

Overview of K-12 Funding Formula

Michael Partlow and Alexei Painter

Legislative Finance Division

House Finance Committee

March 4, 2019

FY20 K-12 Budget

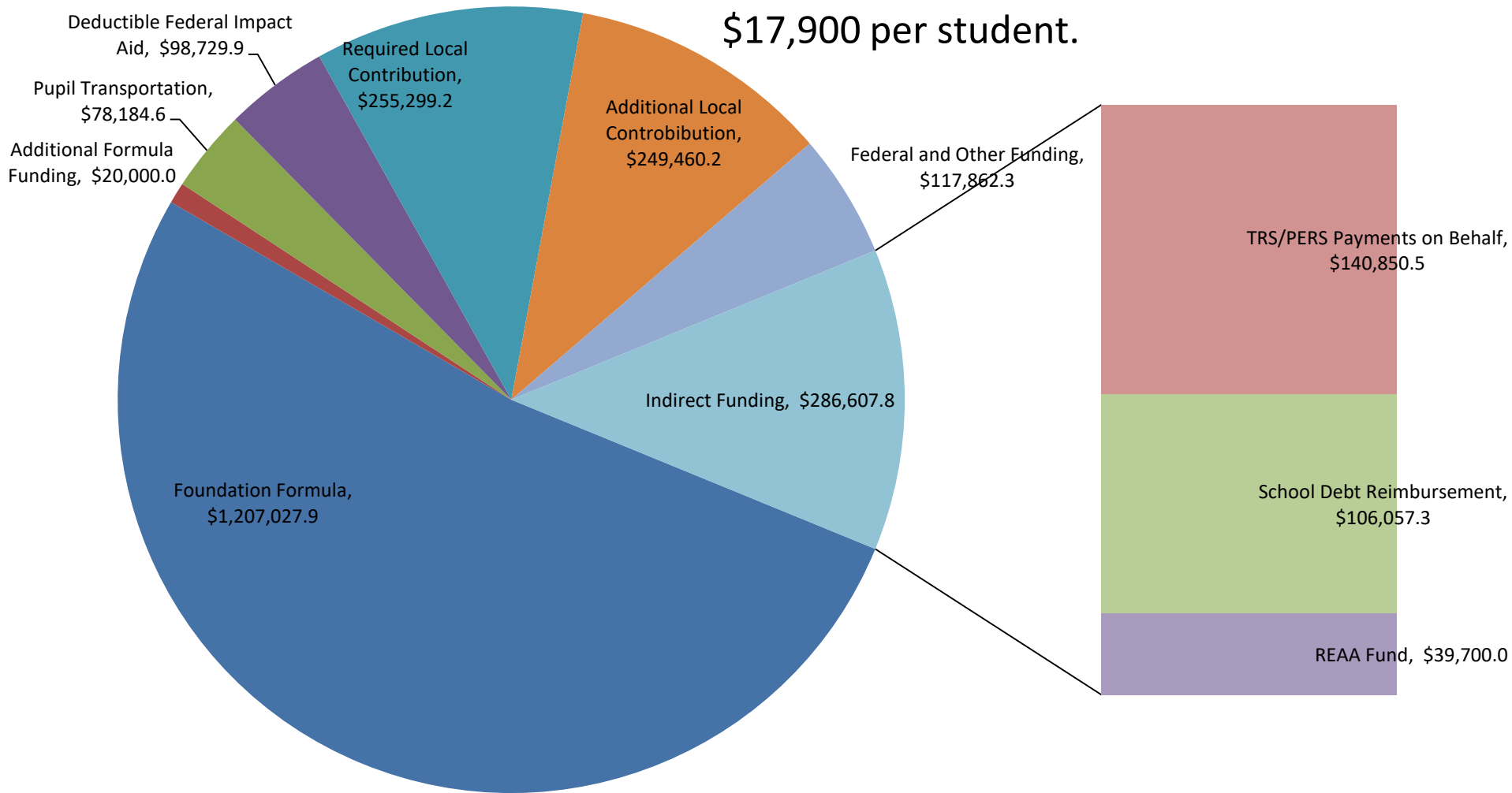
- HB 287 (SLA 2018) appropriated FY19 and FY20 K-12 formula funding.
- The appropriation for FY20 will flow out automatically absent further action.
- The Governor's FY20 budget proposes repealing the FY20 appropriation for the Foundation Formula and replacing it with an appropriation for 76.87% of the statutory amount.
- In SB 142 and HB 287, the legislature also appropriated \$20 million outside the formula for FY19 and \$30 million for FY20.
- All of this funding has already been appropriated and cannot be vetoed or withheld by the Governor. Legislative action is necessary to alter or remove it.

Organization of Alaska School Districts

- School districts in Alaska do not have taxing power – they get funds from the federal, state, and municipal governments
- Alaska has 53 school districts
 - 34 in organized areas, with boundaries corresponding to that of local governments
 - 19 Regional Educational Attendance Areas (REAAs) in the unorganized borough
 - Mt. Edgecumbe High School is run by the state and is not in a district

FY19 Funding Sources for School Districts

In FY19, total direct and indirect funding to school districts is about \$2.3 billion, or \$17,900 per student.



Foundation Formula – How It Works

- Amounts for the Foundation Formula and Pupil Transportation Formula are appropriated to the Public Education Fund (PEF).
- Funding flows to districts from the PEF according to the statutory formula without further appropriation
- The PEF was established to enable forward funding. Forward funding was ended in FY15 and FY16, so the PEF is now arguably unnecessary.
- Funding is typically appropriated as a language item for the amount necessary to fund the formula rather than a fixed dollar amount.

