

HOUSE FINANCE COMMITTEE
HOUSE HEALTH, EDUCATION & SOCIAL SERVICES COMMITTEE
HOUSE SPECIAL COMMITTEE ON EDUCATION
February 13, 2003
11:35 A.M.

TAPE HFC 03 - 19, Side A
TAPE HFC 03 - 19, Side B

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 11:35 A.M.

MEMBERS PRESENT

HOUSE FINANCE COMMITTEE MEMBERS

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Eric Croft
Representative Richard Foster
Representative Mike Hawker
Representative Gary Stevens
Representative Bill Stoltze
Representative Jim Whitaker

HOUSE HEALTH, EDUCATION & SOCIAL SERVICES COMMITTEE

Representative Peggy Wilson
Representative Carl Gatto
Representative Sharon Cissna
Representative Cheryll Heinze
Representative Mary Kapsner
Representative Paul Seaton
Representative Kelly Wolf

HOUSE SPECIAL COMMITTEE ON EDUCATION

Representative Carl Gatto
Representative Paul Seaton
Representative Les Gara
Representative Mary Kapsner
Representative Peggy Wilson
Representative Kelly Wolf

MEMBERS ABSENT

Representative Reggie Joule
Representative Carl Moses

Representative John Coghill

ALSO PRESENT

Representative David Guttenberg; Eddy Jeans, Manger, School Finance and Facilities Section, Department of Education and Early Development;

PRESENT VIA TELECONFERENCE

No participation on teleconference.

GENERAL SUBJECT(S):

**JOINT WITH THE SPECIAL COMMITTEE ON EDUCATION
HOUSE HEALTH, EDUCATION & SOCIAL SERVICES
OVERVIEW: FOUNDATION FORMULA**

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
		TAPE HFC 03 - 19, SIDE A
000	Co-Chair Harris	Convened the House Committee on Special Committee on Education and the House Health, Education & Social Services Committee with the House Finance Committee meeting to discuss the Department of Education & Early Development's Foundation Formula. He introduced the Special Committee on Education's Chair-Representative Carl Gatto, and the House Health, Education & Social Services Committee Chair-Representative Peggy Wilson.
057	EDDY JEANS, MANGER, SCHOOL FINANCE AND FACILITIES SECTION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT	Provided Committee members with (2) handouts. (Copies on File). He referenced the schedule attached at the end of document #1. He encouraged Committee members to ask questions during the overview. He requested that the presentation be kept to just the foundation funding program as it is today without discussing the changes over time.
239	Mr. Jeans	Commented that current public school funding formula was adopted under SB 36 in 1998. It was implemented in 1999 and the public school funding formula was defined in AS 14.17. He stated that the overview would provide an overview of the

		calculation of the Average Daily Membership (ADM) and the calculation of basic need and the components of basic need regarding who pays, state, local or federal.
352	Mr. Jeans	The ADM is the number of students enrolled during the 20-day count period that ends on the fourth Friday in October. The reports are due into the Department within 2-weeks of the 20-day count period.
422	Co-Chair Harris	Asked for a definition of 'enrolled in'.
430	Mr. Jeans	Explained that the enrollment was based on students enrolled in the public schools and not actually attending during that 20-day period.
450	Representative Kapsner	Inquired how would the district 'project' the number of students for the following year.
459	Mr. Jeans	Advised that Department of Education & Early Development does not do the student projection. That is done at the local level and then provides that information to the Department.
513	Representative Kapsner	Questioned how would each school district make that determination.
532	Mr. Jeans	Explained that the school districts do not have a prescribed method from the Department. Some use complex formulas and some use the actual data from the current year. There is a variety of ways.
558	Representative Croft	Asked if the projection matters. He asked what the formula does with the projected amount.
602	Mr. Jeans	Replied that the Department prepares the State budget for the next year using that information.
621	Mr. Jeans	Explained that the school districts provide their estimated count based on the information that they have available. The Department takes that information and runs it through the size adjustment tables. That information is for the purpose of developing the State budget. If there are large swings in the information provided, then the Department goes back to the district for an explanation. For the most part, the districts have a minimal change in their enrollment.
723	Representative Croft	If there actual amount is different than

