

HOUSE FINANCE COMMITTEE
April 28, 2023
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Neal Foster, Co-Chair
Representative DeLena Johnson, Co-Chair
Representative Julie Coulombe
Representative Mike Cronk
Representative Alyse Galvin
Representative Sara Hannan
Representative Andy Josephson
Representative Dan Ortiz
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Andy DeGraw, Chief Operations Officer, Fairbanks North Star Borough School District; Eric DeMoulin, Administrative Services Director, Department of Revenue; Brett Huber, Chairman, Alaska Oil and Gas Conservation Commission; Ryan Fitzpatrick, Director, Division of Oil and Gas, Department of Natural Resources; Jason Olds, Director, Air Quality, Department of Environmental Conservation.

PRESENT VIA TELECONFERENCE

Scott MacManus, Superintendent, Alaska Gateway School District; Kasie Luke, Superintendent, Lake and Peninsula School District; Dr. Randy Trani, Superintendent, Mat-Su Borough School District; Andy Ratliff, Chief Financial Officer, Anchorage School District; George Pierce, Self &

Neighbors, Kasilof; Trish Baker, Chugach Electric Association, Anchorage; Christine Rusler, President and CEO, ASRC Energy Services, Anchorage; Lydia Shumaker, Self, Wasilla; Kassie Andrews, Self, Anchorage; Ken Griffin, Self, Wasilla; Frank Paskvan, Affiliate Professor, University of Alaska Fairbanks; Herman Morgan, Self, Aniak; Fadil Limani, Deputy Commissioner, Department of Revenue.

SUMMARY

HB 50 CARBON STORAGE

HB 50 was HEARD and HELD in committee for further consideration.

HB 65 INCREASE BASE STUDENT ALLOCATION

HB 65 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#hb65

HOUSE BILL NO. 65

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

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SCOTT MACMANUS, SUPERINTENDENT, ALASKA GATEWAY SCHOOL DISTRICT (via teleconference), thanked the committee for the opportunity to speak in support of timely, reliable, and predictable school funding. He reviewed a PowerPoint presentation titled "COVID Relief Funds in Alaska Gateway School District" (copy on file). He stated that the use of COVID funding in the Alaska Gateway School District (AGSD) was directly tied to the district's approach to the pandemic. The district included five villages and the town of Tok. He detailed that the approach in each of the communities was very different and the use of COVID funds was intended to reflect that.

Mr. MacManus thought it was helpful to understand that the use of the word "unobligated" in the department's report did not mean unplanned for; it meant the funds had not yet

been drawn down. He stated that the department had access to what each district had planned regarding the use of funds. He noted there had been a lag period in the time it had taken to get the information to the legislature. He turned to slide 2 showing an overview of district cost increases. The figures reflected audited numbers from 2017 to 2022. He noted the numbers did not include the increase in salary cost or health insurance that had gone up 34.8 percent (an increase of \$500,000).

Mr. MacManus turned to slide 3 showing a breakdown of district funding allocations from the FY 22 audit. The district spent 70 percent of its general funds on instruction and 4 percent of its funds on administration. The Department of Education and Early Development (DEED) reported five categories. The first was the operating reserve fund, which was \$1.1 million for AGSD. He detailed that the amount was right at the 10 percent that was not subject to limitation and was used for AGSD's emergency fund. The amount would keep the district running for about two months at the most and was kept on hand to enable the district to address a roof collapse, a ceiling falling in, or a boiler going down. The second category was pupil transportation: the district initially had approximately \$75,000 for the service and would have approximately \$20,000 remaining at the end of the school year. The third category was capital project funding of \$1.1 million. The district currently had \$394,000 in capital project funds and used the money to do its summer maintenance. The funding was used to prioritize the district's \$30 million in deferred maintenance. He stated the available capital funding was not as much as it may seem and was not available to the district. He stated that his staff did a great job keeping the district's facilities running with very limited resources.

Mr. MacManus moved to the fourth category: other governmental funds. The category showed about \$1.1 million; however, he clarified that the district's accountants required the inclusion of fuel inventory accounts, student activities, student funding drives for travel, as available funds. He underscored that the money was not available to the district. The fifth category was COVID relief funding shown as \$1.1 million. He stated the amount shown was deceiving because the district did not have the entire amount available. The district had spent all of its Elementary and Secondary School Emergency Relief I (ESSER)

funds, which were supposed to be spent by September 30, 2022. He relayed that ESSER II funding currently included \$14,000 in the district's discretionary account and \$8,000 in school testing (which had been used to do COVID testing), all of which would be gone by the end of the fiscal year. The district had \$238,000 remaining in ESSER III funds and it would have about \$651,000 for the next year to continue programs that had been started. He detailed that the district had a mental health counselor, some CTE [career and technical education] and STEM [science, technology, engineering, and math] teachers intended to reengage students, dropout prevention funds for alternative education, and the district had hired additional teachers for its high need schools Tetlin and Mentasta.

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Mr. MacManus relayed the district had used its year one and two funding. The district would use Coronavirus Aid, Relief, and Economic Security (CARES) Act III funding for operations in the next year, which would prevent it from going off a fiscal cliff. He stated the funding was already planned for and allocated. The district had spent funding on mental health counseling, reading and instructional support, roving subs, testing, personal protective equipment and supplies, non-toxic sanitation, daycare, staff pay during COVID, and keeping its schools open as much as possible. The district was trying to keep its programs running with staff currently under contract who were expecting jobs in the next year.

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Representative Ortiz asked for a quick summary of next year's budget if there was no funding increase.

Mr. MacManus replied that the district would have to dig into its budget reserve because it had already contracted out with staff. He relayed it would be about a \$1 million hit. The district would continue on with its current programming and would start shaving off staff through natural attrition. He stated the district would do its best to not have to fire anyone, but it would be devastating. There were currently two budgets, one with a \$30 statutory increase and one with a \$500 increase, which was very

minimal. He stated that in order for the district to remain solvent, it would need the amount proposed in HB 65.

Representative Stapp looked at the bottom of slide 2 showing health insurance cost at 34.8 percent for FY 23. He asked if it brought the total cost to over \$2 million.

Mr. MacManus agreed that the total was \$2.2 million.

Representative Stapp asked if the district had around 50 employees.

Mr. MacManus replied that the district currently had 64 employees.

Representative Galvin referenced Mr. MacManus's testimony in support of timely, reliable, and predictable funding. She asked what that looked like for AGSD.

Mr. MacManus wanted to avoid another one-time funding outside of the Base Student Allocation (BSA). He stated it was kicking the can down the road and did not help provide a reliable source of funding for teachers who wanted to come work in the district. He would like to be able to assure staff their jobs were secure in order to provide the best education possible for the district's kids. He underscored the difficulty of attracting quality staff when their job may be on the line.

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Representative Galvin appreciated Mr. MacManus going into detail on how responsible the district had been with its existing resources. She looked at the district's administration budget at 4 percent, which showed significant discipline. She asked if the district's staff knew about the difference between inside and outside the BSA. She asked if it was common language that would impact the district's retention and recruitment of teachers.

Mr. MacManus replied that a professional staff member recruited from in-state would know the difference. He relayed that when he hired someone, he was upfront about the financial situation. He wanted to make sure people moving from outside of Alaska were clear on the circumstances. He did not know whether people would know the difference between inside and outside the BSA, but they

certainly knew the difference between grant funding and consistent, steady, reliable funding. He considered funding outside the BSA to be grant funding because it was not part of the formula.

Representative Cronk assumed the district still had an NEA insurance plan. He referenced a bill that would pool insurance across the state to save money. He asked if the district supported the idea.

Mr. MacManus replied that the district had dropped its NEA health insurance two years earlier because it had become too expensive. The district put its insurance out to bid and had gone with the lowest provider, which at the time had saved about \$300,000 annually. The rates had increased 10 percent in 2022 and 7 percent the year before. The district had been shocked to see the 34.8 percent increase through Premera Blue Cross. The district was looking at going out to bid again, but it would be difficult with the short turnaround.

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Representative Cronk stated that the governor had introduced a bill that would offer teacher bonuses in different quadrants across the state. He understood it was not a fix, but he believed it was something people should be supporting, particularly in the state's rural areas. He asked Mr. MacManus for his thoughts.

Mr. MacManus returned to the previous question about insurance pooling. The district would be interested in looking at the option, but it was his understanding they would negotiate individually with each district and that each district would have a different bill. He thought a salary increase seemed like a good thing, but he felt it would be better to have the funds in the general fund in order to provide consistent wages and salary increases that teachers could rely on. He stated that a \$15,000 bonus sounded really good, but it would be better if the funding could be consistent for the next many years.

Representative Galvin asked if the [governor's proposed] bonuses would impact other staff in the building such as teacher assistants or maintenance staff who were not receiving an increase.

Mr. MacManus responded that his district had a grant that was designed to provide teacher performance compensation. In the fall of the coming year, the teachers would get a bonus of probably \$5,000 for two years. He explained that the district did not get funding for its classified staff, but the district had found another funding source and included them. He believed the classified staff and paraprofessional staff were critically important to the proper functioning of any good school and needed to be paid accordingly. He thought the proposal would cause some resentment from those staff if the district was unable to find a way of matching the compensation.