Foundation Formula – How It Works

- Average Daily Membership (ADM) of schools
- Adjusted for six factors that differ by district to reach Adjusted Average Daily Membership (AADM)
- AADM is multiplied by the Base Student Allocation (BSA)
- This number is called Basic Need

Foundation Formula – How It Works

- ADM is determined by the October student count
 - Taken in the 20 school days ending the last Friday in October
- ADM has been around 130,000 student since FY1998
 - Projected to be 128,053 in FY20
- ADM is then adjusted by six factors to reach AADM

Foundation Formula – How It Works

Adjustment Factors

- **School Size Factor**
 - Multiplier that adjusts for economies of scale in larger schools. Different number for each school, so each district has a unique value
- **District Cost Factor**
 - Multiplier that adjusts for differing costs across the state. Different number in each district
- **Special Needs Factor**
 - Multiplier of 1.2 for all districts to provide support for special needs students
- **Career and Technical Education (CTE) Factor**
 - Multiplier of 1.015 for all districts to provide vocational and technical education
- **Special Education Intensive Student Factor**
 - Special Education Intensive students are identified by districts and are multiplied by 13
- **Correspondence Multiplier**
 - Correspondence students count as 0.9 students and do not get the other multipliers

Foundation Formula – How It Works

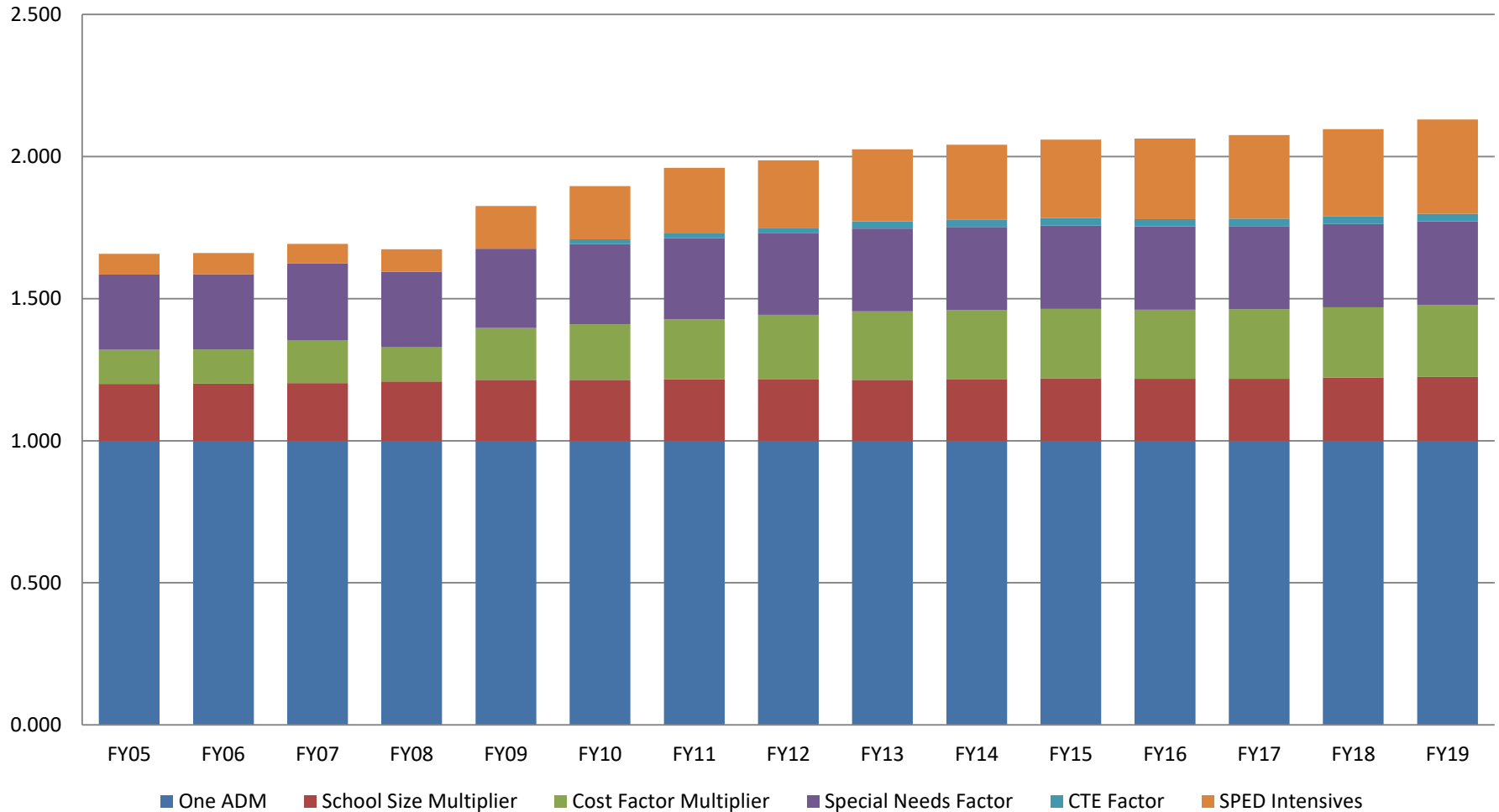
Example: Fairbanks North Star Borough in FY19
Going from ADM of 13,290 to AADM of 25,281

Factor	Calculation	Explanation
ADM	13,289.71	October Student Count
Non-Correspondence ADM	12,998.76	Removing 290.95 correspondence students
With school size factor	15,127.87	Differs by school
With district cost factor	16,186.82	Fairbanks' is 1.070
With special needs factor	19,424.18	1.20
With CTE factor	19,715.54	1.015
SPED Intensive	24,019.54	Fairbanks has 408, so $408 * 13 = 5,304$
With Correspondence	25,281.40	$290.95 * 0.9 = 261.86$

