

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Legislative Finance Division

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Juneau, Alaska
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MEMORANDUM

DATE: September 30, 2024

TO: Senator Löki Tobin
Attn: Michael Mason

FROM: Conor Bell
Fiscal Analyst

SUBJECT: Impact of Inflation on K-12 Funding

You asked for a comparison of Alaska's K-12 foundation formula funding to inflation from FY11 to FY25.

Background on Foundation Formula

Alaska's K-12 foundation formula (AS 14.17) is the largest source of funding for Alaska's school districts. The formula is based on multiplying the actual student count on Alaska's schools (known as the Average Daily Membership, or ADM) by a series of factors to adjust for differences between districts, including a school size factor and district cost factors, as well as block grants for special education and career and technical education, to arrive at an adjusted student count (Adjusted Average Daily Membership, or AADM). The AADM is then multiplied by the Base Student Allocation (BSA) to arrive at Basic Need, the total amount of funding provided by the formula. Basic Need is then paid by a combination of required local funding for municipal school districts, deductible federal impact aid, and State funds.

In addition to funding inside this formula, the legislature has frequently included one-time funding outside the foundation formula but distributed in the same way as the formula. This outside the formula funding makes comparisons across years that only use the BSA somewhat incomplete. This analysis will provide both comparisons to provide a fuller picture.

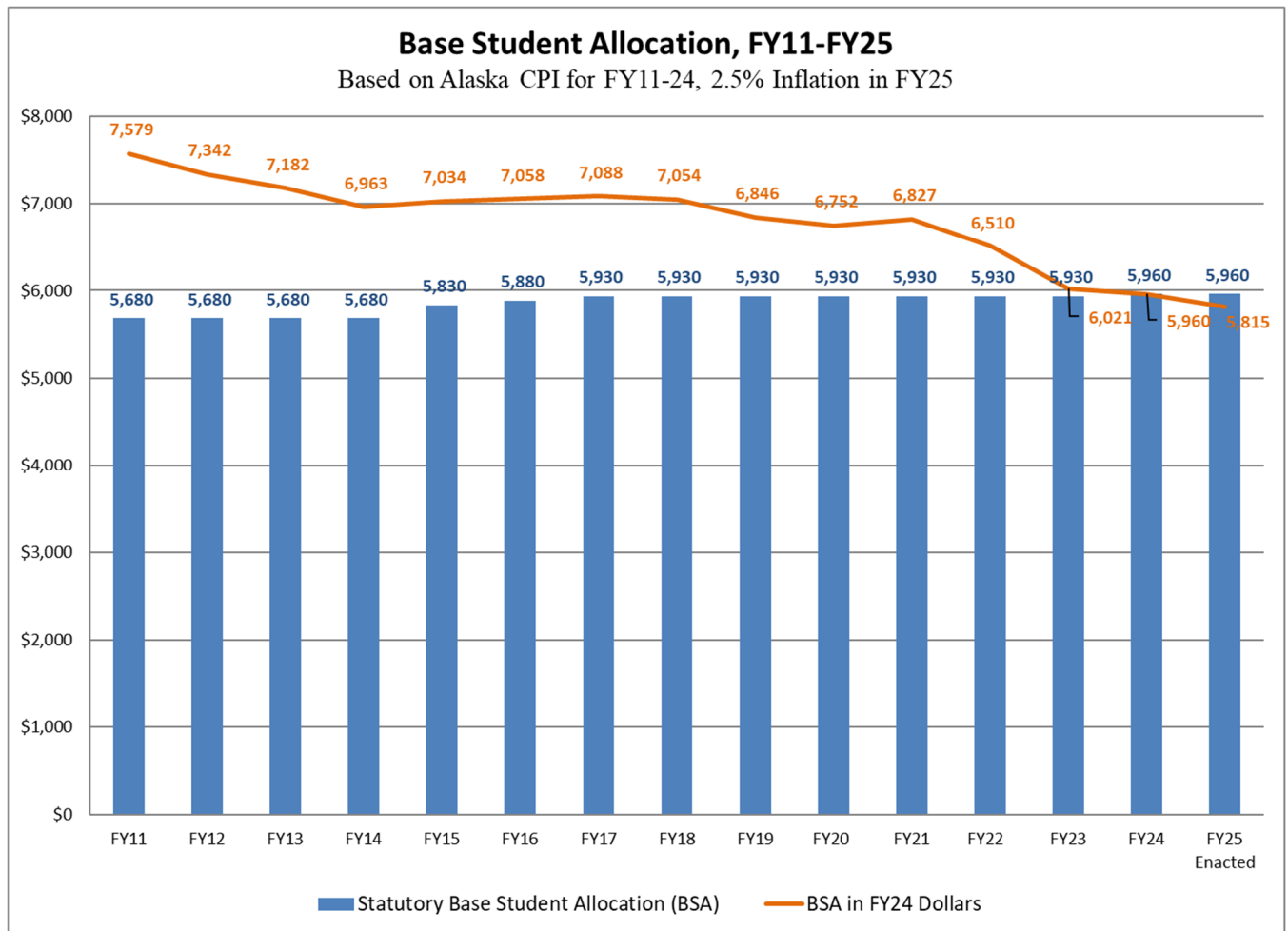
Impact of Inflation from FY11 through FY25

This analysis equalizes funding to the level in calendar year 2023, the most recently completed year, and applies that to FY24. It then assumes 2.5% inflation in FY25 (based on Callan and Associates' assumptions that are used by the Alaska Permanent Fund). The inflation data is the federal Bureau of Labor Statistics data for all urban Alaska consumers.

| | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 |
|----------------------------|------|------|------|------|------|------|------|------|------|------|-------|------|------|------|------|
| Previous CY Inflation Rate | 1.8% | 3.2% | 2.2% | 3.1% | 1.6% | 0.5% | 0.4% | 0.5% | 3.0% | 1.4% | -1.1% | 4.9% | 8.1% | 1.5% | 2.5% |
| Inflation Factor to FY24 | 1.33 | 1.29 | 1.26 | 1.23 | 1.21 | 1.20 | 1.20 | 1.19 | 1.15 | 1.14 | 1.15 | 1.10 | 1.02 | 1.00 | 0.98 |

This table can be read to say that one dollar appropriated in FY11 would have the same buying power as \$1.33 appropriated in FY24.

Base Student Allocation Adjusted for Inflation



The BSA was \$5,930 from FY17-23 and is \$5,960 in FY24-FY25. The peak year over the past fifteen years, adjusted for inflation, is FY11, which would be \$7,579 in FY24 dollars, while the FY25 figure is \$5,815 in FY24 dollars. Adjusting that FY11 figure to projected FY25 dollars would total \$7,768. To match the buying power of the FY11 BSA in FY25, the BSA would therefore need to increase by \$1,808, from \$5,960 to \$7,768.

Depending on which year is selected as the base, “inflation-proofing” the BSA would require different amounts. Therefore, which year is selected as the “base” for inflation-proofing makes a substantial difference in how much the formula would need to be adjusted.

Incorporating Outside-the Formula Funding

In Fiscal Years 2012-2015, 2019, 2020, and 2023-2025, the legislature appropriated additional funding outside the formula ranging from \$20 million to \$175 million. This funding is distributed according to the formula, and so the following graph converts it into a BSA equivalent.

