



ALASKA

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GENERAL BACKGROUND

Alaska is the largest state in the country, making up nearly 20% of the United States. It is larger than the next three largest states combined: Texas, California and Montana. Yet in population, Alaska is among the smallest states, with just less than 740,000 estimated in 2017, and over 40% of the population concentrated in the Anchorage area. Alaska's geographic size and sparse population have created challenges in public education funding.

The K-12 funding formula must fund 53 school districts, which range from single-site districts to districts with sprawling geography. For example, an area slightly larger than the state of Minnesota is served by a single school district, the North Slope Borough School District. For FY18, district size ranged from just eight students in the Pelican School District to 47,624 in Anchorage School District. More than half of the districts (29) had a total enrollment of less than 500 students, and just four districts had an enrollment greater than 5,000.¹

Logistics and transportation are an extreme challenge in Alaska, with many communities in the state accessible only by air and perhaps seasonally by water. Several districts own airplanes. Student transportation by small, chartered planes to sporting events and other school activities is common. Some students regularly travel to school by boat or snow machine.

The Alaska state constitution has a unique provision:

Article VII – Section 1 - Public Education – The legislature shall by general law establish and maintain a system of public schools open to all children of the State, and may provide for other public education institutions. Schools and institutions so established shall be free from

¹ Alaska Department of Education and Early Development (2017). District Enrollment by Grade as of October 1, 2017. Retrieved from: <https://education.alaska.gov/stats/DistrictEnrollment/2018DistrictEnrollment.pdf>

sectarian control. No money shall be paid from public funds for the direct benefit of any religious or other private educational institution.²

When Alaska achieved statehood in 1959, there were municipal and territorial schools serving the urban population, while federal Bureau of Indian Affairs (BIA) schools served the Native population in rural communities. The above constitutional provision signaled a desire for a single, statewide system, but it took several decades to reach this goal.

In 1962, the Alaska State Legislature established Alaska's first foundation program.³ Under this plan, the state departed from past practice of reimbursing districts for expenses and instead funded districts based on "basic need". A local contribution was also required, area cost differentials were factored in and there was a deduction for federal impact aid funds⁴ received by districts. These characteristics all carry through to the current state K-12 foundation formula funding program.

During the 1970's and 1980's, foundation programs based on instructional units were implemented. In rural areas, Regional Education Attendance Areas (REAA's) were formed in 1975, which provided for locally elected school boards. The REAA's received funding through the foundation program, so that public schools across the state were finally funded through one program.

The passage of Senate Bill 36 in 1998 moved the state to a formula based on the number of students per school. The use of funding communities and instructional units in the prior formula was abandoned. To ease the transition, approximately \$21 million in new funding was injected into the

² Harrison, G. (2012). Alaska's Constitution – A Citizen's Guide. *Alaska Legislative Affairs Agency*. Retrieved from: http://w3.legis.state.ak.us/docs/pdf/citizens_guide.pdf

³ Livey, J. and Keiser, G. (1987). Public School Financing in Alaska. *House Research Agency – Alaska State Legislature*. Retrieved from: http://archives2.legis.state.ak.us/PublicImageServer.cgi?lra/SAC_86-87/87-400001M.pdf

⁴ Title VIII of the Elementary and Secondary Education Act authorizes the federal government to compensate school districts for any impact on either the district's revenue or expenditures resulting from federal presence in the district. In Alaska, this includes Native lands, military bases, low rent housing and other federal facilities.

formula, and a supplemental funding floor was implemented, which would erode over time.⁵

The 1998 formula was adjusted in subsequent years in various ways. The most significant adjustments were following the recommendations of the Joint Legislative Education Funding Task Force (JLEFT), which issued its report in 2007.⁶ Again, the legislature was able to inject new funding into the formula to ease the transition. The resulting formula used currently will be reviewed in the following section.

FOUNDATION FORMULA⁷

The current funding formula is student based and covers K-12, plus pre-kindergarten special education. The process begins with an annual 20-day student count, ending on the fourth Friday in October. The State Department of Education and Early Development tightly controls the count procedure and subsequent verification of data.

