



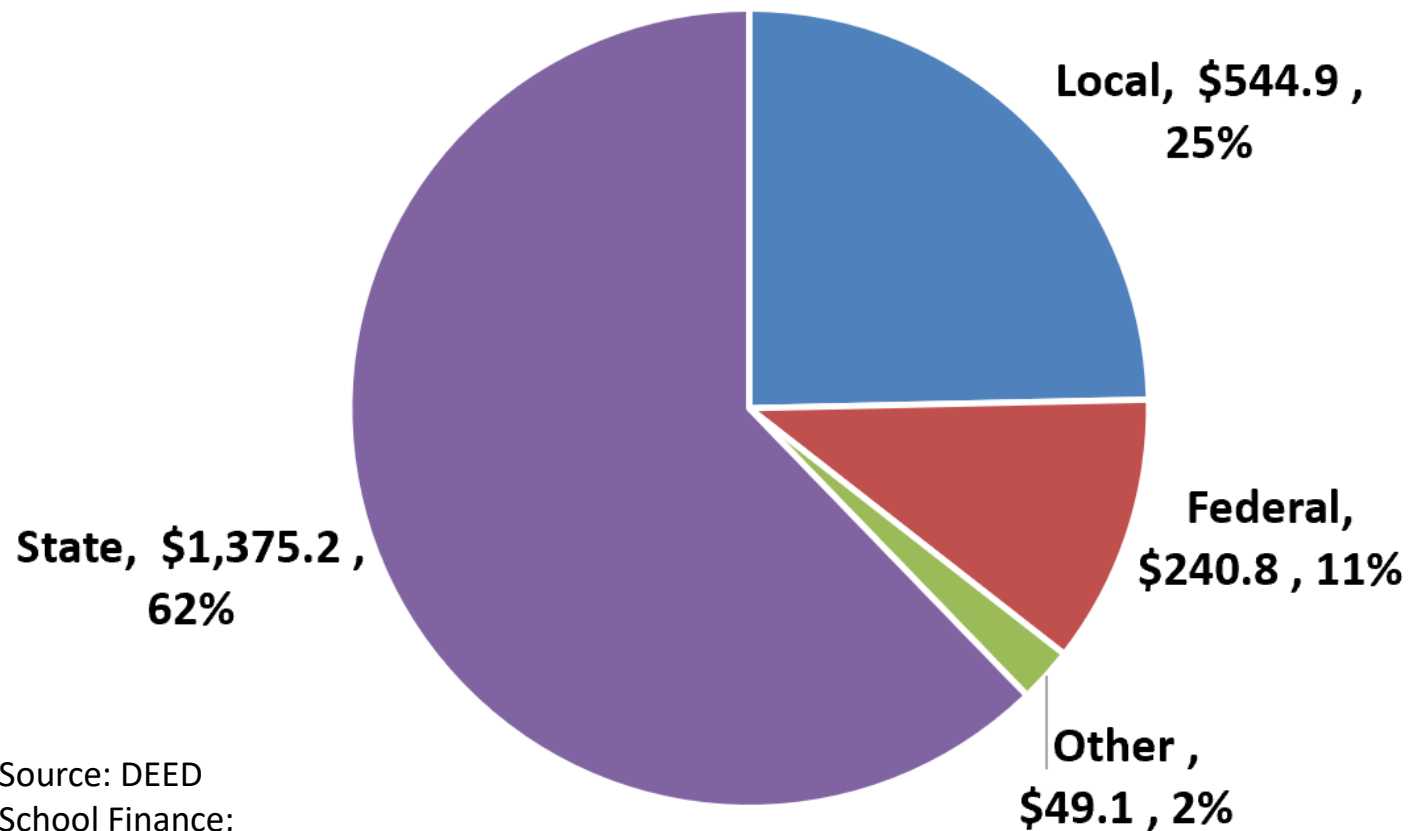
K-12 Funding Overview and History

Task Force on Education Funding
August 25, 2025
Legislative Finance Division

Outline

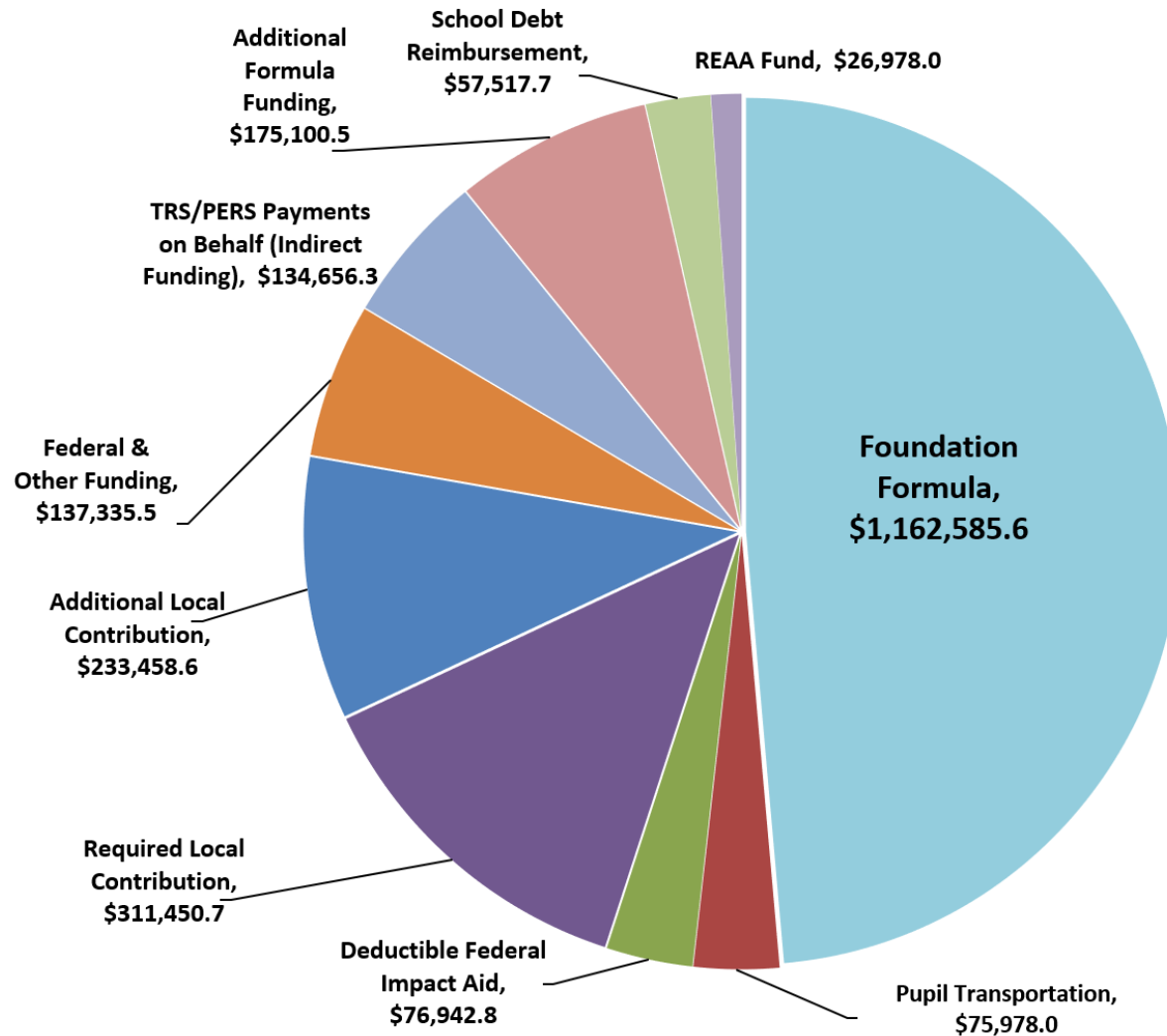
- Funding Sources for School Districts
 - State, federal, and local sources
 - Direct versus indirect sources
- Basics of State Foundation Formula
- State Formula Funding History
 - Impact of factors in the foundation formula
 - Changes over time
- Federal Impact Aid and the Disparity Test
- Capital and Other Funding
- Funding Levers for the Legislature

