

HOUSE FINANCE COMMITTEE  
April 8, 2019  
1:30 p.m.

1:30:05 PM

CALL TO ORDER

Co-Chair Wilson called the House Finance Committee meeting to order at 1:30 p.m.

MEMBERS PRESENT

Representative Tammie Wilson, Co-Chair  
Representative Neal Foster, Co-Chair  
Representative Jennifer Johnston, Vice-Chair  
Representative Ben Carpenter  
Representative Andy Josephson  
Representative Gary Knopp  
Representative Bart LeBon  
Representative Colleen Sullivan-Leonard  
Representative Cathy Tilton

MEMBERS ABSENT

Representative Dan Ortiz, Vice-Chair

ALSO PRESENT

Liz Harpold, Staff, Representative Dan Ortiz; Sam Rabung, Director, Division of Commercial Fisheries, Department of Fish and Game; Elizabeth Nudelman, Audit Supervisor, Tax Division, Department of Revenue; Heidi Teshner, Administrative Services Director, Department of Education and Early Development, Office of Management and Budget; Elwin Blackwell, School Finance Manager, Department of Education and Early Development; Tim Mearig, Facilities Manager, Department of Education and Early Development.

PRESENT VIA TELECONFERENCE

Representative Kelly Merrick; Timothy Koeneman, Self, Petersburg; Nancy Hillstrand, Pioneer Alaskan Fisheries, Seldovia.

SUMMARY

HB 41 SHELLFISH ENHANCE. PROJECTS; HATCHERIES

HB 41 was HEARD and HELD in committee for further consideration.

HB 106 SCHOOL BOND DEBT REIMBURSEMENT

HB 106 was REPORTED out of committee with a "do pass" recommendation and with a new zero fiscal note by the Department of Education and Early Development.

Co-Chair Wilson reviewed the meeting agenda for the day.

#hb41

HOUSE BILL NO. 41

"An Act relating to management of enhanced stocks of shellfish; authorizing certain nonprofit organizations to engage in shellfish enhancement projects; relating to application fees for salmon hatchery permits; and providing for an effective date."

1:30:39 PM

LIZ HARPOLD, STAFF, REPRESENTATIVE DAN ORTIZ, introduced herself.

SAM RABUNG, DIRECTOR, DIVISION OF COMMERCIAL FISHERIES, DEPARTMENT OF FISH AND GAME, introduced himself.

Ms. Harpold thanked the committee for hearing the bill. She explained that many stakeholders and participants in Alaska's commercial fishing industry came together to identify shellfish enhancement restoration as something that would, over time, help improve the state's shellfish fisheries and expand the economic opportunities in Alaska's coastal communities. Currently, large scale shellfish enhancement was not allowed in Alaska, but HB 41 provided the regulatory framework for the Department of Fish and Game (DFG) to manage shellfish enhancement and restoration projects. The statutes the bill would implement were modeled off of the current salmon hatchery statutes laid out in AS 16.10.

Ms. Harpold continued that there was a difference between what was currently being discussed, shellfish enhancement restoration, and aquatic farming. Mariculture involved all three. However, with aquatic farming, a private business such as an oyster or kelp farm, regulations were already in place, and the industry was already taking off and growing. The bill did not have to do with those - it had to do with the public benefit aspects of mariculture development which were enhancement and restoration.

Ms. Harpold expounded that enhancement was intended to create a greater abundance of shellfish for the public to harvest for those that were legally able to harvest whether for commercial fisheries, sport fisheries, subsistence, or personal use. Restoration also played a role. It came about when there was a need after a decline in a certain shellfish stock, such as crab stock. The department had to manage them more conservatively. She indicated that HB 41 and the needed regulatory framework would help to enhance or restore some of the depleted stocks. She reported groups around the state that could take small research projects and spread the information for the greater good of Alaska. She reiterated that HB 41 played an important role in the development of mariculture in Alaska by providing a method to increase the available harvest of shellfish for public use in an environmentally safe manner and should ultimately improve Alaska's overall fishing economy. She offered to walk through the sectional analysis.

Co-Chair Wilson responded, "Please do."

[1:34:14 PM](#)

Ms. Harpold reviewed the sectional analysis:

Sec. 1: Provides the Alaska Board of Fisheries authority to direct the department to manage production of enhanced shellfish stocks, beyond brood stock needs, for cost recovery harvest.

