



**Representative Andi Story**  
Co-Chair, House Education Committee  
Alaska State Legislature

**Sponsor Statement**

**House Bill 272 (Version I)**

February 7, 2022

“HB 272, An Act relating to education; increasing the base student allocation; and providing for an effective date.”

Families, schools, and communities have gone through a seismic shift in the last two years. While COVID relief funding is welcome and necessary, the federal aid is to supplement state education investments, not replace them. These federal funds help weather the adversity of new problems and opportunities brought on by the tumultuous changes to our lives and our children’s learning environments. Despite this additional help, the support for our children’s education’s bottom line is eroding.

For the past several years, our schools have experienced financial loss due to state flat funding, raising inflation, and increased fixed costs. When school districts lose ground financially, it hurts kids. Resources have to be diverted from classrooms to cover the increasing price tags on non-negotiable fixed costs such as fuel, water and sewer, electricity, insurance, and maintenance costs. This shortchanges the attention and services children receive.

U.S. Census data places Alaska 6th in the nation for education spending (state, federal, local). When adjusted for the cost of living index (COLI), Alaska’s education spending is just below the U.S. average according to the Institute of Social and Economic Research (ISER). Looking more closely, Alaska has unique attributes that impact costs: smaller schools, (many located off the road system), the highest health care costs in the nation, and high energy costs.

HB 272 provides a long-overdue adjustment to the Base Student Allocation (BSA) in the foundation formula in FY23 of \$223 per student, for the first time since FY17. This frees up money to help with classroom needs for services for kids. Then in the second year, FY24, there is a \$55 per student increase for inflation to maintain buying power. Setting this number in advance offers much needed predictability and stability in the budget process. This allows for planning to retain teachers (avoiding pink slips), support staff, and maintaining services and interventions for children and increasing student achievement.

An investment in education is an investment in our children and the future workforce of Alaska. It meets the constitutional obligation to maintain public schools. If we continue to fully fund but flat fund our K-12 education system, we are actively divesting funds in Alaska’s most treasured resource, our children.



**Representative Andi Story**  
Co-Chair, House Education Committee  
Alaska State Legislature

**Sectional Analysis**

**House Bill 272 (Version I)**

February 7, 2022

"HB 272, An Act relating to education; increasing the base student allocation; and providing for an effective date."

**Section 1:** Amends AS 14.17.470, increasing the Student Base Allocation from \$5930 by \$223 to \$6,153.

**Section 2:** Amends AS 14.17.470, increasing the Student Base Allocation from \$6,153 by \$55 to \$6,208.

**Section 3:** Sets an effective date for Section 1 of July 1, 2022.

**Section 4:** Sets an effective date for Section 2 of July 1, 2023.

**HOUSE BILL NO. 272**

IN THE LEGISLATURE OF THE STATE OF ALASKA  
THIRTY-SECOND LEGISLATURE - SECOND SESSION

**BY REPRESENTATIVES STORY, Drummond, Spohnholz, Hopkins, Schrage**

**Introduced: 1/18/22**

**Referred: Education, Finance**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to education; increasing the base student allocation; and providing for**  
2 **an effective date."**

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

4 \* **Section 1.** AS 14.17.470 is amended to read:

5 **Sec. 14.17.470. Base student allocation.** The base student allocation is **\$6,153**  
6 **[\$5,930].**

7 \* **Sec. 2.** AS 14.17.470, as amended by sec. 1 of this Act, is amended to read:

8 **Sec. 14.17.470. Base student allocation.** The base student allocation is **\$6,208**  
9 **[\$6,153].**

10 \* **Sec. 3.** Section 1 of this Act takes effect July 1, 2022.

11 \* **Sec. 4.** Section 2 of this Act takes effect July 1, 2023.

# Fiscal Note

State of Alaska  
2022 Legislative Session

Bill Version: HB 272  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: HB272-EED-FP-1-17-22  
Title: INCREASE BASE STUDENT ALLOCATION  
Sponsor: STORY  
Requester: House Education

Department: Department of Education and Early Development  
Appropriation: K-12 Aid to School Districts  
Allocation: Foundation Program  
OMB Component Number: 141

**Expenditures/Revenues**

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2023	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2023 Request	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
<b>OPERATING EXPENDITURES</b>	<b>FY 2023</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Estimated SUPPLEMENTAL (FY2022) cost:** 0.0 *(separate supplemental appropriation required)*

**Estimated CAPITAL (FY2023) cost:** 0.0 *(separate capital appropriation required)*

**Does the bill create or modify a new fund or account?** No  
*(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)*

**ASSOCIATED REGULATIONS**

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No  
If yes, by what date are the regulations to be adopted, amended or repealed?