FY25 School District Budgeted Revenues by Payor



Source: DEED
School Finance;
compiled by LFD

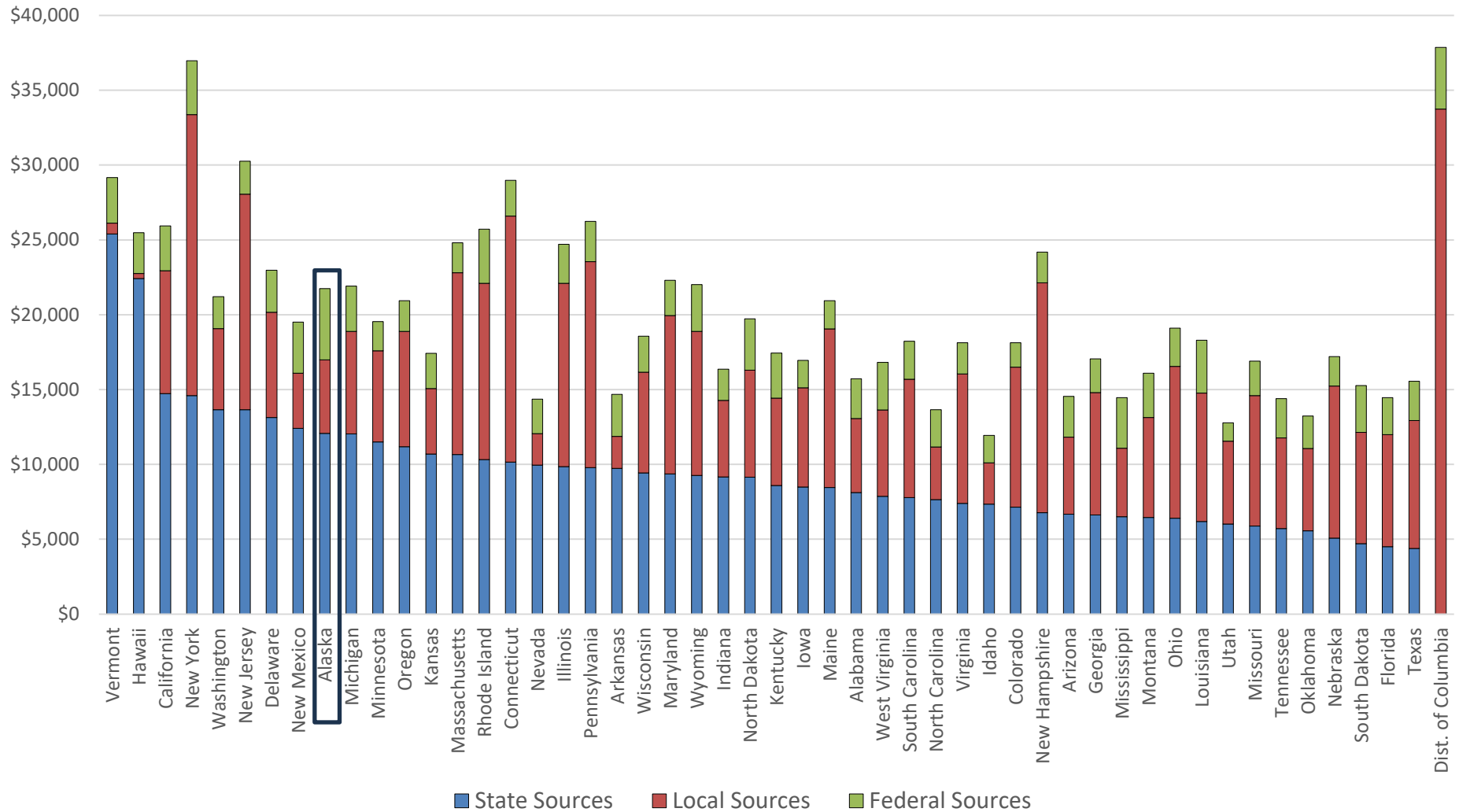
FY25 Sources of Funding for School Districts



Direct versus Indirect Sources

- School districts receive *direct* funding through the State foundation and pupil transportation formulas, federal impact aid and title programs, municipal contributions, and E-Rate funding.
- They also receive *indirect* funding that does not show up in their revenue reports but is spent by the State on their behalf. This includes PERS and TRS funding above the employer caps, school debt reimbursement, school construction and major maintenance funding.
- The Census Bureau's school finance data (used for cross-state comparisons) includes PERS and TRS funding but not other indirect sources.
- Most of this presentation will focus on the foundation and pupil transportation formulas, as well as municipal contributions.

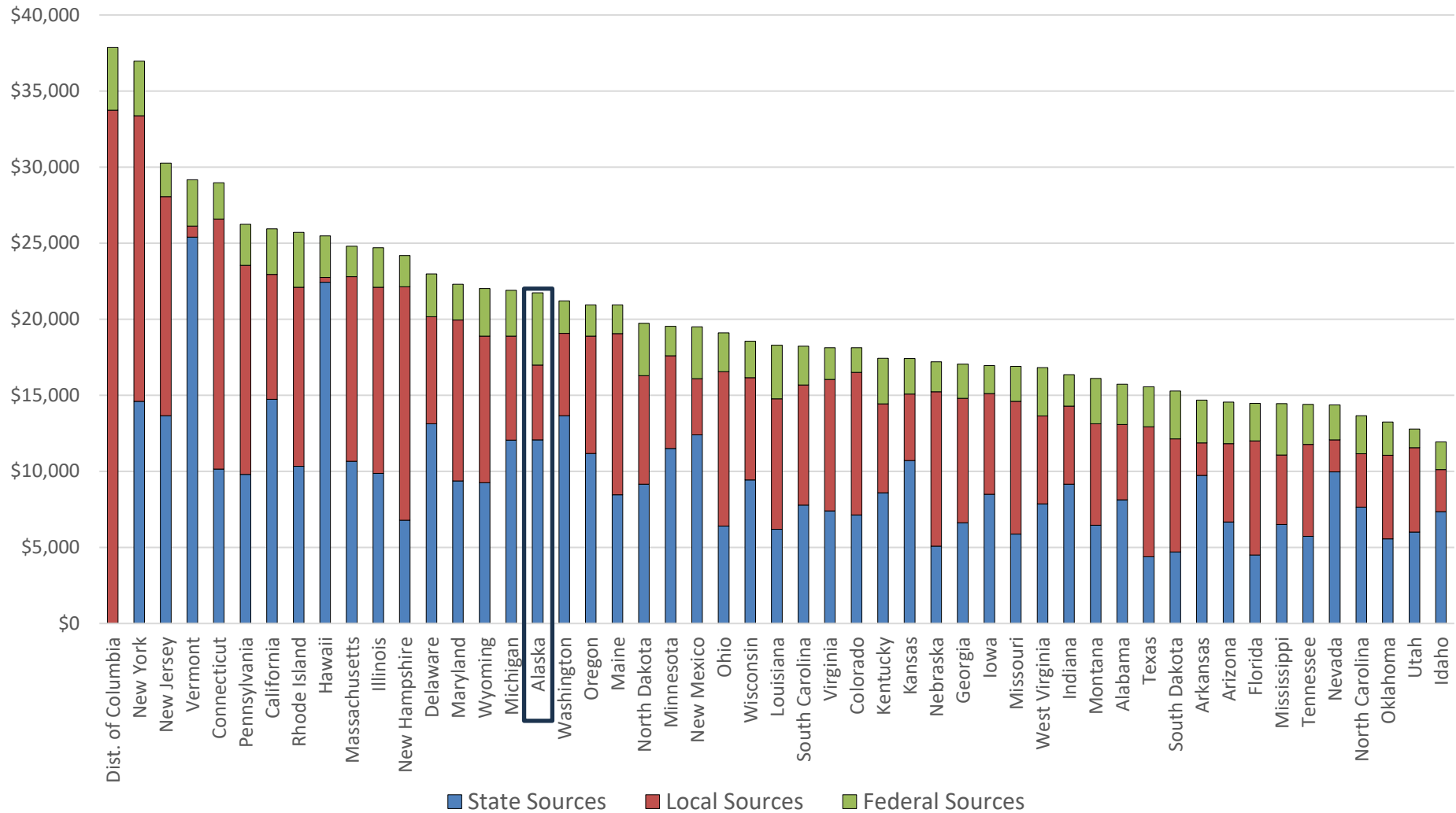
All States Education Funding FY23 – Sorted by State Funding



Source: US Census Bureau

Legislative Finance Division

All States Education Funding FY23 – Sorted by Total Funding



Source: US Census Bureau

Legislative Finance Division

Notes on National Comparisons

- In FY23, Alaska was 9th in State funding for school districts.
- Alaska was 14th in the proportion of funding coming from the State government, with 55.5% (compared to a national median of 45.1%).
- By total revenue, Alaska was ranked 17th.
- ISER has done comparisons in the past that adjust for cost-of-living differentials.

Basics of Foundation Formula

- Amounts for the Foundation Formula and Pupil Transportation Formula are appropriated to the Public Education Fund (PEF)
- Funding flows to districts from the PEF according to the statutory formula without further appropriation
- Funding is typically appropriated as a language item for the amount necessary to fund the formula rather than a fixed dollar amount
- Formula funding is subject to appropriation

Basics of Foundation Formula (cont.)