Foundation Formula – How It Works

Impact of Formula Adjustments - FY05-FY19

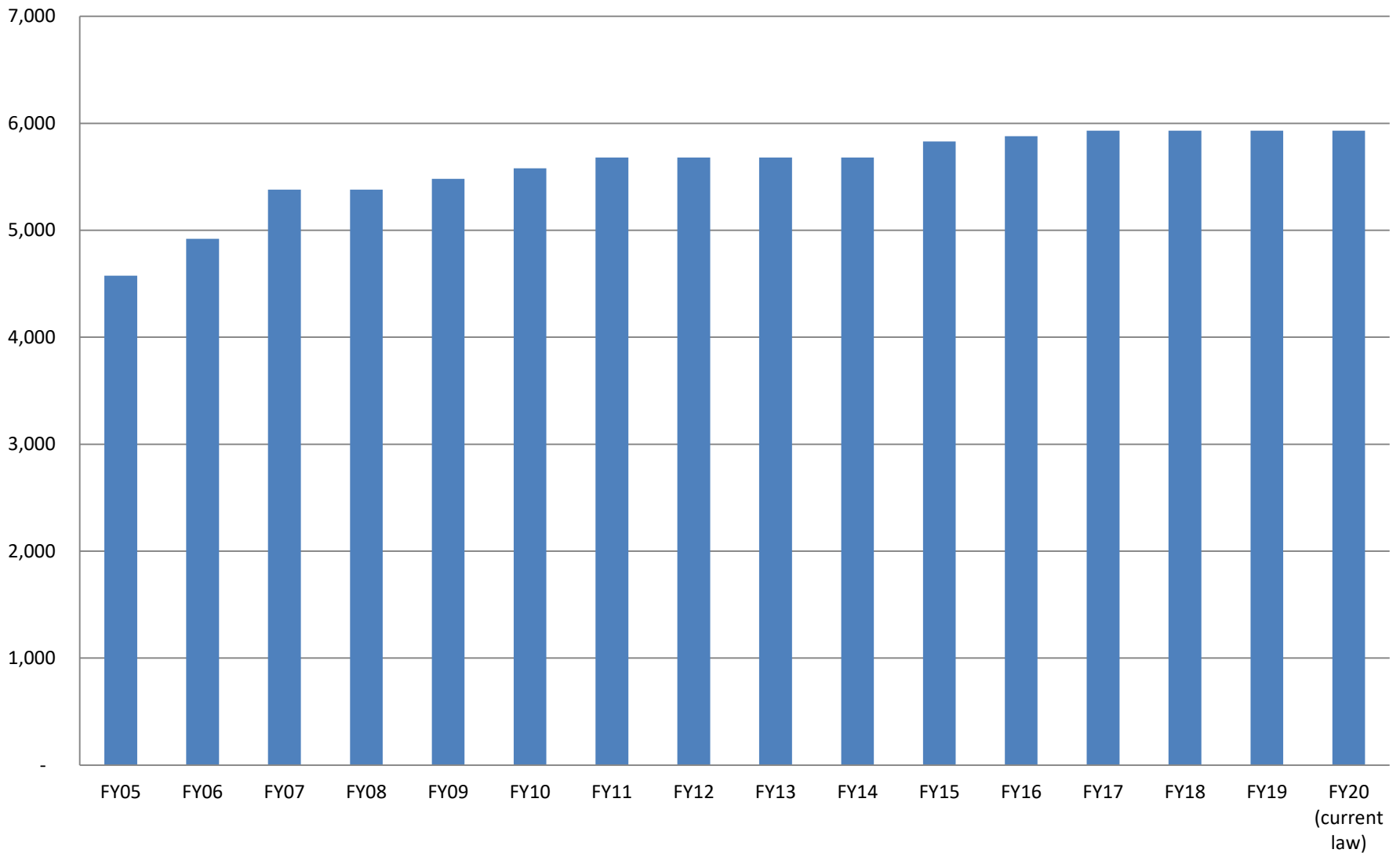
Each layer represents the impact on AADM of each adjustment on each ADM



Foundation Formula – How It Works

- AADM is then multiplied by the Base Student Allocation (BSA) to get Basic Need
- In addition to Basic Need, Foundation Formula includes \$16-per-AADM Quality Schools Grant
- Basic Need is paid for by three sources:
 1. Required Local Contribution
 2. Deductible Impact Aid
 3. State Aid
- State pays the remainder after deducting the first two sources

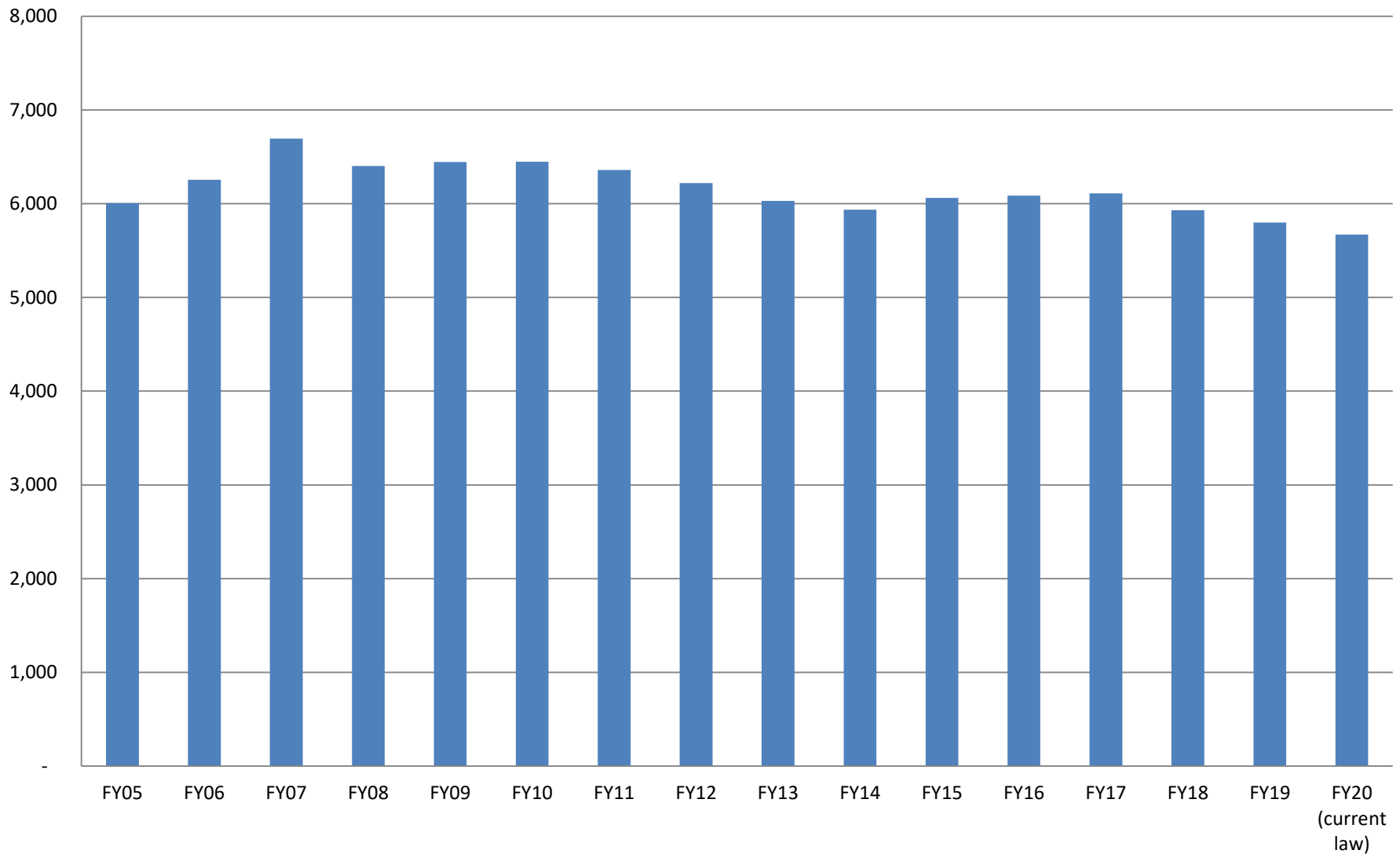
Base Student Allocation, FY05-20 (Nominal Dollars)



