

HOUSE FINANCE COMMITTEE
March 7, 2022
1:35 p.m.

1:35:33 PM

CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen (via teleconference)
Representative Adam Wool

MEMBERS ABSENT

Representative Steve Thompson

ALSO PRESENT

Representative Kevin McCabe, Sponsor; Representative Chris Tuck, Sponsor; Alexei Painter, Director, Legislative Finance Division; Representative Andi Story, Sponsor; Ariel Svetlik, Staff, Representative Andi Story, Sponsor.

PRESENT VIA TELECONFERENCE

Jeffery Schmitz, Director, Division of Motor Vehicles, Department of Administration; Dayna Jean DeFeo, PhD, Director, Center for Alaska Education Policy Research (CAEPR) and Institute of Social and Economic Research (ISER), University of Alaska; Dr. Diane Hirshberg, Director, Professor of Education Policy, Institute of Social and Economic Research (ISER), University of Alaska Anchorage, Anchorage; Andy DeGraw, Chief Operating Officer,

Fairbanks North Star Borough; Scott MacManus,
Superintendent, Alaska Gateway School District, Tok.

SUMMARY

HB 166 ONE LICENSE PLATE PER VEHICLE

CSHB 166(FIN) was REPORTED out of committee with three "do pass" recommendations, one "do not pass" recommendation, and three "no recommendation" recommendations and with one new fiscal impact note by the Department of Administration.

HB 177 REVISED PROGRAM: APPROPRIATIONS

CSHB 177(STA) was REPORTED out of committee with four "do pass" recommendations and with four "no recommendation" recommendations and with one new zero impact note by the Office of the Governor.

HB 272 INCREASE BASE STUDENT ALLOCATION

HB 272 was HEARD and HELD in committee for further consideration.

HB 273 INCREASE BASE STUDENT ALLOC. INFLATION

HB 272 was SCHEDULED but not HEARD.

Co-Chair Merrick reviewed the agenda for the meeting. The committee would hold second hearings for HB 166 and HB 177.

#hb166

HOUSE BILL NO. 166

"An Act relating to the issuance of vehicle registration plates."

[1:36:27 PM](#)

Co-Chair Merrick indicated there was one amendment.

Representative Josephson had heard from the representative that the Anchorage Police Department did not support the bill. He asked if it was true.

REPRESENTATIVE KEVIN MCCABE, SPONSOR, responded in the affirmative.

[1:37:21 PM](#)

Representative Johnson MOVED to ADOPT Amendment 1 ((copy on file)):

Page 1, line 1 following "plates"
Insert ";and providing for an effective date"

Page 4, following line 30:
Insert a new bill section to read:
"*Sec. 11. This Act takes effect immediately under AS 01.10.070(c)."

Co-Chair Merrick OBJECTED for discussion.

Representative Johnson reviewed the amendment. The bill did not have an effective date. The amendment corrects that.

Co-Chair Merrick WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment 1 was ADOPTED.

Representative Wool asked if there had been any discussion about a sunset provision.

Representative McCabe replied that it was a good thought. He had not thought about it. He commented that anyone with only 1 license plate would have to get another one.

Representative Wool was under the impression at one point vehicles only had to have one plate.

[1:39:33 PM](#)

JEFFERY SCHMITZ, DIRECTOR, DIVISION OF MOTOR VEHICLES, DEPARTMENT OF ADMINISTRATION (via teleconference), was not aware that there was a time that Alaska only required one plate.

Representative Wool suggested he could be mistaken.

Representative McCabe indicated the Department of Public Safety (DPS) was in the building if there was a need for a response urgently.

1:40:35 PM

AT EASE

1:41:28 PM

RECONVENED

Representative Josephson stated that he would object to the passage of the bill.

Vice-Chair Ortiz MOVED to report CSHB 166(FIN) out of Committee with individual recommendations and the accompanying fiscal note.

