

SENATE FINANCE COMMITTEE

April 2, 2018

3:02 p.m.

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CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 3:02 p.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Peter Micciche
Senator Gary Stevens
Senator Natasha von Imhof

MEMBERS ABSENT

Senator Donny Olson

ALSO PRESENT

Dr. Antony Scott, Appointee, Regulatory Commission of Alaska; Jonathan King, Staff, Senator Natasha Von Imhof; Heidi Teshner, Director, Finance and Support Services Division, Department of Education and Early Development; Mindy Lobaugh, Specialist, School of Finance and Facilities Section, Department of Education and Early Development; Paul Prussing, Director of Student Learning, Department of Education and Early Development; Don Enoch, Special Education Administrator, Department of Education and Early Development.

PRESENT VIA TELECONFERENCE

Jim Anderson, Chief Financial Officer, Anchorage School District; Dr. Mark Stock, Deputy Superintendent, Anchorage School District.

SUMMARY

SB 104 EDUCATION CURRICULUM

SB 104 was HEARD and HELD in committee for further consideration.

SB 216 SCHOOL FUNDING FOR CONSOLIDATED SCHOOLS

SB 216 was HEARD and HELD in committee for further consideration.

CSHB 286(FIN) AM(BRF SUP MAJ FLD)(EFD FLD)
APPROP: OPERATING BUDGET/LOANS/FUNDS

CSHB 286(FIN) AM(BRF SUP MAJ FLD)(EFD FLD) was SCHEDULED but not HEARD.

REGULATORY COMMISSION OF ALASKA APPOINTEE DR. ANTHONY SCOTT

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DR. ANTONY SCOTT, APPOINTEE, REGULATORY COMMISSION OF ALASKA, introduced himself. He gave a brief history of his background and reason for desiring to serve on the Regulatory Commission of Alaska (RCA).

Co-Chair MacKinnon wondered whether there was a bias or conflict of interest, because of his thesis. Mr. Scott replied that he did not believe had a bias against industry. He stated that the Regulatory Commission made a decision setting pipeline tariffs on the Trans-Alaska Pipeline System (TAPS) in 2002. That decision was largely echoed by the Federal Energy Regulatory Commission (FERC). His master's thesis suggested that if standard regulatory theories were applied, pipeline tariffs would result in the range that both those regulatory bodies found appropriate. the pipeline tariffs were settled after approximately eight years of litigation. The tariffs were settled, the state explained, in large part because FERC did not make a decision. At the time, pipeline tariffs were still high, so the state came to an agreement to set tariffs under an automatic procedure.

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Senator von Imhof queried the potential merger of the power companies. Mr. Scott replied that he could not speak too much on the merger.

Senator von Imhof stated that she was somewhat familiar with how Regulatory Commission of Alaska helped to oversee the entire rail line. She wondered whether there was infrastructure along the rail line, and whether it had helped or hindered the economic value for the end user. Mr. Scott replied that the infrastructure that was built was largely confined to the generation side. He wanted to separate the discussion, because the rail belt had two different sets of business model issues. He shared that there was not a good current business model for building transmission in the rail belt. He noted that it may be a historical accident. He explained that there was substantial reliability on the legislature to provide grants to help fund and underwrite transmission infrastructure development.

Senator Micciche noted that the experience was largely academic from a state perspective. He queried feelings about how the board was at a period of time at the low side of private sector experience. Mr. Scott responded that having industry experience in the Regulatory Commission of Alaska was beneficial, helpful, and useful.

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Senator Micciche wondered how that balance would occur with a commission with less experience in the industry. Mr. Scott responded that he had considered that issue. He noted the need for increased exposure of staff and commissioners on an informal basis to the day-to-day issues. He felt that people could be better exposed to the operation of the industry.

Co-Chair MacKinnon wondered whether the position had changed from the original thesis related to tariffs. Mr. Scott replied that his position about the TAPS settlement methodology did not set rates consistent with standard regulatory methodology had not changed.

Co-Chair MacKinnon wondered whether Mr. Scott "stood by" his thesis. Mr. Scott replied that there were details around appropriate rate of return that he realized was wrong.

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Co-Chair MacKinnon asked whether the Regulatory Commission of Alaska should have oversight over the state-owned pipeline. Mr. Scott replied that the pipeline would be preempted from having regulatory jurisdiction for tariffs.

Co-Chair MacKinnon wondered whether that was consistent with a belief of what was right. Mr. Scott responded that it was reasonable in the case of a natural gas pipeline whose primary purpose was exports to Asia.

