

## **Historical Analysis of Alaska K12 Education Funding**

*Prepared by Amy Lujan, Executive Director  
Alaska Association of School Business Officials – ALASBO  
June, 2017*

During the recent legislative session, there has been concern that Alaska K12 education funding has outpaced inflation. However, ***much of the discussion about increases to K12 education funding has been presented without adequate historical context, which this analysis will provide.***

### **Executive Summary**

While it is true that funding has increased during the most recent 10-year period of FY2008-FY2018, analysis of this period alone fails to acknowledge the long-term underfunding of K12 education in prior years, as identified by the Joint Legislative Education Funding Task Force (JLETF) in 2007. Funding increases in FY2009-FY2013 were in response to this identified underfunding problem.

Furthermore, the high impact of inflation in health insurance has had a strong impact on K12 school districts, which spend a large percentage of their funds on personnel.

Alaskan K12 school funding has been reviewed by national experts and is based on sound methodology. Some funding for specific programs, such as Pupil Transportation and TRS/PERS retirement is appropriately provided outside the formula.

***Analysis of K12 funding must be done with historical context and an understanding of the current system. In fact, flat BSA funding as proposed by the Alaska House Majority for FY2018, puts K12 education at reduced per student levels comparable to FY2007 and below FY1991 (Leg Finance Charts attached).***

### **Implementation of JLETF Recommendations**

In FY2009, the legislature began funding increases to K12 education as recommended by the Joint Legislative Education Funding Task Force (JLETF). ***While it is true that K12 formula funding increased significantly during the JLETF implementation years of FY2009 to FY2013, this followed a period of declining K12 funding (FY1990-FY2004), when shown adjusted by inflation and on a per student basis (Leg Finance Charts attached).***

The bipartisan JLETF was established by the legislature in early 2007 to work through issues that had become difficult for legislators to handle through the existing committee structure. The task force was charged with examining school district cost factors and the

foundation formula and making recommendations. The group met intensively over the summer of 2007, including numerous public hearings, open sessions and a comment period. The JLETF report was issued in September 2007

([http://www.alasbo.org/news/Joint\\_Leg\\_Ed\\_Funding\\_Task\\_Force\\_Report.pdf](http://www.alasbo.org/news/Joint_Leg_Ed_Funding_Task_Force_Report.pdf)).

The JLETF recommendations with fiscal impact were as follows:

- **Implementation of revised district cost factors** in the foundation formula, as recommended by the University of Alaska's Institute of Social and Economic Research (ISER) over a five-year period. District cost factors are meant to address geographic cost differences within Alaska, to equalize purchasing power among school districts. The ISER study on district cost factors was issued in 2005, following a controversial study in 2003 by the American Institute of Research (AIR). While it was recognized that periodic cost factor adjustments were necessary for the integrity of the K12 foundation funding formula, review of the studies became mired in politics. The JLETF reviewed the options and recommended a five-year phase-in so that no district would be harmed by implementation of the revised cost factors.
- **Increased funding for intensive needs special education students**, to gradually make up for historic underfunding, over a three-year period. Costs for these students were found to be overwhelming to districts, so the funding factor was increased from five to thirteen times the cost of a regular student. Again, a problem with the formula was to be addressed over a multi-year period.
- **Base student allocation (BSA) increases** over a three-year period. These increases were to provide a commitment to districts and to avoid funding outside the formula, such as Learning Opportunity Grants (LOG's) and School Improvement Grants (SIG's), which had been used in recent years.

