



AUGENBLICK,  
PALAICH AND  
ASSOCIATES

# Review of Alaska's School Funding Program

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# Who is APA?

- APA is a Denver-based education policy consulting firm founded in 1983.
- The firm has extensive experience working in all 50 states.
- APA has examined the structure of many state school funding systems and helped design the systems in states including Louisiana, Maryland, and Mississippi.

# Today's Presentation

- Overview of the study
- Interviews with school district leaders
- Review of funding system components
- Equity analysis
- Analysis of performance, expenditures, and student need
- Fiscal sustainability
- Recommendations

# Study Overview

- Study was focused on reviewing the structure of the current funding system.
- It *did not* include:
  - Examining the adequacy of the state’s funding formula.
    - That is, APA was not asked to calculate the levels of funding deemed necessary to ensure that all students could meet state standards.
  - Determining if the specific adjustment figures were correct.
    - For example, APA did not recalculate the District Cost Factors.

# Study Overview

- A strong education funding system is: (1) equitable, (2) responsive, (3) adequate, (4) efficient, and (5) flexible.
  - These objectives serve as a reasonable starting point in examining the strengths and weaknesses of any state's school finance system.
  - While adequacy is a key component of a strong education funding system, it was not the focus of this work, and is not a consideration of this study.

# Study Overview

- From late February through July APA:
  1. reviewed the structure of Alaska's current funding structure;
  2. conducted interviews with district stakeholders to understand how the current school finance structure affects individual districts;
  3. examined other states' approaches to school funding;
  4. examined the equity of the current system, looking at both district and taxpayer equity;
  5. analyzed student performance across Alaska, including the relationship between need, funding, and performance;
  6. examined the state's sources of revenues; and
  7. developed recommendations for the state to consider moving forward.

# Interviews: Process

- APA provided the opportunity for leaders from all districts to provide input for the study through:
  - Listening session
  - Group phone interviews
  - In person individual interviews
  - Follow up individual interviews by phone
- Leaders from 31 school districts participated.
- APA also interviewed other stakeholders including DEED staff.
- All interviews focused on gaining a better understanding of the current funding system and its impact on school districts, as well as Alaska's unique context.

# Interviews: General Themes

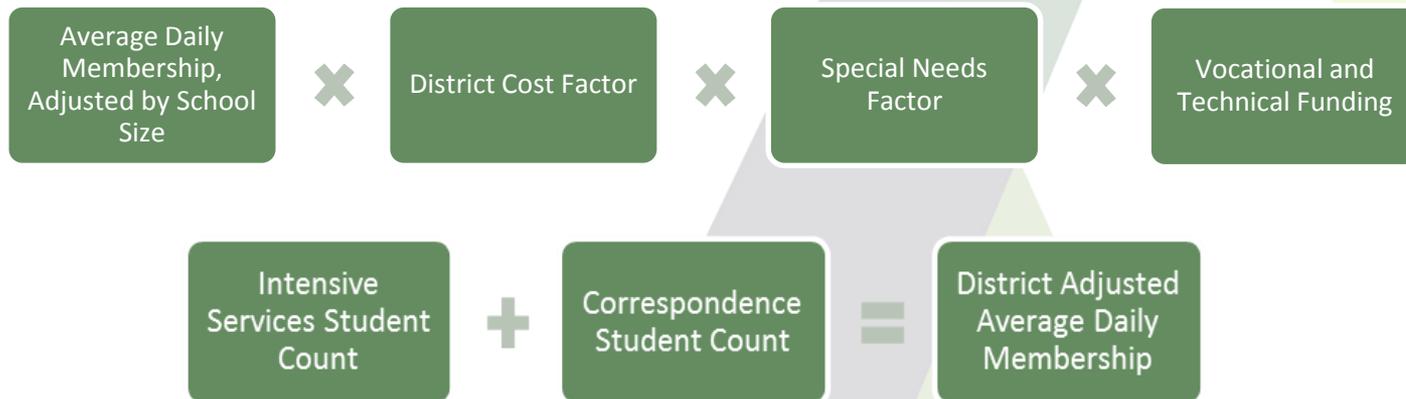
- Interviewees were generally happy with the current funding system and the components of the formula.
- Many interviewees expressed concern that any changes to the current structure would be part of a zero sum game, meaning winners and losers among districts.
- Interviewees understood the complexity of funding a state with such large differences.

