

MUNICIPALITY OF ANCHORAGE

ANCHORAGE ASSEMBLY/ANCHORAGE SCHOOL BOARD

Minutes for Joint Meeting of March 7, 2000

1. CALL TO ORDER:

The meeting was convened at 10:00 a.m. by Assembly Chairman Kevin Meyer in the Mayor's Conference Room, 632 West 6th Avenue, Anchorage, Alaska.

2. ROLL CALL:

Assembly Members Present: Pat Abney, Allan Tesche, Melinda Taylor, George Wuerch, Kevin Meyer, Anna Fairclough, Dick Tremaine, Fay Von Gemmingen, Cheryl Clementson.

Assembly Members Absent: Dan Sullivan (excused), Dan Kendall (excused.)

School Board Members Present: Peggy Robinson, Dave Werdal, Bettye Davis, Harriet Drummond, Kathi Gillespie (10:15 a.m.), Rita Holthouse, Debbie Ossiander.

School Board Members Absent: None.

3. PLEDGE OF ALLEGIANCE:

The pledge was led by Ms. Drummond.

4. MINUTES OF PREVIOUS JOINT MEETING:

A. Joint Meeting - February 1, 2000

Ms. Von Gemmingen moved,
seconded by Ms. Gillespie,
and it passed without
objection,

to approve the minutes of the joint meeting of February 1,
2000.

5. ADDENDUM TO AGENDA:

Mr. Wuerch asked the proposed 10-mill property tax cap State ballot proposition be included on the agenda as an item for discussion, prior to discussion of the budget.

In response to Chairman Meyer, Anchorage School District Superintendent Bob Christal indicated he planned to discuss the 10-mill cap at the end of his presentation on the budget.

Mr. Wuerch recommended the issue be discussed prior to the budget, as the 10-mill cap would affect the School District (ASD) budget significantly.

Chairman Meyer said the agenda would not change, with the understanding that the 10-mill cap issue will be discussed at the beginning of the budget presentation.

Ms. Abney requested the issue of Rockridge Road be added to the agenda.

Chairman Meyer requested that issue be discussed under item 7, Comments.

6. ITEMS OF BUSINESS:

A. FY 2000-2001 Anchorage School District Annual Operating Budget

President Robinson presented the ASD operating budget, approved by the School Board at the end of January. She noted the Board has not made specific plans to address the proposed 10-mill property tax cap. There are plans to identify potential cuts to the ASD budget, if they are necessary, later this spring. She asked Mr. Christal to elaborate.

Mr. Christal noted the ASD is facing several challenges to its budget. He said the Administration is in the process of negotiating four contracts with four of the eight ASD employee groups: Teachers, principals, maintenance workers and food service staff. He noted the beginning teachers' salary schedule has not increased since 1993, and felt that represents a significant need. The Administration and the Board had to deal with significant budget reductions in the early 1990's, which forced some program changes. For the last six years, they have been trying to rebuild those instructional improvements, and have worked hard with employee negotiations to hold down costs. Also, in the last seven years the community has supported capital improvement bond issues, which has allowed major improvements to elementary schools. The District is now beginning major improvements to high schools.

Mr. Christal explained the proposed ASD budget addressed one of the major impacts facing the District, which is the State-mandated graduation standards. He noted the exams are being taken this week by high school students, and elementary and middle school students are taking benchmark exams this week.

Another challenge to the District is the potential impact of the 10-mill property tax cap initiative, which will be on the State ballot in November. If the initiative is approved, the reduction to the ASD budget would be about \$33 million. He noted the District budget covers two calendar years. He pointed out that 85 percent of the ASD budget is for personnel. He discussed the various contract provisions for tenured and non-tenured teachers, and the termination notice requirements for both groups. He clarified as a general rule, 17 teacher employees represent about \$1 million, but not all personnel reductions would necessarily be teaching positions. The Administration is aware of the need to address the potential impacts from the 10-mill cap, and plans to spend time doing that this spring. However, they did not include that potential impact in development of this budget. There is a worksession scheduled with the School Board on the topic for March 16.

Mr. Wuerch expressed concern that the proposed budget was not developed with consideration of the 10-mill cap. He pointed out if the proposed budget is approved later this month, and the 10-mill cap is approved in November, the Municipal budget will have to be cut by 50 percent but the ASD budget will remain intact.