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Representative Galvin found the highest cost driver in education to be healthcare. She clarified that by percentage it was not the highest cost, but in terms of overall cost over the years, insurance appeared to be a major driver [in the increased education cost].

Mr. MacManus answered that healthcare was the district's largest single cost other than maintenance and wages. Other insurance costs including workers' compensation and liability had increased significantly. The actual dollar figures were smaller, but the percentage of the increase was larger. He reiterated his earlier testimony that the health insurance increase of over 34 percent was a shock. He added that a \$400 BSA increase would just cover the increased insurance cost.

Representative Hannan looked at a decrease in fuel cost by 4 percent over the past seven fiscal years shown in Mr. MacManus's presentation. She asked how the decrease had been achieved. She wondered if the district had shut buildings or shifted from fuel to biomass.

Mr. MacManus answered that the price of fuel had gone down for a few years around 2021. Additionally, the district generally saved about 60,000 gallons of fuel at the Tok school because of its biomass system that heated and provided electricity. He highlighted that electricity was \$433,000 in FY 21 and jumped more than \$150,000 in FY 22 because the district had been unable to keep up with demand.

Representative Cronk asked when the Northway biomass kicked in and how much fuel the district would save. He highlighted the importance of biomass and managing state forests correctly.

Mr. MacManus responded that the district had selected and ordered equipment it would be installing. The chip barn was on the way and the district hoped it would be functional by the coming fall and would offset approximately 30,000 gallons of fuel per year. The project would also heat the outbuildings around the school. The district was in the process of negotiating a similar project in Mentasta in a facility that was about half the size of Northway. He agreed that the use of biomass and shift to available resources had been important.

Representative Cronk asked how much had been saved at the Tok school alone since biomass had been implemented.

Mr. MacManus answered, "At least 500,000 gallons."

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KASIE LUKE, SUPERINTENDENT, LAKE AND PENINSULA SCHOOL DISTRICT (LPSD) (via teleconference), spoke in strong support of the bill. She provided a PowerPoint presentation titled "HB 65 LPSD House Finance," dated April 28, 2023 (copy on file). She read from prepared remarks:

Stable, predictable funding through an increase within the Base Student Allocation (BSA) was necessary to ensure districts can cover inflationary increases in operating costs that are outside of our control. Lake and Peninsula School District has tapped into our fund balance to maintain programs and what we feel is essential to educating and providing opportunities to our students in rural Alaska over the past four years. We will be experiencing a zero fund balance to negative fund balance at the end of this fiscal year as of June 30, 2023.

In the next few slides, I would like to highlight for you two tangible examples of increasing costs in food service and property and liability insurance that are out of our control, yet are necessary to the wellbeing of our students and the functioning of our schools. If you move to slide 2, you'll see a table on the cost

overview of LPSD's food service program. Although I know this table offers a cost overview, to bring to life this table I would ask that you imagine yourselves holding a number ten can of chili with beans. In 2018, this can of chili with beans cost Lake and Peninsula School District \$74.72 to purchase and ship to our community. In 2022, this same can of beans cost us \$107.06. LPSD is identified as a community eligibility district, which means our low income status provides free meals to all students. The USDA, through the State of Alaska, only funds 40 percent of the cost of food service. In order to operate a cold breakfast and hot lunch program, 60 percent of that cost is district funded. We anticipate transferring \$425,593 from our general funds to cover the cost of the food service program this fiscal year. In FY 24, we have added food service to the consideration for our school board to suspend our program due to our lack of fund balance.

If you move to slide 3 you'll see a bar chart highlighting LPSD's insurance premiums projected to merely triple by FY 24. These increases in costs are driven by nationwide property and liability losses. Again, a significant increase in cost that we cannot control.

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Ms. Luke turned to slide 4 titled "COVID funding" and continued to read from prepared remarks:

I just wanted to offer clarity to the House Finance Committee of LPSD's FY 23 use of funds being budgeted at \$679,713, which will be expended by FY 24. The final slide in my presentation is the FY 24 landscape for Lake and Peninsula School District. We anticipate a deficit of \$609,429 when budgeting a zero dollar increase to the BSA.

Co-Chair Edgmon appreciated the detailed analysis. He stated that the case had been made to him that the district among other school districts was in dire straits financially and that a BSA increase or outside the BSA increase was a necessity to continue into the future. He referenced an earlier discussion in front of the committee about the governor's proposal to provide a pay increase to

teachers. He wanted to get Ms. Luke's thoughts on the issue. He remarked that the pay increase was for certified teachers and left out other categories of support staff. He pointed out that the bill was also very expensive at \$57 million per year, which was on par with the \$225 funded for the BSA the past year at a total of \$57 million outside the BSA formula. He elaborated that the governor's bill included three tiers and he believed LPSD was in tier III where teachers would receive \$15,000.

Co-Chair Edgmon asked how much the increase would be for a young couple to receive \$30,000 per year for three years at a total of \$90,000. He provided a scenario where the legislature did not fund the salary increase in year four. He wondered what would prevent the couple from taking their defined contribution plan and returning to another state. The scenario illustrated his concern with the proposal. He emphasized that the proposal cost \$57 million, which would have to be funded annually by the legislature. He stated the amount may increase in the coming year if there was inflationary indexing attached. He asked if the proposal was an incentive to teachers and a disincentive to staff who did not qualify.

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Ms. Luke answered that based on conversations she had with Co-Chair Edgmon and in other considerations of rural school districts, LPSD viewed the one-time \$15,000 as beneficial for teachers in addition to an increase inside the BSA; however, there would be a ripple effect on other employees. She explained that while the governor's proposal supported teachers, it only supported them for a certain time period and isolated the support to teachers only who could choose to take the money and leave Alaska. The proposal did not support the district's classified hires, which were typically local hires and the district put significant emphasis on attracting and retaining. She did not see teachers sticking with the district after the funds had been utilized. She saw teachers moving somewhere where the cost of living was much less expensive.

Co-Chair Edgmon surmised that if the program remained permanent it would be an incentive. He understood there was a disincentive to other educators [who would not qualify for the proposed salary increase]. He referenced food service staff, assistants, and administrative staff who

would not qualify. He highlighted that the BSA covered the entire field and not merely one component of the educational system. He asked for Ms. Luke's thoughts on the issue.

Ms. Luke saw the increase in the BSA being most meaningful and stable because of its predictability. She highlighted fuel, property, electricity, and health insurance costs that did not pertain only to certified educators. She stated that an increase in BSA funding would be the most beneficial for the district to anticipate its ability to cover expenses.

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Representative Hannan referenced Ms. Luke's testimony that \$609,429 would need to be moved from LPSD's budget if there was no increase to the BSA. She noted the slide indicated beyond \$30. She clarified that she did not believe the \$30 the legislature added to the BSA the previous year was enough to make a difference. She asked if the \$609,429 included the \$30 currently in the BSA from the Alaska Reads Act in 2022.

Ms. Luke confirmed it included the \$30.

Representative Hannan referenced the concept of bonus pay to teachers. She thought \$15,000 per year should be going to their retirement accounts, not their wages. She asked how much the average teacher was contributing to their retirement plan on an annual basis.

Ms. Luke replied she would have to follow up.

Representative Hannan replied that she did not want Ms. Luke to have to do the homework. She thought it was a great bonus to talk about, but she felt it was separate from funding school districts and was part of a compensation plan for teachers equivalent to what the state should be talking about for an annual retirement contribution for public education employees. She stated that a teacher had the opportunity to earn far more wages than the kitchen staff, yet they both would have the same kind of cost of living expenses and in retirement. She considered the [governor's] bonus proposal was an incentive to stay; however, she thought it would be an incentive to leave the

state once the bonuses ended. She did not think it helped the districts in the long term.

Representative Ortiz asked how many unfilled positions LPSD had for certified staff and paraprofessionals.

Ms. Luke answered that LPSD had started recruiting for its certified positions early in the spring semester. The district had started with 17 openings, which reflected a 40 percent turnover. The district was still looking to recruit 12 of the positions. She did not have the details on hand related to classified hires. She relayed that the district had pretty consistent classified staffing throughout the year and from year to year, but it was a bit more unpredictable.

Representative Ortiz asked for a quick summary of the kinds of certified staff positions that were not being filled and services that were not being delivered to students as a result.

Ms. Luke replied that LPSD was currently fully staffed with certified positions for the remainder of the current year, but it was not fully staffed with its classified hires. She relayed that if the district could not fill the positions turning over for the next school year, it would cross a multitude of classrooms. She explained that the district had mostly generalist classrooms. She elaborated that it meant elementary teachers were teaching all subjects at many of the district's schools. The district was currently looking for a principal that would serve multiple schools. She stated that there was an impact to K-12 and administration.

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Representative Josephson prefaced his question by clarifying he was not suggesting there was anything particularly wrong with the idea. He asked if the district hired Filipino nationals due to a lack of other candidates.

