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History of the K-12 School Foundation Funding Formula: Details on Omnibus Rewrites, Average Daily Membership, Base Student Allocation, and Required Local Contributions

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You requested background on Alaska’s school funding formulas. Specifically, you were interested in the factors necessitating the most recent substantive rewrite of the foundation formula (AS 14.17.410); when and why were the base student allocation (BSA) and average daily membership (ADM) count first included; the rationale behind Alaska’s required local contribution (RLC), found at AS 14.17.410(b)(2); why the state reduces its portion of funding by the amount of local contribution; and if other states have a local contribution requirement like Alaska.

As you will see, some parts of Alaska’s school-funding structure have been long-standing, such as the required local contribution and average daily membership. Other aspects, such as the base student allocation, are relatively new in comparison.

The Alaska Supreme Court has described the **pre-statehood funding** of schools as follows:

Under the Alaska Compiled Laws of 1949, each city constituted a single school district and each had an obligation to provide public school services...Local school boards, which oversaw local school activities, had the power to assess, levy, and collect taxes to assist with this obligation to support their schools...Like today, local communities enjoyed discretion in determining how to satisfy their funding obligation. They could dedicate a special school tax to the purpose, or they could dedicate a portion of the general municipal tax to the purpose...Local communities also received support for local schools from the Territory. Territorial law provided for the legislature to refund a portion of local school expenses from time to time. The amount local communities received reflected a statutory formula that considered factors like the number of students in the district, the total amount the district spent to maintain its school system, and the expenses the Territory had approved in the district’s budget. Thus before Alaska became a state, local communities and the Territory together supported local schools, much like today.¹

Article VII, Section 1, of the Alaska Constitution subsequently placed a requirement on the legislature to provide a system of public education:

The legislature shall by general law establish and maintain a system of public schools open to all children of the State, and may provide for other public educational institutions. Schools and

¹ [State v. Ketchikan Gateway Borough](#), 366 P. 3d 86, (2016), in which the Court held that the required local contribution was not a “state tax or license” and, thus, did not violate the dedicated funds clause.

institutions so established shall be free from sectarian control. No money shall be paid from public funds for the direct benefit of any religious or other private educational institution.

Post-statehood, the basic school-funding structure can be understood as three main foundation formulas, enacted in 1962, 1970, and 1998.

First Foundation Formula: 1962 – 1970

Alaska’s first foundation formula was enacted in 1962 (ch. 164, SLA 1962), based on recommendations from a school finance study released by the State Board of Education in 1961.² Rather than simply reimbursing school districts for certain expenditures—as had been done prior to statehood—the State would assure that a certain level of monetary support was available to all school districts.

Although the first foundation formula was only in effect for five years, from the 1964-65 through the 1969-70 school years, it introduced several key ideas that would continue to be the basis for future funding formulas, among which were the following:

- The State would ensure a certain portion of funds required to meet the **basic need** of each district,
- Statewide standards would be set for **required local contributions** from each district, and
- Attempts would be made to **equalize** funding among districts with disparate abilities to raise funds themselves.

The first foundation formula was relatively simple, basing the amount of aid each district received on the number of teachers and administrators required, the number of schools, and the **average daily membership** (ADM) of students. Districts were required to submit an estimate ADM in advance of the fiscal year for which funding was claimed, taking into account “its average daily membership in preceding years, the pattern of growth or decline in preceding years, and any other pertinent information available to the district.”³ At the conclusion of the first nine weeks of the school year, the district was required to submit a revised ADM. The formula accounted for different costs of providing education in a multiplier applied to the ADM of each district: roughly, \$140 for those in Southeast, \$150 for those in Southcentral, and \$160 for those in the rest of the state.

For each district within an organized city or borough, a **local contribution was required**. The local contribution, which was **subtracted** from the foundation allocation to determine the amount of State aid a district received, was equal to one-half of each district’s federal impact aid money plus the **equivalent of a**

² “A Foundation for Alaska’s Public Schools, Report of a Survey for the Alaska State Board of Education,” 1961, by Erick Le Roy Lindman, is available from multiple libraries throughout Alaska including the Loussac Library in Anchorage, the Egan Library in Juneau, and the UA Library in Fairbanks.