Representative Josephson OBJECTED.

Representative Josephson indicated his hometown police department did not support the bill and felt the trooper who testified was lukewarm about the bill. He knew when cars were coming at him, he could identify the state they were from. He thought the second plate was of assistance to the state.

A roll call vote was taken on the motion.

IN FAVOR: LeBon, Edgmon, Johnson, Ortiz, Merrick

OPPOSED: Josephson, Wool

The MOTION PASSED (5/2).

CSHB 166(FIN) was REPORTED out of committee with three "do pass" recommendations, one "do not pass" recommendation, and three "no recommendation" recommendations and with one new fiscal impact note by the Department of Administration.

1:43:41 PM

At EASE

1:45:13 PM

RECONVENED

#hb177

HOUSE BILL NO. 177

"An Act relating to an increase of an appropriation due to additional federal or other program receipts; and providing for an effective date."

[1:45:34 PM](#)

Co-Chair Merrick indicated no amendments had been submitted for HB 177.

Representative Josephson was disinclined to support the bill. He explained that the bill could be viewed differently depending on whether the governor was liked or not. He felt that the bill swung the pendulum, and would result in the pendulum being swung the other direction.

REPRESENTATIVE CHRIS TUCK, SPONSOR, appreciated the topic. He reported that until Medicaid expansion, there were underfunded RPLs. He stated that the intention of the bill was to strike a balance in dealing with Legislative Budget and Audit. He remarked that the governor could withdraw an RPL if it was not approved by the committee. He felt that the "legislature was taken advantage of" during the pandemic, because the money needed quick appropriation.

[1:49:43 PM](#)

Co-Chair Merrick indicated Representative Rasmussen joined the meeting via teleconference.

Vice-Chair Ortiz asked Representative Tuck to expand on the change of RPLs if the bill were to pass.

Representative Tuck responded that currently it was a take-it or leave-it situation within 45 days, therefore it would provide the legislature time to reconvene or negotiate with the governor in a more amenable way. It would also break up the RPLs in smaller chunks to strike a balance.

Vice-Chair Ortiz asked about how the bill changes the power of the Legislative Budget and Audit Committee.

Representative Tuck responded, "Not a whole lot." He expanded that it slowed the process down for the larger funding increments.

Representative Josephson noted that the legislature's power of appropriation must be universal in the country. He asked how other legislatures handle similar situations.

Representative Tuck did not know, as he had not discussed it with other states.

Co-Chair Merrick invited Mr. Painter to comment.

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, relayed that some states did not require a separate appropriation. Other states, in dealing with federal funds, had to meet certain requirements.

[1:55:29 PM](#)

Representative Edgmon commended the bill sponsor. He thought it was necessary. He shared concerns with Representative Josephson about the pendulum swinging too far. He would likely support the bill. He had been very much involved with the appropriations in 202 which he felt had been very one-sided.

Representative Tuck indicated RPL was simply a code. He thought it should be called Revised Program Receipts.

Representative Edgmon did not like the term RPL.

[1:58:24 PM](#)

Co-Chair Merrick OPENED public testimony.

Co-Chair Merrick CLOSED public testimony.

Co-Chair Foster MOVED to report CSHB 177(STA) out of Committee with individual recommendations and the accompanying fiscal note.

Representative Johnson OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Ortiz, Wool, Edgmon, Josephson, LeBon, Merrick, Foster

OPPOSED: Johnson

The MOTION PASSED (7/1).

CSHB 177(STA) was REPORTED out of committee with four "do pass" recommendations and with four "no recommendation"

recommendations and with one new zero impact note by the Office of the Governor.

[2:00:34 PM](#)

AT EASE

[2:04:49 PM](#)

RECONVENED

#hb272

HOUSE BILL NO. 272

"An Act relating to education; increasing the base student allocation; and providing for an effective date."