# Review of Funding System Components

- APA examined each component of the current funding system by:
  1. gathering feedback from interviewees;
  2. comparing the component to funding approaches used in other states; and
  3. analyzing relevant data.
- Results of this review will be discussed in the context of the recommendations.

# Alaska's School Funding Program

Under Alaska's foundation formula, a district's funding (Basic Need) is determined by multiplying the Base Student Allocation (BSA), as defined by the legislature, by the District Adjusted Average Daily Membership (DAADM). A district's DAADM is determined using the following calculation:



Outside of this funding formula, the state also provides funding for transportation and capital.

# Equity Analysis

- Data examined included demographics, wealth, revenues and expenditures of districts.
  - Data was provided by DEED.
- The study team focused on horizontal equity, vertical equity, and fiscal neutrality.
  - **Horizontal equity** is concerned with how equally resources are allocated to districts or students in similar situations.
  - **Vertical equity** measures how well the school finance system takes into account varying student needs.
  - **Fiscal neutrality** assesses the link between local wealth and the amount of revenue available to support a school district.

# Equity Analysis

- Horizontal equity findings
  - High level of variation when examining horizontal equity across the state.
  - This would be expected due to the number and scale of adjustments made to funding for districts.
  - The coefficient of variation was around .40 for all expenditures and .32 for instruction expenditures for all the years examined.
    - *A generally accepted coefficient of variation would be below .10*

# Equity Analysis

- Vertical equity findings
  - Looked at expenditure figures after adjusting for the differences in student need across the districts.
    - Still found very high levels of variation across districts.
  - Even when examining the variation once current Alaska adjustments are taken into account, high variation exists.
    - Coefficient of variation dropped to between .34 and .38 for total expenditures and .29 for instructional expenditures.

# Equity Analysis

- Fiscal neutrality findings
  - School finance literature sets a .50 correlation as the benchmark figure when examining fiscal neutrality.
  - Alaska's current system is below the .50 metric for the correlation between wealth and spending meaning it meets the fiscal neutrality threshold.
    - Analysis included using a wealth proxy created by APA for this analysis.

# Data Analysis: Performance, Expenditures and Student Need

- The study team first examined the relationship between student need (demographics) and performance.
  - Used a linear regression model to determine if a district's demographics had a significant relationship to overall performance.
  - Three demographics variables did have a relationship: students with disabilities, LEP students, and Alaska Native students.

# Data Analysis: Performance, Expenditures and Student Need

- Next the study team examined the relationship between performance and expenditures.
  - The regression examined the relationship between proficiency levels and (1) instructional expenditures and (2) total expenditures.
  - Higher instructional expenditures do show a statistically significant, positive relationship with performance.
  - There is not a relationship between total expenditures and performance.

# Data Analysis: Performance, Expenditures and Student Need

- Finally the study team examined the relationship between student need levels and current formula adjustments.
  - Created an “imputed” special needs weight for each district
    - Since the Special Needs adjustment is multiplied against a district’s size- and DCF-adjusted ADM, each district has a different imputed weight for special needs.
  - Examined if the imputed weights were correlated with student need levels in districts.
    - Did not find a high correlation.

# Fiscal Sustainability

- Alaska has a very high reliance on oil revenues.
- The state should explore ways to increase the revenue base for the state.
  - APA understands that alternatives funding sources are not close to the scale of the oil revenues.

# Fiscal Sustainability

- Alaska is a relatively wealthy state in terms of annual personal income.
  - \$43,677 compared to national average of \$42,693
- The state has two potential sources of revenue to help stabilize funding until additional revenue sources are available:
  - The Constitutional Budget Reserve Fund, estimated at \$10.1 billion at the beginning of FY2016.
  - The Permanent Fund Earnings Reserve Account, with a balance of \$6.9 billion at the beginning of FY2016.

# Recommendations

- APA's intent for all recommendations is to strengthen the current funding system and to ensure that the system is equitable, responsive, efficient, and flexible.
- The study team does not recommend specific funding levels, as that would be outside the scope of this study.

