



School Funding 101

All you did and didn't want to know about school funding

There are 53 school districts in Alaska, with two governance and funding structures – City & Borough School Districts, and Regional Education Attendance Areas (REAA's). In addition, the state operates Mt. Edgecumbe Boarding School in Sitka.

The state's total enrollment (Kindergarten to grade 12) as of October 2013 was 128,400 (rounded). Of this total, 47,800, ~37% attend school in the Anchorage School District. When combined with Mat-Su, ~51% of Alaska's students attend school in the Anch/Mat-Su area.

There are three primary sources of revenue for Alaska's schools - State, Federal and Local.

The Foundation formula established in Alaska Statute 14.17 outlines the formula by which State funds are allocated to school districts and sets minimum and maximum local contributions from local governments for school operations. The formula is simple – it's all about multiplying and adding funds for certain factors – yet highly complex in substance with nuanced politics and policies, all of which impact what's available to spend in Alaska's public schools.

Foundation Formula, in brief:

The foundation formula is driven by student numbers or **Average Daily Membership (ADM)**. ADM differs somewhat from enrollment in that it uses a 20-day count period in October.

A school district's **ADM (think students) is adjusted by six factors to get the Adjusted ADM (AADM)**:

- **Size of schools** - Tables specify multipliers for different categories of schools based on community and school size as well as for alternative and charter schools.
- **District cost factors** - also referred to as area or geographic cost differentials [*See discussion that follows for more information*] A hold harmless factor for those districts losing 5% or more students in the total school size adjustment for the district may be applied.
- **Special needs factor** - add 20% to a district's ADM for block funding of special education. This does not include intensive need special education students, bilingual/bicultural, or gifted & talented education
- **Intensive services** - each "intensive" special education student counts as 13 ADM for funding purposes. These are typically high cost students.



- **Correspondence** - each correspondence student counts as 80% an ADM
- **Career Technical** – add 1.5% to a district's ADM for block funding for secondary school Career Technical/Vocational programs

ADM (students), adjusted by the 6 factors above, multiplied by the Base Student Allocation (BSA) = State aid

The BSA is set in statute & currently \$5680. The BSA has not been adjusted since 2010 (impacting FY11 funding).¹

Next: Local funding is taken into account

- If you are a **City & Borough School District**, subtract required local contribution
- Or//
- If you are a **Regional Education Attendance Areas (REAA's)**, subtract 90% of eligible Federal Impact Aid received

Then

Add Quality School Grants: Each district is eligible to receive \$16 per adjusted ADM.

Pro-rata distribution of funds: If the legislative appropriation is insufficient to fully fund the foundation formula, a pro-rata distribution of funds will be made to School Districts.

NOW we have completed the calculation of District Entitlement under the Foundation Formula.

BUT WAIT – There's one time funds!

Over the year the Legislature has used one-time grants to supplement foundation funds, often for designated purposes. Most recently these dollars have been distributed using the foundation formula. These are generally seen as a supplement to foundation funds. *[One time funds makes tracking overall school tricky and highly confusing for most of us. See discussion that follows.]*

Add one time funds = total State revenue for each School District

Now it's up to local school boards to make the hard decisions on how to spend these dollars.

¹ FY=Fiscal Year. The state's fiscal year runs from July 1, to June 30. For example FY14 encompasses June 30, 2013 to July 1, 2014



[Easy, right? These are the basics. But read on for interesting nuances, historical context, and list of a few additional elements that go into determining how much each school district receives]



Background Information – School Funding

Historic & political context, more details

One Time Funds

The Legislature has occasionally chosen to fund schools “outside” the foundation formula through one-time appropriations.

[Nuance: These one-time appropriations are not included in the next year funding base, so are indeed one time unless the Legislature chooses to allocate funds again for that purpose. This approach makes it appear like the Legislature is adding funds to the budget each year for schools, when in fact, they may be adding no more than the previous year, or even less.]

Policy questions arise on use of these one-time funds. For example, when Districts receive one-time funds legislators question whether Districts should use these dollars to hire or retain teachers since teachers are a long-term investment and a District may well need to lay off teachers the next year if one-time funds don’t again materialize. It’s important to note the largest portion of a District’s budget and the highest priority for most parents is teachers in classrooms.

Bottom line: One time appropriations, though appreciated by Districts, are problematic at best when it comes to stability and morale in schools. One time funds do not contribute to a climate where school personnel, parents, community and administrators are focused on students and student achievement. Instead thousands of hours are wasted on budget triage and the anxiety and angst it evokes.]

