

HOUSE FINANCE COMMITTEE

March 24, 2015

1:33 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair  
Representative Steve Thompson, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Bryce Edgmon  
Representative Les Gara  
Representative Lynn Gattis  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Cathy Munoz  
Representative Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Carlton Smith, Alaska Mental Health Trustee; Representative Steve Thompson, Sponsor; Brodie Anderson, Staff, Representative Steve Thompson; Elizabeth Nudelman, Director, School Finances and Facilities, Department of Education and Early Development.

PRESENT VIA TELECONFERENCE

Christopher Cooke, Alaska Mental Health Trustee; Mary Jane Michael, Alaska Mental Health Trustee.

SUMMARY

HB 136 SCHOOL BOND DEBT REIMBURSEMENT

HB 136 was HEARD and HELD in committee for further consideration.

CONFIRMATION HEARINGS: ALASKA MENTAL HEALTH TRUST AUTHORITY BOARD OF TRUSTEES

Christopher Cooke, Anchorage  
Mary Jane Michael, Anchorage  
Carlton Smith, Juneau

Co-Chair Thompson discussed the agenda for the day.

^CONFIRMATION HEARINGS: ALASKA MENTAL HEALTH TRUST AUTHORITY BOARD OF TRUSTEES

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CARLTON SMITH, ALASKA MENTAL HEALTH TRUSTEE, introduced himself indicating that he resided in Juneau. He spoke about his private sector background in the timber, land management, and real estate fields. He reviewed his management background working for Sealaska in timber sales and shared that he was the Chief Executive Officer (CEO). He indicated that he was the owner of the only commercial real estate company in Southeast Alaska and brokered transactions statewide as well as nationwide totaling \$225 million in value. He relayed his experience with non-profits which included serving as chairman of the state board of the Salvation Army, as the "incorporator" of the Sealaska Heritage Institute, and serving as Chairman of Kootznoowoo Permanent Fund Settlement Trust (KPFST); a private trust where he managed over \$15 million in private assets. He spoke to the challenges facing the trust. He pointed to the increased costs of service delivery and increased numbers of beneficiaries. He maintained that the trust's revenue sources should be increased to meet the needs of future beneficiaries. He relayed that since 2010, the trust's Land Office made substantial changes and improvements in its resource management in all areas. He noted the decision by the Land Office to further invest in commercial real estate in the lower 48 states. He shared his desire was to be involved in the commercial real estate investment process and "contribute to the trust."

Co-Chair Neuman referenced the trust's need to increase revenues. He observed that the trust possessed substantial

properties available for resource development. He asked whether Mr. Smith was "a pro-resource development type of a person." Mr. Smith responded in the affirmative. He added that his previous experience in marketing timber could assist the land office in its duty to manage the trust's 216 thousand acres in Southeast Alaska in a more productive manner.

Co-Chair Neuman discussed the popularity of snow machine use and activity in the Matanuska-Susitna Borough which included over 2 thousand miles of tracked trails. He alluded to the fact that the Alaska Mental Health Trust Authority (AMHTA) had made it difficult for snow machine organizations to have access to trust lands for tracking and trails. He asked whether he was open to expanding trail systems on trust land. Mr. Smith replied that he was not familiar with the issue and thought that it was a management issue. He elaborated that the board would have to consider "many different simultaneous uses" of its lands in the future and would "contribute to the management input."

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Co-Chair Neuman commented that many legislators were supportive of "access to Alaska's lands."

Representative Gara commented that the state provided land to the trust to raise revenue but granted the trust the "lowest value" and "most controversial" land. He hoped that the state could provide the trust with "more valuable" land in the future. He wondered what "higher yield" endeavors the trust could undertake with the lands it currently oversaw. Mr. Smith answered that discovering the highest value for the trust's lands was the board's immediate priority. He referred to trust land utilized for the University of Alaska's Providence Corridor, which he credited the trust's Land Office with turning into "cash flow." He conveyed that he "thoroughly reviewed" the Land Offices management plan for each one of the asset categories and felt that the office was more seriously engaged in its management responsibilities over the last four years.

