

# Citizen's Guide to K-12 Funding in Alaska - 2018

Legislative Finance Division

Informational Paper 19-2

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# **1. Overview: How Are Alaskan Schools Funded?**

## **a. Introduction**

The aim of this Citizen’s Guide to K-12 Funding is to provide a clear and simple overview of K-12 funding in Alaska. It provides information on the amounts and sources of funding and the formulas that determine where that funding goes. It does not make policy recommendations on issues such as the appropriate levels of funding from various sources or the distribution of funding to school districts.

This Guide is written primarily from the State perspective, as the authors work for the State legislature. However, it is intended to be useful to all citizens, not just the legislature or State employees.

## **b. Organization of Alaska School Districts**

Article VII, Section 1 of the Alaska Constitution states that “the legislature shall by general law establish and maintain a system of public schools open to all children of the State.” Thus, the State is considered to be ultimately responsible for schools. School districts are subdivisions of State government: their power is delegated to them by the State, and—unlike school districts in some states—they do not have independent taxing authority.

The **Department of Education and Early Development (DEED)** is the State’s education agency. It is governed by the State Board of Education, whose members are chosen by the Governor and confirmed by the Legislature. The State Board is responsible for setting policy and selecting the Commissioner of the Department of Education.

The Legislature is responsible for appropriating funding for schools. This is done annually through the budget process. The Governor must then sign the budget for it to take effect. Alaska Governors have line-item veto power, meaning they can reduce or eliminate funding for any item in the budget, including education.

On the local level, schools are governed by school districts. Alaska’s 507 public schools are governed by 53 school districts, ranging in size from districts with a single school site to the 104 schools in the Anchorage school district. Each district is led by a locally-elected School Board.

Thirty-four of Alaska’s school districts are in organized areas, so their boundaries correspond with local government boundaries. Each of the 19 boroughs has a school district with the same boundaries. The 15 home-rule and first-class cities in the unorganized borough each have corresponding school districts as well. These districts receive a portion of their funding from their municipal governments.

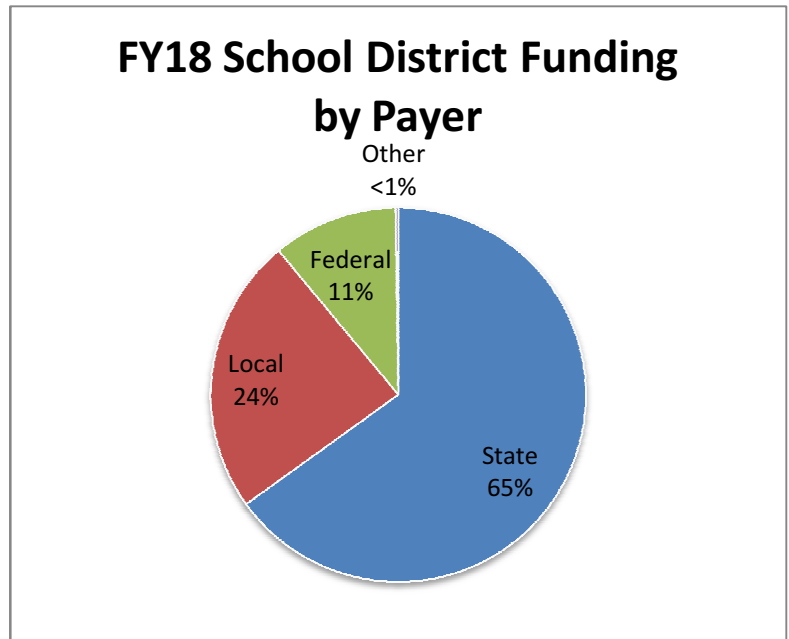
The remainder of the state is divided into 19 **Regional Educational Attendance Areas (REAAAs)**. These do not have associated municipal governments, and therefore have no source of local tax receipts. All funding for these districts comes from the State or federal governments.

Finally, the State-run boarding school, Mt. Edgecumbe High School (located in Sitka), is not part of a school district. It receives State funding like a district, but has no assigned municipal government or geographical territory.