Larger one-time grants for school operations over the last 10 years (excluding phase in of foundation formula changes):

Fiscal Year	Purpose	Total
FY04	Learning Opportunity Grants (LOGS)	\$23.2 million
FY07	School Improvement Grants	\$11.0 million
FY08	School Improvement Grants	\$21.0 million
FY12	Energy Supplemental	\$20.0 million
FY13	One time aid using Foundation Formula	\$25.0 million
FY14	One time aid using Foundation Formula	\$25.0 million
FY15	(Budget now in the works)	\$ TBD

District Cost Factors also known as Area Cost Differentials (the second factor in list of 6 adjustments to ADM count)

District cost factors are designed to bring “equity” to the distribution of school dollars, taking into account variation in cost of living and doing business in different parts of Alaska. The legislature adopted a set of differentials in 2008, with a phase-in over a series of years, with full implementation in FY 13. This was accomplished after two major studies, sizable expense and years of contentious debate – the reason: cost differentials substantially alter who gets how much of the education pie. The specific ingredients used in calculating the differentials, the weighting of various factors, and underlying assumptions were controversial. *[Nothing is ever quite as simple as it seems!]*



Local Contribution - Over the years maximum and minimum local contribution rates (or “local effort”) have changed significantly. *[This is a provision highly subject to political persuasion.]*

Minimum Required Local Effort – City & Borough School Districts

Historically each City and Borough School District was required to contribute “the equivalent of a 4 mill tax levy on the full and true valuation of taxable real and personal property in the district, not to exceed 45%² of the district’s Basic Need for the preceding fiscal year”.

In 2001 the law was changed so only 50% of the *increase* in real and personal property of the 1999 Full and True Value was used for the 4 mill equivalent calculation³. The practical effect of this change was communities with declining economies were required to pay proportionately more than those with booming economies.

Over time the disparity grew. For example, by 2012, the required mill rate for Pelican, a small Southeast fishing town with declining property values, was 3.8 mills, as compared with Mat-Su with its rapidly escalating property values who was required to only contribute 2.7 mills.

2011-2012 estimated “Education” mill rates, select sites

Lake & Penn Borough	3.9
Bristol Bay Borough	3.8
Dillingham	3.8
Pelican	3.8
Hoonah	2.7
Mat-Su Borough	2.7
Saint Marys	2.7
Juneau	3.1
Anchorage	2.9
Fairbanks	3.0

In 2012 the Legislature reduced the required mill rate to a uniform 2.65 (impacting FY13 funding calculations) which continues to be in effect today.

Maximum Local Effort – City & Borough Districts

A maximum level of local funding is set in law to ensure relative equity between school districts – ie., the difference in revenue supporting schools in the wealthiest and poorest communities cannot exceed a certain percentage per a federal disparity test or the state risks losing the ability to apply federal education funds in the state funding formula (at a value of \$68 million).

² The 45% rule buffers North Slope Borough, Valdez and Skagway whose tax base includes highly valuable oil pipeline and transit facilities.

³ Source: DEED Public School Funding Overview



[Nuance: There are only a few communities who've historically been at or near the "cap". However, since the change in required local effort in 2012, more Districts have reached the cap even though no increase in revenues may have been spent. In fact, in 2014 a handful of communities voiced concern the new cap prevents them from contributing more. This, however, is the exception.]

There are only a few ways a community can fund schools or school activities "outside the cap" – i.e., above and beyond the maximum allowable local effort. (A specific activity outside the normal school program is one example.)

REAA contribution

Since REAA's don't have a municipal tax base from which to draw local property tax dollars, the State deducts 90% of eligible federal impact aid received by the District.

A Funding "floor" was established in FY99 to phase-in the then-new foundation formula and buffer districts losing revenue under the new formula. *[Nuance: Even to this day the existing formula (now in place some 14 years) continues to be a contentious issue for those who believe the formula established in 1999 unfair and inequitable. This also runs true for area cost differentials adopted in 2008.]*



Other pieces of the education \$ pie

The State directly and indirectly funds Alaska's K-12 education system in a number of other ways, including:

PERS/TRS – Funding for Public Employee Retirement System (PERS) – a school's classified staff, and Teachers Retirement Systems (TRS).

[This topic is reserved its own separate document and discussion. It's a complicated issue indirectly and directly impacting schools with millions of dollars at stake. It is frequently included in overviews which present data on the funding directed public education. It's debatable, however, whether these funds should be used in calculating dollars supporting Alaska's classrooms, in part because these appropriations include retirement costs for past generations of teachers and school district employees – ie., the "unfunded liability" brought about by past underfunding of the retirement system (by the Legislature) and overly optimistic investment projections]

School construction & major maintenance –

- Under the **School Debt Retirement** program, the state reimburses a portion of approved, bonded costs for school construction and major maintenance. This affects municipal school districts with bonding authority only. Local municipal taxpayers vote to authorize bonds and assume a portion of the costs.
- **School Construction grants** are typically funded in the State's capital budget. These cover the cost of construction and major maintenance in rural (REAA) schools who do not have bonding authority. Funding is based on approved/allowable costs under a priority list established by the AK Dept. of Education and Early Development (DEED).
- **Capital Grants** for school projects are also included in the state's capital budget independent of the Department's priority list, at Legislators' discretion.

Miscellaneous grants – Each year legislators dedicate small and large sums to support specific projects and/or materials, typically through the capital budget. In recent years appropriations included such things as library books, science equipment, playground equipment, and computers/digital technology.

There you have it - all you did and didn't want to know about school funding in Alaska.



***At least for now - there are more changes in the offing in the
Capitol Building!***

Recommended Resources:

www.GreatAlaskaSchools.org, tab "References and Resources"

Alaska Department of Education and Early Development, "*School Funding Overview*"

www.legis.state.ak.us (Alaska State Legislative web site – wonderful for tracking legislative bills and proceedings – both policy and budgetary)

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