

ALASKA STATE LEGISLATURE
HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES STANDING COMMITTEE

February 1, 2007

3:09 p.m.

MEMBERS PRESENT

Representative Peggy Wilson, Chair
Representative Bob Roses, Vice Chair
Representative Anna Fairclough
Representative Mark Neuman
Representative Paul Seaton
Representative Sharon Cissna
Representative Berta Gardner

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Mike Chenault
Representative Bryce Edgmon

COMMITTEE CALENDAR

OVERVIEW: ALASKA PUBLIC SCHOOL FUNDING FORMULA

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

EDDY JEANS, Director
Division of School Finance
Department of Education and Early Development
Juneau, Alaska

POSITION STATEMENT: Provided an overview of Alaska's public school funding formula.

ACTION NARRATIVE

CHAIR PEGGY WILSON called the House Health, Education and Social Services Standing Committee meeting to order at [3:09:46 PM](#). Representatives Wilson, Roses, Fairclough, Seaton, Cissna, and

Gardner were present at the call to order. Representative Neuman arrived as the meeting was in progress. Also in attendance were Representatives Chenault and Edgmon.

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Overview: Alaska Public School Funding Formula

CHAIR WILSON announced that the only order of business would be an overview of Alaska's public school funding formula, commonly known as the foundation formula.

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EDDY JEANS, Director, Division of School Finance, Department of Education and Early Development (EED), noted that the committee packet should include the PowerPoint that he will review today as well as document entitled, "Public School Funding Program Overview Updated January 2007." Mr. Jeans began by reminding the committee that the current state public school funding formula was adopted under Senate Bill 36 in 1998 and is defined in AS 14.17. He then explained that the average daily membership (ADM) is based on enrollment during the 20-school-day count period ending on the fourth Friday of October. The reports are due within two weeks after the end of the 20-school-day count period and student projections for the upcoming school year are collected. The budget is based on the aforementioned projections. Those who qualify as a student are defined in statute as a child who is six years of age prior to September 1st and under the age 20, and hasn't completed the 12th grade. With regard to the completion of the 12th grade, Mr. Jeans explained that many students may complete course requirements by the age of 17 or 18, but may not have passed one piece of the high school exit exam. This [definition of a student] allows the state to provide funding to the school district in order to provide remedial sources and classes until such a student passes the high school exit exam. A child five years of age prior to September 1st, following the beginning of the school year may enter kindergarten. A child with a disability and an active Individualized Education Program (IEP) may enter school at the age of 3 and funding is provided up to the age of 22.

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REPRESENTATIVE NEUMAN mentioned that in some schools the school has a transient population. Therefore, he inquired as to why the ADM isn't calculated twice a year. He also asked if an ADM

could be calculated [a second time] and adjustments [in funding made] to reflect any changes.

MR. JEANS related that prior to the funding formula there was an optional count for those school districts with an increase in student population. The aforementioned allowed those school districts the additional resources necessary due to student population increases. However, during the debate on Senate Bill 36, the legislature elected to remove that option and a statutory change would be required to do something else. Under the current funding formula there isn't a mechanism for the money to follow students when they move between districts. In further response to Representative Neuman, Mr. Jeans said that tracking such would create an additional burden on the department. Although the tracking of such students is possible due to the state's student identification system, additional collection efforts throughout the year would be required. Mr. Jeans clarified that the department does make monthly payments to school districts and thus it's possible to make adjustments. Therefore, the question is how many times would the legislature want to adjust a school's budget during the school year after the district has already staffed based on that budget.

