

SENATE FINANCE COMMITTEE

May 7, 2018

3:05 p.m.

[3:05:14 PM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 3:05 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair

ALSO PRESENT

Representative Chris Tuck, Sponsor; Ken Alper, Director, Tax Division, Department of Revenue; Juli Lucky, Staff, Senator Anna MacKinnon; Jane Pierson, Staff, Representative Neal Foster; Tim Mearig, Facilities Manager, Department of Education and Early Development; Laura Cramer, Staff, Senator Anna MacKinnon.

SUMMARY

SB 142 APPROP: CAPITAL BUDGET

CSSB 142(FIN) was REPORTED out of committee with a "do pass" recommendation.

CSHB 212(RLS)

REAA & SMALL MUNI SCHOOL DISTRICT FUND

CSHB 212(RLS) was HEARD and HELD in committee for further consideration.

CSHB 233(FIN) am

EXTEND EDUCATION TAX CREDITS

SCS CSHB 233(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Revenue.

#hb233

CS FOR HOUSE BILL NO. 233(FIN) am

"An Act relating to the insurance tax education credit, the income tax education credit, the oil or gas producer education credit, the property tax education credit, the mining business education credit, the fisheries business education credit, and the fisheries resource landing tax education credit; providing for an effective date by repealing the effective dates of secs. 3, 5, 7, 10, 14, 16, 18, 21, 23, 25, 28, 30, 32, 35, 37, 39, 42, 44, 46, 49, 51, 53, and 55, ch. 92, SLA 2010, sec. 14, ch. 7, FSSLA 2011, secs. 15, 17, 19, 21, 23, and 25, ch. 74, SLA 2012, sec. 49, ch. 14, SLA 2014, secs. 37, 40, 43, and 46, ch. 15, SLA 2014, and secs. 26 and 31, ch. 61, SLA 2014; providing for an effective date by amending the effective date of secs. 1, 2, and 21, ch. 61, SLA 2014; and providing for an effective date."

[3:06:49 PM](#)

Co-Chair MacKinnon asked Vice-Chair Bishop to review the fiscal note.

Vice-Chair Bishop complied. He reported that some discussion had ensued about the \$50,000 fiscal note for a regulation package. The fiscal note before the committee reflected that the \$50,000 regulation package was not included in the bill. The numbers in the outyears of the fiscal note remained the same. He reiterated there was no fee for a regulation package associated with the bill.

Co-Chair MacKinnon announced that the bill had originally been heard as the companion bill SB 116 on March 26, 2018. The current bill had been heard on April 26, 2018 where a new committee substitute (CS) had been presented, the sectional analysis had been reviewed, and public testimony had been heard and closed. The fiscal notes had been reviewed again. She asked to hear from the bill sponsor.

REPRESENTATIVE CHRIS TUCK, SPONSOR, detailed that the bill would extend the education tax credits that had originated in 1987 to January 1, 2025. He relayed the credits would expire on December 31, 2018 without the legislation.

Vice-Chair Bishop MOVED to REPORT SCS CSHB 233(FIN) out of committee with individual recommendations and accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SCS CSHB 233(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Revenue.

[3:08:52 PM](#)

AT EASE

[3:11:00 PM](#)

RECONVENED

Co-Chair MacKinnon relayed that the committee had reported out SCS CSHB 233(FIN).

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, heard the committee had moved the bill before he had arrived.

Co-Chair MacKinnon offered Mr. Alper an opportunity to share anything related to the fiscal note for SCS CSHB 233(FIN).

Mr. Alper discussed that the fiscal note discussed during the morning meeting had contemplated revenue to cover some of the Department of Revenue's (DOR) administrative costs. The department had removed the associated costs from the fiscal note; the costs would be absorbed by the department. He supported the bill and believed the education tax credit was an important program. He added it was merely a matter of downsizing the program to Alaska's fiscal reality.

Co-Chair MacKinnon apologized that the meeting time had moved. She understood DOR was following the committee's activities and was working hard to be available.