Sec. 2: Increases the permit application fee for new private nonprofit salmon hatcheries from \$100 to \$1,000.

Ms. Harpold interjected that the only statute change was reflected in Section 3.

Sec. 3: Adds a new Chapter 12 to Title 16, "Shellfish Stock Enhancement Projects."

AS 16.12.010: Provides direction to the commissioner of the Department of Fish and Game on issuance of permits for private nonprofit shellfish fishery enhancement projects and establishes a \$1,000 permit application fee. This section directs the commissioner to consult with technical experts in the relevant areas before permit issuance;

AS 16.12.020: Provides for a hearing and public notification and input process prior to issuance of a permit;

AS 16.12.030: Describes terms and conditions for permit holders to conduct their work, including cost recovery fisheries, harvest, sale, and release of enhancement project produced shellfish, and selection of brood stock sources;

AS 16.12.040: Describes the revocation process should a permit holder fail to comply with the terms and conditions of the permit;

AS 16.12.050: Specifies that shellfish produced under an approved enhancement project are a common property resource, with provision for special harvest areas by permit holders. This section also specifies the Board of Fisheries to establish regulations relating to this chapter;

AS 16.12.060: Directs the department to advise and assist permit holders in their planning, operations, and construction of facilities to a reasonable and appropriate extent;

AS 16.12.070: provides department authority to approve source and number of shellfish taken for use as broodstock.

AS 16.12.080: places restrictions on how monies receives from sale of shellfish may be used only for operating costs associated with their facilities;

AS 16.12.090: Relates to Cost Recovery Fisheries and provides a means by which a shellfish hatchery may contract to either harvest and sell shellfish, or to implement a self-assessment from amongst its membership, for purposes of recovering operational costs associated with the hatchery;

AS 16.12.100: Gives the department authority to inspect facilities at any time while the facility is in operation;

AS 16.12.110: Requires a permit holder to submit an annual report to the department;

AS 16.12.199: provides definitions for "enhancement project," "facility," "genetically modified shellfish," "hatchery," and "shellfish;"

Sec. 4: Provides the Commercial Fisheries Entry Commission authority to issue special harvest area entry permits to holders of private nonprofit shellfish rehabilitation, or enhancement project permits.

Sec. 5: Defines legal fishing gear for special harvest area entry permit holders.

Sec. 6: Exempts shellfish raised in a private nonprofit shellfish project from the farmed fish definition. Sec. 7-8: Establish state corporate income tax exemption for a nonprofit corporation holding a shellfish fishery enhancement permit.

Sec. 9: Exempts shellfish harvested under a special harvest area entry permit from seafood development taxes.

Sec. 10: Establishes an effective date for the salmon hatchery permit application fee described in sec. 2.

Sec. 11: Authorizes the Department of Fish and Game to adopt implementing regulations.

Sec. 12: Establishes an immediate effective date for sec. 11 pursuant to AS 01.10.070(c).

Sec. 13: Establishes an effective date for sec. 8 concomitant with sec. 2, Chapter 55, SLA 2013.

1:39:07 PM

Representative Sullivan-Leonard referred to Page 2, line 10 of HB 41. She asked about the fee being waived, the reason for waiving the fee, and by what method.

Mr. Rabung explained that AS 16.10.480 was the section of the salmon fishery enhancement or salmon hatchery statute that pertained to contracting out the operation of state hatcheries to the private sector. Alaska owned 12 hatcheries and the department contracted their operations out to the private sector at no cost to the State of Alaska. They operated on behalf of the state at their own expense. In the case of operating permits for the state-owned hatcheries, the commissioner could waive the application fee.

Representative Knopp was curious about Section 6 and the farmed fish exemption. He asked for the definition of farmed fish versus hatchery fish.

Mr. Rabung replied that farmed fish was never released into the wild. It was maintained and reared under positive control from the time it was seed until it was harvested. It was a private ownership. It was akin to terrestrial farming where the farmer bought seed, planted it, and grew a product. The state had an aquatic farming program for oysters and kelp. He continued that the state also had the salmon fishery enhancement program. It was about the fishery rather than the fish. It was more of a service program. He explained that they were designed to create additional harvestable surplus of a common property resource that could be legally harvested by anyone who could obtain a fishing permit or fishing license. They were not owned until they were harvested. House Bill 41 was modeled after the salmon enhancement program where juveniles were created in a protective environment then out planted in the wild where they became a common property resource. The resource was not owned until it was harvested.

