

HOUSE FINANCE COMMITTEE
March 17, 2022
9:06 a.m.

9:06:23 AM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 9:06 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Dan Ortiz, Vice-Chair

ALSO PRESENT

Sean Clifton, Policy and Program Specialist, Division of Oil and Gas, Department of Natural Resources; Representative Andi Story, Sponsor; Alexei Painter, Director, Legislative Finance Division; Ariel Svetlik, Staff, Representative Andi Story.

PRESENT VIA TELECONFERENCE

David Lepain, Director, Division of Geological & Geophysical Surveys, Department of Natural Resources; Chris Reitan, Superintendent Craig City School District; Jim Anderson, Chief Financial Officer, Anchorage School District; Heidi Teshner, Director, Finance and Support Services, Department of Education and Early Development.

SUMMARY

HB 135 GEOTHERMAL RESOURCES

HB 135 was HEARD and HELD in committee for further consideration.

HB 273 INCREASE BASE STUDENT ALLOC. INFLATION

HB 273 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#hb135

HOUSE BILL NO. 135

"An Act relating to geothermal resources; relating to the definition of 'geothermal resources'; and providing for an effective date."

[9:07:26 AM](#)

Co-Chair Foster indicated the committee had heard a portion of the presentation on HB 135 in the prior week. The presenter would continue with his presentation.

[9:07:59 AM](#)

SEAN CLIFTON, POLICY AND PROGRAM SPECIALIST, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, continued with his PowerPoint presentation, "HB 135 Geothermal Resources: House Finance Committee," dated March 9, 2022 (copy on file). He wanted to clarify some items on slide 9 of the presentation. The slide read as follows:

New language added: A prospecting license or lease is not required under this section to explore for, develop, or use geothermal resources if the geothermal resource is intended for domestic, noncommercial, or small-scale industrial use.

- This explicitly excludes private geothermal users from a requirement to apply for a license or lease.

Mr. Clifton clarified that it was not that the department did not want to regulate small-scale users, but that the department aimed to address the commercial users so that it

could properly manage natural resources as the [state] constitution mandated. The department also hoped to reap some royalties to gain revenue for the state.

[9:09:29 AM](#)

Mr. Clifton moved to slide 10. The slide showed some examples of different styles of ground source heat projects for residential use. All of the styles on the slide could effectively heat small buildings with fairly low heat.

Representative Wool asked if the department was just considering basic heat pumps that use heat from the earth. He wondered if heat pumps were considered geothermal power.

Mr. Clifton explained that even though there were small-scale users that might be receiving heat from the earth through mechanisms like heat pumps, they would not be generating power through a turbine. There was no mechanism for the state to exact royalties in these situations, which is why the department was not trying to regular small-scale users. He clarified that there may be other regulations enacted from entities such as the Department of Environmental Conservation or the Department of Fish and Game, but the Division of Oil and Gas was not involved.

[9:12:55 AM](#)

Representative Wool brought up Chena Hot Springs in Fairbanks as an example of geothermal heat. Through the use of the hot water, there was a small and low temperature power generation. He wondered if it was considered an example of a commercial system.

Mr. Clifton replied that Chena Hot Springs was a good example of a power generating system that was using a more modern understanding of how geothermal systems could be utilized for power. However, Chena was not a state resource, and the Department of Natural Resources (DNR) could not regulate it. Also, Chena was not selling power which would not trigger the department to get involved.

[9:14:39 AM](#)

Mr. Clifton turned to slide 11 and indicated that the bill would eliminate the preferential rights division. The current statute granted preferential rights to a surface

owner to apply for a geothermal prospecting permit once notice was received of an existing application. He stated that this was potentially problematic. If a commercial developer wanted to build a multi-million-dollar power generating system and part of the application covered a surface owner's area, the statute as it was currently written could be interpreted to allow for the surface owner to invoke their preferential right, take the permit, and resell it back to the original applicant.

Mr. Clifton continued on slide 11. He thought preferential rights was a discouraging provision for applicants and wanted to avoid ambiguity in statute. He also reminded members there were existing provisions in statute that would protect surface owners. He indicated that if the preferred site for a project was on a surface owner's land, the developer would typically attempt to reach a private agreement with the owner. If an agreement could not be reached, another site would likely be selected. For example, private agreements were commonly sought after to negotiate cell phone tower sites. Most of the time private surface owners were open to reaching amicable agreements.

[9:18:37 AM](#)

Representative Josephson asked who owned the subsurface rights in Alaska. He mentioned ongoing disputes about natural gas operations in the states of Pennsylvania and New York.

