

SENATE FINANCE COMMITTEE

April 7, 2016

5:05 p.m.

5:05:15 PM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 5:05 p.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Peter Micciche, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman

MEMBERS ABSENT

Senator Donny Olson

ALSO PRESENT

Norm Wooten, Executive Director, Alaska Council of School Administrators; David Teal, Director, Legislative Finance Division; Diane Barrans, Executive Director, Alaska Commission on Postsecondary Education, Department of Education and Early Development; Kathie Wasserman, Executive Director, Alaska Municipal League.

PRESENT VIA TELECONFERENCE

Lisa Parady, Executive Director, Alaska Council of School Administrators, Anchorage; Saichi Oba, Associate Vice President, Student and Enrollment Services, University of Alaska.

SUMMARY

SB 91 OMNIBUS CRIM LAW and PROCEDURE; CORRECTIONS

CSSS SB 91(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new zero fiscal notes from the Department of

Administration; one new zero fiscal note from Department of Corrections; six new fiscal impact notes from Department of Corrections; three new fiscal impact notes from Department of Health and Social Services; one new zero impact note from Department of Health and Social Services; one new zero impact from the Department of Law; one new zero impact note from Department of Public Safety; one new fiscal impact note from Department of Public Safety; one new zero impact note from the Alaska Judicial System; one new fiscal impact note from the Alaska Judicial System; and one previously published zero fiscal note: FN 9(ADM).

SB 207 TEACHERS RETIRE. EMPLOYER CONTRIBUTIONS

SB 207 was HEARD and HELD in committee for further consideration.

SB 208 ELIMINATE AK PERFORMANCE SCHOLARSHIP

SB 208 was HEARD and HELD in committee for further consideration.

SB 209 PERS EMPLOYER CONTRIBUTIONS

SB 209 was HEARD and HELD in committee for further consideration.

#sb91

SENATE BILL NO. 91

"An Act relating to protective orders; relating to conditions of release; relating to community work service; relating to credit toward a sentence of imprisonment for certain persons under electronic monitoring; relating to the restoration under certain circumstances of an administratively revoked driver's license, privilege to drive, or privilege to obtain a license; allowing a reduction of penalties for offenders successfully completing court-ordered treatment programs for persons convicted of driving under the influence; relating to termination of a revocation of a driver's license; relating to restoration of a driver's license; relating to credits toward a sentence of imprisonment, to good time

deductions, and to providing for earned good time deductions for prisoners; relating to the disqualification of persons convicted of certain felony drug offenses from participation in the food stamp and temporary assistance programs; relating to probation; relating to mitigating factors; relating to treatment programs for prisoners; relating to the duties of the commissioner of corrections; amending Rules 32 and 35(b), Alaska Rules of Criminal Procedure; and providing for an effective date."

[5:05:59 PM](#)

Co-Chair MacKinnon stated that there were revised fiscal notes for the bill.

Co-Chair Kelly MOVED to report CSSS SB 91(FIN) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSS SB 91(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new zero fiscal notes from the Department of Administration; one new zero fiscal note from Department of Corrections; six new fiscal impact notes from Department of Corrections; three new fiscal impact notes from Department of Health and Social Services; one new zero impact note from Department of Health and Social Services; one new zero impact from the Department of Law; one new zero impact note from Department of Public Safety; one new fiscal impact note from Department of Public Safety; one new zero impact note from the Alaska Judicial System; one new fiscal impact note from the Alaska Judicial System; and one previously published zero fiscal note: FN 9(ADM).

[5:07:17 PM](#)

AT EASE

[5:10:09 PM](#)

RECONVENED

#sb207

#sb208

#sb210

SENATE BILL NO. 207

"An Act relating to increasing employer contributions to the defined benefit plan in the teachers' retirement system."

SENATE BILL NO. 208

"An Act eliminating the Alaska education grant program and the Alaska performance scholarship program; and providing for an effective date."

SENATE BILL NO. 210

"An Act relating to the community revenue sharing program; changing the name of the community revenue sharing program to the community assistance program; and relating to the municipal property tax exemption on the residence of a senior, a disabled veteran, and a widow or widower of a senior or disabled veteran."

5:11:21 PM

NORM WOOTEN, EXECUTIVE DIRECTOR, ALASKA COUNCIL OF SCHOOL ADMINISTRATORS, read from a prepared statement (copy on file):

Thank you, Madame Chair. For the record I am Norm Wooten, executive director of the Association of Alaska School Boards. Our member school districts will be testifying to the expected impacts of Senate Bill 207 on their schools and students. I would like to address the overall impacts of this legislation on Alaska's K-12 education system.