Ms. Luke responded that LPSD had not experienced the current rate of turnover during her tenure of 12 years in various roles. The district had not gone down the road of fostering the connection with Filipino hires or other hires outside of Alaska or the United States. The district had worked to maintain connection with its university partners

in Alaska and the Lower 48 to grow its own teachers. She noted the idea was not off the table.

Representative Josephson asked for verification that other districts in western Alaska did [hire Filipino nationals due to a lack of other candidates].

Ms. Luke responded that she could not speak to the districts in southwest Alaska. She noted that LPSD's partnership school district Bristol Bay had not had to go that route.

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Co-Chair Foster recognized Senator Loki Tobin in the room.

ANDY DEGRAW, CHIEF OPERATIONS OFFICER, FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT, provided a PowerPoint presentation titled "Fairbanks North Star Borough School District" (copy on file). He acknowledged the challenging circumstances facing the state. He thanked the members for their work. He strongly supported the bill and a permanent, reliable, and predictable increase to the BSA. He relayed that his presentation was in response to the DEED fund balance report issued a couple of weeks earlier. Additionally, he would provide a brief snapshot of Fairbanks' financial situation and challenges.

Mr. DeGraw began on slide 2 and addressed the question of what funds were available to school districts for the FY 24 operating budget. He thought the implication had possibly been put out there that districts were sitting on \$1 billion and why did they need any kind of additional funding. He stated that the nature of the remarks of the districts would be to dispel the misconception. He reported that Fairbanks' unreserved operating fund was at zero. He could not overstate the precarious situation it put the district in. He elaborated that state statute allowed the district approximately \$19 million in unreserved fund balance, which would equate to 45 days of operating expenses. He noted it was not relatively speaking a lot of money for a district with a \$240 million budget.

Mr. DeGraw explained that districts had to plan for staff levels one year in advance of when students were counted. Districts put staff on contract. He reported that if 200 or 300 fewer students came into the district than projected,

the district's fund balance had to carry the additional staff brought in to teach the students who did not show up and that the district did not end up receiving revenue for. There was a practical need for an operating fund balance for school districts. There was \$2.3 million in the capital projects and the funds were committed. He expounded that the district had agreements with the borough to do roof projects at two different schools. He relayed that one was complete and the other was ongoing. The funds technically could be accessed at some point down the road, but it would involve a process with the borough to unrestrict the funds and bring them back.

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Mr. DeGraw moved to slide 3 and stated that of the \$4.7 million in DEED's report, \$1 million were restricted to pupil transportation. He reported that the school district was running a structural deficit in its transportation fund of approximately \$3.5 million and the district was budgeting a \$3 million deficit in the coming year. He underscored that transportation funding had not been increased in eight years. The district could address the issue in one of two ways. First, the district could budget for the need in its general fund and subsidize transportation out of its classroom funds. Second, it could use its unrestricted fund balance to cover the deficit. The district was planning to use the second option. He elaborated that technically the funds could be used but it meant the need to budget an additional \$3 million expense to the district's general fund. He stated that the \$17 million deficit would immediately increase to \$20 million. He stated that if no action was taken the fund balance would be exhausted in about 1.5 years.

Mr. DeGraw addressed other governmental funds of \$13 million on slide 4. The district had \$1.5 million in money fundraised by students and organizations in the district. The funds were technically available, but they had a "newspaper headline test." He provided a hypothetical headline example: "Bakesale Funds Used to Pay Employee Benefits." He stated he would be run out of town if that occurred; therefore, for all intents and purposes, the funding was unavailable. He highlighted FY 23 impact aid of \$7.8 million as the largest number on the slide. He noted that the "as of" date on the DEED report was the end of FY 22. The funds had been budgeted to FY 23 and the district

was in the process of expending them. The district's nutrition services fund of \$2.4 million and inventory and home school allotments of \$1.3 million were restricted.

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Mr. DeGraw spoke about COVID relief grants on slide 5. There was a \$16.1 million balance remaining for Fairbanks in December 2022. He explained that districts spent the money in advance and requested reimbursement from the state in arrears. He relayed that when the DEED report had been compiled, Fairbanks had not yet submitted its March 31 request. He explained that when the state grant system updated it was already outdated because districts submitted quarterly and Fairbanks was using about \$1.5 million in COVID funds per month. He pointed to \$2.1 million in unknown funds on slide 5 and relayed it included special education, homeless, and literacy grant funds, which were restricted to specific activities. The district estimated it would have \$4.9 million available for FY 23 at the end of FY 24 to keep class sizes from increasing more than they already had.

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Mr. DeGraw advanced to slide 6 and discussed that the district's starting deficit in FY 24 would be \$17.5 million. He underscored that districts were not merely sitting there asking for more money. He stressed that districts were doing everything possible and were at the end of the line. He detailed that the Fairbanks North Star Borough School District had reduced 180 positions since 2020 (slightly over 10 percent of its workforce), which had impacted instruction. Additionally, the district had closed three schools. He stated it had been the right thing to do as enrollment had been down, but it had been a very political and gut wrenching process. The district's high school and middle school class sizes were currently 32 students in the FY 24 budget. The current classroom size was 30 students and the district needed additional funds to maintain that number in FY 24. He noted that a classroom target size of 30 meant there were some classrooms with up to 34 students. The issue was spreading to elementary schools as well and the district was hoping to avoid increasing Kindergarten class sizes above 25 students.

Mr. DeGraw reported that one year earlier the district's special education count was 2,354 students, while the number had increased to 2,610 in the current year. The district was holding special education harmless, but the workload was increasing dramatically. He emphasized the pressure the situation put on teachers and support staff. The district desperately needed a lifeline. He reiterated his strong support for the bill and a permanent increase to the BSA. He relayed that the district would absolutely appreciate a one-time increase, but the one-time funding meant the district's \$17 million deficit would increase to \$20 million in the next year. The district would be out of COVID funds, and it had cut its support departments to the bone before raising class size, but ultimately that would be necessary. He thanked the committee for the opportunity to testify.

Co-Chair Foster thanked Mr. DeGraw for flying in to meet with the committee. He recognized Representative Andi Story in the audience.

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Representative Stapp asked about federal impact aid, why the borough received the money, and if it could keep the money all of the money directed to the school district.

Mr. DeGraw explained that the borough had a significant number of military connected students and had received several related awards in the last couple of years. He detailed that the borough was not able to assess property taxes on that property; therefore, impact aid was provided in lieu of those taxes. The district integrated the funding into its operating budget. He noted there was a relatively small number of districts in the state that received the funding.

Representative Ortiz referenced the \$680 BSA increase. He asked what it looked like the following year if there was a one-time increase. He asked if the Fairbanks North Star Borough School District would still be unable to fill its funding gap.

Mr. DeGraw answered that [an increase of] \$680 allowed Fairbanks to hold the line and restore cuts the district was making currently in its FY 24 budget. He stated it would not necessarily allow the district to invest beyond

that. He highlighted that 180 positions had been cut since 2020 and the \$680 would not allow the district to start to chip away at positions aside from immediate cuts. The district was in the process of determining its approach to the Alaska Reads Act. He stated the district desperately wanted to be a part of the dialogue on how it saw improved outcomes. He relayed there were questions on how effectively the district could implement the Reads Act because the \$680 did not leave the district with excess funding to invest.

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Co-Chair Edgmon asked about school reporting to DEED. He shared it had been presented to him that the state needed to do a better job of interactions between school districts and DEED in terms of fund reserve balances. He presumed Fairbanks North Star Borough School District went through an annual audit. He asked if there was a way to improve the reporting mechanism. He suggested it could perhaps occur twice per year.

Mr. DeGraw believed there was a better way. He valued the district's relationship with DEED, but the communication and timeliness of reporting could be improved. He stated it was a timing issue and numbers could be accurate and inaccurate at the same time. For example, he could put a number out in his community and people could use the number to argue both sides of a topic with no context. He believed the short answer was that data reporting could be improved. He believed one of the most important factors was good, accurate, and reliable information.

Co-Chair Edgmon referenced the [governor's proposed] pay bonuses legislation for teachers. He stated that Fairbanks was in tier I [the legislation had three specified tiers], which would mean a salary bonus of \$5,000 for each certified teacher. He asked Mr. DeGraw to couch it in a scenario where the district did not get the \$680 BSA increase it was seeking and the number ended up being much lower.

Mr. DeGraw stated his understanding of the question. He stated there was a nationwide challenge of recruiting and retaining teachers. He did not believe there was one silver bullet to solve the problems facing districts. He remarked that the challenges facing Fairbanks were very different

than those facing rural districts. He stated that Fairbanks did not face the same level of challenges facing rural districts. He liked the tracking component in the [governor's salary bonus] proposal to see what impact it had. He recognized that the cost was significant. He stated the bonus potential going teachers going to rural districts was significant. He believed the nature of the workforce was changing. He did not believe people could be expected to remain in one place for 25 to 30 years anymore. He elaborated that demographics were changing and people were more mobile. He suggested perhaps it became a conversation about how to increase the average time a teacher remained in a location. He thought it needed to be a "Swiss Army Knife" approach of pay increases, benefits, and health insurance. He thought there was some merit in the proposal especially to rural districts. He noted that he had spent time in a small school district that struggled with challenges facing many rural districts in Alaska.

