

Legislative Fiscal Analyst's Overview of the Governor's FY2018 Request

Department of Education and Early Development

All Dollars in Thousands

| | (GF Only) | Change | % Change | See Note: |
|--|--|--|---|------------------|
| FY17 Conference Committee (GF Only) | \$1,321,255.7 | | | |
| FY17 Fiscal Notes | - | | | |
| CarryForward | - | | | |
| Misc Adjustments | 6,350.0 | | | |
| Multi-Years/Specials | 500.0 | | | |
| Vetoed | (11,693.7) | | | |
| FY17 Management Plan (GF only) | \$1,316,412.0 | (\$4,843.7) | -0.4% | |
| One-time Items Removed | (76,601.6) | | | |
| Misc Adjustments | 72,619.8 | | | 4 |
| Agency Transfer In/ Out | - | | | |
| Temporary Increments (IncTs) | - | | | |
| Maintenance Increments | 3,681.8 | | | 9 |
| FY18 Contractual Salary Increases | 121.6 | | | |
| FY18 Adjusted Base Budget (GF only) | \$1,316,233.6 | (\$178.4) | 0.0% | |
| Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent | 6,132.1 | | | 8 |
| FY18 Governor's GF Increments/Decrements/Fund Changes | 832.2 | | | |
| FY18 Governor's Agency Request (GF only) | \$1,323,197.9 | \$6,964.3 | 0.5% | |
| FY18 Governor's Increments, Decrements, Fund Changes and Language | FY18 Adjusted Base Budget (GF Only) | FY18 Governor's Request (GF only) | Change from FY18 Adj Base to FY18 Governor's Request | See Note: |
| Allocation | | | \$6,964.3 | |
| Foundation Program | 1,170,334.5 | 1,176,466.6 | 6,132.1 | 8 |
| Special Schools | 3,532.4 | 3,563.9 | 31.5 | |
| State System of Support | 1,597.7 | 1,847.7 | 250.0 | 1 |
| Teacher Certification | 916.5 | 916.3 | (0.2) | |
| AK State Council on the Arts | 708.2 | 703.7 | (4.5) | 5 |
| Mt. Edgecumbe Boarding School | 4,716.2 | 4,816.2 | 100.0 | 2 |
| Library Operations | 8,022.9 | 7,997.3 | (25.6) | 5 |
| ACPE Admin & Operations | 5,883.7 | 6,008.7 | 125.0 | 3 |
| WWAMI Medical Education | 2,964.8 | 3,070.8 | 106.0 | 6 |
| AK Performance Scholarship Award | 11,500.0 | 11,750.0 | 250.0 | 3 |
| Non-General Fund Agency Summary | FY18 Adjusted Base Budget | FY18 Governor's Request | Change from FY18 Adj Base to FY18 Governor's Request | See Note: |
| Other State Funds (all allocations) | 62,439.0 | 57,620.8 | (4,818.2) | |
| Federal Funds (all allocations) | 241,959.6 | 241,157.5 | (802.1) | |
| Total Non-General Funds (all allocations) | \$304,398.6 | \$298,778.3 | (\$5,620.3) | |
| Position Changes (From FY17 Authorized to Gov) | 333 | 298 | (35) | |
| PFT | 311 | 279 | (32) | 5 & 7 |
| PPT | 15 | 15 | - | |
| Temp | 7 | 4 | (3) | 7 |
| Governor's Capital Request | State Funds (GF + Other) | Federal Funds | Total | See Note: |
| Planning and Research | - | - | - | |
| Maintenance and Repairs | - | - | - | |
| Remodel, Reconstruction and Upgrades | - | - | - | |
| New Construction and Land Acquisition | - | - | - | |
| Equipment and Materials | - | - | - | |
| Information Systems and Technology | - | - | - | |
| Other | - | - | - | |
| TOTAL CAPITAL | \$0.0 | \$0.0 | \$0.0 | |

Department of Education and Early Development

The Department of Education and Early Development (DEED) is responsible for funding and regulating the state's K-12 schools—including ensuring quality standards-based instruction to improve academic achievement for all students—as well as administering school debt reimbursement and grants for school construction/major maintenance. Core services include the following:

- distribute public school funding to school districts and other educational institutions;
- provide fiscal accountability, compliance and oversight;
- develop, implement, and maintain school effectiveness programs; and
- maintain active partnerships for Pre-K through 20 and lifelong learning.

The department also houses commissions and boards (including the Professional Teaching Practices Commission, the Alaska State Council on the Arts and the Alaska Commission on Postsecondary Education) and is responsible for Mt. Edgecumbe High School; EED State Facilities Maintenance; and Alaska State Libraries, Archives and Museums.

BUDGET SUMMARY

The FY18 Department of Education and Early Development general fund operating budget submitted by the Governor on December 15, 2016 is \$6,964.3 (0.5%) above the FY18 Adjusted Base – a \$6,483.3 (0.5%) increase in Unrestricted General Funds (UGF) and a \$481.0 (1.9%) increase in Designated General Funds (DGF). Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

PROGRAM EXPANSION

1. State System of Support – Innovative Best Practice Initiative: \$250.0

UGF. The Governor's request includes a one-time increment (IncOTI) of \$250.0 to the State System of Support allocation to encourage school districts to strengthen and expand innovative student learning opportunities through effective district-level partnerships. The program was reduced by \$379.4 in FY17. This increment will be used to reexamine and redefine the program to be more efficient and effective.

