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Public Education Funding in the State of Alaska

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Since statehood, three primary formulas have been utilized to determine state aid for public schools in Alaska. Frequent amendments to the calculations have attempted to better administer adequate and equitable education across the state. Significant changes in the economy and population helped shape the system that exists today. However, recurring trends persist as inconsistent state revenue, enrollment fluctuations, and the wide variation of operating costs among school districts continue to impact funding decisions.

Statehood and Creation of the Public School Foundation Program

The territorial education funding policy remained in place for the first years of statehood.¹ Local school boards of incorporated cities and school districts, and independent districts, submitted a budget to the commissioner of education. Districts were reimbursed between 75 percent and 85 percent of certain costs depending on enrollment (Ch. 49 SLA 1955).² Rural schools outside these communities were fully funded by legislative appropriation, except for those in areas with a minimum average daily membership (ADM) of one hundred students and the ability to provide local school support (Ch. 88 SLA 1957).

In 1962, a more complex funding formula was adopted through the influence of *A Foundation for Alaska's Public Schools*, a 1961 report prepared by the Education Advisory Council for the Alaska State Board of Education. The formula intended to assure adequate funding by determining requirements to meet the “basic need” of each district based on teacher salaries, ADM, and the number of attendance centers, or schools (Ch. 164 SLA 1962). Calculations varied according to location, allowable number of teachers and staff, and whether a school was elementary or secondary.

In addition to state aid, districts were required to provide a local contribution to meet basic need consisting of a portion of local tax revenue as well as half of *federal impact aid* provided to districts to compensate for reduced tax revenues due to federal land ownership.

¹ For the history of education funding prior to statehood, please see *Legislative Research Services Report 24-155*.

² Session laws are available in the Legislative Reference Library.

However, local contributions were not required for all Alaska schools. Rural school costs continued to be primarily funded by the legislature. Additionally, the federal Bureau of Indian Affairs (BIA) remained responsible for the education of most Native students despite Article VII, § 1, of the *Constitution of the State of Alaska* requiring the legislature establish and maintain a system of public education for all children of the State (Ch. 88 SLA 1959). Therefore, the segregated education system for Alaska Natives, which had been officially established by the *Nelson Act* in 1905, continued after statehood.

While beyond the scope of this report, it is important to acknowledge the abuse and inequities experienced by Native students. Further information is available in sources such as “*Federal Indian Boarding School Initiative Investigation Report*,” released by the U.S. Department of Interior in 2022, and “*Thirty Years Later: The Long-Term Effect of Boarding Schools on Alaska Natives and Their Communities*,” a 2005 report from the University of Alaska Anchorage’s Institute of Social and Economic Research (ISER). The remainder of this report focuses on the education system administered by the government of Alaska.

Economic Growth and Foundation Formula Rewrite

In 1969, the state’s economic circumstances improved quickly and drastically as the sale of Prudhoe Bay leases generated \$900 million of revenue in a single day. With an annual state budget of \$115 million at the time, Alaska could suddenly afford to make substantial investments.³ In 1970, the legislature adopted an increasingly complex education funding formula based on recommendations from a second school financing study that significantly increased state aid and the number of students served, attempted to equalize funding across districts, and improved adaptability to program needs (Ch. 238 SLA 1970).⁴

According to the new formula, state aid was equal to the basic need of a school district multiplied by a percentage intended to equalize funding among districts. Basic need was determined by multiplying the number of instructional units in a district by the instructional unit allotment, which varied by district according to location and isolation. Instructional units, intended to represent an “average classroom,” were based on the ADM of elementary and secondary schools, as well as students participating in correspondence, vocational, and special education.⁵ This figure was converted to instructional units for school districts according to an ADM/Unit equivalency table. Finally, this figure was multiplied by the

³ Gunnar Knapp, “*Resource Revenues and Fiscal Sustainability*,” *Economic Development Journal* Volume 14, Number 2 (2015): p. 15.

⁴ The 1970 Final Report and Recommendations of the Advisory Council on State Financial Support to Public Schools is *available at the Alaska State Library*.