Next, there are six calculations required to reach the District Adjusted Average Daily Membership (ADM):⁸

- Step 1 – Adjust: ADM for School Size
- Step 2 – Apply: District Cost Factor
- Step 3 – Apply: Special Needs Factor
- Step 4 – Apply: Vocational & Technical Funding
- Step 5 – Add: Intensive Services Count
- Step 6 – Add: Correspondence Student Counts

Step 1 – School Size Adjustment

⁵ Alaska Department of Education and Early Development (2001). Alaska’s Public School Funding Formula: A Report to the Alaska State Legislature. Retrieved from: <https://education.alaska.gov/publications/fundingformulasb36report.pdf>

⁶ Joint Legislative Education Funding Task Force Report to the Governor and Legislature (2007). Retrieved from: <https://library.alaska.gov/asp/edocs/2007/09/ocn173495965.pdf>

⁷ Alaska Statute 14.17.410

⁸ Alaska Department of Education and Early Development (2018). Public School Funding Program Overview. Retrieved from: <https://education.alaska.gov/SchoolFinance/pdf/FundingOverview.pdf>

This step is the most complex adjustment. The purpose is to adjust for cost differences based on school size, so that the smaller schools will receive additional operational funds and larger schools are adjusted downward, assuming economies of scale.

First, correspondence students are subtracted from a school’s ADM. Next, there are guidelines for determining how school districts with enrollment less than 425 will be accounted for within the calculation. There are also special provisions for Alternative and Charter schools. Finally, ADM is adjusted per the following table:

School Size:	Formula:
10-19.99	39.60
20-29.99	$39.60 + (1.62 * (ADM - 20))$
30-74.99	$55.80 + (1.49 * (ADM - 30))$
75-149.99	$122.85 + (1.27 * (ADM - 75))$
150-249.99	$218.10 + (1.08 * (ADM - 150))$
250-399.99	$326.10 + (.97 * (ADM - 250))$
400-749.99	$471.60 + (.92 * (ADM - 400))$
Over 750	$793.60 + (.84 * (ADM - 750))$

Next, a hold harmless provision may apply if ADM adjusted for school size has decreased 5% or more, compared to the prior year. If so, the drop in ADM is phased in over three years.

Step 2 – District Cost Factors

Cost factors are specific to each school district and range from 1.000 to 2.116, with Anchorage School District currently set at 1.000.

At this step of the formula, the district’s school size adjusted ADM is multiplied by the district cost factor. The difficulty of updating the district cost factors will be discussed further in the last section of this chapter.

Step 3 – Special Needs Funding

Vocational, special education (except intensive special education), gifted/talented education, and bilingual/bicultural education are block funded.

At this step of the formula, the previously adjusted ADM is now multiplied by the Special Needs factor of 1.2. The block funding approach is a departure from the method in prior formulas of calculating special needs entitlement based on individual student counts in these programs. Currently, only pre-kindergarten special needs students must be specifically identified for inclusion in the regular count, along with identification of intensive needs students (step 5 below).

Step 4 – Vocational and Technical Funding

Funding at this step is also referred to as Career & Technical Education (CTE) funding. These funds are intended to assist districts in providing CTE instruction to students in grades 7 through 12.

At this step of the formula, the previously adjusted ADM is now multiplied by the CTE factor of 1.015. Again, this is a departure from prior formulas, which relied on individual student counts for this type of funding.

Step 5 – Intensive Services Funding

In the case of Intensive Services Funding, the basis for the calculation is an actual count of students receiving intensive services who are enrolled on the last day of the 20-day student count period and who have an Individual Education Plan (IEP) in place. State regulations strictly define the qualification of students for the Intensive Services, high-needs classification.

At this step of the formula, the district's intensive student count is multiplied by 13. This calculation is added to the previously adjusted ADM.

Step 6 – Correspondence Programs

Funding for correspondence programs is calculated by multiplying the correspondence ADM by 90%. Note that correspondence student counts were excluded from the preceding calculations beginning in Step 1.

At this step of the formula, the correspondence calculation is now added to the previously adjusted ADM to arrive at the Final Adjusted ADM.

Basic Need

The next step is to multiply the Final Adjusted ADM by the Base Student Allocation (BSA) to determine Basic Need. For FY19, the BSA is \$5,930.

