Alaska's Public School

**Funding Formula:**

**A Report to the Alaska**

**State Legislature**



**January 15, 2001**

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**Commissioner, Department of Education & Early Development**

# Public School Funding Formula

### Executive Summary

The passage of Senate Bill 36, Ch. 83, SLA 1998, carried with it certain reporting requirements for the Department of Education & Early Development to the 22nd legislature by January 15, 2001. Following is a brief summary of each of the three required reports.

##### Tab 1 District Cost Factors

###### Background

This report addresses the requirement of: SB 36 section 41. TRANSITION: PROPOSED DISTRICT COST FACTORS. The Department of Education shall submit the initial proposed district cost factors, required under AS 14.17.460(b), enacted in sec. 2 of this Act, to the Alaska State Legislature by January 15, 2001.

Legislation requires the department to monitor district cost factors and submit a report to the legislature every other year beginning January 15, 2001. Cost factors are specific to each district and adjust funding to account for regional cost differences between districts. The lowest factor is 1.000 and the highest is 1.736.

Current district cost factors were adopted by the legislature and became effective July 1, 1998. These factors were based on the best data available at the time as provided by the McDowell 1998 Alaska Cost Study. To recalculate current district cost factors the department again utilized the 1998 McDowell Alaska School Operating Cost Study methodology.

###### Findings

The department utilized the 1998 McDowell Alaska Cost Study methodology to calculate updated district cost factors that created results that were not defensible or supported by underlying data. The department contracted with the McDowell group to verify the accuracy of the calculation.

The McDowell Group reviewed the department’s calculations and found that the results were not meaningful. The McDowell Group determined that the 1998 methodology is not usable to update district cost factors for a number of reasons as outlined in their report included under Tab 1.

###### Recommendation

The department recommends that district cost factors remain at their current levels as designated in statute under AS 14.17.460 because there is not any empirical data to support changing the district cost factors at this time. The department also recommends that a new district cost model be developed to properly account for cost differences between districts on an ongoing basis.

##### Tab 2 Comparison of Old to New Funding Formula

###### Background

This report addresses the requirement of: SB 36 Sec. 47. REQUIRED REPORT. The Department of Education shall compare the use of per school funding required under this Act to the use of funding communities required in AS 14.17 before the effective date of the Act and submit a report to the Alaska State Legislature by January 15, 2001.

This required report compares the per school funding under SB 36 to the previous funding formula. The old formula uses student enrollment grouped by community and the new formula uses enrollment grouped by school to determine basic need. This report compares adjustments between the old and new funding formulas such as size, special needs and supplemental funding floor.

The 1998 McDowell Alaska Cost Study review panel did not suggest that any school districts were over funded under the previous funding formula, rather that some districts appeared to be under funded under the new school funding model. The McDowell group report suggested that no district lose money. The legislature adopted as a component of SB36 the supplemental funding floor that erodes over time.

###### Findings

The supplemental funding floor is subject to erosion as school district enrollments increase. As district enrollments increase these additional students are only funded at 60% of entitlement. In the department's analysis of the district cost factors and comparing the old and new funding formula, there is no data to support the erosion of the supplemental funding floor that penalizes districts that have increased enrollment.

The previous funding formula had a hold harmless provision for school districts that experienced a substantial decrease in student enrollment from one year to the next. The current funding formula has no such provision and school districts immediately absorb the reduction in revenue due to decreased enrollment.

###### Recommendations

The department recommends the repeal of AS 14.17.490(d), erosion of the supplemental funding floor.

The department recommends that AS 14.17 be amended to include a hold harmless provision for school districts that experience a decrease in student enrollment of 10% or more from one year to the next.

##### Tab 3 Educational Adequacy

###### Background

This report addresses the requirement of: SB 36 Letter of Intent. “It is the intent of the Legislature to direct the Department of Education to include in the required report of Section 47 a thorough review of educational adequacy in the schools of Alaska, paying particular attention to differences in costs of school operations between communities, differences in costs of school operations depending on their size, and the particular effects and impacts described in AS 14.17.490 section (d), and to report to the Legislature no later than January 15, 2001.”

The department brought together a broad based group of Alaskan’s to define educational adequacy and the underlying factors. The group focused primarily on the impact of inflation on education funding.

Based on direction from the adequacy group, the department examined the changes that have occurred in education funding over the past ten years and the impacts of those changes on school districts. The effects of inflation over the past ten years are identified in the report. The department found that a significant effect of inflation is that school districts are limited in their ability to recruit and retain teachers.

###### Findings

From FY90 to FY00 inflation has increased approximately 30% but the public school funding program was increased only 5% during this time.

From FY90 to FY00 enrollment increased 25% and the legislature fully funded the increase.

School districts in Alaska are having a difficult time recruiting and retaining teachers due to the competitiveness of teacher salaries in other states and the vast number of incentives being afforded to new hires in other states.

###### Recommendations

Based on the adequacy group’s work and the department’s analysis, the department recommends that changes be made to the public school funding formula to recoup losses due to inflation and to provide for future inflationary adjustments. These recommendations and others included in Tab 1 and 2 will be forwarded to the governor’s education funding task force. The task force recommendations are due to the governor and the State Board of Education & Early Development on February 1, 2001.

TAB 1

**District Cost Factors**

### District Cost Factors

##### Introduction

Alaska’s public school funding formula includes a provision to adjust funding for each district for regional cost differences; this adjustment is contained within district cost factors that are in AS 14.17.460. Each district is assigned a factor by which funding is increased to compensate for cost differences.

This report responds to the direction in AS 14.17.460 (b) District cost factors, that the department shall monitor the cost factors established under (a) of this section and shall prepare and submit to the legislature by January 15 of every other fiscal year proposed district cost factors.

The current district cost factors in statute were arrived at as part of the 1998 Alaska School Operating Cost Study and adopted beginning fiscal year 1999. Previously, cost factors were last updated in 1988.

The department has reviewed the 1998 Alaska School Operating Cost Study in detail and compiled current data for analysis in the same manner as the study utilized. The department has calculated cost factors with current FY99 data based on the study’s methodology and has reached conclusions and makes recommendations based on the outcome of our calculations and evaluation.

The department has contracted with the authors of the 1998 Alaska School Operating Cost Study, The McDowell Group, to:

* Review, comment, and make recommendations to the department’s current recalculation of district cost factors derived from using the Alaska School Operating Cost Study methodology.
* Review, comment, and make recommendations for any changes to current district cost factors.
* Review, comment, and make recommendations for any changes to the cost factor methodology.

The McDowell Group’s report is included after this report.

**Summary of the 1998 Alaska School Operating Cost Study Methodology and Calculations**

The 1998 Alaska School Operating Cost Study presents the calculation for determining cost factors on page 18 of that report. The district cost factors are calculated by dividing each district’s estimated average basic need per student by the statewide estimated average basic need per student. Basic need is the amount of required funding the foundation formula assigns to each district.

The 1998 Alaska School Operating Cost Study was able to use basic need in calculating cost factors because basic need revenues are essentially what a district has available to spend, therefore basic need approximates expenditures.

The 1998 Alaska School Operating Cost Study investigated the issue of basic need and cost factors in two pieces, the instructional component and the district level component (non-personal services and administration).

The development of the instructional component of basic need and cost factors used a team of education experts and statistical modeling to develop a school size table that is in AS 14.17.450. The school size table was developed to account for instructional operating costs that are influenced by school size. The instructional portion of a district’s basic need is dependent on the multipliers in the table as applied to each school in the district.

The study’s review of the district expenditures used an analysis of 1996 audited expenditure reports from all 53 school districts. The study pursues a rigorous examination of district level expenditures. The study examined district level costs by measuring each district’s expenditures per student and also repeats the analysis by examining a “market basket,” or subset, of expenditures per student. The market basket of expenditures included travel, supplies, utilities, insurance, and communication expenditures. The report concludes that no consistent standard could be applied for computing a relationship between student enrollment and district level costs, and that the short run solution is to compensate districts based on their actual costs. Therefore, the final methodology resorted to using basic need in the calculation for cost factors rather than expenditure data.

The estimated basic need used in the study to determine cost factors was arrived at by adjusting each district’s original basic need by changes developed in the school table. Because a conclusion relating to district costs was not achieved, no changes were suggested for these non-personal services and administrative costs. The cost factors in AS 14.17.460 represent each district’s estimated average basic need per student divided by the statewide estimated average basic need per student.

**Results of using FY99 Data to Calculate District Cost Factors following the McDowell 1998 Alaska School Operating Cost Study**

For the current period, actual FY99 student data and actual basic need dollars were used to recalculate cost factors as presented on page 18 of the 1998 Alaska School Operating Cost Study.

Because the instructional portion of basic need is set in statue with the school size table and because there is not a mechanism to adjust basic need for district costs, one would not expect districts’ basic need dollars to significantly change from one year to the next unless there was a drastic change in a district’s school size configuration. Correspondingly, if basic need remains stable, than the cost factors derived from dividing each district’s basic need per student by the statewide basic need per student would not be expected to change.

The results obtained from recalculating cost factors using FY99 data are presented in appendix A. The results do not provide a basis, or insight, to recommend changes to existing cost factors. The results do however point to several areas of concern in the current cost factor methodology.

The current cost study methodology does not account for the changes that SB 36 made to the foundation formula for calculating correspondence study dollars or special education intensive dollars. The results of using FY99 data with the cost study methodology shows that those schools with correspondence students have an elevated cost factor. For example, Galena’s cost factor is set in statute at 1.348 but using the cost study methodology with FY99 correspondence dollars assigns Galena a cost factor of 6.631. The increases the methodology calculates for districts with correspondence students are not warranted by increased costs. Additionally, because the formula simply divides each district’s average basic need per student by the statewide average basic need per student, the impacts affecting districts with correspondence studies are also carried into the statewide average.

By using a calculation based on adjusted average daily attendance and average basic need to calculate cost factors any imperfections in the adjustment to average daily attendance or in the determination of basic need, are incorporated into district cost factors. Further, without identifying the underlying elements of true cost differences there is not a process to evaluate outcomes.

##### Conclusion

The 1998 Alaska School Operating Cost Study reported that compensating districts for actual district costs incurred was an unsatisfactory long-term solution. Based on our review of the methodology, and the outcome of calculations using FY99 data, we agree with the study’s conclusion that the current methodology is unsatisfactory.

We recommend that a request-for-proposal be developed that requires identification of the underlying elements affecting school costs and determines a methodology for measuring those underlying elements. This will improve our cost factor methodology from that of compensating districts for current basic need to an improved method of allocating funding based on differences in applicable costs.

Consideration should be given to the elements that contribute to costs in school districts. The investigation should evaluate whether the previously studied elements of travel, supplies, utilities, insurance, and communication correctly identify cost elements in districts, or whether other items should be added, or if different factors driving school district costs are applicable. Once the underlying elements are identified, a measurement tool applicable to each element should be identified.

The results obtained from recalculating cost factors using FY99 data under the 1998 cost study methodology do not provide a basis to recommend changes to existing cost factors because the formula does not adequately evaluate for cost differences in district level costs and the methodology does not adequately account for changes in the foundation formula after SB 36.