Mr. Clifton replied that it depended on the title or the patent held by the owner of the land. In most cases in Alaska, private surface owners did not own the subsurface or the minerals. There were some exceptions that occurred before 1959, prior to Alaska's statehood, of homesteaders who possessed land titles that stated they owned the land wholly. A landowner should know who owned the title to the subsurface based on the title documentation.

[9:21:06 AM](#)

Representative Josephson recalled the Cold Bay methane case that he thought caused typically conservative individuals to become conservationists. It was a concerted and aggressive effort by the state to develop Cold Bay methane. He asked how his fears could be assuaged that this kind of circumstance could not arise from the bill.

Mr. Clifton was not intimately familiar with the issue Representative Josephson was referring to. However, there had been discussion that arose in public meetings the department held with respect to Susitna Valley licensing for gas development. The regulatory apparatus of the state sought to protect the state's resources and environment. There were multiple entities that worked to protect the state's interests in subsurface resources. He explained that when wells were drilled, the Alaska Oil and Gas Conservation Commission would analyze the safety of the well and would take note of any resources that may be impacted by the well. There were overlapping authorities and state agencies that were monitoring the environmental impacts.

[9:23:56 AM](#)

Representative LeBon recalled Mr. Clifton's earlier example of cell towers. He added that there may be zoning limitations for cell towers. There would be a more complicated legal arrangement involving the banks if the desired area for the cell tower was on a commercial property.

Mr. Clifton responded that he had a good point. The state had to honor municipal zoning laws that might involve more stringent requirements.

Representative LeBon added that if there was a bank loan on the property, the bank would have to be consulted as well.

[9:25:43 AM](#)

Mr. Clifton continued to address slide 11. In the case of the state not being able to reach an amenable agreement with a private owner, there was regulatory guidance in statute that dictated how a dispute would be addressed. He added that homestead landowners were not required to report the transfer of land. Public notice was part of the entire process and surface owners that might be affected were directly notified. The only exception was when a surface owner was unreachable, which has happened, but developers were required to prove that they had repeatedly tried to contact the surface owner.

Representative LeBon noted that title searches would likely have to be conducted as well.

[9:28:23 AM](#)

Representative Wool returned to the topic of Chena Hot Springs. He asked why the state did not own the subsurface rights to the springs.

Mr. Clifton responded that he was unsure of the ownership of the subsurface rights at Chena Hot Springs. However, he indicated that the state would need to own the subsurface in order for DNR to be triggered to become involved in an operation. If it was discovered that there was a large geothermal system that was shared by multiple subsurface owners, there would be a unitization process. He would cover this topic in more detail later in the presentation particularly regarding correlated rights.

[9:30:51 AM](#)

Mr. Clifton moved to slide 12 to address work commitments in Section 3 of the bill. The department wanted to change the prospecting permit in order to license and increase terms from 2 to 5 years. The change would provide a greater opportunity for success and ensured they were making progress. There would be a trigger that would transform the permit into a lease for long-term use.

[9:33:26 AM](#)

Mr. Clifton moved to Sections 7 and 8 on slide 13. He explained that these sections were added due to recommendations from the House Resources Committee. The sections would add two additional steps for public notice. When a proposal was received, a public notice would be issued as well as a call to ensure that there were no competing proposals. If there were competing proposals, the lease sale model would be utilized, which has been successful in the past. Next, a final best interest funding would be issued, which included another opportunity for public comment. Throughout the process, the department would seek input from cooperating agencies.

[9:34:54 AM](#)

Representative Josephson referred to the third section on slide 13 which stated that geothermal licenses and leases were not surface use authorizations. The slide also stated that licenses and leases only provided the exclusive right to explore for and develop the subsurface resources. He wondered how it was possible to "explore for and develop" if there was no surface use authorization.

Mr. Clifton responded that just because the department might issue a disposal for access to the subsurface, it did not mean that there was an explicit authorization for the use of the surface. There might be a variety of surface owners and competing interests at play. A subsurface authorization, particularly under an expiration license, could be half a million acres. Realistically, an expiration program would not touch every acre of the land. The plan would be to target specific areas. The department would review the plan and any competing interests and might issue an authorization that did not authorize the entire plan. A subsurface disposal did not guarantee access to the entire surface area. The state had very important competing surface interests.

Representative Josephson asked if the bill provided an opportunity that might not come to fruition.

Mr. Clifton responded that it could be interpreted in that way and he would not argue the point. He noted that part of the purpose of the subsurface disposals was to grant an exclusive right to prevent other entities from encroaching on an existing operation. It was in some ways still a property right. The department did not want inefficient or damaging development of the state's resources.