First, let me say that the education community has been firmly in favor of the Alaska Legislature adopting a long-range fiscal plan to address the major revenue problems of state government. But never did we imagine that any bill would get serious consideration if it proposed - like SB 207 - to transfer more than \$2 billion dollars from K-12 schools operations to the Teachers Retirement System. And not until today were we asked for our input on how this would affect operations of Alaska's 500 public schools.

The actuarial report from Buck Consultants dated April 3rd calculates that if SB 207 is enacted, it will mean the diversion of \$2.1 billion over the next 23 years

from school districts to the T.R.S. Where will this money come from? School districts do not have taxing authority and local governments do not own oil wells. So, the \$2.1 billion will have to come from local taxpayers and/or our children's classrooms.

That is neither wise nor fair, in my opinion. SB 207 is unwise because it borrows from our future – the education of the next generation of Alaskans. And it's unfair because the unfunded liability of T.R.S. was created by actions at the state and national level, not local school districts. Passage of SB 207 could have many unintended consequences, among them the layoff of teachers and the removal of other caring adults from the lives of our children. Many schools districts already have difficulty in recruiting teachers. The average salary of teachers statewide dropped 1.9 percent this year, according to our surveys, probably because of retired teachers being replaced by new ones. School boards have been wrestling with tight budgets for most of a decade, but passage of SB 207 will make that deficit a permanent fixture for K-12 education for the next two decades. I urge you to put this bill aside.

Co-Chair MacKinnon stated that the purpose of the conversation was intended for the day's conversation was to better understand how the state and local communities could work toward paying off and meeting the obligations of the retirement system.

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, presented a spreadsheet (copy on file). He stated that SB 207 would raise the rate cap on the Teachers Retirement Employment System (TRS) employers. The current rate was 12.56 percent, and the state paid the remaining. He shared that the bill would increase the rate cap by 6.44 percent in the first year, and 1 percent increases for the next three years. The new rates would be 19 percent, and climbing to 22 percent, at the point of stabilization. He remarked that the increased rates reduced state assistance. The baseline projections showed that the state would pay \$110 million, and then decline, and slowly climb again. The change in state assistance would be \$46.6 million in the first year, and increasing with the increase in payroll. He

stressed that the schools would absorb the costs. He stated that there was additional formula funding to the schools to help alleviate the cost. He remarked that there was a fiscal note attached that showed a constant \$33.7 million increase paid out in the same way as the formula.

[5:21:04 PM](#)

Mr. Teal noted that the bill shifted funding from retirement assistance to education funding.

Mr. Teal noted the fiscal notes.

[5:24:15 PM](#)

Co-Chair MacKinnon queried how much the state would cover of the local districts' costs. She queried the cash calls on the state for the districts. Mr. Teal replied that the 12.56 percent was the normal cost of TRS. He stated that those normal costs referred to the cost of actually paying the pension. He stated that the numbers assumed all the actuarial assumptions including life expectancy and earnings came out as projected. He asserted that those projections were not always accurate. He remarked that both retirement systems recently lost money in investments, and the actuarial assumptions were changed. He stressed that the increased cost was neither the states' or school districts' fault. He remarked that the legislature set the 12.56 percent rate.

Co-Chair Kelly noted that the approximately \$8 million per year increase was not reflected in the chart. Mr. Teal replied that it was not reflected in the chart.

[5:28:02 PM](#)

Co-Chair Kelly remarked that the Base Student Allocation (BSA) was increased in 2008 to accommodate expenses to the local districts.

Co-Chair MacKinnon queried the actuary percentage number in the Public Employees' Retirement System (PERS). She remarked that school districts continued to expand their programs, even with the 12.56 percent cap. She queried the percentage call to the state in 2016 and 2017 that was above the 12.56 percent. Mr. Teal replied that the number

for 2016 was \$122 million for school districts, and other couple million dollars for non-school districts.

Co-Chair MacKinnon queried the actuarial rate. Mr. Teal replied that the TRS rate was over 50 percent until the \$2 billion deposit. The rates were then reduced to 30 percent, and the April projections showed the rate under 30 percent. He remarked that the delta between the 12.56 and 22.56 percent, the state paid a larger share of the TRS cost than the school districts.

Co-Chair MacKinnon surmised that the percentages were reduced because of the \$2 billion cash infusion. Mr. Teal replied in the affirmative.

Co-Chair MacKinnon stated that there was a second actuarial analysis on the proposal. Mr. Teal agreed.

Co-Chair MacKinnon announced that health care costs had been reduced and there was a reduction in cash calls to the system. Mr. Teal replied that the reduction in the cash call for FY 18 was \$25 million.

Co-Chair MacKinnon urged Alaskans to be thoughtful in the approach to this issue.