The fiscal note prepared in August 2007 for implementation of the JLETF recommendations was as follows:

- FY2009 - \$36 million (after subtracting out funding outside the formula to be eliminated)
- FY2010 - \$54 million
- FY2011 - \$55 million
- FY2012 - \$13 million
- FY2013 - \$12 million

*In summary, funds meant to correct years of underfunding should not subsequently be used for inflation comparison purposes. This is not responsible use of data. The JLETF identified specific instances of underfunding and attempted to make up for this in their recommendations, which were adopted by the full legislature.*

### **Inflation and School District Costs**

In some discussions of Alaskan K12 education funding, expenses are compared with the general inflation rate. However, ***further analysis of school district spending shows the disproportionate impact of cost increases in two areas: energy and health insurance.***

To its credit, the Alaska Legislature has in several years provided additional K12 funding outside the foundation formula to make up for significant increases in energy costs. Because Alaskan school districts operate large facilities in remote locations, energy is one of the largest and most variable costs in district budgets.

The rising cost of health insurance has also put even greater long-term pressure on school district budgets, due to the fact that districts spend 75-90% of their funds on personnel. The attached charts prepared by the State of Alaska Health Care Commission in 2015 (the last year it was funded) show:

- 1) The astonishing inflation in health insurance premiums (191% from 1999 to 2014), vs. overall inflation during this period of 43%
- 2) Alaska's huge health care costs, a significant reason for high expenditures per student
- 3) The impact of health care spending in driving up spending per student at Anchorage School District over the past 30 years

***In summary, due to the disproportionate impact of cost increases in energy and especially health insurance, adjustment of school district funding by general inflation alone is inadequate.***

### **Integrity of the Foundation Funding Formula**

Some reviews of K12 Alaskan education funding get bogged down in the details of the funding formula, which can be difficult to understand at first glance. However, ***the Alaska K-12 foundation formula itself has recently been reviewed and validated by national school funding experts.***

National consultants Augenblick, Palaich and Associates (APA) presented a "Review of Alaska's School Funding Program" to the Legislature in July 2015

([http://www.alasbo.org/wp-content/uploads/2015/08/APA\\_Review-of-Alaskas-School-Funding-Program\\_Final-Report.pdf](http://www.alasbo.org/wp-content/uploads/2015/08/APA_Review-of-Alaskas-School-Funding-Program_Final-Report.pdf)).

The APA study recognized that Alaska is a state with tremendous variations in school size, district size and location of schools, including some of the most remote locations in the United States. Differences like these call for a formula that addresses variations in circumstances between districts. According to APA, "Overall, the study team believes Alaska's current funding system has the right elements in place to address the variations described above."

The APA study did make some recommendations, but recognized that changes are very difficult in a time of state budget reductions. None of the recommendations identified were critical to the integrity of the funding formula.

***In summary, while the K12 foundation formula is complex, the complexity is related to the diversity of Alaskan school districts. National school funding experts have recently validated the funding formula.***

### **Funding for Specific Programs**

Some discussions of K12 education funding are critical of additional allocations outside the formula for Pupil Transportation and retirement benefits (TRS/PERS), on top of K12 formula funding. In fact, ***pupil transportation and retirement programs are essential to the operation of school districts, and these programs are largely dictated by the State of Alaska.***

