Alaska State Legislature

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Rep. Paul Seaton, Chairman
HOUSE EDUCATION COMMITTEE

HB 147
Sponsor Statement

HB 147 repeals AS 14.17.520, a ten year old provision in Alaska statutes requiring that 70% of a school district's operating expenditures be dedicated to the instructional component of the district budget, regardless of their geographical location, student population size, or any other factor. AS 14.17.520 is considered an accountability measure to ensure school districts are spending funds on instructional programs.

The rising cost of education is affecting the way school districts address their spending. Fuel, electricity, and building maintenance expenses can radically change from year to year.

There are two types of school districts that have been chronically unable to meet the 70% requirement: districts that have an operating budget of $3 million or less and those that spend 20% or more of their budget on operation and maintenance. Currently, if a school district is unable to meet the 70% requirement, they must file a waiver through the State Board of Education & Early Development which can either be approved or denied. Approval allows the district to operate with their submitted budget, but requires justification for their failure to comply with the 70% requirement. Denial of a waiver can require the district to revise its budget to meet the 70%.

AS 14.17.520 has become outdated. The current statewide assessment system is a better accountability program to determine if school districts are meeting their student's needs through good instructional practices. The state assessment system measures student proficiency in reading, writing and mathematics from one year to the next. In fact, with the passage of SB 285 last year the department of education has the authority and responsibility to intervene in chronically low performing schools and districts. SB 285 requires the Department of Education to redirect school district resources to improve instructional practice intended to increase student proficiency. This accountability system provides a better use of school district and state resources to increase student achievement.

State Capitol, Room 102 Juneau, AK 9980 - Phone: 465-3923 - Fax: 465-3472 - Toll Free (800) 665-2689
Representative_Paul_Seaton@legis.state.ak.us

Repealing AS 14.17.520 will remove the 70% requirement and waiver process, saving almost half of Alaska's school districts, the State Board of Education and EED staff a redundant yearly process that does not measure the effectiveness or ability of a district to deliver a quality educational program to its children.

Staff contact: Hannah Harrison – 465.6256

HOUSE BILL NO. 147

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - FIRST SESSION

BY THE HOUSE EDUCATION COMMITTEE

Introduced: 2/23/09
Referred: Education, Finance

A BILL

FOR AN ACT ENTITLED

1 **"An Act repealing the minimum expenditure for instruction requirements for public**
2 **schools."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 *** Section 1.** AS 14.17.520 is repealed.

Economic Development only upon a finding of abuse of discretion or upon a finding that there is no substantial evidence to support the determination.

(b) Motor vehicles subject to the motor vehicle registration tax under AS 28.10.431 shall be treated as taxable property under this section.

Sec. 14.17.520. Minimum expenditure for instruction.

(a) A district shall budget for and spend a minimum of 70 percent of its school operating expenditures in each fiscal year on the instructional component of the district budget.

(b) The commissioner shall reject a district budget that does not comply with (a) of this section and, unless a waiver has been granted by the board under (d) of this section, shall withhold payments of state aid from that district, beginning with the payment for the second full month after rejection and continuing until the school board of the district revises the district budget to comply with (a) of this section.

(c) The commissioner shall review the annual audit of each district for compliance with the expenditure requirements of (a) of this section. If the commissioner determines that a district does not meet those requirements, the commissioner shall advise the district of the determination, calculate the amount of the deficiency, and deduct that amount from state aid paid to the district for the current fiscal year. A deduction in state aid required under this subsection begins with the payment for the second full month after the determination, unless a waiver has been granted by the board under (d) of this section.

(d) A district that has been determined by the commissioner to be out of compliance with the requirements of this section may, within 20 days of the commissioner's determination, request a waiver by the board of the imposition by the commissioner of any reduction in state aid payments under (b) or (c) of this section. The request must be in writing and must include an analysis of the reasons and causes for the district's inability to comply with the requirements of this section. The board may grant the waiver if the board determines that the district's failure to meet the expenditure requirements of this section was due to circumstances beyond the control of the district. The request must also be submitted to the Legislative Budget and Audit Committee, which shall review the district's request and forward the committee's recommendations on it to the board.

(e) The commissioner shall submit an annual report on actions taken by the commissioner or the board under this section to the Legislative Budget and Audit Committee by April 15 of each year.

(f) In this section, "instructional component" includes expenditures for teachers and for pupil support services.

Support

Resolution of The State Board of Education & Early Development

Minimum Expenditure for Instruction

Resolution 01-2009

WHEREAS, the State of Alaska now has in place an extensive system of accountability, approved by the federal government, for schools and school districts; and

WHEREAS, the accountability system uses assessments to measure school and school district progress in reading, writing and mathematics in nine subgroups of students and in the student body as a whole in grades 3 through 10; and

WHEREAS, the accountability system is accompanied by regulations specifying actions that schools and districts must take to improve; and

WHEREAS, the Alaska Department of Education & Early Development has in place programs and services designed to assist schools and districts to improve; and

WHEREAS, the state administers a high school graduation qualifying examination in accordance with state law and aligned with statements of legislative intent; and

WHEREAS, since 1998 Alaska Statute 14.17.520 requires that at least 70 percent of school districts' operating fund expenditures be spent on instruction; and

WHEREAS, the assessment data since 1998 does not demonstrate there is a relationship between student achievement and the percentage of districts' operating funds spent on instruction; and

WHEREAS, districts consume valuable staff time each year to prepare requests for waivers of the minimum expenditure requirement, when needed, from Alaska Statute 14.17.520; and

WHEREAS, the department consumes valuable staff time each year reviewing districts' instructional budgets, expenditures and requests for waivers, and preparing an annual report to the legislature; and

WHEREAS, the minimum expenditure requirement also places a burden on the Legislative Budget & Audit Committee to review the districts' waiver requests and forward recommendations to the State Board of Education & Early Development; and

WHEREAS, the department has seen that nearly all districts that request waivers have small budgets that are heavily affected by rising fixed costs in necessary non-instructional areas such as heating;

THEREFORE, BE IT RESOLVED, the State Board of Education & Early Development respectfully requests the Alaska Legislature to reconsider or amend the statute that requires districts to spend a minimum of 70 percent of their operating funds on instruction, in acknowledgement that a system of accountability directly tied to student achievement is now in place.

Esther Cox, Chair
On behalf of the State Board of Education
& Early Development

December 5, 2008

Rep. Seaton's Office
C/O Hannah Harrison
State Capitol, Room #102
Juneau, AK 99801

Fax: 907-465-3472
Phone: 907-465-6256

Dear Honorable Representative Seaton,

The Galena City School District has never been in a profile of requesting forgiveness from the State Board of Education which demonstrates "error of intent" of this law. An economy of scale provides certain compliance for schools with larger student populations and penalizes the smaller districts. There's really no problem with each and every school district in the state being accountable for spending percentages in different budget categories and well we should be. The nature of facilities, management, and other basic operations costs quickly place smaller districts in violation. This evolves to be an exercise of time, as to my knowledge, no school has been sanctioned or punished for their status, nor should they be. Ultimately rising costs and declining enrolments present obvious draw-downs on school funding to a point school boards must prioritize spending. Logic should tell us that small top-heavy operations will tumble. Please receive this as a position of support for HB 147 from the Galena City Schools Board of Trustees. Thank You

Sincerely,

James E. Smith
Superintendent

Hannah Harrison

From: James Elliott [jelliott@crsd.k12.ak.us]
Sent: Tuesday, February 24, 2009 11:27 AM
To: Rep. Paul Seaton
Subject: HB 147 Repeal of the Minimum Expenditure Requirement

Follow Up Flag: Follow up
Flag Status: Yellow

Representative Seaton, in response to a member of your staff, I agreed to provide you with the reasons why I favor the repeal of the minimum expenditure requirement (70%) for instruction. Although the 70% expenditure requirement may have been warranted when it was first put into law, the requirement has outlived its usefulness. First, which was true from the outset, the 70% for instruction requirement violates a fundamental premise of economics, namely what is commonly known as the economy-of-scale. It is patently unfair to hold small, rural school districts, like Copper River School District, to the same standard of administrative efficiency as large, urban districts, like Anchorage, Fairbanks, Mat-Su, Kenai, Juneau, et al. It is like comparing the price of goods in a mom and pop store to those of Costco. Yet, that is exactly what the current law does. Second, I believe the current statutory requirement is focused on the wrong thing: input (funding). Instead, the Alaska Legislature ought to put its principal focus on output (student achievement). In fact, current state and federal district/school accountability laws, which are focused on output (student achievement), negate the need for a law such as the 70% requirement for instruction currently in A.S. 14.17.520. This is true, from my perspective, because student assessment data tell you much more about the effectiveness of districts/schools than what percentage of its expenditures a district spends on instruction.