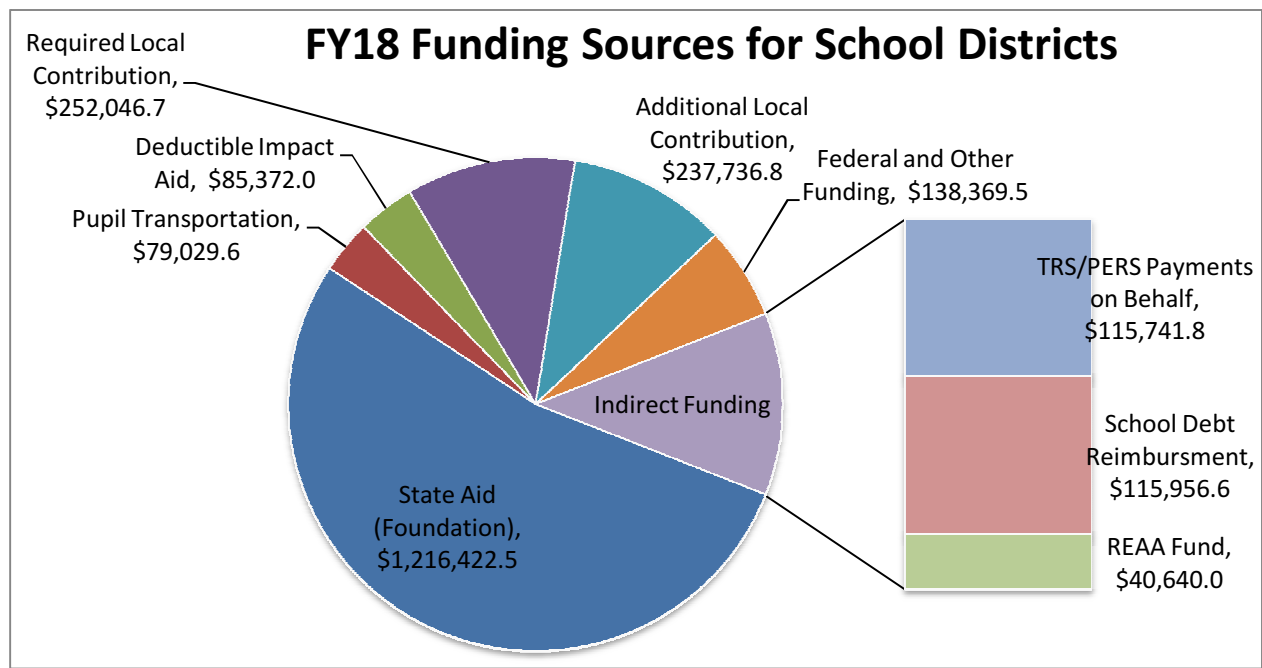
**c. Sources of Funding**

In FY18, school districts budgeted for nearly \$2.1 billion of total revenue. While school districts are run on the local level, the State plays a crucial role in funding them - in FY18, \$1.3 billion, or 65%, of school district funding came from the State.<sup>1</sup>

In addition to providing the bulk of the funding, State statute sets out rules for minimum and maximum amounts that local governments pay for education. In FY18, municipal governments funded 24% of school districts’ budgets. The remaining 11% came from the federal government.



In addition to those direct flows, the State funds some items that indirectly go to support school districts. In FY18, these indirect items added up to an additional \$260 million.



<sup>1</sup> Calculated from the Department of Education and Early Development’s FY18 Revenue reports.

## **2. Direct Flows of Funding to Districts**

### **a. Foundation Formula**

The largest source of funding to Alaska’s school districts is the state’s foundation formula. This formula funds schools on a per-student basis and is based on K-12 students only. The **Average Daily Membership (ADM)** of each school is taken during the 20 school count period ending the last Friday in October of each year. That number is then adjusted by a number of factors that attempt to compensate for differing costs faced by school districts to arrive at the **Adjusted Average Daily Membership (AADM)**. That number is then multiplied by the **Base Student Allocation (BSA)** to arrive at **Basic Need**.<sup>2</sup>

Despite the name, “Basic Need” does not refer to a funding level that provides a particular level of educational adequacy. The BSA and its multipliers were established through legislation that took effect in Fiscal Year 1999, and have been modified repeatedly since then. The BSA does not change automatically in response to inflation or any other factors - it can be changed only by passing legislation that modifies the statute.