⁵ E. Dean Coon, et al., *School Finance in Alaska Report No. 1: An Overview of Current Issues, Sources, and Distribution of Funds for Public Elementary and Secondary Education* (Fairbanks, Center for Northern Educational Research, University of Alaska), 32.

base instructional unit value, set at \$19,250 at the time, and then adjusted according to the instructional unit allotment, resulting in the basic need of the district.

Upon determining a district's basic need, further calculations were made to identify the amount of state aid and the required local contribution. The formula factored the relative wealth of a district by comparing the total assessed value of real and personal property per student to the state average, as determined by the assessor for each district and the Local Affairs Agency. Districts with a lower valuation would receive a greater portion of state aid. This was expressed in terms of an equalized percentage that ensured districts would receive at least 90 percent of their basic need in state aid.

For a more detailed explanation of the computation, see Appendix B of *School Finance in Alaska*, a 1976 report from the Center for Northern Educational Research of the University of Alaska Fairbanks (page 43).

Low oil prices in the mid-1980s, combined with high state spending, forced a reevaluation of state appropriations, including the public school funding program (PSFP), which was then the largest state budget item.⁶ In 1983, the formula was suspended to evaluate possible amendments (Ch. 82 SLA 1983). Temporary funding policies were implemented for three years until an amended version of the previous formula was adopted in 1986 (Ch. 127 SLA 1984, Ch. 75 SLA 1985, and Ch. 75 SLA 1986).

In addition to the suspension, the elements of the formula underwent significant amendments between 1971 and 1998, when a new methodology was adopted. Appendix A of *Education Equity and Taxpayer Equity: A Review of the Alaska Public School Foundation Funding Program* outlines changes between FY1971 and FY1990. Particularly noteworthy adjustments include increases to the base instructional unit value and minimum equalized percentage, the introduction of "hold harmless" provisions intended to insulate districts from funding reductions, and fluctuations in required local contributions. Additionally, a limit was set on how much a district could contribute beyond the required amount to prevent unequal educational opportunities between "wealthy" and "poor" areas (Ch. 91 SLA 1987).

Education in the Unorganized Borough

In 1970, the same year as the PSFP rewrite, the Alaska State-Operated School System (ASOSS) was created as a state corporation to provide public education in the unorganized borough (Ch. 46 SLA 1970). Headed by a board of directors, the ASOSS was granted exclusive management of all education matters in the unorganized borough, although some guidance was established in state law and regulations by the Board of Education.

⁶ Matthew Berman and Eric Larson, *Education Equity and Taxpayer Equity: A Review of the Alaska Public School Foundation Funding Program* (Anchorage, Institute of Social and Economic Research, University of Alaska, 1991), p. ix.

However, the ASOSS did nothing to foster local control and participation in schools for those living in the unorganized borough. The principal ASOSS offices were in Anchorage and, due to the lack of established schools in the unorganized borough, most students had to relocate to attend either an ASOSS or BIA school.

In 1972, a group of Native Alaskan students living in communities within the unorganized borough without a public secondary school filed a class action lawsuit against the ASOSS, seeking to compel the state to provide secondary schools within their communities of residence. The plaintiffs alleged they had been denied their Constitutional right to education and suffered racial and geographic discrimination in violation of the equal protection clause.

After several years, the parties negotiated a *settlement* by consent decree in 1976. Under the terms of the settlement, the state agreed to establish a high school in each of the 126 communities identified in the lawsuit unless the residents expressed opposition. The Department of Education was required to conduct an inventory of public facilities to identify existing structures that could be utilized and commence classes by the Fall of 1977. If no space was identified, the state was to spend a minimum of \$20 million to provide facilities as soon as practicable.

While negotiations were underway, the state had taken some action to improve education in the unorganized borough. In 1975, the ASOSS was eliminated, and communities were briefly identified as the Alaska Unorganized Borough School District (AUBSD) while the state transitioned to a new system.⁷ By 1976, the unorganized borough had been divided into 21 educational services areas, or “regional educational attendance areas” (REAA). The state provided funding for operational costs based on the formula for basic need and contributed additional dollars in lieu of the required local contribution due to a lack of local taxing authority (Ch. 124 SLA 1975). In 1977, federal money was incorporated into the funding calculation (Ch. 90 SLA 1977).