Representative Carpenter asked how the special harvest area locations were identified, created, or changed. He wondered about the process.

Mr. Rabung responded that during the permitting process the commissioner of DFG identified where the special harvest area would be. A special harvest area was the only place a permit holder could harvest the organisms to recover their costs. Otherwise, there was no place they could harvest - there had to be a special harvest area. The department also issued individuals a special harvest area permit which authorized them to harvest stock, a common property resource. He suggested that by providing a special harvest area and the right to harvest the area, it was akin to an exclusive right of fishery in a specific location. The issue was specifically addressed in the Alaska Constitution. It was amended in 1972 in Article VIII, Section 15 which allowed for an exclusive right of fishery for the efficient development of aquaculture in the state. He reported that without that provision in the constitution it could not be done. He continued that it started in the constitution. The Alaska Board of Fish also had the authority to amend, change, or otherwise modify a special harvest area.

[1:44:09 PM](#)

Representative Carpenter asked if there were existing fishermen of shellfish who were already fishing natural, wild production who would be subject to a fee.

Mr. Rabung responded that the department would typically require the release to be in a location where, if possible, there was already an existing fishery. It was designed to benefit existing fisheries. In order to pay for production there were two models in the bill. He elaborated that one of them was a fishery assessment where the common property fisherman would pay a percentage of what they harvested in the designated areas to pay for the cost of the project. The other model was a direct cost recover fishery by the project permit holder. Typically, if someone did direct cost recovery harvests, it was done on a much smaller scale. A person only needed a small percentage of a normal-sized project to pay for it. It would provide a permit holder the opportunity to specify when they would be fishing. The rest of the time the resource would be available as common property.

Mr. Rabung indicated that the state had a rotational fishery for salmon in a special harvest area. The special

harvest area entry permit holder would be allowed to fish and typically had a goal to cover their costs each year. The rest of the time there was a common property rotation in place by gear groups, such as seiners or gillnetters, to have a turn at the harvest. Only common property fishing took place outside of special harvest areas. In the case of salmon, they were intercepted on their way into the special harvest areas. The only remaining areas left for harvest by the hatchery operators was what made it through the existing fisheries.

Mr. Rabung reported that it was slightly different with invertebrates. They did not have the same life cycle or the same homing mechanisms as salmon. It would not be as clear cut how the department would approach the issue. It would have to be on a case-by-case basis based on the life history of the species being enhanced. King Crab would be handled differently than sea cucumbers or Geoducks. Each species would be custom fit. He believed the assessment option would be most widely used.

Representative Carpenter asked who decided when or where a particular species needed to be replenished on an artificial basis. Mr. Rabung replied that the program was stakeholder-driven and based on the desires of the fisheries stakeholders. It would have to be driven by the fishery participants just like salmon.

Representative Tilton asked if introducing artificial species posed a threat to wild species. Mr. Rabung replied that they were not artificial species. The department was requiring the use of local stocks. They were naturally indigenous stocks in the location from where they would be harvested. He provided an example of Sea Cucumbers. Currently, the common property fisheries had rotating fisheries. Every three or four years permit holders would fish an area. It took 3 or 4 years for the cucumbers to replenish themselves. In the model that the department would be using, it would collect a sampling of the species, raise them in the hatchery speeding up the rehabilitation process before being replenished in the wild. He provided an additional example with Razor Clams in the Cook Inlet. He elaborated on the Razor Clam model.

[1:50:20 PM](#)

Representative Carpenter referred to Mr. Rabung's example of Razor Clams in the Cook Inlet. He did not believe there was a commercial operation existing for Razor Clams. They would likely fall under a personal use fishery. He spoke of the user group restriction because of low populations. He wondered how the process would be financed without commercial interest involvement. Mr. Rabung suggested that it was easiest to find funding for the commercial fisheries model. It did not preclude any non-profit organization from participating as long as they were able to obtain funding such as grants or membership fees for organizations. The main limitation was how a commercial fishery could provide funding. There was not a mechanism in the bill to assess users to pay for the programs.

