

**ALASKAN K-12 EXPENDITURES COMPARED TO THE
UNITED STATES AVERAGE EXPENDITURES
By Alaska Association of School Business Officials (ALASBO)**

Alaskan educators and advocates have been asked why Alaskan K-12 per pupil expenditures are higher than the United States average per pupil expenditures. The National Council of State Legislatures (NCSL) publishes comparative elementary and secondary data that Alaskan legislators can easily access. (National Council of State Legislatures, 2020) This paper looks deeper into the reasons why Alaskans spend more per pupil than the US average.

Executive Summary

This paper compares Alaskan per pupil expenditures to the United States national average per pupil expenditures. This paper notes that the National Council of Educational Statistics expenditure data includes amounts paid directly by the Legislature into the state's retirement systems on behalf of school districts. This complicates comparisons between Alaska and the other states. This paper then compares US national average per pupil expenditures to Alaskan expenditures without the direct payments. It notes the following:

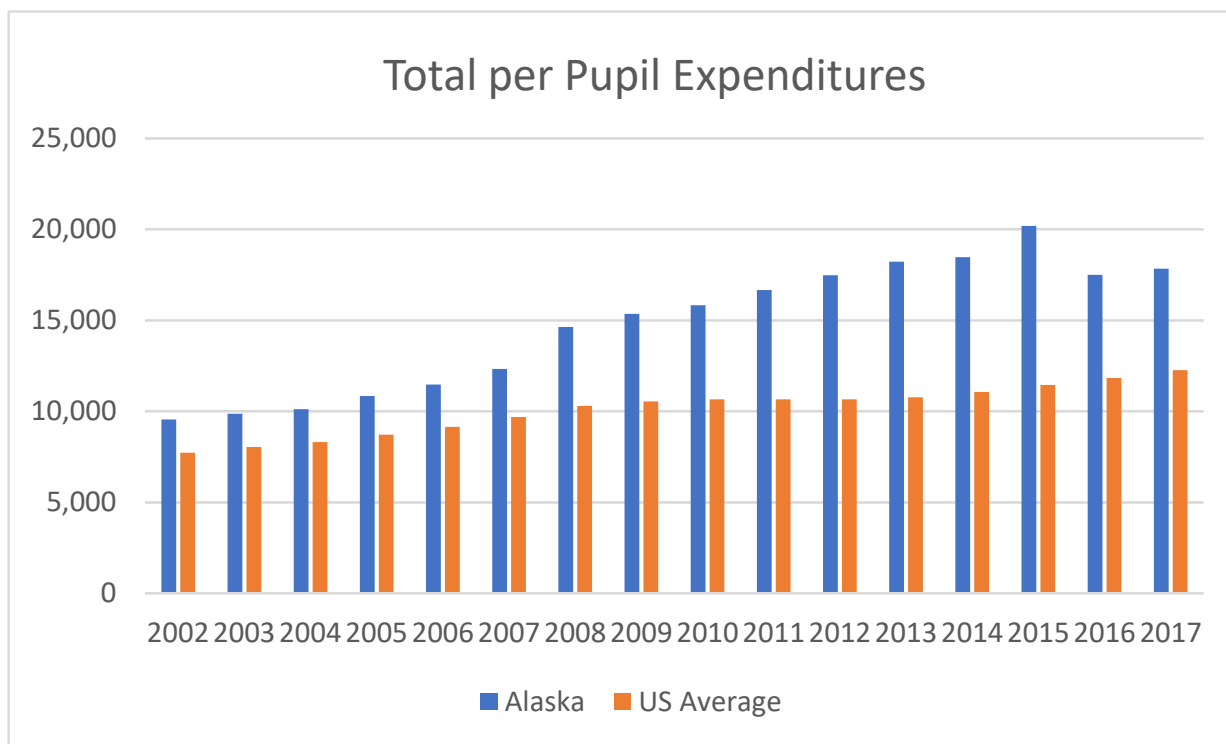
- 1) Alaska has a high cost of living.
- 2) In many places Alaskan student enrollment is spread out so that those districts do not have an economy of scale.
- 3) When the foundation formula was enhanced in 2009, Alaskan school districts implemented programs to improve student achievement.
- 4) Energy costs in Alaska are high.