Additionally, local school boards were authorized to manage and control the REAAs. Additionally, they were responsible for making recommendations to the state education commissioner for the construction, rehabilitation, or upgrading of facilities. While some schools had been constructed over the preceding years, many students still had to wait for implementation of the consent decree for increased educational opportunities at home.

⁷ Coon, et al., *School Finance in Alaska Report No. 1: An Overview of Current Issues, Sources, and Distribution of Funds for Public Elementary and Secondary Education*, 4.

Despite this overhaul and subsequent amendments to the formula, concerns persisted about funding adequacy and education equity, the complexity of the formula and its adaptability to a growing system, and the ever-increasing and ongoing costs to the state relative to its revenue generation.⁸

Current Education Funding Formula

In 1998, the *Alaska School Operating Cost Study*, prepared for the Legislative Budget and Audit Committee, provided the first review since statehood of the true costs of public schooling in Alaska. Focusing on how school size and geographic location affect costs, it recommended that student attendance within individual schools serve as the basic unit for funding as opposed to communities.

The study led to the adoption of a new funding formula through the passage of *SB 36*. The bill bases funding distributions on the actual costs of providing instruction and operations by introducing the “base student allocation” (BSA) and multiplying that per student amount to adjust for school size, students with special needs, and correspondence enrollment. The bill also reduced reimbursement for transportation; and amended geographical cost differences and required local contributions. Additionally, the legislation requires districts to spend at least 70 percent of state aid on instructional costs as opposed to school administration.

The original version of the bill also sought to correct a perceived imbalance between rural and urban school districts, arguing that larger districts did not receive funding proportional to their size. The initial proposal was controversial, with many rural districts opposing the sizeable funding reductions they would experience under the bill. Following significant amendment, the bill was passed to “provide a level of funding through the public school funding program that allows for an equitable level of educational opportunities for those students attending the public schools of the state, and provide an equitable level of funding to each school within a school district” (*Ch. 83 SLA 1998*).

Like previous funding policies, state aid is equal to basic need minus a required local contribution and a portion of federal impact aid. As before, a limit on local contribution was adopted. Funding for the nineteen REAAs operating according to *AS 14.08* continues to be provided by the state and federal governments due to a lack of local tax revenue. While amounts related to the calculation have been amended, the formula is still in place today at *AS 14.17.410*.

Basic need is calculated by adjusting the ADM of a district by a series of factors to determine the adjusted average daily membership (AADM), which is then multiplied by the BSA (*AS 14.17.470*). These six factors include school size (*AS 14.17.450*), district cost (*AS 14.17.460*), special needs, secondary vocational and technical instruction, intensive services (*AS 14.17.420*), and correspondence students (*AS*

⁸ Coon at al., p.37.

14.17.430).^{9,10} More details are available in the *Public School Funding Program Overview* by the Alaska Department of Education and Early Development (DEED).

Significant changes to the formula include the reintroduction of a hold harmless provision to slow decreases in funding for districts experiencing a loss of enrollment (*Ch. 9 SLA 2008*), as well as a reduction in required local contribution from the equivalent of a four mill tax levy on the full and true value or the taxable real and personal property in the district to 2.65 (*Ch. 19 SLA 2012*).

The most frequently amended section is the BSA, which is the only part of the formula expressed in dollars. The BSA is not automatically adjusted to account for inflation; as such, any increases require legislative action. The following tables show changes to the BSA and illustrate the loss of its purchasing power over time by listing the amount necessary to keep pace with inflation since being enacted.

Enacting Legislation	Base Student Allocation	Increase From Previous amount	
		Dollar Amount	Percentage
<i>SB 36 (Ch. 83, SLA 1998)</i>	\$3,940	N/A	N/A
<i>SB 174 (Ch. 95, SLA 2001)</i>	\$4,010	\$70	1.8%
<i>SB 202 (Ch. 54, SLA 2003)</i>	\$4,169	\$159	4.0%
<i>HB 233 (Ch. 58, SLA 2004)</i>	\$4,576	\$407	9.8%
<i>HB 1 (Ch. 6, FSSLA 2005)</i>	\$4,919	\$343	7.5%
<i>HB 13 (Ch. 41, SLA 2006)</i>	\$5,380	\$461	9.4%
<i>HB 273 (Ch. 9, SLA 2008)</i>	\$5,480 (FY09)	\$100	1.9%
	\$5,580 (FY10)	\$100	1.8%
	\$5,680 (FY11)	\$100	1.8%
<i>HB 278 (Ch. 15, SLA 2014)</i>	\$5,830 (FY15)	\$150	2.6%
	\$5,880 (FY16)	\$50	0.9%
	\$5,930 (FY17)	\$50	9.0%
<i>HB 114 (Ch. 40, SLA 2022)</i>	\$5,960	\$30	0.5%
Source: Bill Action and Status Inquiry System (BASIS)			