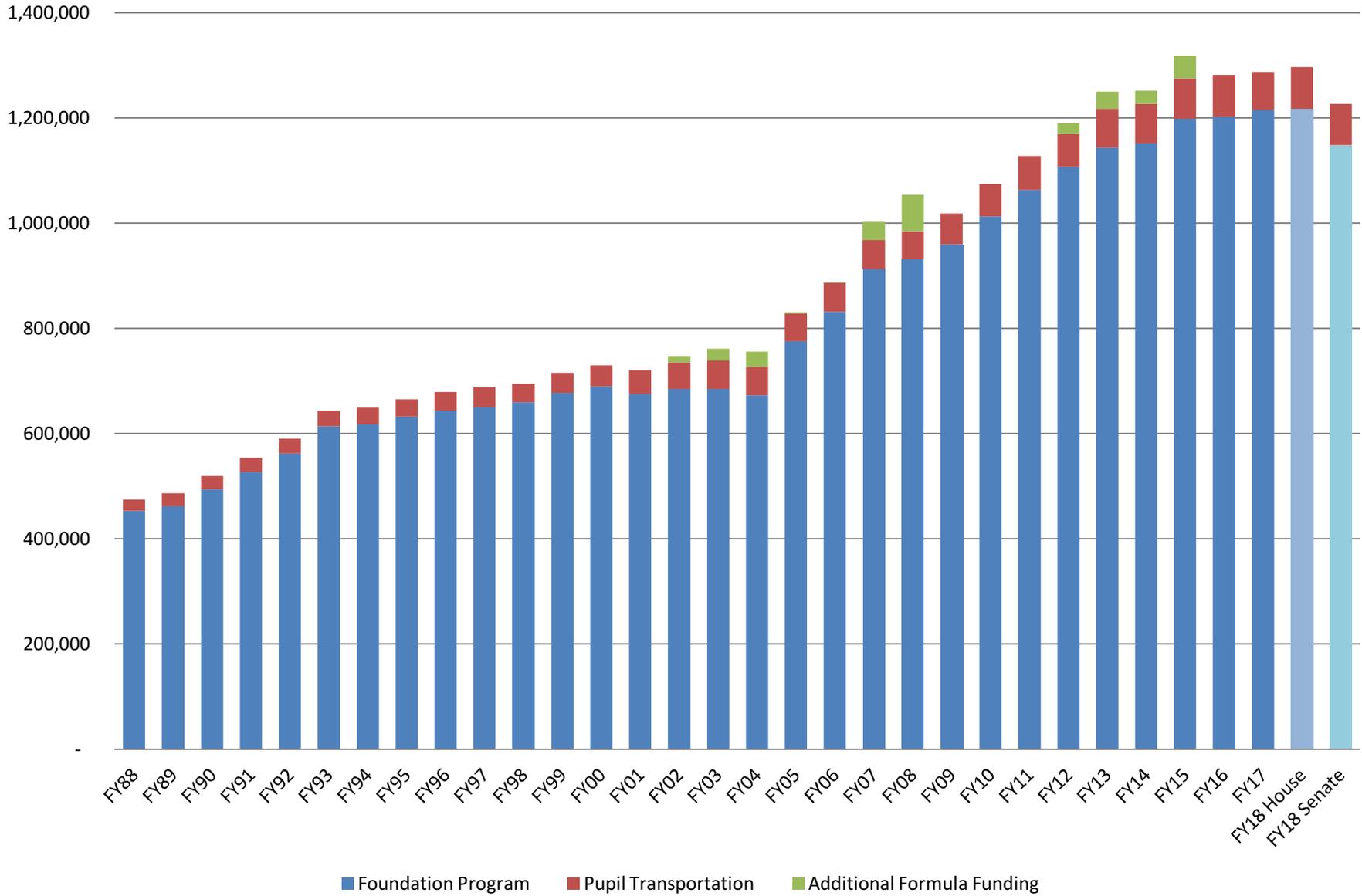
Pupil transportation is highly regulated by the state and districts have few choices in managing this program. Even so, districts have in many years been underfunded by the state and have had to subsidize pupil transportation out of K12 foundation formula funding.

The TRS and PERS retirement programs are entirely administered and mandated by the state. Districts have no control over the costs of these programs.

***In summary, it is appropriate that the state provide additional funding for certain mandated programs outside of the foundation funding formula.***