The number of students in Alaska has been steady at roughly 130,000 since FY97. However, funding has changed significantly over that period because of changes in the BSA and changes to the multipliers.

The next section covers the adjustments that are made to the ADM to arrive at the AADM. The sections after that covers who pays for the formula.

### **i. Foundation Formula Adjustments**

The ADM is adjusted by six factors to arrive at AADM. Each district receives the same amount of money—the BSA—per AADM. However, adjustment factors differ by district, so each district receives a different amount of funding per actual student.

First, correspondence students are subtracted out, because the other factors do not apply to them. They are added back after other factors are included, but are counted as only nine-tenths of an ADM.

Second, the count goes through the **School Size Factor**. This is a multiplier that attempts to adjust for the economies of scale offered by larger schools; it reduces the per-student multiplier as school size increases.<sup>3</sup> This factor is developed on a school-by-school basis and then becomes a multiplier for the district based on a table set in statute. This table was developed in 1998 by the McDowell Group.

Third, the count is multiplied by the **District Cost Factor**. This is a multiplier that is set in statute for each district to compensate for differing costs of delivering education across the state. Anchorage is set as the

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<sup>2</sup> For a more in-depth walkthrough of the Foundation Program, see also DEED’s [School Funding Overview](#). Funding calculations for each district for FY19 can be found in the [2019 Foundation Report](#).

<sup>3</sup> This factor has two hold-harmless provisions. The first is directed toward districts that lose at least 5% of their student count from the previous year and allows those districts to phase in the effect on the school size factor over three fiscal years. The second allows districts that consolidate schools within a community to phase in the effect of consolidation over three fiscal years. This factor also has special rules for charter schools.

base, and other districts receive increased funding relative to Anchorage. These multipliers are based on a 2004 study by the Institute for Social and Economic Research (ISER).

Fourth, the count is multiplied by 1.20, which is the statutory **Special Needs Factor**. This is intended to provide money to support special needs students. The multiplier is the same for all districts, regardless of the actual number of special needs students in each district.