Mr. Alper replied the department would be presenting to the committee the following morning on a different piece of legislation.

#hb212

CS FOR HOUSE BILL NO. 212(RLS)

"An Act relating to funding for school construction and major maintenance; relating to the regional educational attendance area and small municipal school district fund; and providing for an effective date."

[3:12:46 PM](#)

Co-Chair MacKinnon reported the bill had been heard on April 23, 2018 when the public hearing had been heard and closed and the fiscal notes had been reviewed.

Vice-Chair Bishop MOVED to ADOPT the committee substitute for CSHB 212(RLS), Work Draft 30-LS0741\M (Laffen, 5/4/18).

Co-Chair MacKinnon OBJECTED for discussion.

JULI LUCKY, STAFF, SENATOR ANNA MACKINNON, reviewed the two changes in the CS. She referenced previous bill hearing where there had been discussion on the effective date. The effective date had been changed to immediate in the CS. Additionally, the previous version of the bill had specified 20 percent for major maintenance. The new CS removed the 20 percent specification, but noted on page 1, lines 10 through 11 that the fund's primary function was to fund school construction projects.

[3:14:09 PM](#)

JANE PIERSON, STAFF, REPRESENTATIVE NEAL FOSTER, discussed the bill. She explained the bill would allow more major maintenance in Regional Educational Attendance Area (REAA) and small municipal school districts. The bill did not add more money to increase the size of the pie. She detailed the bill would reallocate how the pie was cut. Currently the REAA and Small Municipal School District Fund could only be used for new school construction. The bill would allow the fund to be used for major maintenance in addition to new school construction in REAA and small municipal school district areas, with construction taking precedence. The bill would help reduce the deterioration of schools,

which would save millions of dollars in the long run. For example, it was preferable to be proactive and replace a roof than to be reactive and replace an entire school. The sponsor had reviewed the CS and was amenable to the changes.

Co-Chair MacKinnon WITHDREW her OBJECTION. There being NO further OBJECTION, Work Draft 30-LS0741\M was ADOPTED.

Co-Chair MacKinnon MOVED to ADOPT Amendment 1, 30-LS0741\M (Laffen, 5/4/18) (copy on file):

Page 1, following line 4:
Insert new bill sections to read:

"* Section 1. AS 14.11.013(a) is amended to read:
(a) With regard to projects for which grants are requested under AS 14.11.011, the department shall
(1) annually review the six-year plans submitted by each district under AS 14.11.011(b) and recommend to the board a revised and updated six-year capital improvement project grant schedule that serves the best interests of the state and each district; in recommending projects for this schedule, the department shall verify that each proposed project meets the criteria established under AS 14.11.014(b) and qualifies as a project required to
(A) avert imminent danger or correct life-threatening situations;
(B) house students who would otherwise be unhoused; for purposes of this subparagraph, students are considered unhoused if the students attend school in temporary facilities;
(C) protect the structure of existing school facilities;
(D) correct building code deficiencies that require major repair or rehabilitation in order for the facility to continue to be used for the educational program;
(E) achieve an operating cost savings;
(F) modify or rehabilitate facilities for the purpose of improving the instructional program;
(G) meet an educational need not specified in (A) - (F) of this paragraph, identified by the department;
(2) prepare an estimate of the amount of money needed to finance each project;

- (3) provide to the governor, by November 1, and to the legislature within the first 10 days of each regular legislative session, a revised and updated six-year capital improvement project grant schedule, together with a proposed schedule of appropriations;
- (4) encourage each school district to use previously approved school construction design plans and building systems if the use will result in cost savings for the project;
- (5) consider the regionally based model school standards developed under AS 14.11.017(d).