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MR. JEANS continued his PowerPoint and related that there are five steps to adjusting the ADM. The first step is to adjust the ADM for school size, which requires reviewing the student population within a community. He related that a community with an ADM of 10 through 100 is funded as one school in the community. A community with an ADM of 101-425 is funded as if there are two schools and the student population is divided between grades K-6 and 7-12. For a community with an ADM greater than 425, each school is administered separately and adjusted independently. However, the ADM of an alternative school with an ADM of less than 200 students is counted as part of the school with the highest ADM. A charter school has to have 150 or more to be adjusted as a separate facility. In both cases if the thresholds specified aren't met, that student population will be counted as part of the school in the district with the highest ADM. Therefore, the school doesn't receive the benefit of going through the size-adjustment table independently. The ADM of schools with fewer than 10 students is added to the smallest school in the district. He related his understanding that the aforementioned was to provide the school districts with as much revenue as possible for those very small schools. However, the first year after the passage of [Senate

Bill 36] Kodiak Island had one school that barely had 10 students and another that had 7 or 8 students and when the two were combined no additional funding was received for those 7 or 8 students.

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MR. JEANS informed the committee that he would utilize the Nome City Schools through the entire calculation of the [public school funding formula]. Nome has four schools within its district, including the Nome Youth Facility. Since the Nome Youth Facility is a state detention facility, it's counted as a separate facility for funding purposes as are all such detention facilities. Basically, the state is working under a contract with the school districts to serve those students.

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CHAIR WILSON described the situation in Wrangell where the ADM for the three schools in the district is under 450; the [district] only receives funds for two schools. Still, there is a building supervisor in all three schools.

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MR. JEANS, in response to Representative Cissna, specified that McLaughlin is a youth detention facility and the North Star Elementary School and the school within API are considered alternative schools. In fact, [the department] has an agreement with the Anchorage School District to count those under Whaley Center.

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MR. JEANS returned to his presentation and pointed out that within the Nome City schools, the Anvil City Science Academy, a charter school, has fewer than 150 students and thus its ADM is added to the largest school in the district, the Nome Elementary School. The total ADM for the Nome City schools is 965. Mr. Jeans then drew attention to the school size adjustment table provided, which specifies that for schools of 10-20 students there is a base allocation of 39.6. For every student above 20, 1.62 is added to the 39.6. However, as the school size increases, the adjustment is reduced in order to address economies of scale. The larger the student population, the more efficient it should be to operate that school. Mr. Jeans informed the committee that the formula restricts the revenue to

school districts with fewer than 10 students in a school. Therefore, [the district] is encouraged to close the school. He clarified that the state doesn't close the school. In response to Chair Wilson, he further clarified that a school with less than 10 students doesn't have to close. In fact, often school districts will work with communities with schools smaller than 10 students and allow the school a year to increase its student population.

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CHAIR WILSON interjected that in Naknek it's less expensive to fly the students back and forth to attend a neighboring school across the river rather than run the local school.

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MR. JEANS, in response to Representative Seaton, recalled the boarding school legislation that passed last year, which ultimately didn't include the provision to hold harmless those schools that fell below a population of 10. Again, Mr. Jeans confirmed that the state doesn't mandate the closure of a school with less than 10 students, rather it's left for the district to decide. In response to Representative Fairclough, Mr. Jeans reminded the committee that under current statute the ADM of any school that falls below 10 students is added to the smallest school in the district. The belief, he related, is that the next smallest school in the district would have an ADM of more than 20 and thus there would be some funding for the school with a population below 10 students. However, he emphasized that at that level, it's not enough to maintain the school on an ongoing basis. In most cases, the state does allocate some funds for a school with a population of less than 10 students, although the earlier example with Kodiak illustrates the rare situation when no additional funds are received.

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MR. JEANS continued his presentation by discussing the second step in determining the district adjusted ADM, which is to apply the district cost factors. Senate Bill 36 required EED to review the area cost differentials and make recommendations to the legislature for adjustments. The department attempted to do so in 2001. However, the methodology utilized to establish the cost differentials was no longer valid and thus the department performed an internal analysis that it ran by the McDowell Group who created the original cost differentials. The McDowell Group

