Review of Alaska's School Funding Program

Prepared for the

Alaska State Legislature

By

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July 2015

Report provided in part (pages 8-13 & 108-115 out of 167 pages). Full report provided to Education Task Force on November 11, 2025; Silverstein, J., Brown, A., Fermanisch, M. (2015). Review of Alaska's School Funding Program. Denver, CO. Augenblick, Palaich, and Associate. https://www.akleg.gov/basis/get_documents.asp?session=34&docid=8411

Augenblick, Palaich and Associates (APA) is an education policy consulting firm, founded in 1983 and located in Denver, Colorado. The firm has extensive experience advising policymakers in all 50 states and the District of Columbia on education policy issues, particularly school finance. APA has worked with numerous states to examine statewide school finance systems, to evaluate the equity and adequacy of such systems, and/or to propose significant structural changes to those systems. Legislatures in several states, including Louisiana, Maryland, and Mississippi, have enacted APA recommendations as the basis of their school funding systems.

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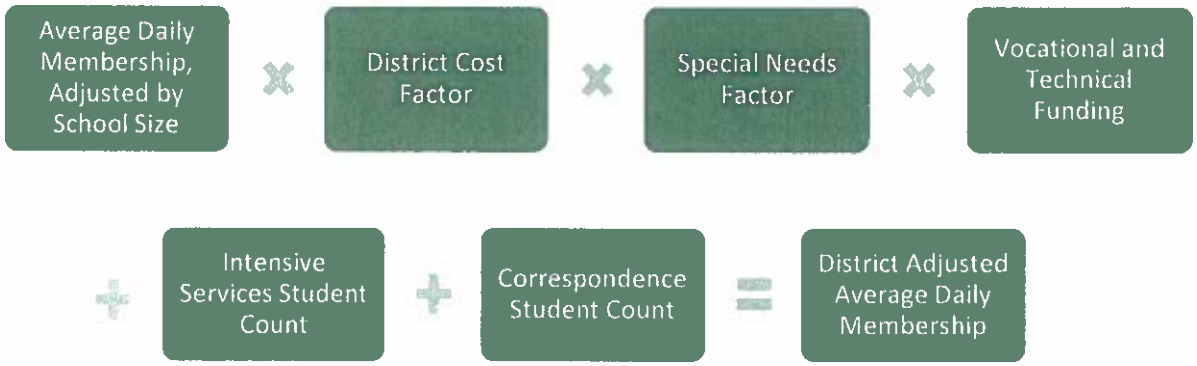
Suggested citation: Silverstein, J., Brown, A., Fermanich, M. (2015). *Review of Alaska's School Funding Program.* Denver, CO. Augenblick, Palaich, and Associates.

III. Overview of Alaska's Current Funding System

The primary method Alaska uses to distribute state funds to school districts is a foundation program. The foundation program concept was developed more than a century ago, and is currently the most popular formulaic procedure states use to distribute aid to school districts. Under a foundation program, a state sets a total target level of funding that is unique to each school district, and defines state aid as the difference between that amount and the yield of a local contribution, the rate of which is common constant across all school districts. Using this approach, a state simultaneously: (1) recognizes a variety of different circumstances across school districts that can affect the cost of providing education services, and (2) equalizes state support relative to the variation in wealth that exists across all districts.

Under Alaska's foundation formula, a district's funding is determined by multiplying the Base Student Allocation (BSA), as defined by the legislature, by the District Adjusted Average Daily Membership (DAADM). A district's DAADM is determined using the following calculation:



Each of the components of this calculation is discussed briefly below, with subsequent chapters detailing each component in greater depth.

Components of the Alaska School Funding Program

Average Daily Membership

Average Daily Membership (ADM) is determined by average number of students physically attending schools across a 20-day count period in October. This count is then used as the starting point for DAADM calculations.