³ Art. II, Sec. 2.02 (ch. 164, SLA 1962), attached.

3.5 mil levy within the district.⁴ Schools in the unorganized borough were fully funded by the state and operated by a division of the State Department of Education.

Changes made in the foundation program in subsequent years included accounting for special education and adding kindergarten students in enrollment counts.⁵

The state's share of support for education did not significantly increase as a result of the first foundation program and may, in fact, have been lower on average than under the reimbursement program.⁶ It is noteworthy that, during the years of the first foundation program, the state was still recovering economically from the 1964 earthquake.

The state's fiscal landscape drastically changed in 1969, with the North Slope oil lease sale, for which the state received about \$900 million. These funds pressed lawmakers to address a large backlog of unmet needs and increasing demands, paying particular attention to education. The legislature **repealed the local contribution** and state aid was increased to cover the entire basic need of each district. Modeled after the federal impact aid program, additional state aid was also provided to districts affected by state activities.⁷

A second school finance study, completed in 1970, and similar to the one completed in 1961, identified several problems with the existing funding formula, including variations among districts in their abilities to support education from local sources. Recommendations from the study included adopting an "equalized percentage method" for determining the state's share of support to each district.⁸

Second Foundation Formula: 1971 – 1998

In 1970, lawmakers enacted the second foundation formula (Chapter 238, SLA 1970), which made several significant changes from the previous program.

First, the factors used to calculate basic need in the first formula—numbers of teachers and administrators, enrollment, and number of school buildings—were combined into **base instructional units**. The instructional unit was designed to approximate the cost of educating a group of students, essentially, a classroom, without specifically funding the factors that comprise education operating costs. The lack of specification was thought to make the instructional unit more adaptable to specific district characteristics.

The value of the base instructional unit started at \$19,250 in FY 1971 and was amended multiple times. Before the second foundation formula was repealed in 1998, the base instructional unit value stood at \$61,000.

A second major difference concerned the treatment of **local contributions**, which were reinstated under the second foundation program. The new formula included an **equalization percentage** that attempted to make local contributions among school districts more equitable by requiring a larger local share from

⁴ Public Law 81-874, enacted in 1950, authorized the federal government to compensate school districts for losses in property tax revenue resulting from presence of tax-exempt federal property within the district. This compensation is referred to as *federal impact aid*.

⁵ Chapter 70, SLA 1963 and Chapter 153, SLA 1966, respectively.

⁶ See "A General History of Public School Finance in Alaska," by Dr. Nathaniel Cole for the Alaska Department of Education, 1986; available at the Legislative Reference Library.

⁷ Chapter 95, SLA 1969.

⁸ "The Final Report and Recommendations of the Advisory Council on State Financial Support to Public Schools," 1970, is available at the State Historical Library. The study's recommendations are also included in *A General History of Public School Finance* at p. 35.

districts with higher property values. Included in the equalization percentage was a ratio measuring the district's wealth relative to the average wealth of all districts in the state.

Not surprisingly, oil revenues allowed the state to provide increasingly more funding within the formula. Initially, state aid was to constitute at least 90 percent of the basic need of each school district, with some districts receiving more as a result of equalization, but the guaranteed percentage steadily increased until the state guaranteed 100 percent of each district's basic need.

Increases in the base instructional unit value, the inclusion of bilingual-bicultural programs in instructional unit calculations in 1977, and other changes in the methods used to calculate the number of instructional units also allowed districts to generally receive more state support.

The 1970s also brought change to the structure of education within the unorganized borough. First, in 1970, the State-Operated School System was established as an independent agency to provide for public education in the unorganized borough, a job formerly administered by the Alaska Department of Education.

Then, in 1972, a class action lawsuit, widely referred to as the *Molly Hootch* case, was brought against the State-Operated School System on behalf of a group of Alaska Native children.⁹ The suit sought to compel the state to provide secondary schools in historically Native communities without public secondary schools or daily transportation to such schools, as it had in predominantly non-Native communities. After a year of negotiations, the parties entered a settlement requiring the state build and operate secondary schools in the 126 villages subject to the suit, unless the community opted out.¹⁰

Before the case settled in 1976, the State-Operated School System was replaced with Rural Education Attendance Areas (REAs).¹¹ School sites still operated by the Bureau of Indian Affairs were gradually incorporated into REAs. Unlike schools under the State-Operated School System, REAs were funded using the state foundation formula, although without any required local contribution due to the lack of taxing authority of communities within the unorganized borough. State funding for REAs was calculated using the average local tax appropriation per ADM in city and borough districts.