**Why this fiscal note differs from previous version/comments:**

Not applicable; initial version.

Prepared By:	<u>Heidi Teshner, Acting Deputy Commissioner</u>	Phone:	<u>(907)465-2875</u>
Division:	<u>Finance and Support Services</u>	Date:	<u>01/17/2022</u>
Approved By:	<u>Lacey Sanders, Administrative Services Director</u>	Date:	<u>01/22/22</u>
Agency:	<u>Department of Education &amp; Early Development</u>		

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2022 LEGISLATIVE SESSION

BILL NO. HB 272

**Analysis**

This bill provides an increase to the base student allocation (BSA) over two fiscal years by amending AS 14.17.470, which is currently set at \$5,930.

Effective July 1, 2022 (FY2023), the BSA would increase by \$223 from \$5,930 to \$6,153. The increase to projected state aid entitlement is \$57,142,076.

Effective July 1, 2023 (FY2024), the BSA would increase by \$55 from \$6,153 to \$6,208. The increase to projected state aid entitlement is \$14,093,337.

The cumulative increase to projected state aid entitlement is \$71,235,413.

*The funding mechanism is a general fund transfer to the Public Education Fund (PEF). The fiscal note effect for FY2023 through FY2028 is reported in the fiscal note for the PEF, as the funding is deposited to the PEF, not into the Foundation Program funding component. The above analysis is presented here for explanation purposes only.*

*Page 3 of the PEF fiscal note provides the projected funding breakdown by school district for each BSA increase.*

# Fiscal Note

State of Alaska  
2022 Legislative Session

Bill Version: HB 272  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: HB272-EED-PEF-1-17-22  
Title: INCREASE BASE STUDENT ALLOCATION  
Sponsor: STORY  
Requester: House Education

Department: Fund Capitalization  
Appropriation: No Further Appropriation Required  
Allocation: Public Education Fund  
OMB Component Number: 2804

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2023	Included in	Out-Year Cost Estimates					
	Appropriation Requested	Governor's FY2023 Request	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
<b>OPERATING EXPENDITURES</b>	<b>FY 2023</b>	<b>FY 2023</b>						
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits	57,142.1		71,235.4	71,235.4	71,235.4	71,235.4	71,235.4	71,235.4
Miscellaneous								
<b>Total Operating</b>	<b>57,142.1</b>	<b>0.0</b>	<b>71,235.4</b>	<b>71,235.4</b>	<b>71,235.4</b>	<b>71,235.4</b>	<b>71,235.4</b>	<b>71,235.4</b>

## Fund Source (Operating Only)

1004 Gen Fund (UGF)	57,142.1		71,235.4	71,235.4	71,235.4	71,235.4	71,235.4	71,235.4
<b>Total</b>	<b>57,142.1</b>	<b>0.0</b>	<b>71,235.4</b>	<b>71,235.4</b>	<b>71,235.4</b>	<b>71,235.4</b>	<b>71,235.4</b>	<b>71,235.4</b>

## Positions

Full-time								
Part-time								
Temporary								

## Change in Revenues

None								
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Estimated SUPPLEMENTAL (FY2022) cost:** 0.0 *(separate supplemental appropriation required)*

**Estimated CAPITAL (FY2023) cost:** 0.0 *(separate capital appropriation required)*

**Does the bill create or modify a new fund or account?** No  
*(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)*

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No  
If yes, by what date are the regulations to be adopted, amended or repealed?

## Why this fiscal note differs from previous version/comments:

Not applicable; initial version.

Prepared By:	Heidi Teshner, Acting Deputy Commissioner	Phone:	(907)465-2875
Division:	Finance and Support Services	Date:	01/17/2022
Approved By:	Lacey Sanders, Administrative Services Director	Date:	01/22/22
Agency:	Department of Education & Early Development		

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2022 LEGISLATIVE SESSION

BILL NO. HB 272

**Analysis**

This bill provides an increase to the base student allocation (BSA) over two fiscal years by amending AS 14.17.470, which is currently set at \$5,930.