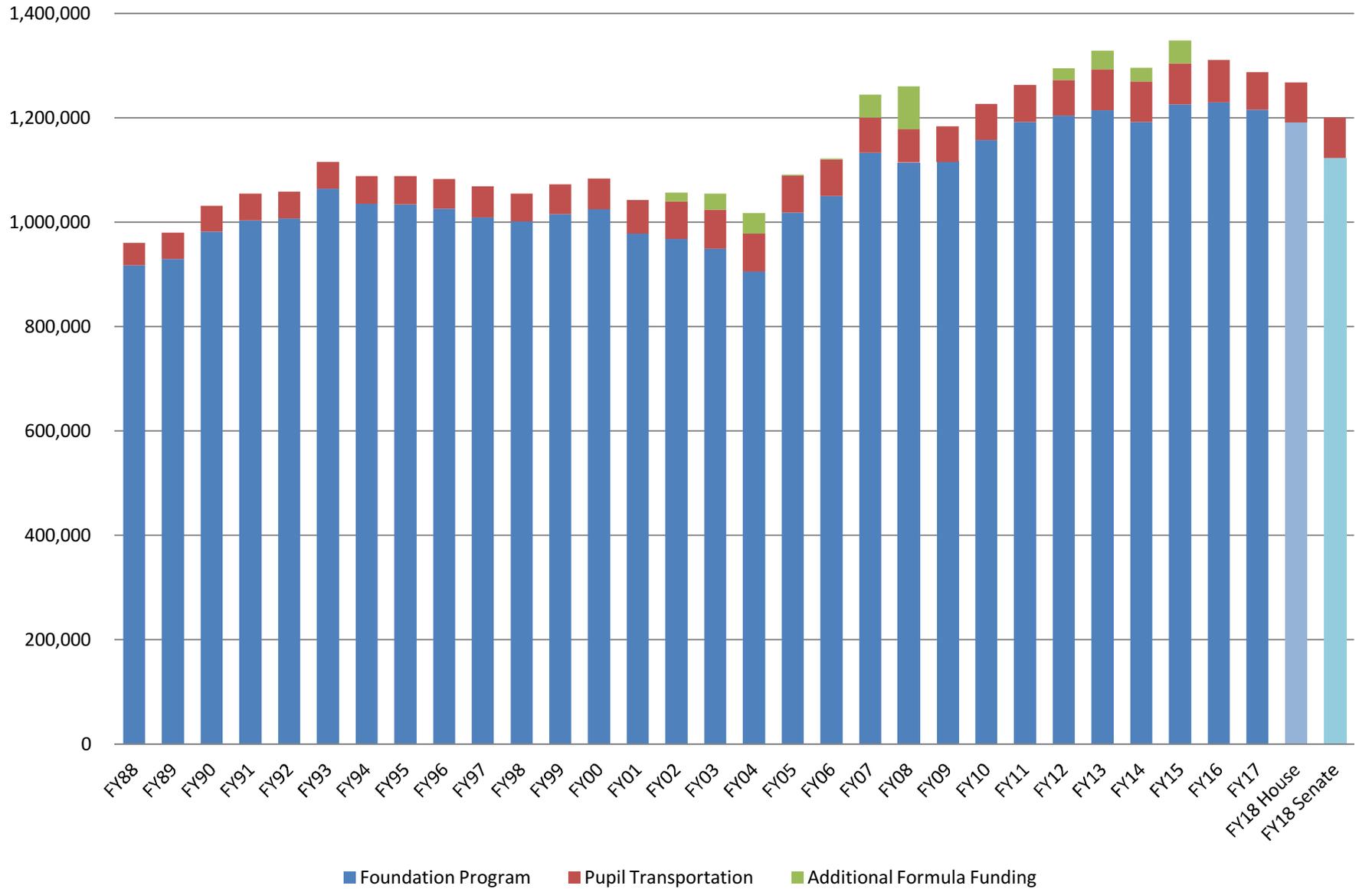
# K-12 Formula Funding, FY88-18

(Nominal dollars)