If I recall correctly, during a recent committee discussion of the subject legislation, you mentioned to Eddy Jeans, of the Alaska Department of Education and Early Development, that the same districts which do not meet the 70% requirement, also, are the ones that fail to make adequate yearly progress (AYP) under the No Child Left Behind Act.
Copper River School District does not meet the 70% requirement but makes AYP. Anchorage and Fairbanks, on the other hand, meet the 70% requirement but do not make AYP. Where should the Alaska Legislature's primary effort toward ensuring effective and efficient schools be placed? I, for one, believe it ought to be on output (student achievement), not input (funding). Thus, I urge you and your colleagues to repeal the 70% requirement for instruction.
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Department of Education & Early Development
Districts' Reasons and Causes for FY2009 Budget Waiver Requests

	EED Budget Review			District Reasons and Causes for FY2009 Budget Waiver Request			
	70% Instructional % FY2009 Budget	Category 1 w/ Operations & Maintenance above 20%	Catgegory 2 w/total Revenues Below 3 Million	Economies of Scale & Small Populations at Multiple Sites	Operations and Maintenance	Costs Related to Remote Location	Declining Enrollment
Alaska Gateway	63%	x			x		x
Aleutian Region	68		x	x	x		
Aleutians East Borough	64				x	x	
Anchorage	79						
Annette Island	70						
Bering Strait	67	x			x		x
Bristol Bay Borough	63	x			x	x	x
Chatham	66	x			x	x	x
Chugach	77						
Copper River	68	x		x	x		x
Cordova City	69				x		x
Craig City	79						
Delta Greely	73						
Denali Borough	70						
Dillingham City	70						
Fairbanks North Star Borough	77						
Galena City	70						
Haines Borough	71						
Hoonah City	60		x		x	x	x
Hydaburg City	58		x		x		x
Iditarod Area	61	x			x	x	x
Juneau Borough	77						
Kake City	59		x		x		x
Kashunamiut	70						
Kenai Peninsula Borough	73						
Ketchikan Gateway Borough	76						
Klawock City	66		x		x		x
Kodiak Island Borough	72						
Kuspuk	64	x			x	x	x
Lake & Peninsula Borough	65	x		x	x		
Lower Kuskokwim	75						
Lower Yukon	67	x			x	x	
Matanuska Susitna Borough	80						
Nenana City	75						
Nome City	64	x			x	x	
North Slope Borough	61	x			x	x	
Northwest Arctic Borough	65	x			x		x
Pelican City	59		x		x	x	
Petersburg City	73						
Pribilof Islands	69		x		x	x	x
Saint Mary's	62	x			x	x	
Sitka Borough	79						
Skagway City	70						
Southeast Island	69				x		x
Southwest Region	67	x			x	x	x
Tanana City	54		x		x	x	x
Unalaska City	70						
Valdez City	74						
Wrangell City	68				x		x
Yakutat City	70						
Yukon Flats	60	x			x		
Yukon/Koyukuk	67			x		x	
Yupiit	70						
Totals		15	8				

Department of Education & Early Development
Operating fund Minimum Expenditures for Instruction Summary

	70% FY 2001 Budget	70% FY 2001 Audit	70% FY 2002 Budget	70% FY 2002 Audit	70% FY 2003 Budget	70% FY 2003 Audit	70% FY 2004 Budget	70% FY 2004 Audit	70% FY 2005 Budget	70% FY 2005 Audit	70% FY 2006 Budget	70% FY 2006 Audit	70% FY 2007 Budget	70% FY 2007 Audit	70% FY 2008 Budget	70% FY2009 Budget
Alaska Gateway	69%	71%	65%	67%	65%	69%	64%	67%	67%	66%	66%	63%	66%	65%	63%	*66%
Aleutian Region	65	65	67	70	70	66	66	66	66	70	69	72	70	70	72	*68
Aleutians East Borough	69	67	67	66	65	67	67	67	67	68	66	64	68	64	64	*66
Anchorage	81	79	78	77	77	77	77	77	77	77	77	77	78	77	77	79
Annette Island	69	65	61	66	66	67	69	69	66	66	70	71	71	72	70	70
Bering Strait	70	70	70	69	70	70	70	70	70	70	71	69	70	66	70	*67
Bristol Bay Borough	69	70	69	68	68	64	63	63	62	62	62	61	64	64	60	*63
Chatham	68	66	69	67	69	66	69	66	69	66	65	65	66	67	67	*66
Chugach	72	82	74	81	76	86	75	83	76	80	74	80	79	76	79	77
Copper River	69	73	69	72	69	70	69	69	69	68	69	69	68	68	67	*68
Cordova City	75	75	70	71	70	69	69	68	69	69	69	69	67	70	67	*69
Craig City	73	81	75	74	78	79	80	79	76	79	79	79	78	78	80	79
Delta Greely	77	76	73	74	74	75	76	74	75	74	72	73	74	74	70	73
Denali Borough	72	73	68	68	68	69	72	71	73	71	72	70	71	69	68	70
Dillingham City	78	73	74	71	69	70	71	71	73	71	72	70	72	70	73	70
Fairbanks North Star Borough	79	79	77	78	76	77	77	77	76	76	75	75	75	76	74	77
Galena City	82	80	75	70	70	71	70	73	72	72	72	70	73	73	71	70
Haines Borough	76	76	73	73	72	71	66	68	69	70	69	70	70	70	70	71
Hoonah City	65	64	67	65	59	59	60	60	56	58	53	56	60	59	62	*60
Hydaburg City	65	63	64	63	66	60	69	60	67	65	67	60	70	56	71	*58
Iditarod Area	75	72	69	67	68	61	64	59	61	61	62	60	61	62	60	*61
Juneau Borough	82	81	78	79	77	78	76	76	76	76	76	77	77	78	79	77
Kake City	63	63	62	64	64	62	65	64	62	60	59	59	61	55	54	*59
Kashunamiut	74	73	74	76	73	71	74	76	73	67	70	68	70	70	70	70
Kenai Peninsula Borough	76	76	73	73	73	72	72	71	73	71	73	72	74	73	74	73
Ketchikan Gateway Borough	78	78	76	77	76	76	78	77	76	78	77	77	77	76	74	76
Klawock City	74	71	70	70	66	70	63	64	67	66	68	66	67	65	66	*66
Kodiak Island Borough	76	76	74	73	74	73	74	73	75	73	74	72	74	73	72	72
Kuspuk	73	72	68	70	69	69	63	69	64	66	63	61	65	67	62	*64
Lake & Peninsula Borough	69	70	67	65	66	65	65	64	65	65	65	65	66	65	66	*65
Lower Kuskokwim	75	76	73	73	70	73	73	74	74	75	73	74	71	75	72	75
Lower Yukon	69	68	68	67	66	62	65	67	67	67	68	69	70	69	70	*67
Matanuska Susitna Borough	81	81	77	76	76	77	78	77	78	76	77	76	79	78	78	80
Nenana City	75	82	76	73	72	71	70	64	70	71	69	70	70	71	70	75