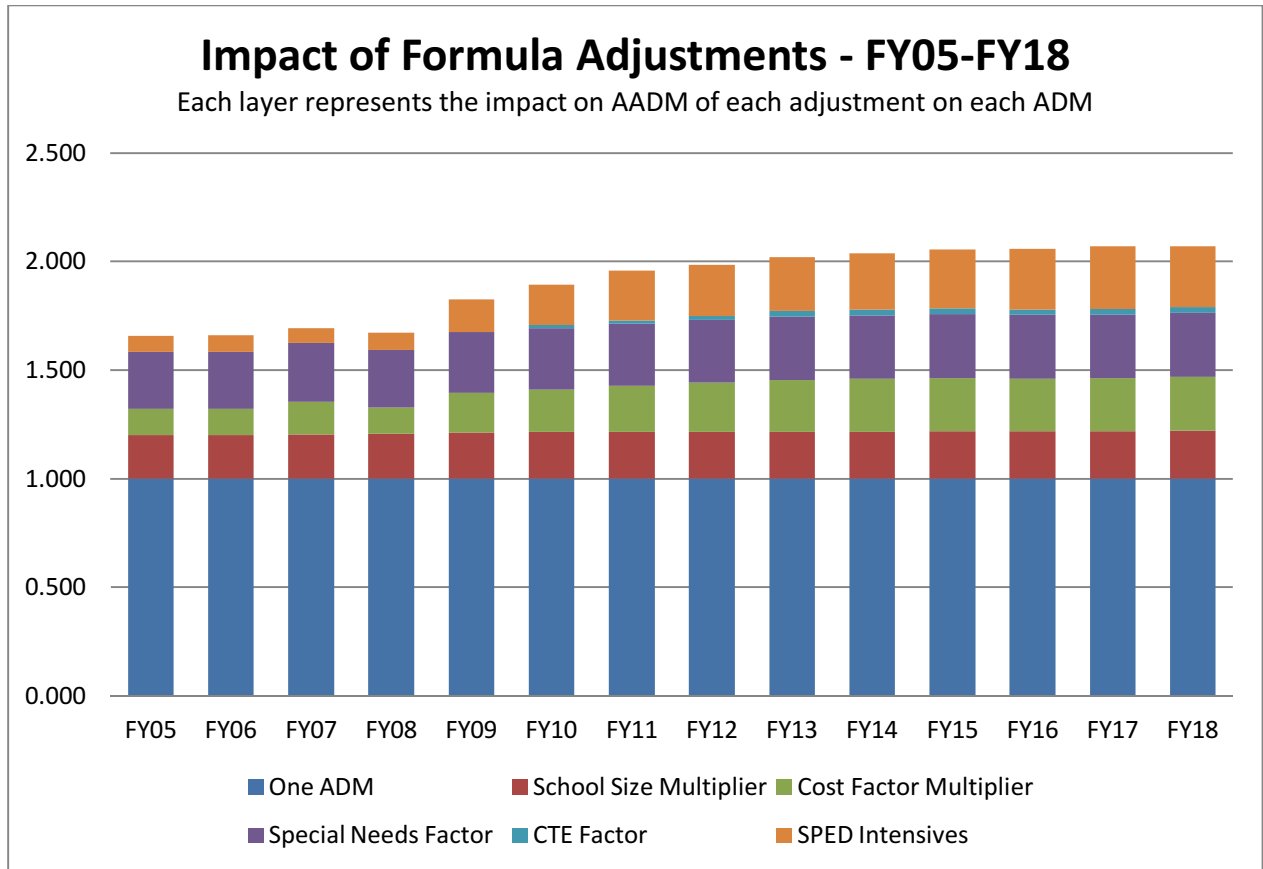
Fifth, the count is multiplied by 1.015, which is the **Career and Technical Education (CTE) Factor**. This funding is intended for vocational and technical instruction, not including administrative expenses.

Sixth, intensive Special Education (**SPED Intensives**) students are multiplied by 13. These students are identified by districts as meeting requirements set by the State. This multiplier was 5 until FY09, then was gradually increased to 13.

See the table below to see the statewide impact of the factors in transforming ADM to AADM in FY19.

ADM	ADM less corresp. students	After School Size Factor	After Cost Factor	After Special Needs Factor	After CTE Factor	After SPED Intsv Count	After 90% corresp students: AADM
129,620	116,814	142,860	171,820	206,184	209,277	244,429	255,954

The graph on the next page shows how these factors have changed since FY05. The graph demonstrates that per student funding would have increased over the years even if the BSA had remained constant. The FY05 ADM was increased to 1.658 AADM before being multiplied by the BSA, while the same headcount in FY18 would have generated a “funded student” count of 2.075 for each actual student. Even with no change in the BSA, changes in the adjustment factors would have increased K-12 funding by 25%.