- Average Daily Membership (ADM) – student count taken in 20-day period ending in the last Friday in October
- Adjusted Average Daily Membership (AADM) – student count as modified by factors:
 - Correspondence students are not multiplied by other factors, but count as 0.9 ADM
 - Non-correspondence student count is multiplied by:
 - School size factor, providing more funds per student for smaller schools. District values range from 1.13 (Anchorage) to 3.77 (Aleutian Region)
 - District cost factor, adjusting for cost differentials between districts. Values range from 1.000 (Anchorage) to 2.116 (Yukon Flats)
 - Special Needs Factor, a block grant multiplying every district's ADM by 1.20
 - Career and Technical Education (CTE) Factor, a block grant multiplying every district's ADM by 1.015
 - Special Education (SPED) Intensive factor, providing 13x ADM for special education students in a high-need category
- The AADM is then multiplied by the Base Student Allocation (BSA) to get Basic Need
- Basic Need is paid by a combination of the required local contribution, deductible federal impact aid, and state aid.

Foundation Formula – Adjustment Factors

Example: FY26 Projected Fairbanks North Star Borough
Going from ADM of 11,626 to AADM of 23,187

Factor	Calculation	Explanation
ADM	11,626	October student count
Non-Correspondence ADM	10,849	Removing 777 correspondence students
With School Size Factor	12,928	Differs by school
With District Cost Factor	13,833	Fairbanks' is 1.070
With Special Needs Factor	16,600	1.2 multiplier
CTE Factor	16,849	1.015 multiplier
With SPED Intensive	22,488	388 students * 13 = 5,044
With Correspondence	23,187	777 * 0.9 = 715.5

Foundation Formula – Other Provisions

- Hold Harmless
 - For school districts with a reduction in ADM of at least 5% from the prior year, the reduction is phased in over three years
- Consolidation of Schools
 - For districts that consolidate one or more schools, leading to reduced school size factors
 - Funding reduction phased in over four years
- Contingent Effects in HB 57
 - If SB 113 (highly digitized businesses tax bill) is enacted, then starting the next fiscal year after it takes effect:
 - Vocational factor will increase from 1.015 to 1.023
 - Reading proficiency incentive grants of \$450 per student in grades K-6 who performs at grade-level reading proficiency or demonstrates improvement in reading throughout the year.

Foundation Formula History

- Since the current formula was established in 1998, the legislature has modified the factors several times. This means that \$1 in the BSA in FY99 is not equivalent to \$1 in the BSA in FY25.
- District Cost Factors: Original factors were modified in 2008 to implement a study conducted in 2005, based on FY00-03 data. The new factors were phased in from FY09-13.
- The Intensive Special Education factor was increased from 5x to 9x in FY10, to 11x in FY11, and to 13x in FY12.
- The Career and Technical Education (CTE) factor was added in FY10 at 1.01 (or 1%).
- In FY15, the Career and Technical Education Factor was increased to 1.015, and the Correspondence Multiplier increased from 0.8 to 0.9.

Changes in State and Local Contributions

- 33 of Alaska's 52 school districts are in organized areas, meaning that their boundaries correspond to municipal boundaries. The remaining 19 districts are Regional Educational Attendance Areas (REAAs), with no municipal government and no taxing power.
- Municipal school districts have a required local contribution and a maximum local contribution.
- Until FY01, the required local contribution is the lesser of 4 mills (0.4% of property value) or 45% of Basic Need. From FY02 to FY11, only 50% of the increase in property values could be added to the local contribution each year, resulting in many districts paying less than 4 mills. From FY12 on, the contribution has been fixed at 2.65 mills or 45% of Basic Need.
- The maximum optional local contribution for most districts is 23% of Basic Need, allowing Alaska to pass the federal disparity test (which requires no more than 25% difference in funding per AADM and allows Alaska to deduct \$81 million of federal impact aid from the State share of funding).