■ Statutory Base Student Allocation (BSA)

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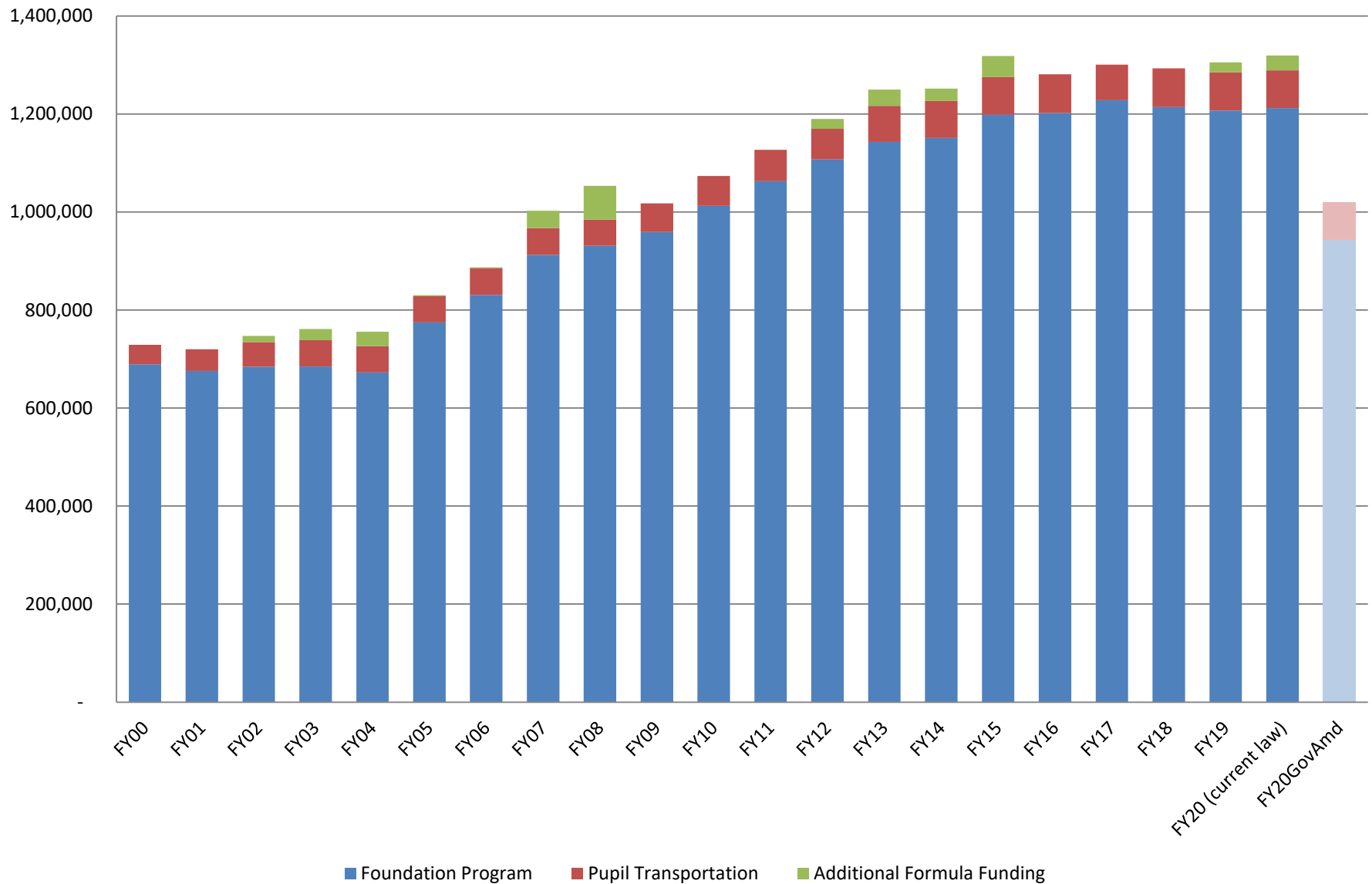
Base Student Allocation, FY05-20 (In FY18 Dollars)