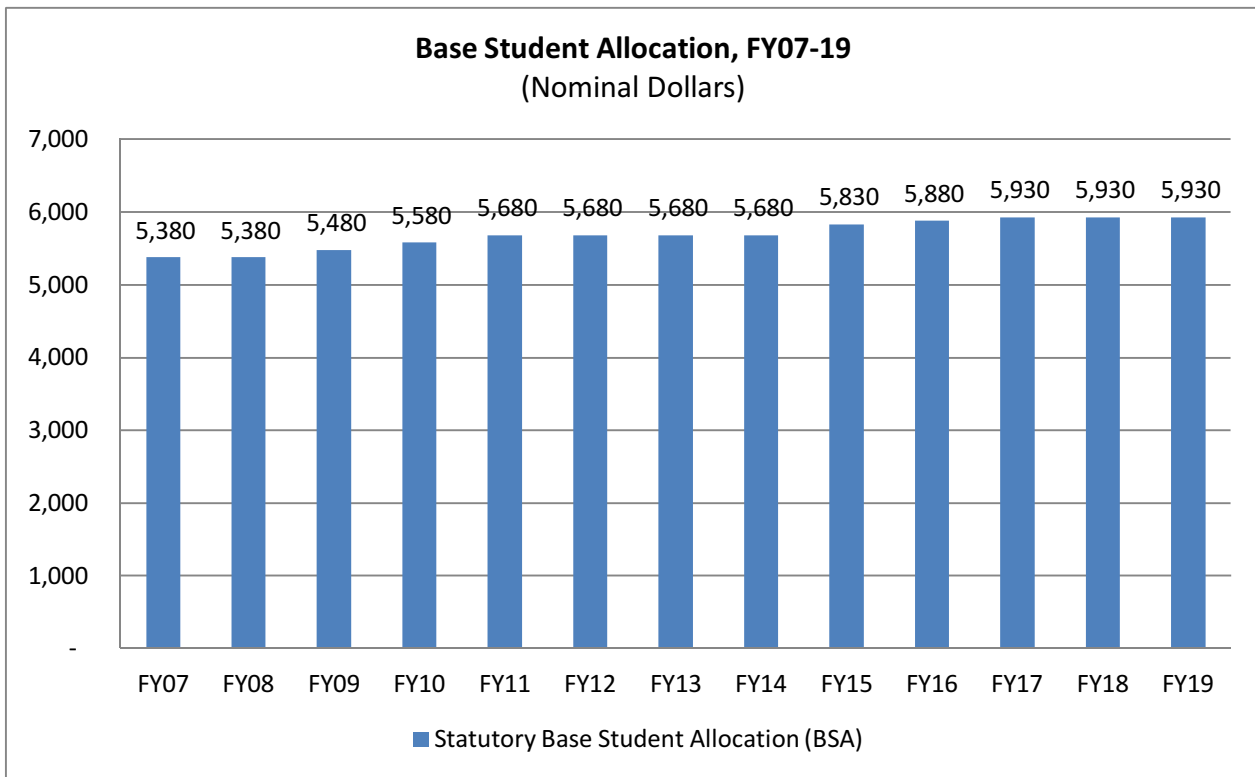
## ii. Base Student Allocation and Basic Need

The Base Student allocation is multiplied by the AADM to arrive to Basic Need. It is a number set in statute, and cannot be changed in the budget.

In FY19, the BSA is set in statute at \$5,930, and Basic Need is estimated to be \$1.5 billion. Basic Need is paid via several sources:

1. Required Local Contribution;
2. Deductible Federal Impact Aid; and
3. State Aid.

The first two numbers are determined independently of Basic Need—see below for details. Both required local effort and deductible impact aid are subtracted from Basic Need. The remaining amount is paid by the State.



**iii. Required Local Contribution**

School districts that are in an organized borough or municipality are required to pay a local contribution as a condition of receiving state aid. This contribution is set at 2.65 mills on real property value,<sup>4</sup> but may be paid for from any revenue source, not just property taxes. This amount is capped at 45% of basic need from the prior year, so some districts with high property values relative to population (such as the North Slope Borough) do not pay the full 2.65 mills.<sup>5</sup>

School districts in unorganized areas do not pay a Required Local Contribution, as they do not have the ability to collect taxes. However, a greater proportion of federal impact aid is deducted for these districts (see footnote 6), which may mitigate the impact to the State of some areas remaining unorganized.

In FY19, 34 of Alaska’s 53 school districts are required to make Required Local Contributions, totaling an estimated \$255.5 million.

**iv. Deductible Federal Impact Aid**

The federal government allows the State to deduct 90% of allowable impact aid from the amount the foundation formula allocates to school districts. This reduced the State’s cost by \$85.4 million in FY18. However, the State is allowed to deduct federal impact aid only if it has an equalized formula in

<sup>4</sup> This is based on the property value from two fiscal years before, so the FY19 Required Local Contribution is based on FY17 property values.

<sup>5</sup> In FY19, this applies to just three districts: North Slope, Skagway, and Valdez.

accordance with federal law. Impact aid is paid to districts based on federal property or Alaska Native lands that are exempt from property tax.<sup>6</sup> The amounts vary widely between districts: in the Mat-Su, no impact aid is deducted, but in Lower Yukon, \$12.8 million is deducted.

