

Joint Legislative Education Funding Task Force
Report to the Governor and Legislature

September 1, 2007

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REPORT TO THE GOVERNOR AND LEGISLATURE

Authority and charge

The Joint Legislative Education Funding Task Force (JLETF) was established by Senate Concurrent Resolution 11 (SCR 11) in the first session of the Twenty-fifth Alaska State Legislature. The JLETF was established for the purpose of examining school district cost differentials and the existing formula for distributing state aid for education. The JLETF was charged with:

- Evaluating proposals that are based on available facts and conclusions pertaining to school district cost factors and the foundation formula
- Recommending improvements or additions to the laws providing for education funding
- Taking public comments on education funding and school district cost factors

The JLETF was directed to submit a report of its findings and proposed legislative changes to the governor and the legislature by September 1, 2007 and was authorized to make any additional reports it considered advisable.

This report constitutes the findings and proposed action recommended by the JLETF.

The JLETF will terminate on October 15, 2007 after completing its assigned responsibilities.

Methodology

The JLETF met during the months of June, July and August, 2007. The initial meetings included a detailed analysis of the school funding formula and related statutes and regulations. The JLETF also considered the implications of the Decision and Order rendered June 21, 2007 in the case of Kristine Moore, et al vs. State of Alaska regarding the adequacy of school funding in Alaska.

The JLETF identified specific issues for further analysis and consideration. The JLETF then conducted public hearings where all school districts in the state were invited to provide testimony without a time limit. Invited testimony was followed by open public testimony. The JLETF then convened in a public work session and developed initial recommendations. The initial recommendations were subjected to a second session of open public comment and finalized into this report.

Alaska school funding formula

The school funding formula is a statutorily defined calculation utilized to determine the amount of state aid paid annually to each individual school district. The formula is intended to achieve an equitable distribution of aid for education throughout the state. The current formula was adopted in 1998 and has undergone several amendments. The formula incorporates factors intended to recognize and adjust individual district funding for the financial consequences of variables in school size, geographic cost differences, special needs and intensive needs student populations, correspondence programs, federal aid, and the ability of communities to provide local contributions.

State aid to each school district is calculated annually based on student enrollment. The formula uses the term 'average daily membership' for the enrollment census. Average daily membership (ADM) is first adjusted for school size to recognize economies of scale for larger schools. School size adjusted ADM is then increased by factors for district cost differentials, special needs, and intensive services funding. Correspondence program membership is factored and added to the attending membership to achieve a final adjusted ADM. This total is multiplied by the base student allocation (BSA) to determine each district's basic need. The BSA is a dollar value established in statute.

Basic need is reduced by the amount of required local contribution for districts in organized boroughs and 90% of the eligible federal Title VIII Impact Aid received. It is also increased by a statutory Quality School Grants entitlement and, in some cases, by a funding 'floor' factor to result in the final state aid entitlement.

Committee determinations

The JLETF determined at the beginning of deliberations to limit the scope of work to examining components of the existing formula rather than undertaking a reconsideration of the formula itself.

The JLETF determined that the school funding formula should be structured in such a manner that schools are fairly and adequately funded without other special grant programs such as Learning Opportunity Grants (LOGs) or School Improvement Grants (SIGs). These grants have been used in the past to provide additional funding without addressing the underlying problems with the formula.

The JLETF determined that the recommendations contained in this report are prefaced by the assumption that Senate Bill 125 (SB 125), PERS/TRS Cost Sharing, passes the legislature and becomes law substantially in the form SB 125 existed at the adjournment of the first regular session of the Twenty-fifth Alaska State Legislature. SB 125 provides a mechanism allocating the annual payment for the cost of Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) contributions for school district employees between the state and the local employers. SB 125 effectively relieves school districts from financial responsibility for unfunded past

service costs in excess of levels specified in that statute. School districts are provided with a stable, predictable and limited cost environment for these obligations.

