



UPDATED
FINAL LEGISLATIVE NEWSLETTER
July 27, 2017:

Capital Budget:

Today the Alaska State Legislature passed the capital budget, SB 23, which funds Alaskan infrastructure projects. Much of the appropriated general fund money, \$121 million, is the state required match to access \$1.2 billion in federal funds. SB 23 is the smallest capital budget since 2000. The good news is that the budget contains several of the organization's education priorities, including:

- \$7.1 million for the Kivalina K-12 school
- \$3.5 million for Major Maintenance School Grant Funds

Other funded education items included the following:

\$1.75 million for AHFC Teacher, Health and Public Safety Housing
\$5 million for University of Alaska deferred maintenance

The capital budget also provides an additional \$8 million in funding to the state's community assistance revenue sharing program bringing the total to \$38 million. The Senate passed SB 23 on a vote of 15 to 4 and the House passed the bill on a vote of 27-13. SB 23 will now be sent to Governor Walker for his signature. A copy of the capital budget, [SB 23](#) can be found by clicking on the link provided.

Operating Budget:

The House and Senate have at long last resolved their funding differences, at least enough to pass an operating budget. For this fiscal year, the \$2.7 billion deficit will be paid with the last of Alaska's savings held in the Constitutional Budget Reserve. How the State of Alaska will meet future budget deficits if the economic picture doesn't improve was left unresolved. Most priority education funding

programs were fully funded and proposed Senate cuts were restored during negotiations. Top funding priorities accomplished include full funding of the following:

- K-12 foundation formula **fully funded** at \$1.2 million; statutory base student allocation is \$5,930.
- Pupil Transportation **fully funded** at \$79 million (removing the governor's veto of \$6,350,000 from the FY17 budget).
- Pre-kindergarten grants are **fully funded** at \$2 million.
- *Moore* Pre-kindergarten grants are **fully funded** at \$1.2 million.

Other areas of education funding include the following:

- Parents as Teachers funded at \$500,000
- Best Beginnings funded at \$320,000
- State System of Support: One-time increment request of \$250,000 for the Innovative Best Practices Initiative approved
- Teacher Certification Program funding restored to \$932,000
- Approved increments of \$250,000 for Alaska Performance Scholarships and \$125,000 for Alaska Education Grants
- Alaska Technical Center will receive \$1,077,300. Funding originally decreased by \$118,700, but \$150,000 was added back from the Workers' Compensation Fund.
- Boarding grants reduced by \$100,000

The Senate had proposed cutting or eliminating funding for many of these programs. The passed budget restored many of the proposed cuts and fulfilled many of our priorities. Other funding items of interest are noted below.

- University of Alaska's cut reduced to \$8 million from \$16 million, providing a budget of \$317 million for the fiscal year
- \$16 million in across the board cuts restored
- PFD of \$1,100

If you want more information, look at column 5 in the [Allocation Summary](#) from the Division of Legislative Finance, which details education funding, or explore the operating budget, [HB 57](#).

Education Bills:

Much of our priority legislation made progress through the committee process this year. HB 141 passed, and several other pieces of legislation are close to final passage. Below is an updated status of priority education bills:

HB 141 – Sunset Voc. Ed: Extends funding for the Technical Vocational Education Program until June 30, 2020. This program funds vocational technical training around the state. The bill has passed the House and Senate and is awaiting transmittal to Governor Walker.

HB 135 – School Construction: This bill allows the Commissioner of Education to extend the time frame in which a district must provide the required participating share of the projected construction cost to five years, with a three year extension for good cause. The bill passed the House and has moved to the Senate for consideration. The bill is currently in Senate Finance. We have spoken with all the members of Senate Finance and explained the importance of the bill, and we have been given some reassurance that the bill will be heard at the beginning of the next legislative session.

HB 212 - REAA Schools: Allows the REAA fund to be used for major maintenance, as well as school construction. The Department of Education has indicated that money for major maintenance will not be available until fiscal year 2020, so the bill didn't move through the committee process this year. The bill has referrals to the Education and Finance Committees and is expected to move next legislative session.

HB 224 - Teacher Rehire: Allows retired teachers and other administrators to be rehired. The bill has had several hearings in the State Affairs Committee. The bill is being revised to address concerns raised by the Department of Retirement and Benefits and will be worked on over the interim. The bill is expected to move next legislative session.

HB 11 – RIP for Public Employees/Teachers: Implements a temporary voluntary early retirement program. The bill was recently heard and held in the House State Affairs Committee.

SB 99 - Pre-Elementary: Phases in a voluntary statewide Pre-K program over 5 years, starting with lowest performing schools. Heard and held in Senate Education.

SB 78 - Alaska Permanent Fund Education Lottery: Creates an education lottery. Passed the Senate and is currently in House Finance. This bill has been moving quickly through the committee process. This has been a popular bill and is likely to pass next year.

HB 115 - Education Funding Act: HB 115 passed the House last week and is being considered in the Senate, although the Senate has been outspoken about its opposition to any tax. The bill establishes a personal income tax based on the taxpayer's adjusted gross income (AGI). The bill passed the House but failed in the Senate. The bill was returned to the House. Some form of this bill may be part of a compromise tax package next year or in another special session.

SB 103 - Education Grants: Establishes grants to school districts for innovative and new education delivery methods. The grant funding would come from the Alaska Education Innovation Grant Fund (scholarship money). The program would be funded with about \$100 million in the first year. The bill passed the Senate and was transmitted to the House. The bill has little support in the House.

Fiscal Bills:

During the legislative session, the House and Senate passed competing versions of House Bill 111, the oil and gas tax subsidy bill, but were unable to reach a compromise. At the very end of the second special session, the House and Senate approved a compromise which eliminates the cash subsidies to oil companies. The compromise is estimated to save the state \$200 million per year within three years. Today, the bill was signed by Governor Walker.

The compromise version of HB 111 replaces Alaska's existing oil and gas subsidy program and includes the following changes:

- **Cash subsidies:** Eliminates cashable subsidies effective July 1, 2017, while allowing companies to recover their costs through lower production tax payments once a project is producing oil or gas.
- **Hardened floor:** Strengthens the 4% minimum tax to ensure Alaska receives some production tax revenue in times of low oil prices.
- **Carry-forward losses:** Companies may write-off their drilling expenses on future production taxes, but it will not be able to write-off drilling expenses if the company does not produce oil from the field. To encourage oil production, the deduction will eventually lose value: 10 percent per year after seven years (if the field is producing oil) or 10 years (if the field is not producing oil).
- **Ring-fencing:** Losses incurred from fields that are not producing oil cannot be written-off against fields that are producing oil. Companies can only deduct ring-fenced losses, when the field where the worked occurred comes into production the loss can be taken.

Between now and fiscal year 2027, it is estimated that Alaska will save more than \$1.5 billion from these changes. Passage of HB 111 is important because is it considered one of the pieces of a comprehensive fiscal plan. The hope is that a comprehensive fiscal plan will bring economic stability to Alaska which in turn helps bring stability to education funding. Further work on a comprehensive fiscal plan is still needed. It is uncertain whether this will happen in another special session this fall or next session in January 2018.

Conclusion

Many of the organization's priorities were accomplished this session, especially with regard to fully funding education, education-related programs, and capital funding for both major maintenance and the Kivalina School. Priority legislation has passed or is in place to pass next year. Considering the status of education issues several months ago, J and H is very pleased with how matters concluded.

It has been a pleasure working with you and making progress on important education issues. J and H will keep you updated, if any further education matters arise.

Chris and Reggie

J and H Consulting