Department of Education & Early Development
Operating fund Minimum Expenditures for Instruction Summary

	70% FY 2001 Budget	70% FY 2001 Audit	70% FY 2002 Budget	70% FY 2002 Audit	70% FY 2003 Budget	70% FY 2003 Audit	70% FY 2004 Budget	70% FY 2004 Audit	70% FY 2005 Budget	70% FY 2005 Audit	70% FY 2006 Budget	70% FY 2006 Audit	70% FY 2007 Budget	70% FY 2007 Audit	70% FY 2008 Budget	70% FY2009 Budget
Nome City	**68**	68	**68**	66	**66**	65	**64**	63	**64**	64	**66**	64	**65**	66	**62**	***64**
North Slope Borough	66	66	65	64	64	66	65	64	66	63	64	63	64	64	63	*61
Northwest Arctic Borough	**66**	64	**65**	65	**65**	65	**64**	64	**65**	63	**63**	62	**63**	63	**65**	***65**
Pelican City	**68**	60	**58**	55	**59**	60	**63**	64	**61**	55	**56**	55	**60**	60	**59**	***59**
Petersburg City	74	74	75	73	71	72	69	70	72	72	71	74	71	71	70	73
Pribilof Islands	**62**	58	**61**	66	**65**	60	**62**	64	**60**	63	**68**	62	**64**	63	**65**	***69**
Saint Mary's	**69**	82	**68**	74	70	**67**	**67**	63	**64**	62	**65**	62	**65**	64	**62**	***62**
Sitka Borough	84	84	81	81	79	80	79	79	79	77	78	76	78	77	77	79
Skagway City	**69**	61	**66**	66	**67**	65	**62**	63	**60**	65	**65**	65	**67**	66	**68**	70
Southeast Island	**69**	68	**69**	69	70	70	**68**	67	**68**	66	**67**	60	71	70	72	***69**
Southwest Region	74	72	**69**	**68**	**68**	69	**68**	67	**67**	69	**67**	67	**67**	65	**67**	***67**
Tanana City	**50**	54	**47**	55	**50**	53	**51**	53	**56**	51	**48**	41	**48**	40	**54**	***54**
Unalaska City	72	70	72	74	71	71	70	71	70	72	70	72	70	70	71	70
Valdez City	77	78	74	76	75	75	73	76	74	74	71	74	74	76	71	74
Wrangell City	76	76	74	77	73	76	**69**	70	**69**	70	**69**	70	**68**	70	**67**	***68**
Yakutat City	**69**	71	**69**	67	**67**	65	**65**	66	**68**	68	**69**	70	71	71	70	70
Yukon Flats	**57**	55	**61**	59	**62**	60	**61**	59	**63**	59	**62**	60	**62**	61	**64**	***60**
Yukon/Koyukuk	**69**	73	**68**	67	**68**	69	**69**	70	**68**	67	**66**	68	73	**67**	71	***67**
Yupiit	72	70	**63**	68	72	70	73	72	**69**	68	**69**	71	**68**	60	70	72
Total Waivers	24	0	29	1	27	3	32	1	32	1	32	2	24	5	24	28

Bold = Waiver Requested and Approved

* = Waiver being requested

SUMMARY OF PERCENTAGES BY CATEGORY

Districts below 60%	2	3	2	3	3	2	1	3	2	4	4	4	1	4	3	4
Districts between [60% - 65%)	2	4	6	3	3	8	12	14	10	8	5	13	9	10	10	8
Districts between [65% - 70%)	20	10	21	20	21	17	19	13	20	18	23	11	14	13	11	16
Districts at 70% and above	29	36	24	27	26	26	21	23	21	23	21	25	29	26	29	25
	53	53	53	53	53	53	53	53	53	53	53	53	53	53	53	53

† Minimum Expenditure for Instruction Percentages for FY1999 and FY2000 Budgets and Audits have been removed.

Department of Education & Early Development
70% Minimum Expenditure for Instruction – Summary

History:
In 1998, the legislature passed the new public school funding formula. Included in this legislation is the requirement for school districts to spend 70% of the school operating fund on instruction. The 70% requirement in AS 14.17.520 began in FY1999 and was phased in over three years from 60% to 70%. The minimum expenditure for instruction requirement was 70% in FY2001 and thereafter. Concurrently, with the 70% requirement, the districts and department were required to improve statewide comparability and consistency in data reporting. In addition to the percentage phase in there were changes in the chart of accounts and related regulation that impacted the district's percentages prior to FY2002.

Progress:
The financial information reported in the FY2002 budgets, including the instructional percentages, provides a baseline for comparative data in future years. The FY2002 data represents full implementation of the minimum expenditure law, substantial progress in consistent statewide data, and full reporting under the revised chart of accounts.

FY2009 is the eleventh year under the new law. For the first several years of the law there was an increase in the number of waivers. The increase was due to the phased-in implementation percentage and changes in data collection and comparability from one year to the next.

FY2009 Budget Waiver Requests:
The FY2009 budget waiver request process continues to follow the procedures and patterns of prior years. While looking at the budget waivers it may be helpful to remember the recent changes affecting education funding. HB273, which passed last session, places 50% of the increased ISER cost factors into statute and continues to increase these cost factors by 12.5% each year until the factors are fully implemented. The ISER cost factors are higher than the previous cost factors in statute, and when fully implemented these will provide many districts with increased funding when enrollment levels remain steady. Because the 50% ISER was funded at 50% outside the formula in FY2008 and now at 50% inside the formula (in statute) for FY2009, this will likely not generate a revenue increase for districts in FY2009. In general, expect to see flat revenues from ISER in FY2009 with gains in future years if district enrollment levels remain steady. HB273 also implements increased intensive special education student funding over a three year period beginning in FY2009. There will be some revenue increases from the intensive component in the FY2009 budgets, but these increases will be most noticeable in the larger districts that are not requesting waivers. Finally, HB273 implements a hold harmless provision that provides districts a portion of the funds that would be lost from a decrease in the school size adjusted enrollment caused by lower enrollment. When districts decrease 5% or more from prior year to current year in the school size adjusted enrollments, the hold harmless provision provides 75% funding for the decrease in year one, 50% in year two and 25% in year three. This hold harmless provision allows districts time to plan and adapt to the lower enrollment and funding levels. The hold harmless provision does not significantly affect the current budget and waiver process, but this provision will help to stabilize districts if the enrollments come in low during the actual October 2008 count period for FY2009.

Another item affecting FY2009 are TRS and PERS rates. FY2009 is the second year that the legislature has made a direct appropriation to the TRS and PERS retirement plans and reduced the rates that employers are required to pay. This direct appropriation and reduced employer rate frees up the money that was spent on the higher TRS and PERS rates to be spent on other expenditures at the district. For FY2009, the TRS rate that school districts are required to contribute is 12.56% and the PERS rate is 22%. Due to required governmental accounting standards that the state and school districts are required to

follow, even though school districts are contributing at the 12.56% and 22% rates, the budgeted revenues and expenditures must include the portion that the state directly deposits to the plans. Districts must increase their revenues and expenditures in budgets and audits to show the portion the state contributed. Therefore, in general, budgeted expenditures will be higher in FY2009 even when other factors at the district remained flat. The entry for the retirement on-behalf is most noticeable in the instructional categories due to the savings from 54.03% down to 12.56% from the TRS rate. FY2008 was the first year and a transitional year for the on-behalf accounting entry so most district budgets do not reflect the increased expenditures until FY2009. This means the reader will notice that in general, most district budgets are larger in FY2009 and the instructional expenditures are slightly increased. This is in general but not true for all districts. In some districts with dropping enrollment, substantial increases in non-instructional expenditures or other reasons the increased budget or instructional percentages is off-set and not apparent. The department identified this element on EED's cover sheet for each district. The department took into account the difference this element accounted for when evaluating FY2009 waivers; this explanation is provided for those readers who notice the budgets are larger than last year.