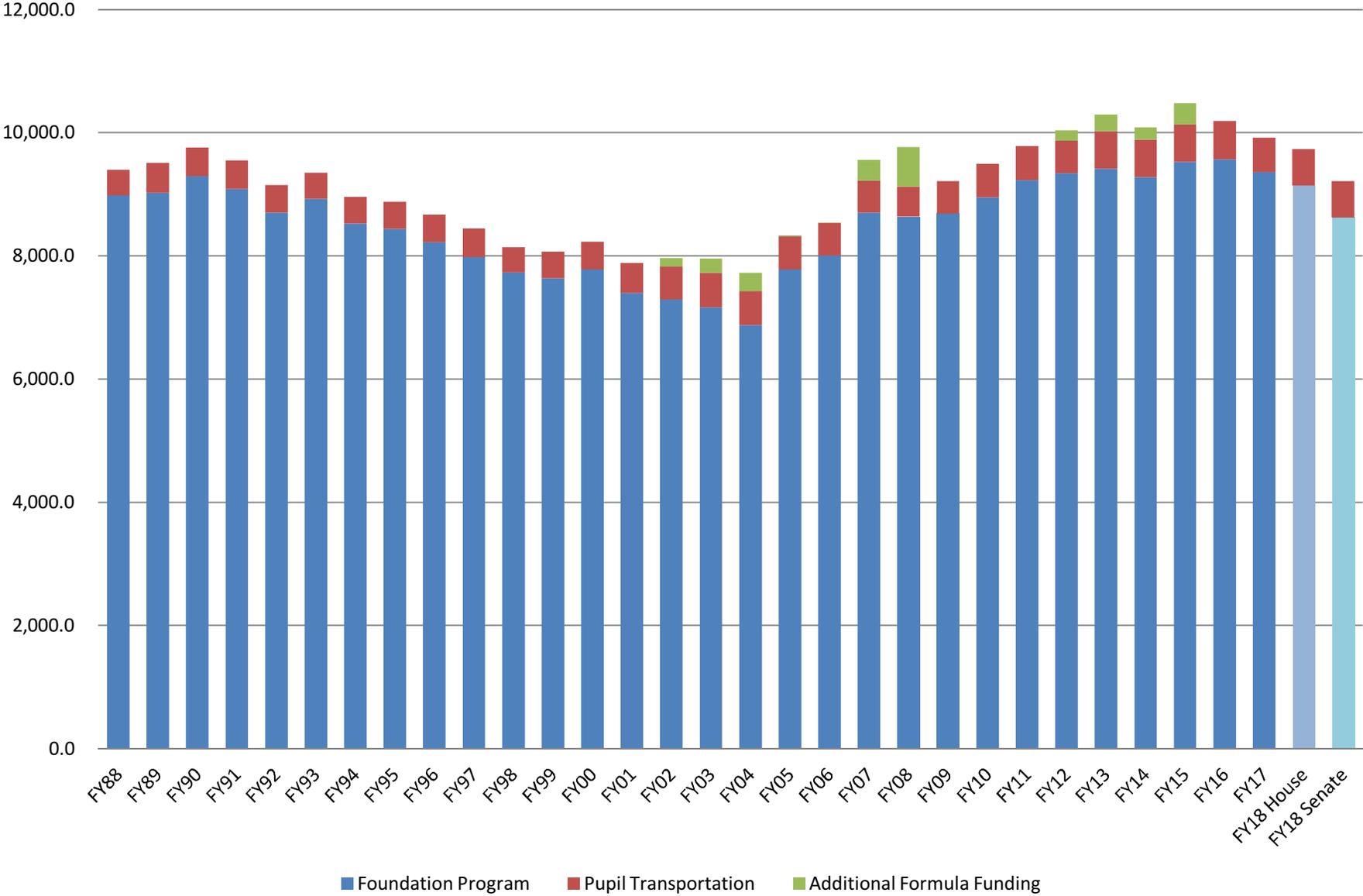
# K-12 Formula Funding, FY88-18

(In FY17 Dollars)