##### Recommendation

The department recommends that district cost factors remain at their current levels as designated in statute under AS 14.17.460 because there is not any empirical data to support changing the district cost factors at this time. The department also recommends that a new district cost model be developed to properly account for cost differences between districts on an ongoing basis.

|  |
| --- |
| FY99 Computation of District Cost Factors |
|  | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| SchoolDistrict | FY99InstructionalLevelExpenditures | FY99DistrictLevelExpenditures | FY99SchoolLevelExpenditures | FY99DistrictLevelExpenditures | Impact ofSchoolLevelRevisions | WeightedImpact ofSchool &District LevelRevisions | Current (FY 99)BasicNeed | RevisedBasicNeed | Current (FY 99)BasicNeedPerStudent | UnadjustedMultiplier | DistrictCostFactor |
| Total |  622,823,619  | 338,506,511  | 65% | 35% |   |   | 813,867,788 |  | 5,516 |   |   |
|  Alaska Gateway  | 2,997,683  | 2,048,003  | 59% | 41% |  |  | 4,977,441 |  | 6,468 | 1.173 | 1.296 |
|  Aleutian Region  | 492,197  | 546,358  | 47% | 53% |  |  | 975,111  |  | 8,208 | 1.488 | 1.644 |
|  Aleutians East  | 2,302,187  | 2,676,885  | 46% | 54% |  |  | 3,670,346  |  | 6,728 | 1.220 | 1.348 |
|  Anchorage  |  209,452,072  | 76,372,647  | 73% | 27% |  |  |  258,251,043  |  | 4,991 | 0.905 | 1.000 |
|  Annette Island  | 2,489,601  | 1,724,851  | 59% | 41% |  |   | 2,448,946  |  | 4,939 | 0.895 | 1.000 |
|  Bering Strait  | 11,706,858  | 12,267,042  | 49% | 51% |  |  | 20,512,192  |  | 7,266 | 1.317 | 1.455 |
|  Bristol Bay  | 1,632,441  | 1,265,562  | 56% | 44% |  |  | 2,751,026  |  | 6,098 | 1.105 | 1.221 |
|  Chatham  | 1,664,365  | 1,316,342  | 56% | 44% |  |  | 2,688,735  |  | 5,497 | 0.996 | 1.101 |
|  Chugach  | 839,298  | 859,828  | 49% | 51% |  |  | 1,234,166  |  | 7,866 | 1.426 | 1.576 |
|  Copper River  | 3,050,705  | 2,516,105  | 55% | 45% |  |   | 5,624,665  |  | 6,186 | 1.121 | 1.239 |
|  Cordova  | 2,459,543  | 1,757,664  | 58% | 42% |  |  | 3,372,679  |  | 5,274 | 0.956 | 1.056 |
|  Craig  | 1,837,411  | 1,260,688  | 59% | 41% |  |  | 2,866,823  |  | 4,986 | 0.904 | 1.000 |
|  Delta Greely  | 3,930,540  | 3,063,337  | 56% | 44% |  |  | 6,603,913  |  | 6,323 | 1.146 | 1.266 |
|  Denali  | 2,077,774  | 1,803,864  | 54% | 46% |  |  | 3,510,658  |  | 6,243 | 1.132 | 1.251 |
|  Dillingham  | 3,531,431  | 1,966,385  | 64% | 36% |  |   | 4,204,216  |  | 6,042 | 1.095 | 1.210 |
|  Fairbanks  | 72,876,411  | 32,879,603  | 69% | 31% |  |  | 88,576,188  |  | 5,214 | 0.945 | 1.044 |
|  Galena  | 3,720,080  | 9,516,538  | 28% | 72% |  |  | 11,747,583  |  | 33,105 | 6.001 | 6.631 |
|  Haines  | 2,121,521  | 1,347,464  | 61% | 39% |  |  | 2,873,678  |  | 4,949 | 0.897 | 1.000 |
|  Hoonah  | 1,634,172  | 1,444,138  | 53% | 47% |  |  | 1,855,937  |  | 5,327 | 0.966 | 1.067 |
|  Hydaburg  | 419,259  | 568,515  | 42% | 58% |   |   | 978,223  |   | 5,235 | 0.949 | 1.049 |
|  Iditarod  | 2,976,552  | 4,075,269  | 42% | 58% |  |  | 5,240,176  |  | 7,825 | 1.419 | 1.568 |
|  Juneau  | 26,149,536  | 9,738,260  | 73% | 27% |  |  | 30,632,003  |  | 5,021 | 0.910 | 1.006 |
|  Kake  | 917,143  | 1,133,529  | 45% | 55% |  |  | 1,450,472  |  | 4,982 | 0.903 | 1.000 |
|  Kashunamiut  | 1,409,301  | 1,533,516  | 48% | 52% |  |  | 2,751,775  |  | 6,811 | 1.235 | 1.365 |
|  Kenai  | 48,259,961  | 24,656,506  | 66% | 34% |   |   | 59,675,398  |   | 4,859 | 0.881 | 1.000 |
|  Ketchikan  | 11,276,914  | 6,223,865  | 64% | 36% |  |  | 14,774,370  |  | 4,887 | 0.886 | 1.000 |
|  Klawock  | 1,269,410  | 931,150  | 58% | 42% |  |  | 1,537,191  |  | 5,055 | 0.916 | 1.012 |
|  Kodiak  | 14,370,291  | 8,486,571  | 63% | 37% |  |  | 17,811,243  |  | 5,325 | 0.965 | 1.066 |
|  Kuspuk  | 3,523,450  | 3,125,405  | 53% | 47% |  |  | 5,531,642  |  | 6,878 | 1.247 | 1.378 |
|  Lake & Peninsula  | 4,087,174  | 4,169,360  | 50% | 50% |   |   | 7,378,871  |   | 7,369 | 1.336 | 1.476 |
|  Lower Kuskokwim  | 25,163,924  | 18,855,045  | 57% | 43% |  |  | 36,670,132  |  | 7,138 | 1.294 | 1.430 |
|  Lower Yukon  | 11,255,759  | 8,504,546  | 57% | 43% |  |  | 19,427,864  |  | 6,840 | 1.240 | 1.370 |
|  Matanuska  | 61,906,788  | 22,150,470  | 74% | 26% |  |  | 70,235,033  |  | 5,158 | 0.935 | 1.033 |
|  Nenana  | 1,094,922  | 1,525,356  | 42% | 58% |  |  | 2,220,939  |  | 9,389 | 1.702 | 1.881 |
|  Nome  | 4,025,758  | 2,726,728  | 60% | 40% |   |   | 5,734,040  |   | 6,258 | 1.134 | 1.253 |
|  North Slope  | 20,020,075  | 19,098,608  | 51% | 49% |  |  | 19,700,591  |  | 7,132 | 1.293 | 1.429 |
|  Northwest Arctic  | 12,323,886  | 11,813,417  | 51% | 49% |  |  | 21,898,559  |  | 7,381 | 1.338 | 1.478 |
|  Pelican  | 276,916  | 348,793  | 44% | 56% |  |  | 338,328  |  | 6,099 | 1.106 | 1.222 |
|  Petersburg  | 3,176,667  | 1,957,271  | 62% | 38% |  |  | 4,708,300  |  | 4,850 | 0.879 | 1.000 |
|  Pribilof  | 85,092  | 1,236,683  | 42% | 58% |   |   | 1,816,576  |   | 6,783 | 1.230 | 1.359 |
|  Sitka  | 8,038,682  | 3,207,312  | 71% | 29% |  |  | 9,500,317  |  | 4,958 | 0.899 | 1.000 |
|  Skagway  | 668,697  | 754,929  | 47% | 53% |  |  | 1,135,902  |  | 5,465 | 0.991 | 1.095 |
|  Southeast Island  | 1,794,504  | 1,632,270  | 52% | 48% |  |  | 2,933,015  |  | 5,440 | 0.986 | 1.090 |
|  Southwest Region  | 5,764,965  | 4,143,933  | 58% | 42% |  |  | ,643,414  |  | 6,774 | 1.228 | 1.357 |
|  St. Mary's  | 688,727  | 703,215  | 49% | 51% |   |   | ,355,439  |   | 6,388 | 1.158 | 1.280 |
|  Tanana  | 540,615  | 1,235,715  | 30% | 70% |  |  | 1,230,895  |  | 7,128 | 1.292 | 1.428 |
|  Unalaska  | 2,063,788  | 1,720,125  | 55% | 45% |  |  | 2,924,426  |  | 5,926 | 1.074 | 1.187 |
|  Valdez  | 4,907,866  | 3,000,547  | 62% | 38% |  |  | 5,608,590  |  | 5,289 | 0.959 | 1.060 |
|  Wrangell  | 2,325,866  | 1,426,328  | 62% | 38% |  |  | 3,264,842  |  | 4,815 | 0.873 | 1.000 |
|  Yakatut  | 1,025,300  | 916,127  | 53% | 47% |   |   | 1,345,234  |   | 5,095 | 0.924 | 1.021 |
|  Yukon Flats  | 2,959,179  | 3,362,200  | 47% | 53% |  |  | 5,077,399  |  | 7,941 | 1.440 | 1.591 |
|  Yukon Koyukuk  | 4,125,363  | 898,453  | 51% | 49% |  |  | 6,917,970  |  | 7,225 | 1.310 | 1.448 |
|  Yupiit  | 2,314,999  | 3,013,190  | 43% | 57% |   |   | 4,673,273  |   | 7,095 | 1.286 | 1.421 |
| Notes to columns: |  |  |  |  |  |  |  |  |  |  |  |
| - Columns (1) and (2) are from 1999 school district audited financial statements |  |  |  |  |  |  |  |
| -Column (1), The term "Instructional Level Costs," includes aggregated costs for instructional personnel. This is also referred to as "School Level Costs," in the McDowell report. |
| - Columns (5), (6), and (8) are represented on the spreadsheet to show comparison to the 1998 study calculation, but these are not used in FY99 because there were no |
| changes in school or district level components contained in the instructional size table after the 1998 study changes, therefore actual basic need is used for FY99. |
| - Column (7) current basic need is taken from the FY99 foundation calculation |  |  |  |  |  |  |  |  |  |  |  |  |
| - Column (9) per student basic need is determined by dividing column (7) by the size-adjusted student count in each district.**APPENDIX A** |  |  |  |

***ALASKA SCHOOL OPERATING***

***COST STUDY***

*REVIEW OF CALCULATED COST FACTORS*

***PREPARED*** *FOR:*

*Alaska Department of Education and Early Development 801 WEST 10TH STREET JUNEAU ALASKA, 99801*

*January 2001*

***ALASKA SCHOOL OPERATING***

***COST STUDY***

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*Alaska Department of Education and Early Development 801 WEST 10TH STREET*

*JUNEAU ALASKA, 99801*



*January 2001*

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##### Executive Summary

The Alaska Department of Education and Early Development retained the McDowell Group to review the 1999 updates to the District Cost Factors. We have examined the new calculations, the underlying database and assumptions, and have discussed changes in the education environment with Department representatives.

Our recommendations are as follows

1 The methodology used to adjust Average Daily Membership (ADM) for the impact of school size is sound and amenable to update. This methodology is based on an empirical analysis of school level (instructional) costs. The Department should use recalculated ADM's using the most recent census in their revised calculation of Basic Need.

2. The methodology used to calculate District Cost Factors (DCF's) is not amenable to update for a number of reasons discussed in this report. We find the re-calculated results to not be meaningful. We recommend that the Department use the 1998 factors for the revised calculation of Basic Need.

3 We reiterate our recommendation in the 1998 Alaska School Operating Cost Study that further study is required for the district level costs. On the other hand, the standards for school level costs remain valid today. Readers are reminded that the District Cost Factor is a single number resulting from the blending in two costs - school level (instructional) costs and district level (administration and non-personal services) costs. The methodology selected in that report to allocate district level costs was simply a first step in transitioning the State of Alaska toward using an empirical basis for identifying actual school cost. Because school districts have greater discretion in controlling non-personnel and administrative costs, a methodology that develops standards or goals and directs funding in accordance with achieving the standards/goals may be a preferable option.

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##### Statement of the Situation

In early 1998, the McDowell Group prepared the Alaska School Operating Cost Study for the State of Alaska Legislative Budget and Audit Committee. The purpose of the study was to determine adjustment factors that compensate for the impact of school size and geographical location on school operating costs. These factors were incorporated into the Public School Funding Formula.

It is important to stress that this study dealt with only one piece - operating costs - of a large and complex puzzle termed the School Foundation Formula. It was not intended to determine the cost of basic educational (Basic Need), but only how to allocate a portion of Basic Need (i.e., certain school operating costs) as defined by legislative appropriation. Also, Basic Need is only a starting point for public school funding; many adjustments are made for local contributions, federal impact aid, special needs, and other factors. Since the report was published, additional legislation has been enacted which has "adjusted" the District Cost Factors; all of these adjustments have been determined outside of the study analysis.

In our report, we cautioned the Committee that this was an important step, but only a first step in the process of transforming the funding process into one that has a scientific and empirical basis. Previous to 1998, District Cost Factors were based primarily on outdated (1985) household market basket costs unrelated to the cost of operating schools. A major advance of the Alaska School Operating Cost Study was, for the first time since statehood, to base District Cost Factors on what it cost to actually operate schools. The priority focus of the study effort was placed on the most significant port of operating costs, namely school level or instructional costs accounting for at least 70% of the total. The second major advance was to base school level (instructional) costs on standards for staffing schools of various sizes. The result was a sound defensible means of allocating instructional costs consistent from district to district that allows for updating based on changes in ADM.