# Recommendations: General Impressions

- Overall, the study team believes Alaska's current funding system has the right elements in place to address the variations described above.
- The formula adjusts for variations in needs across the state through the School Size Adjustment (SSA), District Cost Factor (DCF), Hold Harmless, Special Needs Funding, Vocational Career and Technical Education (CTE) Funding, Intensive Services Funding, and Correspondence Program funding.

# Recommendations: General Impressions

- The current formula has several cliff points, e.g. where small changes in school- and district-level student enrollments may lead to large changes in funding.
- The SBA performance data shows that a district's student characteristics, including its percentage of special education, LEP, and Alaska Native students, provides a good indicator of that district's SBA proficiency levels.
- The funding system does little to differentiate funding based on actual student characteristics.

# Recommendations: General Impressions

- Some of the formula's existing adjustments for student characteristics have not been addressed in many years.
- Equity concerns arise around the difficulty in comparing wealth across districts and a lack of correlation between a district's student needs and spending.
- Finally, revenues from oil taxes have declined and are predicted to remain lower than previous projections creating issues for fiscal sustainability.

# Recommendations: School Size Adjustment (SSA)

- **Alaska should consider not using the SSA in larger districts.**
  - There is some concern that the SSA could lead districts to make inefficient school size decisions based on funding incentives instead of educational concerns.
    - Larger districts may be in a position to adjust for economies of scale at the school level through their larger central operations.
  - Other states often only adjust for “necessarily small schools.”
  - Does not mean larger districts are overfunded.
    - Alaska could consider holding larger districts harmless for any loss of funding for at least a period of time while not incentivizing inefficiencies.

# Recommendations: School Size Adjustment (SSA)

- **Districts should be allowed to pick which school the students in a community under 10 are applied to.**
  - APA recommends allowing a district the freedom to decide where to add its smallest school's ADM, whether the ADM goes to the next smallest school, the largest school, or a school in between.
  - Currently schools must apply to next smallest school which may not be most efficient solution for the district.

# Recommendations: School Size Adjustment (SSA)

- **Alaska should create an average formula for schools affected by the community size cliffs at 100 and 425 students.**
  - Current approach creates cliff points where changes in a few – or even one student – can have a disproportionately large effect on district ADM.
  - At the 100 student cliff, the loss of one student can lead to a loss of school size-adjusted ADM of over 18 ADM. This is compounded once other factors are added.

# Recommendations: School Size Adjustment (SSA)

- **The SSA was first created in 1998, so it may be time to update the adjustment.**
  - Currently, there is uncertainty about what the Base Student Allocation is intended to provide, and smaller schools struggle to offer a full education program.
  - The state should:
    1. Identify what educational opportunities and support services they want all students to have access to regardless of where they go to school.
    2. Identify what the cost of providing those opportunities in an efficient manner would be at multiple school size points to create a School Size Adjustment.

# Recommendations: Hold Harmless

- **Alaska should create a true Declining Enrollment adjustment to replace the current Hold Harmless provision. This Declining Enrollment adjustment would be applied to all districts to ensure greater funding stability.**
  - Alaska's current Hold Harmless provision functions like a declining enrollment adjustment.
    - However, it creates funding inequities between districts with declining enrollment, due to the 5% threshold.
  - A true declining enrollment adjustment would benefit the large number of Alaska districts with declining enrollment.
    - It would also provide districts with some more stability in planning. Currently, the timing of budgeting and funding creates uncertainty for districts.
  - APA recommends a Best of Three-Year Averaging approach.

# Recommendations: District Cost Factor (DCF)

- **The study team believes Alaska's DCF is strong. The current DCF is also the most appropriate approach for the state.**
  - While few states have a Cost of Education adjustment like Alaska's, the DCF necessarily accounts for the specific cost pressures Alaska's districts face beyond staff wages. These additional cost pressures include the costs of travel, energy, goods, and shipping.
- **Given that it has been 10 years since the last update of the DCF (ISER's work in 2005), it may be time to update the information in the DCF study to ensure it is responsive to current district needs.**
  - Based on interviews with school district leadership around the state, the study team believes that all current DCF cost areas should remain in the formula.
  - Two additional cost areas that could be considered: the costs of student activities and the costs of travel for education specialists.
  - It is important that all cost areas be evaluated in terms of their ability to help provide an appropriate instructional program.