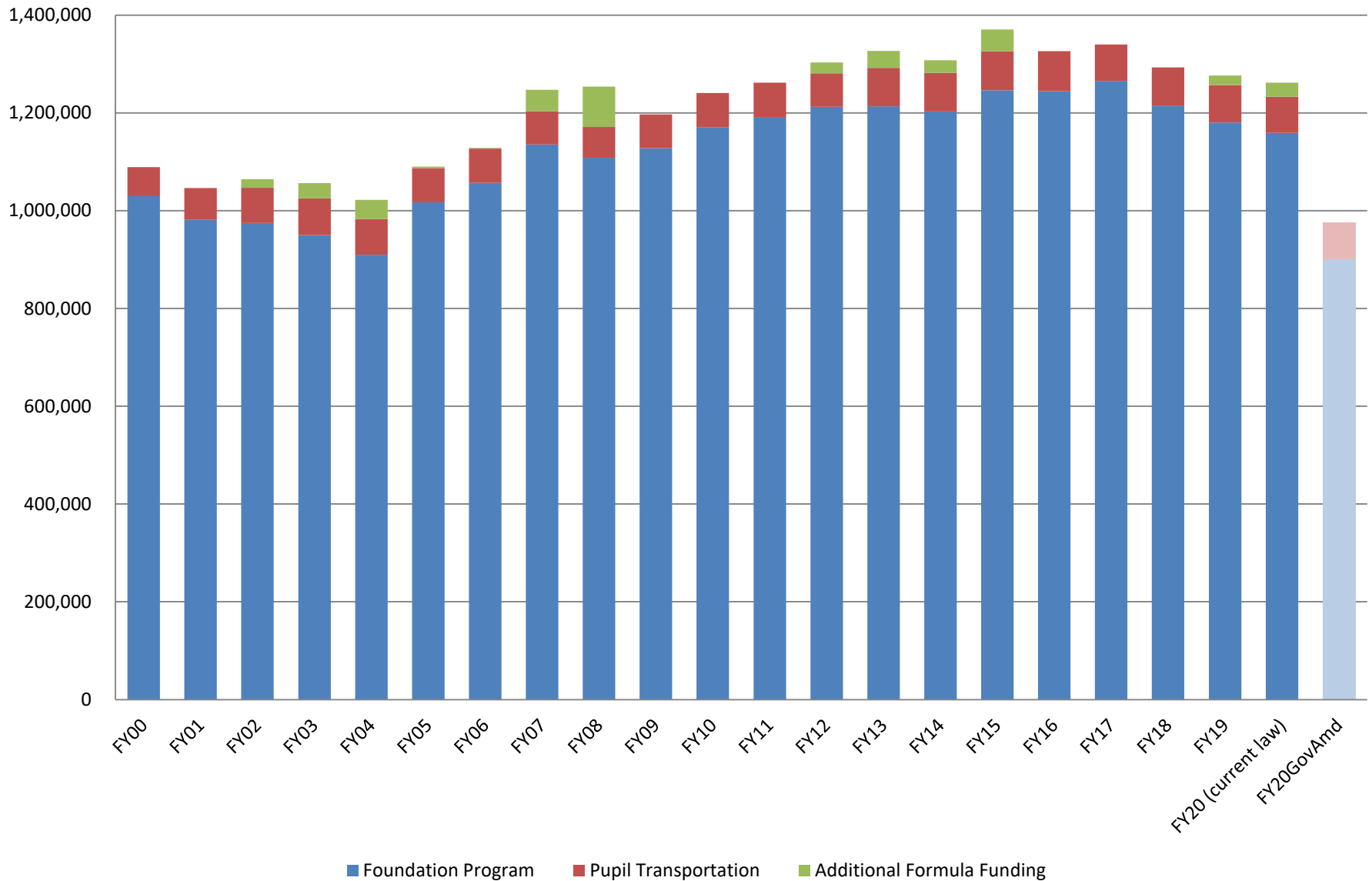
■ BSA in FY18 Dollars

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K-12 Formula Funding, FY00-20 (Nominal dollars)



K-12 Formula Funding, FY00-20 (In FY18 Dollars)



Required Local Contribution

- Required Local Contribution (RLC) applies to all organized areas – 34 of the 53 districts
 - Regional Educational Attendance Areas (REAA's) do not pay because they cannot levy taxes
- For most districts, RLC is 2.65 mills of real property value
 - This is capped at 45% of prior year basic need. Four districts (North Slope, Valdez, Skagway, Bristol Bay) currently hit the cap
- In FY19, RLC totals \$255.3 million

Deductible Federal Impact Aid

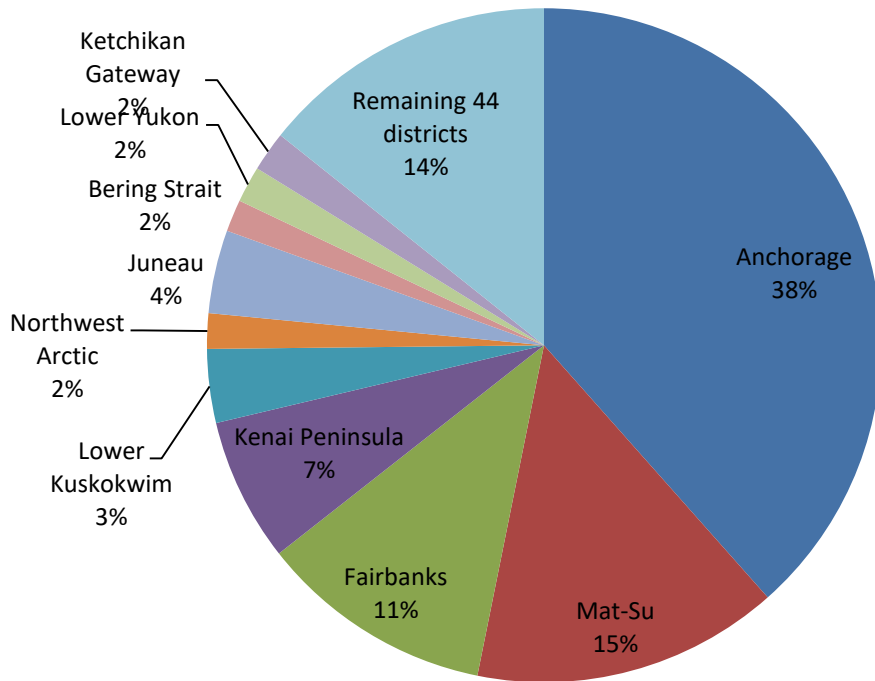
- Districts receive federal funding to compensate districts that have non-taxable federal property or increased costs due to federal employees (such as the military)
- State can deduct up to 90% of eligible impact aid from its share of the formula
 - The amount it can deduct depends on local taxation effort and the type of aid
 - Only deductible if Alaska maintains an equalized formula, which means passing the federal disparity test
- In FY19, the state can deduct \$98.7 million

