

SENATE FINANCE COMMITTEE

April 26, 2023

9:07 a.m.

9:07:02 AM

CALL TO ORDER

Co-Chair Olson called the Senate Finance Committee meeting to order at 9:07 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Ken Alper, Staff, Senator Donny Olson.

SUMMARY

SB 113 REAA FUND: MT. EDGE CUMBE, TEACHER HOUSING

SB 113 was HEARD and HELD in committee for further consideration.

Co-Chair Olson relayed that Senator Wilson was away on other state business.

#sb113

SENATE BILL NO. 113

"An Act relating to the regional educational attendance area and small municipal school district fund; relating to Mt. Edgcumbe High School; and relating to teacher housing."

9:07:26 AM

Co-Chair Olson relayed that it was the first hearing of SB 113, a bill by the Senate Finance Committee which pertained to the Regional Educational Attendance Area (REAA) Fund and Mount Edgecumbe High School (MEHS).

9:08:02 AM

KEN ALPER, STAFF, SENATOR DONNY OLSON, discussed a PowerPoint presentation entitled "Senate Bill 113 - Regional Education Attendance Areas" (copy on file). He showed slide 2, "What Does SB113 Do?":

Currently, the Department of Education uses the "Regional Educational Attendance Area and Small Municipal School District Fund" for grants to school districts within REAAs, or to small municipal school districts

o"Small" is defined as districts with Average Daily Membership < 300 and full assessed property value per ADM < \$500,000

SB113 Expands the eligible uses of the fund:

1. Construction and major maintenance projects at Mt. Edgecumbe High School
2. Major maintenance on teacher housing in eligible areas that is owned by the district or by the state
3. Also removes the "cap" on the size of the fund, which is currently \$70 million

Mr. Alper noted that the REAA funding from the state was tied by formula to the school bond debt reimbursement paid to urban schools. Since there had been a moratorium for several years on new school bond debt reimbursement from the state (which would expire in 2025), there would be a jump in bond debt reimbursement which would carry a commensurate jump to the REAA Fund appropriation. Removing the cap on the fund would ensure that there was adequate room for the fund to receive the additional funding.

9:10:31 AM

Co-Chair Olson asked how close the fund was to the \$70 million cap.

Mr. Alper relayed that he had a chart that would address Co-Chair Olson' question. He estimated that there was about \$36.9 million available in the fund at the end of FY 22 after deposits and spending during the year. There was some thought that the deposits would get larger in future years.

Co-Chair Olson asked about the history of the fund balance.

Mr. Alper thought the Department of Education and Early Development (DEED) could speak to the fund history in greater detail. He described that generally speaking the money came in every year, and the same amount was committed during the year. He thought DEED did not try and maintain a balance, although could save a balance over years for a larger project. He did not believe that DEED intended to carry a balance beyond preparing for a future project. He did not think a \$70 million cap had been problematic in the past, but it could be in the future.

Mr. Alper turned to slide 3, "Background: the REAA Fund (code 1222)":

REAA Grant Fund was created in response to *Kasayulie v. State* (1999)

SB237 (2010) Section 1: LEGISLATIVE FINDINGS. The legislature finds that

(1) the Alaska Superior Court, Third Judicial District, in *Kasayulie v. State of Alaska*, Case No. 3AN-97-3782 (1999), determined that

(A) the method of funding capital projects for school construction and major maintenance does not provide rural schools with adequate or equitable funding opportunities; and

(B) while urban schools are adequately funded through existing mechanisms including bond debt, taxes, and appropriations, a comparable mechanism for funding rural schools does not exist;

(2) the mechanisms that currently exist in statute to provide construction funding to regional educational attendance areas have not resulted in sufficient funding for projects approved for those districts.

Mr. Alper explained that the *Kasayulie v. State of Alaska* case was an education equity lawsuit brought by rural Alaska residents asserting that the state did not fairly pay for the schools the way the urban schools were funded.

He mentioned SB 237, which had created the REAA fund as a formal mechanism formula for the funding. He explained that the REAA Fund was created to equalize funding.