The BSA is the figure that is debated each year in the State Legislature. However, due to the calculations in Steps 1-6, the effect of a change to the BSA will vary widely among districts, even those with a similar number of students enrolled.

For the FY19 projection, the total Basic Need for the Alaska K-12 Foundation Funding program is \$1.5 billion.

Other Formula Funding Elements

City and borough school districts have taxing authority, whereas Regional Education Attendance Areas (REAA's) do not. City and borough districts are required to contribute the equivalent of a 2.65 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. Taxable value is established by the state assessor and may differ from the valuations determined at the local level.

The required contribution is subtracted from Basic Need for the city and borough school districts. For the FY19 projection, the total required local contribution statewide is \$256 million. Boroughs and municipalities may also choose to fund their local districts an additional amount above the required local contribution, of up to the level of 23% of basic need. However, once they're reached 23% of basic need, they are funding "to the cap", an issue discussed further in the "Persistent Questions" section below.

As referenced previously, the federal Title VIII Impact Aid program provides funds to school districts for children of parents living and/or working federal property "in-lieu of local tax revenues". After deductions, 90% of the eligible funds are subtracted from Basic Need. For the FY19 projection, the total eligible federal Impact Aid received in the state was \$111 million, of which \$77 million was subtracted from Basic Need.

A Quality School Grant in the amount of Adjusted ADM x \$16 is added as a final step. To summarize the final calculations in the K-12 Foundation Funding Formula:

$$\begin{aligned} &\text{Basic Need} - \text{Required Local Contribution} - \text{Deductible Impact Aid} \\ &+ \text{Quality Schools Grant} = \text{Total State Entitlement} \end{aligned}$$

For the FY19 projection, the Total State Entitlement across all 53 school districts plus the Mt. Edgecumbe state-operated boarding school is \$1.2 billion, funding services for an unadjusted projected count of 116,814 students. Of this total, the largest district in the state, Anchorage School District was projected to receive \$325 million (27%), based on an unadjusted projected student count of nearly 46,000 (39%). The five largest districts in the state combined (Anchorage, Matsu, Fairbanks, Kenai and Juneau) were projected to receive \$726 million (60%), based on an unadjusted projected student count of just over 88,000 (76%). These statistics reflect the large number of small schools in the remaining 48 districts, plus Mt. Edgecumbe. In total, state funding for FY18 supported 506 schools, 75 of which had enrollment of less than 25 students as of October 1, 2017.⁹

Additional detail on these calculations, including projected funding by school district, can be found in the excellent “Public School Funding Program Overview” which is updated annually by the Alaska Department of Education and Early Development and was referenced earlier in this section.

OTHER K-12 STATE FUNDING

In addition to the K-12 Foundation Funding Formula, the state provides funding to school districts through other funding mechanisms. Most notably, this funding includes Pupil Transportation, Capital Projects and retirement system funding.

For Pupil Transportation, districts receive funding on a per-pupil basis, with the per-pupil amount based on a calculation of actual district transportation expenses. For FY18, the total amount of Pupil Transportation funding to 48 districts was \$78 million.¹⁰

There are three mechanisms for state funding of capital projects: 1) School Construction and Major Maintenance Grants; 2) State Aid for School

⁹ Alaska Department of Education and Early Development (2018). School Enrollment by Grade as of October 1, 2017. Retrieved from: <https://education.alaska.gov/data-center>

¹⁰ Alaska Department of Education and Early Development (2018). Pupil Transportation Grants by District FY05 – FY18. Retrieved from: <https://education.alaska.gov/schoolfinance/pupiltransport>

Construction in REEA's and in the Small Municipal School District Grant Program; and 3) the Debt Reimbursement Program.

For the period FY11 – FY18, the state funded nearly \$1 billion in school construction and \$388 million in major maintenance through the first two programs. However, the state funding crisis due to low oil prices has resulted in significant reductions in funding over the past few years, with just \$46 million in construction funding in FY18 and no funding for major maintenance in FY17 and FY18.¹¹ Furthermore, the legislature placed a complete moratorium on approving projects for the Debt Reimbursement Program, for January 1, 2015 through July 1, 2020. Due to the declining condition of school facilities over time, these program reductions are a major concern for school district administrators.

