



February 4, 2022

House Finance Subcommittee Hearing – Division of Finance and Support Services and Division of Administrative Services Budget Overview

Follow-up on Committee Member Comments

Prepared by DEED Staff

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Please provide more information regarding the disparity test.

The federal government allows the State of Alaska to deduct 90% of allowable Impact Aid from the amount the Foundation Formula allocates to school districts. Per AS 14.17.410, Basic Need minus Required Local Contribution minus 90% of eligible Impact Aid equals State Aid. This reduces the state's cost by an average of \$85 million per year (estimated to be \$72.3 million in FY2023). However, the State is only allowed to deduct federal Impact Aid if it has an equalized formula in accordance with federal law.

Pursuant to Section 7009(c)(1)(b) of Title VII (7) – Impact Aid Program, the State of Alaska *must request permission* from the federal government to take impact aid payments into account in determining state aid payments to school districts. This is an annual certification that has to occur not later than 120 days prior to the next fiscal year.

Each year, the Department of Education and Early Development performs the disparity test, which compares high-per-revenue and low-per-revenue districts to each other. If the funding differential is not more than a 25% disparity between districts revenue per Adjusted Average Daily Membership (AADM), then the funding formula is considered equal and the State is allowed to deduct the deductible Impact Aid (again this is an average of \$85 million or \$72.3 million for FY2023).

Copies of the disparity test memos, explanations, and tests from FY2009 through FY2020 are available on the department's Foundation Funding Formula website at the following link:

<https://education.alaska.gov/schoolfinance/foundationfunding>.

Provide when the Foundation Formula was last updated and how long the Base Student Allocation (BSA) has been at its current level.

The Foundation Formula was adopted under Senate Bill 36 in 1998 and implemented in 1999, and is defined in Alaska Statute Title 14, Chapter 17. The BSA has been at \$5,930 since FY2017.

Provide the report made as a result of the study on the Foundation Formula.

Please find attached a report titled *Review of Alaska's School Funding Program* by Augenblick, Palaich and Associates dated July 2015.

Provide a breakdown, by district, of every funding source they receive.

Please find attached a file titled *FY2020 Audited Revenues by District by Fund*. In addition, also find attached a document titled *Fund Code Names and Descriptions* to assist you with reviewing the PDF file.

Provide the link to DEED's Foundation Reports.

Copies of Foundation Formula reports from FY2005 through FY2023 Projected are available on the department's Foundation Funding Formula website under Reports at the following link:

<https://education.alaska.gov/schoolfinance/foundationfunding>.

Provide an explanation of the ADM hold harmless and how it affects districts.

Enacted in 2008, House Bill 273 established a Hold Harmless provision for those school districts experiencing a reduction in their brick-and-mortar school(s) average daily membership after it has been adjusted for school size in the Foundation Formula. Eligibility is determined after the district's adjusted for school size average daily membership are calculated and totaled up for all schools.

The sum total of the district's adjusted for school size average daily membership is compared to the prior fiscal year's total adjusted for school size average daily membership to determine if a decrease of 5% or greater has occurred. If the answer is "yes", then the prior fiscal year is locked in as the "base year" for the next three years.

The new school size adjustment with Hold Harmless continues through the formula adjustments, which we will address briefly on the next slide. This results in approximately 75% of the basic need calculation being restored in the first year. The hold harmless provision is available to school districts over a three-year step-down of 75% in the first year; 50% in the second year; and 25% in the final year, provided that the adjusted for school size average daily membership total stays below the established "base year". This three-year step-down allows time for district's budgets to adjust to the decreased funding that comes with the reduction in their brick-and-mortar schools average daily membership.

Please find attached a document titled *Districts in Hold Harmless FY2020 through FY2023 Projected*.

Provide how DEED calculates the ADM from raw student data.

"Raw student data" is what districts submit on each student through the State Report Manager or SRM portal along with a signed Summary foundation report that creates the initial average daily membership (ADM) from the collected data. Below is an outline of the steps the department follows when reviewing and reconciling the "raw student data".

- Two weeks following the last day of the count period: Each districts summary lists the ADM counts by school into K-6, 7-12, correspondence, and Intensive counts. All Reports are signed by the superintendent and due two weeks following the last day of the count period under AS 14.17.600.

As the districts are submitting their certification of the student counts/ADMs to the department they are entered into the Foundation workbook to come up with a preliminary estimate of the what the counts are generating in State Aid.

- Approximately 2nd week in November: The following Monday districts are notified of the 30-days to review process per 4 AAC 09.015 (e). Districts log in to SRM and check for a duplicate student report. If there is no report, then the district's file is considered clean with respects to ADM; intensives have a separate review.

DEED continues to manually reconcile the data during and after those 30-days as districts prove up on their claim for the student. This process usually involves proof of enrollment and any additional information, such as attendance records, for retaining the student.

- Approximately the 3rd week in December: The week following the 30-day reconciling period, all the corrections that were made in the Online Alaska School Information System (OASIS) are reviewed, another summary report is run, and the foundation workbook is manually updated.

