

Part **III** Conclusions Regarding School Consolidation

A. Position of the Alaska Department of Education and Early Development⁸²

The Department of Education & Early Development believes that while there may be opportunities for consolidation in the areas identified by the LBC as meeting borough incorporation standards, considerable public input would be necessary to determine the political feasibility of such a move. Combining small first class cities in REAAs or incorporated boroughs, will not substantially change the entitlement generated by those communities through the foundation program. The amount of state aid will vary due to factors such as required local effort and federal impact aid and how they are applied through the formula.

The financial analysis of school districts with less than 250 students is included in Appendix M. EED considered the economic impact on the foundation formula of consolidating all districts with ADM less than 250 into their nearest Regional Education Attendance Area. The results were mixed. In some cases it resulted in savings, in others, costs increased. The overall savings to the state would be \$262,833.

The state funding formula for schools is based on the average daily membership (ADM) during a twenty-day count period in October. State law requires each schools ADM to be adjusted based on total number of students in the community. For example, if there are at least 10 students but fewer than 100 students in the community the total student population is adjusted for one school. In communities with more than 425 students each schools student population in the community is adjusted for school size. This process is repeated for each community that a school district serves.

The ADM for each school is adjusted for school size to compensate for economies of scale. A school with a small student population is more expensive to operate than a school with a larger student

population. The school size adjusted ADM is then multiplied by the districts cost factor. That adjusted ADM is increased by 20% for special needs funding. Then the adjusted ADM is increased for intensive need students and correspondence student to arrive at the districts adjusted ADM (AADM). The AADM is multiplied by the base student allocation to determine the districts "Basic Need".

The districts cost factors are established in AS 14.17.460. In the departments analysis of school districts with fewer than 250 students the department recalculated state aid using the cost factor for the receiving district. In most cases this increases the amount of Basic Need generated by the school being consolidated. While using the receiving districts cost factors increased Basic Need the overall net effect was a decrease in state aid. The department assumed for this exercise that the first class cities would lose educational powers and would be served by the receiving REAA. Under this approach there would not be a required local contribution nor would there be local tax revenue to support education.

In addition, EED looked at studies concerning the relation between the size of a school and student performance. Again, the results were mixed. The studies done do not translate well in Alaska, as they consider a school with 200 students to be small, while in Alaska that would be considered a sizeable school. However, the final conclusion of studies conducted on school size suggests no evidence that consolidation in Alaska would result in increased student per-

⁸² February 11, 2004, e-mail from Eddy Jeans, DEED School Finance Manager, to Dan Bockhorst, Chief of Municipal Policy and Research Section, Department of Community and Economic Development, staff to the Local Boundary Commission. The e-mail amended DEED's initial position set out in a January 21, 2004, e-mail from Kevin Sweeney to Mr. Bockhorst.

formance or options leading to increased student achievement. Further information on the impact of school size can be found at <http://pixel.cs.vt.edu/edu/size.html>

Alaska Statute 14.14.110 gives the department the authority to require school districts to cooperate when necessary to provide more efficient or economical educational or administrative services. The department has never directed any district to cooperate with another to share services. However, for many years, the department has supported district efforts to cooperate when districts have identified opportunities. For example, SW Region School District provides business services for Dillingham City Schools. Several school districts contract with the SE Regional Resource Center for facilities maintenance, grant writing, educational, and business services.

Recently, the department met with school board members and superintendents from the Prince of Wales Island to explore opportunities for sharing service. The districts plan on meeting and reporting back to the department on services that they identify as being beneficial for their communities. EED will continue to look at districts where consolidation, reorganization or shared services and facilities might result in increased opportunities leading to higher student achievement and/or reduction in costs at the local level. Identification of possible opportunities leading to increased student achievement is best accomplished by providing the impacted communities an opportunity to take an active role in the process.

Kenai School Consolidation Issues

The department reviewed the newspaper account regarding the Kenai Borough School Districts efforts to close a \$5 million budget gap.

Because enrollment on the Kenai was growing in the 1990's the school district was able to expand the number of communities it served and increase the number of facilities it operated. Along with the increased student population and number of facilities the district operated came additional state revenues through the foundation program to support the expanded educational activities.

Since 1998, the enrollment in the Kenai Borough School District declined by 12.4%. Many of the schools on the peninsula are operating well below capacity as indicated by Superintendent Peterson. Unfortunately, the declining enrollment and excess capacity at some schools is the root of the budget prob-

lem for the Kenai Borough School District. To maintain the high quality and diverse school programs the district may have to close some schools and combine programs. With that decision will come less state foundation aid to support the operations of fewer schools and students.