* Sec. 2. AS 14.11.013(b) is amended to read:

(b) In preparing the construction grant schedule, the department shall establish priorities among projects for which grants are requested and shall award school construction grants in the order of priority established. In establishing priorities the department shall evaluate at least the following factors, without establishing an absolute priority for any one factor:

- (1) emergency requirements;
- (2) priorities assigned by the district to the projects requested;
- (3) new local elementary and secondary programs;
- (4) existing regional, community, and school facilities, and their condition; this paragraph does not include administrative facilities;
- (5) the amount of district operating funds expended for maintenance; [AND]
- (6) other options that would reduce or eliminate the need for the request;
- (7) the district's use of previously approved school construction design plans and building systems if the use will result in cost savings for the project; and
- (8) consideration of regionally based model school standards under AS 14.11.017(d).

* Sec. 3. AS 14.11.013(c) is amended to read:

(c) The department may

- (1) modify a project request when necessary to achieve cost-effective school construction;
- (2) require that a school construction project be phased for purposes of planning, design, and construction; [AND]
- (3) reject project requests and omit them from the six-year schedule due to
 - (A) incomplete information or documentation provided by the

district;

(B) a determination by the department that existing facilities can adequately serve the program requirements, or that alternative projects are in the best interests of the state;

(C) a determination that the project is not in the best interest of the state; and

(4) require that a school construction project include all or part of the regionally based model school standards developed under AS 14.11.017(d) or reuse previously approved design plans and building systems that would result in capital or operating cost savings for the project.

* Sec. 4. AS 14.11.017 is amended by adding a new subsection to read:

(d) The department shall develop and periodically update regionally based model school construction standards that describe acceptable building systems and anticipated costs and establish school design ratios to achieve efficient and cost-effective school construction. In developing the standards, the department shall consider the standards and criteria developed under AS 14.11.014(b)."

Page 1, line 5:

Delete "Section 1"

Insert "Sec. 5"

Renumber the following bill sections accordingly.

Vice-Chair Bishop OBJECTED for discussion.

Co-Chair MacKinnon explained the amendment. She detailed the legislature had been going through a process for over a decade looking at schools and how schools were built across Alaska. The research had been to determine whether there was a different way the state could do business that would allow designs to be reused and building components to be standardized. A study had been done by the department [Department of Education and Early Development] that specified the changes would not bring a cost savings unless multiple schools were being built. There were three schools on the REAA list in the same district that were all being built and had developed designs independent of each other that were costing the state \$30 million, \$35 million, and \$40 million-plus schools. The amendment established a

guideline - if districts allowed and under the direction of the department - to organize and try to save the state some money in design development and building construction. She relayed a process had been conducted and the review committee had rejected the process with cost savings. She asked the department to address the committee.

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TIM MEARIG, FACILITIES MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT (DEED), relayed the amendment introduced a couple of provisions not currently in statute. The amendment allowed the opportunity to develop the criteria for regionally based model school construction standards in a new paragraph under AS 14.11.017(d), Section 4. He believed the opportunity to develop the standards and describe acceptable building systems to be used in Alaska schools was positive and would allow the state, districts, and department to work collaboratively. He detailed the provision impacted other areas of the bill as the department analyzed school construction grant applications. The other provision was based around considering previous school designs and when they could appropriately be used in establishing a design for another school. There were some additional provisions in the amendment that would allow the department to encourage, measure, and enforce the consideration of when previous school designs could be used when designing other schools.

Co-Chair MacKinnon asked whether her staff had been working with Mr. Mearig on the amendment. Mr. Merrick replied in the affirmative.

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Co-Chair MacKinnon WITHDREW the OBJECTION. There being NO further OBJECTION, Amendment 1 was ADOPTED.

Co-Chair MacKinnon asked if Ms. Pierson had any comments on Amendment 1. Ms. Pierson reported that Representative Foster was amenable to the amendment.

Senator Micciche spoke about the materials components, construction experience, and transportation of goods related to school construction. He asked if the items were something DEED would look at in the future to reduce costs.

Mr. Mearig answered that the provision to develop regionally based model school standards would help to identify best practices in the areas mentioned by Senator Micciche as well, including logistics and systems. Specifically, the department was looking at standards of acceptable building systems and associated costs as well as design ratios that would achieve efficiency. The department would measure things like the exterior envelope square footage for the building volume to identify an appropriate building efficiency. For example, the process would ensure a building did not end up with 100 corners. Many of the costs mentioned by Senator Micciche were not necessarily things that were easy for DEED to develop in standards. He explained that mobilization and shipping costs would be difficult for DEED to control. However, the department understood that the heavier the material, the more expensive the school would be to construct.