In 1980, changes were made to the funding formula to eliminate differences in funding for REAs and other districts. The formula no longer explicitly mentioned required local effort and the equalization percentage, and added "supplemental equalization aid," applicable to all districts and REAs. Supplemental equalization aid was calculated based on average local tax contributions per ADM in city and borough districts, adjusted by an instructional unit allotment multiplier for each district or REA.

The foundation program remained basically intact until 1983, when it was suspended. During the three years when the foundation program was suspended (1983-84 through 1985-86 school years), school districts were funded according to their enrollments, receiving the equivalent of the amount per student received during the 1982-83 school year, adjusted for inflation. The foundation program was reinstated for

⁹ The case is formally known as *Tobeluk v. Lind*, 589 P. 2d 873 (1979). Molly Hootch, a 16-year-old from Emmonak, was the first-named plaintiff in the case, then-captioned, *Hootch v. Alaska State-Operated School System*. By the time of the settlement, Molly Hootch no longer belonged to the class, and Anna Tobeluk, a resident of Nunapitchuk, became the first-named plaintiff. Marshall Lind, Commissioner of Education, became the first-named defendant, when the state implemented the REA system during the case's pendency. Nevertheless, the case and the settlement, continue to be widely referred to under the name of *Molly Hootch*.

¹⁰ A variety of documents pertinent to the *Molly Hootch* case and other aspects of the history of Native rural education can be located at www.alaskool.org, maintained by the Alaska Native Curriculum and Teacher Development Project, and coordinated by ISER.

¹¹ Chapter 124, SLA 1975.

the 1987-88 school year with substantial changes, including separate instructional unit formulas for small and large districts.

In 1991, the Institute of Social and Economic Research (ISER) published a report authored by Matthew Berman and Eric Larson, "[Education Equity and Taxpayer Equity: A Review of the Alaska Public School Foundation Funding Program](#)," that details education funding from 1970 through 1990. The authors detail the numerous statutory changes to the formula over the first 20 years it was in effect, including citations for each.¹²

Third Foundation Formula: 1998 – Present

Work to change the foundation formula began again in the late 1990s. In 1997, the Legislature appropriated \$500,000 to the Legislative Budget and Audit Committee in part for a study of the costs of operating a school based on school size and geographical location. A contract, to complete this work, was eventually awarded to the McDowell Group (now McKinley Research), which went on to publish the "Alaska School Operating Cost Study."

Also in 1997, Senator Randy Philips sponsored Senate Bill 36. The sponsor statement for the bill reads, in part, that "state funding for public schools in Alaska has been distributed based on a formula that provides a disproportionate share of funding to small rural school districts at the expense of larger districts."¹³ The bill proposed to rewrite the foundation formula, and the McDowell Group study is referenced in its bill history file.¹⁴

After introduction, Senate Bill 36 drew criticism from rural school districts for its goal of redistributing funds from rural to urban school districts. News reports from the time stated that the bill would have shifted \$31 million in funding in this way. An ISER [report](#) related to school funding briefly discusses Senate Bill 36, stating:

The primary intent of the change was to provide tax relief to large urban school districts during a period in which the legislature was also reducing state revenue sharing with local governments. Anchorage, Fairbanks, and Juneau received about 5% more revenue under the new formula, while most school districts serving smaller communities received less.

After passage in the Senate, the House made structural changes to the bill to alleviate most of the impact to rural schools.

We have attached some contemporaneous news articles detailing progression of the bill through the legislature, for your review.

Governor Knowles signed SB 36 ([Chapter 83, SLA 1998](#)) into law in 1998. Among other things, the bill changed the way the state funds its public schools, including the introduction of the **base student allocation** (BSA).¹⁵ The BSA is a **per student** monetary allowance made in the funding formula to each

¹² Another resource you may find helpful is "Evaluating School Finance in Alaska," a report by the Education Commission of the States for the Alaska Department of Education, 1983, which is available at the Legislative Reference Library.