The foundation program adjustment for school sizes take into account economies of scale. The school size adjustment in Alaska Statute 14.17.450 was adopted by the Alaska legislature in 1998. The size adjustment table was developed by the McDowell Group and was included in a report to the legislature titled "Alaska School Operating Cost Study". The school size adjustment table does provide a base funding level for each school just for the operation of a separate facility. The school size adjustment table cannot take into account local decisions to establish a new school versus transporting students to the next closest school. In fact, the local school district may not have had the option to transport the students to the nearest school at the time the decision was made to open a new school because of capacity issues at the existing schools.

The department is prepared to work with the legislature to develop legislation that would help a school district transition to its new foundation funding level when it has fewer schools to operate and fewer students to serve.

The department would also like to clarify the statements made under Section 4, Opportunities for Legislative Action subpart (a) regarding local contribution. The report suggests that municipal governments would be eligible to receive an additional \$155 million in state aid if they were not required to make a local contribution. The department believes that the funding formula attempts to equalize all revenue sources. If the local contribution requirements were removed, a substantial rewrite of the funding formula would be necessary which would not result in an additional \$155 million in state aid to local governments. The department believes that the incentive for local governments in the foundation program is their ability to contribute additional local revenues above those required.

The department believes that reducing the number of school districts in Alaska is a decision to be made by people in the effected areas or a policy decision by the Alaska legislature. Many of the consolidations reviewed in this report will result in fewer districts but will not substantially change the funding through

the foundation program for an individual community. The newly created local governments or local school boards will determine any changes in the way educational services are delivered to students.

Consolidation of school districts is only one of many issues facing education in Alaska. It is important for EED to build rapport and maintain a working relationship with districts if we are to address many of the other issues that hinder student achievement. EED stands ready to work cooperatively with any and all agencies as outlined by the legislature.⁸³



Igiugig High School in the Lake and Peninsula Borough.

B. Position of the Alaska Local Boundary Commission

The Alaska Legislature named two agencies – the Local Boundary Commission and the Department of Education and Early Development – to study school consolidation. Each agency has its particular expertise.

The Department's knowledge in the field of education was critical in terms of identifying opportunities for school consolidation with respect to the four broad areas outlined in the previously noted letter of November 6, 2003, from Senator Gary Wilken (Appendix C). Those were:

1. possibilities for combining particular schools through municipal and other boundary changes;

2. opportunities for merging schools through voluntary cooperation and action directed by the Commissioner of the Department of Education and Early Development under AS 14.14.110(a);
3. prospects for consolidation of specific functions carried out by school districts; and
4. scenarios for combining school districts with 250 or more students.

The Commission's expertise lies in terms of borough incorporation, borough annexation, city incorporation, city dissolution, city reclassification, consolidation, and a number of other municipal boundary changes. Many of those types of boundary changes directly affect responsibility for delivery of education services at the local level and can bring about school consolidation.

⁸³ As corrected by e-mail between DEED Deputy Commissioner Karen Rehfeld and Mr. Bockhorst, February 18, 2004.



Intermediate classroom at the Elim School.

The Commission senses that the Department found itself in a disagreeable role early on. As the Department's final comments above indicate, the Department felt that, "It is important for EED to build rapport and maintain a working relationship with districts if [it is] to address many of the other issues that hinder student achievement." Consequently, during the course of the study, EED advised the Commission that the Department would limit its role to that of providing financial analysis relating to various proposals for school consolidation identified by others. The Department also notified the Commission that the State Board of Education had directed the Department to refrain from making recommendations regarding school consolidation.⁸⁴

At that juncture, the Commission contemplated terminating its participation in the study. However, the Commission elected to continue the study effort after EED subsequently reaffirmed its commitment to the project on January 21, 2004, by stating, "EED stands ready to work cooperatively with any and all agencies as outlined by the legislature."

The Commission takes the view that differences of opinion among intelligent, well-meaning citizens and officials are good in a democracy, so long as the expression of those differences of opinions do not

become contentious. To that end, the Commission respectfully offers the following observations in addition to those expressed by DEED in its statement in Part III of this report.

The Department indicates above that, "The overall savings to the state would be \$262,833."⁸⁵ That may give the impression that school consolidation would not be worthwhile or save the State of Alaska a significant amount of money.