⁹ Charter and alternative schools were integrated into the school size factor section by *Ch. 9 SLA 2009*.

¹⁰ Adjustments for vocational and technical instruction funding were added by *Ch. 7 FSSLA 2011* and *Ch. 19 SLA 2012*, respectively.

BSA Amount Necessary to Keep Pace with Inflation			
1998	\$ 3,940	2011	\$ 5,402
1999	\$ 3,980	2012	\$ 5,523
2000	\$ 4,047	2013	\$ 5,696
2001	\$ 4,163	2014	\$ 5,788
2002	\$ 4,243	2015	\$ 5,818
2003	\$ 4,358	2016	\$ 5,842
2004	\$ 4,471	2017	\$ 5,870
2005	\$ 4,608	2018	\$ 6,049
2006	\$ 4,755	2019	\$ 6,133
2007	\$ 4,861	2020	\$ 6,066
2008	\$ 5,082	2021	\$ 6,362
2009	\$ 5,143	2022	\$ 6,878
2010	\$ 5,234	2023	\$ 6,983
Note: Calculations are based on Urban Alaska Consumer Price Index (CPI).			

Pursuant to [AS 14.17.500](#), districts must submit an estimate of students in attendance, or “average daily membership” (ADM) for the following fiscal year to DEED by November 5. An updated ADM, based on a 20-school-day period ending on the fourth Friday in October, and other student count information must be submitted to DEED to determine final funding levels ([AS 14.17.600](#)). During the first nine months of the fiscal year, districts receive one-twelfth of their state aid as determined by their estimated ADM counts. The difference in funding between the estimated and actual ADM counts is distributed equally over the final three months ([AS 14.17.610](#)).

Nontraditional Public Schools

Pursuant to [AS 14.16.010](#), DEED may establish and operate boarding schools, which are considered public schools of the state. Only one such school exists, *Mt. Edgecumbe High School* (MEHS) in Sitka, which was originally opened and operated by the BIA and reopened by the state in 1985 after a two-year closure. Funding is dictated by [AS 14.17.440](#).

In 1995, a pilot program begun allowing up to thirty *charter schools* to operate within public school districts upon approval of the local school board and state Board of Education. The program allowed for certain exemptions from textbook, program, curriculum and scheduling requirements placed on other district schools, as well as other exemptions that could be negotiated directly with the local board (*Ch. 77 SLA 1995*). A program sunset date of 2005 was later repealed, allowing charter school contracts for terms of up to ten years prior to application for renewal (*Ch. 70 SLA 2001*). Under [AS 14.03.260](#), local boards are also responsible for approving annual budgets for charter schools. In 2014, the passage of

HB 278 amended the charter school application process under *AS 14.03.250* and established a procedure for appeals (*Ch. 15 SLA 2014*).

House Bill 278 also addressed correspondence study by requiring districts or DEED to provide individual learning plans, including a course of study and an ongoing assessment plan, for each student enrolled (*AS 14.03.300*). The bill authorized parents or guardians of students enrolled in correspondence to directly receive a portion of the annual student allotment of state funding (*AS 14.03.310*) and raised the allocation for *correspondence schools* from 80 percent to 90 percent of that provided for students in traditional schools based on a district's ADM under *AS 14.17.420*.

Additionally, HB 278 sought to encourage districts to operate residential schools by establishing open application periods and increasing district reimbursements to more closely resemble operational costs (*AS 14.16.100*). Approved schools must provide a suitable student dormitory, food service, and daily access to school to receive a per-student stipend reimbursement (*AS 14.16.200*).