However, such a standard was not possible for district level c;:osts and the solution was an imperfect one that now prevents updating of the district level cost component of the DCF. Instead of a uniform standard like that calculated for school size, districts were simply allocated district level costs based on each district's actual expenditures per student in FY 1996, the most recent year available at the time of the study. As a result of this acknowledge shortcoming, we recommended that the Committee implement a transition period to evaluate if adjustments are needed, and put further work into understanding the non-personnel and administrative costs, research that eventually could lead to standards for district level costs.

The Alaska Department of Education and Early Development is now in the process of recalculating the cost factors using 1999 data. Several issues and concerns about the District Cost Factors have emerged in this work. The McDowell Group views this situation as an excellent opportunity to review the assumptions, strengths and limitations of our earlier study.

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##### Review of District Level Cost Factors

To accomplish this review, the McDowell Group examined the worksheets used to recalculate the District Cost Factors (DCF's), as well as the underlying data used in the calculation. We noted that several adjustments needed to be made to audited financial statement information, consistent with the 1998 study. We also examined the additional data manipulation required to account for the increased roles of correspondence study and accounting transfers.

The purpose of DCF's is to account for wide variations in district level costs depending on geographic location. For example, remote districts with several small schools may pay eight times as much per student for heating oils as does a large urban district, even though the shelf price for oil is only two times as high. Non­ personal services and administrative costs were combined into the district level cost pool for simplification, although it is clear that these costs have unique cost drivers. The use of actual expenditures had the effect of taking into account all of each district's unique geographic variables such as climate, insulation of buildings, utility and fuel costs, and so forth, including each district's local policies that affect spending. The disadvantage of this method is the absence of standards that resulted in compensation of districts for their current financial management practices - whatever they may be.

The McDowell Group report found that data limitations precluded the determination of a consistent standard for these costs across school districts. Therefore, a simple methodology of comparing actual per-student spending on non­ personnel and administrative costs by each school district to the State average was employed. This methodology is far less rigorous than that used to account for variations in school level cost, but it was considered reasonable insofar as district level costs are comparatively small. However, district level costs are often most significant in smaller, multi-site rural districts where a larger portion of the total budget must be allocated to non-personal services out of necessity. As a result, the 70/30 rule (that was neither a part of the 1998 study nor a recommendation of it), forces many districts to skimp on necessary non-personal services costs or seek an exemption. While the intent of the rule is commendable - to address administrative costs and to encourage maximizing the money spent on instruction - its effects are impractical for many smaller districts.

The 1998 *Alaska School Operating Cost Study* presents the computation of DCF's in Table VII on page 18 of the report. In response to a request by the Legislative Budget & Audit Committee, a single adjustment factor was calculated blending two components - school level costs and district level costs. DCF's are therefore calculated by dividing each district's estimated Basic Need per student by the statewide estimated Basic Need per student (Basic Need was used as these revenues are a good proxy for district expenditures).

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This methodology is simple and represents a reasonable first step in accounting for district cost differences. It also, unfortunately, contains several features that make their continued use problematic:

**The methodology's basis accepts 1996 expenditure patterns as reflective of a district's needs and drives future spending to approximate and/or exceed this baseline.** This basis was largely driven by the state of the database at the time the study was conducted. Financial statement expenditure data was considered to have the greatest accuracy, although several adjustments were made to the audited numbers for several districts in an attempt to level the comparison.

The net result is to accept that the 1996 expenditures for each district are reflective of their need, rather than alternative methods of independently assessing the need or developing a standard for cost. This is a reasonable method for a "point in time" analysis but is clearly less preferable to the other two alternatives in future years.

Assuming that districts essentially spend what they receive, this methodology reinforces itself, that is, it drives the district to the same level of spending each year. The lack of a standard means that districts that were relatively under­ funded prior to 1998 continue to be hampered in their district level cost allocation. For districts with ample funding, there is little incentive to economize. Further, extraordinary events, such as unexpectedly high fuel costs, can have a devastating effect on districts with tight budgets. In fact, the major incentive, if this methodology remains in place, is for the districts to increase spending levels resulting in a higher average versus the state average. This is a driver the state may wish to avoid.

**Some factors have increased in significance in school operational and accounting practices that were not considered by the 1998 study.** Correspondence study has increased markedly at some school districts. This effect was not analyzed in the 1998 report and will skew results when included in the recalculation of cost factors.

For the present cost factor re-calculation, the Department has to contend with the increased practice of transfers. Again, this practice was not considered in the 1998 report and results may be skewed when factored into the recalculation.

Financial statements serve a number of purposes, but are not designed as cost research tools. While some accounts may be useful for comparisons, we are of the opinion that the analysis of cost drivers for district level costs may not be adequately served by financial statement data alone.

**Recalculation using Fiscal Year 1999 data illustrates that the underlying methodology is an inappropriate driver and/or does not hold up to accounting/operational changes.** Trial runs to re-calculate cost factors show two main effects. The first is that the large majority of district cost factors are unchanged (as predicted). The second is that a small number of districts have very large changes, primarily due to the operational or accounting changed that were not analyzed in the 1998 report. It is our recommendation that these changes to the DCF's should not be implemented without further study.

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* + **Improvements to financial and operational data initiated by the Alaska Department of Education cannot be incorporated into the current calculation.** The Department of Education has undertaken initiatives to ensure financial statement standardization and improve the quality of enrollment data using the Oasis database. These advances set the stage for better school cost data that can support more detailed cost study. Hence, a data quality limitation that existed at the time of the 1998 study has been removed. The improvement in data means that a new method for calculating administrative and non-personal services cost factors can be considered. Again, a new method should consider standards and the goals of the State of Alaska that underlie Alaska's huge fiscal commitment to education.
	+ **Variations in district level costs are diluted by school level costs in this calculation.** For the sake of "simplicity," two distinct cost pools - non-personnel and administrative costs - were combined and then further blended with instructional costs. What results is a very large - and complex - cost pool. It is entirely possible that the portfolio effect has damped critical variations, punishing some districts with higher than average costs and thereby rewarding others.
	+ **Waiver requests to the 70/30 instructional/non-instructional regulations have increased each year and are an indication that review of this methodology is required.** As previously mentioned the 70/30 regulation was not part of the study and would not have been recommended by the study team if our opinion had been sough t. It is our understanding that the original intent was to encourage districts to minimize administrative costs and allocate more money to instruction. This is certainly a commendable goal. However, most district level costs are non-personal services costs that provide the basic infrastructure of education, such as books, building utility, fuel and maintenance costs, insurance and the like. Smaller districts with inefficient buildings, severe climates and other factors out of their control are the most likely to have district level costs in excess of 30%, some in excess of 40%.

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##### Recommendations for Further Work

The 1998 McDowell Study put significant analysis into school level (instructional) costs, which comprise the major percentage of school operating costs. This analysis produced a methodology that can be updated yearly with the assurance of providing meaningful allocations.

As stated in the 1998 report, the State of Alaska should continue to improve its Public School Funding Formula and engage a similar quantitative effort into district level costs. Though the magnitude of these costs is well below instructional costs, they comprise a value that is certainly significant and can impact many districts, especially those on the margin of adequate funding. Data collection and standardization has apparently improved to the point that such a study will produce meaningful results.

Updating the District Cost Factors using the current methodology with 1999 data will result in more questions than answers. We recommend that the current DCF's be maintained and the Department's efforts be placed in re-examining the methodology.

There are two primary approaches to an analysis of district level costs. The first is a study similar to the one in 1998 that seeks to understand the reasons for why these costs vary by school size and location. For these types of indirect costs, a typical study would be to determine major cost pools and identify unique drivers for the pools. A private industry approach to understanding indirect costs is to develop cost pools based on distinct activities, hence the name activity-based costing (or ABC). The ABC approach has become quite popular in the public sector as well, as it can lead to the creation of standards that can be used to monitor and control indirect costs.

The second approach is a rate-setting approach. Indirect cost would be examined to the extent that expenditure goals could be developed. A funding methodology could then be devised to provide incentives to school districts for achieving these goals. This approach requires a more clearly defined public policy component than the activity-based approach.

In closing, the McDowell Group offers a two-step recommendation. The first is to assemble a preliminary study team comprised of Alaska education experts with a mix of rural and urban school district operations experience. This study team would determine and examine critical issues and develop project objectives. The second step is to design an on-going cost research program that specifies data that will properly account for regional and school size differences in district level and administrative costs.

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TAB 2

**Comparison of Old to New**

**Funding Formula**

#### Comparison of Old to New Funding Formula

##### Introduction

The passage of Senate Bill 36, Ch. 83, SLA 1998, carried with it certain reporting requirements for the Department of Education & Early Development to the 22nd Alaska State Legislature by January 15, 2001. This report responds to the requirement under Section 47 that the department review *Funding Communities* versus *School* adjustments in the public school funding formula. In addition, a letter of intent adopted by the legislature provided further direction to the department in completing the required reports. This report will highlight key components and adjustments within Alaska's public school funding formula and illustrate the application of these components and adjustments from the previous funding *community* based formula to the current *school* based funding formula.

For the past 20 years, Alaska’s public school funding formula has historically contained four major adjustments to the formula. These same adjustments can be found in most public school funding formulas in the nation. These adjustments include:

1. sparseness and size of student population;
2. special needs or categorical funding;
3. regional cost differences;
4. equalization; and
5. supplemental funding floor.

Fiscal year 1999 was the first year of implementation of Senate Bill 36 and distribution of public school funding based on the new school based funding formula. Table 1 provides a comparison of the prior community based funding formula and the current school based funding formula using the same fiscal year 1999 data set. This comparison required the conversion from instructional units under the old community formula to per student units under the newly adopted school formula. Fiscal year 1999 is the only year school district state aid was calculated using the old and new formula. This comparison was required for the first year of implementation to determine the supplemental funding floor for the school districts that needed additional funding to help transition to the new formula.

The department has analyzed each of these adjustments and compared their use with the prior funding community formula and under the new school funding formula.

###### Sparseness and size of student population

Senate Bill 36 changed the method that the State of Alaska used to determine adjustments for sparseness and size of student population. The previous funding formula utilized a concept known as funding communities. The average daily membership of schools within a school district were grouped into funding communities and a formula was applied to determine the number of instructional units for the purpose of calculating each school district's basic need.

The McDowell Group assembled a panel of Alaskans with many years of experience in the field of education to review and make recommendations to improve the

adjustment mechanism in the public school funding formula. The group reviewed the funding community concept and its application under the instructional unit funding formula. The group determined that although the definition of funding communities was not being applied consistently across school districts, that even a consistent application would not result in an equitable distribution system of resources. The group determined that the school, not the community, is the fundamental cost center for delivering instructional services. The panel determined that adopting the school as the basis for funding would result in a more equitable allocation of instructional resources by providing comparable levels of instructional staffing in all schools regardless of district size and location. The group determined that schools of similar size should receive similar resources for staffing regardless of location.

Table 2 shows the change in the distribution of resources from the funding community concept model to the school model that was adopted by the legislature under Senate Bill 36. This comparison does not include other adjustments due to changes in district cost factor or special needs funding. As shown in Table 1, the range of change is an increase of 15.8% for the Alyeska Central School to –36.8% for the Aleutian Region School District by the elimination of the funding community concept and basing the allocations on the number of students at each school. The school district with the largest increase was Petersburg at 11.2%.

It should be noted that the McDowell Group review panel did not suggest that any school districts were over funded under the previous funding community model rather some districts appeared to be under funded under the school funding model. Table 3 shows the change in dollars per student under the new formula as compared to the old formula. This table shows that under the old formula for the first 10 to 20 students, the allocation remains the same at $12,200 per student. This flat level of funding for the first group of 20 students was to provide funding for fixed cost associated with operating a school facility. The change in funding on a per student basis gradually decreases after the first 20 students to accommodate for economies of scale, while the new formula provides a larger allocation initially for the fist 10 students, it decreases to below $8,000 per student by the time you reach 20 students. Table 4 demonstrates the reduction in resources being allocated to small schools serving less than 100 students.