[9:38:40 AM](#)

Representative LeBon indicated that the final bullet on slide 13 also caught his attention. The bullet stated that surface use authorizations required public notice and direct notice to any affected surface owners. He referred to slide 11 and read from it as follows:

- If the Commissioner concurs, developer posts a bond to compensate landowner for any impacts and work progresses.

Representative LeBon shared his understanding that the slide suggested that property could be seized if the owner was not reachable. He had experience with not being able to find property owners to obtain permission. He asked if there was a scenario in which the commissioner could permit projects to take place on a private property owner's land.

Mr. Clifton indicated that the scenario could happen hypothetically, but it was unlikely. Typically, private property was a small amount of acreage, though he understood that some people owned large swaths of land. He explained that there would usually be opportunity to access subsurface resources without needing to interfere with an unreachable surface owner's land. The issue had come up in public testimony for the Susitna Valley exploration license. In this situation, agriculture would be affected and community members were concerned with the notion of a road being placed across their fields. The state would work to avoid damaging the surface of a land and would exhaust every alternative. He presumed there were other solutions and damaging private owners' properties would not be required.

Representative LeBon noted that there were large parcels of land that belong to the state for agricultural purposes. The state patent for agricultural land would not include this purpose. He wondered whether the agricultural patent would prevent commercial development on state land.

Mr. Clifton had not heard of a competing interest and assured him that the state had the resources to evaluate such a situation. The department would not move swiftly or recklessly.

[9:43:10 AM](#)

Mr. Clifton continued to address slide 13. The two new steps in the public notice process proposed by the House Resource Committee read as follows:

- NEW The exploration license is issued
- NEW The license is extended or converted to a lease

Mr. Clifton emphasized that there was ample opportunity for surface owners to become aware of a situation that might affect their land before surface authorizations were issued.

Mr. Clifton turned the presentation over to his co-presenter.

[9:44:29 AM](#)

DAVID LEPAIN, DIRECTOR, DIVISION OF GEOLOGICAL & GEOPHYSICAL SURVEYS, DEPARTMENT OF NATURAL RESOURCES (via teleconference), advanced to slide 14 addressing Section 12 of the bill. He read the slide:

AS 41.06.060(4) is amended to read: (4) "geothermal fluid" means liquids, brines, water, gases, or ~~and~~ steam naturally or artificially present in a geothermal system; "geothermal fluid" does not include oil, hydrocarbon gases, or other hydrocarbon substances

- Aligns with modernized definition for geothermal resources.
- Not limited by temperature because current technology enables development of cooler geothermal systems.
- Distinguishes geothermal fluids from hydrocarbon resources.

[9:45:53 AM](#)

Representative Carpenter asked if the definition included bodies of water that lay on the surface such as rivers, lakes, or the ocean.

Mr. Lepain deferred to Mr. Clifton.

Mr. Clifton responded that he did not think it included surface water bodies. If there were a case where a surface pool or hot spring was present, it likely would not be used to drive a power generating turbine. The pool would be noted, but the hottest source would be found through drilling and testing. This would produce hotter geothermal fluids from the heart of the resource to obtain the best resource rather than trying to capitalize on the surface pooling.

Representative Carpenter suggested that heat was not the only source of energy that may be valuable. He mentioned tidal energy as a potential geothermal fluid source that

could also be tapped and monetized. The state tapped wind, which he considered to be a fluid, and monetized the energy. He thought there was a difference between extracting oil from the ground and monetizing the oil and extracting heat from the ground and monetizing the heat. He wondered who would own the heat. He was struggling to see reasoning behind the differing approaches between fossil fuel extraction and royalties and naturally occurring resource extraction such as geothermal fluids.

Mr. Clifton confirmed Representative Carpenter was correct that air was a fluid. If it could be interpreted broadly, wind turbines could be brought into the conversation. However, he did not think the broad interpretation would hold weight in court nor would the interpretation be acceptable by DNR. He was unsure of how tidal generation turbines were permitted and could not speak to the example specifically.

[9:51:11 AM](#)

Mr. Lepain advanced to slide 15 which showed a new definition of geothermal resources in Sections 9 and 13 of the bill. He read from the slide:

"Geothermal resources" means the natural heat of the earth; the energy, in whatever form, below the surface of the earth present in, resulting from, or created by, or which may be extracted from, such natural heat; and all minerals in solution or other products obtained from naturally heated fluids, brines, associated gases, and steam, in whatever form, found below the surface of the earth; but excluding oil, hydrocarbon gases, or other hydrocarbon substances.