concluded with EED that its methodology couldn't be used. Therefore, EED asked the legislature to fund a study. The legislature appropriated funds to the Legislative Budget and Audit Committee to do so and it commissioned a study with the American Institute for Research from California. There was a lot of debate over the results from the American Institute for Research study, which resulted in the legislature commissioning another study with the Institute of Social and Economic Research (ISER) of the University of Alaska Anchorage. The peer review of the ISER study said that the methodology was sound, but that some of the data wasn't sound or applied appropriately. At that point, the legislature contracted with ISER to use the same methodology, but change some specific components in order to develop new cost differentials. The aforementioned was done two years ago and just last year the legislature passed legislation that implemented a quarter of the increase in the cost differentials recommended by ISER for a one-year period. The cost of the aforementioned was approximately \$24 million, which was included in the governor's budget. However, it will be a grant determined on the amount that the district received this year. As currently proposed in the governor's budget, a school district that benefited by \$100,000 this year would expect to receive a \$100,000 grant next year.

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MR. JEANS, in response to Representative Neuman, explained that \$24 million was for the cost differentials and an additional \$11 million allocated for school improvement grants for a total of \$35 million. The \$11 million was the equivalent of an \$81 grant per child.

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REPRESENTATIVE EDGMON inquired as to how the cost of fuel is factored into the district cost factor.

MR. JEANS answered that heating and utility costs are a component of the cost factor. When the American Institute of Research did its model, it developed prototype schools and broke [the costs] down by regions of the state. However, when ISER compared the aforementioned cost model to the actual energy costs of the state, there was a large difference. Therefore, the updated study ISER performed used actual energy costs in 2004.

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CHAIR WILSON mentioned that some schools are better insulated than others and the cost of fuel may vary.

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REPRESENTATIVE SEATON surmised then that in the governor's budget, the cost differential is a set dollar amount. Therefore, if the base student allocation increases, those percentages that were allocated to districts won't include any relationship to the new base student allocation.

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MR. JEANS said he believes Representative Seaton is correct. Mr. Jeans then returned to his presentation and pointed out that the cost factors, which are set in statute, are specific to each school district. The district cost factors range from 1.00-1.736. The adjusted ADM is multiplied by the district cost factor to arrive at the new adjusted ADM. The next step in the public school funding formula is to take the new adjusted ADM and increase it by 20 percent for special needs.

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CHAIR WILSON related her understanding that the district cost factors are also used for day care centers to be paid by the state for qualifying children. She recalled that the district cost factors are utilized for other things as well.

MR. JEANS noted his agreement that there are other programs that use these cost differentials, although he didn't know what programs those are.

CHAIR WILSON opined then that this formula is a factor in funding other aspects of the state budget.

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MR. JEANS returned to the special needs funding, which is a 20 percent block grant that is intended to help school districts with special education, vocational education, gifted and talented education, and bilingual and bicultural education. To qualify for the funding, school districts had to submit a plan indicating how those services would be provided. All school districts did so in 1999.

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REPRESENTATIVE SEATON asked if the department follows up on whether the 20 percent block grant is utilized as specified.

MR. JEANS answered that there is follow-up in terms of compliance with the federal Individuals With Disabilities Act. He pointed out that the department doesn't require the districts to split the block in a certain way, but rather leaves it for the local school district to decide.

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CHAIR WILSON inquired as to what happens in those school districts with more than 20 percent special needs children.

MR. JEANS replied that such a school district would need to utilize other resources generated through the foundation program. Mr. Jeans acknowledged that many believe that the 20 percent block for special needs isn't enough. However, he pointed out that on a statewide basis the 20 percent for special needs provided \$4 million more than the previous funding formula that included categorical funding. On an individual school district basis, some schools receive more and some less in this category.

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REPRESENTATIVE FAIRCLOUGH inquired as to whether the 20 percent multiplier will help or hurt a larger urban district, such as her district which includes Anchorage, Chugiak, and Eagle River. She indicated that Anchorage is more of a hub for special needs students from rural areas.

MR. JEANS reiterated that many school districts don't believe that the 20 percent is enough. As the session progresses, typically the legislature determines how much additional funds will be provided. Mr. Jeans said that he has done analysis on this component regarding the result of placing the 20 percent in the base student allocation or if the 20 percent is increased. The result of either is practically a wash. Therefore, if the legislature has additional funds, it doesn't matter whether those funds are added to the special needs funding or to the base student allocation.