Mr. DeGraw continued to answer Co-Chair Edgmon's question. He relayed the district would be in big trouble if the [BSA] increase was \$300. The district would need to maintain cuts below what it had experienced up to the current point into FY 24. He reported that if it was one-time funding it would generate significant challenges for Fairbanks.

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Co-Chair Edgmon clarified that he had presented the teacher pay bonuses and the smaller BSA scenario together because some people in the political world believed both could be done. He explained that one would have to be a smaller number in lieu of the other.

Mr. DeGraw replied that the district would by far prefer the larger BSA increase rather than a combination of the teacher bonus and a smaller increase.

Representative Galvin referenced Mr. DeGraw's comments on class size. She appreciated the district's hard work to maintain classes and extend education to every child. She referenced a study dated June 10, 2022 reporting that New York, Minnesota, North Carolina, Texas, and Wisconsin had spent the extra funds necessary to maintain class sizes. The study found that test scores in smaller classes by far surpassed those with larger class sizes. She reviewed the

benefits of smaller class sizes. She referenced Mr. DeGraw's testimony that the district was working to keep Kindergarten classes at 25 students. She stated the National Institute for Early Learning and the Center for Public Education had both said the size needed to be less than 20 students. She thought it was important to recognize that BSA dollars translated to class size. She found it concerning the district was looking at growing class sizes by two students in high school. She asked for the history of the decision. She asked how funding inside and outside the BSA would impact class size.

2:41:26 PM

Mr. DeGraw stated that the vast majority of a funding increase would go directly to the classroom. He reported that class size was becoming an issue in Fairbanks. He explained the main reason the district's fund balance was zero was that the Board of Education locally indicated a desire to maintain those lower and as long as possible. Five years ago, the kindergarten class size had been 21 to 22 and it was now up to 25 with the threat of having to increase to 27. The district had been able to find cuts in other places to keep the number at 25 for the coming year. Reductions made included teacher aids and teaching assistants. The vast majority of the \$680 increase would go into the classroom. The investment would enable the district to lower class sizes back to historical levels. Five years back the class size had been around 22 in elementary school and 25 or 26 at the middle school and high school level. Those class sizes had crept up by 2 to 4 over the last two to three years. He reported it had been seven years since the last BSA increase and they were at the end of the line.

Representative Galvin did not know where the district stood with teacher and other vacancies. She referenced the [governor's] teacher bonus proposal and calculated that if the state spent \$57 million for four years instead of three and paid full college tuition at UAF for high school students out of the community to become teachers, the state would grow more than 2,500 teachers for the state after four years. She stated there were many decisions to be made and she wanted to ensure teachers were receiving adequate salaries in Alaska. She wondered what the community would think and how the district was doing with vacancies.

Mr. DeGraw replied that the bonus program would not necessarily benefit Fairbanks as much because it was looking at hiring more teachers. He stated the two primary levers were the cost of salaries and benefits and the numbers. Fairbanks needed more bodies in classrooms as class sizes were lowered.

Representative Galvin asked if the district would be able to retain more educators if they were home grown.

Mr. DeGraw agreed emphatically.

[2:44:52 PM](#)

Representative Coulombe noted there was a Fairbanks Board of Education resolution in members' bill packets. The resolution explained that the district had done a great job reducing costs and it discussed the closure of [three] schools. She looked at the district's request for \$270 per student to the BSA per student over two years and inflation proofing. She wondered why the district had gone up from \$270 to \$680. She clarified that it was a resolution possibly from the end of the previous year.

Mr. DeGraw responded that he could look into the issue. He remarked that if the resolution was from the end of 2022 the information would be outdated.

Representative Coulombe asked what happened from the previous year to the current year that resulted in the district's need for the \$680 [increase in the BSA]. She was hearing from Mr. DeGraw that the increase was needed to cover the district's deficit. She wondered if the original amount would have impacted the deficit a little bit and the higher amount would cover it. She was trying to understand the difference in the requests.

Mr. DeGraw explained that Fairbanks had received about \$33 million in COVID funding and the district had relied on the funds to provide a soft landing. He elaborated that the district had been budgeting \$10 million to \$12 million in COVID funds for class size retention. Additionally, there had been huge COVID costs for districts. He detailed that people's jobs had changed and additional resources needed to be dedicated to address the pandemic. The main difference was that the district was hitting the cliff of available COVID funds.

Representative Coulombe referenced Mr. DeGraw's testimony on positions and closing schools. She asked if the measures were driven by lower student counts and an effort to consolidate.

Mr. DeGraw agreed it was fair to say that a portion was attributed to school closure and lower enrollment. Some of the staff was dispersed to other schools, but there was an overall reduction in staff. The district had lost 2,000 students at the onset of the pandemic and it had recovered 75 to 80 percent.

[2:48:30 PM](#)

Representative Hannan stated that in the past the Fairbanks School District's health insurance was fairly unique. She elaborated that the district had not been part of a health insurance trust, educators had been paid through a city joint plan with zero copay. She asked for the district's current healthcare cost per employee.

Mr. DeGraw replied that the district was self-insured, and the cost was in the range of a couple thousand dollars per month per employee.

Representative Hannan stated there was a bill that talked about consolidating districts into the state plan. She believed it would be an increase in the monthly cost for Fairbanks.

Mr. DeGraw responded that the district had looked at the idea a couple of times in the past 10 to 15 years and it had not been a beneficial move for Fairbanks. He did not suspect it would be any different at present.

Representative Josephson looked at the resolution mentioned by Representative Coulombe. He recalled that a couple of years ago Representative Andi Story had a bill to increase the BSA by \$74 million for two years. He had asked the Legislative Finance Division what the inflation adjustment was from 2017 and it had been somewhere in the neighborhood of \$150 million. He had subsequently offered the amendment in committee. He referenced that Mr. DeGraw had cited the depletion of COVID funding in response to Representative Coulombe's earlier question. He highlighted that much of the change was due to inflation adjustment in the past 18

months. He asked if it was the larger factor. He noted the committee had heard about the cost increase in a very large can of chili from another district earlier in the meeting.

Mr. DeGraw replied that the estimated cost increases in Fairbanks were not as extreme as those in villages but were roughly 13 to 14 percent since the last BSA increase. He stated that going into 2024, the number would pass 15 percent. He agreed there was huge pressure there. He referenced the resolution and relayed that the local board of education put out a legislative priority sheet at the beginning of the school year and included a request for a BSA increase of \$800.

[2:51:50 PM](#)

Representative Cronk clarified that the teacher shortage was occurring nationwide and was not unique to Alaska. He noted that Fairbanks did not have that issue. He asked for details on why.

Mr. DeGraw agreed it was a nationwide and statewide challenge. The district did not have the same challenges as the rural districts as Fairbanks was on the road system and was a larger municipality. He confirmed that regular teaching positions were not as much of a challenge for Fairbanks; however, the district did see a challenge in the special education area. He reported that about three-quarters of the district's vacancies were in the special education department.

Representative Cronk stated that if salaries were higher it was an incentive for people to want to live in those areas. He stressed that if the governor's proposal were adopted, a teacher couple would make an additional \$30,000 in one of the schools in his district. He would probably never leave if he was in the situation. He believed Fairbanks paid fairly well and it was one of the reasons its turnover was low.

Mr. DeGraw believed the challenge of addressing recruitment and retention was a multi-tooled approach. The first was a good work environment, which included class sizes. The district needed to hire more teachers in order to reduce class sizes to improve the work environment for teachers. Teachers were "pulling their hair out" with class sizes of 33 students. Pay was another approach. He stated that if

pay was number two or three on a survey list, he absolutely agreed it would make a difference. Retirement was another component. He underscored that tackling the issue was a multipronged approach.

Co-Chair Foster recognized Representative Maxine Dibert in the room.

Mr. DeGraw thanked the committee members for their service and dedication to the state. He remarked there were no easy answers to many challenging decisions. He reiterated his strong support for a permanent increase to the BSA.

[2:56:11 PM](#)

DR. RANDY TRANI, SUPERINTENDENT, MAT-SU BOROUGH SCHOOL DISTRICT (via teleconference), spoke in favor of the legislation and timely, reliable, and predictable funding. He shared that the Mat-Su Borough School District (MSBSD) had its highest student enrollment in the current year. He reported that the district had the most career and technical education courses per student and most advanced placement student courses ever. Additionally, the district had recently posted its best graduation rate ever. The district wanted to continue to build on its successes. He referred to a handout titled "DEED School District Fund Balances" (copy on file). He pointed to the top of slide 1 showing the districts unrestricted unreserved ending fund balance of \$14.911 million and a total by district number of \$85,419,000. He recognized that if a person casually looked at the figures, they would wonder why the district needed any more money. He would explain in the upcoming slides how the funding was or was not available for future spending.