School Size Adjustment

The School Size Adjustment (SSA) is an adjustment focused on accounting for the cost differences schools face based on school size. The SSA provides higher ADM adjustments for the smallest schools in the state. At the same time, the largest schools in the state have their ADMs adjusted down as part of

the SSA. A district's size-adjusted total ADM is the sum of each of its schools' student counts after the adjustment to each of their schools.

Hold Harmless

The district's size-adjusted ADM is evaluated to determine if it qualifies for the Hold Harmless provision. A district qualifies for this provision if it has lost five percent or more of its total size-adjusted ADM in one year (i.e. from one October pupil count to the next October pupil count). The Hold Harmless provision effectively increases a district's size-adjusted ADM for three years:

1. In the first year that a district receives the Hold Harmless provision, Alaska's formula takes the difference between the district's current size-adjusted ADM and its prior year size-adjusted ADM (base year). The district is provided an additional ADM amount equal to 75 percent of the difference between current year and prior year size-adjusted ADM.
2. In the second year, the additional ADM is equal to 50 percent of the difference between the current year size-adjusted ADM and the base year.
3. In the third year, the additional ADM is equal to 25 percent of the difference between current year size adjusted and base year.

In this way, the Hold Harmless provision cushions the impact of declining student numbers on a district's funding.

District Cost Factor

The District Cost Factor (DCF) is then applied to the size-adjusted ADM and/or the Hold Harmless-adjusted ADM for each district. The DCF was designed to address differences in incurred costs between districts due to geographic location and/or isolation. The DCF considers district differences in the costs of staff, staff travel, energy, instructional supplies/materials, maintenance supplies, and shipping (of supplies, materials, etc.). DCF adjustments are unique to each district, and range from 1.000 to 2.116[12].

Special Needs Funding

Next, all districts receive an adjustment to fund Special Needs students, which includes: vocational education, non-intensive special education (intensive special education is funded separately), gifted/talented education, and bilingual/bicultural education. This adjustment provides an additional 20 percent above the district's ADM after it has been adjusted through the SSA, Hold Harmless provision (if applicable), and the DCF.

Vocational/ Career and Technical Education Funding

The final adjustment provides an additional 1.5 percent above a district's ADM (after it has been adjusted by the SSA, Hold Harmless (if applicable), DCF, and Special Needs adjustment) for Vocational/Career and Technical Education (which this study will refer to as CTE).

[12] Alaska Department of Education & Early Development, FY2015 Foundation Closeout.

Intensive Services Funding

Alaska makes two student-specific additions to its formula, separate from the multiplicative adjustments described above (where one adjustment is applied to the result of previous adjustments). The first of these additions is for intensive special education students. Each intensive special education student is counted as 13. To qualify for intensive services, students must meet a specific set of criteria set forth by the state related to the services required in a student's IEP.[13]

Correspondence Programs

The second student-specific addition – and the final step of calculating a district's DAADM – is the addition of correspondence students. Each eligible correspondence student is counted as .90.

After the correspondence students are added, the result is the district's total DAADM. This total DAADM figure is then multiplied by the BSA to determine each district's total Basic Need.

Local Effort[14]

Once total Basic Need is calculated, Alaska then determines the amount of local funding each district must provide. Requirements differ for City and Borough (C&B) districts, and for Regional Educational Attendance Areas (REAAs).

Thirty-four districts in the state are designated as C&B districts, and as such are required to provide a local match equal to the lesser of: (1) the equivalent of 2.65 mills on taxable real and personal property, or (2) 45 percent of the district's total Basic Need. Districts are also allowed to generate the greater of: (1) 0.2 mills or (2) 23 percent of Basic Need above the minimum local contribution.

Nineteen districts are REAAs, and as such are not required to provide local dollars, as they are deemed to have no taxable real or personal property tax base.

Alaska also deducts a proportion of Federal Impact Aid dollars from state aid for all districts that receive eligible Federal Impact Aid. The amount deducted in Alaska equals:

Total Impact Aid – Deductions[15] X state Impact Aid percentage X 90 percent

The state Impact Aid percentage is an adjustment that allows districts that make more than the required local contribution to keep a percentage of their Impact Aid equal to the amount their local contribution exceed the required contribution. The 90 percent factor is the amount of the final, adjusted Impact Aid that is deducted from a district's state basic aid.