Vice-Chair Bishop appreciated the amendment. He asked if DEED worked with the Cold Climate Housing Research Center (CCHRC) at the University of Alaska and whether that work would be incorporated into actions directed under the amendment.

Mr. Mearig responded that DEED had not had significant interaction with CCHRC with regard to commercial building and schools. He followed CCHRC's work and believed there was good opportunity for collaboration between the two entities in regard to actions under the amendment.

Co-Chair MacKinnon suggested that the Alaska Energy Authority (AEA) may be another natural partner to help with weatherization of the commercial buildings. She noted that sometimes there was a substantial amount of glass used in the buildings. Part of the problem she had with the current design process was that the architect chose what the building would look like and sometimes beautiful entrances were created that were not functionally compatible with the climate. She hoped the amendment would enable DEED to work with districts to obtain a beautiful and functional school design.

Co-Chair MacKinnon communicated the committee did not yet have the fiscal note for the bill, which she believed would be around \$300,000. She believed the bill would report out the following day.

CSHB 212(RLS) was HEARD and HELD in committee for further consideration.

[3:24:34 PM](#)

AT EASE

[3:25:37 PM](#)

RECONVENED

#sb142

SENATE BILL NO. 142

"An Act making appropriations, including capital appropriations, supplemental appropriations, reappropriations, and other appropriations; making appropriations to capitalize funds; and providing for an effective date."

[3:26:15 PM](#)

Co-Chair MacKinnon reported the bill had been heard on April 26, 2018 when the public hearing had been opened and closed.

Vice-Chair Bishop MOVED to ADOPT the committee substitute for SB 142, Work Draft 30-GS2565\R (Martin, 5/7/18).

Co-Chair MacKinnon OBJECTED for discussion.

[3:26:30 PM](#)

AT EASE

[3:27:51 PM](#)

RECONVENED

LAURA CRAMER, STAFF, SENATOR ANNA MACKINNON, highlighted the changes in the CS. Page 3, line 18 included \$2 million for the Alaska Travel Industry Association for tourism marketing and development. Page 4, line 31 included \$2.5 million for the Wrangell junkyard contaminated site cleanup. Page 5, line 19 included \$300,000 for vessels and aircraft maintenance, repair, and upgrades for the Department of Fish and Game (DFG). She detailed originally the item had been in the bill's language section and due to incorrect information from DFG the lapsing funds were no longer available; therefore, the item had been moved to the numbers section of the bill. Page 7, line 33 through page

8, line 4 included \$750,000 for the Department of Natural Resources for legal and financial due diligence associated with the AKLNG project. Page 8, lines 29 through 31 included \$750,000 for the Department of Revenue for legal and financial due diligence associated with the AKLNG project. Page 9, line 23 pertained to the Alaska Housing Finance Corporation (AHFC) Weatherization Program. She elaborated the previous bill version had erroneously left the increment out of the bill's language section; the numbers had been correct, but the increment had not been listed in the bill.

Ms. Cramer continued to outline the changes in the CS. She moved to page 10, line 18 that included other federal program match for the Department of Transportation and Public Facilities (DOT). The item had been added to the numbers section due to a reduction in lapsing funds from AHFC in the Home Energy Rebate Program. Originally the item had been located in the language section - a reduction had caused the change in the numbers section of the current CS. Page 10, line 20 included an adjustment to the federal aid highway state match due to some reappropriations that were no longer available. Page 17, lines 10 through 13 included \$75,000 for community and neighborhood watch programs to be distributed as grants through the Department of Commerce, Community and Economic Development (DCCED). Page 17, line 14 included \$60,000 for the City of Nenana for the financial review and analysis of its city financials. Currently the city was unable to receive some community assistance due to some issues with its financials; the increment would enable DCCED to work with Nenana to ensure financials were in order prior to distributing community assistance funds.