- Modern definition for geothermal resources.
- Not limited by temperature because current technology enables development of cooler geothermal systems.
- Ensures all the State's mineral estate resources are captured in definition.
- Same definition being applied to both DNR & AOGCC statutes.

Mr. Lepain elaborated that this specifically pertained to heated fluid in the subsurface.

[9:52:53 AM](#)

Representative Carpenter thought the state was missing a portion of geothermal resources if the state was only looking underground. He was struggling to find a connection.

Mr. Lepain replied that he believed it was a matter of definition, and that he was defining geothermal resources to be a subsurface resource. He noted that Mr. Clifton mentioned that heat pumps in private homes that pull heat from the air were technically considered geothermal energy but were not regulated under the bill. He reiterated that he thought the issue came down to the definition of geothermal resources.

Representative Carpenter agreed that a line had to be drawn somewhere.

Mr. Clifton drew attention to the fact that the natural heat of the earth and the surface of the earth were contained within the definition of geothermal resources. He clarified that the subsurface estate was the only element that applied to the statutes.

[9:55:27 AM](#)

Representative Wool asked if there was a temperature trigger.

Mr. Clifton deferred to Mr. Lepain.

Mr. Lepain replied that the modernized definition explicitly removed a temperature cutoff due to the technology advancements in the last 15 to 20 years. Due to these advancements, it was possible to pull heat from relatively low temperature subsurface fluids or soil on a small scale. The question of whether commercial power could be generated using this method was unclear to him. The temperature-based provision had been removed specifically because of technology advancements, and therefore restricting it to a particular temperature would be a mistake.

Representative Wool was aware of a project in Juneau that was going to run a loop through the ocean and use the

ambient heat of the ocean to produce power. He was thinking of situations involving the private individual.

Mr. Lepain advanced to slide 16 and referenced the fiscal impact note [control code svNTz] by the Department of Natural Resources. He commented that Alaska had significant geothermal energy potential around the state. At most geothermal sites, the state had relatively little information and the sites had not been studied thoroughly. Some sites had been studied significantly, but the department did not have enough information to decide which sites had potential to be a significant geothermal energy source. As presently constituted, the Division of Geological & Geophysical Surveys (DGGs) did not have enough staff to appropriately grow its knowledge of potential resources.

[10:00:18 AM](#)

Mr. Lepain explained that the fiscal note would add a new Geologist 3 position within DGGs's Energy Resources Section in Fairbanks. The addition of the position would help restart the division's geothermal program. The position would coordinate with agencies and industry to publish new geologic data to further the development of Alaska's geothermal energy resources. He read the list of responsibilities of the new geologist from slide 16:

This will enable DGGs to restart its geothermal program. The new geologist would:

- Coordinate with agencies and industry to publish new geologic data to further development of Alaska's geothermal energy resources
- Maintain and update geologic data on Alaska's geothermal systems in a geothermal database
- Attract federal funds to characterize Alaska's geothermal systems and resources
- Monitor developments in geothermal systems technology
- Conduct geologic investigations of Alaska's geothermal systems
- Publish geologic maps, reports and data on Alaska geothermal systems
- Advise DNR and other state agencies on the state's geothermal resources

- Support the Department's geothermal leasing program
- Support and supply information to explorers and developers of Alaska's geothermal resources
- Support and advise DNR Commissioner's Office and Governor's Office on geothermal policy

Mr. Clifton emphasized that the purpose of the position was to grow knowledge of Alaska's geothermal resource potential through hard data. This would inform the decision on whether to develop a specific site.

Co-Chair Foster indicated that there were two fiscal notes total. He asked Mr. Clifton to review the other fiscal note by DNR.

Mr. Clifton reviewed the zero fiscal note [control code pRSYR] by the Division of Oil and Gas within DNR. He emphasized that it had zero fiscal impact and would not cause any additional burdens to the division.

[10:04:17 AM](#)

Representative Wool noted that the fiscal note mentioned that the bill would double the acreage limit for geothermal projects from 51,200 to 100,000 acres. He asked if 50,000 acres was considered small.

Mr. Clifton was not certain and did not know the conversion of acreage to square miles. However, he commented that geothermal systems tend to cover much larger areas than were perhaps conceived when the laws were first written. Granting the security of a larger area made much more sense for developers. It also adhered to the way in which other states had been updating their laws.

[10:05:49 AM](#)

Representative Josephson noted that he had spent time at a family ranch which was 300 acres. He thought the lease would cover scores of properties and many miles.