Mr. Alper advanced slide 4, "Background: the REAA Fund (code 1222)":

Annual appropriation to the fund is set by statute (AS 14.11.025(b))

- Take the school bond debt service reimbursement payable per the formula in AS 43.11.100(a);
- divided by the percentage of schools in a city or borough school district that are not in small municipal districts;
- multiplied by 24.4%

In the "Fund Capitalization" section, Sec. 45(i), of the current SCS to the budget:

(i) The sum of \$27,897,000 is appropriated from the general fund to the regional educational attendance area and small municipal school district school fund (AS 14.11.030(a))

This money can be disbursed by DEED without further appropriation

Mr. Alper discussed school bond debt reimbursement payments through which the legislature appropriated funds. Various school districts accrued debt from school construction and the state would agree to pay a percentage based on the statute in effect at the time. Every year in the operating budget there was a line item where money was appropriated to municipalities to cover the state's share. He reiterated that the sum to be appropriated to the REAA Fund was 24.4 percent of what was appropriated to the urban municipalities. He mentioned the school bond debt number had decreased and so had the REAA Fund number.

[9:15:21 AM](#)

Mr. Alper addressed slide 5, "Why is this change needed?":

Mt. Edgecumbe, located in Sitka, is a boarding school owned and operated by the Department of Education, but it is not legally a school "district"

- o They do not have bond debt, and do not have an established process to apply to be on the "major maintenance" list
- o When the school has needed a capital project, they've typically worked directly through the governor's office and applied to the state through the capital budget process

In many parts of rural Alaska, teacher housing is an essential component of the school system.

- o Much of it is older and in need of capital improvement, but currently these costs are not eligible for the primary state funding mechanism, the REAA fund

Mr. Alper explained that MEHS was not in a school district or in an REAA. The school had its own process for capital projects, but fell between the cracks in many ways. The intent of the legislation was to make MEHS eligible for capital needs funding from the REAA Fund because they were a school with students predominantly from rural areas. He understood that the school facilities were aged and in need of repair.

Mr. Alper addressed rural teacher housing as listed on the slide. He reminded that schools (many of which were in Co-Chair Olson's district) often had to provide housing for teachers that were not permanent residents in the community. Much of the housing was old and in disrepair, and was part of the school itself but not able to be upgraded and maintained by REAA funds.

Mr. Alper addressed slide 6, "Fiscal Impact?":

DEED is requesting \$278,600 for two new staff to implement the bill

- One of these people would be tasked with figuring out Mt. Edgecumbe's needs and applying for grants.
 - o The person doing the applications has to be separate from the existing DEED staff that review and score the applications, so as to avoid conflicts of interest
- The other person would have expertise in housing, to better judge the teacher housing applications

Mr. Alper explained that he was paraphrasing from the fiscal note.

Co-Chair Olson asked if Mr. Alper was discussing teacher housing throughout the entire state.

Mr. Alper clarified that the funding would be for teacher housing in areas eligible for REAA funding.

Co-Chair Olson asked about teacher housing in Anchorage and Fairbanks and other first-class cities.

Mr. Alper affirmed that teacher housing in urban school districts would not be eligible for the changes contemplated in the bill.

Co-Chair Olson asked if anything had occurred recently to make teacher housing changes a priority.

Mr. Alper understood that there was a lot of need for teacher housing, much of which was older and in need of repair. He thought district administrators were scrambling to find funds to address the issues.

Co-Chair Olson understood that there had been issues with many communities having water and sewer problems and major issues with freeze-up of water lines.

[9:19:22 AM](#)

Senator Bishop referenced slide 5 and teacher housing, which was a topic before the committee when it had considered the Alaska Reads Act a year or two previously. He mentioned conversation tying teacher housing to the act and increasing outcomes in schools. He referenced Co-Chair Hoffman's commentary about some villages that did not have running water. He emphasized the importance of teacher housing and thought there should be an emphasis and priority on districts that had the least amount of housing.

Co-Chair Olson agreed with Senator Bishop, and stressed the importance of teacher housing for teacher longevity.