When the department reviewed the FY2009 waivers, the department took into account the impact to the instructional percentage from the on-behalf accounting entry and evaluated whether districts had maintained or increased instructional spending without regard to the accounting entry. We found that districts did maintain prior instructional budgeting practices and that the districts continued to follow the intent of the law for instructional spending. We evaluated where districts directed funding that was freed up from lower retirement rates or funding increases. We found that, in general, the freed up funding from decreased retirement rates or increased funding went to instructional categories or to non-instructional fixed cost categories such as energy. For all districts, we evaluated the increases to non-instructional categories and followed up with districts when additional information was needed. The department's recommendation for a district's waiver is based on the districts' information and explanations.

After taking into account the TRS/PERS changes and increases in other categories such as energy, the FY2009 budgets and waiver requests continue to follow the two patterns identified over the past five years during the budget and waiver review. The two patterns identified are that waiver requests are most often needed from: 1) Districts with budgets of approximately $3 million or less, and 2) Districts with operations and maintenance over 20% of the operating fund budget.

For FY2009, there are eight school districts requesting budget waivers that have operating budgets of approximately $3 million dollars or less. These range from Pelican ($596,797) to Pribilof ($2,827,102). All eight districts were under $3 million and requested budget waivers in both FY2007 and FY2008. The eight districts with operating fund budgets below $3 million are identified in the schedule on page six of this report.

For FY2009, there are 15 school districts in the category of Operations and Maintenance expenditures over 20%. The 15 districts with operations and maintenance expenditures of 20% are identified in the schedule on page six of this report. In many of these districts there were multiple rural sites contributing to high operations and maintenance. Energy costs were a significant component in the costs in this category.

The remaining five districts requesting waivers have a variety of components that contribute to falling below the 70%. The board packet includes all 28 school district waiver requests. The department will present these waiver requests, provide additional information, and answer questions during the October 27, 2008 board meeting.

Conclusion:

The department's internal auditors review the budgets when they are received on July 15 of each year. The budget review includes many components including compliance with law and regulation; review of revenues; review of expenditures at the object level; review of beginning and ending fund balance; review of use of chart of accounts for consistent statewide reporting; observation of staffing levels by function; observation of progress towards 70% as revenues increase; and a phone call and discussion with each district superintendent and/or business manager. During this process the districts correct any outstanding items.

After the budget review, those districts below 70% must revise their budget or submit a waiver to the state board. The department's internal auditors review the waivers when they are received September 20 of each year. The waiver review covers multiple components, including checking for accuracy to make sure that the dollars and issues discussed match the district's budget. The internal auditors review total revenues from current to prior years and evaluate changes to expenditure levels in each function. The districts' reasons and causes are evaluated to ensure that the reasons forwarded to the state board correspond to the dollars and activities as reported in the budgets and audits; for example, if the district reports insurance costs increased, the department compares insurance expense at the district over several years to confirm the increase.

The waiver review process was developed to provide assistance to the state board in their decision making process and to provide specific information to include in the department's April 15 annual report to the Legislative Budget & Audit Committee. The following three spreadsheets summarize components of the 70% minimum instructional expenditure requirement:

- Operating Fund Minimum Expenditure for Instruction and Summary
- Districts' Reasons and Causes for FY2009 Budget Waiver Requests
- Minimum Expenditure for Instruction Calculation Overview.

To: **Members of the State Board of Education & Early Development** **October 14, 2008**

From: Larry LeDoux, Commissioner **Agenda Item: 5.20**

♦ ISSUE

In accordance with AS 14.17.520 the board is asked to consider the Pelican City Schools FY2009 request for waiver of the 70% minimum expenditure for instruction requirement.

♦ BACKGROUND

Pelican City Schools FY2009 Operating Budget Expenditures:

Function	FY08 Dollars	FY08 %	FY09 Dollars	FY09 %
Instructional: 100 – 400	$296,732	59%	$353,140	59%
School Administration Support Services: 450	32,455	6%	40,418	7%
District Administration: 510	21,004	4%	21,622	4%
District Administration Support Services: 550	34,436	7%	42,832	7%
Operation & Maintenance: 600	109,869	22%	127,785	21%
Student Activities: 700	7,900	2%	11,000	2%
Community Services: 780	0	0%	0	0%
Total	**$502,396**	**100%**	**$596,797**	**100%**

History of Instructional Expenditures Requiring a Waiver and Actual Enrollments

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
Instructional %	68%	58%	59%	63%	61%	56%	60%	59%	59%
Enrollment *	23	19	18	15	11	14	15	16	15

* Pelican City School District operates one school in the community of Pelican. The FY2009 enrollments are budget projections.

The FY2009 budget includes TRS/PERS on-behalf which was not included in the FY2008 budget. The TRS/PERS on-behalf increases the instructional expenditures and accordingly the total expenditures for FY2009.

♦ OPTIONS

Grant the Pelican City Schools request for waiver of the FY2009 70% minimum expenditure for instruction requirement.
Deny the district's request.

♦ ADMINISTRATION'S RECOMMENDATION

Approve the district's waiver request based on the district's reasons and causes:

- Low district-wide enrollment.
- Operations and maintenance.

♦ SUGGESTED MOTION

I move the State Board of Education & Early Development grant the Pelican City Schools FY2009 request for waiver of the 70% minimum expenditure for instruction requirement in accordance with AS 14.17.520(d).

Pelican School District

Pelican City School District
101 South Salmon Way
Box 90
Pelican, Alaska AK 99832
Voice: (907)735-2236
Fax: (907) 735-2263
Email: psd@pelicanschool.org

September 30, 2008

REVISED

State of Alaska Board of Education & Early Development
801 West 10th Street, Suite 200
PO Box 110500
Juneau Alaska 99811

PELICAN SCHOOL DISTRICT'S REQUEST FOR WAIVER

The Pelican School District requests a waiver for not meeting the minimum expenditure for instruction requirement of AS 14.17.520. Although we are submitting a revised budget to reflect minor changes in personnel costs, the percentage for instruction remains at 59%. Expenditures of $596,797 for FY-09 will require the use of $49,000 of carry over funds.

Although the School Board is committed to being accountable for providing increased academic growth for each of its students in the most efficient manner, we are unable to comply with the minimum expenditure for instruction due to continued low enrollment (16 ADM) and the escalating costs for energy, freight, transportation, operations and maintenance. The round trip airfare from Pelican to Juneau is only $30 less than the cost of flying round trip to Seattle from Juneau. These things are beyond our control. The items budgeted outside of instruction are fixed and necessary to maintain the facilities and support the program. There are no extras, and limited funding due to minimum enrollment does not allow us to provide music or art programs in the classroom for our kids. We have two certified teachers and 1.10 aides. (77% paid for by grants.) Our Superintendent/Principal administrative services total fte .25 and Business Manager/Tech Support services are combined into a .75 fte position. It should be noted that an additional $41,000 in grants for FY-09 will be spent in Instruction.

Increased state support and conservative spending last fiscal year allowed the Board to transfer $31,000 to it's CIP fund, to assist in replacing the boiler in the high school this fall, which is an urgent need, and to contribute to the District's $900,00 local share of it's major maintenance grant request to the legislature. It's unknown at this point where the balance of the local share will come from.

Providing education services in the most efficient manner continues to be the goal and focus of the School Board. We appreciate your consideration of our request.