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REPRESENTATIVE FAIRCLOUGH asked if Anchorage gained or lost money under the special education category when the process went to a 1.2 model factor for the formula.

MR. JEANS offered to provide that information to Representative Fairclough. He then highlighted that under the previous formula there were four different special education categories, which were based on level of service. There were five categories for bilingual and bicultural students and one category for vocational education. Under the old formula, there was a relatively stagnant student population, although the bilingual and bicultural category was increasing each year as well as the special education category. The legislature didn't provide additional funding through what is now the base student allocation. Therefore, there was a perception that districts were labeling children in order to generate revenue.

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REPRESENTATIVE FAIRCLOUGH commented that depending upon the model for special needs education, it could cost more or less to serve students in rural Alaska.

CHAIR WILSON remarked that in some schools the students don't speak English until the 3rd grade and thus those schools would need 100 percent funding rather than just 20 percent.

REPRESENTATIVE NEUMAN highlighted that although every school is mandated to provide for special needs, not every community is able to accommodate the special needs in the same way.

CHAIR WILSON further remarked that whether the allocation is fair or not depends upon who is looking at the numbers and situations.

REPRESENTATIVE SEATON informed the committee that the state is responsible for building the schools in rural areas. Therefore, if there are schools that aren't up to the standards the state would desire, it's the state's fault to some degree.

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MR. JEANS reminded the committee that this system is different than the prior system in which students were categorized and had to receive services within those categories. However, under the current system the 20 percent special needs funding is applied across the board to all students after the school size and cost

factor are determined. The analysis between the old formula and the new formula found that the new formula provides about \$4 million more.

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MR. JEANS highlighted that the intensive services funding is the only special education category that is broken out separately. For a school district to receive funding under the intensive services category, students must receive services and the head count is done on the last day of the 20-school-day count period. The student also has to have an active IEP identifying those services. An intensive services student generates \$26,900, which is equivalent to five times the base [student allocation]. Therefore, the intensive student count is multiplied by five to determine the number of intensive school [students], which is added to the adjusted ADM. In response to Chair Wilson, Mr. Jeans clarified that intensive services students are typically those students requiring a one-on-one attention of a full-time aide. He confirmed that such an aide can be difficult to obtain, and the State Board of Education recently amended its regulations to allow a ratio of three students to one aide. Mr. Jeans noted that the intensive services students must meet other criteria, such as needing assistance in daily living skills in two areas and need special transportation services. There are six to seven categories that must be met in order to qualify for the intensive services funding. In response to Representative Fairclough, Mr. Jeans clarified that for intensive services students the formula uses a multiplier of five to account for the high cost of these students. He reiterated that each intensive services student generates an additional \$26,900 to account for the high cost of providing educational services to these students.

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REPRESENTATIVE GARDNER surmised then that each intensive needs student is treated as though he/she is five students for funding purposes.

MR. JEANS replied yes. He then clarified that all the formula is addressing to this point is the student count.

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MR. JEANS moved on to the final adjustment within the student count, which is the correspondence adjustment. Each student

enrolled in a correspondence program is funded at .80. Therefore, the number of correspondence students is multiplied by .80 and then added to the adjusted ADM. All of the aforementioned results in the final district adjusted ADM. At that point the final district adjusted ADM is multiplied by the base student allocation to arrive at the basic need entitlement. He then reviewed the formula with Nome as the example as provided on the PowerPoint slide entitled, "NOME: Summarized District Adjusted ADM & Basic Need."