Representative Carpenter wondered if it was correct to say that the funding mechanism for non-profits to engage in the enhancement program would be outside of state government, and the bill was addressing only the permitting. Mr. Rabung responded affirmatively. The state use to have a division that did the work up until the mid '90s. Since then, it had been a user-pay program.

[1:52:57 PM](#)

Co-Chair Wilson asked about the fee of \$1,000 and whether it would pay for all of the costs associated with the permitting process. Mr. Rabung explained that it was an application processing fee. He did not think the fee would cover the cost of the entire program. However, it would cover processing the permit application.

Co-Chair Wilson understood that the fishery was done by the user group. She thought the only responsibility of the department would be to process the permit applications. She wondered if she was accurate. Mr. Rabung responded that the department would continue managing the fisheries. The state would still be involved in managing any fisheries that would result from these projects. Co-Chair Wilson wanted to know the costs associated with managing the fisheries. She thought further discussion would be needed.

ELIZABETH NUDELMAN, AUDIT SUPERVISOR, TAX DIVISION, DEPARTMENT OF REVENUE, indicated the department had a fiscal note related to HB 41.

Co-Chair Wilson asked Ms. Nudelman to clarify the fiscal note she was referring to, as DOR had three of them for HB 41. Ms. Nudelman was speaking to the fiscal note with OMB component number 2476 (copy on file). Co-Chair Wilson referenced FN2.

Ms. Nudelman explained that DOR collected the fisheries tax and assessments. The cost recovery for the common property fisheries would be collected by the Tax Division and would be dispersed as required. The fiscal note covered costs related to DOR collecting the assessments. It would also cover the necessary costs required to update the division's tax management system and to finalize any additional paper forms or instructions that might be needed.

Co-Chair Wilson referred to page 2 of the fiscal note and the implementation costs. She read directly from the fiscal note. She asked about the cost of \$50,000 to update the department's system. She wondered if DOR already had \$50,000 or whether the department required additional funding for the program. Ms. Nudelman replied that the fiscal note asked for additional funding for the program. The request for the funding could be found on page 1 of the fiscal note. She pointed to the estimated supplemental request for FY 19 in the amount of \$50,000.

Co-Chair Wilson commented that the legislation had not passed yet. She wondered why FY 19 funds would be used rather than FY 20 funds. She thought the regulations would not be put into place until FY 20. Ms. Nudelman explained that when the fiscal note was drafted, the placement into the FY 19 supplemental was based on the date that the bill would become law. It would become law immediately. At the time the fiscal note was drafted the department was looking to make sure it was ready to go alongside the legislation.

Co-Chair Wilson conveyed that although she appreciated the information, she thought a new fiscal note would be needed. She did not believe the legislature would approve the supplemental amount for the item. She asked Ms. Nudelman to take her request back to the department. Ms. Nudelman indicated she would do so.

Co-Chair Wilson reported that there was no one from the Department of Administration to speak to FN1 and FN3. The committee would come back to review them at a later date.

[1:58:36 PM](#)

Co-Chair Wilson OPENED Public Testimony.

[1:58:52 PM](#)

TIMOTHY KOENEMAN, SELF, PETERSBURG (via teleconference), spoke in opposition to the bill. He retired from DFG after being an employee for 26 years within the Division of Commercial Fisheries. His primary responsibilities had to do with research and the management of shellfish fisheries in Southeast Alaska in Yakutat. He opposed adding shellfish to the private non-profit (PNP) statutes, as he thought there were already existing problems within the law. He relayed that shellfish were different species with very complex life histories and fit in different portions of the trophic pyramid and the food web. He provided an example regarding reproduction and the status of many different stocks. He suggested that prior to embarking in a significant change and enhancement the state needed to strictly evaluate where it had been. He recommended looking at the management plans in place to evaluate whether they were adequate or adequately funded. Otherwise, the state was likely to make some of the same mistakes it had already made. Moving forward, he suggested that shellfish species deserved and required a different set of statutes and regulations than salmon. There were some similarities but also some tremendous differences, particularly in their life history. He had questions how the private non-profit stakeholders became the owners of the resource. He wanted to better understand the meaning of common property. He also commented that \$1,000 would not allow for enough research on any of the species, much less properly evaluate a permit. He thought more money was needed to support the program.

