

ALASBO Response to Recent Misinformation Regarding School District Fund Balances

We have recently heard numerous questions about school district fund balances and whether they are available to pay for bond debt and other needs. In late January, statements were made by Ben Stevens and during a joint floor session that we feel were misinterpretations of school district fund balance information.

School district fund balances are strictly regulated by Alaska statute and administrative code, and these classifications are carefully audited. Significant portions of the fund balances are non-cash, and much of the remaining amount has been designated for important operational purposes. The smaller remaining unreserved balance is critical for districts to maintain, to deal with unexpected events that arise during any operating year.

On January 20, in conjunction with the Alaska Council of School Administrators, we provided an overview of school district fund balance, along with a link to our more detailed white papers: <http://www.alasbo.org/2019/04/02/legactivity/>. At this time, we would like to provide some additional school district data, along with an explanation of how fund balances are categorized in Alaska.

The attached spreadsheet shows operating fund statutory categories of fund balance as of June 30, 2018, which is the most recent complete data set available through the Department of Education and Early Development. Note that fund balance is regulated by AS 14.17.505 and 4 AAC 09.160 as follows:

- Encumbrances – These funds are for commitments the district has made, for items such as contracts and supplies purchases. This may include funds designated for charter schools. Since these funds have already been committed, they are not available to spend on other items.
- Inventory – This category of fund balance is an accounting entry for the value of non-cash items, typically fuel, gas and other supplies that will be used in the near term to support operations. Since the inventory is not cash, it is not available to spend on other items.
- Prepaid Items – These funds have already been paid for a service or item that will be used in a future fiscal year. For these items, the cash has already been expended, so the funds are not available for other use.
- Self-Insurance – These funds are set aside to pay for self-insurance, which may include health insurance, workers compensation and other types of insurance. The amount set aside in this category is typically determined by a combination of actuarial formula and a review of actual insurance claims. These funds must be reserved to ensure the district can meet its self-insurance commitments under employee agreements and under law.
- Impact Aid – The federal government provides these funds for use in the instructional program or in specific construction programs. Due to the timing of funding, they are set aside for use in the following fiscal year
- Home School Allotments – This category of reserved balance was added to statute several years ago, to ensure that home school families would have full access to needed resources.

After the above reservations are made, in accordance with Alaska administrative code, a smaller unreserved balance remains, which is limited to an amount less than 10% of expenditures for the fiscal year, per AS 14.17.505. Note that:

- The 10% allowable unreserved fund balance is considerably lower than the two months of operating funds recommended by the Government Financial Officers Association (GFOA).
- Many districts have made commitments for these funds, such as to maintain bond ratings (Anchorage School District only) and to cover budget shortfalls.
- The unreserved funds are the only remaining resources to cover typical budget uncertainties, including: student count changes which affect foundation funding; maintenance emergencies; weather-related issues that result in higher costs; hiring difficulties; timing of funding receipts; and any number of other unexpected situations.

Aside from the operating fund, the only other funds that have significant balances are:

- Pupil Transportation – These balances cover any difference between bus transportation expenses and state funding. Small balances in this fund are not unusual, but these funds are dedicated to pupil transportation programs.
- Capital Projects – These funds are typically for projects approved by the voters or by local school boards. With the recent small state capital budgets and the freeze on state bond debt reimbursement, it has become critical for districts to attempt to add to these fund balances to address site maintenance needs, but the amount available is clearly inadequate.

Information compiled by Amy Lujan, Legislative Liaison and David Means, Legislative Analyst and distributed to legislators as a rebuttal to fund balance misinformation shared by Governor Dunleavy's administration.