[2:05:05 PM](#)

REPRESENTATIVE ANDI STORY, SPONSOR, reported that the base student allocation (BSA) had been flat since FY 17, which had put downward pressure on the state's school districts. She introduced the Power Point Presentation: "Base Allocation for Student Excellence." Representative Story began with slide 2: "Bound by our Constitution":

Article 7 - Health, Education and Welfare

§ 1. Public Education

"The legislature shall by general law establish and maintain a system of public schools open to all children of the State..."

Representative Story turned to slide 3, "Basic Economic Investment":

- As Alaska retains and attracts families, businesses, prospective employers, potential residents look for good schools.
- Like other infrastructure, lack of support leads to reduced capacity.
- Alaska's aging workforce requires a stream of graduates

Representative Story continued to slide 4, "Sustains Basic Student Services":

- Two-year bump in per pupil funding to help offset inflation.
- Immediate partial relief for uncontrollable rising fixed costs.
- Frees funds to sustain direct student service.
- Provides two-year predictability and mitigates lay-off cycles

[2:10:35 PM](#)

Representative Story advanced to slide 5, "Inflation is Failing Our Students":

- Over the last decade overall BSA funding has been adjusted by only a quarter of one percent per year.
- In that period, the inflation-adjusted value of BSA funding dropped nearly ten percent, from \$6,344 to \$5,695 in FY21 dollars.

Representative Johnson was unclear about slide 5. She asked about the adjustment.

Representative Story deferred to Mr. Painter.

Mr. Painter responded that the amount reflected the Anchorage CPI.

Representative Wool asked for an explanation of the bars on the slide.

Mr. Painter indicated the red line represented the BSA.

Representative Wool He asked if any graph would reflect the same point as the red line.

Mr. Painter indicated the legislature could set the BSA through statute. He thought it was important to focus on the rate of inflation to costs, because the BSA had not kept up with inflation.

[2:14:04 PM](#)

Representative Story continued to slide 6, "Necessary and Fair":

- The BSA has been flat funded for six years, since FY17.

- Alaska Inflation has grown 8 percent in that period, and almost 15 percent in the last ten years.
- FY23 adjustment of \$223 (\$6,153 per pupil) - Less than a 4 percent increase.
- FY24 adjustment of \$55 (\$6,208 per pupil) - Less than a 1 percent increase

Representative LeBon asked about the fixed cost category. He suggested she use the Juneau School District as an example.

Representative Story had a slide later in the presentation that spoke to his question.

[2:16:20 PM](#)

Representative Wool thanked the sponsor for bringing the bill forward. He asked about her decisions regarding the step up in increases. He wondered what number she was using for inflation. He thought the increase would be 5 percent over 7 years.

Representative Story would be discussing how inflation was calculated. She looked out FY 20. Districts had been receiving \$30 million outside of the formula. She had been using Callan's formula. She shifted to LFD, because LFD thought it was more indicative of Alaska's economy.

Representative Johnson asked if the sponsor had looked at other options like pooling teacher health care.

Representative Story did not consider pooling healthcare costs. She stated that there were three cost drivers for districts, healthcare being one of them. There had been a proposal to pool healthcare, but at the time with all of the different components the state did not go forward with the idea.

[2:20:26 PM](#)

Representative Story advanced to slide 7, "Alaska Costs are Comparable to the National Average":

- According to the Institute of Social and Economic Research, when unique expenses of cost-of-living and remote geography are factored in, Alaska's average

annual per pupil costs are about \$12,000 per student according to the last US Census (2016)*.

- This is slightly below the national average.

Representative Edgmon appreciated the bill. He noted that when comparing Alaska to other states it was not what was spent, rather it was spending from savings. He stressed that there was a difference from what was spent out of the state coffers rather than from revenue. He had posed the question about what Alaska was getting for the money. He supported a BSA increase, but thought the bill would meet resistance because things were declining even though spending was increasing.

Representative Story would address Representative Edgmon's question later in the presentation. She continued to address slide 8.