# Recommendations: Special Needs Funding

- **The state should move towards a series of adjustments for special needs that are student population-specific and need-differentiated. The state should also consider providing an adjustment for at-risk students.**
  - Alaska's current Special Needs Funding is not student-specific and does not adjust for differences in concentrations of students across districts.
    - Data shows wide variation in concentration of student need across districts
  - Other states frequently adjust for special needs through separate adjustments by category of students.
  - Data shows that student need is correlated with performance so targeted resources could lead to improvement.
  - Districts often prioritize using the dollars generated by the Special Needs adjustment to serve non-intensive special education students first (before vocational, gifted/talented, bilingual/bicultural)
    - Creates resource challenges for districts with high concentrations of students

# Recommendations: CTE Funding

- **Alaska should leave the CTE adjustment in place. When funding is available, the state should consider if it is possible to increase the level of funding and fund actual CTE student counts.**
  - Other states use different methods for funding CTE, including through funding formulas, direct reimbursement, and funding CTE centers. Most states with CTE weights, fund on actual CTE student counts.
  - Districts feel the CTE adjustment has helped them expand programming.
    - Larger districts maximize resources by centralizing CTE programs, while smaller districts struggle to offer CTE programs.
  - CTE programming is critical in a state where many high wage jobs are available without a college degree.

# Recommendations: Intensive Services Funding

- **Alaska should not make any major changes to the Intensive Services adjustment.**
  - The weight is significant and appears to sufficiently account for the cost of serving intensive special education students, on average.
    - The weight is higher than in many other states but unlike many states, Alaska does not provide extraordinary aid.
    - The weight may also be applied to a lower base amount than in other states.

# Recommendations: Intensive Services Funding

- **If the state reexamines the DCF, the study team suggests examining the additional costs of providing related services for intensive special education students in remote and/or isolated areas.**
  - This appears to be one cost area that is not sufficiently accounted for in the funding formula, since there is no DCF applied to the Intensive Services adjustment.
- **Alaska should collect data on the movement of intensive special education students into and out of districts throughout the year to understand the potential cost impact for districts due to this mobility.**
  - The data should include information on the student movement in and out of districts, and the types of disabilities and/or services being provided to the students. This will allow for an analysis of the changes in resources districts face due to intensive high cost students.

# Recommendations: Correspondence Programs

- Alaska is unique in its approach to providing a publicly-funded homeschool option.
  - Few states fund any homeschool option, those that do fund through tax credits or classifying homeschools as private schools for IDEA funding.
- Only examining publicly-funded homeschool through correspondence programs.
  - Non-publicly funded homeschool, while important, is not within the scope of this study.
- **If a new system is put in place to fund for actual counts of special needs students, then Alaska could consider adjusting for the special needs of correspondence students.**
  - To do so, Alaska should identify what types of special needs are present and what services are needed (which may be currently provided but not funded).
    - This would ensure that the funding system is being responsive to the additional needs of these students.

# Recommendations: Correspondence Programs

- **If blended learning programs grow, then as they grow, Alaska should examine: (1) the costs of the programs, and (2) the methods for counting blended learning students.**
  - Programs where students undertake part of their learning offsite and part onsite are growing in popularity. Some concern was heard that the current funding structure may not provide appropriate funding for these students.

# Recommendations: Transportation

- **The study team does not recommend changes to the current transportation funding system, and suggests that districts continue to be allowed to use transportation funding for intra-district transportation.**
  - Currently, Alaska funds transportation using a per pupil amount based on actual district costs.
  - Other states use different approaches including funding formula approaches (for example, by a per pupil amount or by mileage), cost reimbursement, and blended approaches.

# Recommendations: Capital

- APA is making no specific recommendations around capital.
- Funding for capital varies widely across the country with some states picking up large shares of the cost and others picking up little to no cost of capital.
- Districts are concerned with the growing costs of maintenance of buildings and the decreasing condition of the buildings.
- The elimination of the Debt Reimbursement program is very concerning for districts.
  - The state match provides local communities an incentive to pass bonds for school projects.