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The cumulative increase to projected state aid entitlement is \$71,235,413.

**Page 3 of this fiscal note provides the projected funding breakdown by school district for each BSA increase.**

Department of Education & Early Development

Prepared by School Finance

Prepared 1/17/2022

HB 272: BSA Increase

School District	FY2023 Projected TOTAL STATE ENTITLEMENT	FY2023 BSA Increase from \$5,930 to \$6,153	Difference	FY2024 BSA Increase from \$6,153 to \$6,208	Difference
Alaska Gateway	\$ 8,751,667	\$ 9,091,820	\$ 340,153	\$ 9,175,714	\$ 83,894
Aleutian Region	1,332,912	1,383,319	50,407	1,395,751	12,432
Aleutians East Borough	3,981,065	4,174,827	193,762	4,222,616	47,789
Anchorage	314,398,790	330,631,939	16,233,149	334,635,630	4,003,691
Annette Island	3,628,343	3,856,695	228,352	3,913,015	56,320
Bering Strait	30,800,589	32,386,217	1,585,628	32,777,292	391,075
Bristol Bay Borough	896,798	962,036	65,238	978,126	16,090
Chatham	3,337,723	3,470,415	132,692	3,503,141	32,726
Chugach	4,692,479	4,871,135	178,656	4,915,198	44,063
Copper River	6,823,276	7,091,170	267,894	7,157,243	66,073
Cordova	4,144,356	4,336,591	192,235	4,384,003	47,412
Craig	5,694,789	5,932,213	237,424	5,990,770	58,557
Delta/Greely	10,595,870	11,002,150	406,280	11,102,353	100,203
Denali Borough	7,133,060	7,440,427	307,367	7,516,236	75,809
Dillingham	5,851,981	6,105,082	253,101	6,167,506	62,424
Fairbanks N. Star Borough	99,522,369	104,824,450	5,302,081	106,132,138	1,307,688
Galena	32,763,110	33,997,150	1,234,040	34,301,509	304,359
Haines Borough	2,530,508	2,667,637	137,129	2,701,458	33,821
Hoonah	2,484,391	2,585,658	101,267	2,610,634	24,976
Hydaburg	1,778,028	1,846,206	68,178	1,863,021	16,815
Iditarod Area	5,763,697	5,998,482	234,785	6,056,389	57,907
Juneau Borough	32,953,875	34,798,738	1,844,863	35,253,749	455,011
Kake	2,233,134	2,327,913	94,779	2,351,289	23,376
Kashunamiut	4,474,950	4,716,172	241,222	4,775,666	59,494
Kenai Peninsula Borough	73,868,158	77,722,626	3,854,468	78,673,280	950,654
Ketchikan Gateway Borough	25,755,407	26,920,816	1,165,409	27,208,248	287,432
Klawock	1,759,889	1,850,208	90,319	1,872,484	22,276
Kodiak Island Borough	25,727,035	26,917,017	1,189,982	27,210,510	293,493
Kuspuk	6,976,761	7,324,621	347,860	7,410,416	85,795
Lake & Peninsula Borough	9,040,554	9,401,622	361,068	9,490,675	89,053
Lower Kuskokwim	61,510,954	64,415,774	2,904,820	65,132,210	716,436
Lower Yukon	32,902,651	34,509,736	1,607,085	34,906,102	396,366
Mat-Su Borough	169,508,196	177,222,275	7,714,079	179,124,850	1,902,575
Nenana	10,436,818	10,831,340	394,522	10,928,644	97,304
Nome	8,673,328	9,045,882	372,554	9,137,768	91,886
North Slope Borough	19,073,095	20,474,752	1,401,657	20,820,453	345,701
Northwest Arctic Borough	37,478,114	38,974,381	1,496,267	39,343,416	369,035
Pelican	459,461	478,247	18,786	482,880	4,633
Petersburg	5,596,923	5,860,014	263,091	5,924,902	64,888
Pribilof	973,694	1,028,893	55,199	1,042,507	13,614
Saint Mary's	3,863,824	4,011,809	147,985	4,048,308	36,499
Sitka Borough	10,978,127	11,557,485	579,358	11,700,376	142,891
Skagway	1,235,329	1,318,668	83,339	1,339,223	20,555
Southeast Island	4,689,669	4,865,552	175,883	4,908,931	43,379
Southwest Region	10,642,077	11,173,973	531,896	11,305,157	131,184
Tanana	752,892	782,577	29,685	789,899	7,322
Unalaska	3,862,310	4,092,702	230,392	4,149,525	56,823
Valdez	4,856,667	5,191,171	334,504	5,273,672	82,501
Wrangell	3,067,737	3,210,601	142,864	3,245,837	35,236
Yakutat	1,193,079	1,246,166	53,087	1,259,259	13,093
Yukon Flats	4,881,576	5,112,961	231,385	5,170,029	57,068
Yukon/Koyukuk	22,785,903	23,677,502	891,599	23,897,403	219,901
Yupitit	6,786,477	7,166,699	380,222	7,260,475	93,776
Mt. Edgecumbe High School	3,419,941	3,581,970	162,029	3,621,933	39,963
<b>TOTAL</b>	<b>\$ 1,169,324,406</b>	<b>\$ 1,226,466,482</b>	<b>\$ 57,142,076</b>	<b>\$ 1,240,559,819</b>	<b>\$ 14,093,337</b>