		the projected, would it have an effect on the formula.
736	Mr. Jeans	Commented that addresses how the districts are actually reimbursed. The projection provides an appropriation that is held. For the first nine months of the current year, they receive 1/12 th of their entitlement from the previous year.
810	Representative Croft	Asked about the correspondence numbers and the student ADM count.
821	Mr. Jeans	Replied that a correspondent student was funded at 80%.
831	Co-Chair Williams	Asked about home-schooled students.
840	Mr. Jeans	Could not say that the State funds home schooled students. The State does fund correspondence students.
860	Representative Wilson	Commented if the projected ADM was a certain amount and the school did not have close to that amount, would that school receive less than what they had planned on.
928	Mr. Jeans	Replied that under the current foundation formula, that is what would happen and they would receive less based on their actual student count.
942	Representative Wilson	Asked if there was any type of protection or safeguard to help them.
958	Mr. Jeans	Stated that there was no "hold harmless" provision to act as a safety guard.
1012	Representative Gara	Asked if in Anchorage, Charter School students were treated as correspondence students.
1029	Mr. Jeans	Replied that would depend in what program that they were enrolled in. Not all the charter schools are home school based programs.
1042	Representative Gara	Is it left up to the Department to 'make a call' to determine if the program is run like a correspondence or home school program.
1053	Mr. Jeans	Replied that was correct.
1100	Mr. Jeans	Addressed who qualifies as a student. The child must be six years old before August 15 th and/or is under the age of 20-years old. The Special Education Programs must serve students from the ages of 3 through 22 years old.
1126	Mr. Jeans	Noted that there are five steps in adjusting the school districts average daily membership. <ul style="list-style-type: none"> • Look at the school and run it through the school size adjustment

		<p>table</p> <ul style="list-style-type: none"> • Apply the district cost factor • Increase that number by 20% for special needs funding • Intensive service counts for the severely multi handicapped children • District correspondence count for the districts adjusted ADM
1215	Mr. Jeans	<p>School size adjustment. For each school in the district subtract from the ADM all correspondence counts. Adjust the remaining ADM of each school using the school size factor table.</p> <ul style="list-style-type: none"> • A community with an ADM under 10: Added to the smallest school with an ADM greater than 10; • A community with an ADM from 10-100: Grades K-12 ADM combined and adjusted once, adjusted as one school; • A community with an ADM from 101-425: ADM for grades K-6 and 7-12 are adjusted separately; adjusted as two schools; • A community with an ADM greater than 425: Each facility administered as one school, counted as one school, ADM is adjusted as one school; Alternative schools with an ADM of less than 200 combined are adjusted with the school with the greatest ADM in the district; If an alternative school ADM is greater than 200, the ADM will be adjusted once; A charter school with an ADM of 150 or greater will be adjusted once. • Using the proper formula from the school size factor table, calculate the adjusted ADM for each school.
1325	Representative Kapsner	Asked how the special needs factor would apply to the 20% block factor.
1345	Mr. Jeans	Advised that the special needs factor is the 20% block funding.
1358	Representative Kapsner	Asked what would happen for a district that currently has a much higher need.
1404	Mr. Jeans	Emphasized that they would only be funded at 20% regardless of what the special needs in that district are.
1414	Representative Gatto	Asked about the ADM's slide. He asked what would happen in a community that had