Alaskan school districts have historically expended more per pupil than the US average according to the NCSL, which cites the National Council of Educational Statistics (NCES) as its source. The Alaskan Department of Education and Early Development (DEED) summarizes data from the school district's audited annual financial reports and submits them to NCES. The Alaskan data includes **all** current expenditures, including expenditures from restricted revenues as well as expenditures from the school districts' general fund. This includes expenditures from grants, pupil transportation, food service, and teacher housing funds. It also includes the amounts transferred into the retirement systems by the Legislature on behalf of governmental employers such as school districts.

The following graph shows expenditures per enrolled student. Alaska's enrollment has remained stable since 1998. The K – 12 student count as of October 1, 2016 was 129,969 students while for October 1, 1998 it was 133,357. (Alaska Department of Education and Early Development, 2020) The average

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daily membership (a 20 day average enrollment count) from FY 2002 through FY 2017 shows a high of 132,690 in FY 2002 to a low of 128,381 in FY 2009 (Alaska Department of Education and Early Development, 2020).



(Source: NCSL database, accessed October 29, 2020)

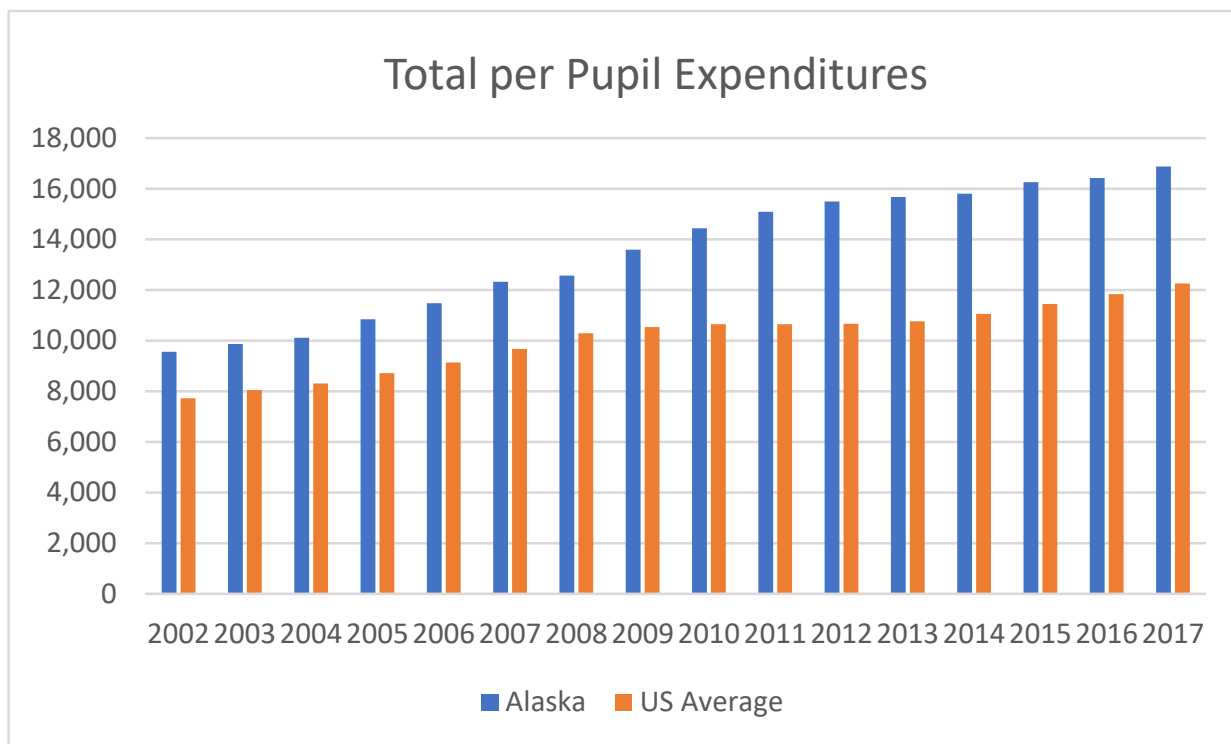
The Alaskan expenditure data included payments made by the Legislature directly into the retirement systems on behalf of Alaskan school districts beginning in FY 2008. Generally accepted accounting principles required Alaskan school districts to report this data as expenditures even though the local officials had no decision-making authority over these payments. Accordingly, Alaskan school districts reported them in their annual financial reports. Using these reports, DEED included these expenditures in the report sent to the National Center for Educational Statistics, and then passed on to the National Council of State Legislatures (NCSL).