[2:25:09 PM](#)

Representative Story moved to slide 9, "What Drives Costs":

- 58 schools have less than 25 students.
- Hootch v. Alaska (1975) affirmed that boarding schools are inadequate proxies for local schools.
- Highest healthcare costs in the US.
- Geographic costs
- The price of goods is higher in remote places.
- Fuel and Electricity
- Costs more in remote places.
- Schools don't benefit from the Power Cost Equalization (PCE) program.
- Rural districts must offer competitive pay to attract educators.

Representative Edgmon thought more could be added to the list. He also spoke about the large issue of disparity regarding energy costs and schools, especially those using diesel fuel.

Representative Johnson noted that administrative costs were the other items.

Representative Story deferred to ISER.

Representative Johnson felt that people thought it drove up the price because the schools negotiated the price of energy.

Representative Story discussed the pie chart on slide 10. She indicated that 75 percent of expenses were spent on instruction. She was aware the percentages varied from district-to-district.

Representative Story continued to address slide 10, "Funding Goes to Kids":

- Districts dedicate nearly 75 percent of funding to direct student instruction, student services, and student activities.
- 15 percent is consumed by maintenance and utilities.
- Less than 15 percent is spent on administration and management.

[2:33:45 PM](#)

AT EASE

[2:34:20 PM](#)

RECONVENED

Representative Josephson had a number of questions. She wondered if there was any documentation that school funding was connected with student outcomes. In the ISER study, it was recommended that Alaska take a look at the moving the needle for student improvement. It had been well documented that the size of the classroom was an important component of student improvement.

Representative Johnson asked how the state could ensure accountability. She noted hearing about problems in the classroom and the time lost with COVID. She argued that accountability was missing from the picture.

Representative Story noted that school board members were to target dollars to specific programs to help with gaps. She advised remembering that people were working on improvement. She was aware that everyone was looking at costs wanted to see money go to kids in the classroom.

Representative Johnson wondered if the BSA increase would be a stand-alone item.

Representative Story was asking for 4 percent, which was nominal, but left room in the budget for things like reading.

[2:40:59 PM](#)

Representative Wool was trying to understand the inflation number. He was confused of the time period.

Representative Story believe the 15 percent came from the LFD chart.

Representative Josephson wondered what would occur if HB 273 was unlikely to pass, which was the inflationary adjustment bill.

Representative Story replied that if the legislature would pass inflation-proofing which was why she offered two separate bills. She thought HB 272 took care of the immediate needs whereas HB 273 addressed expanded needs.

[2:45:55 PM](#)

ARIEL SVETLIK, STAFF, REPRESENTATIVE ANDI STORY, would go through the sectional analysis. She read the sectional analysis:

Section 1: Amends AS 14.17.470, increasing the Student Base Allocation from \$5930 by \$223 to \$6,153.

Section 2: Amends AS 14.17.470, increasing the Student Base Allocation from \$6,153 by \$55 to \$6,208.

Section 3: Sets an effective date for Section 1 of July 1, 2022.

Section 4: Sets an effective date for Section 2 of July 1, 2023.

Ms. Svetlik explained the fiscal notes.

[2:48:28 PM](#)

DAYNA JEAN DEFEO, PHD, DIRECTOR, CENTER FOR ALASKA EDUCATION POLICY RESEARCH (CAEPR) AND INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH (ISER), UNIVERSITY OF ALASKA (via teleconference), was joined by two of her colleagues //.

She was prepared to talk about three aspects of cost drivers to education funding. Alaska remained in 6th place because the national economy was growing faster than Alaska's.

[2:50:43 PM](#)

Dr. DeFeo posed the question whether Alaska really paid more for education compared to other states. She made two adjustments to consider the buying power of Alaska dollars.