Immediate recommendations and further consideration of education issues:

The JLETF recognizes that school funding policy is an ongoing constitutionally mandated responsibility of the legislature. To better meet that responsibility, the JLETF recommends immediate action, as described in this report, augmented by a long-term commitment to continue the process undertaken by the JLETF. This report identifies a number of specific policies for implementation during the second regular session of the Twenty-fifth Alaska State Legislature and identifies other issues with provisions of the school funding formula that merit further legislative consideration.

The JLETF recommends that the legislature's further consideration of education and education funding issues merit the regular and continuing attention of dedicated committees separate and apart from the Standing Committees for Health and Social Services. Standing Committees on Education should be established during the second regular session of the Twenty-fifth Alaska State Legislature. These education committees should be formally charged with recurring review of the foundation formula, regularly updating district cost differentials, general education policy and University of Alaska oversight.

Recommendations for policies to be implemented during the second regular session of the Twenty-fifth Alaska State Legislature:

District cost factors

The school funding formula recognizes that school districts across the state face differing costs for similar goods and services including energy, supplies and labor. These geographic cost-of-living differences are accommodated in the formula by a factor that is applied to the school size adjusted ADM. Anchorage is presumed to be the base for this calculation and receives a factor of one (1.0). Other districts are individually assigned factors in excess of one to recognize their individual cost differential in relation to Anchorage.

The numerical value of the cost differential factors has been a policy issue with the formula since it was adopted in 1998. The legislature has undertaken various efforts utilizing professional economic consultants to accurately and fairly determine these factors. A controversial economic analysis was completed in 2003 by the American Institute of Research (AIR). This work was reviewed and modified in 2005 by the University of Alaska's Institute of Social and Economic Research (ISER). Certain aspects of the ISER differential calculation also raise questions and controversy within the legislature. However, the ISER study is

generally accepted as the most recent and reliable differential analysis available at this time.

The JLETF recognizes that legitimate concerns exist with the ISER study. SCR 11 charged the JLETF with evaluating proposals that are based on available facts and conclusions pertaining to school district cost factors and the foundation formula. Accordingly, the JLETF determined it was appropriate to utilize the ISER conclusions in making the recommendations in this report.

The JLETF recommends that the district cost factor statutes be changed to phase in the ISER proposal. 50% of the ISER factors should be implemented in fiscal year 2009, with the remaining 50% implemented over the four subsequent fiscal years. Implementation of this recommendation will require additional funds to be appropriated so that the amount received by Anchorage will not be negatively impacted by the increased factors for other school districts.

The JLETF recommends that a dedicated commission be established to address the district cost factor issue in detail. The commission should be similar in organization to the Joint Legislative Education Funding Task Force that prepared this report. The commission should be charged with developing a durable and dynamic (updateable) economic model that can be used to update district cost factors on a regular and recurring basis. Further, the commission should be directed to investigate the feasibility of incorporating direct reimbursement for some costs, such as energy costs. It should be provided with adequate financial resources to engage the highly qualified professional resources necessary to conduct the economic analyses needed to develop the economic model and improve the accuracy of district cost factors.

Intensive needs student funding

Intensive needs students are specifically identified individuals experiencing medical or other circumstances that require dedicated services, equipment or facilities. Currently school districts receive five (5) times the BSA for each intensive needs student. The determination of students classified as intensive needs is subject to Department of Education and Early Development audit and challenge.

School districts have provided consistent testimony that the actual cost to serve these students is more than the current funding. The JLETF accepts school district testimony that these costs could average as high as fifteen times (15) the BSA.

The JLETF recommends that statute be changed to provide a nine (9) times BSA multiplier for fiscal year 2009, eleven (11) times for fiscal year 2010 and thirteen (13) times for fiscal year 2011 and beyond.

Declining enrollment step-down

School districts occasionally experience abrupt declines in enrollment resulting from factors beyond the district's control or ability to predict in advance. The closing or realignment of military bases can have this effect. Under the school funding formula these abrupt enrollment declines result in an immediate and equally abrupt funding reduction.