Each year, DEED performs the Disparity Test, which compares high- and low-funded districts to each other.<sup>7</sup> If the funding differential is less than 25% per student (based on AADM), the formula is considered equal and the State is allowed to deduct the \$76.6 million. Alaska is currently considered to be an equalized state, so the state does deduct that amount.

#### **v. State Aid**

After deducting Required Local Contributions and Deductible Federal Impact Aid, the State pays the remainder of Basic Need. This is estimated to be \$1.2 billion in FY19. The State pays for this mainly from unrestricted general funds (UGF), plus some Public School Trust Funds.<sup>8</sup>

State Aid flows to districts from the **Public Education Fund (PEF)** according to a statutory formula. The legislature typically appropriates money into the PEF, so this funding is subject to the appropriation process. If there is insufficient money in the PEF to pay for the full statutory formula, the amounts to each district are pro-rated.

#### **vi. Forward-Funding**

Starting in FY06, the legislature has periodically “forward-funded” education. This means that the PEF contained two years’ worth of State Aid. This is intended to give school districts certainty about future funding. This practice was ended when the legislature removed most of the FY15 forward-funding deposit to fill the budget deficit that year.

However, the legislature always had the ability to change the amount of spending each year, regardless of whether forward funding had taken place or not. In several years, the legislature passed legislation that altered the statutory formula, necessitating adjustments to the forward-funded amount. In other years, the legislature included one-time grants to districts in addition to formula allocations.

In the 2018 session, the legislature introduced a new type of forward-funding: appropriating money effective in a future year. As part of the education appropriations bill (HB 287), the legislature appropriated the amount necessary to fully fund the foundation formula in FY20, effective in FY20.

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<sup>6</sup> The state may not deduct impact aid given for children with disabilities, construction funding, and heavily impacted districts (which in Alaska is only the Annette Islands School District). It also cannot deduct 1/5 of funding given for children on Indian lands. Of the remaining amount, impact aid for municipal school districts is multiplied by the percentage of required local contributions divided by actual local contributions (this step is not done for REAAs because they have no local effort). The state may then deduct 90% of that amount. For more details on Impact Aid, see DEED’s [2015 presentation to the Senate Education Committee](#).

<sup>7</sup> The [FY17 disparity test](#) was finalized in February 2018.

<sup>8</sup> In FY19, \$24 million of the State’s share comes from the Public School Trust Fund, a \$660 million endowment managed by the Department of Revenue that is dedicated to supporting public schools.



While this does not bind the future legislature and prevent changes to the funded amount, it means that the full statutory formula will go to districts in FY20 unless the legislature takes additional action.

### **b. Pupil Transportation Formula**

In addition to the Foundation Formula, the State provides funding for pupil transportation. This funding is available only to school districts that have a pupil transportation system - as of FY19, five districts do not operate such systems, and do not receive funding.

Until FY03, the pupil transportation program operated as a grant program based on actual costs. Since FY04, pupil transportation has been funded using a per pupil cost which is based on the FY03 district transportation expenditures multiplied by the current non-correspondence ADM. The legislature has adjusted the amounts upwards for inflation several times, most recently in FY13.

While this funding is intended to be used for pupil transportation, money is fungible. Some districts supplement their pupil transportation money with other funds, and others use excess pupil transportation funds for classroom expenses.

This formula is paid entirely with state general funds through the PEF. In FY19, the projected cost is \$78.2 million.

### **c. Additional Formula Funding**

In addition to the Foundation Formula and Pupil Transportation Formula funding, the legislature has often provided one-time funding to school districts. In those years, the grant is typically structured as a set amount of money, to be distributed to districts according to AADM. For example, in FY19, the legislature appropriated \$20 million for this purpose. This is approximately equal to \$78 in the BSA.