Mr. Christal discussed the details of the proposed ASD budget. He explained the general fund, the largest portion of the budget, covers school operations and is proposed to be \$342,202,000. The food service fund is proposed to be \$10,650,000. The debt service is \$39.6 million, and the local, Federal and State projects is about \$26 million. The budget process was begun with assumptions the budget would be balanced, and the Administration would take full advantage of Senate Bill 36, approved two years ago, which was a change to the education funding formula. Also, they are asking for a local tax contribution that would provide the full amount available under the tax cap. Mr. Christal added for the first time in several years, fund balance will be used as a revenue source at a significant level, about \$12 million.

Mr. Christal compared the proposed budget to the budget for the current school year. He noted there was an increase of \$14.2 million in the general fund, most of which is directly related to contract negotiations. There is an increase to food services of about 6.5 percent and an increase to debt services of about 1.63 percent. Lastly, there is an increase in local State and Federal projects of about \$5 million, because there has been more success in the receipt of grants in recent years. They have projected that trend will continue next year. The debt service includes nothing related to the schools bonds on the April Municipal Election ballot. He felt ASD officials should discuss with Municipal officials the impact of the 10-mill cap relative to debt services, and previously approved and authorized bonds. They have received an opinion from bond counsel that any bonds not sold by December 31, 2000 will be impacted by the 10-mill cap. The bonds approved by voters in April 1999 have not yet been sold. The sale is in the process, but the schedule will have to be accelerated.

The proposed budget was drafted with the anticipation that pupil transportation will be funded at 100 percent. However, there have been discussions recently in the State Legislature to reduce that amount to 85 percent. If they cannot convince Legislators to maintain the 100 percent funding, the impact will be about \$1.7 million. They are also assuming Federal impact aid will be at 95 percent of entitlement. However, the amount of that aid is never known until October of the affected school year. There was no change in the combined family cap on the high school and middle school activities fee; it will remain at \$225.

Mr. Christal explained the main areas of increase to the budget, including employee compensation and expansion of the full-day kindergarten program to thirteen additional schools. Also, they are trying to expand the summer school programs for all grades, to meet challenges from the new graduation standards. There is a substitute incentive program, to provide teachers who substitute over 20 days in a year an increase in the amount of daily pay. Special education services received an increase of about \$1.2 million. Special education is mandated by the Federal government, but not Federally-funded at an acceptable level. Special education is funded mostly by local and State funds. About \$51,000 was added to the budget for children in transition or homeless students.

Mr. Christal concluded by saying he felt the relationship between the District and the Municipal School Budget Advisory Commission was more positive. He acknowledged the seriousness of the proposed 10-mill cap to the District and the Municipality. He pointed out employee contract negotiations will continue over the next few months, which will be difficult. It will be much more difficult if the 10-mill cap is approved. Mr. Christal felt if the cap is approved, it will have a devastating effect on the District and the Municipality. Although they acknowledge the possibility, he felt the proposed budget was necessary to represent the needs of the District. He felt it would be unrealistic to operate the District in the first half of the year with a budget reduction based on potential approval of a 10-mill tax cap. He felt public education and awareness over the next months was important.

In response to Chairman Meyer, Mr. Christal said the Administration will meet with the School Board to discuss potential cuts in response to the 10-mill cap, and they would likely have a good idea by the time the Assembly acts on the proposed budget.

In response to Ms. Ossiander, Gene Dusek of the Office of Management and Budget explained the Municipal Attorney had issued an opinion that a contingency appropriation was not possible. The budget must be approved by April 5.

Mr. Wuerch reiterated his feeling that the issue of the 10-mill cap should be discussed prior to Assembly action on the budget. He pointed out it was possible to approve a supplemental budget.

Chairman Meyer noted he did not ask District officials to prepare to discuss this issue today. He recommended they be allowed an opportunity to work on the issue themselves, and discuss the issue with the Assembly at a later date.

Mr. Tesche concurred with Chairman Meyer. He agreed with Mr. Wuerch the cap issue was very important, but neither counsel for the Municipality nor the District were present today.

Ms. Clementson distributed a substitute ordinance. She noted the Assembly does not have the option to reduce the ASD budget after it has been approved. She explained her ordinance would reduce the ASD budget by \$16.5 million, which is the amount that would impact the District in 2001, with the provision that if the 10-mill cap is not approved, the Assembly would revisit the budget and may increase it up to \$16.5 million.

In response to Ms. Clementson, Mr. Christal said the amount for 13 new all-day kindergarten programs is about \$1,006,000. The District will receive increased State revenues for moving the affected students from half-time to full-time schooling.