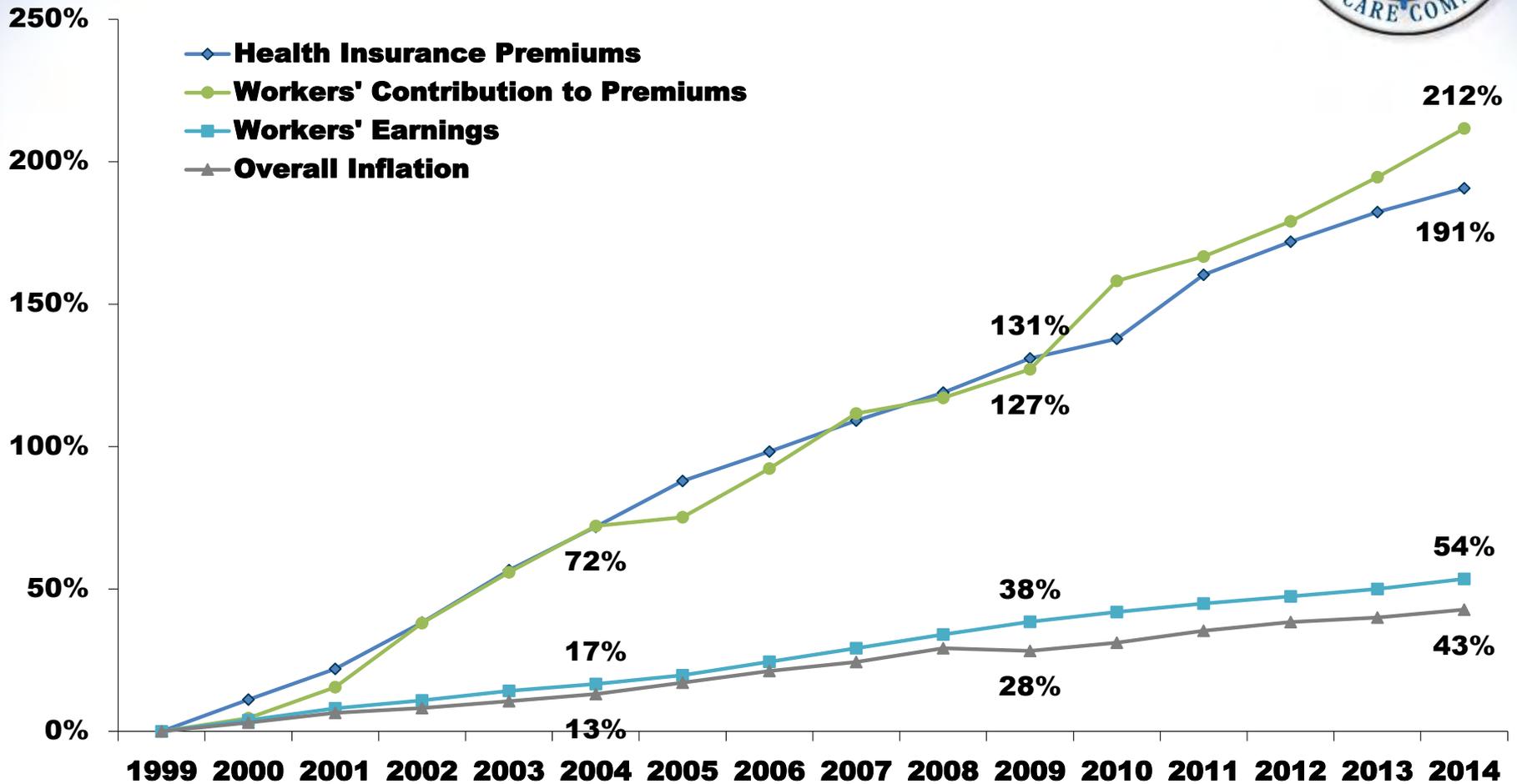


# K-12 Formula Funding per Student, FY88-18

(In FY17 Dollars)