Another issue that contributes to the change in funding is the number of items that receive adjustment. For example in FY 99, using the funding community model there were 267 funding communities that received the adjustment for size while with the per school model there were 499 adjustments for size. Of the 499 adjustments for schools there were 143 schools serving less than 100 students. Table 5 shows the number of funding communities compared to the number of schools by district and the number of schools serving less than 100 students by school district.

The funding community formula had a hold harmless provision for school districts that experienced a 10% drop in K-12 instructional units from one year to the next. The year before the school district experienced a decrease in K-12 instructional units by 10% or more became the base year. In addition to its current K-12 instructional units a school district was awarded in the first year of decline, 75% of the difference from the base year, in the second year 50% of the difference between the current year and the base year, and in the third year 25% of the difference between the current year and the base year.

###### Special needs or categorical funding

Categorical funding for special education, gifted and talented education, vocational education and bilingual/bicultural educational programs changed from the funding community model to the school funding model. The funding community model provided resource allocations to school districts based on the numbers of students and the types of special need services provided to each student. The program adjustments were based on the average cost of providing various levels of service within each of the program areas. For example, special education provided four adjustments ranging from $1,525 for each student identified as gifted and talented to $20,300 for each student identified as requiring special education intensive services. Bilingual/bicultural educational programs had three levels of adjustments for the various types of services that students were identified as needing and vocational education had one adjustment for each student identified as enrolled in a vocational program course.

With the passage of Senate Bill 36, and the implementation of the school based funding formula, the legislature approved a block funding approach for allocating resources for special need programs. The school funding model provides an increased adjustment of 20% to the districts' average daily membership after it has been adjusted for school size and district cost factor. The 20% increase is intended to allocate resources for special education, gifted and talented education, vocational education and bilingual/bicultural educational programs. This change has resulted in an increased allocation for categorical programs of approximately $13 million dollars under the school funding model over the funding community model. It is important to understand that although there are additional resources allocated for special needs programs under both funding models, school districts are not required to expend these funds on special needs programs. In other words, the funds are discretionary and local school boards have the responsibility to determine the appropriate expenditures for these funds.

###### Regional cost differences

Senate Bill 36 continues to provide an adjustment for regional cost differences. The McDowell Group report defined these costs as "District Cost Factors." The District Cost Factors differ from the previous Area Cost Differentials in how they were derived. There is also a slight change in the way they are applied in the two funding formulas. The previous Area Cost Differentials were applied to all instructional units which included the K-12 and categorical units. The current District Cost Factors are applied to the student counts at the point they have been adjusted for school size and carry through to the 20% special needs adjustment. The District Cost Factors are not applied to the adjustments for students requiring intensive services or correspondence program counts.

The previous Area Cost Differentials were calculated using a market basket approach measuring the differences in items such as fuel and utilities between districts. The current District Cost Factors were calculated using school district audited financial data and reflect the per student district operating cost, compared to per student statewide operating costs, as well as other adjustments. The District Cost Factors represent the cost of goods, numbers of students, dispersion of schools, cost of travel, and other factors that affect district operational costs. Because the District Cost Factors reflect factors other than the price of goods, neighboring districts will not necessarily have similar cost factors.

Senate Bill 36 requires the department to review the District Cost Factors and recommend changes to the legislature every other year beginning January 2001. The department intends to employ the McDowell Group methodology in order to update the current District Cost Factors. The first report on the District Cost Factors and the results of the department's review are presented to the legislature under a separate report.

###### Equalization

The funding community and the school models both make adjustments for instructional units or average daily membership then apply dollars to the base to arrive at Basic Need. Basic Need is the starting point of the equalization formula and provides all districts with needed resources based on the various formula adjustments. Funding components of Basic Need include required local effort, federal impact aid, and state aid. These three components determine the shares of local, federal, and state resources that make up Basic Need.

The State of Alaska must meet a federal equalization test known as the "disparity test" in order to consider federal impact aid dollars in the public school funding formula. The disparity test measures the amount of revenue per student among the 53 school districts. The federal law limits the per student wealth between districts to 25%. The wealthiest district in the state is not allowed to have more than a 25% increased per pupil revenue over the poorest district in the state. The state maintains

this standard by placing a cap on local contributions that exceed the required local effort. The state imposed cap on excess local contributions is equal to 23% of the districts' basic need. Again, all districts are considered equal at basic need so by placing a cap on excess local revenues equal to 23% of the districts' basic need, the state will continue to meet the federal equalization standard of 25%.

###### Supplemental funding floor

The supplemental funding floor is a mechanism to assist school districts in the transition from the funding community based formula to the school formula. In the first year of the new formula, districts that qualified for more state aid under the funding community formula than they did under the new school formula were allocated transition funding called the "Supplemental Funding Floor."

For example, under the funding community formula a district may have qualified for $10,000 per student but under the new school formula calculation, will qualify for $9,000 per student. Using the supplemental funding floor, under the school formula the district was allocated $9,000 per student plus an addition $1,000 per student as a supplemental funding floor to ease the transition to the new funding level. As the school districts' student population changes, the $1,000 per student of supplemental funding floor will erode. The erosion of the supplemental funding floor will eventually bring the school districts' per student allocation down to a total of $9,000 per student as determined by the new school funding formula.

This transitional provision differs substantially from other transitional or hold harmless clauses previously used when the funding formula was modified. Previous transition language required a school district to adjust to its new funding level in a three-year period. The supplemental funding floor only erodes due to changes in the district student population providing a much more gradual change to the new funding level.

School districts qualified for a total of $17.4 million dollars in supplemental funding floor in fiscal year 1999. As the supplemental funding floor erodes, the money is lost from the funding formula. This means the public school funding formula will have $17.4 million less in state support once the supplemental funding floor is completely eroded.

###### Recommendations

The department recommends the repeal of AS 14.17.490(d), erosion of the supplemental funding floor.

The department recommends that AS 14.17 be amended to include a hold harmless provision for school districts that experience a decrease in student enrollment of 10% or more from one year to the next.

|  |  |  |
| --- | --- | --- |
| Alaska Department of Education and Early Development |  |  |
| Public School Funding Formula |  |  |  |
| Funding Community versus Per School Funding FY 99 |  |  |
| **Table 1** |   |  |  |
|  **Factors**  |  **PriorFunding CommunityFormula**  |  **SB36Per SchoolFormula**  |  **Change**  |
| **Size Adjustment**Including correspondence programs | 614,147,116  | 606,662,800  |  (7,484,316) |
| **Categorical Programs**Special Ed., Gifted and Talented,Vocational and Bilingual/Bicultural | 131,352,520  | 44,362,544  | 13,010,024  |
| **District Cost Factors** | 63,619,950  | 71,898,973  | 8,279,023  |
| **Basic Need** | 809,119,586  | 822,924,317  | 13,804,731  |
| **Required Local** |  (136,790,501) |  (140,608,152) |  (3,817,651) |
| **Impact Aid** |  (43,363,354) |  (41,830,973) | 1,532,381  |
| **FY99 Cap on Increases @ 60%** | -  |  (9,070,746) |  (9,070,746) |
| **Military Impact Aid and Contracts** | 24,592,406  | 24,592,406  | -  |
| **State Aid** | 653,558,137  | 656,006,852  | 2,448,715  |
| **REAA Supplemental Funding** | 1,256,335  | -  |  (1,256,335) |
| **Quality School Grants** | -  | 3,341,825  | 3,341,825  |
| **Supplemental Funding Floor** | -  | 17,379,523  | 17,379,523  |
| **Total State Aid** | 654,814,472  | 676,728,200  | 21,913,728  |

|  |  |  |
| --- | --- | --- |
| Alaska Department of Education & Early Development |  |  |
| Changes K-12 adjustments from funding communities to per school model FY 99Prepared 11-10-2001 |
| **Table 2** |  |  |  |  |
| Factors |  Old FormulaFundingCommunities  |  New FormulaPer School  | Difference | PercentageChange |
| Alaska Gateway | 3,656,340  | 3,154,640  |  (501,700) | -13.7% |
| Aleutian Region | 740,540  | 468,072  |  (272,468) | -36.8% |
| Aleutians East | 2,475,990  | 2,149,432  |  (326,558) | -13.2% |
| Anchorage | 197,508,240  | 203,848,863  | 6,340,623  | 3.2% |
| Annette Island | 1,810,480  | 1,953,643  | 143,163  | 7.9% |
| Bering Strait | 12,261,000  | 11,122,730  |  (1,138,270) | -9.3% |
| Bristol Bay | 1,690,310  | 1,777,566  | 87,256  | 5.2% |
| Chatham | 2,144,760  | 1,927,251  |  (217,509) | -10.1% |
| Chugach | 1,409,100  | 892,410  |  (516,690) | -36.7% |
| Copper River | 4,381,020  | 4,072,806  |  (308,214) | -7.0% |
| Cordova | 2,388,760  | 2,519,426  | 130,666  | 5.5% |
| Craig | 2,124,630  | 2,268,376  | 143,746  | 6.8% |
| Delta/Greely | 5,059,950  | 5,080,161  | 20,211  | 0.4% |
| Denali | 2,410,720  | 2,215,647  |  (195,073) | -8.1% |
| Dillingham | 2,651,670  | 2,741,495  | 89,825  | 3.4% |
| Fairbanks | 67,542,860  | 68,352,636  | 809,776  | 1.2% |
| Galena | 13,368,150  | 10,844,692  |  (2,523,458) | -18.9% |
| Haines | 2,319,220  | 2,335,041  | 15,821  | 0.7% |
| Hoonah | 1,304,790  | 1,372,615  | 67,825  | 5.2% |
| Hydaburg | 805,810  | 736,169  |  (69,641) | -8.6% |
| Iditarod | 4,152,270  | 3,125,888  |  (1,026,382) | -24.7% |
| Juneau | 23,771,090  | 24,084,720  | 313,630  | 1.3% |
| Kake | 1,121,790  | 1,147,194  | 25,404  | 2.3% |
| Kashunamiut | 1,500,600  | 1,591,839  | 91,239  | 6.1% |
| Kenai Peninsula | 49,004,960  | 48,661,963  |  (342,997) | -0.7% |
| Ketchikan | 11,558,890  | 12,155,735  | 596,845  | 5.2% |
| Klawock | 1,199,870  | 1,213,993  | 14,123  | 1.2% |
| Kodiak Island | 13,451,110  | 13,428,860  |  (22,250) | -0.2% |
| Kuspuk | 3,847,270  | 3,168,793  |  (678,477) | -17.6% |
| Lake & Peninsula | 5,302,730  | 3,948,231  |  (1,354,499) | -25.5% |
| Lower Kuskokwim | 21,763,580  | 20,242,022  |  (1,521,558) | -7.0% |
| Lower Yukon | 11,325,870  | 11,190,132  |  (135,738) | -1.2% |
| Mat-Su | 57,596,810  | 55,059,952  |  (2,536,858) | -4.4% |
| Nenana | 2,220,400  | 1,732,576  |  (487,824) | -22.0% |
| Nome | 3,567,280  | 3,610,291  | 43,011  | 1.2% |
| North Slope | 11,112,370  | 10,882,926  |  (229,444) | -2.1% |
| Northwest Arctic | 12,067,020  | 11,721,480  |  (345,540) | -2.9% |
| Pelican | 334,890  | 218,575  |  (116,315) | -34.7% |
| Petersburg | 3,439,180  | 3,825,064  | 385,884  | 11.2% |
| Pribilof | 1,216,340  | 1,055,234  |  (161,106) | -13.3% |
| Sitka | 7,316,950  | 7,714,756  | 397,806  | 5.4% |
| Skagway | 888,770  | 831,553  |  (57,217) | -6.4% |
| Southeast Island | 3,119,540  | 2,152,677  |  (966,863) | -31.0% |
| Southwest Region | 5,347,260  | 5,027,109  |  (320,151) | -6.0% |
| St. Mary's | 894,260  | 836,060  |  (58,200) | -6.5% |
| Tanana | 772,870  | 689,855  |  (83,015) | -10.7% |
| Unalaska | 1,801,940  | 1,944,260  | 142,320  | 7.9% |
| Valdez | 3,837,510  | 4,178,380  | 340,870  | 8.9% |
| Wrangell | 2,526,620  | 2,671,443  | 144,823  | 5.7% |
| Yakutat | 1,138,870  | 1,040,318  |  (98,552) | -8.7% |
| Yukon Flats | 3,625,230  | 2,554,020  |  (1,071,210) | -29.6% |
| Yukon/Koyukuk | 4,668,330  | 3,772,625  |  (895,705) | -19.2% |
| Yupiit | 2,723,650  | 2,595,178  |  (128,472) | -4.7% |
| ACS | 6,259,546  | 7,250,037  | 990,492  | 15.8% |
| Mt. Edgecumbe | 1,617,110  | 1,505,390  | 111,720) | -6.9% |
| TOTAL | $614,147,116  | $606,662,800  | ($7,484,316) |   |