Mr. Alper reviewed slide 7, "Sectional Analysis":

Sec. 1.Amends language in AS 14.11.025(a) that authorizes the Department of Education and Early

Development to make grants from the REAA fund to REAA districts and small municipal school districts.

1) Adds Mt. Edgecumbe to the eligibility list for school construction and major maintenance grants.

2) Adds eligibility for major maintenance projects for teacher housing in eligible areas that is owned by the district or by the state

Sec. 2: Amends language in AS 14.11.030(a) that adds Mt. Edgecumbe High School and major maintenance for teacher housing to the description of the purpose of the REAA fund.

Sec. 3: Deletes language in AS 14.11.030(b) that the unobligated and unexpended cash balance of the fund may not exceed \$70,000,000.

Co-Chair Olson asked for the reason for the cap being \$70 million.

Mr. Alper did not know why the \$70 million cap was established for the REAA Fund. He thought one of the co-chairs might have insight into the matter.

Co-Chair Olson referenced slide 5, which explained that when MEHS had a capital project request it had to go through the governor's office, which he thought was cumbersome. He mentioned facilities in need of repair.

Mr. Alper referenced statutes that described the operation of MEHS, which included how it was treated as a quasi-school district as well as direction to work with the governor's office for capital needs. He did not think it was a well-defined process, and the bill tried to embed the process into the bigger picture with rural school needs.

[9:23:16 AM](#)

Senator Merrick asked if there was a history of vetoes of the fund capitalization for the REAA Fund.

Mr. Alper answered affirmatively and noted that there had been vetoes in parallel with school bond debt funding. He mentioned that the courts had been "strident" on the matter, and when both Governor Dunleavy and former Governor Bill Walker had vetoed some or part of the school bond debt reimbursement, they had also vetoed a portion of the REAA capitalization at the same ratio. He continued that the

previous year the legislature had appropriated a large amount of money in the supplemental budget to essentially pay back the municipalities and REAAs from past years when there was partial or non-funding. There was around \$220 million of back-paid bond debt that went to school districts, and there was \$83 million that went to the REAA Fund. The large lump sum deposit was in the FY 22 supplemental budget and was deposited to the REAA Fund, the bulk of which went to a new school in Akiak.

Co-Chair Olson referenced a document circulated by DEED that related to some school construction and a deposit to the fund. He asked Mr. Alper to speak to past appropriations from the fund and the school in Napakiak, which had a high outstanding balance.

Mr. Alper agreed to speak to the topic. He noted that he had a spreadsheet document with a ten-year history of the REAA Fund (copy on file), which included appropriations to the fund as well as funded projects. He cited that there was a \$35 million appropriation in both FY 13 and FY 14, and spending of \$70 million on three schools in Nightmute, Quinhagak, and Kwethluk. In FY 21, because of a veto, there was zero appropriation. In FY 22 there was a supplemental appropriation resulting in a fund balance of almost \$100 million, \$55 of which went to Napakiak. He discussed other projects. The largest single item was a school project in Mertarvik. At the end of FY 23 it was anticipated there would be \$22.9 million left in the fund.

Co-Chair Olson understood that the school in Mertarvik was not a replacement, but rather a new school.

Mr. Alper relayed that that the school was listed as a "relocation/replacement."

[9:27:13 AM](#)

Co-Chair Stedman thought the bill was a good start and brought forward some issues from MEHS that indicated it was the odd school out." He thought the school had been at a disadvantage for advocacy, particularly with maintenance and upgrades. He discussed the pathway necessary for MEHS projects, which included going through DEED and the Office of Management and budget. He identified a lack of advocacy. He considered the school's exceptional performance, and contrasted it with the World War II bunkhouse that housed

students. He emphasized that the school was in need of classroom expansion as well as site remediation and clean-up. He mentioned adjacent buildings that were unsafe and in an advanced state of disrepair. He did not think the property looked good for the state or the school.

