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.

Justin Silverstein, Amanda Brown, and Mark Fermanich, Ph.D. are the primary authors of this report. Additional contributors from APA include: Abby McClelland, Jennifer Piscatelli, Nathan Roberson, Yilan Shen, and Sarah Wool.

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A number of the recommendations made below could, or will, have cost impacts for the state. APA's work on school finance issues around the country makes the study team keenly aware of how difficult it can be to implement changes in tough fiscal environments. At the same time, the study team thinks it is important for Alaska to understand the impacts its funding system has on districts, schools, students, and taxpayers and to work to eliminate any possible issues when possible. The study team understands that, in the near term, it may not be possible for Alaska to make of the changes described below. Nonetheless, these recommendations provide a roadmap for the state to make changes in the future. Where possible, APA attempts to estimate the impact of the recommendations.

Overall Impressions

Funding Formula

The variations in school size, district size, and location create unique challenges for districts across the state. There are schools and districts in what would generally be considered urban or suburban locations, and there are other districts in some of the most remote locations in the United States. All of Alaska's districts face higher costs for goods or services than districts in the lower 48. There is also considerable cost variation between Alaska's districts, with many districts facing dramatically higher costs than others to provide the same education services. Further, there is variation in student needs across the state. Some districts face extremely high concentrations of special needs students, who are often served in remote and/or isolated settings. Differences like these call for a formula that addresses variations in circumstances between districts.

Overall, the study team believes Alaska's current funding system has the right elements in place to address the variations described above. The formula adjusts for variations in needs across the state through the School Size Adjustment (SSA), District Cost Factor (DCF), Hold Harmless, Special Needs Funding, Vocational Career and Technical Education (CTE) Funding, Intensive Services Funding, and Correspondence Program funding. Interviewees were generally happy with how the system works. They highlighted that the system is understandable and transparent to educators. Interviewees enjoyed that the formula offered local districts the flexibility to make the financial decisions that would best fit their communities. The system also limits reporting burdens on districts, freeing up districts to focus on student education.

Additionally, the data show a system where increases in instructional expenditures are tied to increases in student performance on the Alaska Standards Based Assessments (SBAs). The equity analysis shows that spending levels are not highly correlated with district wealth. Alaska has had robust revenues from oil revenues and has been able to sustain itself with no statewide income or sales taxes while maintaining low local tax levels.

At the same time, the current formula has several cliff points, e.g. where small changes in school- and district-level student enrollments may lead to large changes in funding. The SBA performance data shows that a district's student characteristics, including its percentage of special education, LEP, and Alaska Native students, provides a good indicator of that district's SBA proficiency levels. Still, the

funding system does little to differentiate funding based on actual student characteristics. Some of the formula's existing adjustments for student characteristics have not been addressed in many years. Equity concerns arise around the difficulty in comparing wealth across districts and a lack of correlation between a district's student needs and spending. Finally, revenues from oil taxes have declined and are predicted to remain lower than previous projections. A lack of a fuller state tax portfolio may make sustaining current spending levels difficult.

Recommendations for Each Component

This section examines each component individually, presenting: (1) general conclusions for each component, and (2) recommendations, if any, from the study team.

School Size Adjustment

Most of the interviewees involved in this study believed that the SSA is an important component of the system. The SSA provides additional resources so that the smallest schools have the instructional resources necessary to provide educational opportunities to their students. Alaska's SSA differs from size-based adjustments across the country in that it allocates resources for small schools in *all* districts, regardless of district size. Many states have adjustments for economies of scale and "necessarily small" schools, but few states make size adjustments across all districts, regardless of district size. Alaska's SSA also reduces the resources available to students in the largest schools in the state, funding school at a reduced ADM over about 1,025 students.

As was discussed in Chapter IV Alaska's SSA has a number of potential cliff points. The cliff points occur based on formulas derived from analysis done by McDowell Group in its 1998 Alaska Cost Study. The study team is concerned that districts and schools have difficulty adjusting resources from year to year at the scale of change predicated by the cliff points in the School Size Adjustment. The loss of large numbers of funded ADM for minimal changes in actual ADM is inconsistent with the likely resources shifts districts will be able to make in the near term.

Interviewees also made it clear that cutoff points in the SSA, below which schools no longer are funded separately, have a major influence on communities. APA understands that Alaska has made policy decisions to not fund schools with fewer than 10 students. It is important to report that, according to district stakeholders, the elimination of schools can have a negative impact on communities.

Recommendations

Alaska should consider not using the SSA in larger districts. There is some concern that the SSA could lead districts to make inefficient school size decisions based on funding incentives instead of educational concerns. Based on conversations with districts and how other states apply size adjustments, the larger districts may be in a position to adjust for economies of scale at the school level through their larger central operations. Since eliminating the size adjustment in larger districts would have a negative impact on the funding these districts receive, and there is no data that indicates that these districts are overfunded, the state should also consider holding these districts harmless for at least a period of time while not incentivizing inefficiencies.

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.