Federal Disparity Test

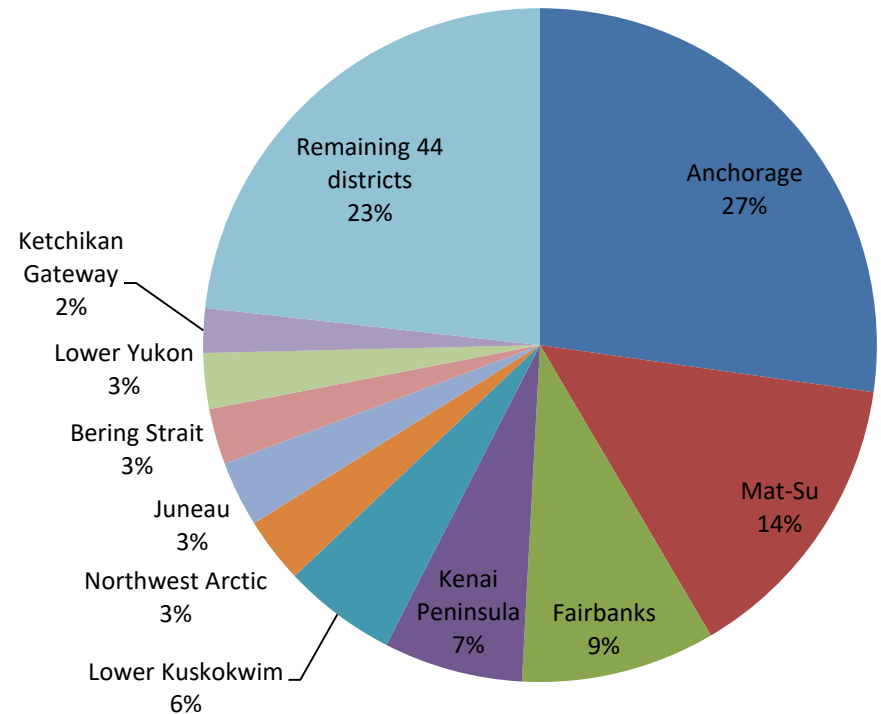
- To deduct federal impact aid, the State must pass the annual disparity test, demonstrating an equalized formula.
- To pass, the difference between the highest-funded district (dropping the top 5%) and the lowest funded district (dropping the bottom 5%) must be less than 25% on an AADM basis.
- If we fail, the districts keep the \$98.7 million of impact aid, but the State cannot deduct it from our share of the formula and would have to pay that amount.
- For example, Fairbanks would receive an additional \$9.7 million of impact aid, and the State would be liable for an additional \$9.7 million of funding.
- Failing the test would prompt a review that could take 2-3 years.

Student Count and State Aid by District

FY20 ADM by District



FY20 State Aid by District



Pupil Transportation

- State provides funding for pupil transportation for any district with a pupil transportation system
 - All but 5 districts receive this funding
- Through FY03, this was a grant program based on actual costs
- Since FY04, it is based on the FY03 per-pupil costs multiplied by the current non-correspondence student count
- It has been adjusted for inflation periodically, but not since FY13

Funding Outside the Formula

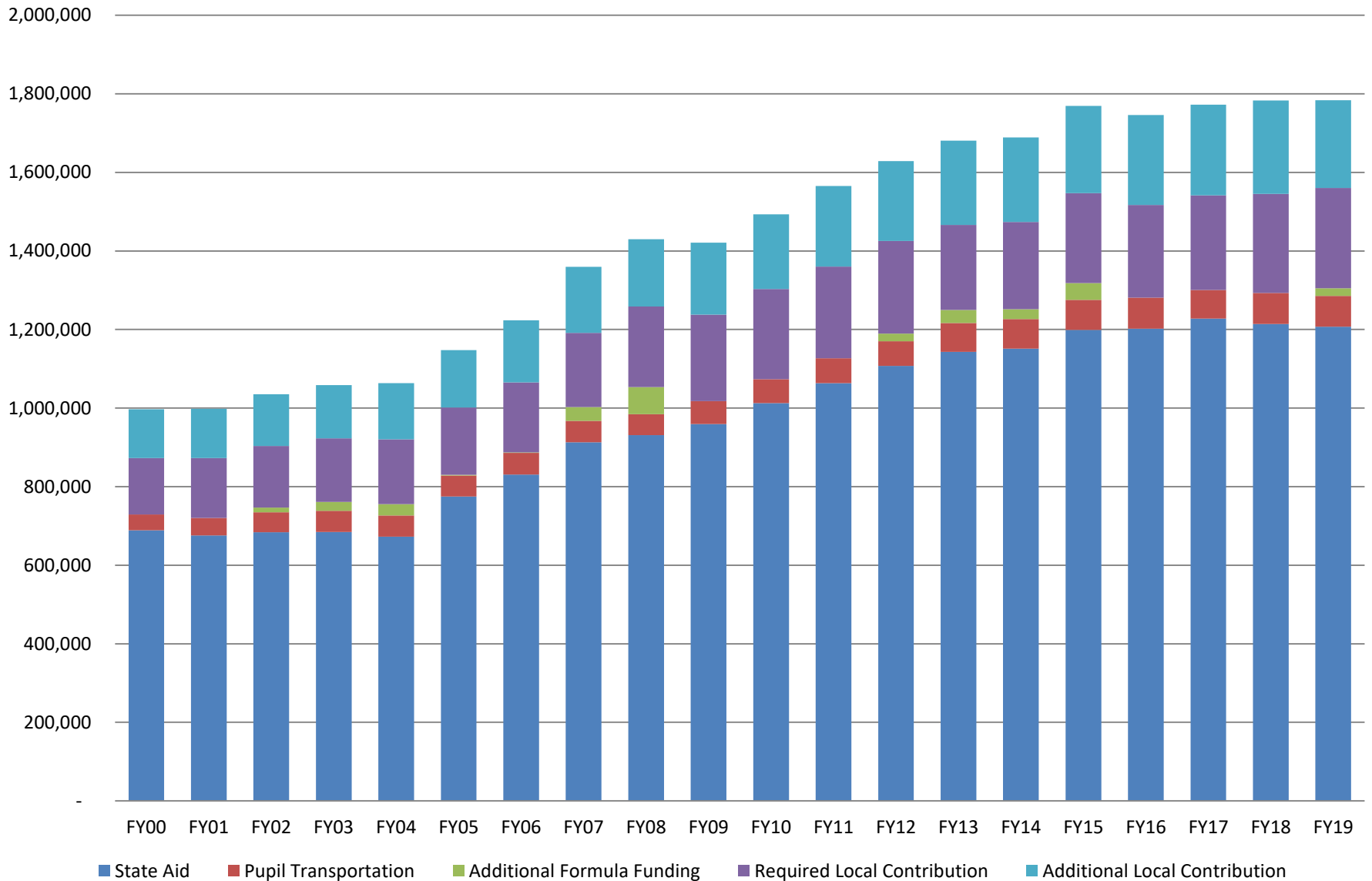
- The legislature has often provided one-time funding for school districts
- This funding is in addition to the BSA-based funding, but typically flows out according to the same formula
- \$20 million was appropriated for FY19, and \$30 million was appropriated for FY20