# Recommendations: Equity Study

- **The study team recommends that Alaska revisit its Special Needs adjustment to ensure that it accounts for differences in concentrations of special needs students, especially at-risk (low-income) students, across districts.**
  - The research team provides a specific recommendation for modifying the adjustment in the prior *Special Needs Funding* recommendations.
  - This would increase the vertical equity of the funding system.

# Recommendations: Equity Study

- **The state should conduct further analysis of the differences in the amount of local revenues contributed to districts and explore approaches for either:**
  - 1. equalizing access to additional revenues beyond state foundation funding for low wealth districts, or**
  - 2. further limiting the amount of additional local funding that may be contributed to districts.**
  - This would create greater horizontal equity between districts, as presently there is significant variation in district spending due to funds above Basic Need.

# Recommendations: Equity Study

- **Additionally, the state should consider creating a consistent measure of local capacity for supporting districts that may be used across all district types.**
  - This will allow the state to better measure and track how well its school finance system is providing equitable funding opportunities for all students across the state.

# Recommendations: Fiscal Sustainability

- **Over the long term, it may be in the state's best interest to begin moving toward reducing its reliance on oil revenues.**
  - In the long term both demand and production will likely begin a permanent downward trend. The state should consider putting a fiscal foundation in place now to diversify its revenue sources.
  - This would require putting new revenue streams in place that will eventually be able to reduce the 80 percent to 90 percent reliance on oil revenues.
    - A broader-based tax such as individual income taxes or a general sale tax will probably be needed.

# Recommendations: Fiscal Sustainability

- **During the transition away from the current reliance on oil revenues, the state should explore using other available resources to temporarily help stabilize education funding.**
  - The Constitutional Budget Reserve Fund, estimated at 10.1 billion at the beginning of FY2016.
  - The Permanent Fund Earnings Reserve Account, with a balance of 6.9 billion at the beginning of FY2016.

# Recommendations: Fiscal Sustainability

- **Alaska pays for a relatively high state share of K-12 funding; the state should explore equitable approaches to adjusting the local share of K-12 funding.**
  - APA recognizes that there is ongoing litigation through the Ketchikan lawsuit regarding the constitutionality of the required local contribution for schools. This study examined the current structure of the finance formula. The ramifications of the constitutional challenge are outside the scope of the study.
  - As of 2012, Alaska's state share of total K-12 funding was 64.8 percent. This compares to the national average of 45.2 percent
  - Alaska currently limits a district's required local contribution to an amount not to exceed 45 percent of the district's prior year basic need. The state could consider lifting this cap on percentage of basic need as a means to reducing state funding.

# Recommendations: Fiscal Sustainability

- **The state could also consider creating a floor for the Impact Aid Percent applied to C&B districts making effort above the required level. This would lower the amount of state aid provided to these districts.**
  - Currently C&B districts that provide local funding above the minimum required local effort are rewarded with a decrease in the Impact Aid Percent used to calculate the amount of impact aid that offsets state funding.
  - By creating a floor for this reduction the state would reduce the cost of state basic aid and possibly improve funding equity across districts.

# Recommendations: Fiscal Sustainability

- **As noted in the prior *Equity Study recommendations*, the state should also consider formally defining and measuring the local fiscal capacity of all districts.**
  - Taking this step will provide the state with a better understanding of local districts' ability to contribute to K-12 education and to establish a more equitable and balanced local contribution.

# Other Recommendations

- **Alaska should undertake an examination of the state's current school district governance structure to ensure it is the most efficient and effective approach to serving students.**
  - APA's study focused on the current school finance formula and its application within the current school district governance structure in the state. The findings reflect our analysis within this context.
  - The study team observed at least one potential barrier to efficiency during its visits to districts across the state: replication of district-level services.
  - The examination of the governance would need to address the local revenue and tax implications of any changes to the school district governance structure.

# Other Recommendations

- **Alaska should examine student enrollment trends through the year.**
  - Several interviewees indicated that the October student count used for funding may be lower than the actual number of students they served during the school year.
    - Due to tribal gatherings, end of seasonal work, and receipt of Permanent Fund Dividend.
  - Student count information for multiple points during the school year was unavailable, so APA was unable to substantiate this anecdotal information.
  - Alaska should collect this information, and then if it is found that the October count is not the most accurate measure of the number of students served within a year, Alaska should consider an alternative count method.