Mr. Clifton indicated the maximum was being increased to 100,000 acres. He stated that 640 acres was one square mile, which he thought might be a good frame of reference. He explained that this was specific to the expiration licenses, which were not permanent. Even if the state

issued a license for 100,000 acres, that would not necessarily mean that a lease would also be granted at the end of the license's term. The details of the lease that might be issued long-term would be dictated by the resources that had been demonstrated to be located at the site. In a situation where all 100,000 acres were issued a lease, all of the acreage would not necessarily be utilized. The subsurface area might be impacted more than the surface area, and it was unlikely that more than a few acres on the surface would be impacted.

[10:09:02 AM](#)

Co-Chair Foster referenced the other fiscal note by DNR that added the position that was previously discussed. The fiscal note had a control code of svNTz.

Mr. Lepain deferred to Mr. Clifton, as he did not have a clear copy of the fiscal note.

Mr. Clifton addressed the fiscal note which added a position of a geologist. The impact of the note was \$150,000.

Mr. Clifton appreciated the opportunity to present the bill. He was happy to answer any follow-up questions.

HB 135 was HEARD and HELD in committee for further consideration.

Co-Chair Foster would take a brief at ease.

[10:11:52 AM](#)

AT EASE

[10:15:02 AM](#)

RECONVENED

Co-Chair Foster indicated the committee would be hearing HB 273.

#hb273

HOUSE BILL NO. 273

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

[10:15:48 AM](#)

REPRESENTATIVE ANDI STORY, SPONSOR, thanked the committee for hearing the bill. She provided a PowerPoint presentation titled "HB 273: Increasing the Base Student Allocation and Accounting for Inflation" (copy on file). She explained that the bill would help maintain stability in the school system to allow for districts to focus on the more substantial work, such as educating students, rather than focusing on the following year's budget and potential required cuts.

[10:18:09 AM](#)

Representative Story began the presentation with slide 2. She reminded the committee that there was a constitutional obligation to maintain the school system. The bill proposed inflation-proofing the Base Student Allocation (BSA), which would help ensure strong schools and protect important programs. She mentioned the importance of knowing future costs when designing a budget, whether it be a personal budget or governmental. The bill would implement a "wise educational policy," which related to the importance of working together.

Representative Story indicated that district budgets were assembled in November and were often due to municipalities in March. However, the legislative process was often not completed before the budget due date, which meant adjusting the budget and making the applicable reductions based on budget numbers. The district would often plan for cuts, and the community would have to come together and decide which services to cut. She noted that these cuts often undermined public confidence. Working together as policy makers was very important. The legislature had heard from school board members for a number of years that the ability to determine a fixed portion of the budget was favored. She mentioned that in order to receive federal funding, the state had to abide by federal laws, and there were accountability plans in place that must be followed. Every school was given a star rating out of five, and schools were required to have a plan to increase their star rating.

[10:23:35 AM](#)

Representative Story continued to slide 3 to discuss the increment of inflation proofing. She explained that by introducing inflation proofing to the BSA formula, the bill provided fair and steady revenue that would be tied directly to Alaska's economy. This would be done by using the Consumer Price Index (CPI) for urban Alaska from the United States Bureau of Labor Statistics. She relayed that Legislative Finance Division (LFD) recommended using the CPI because it was more reflective of Alaska's economy rather than national trends. She reminded the committee of a study by the Institute for Social and Economic Research (ISER) that had been shared in a previous meeting that found, based on the CPI, that Alaska was just below average when it came to school funding.

[10:24:44 AM](#)

Co-Chair Foster noted Co-Chair Merrick and Representative Rasmussen were online.

Representative Wool asked if she had considered using core inflation for the formula instead, which represented CPI minus energy and food. He believed that it was what the federal government used.

Representative Story responded that she had not. She explained that the formula would be discussed in more detail later in the presentation.

Co-Chair Foster commented that the inflation proofing would be tied to CPI in urban Alaska. He wondered if there was a CPI for rural Alaska.

Representative Story indicated that LFD had recommended using CPI, and the term "urban Alaska" related simply to the name. She differed to Alexei Painter from LFD to explain the choice in more detail.

Co-Chair Foster asked if there was a rural CPI for Alaska.

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, responded that urban Alaska reflected Anchorage specifically, and that there was not a rural CPI or a CPI calculated for other communities in Alaska. There had been studies that looked at those costs, such as the aforementioned study by ISER, but there was not a formal CPI.

Representative Story thought that was why Dr. Dayna DeFeo from ISER had adjusted for Anchorage and adjusted for other economic cost factors in the formula. The adjustment acknowledged the cost of doing business in more rural communities.