September 30, 2019

# How much does Alaska spend on K-12 education?

By Dayna Jean DeFeo, Matt Berman, Alexandra Hill, & Diane Hirshberg

Education funding in Alaska, as in most states, is one of the largest allocations in the state operating budget. In 2017, Alaska's K-12 per-pupil spending was \$17,838, which is 46% higher than the national average. However, a lot of things in Alaska are expensive relative to national averages: healthcare, food, and energy, to name just a few. In this paper we adjusted Alaska's data from the US Census Bureau 2017 Annual Survey of School System Finances to state and national cost indices, and find that Alaska's per-pupil expenditures are on par with national averages. As many drivers of Alaska's education costs extend beyond education policy, we caution against cuts that leave districts with few choices but to diminish the teacher workforce by eliminating positions or hiring lower quality teachers with less competitive salaries.

## WHERE DOES ALASKA'S PUBLIC EDUCATION FUNDING COME FROM?

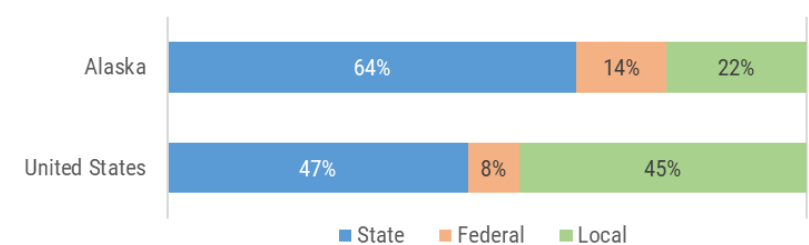
There are many ways to measure education spending. Because the focus of this paper is to compare Alaska with other states, we use data from the US Census Bureau *State and Local Government Finances*.<sup>1</sup>

In the 2017-2018 school year, there were just under 130,000 students in just over 500 public K-12 schools. In 2016, Alaska's state expenditure on education (K-12 and postsecondary) was \$2,787,912, or 25.8% of the state general expenditure; this compares to national average of 24.9%. However, Alaska state and local's expenditure on K-12 education was \$2,365,458, or 17.3% of the state general expenditure, which compares to a national average of 21.5%.<sup>2</sup>

Sixty-four percent of Alaska's per-pupil spending comes from state general funds; Alaska's proportion of state funding is the fifth-highest in the nation, and its proportion of local funding contributions is fifth-lowest. Figure 1 compares Alaska's funding distribution to the national average.

Part of the reason for the relatively low percentage of local contributions is that local taxes can only be collected in organized boroughs, and 19 of Alaska's 54 school districts are Regional Education Attendance Areas (REAs), meaning the local government is not organized to collect school taxes (Berman, Hull, & McDiarmid, 2001). While the proportion of local contributions is among the lowest in the nation, the proportion of federal funding, at 14%, is the 6th highest.<sup>3</sup>

Figure 1  
Distribution of funding sources in per-pupil spending, 2017



The proportion of state and local dollars funding K-12 education in Alaska differs significantly from the national average. Source: US Census 2017 Public Elementary-Secondary Education Finance Data

<sup>1</sup>US Census Bureau, *State and Local Government Finances*, 2016: <https://www.census.gov/data/datasets/2016/econ/local/public-use-datasets.html>