g:/Ejeans/Reports/FoundationProgram/ADMPerKidCostTable.xls

g:/Ejeans/Reports/FoundationProgram/ADMPerKidCostTable.xls

 **Table 5 1999 OLD versus NEW ADM**

|  |  |  |  |
| --- | --- | --- | --- |
| **DISTRICT** | **# OF FUNDING COMM.** | **# OF SCHOOLS FOR ADJUST.** | **# OF SCHOOLS LESS THAN 100 ADM** |
| ALASKA GATEWAY | 7 | 8 | 6 |
| ALEUTIANS EAST | 6 | 3 | 3 |
| ALEUTIAN REGION | 3 | 8 | 4 |
| ANCHORAGE | 4 | 84 | 0 |
| ANNETTE ISLANDS | 1 | 2 | 0 |
| BERING STRAIT | 15 | 22 | 8 |
| BRISTOL BAY | 2 | 3 | 1 |
| CHATHAM  | 5 | 6 | 4 |
| CHUGACH  | 3 | 3 | 3 |
| COPPER RIVER | 7 | 9 | 5 |
| CORDOVA | 1 | 2 | 0 |
| CRAIG  | 1 | 2 | 0 |
| DELTA/GREELY | 2 | 4 | 1 |
| DENALI | 3 | 4 | 2 |
| DILLINGHAM | 1 | 2 | 0 |
| FAIRBANKS  | 5 | 28 | 0 |
| GALENA | 1 | 2 | 0 |
| HAINES  | 2 | 2 | 0 |
| HOONAH  | 1 | 2 | 0 |
| HYDABURG | 1 | 2 | 0 |
| IDITAROD  | 9 | 9 | 7 |
| JUNEAU | 1 | 11 | 0 |
| KAKE | 1 | 2 | 0 |
| KASHUNAMIUT | 1 | 2 | 0 |
| KENAI  | 21 | 39 | 9 |
| KETCHIKAN  | 1 | 6 | 0 |
| KLAWOCK | 1 | 2 | 0 |
| KODIAK | 9 | 13 | 7 |
| KUSPUK  | 8 | 9 | 8 |
| LAKE AND PENINSULA | 15 | 15 | 15 |
| LOWER KUSKOKWIM | 23 | 34 | 13 |
| LOWER YUKON  | 11 | 19 | 3 |
| MAT-SU | 15 | 29 | 6 |
| NENANA | 1 | 2 | 0 |
| NOME | 1 | 2 | 0 |
| NORTH SLOPE | 8 | 13 | 4 |
| NORTHWEST ARCTIC | 11 | 19 | 3 |
| PELICAN  | 1 | 1 | 1 |
| PETERSBURG | 1 | 3 | 0 |
| PRIBILOF | 2 | 3 | 1 |
| SITKA  | 1 | 4 | 0 |
| SKAGWAY | 1 | 2 | 0 |
| SOUTHEAST | 11 | 9 | 7 |
| SOUTHWEST  | 9 | 12 | 6 |
| ST. MARY'S | 1 | 2 | 0 |
| TANANA | 1 | 2 | 0 |
| UNALASKA | 1 | 2 | 0 |
| VALDEZ | 1 | 3 | 0 |
| WRANGELL | 1 | 2 | 0 |
| YAKUTAT | 2 | 2 | 0 |
| YUKON FLATS | 11 | 10 | 7 |
| YUKON/KOYUKUK | 10 | 11 | 9 |
| YUPIIT | 3 | 6 | 0 |
| ALYESKA CORRES\*  | 1 | 0 | 0 |
| Mt. EDGECUMBE | 1 | 1 | 0 |
| **TOTALS** | **267** | **499** | **143** |

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TAB 3

**Educational Adequacy**

### Education Adequacy

The passage of Senate Bill 36, Ch. 83, SLA 1998, included specific reporting requirements for the Department of Education & Early Development to the 22nd Alaska State Legislature by January 15, 2001. This report responds to the requirement to prepare a review of *educational adequacy* in the schools of Alaska.

There has been significant effort in implementing the new formula, developing regulations, and working with districts to improve the quality and comparability of financial data. The department has worked with school districts to meet the minimum expenditure on instruction requirement and to improve the school districts' uniform chart of accounts for collecting expenditure data.

The Department of Education & Early Development convened a broad-based group of Alaskans concerned with public education to address the issue of educational adequacy in Alaska. Participants included representatives from the Alaska Parent-Teachers Association (PTA), NEA-Alaska, Alaska Association of School Boards, Alaska Association of School Administrators, Alaska Association of School Business Officials, and Alaska Municipal League.

The group deliberated for two-and-one-half-days and reached agreement on the definition, data needs, and methodology to be used in measuring educational adequacy. The group defined educational adequacy as:

An adequate education shall provide all students opportunities to acquire the *knowledge and skills* necessary to prepare them to take a productive role in society.

The school finance system must provide sufficient revenues to assure all students meet or exceed Alaska performance standards in all areas.

These are the necessary components of an adequate education:

1. Students are exposed to locally adopted curricula that meet or exceed Alaska State Standards in English/Language Arts, Mathematics, Science, Geography, Government and Citizenship, History, Skills for a Healthy Life, Arts, World Languages, Technology, Employability and Library/Information Literacy.
2. Students are taught by qualified educators who are provided the time and support for professional development.
3. Students learn in a safe environment.
4. Facilities are well maintained.
5. Students have theirdiverse learning needs met.
6. There are effective partnerships between schools, families, and the community.
7. School buildings support appropriate technology for programs.
8. All students are given age-appropriate opportunities to participate in all aspects of school life including all student activities.

Although the decisions of this group were reached independently, they are consistent with decisions of educational policy makers across the nation in terms of defining educational adequacy and identifying the conditions necessary to accomplish it. An important item to note is that the group identified that the **educational adequacy of the public school funding formula must be measured against the base student allocation set in Alaska Statute 14.17.470.**

The department considered the suggested data needs identified in the report and has provided some general statewide statistics that demonstrate the changes that have occurred in education funding over the past ten years. *(See attached Bullet Sheet.)* The department also focused on changes to the Anchorage School District because Anchorage is considered the base by which all other school district adjustments in the foundation formula are measured from. Anchorage is considered the base because of its large and dense student population and because it is a main distribution center for many Alaska communities.

The Anchorage School District provided the department with statistics that illustrate the changes that have occurred over the past ten years on a per student basis. The information clearly demonstrates that the district has increased per-pupil expenses, but state aid has increased as well. The increase in state aid is due mainly to enrollment increases that have occurred in the past ten years. In addition to the statistics, the Anchorage School District provided information on the state and federal changes to the bilingual and special education programs. They provide an in‑depth discussion of how those program costs have escalated over the past ten years. Copies of the reports from the educational adequacy retreat and the information provided by the Anchorage School District are attached to this report as appendixes.

##### Accountability

The Alaska legislature is requiring that the department and school districts be accountable for the funding it receives. In SB 36, the legislature added a requirement that districts spend 70% of their school operating funds on instructional services. In addition, the legislature directed the department to collect more uniform and detailed financial data from school districts. The department and school districts have responded to both of these directives.

The department has worked with school districts to develop a revised chart of accounts that clarifies code descriptions with new required codes to provide more accurate and detailed expenditure reporting. The State Board of Education & Early Development adopted the revised chart of accounts at its December 8, 2000 meeting. The new chart of accounts becomes effective July 1, 2001.

The department has also been working with school districts in meeting the 70% instructional requirement. Districts that cannot meet the new requirement may apply to the state board for a waiver. The waiver request must demonstrate that there are costs beyond the control of the school district as justification for their waiver.

In response to legislative concerns over how much school districts are spending on administrative expenses, districts have been reducing costs over the past ten years. In FY1990, school districts were spending $618 per student or 8.5% of the school operating fund on district administrative services. By FY2000, school districts were spending $469 per student or 5.9% of the school operating fund on district administrative services. This represents a 2.6% reduction in school operating fund expenses on district administrative services.

In addition to the previous two requirements, SB 36 required the department to develop an assessment system to measure student performance. The tests are based on Alaska standards in reading, writing, and math and are given at grades 3, 6, 8, and the high school qualifying exam is administered for the first time to sophomores in high school. High school students are allowed to take the high school qualifying exam twice a year and for two additional years after they have completed other high school graduation requirements.

The results of the assessments given to students in grades 3, 6, and 8 will assist the department and school districts in identifying areas of weakness within the educational delivery system and develop action plans or strategies to assist students to improve performance.

School districts are utilizing the Quality Schools Grant funds, a component of the school funding formula, to develop intervention strategies and remedial programs. Currently, school districts are using these grant funds for activities such as focus programs for reading, writing, math, summer school, extended days, tutors, and additional staff.

##### Foundation Formula

The money distributed through the foundation funding formula provides Alaska school districts with the majority of the state’s contribution to K-12 education. The funding formula allocates resources for general operations, routine maintenance, and operations of school facilities. General operations include: staff salaries and benefits, teaching supplies, textbooks, communications, contracted services, school, and district administrative services. Operations of school facilities include: custodial and maintenance staff salaries and benefits, utilities, and other expense associated with routine maintenance to operate school facilities.

The foundation program funding has increased from FY1990 to FY2000 mainly due to enrollment growth. From FY1990 to FY2000 enrollment increased 25%. The legislature has continued to fully fund enrollment increases during the 1990’s. Each $100 increase in the base student allocation set in Alaska Statute 14.17.470 requires approximately $21 million in additional state support.

The foundation funding formula program base has been increased twice during this ten‑year period. Once, in FY93 by 1.7% or approximately $12 million, and again in FY99 by 3.3% or approximately $21 million. The combined total of the two increases is 5% or approximately $33 million in ten years. In FY90, basic need was about $625 and FY2000 basic need was about $816, an increase of almost 31%. This increase was due to the combination of the 25% increase in enrollment and the combined increased funding of 5% for FY93 and FY99.

Federal impact aid has also increased approximately 26% from FY90 to FY2000. Federal impact aid funds increased from $73 million in FY90 to almost $92 million in FY2000. The number of students being served drives the Public School Funding Formula and the Federal Impact Aid Program. Because enrollment increased by 25% from FY90 to FY2000, both programs increased resource allocations by approximately the same percentages, excluding the 5% increase in the foundation formula base.

However, this is not true for local contributions to schools. The required local contribution to the schools is based strictly on the value of the property within the municipality and not the number of students being served. During this same ten‑year period, required local effort increased from $105 million to $144 million. This represents an increase in required local effort of almost 37% or $39 million. More importantly is how local municipalities responded with additional local contributions to schools from FY90 to FY2000. Actual local contributions to schools increased by 55% or $98 million. Municipalities increased their contribution by $59 million more than the formula required, in essence offsetting a portion of inflation while the state and federal governments were covering enrollment growth.

Municipalities have responded to the legislature's desire for accountability and participation by providing increased local contribution over the amount required by the foundation funding formula over the last ten years.

Another example of shifting the financial burden to municipalities is to look at the proportion of state aid to other revenues. The department looked at the school operating revenues for the Anchorage School District for FY90 and FY2000.

In FY90, the state applied for impact aid for the Anchorage military students then paid Anchorage state tuition for those students. Beginning in FY94, the state discontinued the tuition payments and started allocating the impact aid it received directly to the Anchorage School District. For the purpose of this comparison, the FY90 state tuition payments or approximately $6.2 million was reclassified as federal impact aid funds. With this adjustment, federal impact aid accounted for approximately 3.5% of the school operating fund revenues for both FY90 and FY2000.

Impact aid aside, the major change in revenues occurred between the state foundation program and the local revenue support for education. In FY90, the municipal appropriation to schools in Anchorage was approximately $62.2 million. In FY2000, the municipal appropriation to schools in Anchorage was approximately $97.5 million, almost a 57% increase for the ten‑year period. While state foundation aid in FY90 was approximately $145.6 million and in FY2000 was $198.6 million, an increase of almost 36%.