Representative Gara voiced that the trust needed general fund money to supplement its programs for the beneficiaries. He noted the waiting list for certain

programs especially for substance abuse treatment and asked for Mr. Smith's view on the matter. Mr. Smith referred to his time on the Juneau Assembly and observed that the programs with the best and most successful outcomes worked in "tandem" with other programs. He voiced his confidence in supporting that type approach for the trust. He was interested in understanding "the program side" of the trust.

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Representative Kawasaki cited Mr. Smith's resume and referred to statute regarding board appointments. He noted Mr. Smith's previous appointment to the board from 2010 to 2011 and wondered why his time on the board was so short. Mr. Smith responded that due to his previous employment for a state agency he had to resign and that the appointment was an oversight.

Representative Munoz asked about the "sub-port property" in Juneau and noted that it was considered the "crown jewel" of the trust's properties. She requested that he share his ideas for the property's use. Mr. Smith disclosed that he had not marketed the property. He commented on the desirability and value of the waterfront property. He recommended that from a land-use stand point he would hire waterfront development experts due to the fact that the type of waterfront property the sub-port was held the "most risk" and "the most opportunity."

Representative Wilson indicated that the Trust was well known to start a project then turn it over to the legislature to fund from the state's general fund. She asked whether he could find a "way to change that mentality" and discover other ways of funding programs. Mr. Smith asked for a specific example. She mentioned a Department of Labor and Workforce Development (DLWD) project. She asked who was responsible to ensure that a trust's program funding was sustainable without additional general fund money. Mr. Smith reported that he had not been briefed on the situation but stated that his immediate goal was to generate additional revenue.

Co-Chair Thompson OPENED public testimony.

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Co-Chair Thompson CLOSED public testimony.

CHRISTOPHER COOKE, ALASKA MENTAL HEALTH TRUSTEE (via teleconference), discussed his background. He reported that he came to Alaska through the VISTA program serving as a lawyer in Kotzebue and Nome. He met his wife in Nunapiachak and practiced as an attorney in Bethel before his appointment as a Superior Court Judge for 10 years. He subsequently returned to private practice and represented many residents from rural Alaska. He currently lived in Anchorage but maintained a home in Bethel. He relayed his familiarity with mental health issues and needs around the state. He noted that there were many challenges, particularly in rural areas, in dealing with mental health issues and accessing programs for beneficiaries. He announced that one of his priorities as a board member would be to examine ways to provide rural areas with mental health programs more effectively. He was confident that he could carry out his trustee duties and looked forward to his participation and collaboration with the trust.

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Representative Wilson reiterated her question about general fund dollars for programs for the Mental Health Trust. Mr. Cooke responded that he did not yet possess "the depth of knowledge or history" of the trust. However, he understood that the trust regularly partnered with other agencies and entities for program development and often acted as an "incubator" for programs. He exemplified working with the Court System to develop the Drug Court and cited a recently completed study concerning recidivism in the Court System and the Department of Corrections (DOC). He thought that the Trust's role in partnerships was not adding an additional program but provided efficiencies to or replaced existing programs or efforts that generated cost savings or better outcomes.

Representative Wilson was not sure who to direct her question to. She wanted to know if Mr. Cooke was related to Senator Hoffmann and whether that presented a conflict.

Representative Edgmon expressed his strong support for Mr. Cooke and thought he was an excellent candidate with an extensive legal and rural background. He confirmed that Mr. Cooke was related to Senator Hoffmann indirectly through

his daughter's marriage. He thanked him for his willingness to serve.

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Vice-Chair Saddler asked whether Mr. Cooke been involved in "public affairs" for the benefit of understanding his background more thoroughly. Mr. Cooke responded that he had been a member of the University Of Alaska Board Of Regents for two years in the 1970's but had to resign due to his judgeship at the ruling of the state's attorney general at the time. He remarked that he was a member of various boards and commissions over the years in addition to a number of other private boards. He noted his previous appointment to the Rural Governance Commission by Governor Knowles. He responded to Representative Wilson's question. He confirmed that Senator Hoffman was very distantly related to Stanley Hoffman whom married his daughter but was not directly related to his daughter's "immediate family."

