restricted to one individual, specific program. She noted that this gave the University the advantage of a higher rate of visual recognition by donors. She thought the issue should be considered by the committee.

Mr. Christensen stated that he did not expect all of the University campuses to be listed. He said that approximately a half dozen of the campuses would not raise as much money as the cost of the application fee. He related that most people that gave to the University did not was to give a check directly to the University, but rather focus the donation on a specific campus or program. He said that there had been proposals that University programs be allowed to be listed, not just campuses however; that could overburden the list of choices for donors. He believed that there were 100's of charities on the list, a dozen of which were related to the University.

Vice-Chair Fairclough OPENED public testimony.

There being none Vice-Chair Fairclough CLOSED public testimony.

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Vice-Chair Fairclough directed the committee's attention to the fiscal notes attached to the bill.

HB 75 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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AT EASE

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Senator Olson wondered what the minimum amount of available bandwidth should be for Alaska schools.

MICHAEL HANLEY, COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, responded that the question was difficult to answer because different districts used different amounts. He said that the department would use as much bandwidth as possible in all districts in order to utilize all online applications.

Senator Olson believed that having more bandwidth would be advantageous for distance learning through online classes.

Commissioner Hanley agreed. He said that increased bandwidth was a quality of life issue as well as an educational issue.

[1:53:02 PM](#)

Senator Olson inquired queried, if the funds were unlimited, how much the department would be willing to spend to increase bandwidth to school districts across the state.

Commissioner Hanley responded that if funding was unlimited he would look into the best bandwidth available for all schools in the state.

Senator Olson assumed that reaching 10 megabits per second for each district would be welcomed by the department.

Commissioner Hanley replied that any movement in a forward direction would be beneficial for Alaska's students.

Senator Olson inquired what Ms. Thibodeau believed was the minimum amount of bandwidth that should be at each school.

LINDA THIBODEAU, DIRECTOR, LIBRARIES, ARCHIVES, AND MUSEUMS, said that it would depend on the particular needs of the school. She felt that 10 megabits was too low a number for seeking high-quality interconnectivity.

[1:56:12 PM](#)

Senator Olson asked what level of bandwidth would be necessary in order to provide each school with high-quality, interactive courses to middle and high school students.

Ms. Thibodeau responded that 50 to 100 megabits would be appropriate.

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ERIN SHINE, STAFF, SENATOR ANNA FAIRCLOUGH, stated that she had been working with the department and the governor's broadband taskforce and had discovered some leftover funds

that could be re-appropriated to perform a study on the interconnectivity of school districts in the state.

Vice-Chair Fairclough explained that a survey had been done on the issue and that the administration had been willing to open the contract in order to perform an audit that could detail the hardware capacity in districts and bring communities online.

[1:59:02 PM](#)

Senator Olson commented that the legislature should act in a timely manner on the issue of improving the available bandwidth to districts because it would be several years before it would become available to communities.

Vice-Chair Fairclough thought that addressing broadband and the e-rate was important for an education bill moving forward. She hoped that Commissioner Hanley would support the committee's request to open up the broadband study to determine the need for access throughout Alaska's schools.

[2:00:22 PM](#)

Senator Dunleavy queried whether department had a position on tenure.

Commissioner Hanley responded that DEED had not taken a specific position on the issue.

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Senator Dunleavy understood that the rating system for schools was necessary under the waiver from the federal government for No Child Left Behind (NCLB).

Commissioner Hanley said that a separate accountability system had to be created when the state dropped the system under NCLB.

Senator Dunleavy understood a rating system using either letters or numbers would be put into place within the next two years.

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Commissioner Hanley shared that a rating system had been in place for nearly a year.

Senator Dunleavy understood that the system had criteria for rating. He asked what the department would do for schools that received low ratings and whether there were mandates from the federal government to move the school from a low rating to a higher rating.

Commissioner Hanley said that the rating system was not simply words on paper. He asserted that it was an accountability system that informed schools and the state where additional resources were necessary and where great performance had occurred. He stated that the department had prioritized providing mentors and coaches to schools that had one and two star ratings.

Senator Dunleavy wondered what happen to a school that failed to increase its score. He queried whether there was an ultimate goal of addressing the needs of low scoring schools in order to improve their performance.

Commissioner Hanley responded that the department would maximize its resources and work with low rated schools to its best ability. He said that additional funding could help to meet the needs of more schools on the lower end of the rating spectrum. He expressed appreciation for mentors and coaches throughout the state. He felt that it was important to recognize that the majority of the rating system was academic, but many of the issues facing schools had nothing to do with academics. He relayed that there were schools that were struggling with social issues, suicide, and alcoholism; some schools in the state were reporting that over 80 percent of their student body suffered from Fetal Alcohol Spectrum Disorder (FASD). He stressed that the district would support all these schools to the greatest extent possible.