		multiple schools with ADM's under 100 or over 500. He asked if the referenced was to the community or each school in the community.
1445	Mr. Jeans	Replied that the first thing that the Department looks at is the overall student population in that community. That provides the information regarding how many schools will be run through that size adjustment table. A community could actually have a number of schools, but if they have less than 425 students in that community, that will be run through the size adjustment table.
1526	Representative Gatto	Commented that it would be like a virtual school for the purposes of allocating funding.
1536	Representative Wilson	If the district has 3 schools, they would only get paid for 2, and if they have one school, they get paid for 2.
1558	Mr. Jeans	Replied that the foundation entitlement is calculated as if they have 2.
1604	Representative Wilson	Clarified that if there were less than 425 students, and they had 3 schools, they would only be paid for 2 schools.
1620	Representative Croft	Asked if the formula was attempting to encourage schools in that range.
1643	Mr. Jeans	Responded that the breaking points exist, because when the foundation program was rewritten as SB 36, there were a number of decisions that had been made in the past regarding the structuring of schools. To insure that the districts were getting an appropriate level of funding, the intent was not to penalize districts for passing decisions of how the students were being 'housed'. Consequently, the range factor was put into place to assist driving revenue.
1734	Representative Wilson	Asked what would happen in a school system in which there are 3 schools, and that they are all small enough that you could not get them into 2 schools.
1748	Mr. Jeans	Replied that they would need to operate within their means.
1801	Representative Wilson	Commented that the school would be basically 'stuck'.
1807	Mr. Jeans	Responded that in some of the communities, there were larger student populations, which required a greater number of schools. As community's student population declines, the school

		district needs to make decisions if they need to operate that many schools. When the community falls within the range of 101-425, the State has made it clear that they will fund that district as if it were operating 2 schools.
1901	Representative Wilson	Asked what would happen if they cannot do that.
1910	Mr. Jeans	Acknowledged that was correct.
1921	Mr. Jeans	Noted that they had taken the Nome City school district to base the presented calculations. He noted that they reported that they have an elementary population of 425 students; high school with 305; charter school currently serving 42 students; and the Nome Youth facility that has 12 students. The district has over the 425 minimum number. Each school will be funded through the size adjustment table with the exception of the charter school.
2011	Representative Croft	Asked how the Department would deal with the youth facility.
2020	Mr. Jeans	The Department decided to fund youth facilities around the State as separate sites because those sites are operating on a year-round basis.
2043	Representative Wilson	Asked in that instance, would they get paid for three buildings.
2056	Mr. Jeans	Replied that was correct.
2101	Mr. Jeans	He added that the alternative school would be added to the school with the largest ADM.
2124	Mr. Jeans	He referenced the school size adjustment statute. Using those numbers, the adjusted ADM school size would be 514.
2215	Co-Chair Harris	Asked why the extra students were only worth 92% funding.
2231	Mr. Jeans	Replied that was correct. The purpose is that as you move through the scale, there is a benefit of an economy of scales.
2236	Co-Chair Harris	He noted that over 400 students, the students would be taught 'cheaper'. Mr. Jeans noted that once you get over the 400 that would be a correct assumption.
2300	Representative Gatto	Asked why there was no allocation for any school with exactly 750 students.
2336	Mr. Jeans	State that to take the 750 through the funding formula, there would be 793.6 for that school with this formula.
2351	Mr. Jeans	The next adjustment would be to the 305 students and with the computations for

		adjustment to the ADM, providing for 379.45.
2420	Mr. Jeans	Continued, the last adjustment for school size would be the youth facility, with 12 students, which falls into the range of 10-20, providing for the base allocation of \$39.60. The adjusted ADM for school size for Nome would be 933.
2455	Mr. Jeans	Spoke to the district cost factor. The Department of Education & Early Development is required to monitor and report on the district cost factors to the legislature every other year. Those numbers are laid out in statute and are specific to each school district. Those numbers range from 1.0 - 1.736.
2531	Co-Chair Harris	Asked about the latest district cost factor for a school less than 1.
2546	Mr. Jeans	Replied that Mat-Su was at .99. That study would indicate .99 not 1.
2607	Representative Wilson	Asked if the Legislature would receive a "district cost factor" this year.
2622	Mr. Jeans	Explained that the Legislature had contracted out for their own study. When SB 36 was passed, the Department was required to do a report that covered three areas: <ul style="list-style-type: none"> • District costs factors • Comparison of the old formula to the new • Adequacy The Department did that report two years ago. The Department attempted to use the McDowell methodology but it was not successfully funded. The Legislature then contracted for the study.
2736	Representative Wilson	Hoped that the Department would have some recommendations that could be compared to the private study. Mr. Jeans understood that study would take the place of the one provided by the Department.
2802	Representative Kapsner	Asked when would there be a discussion in full regarding the cost study.
2816	Co-Chair Harris	Replied in the future.
2822	Mr. Jeans	Continued, the school size adjustment for Nome was 933; the district cost factor is 1.319. The adjusted ADM after the cost factor is 1,231.
2831	Mr. Jeans	The next adjustment is for special needs, 20% block funding allocation for categorical programs. To qualify for the funding, the district must submit a plan