Vice-Chair Saddler asked whether Mr. Cooke had been the state Chair of the Democratic Party in Alaska. Mr. Cooke replied in the affirmative and added that he acted as chair from 1998 through 2000. Vice-Chair Saddler asked whether he was on Governor Walker's transition team. Mr. Cooke responded in the affirmative. Vice-Chair Saddler asked whether Mr. Cooke felt that his public involvement in politics enhanced, inhibited, or did not affect his role on the board. Mr. Cooke did not believe that the board had "anything to do with politics and was not a factor" for him.

Co-Chair Thompson OPENED public testimony.

Co-Chair Thompson CLOSED public testimony.

Co-Chair Thompson asked Ms. Michael to tell the committee why she wanted to continue to serve on the board.

MARY JANE MICHAEL, ALASKA MENTAL HEALTH TRUSTEE (via teleconference), spoke about her experience and background having just completed a five year term as a board member. She relayed personal information. She reported that she served as the executive director for the Arc of Anchorage for twenty years. She detailed that the organization "served the trust beneficiaries" and operated under a \$10

million budget with 400 employees. She was involved in the original home and community based waiver program. She believed her experience and personal knowledge of the system was beneficial to the board and trust staff. She shared that she worked as a Director of Economic and Community Development for the City of Anchorage. She noted that during her first term on the board she served on the Planning and Program Committee and the Resource Management Committee. She indicated that the Planning Committee successfully completed the Bring the Kids Home Initiative and continued to focus on disability justice, housing and long-term support, beneficiary employment, and workforce development. She remarked that the Resource Management Committee worked hard to generate new income for the trust and increased revenue "three-fold." She reported that she had personally worked closely on the first Housing First project in Anchorage. She spoke about the state's tough economic predicament and thought that the board was committed to becoming part of the solution. She looked forward to assisting in the development a comprehensive mental health plan for the state and beneficiaries that was cost effective and innovative.

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Representative Wilson reiterated her funding question regarding whether the trust had other revenue sources besides general funds. Ms. Michael responded that she viewed the relationship between the trust and the state as a partnership and attempted to focus on programs that provided the most benefit and were cost effective. She exemplified the Bring the Kids Home Program that shifted the money spent on psychiatric residential treatment out of state at higher costs back to Alaska to treat the children in the state, which produced a multitude of benefits including spending state resources in the state. She believed that "it was worth it to make the change." She understood that not all programs would survive and thought that the emphasis would shift to core services. She did not expect that the trust would request additional funding for new programs.

Representative Wilson asked whether the Bring the Kids Home initiative was successful in providing the same level of care as the out of state services. Mr. Cooke responded that she would provide the information. She noted that the out of state care was typically hospitalizations, which was

very expensive and that the returned children were placed back in their community either with community based services or group homes at much reduced costs.

Co-Chair Thompson OPENED public testimony.

Co-Chair Thompson CLOSED public testimony.

Ms. Michael thanked the committee for the opportunity to serve on the Trust.

Co-Chair Thompson thanked all three appointees.  
Co-Chair Thompson read a statement regarding the confirmation committee process that reminded the committee that full confirmation took place in a joint session of the full legislature.

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AT EASE

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RECONVENED

#hb136

HOUSE BILL NO. 136

"An Act relating to school bond debt reimbursement;  
and providing for an effective date."

Co-Chair Thompson indicated that he would not be moving the bill out of committee today.

REPRESENTATIVE STEVE THOMPSON, SPONSOR, read the sponsor statement for the bill.

Under the current fiscal shortfall of \$3.5 billion, the state must control expenses. It is imperative that the state not only find efficiencies and reduce the size of operational costs of the state, but also limit the potential growth of state spending. House Bill 136 (HB 136) will allow the state to control expenses.