Co-Chair MacKinnon queried an opinion on the portion of gas for instate use, and whether there should be involvement by Regulatory Commission of Alaska. Mr. Scott replied in the negative, because it was not consistent with the Natural Gas Act. He did not see a huge need, given the depth of expertise that had been developed, in setting rates for natural gas pipelines for the Regulatory Commission of Alaska to play any particular role in regulating intrastate transport.

Co-Chair MacKinnon wanted more information about tariffs in Alaska Gasline Development Corporation (AGDC), and any issues about the state regulating itself. Mr. Scott replied that he did not see a problem, because there were well-established laws and precedents about how such pipelines should be regulated. He felt that it was a matter of regulators following the law and applying standard practice.

Co-Chair MacKinnon asked what would occur should the pipeline end at Nikiski, with a sales agreement at that point. She wondered whether Regulatory Commission of Alaska or FERC be involved in that scenario. Mr. Scott replied that the pipeline tariffs would be regulated by FERC for offtakes in Nikiski for instate use.

Co-Chair MacKinnon wondered if that was true for instate use. Mr. Scott stated that the pipeline act recognized federal preemption in that regard.

Senator Stevens queried the reason for leaving the commission. Mr. Scott replied that he was recruited out of the commission.

Co-Chair MacKinnon noted that the Cook Inlet Recovery Act told Regulatory Commission of Alaska to diversify gas supply contracts. She wondered whether there should be changes to that agreement. Mr. Scott replied that he supported the directive. He felt that diversifying the contracts would be good for competition and consumers.

Vice-Chair Bishop MOVED to ADVANCE Dr. Antony Scott to a Joint Legislative Session for consideration.

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AT EASE

[3:35:46 PM](#)

RECONVENED

#sb216

SENATE BILL NO. 216

"An Act relating to the calculation of state aid for schools that consolidate; relating to the determination of the number of schools in a district; and providing for an effective date."

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Senator Micciche MOVED to ADOPT the committee substitute for SB 216, Work Draft 30-LS1483\N (Laffen 3/30/18).

Co-Chair MacKinnon OBJECTED for discussion.

SENATOR VON IMHOF, SPONSOR, explained the legislation. She stated that the bill was created when the Anchorage School District presented to the Anchorage legislators. She shared that she was previously a member of the Anchorage School Board. She stated that there was a school capacity study, that found that there was migration and movement within the Anchorage elementary schools that left some schools over capacity and some schools under capacity. She noted that there was some halting of state aid, so there were some schools that delayed some renovation and reconstruction. She stated that in the last fall the Anchorage School District had done calculations to evaluate different scenarios of consolidating older elementary schools with excess capacity, and moving students to nearby elementary school with excess capacity; and the hypothesis of closing

an elementary school. It was found that when there was a school of approximately 250 students, there was a certain school-size cost factor of the average daily membership that was greater than moving students to a larger school. It was found that the revenue did not exceed the costs saved for closing that school. It was suggested that there be an allowance for an adjustment in the intent of the school.

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Co-Chair MacKinnon requested the changes in the committee substitute. Co-Chair MacKinnon deferred to Mr. King.

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JONATHAN KING, STAFF, SENATOR NATASHA VON IMHOF, discussed the Explanation of Changes (copy on file):

Page 3, line 14 and Page 5, lines 5, 9, 11, 12: All references to "state aid" within subparagraphs (H) and (I) are changed to read "basic need" to properly define the section of statute that this bill is affecting.

Page 5, lines 22-24: Section (M) is reworded to clarify the information that would need to be submitted by school districts to the Department of Education to calculate the consolidation transition. Instead of the more generic "appropriate calculations" the bill specifies "schools and corresponding ADM."

Page 5: Section (N), which defined "community," was deleted. This term is already appropriately defined in the Department of Education's funding formula regulations.

Co-Chair MacKinnon WITHDREW the OBJECTION.

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AT EASE

[3:43:25 PM](#)

RECONVENED

Mr. King discussed the presentation, "SB 216: School Consolidation Transition" (copy on file). He looked at

slide 2, "Alaska's School Size Factor Adjustment." He stated that the school size adjustment was a component of the broader school financing calculation contained in AS 14.17.410, that adjusted the average daily membership based upon the size of the school. He noted that moving from left to right on the curve showed that the amount of adjustment declined as the school increased in size. He stated that every individual student counted less toward funding the school. He shared that it incentivized districts to create smaller schools and made a challenge for schools to consolidate schools.

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Mr. King highlighted slide 3, "Effect of the School Size Factor on Consolidation Example 1." The distribution of dots was the distribution of schools within the Anchorage School District. He noted that the left hand vertical axis showed the school size factor, with was the multiplicative factor used in determining school funding. The bottom showed the actual enrollment as a proxy for average daily memberships. He stressed that there was a downward sloping curve, which meant that as the school grew there was a smaller coefficient that was used in the funding formula.