Student Count (ADM), FY06-26

FY17 Total ADM: 130,295

FY17 Correspondence ADM: 12,242

FY17 Non-Correspondence ADM: 118,053

FY26 Total ADM: 124,679

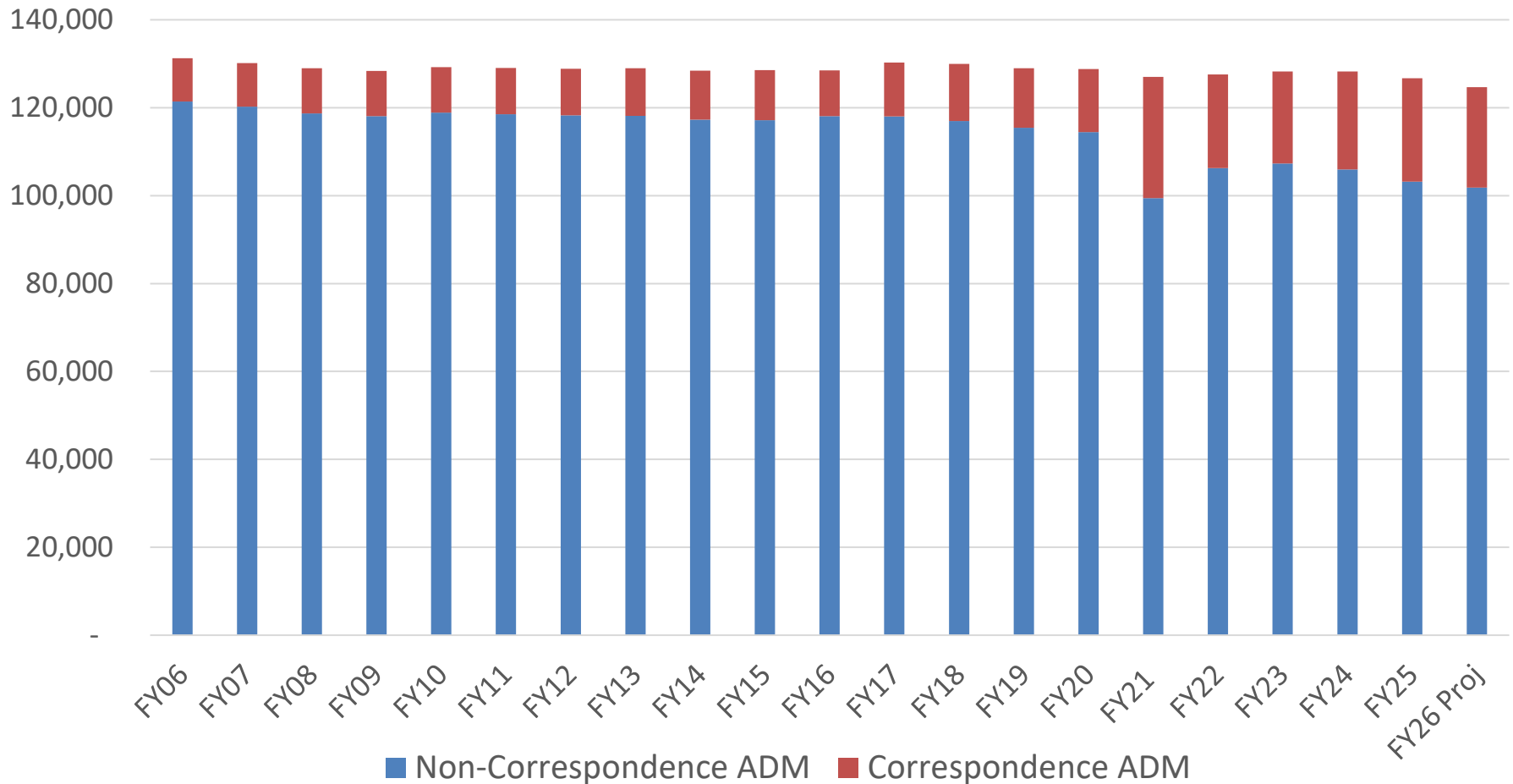
FY26 Correspondence ADM: 22,840

FY26 Non-Correspondence ADM: 101,840

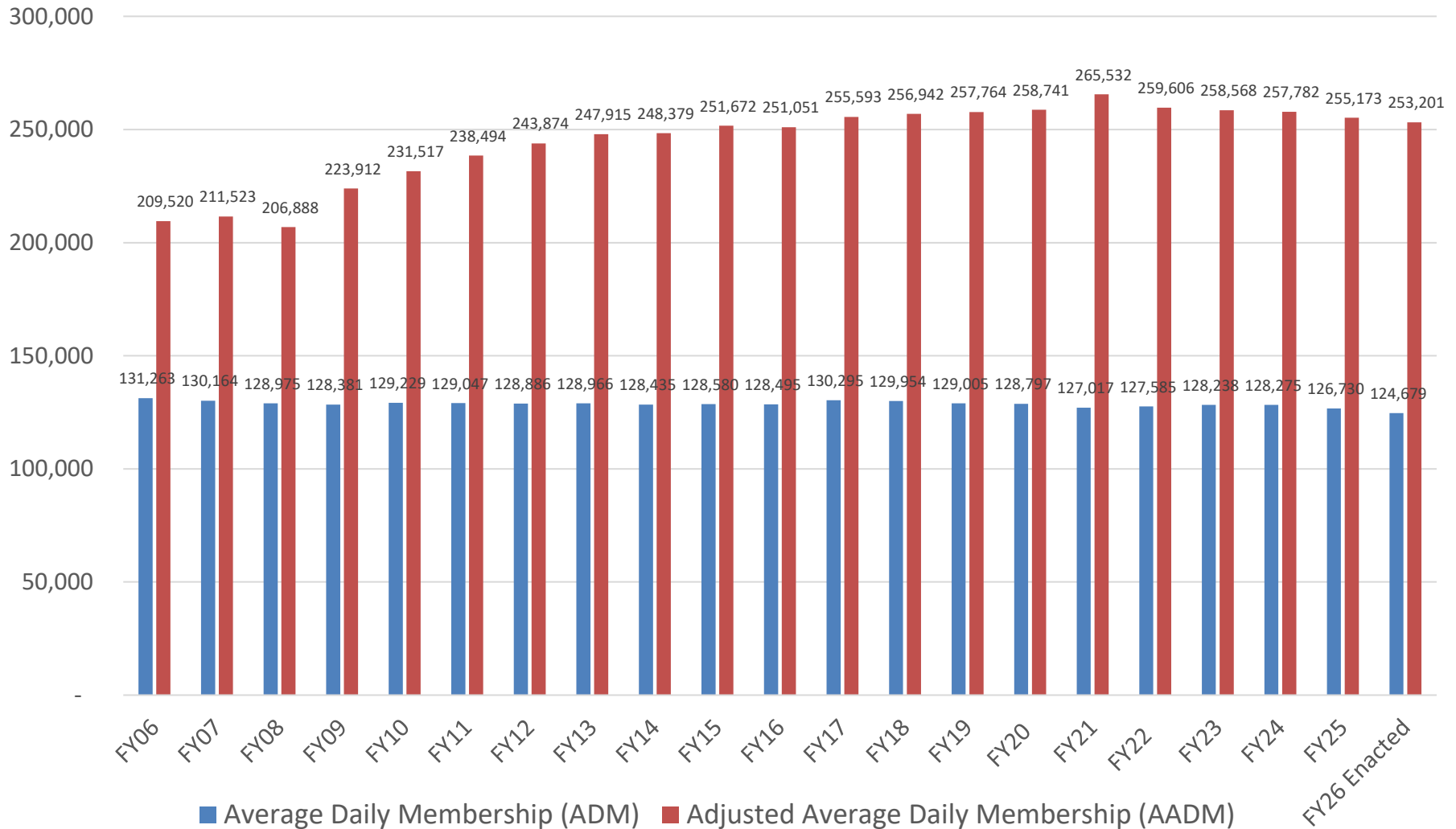
Difference: (5,616), (4.3%)

Difference: 10,597, 86.6%

Difference: (16,213), (13.7%)



Statewide Average Daily Membership and Adjusted Average Daily Membership History

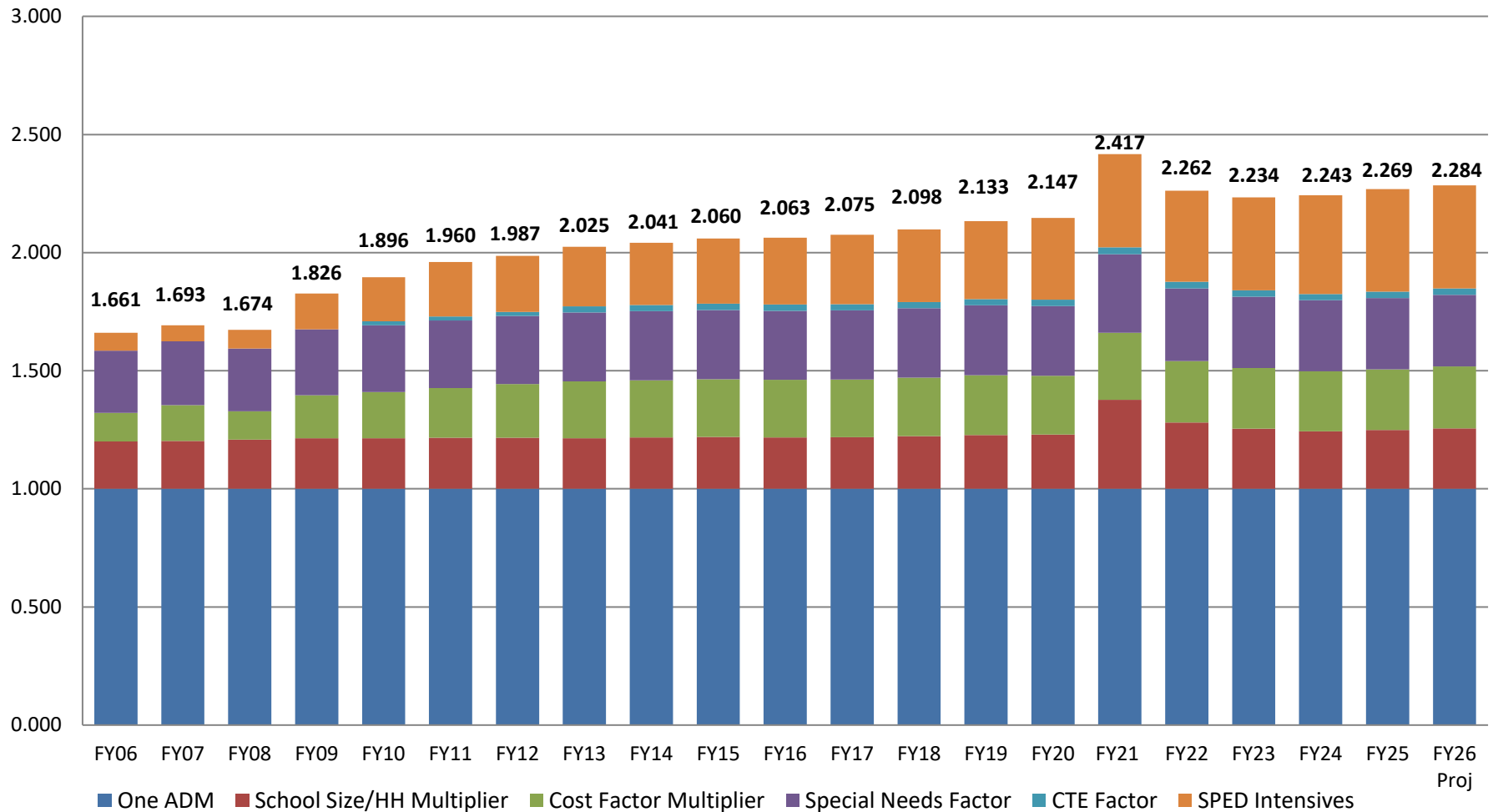


Alaska's Student Population is Changing

- The correspondence ADM increased by 10,597 (86.6%) between F17 and FY26, while the non-correspondence count shrank by 16,213 (13.7%) over the same timeframe.
- The count of Special Education Intensive students has increased by 730 (27.7%) from FY17-26 as well.
- As the student population changes, comparisons across years should be used with caution since the costs districts face change along with the student count.

Impact of Factors per Non-Correspondence ADM, FY06-26

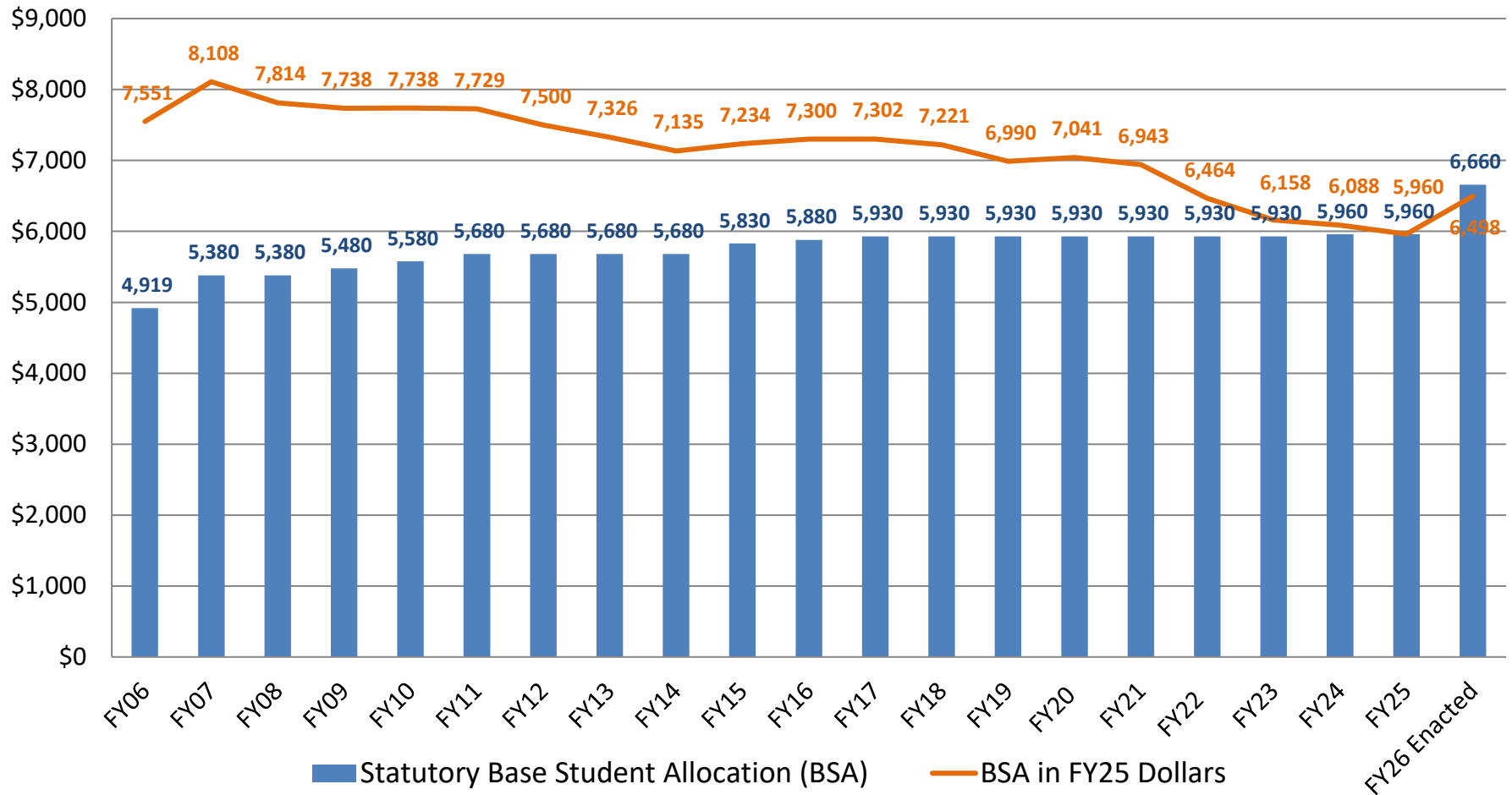
Each layer represents the impact on AADM of each adjustment on each ADM