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[13] Alaska Department of Education & Early Development, 2008.

[14] APA recognizes that there is ongoing litigation through the Ketchikan lawsuit regarding the constitutionality of the required local contribution for schools. This study examined the current structure of the finance formula. The ramifications of the constitutional challenge are outside the scope of the study.

[15] These include dedicated amounts of Federal Impact Aid for 25 percent of Indian Lands, for Special Education, for construction, and for exempt 3- and 4-year-olds.

Non-Foundation Formula Funds

Outside of the foundation program, Alaska also provides funds for transportation and capital.

Transportation

Alaska provides funding for transportation on a per-pupil basis, to districts eligible to receive funds. For the 2013-14 school year, 48 school districts received a combined $74.7 million in funding from the state for transportation costs. The per-pupil amount ranged from a low of $2 to a high of $2,819[16] calculated upon actual district expenditures.

Capital

Alaska provides three sources of funding to districts for capital projects[17]. They include the School Construction and Major Maintenance Grant Program (Grant); State aid for School Construction in Regional Educational Attendance Areas and Small Municipal School District Grant Program Results (REAA); and Debt Reimbursement Program (Debt). Each of the three programs functions differently and provides different levels of support to districts.

Greater detail will be provided on each component of Alaska's Funding School Program, as well as transportation and capital, in Chapter IV.

General Themes from District Focus Groups and Interviews

This section reports on themes noted in multiple interviews and in multiple districts. The subsequent chapters on individual funding system components will provide more specific information from the interviews on each area of school funding in Chapter IV.

Overall, the interviews ran smoothly, and participants were open and honest. It is, however, important to consider the timing of the interviews during March and April 2015, when state budget negotiations were underway. Respondents tended to believe that new dollars were not likely to be available for K-12 education in the foreseeable future. APA feels that the timing, or context, of the interviews may have had an impact on the responses, especially for group interviews. A recurring theme of the interviews was the idea that there is a fixed pot of funding, so any changes to funding procedures would inevitably lead to "winners" and "losers." Many interviewees were concerned that their district would be harmed by any changes and would receive less funding. As a result, responses may have been constrained because of the uncertainty of district funding at the time of the conversations.

Overall, interviewees tended to feel that the state's current funding system works well. Interviewees understood that Alaska has a unique distribution of districts, and that the state's funding system is challenged to adjust for all the relevant differences in student and district characteristics. In terms of the foundation formula, most respondents felt the formula generally included the right type of adjustments.

[16] Alaska Department of Education & Early Development, data on transportation funding.
[17] Alaska Department of Education & Early Development, School Capital Project Funding under SB237: A Report to the Legislature. February 28, 2015.

There were concerns about how these adjustments were implemented, how they affected different districts, and how they interacted with other adjustments.

The following general feedback themes were heard for each of the funding system components:

Base Student Allocation (BSA): One theme that came up regularly during the interviews was a lack of understanding of what the Base Student Allocation is designed to provide for all students across the state. Interviewees felt that the funding system resulted in different districts being able to provide very different educational programs for students. These differences in district capabilities were especially evident in smaller communities, which were often struggling to offer robust programs. Districts struggle in both core academic areas (e.g. providing a robust high school curriculum) and elective academic areas (e.g. providing art, music, and/or P.E.). These struggles were most pronounced in the smallest, most remote areas. Generally interviewees understood that programming would never be equal across very diverse education settings. Nonetheless, it would be helpful for districts to have a clear understanding of what a minimum or essential program should be able to provide.