The amounts recorded by Alaskan school districts for these on-behalf revenues and expenditures can be found in the “Annual Revenues” spreadsheets published by DEED. Accordingly, ALASBO compared the revenues that included the on-behalf amount with the data that reported revenues without it. To convert it to a per pupil amount, ALASBO divided the difference by the average daily

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membership for the state. The resulting on-behalf per pupil payments ranged from \$996 in FY 2017 to \$3,926 in FY 2015.

The following graph compares Alaska to the US Average for total public education expenditures without the on-behalf expenditures:



(Source: NCSL, **not adjusted for inflation**, Alaska data excludes direct payments into retirement system).

NCSL summarizes their expenditure data into three object codes: salaries & wages, employee benefits, and all other expenditures. (They do not summarize their data by function code.) Here is a comparison of expenditures in FY 2017 compared to FY 2002:

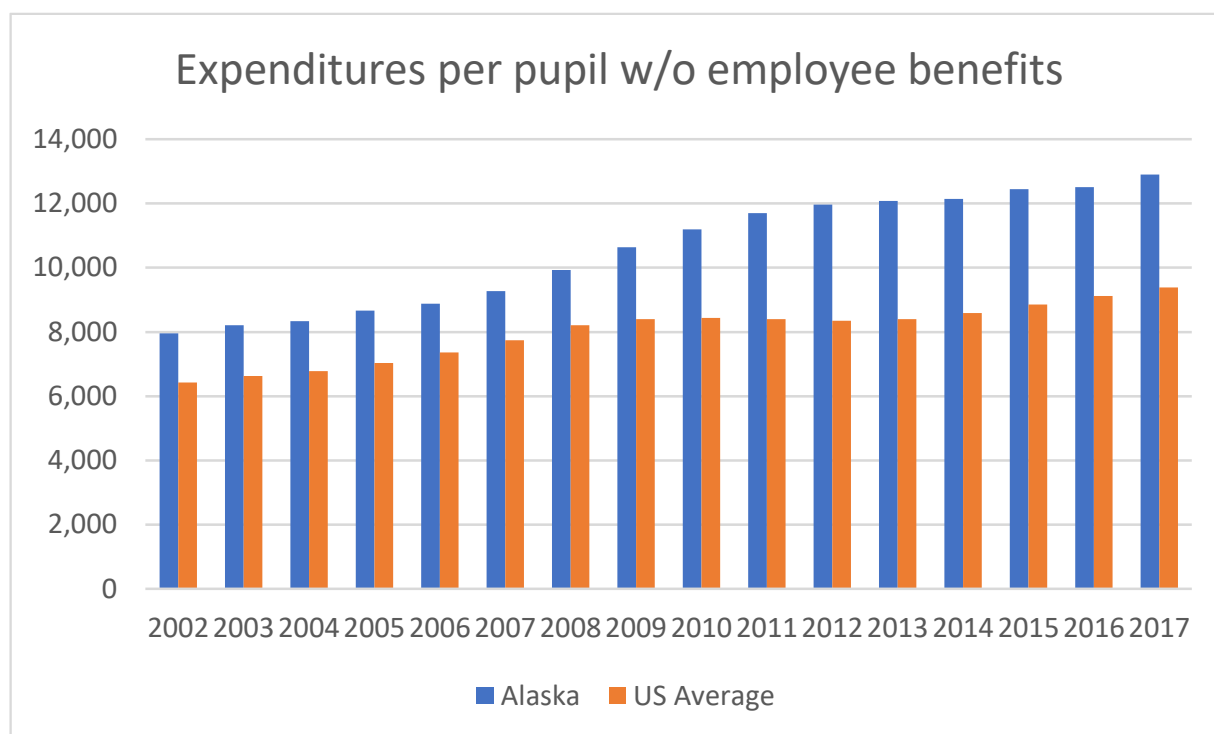
Alaska Expenditures, per pupil, compared to the US Average, per pupil