There are four major cost drivers in Alaska's statewide operating costs: K-12 education, Health and Social Services, debt service (PERS/TRS and bond payments), and employee salaries and benefits. HB 136 addresses the growth in state debt service expenses by

suspending subdivisions of government's ability to bond without explicit state approval.

House Bill 136 would sunset Alaska statutes relating to state aid for costs of school construction and major maintenance debt for five years. After five years, if the legislature does not take further action on these statutes, the reimbursement rates for school construction would be reinstated and reduced from 70% to 50% for eligible projects described under AS 14.11.100 (h), (i), (j) (2) - (5) and from 60% to 40% for eligible projects described under AS 14.11.100(h), (i), and (j) (2), (3), and (5).

BRODIE ANDERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, read the sectional analysis of the bill.

\*Section 1: Amends AS 14.11.014, adds new subsection (d)

Sunsetts the bond debt reimbursement provisions for school construction and major maintenance for five years, May 1, 2015 - July 1, 2020.

\*Section 2: Amends AS 14.11.100(a)

Page 6, line 21 restricts reimbursement of bonds authorized after May 1, 2015. Page 7, lines 1 - 11, deletes language relating to bonds authorized after May 1, 2015.

\*Section 3: Amends AS 14.11.100(a)

Page 12, line 17 - Page 13, line 2 inserts language relating to bonds authorized on or after July 1, 2020.

(18) For projects approved under AS 14.11.100 (h), (i), and (j) (2) - (5) the reimbursement would be 50 percent.

(19) For projects approved under AS 14.11.100 (h), (i), and (j) (2), (3), and (5) the reimbursement would be 40 percent.

\*Section 4: Amends AS 14.11.100

adds a new section (s) Restricts the Commissioner from approving an application for bond debt reimbursement between May 1, 2015 - July 1, 2020.

\*Section 5: Amends AS 14.11.102

adds new section (c) Restricts the Commissioner from approving an application for bond debt reimbursement between May 1, 2015 - July 1, 2020.

\*Section 6: Repeals sections 1, 4, and 5 of this act on July 1, 2020

\*Section 7: Retroactivity clause

Sections 1, 2, 4, and 5 of this act are retroactive to May 1, 2015

\*Section 8: Section 3 of this act takes effect July 1, 2020

\*Section 9: Sections 1, 2, 4, 5, and 7 of this act take effect immediately

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Representative Guttenberg cited the multi-year allocation totals shown on the document titled, "Multi-year Allocation Totals - Operating Budget - FY 2016 Senate Structure" (copy on file) and asked whether the purpose was to point out the total amount of the state's obligation from 2007 through 2015. Mr. Anderson responded affirmatively. He indicated the information conveyed prior reimbursement obligations.

Representative Guttenberg asked what the totals would be for FY 17 and FY 18 based upon past history. Mr. Anderson referred to an additional page in the committee packet titled, "Statewide Liability School Construction Debt Retirement, Updated 2/13/2015" (copy on file) that reported the debt from FY 15 through FY 34. He explained that based on the document the FY 16 total was approximately \$108 million.

Co-Chair Thompson interjected that the document showed that by paying off the debt through 2034 the state liability totaled \$1,212,713,044.

Mr. Anderson added that the totals only reflected bonds already issued.

Vice-Chair Saddler inquired about the physical condition of the schools around the state. Mr. Anderson responded that he did not have the answer to that question and referred to the Department of Education and Early Development (DEED).

Vice-Chair Saddler asked whether the state would be "abrogating" its responsibility if it did not fund at the level of the 70 percent 30 percent [state - local] reimbursement split. Mr. Anderson indicated he would have to review before he could answer. He added that the bill did not prohibit school districts from bonding. The legislation only restricted the state's reimbursement of the bonds.

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Vice-Chair Saddler restated his question about the general condition of the schools in the state.