Mr. Trani explained that the \$19.9 million represented 6.126 percent of the district's expenses. He detailed that \$3.5 million of the total was reserved for the district's charter schools. He noted that the district had some of the highest achieving and oldest charter schools in the state. He relayed that the local school board policy required the district to maintain a 5 percent fund balance. He stated that including the money the charter schools had been saving to build permanent facilities for themselves, the district had a 6.126 percent balance. He reported that the district had about \$11.5 million available for use. The other funds had already been spent or were unspendable.

3:00:02 PM

Mr. Trani turned to slide 2 showing zero dollars under the FY 22 pupil transportation category. The chart in the lower right showed that the district had been supporting transportation funds with general fund dollars for at least five years. The first bullet on the left showed the district would spend \$4.2 million in general funds to support pupil transportation. From FY 18 through FY 22, the district spent \$6.7 million out of general funds for transportation. He noted there would be savings in FY 23 as a result of the month-long school bus driver strike in addition to service failures due to a lack of drivers. He did not believe it was a coincidence that all of the big five school districts had struggled with transportation in the current year given there had been no increase in eight years.

Mr. Trani moved to slide 3 and highlighted the FY 22 capital projects fund balance of \$13.5 million and the FY 22 total from other governmental funds of \$32.3 million. He explained that because there had been a moratorium on bond debt reimbursement, the Mat-Su Central School had a lease running out and would not have a home. The district was partnering with the borough to build the school a new home and \$10.5 million of the \$13.5 million had already been transferred to the borough for construction in the coming summer. The remaining fund balance after June 30, 2023 would be approximately \$3 million for things like carpet.

Mr. Trani pointed to a chart on the bottom right of slide 3 and highlighted the nonspendable category of \$8.2 million shown in black. The category included things like subscriptions to curriculum and technology. He noted that the district purchased the items for years into the future to get a better rate. He relayed that about \$3 million of the total was for inventory including food. The restricted category shown in gray was \$2.8 million and reflected unspent student allotments for correspondence students. He stated it was money that had been promised to families and could not be used by the district. The committed category shown in blue included \$14.88 million in student activities and renewal/replacement funds. He elaborated that schools raised money for the various sports teams. The district had gone to a one to one initiative due to COVID-19. He detailed that each student had a computer to take home

starting in third grade. The fund worked to support the refresh and renewal of computers annually.

Mr. Trani reviewed the assigned category with \$6.3 million shown in red. The category included self-insurance, food service funds, and other projects. He explained that other projects included things like elevator upgrades. He stated that although \$45 million to \$46 million between capital project funds and other governmental funds was a large amount of money, the funds had either been spent or were not available to the district.

[3:05:17 PM](#)

Mr. Trani discussed the district's COVID funding on slide 4. He highlighted that as of December [2022] the district had \$24 million in COVID funds. He clarified that the figure did not include the money the district expected to spend in the third and fourth quarters of the current year. The district anticipated it would be down to \$14.391 million in COVID relief funds. He relayed that all of the funds were included in the district's current budget for the coming year. The slide listed ways the COVID funds had been used by the district and the largest expenditure had been maintaining staffing to keep class sizes as low as possible.

Mr. Trani advanced to slide 5 and highlighted the FY 23 general fund unreserved ending fund balance. He pointed out that the number had increased from \$15 million in 2022 to \$24 million in 2023. The district was trying to be very transparent because he did not want people to think the district was hiding money. The district was in a long and protracted bargaining with two of its largest unions. He reported that MSBSD was the ninth largest employer in the state and had thousands of employees. The district anticipated that any settlement that would hopefully come over the summer would include work that had already been done. He communicated that a 2 percent raise for the two groups would cost the district approximately \$3 million in the current year and would carry forward to the next year. He stated if the contract was settled at a raise of 2.2 percent, it would represent \$9 million. He explained that the result would be a very limited available fund balance of about 6 percent. He informed the committee that by the end of the next school year it would be out of COVID

funding. He provided a brief summary of the numbers in his testimony.

[3:08:18 PM](#)

Co-Chair Foster thanked Mr. Trani for the detailed breakdown of the numbers.

Co-Chair Edgmon asked about reporting and keeping DEED informed on a better basis. He asked for Mr. Trani's thoughts.

Mr. Trani believed the district's finance department was capable of providing updates to DEED on a more robust reporting schedule. He noted the numbers would not be audited given the audit only occurred once annually. He stated that the district was very good at predicting what it would have.

Mr. Trani requested to share additional testimony. He reported that MSBSD was one of the rare school districts in the state that was growing. He explained there were cuts in the budget that could not be seen. The district was expecting an additional 250 to 300 elementary school students. He explained that when the district budgeted, it was not budgeting to add the normal number of employees it would take to operate a new elementary school. The district's budget was built on the \$30 increase to the BSA in statute and all of the one-time funds. He stated it was different than other districts the committee had heard from such as Juneau. He explained there were hidden cuts because MSBSD was adding students faster than it was adding staff.

[3:10:51 PM](#)

Co-Chair Edgmon referenced [the governor's proposed legislation for] teacher bonuses. He gathered the district was doing well with teacher recruitment and retention and likely did not need bonuses in order to continue that trend.

Mr. Trani responded that the district dedicated two entire staff to work on teacher recruitment and retention year-round. He reported that the district had a challenge recruiting special education teachers. He referenced his earlier testimony that the district's bus contractor was unable to hire bus drivers. He relayed he had just visited

a high school in the district that had been without a front office staff member since before Christmas. The school had tried to hire the position multiple times and had lost one person after a day because they were offered a higher paying job elsewhere. During his three years with the district, they had never had a full contingent of janitors. He stated that attracting teachers was important (and salaries and benefits helped with that goal), but the district needed support within the BSA because it was not the only category the district had filling.

Co-Chair Johnson thanked Mr. Trani for presenting. She appreciated the effort and consistency he had brought to MSBSD.

Representative Hannan asked how many teachers in the district were untenured.

Mr. Trani estimated that each year the district hired between 100 and 150 new teachers per year, and it took three years to become tenured. He estimated there could be 450 untenured teachers (out of approximately 1,200) at any given time.

Representative Hannan provided a scenario where the governor's bonus bill passed. She asked if teachers given a \$5,000 hiring bonus in Mat-Su would be likely to leave for a district with a \$15,000 per year bonus.

Mr. Trani stated that districts on the road system generally attracted teachers from the bush; it did not generally go the other way. He considered that a \$15,000 bonus could potentially encourage a teacher to move to the bush for a job. He was unsure. He stated there were just not enough teachers in Alaska to go around to all 54 districts.

[3:16:04 PM](#)

Representative Galvin thanked Mr. Trani for his work. She appreciated the information that Mr. Trani provided about the graduation rate, advanced placement classes and other. She stated it was phenomenal work particularly in light of emerging from a pandemic. She hoped the legislature could award the district with predictable funding.

Mr. Trani thanked the committee.

3:16:52 PM

ANDY RATLIFF, CHIEF FINANCIAL OFFICER, ANCHORAGE SCHOOL DISTRICT (via teleconference), provided a PowerPoint presentation titled "Anchorage School District Fund Balance and Fiscal Outlook" (copy on file). The Anchorage School District (ASD) average daily membership (ADM) was almost 44,000, about 34 percent of the state's total ADM and 38 percent of the brick and mortar students (non-correspondence). The district had 95 schools, 33 of which were Title 1. The district had \$351 million out of the total \$1.03 billion (33.9 percent of the total funding). He recognized that \$351 million was a substantial amount of money, but the district had a significant number of students. He did not believe it was accurate to say that Anchorage had a lot more money compared to other districts when comparing to its ADM.

Mr. Ratliff looked at slide 3 and discussed FY 22 and the remaining COVID relief funding. He explained that the district was only reporting funds spent through December 31 and it did not account for the third and fourth quarter spending. He noted that the district's fourth quarter spending would be considerably higher because teachers received two paychecks in May to help pay them into the summer. Additionally, there were June summer school costs of \$4 million to \$5 million. The district was projecting slightly more than \$20 million remaining for FY 24, which had already been allocated to mitigate further class size increases. The district was currently projecting a class size increase of one across all grade levels. Some of the uses of COVID funds included class size retention/reduction (one of the large expenditure items for FY 23, about 477 FTE were included at about \$56 million), virtual instruction, Chromebooks for remote learning, reading interventions, summer school, air quality improvement, mental health supports, charter school support, PPE, and instructional software.

3:20:47 PM

Mr. Ratliff moved to slide 4 and continued to discuss FY 22 fund balances and remaining COVID funding. Of the unreserved general fund money of \$71.7 million, \$25.7 million was restricted preserve the municipality's bond rating. There was \$46 million in unreserved funds at the

end of FY 22, which equated to just under one month of expenditures. The district anticipated the amount would grow a bit in the current year because the district had saved \$16 million that it received out of its proportionate share of the \$57 million one-time funds for FY 13 and it had numerous unfilled positions. The saved money would go towards next year's budget. There was \$3.1 million remaining in transportation funds, \$2.4 million of the amount would go towards shoring up the FY 24 budget. The capital projects fund of \$16 million was generated through voter approved bonds and could not be used for other purposes.