Expenditures per Pupil	FY 2017		Difference: Alaska to US Average		
	Alaska	US Average	FY 2017	FY 2002	2017 to 2002
Salaries & Wages	\$ 8,478	\$ 6,927	\$ 1,551	\$ 649	\$ 902
Employee Benefits	\$ 3,973	\$ 2,878	\$ 1,095	\$ 310	\$ 785
Other Expenditures	\$ 4,420	\$ 2,452	\$ 1,968	\$ 878	\$ 1,090
Total Expenditures	\$ 16,871	\$ 12,257	\$ 4,614	\$ 1,837	\$ 2,777

(Source: NCSL, Direct payments into retirement system excluded from Alaska data)

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It is useful to compare Alaska’s expenditures to the US average after removing employee benefits. One reason for combining salaries and wages with other expenditures is that in some cases, a district may contract with an independent contractor for a service while a different district may hire employees for that service. For example, some districts may contract for snow plowing while other districts have their maintenance or custodial staff plow parking lots and driveways. The following graph compares Alaska’s salaries and wages, and all other expenditures to the US average:



(Source: NCSL, Direct payments into retirement system excluded from Alaska data)

There are several additional explanations why Alaska spends more per pupil than the average US school system:

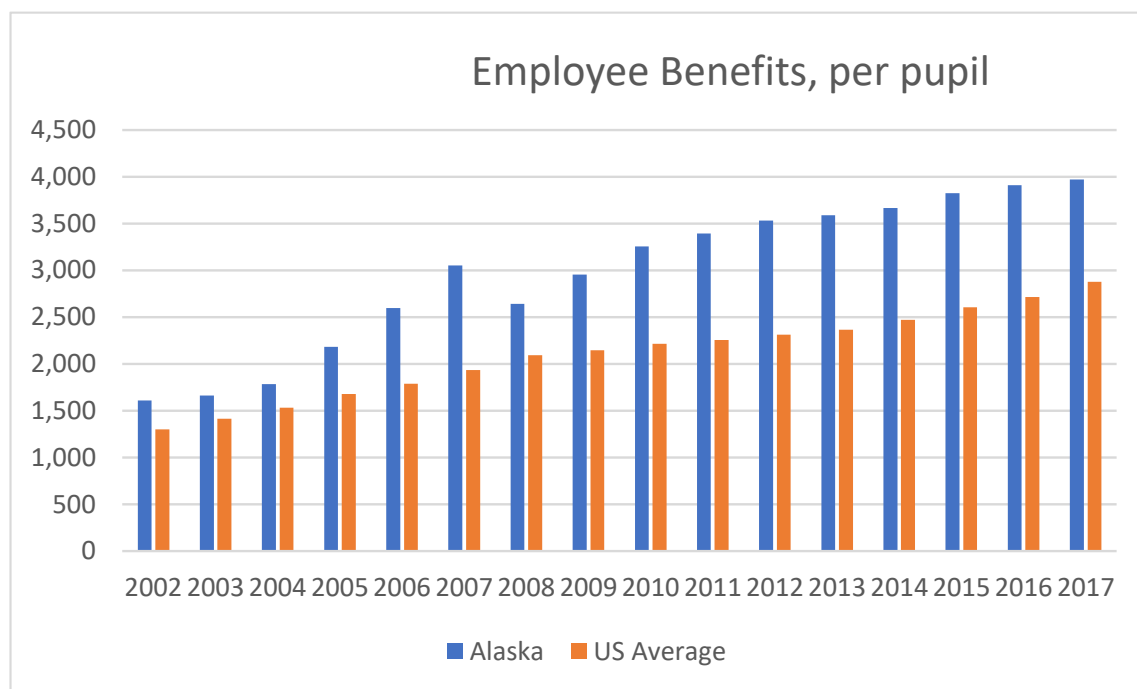
- 1) Alaska’s overall cost of living is higher than the rest of the US. Alaska’s major economy extracts natural resources such as fish, timber, minerals, and oil. These resources are mostly shipped outside of Alaska and not developed into manufactured products inside Alaska itself. This means that most manufactured goods must be shipped back into Alaska, which increases Alaskan labor costs, as well as the cost of goods and services. Alaskans know it is more expensive to live in Alaska than in most other communities in the US.