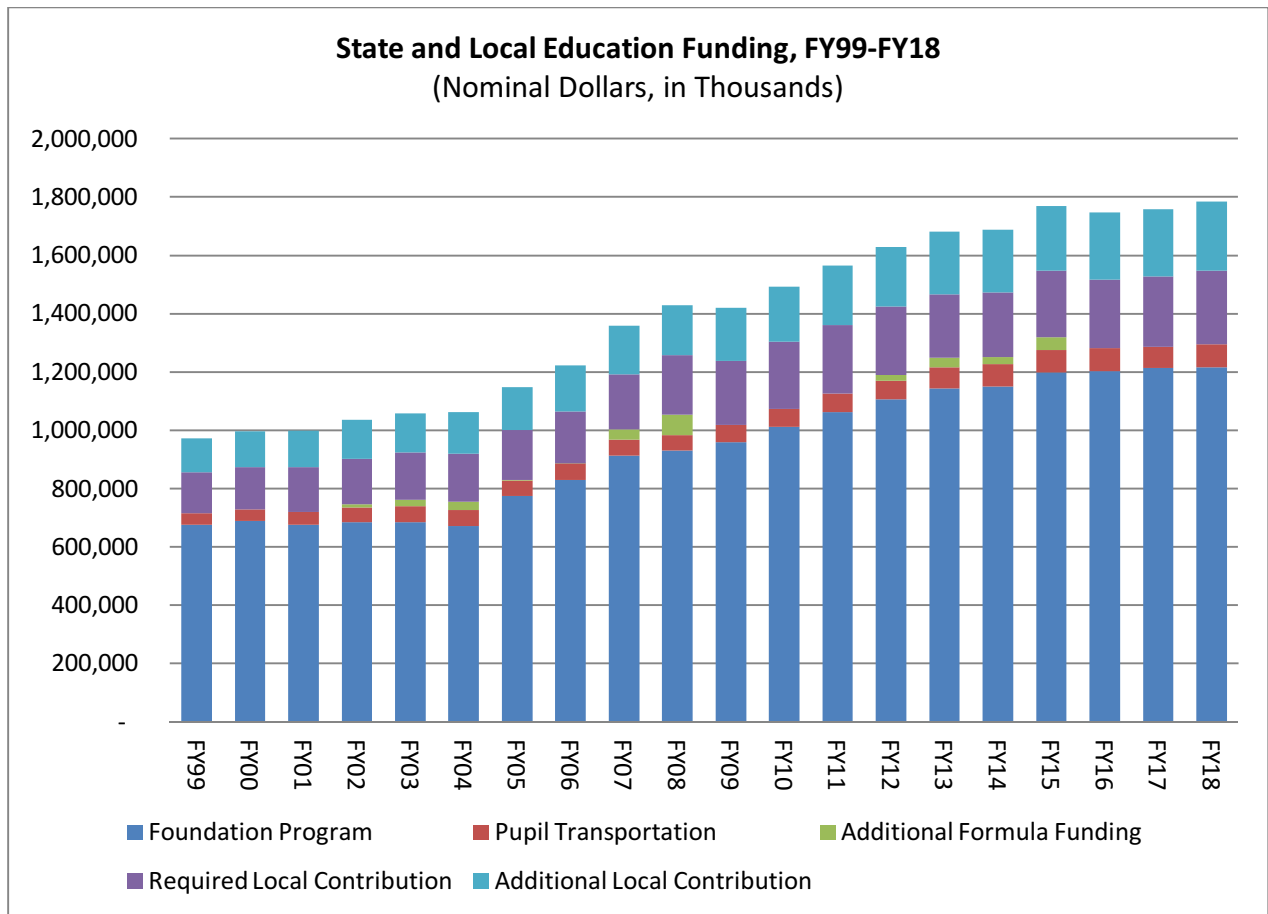
The legislature also appropriated \$30 million for FY20. As with the FY20 appropriations for the Foundation and Pupil Transportation Formulas, this does not bind the future legislature and prevent changes to the funded amount.

### **d. Voluntary Local Contributions**

In addition to required local contributions, municipal governments can contribute up to 23% of basic need.<sup>9</sup> In FY18, just five local governments contributed up to the cap, but nearly every organized community pays more than the required local contribution. In FY18, districts budgeted \$237.7 million of voluntary contributions.

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<sup>9</sup> The districts that hit the alternative funding cap for the required local contribution have an alternative voluntary local cap of 2 mills.