The state administers two retirement funding systems that serve school district employees, the Teacher Retirement System (TRS) and the Public Employees Retirement System (PERS). Benefits in both systems have been reduced significantly for new employees over the past three decades, with different tiers implemented. Most significantly, as of July 2006 all new employees are enrolled in a defined contribution system, as opposed to the previous defined benefit plans.

Due in part to miscalculations by actuarial consultants, the state is now faced with a multi-billion dollar pension shortfall. However, it was decided that school districts and municipalities would not be required to pay escalating amounts toward this shortfall; rather, district rates for the pension plans would be fixed and the state would make “on-behalf” payments toward the pension plans. In FY17 pension payments made on behalf of school districts totaled \$125 million.¹² Note that these pension payments are in addition to the contributions by school districts and individuals toward the pension system, which are calculated as a percentage of payroll expense.

¹¹ Alaska Department of Education and Early Development (2018). School Capital Project Funding Under SB237 – A Report to the Legislature. Retrieved from: https://education.alaska.gov/facilities/pdf/Final_SB237_Report2018.pdf

¹² Alaska Department of Education and Early Development (2017). Audited FY17 Revenues. Retrieved from: <https://education.alaska.gov/schoolfinance/budgetsactual>

Several times in recent years, legislators have wanted to increase K-12 funding but have not wanted to make the increase “permanent” by increasing the Based Student Allocation in the funding formula. This has resulted in special funding allocations outside the formula. In some cases, this makes good sense, such as when energy costs spiked and the impact was thought to be temporary. However, education advocates are unified in calling for increases to the Base Student Allocation to support the bulk of K-12 expenditures, since the funding formula is seen as the fair way to allocate funding across the K-12 system as a whole.

PERSISTENT QUESTIONS

It is not surprising that the K-12 Foundation Funding Formula is criticized periodically by legislators, particularly when they feel the schools in their districts are disadvantaged by the calculations. Also, the state funding crisis in recent years has made the relatively high percentage of the state budget devoted to K-12 education a target for funding reductions.

However, when the legislature commissioned a review of Alaska’s school funding program, the report released in July 2015 was very complimentary of the Alaska Foundation Funding Formula program.¹³

At the conclusion of a study that included extensive interviews with Alaska’s education stakeholders as well as a comparison of the details of Alaska’s funding program with the programs of other states, consultants Augenblick, Palaich and Associates (APA) found that, “The variations in school size, district size and location create unique challenges for districts across the state.” But, “Overall, the study team believes Alaska’s current funding system has the right elements in place to address the variations described above.”¹⁴

It should be noted that the APA study was not intended to address adequacy. Also, the consultants identified numerous recommendations for review of components of the formula, some of which have been studied in subsequent

¹³ Augenblick, Palaich and Associates (2015). Review of Alaska’s School Funding Program. Retrieved from: <http://lba.akleg.gov/download/publications/school2015.pdf>

¹⁴ APA (2015), page 106

legislative sessions, but none of which point to a need to extensively modify the formula itself.

Within the formula, it has been suggested that there may be a need to review and revise the District Cost Factors set for each district, which may become outdated over time. Currently, it has been more than 10 years since the last update, which was based on an analysis by the Institute of Social and Economic Research (ISER) at the University of Alaska.¹⁵ Just prior to ISER's 2005 study, the American Institute of Research (AIR) completed another study in 2003 that was widely thought to be inadequate and was replaced by the ISER study, though it too was the subject of controversy.¹⁶ Also it is important to note that in the past when new cost factors have been implemented, winners and losers have been appeased by the injection of additional funds into the formula, which is a difficult challenge when state budgets are tight.

Another point of controversy surrounds local contribution. Since the REAA's cannot tax by law, they are not required to make a local contribution based on a mill rate. Some say that REAA's do not make a contribution, but in fact most of them do contribute up to 90% of eligible federal Impact Aid funding. As noted previously, the \$77 million in Impact Aid that figures into the funding formula is not an insignificant amount, particularly in relation to the size of these districts. Contribution of Impact Aid funds by the REAA's, while the municipalities and boroughs provide a local contribution based on a mill rate, provides an equalization mechanism within the funding formula within the parameters of federal law.