The JLETF recommends that statute be adopted to provide a 'step-down' mechanism that buffers the effects of declining enrollment.

Base student allocation

The JLETF recognizes that school districts are better able to plan and budget their programs when the amount of their student funding is known and predictable.

The JLETF recommends that the legislature commit in statute to further increasing the BSA amounts for three years. The BSA for fiscal year 2009 through fiscal year 2011 should be increased by, at a minimum, \$100 per year from fiscal year 2008 levels.

Pupil transportation recalibration

The JLETF recognizes that school districts have experienced increased costs of transporting pupils and have largely completed negotiating new transportation contracts that are in excess of current funding levels.

The JLETF recommends that the current system of providing funding for pupil transportation be continued. However, the Department of Education and Early Development should recalibrate funding levels for fiscal year 2009 utilizing the most recent actual audited costs for the school districts.

University of Alaska teacher preparation report

Preparing new teachers to meet the challenges of providing quality education throughout Alaska should be an important objective of the University of Alaska.

The JLETF recommends that the legislature require the University to provide an annual report to the legislature documenting their efforts and degree of success in training teachers and in assisting Alaska school districts to attract and retain qualified instructors.

Other recommendations:

Expedite school appropriation

The JLETF recommends that the legislature expedite school funding and pass a stand-alone appropriation to fund the statutory BSA by the 60th legislative day. This appropriation confirms the availability of the BSA and will further facilitate school districts' ability to plan and budget their programs.

Utilize Public Education Fund

The Public Education Fund was established by the legislature to provide a means to set aside money in excess of the requirements of a current year's budget to fund the BSA in subsequent years.

The JLETF recommends the legislature continue to use the Public Education Fund and that the maximum possible amount of money be set aside in the fiscal year 2009 budget process for this purpose.

Special session call is not necessary

The JLETF believes it has proposed a solution for school funding, including the treatment of school district cost factors, which provides stable, predictable and adequate funding for the next three fiscal years. Accordingly, the JLETF concludes it is not necessary or appropriate for the governor to call the legislature into special session in order to address school funding prior to the Twenty-fifth Alaska State Legislature convening its second regular session.

Issues referred to the proposed standing committees on education for further legislative consideration:

Charter and correspondence schools and home-schooling

Charter schools, correspondence schools and home-schooling are integral to providing a broad spectrum of school alternatives in Alaska. The manner in which these alternatives are recognized in the school funding formula should be evaluated by the Standing Committees on Education to make certain they are fairly and adequately supported

Special needs block grant

The special needs block grant is a 20% increase in each district's school size adjusted ADM to recognize the cost of providing a range of specialized services including special education, vocational technology, bilingual and bicultural programs, and gifted and talented programs. When the current school funding formula was adopted, it was determined that these programs were to be funded with these block grants, rather than attempting to fund each activity category individually. The JLETF did not recommend a change in the special needs block grant factor.

However, the JLETF recommends the structure of these grants be further considered by the Standing Committees on Education to evaluate whether the block grant approach continues to be the most appropriate mechanism to address these specialized programs.

Vocational technology programs

Vocational technology programs are becoming a more prominent component of public school education. Various school districts have developed differing approaches to providing these programs.

The Standing Committees on Education should undertake a comprehensive examination of vocational technology programs across the state and determine if additional statutory consideration is appropriate to meet the demand for these programs and to maximize their effectiveness.

Required local effort and federal Title VIII Impact Aid

School districts in organized boroughs are required to provide local funding in the amount equivalent to a 4-mill tax levy on the full and true value of the taxable real and personal property in the district, not to exceed 45% of the district's basic need for the preceding fiscal year. However, beginning in fiscal year 2002, only 50% of the increase in real and personal property over the 1999 full and true value is used for the 4-mill equivalent calculation.