Co-Chair Stedman continued his discussion of MEHS and noted that the department had never advocated for a site cleanup, which he thought was due to a lack of prioritization. He thought part of the impetus for the bill was to put MEHS on "a fair playing field" with other schools. He discussed time spent on analysis of school performance and emphasized the need to support high-performing schools. He thought the bill was a good start, and he asserted he would work with Co-Chair Olson's office over the interim to address concerns. He wanted to work on a structure to improve advocacy for MEHS.

Co-Chair Hoffman also viewed the bill as an issue that was long overdue in being addressed. He commented that many people from his district, Co-Chair Olson's district, and Senator Bishop's district had attended MEHS, which was a high-performing school. He thought it should be noted that many Native leaders had graduated from MEHS and had received a great education there. There was a waitlist of students that wanted to attend MEHS, and he thought the school should be used as an example of successful education in the state.

Co-Chair Olson asked if Co-Chair Hoffman had gone to MEHS.

Co-Chair Hoffman relayed that he was a proud graduate of Bethel High School.

Co-Chair Olson wanted to ensure there was no conflict of interest, and noted that he had attended a different boarding school. He considered the higher performance of MEHS and thought it was fairly impressive that in spite of the awkwardness of the funding pathway, the school had done a remarkable job. He understood that over 90 percent of MEHS graduates went on to college.

[9:33:18 AM](#)

Co-Chair Olson asked if the bill fixed all the issues that Co-Chair Stedman could see.

Co-Chair Stedman thought that the bill would be a good start. He thought that work over the interim would refine the bill. He did not think the bill would solve every issue, but it would be a good step forward if the change brought about more capital needs advocacy for MEHS.

Senator Kiehl relayed that he had not gone to MEHS. He referenced FN 1 from DEED and the request of a year-round position needed to prepare applications. He understood that most REAA's did not have such a position. Has asked if MEHS needed a full-time year-round facilities person, and if the position was something that could be fine-tuned.

Mr. Alper was not aware of the details of the position. He noted that in conversations with the department, DEED had mentioned the conflict of interest issue that he had highlighted earlier in the presentation. He thought it was likely MEHS could contract the work of the applications, or suggested an existing position could take on the work. He relayed that he agreed that the position request seemed excessive for the task.

Senator Kiehl was a fan of efficiency in government. He highlighted that the Senate Education Committee had discussed the issue of teacher housing maintenance, and wonder where it fell in the rankings of school major maintenance, since it was from the same fund. He recalled that there were things in existing law that would put prioritization of new school construction and major maintenance above teacher housing. He thought the committee might want to address the topic in the bill.

Mr. Alper thought Senator Kiehl made a technically correct point and offered that it was possible to find language to clarify the equal standing of teacher housing if it was the will of the committee.

[9:36:28 AM](#)

Senator Bishop relayed that he wanted to work with the co-chair's office on the topic of teacher housing in the bill. He referenced the fiscal note and wanted greater detail. He referenced the REAA Fund history document and asked about an \$11 million project in Minto. He thought the numbers on the document were stale and needed to be adjusted annually for inflation. He emphasized the importance of having accurate project numbers for project completion.

Co-Chair Olson asked if there was a date the information on the fund history document.

Mr. Alper directed attention to the date of 24 August 2022, at the top of the document. He noted that the document was created when the FY 23 appropriation and FY 22 supplemental appropriation had been finalized. He commented that the legislature appropriated the funds to the REAA Fund, after which the funds were expended without further legislative process. He used the example of \$11.8 million appropriated for the Minto School, which was an internal transfer within DEED that was possible once the fund was capitalized. He assumed there was a process to apply for further funds if there was a cost overrun but was not certain. He thought DEED could address the question.

[9:39:53 AM](#)

Co-Chair Olson OPENED public testimony.

[9:40:00 AM](#)

Co-Chair Olson CLOSED public testimony.

SB 113 was HEARD and HELD in committee for further consideration.

Co-Chair Olson discussed the agenda for the following meeting.

#

ADJOURNMENT

[9:40:27 AM](#)

The meeting was adjourned at 9:40 a.m.