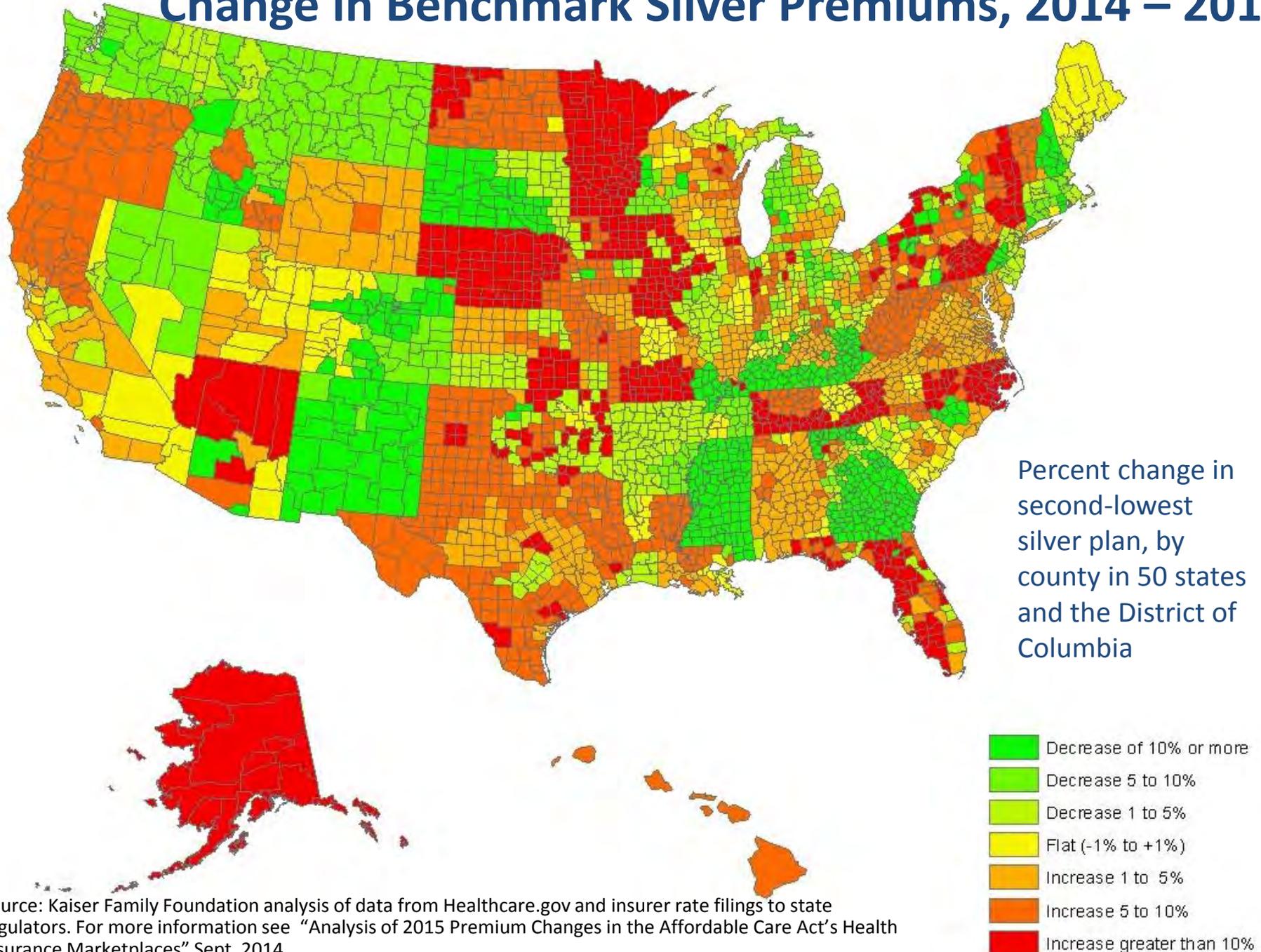


# U.S. Health Benefit Cost Increases vs. Inflation, Earnings



SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2014. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2014; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2014 (April to April).