Connie Newman
Superintendent

cc: Ralph Samuels, LB&A
Elwin Blackwell

To: **Members of the State Board of Education & Early Development** **October 14, 2008**

From: Larry LeDoux, Commissioner **Agenda Item: 5.5**

♦ ISSUE

In accordance with AS 14.17.520 the board is asked to consider the Bristol Bay Borough School District's FY2009 request for waiver of the 70% minimum expenditure for instruction requirement.

♦ BACKGROUND

Bristol Bay Borough School District FY2009 Operating Budget Expenditures:

Function	FY08 Dollars	FY08 %	FY09 Dollars	FY09 %
Instructional: 100 – 400	$1,851,588	60%	$2,336,724	63%
School Administration Support Services: 450	75,775	2%	86,484	2%
District Administration: 510	186,903	6%	224,385	6%
District Administration Support Services: 550	204,497	7%	228,380	6%
Operation & Maintenance: 600	706,851	23%	774,594	21%
Student Activities: 700	78,090	2%	80,004	2%
Community Services: 780	0	0%	0	0%
Total	**$3,103,704**	**100%**	**$3,730,571**	**100%**

History of Instructional Expenditures Requiring a Waiver and Actual Enrollments

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
Instructional %	69%	69%	68%	63%	62%	62%	64%	60%	63%
Enrollment *	243	237	234	195	184	179	188	182	154

* Bristol Bay Borough School District operates two schools in two communities. The FY2009 enrollments are budget projections.

The FY2009 budget includes TRS/PERS on-behalf which was not included in the FY2008 budget. The TRS/PERS on-behalf increases the instructional expenditures and accordingly the total expenditures for FY2009.

♦ OPTIONS

Grant the Bristol Bay Borough School District's request for waiver of the FY2009 70% minimum expenditure for instruction requirement.
Deny the district's request.

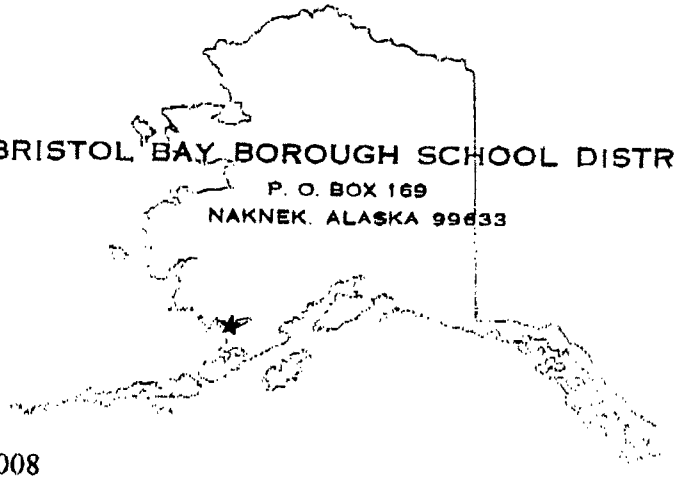
♦ ADMINISTRATION'S RECOMMENDATION

Approve the district's waiver request based on the district's reasons and causes:

- High cost of operations and maintenance and energy.
- Declining enrollment.
- High costs related to transportation and shipping.

♦ SUGGESTED MOTION

I move the State Board of Education & Early Development grant the Bristol Bay Borough School District's FY2009 request for waiver of the 70% minimum expenditure for instruction requirement in accordance with AS 14.17.520(d).



BRISTOL BAY BOROUGH SCHOOL DISTRICT

P. O. BOX 169
NAKNEK, ALASKA 99633

JACK WALSH
SUPERINTENDENT
PHONE: (907) 246-4225
FAX: (907) 246-6857
E-MAIL: jwalsh@nnk.gcisa.net

SHEILA EVERHART
PRINCIPAL
PHONE: (907) 246-4266
FAX: (907) 246-4447
E-MAIL: severhart@nnk.gcisa.net

September 22, 2008

Alaska Department of Education & Early Development
Office of the Commissioner
ATTN: Dottie Knuth, Executive Secretary to the Board
801 West 10th Street, Suite 200
P.O. Box 110500
Juneau, AK 99811-0500

Subject: Revised FY09 School Operating Budget and Waiver Request

Dear Chairperson Cox and Members of the State Board:

The Bristol Bay Borough School District acknowledges its statutory responsibility to expend 70% of its operating budget on instruction, and to do all that it can to keep our administrative costs at 30% or less of our total budget. This has been a challenge for our district for many years, and again this year I am requesting that we be granted a waiver in accordance with AS 14.17.520(d).

The Bristol Bay Borough School District requests a waiver to the 70% minimum expenditure for instruction requirement due to reasons and causes beyond the district's control, including the high costs of heating and utilities, the declining student enrollment, and the high costs associated with shipping for needed supplies and equipment, bringing in service providers and technical assistance to our community, and staff, student, and administrative travel for activities and professional development opportunities.

To illustrate each of the reasons listed above, I have written a few general remarks and included detail that may help further explain the challenges we face in Naknek.

Heating costs, electricity, and fuel costs continue to have a growing impact on our overall budget. In 2008-2009 these costs are estimated to be over $320,000.00 or approximately 9 % of our entire budget. This is an overall increase of approximately $35,000.00 from a year ago.

Transporting goods to rural Alaska will always be expensive and more and more we see service providers attaching fuel surcharges to the costs of every air and barge load. It is also a common practice of our utility providers. Having less students in the building means less revenues, but it also means those fixed costs associated with transportation, and heating and lighting a building are spread between less students and we have no real control in this area. Our declining enrollment is due mostly to the high costs of goods and services in the region and we believe it is not an indication of our community's distrust or dissatisfaction with our school programs.

Staff turnover and staffing costs were also part of why we must request a waiver. Once again this year the district hired three new teachers and a new administrator, and in each case the salary and benefit packages for the new employees was less than the person was paid last year for the same job. We are making an effort to put more money into professional development for teachers and other staff and in time that commitment will make a difference in reducing all staff turnover. In time we will do more to support new teachers and mentoring efforts and that could make all the difference in helping our new hires stay in Naknek for a longer period of time.

In spite of our projection of 30 less students, our board supported maintaining staffing at the same levels as last year. This helped eliminate the shift in percentages that would have occurred if we had reduced our teaching staff by 2-3 teachers, as might happen whenever we see a 30 student drop in enrollment. Our commitment to put qualified staff in front of students and to make sure those services continue at the same level is important.

Travel costs to bring in related service staff to support special education needs and persons who provide or participate in staff development opportunities is another cost that is often beyond our control. In our region, where there is a single air carrier bringing in passengers for most of the school year, there is little competition and limited options in terms of what we will pay for these opportunities and required services.

I could list other concerns, but these are the ones that I feel adequately illustrate our situation. In reviewing other waiver requests from previous superintendents, I understand the importance of due diligence in this area to always strive for the 70/30 goal and I remain committed to that end. In this latest budget revision I have tried to shift monies to staff development and classroom materials and resources that will make a difference in the way we serve students and positively impact our student performance. An effort is being made to bring the community together and look at our long range goals and plans so that we can work proactively and not reactively, especially in the areas of staffing, educational technology, and instructional supplies and materials central to our mission.

The Board has known for many years that we must continue to rely on the superintendent and the building principal to shoulder responsibility for oversight and management of our curriculum and instruction, assessment, special education, personnel and human resources, community schools, federal programs and grants, and all other programs that might be handled by additional administrators in a larger district. We also acknowledge that other staff members help in these areas, and so many others. In this way we keep our administrative overhead down in both numbers and overall costs. We continue to be committed to those goals.

It is for those reasons listed and others that the Bristol Bay Borough School District requests the Department's approval of its revised FY 2009 School Operating Fund Budget as well as our Waiver Request, both of which are enclosed.