Voluntary Local Contributions

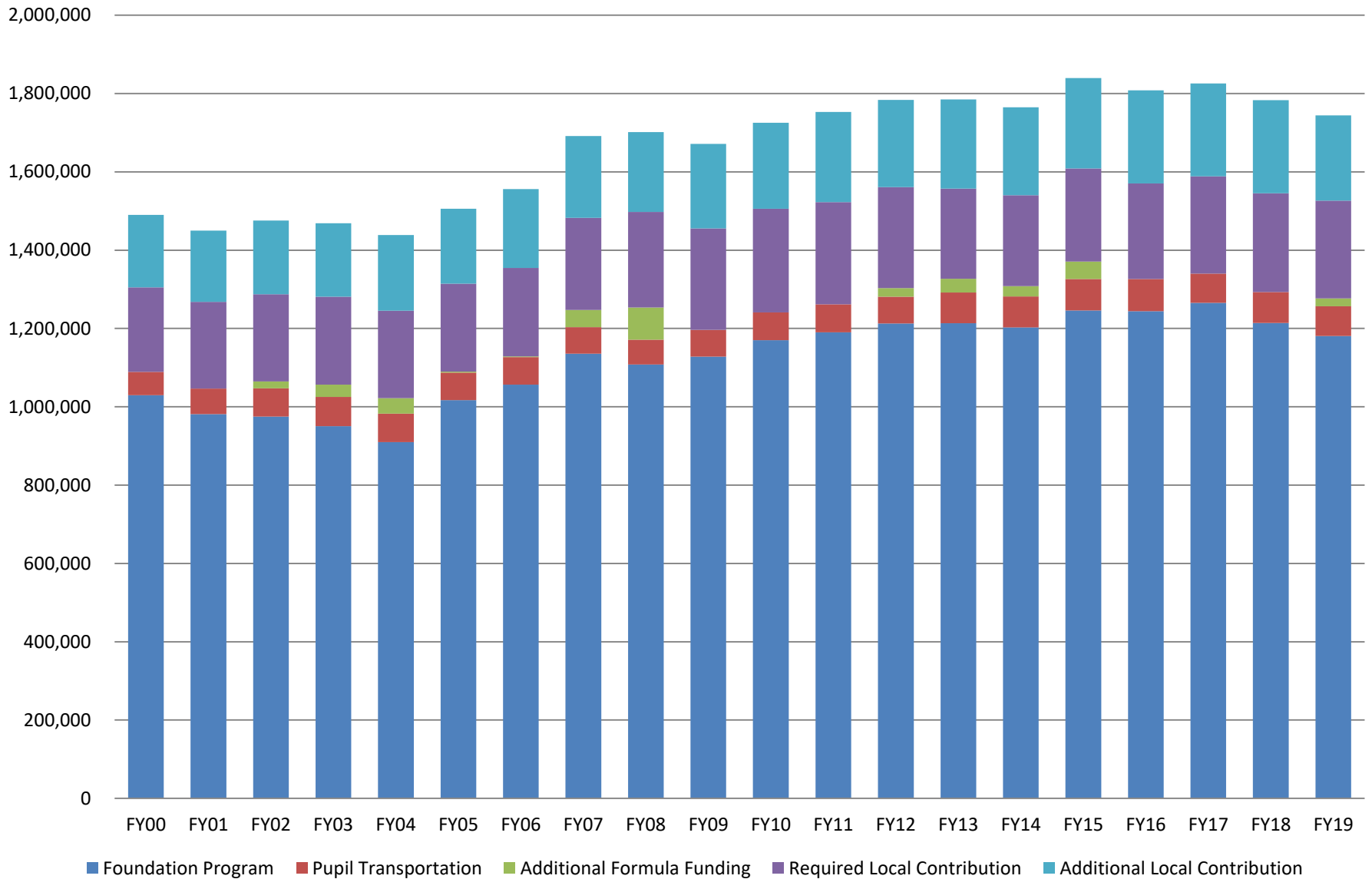
- Local governments can fund beyond the Required Local Contributions
 - Typically, the vast majority of local governments choose to do this
- Limited to 23% of Basic Need, capped at the equivalent of 2 mills of real property value
 - In FY19, six districts funded at or very near the cap
- The funding cap is designed to ensure that the state can pass the federal disparity test
- In FY19, districts budgeted \$250.5 million of voluntary contributions (including in-kind services)

State and Local Education Funding, FY00-FY19

(Nominal Dollars)



State and Local Education Funding, FY00-FY19 (FY18 Dollars)