		to the Department on how they intend to utilize those funds. The districts all did that in 1999.
2907	Co-Chair Harris	Noted that in his district there are many Russians who do not speak English well. They would be considered bilingual. He emphasized that they are a huge percentage of the students. He asked if 20% was the maximum that any school could receive.
2946	Mr. Jeans	Replied that it is a flat 20% block funding and that the Department cannot give more.
3004	Representative Kapsner	Asked the projected need of each district. She pointed out that some districts do not have a 20% need and some districts have a much greater need.
3023	Mr. Jeans	Replied that he could not do provide that information. The way that the school districts report their expenses is under one category called instruction. Special education is the only category that is broken out separately.
3054	Representative Kapsner	Questioned where the Legislature could get that information.
3107	Mr. Jeans	Responded that the Department would have to collect it from each individual district assuming that the district was tracking the individual programs.
3118	Co-Chair Harris	Stated that on February 19th at 1:30 p.m., there will be a meeting to discuss cost differential concerns.
3139	Mr. Jeans	Continued that the special needs adjustment was a 20% block allocation. He referenced the new adjusted ADM of 1,478.
3153	Mr. Jeans	School districts receive funding for intensive special education students that: <ul style="list-style-type: none"> • Are receiving intensive services • Are enrolled on the last day of the 20 school day count period • Have an established Individual Education Plan (IEP) The districts intensive student count is multiples by five. Each student enrolled in the district generates \$20,050 dollars. None identified one student.
3232	Representative Wilson	Asked for a breakdown of each step and how it coordinates with each letter of the formula.
3252	Mr. Jeans	Advised that Step 1 would correspond with

		column O, step #2-Q, step #3-R, step #4-T, and step #5-B.
3433	Mr. Jeans	Stated that correspondence funded programs are calculated by multiplying the ADM by 80%.
3457	Representative Gara	Inquired about the adjustment for special needs students versus intensive need students.
3514	Mr. Jeans	The intensive need student is multiplied times 5, and the 20% block funding is added on after the adjustment for the cost factor and the school size. It is the entire population after those adjustments.
3545	Representative Gara	Asked if it was assumed for special needs students that every district would receive the 20% adjustment.
3554	Mr. Jeans	Stated that was true. He offered to explain the previous funding formula at another time.
3611	Mr. Jeans	The next step is to calculate the district's entitlement under the foundation formula for basic need. For Nome, that number would be \$5,947,472 dollars.
3648	Mr. Jeans	The next slide summarizes the steps taken to achieve that amount.
3704	Mr. Jeans	The adjusted district ADM multiplied by the base student allocation, \$4,010.
3736	Mr. Jeans	For the purpose of calculating the normal required effort, the State will consider $\frac{1}{2}$ of the increase property value of those communities. 1999 was established as the base year. That number will help to determine the 'education full value'.
3804	Representative Croft	Asked in those municipalities that have a tax base and are growing, what would be the effect.
3823	Mr. Jeans	They would contribute $\frac{1}{2}$ the growth.
3830	Representative Gatto	Asked if the accelerated growth was different than linear growth in regard to the calculations.
3846	Mr. Jeans	Responded that the discussion was regarding any growth. Many small, first class municipalities have very little property growth. They would continue to pay based on the old value.
3912	Representative Kapsner	Asked which communities are growing more quickly.
3936	Mr. Jeans	Outlined that the calculation is applied to every school district.
3948	Representative	If a town is growing quickly, they only