<sup>2</sup>Numbers in this document are different from the tables published by the Alaska Legislative Finance Division, which are more familiar to Alaskans. Using the US Census Bureau data allows us to make comparisons across states even though state and local governments across the US distribute the costs of public services in different ways; in other words, one state might pay for things local governments pay for elsewhere. A previous ISER research summary explains the major differences in sources for Alaska's state spending: <https://iseralaska.org/publications/?id=1665>

<sup>3</sup>Alaska has the highest proportion of Indigenous students in the nation (22%), but the federal Bureau of Indian Education (BIE) does not operate any schools in Alaska, nor are there any tribally operated public schools, per the provisions of the Alaska Native Claims Settlement Act (ANCSA, 1971). Instead, Alaska receives support under federal funding programs including Title VI Indian Education from the US Department of education and Johnson O'Malley funding for education from the Bureau of Indian Affairs.

## WHAT DOES ALASKA SPEND ON PUBLIC EDUCATION, AND HOW DOES THAT COMPARE TO OTHER STATES?

In 2017, Alaska's average per-pupil spending was \$17,838 (US Census Bureau, 2017). Unadjusted, Alaska ranks 6<sup>th</sup> in the nation with 46% higher per-pupil spending than the national average of \$12,201.<sup>4</sup> Average spending, while a useful comparator, presents challenges in its raw form, because costs differ from place to place. This means we need to apply some adjustments if we want to discuss education spending in comparison to other states.

### Spending adjustments applied

Within Alaska, costs differ significantly between communities, so the first step of our analysis adjusts Alaska's education spending to account for the higher costs (relative to Anchorage) that districts face. To do this, we used the Foundation Formula's school size adjustment (see Box 1) and district cost factor (see Box 2). We calculated an average district cost factor, weighted by the school-size adjusted enrollment. Then we used that average cost factor to calculate an Anchorage-adjusted average per-pupil spending of \$14,853. This figure is \$2,652 (22%) more per-pupil than the national average, and would rank 14<sup>th</sup> highest nationally.

### ACCRA Cost of Living Index applied

Even after adjusting Alaska communities to Anchorage, we still cannot directly compare to the nationwide average because Anchorage's cost of living is higher than most other communities in the US. We applied the most widely used cost of living index (COLI)<sup>5</sup>, published by the American Council for Community and Economic Research (ACCRA) to our statewide calculations. Adjusted nationally, Alaska's per-pupil spending is \$11,997, or \$204 (2%) below the national average.<sup>6</sup> Table 1 presents these calculations, and figure 2 (see next page) depicts them graphically.

Box 1.

#### How does Alaska set its K-12 education budget?

The total amount Alaska spends on K-12 education and the distribution of those funds amongst districts is determined by a complex set of adjustments called the *School Foundation Formula*. The *School Foundation Formula* allocates state operating support according to the product of the *Base Student Allocation* (BSA), the per-pupil funding level set annually by the legislature, and an adjusted average daily membership (ADM) which makes adjustments for 3 categories of differences amongst schools:

**school size** - because smaller schools are more costly to operate at the per-pupil level

**district cost factor** - because some Alaska communities have higher costs of living and operations than others

**special programs like special education, vocational education, and correspondence programs** - because the costs of these programs are distinct from typical instructional activities, and have different operating costs

Per-pupil spending	Dollars	Difference from national average	
		\$	%
Alaska's average per-pupil spending	17,838	+5,637	+46
Adjusted to Anchorage	14,853	+2,652	+22
National average	12,201	.	.
Adjusted to national average	11,997	-204	-2