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MR. JEANS turned the committee's attention to who pays for this basic need after it is established. The following three sources of revenue are considered: the required local contribution for municipalities, federal impact aid, and state aid. He then highlighted the slide entitled, "[Senate Bill] 174 Full & True Value/Local Effort Calculation." Senate Bill 174 established 1999 as the base year and any increases in the full and true value over the base year are only 50 percent of the base year value. The state has been under the aforementioned provision for seven years. He mentioned that this proposal flew through the legislature because it only amounted to \$3.6 million statewide. However, today the impact of this provision is \$50 million in fiscal year (FY) 08. He clarified that under Senate Bill 174 communities that are growing communities would only count 50 percent of the growth while those communities that aren't growing are still held at the 4 mill required local contribution. He characterized it as a taxpayer subsidy.

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MR. JEANS related that the property value in the Bristol Bay area hasn't increased and thus a 4 mill levy is applied to it. However, the Matanuska-Susitna Borough has been growing tremendously, but only 50 percent of the increase has been counted over the past seven years. Therefore, when one calculates the required local contribution for the Matanuska-Susitna Borough and compares it to the borough's full and true value as established by the state assessor, it contributes the equivalent of a \$2.8 mill contribution. He pointed out that a mill on a \$100,000 home would result in \$100 in taxes and thus a \$100,000 homeowner in the Matanuska-Susitna Borough would pay \$280 to support education. However, in Bristol Bay a property owner of a \$100,000 home would contribute \$400 to support education. Additionally, this applies to newly incorporated boroughs, but Mr. Jeans said he didn't know how to calculate a

newly incorporated district's local contribution since it doesn't have a base from 1999.

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CHAIR WILSON opined that an area that is losing students receives less per student, while the local contribution to education is higher than an area that is experiencing growth. Therefore, there are concerns regarding areas that don't pay the full [local contribution] because the state is providing those areas more funds per student than other areas.

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REPRESENTATIVE GARDNER inquired as to the history that lead to the passage of Senate Bill 174. She also inquired as to whether that legislation passed the "red face test."

MR. JEANS recalled that after the passage of Senate Bill 36, there was an effort in the Senate to increase the required local contribution for the North Slope Borough, Valdez, and Unalaska. The foundation program specifies that a local community contributes the equivalent of a 4 mill tax levy up to 45 percent of basic need. The aforementioned establishes a ceiling and guarantees state aid above that ceiling. The Senate attempted to increase that ceiling for the aforementioned three districts, which proved to be difficult. Mr. Jeans opined that the rationale may have been that if the ceiling for those three communities couldn't be raised, then other communities shouldn't have to pay more as property values increase. The \$3.6 million was a small dollar amount at the time and thus moved through with ease. However, it has a compounding effect reflecting back to 1999. In fact, it increased \$10 million last year and will, he predicted, increase to \$15 million from 2007 to 2008.

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REPRESENTATIVE SEATON recalled that in some areas there was more local contribution than the required amount. He asked, "Now, does that in any way compensate or is it just the required amount and the state pays everything above, even if the local community is contributing more than the required amount?"

MR. JEANS confirmed that most municipalities contribute above the required local effort. However, this strictly deals with the required local effort. In further response to Representative Seaton, Mr. Jeans explained that basically the

\$50 million is a state subsidy on local contributions. If districts were required to contribute 4 mills on the full and true value today, there would be \$50 million less in the foundation program unless the legislature increased the base student allocation to redistribute that money.

CHAIR WILSON surmised then that those [three] communities are getting by without paying the 4 mills, but if they did the state would save \$50 million.

MR. JEANS pointed out that all municipalities are allowed to make an additional local contribution above that which is required. That additional local contribution doesn't impact the community's state aid.

CHAIR WILSON surmised then that [the three aforementioned communities] don't have to pay the 4 mills, but they can pay extra in other areas if they so desire.

MR. JEANS, in response to Representative Seaton, confirmed that the additional local contribution allowed above the minimum local contribution is up to 23 percent.

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MR. JEANS related his concern with regard to uniformity and how the [foundation formula] is being applied across the state. He suggested that perhaps the solution is to return to a uniform mill rate across the state. Furthermore, if the 45 percent is too low, then the legislature needs to address that as well. The playing field in relation to the required local effort needs to be leveled.