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- 2) Many Alaskan districts do not have the efficiencies that a district with a large enrollment, or with a dense population per square mile have. That is, many Alaskan school districts cannot benefit from economy of scale. For example, some school enrollments are small because they cannot be consolidated with another school when the next nearest community is far away. This results in smaller class sizes in many Alaskan schools than typical in the US.
- 3) Alaskan school districts began to expend more per pupil starting in FY 2009. The Alaska Legislature convened a special committee during the summer of 2007 that recommended several increases to the public education funding formula including a higher base student allocation. The 2009 Alaska Legislature enhanced the formula. School districts added programs and staff to improve their instructional programs. For example, some districts added reading specialists to improve elementary school reading skills.
- 4) Every state establishes its own financial reporting rules from local school districts to its department of education. This complicates comparisons between states. Alaska requires full compliance with all aspects of generally accepted accounting principles. Among other things, this includes reporting both as a revenue and as an expenditure money spent by other governments on behalf of local school districts. For example, in several Alaskan school districts, the municipal government pays property and liability insurance on behalf of the local school district. These practices may happen elsewhere in the US but may not always be reported to their state's department of education.
- 5) Alaskan districts incur higher energy costs than the US average because of its cold winters and higher prices to deliver energy to many remote locations. Energy costs vary significantly within Alaska.

Finally, there are a few interesting observations when comparing employee benefit costs. Here is the revised graph comparing employee benefit costs for Alaska (**excluding** payments made by the Legislature into the retirement systems) to the US average for employee benefits costs.

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(Source: NCSL, not adjusted for inflation, Alaska data excludes direct payments into retirement system).

The Division of Retirement and Benefits required employers to follow the actuarially determined employers' contribution rate for FY 2007 and prior years. Beginning in FY 2008, the Legislature set the employer contribution rate for the Teachers' Retirement System (TRS) at 12.56% and the Public Employees' Retirement System (PERS) rate at 22.00%, with the State Legislature paying directly into the retirement system the difference between the actuarial rate and the employer rate. Those payments made by Alaska school districts themselves to the retirement system are included as an Alaskan employee benefit expenditure.