The Department's statement may lead to incorrect conclusions by others. The Commission's perspective, based upon the data provided by the Department, follows:

⁸⁴ The following is a transcript of the relevant portion of the December 2, 2003, meeting of the State Board of Education and Early Development:

Legislative Report

Kevin Sweeney: Issue number eight is school district consolidation. Last year there was legislative intent language in the budget that directs the Local Boundary Commission to work with the Department of Education to consider the issue of consolidating school districts with an emphasis on those school districts that have less than 250 students. The local boundary commission has already had one hearing on this issue, back in October in Juneau. They are now moving forward and they are working with our department on meeting the requirements that the legislature put upon them and on us.

Richard Mauer: And what has been your directed position on this issue?

Kevin Sweeney: Our directed position is to work with the Local Boundary Commission and provide them as much information as they need.

Richard Mauer: Just information, no opinions?

Kevin Sweeney: That's correct. No opinions.

⁸⁵ The Department's analysis of the *economic impact* only addressed the prospective consolidation of 10 city school districts with fewer than 250 students, not "all districts with ADM less than 250," as claimed. There are 17 districts with fewer than 250 students. The legislative directive called for a review of all districts with fewer than 250 students.

To begin with, the \$262,833 savings amounts to \$190 per student.

In the context of a statewide \$723 million FY 2005 proposed budget for K-12 pupil support, a savings of \$262,833 is relatively insignificant. However, when placed in the proper context, the significance of the savings begins to take on more prominence.

According to the Department's data (Appendix M), there are 1,374 students in the 10 small city school districts addressed by the Department. Thus, a savings of \$262,833 resulting from the consolidation of those districts would amount to \$191.29 per affected student.

To put the importance of that projected savings into context, a new study by the Alaska Legislature projects that between FY 1999 and future FY 2005, inflation will have eroded the key education funding component known as the *base student allocation* (see Glossary for definition of that term and the term *basic need*) by \$252.62 (5.7 percent).⁸⁶ The effect of the \$252.62 loss due to inflation has been characterized by several legislators as "significant."⁸⁷

Additionally, consolidation would increase basic need by more than \$750 per student.

Consolidation of the 10 small city districts would increase the basic need (i.e., education funding entitlement) for the students in those 10 small city districts by \$1,038,240 annually. On a per-student basis, that amounts to an increase in the level of basic need equivalent to \$755.63 per affected student. That equals an 18 percent increase in the \$4,169 base student allocation for education under AS 14.17.470 for the affected students. Such gains at a statewide level would be beyond expectations of the education community. One could assume that additional funding would impact performance.



Kilbuck Elementary School in Bethel.

Consolidation would free up local taxes by nearly \$800 per student.

Consolidation of the 10 small school districts would result in significant annual tax savings for the 10 affected cities. Specifically, those cities would no longer be required to make *local contributions* to their city school districts under AS 14.17410(b)(2).

The annual tax savings would equal \$1,088,642, an amount equivalent to \$792.32 for each of the 1,374 affected students. Several options would be available to the affected communities. The proceeds could be used to substantially fund borough governments, thereby taking on greater local responsibility and local control. Alternatively, the revenues could be redirected to fund other essential services such as police, fire protection, and utilities. Of course, the cities could also reduce taxes imposed on their citizens.

⁸⁶ *Legislative Research Report Number 04.065 (Revised), Education Funding*, Alaska Legislature, Legislative Research Services, February 3, 2004.

⁸⁷ *Press Release, Report: Inflation Erodes Education Dollars*, February 4, 2004, <http://www.akdemocrats.org/Documents/020404_edu_funding_lags_behind_inflation.pdf>



Petersburg High School.

The sum of the economic gains noted above equals \$1,740 per student, but prospective benefits of consolidation extend well beyond that gain.

As outlined above, consolidation of the 10 small districts would reduce the State's annual educational expenditures for 1,374 students by \$262,833. At the same time, the basic need for those students (i.e., the entitlement for education funding) would increase by \$1,038,240 annually. Moreover, local taxes required to support schools in the consolidated districts would be reduced by \$1,088,642 each year. Further, consolidation would increase the level of *quality school grants* paid to the consolidated districts by a total of \$4,101 annually. It is a win-win-win situation for the State, students, and the taxpayers. Cumulatively, the effect of consolidation equals a gain of \$2,393,816, or \$1,742.22 per student.

The significance of the economic benefit from consolidation is amply evident at this point. However, the benefits of consolidation extend beyond those noted above as outlined in the following.