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REPRESENTATIVE NEUMAN opined that the Matanuska-Susitna Borough's 2.8 [contribution] is a bit deceiving. For instance, he related that he pays over \$2,500 per year in local contribution for education whereas a resident of an unorganized area who pays a 4 mill rate doesn't come close to paying that. In response to Chair Wilson, Representative Neuman stated that the mill rate for property tax in the Matanuska-Susitna Borough is 17.3, which includes the road service area.

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CHAIR WILSON pointed out that the Alaska Municipal League's documents provide a list taking into account sales tax and the mill rate for property tax in order to relate what percent communities pay for education per capita. Chair Wilson highlighted that communities such as Ketchikan, Petersburg, Wrangell, and Sitka pay the 4 mills and don't receive any impact aide and may not be as prosperous as the Matanuska-Susitna Borough.

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REPRESENTATIVE FAIRCLOUGH related her understanding that a particular geographic area is required to contribute a set amount of money to education. However, because of the ADM and the land valuation, the state provides a specified amount of money back to the community [for education]. Therefore, some areas are receiving a deductive rate on the appraisal prices.

MR. JEANS noted his agreement that some communities are receiving a deducted rate of property values that the state picks up.

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MR. JEANS the referred to the slide entitled, "Calculating Nome's Full and True Value," which uses the state assessor's full value. The state assessor's value is used for all communities and thus is applied uniformly across the state. In response to Representative Fairclough, Mr. Jeans confirmed that the state assessor doesn't include any local exemptions in the full and true value of the property of an area. He then continued reviewing the slide that illustrates that in order to determine a community's education full and true value, the 1999 full value is subtracted from the 2006 full value. The result of the aforementioned is divided in half and added to the 1999 full value. Therefore, although the 4 mills is applied uniformly to every community, an artificial full value has been utilized. The formula further specifies that the lesser of the minimum of 4 mills of the education full and true value or 45 percent of the school district's prior year basic need is utilized as the community's required local contribution for education.

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REPRESENTATIVE ROSES related his understanding that once the ADM is calculated a dollar amount is determined based on the

foundation formula, from which the minimum local contribution is subtracted.

MR. JEANS noted his agreement, but clarified that it's simply a deduction. The money doesn't come back to the department, rather it's a mechanism through which the department determines how much state aid a community will be provided.

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MR. JEANS continued his presentation by informing the committee that the other revenue considered in the state funding formula is the impact aid, which is under Title VIII. The impact aid, he explained, is basically the payment in lieu of property taxes for federal lands. He pointed out that the military bases in Anchorage and Fairbanks and the Coast Guard base in Kodiak have people living on the bases, which are nontaxable lands. Therefore, federal impact aid pays the school district a tax effort for those students living on the base. The other large factor in Alaska are the lands conveyed under the Alaska National Interest Lands Conservation Act (ANILCA). Those students that live on such lands generate impact aid dollars. He clarified that school districts don't receive federal impact aid merely because there is federal land within its boundaries, the students must actually live on the lands. Mr. Jeans noted that the federal law has a calculation that requires the required local effort to be divided by the total local contribution. Therefore, if a community is making a contribution over and above the requirement, the federal government wants that ratio extended to the federal impact aid and thus provide the same benefit to the federal dollars. The aforementioned is illustrated in the slides entitled, "Title VIII Percentage" and "Impact Aid." The impact aid is subtracted from the district's basic need just as is the required local contribution, he explained. In response to Representative Seaton, Mr. Jeans confirmed that the impact aid funds go directly to the school district and don't flow through the department.

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REPRESENTATIVE FAIRCLOUGH returned to the assessed value. She related her understanding that in a community in which property values are increasing from the values established in the base year of 1999, the education formula is impacted positively because there isn't additional state aid. However, a community in which the population is decreasing [from the base year of

1999], the community will be maxed to the full 4 mills local contribution.

MR. JEANS stated his agreement with Representative Fairclough.

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REPRESENTATIVE SEATON pointed out that the situation isn't necessarily based on student population but rather is based on the valuation of the property in the district.