School Size Adjustment (SSA): Interviewees felt that the SSA was needed, and that the SSA generally met the needs of schools across the state. Some interviewees noted that the smallest schools in the state struggled to provide programs that went beyond the core program. These schools had limited course offerings and few electives. The SSA includes a number of "cliff" points where the loss of a few students can lead to large changes in funding. A number of interviewees mentioned the large impacts that these cliffs can have on funding. In the current system, when a school is under 10 students it loses funding. Interviewees from all different sizes of districts expressed that this loss of funding has a devastating impact on the school's local community. Interviewees often expressed that the loss of the school often led to the loss of the community as families move away.

It was also mentioned that applying the SSA to all districts, regardless of size, might not make sense. Though no district would like to see a decrease in SSA funding, there was concern that providing more dollars for smaller schools, in settings where those dollars may not be necessary, could influence districts to design schools to maximize funding versus maximizing efficiency and effectiveness. A number of interviewees believed that the largest districts do not need to be included in the SSA.

Hold Harmless: Few of the interviewees had actually worked in districts that had qualified for the Hold Harmless provision. Still, the consensus was that Hold Harmless is very important as many, if not most, districts are experiencing declining enrollment. Interviewees were very concerned that, as districts experience declining enrollment, those districts' fixed costs will become a much higher percentage of district total costs. This is especially true for districts with building capacities that far exceed enrollment numbers. Many interviewees felt that the large five percent marker (losing five percent or more of total size-adjusted ADM from year to the next) was hard to meet, especially for larger districts. Interviewees felt that an approach that took into account year-to-year declines would be more beneficial for districts.

The Hold Harmless conversation often brought up more general district budgeting concerns. Interviewees tended to feel that the current confluence of budget timing, contract renewals, the

legislative process, and October pupil counts makes for a very tenuous budgeting situation. Interviewees expressed an interest in creating a system that would give districts more certainty in funding in the fall. One option offered was having a system that would address declining enrollment before the five percent threshold, or even using prior year student counts for current year funding.

District Cost Factors: Interviewees made it clear that the District Cost Factors is an important adjustment for the state. Interviewees generally felt that structure of the adjustment was working well, but expressed that some costs were rising very quickly. These fast-rising costs included fuel prices and the per-pupil operations costs in smaller and/or remote districts. Districts also mentioned concerns over teacher housing and transportation of staff to and from trainings. The study team saw a similar theme in discussions of student activities, including sports and other student activities. It is clear that many districts struggle, generally, to provide opportunities for students to be well-rounded and to participate in such activities. Specifically, for high schools in smaller and/or remote communities, districts face very high costs for students to participate against other teams. Currently, districts rely a lot on local fundraising for student activities, which raises concerns that only those districts that can afford it will be able to offer these sorts of opportunities to students.

Special Needs Funding: When considering the Special Needs adjustment (for non-intensive special education, bilingual/bicultural, vocational, and gifted education), generally, interviewees felt that Special Needs adjustment allow districts to serve their students. However, interviewees indicated that they often had to prioritize serving non-intensive special education students with these dollars first. Depending on the number of non-intensive special education students they needed to serve, interviewees often mentioned having difficulty addressing the needs of vocational, gifted/talented, and bilingual/bicultural students with the remaining dollars. Therefore, participants from the highest-need districts did express a need for additional funds to be able to serve all students well. Interviewees liked the block grant model approach, as this model reduced paperwork, reduced the labeling of students, and provided districts with flexibility.

Vocational/Career and Technical Education (CTE) funding: Districts expressed that the generated funding from the CTE adjustment had helped them expand their CTE programs. Larger districts seemed to have been able to leverage this funding more effectively to provide more students with opportunities, often in centralized locations. Smaller districts were, once again, struggling to provide similar programs at smaller, separate sites.

Intensive Services: Interviewees were very supportive of the state's approach to Intensive Services funding. All interviewees expressed just how costly students who need intensive services can be, and they felt the 13 weight was very helpful in meeting these students' needs. There was concern that movement of these students into a district can be tough, especially smaller and/or remote districts, to handle. Having an intensive needs student move in after the count can lead to high, unfunded costs for the remainder of the school year. Even if the total number of intensive needs students in a district doesn't change, the unique needs of such students can leave a district with contract services that are no longer needed and/or no contract for needed services.