Dr. DeFeo continued that Alaska had many small schools and Alaska was responsible for providing an education. The second unique cost was healthcare which puts downward pressure on school districts. Fuel costs different amounts in different places within the state, based on whether that community had road and water access. In addition, electricity costs in rural Alaska had to be considered in funding.

Dr. DeFeo continued that she wanted to look at how much was being spent and whether that spending reflected better outcomes. She was available for questions.

[2:55:44 PM](#)

Representative Edgmon asked about an education adequacy study. He asked for her to comment further.

Dr. DeFeo responded that the adequacy study was done in 2017, to determine investment of resources for public education based on best outcome data.

Representative Edgmon asked if it was a byproduct of the Moore case.

Dr. DeFeo deferred to Dr. Hirshberg.

[2:57:07 PM](#)

DR. DIANE HIRSHBERG, DIRECTOR, PROFESSOR OF EDUCATION POLICY, INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH (ISER), UNIVERSITY OF ALASKA ANCHORAGE, ANCHORAGE (via teleconference), stated that she would provide information at a later date as to whether the Moore case addressed the study.

Vice-Chair Ortiz queried the benefit of health care pooling.

Dr. DeFeo responded that she had not looked at it directly. She stated that insurance between districts was variable due to various factors.

[3:00:48 PM](#)

Representative Rasmussen queried the specific measure of success, and asked for some defined student outcomes.

Dr. DeFeo thought the representative was asking a tricky question. She noted another member asking about student outcomes. She argued that investments in education had delayed outcomes. One of the outcomes she hoped for was for better teachers coming to the state

Representative Rasmussen thought Alaska wanted to attract the best teachers to the state. She spoke of a personal experience regarding her son and his education. She advocated for more specific goals in mind. She did not think it benefited the state to put more money into education without seeing outcomes.

Dr. DeFeo thought it was most important to spend money wisely to improve improvement measures.

[3:05:29 PM](#)

Representative LeBon commented that accountability was needed and started at the local school board level. Accountability took parental involvement as well. The curriculum was also important and engaging. He asked if there was competition among districts for talent. He asked if Alaska was competitive.

Dr. DeFeo responded that the state competed for teachers. Many rural districts attracted teachers from out of state, but it was not just getting a teacher into a district but keeping them in a district.

Representative LeBon commented that he recalled his own participation in a labor agreement. He stressed that 80 percent of school district costs were "people related", and there was always upward pressure to keep the salaries competitive.

[3:10:30 PM](#)

Representative Wool asked if Dr. DeFeo had a copy of the chart.

Dr. DeFeo stated that she had created that chart.

Representative Wool wondered where Alaska's teacher's salaries when it came to inflation.

Dr. DeFeo responded that thought she had a chart, and Alaska fell at the rank of 23 in the country.

Vice-Chair Ortiz asked if retirement benefits had been considered at the time.

Dr. DeFeo responded she would love to do the analysis on the retirement benefits.

Representative Edgmon thought it would be interesting to see the movement over the years as a result of removing defined benefits.

Dr. DeFeo corrected herself that the state ranked slightly lower after the first adjustment. She agreed that Alaska made a complete shift from defined benefits, and would love to do the analysis on the impact of removing defined benefits.

[3:16:32 PM](#)

Representative Wool asked about more information related to the state's ranking.

Dr. DeFeo stressed that Anchorage was considered the base, and compared to as a source of cost of living.

Representative Wool surmised that the numerical average was compared to the rest of the country.

Dr. DeFeo agreed.

[3:19:00 PM](#)

ANDY DEGRAW, CHIEF OPERATING OFFICER, FAIRBANKS NORTH STAR BOROUGH (via teleconference), stated that there was a

current deficit of \$19 million in the district. He had heard remarks that districts had their hand out and just wanted more money. He shared that the district in Fairbanks was doing its part to hold the line and was running out of options to save money. He stressed class reductions and other things that would impact students in a negative way. He urged support for the bill.