MR. JEANS concurred, and added that the valuation could grow without an increase in population due to industry entering a community.

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MR. JEANS then returned to his presentation and informed the committee that school districts can receive additional funds above basic need. Those additional funds are as follows: additional local contributions, quality schools grant, and supplemental funding floor. The additional local contribution is the greater of 2 mills of the tax base or 23 percent of the district's basic need in the current year. Mr. Jeans told the committee that the additional local contribution factor for all the school districts at the 4 mill local contribution level will be the 23 percent factor. In response to Representative Roses, Mr. Jeans clarified that the 23 percent is of basic need and doesn't have anything to do with the valuation. Mr. Jeans turned to the quality schools grant, which takes the adjusted ADM and multiplies it by 16.

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MR. JEANS then addressed the supplemental funding floor, which was a hold harmless/transition provision ("floor") established in Senate Bill 36. Therefore, the difference between the old formula of state aid and the new formula state aid was provided to the [district] as transition funds. All adjustments to the funding floor are decreases and occur when there is an increase in basic need or a decrease in ADM. He noted that the increase in basic need typically happens due to an increase in the student population or an increase in the base student allocation. The second adjustment occurs if the ADM falls below 95 percent of the 1999 base school year. Very few school districts have fallen into the aforementioned category because there have been increases in the base student allocation. In

response to Chair Wilson, Mr. Jeans said that eight or nine schools are under the [supplemental funding floor]. What happens with the funding formula this year will determine how many schools [continue under the supplemental funding formula]. If the legislature increases the base student allocation, he said he expected the number of schools under the [supplemental funding floor] to decrease to four. However, he mentioned that it will probably be a while longer before the Chugiak School District or Pelican completely transition to the new funding formula. He then reviewed the slide entitled, "Establishing Nome City School's Floor," which relates how Nome went from the old formula in 1999 to the new formula in 2004.

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REPRESENTATIVE NEUMAN recalled that back in 1999 there was the sentiment in the legislature that some school districts were being paid too much, which is why the floor was incorporated into the new formula as it provided a transitional time period.

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REPRESENTATIVE SEATON interjected that if the legislature increases the base student allocation, there will be complaints that the legislature is only partially funding students in some areas, which is related to the decrease in transitional funds. However, those areas are receiving more money than they would've in the prior year.

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MR. JEANS noted that he has been through many education formula funding rewrites. Under previous rewrites, the hold harmless was calculated as it was in the first year under [Senate Bill 36] and was a very prescriptive ratchet down. He opined that this particular provision has caused a lot of "heart burn," which he characterized as a lesson learned as he said he would be surprised if the legislature went that path again.

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CHAIR WILSON surmised that some of the schools would say that they weren't receiving too much and viewed [the ratcheting down period] as penalizing them.

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MR. JEANS summarized that with regard to the supplemental funding floor, it will always decrease by 40 percent either due to the increase in basic need or a decrease in student population.

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MR. JEANS informed the committee that he has been administering the foundation program since 1985 and the legislature has always fully funded the foundation program. The program was even fully funded in 1987 when Governor Bill Sheffield, due to declining oil prices, instituted a 10 percent across the board reduction. However, if there were a reduction, the statute provides a provision to prorate [the districts] equally.

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REPRESENTATIVE NEUMAN directed the committee's attention to page 7 of the document entitled, "Public School Funding Program Overview," which utilizes the Nome School District as an example. This is helpful because members can substitute the information for their districts in order to determine the total state aid entitlement.

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REPRESENTATIVE SEATON identified the eroding floor and the 4 mill requirements as problematic. He asked if Mr. Jeans views any other areas of the education funding formula as problematic.

MR. JEANS opined that the legislature will continue to have discussions regarding area cost differentials. Since the eroding floor is almost gone, it isn't quite the issue it once was. However, he opined that the intensive needs students need to be scrutinized as there have been claims that they don't meet the department's criteria. As pointed out earlier, the local effort provision needs to be reviewed, he said. Mr. Jeans suggested that a hold harmless for school districts experiencing declining enrollment should be developed because districts that close a school are penalized, and furthermore it doesn't encourage efficiencies. Therefore, a hold harmless provision to help districts transition to a new level of service would be helpful, he opined. In fact, Mr. Jeans said that he has drafted language on such a provision and he offered to share it with the committee.