Fourteen districts, mostly small community districts, many of which fail to meet the statutory requirement for a minimum of 70 percent instructional spending, would be merged into four regional districts.

As is outlined in Part I of this report, the delivery of educational services in Alaska is distinctly different in the unorganized borough compared to organized boroughs. One of the fundamental ways in which delivery of education services is distinct is the geographic nature of the educational institutions serving the two types of areas. Organized boroughs operate exclusively on a regional basis. In the

unorganized area, there are districts that operate regionally (REAs) and others that operate on a community basis (home-rule cities, first-class cities, and FTREAs). Because of the fragmented manner in which education services are delivered in the unorganized borough, a disproportionate number of Alaska's school districts exist there.

The Commission believes that there also are potential administrative efficiencies⁸⁸ and economies of scale⁸⁹ that could result from consolidation that, in turn, could allow a greater proportion of the funds of each consolidated district to be spent on instruction.



Rae C. Stedman Elementary in Petersburg.

The Commission notes that the consolidation of the 10 small city school districts with the REAs in which those city school districts are located would result in fourteen school districts merging into just four.

The Commission reminds readers that Governor Murkowski presented the following statement and question to the education community last June:

I am challenging all of Alaska's educators, parents, school board members, community leaders, and residents to take a hard look at how our schools are run. We need to get more dollars from administration into the classroom. Why do some school districts exceed the state requirement of using more than 70 percent of the funds they receive in the classroom, and others do not?

Eleven of those fourteen districts (nearly 80 percent) failed to achieve the 70 percent classroom-spending requirement in the current fiscal year.

Creating four larger regional districts from fourteen districts, mostly small community districts, might improve programs and offer other educational benefits to students.

Consolidation also may result in enhanced curricula and other educational benefits to the students. Presumably, if smaller districts join together, a larger district would be able to provide broader educational services through economies of scale. A number of regional districts in Alaska currently provide such services on a circuit-rider basis.

For example, the previously cited January 29, 2004, newspaper article indicates that education officials in the Kenai Peninsula Borough believe that school consolidation would – absent penalties under the education funding formula – bring about savings and result in improved educational opportunities:

Closing some of the [Kenai Peninsula Borough school] district's 43 schools has long been held forth as the ultimate answer [regarding the need to cut costs], though one likely to be avoided politically for as long as possible. A budget review committee urged the district to accelerate the consolidation process last fall.

Despite the long bus rides and loss of intimacy, closing schools held the promise of better education, [Kenai Peninsula Borough School District Superintendent Donna] Peterson said. The district's

⁸⁸ Among such administrative efficiencies, consolidation would result in a fewer number of school administrators and school boards, which arguably would reduce travel, per diem, insurance, and other costs.

⁸⁹ E.g., economies of scale could accrue through the coordinated planning and purchasing of fuel, which also affects the State's power cost equalization program; books and supplies; lunch programs, etc.



Olinga & Joseph S. Gregory Elementary in Upper Kalskag

schools were built to hold 12,000 students, and enrollment is around 9,500. Small or underutilized schools can't offer the same programs as bigger ones, they said.

Peterson said their study found that elementary schools could run full programs, with music, physical education and library services, when they have 300 – 500 students. Only three elementary schools on the Kenai Peninsula have that many students, she said (emphasis added).

At the middle/high school level, the optimum number is 700-900 students, she said. None of the high schools on the Peninsula are that big.

Circumstances are not likely to improve for the smaller districts in the long-term.

State and federal governments have added substantially to the administrative duties imposed on local school districts over the years. Those obligations presumably have a reasonable basis in

the law. In other words, they are likely appropriate and necessary, but they add to the administrative burdens of the school districts. Examples include school-based health services programs, federal impact aid reporting, state testing requirements, federal “no child left behind” mandates, and a host of other unfunded or inadequately funded requirements.

At the same time, student populations in the smaller school districts in Alaska have generally shrunk. Specifically, in the past fourteen years, seven

of the ten small city school districts shrank in student population some by very significant margins.⁹⁰ The same proportion of districts suffered student population decreases last year (seven of ten), with one decreasing by more than 15 percent in that year alone.

Moreover, as the State government continues to struggle with its fiscal gap, adequate funding for public services, including the more critical services such as education may become even more challenging. As noted at the beginning of this report, education funding was held harmless from cuts generally imposed on most other agencies in the FY 2004 budget. The Alaska Legislature appropriated more than \$729 million for K-12 public education and pupil transportation in the current fiscal year. That figure represents approximately one-third (33.23 percent) of all general-purpose appropriations for the entire State budget during FY 2004.