Respectfully yours,

Jack Walsh

Jack Walsh
Superintendent

Cc: The Honorable Ralph Samuels, Chair (LB&A)
Elwin Blackwell, Internal Auditor (DEED)

To: **Members of the State Board of Education & Early Development** **October 14, 2008**

From: Larry LeDoux, Commissioner **Agenda Item: 5.7**

♦ ISSUE

In accordance with AS 14.17.520 the board is asked to consider the Copper River School District's FY2009 request for waiver of the 70% minimum expenditure for instruction requirement.

♦ BACKGROUND

Copper River School District FY2009 Operating Budget Expenditures:

Function	FY08 Dollars	FY08 %	FY09 Dollars	FY09 %
Instructional: 100 – 400	$4,649,177	67%	5,454,899	68%
School Administration Support Services: 450	205,155	3%	249,481	3%
District Administration: 510	159,124	2%	189,295	2%
District Administration Support Services: 550	404,321	6%	437,571	6%
Operation & Maintenance: 600	1,528,081	22%	1,649,624	21%
Student Activities: 700	0	0%	0	0%
Community Services: 780	0	0%	0	0%
Total	**$6,945,858**	**100%**	**$7,980,870**	**100%**

History of Instructional Expenditures Requiring a Waiver and Actual Enrollments

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
Instructional %	69%	69%	69%	69%	69%	69%	68%	67%	68%
Enrollment *	690	714	675	658	640	610	560	519	502

* Copper River School District operates six schools in five communities. The FY2009 enrollments are budget projections.

The FY2009 budget includes TRS/PERS on-behalf which was not included in the FY2008 budget. The TRS/PERS on-behalf increases the instructional expenditures and accordingly the total expenditures for FY2009.

♦ OPTIONS

Grant the Copper River School District's request for waiver of the FY2009 70% minimum expenditure for instruction requirement.
Deny the district's request.

♦ ADMINISTRATION'S RECOMMENDATION

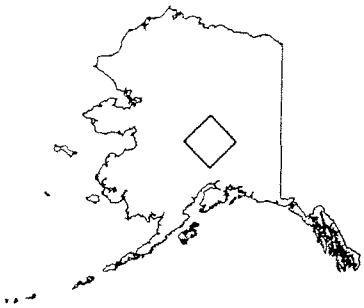
Approve the district's waiver request based on the district's reasons and causes:

- Declining enrollment.
- Operations and maintenance costs.
- Maintaining multiple sites with smaller student populations across the district.

♦ SUGGESTED MOTION

I move the State Board of Education & Early Development grant the Copper River School District's FY2009 request for waiver of the 70% minimum expenditure for instruction requirement in accordance with AS 14.17.520(d).

Copper River School District



Chistochina
Copper Center
Gakona
Glennallen
Kenny Lake
Slana

Office of the Superintendent
P.O. Box 108
Glennallen, AK 99588
(907) 822-3234 ext. 223
(907) 822-3949 fax

Alaska Department of Education
& Early Development

SEP 25 2008

Commissioner's Office

September 19, 2008

State of Alaska Board of Education & Early Development
801 West 10th Street, Suite 200
PO Box 110500
Juneau, AK 99811-0500

Dear State Board of Education & Early Development:

The Copper River School District is requesting a waiver of the 70% minimum expenditure for instruction as set forth in AS 14.713.520.

During the past school year the District has continued its efforts to provide educational services in the most financially efficient manner, without lowering its high quality of education and teaching standards. The District will continue to try to meet the minimum expenditure requirement by reviewing expense classifications and working directly with the Department of Education.

Each school in the Copper River School district made Adequate Yearly Progress for 2007-2008 school year. Our district's success is based on a strong and deliberate administrative support system that provides staff development, instructional leadership, and managerial support that enables teachers and instructional aides the freedom to focus on individual student achievement.

The main factors that result in the District not meeting the 70% instructional expenditure are described as follows: The district ADM has dropped by 109 students over the past 3 school years (18% decrease) which reduces our revenue. This drop in ADM does not change the high fixed costs necessary to maintain a facility. Therefore, our Maintenance Budget negatively affects the 70% instructional expenditures. Also our District covers approximately 23,100 square miles with school sites that have small populations. This equates to .02 students per square mile. The per student cost to operate and maintain these facilities is greater due to their small size (ranging from $1,975 per student to $5,039 per student).

cc'd: Eddy Jacobs

The District operations and maintenance budget (O & M) represents 21% of the school operating fund expenditures. These fixed O & M costs do not allow the District to meet the 70% instructional expenditure which is beyond our control.

The Workers' Compensation rate has increased by .85% for all employees except the Maintenance/Custodial staff which has increased by .95%. Health/life insurance has increased by 8.48%.

On behalf of the Copper River School District Board of Education and the students, the District is requesting a waiver of the 70% requirement for expenditures in instruction as set forth in AS 14.713.520.

Sincerely,

Loreen M Kramer

Loreen M. Kramer
Acting Superintendent

Cc: The Honorable Ralph Samuels, Chair
Legislative Budget and Audit Committee (LB&A)

To: **Members of the State Board of Education & Early Development** **October 14, 2008**

From: Larry LeDoux, Commissioner **Agenda Item: 5.13**

♦ ISSUE

In accordance with AS 14.17.520 the board is asked to consider the Klawock City School District's FY2009 request for waiver of the 70% minimum expenditure for instruction requirement.

♦ BACKGROUND

Klawock City School District FY2009 Operating Budget Expenditures:

Function	FY08 Dollars	FY08 %	FY09 Dollars	FY09 %
Instructional: 100 – 400	$1,540,285	66%	$1,847,068	66%
School Administration Support Services: 450	50,946	2%	98,531	3%
District Administration: 510	224,236	9%	276,642	10%
District Administration Support Services: 550	92,286	4%	103,286	4%
Operation & Maintenance: 600	347,237	15%	387,409	14%
Student Activities: 700	93,098	4%	102,287	3%
Community Services: 780	0	0%	0	0%
Total	**$2,348,088**	**100%**	**$2,815,223**	**100%**

History of Instructional Expenditures Requiring a Waiver and Actual Enrollments

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
Instructional %			66%	63%	67%	68%	67%	66%	66%
Enrollment *	208	174	159	148	160	136	140	136	134

* Klawock City School District operates one school in the community of Klawock. The FY2009 enrollments are budget projections.

The FY2009 budget includes TRS/PERS on-behalf which was not included in the FY2008 budget. The TRS/PERS on-behalf increases the instructional expenditures and accordingly the total expenditures for FY2009.

♦ OPTIONS

Grant the Klawock City School District's request for waiver of the FY2009 70% minimum expenditure for instruction requirement.
Deny the district's request.

♦ ADMINISTRATION'S RECOMMENDATION

Approve the district's waiver request based on the district's reasons and causes:

- Lower enrollment.
- Fixed non-instructional costs.

♦ SUGGESTED MOTION

I move the State Board of Education & Early Development grant the Klawock City School District's FY2009 request for waiver of the 70% minimum expenditure for instruction requirement in accordance with AS 14.17.520(d).

Klawock City School District

P.O. Box 9 Klawock, Alaska 99925 907-755-2220 Fax: 907-755-2913

Richard E. Carlson
Superintendent

Jim Holien
K -12 Principal

Alaska Department of Education
& Early Development

SEP 22 2008

Commissioner's Office

September 19, 2008

State of Alaska Board of Education & Early Development
801 West 10th Street, Suite 200
P.O. Box 110500
Juneau, AK 99811-0500

Dear State Board of Education:

Please accept this waiver request from the Klawock City School District pursuant to Alaska Statute 14.17.520. The Klawock City School district requests a waiver to the 70% minimum expenditure for instruction requirement due to causes beyond the control of the district.