Correspondence: The recent shift in the Correspondence adjustment from counting each correspondence student as .80 to .90 has been well received throughout the state. There was some concern that, as some districts move towards blended learning models, the .90 may not cover the full cost of serving students being served by the approach if the students are only counted in the correspondence student category. There was also concern that, while students being served as correspondence students were eligible for special needs services, they were not part of the funding calculation for special needs students.

Transportation: Interviewees generally felt that transportation funding was working well. Some districts had concern that the per-pupil funding approach did not account for their transportation costs. This was especially true of districts covering larger geographic areas. Interviewees were also concerned over the shift in accounting for transportation, which will include a more detailed accounting of transportation expenses. Larger districts felt the shift might be an effort to eliminate funding for intra-district transportation often used to provide opportunities for students. They felt the elimination of this funding would hurt the districts' ability to utilize their economies of scale successfully. Finally, multiple districts mentioned the lack of competition in providers affected their ability to negotiate advantageous contracts for transportation.

Capital: Interviewees from across the state felt capital was a current concern that may be growing in the near future. Districts had various concerns on capital. Growing districts face keeping up existing facilities while needing to build new schools. Declining enrollment districts have capital maintenance costs that are a growing as a percentage of budgets. Older buildings, often built for higher enrollment numbers, are aging and districts must find ways to maintain the buildings budgets generated on lower student counts. Interviewees were very concerned with the state moratorium on Debt Reimbursement (one of three state programs for capital). C&B districts feel that the state's match makes it much more likely that bond elections will pass. REAAs are in a hard position where they have no ability to raise sufficient funds locally for capital, and are reliant on state funding programs and building requirements. Without sustained capital investment interviewees fear a decline in the condition of facilities across the state.

Local Effort: Interviewees generally recognized the difficulties in measuring wealth and taxing wealth in Alaska. There were broad opinions on the current approach to local effort in the state, especially around the different approaches in City and Borough (C&B) districts and REAA districts. A few interviewees expressed concern with the lack of contribution by REAA districts; especially those REAA districts the interviewees felt have taxable property. Most interviewees, however, felt that REAA districts were making large contributions through the Federal Impact Aid being used to offset local share. REAA districts felt that they were in a difficult position; most of these districts have no ability to generate funds locally, and feel entirely dependent on the state and without control over their revenues. Interviewees from C&B districts indicated that meeting required local contribution levels can be a challenge for their communities. Interviewees also mentioned the varied approaches to raising the 2.65 mill match. This match comes directly from property taxes in some districts, while others raise the dollars in other ways, often limiting, or even totally offsetting, the amounts raised through property taxes. Some interviewees questioned the use of in-kind contributions in some C&B districts. It was felt

that sometimes the value of the services provided is overstated, lowering the funds that need to be raised. Finally, a number of C&B districts further described that their local governments set very specific limits on the amounts of money they were willing to provide (often at the required minimum), and that there was little they could do to influence that decision. This is a product of districts being "dependent," meaning they do not have independent taxing authority. While addressing the governance structure of districts being dependent is outside of the scope of this study, it did present challenges in several districts.

The next chapter examines all aspects of Alaska's foundation formula in more detail. Responses from the interviews will be reiterated in each section, and will go into further detail in some cases.

Districts should be allowed to pick which school the students in a community under 10 are applied to. One stakeholder recommended that schools less than 10 ADM – which would typically have their ADMs added to those of the next smallest schools in their districts – should instead have their ADMs added to the largest schools in their districts. There are pros and cons to this approach. APA recommends allowing a district the freedom to decide where to add its smallest school's ADM, whether the ADM goes to the next smallest school, the largest school, or a school in between.