[3:27:27 PM](#)

Representative Wool asked how much relief the BSA proposed in the bill would provide.

Mr. DeGraw replied that in FY 23 the bill would provide Fairbanks an additional \$5.3 million. He believed Representative Johnson and others had some concerns with attaching increased revenues to accountability. He shared that any increase would go straight to instructional staff. The district was currently supporting regular teachers on Coronavirus Aid, Relief, and Economic Security (CARES) Act funds. Any additional revenue would go straight to instructional staff.

Representative Wool asked whether it was due to certain parameters on funding uses of the CARES Act funding.

[3:31:13 PM](#)

Mr. DeGraw replied that Fairbanks had received \$33 million in federal pandemic relief funds, and there was an option to request reimbursement monthly or quarterly. The district had requested funds quarterly and there appeared to be a significant lag in receiving the funds. He relayed that COVID burdens and needs had far exceeded the funding received.

Representative LeBon asked what percentage was built into the schedule.

Mr. DeGraw asked for clarification on the question.

Representative LeBon believed the district must have built some additional money into the steps and columns.

Mr. DeGraw answered the district was currently in negotiations.

Representative LeBon asked if the BSA increase would impact the negotiation.

Mr. DeGraw replied that the dollar amount he had articulated that the \$5 million increase the bill would bring compared to the \$19 million deficit likely spoke for itself. He stressed the great teachers in the district.

Representative LeBon referenced the local contribution to teachers. He asked if the district was competitive with Juneau, Kenai, Mat-Su, and Anchorage.

[3:38:02 PM](#)

Mr. DeGraw could follow up with the information.

Representative Josephson asked if the deficit was net of the COVID dollars.

Mr. DeGraw replied that the deficit was net of the COVID dollars. He clarified the impact of the bill; it would give Fairbanks an additional \$5.3 million in FY 23.

Representative Josephson asked if the bill was undershooting the mark. He stated the state treasury was more robust than in FY 22, but there was still a structural deficit.

Mr. DeGraw responded that he would not complain about any additional dollars to the school district's bottom line. He relayed it did not completely eliminate the shortfall, but it would be a big help to the district.

Representative Josephson disagreed.

[3:41:56 PM](#)

AT EASE

[3:42:27 PM](#)

RECONVENED

SCOTT MACMANUS, SUPERINTENDENT, ALASKA GATEWAY SCHOOL DISTRICT, TOK (via teleconference), provided a PowerPoint presentation titled "The Cost of Inflation: Alaska Gateway School District FY17 to FY21." He provided information about the school district. The district was a Regional Educational Attendance Area (REAA) and did not have ability

to raise funds for its schools beyond the BSA and legislative appropriation.

[3:46:25 PM](#)

Mr. MacManus discussed maintenance costs on slide 2:

- The above fixed costs at the time of the last BSA Increase were \$4,120,293.00 (FY17) and increased \$797,727.00 by FY21 or 19 percent
- With CPI Index of 7 percent in FY22, these costs will skyrocket further.

Mr. MacManus addressed heat and power electricity costs on slide 3. He moved to insurance costs on slide 6, and health insurance on slide 7. He remarked on the teacher salaries on slide 8, and stressed that the district had done a lot of work to try to address cost savings. The district would actively continue to seek solutions. He was concerned about a potential spike in heating cost due to the increase in oil prices.

[3:52:46 PM](#)

Representative Wool asked how many problems would go away for the district if the bill passed.

Mr. MacManus answered that \$250,000 of the district's problems would go away.

Representative Wool observed that it was about one-third of the amount.

HB 272 was HEARD and HELD in committee for further consideration.

HB 273 was was SCHEDULED but not HEARD.

Co-Chair Merrick noted that amendments to HB 158 were due to her at 5:00 p.m. She reviewed the schedule for the following day.

#

ADJOURNMENT

[3:54:50 PM](#)

The meeting was adjourned at 3:54 p.m.