Base Student Allocation History (Formula Only)

Base Student Allocation, FY06-FY26

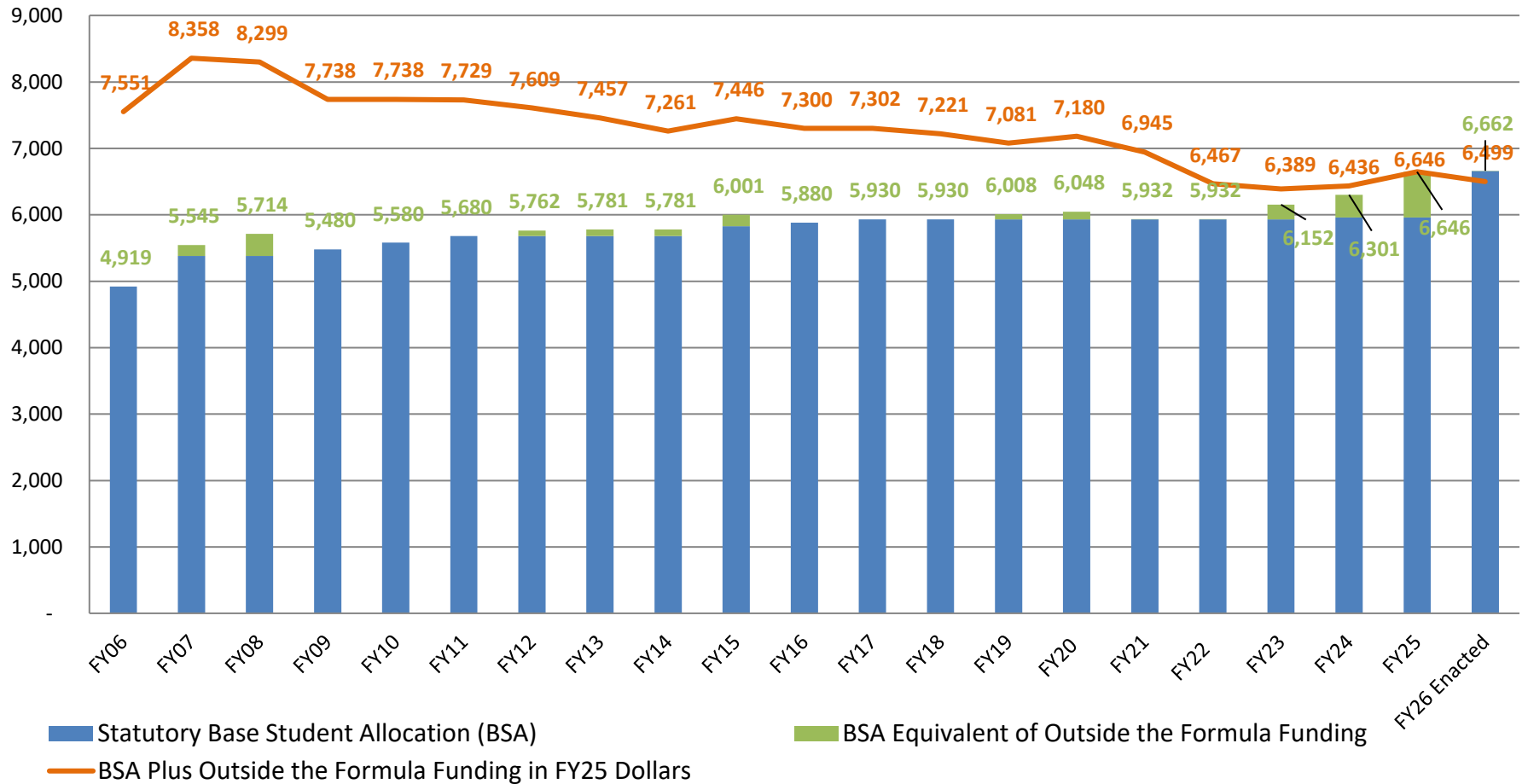
Based on Alaska CPI for FY06-25, 2.5% Inflation in FY26



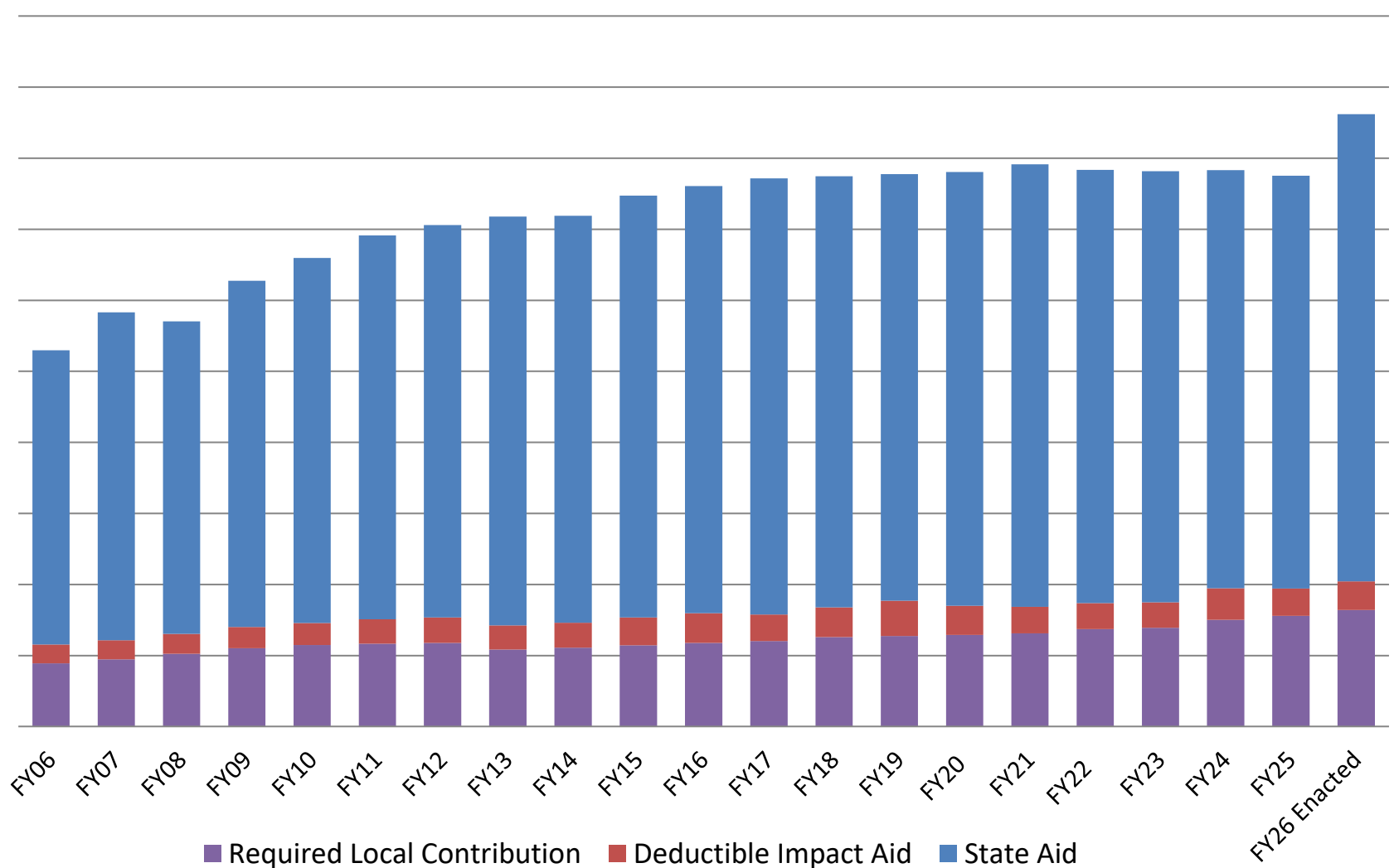
Base Student Allocation History (Including Outside the Formula Funding)