[2:02:22 PM](#)

NANCY HILLSTRAND, PIONEER ALASKAN FISHERIES, SELDOVIA (via teleconference), spoke in opposition to HB 41. She asked the legislature to focus on a step-by-step rehabilitation program - not on enhancement. She suggested that only professionals should investigate the shellfish experiment to the next level, not late-exposed open to costly production. She continued that from an economic business perspective self-perpetuating wild stocks provided the most efficient business model. She supported finding the cause

of depressed shellfish rather than applying a hatchery band aide. She believed HB 41 did not promote self-perpetuating stocks. It used 45-year old statutes with flaws. She brought up the issues of oversight and state-wide perspective. She posed several questions the committee should be asking. She continued to speak on the reasons the bill needed perfecting. She mentioned that shareholders did not have a means to weigh in. She thanked the committee.

[2:05:43 PM](#)

Co-Chair Wilson CLOSED Public Testimony.

Mr. Rabung reviewed the other two fiscal notes for HB 41. He relayed that FN3 [OMB 2171] was indeterminate. He explained that in the previous session the fiscal note had been zero. There was potential for unseen costs if something grew substantially. In his estimation, he thought it would increase incrementally. The department had staff in place that conducted similar permitting, management, and research activities. The department was not willing to ask for an increment until necessary.

Co-Chair Wilson asked if the department allocated personnel's time. She wondered if he had some statistics. Mr. Rabung replied that the division received very few permit applications. Some years the division received 3 or 4 applications, and in other years it received none. In the history of the salmon program there had been 50 permits issued, a large number of which were re-permits of the same facility under new ownership. There was not a large volume of applications, and they were funded with user pay dollars. The location sideboards limited permitting as well. The division would absorb the cost of processing the permits because of a lack of volume. No additional personnel would be needed.

[2:09:22 PM](#)

Co-Chair Wilson asked if the department had authority. She suggested it might simplify the process by not having to make additional requests to the legislature. Mr. Rabung responded that there were several unknown factors about potential volume. The division had staff in place that already did related work and would be involved in developing a new permit. He suggested that if there was an increase in the volume of applications, the timeframe would

be longer for processing. He did not anticipate adding any staff.

Representative Carpenter asked how many employees were in place dealing with the permitting process. Mr. Rabung replied that there were 3 year-round employees. He also noted that they handled other permits as well.

Representative Carpenter mentioned mission creep which caused him concern. He thought to say that it would not cost the state anything fiscally when the permits took 6 months to 1 year to complete was unreasonable. Co-Chair Wilson agreed. She directed Mr. Rabung to address FN1 (copy on file).

Mr. Rabung spoke to FN1 [OMB 471]. He indicated that the note was from the Commercial Fisheries Entry Commission (CFEC). A Commercial Fisheries Entry Commission permit was required for anyone to participate commercially in the existing fisheries. He reported there would not be any new permits other than a cost recovery fishery for a shellfish enhancement project. It would require a special harvest area entry permit and was limited to one per project. There was a one-page application. He did not anticipate any significant additional work.

Co-Chair Wilson thought additional information was needed before calling for amendments. She would bring up the bill later in the week when the sponsor of the bill was available.

HB 41 was HEARD and HELD in committee for further consideration.

#hb106

HOUSE BILL NO. 106

"An Act relating to school bond debt reimbursement."

[2:14:04 PM](#)

REPRESENTATIVE TAMMIE WILSON, BILL SPONSOR, invited testifiers to the table. Her intent was to discuss a change from how the program operated historically to make things more efficient and effective for school districts.

HEIDI TESHNER, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, OFFICE OF MANAGEMENT AND BUDGET, had Elwin Blackwell and Tim Mearig with her to provide as much information as possible about the debt reimbursement program. Mr. Blackwell would start off by providing a history of the program.

[2:15:26 PM](#)

ELWIN BLACKWELL, SCHOOL FINANCE MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, explained that the program dated back to the early '70s when it was first enacted. In the early days of the program the state was paying 100 percent in a reimbursement back to municipalities. It was being done on a 2-year lagging basis. The municipality would make the payment and 2 years later the state would reimburse their payment. In the mid '70s the state changed the statute providing less than 100 percent reimbursement. The percentage of reimbursement decreased to 90 percent and remained on a 2-year lagging basis. In the late '70s there was a cash reimbursement portion of the program in which municipalities could appropriate money for a project rather than issuing debt. Municipalities could pay out of their current resources and be reimbursed for their expenditures by the state on a 2-year lagging basis. The cash reimbursement portion of the program was shut down in the late '80s.