The JLETF considered and made no recommendations to change the required local effort provisions at this time. The Standing Committees on Education should undertake an aggressive examination of these provisions, considering both the long-term consequences of the current structure and the exemption for school districts in the unorganized boroughs from local effort requirements.

Federal Impact Aid provides funds, ostensibly in-lieu of local taxes, to school districts for children of parents living and/or working on federal property or property exempted from taxation by federal mandate.

The JLETF considered and made no recommendations to change the Federal Impact Aid provisions. The Standing Committees on Education should include consideration of these provisions in their evaluation of local effort issues.

Moore et. al. v. State of Alaska Decision and Order

On June 21, 2007, the Superior Court issued a Decision and Order in the Moore et al v. State of Alaska lawsuit. The Decision and Order placed certain requirements on the legislature with regard to schools that are not performing adequately.

The JLETF recognizes the legislature's continued reliance upon authority delegated to the executive branch and the Department of Education and Early Development to continue and conclude the legal process with regard to these issues. The JLETF recommends that the legislature evaluate and determine the appropriate action, if any, to take in the second regular session of the Twenty-fifth Alaska State Legislature based on the facts available when that session convenes in January 2008.

Overlapping timing for state and school district budget cycles

The JLETF considered early or pre-funding alternatives for the annual education appropriation. In addition to the specific proposals in the report, the JLETF recommends the Standing Committees on Education further consider alternatives that can provide relief from the practical problems that arise from the overlapping state and school district budget cycles.

Innovative or best practices grants

The JLETF determined that the school funding formula should be structured in such a manner that schools are fairly and adequately funded without other special grant programs. The JLETF also recognized that "innovative" and "best practices" programs outside or increasing the scope of regular public school instructional programs should be encouraged.

The JLETF recommends that the Standing Committees on Education work with the Department of Education and Early Development to evaluate the viability of a system of specialized supplemental grants that would be available to school districts which apply and meet high eligibility standards of both need and merit.

Voluntary pre-K programs

The JLETF considered voluntary pre-kindergarten programs and desired this report remain neutral with regard to this issue. The JLETF recommends that the merits and costs of these programs be objectively evaluated by the Standing Committees on Education.

Alaska Military Youth Academy funding

The Alaska Military Youth Academy (AMYA) receives funding that is statutorily derived from the BSA. The recent significant increases in the BSA has resulted in statutory funding in excess of what is necessary for AMYA operations.

The JLETF recommends that the Standing Committees on Education review and adjust the AMYA funding statutes to provide adequate and appropriate, but not excessive, funding to meet their needs.

National Forest Receipts Program

The National Forest Receipts Program was originally authorized under a 1908 federal law that required 25% of the annual income generated from activities within a national forest to be shared with the state and distributed to local governments located within the national forest. The decline of commercial timber harvests in the Tongass National Forest has resulted in a substantial decline in the revenue that numerous Alaska communities relied upon to fund their schools. The federal government took temporary action to subsidize increased payments to the local communities through 2008. That funding may not continue.

The JLETF recommends that the Standing Committees on Education monitor federal actions regarding the National Forest Receipts Program and determine what state response may be appropriate as a result of those actions.

Achieving and sustaining the commitments proposed in this report

The JLETF recognizes that achieving and sustaining the education funding commitments proposed in this report presents significant challenges in light of the economic reality of the state's declining oil production. No matter how high the market price of oil reaches, nor how great the level of state imposed taxation, the indisputable decline in North Slope oil production inevitably results in the state having less fiscal resources available to allocate among all the competing needs for public services, including providing a system of public schools.

The determination of state revenue and appropriation policies will always entail reconciliation of differing economic and social philosophies among individual policy makers. Regardless of the dynamics inherent in the political process, the Alaska Constitution requires the legislature to establish and maintain a system of public schools and the legislature must be committed to meeting that responsibility.

The JLETF recommends the legislature adopt the proposals in this report and prioritize developing the long-range fiscal policy necessary to sustain these commitments.