Despite our best efforts the district's ability to reach 70% continues to be challenged by low enrollment due to the regional economy and increasing fixed non-instructional costs. These fixed costs include energy, health insurance, transportation and shipping and professional services.

Our district has maintained instructional spending in spite of flat revenues and rising costs. After taking into account the FY2009 required accounting entry for the state's PERS/TRS contribution, our actual dollars and percentage support spent in the instructional categories has been maintained at the same level from FY2007 to FY2008 and now FY2009. Again, we have maintained instructional support during a time of rising costs and level revenues. We anticipate that other than a very slight increase from the $100 base student allocation (BSA), our actual FY2009 state revenues will remain nearly identical to FY2008 and FY2007 levels. In other revenue categories, such as local and federal dollars, the district anticipates additional challenges due to the effects of the regional economy.

Specific non-instructional expenditures beyond the control of the district include costs for operations and maintenance. The district must provide for increasing energy costs, increasing costs for professional services, transportation and shipping. We now expect that our actual energy costs will be significantly higher then what was originally budgeted. As our facility ages we are experiencing an increasing need to hire professional services with expertise, training and certification outside that of our one full-time

maintenance employee. For example, we must hire outside help in the areas of heating, plumbing, and electrical and other technical areas in which our maintenance person does not have the necessary background. In addition to professional services these services also require shipping and travel and those components themselves have also increased over the years.

Other non-instructional fixed costs that impede our ability to reach 70% include items such as health insurance and costs associated with maintaining required reporting. For the FY2009 school year we have had to increase some hours for several of our non-certified positions. In the past, we have attempted to handle the increased paperwork brought on by state and federal mandates by simply increasing the workload of existing employees. This has resulted in burnout and people leaving their positions. As a result we have added hours and staff to attempt to compensate for the additional workload. In addition, increases in health insurance costs in the non-instructional categories impacts our ability to meet the 70%. At this time the district has by chance achieved some savings in health insurance in the instructional components because some of our certified staff are covered by other health care programs outside the district; this is not the case with our non instructional staff and thus causes a higher non-instructional percentage. Other challenges in this area include increasing professional fees for required audit and compliance requirements.

It should be noted that with a budget of just slightly more than $2.8 million, cutting costs in non-instructional areas is extremely difficult. Many fixed costs cannot be avoided. Flexibility is limited by contractual obligation, facility requirements, State and Federal mandates, energy costs, supplies and materials costs, shipping and transportation costs and the list goes on.

It must be stated that the Klawock City School District continues to make every effort to protect our instructional program. We continue to offer a variety of extended learning opportunities for our students and the District has always made "Adequate Yearly Progress" under NCLB.

Our district faces the same challenges with the 70% requirement that we have in past years. It is hoped that our work towards the 70%, our student achievement and this explanation along with the information provided to the department is acceptable and that a request for a waiver will be approved. If you have any questions, please feel free to contact me a 755-2917.

Sincerely,

Richard E. Carlson
Superintendent

State Board of Education & Early Development

Tentative Agenda
Teleconference Meeting

October 27, 2008
Goldbelt Building
Commissioner's Conference Room
801 West Tenth St., Second Floor
Juneau, AK

12:00

1. **Call to Order and Roll Call..... Esther Cox, Chair**
2. **Pledge of Allegiance.....Esther Cox, Chair**
3. **Disclosures of potential conflicts of interest .....Esther Cox, Chair**
4. **Approval of the Agenda..... Esther Cox, Chair**

12:05 PM **Public Comment ..... Esther Cox, Chair**

Public comment is open on agenda items only. Comment at this oral hearing is limited to three minutes per person and five minutes per group. In the event that there is more than fifteen minutes of public comment the board may move to amend the agenda to extend the oral hearing to accommodate those present or on line before 12 noon, or those signed up prior to the meeting, who did not have an opportunity to comment. The board also reserves the right to adjourn at a later time.

12:20 PM

5. **School District Budget Waiver Requests**
..... Commissioner LeDoux
.....Eddy Jeans

5.1 Alaska Gateway School District
5.2 Aleutian Region School District
5.3 Aleutians East Borough School District
5.4 Bering Strait School District
5.5 Bristol Bay Borough School District
5.6 Chatham School District
5.7 Copper River School District
5.8 Cordova School District
5.9 Hoonah City School District
5.10 Hydaburg City School District
5.11 Iditarod Area School District
5.12 Kake City School District
5.13 Klawock City School District
5.14 Kuspuk School District
5.15 Lake and Peninsula School District
5.16 Lower Yukon School District
5.17 Nome Public Schools
5.18 North Slope Borough School District
5.19 Northwest Arctic Borough School District
5.20 Pelican City Schools
5.21 Pribilof School District

5.22 Saint Mary's School District
5.23 Southeast Island School District
5.24 Southwest Region School District
5.25 Tanana City School District
5.26 Wrangell Public Schools
5.27 Yukon Flats School District
5.28 Yukon Koyukuk School District

Other Business

1:30 PM **6. Approve Appointment of Mt. Edgecumbe Advisory Board Members .....Commissioner LeDoux**

1:45 PM **7. Approve Appointment of Director of Assessment, Accountability & Information Management .....Commissioner LeDoux**

2:00 PM **Board Comments**

2:10 PM **Adjourn**

To: **Members of the State Board of Education & Early Development** **October 14, 2008**

From: Larry LeDoux, Commissioner **Agenda Item: 5**

♦ ISSUE

The board is asked to consider 28 school district requests for waiver of the 70% minimum expenditure for instruction requirement for Fiscal Year 2009 budgets.

♦ BACKGROUND

- AS 14.17.520 requires that a school district budget for and spend a minimum of 70% of its school operating expenditures in each fiscal year on the instructional component of its budget. The requirement was phased in over three years from 60% to 70%. FY2001 was the first year of the full 70% requirement. AS 14.17.520(d) allows a district unable to comply with the requirement to request a waiver from the board. The board may grant the waiver if it determines that the district's failure "was due to circumstances beyond the control of the district." A copy of AS 14.17.520 follows this memorandum.

- The law requires that the board consider requests for waivers under two separate conditions. Each fall, the board considers waivers of the requirement based on the school district's proposed budget for the current school year. In the spring, the board is asked to consider waiver requests if a school district had budgeted at the required amount but failed to meet the requirement on the actual audited expenditures for the prior school year. The following table highlights the required instructional percentage since the minimum expenditure law was passed and the number of waivers requested and granted under both the budget and audit requirements:

Fiscal Year	% Required	# of Budget Waivers Granted	# of Audit Waivers Granted
1999	60%	13	2
2000	65%	16	4
2001	70%	24	0
2002	70%	29	1
2003	70%	27	3
2004	70%	32	1
2005	70%	32	1
2006	70%	32	2
2007	70%	24	5
2008	70%	24	Consider in March 2009

- After review, analysis, and investigation of FY2009 budgets, the department sent notification to each district accepting or rejecting its budget.

- The department has prepared a seven-page overview detailing the process, history, results and calculations for the minimum expenditure requirement. The instructions to the affected school districts and the seven-page overview follows this memorandum.

- The requests and supporting documentation are provided for each district under separate tabs.

- **OPTIONS**

Approve all 28 district waiver requests.
Approve each individual district waiver request.
Do not approve the district waiver requests.

- **ADMINISTRATION'S RECOMMENDATION**

Approve all 28 district waiver requests.

- **SUGGESTED MOTION**

I move the State Board of Eduction & Early Development approve the district waiver requests for 70% minimum expenditure for instruction requirement for Fiscal Year 2009 for the following school districts: Alaska Gateway, Aleutian Region, Aleutians East Borough, Bering Strait, Bristol Bay Borough, Chatham, Copper River, Cordova, Hoonah City, Hydaburg City, Iditarod Area, Kake City, Klawock City, Kuspuk, Lake and Peninsula, Lower Yukon, Nome City, North Slope Borough, Northwest Arctic Borough, Pelican City, Pribilof, Saint Mary's, Southeast Island, Southwest Region, Tanana City, Wrangell Public, Yukon Flats, and Yukon Koyukuk.