Mr. Blackwell continued that in the early '90s the program went to a 70 percent reimbursement, and the legislature started putting some parameters on how much principle the department could approve. Municipalities would issue projects to the state, and once the principle threshold was reached, the state would not accept any other projects. The money was divided based on the enrollment sizes of a municipality. The state decided to place a cap on the amount of reimbursement. In 1983, the state shifted to a current year reimbursement.

He reported that the state remained at 70 percent reimbursement, and at different times the legislature would open up the statute incorporating a new section with new limits. Changes occurred 3 or 4 times. He reported that in 1999, the program was opened up and there was a slight change. Prior to the change, a school would have to qualify for space in order to receive reimbursement. For example, if a municipality was adding additional space to its school

facilities, it had to show it had an unhoused student population to qualify for the need for additional space. For schools that did not qualify but wanted to develop additional space, the state would help participate on a 60 percent basis. The program stayed in place but had different amendments including different sunsets.

[2:19:47 PM](#)

Co-Chair Wilson asked Mr. Blackwell to define "unhoused." She also asked why the state agreed to the 60-40 ratio if a district could not demonstrate the need for additional space. Mr. Blackwell responded that the "unhoused" question had to do with the state's space guidelines. He expounded that the size of a state school was determined by its student population. If a student population was greater than the size of a school, students were considered "unhoused." A school would qualify for additional square footage to provide adequate space based on the state's space guidelines.

Mr. Blackwell recalled some schools that wanted to do remodeling also wanted to add more space. The legislature approved a lower split of 60/40 for schools without unhoused students.

Vice-Chair Johnston thought the 60/40 ratio implementation had to do with projected overcrowding. She asked if she was correct. Mr. Blackwell responded in the negative. If a municipality could not show that they would have an unhoused student population but wanted more space, they would qualify for the 60/40 reimbursement ration. It allowed municipalities to add more space than they needed.

Co-Chair Wilson commented, "I am pretty sure we did it to ourselves."

Representative Knopp recalled about 5 or 6 years ago the department set new standards for square footage per student driving up construction costs. He asked if the department could comment.

[2:23:04 PM](#)

TIM MEARIG, FACILITIES MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, relayed that the space allocation guidelines had not been revised since 2002. He was not

familiar with any change occurring within the timeframe the representative referenced. He was happy to discuss space guidelines - the legislature's primary way of allocating resources for school projects and limiting the resource allocations to where they were needed. There were significant regulations and statutory language around the topic.

Representative Knopp thought the timeframe might have been longer. He queried the criteria for a new construction project per square foot per student. Mr. Mearig relayed that the state had 3 different measures. He indicated that the square foot formula equated to approximately 165 square feet per student. The state had one square footage for elementary students (Kindergarten through 6th grade) of 124 square feet. The measures were spelled out in the state's regulations. He continued that each had a base student allocation with a supplemental allocation that helped to account for things required by code like circulation elements and mechanical spaces. The way the space standards were applied made a difference. He mentioned long-term storage needs in remote locations with limited barge service. Generally, the system was robust and had been looked upon with favor. Some constituent groups had recommended a review of the space guidelines.

Representative Tilton asked about the changes made in 1999 regarding qualifications for space for unhoused students and the 60/40 ratio. She asked what percentage applied to schools that did qualify for space for the unhoused students. Mr. Blackwell replied that if a school qualified for additional space, the department would participate at 70 percent reimbursement with the municipality.

Representative LeBon had been on the school board at a time when the municipality renovated the Hutchinson Career Center into a traditional stand-alone high school in 1998. He recalled that the discussion revolved around expanding the foot print of the building. The request the school district made was to add a gymnasium. He thought it was a good reason to ask for a waiver and expand a foot print. Co-Chair Wilson interjected wondering whether the project would fall under the 70/30 guidelines.

[2:27:38 PM](#)

Mr. Mearig responded that Representative LeBon's example was appropriate. He referenced the Hutchinson Career Center, a preexisting building, and the desire to repurpose the space. There was a significant amount of space that was not anticipated. Similar projects led the legislature to be flexible with its limitations. He mentioned an area in statute that defined 4 standards that had to be met in order for a project to qualify at a higher percentage.