Both the summary report and the five-page foundation report are sent to all districts for a 30-day review and possible appeal.

- Mid-January: If there are no appeals then the ADMs are finalized, and the Quality Schools Grant payment gets issued.
- February: The budgeted local sources are updated again from the city/borough districts. DEED continues to enter any federal impact aid vouchers received through the end of the month.
- March 1: Foundation is closed out. Intensives are finalized. The final three payments to districts are calculated for April, May, and June. Districts are notified of these payments along with the closeout foundation report.

Provide the percentage of students in correspondence schools versus brick-and-mortar schools.

Pre-pandemic, the ratio of correspondence students to brick-and-mortar students was approximately 10% to 90% respectively. Below is a chart that shows the ratio from FY2018 through FY2022.

Fiscal Year	Brick & Mortar ADM Total	Correspondence ADM Total	TOTAL ADM	% Brick & Mortar ADM	% Correspondence ADM
FY2018	117,014.16	12,939.99	129,954.15	90.0%	10.0%
FY2019	115,421.34	13,583.59	129,004.93	89.5%	10.5%
FY2020	114,437.88	14,358.93	128,796.81	88.9%	11.1%
FY2021	99,410.54	27,604.76	127,015.30	78.3%	21.7%
FY2022	106,290.26	21,298.12	127,588.38	83.3%	16.7%

Provide a breakdown of how much each district spends on administration versus teaching with their operating fund.

Please find attached the FY2020 audited operating fund expenditure data for all of Alaska’s school districts, minus Mt. Edgecumbe High School. The first page shows the instructional functions and the second page shows the non-instructional functions. These functions are required per the Uniform Chart of Accounts and Account Code Descriptions for Public School Districts (https://education.alaska.gov/publications.chart_of_accounts.pdf). Please see pages 26 through 36 of this document for more information about what is included in each of these functions.

Additional audited and budgeted operating fund expenditure data for all of Alaska’s school districts, minus Mt. Edgecumbe High School, are available in Excel format on the department’s School Finance Budget and Actual Reporting website at the following link: <https://education.alaska.gov/schoolfinance/budgetsactual> under Operating Fund Reports. Operating Fund Revenue reports are also available under this same link.

Regarding pupil transportation, provide how much districts are spending versus how much they receive.

Please find attached the FY2019 and FY2020 audited Pupil Transportation revenue and expenditures by school district.

Provide how much has been appropriated in the budget for School Construction and Major Maintenance for the last three years.

- FY2020 – \$7,400,000 appropriated for K-12 Major Maintenance
 - \$19,694,500 appropriated to the Regional Educational Attendance Area and Small Municipal School District School Fund (AS 14.11.030(a)) (REAA Fund)
- FY2021 – \$0
- FY2022 – \$9,000,000 appropriated for the Houston Middle School Replacement project
 - \$17,119,000 appropriated to the REAA Fund

FY2023 Governor – \$54,895,544 proposed appropriation for the William N. Miller K-12 Memorial School Replacement, Napakiak (\$22,111,544 unrestricted general funds; \$32,784,000 REAA Fund) \$32,784,000 proposed appropriation to the REAA Fund

Provide the average student cost from every district.

AS 14.03.120(b) requires the department to produce an annual report that includes all revenue received by each school district organized in easily sortable categories including the average daily membership (ADM) and district. The revenue in this report means all money reported to the department as receipts from any source, including state, federal, local, special, and other funding. Please find attached a copy of the FY2020 report, which is also available in Excel format on the department's School Finance Budget and Actual Reporting website at the following link:

<https://education.alaska.gov/schoolfinance/budgetsactual> under Operating Annual Revenue.

Please note that the first two pages are the FY2020 data without the PERS/TRS on-behalf amounts included and the last two pages are the FY2020 data with the PERS/TRS on-behalf amounts included.

Clarify response to Representative Hopkins regarding the veto of the School Debt Reimbursement Program and the inter-agency receipt funding under School Finance and Facilities.

In FY2021 the School Finance and Facilities component had \$928,500 in inter-agency receipt authorization; this amount was 100% tied to the School Debt Reimbursement Program, of which \$785,000 or 85% came from unrestricted general funds and \$143,500 or 15% came from the School Fund (Designated General Funds (DGF)). When the School Debt Reimbursement program was vetoed for FY2021, all the inter-agency receipts became uncollectable, leaving an unintended shortfall within the School Finance and Facilities component.

Prior to the veto of the School Debt Reimbursement program, one of the five Facilities staff members resigned from their position to take on a new role within a school district. When the School Debt Reimbursement program was then vetoed, the department made the decision to leave that position vacant given the uncollectable revenues. Last legislative session, the department requested and received a FY2021 unrestricted general fund supplemental in order to ensure the department could pay for personal services, travel, services, and commodity costs associated with the Facilities section and has since filled that vacant position.