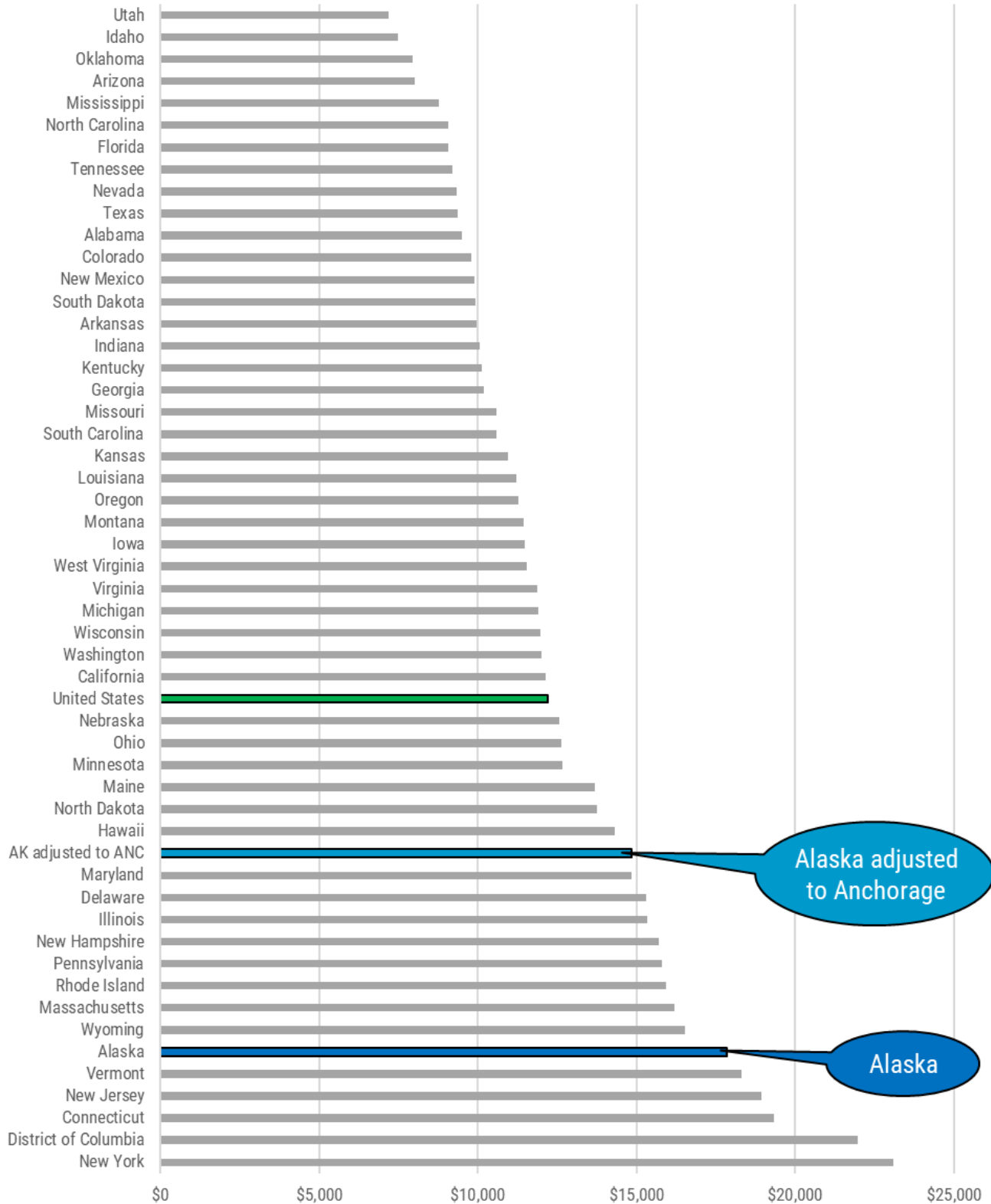
*After adjustments, Alaska's per-pupil education spending is slightly lower than the national average.*

<sup>4</sup>It is important to note that since national numbers were last updated, the strong economy in the lower 48 has allowed other states to invest more dollars in education, while Alaska's fiscal crisis has constrained its ability to do the same. Alaska relative spending has almost certainly decreased since national numbers were last reported.

<sup>5</sup>The American Council for Community and Economic Research (ACCRA) cost of living index (COLI) places Anchorage at 128.4 percent of the national average: <https://www.infoplease.com/business-finance/us-economy-and-federal-budget/cost-living-index-selected-us-cities1>

<sup>6</sup>When applying this adjustment, we can no longer use rank order, because other places in the US also have higher costs of living, and their own adjustments would need to be applied.

Figure 3  
Average 2017 per-pupil education spending



Adjusting for within-state and national differences dramatically changes Alaska's rank order and relative spending to other states. Source: U.S. Census Bureau 2017 Annual Survey of School System Finances

## WHAT DRIVES THE COST OF PUBLIC EDUCATION IN ALASKA?

Though Alaska’s per-pupil education cost is just about average after adjustments, it is still valuable to look at how our state spends education dollars. Three Alaska exceptionalities set us apart from other states in our education spending patterns: small schools, healthcare, and energy.