Mr. King addressed slide 4, "What the Bill Does":

Section 1

Section 1 removes a disincentive to school consolidation:

- Four-year transition period for consolidating schools
- Years 1 and 2 preserve 100 percent pre-consolidation per student funding.
- Year 3 provides standard funding plus 66 percent of pre/post difference.
- Year 4 provides standard funding plus 33 percent of pre/post difference.
- After Year 4 provide standard funding per AS 14.17.410.

Senator Micciche asked for a restatement of the last two bullets. Mr. King replied:

- Year 4 provides standard funding plus 33 percent of pre/post difference.
- After Year 4 provide standard funding per AS 14.17.410.

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Mr. King highlighted slide 5, "What the Bill Does Not Do":

Section 1

The Bill does not:

- Change the school size formula (AS 14.17.450);
- Change state aid calculations (AS 14.17.410) for any school or district that is not involved in a consolidation;
- Encourage districts to build new schools for the purposes of consolidating existing schools;
- Allow schools to reopen and reconsolidate schools in order to take inappropriate advantage of the consolidation transition.

Mr. King discussed slide 6, "What the Bill Does":

Section 2

Section 2 provides an incentive for single community schools to fully utilize the capacity of K-12 school buildings in rural Alaska.

- Corrects a provision in AS 14.17.905 where communities with a single K-12 schools lose funding when their average daily membership (ADM) exceeds 425 even when the facility's capacity exceeds 425.

Under the current provision, schools in this circumstance are treated as 2 facilities when their ADM is 425 and below, but when they reach 426 they are treated at one facility for funding purposes. This switch lowers state aid by hundreds of thousands of dollars and could increase the incentive to build another facility to recapture lost funding.

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Co-Chair MacKinnon queried information about slide 9. He stated that it was an expected savings using a previous example he noted that on slide 8 there was an example where a district with a cost factor of 1 consolidates 5 schools into 4 schools. The slide covered the total state aid and the total savings attributable to the treasury associated with consolidation. He explained that slide 9 showed that if there were five schools totaling 1,720, the base year would contribute \$15.07 million in state aid to the local school district. He shared that consolidating the schools to four schools would result in state aid of \$14.42 million.

Co-Chair MacKinnon wondered whether the model had been stress tested on different sizes of schools with consolidation numbers. Mr. King replied that slide 3 showed an example of a stress test for a larger school. He noted that the consolidation of two larger schools would save the state approximately \$1 million. He noted the stress test for the elementary school showed a savings of between 400,000 and \$600,000 per year depending on the original size of the schools, and how many schools would be distributing those children over.

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Senator Stevens wondered how the bill would benefit the children. Mr. King replied that the finances matter, but the primary purpose of the educational system was to educate children. He noted that many of the elementary schools had half-time or third-time special subject teachers, who spent time shuttling between clusters of schools. He felt that consolidating the schools would result in that teacher being in residence at a single school.

Senator Stevens wondered whether the districts had any negative response to the legislation. Mr. King replied that he had not heard any negative feelings, but stated that there may be some in public testimony.

Senator von Imhof added that it would be a voluntary program.

Senator Micciche surmised that there would be less dollars for infrastructure, and more dollars in the classroom. Mr. King agreed.

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JIM ANDERSON, CHIEF FINANCIAL OFFICER, ANCHORAGE SCHOOL DISTRICT (via teleconference), stated that he had worked closely with the sponsor. He shared that when there was an initial examination of the declining student population, there was a calculation. He shared that, currently, if a school was closed for consolidation there was a significant number of students who would need transportation. He noted that taking students from one school would result with the distribution among many schools. He noted that there would be a loss of \$500,000 dollars for any closed school.

Senator Stevens queried the impact on the Anchorage School District. Mr. Anderson replied that that a consultant had been hired to establish a plan. The initial brief to the school board would be more than one school.

Senator Micciche requested a copy of that analysis on the associated costs with school consolidation. Mr. Anderson agreed to provide that information.

Co-Chair MacKinnon CLOSED public testimony.

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HEIDI TESHNER, DIRECTOR, FINANCE AND SUPPORT SERVICES DIVISION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, stated that she had worked with the bill sponsor to provide feedback. She felt that the conversations had been incorporated into the committee substitute, and allowed for the calculations to work for the districts.

Co-Chair MacKinnon queried a position on the bill. She wondered whether school districts would benefit from the policy. Ms. Teshner replied that Department of Education and Early Development (DEED) was supportive of additional tools for districts, and the bill was seen as an additional tool to maximize their facilities.