Base Student Allocation Plus Outside the Formula Funding, FY06-FY26

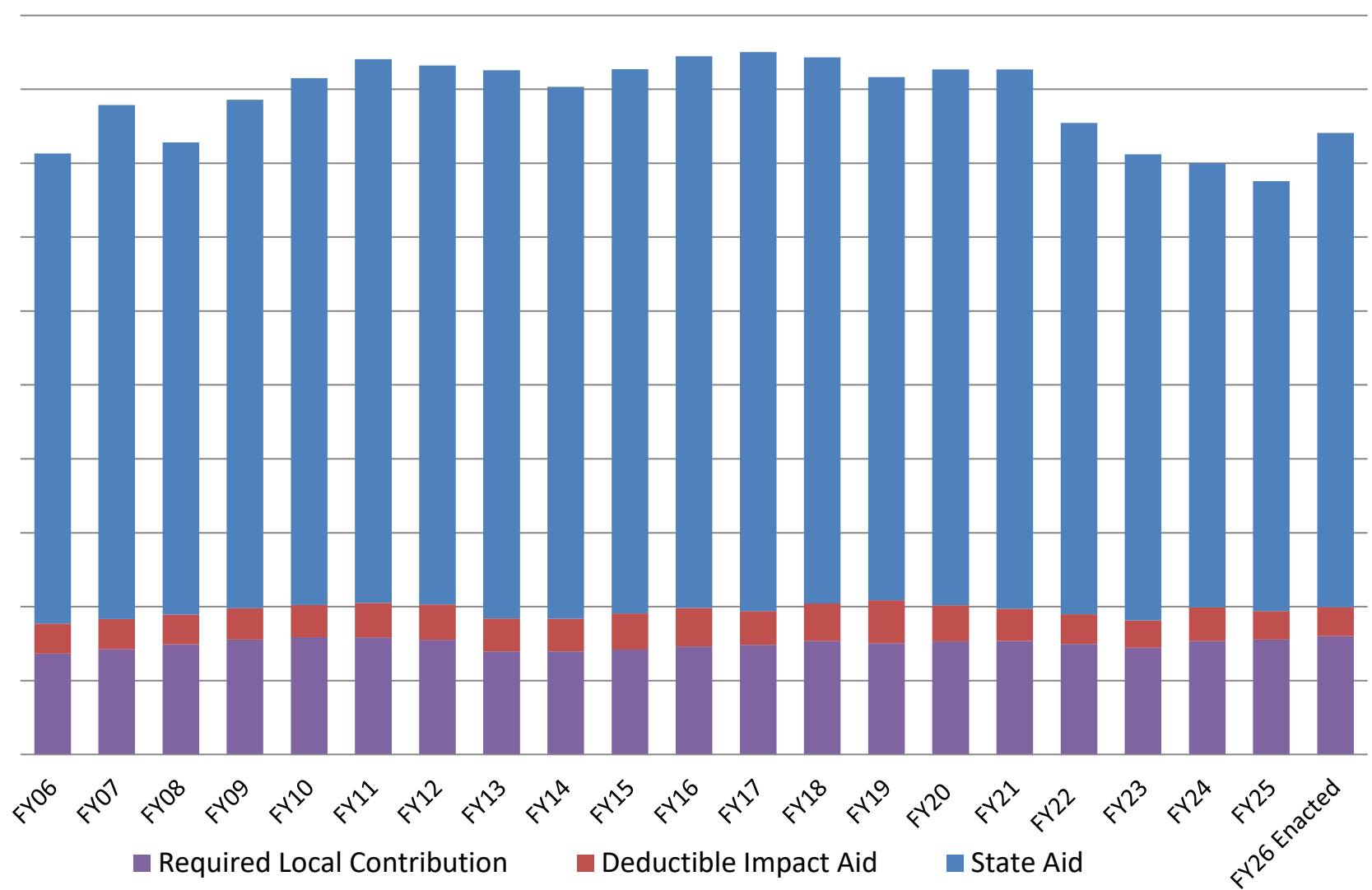
Based on Alaska CPI for FY06-25, 2.5% Inflation in FY26



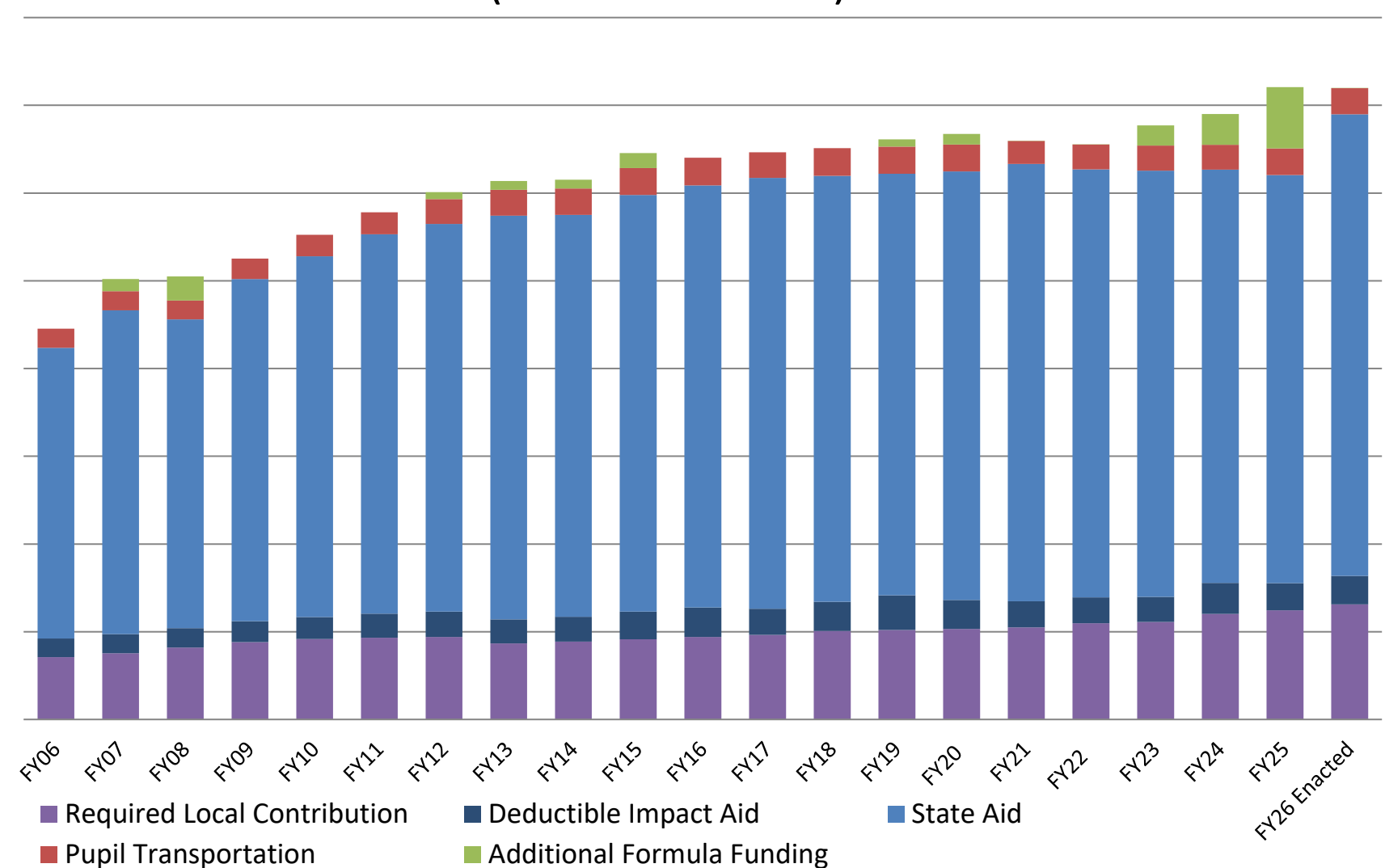
Basic Need, FY06-FY26 Projection (Nominal dollars)