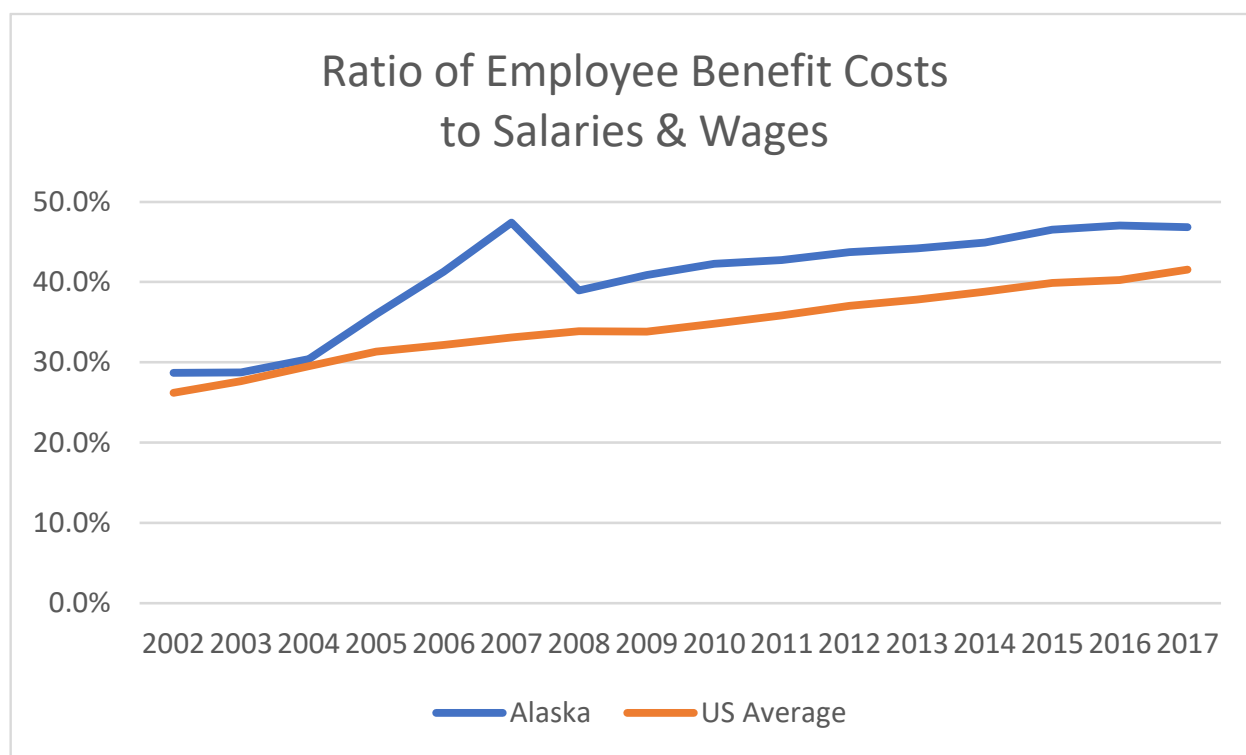
No Alaskan school district pays social security for an employee covered by TRS because of a statewide agreement with the social security system. They now pay 14.01% of salary for TRS and Medicare. Some, but not all, school districts have an agreement with the social security system that covers their remaining employees in the social security system. In that situation a school district now pays 29.65% for a PERS employee for PERS, social security, and Medicare.

Other employee benefit costs include life insurance, unemployment insurance or reimbursement, tuition reimbursement, disability insurance, workers' compensation insurance or reimbursement, and health insurance or health care with health insurance and care costs being a very large proportion of employee benefit costs.

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The school district's annual financial reports do not report separately the amount expended for retirement, health care, and other employee benefits. The Alaska chart of accounts for school districts requires total employee benefits be reported by fund and function. Districts can report the various employee benefit costs separately as an alternative, but very few, if any, choose this alternative for their annual financial reports.

The ratio of employer benefits to salaries climbed since 2002 for both the US average and Alaska. The following chart compares the ratio of employer benefits to salaries for both Alaska and the US average. The change in retirement system rates in FY 2008, referenced above, resulted in a drop and subsequent smoothing of this ratio for Alaskan districts.



(Source: NCSL, not adjusted for inflation, Alaska data excludes direct payments into retirement system).

In summary, Alaska spends more per pupil than the US average because:

- Decisions made many years ago still affect local school districts' retirement system expenditures.
- Alaska's vast geographical expanse makes economies of scale impossible to achieve.
- Alaska's overall cost of living is higher than the US average, which causes higher costs for Alaskan districts in labor, energy, supplies, and equipment.