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Senator Olson inquired whether the state offered incentives for teachers to work in the lower rated schools.

Commissioner Hanley replied no.

[2:06:02 PM](#)

Co-Chair Meyer asked for an explanation of the funding flow for charter schools. He noted that there was concern over the 4 percent administration cap in one of the education bills being considered by committees. He asked how large charge backs by school districts could be prevented.

Commissioner Hanley related that current statute stated that the budget for a charter school shall not be less than the amount generated by the students enrolled in that school. He said that funding for charter schools should be determined in the same manner as all of the other schools in the district. He clarified that the funds generated by a student was more than the base student allocation (BSA) component, but included the 20 percent special education component, vocational/technical education, and transportation costs. He stated that the one-time, \$25 million funding that had been appropriated for energy costs had been generated to the districts by students. He stressed that the idea was not to create "super schools" but to create equity and make sure that the intent of the original statute was met. He said that the idea behind the 4 percent cap was to be sure that districts were not withholding more than they should. He explained that a school district provided solidity and support for charter schools. He believed that the legislation would help school districts and charter schools to continue having strong communication.

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Co-Chair Meyer asked about the potential cost of expanding the Alaska Native Science and Engineering Program (ANSEP) to middle schools.

Commissioner Hanley responded that the ANSEP component was currently a function of the University of Alaska. He said that just under \$1 million flowed through the department's budget to support the program. He stated that the program had yielded excellent results. He explained that the program was introduced in the 8th grade with a computer build program; students build their own computer and upon completion of required math courses the student gets to keep the computer. He said that the intent of the language in the bill related to ANSEP was to encourage the 8th grade component and set the stage for high school.

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Senator Dunleavy noted that the legislature was tasked with the job of assisting and maintaining public schools in the state's 54 school districts. He wondered how local control and state funding worked together. He asked what the legislature should expect from schools that were left to determine how education was delivered to students.

Commissioner Hanley responded that there were targets that were in place to assure that students had the opportunity to receive an education in a healthy and safe environment, with the progression towards a time when they are equipped with the tools they will need to be successful beyond high school. He said that assessments in grades 3 through 10 measured student success in academics and the accountability for schools in the areas of attendance and graduation rates.

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Senator Olson reiterated his question about minimum amounts of bandwidth for schools.

ROBBIE GRAHAM, ASSISTANT COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, responded that the minimum speed that most schools had was 1.5 megabits per second; some in urban areas had faster speeds. The federal government had recently issued a notice of proposed rulemaking that would change the e-rate program and require American schools have broadband speeds of no less than 100 megabits per second by 2015. She said that the department was working towards greater speed to support the increase in demand for digital learning.

[2:18:50 PM](#)

Senator Olson queried how much the federal match would be for the funding of increased broadband.

Ms. Grahm replied that she was not sure. She said that the entire e-rate program was part of the universal service reform, which was subject to change. She understood that \$2.3 billion was available for schools and libraries through the universal service reform, but it was unsure what funding would look like in the future.

[2:19:44 PM](#)

Senator Olson understood that to assist with funding broadband expansion the federal government matched every state dollar with \$4 additional dollars.

Ms. Graham responded that the figure sounded accurate.

[2:20:07 PM](#)

Senator Olson inquired what amount of bandwidth would be necessary to provide high quality interactive courses for high school and middle school students for basic Science Technology Engineering and Mathematics (STEM) courses.

Ms. Graham responded that the ideal amount would be 100 megabits per second, but that speed carried a price tag that the department could not currently support. The department was hoping that 15, 25 and up to 50 megabits per second would be a reasonable amount of speed for the time being. She asserted that the department was working towards 100 megabits per second.

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Senator Olson opined that there was nothing to be gained by waiting for survey results to determine whether schools that were less than 10 megabits needed to increase their bandwidth.

Ms. Graham replied that the survey that Connect Alaska would perform on behalf of the statewide broadband taskforce would begin in May or June of 2014 with the intent to survey most rural schools in order to determine what speeds were currently being delivered and what kind of connectivity each school had to receive the bandwidth.

Senator Olson commented that the schools that had less than 10 megabits per second would have to wait for the analysis to be done on the survey, which will be detrimental.

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Commissioner Hanley offered Senator Olson's analysis was correct. He wondered whether the federal e-rate match would generate the same numbers if Alaska put in additional funds.

Ms. Graham responded that she was unsure.