Co-Chair Wilson mentioned Ryan Middle School and indicated that the project was essentially made into a 70/30 split with the help of a grant from the legislature.

Representative Tilton spoke about eligibility for reimbursement versus state aide provided. She noted it went from 100 percent from 1991 through 2016 down to 80 percent in 2017 and back up to 100 percent. She wondered what happened in 2017.

[2:30:18 PM](#)

Co-Chair Wilson guided the committee to start in 1999 moving up to 2017 first before addressing Representative Tilton's question.

Mr. Blackwell picked up where he had left off in 1999. The state had limits on the amount of principle it could approve for reimbursement. In 2006, the program added 2 sections that included 60 percent and 70 percent reimbursements under the same kind of criteria. At the time, there were no limits on the amount of principle the department could approve. Originally, it was scheduled to sunset in 2008. However, the legislature extended the sunset date to 2010. In 2010, the sunset was removed altogether leaving the program open to whatever projects the municipalities could get the voters to approve, and they began to grow substantially.

Mr. Blackwell continued that in 2014 the legislature was looking to sunset the 60 percent portion in statute and add a new section making the percentage 50 percent. In 2015, SB 64 [Legislation regarding school bond debt reimbursement] passed repealing 50 percent and shut down the program until July 1, 2020. For a little over 5 years the program would be shut down. He furthered that when the program came back online, sections were added that gave qualifying municipalities a 50 percent reimbursement, and

those that did not qualify received 40 percent. Looking ahead, when the program reopened, the state would decrease the reimbursement by 20 percent for municipalities falling under either category.

Mr. Blackwell returned to Representative Tilton's question about why the state dropped in 2017. He explained that 2017 was the year that Governor Walker vetoed 25 percent of the debt reimbursement program. He further explained that the reason it did not show as 75 percent and only 79 percent, was that when districts provided their figures of anticipated debt reimbursement for the following year, they included items such as anticipated bond sales. Sometimes the bonds were sold for less than they thought, the interest rates were better, or because of timing issues with the municipalities. Sometimes there was a small amount of money in the program left over due to changes. The department prorated the additional money the result of which left a 25 percent cut, but municipalities received 79 percent of what would have been due had the program not been cut at all.

[2:34:48 PM](#)

Representative Josephson asked if the legislature ever declared it would not cover the amounts that had already been promised.

Co-Chair Wilson relayed that it was Governor Walker who did not cover the promised amounts. She wondered if the bond reimbursement had not been paid at any other time in history. Mr. Blackwell responded that in the 80s, when the state had similarly challenging fiscal times, there were conscious reductions to the program. He recalled that Governor Cooper underfunded the program during his administration. He had not asked for 100 percent of what would have been needed. There were periods where the reimbursements were less than 100 percent. In those instances, they were conscious budget reductions. The program was underfunded, and the state prorated it out to the municipalities.

Co-Chair Wilson mentioned SB 64 that passed. It was her understanding that the bill had a taskforce to talk about options for streamlining designs. She asked about design restraints and other sideboards prior to 2015. She wondered

what had been done since the passage of SB 64 and the inception of the taskforce.

Ms. Teshner replied that it was actually HB 278 [An omnibus education bill passed in 2014] that initiated the prototypical design study by the department. The report came out in October 2015. She asked Mr. Mearig to elaborate.

Mr. Mearig added that the department had initiated a taskforce through a bill [SB 87 offered in 2017] that never passed. There had been some activities around the same themes with the current statutory committee put in place in 1993 by the legislature, the Bond Reimbursement and Grant Review Committee. He spoke of the committee being active every year which had worked to establish and improve the application process for school capital grants and bond debt reimbursement. The committee also reviewed the cost effectiveness of school construction and did some work in prototypical analysis. Over the prior 2 years the state had experienced a significant uptick in some of the areas including cost-effective school construction likely due to the introduction of SB 87. He was happy to answer any additional questions.

[2:39:42 PM](#)

Co-Chair Wilson asked if the department was looking at how the state had done business. She suggested cost savings such as standardizing certain equipment. She wonder about the department's efforts in revamping the program.