Ms. Holthouse added the additional State revenues would exceed the proposed increase in expenditures.

In response to Ms. Clementson, Mr. Christal explained the increased use of fund balance funds for the budget. He said as a result of discussions over the last few years about the ASD fund balance, he felt they would not receive a contract settlement with the major bargaining groups if the fund balance is \$17 million. It was so important, the Administration made what they considered to be a fair and reasonable offer to the employee groups, of about \$11.8 million to get through the year. That decision was made after careful consideration by the Administration and the School Board.

Mr. Werdal added the Board members felt they had to take this action, because a strike seemed likely without using some of the fund balance. The fund balance includes money that resulted from early retirements and over-budgeting for teachers' salaries, so this bargaining group perceives that part of the fund balance belongs to them. He pointed out the District is competitive in the area of high-end teacher's salaries, but not with beginning teachers' salaries.

Ms. Clementson felt spending the fund balance so it is not available for employee groups was irresponsible. She felt the District would have a good argument to maintain the fund balance as a resource if the 10-mill cap is approved.

Mr. Christal responded that there are a number of reasons that fund balance has increased, besides budgeting for teacher salaries, including retirement incentives, reduction in the average cost for teachers and increased Federal and State revenues.

In response to Mr. Wuerch, Mr. Christal said fund balance in December 1999 was about \$17.6 million. They are suggesting to use about \$12 million of that amount for this budget, so there would be about \$5 million in fund balance in the next contract year.

In response to Ms. Fairclough, Janet Stokesbary of the ASD confirmed their fund balance is invested, both through the Municipality and through a banking service contract. Short-term investments receive about 5.5 percent return. Fund balance is used to cover daily cash-flow needs, and the excess is invested.

Ms. Fairclough encouraged the School Board to review District investment policies.

Ms. Stokesbary explained the District's cash flow and disbursement schedule.

In response to Ms. Fairclough, Mr. Christal said he would prepare an analysis of long-term investments and present it in the next few weeks. He explained there were additional costs to the District resulting from the State-mandated graduation standards because of summer school programs to help students that were not achieving well.

Ms. Ossiander added the extra costs also included realignment of the curriculum to meet State standards.

Mr. Christal said the elementary summer school program cost about \$350,000 and the secondary summer school cost about \$600,000. About \$1 million per year has gone to increasing reading skills.

Ms. Gillespie noted there are two bills pending in the Legislature that would address this issue. The Governor's bill would increase the quality schools grant, and Senator Wilken's proposal would increase the foundation formula by about \$50 per student.

In response to Ms. Fairclough, Mr. Christal explained three-year employee contracts are typical. He said it has been at least 15 years since there has been a one-year contract with teachers. A one-year contract was due to unusual circumstances.

Ms. Fairclough requested information on truancy statistics and the District's strategies for dealing with truancy prevention.

In response to Chairman Meyer, Deputy Municipal Attorney Bill Greene addressed Ms. Clementson's question on the implications of approving the ASD budget. He explained State Statutes and the Municipal Code refer to an "annual" budget, so the budget for a whole year must be addressed. Once the budget is approved, it is final, and the appropriation is made at the same time. He noted in the past, the Assembly has often increased the ASD budget at a later date at the request of the District. However, he has never addressed the question of reducing the budget at a later date.

Mr. Wuerch questioned whether the Assembly could create an escrow account of \$16.5 million. He suggested the account could be in place, and if the 10-mill cap issue fails, the District would receive the account. In the event the proposition is approved, the escrow account would revert to the Municipality.

Mr. Greene said he did not investigate the possibility of an escrow account. However, he felt it was clear the Assembly may increase the ASD budget at any time. He reiterated the Assembly must approve a budget and appropriation for the entire school year in the current 30-day time frame.

Ms. Abney supported the escrow concept. She asked it be included in research on how to solve the dilemma of the 10-mill cap uncertainty.

Mr. Christal noted he has begun contacting other districts in the State, to research how they are dealing with the 10-mill cap issue. He hoped to have some feedback for the School Board at their meeting on March 16. He questioned whether Assembly members have heard anything on the issue from the Alaska Municipal League or any of their colleagues in other cities.

Mr. Tesche asked Mr. Greene to also investigate the 10-mill cap initiative to determine whether it may have a retroactive effect. He questioned the amount of ASD bonds that have been approved but not yet sold.