### Small schools

Alaska has a lot of small schools - of the 443 “regular”<sup>7</sup> schools, 58 (13%) have fewer than 25 students, and an additional 34 (8%) enroll between 26 and 50 students (Pierson & Stevens, 2017). It is Alaska’s legal and ethical responsibility to provide free and appropriate public education (FAPE) to all students. Three major cases define the state’s responsibility: a settlement reached for *Hootch v. Alaska* (1975) affirmed the allegation that boarding schools were inadequate proxies for local public schools, and the state agreed to construct high schools in rural Alaskan communities with eight or more high-school aged students;<sup>8</sup> within six years, there were new or expanded high school programs in more than 100 villages (Cotton, 1984). In 1999, *Kasayulie v. State* found that inattention to rural costs in financing school construction discriminated against rural and Alaska Native students, violating the Civil Rights Act and the equal protection and education clauses of the State constitution; the ruling prompted revisions of the school construction funding formula. Most recently, *Moore v. State of Alaska* (2004) ruled that the state was providing adequate funding but insufficient assistance and oversight to school districts in which schools were failing; settlements that followed included funding to equitize resources through fiscal supports (Education Law Center, 2019).

Presently, Alaska funds schools in any community with at least ten students, and over a dozen schools in small remote communities have closed in the past decade (Hanlon, 2017).<sup>9</sup> Small schools are more costly to operate – they have small class sizes, and do not benefit from economies of scale in capital and labor costs. Additionally, these schools experience high turnover of teachers and principals (Hill & Hirshberg, 2013; Pierson & Stevens, 2017), which is costly both in dollars (DeFeo, Tran, Hirshberg, Cope, & Cravez, 2017) and in diminished student achievement (Ronfeldt, Loeb, & Wyckoff, 2013).

### Healthcare

Alaska has the highest per capita healthcare costs in the US (Passini, Frazier, & Guettabi, 2018), which negatively affects private and public sectors of our economy. Healthcare costs are a part of teacher compensation. Alaska unadjusted per-pupil spending on teacher salaries is 14<sup>th</sup> in the nation - but after adjusted to US cost-of-living, the amount is 23% below the national average. Similarly, Alaska’s unadjusted per-pupil spending on educator’s employee benefits is 64% above the US average - but after adjusted is only 9% above the US average. While the challenge of high healthcare costs is not unique to education, in a fixed budget scenario these costs put downward pressure on wages, making it more difficult for Alaska districts to offer teachers a nationally competitive salary.

### Energy

Energy costs include heat and electricity, and school districts need both. Fuel costs more in remote places because it costs more to transport and store it there, small communities often do not benefit from economies of scale in making fuel purchases, and districts may not have specialized procurement personnel able to get the best price. Electricity costs can be three to five times higher in remote places (Alaska Energy Authority, 2017), and schools do not benefit from the Power Cost Equalization (PCE) programs that reduce these costs for local residents. Regardless of these higher costs, school districts need energy – they require more fuel to heat buildings in colder communities, and electricity to operate them. Regardless of the number of students in a given building, it must be heated and lit, and the costs of doing so in Alaska are unique to our state.

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<sup>7</sup>This classification from Regional Education Labs Northwest (REL-Northwest) includes neighborhood public schools, and excludes alternative, correspondence, and Division of Juvenile Justice schools, as well as schools with missing enrollment.

<sup>8</sup>This was changed to 10 in 1998.

<sup>9</sup>Students in communities with too few students to support a school can opt for home schooling, participate in a correspondence school program, or attend one of three secondary public boarding schools in the state.

## WHAT ARE THE IMPLICATIONS FOR EDUCATION SPENDING IN ALASKA?

Operating costs including fuel and electricity, healthcare costs, and community cost differentials that are high in Alaska in general and particularly high in remote and rural places significantly *affect* schools, but are not tied to education policy. Understanding that Alaska's adjusted spending is on par with national averages, this unfortunately leaves instructional expenditures as one of the few places where districts have budget flexibility. With the objective of providing high quality education to all of Alaska's children, we frame our implications around two key current fiscal issues in Alaska: the state's teacher shortage and budget cuts to K-12 education.