Mr. Mearig relayed that the department previously had a couple of initiatives. Throughout is tenure the department had an active process in implementing legislative parameters for controlling costs and getting the best value with state dollars. The department had the ability to review all applications and to adjust project requests in order to achieve cost-effective school construction. The department did an annual review of all applications that came before the department for major maintenance and school construction. The department had a qualified staff capable of reviewing systems and design. However, it did not have an active process in standardizing designs.

Representative Josephson asked how other jurisdictions handled facilities management and construction. Mr. Mearig

had been with the National Council of School Facilities. His membership had exposed him to the practices being used in other parts of the nation. He would be happy to provide information regarding other states' processes. The State of Washington had a state level contribution to school construction. The majority of the funding for schools in Washington came through county-level government and bonds passed in support of schools at the county-level.

Mr. Mearig continued that school districts in Washington had their connection with those counties and autonomy and had responsibility for schools within each district. Each of them, much like in the State of Alaska, had autonomy to operate and make decisions for their school districts. The state had some standards in Washington that they had implemented. They had developed a high-performance school design criteria. The state had studied Washington's design model. In 1994, the State of Washington had been invited to help the Bond Reimbursement and Review Committee establish and application and statewide need basis. Alaska had partnered with Washington over the years.

[2:44:57 PM](#)

Representative Tilton wondered what type of criteria was applied in districts losing or gaining population. Mr. Mearig answered that the state required all applicants wanting to add space to provide the department population projections. The department allowed for those projects that needed space additions to perform a 5-year post-occupancy projection. The State of Alaska was very aware when the information was not being provided. There could be growth or decline in a district that the department was not aware of because of a district not recently participating in the annual cycle of submitting grant applications to the department. The department had various tools to look at the demographics around the state.

Representative Carpenter wanted to understand the difference between qualifying and non-qualifying ratios under SB 64. He wondered if it had to do with the unhoused student population criteria from earlier in the discussion. He asked for a definition for qualified and unqualified. Mr. Blackwell responded that the representative was correct. It would be based on whether a person qualified for the space. It would determine whether the ratio would

be 40 percent or 50 percent - once the program reopened again.

Representative Carpenter asked if there were figures regarding the status of unqualified or qualified. He wondered about the preponderance of need - unqualified or qualified.

Co-Chair Wilson asked if the committee should be referring to the report by the Department of Education and Early Development.

Mr. Blackwell would have to look at how many projects were splitting out at 60 percent and how many were splitting out at 70 percent currently. He pointed to a handout in member's packets showing estimated state aid with October 15th at the top of the page.

Ms. Teshner asked if Co-Chair Wilson had the handout.

[2:49:28 PM](#)

AT EASE

[2:49:54 PM](#)

RECONVENED

Co-Chair Wilson indicated that the information would be posted on basis. She asked Mr. Blackwell to answer Representative Carpenter's question.

Mr. Blackwell reported that about 75 percent of the open reimbursements were at 70 percent and about 25 percent were at 60 percent.

Ms. Teshner added that there was one district that had an 80 percent reimbursement and one district had a 90 percent reimbursement under the old percentages. However, the majority of them were under 70 percent.

Co-Chair Wilson relayed that the only change reflected in HB 106 was to extend the moratorium to 2025. She hoped the department would provide additional information about whether it supported the legislation. She wondered if new sideboards should be added. She referred to a report over 100 pages that provided additional information. She conveyed that the bill had a zero fiscal note.

Vice-Chair Johnston MOVED to report HB 106 out of Committee with individual recommendations and the accompanying fiscal note.

Representative Josephson OBJECTED for discussion. He thought the bill made sense based on the current fiscal challenges. He noted speeches made on the House floor in the current day about new revenue. He advocated new revenues. He thought a 10-year moratorium was a long duration but thought HB 106 was a good bill.

Vice-Chair Johnston thought it was important for policy makers to have time to adequately review its policies.

Representative Josephson WITHDREW his OBJECTION.

There being NO OBJECTION, it was so ordered.

HB 106 was REPORTED out of committee with a "do pass" recommendation and with one new zero fiscal note by the Department of Education and Early Development.

Co-Chair Wilson reviewed the agenda for the following day.

#

ADJORNMENT

2:55:04 PM

The meeting was adjourned at 2:55 p.m.