In response, Ms. Stokesbary explained in April 1999, voters approved \$173,150,000 in bonds. \$35 million in bonds is scheduled to be sold this spring, leaving \$138.5 million which will need to be sold by December 31, 2000 in order to be exempt from the 10-mill cap issue. Aside from the 1999 bonds, there is about \$5.7 million in bonds that have not been sold.

Mr. Christal added bonds approved in the April 2000 election would add to that total, for a total of about \$300 million in unsold bonds.

Mr. Tesche asked for information showing the ASD enrollment figures over time, the amount of local taxes appropriated to the ASD over the last 10 years, and a chart showing other revenues appropriated, adjusted for inflation. He hoped to get an idea of the expenditure-per pupil over time.

In response to Ms. Taylor, President Robinson said the decision of which schools to add the full-day kindergarten program was left to the Administration. The decision is based on whether there is space in the building, and desire by the community. She noted most schools in the east Anchorage area already have full-day kindergarten. After the proposed addition of 13 full day programs, there will be about 13 schools in the District without the program.

In response to Ms. Taylor, Mr. Christal said using the old Russian Jack school as warehouse space was an idea they discussed with the Planning and Zoning Commission. However, they were not allowed to build the new school on its existing site without committing to demolishing the old school. He explained the District's contract for computer maintenance was bid, and the majority was accessed through the Apple and Dell companies. He could not recall the actual vendors. He said the decision to use Macintosh or PCs was left to the individual schools. The main issue is student access to technology. Mr. Christal noted all legal services are contracted out; there is no internal legal staff. The District spent \$370,068 on legal services last year. \$500,000 was budgeted for this year, and the increase was due mostly to negotiations.

In response to Mr. Tremaine, Mr. Dusek explained the difference between the way Anchorage properties are assessed by the Municipality and the State. He pointed out the State includes the assessed valuation of senior citizen and disabled veterans properties, and there is a difference in the way oil and gas properties are assessed. The Municipality reflects the assessment of Municipal utilities, while the State does not.

Ms. Stokesbary added the State foundation formula is based on the State Assessor's assessments. It is better to have a lower assessment in order to receive more funding.

In response to Mr. Tremaine, Mr. Christal said about 15 percent of students are in the special needs category. Including bilingual students, the figure would be about 20 percent. The vast majority of special needs programs are mandated by the Federal government. He said about six to ten management audits are performed per year.

In response to Mr. Tremaine, Ms. Robinson acknowledged a 1992 recommendation that the District have internal legal services. She said the Board reviewed that recommendation, and concluded the cost of an internal legal office would be more than contracting the services.

Ms. Von Gemmingen noted the Municipality's bond rating is currently very high, but if the 10-mill cap is approved, the rating may drop. She felt this issue should be explained to the voters.

Ms. Ossiander noted recent management audits have focused on recommendations for consolidation.

In response to Ms. Clementson, Mr. Christal confirmed that if more bonds are sold, the amount of debt service in the budget would have to be adjusted. He felt it was important to educate the public on the bond issues before the election.

President Robinson felt it would be very difficult for Anchorage to operate if the 10-mill cap is approved. The Board is interested in holding discussions regarding other sources of revenue to keep government operating in the event the cap is approved.

Ms. Abney discussed the issue of Rockridge Road. She noted it was not certain that the proposed Limited Road Service Area for that area would be approved on the April ballot. She suggested District officials consider contributing funds it currently uses to maintain the road to the Service Area. This contribution might help encourage voters to approve the Service Area proposition.

Chairman Meyer suggested the Assembly and School Board discuss this issue further in the future.

Mr. Wuerch supported the concept of giving raises to teachers. Also, he was pleased about potential acceleration of the bond sales. He spoke in support of some type of two-stage budget approach for the District. He was concerned that the 10-mill cap, if approved, would have a devastating effect on government, and there should be preparations to address that possibility.

Ms. Gillespie noted the food service budget is Federally-funded, food and debt service is voter approved, and local State and Federal projects are funded by grants. Therefore, any reductions because of the cap would come from the general fund, which is 84 percent employee salaries and benefits.

7. COMMENTS: None.

8. SCHEDULING OF NEXT JOINT MEETING:

A worksession was scheduled between the Assembly and School Board, to discuss budget issues, on March 21, 2000 at the School District administration building.

9. ADJOURNMENT:

The meeting adjourned at 12:00 p.m.

Chair
Anchorage Assembly

President
Anchorage School Board

ATTEST:

Recording Secretary

Date Minutes Approved: August 15, 2000

VC/db