### Alaska's teacher shortage

The majority of Alaska's K-12 spending is in instructional expenditures, and teacher compensation makes up the largest proportion of these costs. While other states are increasing salaries in a competitive market characterized by significant teacher shortages that have reached "crisis" levels (Gunn, 2018; Picchi, 2018), previous ISER research in 2013 estimated that Alaska teacher salaries were lower than they should be (Hirshberg et al., 2015). If Alaska teacher salaries do not keep up with national trends, the state's existing retention and turnover challenges will be exacerbated, especially in remote and high-poverty schools that have the greatest difficulty recruiting and retaining teachers (DeFeo, Hirshberg, & Hill, 2018; DeFeo & Tran, 2019).

### Budget cuts to K-12 education

Districts have limited flexibility in their budgets, and it is difficult for them to quickly absorb cuts without increasing class sizes and laying off teachers. Education finance decisions, thus, must consider the intersection between fixed and flexible costs in district budgets, noting that while the most flexibility lies in instructional expenditures, these are simultaneously the most critical component to achieving education outcomes.

Box 2.

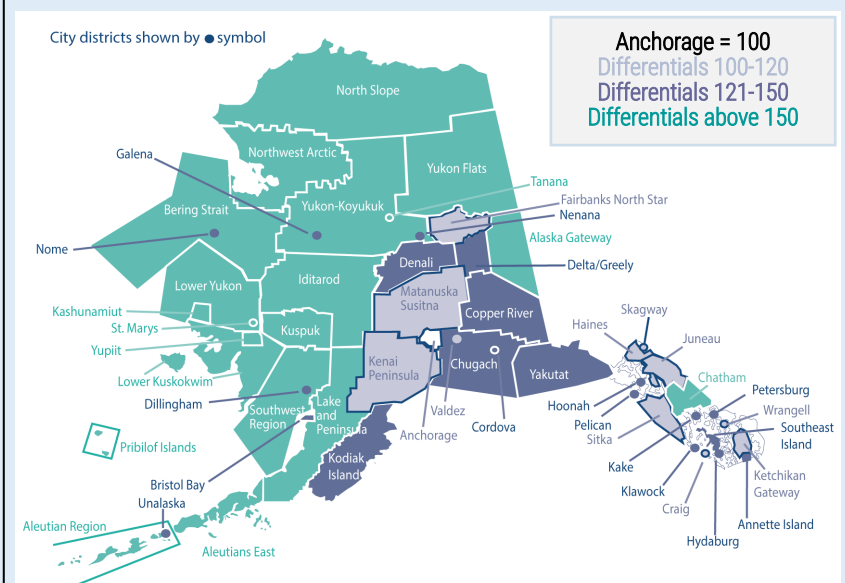
### How are district cost factors determined?

The district cost factor, also referred to as the geographic cost differential, indicates how much more it costs to provide the same educational services in Alaska's communities as compared to Anchorage. Factors influencing the cost differential include the higher costs of attracting quality teachers and administrators to rural areas, transportation costs for personnel and supplies, and energy costs.

Relative to Anchorage, 31 Alaska districts have cost differentials between 1.07 and 1.49, meaning that it costs 107% to 149% more to operate schools in those communities. Twenty-one districts have cost differentials of 1.5 or greater, meaning that it costs at least one-and-a-half times as much to operate schools in those places (see Figure 3).

Alaska's district cost factor differentials were last updated in 2005 (see Tuck, Berman, & Hill, 2005), and some Alaska communities have notably changed since then. In 2015, ISER updated community cost differentials for instructional salaries (see Hirshberg, Berman, DeFeo, & Hill, 2015), but these calculations have not been applied to the *School Foundation Formula*.

Figure 3  
Current Alaska district cost differentials relative to Anchorage, last calculated in 2005



Even within a single district, costs of operating schools in rural villages and rural hubs differs significantly. These district cost differentials are a weighted average of the lower costs in hubs and higher costs in villages.

## CONCLUSION

Our analysis finds that, after adjustments, Alaska’s per-pupil education spending is on par with the national average, but Alaska still has some unique expenses including small schools, healthcare, and energy costs, and these factors are largely outside the school districts’ control. Alaska will not meet its education objectives through increased spending alone – dollars must be spent well in order to produce desired outcomes. In the same vein, reducing spending without a critical examination of *how* dollars are spent will likely harm student learning and achievement. As districts seek to absorb budget cuts, we encourage attention and priority to maintaining instructional expenditures that benefit students.

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