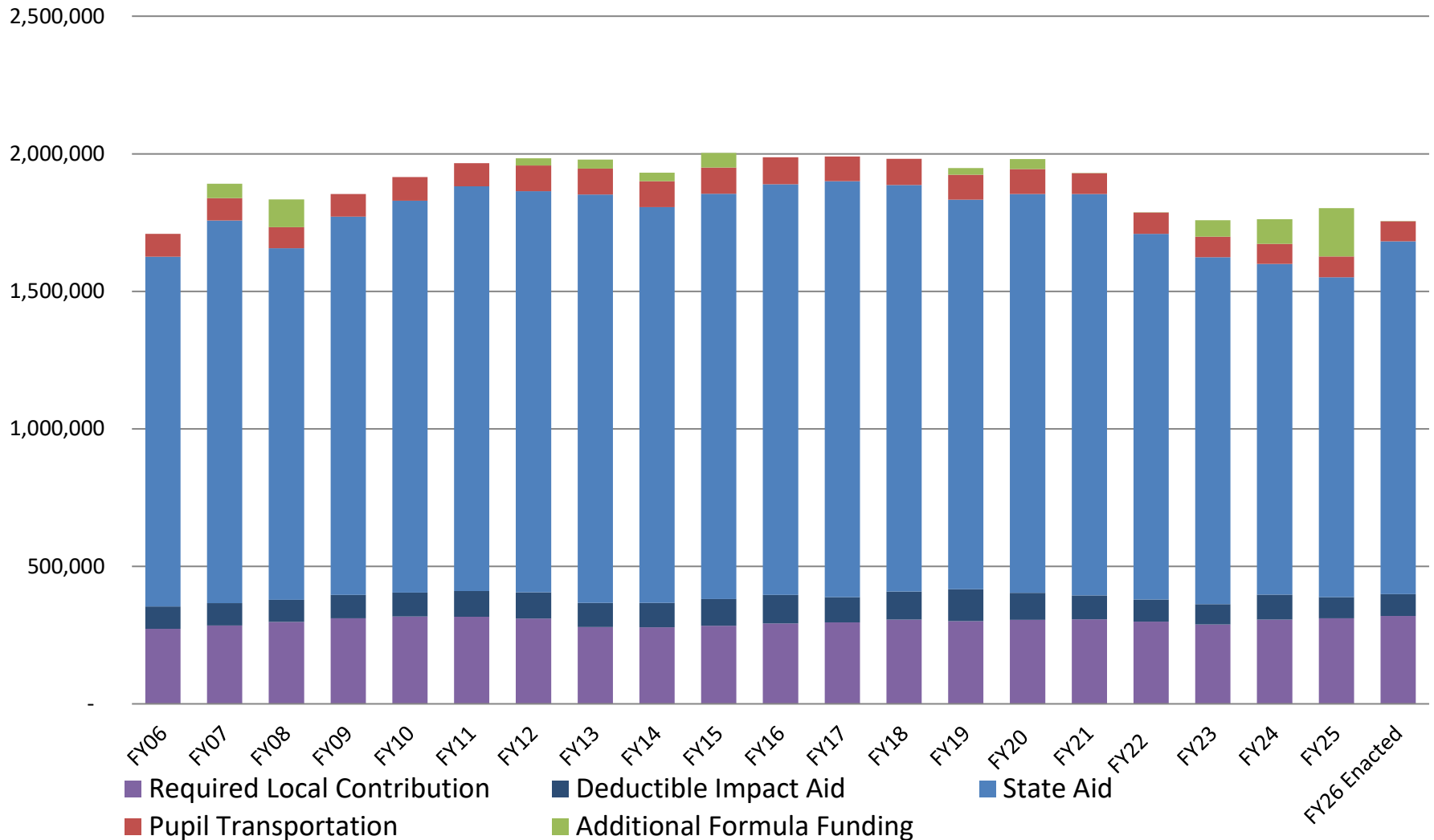
Basic Need, FY06-FY26 Projection (FY25 dollars)



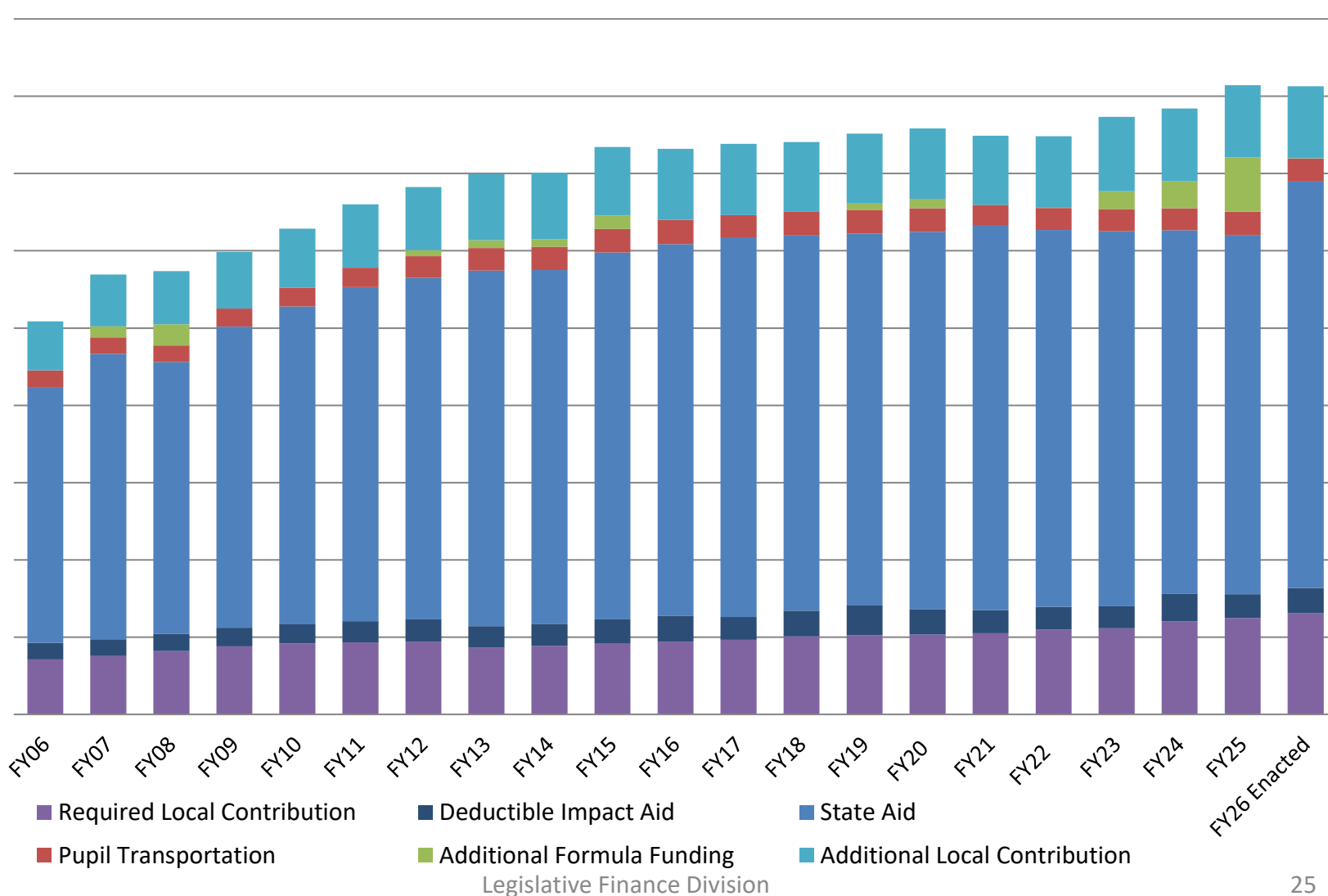
Foundation Funding plus Additional Formula Funding and Pupil Transportation, FY06-26 (Nominal dollars)