# Change in Benchmark Silver Premiums, 2014 – 2015

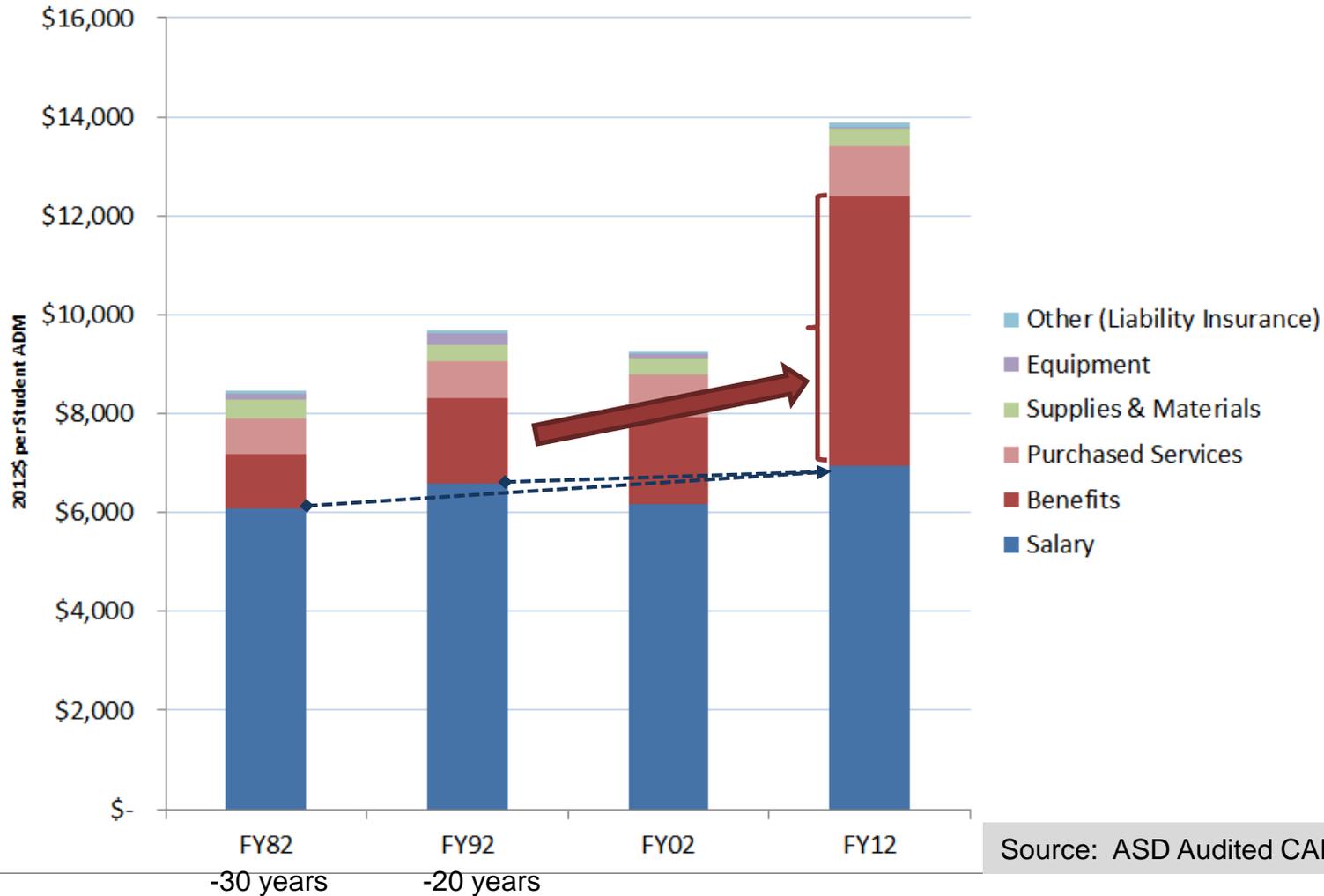


Source: Kaiser Family Foundation analysis of data from Healthcare.gov and insurer rate filings to state regulators. For more information see "Analysis of 2015 Premium Changes in the Affordable Care Act's Health Insurance Marketplaces" Sept. 2014.

# Local Health Care Spending Impact (example)



**Anchorage School District - General Fund Operating Expenditures**  
(2012\$ - ANC CPI-U, by Student ADM)



Source: ASD Audited CAFRs