Alaska should create an average formula for schools affected by the community size cliffs at 100 and 425 students. The adjustment would be similar to the proposal seen in the Hold Harmless section, described in detail below. The adjustment would only apply to schools affected by the community adjustment cliff points. It would allow those schools to use a three-year averaging approach, described below. This recommendation keeps the economies of scale concepts described in the McDowell (1998) report, but takes into consideration a district's inability to make large resource shifts in any given year. It provides more stability for those schools affected by the community size provisions.

Alternatively, APA examined if a formula could be created to cushion the impact of these changes on the resulting size-adjusted ADM at the 100 student and 425 student cliff points. One option is to create a smooth formula between the cliff points by examining the impact of the change in funding between 100 students and 101 students. Assuming an equal distribution of students across all grades K-12, the 100-student community would receive 154.60 size-adjusted ADM and the 101-student community would receive 172.69 size-adjusted ADM. Making the cliff points less severe would be an attempt to create a smooth trend between the two points, similar to the smooth trend currently in the SSA for the student population changes not at the cliff points. A school at 47 students currently receives a 1.73 adjustment from the SSA, similar to the adjustment a community of 101 would receive based on the example above. The study team found that, to make the cliff points less severe, nearly every school between 47 students and 100 students would have to be adjusted. Having to adjust the formula for that many schools seems unreasonable and thus the averaging is recommended.

The SSA was first created in 1998, so it may be time to update the adjustment. In updating information, it is important to identify the minimum, or essential, program students should have access to statewide. Interviewees indicated that it is often difficult for the smallest schools in the state to provide an educational program beyond the core subjects. The state should consider: (1) identifying what educational opportunities and support services they want all students to have access to regardless of setting (such as art, music, technology, counseling/advisement) at all grade levels, which would be afforded by the Base Student Allocation (BSA), and then (2) identifying what the cost of providing those opportunities in an efficient manner would be at multiple school size points to create a School Size Adjustment. The current graduation guidelines provide a starting point at the high school-level. Any new adjustment should try to eliminate the potential cliffs described above.

District Cost Factor

The District Cost Factor (DCF) is an essential component of Alaska's funding structure that accounts for geographic variance between districts. As noted in Chapter IV, most states that use a Cost of Living

adjustment have cost structures where urban and suburban districts face the highest cost pressures and thus receive the highest Cost of Living adjustments. Only a few states use a Cost of Education adjustment similar to that of Alaska. Remote and isolated districts incur the highest costs and receive the largest DCF adjustments. This indicates that the DCF is generally responsive to districts' needs. Interviewees from districts around the state felt that the DCF adjustment was critically important, and that it generally provided the type and level of adjustment districts needed.

However, even with the DCF in place, many districts still struggle with the high costs of fixed operations costs, such as basic maintenance and fuel expenses. Interviewees indicated that it is difficult to keep up with these fixed costs and that negatively impacts the resources they have available for instruction. Many interviewees from remote districts also mentioned the high costs of participation in student activities, like sports. These interviewees felt that their districts were struggling to provide students with opportunities similar to those of students in other, larger districts. To generate enough money to cover the costs of student activities, remote districts had to raise large amounts of funds locally – a feat that may not be possible in all communities. Further, interviewees from more isolated districts indicated that these districts incur high costs to bring education specialists into their districts.

Recommendations

The study team believes Alaska's DCF is strong. The current DCF is also the most appropriate approach for the state, since the DCF accounts for the specific cost pressures Alaska's districts face beyond staff wages. These additional cost pressures include the costs of travel, energy, goods, and shipping.

Given that it has been 10 years since the last update of the DCF (ISER's work in 2005), it may be time to update the information in the DCF study to ensure it is responsive to current district needs. Alaska's current financial situation may make it a difficult time for the state to consider changes to the education funding system. However, to ensure that the school funding formula is responding to current district cost realties, the formula should be routinely reviewed as part of good school funding practice. Based on interviews with school district leaders around the state, the study team believes that all current DCF cost areas should remain in the formula. There are two costs that could be added to the program if they are deemed to be part of an essential education: the costs of student activities and the costs of travel for education specialists. It is important that all cost areas be evaluated in terms of their ability to help provide an appropriate instructional program.