[2:25:08 PM](#)

Senator Hoffman thought that the longer it took to bring the entire state up to 100 megabits per second, the farther students would fall behind.

Commissioner Hanley admitted that the lack of bandwidth created greater challenges for students.

Senator Hoffman queried whether the lack of bandwidth would allow students to academically advance faster than student in schools with faster broadband.

Commissioner Hanley responded that that would be an even greater challenge. He recognized that the lack of speed presented a challenge but he did not believe that it meant student would necessarily fall behind.

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Vice-Chair Fairclough wondered whether the department could prioritize extra funding to communities affected by lack of internet speed if the committee included additional appropriations in the omnibus education bill.

Commissioner Hanley said absolutely.

Vice-Chair Fairclough stressed importance that the survey conducted by the taskforce be conducted using terms that could be understood by people unfamiliar with technical jargon. She asked whether the federal government was going to attempt to implement 100 megabits per second in all schools in the country by 2105.

Ms. Graham responded that the notice of proposed rulemaking had stated that the federal government was targeting 99 percent of America's schools to have broadband speeds of no less than 100 megabits per second by 2015. She added that the ultimate goal was 1 gigabit per second by 2020. She said that the recommendation had come from the FCC.

Vice-Chair Fairclough informed committee members that amendments for HB 278 were due by 5pm. She wondered if Ms. Graham could provide the FCC recommendation to the committee so that intent language could be crafted to include in the bill.

Ms. Graham agreed to provide the information.

Senator Dunleavy stressed the importance that schools have the hardware, software and training in place to utilize any increased broadband. He believed that an audit would be necessary in order to ascertain the capability capacity of each school, in every district.

Vice-Chair Fairclough felt that more could be learned by conducting a study on the matter rather than a survey.

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Senator Bishop discussed broadband related to career technical education. He queried the department's role in implementing a career in technical education plan.

Commissioner Hanley said that the department supported the district-wide implementation of the plan.

Senator Bishop believed that the plan was a pathway forward for students. He recalled a statistic that suggested that 80 percent of students leaving high school would continue into trade schools; 20 percent would go to college. He wondered if that statistic had changed.

Commissioner Hanley said that he could not speak to exact percentages, but thought that the 80 percent figure had dropped to 60 percent.

Senator Bishop believed that DEED, DOL&WD and the University of Alaska should continue to work together, in collaboration with the state's 54 school districts, to educate and train Alaska's future workforce.

Commissioner Hanley agreed.

Senator Bishop noted that TEVEP was a small portion of the money that would be needed for career technical education.

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Vice-Chair Fairclough wondered how DOL was collaborating with the University or DEED to track student's performance once they exited the school system and entered into the workforce.

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WANETTA AYERS, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, ANCHORAGE (via teleconference), replied that some data was available. She said that a complete picture was not yet available due to technical and legal data sharing issues. She relayed that labor and job and wage outcome information was regularly reported by the department for federal and state training grant programs.

Vice-Chair Fairclough assumed that DOL was not opposed to sharing information with the K-12 or University systems.

Ms. Ayers replied that the information sharing was already taking place between the entities. She explained that the research and analysis division of DOL&WD conducted a variety of job and wage outcome research operations in cooperation with the University. She said that there were technical and legal challenges involved in sharing with DEED, which DOL&WD was working to overcome.

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Senator Dunleavy spoke to the issue of tests for credit. He mentioned the College Level Examination Program (CLEP) and its growing popularity nationwide. He said that the Mat-Su Borough had adopted the test for credit option. He stressed that resources already existed for the program and were mass produced. He strongly urged the committee to consider that the program would be easy to implement.

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Vice-Chair Fairclough inquired whether DEED maintained the desire to allow students to opt out of core subjects only.

Commissioner Hanley replied that districts could currently assess students in any way that they chose and to give credit to students that showed proficiency or mastery of a subject. He asserted that the department wanted to require that districts provide a test out option for core courses. He stated that the bill only asked that opt out test be provided only for courses already offered by the school.

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Co-Chair Meyer noted that the amendments to the legislation should be submitted to his office before 5pm.

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AT EASE

[2:53:45 PM](#)

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Vice-Chair Fairclough handed the gavel to Co-Chair Meyer.

Co-Chair Meyer noted that school funding was one of the most confusing areas of the bill.

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Co-Chair Meyer noted that the governor had looked at adding \$85 in the base student allocation (BSA) and that the House had added another \$100. He understood that the house had added an additional \$30 million outside of the BSA.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, replied in the affirmative.

Co-Chair Meyer inquired how the \$30 million outside of the cap would be distributed to schools. He asked whether additional local contribution could be made to funding outside of the BSA.