Mr. Ratliff moved to slide 5 and discussed the district's other governmental funds. There was \$90.5 million in debt service. The district had about \$4.1 million in from property tax proceeds, which was restricted to repay debt. The remaining \$86.4 million from prior years state school bond debt reimbursement paid by the state at the end of FY 22, which had been transferred to ASD's capital projects to help address the \$900 million deferred maintenance backlog. Additional restricted funds included food service, student activities, federal impact aid, and self-insurance. The district had \$28.6 million in encumbrances for ongoing projects, almost \$18 million of which was reserved for charter school carryovers and 10.7 million was for ongoing maintenance projects (i.e., IT equipment and software, curriculum adoptions, and audits). A portion of funds also went to required prepaid items.

[3:23:41 PM](#)

Mr. Ratliff addressed the district's FY 24 outlook on slide 6. The district's FY 24 budget had been approved by the school board and assembly. The budget relied on \$45 million in fund balance and savings would be spent down to the 8 percent school board minimum. Of the 8 percent minimum, 4 percent was reserved to preserve bond ratings. The budget also relied on \$20 million in COVID funding to limit increases in class size; it also increased teacher ratio by one at all grade levels. Class sizes would be increasing in FY 24. He reported that the ASD's FY 25 deficit was expected to be \$85 million to \$90 million based on current funding and 3 percent inflation. He emphasized that the absence of a BSA increase would cause immeasurable havoc during the district's budgeting process. He explained that the district presented its budget to the board in January.

If the district had one-time funds or did not know what the BSA would be for the following year, it had to balance its budget based on current statute.

Mr. Ratliff underscored that a deficit of \$85 million to \$90 million was 900 to 1,000 positions. The district started doing its staffing in March and April; if staff were not in place, they would begin looking for other jobs in different districts, states, or industries. He stressed the importance of reliable, predictable funding in order to create a financial plan and to avoid losing employees. He added that even if funding came back in May or June prior to the start of the next fiscal year, it would be much harder to add positions and hire people if they had already found other jobs.

Mr. Ratliff advocated for a permanent BSA increase with inflation proofing.

[3:26:36 PM](#)

Representative Coulombe looked UGF of \$71.7 million on slide 4. She referenced Mr. Ratliff's testimony that \$25 million of the total went to preserve the municipality's bond rating and \$46 million was unreserved. She asked for more detail on the \$46 million.

Mr. Ratliff responded that when DEED set the UGF balances - he believed Anchorage was the only district with the bond rating - the truly unreserved money was unassigned in the district's fund balance. Some of the funding was outside of the board policy of an 8 percent minimum [fund balance]. He stated the funds could be spent if needed, but the amount was enough for a little under one month of expenditures.

[3:28:13 PM](#)

Representative Galvin appreciated the presentation and slide 2 explaining the large amount ASD was looking at. She thought it appeared to be 0.06 less than the percentage of students. She referenced the \$85 million to \$90 million deficit in FY 25 based on current funding and 3 percent inflation. She asked what BSA number would keep the district whole (excluding inflation).

Mr. Ratliff replied that it depended on how the issue was looked at. He stated that if the district wanted to burn

through some of its fund balance it could do so. However, if the district was able to put the \$45 million towards some of its unfunded deferred maintenance backlog and add back the PTR [pupil to teacher ratio] increase of \$7.4 million, the BSA increase would need to be about \$715 to cover the \$52.4 million. He added that \$20 million in ESSER money that would have to be spent in FY 24. He thought the district would need an additional \$530 in the BSA for FY 25 to cover all of the one-time money and PTR.

Representative Galvin stated it helped her appreciate the "COVID cliff." She detailed that once the [federal COVID relief] funds were gone it would be a substantial change. She asked if Mr. Ratliff's answer included increasing class size.

Mr. Ratliff answered that the BSA increase would enable the district to restore the one PTR increase.

Co-Chair Edgmon thanked the co-chairs for providing substantial time talking to school districts on two different occasions. He listed the Alaska Gateway School District, Lake and Peninsula School District, and the Fairbanks, Mat-Su, Anchorage, and Juneau school districts. He noted his list may be missing other districts that had testified. He stated the need to provide more support to schools was undisputed. He suspected the BSA would be increased during the current session, but the amount was unknown at present. He believed the BSA increase would be insufficient. He thought there would be continued backsliding in the state's public education system, in addition to continued erosion of the quality of services provided across the state. His third takeaway from the testimony was the need for improved reporting. He believed the document provided by DEED failed to capture the picture of the current situation with the school districts. Yet coincidentally, the information was sufficient enough for DEED to play a role in putting together the teacher bonuses legislation. He continued that the legislation broke the teacher bonuses into three tiers where teachers in rural areas would earn a bonus of \$15,000, teachers in midsize schools would earn \$10,000, and teachers in larger, urban schools would earn \$5,000. He highlighted that larger urban schools that arguably had an equal or greater need in some respects for additional resources, would have the smaller bonus. He relayed that if the teacher bonuses bill came to the House Finance Committee he would seriously consider

amending it to make it permanent, make it more reflective of the smaller schools that had a difficult time recruiting and retaining, and trimming back some of the costs involved in the \$57 million annual price tag, which he did not believe was sustainable. He thought providing bonuses for three years was a short-term panacea band aid. He thought an intersection had been reached and something needed to be done for public education in the current session.

Co-Chair Foster stated public testimony and an amendment deadline had yet to be determined. He spoke about different options for education.

HB 65 was HEARD and HELD in committee for further consideration.

#hb50

HOUSE BILL NO. 50

"An Act relating to the geologic storage of carbon dioxide; and providing for an effective date."

[3:34:32 PM](#)

Co-Chair Foster OPENED public testimony.

GEORGE PIERCE, SELF & NEIGHBORS, KASILOF (via teleconference), spoke in opposition to the bill. He stated the bill was bad for the ground water, land, and trees. He opposed carbon capture storage. He emphasized that the issue was about money. He stated it was a handout to the oil industry and lobbyists pouring money into politicians' pockets. He remarked that the state would not be levying a high enough tax to reduce emissions to the desired extent. He stated that the legislature did what the oil industry told it to do. He stated the governor's carbon capture tax did not address the largest carbon dioxide emitted from fossil fuel methane. He stated it was bad for permafrost, highly expensive, and energy intense. He highlighted that the state's oil industry produced 3 billion tons of CO2 per year. There was no place to put all of the CO2 and no chemical process to extract it in any reasonable time. He stated that carbon capture and sequestration was almost entirely a PR fig leaf promoted by the fossil fuel industry. He relayed the proposal was only feasible if the gas exceeded the additional cost of removal. He stated that Alaska gave the industry \$1 billion in free gas to inject

into wells. He stated it was all about oil recovery. He stressed that the proposal would add no new revenue to the budget. He encouraged the legislature to look closely at the issue and stated the bill should be thrown in the trash.

3:39:24 PM

TRISH BAKER, CHUGACH ELECTRIC ASSOCIATION, ANCHORAGE (via teleconference), shared that the company was the largest electric utility in the state. She spoke about the company and its service area. The company was committed to responsibly developing clean and sustainable energy for the state. The company's energy portfolio included a mix of natural gas, hydro, and wind. It was working towards its goal of reducing the carbon intensity of electricity generation. The company was evaluating several types of projects to achieve its decarbonization goals. Carbon capture and sequestration was one of the options the company was looking at. She stated the bill would make the option more achievable. She elaborated that when fully developed, carbon capture technology may provide an additional tool for decarbonizing new or existing energy generation. She relayed that the bill would help Alaska complete installation of carbon sequestration infrastructure vital for an electric utility carbon capture program. The company supported the development of a carbon management framework.

3:41:35 PM

CHRISTINE RUSLER, PRESIDENT AND CEO, ASRC ENERGY SERVICES, ANCHORAGE (via teleconference), testified in support the bill. She hoped the state stayed at the forefront of making carbon capture safe and economical in order for Alaska to prosper for future generations. She relayed that the Department of Natural Resources had been actively engaging with carbon capture utilization working groups and she had been an active part of. The group brought together state agencies, private corporations, and the university to discuss a clear path forward. She hoped the Alaska Oil and Gas Conservation Commission (AOGCC) would be given the authority to pursue primacy to enable faster permitting and to increase the likelihood of receiving government funding. She believed the bill would attract more investment in carbon capture in Alaska. She supported the bill and thanked the committee.

[3:43:31 PM](#)

LYDIA SHUMAKER, SELF, WASILLA (via teleconference), opposed the legislation. She addressed the tax credit that was the only driver for companies to partake in CCUS [carbon capture utilization and storage], a way of signaling environmental savings. She stated that CCUS projects never met their expected goals and it had not been discussed in any of the bill hearings. She stressed that the bill's fiscal notes specified that the amount and timing of revenue from the bill proposal was not yet known. She stated that unknown revenue was a terrible way to move forward on any project. She stated that the bill was not needed to apply for Class VI primacy. She strongly opposed the bill.

Representative Galvin asked about Ms. Shumaker's reference to taxpayer expenses of \$281 million. She asked if Ms. Shumaker was referring to a state or federal project.