¹³ SB 36 Sponsor Statement, attached.

¹⁴ "Alaska School Operating Cost Study" and "Questions and Comments," published by the McDowell Group, March 1998, attached.

¹⁵ The Alaska Department of Education and Early Development provides an overview of the current *Funding Foundation Formula*, which also includes other resources you may find to be helpful.

school district. Testimony offered during hearings on Senate Bill 36 indicate that, at the time, Alaska was one of seven states that funded schools by instructional units, rather than on a per student basis.¹⁶

In December 2000, Governor Knowles appointed an Education Funding Task Force, comprised of 11 members, including the director of the Alaska Council of School Administrators, a member of the State Board of Education and Early Development, a former school superintendent, a long-time teacher, and others. The task force issued its report in February 2001 recommending additional funding both inside and outside the foundation formula, and a loan assumption plan, similar to a forgiveness plan, to attract and keep new teachers.¹⁷

In 2008, on the basis of recommendations from the Legislature’s [Joint Legislative Education Funding Task Force](#), several changes to the education funding formula statute were made, including an increased adjustment to the ADM for intensive need students, increases in the BSA for fiscal years 2009-2011, and the implementation of district cost factors.¹⁸ Using the Anchorage School District as a baseline, district cost factors adjust the ADM of other districts to reflect the varying cost of providing education in the state.

Current Funding Formula

The funding formula is complex but, in simplified terms, each district’s basic need is determined by multiplying the base student allocation by the district’s adjusted average daily membership (ADM). First, the district determines the ADM by way of a 20-day count of students ending the last Friday in October. The ADM is then adjusted by a series of factors, including:

- School size factor, adjusted for the hold harmless provision,
- District cost factor,
- Special needs factor,
- Career and Technical Education factor, adjusted for the consolidation of schools provision;
- Intensive services factor; and
- Correspondence student factor.

The adjusted ADM is then multiplied by the BSA to determine each district’s **basic need**.

The following table shows the amounts of the BSA since enactment, and those amounts adjusted for inflation. As you can see, the BSA has remained relatively static over the years, in inflation adjusted terms, despite increases in the amount of funding in nominal dollars.

¹⁶ Senate Finance Committee and Senate Health, Education and Social Services Committee *Town Meeting on School Funding Reform*, November 24, 1997. Testimony of Chairman Wilken.

¹⁷ “A+ Report to the Governor and the State Board of Education and Early Development” by the Education Funding Task Force, dated February 1, 2001, is attached.

¹⁸ House Bill 273, (ch. 9, SLA 2008). Among other things, HB 273 also recalibrated pupil transportation funding, increased the adjustment to the BSA for intensive need students, and increased the BSA for fiscal years 2009-2011.

Base Student Allocation - AS 14.17.470			
FY	Amount	Adjusted for Inflation to 2022 Dollars ¹	Statute
1998	\$3,940	\$6,775	SB 36 (ch. 83, SLA 1998)
2001	\$4,010	\$6,552	SB 174 (ch. 95, SLA 2001)
2003	\$4,169	\$6,423	SB 202 (ch. 54, SLA 2003)
2004	\$4,576	\$6,528	HB 233 (ch. 58, SLA 2004)
2005	\$4,919	\$6,971	HB 1 (ch. 6, FSSLA 2005)
2006	\$5,380	\$7,317	HB 13 (ch. 41, SLA 2006)
2008	\$5,480	\$7,681	HB 273 (ch. 9, SLA 2008)
2009	\$5,580	\$7,367	
2010	\$5,680	\$7,408	
2014	\$5,830	\$7,354	HB 278 (ch. 15, SLA 2014)
2015	\$5,880	\$6,848	
2016	\$5,930	\$6,832	
2022	\$5,960	Not Applicable	HB 114 (ch. 40, SLA 2022)

Notes: Dollar amounts are rounded to the nearest whole dollar. Inflation adjustments should be read as the purchasing power of the given BSA amounts in 2002 dollars. For example, the 2016 BSA of \$5,930 would need to be raised to \$6,832 to have the same purchasing power in 2022. Inflation adjustments are Legislative Research calculations based on the "Urban Alaska" (Anchorage) Consumer Price Index compiled by the U.S. Bureau of Labor Statistics Consumer Price Index (CPI) for June 30 of each year listed. Therefore, those figures roughly correspond to the beginning of the state fiscal year--the date on which BSA changes become effective.