[5:34:25 PM](#)

LISA PARADY, EXECUTIVE DIRECTOR, ALASKA COUNCIL OF SCHOOL ADMINISTRATORS, ANCHORAGE (via teleconference), testified against the legislation. She remarked that the bill had zero public opportunity to provide input. She stressed that the impact of the legislation would impact school districts in a negative way. She stated that the underfunded issues in the state system were state-created. She remarked that there would be a turn to the municipalities to cover the cost.

Ms. Parady continued with her testimony. She remarked that the bill did not provide a stable situation. She reiterated her position against the bill.

[5:42:34 PM](#)

Co-Chair Kelly encouraged the education community to declare their opposition to the bill, rather than offering to work together.

Co-Chair MacKinnon stated that the committee would now discuss SB 208.

5:45:16 PM

DIANE BARRANS, EXECUTIVE DIRECTOR, ALASKA COMMISSION ON POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, read from a prepared statement (copy on file):

- Students in Alaska are likely facing substantial increases in the costs of pursuing postsecondary education and training.
- At current year average costs of attendance at our public university (\$21,500), after receiving an APS, recipients must find other ways and resources to cover 78 percent to 87 percent (between \$17,000 and \$19,000 annually) of the cost of full-time attendance.
- The UA Scholars program has been pointed to as an alternative; however, it covers only 14 percent (\$3,000) of current year costs and as of 2013-14, only 31 percent of APS recipients also received a UA Scholars award
- While Pell grants are available on a financial needs-basis, because many APS recipients are from middle-income families, less than one in five qualify for federal needs-based grants; and,
- For students who do qualify for federal aid, the current maximum Pell grant covers a little more than one-quarter of UA's average annual full-time cost of attendance

As I prepared these remarks, I did so confident that these are issues about which you are all familiar and have shared interest and concern. If you were not strong proponents of education and training, you simply would not have supported these programs through very substantial appropriations over the past five years. So, in concluding my testimony--my proposition to you would be, if SB208 is to advance, that the Legislature consider extending the phase out window during which graduating high school seniors can earn eligibility through the class of 2018.

That two-year extension would give student and families advance notice of your intent to terminate. It would also allow the Legislature to base your final decision on a full analysis of the programs' impacts. You could then examine whether the return on your investments in these Alaskans is worth institutionalizing for the long-term. This additional time would also inform your ultimate decision, should you conclude defunding is unavoidable, whether to fully repeal the programs or simply shutter them but leave program authorization in place with confidence that the State of Alaska will, in the future, have the financial capacity and collective will to once again support human resource development through these efforts.

[5:56:36 PM](#)

SAICHI OBA, ASSOCIATE VICE PRESIDENT, STUDENT AND ENROLLMENT SERVICES, UNIVERSITY OF ALASKA (via teleconference), testified against SB 208.

[6:03:04 PM](#)

KATHIE WASSERMAN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, testified against the legislation.

Co-Chair Kelly understood the problem with communication.

[6:05:09 PM](#)

Ms. Wasserman spoke to SB 207. She also did not take a firm stance on SB 210. She stressed that tax payers would shoulder the cost of the increase, because the districts had no taxing authority. The taxing authority fell to the municipalities. She felt that the bill would be a way to tax the municipalities instead of the state. She remarked that the bill would not shrink the size of government rather it would transfer the cost of one governing authority to another. She did not know how the rural areas would cover the cost without reducing the classroom opportunities. She announced that the state was the only entity with fiduciary responsibility. The districts and municipalities did not have a say in how the system operated, and simply paid the bills that the state required them to pay.

6:12:09 PM

Co-Chair MacKinnon wondered whether the local communities benefited from the \$3 billion injection into the plans. Ms. Wasserman replied that the municipalities received nine more years of 22 percent.

Co-Chair MacKinnon wondered whether the payments were reduced. Ms. Wasserman responded that their payments stayed at 22 percent.

Co-Chair Kelly noted that the statement was made that since the 2008 deal, the districts had covered the cost of TRS. He felt that the cost of TRS was paid through the BSA increase in 2008.

Co-Chair MacKinnon understood the concerns with the bills.

Senator Hoffman shared that he was in the legislature at the time of reinstatement of the revenue sharing program. He remarked that it was a result of the state's receiving billions of dollars. He felt that reducing the program by 50 percent and making the changes were intended to save the program with no guarantees.

Co-Chair MacKinnon understood that there would be impacts to individuals and local communities.

SB 207 was HEARD and HELD in committee for further consideration.

SB 208 was HEARD and HELD in committee for further consideration.

SB 210 was HEARD and HELD in committee for further consideration.

6:20:22 PM

AT EASE

6:21:15 PM

RECONVENED

Co-Chair MacKinnon discussed the following day's agenda.

#

ADJOURNMENT

6:22:09 PM

The meeting was adjourned at 6:22 p.m.