Hold Harmless

The study team feels that Alaska's current Hold Harmless provision acts, in practice, more like what many states refer to as a Declining Enrollment adjustment. The term "Hold Harmless" often refers to a provision ensuring that a district will receive no less money in one year than it did in the prior year. Alaska's Hold Harmless provision does help districts stabilize their funding following large losses in enrollment; however, instead of holding any district "harmless" in the traditional, school finance sense of the word, the provision sets up a three-year pathway for a district's funding to gradually decrease.

Many other states use Declining Enrollment provisions that look similar to Alaska's Hold Harmless provision. Interviewees for this study felt that Alaska's provision was important. There was concern, however, that Alaska's current Hold Harmless provision does not recognize year-to-year losses in enrollment in a large number of districts. Instead, the provision tends to only recognize districts that have *very* large shifts in enrollment – leaving many districts struggling to address more subtle year-to-year declines that create funding challenges but do not trigger the Hold Harmless provision. This creates uncertainty for many districts about their ADM and the funding the can expect to receive each year. That uncertainty is compounded by the timing of state budgeting, the timing of employee contracts, and the timing of the October pupil count.

Further, because the Hold Harmless provision only kicks in for districts that lose five percent or more of their size-adjusted ADMs in one year, a decrease in enrollment of just one or two students can have a large impact on funding, as documented in Chapter IV. Since the Hold Harmless provision targets large, one-year declines, districts with larger multiple year drops (below the five percent threshold) may not receive any adjustment – even if their multi-year enrollment declines are actually more intense than the one-year declines in another district.

Recommendations

Alaska should create a true Declining Enrollment adjustment to replace the current Hold Harmless provision. This Declining Enrollment adjustment would be applied to all districts to ensure greater funding stability. This adjustment would benefit the large number of Alaska districts with declining enrollment. It would also provide districts with some more stability in planning, as districts would not be as concerned about unexpected changes in enrollments at the time of the October count. In the current system, unexpected changes in enrollments can make it difficult for districts to honor employee contracts signed in spring of the prior year. The study team modeled two possible approaches Alaska could use to create a true Declining Enrollment adjustment:

1. Best of Three-Year Averaging: Under this approach, districts would receive funding for whichever size-adjusted ADM is highest, between the current year, the average of the last two years, or the average of the last three years.

2. Weighted Average: Under this approach, the current year's size-adjusted ADM is highly weighted, and each of the two prior years' ADM receive less weighting. To model this approach, APA looked at the threshold percentages currently used in the Hold Harmless provision: 75 percent, 50 percent, and 25 percent. If these percentage thresholds are converted into a three-year weighted formula that add ups to 100 percent, but maintains the same proportional relationship, then the new formula will have yearly weights of 50 percent for the current year, 33.3 percent for the prior year, and 16.7 percent for the year two years prior.

Appendix D shows the district by district results when either of the alternative adjustments is applied. The models in Appendix C compare district ADMs under either approach against district ADMs under the

current Hold Harmless provision. The simulation is based on data from the Department of Education & Early Development (DEED) on the FY2015 Hold Harmless calculation. Appendix D shows the FY2012, FY2013, FY2014, and FY2015 size-adjusted ADMs for all districts, including Mt. Edgecumbe. It also shows the Hold Harmless ADMs for FY2015, with district ADM figures bolded where the Hold Harmless provision has been applied. Finally, it shows the results of the Three-Year Averaging and Weighted Average alternative approaches the study team created.

Total FY2015 size-adjusted ADM in Appendix D is 142,603.20. Twenty districts receive the current Hold Harmless provision, creating a total Hold Harmless-adjusted ADM of 142,903.10 – an increase of about three hundred ADM.