State aid is equal to basic need minus the required local contribution and 90 percent of eligible federal impact aid. The required local contribution of a city or borough school district is the equivalent of a 2.65 mil tax levy on property within the district but not more than 45 percent of a district’s basic need. Additionally, the state may only deduct the amount of federal impact aid from its portion of funding if the state passes a disparity test, which compares districts to each other. If the disparity between high and low-funded schools is less than 25%, then the schools are considered equal and the state can reduce its funding by the amount of federal impact aid.

For a more in-depth look at the current funding formula, we suggest the *Citizen’s Guide to K-12 Funding in Alaska*.

Required Local Contribution

As noted earlier, local communities have shared responsibility for school funding since territorial days. In 1962, the legislature enacted AS 14.17.030, which required local effort in the “equivalent to the amount which would be raised from a mill levy on the full and true value of taxable real and personal property within the district.” This statute was amended the following year to specify a levy rate of 3.5 mills. State aid was determined after subtracting the local contribution and federal impact aid. However, the local contribution requirement was repealed in 1969 with the increase in state funds due to oil lease sales.

In 1987, the legislature enacted AS 14.17.025, which included a required the lesser of a local contribution in the equivalent of a four-mill tax levy, or 35% of the district’s basic need from the previous fiscal year.

In 1998, when the legislature rewrote the foundation formula, it renumbered the required local contribution to (AS) 14.17.410(b)(2). As enacted, the contribution requirement retained the four-mill rate from previous iterations but increased the cap to 45% of the district’s basic need from the previous fiscal year.

In 2001, the legislature passed Senate Bill 174 (ch. 95, SLA 2001) which provided that only 50% of the annual increase in assessed property value from 1999 could be included for purposes of calculating the required contribution to school funding from a city or borough school district.

In 2012, the Legislature reduced the mill rate for the required local contribution from four to 2.65 mills. However, it also repealed the 2001 provision that had reduced by 50% the assessed value upon which the four-mill rate was calculated.

We have attached prior versions of the required local contribution statutory provisions, as well.

Local Contribution Requirements in Other States

The administration of public schools has historically been a subject of local control and, as such, Alaska is not unique in its local contribution requirement. In fact, as noted by “A General History of Public School Finance in Alaska,” the average state support for schools during the final territorial years—and prior to the passage of the first foundation formula in 1962—was 60%, which the report’s author considered “exceptionally good compared to other states’ support for education (which averaged less than 50 percent in the late 1950s and early 1960s).”¹⁹

In general, the federal government contributes around seven to 10 percent of school funding in the states, with the remainder roughly split between state and local governments. Property tax levies are one of the traditional methods of school funding, and, in some jurisdictions, school districts have their own independent levy authority.

We reached out to our colleagues at the National Conference of State Legislatures (NCSL) to locate data regarding local contribution requirements in other states and NCSL Senior Education Fellow Daniel Thatcher provided the *EdFund: National Policy Map*, which includes interactive data regarding all fifty states. While we did not review all state contribution requirements, we note that Alabama, New York, Kentucky, Maine, and Minnesota have contribution requirements similar to that of Alaska, where state funds are offset by the local requirement. We note that, although other states require localities to contribute to public education, the source of the funds may not come solely from property taxes – some contributions are funded by license fees, power line taxes, alcohol fees, and sales taxes, and other revenue sources.

For additional comparison, the Washington Office of Superintendent of Public Instruction published a 2020 report titled “[Organization and Financing of Washington’s Public Schools](#)” which provides a detailed overview of its funding base at page 69, which you might find helpful.

Lastly, the Urban Institute has an interactive [webpage](#) from 2017 modeling several types of funding mechanisms, which you may find useful.

We hope this is helpful. If you have questions or need additional information, please let us know.

¹⁹ *Id.* at footnote 7.