ARIEL SVETLIK, STAFF, REPRESENTATIVE ANDI STORY, explained how inflation was used to calculate BSA for a fiscal year. The bill averaged three previous calendar years of inflation against the fiscal year used in Alaska as recommended by LFD. This smoothed out significant jumps and drops in inflation. She pointed out there was a gap year added into the formula which would allow school communities to know their allocation ahead of time. This would help the schools craft their budgets and better meet student needs. She addressed slide 4 which showed inflation in Alaska over the last decade. The chart was sourced from LFD. She pointed out that the headings included both calendar years (CY) and fiscal years (FY) and that the CPI data was provided by the Department of Labor and related only to Anchorage. Any price fluctuation in Anchorage would move out to other locations, and the BSA formula would help to adjust for the needs of other communities.

[10:29:40 AM](#)

Representative Wool asked Ms. Svetlik to explain the CPI data in more detail.

Ms. Svetlik deferred to Mr. Painter.

[10:30:16 AM](#)

Mr. Painter explained that CPI calculation had an index year, which was set at 100. He believed the number was set during the 1980s. The CPI was calculated as an increase to the index and represented the full index going back to the reference year.

[10:30:45 AM](#)

Representative Wool asked for more information on when the index year was set.

Mr. Painter did not remember the exact year, but it was in the 1980s.

Representative Wool shared his understanding that if the CPI was at 220, that would mean that it was a little more than double the price it was when it was initiated considering that 100 was the index. He asked if LFD ever used core inflation or just CPI.

Mr. Painter indicated that CPI was used because it was the most easily found and available number. He thought it would be a policy call if the legislature wanted to pull additional costs. During the last district cost study in 2005, costs specific to the school district were studied and a new index was formed based on those costs. He noted that would be more time consuming, but it was a policy decision.

[10:32:16 AM](#)

Ms. Svetlik pointed to the numbers in the side bars on slide 4. She explained that the numbers referred to what the percentage of growth would be per fiscal year based on the preceding calendar years. For FY 22, the increase would be 1.11 percent, which resulted from averaging CY 18 through CY 20. The idea was to make these numbers available prior to the finalization of the following year's budget.

Ms. Svetlik advanced to slide 5 and relayed that the example on the slide related to FY 23. The reason she was using FY 23 was because the numbers were currently available in order to make accurate projections. If the legislature were to increase the BSA, there would be a \$66 increase in the BSA. She reiterated that by averaging 3 years together, the formula would smooth out significant swings and dips in inflation.

[10:35:05 AM](#)

Representative Story addressed slide 6 which highlighted that school funding was a fundamental statewide economic issue. She surmised that the best way to attract new residents, build a skilled workforce, and maintain a strong economy was ensure the quality of schools in the area. It was a way to provide a solid base and a way of providing some stability. She indicated there was invited testimony.

Co-Chair Foster asked if the bill had been heard by the House Education Committee. He wondered if she had heard

from rural schools about the Anchorage CPI being used. He noted the costs in rural Alaska were higher. He asked if \$66 per student would be enough for rural schools and whether rural schools thought the formula would work for them.

Representative Story reminded the committee that the \$66 BSA increase would be adjusted for school size and the applicable multipliers.

[10:38:58 AM](#)

Representative Carpenter referred to slide 4. He averaged the 3 years together, which were the percentages highlighted in yellow on the slide. He calculated it was a 1.58 or 1.6 percent average inflation over the 3 years. He suggested that 6 out of the 10 years were less than what the average was, and in only 3 out of the 10 years was there inflation that was greater than the average. He wondered what the bill's goal was. He thought if the state was covering cost increases and fluctuations from year to year, then it would be looking at a cost adjustment every year that would reflect the inflation change for every year. He drew attention to CY 20 [FY 22] on the slide and pointed out that the CPI percent change was negative. In a year like CY 20, an increase would not be needed. He wondered why the legislature would not just raise the budget.

Representative Story responded that she averaged 3 years of data for the purpose of preventing large swings. She noted that the invited testifiers later in the meeting would attest to the importance of an average. Also, she wanted to leave room for the legislature to adjust the BSA to allow for other targeted funding for things like investment in reading programs. These adjustments were reflective of the Alaska economy rather than the national economy. She was not trying to solve all of the problems with education funding, but she was simply acknowledging that there were fixed costs, and the costs could rise.

[10:42:58 AM](#)

Representative Carpenter agreed that costs increased due to inflation. He was trying to explain that the rising costs for inflation were sometimes less than a single percentage point, as seen on slide 4 from CY 15 to CY 17. However, the

budget would be increased by an average of 1.5 percent for CY 15 through CY 17 because there was a desire to grow the budget as opposed to covering the cost increase in a given year.