The Best of Three-Year Averaging approach, looking at FY2015, FY2014, and FY2013, produces a total ADM of 143,483.82 – an increase of over 880 ADM compared to the FY2015 size-adjusted ADM, or an increase of about 580 ADM compared to the current Hold Harmless ADM. The approach produces lower ADM figures for all of the Hold Harmless districts, with an average ADM decrease of 1.44 percent. This approach provides higher ADM figures for 30 districts above FY2015 size-adjusted ADM.

The Weighted Average approach shows a reduction of about 300 ADM compared to the current Hold Harmless ADM. Again, all current Hold Harmless districts have lower ADM. The Weighted Average approach provides higher ADMs for 26 districts, but reduces ADMs for growing districts.

Based upon this data modeling, APA recommends that Alaska use the Best of Three-Year Averaging approach, acknowledging that the net increase in ADM will cost additional dollars and may not be able to be implemented immediately due to budget constraints. APA believes the three-year averaging adjustment has a low overall impact, around a fifth of a percent of current District-Adjusted Average Daily Membership (DAADM), but provides stability for districts in planning and eliminates the cliffs present in the current Hold Harmless provision.

Special Needs Funding

The Special Needs adjustment provides a block grant to each district to provide additional resources for vocational education, non-intensive special education, gifted/talented education, and bilingual/bicultural education. Funding is not student population-specific, i.e. it is not adjusted for the differences in student populations across districts. The lack of both funding specific students and creating differential weights for different types of students concerns the study team. The data analyses in Chapters IV and VI show the large variation in need across the state. Districts have differences in their numbers of students in various special needs categories. When need factors[96] are examined, the differences are very large. APA's examination of student performance levels across districts also made it clear that special needs student populations, including special education, LEP, and Alaska Native

[96] Need factors are calculated based on proportion of students in each need category and using commonly accepted weights for each group. See Chapter IV for more detailed information about the calculations.

students, are not performing as well on the SBA as general education student populations, and may benefit from additional targeted dollars.

In Chapter VI, the study team also examined how the formula's multiplicative structure affects the imputed weights each district receives. When the Special Needs adjustment is multiplied by the SSA and the DCFs, it helps higher-need districts; however, it helps them in a non-strategic way – not at the scale needed to fully adjust for differential needs across districts.

The study team also recognizes that districts enjoy the flexibility and lower reporting requirements associated with the current block grant model of special needs funding. In APA's experience working with other states, student population-specific weights do *not* necessarily limit the districts' flexibility with, and local control over resource decisions. Instead, student-specific weights – which ensure that funding is based on a district's actual demographics – allow states to allocate resources in ways that are responsive to student needs, while leaving districts in control of how to use those resources (flexibility). States oversee districts through an accountability system that measures academic proficiency among the targeted populations.

Recommendations

The state should move towards a series of adjustments for special needs that are student population-specific and need-differentiated. The state should also consider providing an adjustment for at-risk students. This will require the state to identify the appropriate adjustment for each population of special needs students, and will require the state to collect comparable student population data for every district. The series of special needs adjustments could include adjustments for non-intensive special education, Limited English Proficiency (LEP), Alaska Native and Low Income students. The first three categories are the student populations shown as having a significant impact on district performance in Chapter VI. Additionally, low income students could also be funded, as states across the nation commonly provide these types of adjustments. Adjustments for at-risk students allow districts to fund more and higher-quality interventions for student most at risk of academic failure.

The study team modeled three possible approaches Alaska could take to implement student-based weights for Special Needs (presented in Appendix E):

1. Provide weights for non-intensive special education (.70 weight[97]), LEP (.50 weight), and Alaska Native (.40 weight) students. These weights are based on APA's experience with research-based adjustments for special needs students from across the country. This approach builds on the data from Chapter VI of this report, which discusses subgroup performances as well as the need for targeted resources for such subgroups.

[97] It is common to see a weight of 1.0 for all Special Education students, but given the weight suggested here will be for non-intensive special education students and not higher-cost, higher need intensive special education students, APA used a slightly reduced weight.