	Wilson	pay 1/2 as much as normal.
4016	Mr. Jeans	Replied that was correct. He added, that was for any growth.
4020	Representative Wilson	Additionally, if a community is losing students, do they lose the full or ½ amount.
4034	Mr. Jeans	Responded that the property wealth is not based on the student population within the community. It is based on the value of taxable real and personal property in your community. If the value is declining in the community, the mechanism does not benefit your community.
4112	Representative Croft	Questioned who were the "big winners & losers" in this process.
4139	Mr. Jeans	Responded that he would provide that information.
4150	Mr. Jeans	Pointed out that the full value for Nome in 2002 was \$207 million dollars. It changed \$15 million dollars in three years.
4225	Representative Gatto	Interjected that Mat-Su is the fastest growing community in the State. That district has indicated because of the accelerated growth, the required local effort has increased disproportionately.
4302	Mr. Jeans	Discussed that their required local effort does increase as the value increases. The taxable property in Mat-Su has increased and therefore under this formula, they are required greater funding for education.
4346	Representative Croft	Asked that in effect with this formula, the growing communities have a lower tax base than the others.
4412	Mr. Jeans	That is correct.
4421	Representative Gara	Asked about the perceived policy base for the benefit to the communities that are growing.
4455	Mr. Jeans	Stated that he could not comment on that.
4509	Mr. Jeans	Noted that the required local effort is the lesser of the four mil equivalent on the education full value. Not to exceed 45% of a districts basic need for an entire year. For those communities that have a high property wealth, the State has established a maximum level of local support for education. In the above scenario, Nome would be required to contribute 4 mils.
4622	Mr. Jeans	Addressed the Title Impact Aid payments. That aid is counted by the Federal

		dollars received by the district, the last day of February.
4653	Mr. Jeans	Nome for the purpose of State funding, would have \$49 thousand dollars available in federal receipts. The Impact Aid Program has a provision in it that requires a calculation.
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4700	Mr. Jeans	Continued, impact aid revenues are considered local revenues. However, local revenues are treated in the State funding formula that is how impact aid will be treated. For municipalities, there is a required contribution or mil. The municipalities are allowed to contribute local revenue over and above that 4 mils up to 23% of their basic need.
4609	Mr. Jeans	Reviewed the impact aid calculations for Nome: \$27,473.
4435	Representative Croft	Asked if the local schools paid more minimum would they then be able to keep more of the impact aid. He clarified that overpayments are retained.
4357	Representative Gatto	Noted that if the impact aid was equivalent to the local effort would that eliminate the local effort.
4327	Mr. Jeans	Responded that it would be in addition to the required local effort. He noted that the adjustments are calculated and then the adjusted ADM is multiplied by \$4010 dollars to determine the entitled amount. He stressed that the he basic need is the entitlement.
4257	Representative Gatto	Asked if all communities have some required local effort.
4240	Mr. Jeans	Replied that every community has some kind of required local effort and that impact aid is considered local effort. He acknowledged that there are members of the Legislature that disagree with that analogy. The money is coming from the federal government. He continued discussion regarding the districts that do not have a required local effort. Mr. Jeans referenced Page 9.
4114	Representative Wilson	Observed that if school districts are forced into a borough that the funding would remain the same. The required local contribution would only replace the federal impact aid.
4007	Mr. Jeans	Noted that the last three boroughs that