If the state were to match the local contribution effort of the Anchorage municipality, state foundation aid would have been almost $228.6 million in FY2000. This would represent a $30 million increase in state foundation aid to the Anchorage School District. To accommodate the $30 million increase for Anchorage, the current base student allocation of $3,940 would have to be increased by $456 to $4,396. The estimated total cost for increasing the base student allocation to $4,396 statewide in FY2000 would have been approximately $95.2 million.

In FY2001, the state foundation formula required $19.2 million less in state support over the previous year. This decreased effort was due to three factors; declining enrollment, increased required local effort, and increased federal impact aid. The

FY2002 budget will require $10.5 million less than the FY2001 foundation formula budget due to increases in required local contribution and federal impact aid funds for a drop in state aid for education of approximately $29.7 million for the two years. However, the legislature did approve a one-time appropriation in FY2001 of $6.2 million for Learning Opportunity Grants.

##### Teachers

Recruitment of qualified and experienced teachers continues to become more difficult in Alaska as it is for much of the United States. Many states and outside school districts offer incentives as: signing bonus, down payment on a home, mortgage subsidy, and student loan repayment programs. *(See examples of teacher incentives offered in other states.)* These are examples of the recruiting techniques used beyond the annual salary to entice teachers to sign contracts. Due to limited resources, Alaska school districts continue to struggle to be competitive with other states and outside school districts when recruiting teachers.

From FY99 to FY2000 the average teacher salary in Alaska increased less than 1%. This reflects the smallest increase in average teacher salary in the nation from FY99 to FY2000. For the ten‑year period from FY90 to FY2000, the average teacher salary stated in constant dollars decreased 11.7% and is the largest decrease in the nation for this time period. *(See National Education Association attachment.)*

Demand for teachers in Alaska has already exceeded supply, leaving unfilled positions across the state in math, special education, and speech pathology. For the 1999-2000 school year, 1,335 new teachers were hired in Alaska. On the first day of school 84 teaching positions were still unfilled, and some remained unfilled for up to two months. Districts report that they are scraping the bottom of the barrel, forced to hire unqualified teachers on emergency certificates, and teachers with minimal paper qualifications who are unsuitable for the positions.

The amount of state support through the foundation program impacts the level of wages, benefits, and incentives that school districts can offer to recruit and retain teachers. State support through the foundation program has remained relatively flat in current dollars for ten years, but when stated in constant dollars to reflect inflation it has actually decreased. Alaska school districts have had to hold the line when negotiating new salaries and benefits with its certified and non-certified staff.

As recently as 1989 Alaska was reported to have the highest average teacher salaries in the nation. According to the NEA, Alaska’s average teacher salary in 1989 was $42,818. In 1999, Alaska is reported to have slipped to number eight in the nation with an average teacher salary of $48,085. The average teacher salary in Alaska has increased about 12.3% for the past ten-years, but when stated in constant dollars to reflect inflation it has decreased by approximately 11.7%.

As discussed in the foundation formula section of this report, the state foundation formula was increased approximately 5% in current dollars excluding increases for enrollment growth. This means the additional 7.3% increase in current dollars has come through additional local contributions and increased designated grants. Municipalities continue to increase local contributions and school districts continue to apply for and receive supplemental grants from other sources. These are more examples of municipalities and school districts being accountable to the state legislature by seeking and securing supplemental resources.

##### Inflation

The foundation program statute does not have an inflationary adjustment for the base student allocation of $3,940. To place an inflationary adjustment in Alaska Statute 14.17 would not bind future legislatures. The legislature would continue to have the power to determine the appropriate level of funding each fiscal year. The inflationary adjustment would amend the base student allocation that is used to calculate school district entitlements under the foundation funding formula.

The consumer price index for Anchorage has risen approximately 30% from 1990 to 1999. The January-to-January index rose 29.57% and the July-to-July index rose 30.7% in ten years. Between 1990 and 1999, the legislature has increased the base foundation funding formula approximately 5%. Many school districts have had to absorb the effects of the additional 25% of inflation. Many municipalities have increased the local contribution to offset the effects.

Increasing the base student allotment by the additional 25% inflation factor would result in an increase of $985, or a revised student allotment of $4,925. If the base student allotment were $4,925, overall state foundation aid would increase by more than $200 million.

The FY2002 foundation program budget request is $665 million to educate an estimated 133,300 children statewide. In FY2001, Alaska spent $664 million to inflation proof the permanent fund. It is estimated in FY2002 Alaska will spend $714 million to inflation proof the permanent fund. In FY2002, Alaska will spend approximately 7.4% or $49 million dollars more to inflation proof the permanent fund than it will spend on the state’s 133,300 children’s K-12 education.

##### Facilities

In 1990, the average age of a school facility was 19 years and in 2000, the average is 26. With the increasing age of school facilities one would expect the annual operating and routine maintenance cost to increase. In FY1990, school districts were spending a statewide average of $1,266 per student for facility operations and maintenance and in FY2000, only $1,244 was spent.

In FY1998, the legislature passed a law requiring all school districts to have a preventative maintenance plan in place by July 1, 1999 in order to be eligible for state funding for school construction or major maintenance projects. The plan must include documented evidence of a maintenance management program, energy management, custodial care program, training program for staff and a renewal and replacement schedules for the electrical, mechanical, structural and other components of the facility. While the preventative maintenance plan is necessary to protect the state’s interest in school construction projects, there was no new money provided to assist districts in meeting these new reporting requirements. School districts are forced to use existing resources to meet the new reporting requirements.

##### Conclusion

The Alaska state legislature has required increased accountability for the funds it appropriates for K-12 education before it considers increases to the foundation formula program. This report has identified many areas in which the department, school districts, and municipalities have responded.

School districts have held the line when negotiating contracts with staff and reduced administrative expenditures. Local municipalities have increased local contributions above the amounts required in law to support local schools. The department has implemented new laws and regulations that have improved school district reporting and accountability. The department has implemented the statewide assessment system to demonstrate how well children are learning, and to identify weaknesses with the current delivery model.

The burden of financing the educational system in Alaska has been shifting from the state to local governments over the last ten years. Inflation has eroded school districts' purchasing power for supplies, operational cost, and their ability to recruit and retain qualified teachers.

##### Recommendations

Based on the adequacy group’s work and the department’s analysis, the department recommends that changes be made to the public school funding formula to recoup losses due to inflation and to provide for future inflationary adjustments. These recommendations and others included in Tab 1 and 2 will be forwarded to the governor’s education funding task force. The task force recommendations are due to the governor and the State Board of Education & Early Development on February 1, 2001.

Educational Adequacy Retreat

August 2-4, 2000 Anchorage, Alaska FINAL REPORT

##### EDUCATIONAL ADEQUACY

###### Background

The passage of SB 36 carried with it certain reporting requirements for the Department of Education and Early Development to the Alaska State Legislature. A letter of intent was adopted by the legislature and approved by the Governor directing the department to include as one of the reports a review of *educational adequacy* in the schools of Alaska. It is recommended that the department use this document as framework in preparing the final educational adequacy report. The final report is due to the legislature by January 15, 2001.

In early August of 2000, Commissioner of Education & Early Development Richard S. Cross convened a broad-based group of Alaskans concerned with public education to address the issue of educational adequacy in Alaska. Participants included representatives from the Alaska Parent-Teachers Association (PTA), NEA-Alaska, Alaska Association of School Boards, Alaska Association of School Administrators, Alaska Association of School Business Officials, and Alaska Municipal League.

The group deliberated for two-and-one-half-days and reached agreement on the definition, data needs, and methodology to be used in measuring educational adequacy. Although the decisions of this group were reached independently, they are consistent with decisions of educational policy makers across the nation in terms of defining educational adequacy and identifying the conditions necessary to accomplish it. An important item to note is that, the group identified that the **educational adequacy of the public school funding formula must be measured against the base student allocation set in Alaska Statute 14.17.470.**

**AS 14.17.470. Base student allocation.** The base student allocation is $3,940.

**EDUCATIONAL ADEQUACY**

###### Definition

An adequate education shall provide all students opportunities to acquire the *knowledge and skills* necessary to prepare them to take a productive role in society.

The school finance system must provide sufficient revenues to assure all students meet or exceed Alaska performance standards in all areas.

These are the necessary components of an adequate education:

1. Students are exposed to locally adopted curricula that meet or exceed Alaska State Standards in English/Language Arts, Mathematics, Science, Geography, Government and Citzenship, History, Skills for a Healthy Life, Arts, World Languages, Technology, Employability and Library/Information Literacy.
2. Students are taught by qualified educators who are provided the time and support for professional development.
3. Students learn in a safe environment.
4. Facilities are well maintained.
5. Students have their diverse learning needs met.
6. There are effective partnerships between schools, families, and the community.
7. School buildings support appropriate technology for programs.
8. All students are given age-appropriate opportunities to participate in all aspects of school life including all student activities.

###### Data Needs

See Appendix A for data definitions.

I.

A. Achievement information based on standards and related costs:

* + Quality Staff
	+ Curriculum
1. Information regarding the financial impact of:
	1. Loss of Buying Power
	2. Special Needs
	3. Facilities
	4. Violence/Social Issues
	5. Staffing

**EDUCATIONAL ADEQUACY**

###### Methodology

1. Measurable standards for student achievement have been set by the State of Alaska to meet the higher expectations of the public. “Making the connection between school dollars and student achievement is the principal school finance challenge of the next century.”1
2. To meet that challenge, we must identify and reflect on the changes that have occurred over the last 10 years.
	1. The basic amount of school funding per student has not changed since 1993.
	2. Inflation has eroded buying power.
	3. New requirements have been added without the dollars to cover their costs.
	4. Societal changes such as concerns for student safety and changing demographics have impacted schools.

1 Source, *20/20 Vision, a Strategy for Doubling America’s Achievement by the Year 2020, The Consortium on Renewing Education, November 1998*.

**EDUCATIONAL ADEQUACY**

##### Appendix A

###### Data Definitions

**Quality Staff** – Discussion and information related to years of experience including relevant training and appropriate licensure of teaching staff.

**Curriculum** – Discussion of course offerings.

**Loss of Buying Power** – The purchasing power of the dollar when adjusted for inflation.

**Special Needs** – Changes in school districts' revenues and expenditures for categorical programs such as special education, gifted and talented, bilingual/bicultural, and vocational education. New requirements within these program areas.

**Facilities** – Age and condition and cost to operate school facilities in a manner that is safe and compliant with state building codes.