ELIZABETH NUDELMAN, DIRECTOR, SCHOOL FINANCES AND FACILITIES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, answered that the condition of the schools varied. She elaborated that the condition of a school was based on the "useful life of the components" which created a continued need for repair. However, many buildings were in very good condition based on maintenance and repair needs being met.

Representative Wilson asked about the history of the school bond debt reimbursement program and the reasoning behind the program. Ms. Nudelman replied that the bonding program was initiated sometime in the 1970's. She determined that upon examination of the previous statute, the state partnered with school districts and municipalities to construct and repair schools around the state. The program mandated that the municipalities carried the debt and the state reimbursed a portion of the debt under eligibility requirements. She confirmed that the bill did not prohibit municipalities from bonding.

Representative Wilson asked about the bonding ability of schools that were not in municipalities. Ms. Nudelman responded that Regional Education Attendance Area (REAA) schools were located in unorganized boroughs and did not have the "legal capacity" to bond. She added that some

schools located in small municipalities could not obtain the backing to bond for school construction or repair. She detailed that a second statutory program was a school grant program called the CIP Program (capital improvement project). The department received applications each year and ranked the projects according to need and forwarded the list to the governor and legislature for funding from the capital budget.

Representative Wilson reported that from 2005 through 2015 the grant program totaled \$763 million. She wondered whether with passage of the bill, the districts would switch over to the grant program instead of bonding without reimbursement from the state. Ms. Nudelman assumed that the grant program would receive more applications in the absence of the debt reimbursement program. Representative Wilson commented that she hoped the grant program would also be reexamined by the legislature and include all school construction.

Co-Chair Thompson remarked that the school debt reimbursement program was subject to appropriation by the legislature and therefore, some sideboards were in place. He agreed with Representative Wilson's latter comment and noted that the point of the bill was to completely halt bonding for a period of time until the state could "get our financial house in order."

Representative Wilson wanted to ensure that the legislation was applied equally throughout the state.

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Co-Chair Neuman asked whether the bill would affect the construction of the last Kasayulie School. Ms. Nudelman responded that the bill did not apply to the Kivalina School. Co-Chair Neuman expressed more concern about the bill affecting the Kasylie case mandate and asked for further clarification. Ms. Nudelman relayed that the debt reimbursement program timeline eligibility happened when the voters authorized the debt. She expounded that debt that was authorized in 2011 would remain in the program. The Kivalina School was part of the Kasayulie settlement resolved in 2011. In the FY 2016 budget the governor appropriated approximately \$4.7 million for design of the school. In order for the bill to affect the Kivalina project, either the governor or legislature would have to

deny funding for the project. The Kivalina School was a separate issue from the legislation. Co-Chair Neuman indicated he wanted to ensure that the bill would not create a legal issue with the mandated Kasayulie settlement.

Vice-Chair Saddler asked whether the legislation would prompt lawsuits for the state from municipalities or school districts. Ms. Nudelman responded that she "did not have a basis" to form an opinion about the potential for lawsuits. She maintained that the legislature held the authority to appropriate funds and create statute.

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Representative Kawasaki wondered what portion of the overall state debt belonged to schools versus other bonding debt. Co-Chair Thompson answered that the state's total bond payments in FY 15 was approximately \$264 million, of which \$114.6 million was attributed to school debt.

Co-Chair Neuman stated that total debt bond reimbursement was actually \$228 million.

Representative Kawasaki expressed concern about the May 1, 2015 effective date of the bill. He indicated that every other school district except Anchorage would be excluded from the program this year based on the date. He wondered whether any discussion ensued in regards to changing the effective date. Mr. Anderson relayed that both the Bristol Bay Borough and the Anchorage School District was holding school debt bonding elections before May 1, 2015. He confirmed that every other school district "would be impacted" by passage of the legislation.

Co-Chair Thompson reminded the committee that reimbursement of any school debt bond package was subject to legislative appropriation. He cautioned that both school districts needed to remember that with passage of the bond issue, they still might be required to pay 100 percent reimbursement.