**e. Federal and Other Funding**

School districts receive federal revenue beyond the deductible impact aid. In FY18, districts budgeted for \$132.8 million of federal revenue, plus \$88.4 million of federal e-rate funding (which pays a portion of internet costs).

School districts also receive grants from the State and federal governments. Many of the federal grants pass through the DEED and go to school districts for certain programs. In FY19, the department’s budget includes \$228.8 million of grants, the vast majority of which are aimed at school districts. These include the federal Title I grants through the Every Student Succeeds Act, as well as items like school nutrition funding.

### **3. Indirect Flows of Funding to Districts**

In addition to the direct flows of funding to school districts, the State pays several costs on behalf of districts. This funding never goes to the districts, but State funding reduces a cost that the districts would otherwise incur.

#### **a. Retirement System Payments on Behalf of Districts**

School district employees are primarily part of TRS, but a few are also in PERS. Both of these public pension plans have unfunded liabilities that pushes employer contribution rates up substantially. The retirement fund is managed by the State alongside the Public Employees' Retirement System (PERS), which is for state and municipal employees. This fund is used to pay out pensions for TRS and PERS employees who entered the system before July 1, 2006. Employees who entered the system after that date receive defined contribution benefits rather than pensions, so TRS and PERS are effectively closed to new entrants. However, a portion of the pension obligation is not covered by payroll contributions alone, so TRS and PERS employers must pay an additional amount per employee to cover the gap.

In FY09, the State capped school districts' contributions to the TRS unfunded liability at 12.56% of TRS payroll, which is less than half of the total rate required to adequately fund the retirement system. Everything above the cap is paid by the State. In FY19, the State will contribute about \$121.4 million to TRS on behalf of school districts.

PERS employer contributions are capped at 22% of PERS payroll. In FY19, the State will contribute about \$19.5 million to PERS on behalf of school districts.

If these payments are not made by the State, school districts would have to contribute an additional amount for each employee to keep the retirement system fully funded.

#### **b. School Debt Reimbursement**

Statutes call for the State to reimburse municipal governments for up to 90% of their debt service for school construction and major maintenance, subject to appropriation. This program is currently closed to new projects through FY21. When the program reopens, it will reimburse only up to half of debt service. In FY19, the State's portion of municipal debt service is budgeted for \$108.1 million.

If these payments are not made by the State, municipal governments would have to pay the additional debt service amount. This happened in FY17 when the Governor vetoed \$30.5 million (25% of the state's share at the time) for school debt reimbursement, forcing municipalities to come up with that amount to make debt service payments.

### **c. Regional Education Attendance Area (REAA) Fund**

As part of the *Kasayulie* settlement, the State capitalizes the REAA fund at a percentage of what is spent on School Debt Reimbursement.<sup>10</sup> The REAA fund is then spent on school construction and major maintenance in unincorporated areas, based on priority lists developed by DEED.<sup>11</sup> In FY19, the State's deposit to the fund is budgeted at \$39.7 million.

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<sup>10</sup> The full *Kasayulie* settlement can be found [here](#).

<sup>11</sup> The priority lists can be found [here](#).

## **4. Glossary of Acronyms and Abbreviations**

**ADM (Average Daily Membership):** The average number of students at a school for a school year, determined during the 20 day count period ending the last Friday in October.

**AADM (Adjusted Average Daily Membership):** The ADM after adjustments are made, such as the school size factor and the special needs factor. This is then multiplied by the BSA to get Basic Need.

**BSA (Base Student Allocation):** The amount of funding per AADM that each school district receives.

**DEED (Department of Education and Early Development):** Alaska's State education agency.

**PEF (Public Education Fund):** State funding for the foundation and pupil transportation formulas is appropriated to this sub-fund of the state general fund. The funding then flows to districts without further appropriations.

**PERS (Public Employee Retirement System):** The retirement system used by most state and municipal government agencies, and some school district employees. It is administered by the State of Alaska.

**REAA (Regional Educational Attendance Area):** Regions that are not in boroughs or municipalities are divided into REAAs, which are school districts that do not have a corresponding local government.

**TRS (Teacher Retirement System):** The retirement system used by most Alaskan teachers and administrators. It is administered by the State of Alaska.