On the other side of the debate, city and borough districts are restricted in the amount they can contribute to their local districts above the required minimum contribution. The calculation of a maximum contribution is directly related to the ability of the state to deduct eligible Impact Aid within the state formula. The federal government mandates this "disparity testing". The result is frustration by residents of city and borough districts, when they

¹⁵ Institute of Social and Economic Research (2005). Alaska School District Cost Study Update. Retrieved from: <http://lba.akleg.gov/download/publications/school2005.pdf>

¹⁶ Joint Legislative Education Funding Task Force Report to the Governor and Legislature (2007). Retrieved from: <https://library.alaska.gov/asp/edocs/2007/09/ocn173495965.pdf>

fund their local districts “to the cap” and are unable to increase funding, unless state funding is also increased. However, if the maximum contribution caps were removed, the state would no longer be able to deduct eligible Impact Aid in the funding calculations.

Instructional advocates have pointed out that Alaska is falling behind in its funding for pre-kindergarten, which research has shown is highly beneficial for future educational achievement.¹⁷ To date, the state has funded pre-kindergarten only through very limited grant programs and for pre-kindergarten special needs services. Some local districts have chosen to fund pre-kindergarten programs with their own resources.

Another issue that may affect the ability to deliver effective instruction is the lack of any funding adjustment for at-risk or low-income students. This was noted as atypical, compared with other states with student-centered funding formulas.¹⁸ The APA researchers also documented significant variation among Alaskan districts with regard to percentages of low-income students.¹⁹ High rates of suicide and adverse childhood experiences (ACES) in Alaska clearly indicate the challenges to educators from at-risk student populations.²⁰

Viewed from a local level, one of the greatest difficulties posed by the current funding system is that the state legislature typically does not finalize the base student allocation funding amount for the next school year until the end of the legislative session, which ends in April but is sometimes extended into the late spring or summer. Consequently, districts must often proceed with hiring and planning for the next fiscal year without knowing the final state funding level. The other significant planning variable is the student count, which is not known until October when the 20-day count is taken. After all the reconciliations from the fall student count are completed, a

¹⁷ Brookings Institution Pre-Kindergarten Task Force (2017), *The Current State of Scientific Knowledge on Pre-Kindergarten Effects*. Retrieved from: https://www.brookings.edu/wp-content/uploads/2017/04/duke_prekstudy_final_4-4-17_hires.pdf

¹⁸ APA (2015), page 38

¹⁹ APA (2015), page 42

²⁰ Alaska Department of Health and Social Services (2014), *Adverse Childhood Experiences – Overcoming ACEs in Alaska*. Retrieved from: <http://dhss.alaska.gov/abada/ace-ak/>

district's funding for the fiscal year ending in June may not be finalized until as late as March of that same year.

School district administrators have advocated for an earlier commitment to the base student allocation and for changes in the timing of the student count that is figured into the funding formula. Notably, the legislature committed to a three-year base student allocation funding plan for FY09-FY11.

Although the plan was non-binding on the legislature, it was fully implemented and district administrators found this commitment extremely helpful for longer-term planning. In most years however, legislators fall back on using education funding as an end-of-session bargaining chip, since it is one of the largest components of the state budget.

Finally, the size and diversity of Alaska will continue to create challenges for the funding system. Like other states with large, rural areas, population has been migrating to the urban centers. Can the state continue to afford hundreds of schools with very small enrollment? Currently, the minimum enrollment is 10; is this sustainable? Is it in the best interest of students? Due to the expansive geography of Alaska, the alternative to village schools is either distance delivery education or boarding schools in most cases.

When considering these questions, one must inevitably return to the seminal ruling in the Molly Hootch case²¹, decided in 1976, which mandated the system of K-12 schools across the state, replacing a system that relied on boarding schools for older students. More recently, the Kasayulie and Moore cases²², settled by consent decrees in 2011 and 2012 respectively, have focuses on the adequacy of capital funding and funding for improving educational outcomes for students in rural districts. In the future, policy makers will also turn to an understanding of how other states have handled K-12 funding, including the examples found in this volume.

²¹ Tobeluk v. Lind, consent decree signed in October 1976. Molly Hootch was the first of 27 plaintiffs named in the case.

²² Kasayulie v. State of Alaska, consent decree signed September, 2011, and Moore v. State of Alaska, consent decree signed January, 2012.