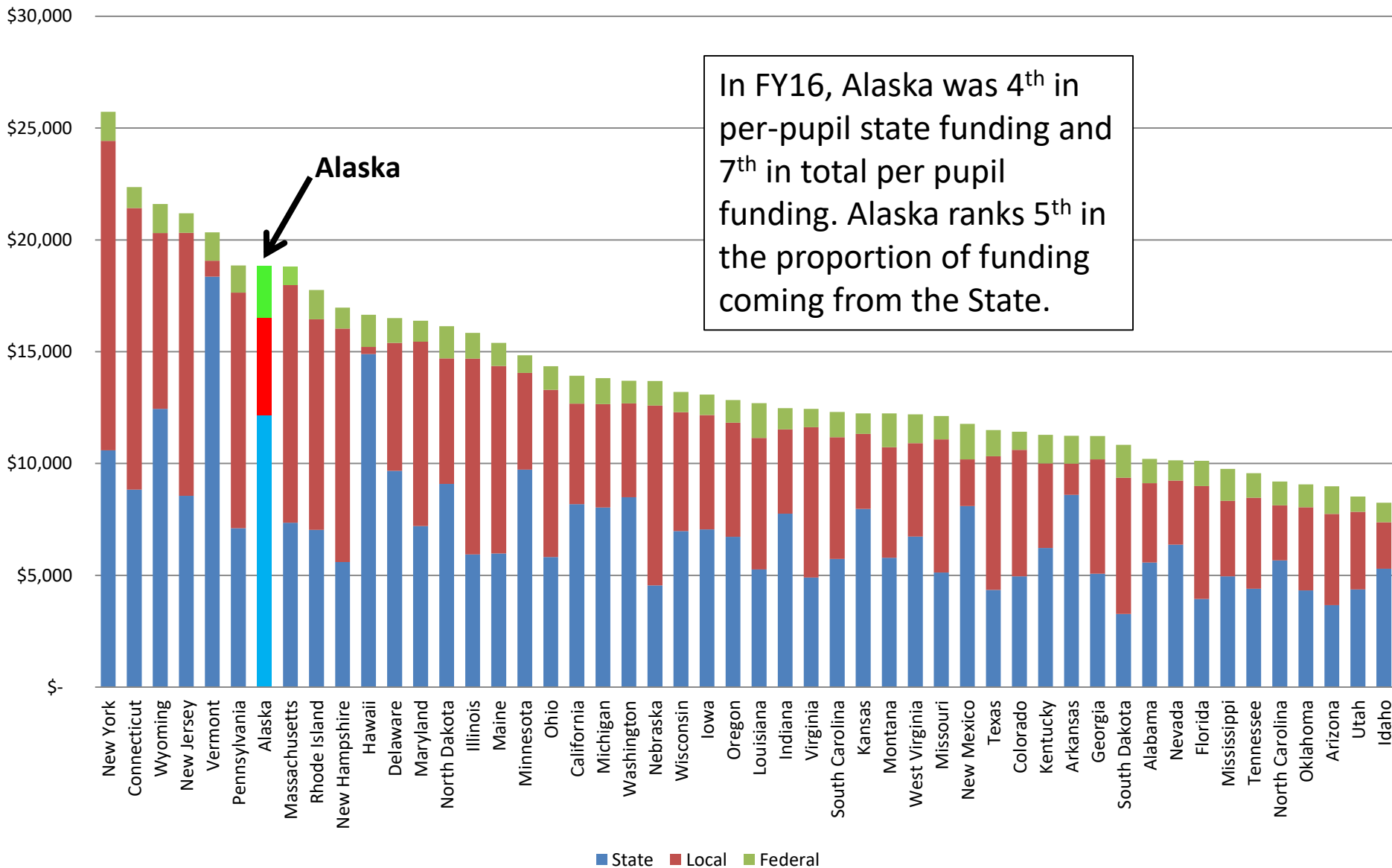


Indirect Funding to Districts

- Teachers' Retirement System (TRS) and Public Employee Retirement System (PERS) payments on behalf of districts
 - TRS capped at 12.5% percent of TRS payroll, state portion is \$141.4 million in FY20
 - PERS capped at 22% of PERS payroll, state portion for school districts is \$23.6 million in FY20
- School debt reimbursement
 - Currently on a five-year hiatus for new debt, returning in 2021
 - FY19 amount is \$106.1 million
 - Governor proposes eliminating the program (HB 66) and does not fund it
- REAA Fund
 - Calculated as a percentage of school debt reimbursement
 - FY19 deposit was \$39.7 million
 - Governor's FY20 budget does not make an appropriation to the fund

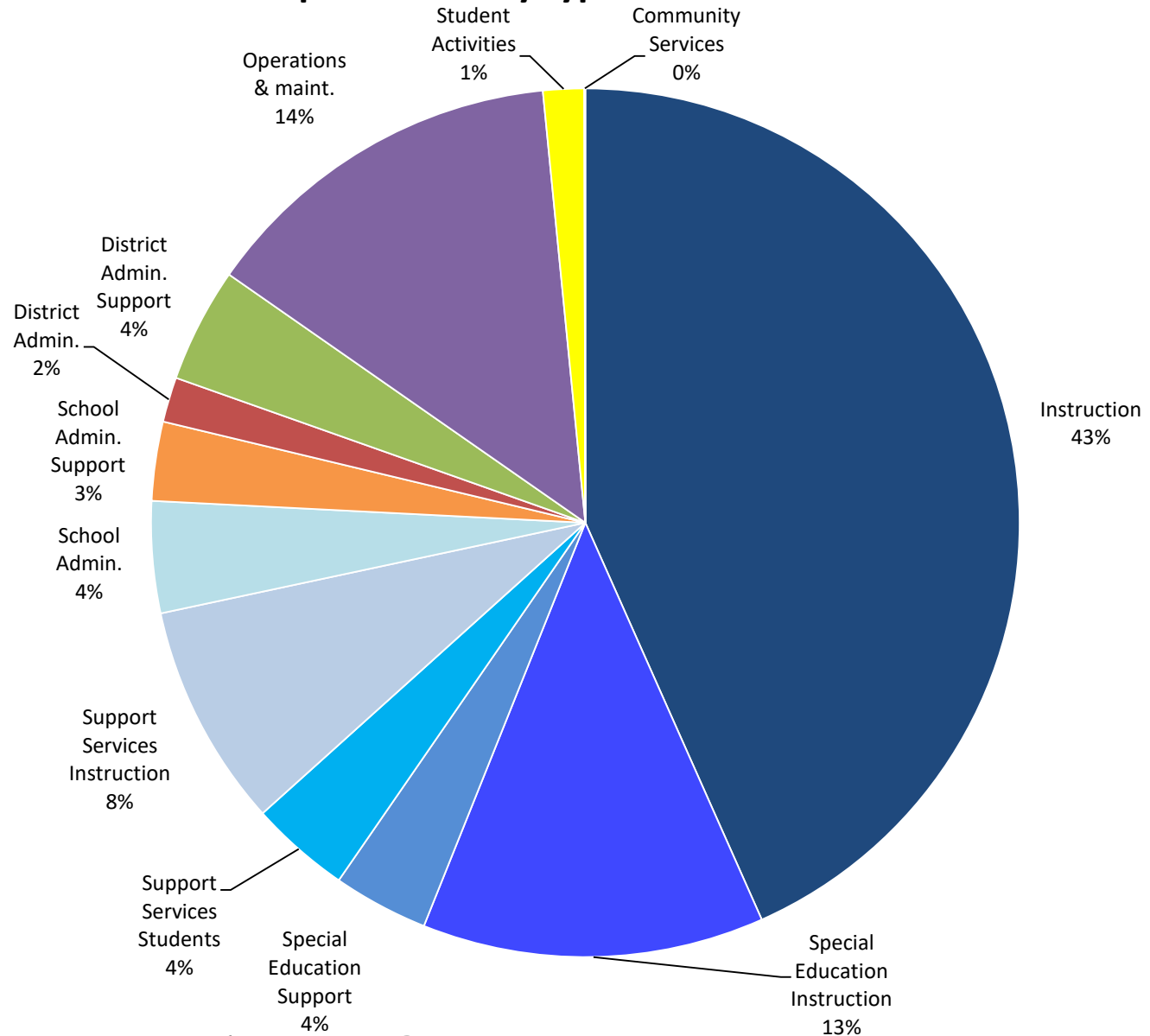
Per Pupil Education Spending by State, FY 2016

Source: US Bureau



Where Does the Funding Go?

FY19 total expenditures by type



The items in blue, totaling 76% of expenditures, are considered “instructional” under Alaska’s former 70/30 rule. The law, which was repealed in 2016, required districts to spend at least 70% of funding on instructional functions.