⁹⁰ One declined by more than two-thirds; several declined by more than one-quarter.

Shielding education funding from cuts to the State budget was certainly not an isolated event last year. In FY 1997, funding for education (K-12 support and pupil transportation) was \$654,576,900. By FY 2004, education funding had increased to \$729,255,000 (a gain of \$74,678,100 or 11.4 percent). During that same period of time, student enrollment (ADM) rose by only 4.4 percent (from 126,464.77 to 132,049.62).

In contrast to education, funding for many other important State programs was cut or eliminated altogether. For example, State Revenue Sharing and Municipal Assistance, which provided general financial aid to Alaska's municipal governments, totaled \$53,572,300 in FY 1997. By FY 2003, funding for those programs had been reduced to \$29,630,700 (a cut of \$23,941,600 or 44.7 percent). The following year, funding for the programs was eliminated altogether. As noted above, for the years in question, student enrollment rose by 4.4 percent, but the State's population grew by 6.6 percent meaning that the burden placed on local governments for general services due to the growing population was presumably greater than that placed on schools due to growing enrollment.

Despite the preferential status afforded education funding, inflation is eroding education funding in Alaska as noted above. Again, the study projected that from FY 1999 to future FY 2005, inflation will have effectively reduced the base student allocation by \$252.62 (5.7 percent).

The circumstances outlined here (i.e., growing administrative burdens on school districts, generally shrinking student populations in smaller school districts, and competition for increasingly scarce financial resources) suggest to the Local Boundary Commission that the future of small school districts in Alaska is unlikely to improve without leadership from the State Legislature in terms of school consolidation.

Conclusion.

Over four decades ago, Governor William Egan, former President of Alaska's Constitutional Convention, made the following remarks in his State-of-the-State address:

Local government problems continue to be [the] subject of deep and understandable concern. Many areas need improved school systems, sanitation, fire protection, planning and zoning, water and flood control, community water and sewer systems. Organized boroughs can provide these local government services.

Just weeks ago, Governor Murkowski echoed similar sentiments in his January 2004 State-of-the-State address. He noted that the key to Alaska's future is financial stability. Two components of his plan to achieve that stability relate to issues underlying the study of school consolidation.

The third element of my program is that the costs of government should be borne as much as possible by the direct users of services.

- My fiscal program expects that those who directly benefit from state services pay a fair share — through modest fees and taxes that do not interfere with personal savings and investment.

The fourth cornerstone of my program is local responsibility for local needs. Local governments should look first to local revenue sources to help fund schools, public facilities, fire and safety services.⁹¹

⁹¹ Governor's January 13, 2004, State-of-the-State speech, p. 5. The speech is included in this report as Appendix N and is available online at http://gov.state.ak.us/whitepapers/-state_of_state_speech-2004.pdf.

In conclusion, the LBC and DEED take the view that considerable benefit has already resulted from this school consolidation study effort and the potential future benefits are beyond measure. One aspect of school consolidation, in particular, that the Commission was unable to address was the matter of local public hearings. Senator Wilken had encouraged the Commission and the Department to conduct some hearings on the matter. Specifically, he stated as follows in his letter of November 6:



Senator Gary Wilken.

I recognize that both the Local Boundary Commission and the Department of Education and Early Development have heavy workloads and limited resources. Nonetheless, it would be ideal if the agencies held joint hearings in at least some of the communities that could be affected by consolidation.

Regrettably, time and circumstances did not allow the Commission and the Department to hold such hearings. However, if the Legislature continues to want the Local Boundary Commission and the Department to conduct such hearings, the

Commission, at least, is in a better position to do so in 2004. Alternatively, of course, the State Legislature could formally request the Local Boundary Commission to consider specific local government boundary changes that would have the effect of school consolidation (e.g., borough incorporation, borough annexation, city reclassification, etc.). Under AS 44.33.812, the Commission would be obligated to formally address such requests, which would entail a thorough review of the proposal and a local public hearing in each affected area.

Further, the Local Boundary Commission urges the Legislature to pursue the recommendations that the Commission outlined at the end of Part IIC.4 (pp. 51 - 59) of this report. To paraphrase a previous statement in this report, under Alaska's Constitution, education is a State function and a State responsibility. How far the State Legislature pursues this matter will be decided in time.