Ms. Shumaker answered it was a federal project in Illinois called Archer Daniels Midland. She detailed it was an attempt at a CCUS project, the same as the type proposed under the legislation. The project had failed and cost over \$400 million with \$281 million covered by the federal Department of Energy. She stated the federal government did not make money, it only collected taxes. She stated essentially the taxpayer had to pay for it.

Representative Hannan asked about Ms. Shumaker's affiliation and requested her testimony in writing.

Ms. Shumaker responded that she was not affiliated with a group and she would submit her comments in writing.

[3:47:45 PM](#)

KASSIE ANDREWS, SELF, ANCHORAGE (via teleconference), opposed the legislation. She stated it had been stated numerous times that the biggest incentive to the proposal was the 45Q tax credit. She relayed that according to Taxpayers for Common Sense the Treasury Department's inspector general for tax administration found that only 10 entities claimed over \$1 billion in 45Q tax credits from 2010 to 2019, which was roughly 99 percent of the total credits claimed. She relayed that out of the 12 commercial

capture projects as of 2020, only one project sequestered captured carbon. No reporting had been made public on the amount of carbon that would be pumped into the ground. She stated that the 45Q program was in noncompliance with reporting standards. She reported that of the \$1 billion claimed, nearly 90 percent did not comply with Environmental Protection Agency reporting requirements. She stated that the tax credit was an unproven climate solution, commercially unviable, and mired in a history of tax fraud. She highlighted that \$30.6 billion was the latest estimate on the credit, which did not include the Inflation Reduction Act expansion. She asked how Alaskans would benefit from the proposal. She reasoned the proposal would stand on its own two feet if it was such a great idea rather than being supported by consumers.

[3:49:33 PM](#)

KEN GRIFFIN, SELF, WASILLA (via teleconference), stressed that the technology had not been proven to be profitable. He underscored that all of the major projects throughout the world had failed. He referenced a failed project in Australia where an uptick in CO2 emissions had occurred because of the inability to capture the gas. He underscored his belief the proposal was a scam. He reported there were 25 other states fighting the idea. He was not saying don't pass the bill, but he supported putting the brakes on the issue to study it. He stated it was necessary to ask why 25 states were fighting the idea. He remarked that the governor had signed something against ESG [environmental and social governance] investments. He underscored it was a big contradiction and problem. He stated the 45Q in the state's own testimony in the Resources Committee was referred to as "spaghetti law" and full of fraud. He stressed that budgets were bloated, borrowing was to the max, and the GDP was terrible. He stressed it would grow government and the government would have to find a way to keep funding it. He stated it was a bad idea. He referenced the 45Q tax credit and stated there was a huge difference between collectively taking money from taxpayers from the IRS to give to a company that wanted to shift liability to citizens compared to the state lowering the tax burden to increase competition. He stressed that the companies would be doing this on their own if it was a proven and viable concept. He asked the legislature to put the brakes on the issue.

[3:53:12 PM](#)

FRANK PASKVAN, AFFILIATE PROFESSOR, UNIVERSITY OF ALASKA FAIRBANKS (via teleconference), supported the bill. He had been working in carbon capture and storage on behalf of the university for the past several years. He also led a statewide carbon capture workgroup with over 150 people representing industry, the university, the public, nongovernmental organizations, and state agencies. The university and the Department of Natural Resources had held workshops in 2022 to gather input for the research and development of the bill. The mission of the workgroup was to accelerate commercial carbon capture projects in Alaska to enable investments and provide options to lower the carbon footprint of activities of vital importance to the state economy including power generation at refineries. He detailed that the Infrastructure Investment and Jobs Act (IIJA) of 2021 provided \$62 billion over five years for emission reduction programs, including more than \$10 billion for carbon capture and other methods to limit emissions from industry. A separate law in 2022 included \$2 billion for carbon dioxide removal and extending the 45Q tax credits. He relayed that for the state to compete for the funding, it was fundamentally important to establish a legal framework enabling carbon storage. He encouraged the committee's support.

Representative Galvin referenced Mr. Paskvan's work with other stakeholders. She referenced Mr. Paskvan's testimony that the bill was critical to enable investments. She asked if he was referring to federal investments or projects happening that may be looking at ESGs.

Mr. Paskvan replied it was necessary for both. He stated that the bill enabled the Department of Natural Resources to lease subsurface storage area for carbon dioxide. He relayed that without the provision in law, there was no possibility of any project. He explained that the bill would establish all of the necessary items for the business of carbon storage. He relayed there were at least 12 states establishing similar laws. He stated that Alaska could play a big part in the new and growing industry, which was seen as an important element in reducing the carbon footprint.

Representative Galvin understood the industry had been using similar technology that would make the concept viable. She recognized the state had the space between the

rocks for the technology. She asked about the more global aspects. She referenced a brief conversation she had with GaffneyCline and stated her understanding that the concept of other states sending carbon to Alaska for storage had not been fully flushed out. She thought it seemed there was a lot of pretty major technology that had yet to be put in place, whereas the storage by industry may be viable currently. She asked if the bill was covering more than it needed to. She wondered if they could think about the global portion at a later date while still satisfying what was needed for industry to become competitive in its work to satisfy ESGs and other.

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Mr. Paskvan replied that the aspects of leasing the carbon storage space would be fundamental to an instate storage project or imported storage project. He believed Japan had put together a CO2 research storage vessel, but it was very early days. He did not know of anyone transporting CO2, but Alaska had the rocks and the opportunity to compete. He did not know how the bill would treat or discriminate between the two.

Representative Galvin thought it could be something for later investigation. She thanked Mr. Paskvan for his testimony.

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HERMAN MORGAN, SELF, ANIAK (via teleconference), did not support the bill. He stated they needed to get out of ESG investment and Blackrock because it was destroying the economy. He wanted the Permanent Fund to be given back to the people. He spoke to the need to invest in cheap energy in rural Alaska such as propane to heat water and homes. He supported investment in a gas pipeline to bring cheap energy to residents. He stated the carbon capture nonsense was not right. He thanked the committee.

Co-Chair Foster reviewed the email address for public testimony.

Co-Chair Foster CLOSED public testimony.

Co-Chair Foster asked for a review of the fiscal notes beginning with the Department of Revenue (DOR).

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ERIC DEMOULIN, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF REVENUE, reviewed FN 8, control code wpuhz. He stated it was important to note that carbon sequestration was a rapidly emerging market in the very early stages. The department recognized there would be infrastructure needs and an incentive for investment to get things moving forward. The department's fiscal note was indeterminate due to variables that could not currently be quantified. He referenced the federal 45Q changes that occurred in 2022 and 2023. The department looked at it as being a potential economic benefit to have some sort of influence for companies to be able to invest.

Representative Galvin referenced earlier public testimony by Mr. Paskvan that there were 12 other states currently establishing similar laws. She asked if the fiscal notes considered what the state's competition was looking at. She noted Mr. DeMoulin's statement that the market was dynamic and moving fast. She asked if it meant the state would miss out on potential revenue if it did not pass legislation quickly. She asked if the 12 states had similar market conditions. She considered companies outside of Alaska would all have to determine how to transfer CO2, whereas that may not be such an issue in other states.

Mr. DeMoulin deferred the question to a colleague.

FADIL LIMANI, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE (via teleconference), responded that the revenue was indeterminate at present as the state was seeking to secure the enabling authority to determine the market in Alaska. He reported it was a rapid emerging market nationwide and many states were starting to jump onboard. He stated it was a global market. He relayed the industry was constantly changing and was a trillion dollar business. The state was currently working with some groups to be able to provide conceptual framework on the financial aspects of the market. He remarked that he was not privy to the information related to other states, but he could follow up.

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Representative Galvin referenced earlier testimony that the federal government was dispersing \$10 billion. She thought she may have heard the number \$62 billion listed as well. She asked if there was a time limit on receiving the funding. She asked if Alaska would miss out on being a strong applicant for federal funding if it did not pass legislation.

Mr. DeMoulin deferred the question to Mr. Limani.

Mr. Limani responded that he did not know what federal programs were available in relation to the figures provided by Representative Galvin.

Mr. DeMoulin asked Representative Galvin to provide any additional information she may have to aid in a follow up response.

Representative Galvin replied that she was referring to notes she had taken during Mr. Paskvan's testimony in support of the legislation. She noted Mr. Paskvan also testified he led the workgroup related to carbon capture and sequestration. He had cited the figures \$62 billion and \$10 billion related to carbon capture.

Mr. DeMoulin replied that the Department of Natural Resources may have more information during its portion of the fiscal note review.

Representative Josephson looked at page 2 of the DOR fiscal note that discussed potential impacts on revenue including the severance tax. He remarked that the unknown should be a red flag for any legislator; however, he was assuaged by the fact that the bill was designed to be structure or scaffolding. He understood they were trying to create an enabling act. He surmised the state could put the brakes on if it learned the impact on its production tax was bad. He concluded the legislation did not involve making final decisions.

Mr. DeMoulin believed it was a fair statement. He explained that the legislation gave the state a framework to work with but there was no obligation in terms of next steps.