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Mr. Teal responded that from the state's perspective, assuming that the funds were distributed according to adjusted average daily membership (ADM), the same amount of money went to the same school districts exactly as if it had gone through the formula. He said that school districts might argue that money in the BSA was permanent and allowed for long-term planning; money outside of the formula would not give as much of a planning horizon because it was not guaranteed. He stated that in his experience he had not seen one-time money go away in the sense that it had been removed, but rather in the sense that it had been incorporated into the BSA. He relayed that in the past the senate had addressed the issue by putting outside money in for multiple years. He agreed that the funding was not permanent, but thought that planning should not be affected if spending history was reviewed. He offered that the

funding could affect local contribution; when monies ran through the formula the basic need was higher, voluntary local contribution were capped at 23 percent of basic need, so more could be contributed at the local level. He gave the example that if the funding was increased \$100 million outside of the BSA and Anchorage received roughly \$30 million of those funds, if it were outside of the BSA then Anchorage would lose the ability to contribute 23 percent to the district. If the money was inside the BSA, Anchorage could contribute an additional \$6 or \$7 million to the district.

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Mr. Teal said that the contribution would make a difference because Anchorage was at the cap. He related that it would make no difference for districts that were not at the cap. He stated that there were some districts in the state whose communities funded them to the cap, so running the monies outside of the formula would arguably not allow them to contribute as much as they would like to contribute.

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Co-Chair Meyer understood that every \$25 million equated to an approximate \$100 increase in the BSA. Mr. Teal agreed.

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Co-Chair Meyer said that \$100 million had been set aside for education in the operating budget, which equated to a \$400 BSA.

Co-Chair Kelly interjected that the total money set aside for 2014 was \$75 million because the other \$25 million was incorporated from 2013.

Co-Chair Meyer inquired whether putting the \$ 75 million outside of the cap would prohibit local municipality's ability to increase contributions. Mr. Teal responded in the affirmative.

Vice-Chair Fairclough understood that if the funds were inside the BSA then taxpayers could see a tax increase.

Mr. Teal responded that Vice-Chair Fairclough was correct. He said that if the city needed to raise funds to pay the

extra money then taxes would increase; however, the local contribution was voluntary and the city was under no obligation to increase payments.

Co-Chair Meyer asked if there was a scenario that considered a non-adjusted ADM. Mr. Teal responded that the non-adjusted ADM would be the head count. He said that if the money were distributed according to ADM then Anchorage would receive more than its formula share. He explained that Anchorage was already at the cap and federal disparity (dollars per student differences) testing would not allow more than 25 percent. He relayed if money was distributed in Anchorage according to the unadjusted ADM, Anchorage would exceed the disparity test.

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Vice-Chair Fairclough opined that the state was limited by the disparity test.

Mr. Teal replied that the federal government allowed districts to receive as much as 25 percent disparity. He explained that Alaska did not fund by head count, Alaska funds by adjusted student count. The federal government had reviewed the formula and approved the method because the formula factors used to adjust for geographic issues were legal on allowable adjustable factors. He furthered that if factors not approved by the federal government were added, the disparity test would be broken, even though the formula had been used. He relayed that where no local contribution was required at all the municipality paid zero; however some Alaska urban areas had a required local effort. He stated that the lower districts could have no more than 25 percent less funding than the higher districts, and so, money could not be distributed outside of the formula and still meet the disparity test. He reiterated that local contributions already made up 23 percent of the 25 percent disparity.

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Co-Chair Meyer asked about the idea of adjusting school sizes so that urban schools could get more funding and the rural schools would be held harmless.

Mr. Teal replied that the other body had removed the top two brackets from the size factor, but that would not

affect the federal test because size was a valid adjustment. He said that if it were to be decided that size factors had changed then they could be modified. He felt that the concern that would be raised by the department was the study that would support the size factor change would need to be produced; should the formula be taken seriously enough that changes were not made via amendment, or another quick process, because the money flow was satisfactory. He said that the formula should be based on the economies, or diseconomies, of scale that were experienced in the state and should not be changed in haste.

Co-Chair Meyer probed the advantages, or disadvantages, of putting money outside of the formula.

Mr. Teal replied that the advantage of keeping money outside the formula was that it would appear to be one-time money. He thought that a solid reason for putting it outside the formula would be that the formula was going to be studied again; size factors had been in place since 1997 and the geographic factors had not been studied since 2007. He said that a completed study of whether the factors were adjusting for differences the way they should be adjusting should be conducted before the BASA were increased permanently. He asserted that there could be schools that would lose out were the formula to change; if money was going to be moved around because factors had changed, the BSA would need to be increased in order to appease the districts that did not receive more money through the formula adjustments. He stated that if money was held outside of the BSA it could be argued that the "winners and losers" argument would go away because the funding was one-time funding, given while the study was being completed, and not that there were new numbers, a new formula and new allocation dollars the money could be put in the BSA.