[4:39:18 PM](#)

MR. JEANS, in response to Representative Seaton, said that the [funding formula] does not include transportation and thus it would be a different discussion. In further response to Representative Seaton, Mr. Jeans clarified that within the foundation formula cost differentials, local effort, and a hold harmless provision for declining enrollment should be reviewed.

[4:39:52 PM](#)

REPRESENTATIVE EDGMON turned to the special needs component. He related his understanding that some schools have more special needs students and the associated costs than other schools.

MR. JEANS said that the way to address that is to return to the categorical funding and provide an adjustment for students based on the service provided. However, the legislature made a conscious decision to utilize the block grant because it felt that districts were labeling children in order to generate revenue. Mr. Jeans specified that he isn't advocating either. The distribution, whether the funds are put in the base student allocation or placing it in the 20 percent [for special needs], really isn't that different, he opined. Mr. Jeans related his belief that block funding is a good approach because the school districts know exactly the revenue source and it doesn't place the department in a compliance state. Furthermore, the block grant allows school districts to work with the revenue and budget for it accordingly.

[4:42:03 PM](#)

CHAIR WILSON asked if Mr. Jeans can provide the committee with examples of invalid claims with regard to intensive services.

MR. JEANS explained that all intensive services students are special education students, but they don't meet the seven criteria in regulation for intensive services. He characterized it as a definition issue between EED and what the legislature thought it was paying for with the intensive services category versus what school districts view as a high-cost student. He emphasized that school districts view a high-cost student as an intensive student. However, unless that student meets the seven criteria in regulation, the student doesn't qualify for the additional funding. He offered to provide the committee with the list of the seven criteria for intensive service students.

[4:43:28 PM](#)

REPRESENTATIVE SEATON recalled a few years ago when there were some differentials such that some school districts allow 4-year olds to enter the school system and have them in kindergarten for two years. Representative Seaton asked, "Is there any widespread shoe horning of younger kids into school earlier under this classification system?"

MR. JEANS opined that the aforementioned loop hole has been closed. Although there are 4-year olds who enter kindergarten, those children have been assessed and it has been determined that those children are ready to begin their educational career.

[4:44:23 PM](#)

REPRESENTATIVE SEATON asked if school districts can classify three-year olds as special education students and include them in the base student count.

MR. JEANS answered that it's conceivable, although one must go through the IEP process. He pointed out that the federal government requires school districts to find children with disabilities and provide services to those children at age three. This isn't a problem, he said.

[4:45:16 PM](#)

MR. JEANS, in response to Representative Seaton, said he could provide the committee with a spreadsheet showing the difference in the distribution if the \$207 million in additional funds for the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRA) goes through the foundation program versus the district's anticipated liability. However, he cautioned the committee when thinking in terms of including money in the formula for a specific purpose.

[4:46:37 PM](#)

CHAIR WILSON related her understanding that including the PERS and TRS [obligation] in the foundation formula would increase the base student allocation by \$1,005.

[4:47:00 PM](#)

REPRESENTATIVE ROSES opined that a disadvantage of putting the PERS and TRS obligation into the formula has to do with the school districts that apply for additional grants. Furthermore,

it would seem to boost the salary and benefit percentage to a point at which many of them no longer qualify [for additional grants].

MR. JEANS noted his agreement, adding that at some point there is so much money allocated for salaries and benefits that the eligibility criteria becomes difficult to meet.

REPRESENTATIVE ROSES related his understanding that when the PERS and TRS obligation was handled in the aforementioned manner for the university system, the university system lost a considerable amount in grants for the aforementioned reasons.

[4:48:10 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Health, Education and Social Services Standing Committee meeting was adjourned at [4:48:28 PM](#).