Representative Story deferred to Ms. Svetlik because she understood that Ms. Svetlik did the math on the slide.

Ms. Svetlik clarified that LFD did the math on the slide. She explained that the 1.5 percent average was for CY 18 through CY 22. Representative Carpenter was talking about CY 15 through CY 17. She agreed that the average that would come from CY 15 through CY 17 would be much smaller. In FY20 [CY18], there would only be about 0.5 percent increase of the BSA even though there was a 3 percent increase in CPI. There was a slight lag in the rate of growth as compared to the rate of inflation because she was used real number to make projections rather than making up the numbers. It was not a perfect system, and the sponsor was open to other suggestions. However, budget growth was not always necessarily a 1.5 percent average as that average reflected only 3 years of data. She suggested that he could ask LFD to create a projection for all of the years for extended clarity.

[10:45:02 AM](#)

Representative Carpenter thanked Ms. Svetlik for the correction. He did not mean to imply that the average would be 1.5 percent for all years and understood that it represented a 3-year average. He was using it as a demonstration that the bill would grow the BSA by an arbitrary percent that would not necessarily relate to the cost increase for that particular year. Instead, it represented a cost increase over multiple years. If in the 2 previous years the legislature had already spent the money, then budgeted costs may not be covered in the cost increase. He suggested that a conversation should be had to discuss a different mechanism to cover the costs.

Representative Story appreciated the comments. She had talked to districts that reported that the large 4.88 percent CPI increase [in CY 21/FY 23] would be spread out and help the prior years as well. It was what the chief financial officers thought would work best as a predictable number. She hoped the committee would get to the invited testifiers in the present meeting.

[10:46:49 AM](#)

CHRIS REITAN, SUPERINTENDENT CRAIG CITY SCHOOL DISTRICT (via teleconference), spoke in support of HB 273. He indicated that the bill would provide the mechanism for the State of Alaska to help address the annual inflation costs that Kindergarten through grade 12 schools endure for education. The BSA had not been addressed by the legislature since 2017. It was necessary to address the increasing fixed costs that were imbedded in school budgets that reduced the amount of funds that could be dedicated to classroom instruction and to improved educational content. He relayed that medical insurance was one of the most expensive fixed costs within school budgets, and it increased annually. It accounted for more than 12.5 percent of the Craig City School District's budget. Heating fuel oil had increased more than 25 percent since 2015, which represented an increase that occurred prior to the current oil increases. Since FY 21, heating oil costs had increased by 64 percent. Freight had increased by 6 percent [since FY 21]. He noted that these were only a few examples of fixed cost increases to which school districts must respond. He thought that HB 273 provided a consistent and reliable mechanism for the state to invest in the educational needs of children. He thanked members for the opportunity to testify in support of the bill.

[10:49:40 AM](#)

Representative Josephson asked Mr. Reitan to restate some of the figures he had mentioned.

[10:50:21 AM](#)

JIM ANDERSON, CHIEF FINANCIAL OFFICER, ANCHORAGE SCHOOL DISTRICT (via teleconference), spoke in support of HB 273. He referred to a graph titled, "ASD School Funding since 2017," which he had provided to the committee (copy on file). He hoped the visual would show how the "fiscal cliff" would affect Anchorage specifically, and why the fiscal cliff existed. He pointed out the red line at the top of the chart, which reflected the BSA's inflationary increase based on Anchorage's CPI from FY 17 through FY 22. He noted that the rates from January of FY 22 through January of FY 24 were estimates based on a 2 percent steady

inflation rate, but it was likely that FY 22 might be significantly higher than estimated.

Mr. Anderson continued by explaining that the grey, light blue, and gold bars showed BSA equivalent funds that helped offset structural deficits over the last several years. The Anchorage School District (ASD) had an applied fund balance for two years as well as federal relief money to maximize educational opportunities for the past five years. He indicated that FY 22 and FY 23 relied heavily on federal Elementary and Secondary School Emergency Relief Funds (ESSER), however there were not enough federal funds remaining to account for the structural deficit in FY 24. The inflationary costs for ASD had averaged around \$10 million to \$12 million dollars per year for the last 6 or 7 years. He explained that while one-time funds were helpful, those funds hid the structural deficit of more than \$40 million.