Co-Chair Meyer asked if one of the studies addressed in the legislation was a BSA study.

Mr. Teal though that the only study in the bill was a state salary study.

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Co-Chair Kelly inquired how the federal impact aid played into the discussion regarding the disparity test.

Mr. Teal directed the question to DEED.

[3:12:12 PM](#)

Senator Dunleavy understood that the disparity test revealed how much the state contributed within the 25 percent limit.

Mr. Teal replied that the 25 percent applied to any funds, state or local.

Senator Dunleavy spoke of districts in the state that were not currently experiencing a shortfall, he wondered if the issue was one of funding and not expenditure.

Mr. Teal responded that the disparity test was based on revenue and not expenditures.

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Co-Chair Kelly asked how federal impact aid played into the disparity test.

ELIZABETH NUDELMAN, DIRECTOR, SCHOOL FINANCES AND FACILITIES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, replied that the Alaska had an equalized formula for distributing public education funding. The formula was set out to provide the same education across the state for different regions with different expenditure levels to acquire a teacher and the other things that supported education. She stated that because Alaska maintained an equalized formula within 25 percent from the most expensive area to the least expansive area the state, through the federal aid program, was allowed to use federal impact aid dollars to fund the foundation program. She said that there was approximately \$140 million in impact aid funds sent to school districts across Alaska. She relayed that the funds were payments in lieu of taxes for federal lands where they could not be taxed locally. Of the \$140 million distributed to school districts, Alaska used approximately \$70 million to fund the foundation program. She explained that without the impact aid, without maintaining an equalized program in passing the disparity test, Alaska would not be able to use the payments in lieu of taxes to fund the foundation program, if the program continued the state would need to find \$70 million to replace the impact aid.

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Senator Hoffman wondered where the \$70 million went.

Ms. Nudelman replied that there was a calculation that provided for how much school district's retained versus how much the state retained. The calculation was a ratio of local effort: districts that were putting in local effort retained a portion of their impact aid. She said that regional educational attendance areas (REAA) did not need a local effort in order to retain 10 percent of the impact aid. The \$70 million that was left in the districts would be based on a calculation of 90 percent local effort.

Senator Hoffman inquired if the federal lands that were the result of the revenue were primarily in rural Alaska.

Ms. Nudelman replied no. She said that larger school districts had military bases and the state received significant impact aid funds from the bases.

[3:18:36 PM](#)

Senator Dunleavy relayed that the question of what was enough money was one that was discussed from year to year. He asked why some school districts had a fund balance in term of expenditures and some did not, and whether the problem had to do with flat funding. He noted that the larger schools districts seemed to be in the most financial trouble.

Ms. Nudelman said that by statute districts could only maintain 10 percent of their expenditures in a fund balance for an operating fund at the end of each year. She believed that this made sense in order to account for emergencies. She relayed that the factors leading to why one district would hold over money from one year to the next would be unknown. She stated that she could not speak to the particular needs of each individual district she mentioned a Senate Education Task Force meeting from summer 2012, where several districts gave presentations that described cost drivers but controllable and uncontrollable.

[3:22:49 PM](#)

Senator Dunleavy commented that large school districts were having a difficult time handling insurance costs. He said that the largest school districts in the state were experiencing similar problems with regard to deficits. He

noted that smaller school districts were not. He hoped to figure out why.

[3:24:10 PM](#)

Senator Hoffman noted that rural schools faced the same funding problems although they might not receive the same publicity as larger districts statewide. He agreed with Mr. Teal that formula changes needed to be made with caution.

[3:25:49 PM](#)

Co-Chair Meyer asked how correspondence schools were funded through the formula.

Commissioner Hanley replied that they were funded at .8 percent of the BSA.

[3:27:45 PM](#)

Senator Dunleavy shared that Mat-Su Central School had 1700 students in its correspondence program. He felt that the correspondence percentage number had been chosen arbitrarily.

Co-Chair Meyer admitted that the bill included many challenging issues pertaining to education.

[3:29:53 PM](#)

AT EASE

[3:31:32 PM](#)

RECONVENED

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

SB 220 was SCHEDULED but not HEARD.

Co-Chair Meyer discussed housekeeping.

#

ADJOURNMENT

[3:31:54 PM](#)

The meeting was adjourned at 3:31 p.m.