Alaska Statute 14.17.520

Sec. 14.17.520. Minimum expenditure for instruction.

(a) A district shall budget for and spend a minimum of 70 percent of its school operating expenditures in each fiscal year on the instructional component of the district budget.

(b) The commissioner shall reject a district budget that does not comply with (a) of this section and, unless a waiver has been granted by the board under (d) of this section, shall withhold payments of state aid from that district, beginning with the payment for the second full month after rejection and continuing until the school board of the district revises the district budget to comply with (a) of this section.

(c) The commissioner shall review the annual audit of each district for compliance with the expenditure requirements of (a) of this section. If the commissioner determines that a district does not meet those requirements, the commissioner shall advise the district of the determination, calculate the amount of the deficiency, and deduct that amount from state aid paid to the district for the current fiscal year. A deduction in state aid required under this subsection begins with the payment for the second full month after the determination, unless a waiver has been granted by the board under (d) of this section.

(d) A district that has been determined by the commissioner to be out of compliance with the requirements of this section may, within 20 days of the commissioner's determination, request a waiver by the board of the imposition by the commissioner of any reduction in state aid payments under (b) or (c) of this section. The request must be in writing and must include an analysis of the reasons and causes for the district's inability to comply with the requirements of this section. The board may grant the waiver if the board determines that the district's failure to meet the expenditure requirements of this section was due to circumstances beyond the control of the district. The request must also be submitted to the Legislative Budget and Audit Committee, which shall review the district's request and forward the committee's recommendations on it to the board.

(e) The commissioner shall submit an annual report on actions taken by the commissioner or the board under this section to the Legislative Budget and Audit Committee by April 15 of each year.

(f) In this section, "instructional component" includes expenditures for teachers and for pupil support services.

SARAH PALIN, GOVERNOR

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Eddy.Jeans@alaska.gov

Department of Education & Early Development
Division of School Finance

September 1, 2008

Dear Superintendent:

In accordance with regulation 4 AAC 09.120, the Alaska Department of Education & Early Development (the department) reviewed your FY 2009 school operating fund budget and rejected it, at this time, for not meeting the 70% minimum expenditure for instruction requirement in Alaska Statute 14.17.520. Alaska Statute 14.17.520(d) allows a district to request a waiver from the requirements of this statute within 20 days of this determination. A revised budget or waiver request must be submitted to the department by **September 20, 2008**.

The waiver request letter must include a statement of the reason(s) and cause(s) that are beyond the district's control and account for the district's inability to comply with the minimum expenditure for instruction requirement. The body of the waiver request letter is to contain a persuasive argument providing detailed information to support the reasons and causes that account for the districts inability to comply with the minimum expenditure for instruction requirement. You are encouraged to submit any additional documentation that would aid the department in understanding more fully the reason(s) and cause(s) behind the districts inability to comply with the minimum expenditure requirement.

Enclosed is a document outlining the budget review and waiver request instructions and a spreadsheet with the district's function and object code comparisons. If you need further information, **assistance is available** from the Department of Education & Early Development, Division of School Finance. Please contact Elwin Blackwell at (907) 465-8665.

Sincerely,

Eddy Jeans
Director

Enclosure

September 1, 2008

The following information is provided to summarize the budget review and waiver process. Further information can be obtained from Alaska statutes, regulations, or the Department of Education & Early Development - School Finance.

AS 14.17.520, minimum expenditure for instruction, requires school districts to budget and expend 70% of their school operating expenditures on instruction. Budgets are due to the Department of Education & Early Development (the department) by July 15, annually. The calculation for the FY2009 budgeted minimum expenditure for instruction is functions 100-400 divided by functions 100-780.

Budget Review

Following the July 15 due date, the department reviews each budget and notifies the district by September 1 of approval or rejection. As presented in 4 AAC 09.120, a budget will be rejected when:

1. not in the form required by the department;
2. not balanced;
3. does not meet the local effort provisions of AS.14.17; or
4. does not meet the minimum expenditure for instruction requirement of AS 14.17.520.

Notification that a budget is rejected will include the department's specific reasons for the rejection. A district must resubmit an amended budget within 20 calendar days of the date of the notification for those budgets rejected under 1, 2 or 3 above. For those budgets rejected under 4 above, the district must either resubmit an amended budget that complies with the requirement or request a waiver from the State Board of Education & Early Development within 20 calendar days of the date of the rejection notification.

Waiver Request Instructions

For FY2009 there is a new format for the waiver request. The waiver request must contain two parts:

PART 1) a separate Cover Letter to the state board with a copy sent to LB&A and a copy sent to the department. The cover letter should request the waiver and include the reasons and causes and supporting information for the waiver request.

PART 2) Additional information in the form of the template (used in prior years and described below) sent to Elwin Blackwell at the department.

PART 1: The waiver request is to be in a letter format and is to be addressed to the State Board of Education with a carbon copy going to the chair of the Legislative Budget and Audit committee. The waiver request letter should start by requesting a waiver from the State Board of Education then move to the reasons and causes statement.

The reasons and causes statement must clearly identify the reasons and causes that are beyond the districts control and prevent the district from budgeting in compliance with the minimum expenditure

for instruction requirement. **The reasons and causes statement should be clear**, such as, *"The [District Name] requests a waiver to the 70% minimum expenditure for instruction requirement due to reasons and causes beyond the districts control including [districts reasons and causes, examples declining enrollments, increasing energy costs]."* A comparative spreadsheet has been supplied that details out by function and object code the districts current and prior year budgets and the last three years audited financial statement information. The spreadsheet should be used as a tool to aid the district in identifying and explaining the reasons and causes for not meeting the minimum expenditure for instruction requirement.

The paragraphs that follow the reasons and causes statement are to contain an explanation and discussion of the details supporting the reasons and causes. These paragraphs should convince the State Board of Education that it is not possible based on the reasons and causes to budget at the minimum expenditure for instruction. If the district, for example, cited declining enrollments in the reasons and causes then the district would want to explain the decline by telling how much enrollments have declined from the prior year or over the last several years. The district would then want to discuss how the declining enrollments have impacted funding and the instructional program. The district, if relevant, should discuss what they have done to mitigate the impacts on the instructional programs.

The reasons and causes statement, the explanation, and discussion of the details are to be based on the current budget. The district may want to include supporting evidence from the prior year financial statements that supports the reasons and causes statement. The waiver request letter should conclude by summarizing why the district needs a waiver for this budget.

The State Board of Education & Early Development may grant a waiver if it determines the district's inability to meet the requirement is due to circumstances beyond the control of the district.

In accordance with statute submit your waiver to:

State of Alaska Board of Education & Early Development
801 West 10th Street, Suite 200
PO Box 110500
Juneau, Alaska 99811-0500

In accordance with statute a copy of your waiver request must be submitted to:

The Honorable Ralph Samuels, Chair
Legislative Budget and Audit Committee (LB&A)
State Capital, Room 204
Juneau, AK 99801-1182

PART 2: Separately from your cover letter, provide the district template as a work-paper for the department's review. The template format is the same as prior years and an example is attached. The template includes the budget allocations in table form, a district profile with the location, number of schools per community, average daily membership and size of the district and an explanation of major events in the instructional functions and major events for the non-instructional functions. The district profile should also include pertinent climatic and geographic information and other facts providing a clear understanding of the circumstances affecting the cost of delivering educational services.

The additional information is to be submitted to:

Elwin Blackwell, Internal Auditor
Department of Education & Early Development
801 West 10th Street, Suite 200
PO Box 110500
Juneau, AK 99811-0500