		incorporated, those costs were more with incorporation then through the foundation formula [prior to incorporation]. He noted that the fourth borough that recently incorporated received more State aid since its incorporation as they did not have high property value.
3800	Representative Kapsner	Confirmed that it is illegal to assess property taxes on federal land such as Native allotments, pointing out that there is no way to assess property value on 60 percent of the State of Alaska's land. Mr. Jean understood that certain lands were non-taxable and that is why those people qualify for impact aid.
3715	Co-Chair Harris	Pointed out that taxes are not paid on land where there are military bases.
3646	Mr. Jeans	Reviewed the additional local contribution of a school district, which can be the greater of 2-mil tax levy or 23 % of the district's current year basic need. In response to Representative Croft, Mr. Jeans stated that local contribution could be capped. Federal aid is taken into consideration in the federal impact formula and to do that, the State has to meet an equalization test under the federal law. The disparity test clarifies that the State cannot have more than 25% variance in revenue between the wealthiest and poorest district.
3499	Mr. Jeans	The formula assumes that everyone is equal at basic need.
3440	Representative Gatto	Clarified that the federal government is attempting to guarantee that the very wealthy districts do not have an undue advantage over poor districts. Thus, the parameters are established at no more than 25%.
3403	Mr. Jeans	Reviewed Nome's local effort. The maximum contribution that Nome will be able to receive according to calculations is \$2,166,060 dollars.
3326	Mr. Jeans	Discussed Quality School Grants. School districts must submit a plan to the Department regarding how to spend the funds. These are targeted funds for student intervention. The statute clarifies that \$16 dollars per adjusted ADM would be added. Nome would qualify for \$23, 131 under this program.
3252	Mr. Jeans	Addressed the supplemental funding

		"floor" bridges the transition between the old funding formula implemented in 1998 to the new funding formula implemented in 1999.
3156	Mr. Jeans	In response to a question by Representative Gatto, explained that SB 36 targeted funding for student intervention programs. He explained that the number of students had multiplied \$16 dollars.
3043	Representative Wilson	Questioned what would have occurred if it had been added to the ADM.
3023	Mr. Jeans	Observed that the funding level would have remained about the same. The Legislature directed how the money was to be spent for to student intervention.
2957	Mr. Jeans	He provided members an example of the supplemental funding floor. Under 1999 if a district generated \$1,100,000 under the old and \$1,000,000 under the new, they would receive \$100,000.
2854	Mr. Jeans	Observed that the intent was to be an adjustment tool. He reviewed Nome's calculations.
2742	Mr. Jeans	Observed that if there is a decrease below 95 percent, the floor is decreased by the same amount.
2709	Mr. Jeans	Reviewed the establishment of Nome City's school funding floor. He noted that Nome would have another increase in FY04, which would place them on the new funding floor.
2610	Representative Kapsner	Referred to the overall loss of school funds for Nome with the changes in the formula.
2515	Mr. Jeans	In response to a question by Representative Wilson, Mr. Jeans explained that either more students or an increase in the base student allocation causes the changes in basic need. Once the floor is reached, the funding is based on what you make through the formula.
2359	Co-Chair Harris	Pointed out that the premise was that the Legislature felt that some schools were receiving less than some of the rural schools.
2346	Mr. Jeans	Responded that this is only a 'hold harmless provision' from a rewrite of the foundation funding formula. It is a transition provision. It only erodes when there is an increase in the yearly

		entitlement.
2308	Mr. Jeans	Continued, the supplemental funding floor is a reduction of 40% of the increase over the prior year.
2251	Mr. Jeans	Components of State aid as it relates to Nome with a total State aid entitlement of \$5,145,000 dollars. If insufficient funds are provided by the Legislature to meet the total entitlement of all districts, then the amount is prorated the programs equally.
2233	Mr. Jeans	Concluded his presentation on the foundation-funding program.
2220	Representative Gatto	Question regarding the funding floor and asked why some children are only worth 60% of other children. He asked if the funding floor had changed in the last 4 years that had changed that.
2137	Mr. Jeans	That is a 'misperception' that some students are only worth 60%. The funding floor is transition provision from the old to the new funding floor. In reality, districts have changed the amount they receive from the funding floor.
2050	Representative Gatto	Asked if the State had followed through.
2039	Mr. Jeans	Emphasized that the State is still following through; however, Nome has hit the end of their transition.
2024	Co-Chair Harris	Applauded the presentation presented by Mr. Jeans.
1959	Representative Gatto	Echoed his gratitude and noted how astounding it was, the amount of work it took to agree on a foundation formula.
1935	Co-Chair Harris	<u>ADJOURNMENT:</u>
		The meeting was adjourned at 12:52 P.M.