Representative Kawasaki asked whether other school districts were planning on having a bond measure as part of elections in the fall. Ms. Nudelman was uncertain. However, she did know of one other school district that was anticipating a new bond proposal at some point.

Representative Kawasaki asked whether many districts would rush to add school bonding proposals as part of the upcoming elections in the fall if the date was changed. Ms. Nudelman was not certain but thought that it was possible.

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Representative Edgmon clarified that the debt reimbursement program had "historically come and gone in the past." Recently, there had not been a sunset date attached to the program. He stated that the grant program was highly competitive. He offered that the Ketchikan lawsuit was focused on the K - 12 funding formula and the operational side of education funding. He also indicated that he had some "conflicted feelings about the bill." He understood the reason from the standpoint of "fiscal discipline." However, from the standpoint of the small Bristol Bay Borough School District, he thought that it would be the last opportunity for the school to take advantage of the program. He added that the school was in desperate need of repair and that repairs would render the school more energy efficient and overtime could save money. He wondered whether a "rush" of school districts were expected to attempt to qualify before the program would sunset. Ms. Nudelman believed that school districts were restricted by its voters who understood the larger fiscal crisis facing the state and thought that the voters would need convincing before a bond issue was passed.

Mr. Anderson responded that through his research in anticipation of the legislation he discovered that the municipal school bonding process was lengthy and could last months. He observed that "in regards to the bum rush" scenario, current evidence of that would be apparent.

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Representative Edgmon wondered whether the committee had a legal opinion from the Department of Law regarding the legality of imposing a definitive cut-off date. Mr. Anderson reported that no legal memo existed regarding HB 136.

Co-Chair Thompson informed Representative Edgmon that Alaska Housing Finance Corporation (AHFC) had a program applicable to public buildings, including schools that was being utilized in many rural areas. He explained that the

program was focused on energy efficiency and weatherization and the grant would be repaid through guaranteed savings from lower energy costs achieved overtime.

Co-Chair Neuman interjected that private entities also offered the same energy efficiency type programs.

Vice-Chair Saddler remarked that in response to the suggested "land office rush" for the remaining school debt program , he thought that the notion of the "generous state reimbursement coming to an end" would not be surprising to the school districts given the state's financial condition.

Representative Munoz asked whether non-REAA schools can apply for the grant funding. Ms. Nudelman replied in the affirmative. Representative Munoz asked what the number of applications the department received for the grant program in a given year was versus the number of awarded grants. Ms. Nudelman responded that DEED received approximately 160 to 200 applications and that in the FY 2016 budget four applications were awarded totaling \$13 million exclusive of the capital construction project for the Kivalina School design. She noted that the number of applications typically decreased during leaner budget years.

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Representative Munoz asked whether all of the funds for the grant program was state funding. Ms. Nudelman responded that the grant program required a percentage of matching funds based on the assessed value per ADM (average daily membership).

Representative Gattis believed that over the 40 year period of the reimbursement program it incentivized the school districts to overbuild buildings which all required maintenance. She felt that the school districts were moving into a period of necessary maintenance and with passage of HB 136, were getting its source of funding revoked, which was not planned for. She asked for the total amount of deferred school maintenance in the state. Ms. Nudelman responded that one way that the department assessed deferred maintenance was reviewing the insurance value for all of the school buildings statewide. She elaborated that DEED also required six year plans from school districts regarding maintenance needs. She thought that both methods gave the department a good indication of general

maintenance needs of the schools. Representative Gattis wondered whether the district had a specific number. Ms. Nudelman had access to a report with the numbers that she would provide to the committee.

Representative Kawasaki notified the committee that a 2010 report on school construction and major maintenance funding had been distributed.

Representative Munoz stated that charter schools became eligible for the school debt reimbursement program. She wondered whether charter schools were included in the bill. Mr. Anderson was uncertain.

HB 136 was HEARD and HELD in committee for further consideration.

He discussed the agenda for the next day.

[3:00:46 PM](#)

ADJOURNMENT

The meeting was adjourned at 3:00 p.m.