Mr. Limani stated it was a fair assessment. He relayed the department did not currently have a clear assessment of what the market entailed without having the ability to

determine which particular areas the state was looking at in order to be able to quantify the revenue impacts. There was no initial investment by the state; therefore, once the state received enabling authority it could determine gathering of the data related to fiscal impacts.

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BRETT HUBER, CHAIRMAN, ALASKA OIL AND GAS CONSERVATION COMMISSION (AOGCC), reviewed the Department of Natural Resources (DNR) fiscal note control code MPzCQ. Following the passage of the legislation, the AOGCC would concentrate on seeking primacy for Class VI wells from the EPA and doing the regulatory package underpinning the statutory direction contained in the legislation. He relayed it was a substantial regulatory lift for the agency. He relayed it was a new program, but not new to the business the agency conducted. The agency would be in charge of the vast majority of the program, particularly as it pertained to the underground. He noted that DNR would handle some of the surface components such as licensing and leasing unitization. The fiscal note added two positions in the first two years including a senior carbon engineer at a range 26 and a fully exempt carbon assistant at a range 18. The cost for the positions was \$388,000 annually through 2029. There was a services component of \$650,000 for the first two years, \$50,000 of which was for the statewide corps services allocation and \$300,000 was for the Department of Law for AOGCC's regulatory lift and the opportunity to contract with expertise that had gone through the process in other states.

Mr. Huber stated it was possible the work would be done entirely in-house or partially in-house, but the numbers in the fiscal note covered the maximum the agency would need to cover the process. Page 2 of the fiscal note specified the funds of about \$1 million per year in the first two years were general funds. The department had been invited to put in a letter of interest to the EPA grant program. There was \$50 million currently in the program and about half the states applied for the program. He relayed that the request for interest period was closed, but applications had not yet been sent out. The agency assumed the state's share may be \$2 million with \$1 million received in the first year. The agency believed it would recoup all or the majority of the \$2 million in the first two years from federal funding. The fiscal note showed a

needed increase in the agency's federal receipt authority, but it would not necessarily need to be handled in the current budget work. He relayed it could be handled via RPL [revised program legislative] or in a supplemental budget the following year.

Mr. Huber highlighted that the agency believed there was revenue potential from the program. However, until there was a regulatory or statutory framework in place, it was what DNR had testified as the thrust of the bill "to hang some regulatory bones out there to have the conversation with the industry" to determine the level of interest and potential levels of dollars changing hands may be. The agency intended the program to be fully funded by the regulated industry as was the case with the oil and gas industry. There were a number of mechanisms by which the bill allowed the agency to garner the funds into the Carbon Storage Facility Administrative Fund. He reiterated that the fiscal note was indeterminate. He highlighted staff and services lines of \$388,000 and \$350,000 for a total of \$738,000 in FY 26 through FY 29 with corresponding designated general fund (DGF) revenues for a net zero. He stated the number could change on the top or the bottom. The agency could potentially manage it in-house or via contract due to substantial modeling. The bill gave the flexibility for either or both options.

Representative Hannan noted Mr. Huber's reference to the EPA grant program. She asked if the state had applied but did not know if it would receive the grant funds. She asked if passage of the legislation was required in order for the agency to apply for EPA grant funds to backfill general fund costs.

Mr. Huber clarified that prior to the beginning of the year the governor's office received notice of a grant opportunity to seek primacy of the Class VI program through the EPA. The administration and Congress determined they would prefer to have the program managed through the states instead of the federal government and had put forward \$50 million to assist. The state had submitted its letter of interest and that part of the process had closed at the end of March. He relayed that the EPA should be issuing grant applications shortly, at which point, the agency would complete and submit the application. The agency believed it would operate similarly to its Underground Injection Control Class II program that was currently with the

federal government. He elaborated that the state believed it would get the funding, but the grant application and approval were not yet in place.

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Representative Hannan asked if the agency believed the legislation was necessary in order to apply for the Class VI primacy. Alternatively, she asked if the state could apply for the Class VI primacy and grant without the passage of the legislation.

Mr. Huber answered that it was AOGCC's estimation that the state was able to begin the process of seeking primacy, but could not accept primacy without the legislation. He added that the agency would not have submitted the letter of interest if it could not do so without the legislation.

Representative Stapp asked if the agency could apply for and receive the grant funding without passage of the bill.

Mr. Huber replied he believed so. He relayed that the agency had not seen the grant rules, but there was every indication it was a grant to seek primacy, not to receive primacy. He believed they could start down the grant process of receiving and expending the funds to start looking at the regulatory process. He added that in order to receive primacy and perhaps some of the regulations it would require the state to have the authority to accept primacy and to promulgate some of the regulations only allowed under the legislation.

Representative Stapp referenced the request to hire a senior carbon engineer. He presumed the expertise was likely not in high supply due to the new nature of the industry. He thought action should potentially be taken in order to hire the position.

Mr. Huber answered there was more demand than supply currently. The agency found it to be the same situation when hiring senior petroleum engineers or senior petroleum geologists. The jobs were not easy to fill, especially when looking at who was competing for the small pool of individuals. He highlighted that the industry side was able to pay much more than the state. He confirmed that the sooner the state was able to begin the process of seeking an individual to fill the position the better.

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RYAN FITZPATRICK, DIRECTOR, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, spoke to DNR's fiscal note 7 control code CFleg, OMB component 439. He reported that the fiscal note reflected zero dollars in additional expenditures. The department anticipated that standing up the program could be accomplished using in-house resources, primarily within the Division of Oil and Gas. He detailed that DNR's role in the CCUS bill was primarily with regard to leasing of state lands, which was very similar to the leasing program the division operated for oil and gas leases. The staff involved in oil and gas lease offerings, lease management, and unitizations would be the same staff undertaking the new operations. The revenue reflected in the fiscal note was indeterminate. He explained that DNR would look at revenues from the leasing activity and as the projects progressed there would hopefully be injection fees or gross revenue receipts from project operators. The outyears reflected expenses for the legislation. He noted it was possible that if there was a large increase in lease applications that took substantial staff time the department may need to request management funds in the future. He explained that under the scenario, there would hopefully be a better picture in terms of potential revenue and revenue could help cover any additional staff costs.

Representative Galvin recalled seeing a cost per tonnage as a placeholder. She assumed it came from looking at other projects. She understood there was not a full business plan currently. She considered the scope within Alaska and the industry that was already present. She wondered if the department would share anything it had currently with regard to the cost per tonnage of injection. She thought it would only apply after injection was used for production. She asked for verification it would only count as carbon storage.

Mr. Fitzpatrick responded that the original version of the bill had looked at one other equivalent state lease with commercial terms the department could review. Based on the initial bill, the department had used an injection fee of \$2.50 per ton as a placeholder along with a \$20 per acre minimum rental fee for the license of the lease terms. As the department continued to investigate and looked at other leases that included the commercial terms rather than a

recorded notice of the lease, it found increasing variability around the commercial terms for different CCUS projects. He stated that CCUS was an evolving industry and part of the reason for the variation in commercial terms was due to the different economics present in different projects. He elaborated that the different economics depended on whether a project was capturing from an industrial process with a pure CO2 stream versus a post combustion process with a more diluted stream. The economics of the different projects drove very different economics in regard to the commercial terms for the injection and storage piece of the project.

Mr. Fitzpatrick explained that as DNR looked at additional leases, it had concluded that setting a minimum commercial term, especially at the rate it initially used, ran the risk that the state could price itself out of the market for several potential types of projects. The bill had been amended to provide for commercial terms being set by the commissioner through a regulation and rule making process that would be subject to public notice and input. He relayed that the different leases DNR had seen included a variety of commercial terms including injection fees that ranged from \$1.00 and over \$3.00 per ton. Some lease terms also referenced other types of commercial terms such as a percentage of gross revenue or revenue sharing on a net basis. He explained the variation was the reason the bill had been amended to be more flexible with regard to commercial terms. The state would like to target being as high up in the commercial competitive scale as possible.

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Representative Galvin thought it sounded like a complicated formula when deciding how to determine the best rates for Alaska. She understood it was currently a moving target in light of the rapidly changing market. She added that Alaska was unique. She thought about companies already working in Alaska and considered that if they wanted to use the technology it may be an advantage for the state. She hoped Alaska could obtain the higher end of the \$1.00 to \$3.00 range. She understood why the change had been made to the bill to be flexible. She had spoken with GaffneyCline and understood the market was dynamic. She stated her understanding the department was looking at two markets: the market in Alaska and the market globally. She would be following the issue with a positive and hopeful attitude.

Co-Chair Foster turned to the next fiscal note from the Department of Environmental Conservation, control code Zlvkm.

JASON OLDS, DIRECTOR, AIR QUALITY, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, spoke to the department's zero fiscal note. The department was not anticipating expenses and generally supported the bill. He stated that the emerging technology would provide an opportunity for the injection of potential emissions or pollutants that would otherwise be produced from industrial sources. He stated it was a win-win for air quality. The department did not believe any emissions generated would significantly impact its revenue or work.

HB 50 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the schedule for the following meeting.

ADJOURNMENT

[4:38:27 PM](#)

The meeting was adjourned at 4:38 p.m.