Legislative Fiscal Analyst Comment: A performance review of DEED carried out by the Division of Legislative Audit in early 2016 found that the State System of Support “does not provide adequate services and resources to assist struggling schools.” That finding preceded the FY17 decrement to the program. The review recommended that the program be revamped and modernized.

2. Mt. Edgecumbe High School – Warm Storage and Maintenance Costs for the New Mt. Edgecumbe Aquatic Center: \$100.0 UGF. Construction of the Mount Edgecumbe High School Aquatic Center will be completed and ready to operate in FY18. Fully operating the center is anticipated to cost \$583.1 per year, which includes additional personnel. While the department explored options to get other entities to cover a portion of the cost of operating the facility, no agreements are in place. Instead, the department requests \$100.0 to cover the cost of keeping the pool winterized but not operational.

3. **Alaska Performance Scholarship (APS) Awards/Alaska Education Grant – Increase Scholarships to Meet Program Demand: \$375.0 Higher Education Investment Fund (DGF).** The Alaska Performance Scholarship (APS) program provides scholarships to Alaska high school students who take a more rigorous curriculum, get good grades, and score well on college placement or work ready exams. The APS award total is based on estimated demand for the program. This is the sixth year of the program, and demand is expected to increase. The Governor's budget includes an increment of \$250.0 for the APS, increasing the total awards to \$11,750.0. The Governor's budget also includes an increase of \$125.0 to the Alaska Education Grant, a needs-based grant program that is set in statute to equal half the amount allocated to the APS.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

4. **Pupil Transportation – Maintain Funding at the Reduced FY17 Level.** In FY17, the Governor vetoed \$6,350.0 from Pupil Transportation. The funding was prorated to districts. In FY18, the Governor's budget proposes funding the formula at the same amount \$72,619.8, which is 8.8 percent (or \$6,409.8) below the estimated statutory formula.
5. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services, and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (5 PFT from DEED) and another 68 positions to OIT (1 from DEED).

Departments have decremented a total of \$763.8 (\$332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to the Department of Education and Early Development is \$49.5 (\$30.1 of UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.
6. **WWAMI Program Contractual Increase: \$106.0 Higher Education Fund (DGF).** The WWAMI (Washington, Wyoming, Alaska, Montana, and Idaho) Program is a multi-state agreement with the University of Washington's School of Medicine. The contract with UW is increasing by \$106.0, to a total of \$3,070.8.

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| Legislative Fiscal Analyst Comment: Using the Higher Education Investment Fund to pay for WWAMI is a non-designated use of the fund. See item 10 below. |
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7. **Alaska Commission on Postsecondary Education – Delete Vacant Positions: (\$625.1) Total and (7) positions.** The Governor's budget eliminates four permanent, full-time positions and three long-term, non-perm positions and associated funding totaling \$625.1 [\$231.5 Statutory Designated Program Receipts (Other) and \$393.6 Interagency Receipts (Other)].

OTHER ISSUES

8. **K-12 Formula Fully Funded: \$1.2 billion.** The Governor's budget fully funds the K-12 Formula and does not propose any changes for this item. The statutory base student allocation is \$5,930.
9. **Treatment of FY17 Language Increments.** In the FY17 budget, several items were restored by the Conference Committee as one-time language items and included language specifying that the items would be in the FY18 Adjusted Base. These items are:
- \$200.0 for Erin's Law (within Executive Administration)
 - \$320.0 for Best Beginnings (within Early Learning Coordination)
 - \$500.0 for Parents As Teachers (within Early Learning Coordination)
 - \$2,000.0 for Pre-Kindergarten Grants
 - \$661.8 for Online with Libraries (OWL)
10. **Use of Higher Education Investment Fund for Non-Designated Purposes: \$5,926.3 DGF Total.** The Higher Education Investment Fund (code 1226) is considered a designated fund source. By statute, the fund is to be used for the Alaska Performance Scholarship and the Alaska Education Grant, including the cost of administering the latter program. However, beginning in the FY16 budget, the fund has been used for a variety of non-designated purposes. In the FY18 Governor's budget, it is being used for the following non-designated purposes in DEED:
- \$2,717.3 for School Broadband Access Grants (School BAG);
 - \$138.2 for Live Homework Help; and,
 - \$3,070.8 the WWAMI Medical Education.

In addition, \$58,287.0 is used to make contributions to State retirement systems.

All of the above items would normally be funded with UGF. In FY17, only \$17.3 million of the \$113 million appropriated from the Higher Education Investment Fund was used for purposes designated by statute.

Legislative Fiscal Analyst Comment: After the draws from the fund in FY17, the end-of-year balance of the fund is estimated to decline from \$458.7 million to \$347.4 million. If the FY18 Governor's request is approved, the end-of-year balance will fall to an estimated \$284.2 million, after investment returns. This balance is not sufficient to sustainably pay for the designated programs, let alone the other non-designated uses of the fund.

Legislative Fiscal Analyst Recommendation: The legislature should use the Higher Education Investment Fund only for designated purposes, or should eliminate it altogether and deposit the remaining balance in the general fund. Using it unsustainably for non-designated purposes hides the true size of the budget.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL REQUEST

The Governor did not request any capital projects for the Department of Education and Early Development.

SCHOOL DEBT REIMBURSEMENT

The school debt reimbursement program is shown on the Debt Service Summary Table in the *FY18 Legislative Analyst's Overview of the Governor's Request*. The program was funded at a level sufficient to pay all anticipated FY18 claims for reimbursement.