**Violence/Social Issues** – Discussion of new requirements on districts.

**Staffing** – Average teacher salaries, turnover rates, pupil teacher ratios, and numbers of administrative staff.

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|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Description of Item | StartingFiscal Year | Amount | (Actual)EndingFiscal Year | (Actual)Amount | (Actual)Percentage Change | Actual[3]/BudgetedEnding Fiscal Year | Actual[3]/BudgetedAmount | Actual[3]/ BudgetedPercentage Change | notes |
| **State Foundation Calculations (per ADM) [1]** |   |   |  |  |  |  |  |  |  |
| Slate Foundation Basic Need | **87/88** | **4,824.76** | **99/00** | **5,409.02** | **12.11%** | **00/01** | **0** | **-100.00%** | **[3]** |
| State Foundation Aid | **87/88** | **3,149.10** | **99/00** | **4,122.87** | **30.92%** | **00/01** | **0** | **-100.00%** | **[3]** |
| **State Supplemental Budgetary Expenditures (per ADM)** |  |  |  |  |  |  |  |  |
| Instruction (Reg., VocEd., Gifted, Bilingual) | **87/88** | **2,449.55** | **99/00** | **3,153.58** | **28.74%** | **00/01** | **3389.16** | **38.36%** |  |
| Special education instruction (Instruction. Support) | **87/88** | **589.26** | **99/00** | **972.34** | **65.01%** | **00/01** | **1037.42** | **76.05%** |  |
| Pupil support (Students. Instruction ) | **87/88** | **292.76** | **99/00** | **490.14** | **67.42%** | **00/01** | **508.5** | **73.69%** |  |
| School administration | **87/88** | **364.39** | **99/00** | **413.27** | **13.41%** | **00/01** | **417.95** | **14.70%** |  |
| District administration (Admin,., Support) | **87/88** | **364.78** | **99/00** | **296.98** | **-18.59%** | **00/01** | **271.85** | **-25.48¼** |  |
| Operation and maintenance of plant | **87/88** | **797.53** | **99/00** | **933.39** | **17.04%** | **00/01** | **915.26** | **14.76%** |  |
| Community service | **87/88** | **5.03** | **99/00** | **7.83** | **55.61%** | **00/01** | **7.78** | **54.45%** |  |
| Debt service | **87/88** | **0.00** | **99/00** | **0.78** | **#DIV/0!** | **00/01** | **0** | **#DIV/0!** |  |
| Pupil activity (Student Activities) | **87/88** | **53.75** | **99/00** | **54.66** | **1.70%** | **00/01** | **56.92** | **5.89%** |  |
| Total expenditures | **87/88** | **4,917.06** | **99/00** | **6,322.99** | **28.59%** | **00/01** | **6604.82** | **34.32%** |  |
| **CAFR GAAP Expenditures, 00/01 based on Budgetary Expenditures (per ADM)** |  |  |  |  |  |  |
| Personnel Services | **87/88** | **3,567.67** | **99/00** | **4,501.79** | **26.18%** | **00/01** | **4690.51** | **31.47%** |  |
| Employee Benefits | **87/88** | **883.94** | **99/00** | **1,166.46** | **31.96%** | **00/01** | **1235.8** | **39.81%** |  |
| Purchased Services | **87/88** | **455.06** | **99/00** | **769.31** | **69.06%** | **00/01** | **718.84** | **57.97%** |  |
| Supplies and Materials | **87/88** | **169.79** | **99/00** | **258.11** | **52.02%** | **00/01** | **228.43** | **34.S4%** |  |
| Capital Outlay | **87/88** | **36.64** | **99/00** | **102.70** | **180.28%** | **00/01** | **50.33** | **37.35%** |  |
| Other Expenses | **87/88** | **40.72** | **99/00** | **37.92** | **-6.89%** | **00/01** | **31.1** | **-23.63%** |  |
| Total | **87/88** | **5,153.82** | **99/00** | **6,836.29** | **32.65%** | **00/01** | **6955.02** | **34.95%** |  |
| **Purchased Supplies** |  |  |  |  |  |  |  |  |  |
| 6th Grade English Textbook | **92/93** | **22.44** | **00/01** | **35.88** | **59.89%** |  |  |  |  |
| Xerographic Paper, white 8.5 x 11 | **92/93** | **18.30** | **00/01** | **21.30** | **16.39%** |  |  |  |  |
| Paper, newsprint ruled, grades 1-2 | **92/93** | **3.91** | **00/01** | **5.66** | **44.76%** |  |  |  |  |
| **Students & Buildings** |  |  |  |  |  |  |  |  |  |
| ADM K-12 & Special Ed. | **87/88** | **38,734.41** | **99/00** | **48,157.22** | **24.33%** | **00/01** | **48576.00** | **25.41%** | **[3]** |
| Bilingual/Bicultural ADM Category A (Non-English) | **87/88** | **560.50** | **99/00** | **911.00** | **62.53%** |  |  |  |  |
| Bilingual\Bicultural ADM Category B (Mostly Non-English) | **87/88** | **280.50** | **99/00** | **2,319.00** | **726.74%** |  |  |  |  |
| Bilingual/Bicultural ADM Category C (Bilingual) | **87/88** | **177.00** | **99/00** | **544.00** | **207.34%** |  |  |  |  |
| Bilingual/Bicultural ADM Category D (Mostly English) | **87/88** | **271.00** | **99/00** | **457.00** | **68.63%** |  |  |  |  |
| Bilingual/ Bicultural ADM Category E (English/slight foreign) | **87/88** | **349.50** | **99/00** | **115.00** | **-67.10%** |  |  |  |  |
| Total Bilingual ADM | **87/88** | **1,638.50** | **99/00** | **4,346,00** | **165.24%** | **00/01** | **5003.00** | **205.34%** | **[3]** |
| Special Education ADM Gifted  | **87/88** | **1,448.00** | **99/00** | **1,874.00** | **29.42%** | **00/01** | **2109.00** | **45.65%** | **[3]** |
| Special Education ADM Resources | **87/88** | **2,809.00** | **99/00** | **5,422.00** | **93.02%** | **00/01** | **5242.00** | **86.61%** | **[3]** |
| Special Education ADM Self-Contained  | **87/88** | **1,060.00** | **99/00** | **1,037.00** | **-2.17%** | **00/01** | **1243.00** | **17.26%** | **[3]** |
| Special Education ADM Intensive | **87/88** | **415.00** | **99/00** | **734.00** | **76 .87%** | **00/01** | **780.00** | **87.95%** | **[3]** |
| Total Special Education ADM | **87/88** | **5,732.00** | **99/00** | **9,067.00** | **58.18%** | **00/01** | **9374.00** | **63.54%** | **[3]** |
| Special Ed - Intensive + Bilingual ADM | **87/88** | **6,955.50** | **99/00** | **12,679.00** | **82.29%** | **00/01** | **13,597 .00** | **95.49%** | **[3]** |
| # of School Buildings | **87/88** | **72.00** | **99/00** | **87.00** | **20.83%** |  |  |  |  |
| **Salary History** |  |  |  |  |  |  |  |  |  |
| Average Budgeted Teacher's Salary  | **87/88** | **40,693.00** | **00/01** | **48,748.00** | **19.79%** |  |  |  |  |
| Teachers - Low | **87/88** | **23,863.00** | **00/01** | **32,600.00** | **36.61%** |  |  |  |  |
| Teachers - High  | **87/88** | **51,245.00** | **00/01** | **62,766.00** | **22.48%** |  |  |  |  |
| Bus Driver - Low | **87/88** | **9.60** | **00/01** | **11.68** | **21.67%** |  |  |  |  |
| Bus Dnver - High | **87/88** | **11.50** | **00/01** | **15.88** | **38.09%** |  |  |  |  |
| Bus Attendant - Low  | **87/88** | **7.30** | **00/01** | **8.73** | **19.59%** |  |  |  |  |
| Bus Attendant - High  | **87/88** | **9.00** | **00/01** | **13.28** | **47.56%** |  |  |  |  |
| Totem - Low | **87/88** | **7.25** | **00/01** | **10.90** | **50.34%** |  |  |  |  |
| Totem - High  | **87/88** | **11.00** | **00/01** | **17.73** | **61.18%** |  |  |  |  |
| Custodian - Low  | **87/88** | **8.00** | **00/01** | **8.99** | **12.38%** |  |  |  |  |
| Custodian - High  | **87/88** | **14.56** | **00/01** | **16.20** | **11.26%** |  |  |  |  |
| Maintenance - Low  | **87/88** | **12.38** | **00/01** | **16.20** | **30.86%** |  |  |  |  |
| Maintenance - High  | **87/88** | **18.13** | **00/01** | **23.75** | **31.00%** |  |  |  |  |
| Pnncipal - Low  | **87/88** | **52,165.00** | **00/01** | **62 ,830.00** | **20.44%** |  |  |  |  |
| Principal - High  | **87/88** | **71,470 .00** | **00/01** | **90,584.00** | **26.74%** |  |  |  |  |
| ACE - Low | **89/90** | **113.00** | **00/01** | **125.90** | **11.42%** |  |  |  |  |
| ACE - High | **89/90** | **292.68** | **00/01** | **377.51** | **28.98%** |  |  |  |  |
| **Major Medical Insurance (per eligible employee)** |  |  |  |  |  |  |  |  |  |
| Total Cost | **87/88** | **2,429.40** | **00/01** | **7,144.80** | **194.10%** |  |  |  |  |
| District Contribution | **87/88** | **2,384.00** | **00/01** | **5,121.50** | **114.83%** |  |  |  |  |
| **Utilities (per sq. foot)**  |  |  |  |  |  |  |  |  |  |
| Heat for Buildings **[2]**  | **88/89** | **0.36** | **99/00** | **0.27** | **-22.81%** | **00/01** | **0.27** | **-22.96%** |  |
| Water and Sewer | **88/89** | **0.07** | **99/00** | **0.08** | **15.29%** | **00/01** | **0.07** | **2.84%** |  |
| Electricity | **88/89** | **0.76** | **99/00** | **0.93** | **21.22%** | **00/01** | **0.94** | **22.95%** |  |
| Refuse | **88/89** | **0.09** | **99/00** | **0.10** | **13.42"/o** | **00/01** | **0.09** | **3.89%** |  |
| [1] Includes full FTE funding for Family Partnership Charter School in 1999-2000 which is not permanent. |  |  |  |  |
| [2] Contract with Aurora Gas gave ASD a 10.9% discount starting 7/1/98. It expires 6/30/01, we have been informed to expect a price increase. |  |  |
| [3] Numbers based on 2000-2001 actuals. |  |  |  |  |  |  |  |  |  |

**ANCHORAGE SCHOOL DISTRICT BILINGUAL/MULTICULTURAL EDUCATION PROGRAMS**

**MEMORANDUM**

TO: Alden Them

FROM : Maxine Hill, Supervisor .

Bilingual/Multicultural Education Programs

SUBJECT: BILINGUAL EDUCATION PROGRAM

Since 1987-88 have there been any mandates with regards to Bilingual?

October 4, 2000

Since 1987-88 there have been changes in the regulations, Alaska Education Regulations Chapter 34, which govern the provision of bilingual education in the State of Alaska. The purpose as stated in 4 AAC 34.10 is to meet the needs of students of limited English-speaking ability by providing educational opportunity to identified students through the establishment of bilingual education programs. Reauthorization of the regulations occurred during the 1998-99 school term. The reauthorization brought about many changes.

Each school district that enrolls limited-English-proficient (LEP) pupils is responsible for taking appropriate steps to develop their English-language skills and to provide them meaningful participation in the school district's academic program consistent with applicable state and federal standards (4 AAC 34.055). Meaningful participation is defined in Title VI of the Civil Rights Act of 1964 as equal educational opportunities. In assessing compliance with Title VI a twofold standard applies: (1) English language development; and (2) meaningful participation of LEP students in the district's educational program. "There is no equity of treatment merely by providing students with the same facilities, textbooks, teachers, and curriculum; for students who do not understand English are effectively foreclosed from any meaningful education." Lau v. Nichols

The District has an obligation under Title VI to implement a program of services designed to provide LEP students with equal educational opportunities. The District is expected to effectively implement the educational approach that they have adopted and are expected to provide the necessary resources to implement the program.

**What expenses have been incurred because of the new regulations?**

The change, which impacts ASD most, focuses on assessment and identification of limited-English-proficient students. Prior to the 1999-2000 school-term the District was responsible for identification and assessment of language dominance for the purpose of categorizing students in one of the five Lau categories. In this process only one instrument was used to assess oral language proficiency. Since the new regulations were adopted in the 1999-2000 school-term the assessment procedure mandates measuring English-language proficiency with respect to each student's ability to speak, read, write, and comprehend English. This has necessitated increased costs to select and purchase the appropriate and necessary assessment instruments; orient and train qualified staff to administer the assessment instruments and evaluate the results.

**Are there trends relative to the increase in budget?**

The Bilingual Education Program has been in existence in the ASD since the 1977-78 school year. Beginning with a program serving 361 students in grades K-12. · The program has grown to serving approximately 12.5 times the number of students originally served. The most recent count, September 2000, confirms 3035 students in grades K-6, and 1816 students in grades 7-12.