Mr. Anderson noted the district's liability insurance had increased by 100 percent in the last few years due to nationwide challenges. It had cost Anchorage \$21,000 per school district employee per year to cover medical benefits. He compared this number to Seattle, Washington, which was \$12,000 per year and Atlanta, Georgia, which was \$11,000 per year. The red line on the graph showed gaps between the one-time funding that had been used by the district. Since 2017, the district implemented several measures to reduce the rate of increase for medical insurance costs. He emphasized that this did not reduce costs, but simply reduced the rate at which the costs increased. He explained that the inception of the Alaska Middle College School had a low overhead and cost the district about \$10,000 per student. He compared this cost to the district's 8 brick and mortar high schools which cost an average of \$13,000 to \$18,000 per student, depending on the other forms of money that were dedicated to those schools. The Alaska Middle College School helped increase revenue as well as reduce costs for over 200 students.

Mr. Anderson indicated that the district had built a relationship with the Lower Yukon School District's (LYSD) Kusilvak Career Academy, which benefited students from both districts. The LYSD allowed ASD students to take courses and get certifications for a quarter of a school year at a time. It opened up many slots for ASD students, so both

districts benefited from the relationship. The reality was the school district had been hiding a growing structural deficit and there had to be measures taken in order to move forward and allow the district to enact multi-year plans. It typically took at least 3 years to see changes in student outcomes from a new program. The first year involved training school district employees, the second year was when students started to get consistent instruction through the new program, and the third year was generally when improvement could be seen. When only one year of money was provided, it did not allow for the implementation of three-year programs because it was too uncertain. He hoped Alaska would implement an inflation-proof BSA so that districts could implement multi-year strategies for improved student outcomes. He concluded that HB 273 and HB 272 would help accomplish the necessary first steps.

[10:57:59 AM](#)

HEIDI TESHNER, DIRECTOR, FINANCE AND SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT (via teleconference), reviewed the two fiscal notes for HB 273 by the Department of Education and Early Development. The first was a zero fiscal note with the control code vICxU. The fiscal note was for informational purposes only and showed a general fund transfer to the Public Education Fund (PEF).

Ms. Teshner reviewed the second fiscal note, also by the Department of Education and Early Development, which had the control code RIhvb. The fiscal note used the CPI for urban Alaska as prepared by the United State Department of Labor for 2019 through 2021 and arrived at an average percentage difference of 1.72 percent. The average percentage difference was applied to the BSA for FY 23 and totaled \$5,930, which resulted in a CPI of \$6,032. Using the FY 23 projected average daily membership counts and the CPI adjusted BSA of \$6,032, the new estimated total state entitlement would increase by approximately \$26.1 million. The effective date of this bill would be July 1, 2024 in FY 25. She added that the third page of the fiscal note showed the projected fiscal breakdown by school district.

Representative Story noted there were a couple of other handouts in member packets.

Ms. Svetlik indicated that LFD had provided a theoretical fiscal note for the committee's review, titled, "K-12 Foundation Formula BSA Adjusted for Inflation - 3 Year Average" (copy on file). She explained that the handout showed what the growth would look like if HB 273 were to be combined with HB 272. She noted that it was an incremental increase, and that the chart showed the projected ways in which the increments would grow.

[11:02:00 AM](#)

Representative Wool shared his understanding that HB 273 added an inflation formula using CPI and 3 previous years' averages. He compared this to HB 272, which he thought proposed an adjustment to the BSA starting in 2017 and using a similar formula. He asked if his understanding was correct.

Representative Story suggested that he refer to the packet for HB 272 (copy on file) which showed how the numbers were determined. She explained that she did not go back to 2017. She started in FY 20, which included around \$30 million that was outside of the formula. However, this was vetoed by the governor, so the \$30 million was inserted back into the formula when doing the calculations. The increments showed about a \$30 million increase when inflation proofing. The \$30 million being inserted back into the formula allowed for inflation proofing for FY 21 and FY 22. She explained that that is how the \$232 BSA increase projection came about. Then, three years were averaged to arrive at the \$14 million projected increment for the FY 24 BSA with inflation. The chart showed a minus inflation year as well, which meant that there was a \$71 million cumulative increase. She hoped to forward fund education within the formula by \$57 million. The bills complimented one another and gave an idea of what it might look like to inflation proof. It was important to note that some members wanted to see certain programs funded, and by doing a modest adjustment it left room for strategic funding for the programs in which members might be particularly invested. She thought it was important to think about educational policy and how the bodies affect one another.

Co-Chair Foster thanked the presenters and reviewed the agenda for the afternoon. He reminded members of the amendment deadline for the operating budget.

HB 273 was HEARD and HELD in committee for further consideration.

ADJOURNMENT

[11:06:58 AM](#)

The meeting was adjourned at 11:06 a.m.