Co-Chair MacKinnon queried the benefit of the bill for rural communities.

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MINDY LOBAUGH, SPECIALIST, SCHOOL OF FINANCE AND FACILITIES SECTION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, looked at Section 2, which was an unintended consequence. She shared that originally the formula had initially an adjustment of 750, so a community under 750 received the appropriate adjustments for the single site. She shared that when there was a change in 2001, there was the possibility of a fix to a community, but there was not an opportunity to revisit the issue. She shared that Hooper Bay was part of that issue, so the language would put the formula on a stronger track.

Co-Chair MacKinnon asked for more information about the fiscal note.

Ms. Teshner explained the fiscal note.

Senator Micciche explained the fiscal note.

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Senator Micciche felt that the fiscal note had some reflection of the reduced eventual payout from the state to the districts. He wondered how that reduced funding would be assessed, so there could be a philosophical understanding of a reduction associated with consolidation. Ms. Teshner replied that, because there was an unknown of what schools would come forward, but there would be a reduction in year three.

Senator Micciche wondered whether the primary purpose of the bill was for consolidation to not adversely impact school districts, but noted that there would be a reduced costs to the state. Ms. Teshner replied in the affirmative.

Co-Chair MacKinnon announced that amendments would be due the following day.

SB 216 was HEARD and HELD in committee for further consideration.

#sb104

SENATE BILL NO. 104

"An Act relating to the duties of the state Board of Education and Early Development; and relating to school curriculum."

4:19:29 PM

PAUL PRUSSING, DIRECTOR OF STUDENT LEARNING, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced himself.

DON ENOCH, SPECIAL EDUCATION ADMINISTRATOR, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced himself.

Co-Chair MacKinnon stated that there were some questions about Individualized Education Programs (IEPs).

Senator Stevens wondered whether all IEPs were equally valid. He was concerned about the possible savings of time. He wondered whether a school district with an IEP would want to change that IEP. He wondered whether an IEP would be considered a finished absolute document. Mr. Enoch replied that the IEP was transferrable from district to district. He asserted that some districts had different standards allowed for a district level. He stated that, at that time, the district would have an abbreviated meeting to address those small points. He noted that, because of the differences in paperwork between districts, it was slightly more labor intensive.

Senator Micciche noted it was an atmosphere-specific document, because of the different specialties, instructors, and setting. He felt that the document was a "starting point" at a new school, when a child arrives at a new district. Mr. Enoch replied that the IEP was designed to be as flexible as necessary.

Senator Stevens queried the online advantages versus a 30-page paper. Mr. Enoch replied that software companies had developed ways to guide people through certain scenarios to ensure compliance-accurate responses. The largest problem for most teachers was the paperwork.

Senator Stevens wondered whether the state agencies dealt with IEPs or whether the districts completely oversaw the IEPs. Mr. Enoch replied that the IEPs were reviewed on a 4-year rotation for all the small districts; and annually in all the large districts.

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Senator von Imhof noted that it was a recommendation per the performance review of DEED in 2016. She shared that it was found that there were multiple software platforms utilized by the 53 school districts across the state, and it was found to be an inefficient system. The recommendation was for a more standard software platform initiated by DEED available to districts.

Co-Chair MacKinnon noted the document outlining the benefits for parents, teachers, schools, districts, and the state. She noted that parents had complete access to student files at all time. She highlighted the benefits.

Senator Micciche explained the fiscal note.

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DR. MARK STOCK, DEPUTY SUPERINTENDENT, ANCHORAGE SCHOOL DISTRICT (via teleconference) felt that it was appropriate that all Alaskan students had the best curriculum materials available within budget. He used a construction analogy to explain the bill. He felt that the bill helped to ensure the best infrastructure available. He hoped that there would be realistic expectations.

Vice-Chair Bishop queried the monetary value to evaluate the curriculum. Dr. Stock replied that the K-5 materials were approximately \$6 million. He furthered that millions of dollars would be spent for implementation. He stated that grant funds would be used to hire instructional coaches to ensure that the materials were used properly.

Co-Chair MacKinnon CLOSED public testimony

SB 104 was HEARD and HELD in committee for further consideration.

#hb286

CSHB 286 (FIN) AM (BRF SUP MAJ FLD) (EFD FLD)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; and making supplemental appropriations."

CSHB 286 (FIN) AM (BRF SUP MAJ FLD) (EFD FLD) was SCHEDULED but not HEARD.

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

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ADJOURNMENT

4:37:37 PM

The meeting was adjourned at 4:37 p.m.