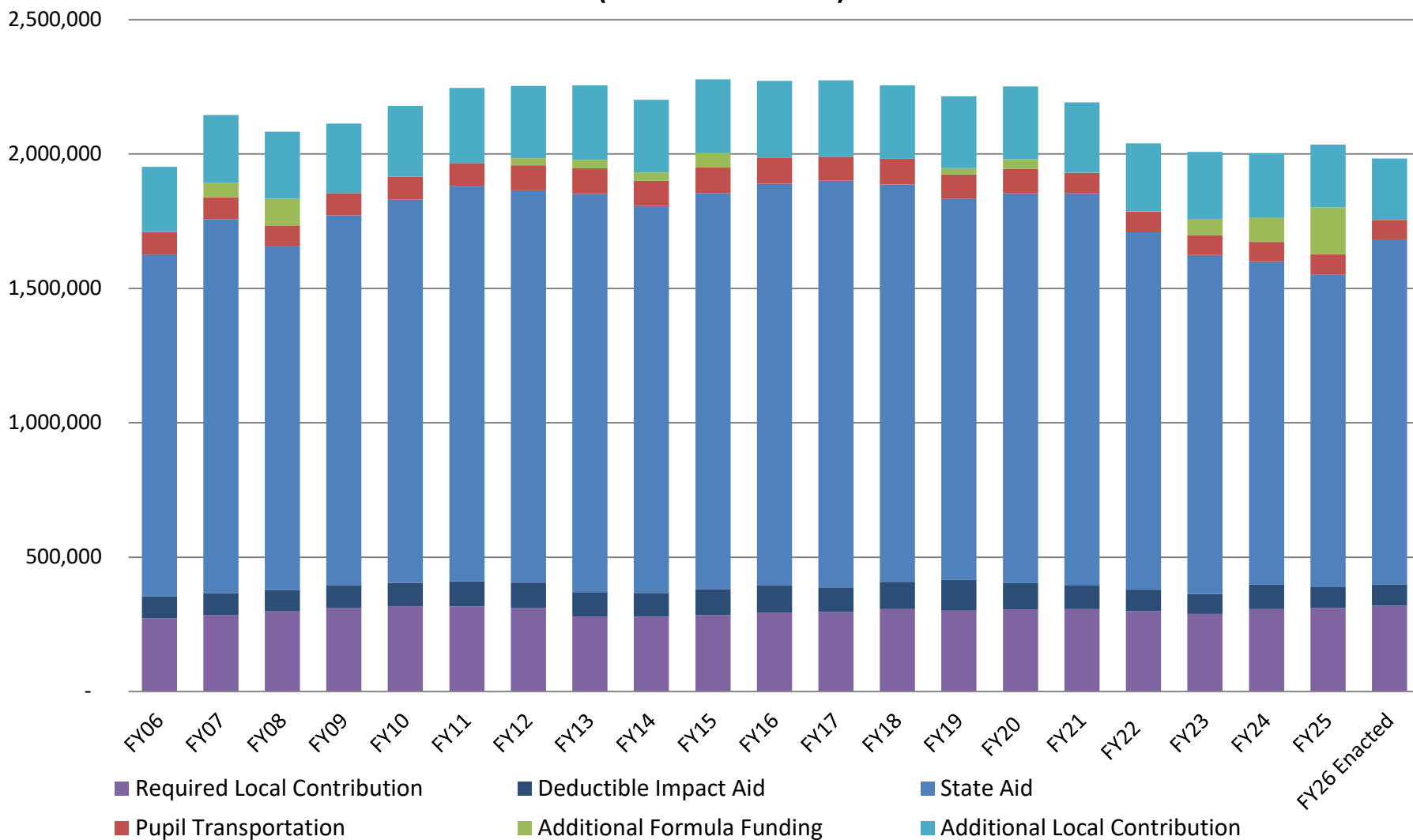
Foundation Funding plus Additional Formula Funding and Pupil Transportation, FY06-26 (FY25 dollars)



Foundation Funding plus Additional Formula Funding, Pupil Transportation, and Additional Local Contribution, FY06-26 (Nominal dollars)



Foundation Funding plus Additional Formula Funding, Pupil Transportation, and Additional Local Contribution, FY06-26 (FY25 dollars)



Federal Impact Aid and the Disparity Test

- Each year, the State performs the federal disparity test so that the federal government will allow the State to deduct a portion of federal impact aid from the State share of the K-12 formula. In FY26, this is estimated to be \$80.8 million.
- The federal disparity test requires that on an adjusted per-student basis, the difference between the highest-funded and lowest-funded districts (disregarding the 5% highest and lowest districts) may be no more than 25%. This requirement is a major reason for Alaska's 23% cap on optional local contributions.
- In May 2025, the federal government informed the State that it had failed the FY26 disparity test (which is based on FY24 data). This would mean the State cannot deduct impact aid in FY26, increasing State costs by \$80.8 million.
- Districts would receive that impact aid, so certain districts would receive more money if this occurred. No districts would see funding reductions; the cost is entirely to the State.
- The State appealed in July, and it is uncertain how long the appeal process will take or if the State will be granted a stay to defer the impact.

Funding for Capital Improvements

- The State has several programs to fund school district capital improvements. School districts can also use general State funding for this purpose.
- **School Debt Reimbursement:** Municipal school districts can bond for capital projects. Through the School Debt Reimbursement program, the State then pays a portion of the debt service on those bonds.
 - There was a moratorium on new debt from January 1, 2015, through July 1, 2025. In the past, debt would be reimbursed at various levels (most recently 60% or 70%), but now it will be reimbursed at 40% or 50%.
 - The payments by the State are subject to appropriation. In FY26, the legislature funded about 75% of the projected State share.
- **School Construction and Major Maintenance Grant Funds:** Districts may apply to place projects on these two priority lists. There is no statutory formula for how much the State will fund from these lists each year.
 - The legislature's FY26 budget funded \$38.1 million for the School Construction Grant Fund, enough to fund the top nine projects on the list. The Governor vetoed that down to \$13.0 million, enough to pay for the top three projects. The legislature did not appropriate funds to the Major Maintenance Grant Fund.
- **Regional Educational Attendance Area and Small Municipal School District Fund (REAA Fund):** The State capitalizes the REAA Fund based on a percentage of the prior year's school debt reimbursement amounts. DEED can then spend this fund, without further appropriation, on eligible projects on the School Construction and Major Maintenance priority lists.
 - This funding is subject to appropriation and typically has been prorated when school debt reimbursement is reduced. Funding this item is also tied to the Kasayulie settlement.

Funding for Capital Improvements (Cont.)

- DEED submits an annual report to the legislature titled “School Capital Project Funding Under SB237” that contains a wealth of data on school construction since FY11.
- According to this report, in FY25, the insured value of main school facilities is \$10.6 billion, and there is an additional \$1.2 billion of school-related facilities. The report calculates that the recommended 3% annual funding for capital renewal would be \$353.3 million.
- The funding provided to districts by the three programs listed on the prior slide added up to \$93.7 million in FY25, or 26.5% of that amount. Note that this figure reflects actual grants to districts rather than appropriations.

Funding for Capital Improvements (Cont.)

Table 15 Recommended & Funded Capital Renewal by Fiscal Year

Fiscal Year	Insured Value Main School Facilities	Insured Value School-Related Facilities	Recommended 3% Capital Renewal	Total AS 14.11 Funding	Percent of Funded Capital Renewal
FY2011	\$6,024,558,783	\$611,992,436	\$199,096,537	\$244,938,510	123.0%
FY2012	\$6,284,565,324	\$672,832,563	\$208,721,937	\$487,746,214*	233.7%
FY2013	\$6,484,708,153	\$702,083,591	\$215,603,752	\$158,734,700*	73.6%
FY2014	\$6,674,414,111	\$731,668,516	\$222,182,479	\$222,622,004*	100.2%
FY2015	\$6,893,678,341	\$737,283,808	\$228,928,864	\$56,633,185	24.7%
FY2016	\$7,494,373,579	\$767,501,801	\$247,856,261	\$45,861,089*	18.5%
FY2017	\$7,527,851,947	\$843,273,351	\$251,133,759	\$74,562,588*	29.7%
FY2018	\$7,806,679,400	\$884,635,956	\$260,739,461	\$45,815,477*	17.6%
FY2019	\$7,948,009,247	\$928,767,221	\$266,303,294	\$69,690,759*	26.2%
FY2020	\$8,306,164,560	\$959,092,600	\$277,957,715	\$27,448,190*	9.9%
FY2021	\$8,375,372,209	\$968,531,369	\$280,317,107	\$34,277*	0.0%
FY2022	\$8,640,281,425	\$971,902,844	\$288,365,528	\$12,608,008	4.4%
FY2023	\$9,225,094,162	\$1,041,287,466	\$307,991,449	\$139,129,382*	45.2%
FY2024	\$10,461,130,625	\$1,242,840,821	\$351,119,143	\$70,416,930	20.1%
FY2025	\$10,567,626,307	\$1,208,208,842	\$353,275,054	\$93,726,228	26.5%
Totals			\$3,959,592,340	\$1,749,967,541	44.2%

Table from 2025 “School Capital Project Funding Under SB237” by DEED:
https://education.alaska.gov/Facilities/pdf/Final_SB237_Report2025.pdf

Funding Levers for the Legislature

The Legislature has several levers to impact school funding, each with different impacts to districts:

- Base Student Allocation – provides across-the-board funding to all school districts on an equal per-adjusted-student basis
- Outside-the-formula funding – same as above on a one-time basis
- Formula factors – targeted changes that would affect districts differently
- TRS on-behalf payment cap – provides equal amounts of funding to districts on a per-employee basis (rather than per-student)
- Required local contribution – shift who pays between State and local governments
- Local contribution cap – allow greater contributions by some municipalities, but likely lose equalized formula (increasing State costs but providing more funding to some districts)

Questions?

Contact Information

Alexei Painter
Legislative Fiscal Analyst
(907) 465-5413
Alexei.Painter@akleg.gov

Conor Bell
Fiscal Analyst
(907) 465-3002
Conor.Bell@akleg.gov

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Appendix: Alaska Inflation Multiplier, FY25 as Base