During the 1987-88 school-term a total of 2,265 students were served in grades K-12. These students spoke a total of 55 different languages. Student demographics have changed tremendously since that time. With the increased number of students has come an increase in the number of languages spoken by students. That number as of last year was 87 different languages. Since the 1994-95 school-term ASD has experienced an increase in the number of students from war-torn countries which include students who have been orphaned or were refugees. Students speaking 7 different languages made a dramatic increase as depicted in the chart below:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Serbo-****Croation** | **Mien** | Hmong | **Lao** | **Albanian** | **Russian** | **Total# of Languages** |
| 94/95 | 13 | 41 | 0 | 188 | 50 | 72 | 71 |
| 95/96 | 12 | 75 | 0 | 199 | 53 | 87 | 84 |
| 97/98 | 17 | 119 | 0 | 306 | 52 | 89 | 86 |
| 98/99 | 18 | 169 | 95 | 345 | 58 | 95 | 87 |
| 99/00 | 18 | 166 | 170 | 346 | 76 | 113 | 87 |

Bilingual/ESL education is organized conceptually to view the student holistically and to help students clarify options compatible with their individual goals. The evolving academic, social, and linguistic needs and potential of each student must be understood, assessed, and addressed. The program supports the English language development of students and promotes the timely acquisition of content by building on students' prior knowledge and experiences through strategic use of native languages and the learners' evolving proficiency in English. ·

In order to provide a program to meet the growing needs of the students it has been necessary to also increase the number of staff working with students.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Learning Centers** | **Elementary****Teachers** | **Tutors** | **Secondary Teachers** | **Counselors** |
| 94/95 | 7 | 7 | 66 | 10 | 0 |
| 95/96 | 7 | 7 | 76 | 14 | 0 |
| 97/98 | 12 | 10 | 90 | 16 | 2 |
| 98/99 | 11 | 10 | 98 | 23.8 | 3.7 |
| 99/00 | 14 | 12.5 | 102 | 34 | 4.7 |

Changing Student Population

The Newcomer Center opened in September of 1997 with eleven newly immigrated, non-English-speaking students. All were Spanish-speakers from only three different countries. A relatively homogenous class resulted. By January of 1998, the group had

grown to 19 students from six countries. These students spoke three languages - Spanish, Russian, and Lingala. Movement toward greater diversity had begun.

In the fall semester of 1998, the Newcomer Center served 24 students from 13 different countries; these newcomers spoke seven different languages - Spanish, Russian, Tagalog, Korean, Polish, Chichewa, and Wolof. Presently, in the spring of 1999, Newcomer Center enrollment has grown to 27 students from 14 countries. Chinese brings the current language total to eight.

All together, over lne course of the past four semesters, 53 •di fferen t students have attended the Newcomer Center, 22 in 1997-98 and 34 in 1998-99 (including three from 1997-98 who attended for a second semester). Twenty-nine attended for two semesters and 24 attended for one semester; approximately 10 of the latter group may remain in the program in the fall of 1999.

Another interesting trend parallels this increase in number and diversity. There is a steady decline in enrollees' ability to read English, as measured by the IPT - Reading assessment. At the same time, more recently enrolled newcomers lack functional literacy in their first language. In the fall of 1997, all entered with some degree of first language literacy. In the spring of 1998, three students possessed only minimal literacy in their first language. Eight students served during the 1998-99 school year could not read in their first language. This finding is particularly disturbing since first language literacy is an important indicator of academic success in English. Learning to read for the first time in a second language has proven to be especially difficult.

These demographics reveal a noticeable need for intensive English language instruction for recently immigrated, non-English-speakers in the Anchorage School District. Over the past four semesters, students served by the Newcomer Center have grown steadily in number, in linguistic complexity, and in cultural and ethnic diversity. Unfortunately, the prior academic preparation of the student group as a whole shows a decline. These factors combine to dramatically increase the difficulty of an already daunting instructional challenge.

**APPENDIX B**

3

DECISIONS AT THE STATE AND FEDERAL LEVEL THAT HAVE IMPACTED SPECIAL EDUCATION PRACTICE AND FINANCIAL EXPENDITURES FOR THE ASD SINCE 1987

Special education in the Anchorage School District has experienced many new mandated requirements, technological improvements assisting those with medical needs. and student enrollment increases since 1987. The Individuals with Disabilities Education Act (IDEA) was reauthorized in 1990 and 1997, in 1994 (OSEP) and the 9th Circuit Court supported inclusionary practice recommendations, and the state had a federal compliance audit in 1996. Each of these events put additional obligations and requirements on ASD that have increased our expenditures in the provision special education supports and services. Summarized below are the major changes in the special education program over the last 13 years. (not in order)

1. ASD must provide counseling to students certified for special education if required as pan or the student's IEP.
2. ASD must provide mobility training to students certified for special education if needed as part of the IEP.
3. In 1993 the policies and practices for the provision of students with disabilities in the least restrictive environment with a focus on the regular education class was re-emphasized. This has required the IEP team to first consider the neighborhood school for students with disabilities. The landmark case heard before the 9th Circuit in 1994-Rachel Holland vs. Sacramento School District set the floor. This has increased the number of teacher assistants, health service providers, related services staff, and special education training to all the regular education teachers.
4. The IEP meetings must include a regular education teacher. Many more substitute teachers are needed to provide classroom coverage. Staff is paid an addenda if they must stay after working hours for an IEP.
5. There is a requirement to provide special education services to students with disabilities beginning at age 3.
6. There are more partnership requirements with charter and private schools requiring more administrative and personnel time. Students with disabilities are entitled to special education services if they attend either charter or private schools.
7. New medical improvements require the district to provide both the equipment and training.
8. A Manifestation Determination meeting is required when a special education student is suspended from school for more than 10 days within a school year. The IEP team must meet and determine if the student's disability impacted their behavior and if the district was providing the appropriate supports and services for the student as designated on the IEP.
9. Students, certified for special education, not in school must receive their special education supports and services as designated on the IEP. New alternative programs for students who are expelled or on long term suspension had to be created. Students, up to age 22, who are certified for special education when last attending public schools but now reside in correctional facilities must receive special education.
10. Due to medical advances and technology more children with severe disabilities survive infancy and are attending public schools. This has lead to an increased number of students with more significant disabilities and the need for more teachers and specialists. Educational services are provided in a variety of locations to include home, hospital or school.
11. Assistive technology may be required for a student with disabilities to receive educational benefit. This may require specialized and expensive equipment and extensive training for staff and parents. This district has experienced a large increase in this area due to the new medical and learning technology that has recently become available and which the district is

required to provide. As an example; the district, at a cost of $8000 each. may have to purchase a computerized speech system, Dynavox. that is used to assist students in basic communication. The student must also have the assistive technology available to them both at school and at home thereby having the district purchase two. Some of the Dynavoxes at home have been broken and must be replaced by the district.

1. The district may have to provide recreational therapy and/ or social services for students with disabilities if required by the IEP team in order for the child to receive educational benefit. There is a large amount of parent counseling and training that is now required also.
2. More paperwork and meeting requirements are now included in the IEP and in dealing with evaluations and assessments. IEP meetings with parents have gone from 1 meeting to 3 meetings per year, requiring all ASD members of the team to be present.
3. Increased numbers of health services staff due to the requirement for medical intervention. Districts must provide the level of health services up to what a doctor would be needed to provide.
4. Additional disabilities were classified for certification for special education over the last 13 years. In 1990 Other Health Impaired, Autism, and Traumatic Brain Injury were added. The district has experienced a significant increase in the number of students served. Attention deficit disorder is an area where special education gets involved and does the evaluations, holds the parent meetings, hears the complaints, and provides the specialized programs. however the state does not include them in the special education ADM counts. ASD currently has 200-300 students with this disorder. Students may qualify for special education as Other Health Impaired or a 504 plan. We have experienced a significant increase in students certified as Emotionally Disturbed. In 1987 we had 271 enrolled, while we had 698 students in 1999. Autism was added as an area of disability in 1990, the district has gone from O to 115 currently served. While the total numbers may seem small each student receives substantial specialized supports and services from the district.
5. There has been an increase in the number of students who are sent out of state for special education placement at the request of parents or DFYS. The district has to pick up the educational expenditure for each child if the placement is required for the student to receive educational benefit according to the IEP team decision..
6. There has been an increase in the district's litigation expenditures from parents who want specific teaching methodology and services provided to their child in which the district disagrees.
7. The district is required to prepare a functional behavioral assessment for a student's behavior that interferes with their education. A Positive Behavioral Intervention Plan must then be prepared which requires 3 to 4 teachers to spend 3 to 4 hours preparing. This has created many more meetings requiring more of the teachers and psychologists time.
8. IDEA 97 has extended the age required for student transition plans to age 14. As a result of the audit in 1996 the district is now required to provide a more extensive plan involving a variety of stakeholders. This has increased the number of vocational education teachers and has resulted in the increase in expenditures for the district's middle school, high school and ACE / ACT programs. The district must also coordinate with other outside agencies to assist the student upon leaving the educational system.
9. Increased protections and due process rights for parents and students with disabilities, active involvement in all IEP team decisions to include initial referral for evaluation to all discipline meetings such as a manifestation determination. This has increased staff expenditures for IEP team meetings as school teams attempt to have meetings at times convenient for working parents and difficult schedules.
10. Increased requests for independent educational evaluations from parents. This is a right of a parent to obtain at full cost to the district (approximately $600-$1200 per evaluation) if the parent disagrees with a district evaluation.
11. Students with disabilities must be involved in all district and state wide educational assessments such as CAT testing and Benchmarks. This has increased costs for IEP meetings to make determinations and provision of appropriate accommodations.
12. Costs for Extended School Year has escalated dramatically in past years by at least 200% as the definition for qualification for ESY has been extended by the Federal Law. Transportation and provision of related services is especially expensive for this summer program.
13. Extended school day must be considered and provided if student qualifies via the IEP team. this is especially utilized in the preschool and kindergarten program where some students need access to a full day program.
14. Provision of special education services in Headstart programs is now required at district expense.
15. The least restrictive environment clause and opportunity to be with non-disabled peers has

resulted in increased costs for itinerant special education staff providing training and services to preschool students with disabilities in private preschools.

1. Increased costs for recruitment and training of special education staff. Required TA training offered on Saturdays. Recruitment teams sent out of state to recruit teachers and the need for recruitment bonuses for new staff.





State of Alaska

Department of Education and Early Development Average Age of School Facilities

|  |  |
| --- | --- |
| YEAR | AGE |
| 1990 | 19 |
| 1992 | 20 |
| 1994 | 22 |
| 1996 | 23 |
| 1998 | 24 |
| 2000 | 26 |

12/19/2000 Page 1 of 1

Examples of Teacher Incentives Offered in Other States

* + - Increased Salaries

Maryland-10%

Virginia-$90 million over 2 years

New York Oty-15% increase for teachers in schools on academic watch list

Detroit-$3000 for high-need subject areas Los Angeles-$5000 for bilingual

* + - Scholarship-loan Programs

Virginia-$3000 forgivable loans

North Carolina-$6500 al}llUally, requiring 4 years of teaching after graduation (3 if they work in "low performance" schools)

* + - Signing Bonuses

Massachusetts \_-$ 20,000over 4 years for 150 teachers in urban areas Virginia-$1000 for hard-to-fill areas

Maryland-for top graduates Texas-$3000 for special education

Philadelphia-$4500 for teachers who stay for 3 years

•Tax Exemptions

California-proposed exemption from state income tax for certificated teachers

* + - Student Performance Bonuses

California-proposed $5000 bonus for each teacher in a school with student test score improvement of 20%; lesser amounts for lower improvement rates

* + - Low Interest Home Mortgages Maryland

California-for teachers to live within school boundaries

* + - Double Dipping

Maryland-retired teachers who return to classroom can continue to draw pension

•Continuing Education

Ohio-$1.8 million for 30 math and science teachers who commit to 3 years in the district to obtain master's degrees

Many States and Districts-mentoring programs for new teachers

* Miscellaneous Goodies

Various States and Districts-laptop computers, gym memberships, 401Ks,

moving costs

"A tax exemption or signing bonuses may not be the right answer here. But when states from New York to California are wading into a teacher bidding war, Oregon had better offer something more than scenery" *Portland Oregonian,* May 2000

##### Alaska Department of Education & Early Development Public School Funding Formula Review

**FY90 – FY00**

* + FY88 public school funding formula was revised to instructional unit method.
	+ FY93 the base of the public school funding formula increased 1.7% or approximately $12 million.
	+ FY99 public school funding formula was revised to students per school method.
	+ FY99 the base of the public school funding program increased 3.3% or approximately $21 million.
	+ From FY90 to FY00 enrollment increased 25% and the legislature fully funded the increase.
	+ From FY90 to FY00 inflation has increased approximately 30% but the public school funding program was increased 5% during this time.
	+ Property values and federal impact aid increased in FY01 and FY02 reducing the state share by $29 million.
	+ Property values statewide should continue to increase 2% to 5% annually.
	+ From FY90 to FY00 municipalities have increased local contributions to education by 55% or $98 million.