Ms. Cramer moved to the next change on page 17, lines 20 through 22 included \$250,000 for a study for the Health Care Transformation Project - the next step in the health care authority feasibility study, which would bring along patients, providers, and policy makers. Page 17, line 25 included \$500,000 for the Hillcrest subdivision clean water improvement district to help with contaminated water systems. Page 17, line 28 included \$2 million to the Anchorage Police Department for crime prevention, response, and equipment. Page 18 included \$2 million to the Department of Public Safety for crime prevention, response, and equipment. Page 35 included backstop language for DOT reappropriations for federal aid highway match. The

language had been included in the capital budget the last year as well. The language designated that general funds would be used to match federal funds if any project reappropriation balances fell short.

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Co-Chair MacKinnon asked for the page number. Ms. Cramer replied the change appeared on page 35, lines 10 through 14.

Ms. Cramer continued to address changes in the CS. She turned to page 36, lines 3 through 19 that included the reappropriation of funds that had been reappropriated in the previous year to the greater Lynn Canal area. The balance of \$21.2 million was reappropriated back to the Juneau Access project. The final change was located on page 37, line 3 through 9, where the remaining balance for the Friends of the Jesse Lee Home to the City of Seward for site remediation.

Co-Chair MacKinnon WITHDREW her OBJECTION. There being NO further OBJECTION, Work Draft 30-GS2565\R was ADOPTED.

[3:34:42 PM](#)

Co-Chair MacKinnon shared that it was difficult to be the committee chair when there was no money for communities around the state. She had tried to help the limited requests where possible in the CS. She remarked that the bill contained no personal discretionary spending. She reported the budget prioritized public safety and health in some communities. She noted that the Wrangell [junkyard contamination cleanup] project was \$5 million, not \$2.5 million. She explained that if the House added the other \$2.5 million, the project would move forward. She continued that the budget was funded with Alaska's savings account to provide for the people of Alaska in broad ways. The budget went a long way in using the limited funds to create a budget of over \$1 billion in combination with federal and other funds. She would provide the difference to committee members and believed it was substantially lower than the administration's request. She reported there was no joy in passing a budget that was smaller than the administration's request, but it reflected the practical fact that the legislature was having to draw every dollar from savings

accounts; there were some things absent from the budget that were important to many people.

[3:36:41 PM](#)

Vice-Chair Bishop thanked Co-Chair MacKinnon and her staff for bringing the CS forward. He believed the committee had been responsive to public testimony; it had done what it could with the means available.

Senator Micciche agreed with Vice-Chair Bishop's comments. He thanked Co-Chair MacKinnon and her staff for their hard work.

Co-Chair MacKinnon thanked her chief of staff, Laura Cramer. She felt that Ms. Cramer had succinctly and accurately represented the changes requested in the bill. She acknowledged there were many things requested by the committee that were not included in the bill. She reiterated that the bill did not contain personal recommendations or discretionary money. The bill reflected a fairly straight forward and back to the basics budget. She thanked Legislative Legal Services and the Legislative Finance Division for their work.

[3:39:05 PM](#)

Vice-Chair Bishop remarked that it was a \$1 billion budget, but when accounting for the multiplier effect that went out through the economy and construction projects, it got to be a good-sized number.

Co-Chair MacKinnon reported that the budget invested \$148,642,900 in projects throughout Alaska and leveraged for a total budget of \$1,461,960,200. The budget was \$265 million less than the governor's request.

Vice-Chair Bishop MOVED to REPORT CSSB 142(FIN) out of committee with individual recommendations. There being NO OBJECTION, it was so ordered.

CSSB 142(FIN) was REPORTED out of committee with a "do pass" recommendation.

[3:40:28 PM](#)

AT EASE

3:42:24 PM

RECONVENED

Co-Chair MacKinnon reviewed the schedule for the following day.

#

ADJOURNMENT

3:42:58 PM

The meeting was adjourned at 3:42 p.m.