

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON EDUCATION
January 31, 2007
8:01 a.m.

MEMBERS PRESENT

Senator Gary Stevens, Chair
Senator Charlie Huggins, Vice Chair
Senator Gary Wilken
Senator Bettye Davis

MEMBERS ABSENT

Senator Donny Olson

OTHER LEGISLATORS PRESENT

Senator Joe Thomas

COMMITTEE CALENDAR

Alaska Public School Funding Formula Overview

PREVIOUS COMMITTEE ACTION

No action to consider

WITNESS REGISTER

Eddy Jeans, School Finance Manager
Department of Education &
Early Development
801 W 10th St.
Juneau, AK 99801-1894
POSITION STATEMENT: Presented overview

ACTION NARRATIVE

CHAIR GARY STEVENS called the meeting to order at [8:01:26 AM](#). Present at the call to order were Senators Davis, Wilken, Huggins, Thomas, and Chair Stevens.

ALASKA PUBLIC SCHOOL FUNDING FORMULA OVERVIEW

CHAIR STEVENS announced that the first order of business would be an overview from Mr. Eddy Jeans, School Finance Manager for

the Department of Education and Early Development (DEED), on the DEED's public school funding formula.

[8:01:41 AM](#)

MR. JEANS explained that he would be presenting the public school funding program. The two documents presented to the committee were a foundation overview updated in 2007 and the foundation overview PowerPoint printout. He added that during the presentation there would be references to page and column numbers, which referred to the two-page spreadsheet at the back of the overview.

[8:03:36 AM](#)

MR. JEANS said that the current school funding formula was adopted under SB 147 in 1998 and was implemented in 1999. Mr. Jeans explained that he would provide an overview of the calculations for the adjusted Average Daily Membership (ADM), the calculation of basic need, or entitlement, and who pays for basic need as well as additional funding and state aid.

He explained that ADM is the count of the students enrolled in the annual 20-day count period in the month of October. The reports are due to the DEED within two weeks of the count period. The Projected Student Reports are also due to the DEED at the same time.

[8:05:02 AM](#)

SENATOR HUGGINS asked if another date was ever used for the count system, and if Mr. Jeans thought the current date was effective.

[8:05:29 AM](#)

MR. JEANS replied that prior to SB 36 there was an optional count period in February, but it was only used if districts' enrollment increased during that time frame. He felt that the October count period was appropriate because it allows districts to budget and staff in a timely manner.

[8:06:26 AM](#)

MR. JEANS explained that eligibility for state funding requires that a student be at least 6 years of age prior to September first of that school year, and under the age of 20 and not have

met the credit requirements for graduation nor have passed the high school qualifying exam. The district provides services to these students and claims them for foundation funding. Students over the age of 20 may still take the qualifying exam but the district no longer receives state funding for those students.

[8:07:21 AM](#)

CHAIR STEVENS asked if a student under the age of 20 who has not passed the qualifying exam could keep receiving funding as long as they worked towards passing the exam.

MR. JEANS responded that this was true, but funding would be based on the number of courses in which the student was enrolled.

[8:07:51 AM](#)

CHAIR STEVENS asked if students over the age of 20 could still take the test.

MR. JEANS replied that they could.

[8:08:02 AM](#)

MR. JEANS explained that a child who is five years of age before September 1 of the school year may enter kindergarten. Children with disabilities and those with active Individual Education Programs may enter school at the age of three, and may receive services and funding through the age of 22. There are five steps in calculating the AADM: first the AADM is adjusted by the school size factor; then the result is multiplied by the district cost factor. The third step is increasing the resulting number by 20 percent for the special needs students, the fourth is adding the adjustment for intensive students, and finally the adjustment for correspondence students is added. This provides the district's AADM.

[8:09:14 AM](#)

MR. JEANS said that the first step in adjusting the AADM is looking at how many students the community is serving. A community with 10-100 students is funded as if there is one school in the community. For a population of 101-425 students, the community is funded as if there are two schools. The student population is divided into kindergarten-sixth and seventh-twelfth grades. In communities with more than 425 students, each

separately-administered school is funded separately. The two exceptions are alternative schools with less than 200 students and charter schools with an AADM of less than 150, both of which would be counted as part of the largest school in the district.

[8:10:40 AM](#)

SENATOR HUGGINS asked if schools of choice (alternative and charter schools) have a different population threshold.

[8:11:09 AM](#)

MR. JEANS replied that the threshold of 200 was put into statute because a community with more than 425 students needs to have an efficient operation. The threshold discourages districts from creating smaller entities for funding purposes.

[8:11:48 AM](#)

CHAIR STEVENS asked how many alternative and charter schools exist in the state.

MR. JEANS replied that he did not know. He added that the school size adjustment does not provide for an adjustment below 10 students, so the population is added to the next smallest population within the district.

[8:12:32 AM](#)

SENATOR HUGGINS asked for the definition of "community" for education purposes.

[8:12:43 AM](#)

MR. JEANS replied that he did not have the definition with him, but that it would be what Senator Huggins would expect a community to be, i.e. a unified municipality or first-class city.

[8:13:06 AM](#)

SENATOR HUGGINS asked if the Matanuska Susitna Valley as a whole was considered a community.

MR. JEANS replied that yes, the Mat-Su Valley was considered one community under the foundation program.

[8:13:18 AM](#)

SENATOR WILKEN asked for an example of communities with under ten students.

[8:13:33 AM](#)

MR. JEANS replied that some communities, Prince of Whales for example, fluctuate from year to year, so it is up to the district whether or not to keep the schools open. If a community has nine students and the next-smallest has twenty, the two would be funded as one school of twenty-nine students. However, once any school falls below ten students it is difficult for a school to remain open.

[8:14:12 AM](#)

MR. JEANS announced that he would be using the Nome public schools as an example for how the AADM is calculated. Nome currently has four schools. Youth detention facilities are not considered under the foundation formula. The Nome charter school has fewer than 150 students so it is added to the largest school in the district for funding purposes.

[8:15:46 AM](#)

MR. JEANS presented a PowerPoint school-size adjustment table. In range 1 are schools with 10 to 20 students, whose funding is determined by a factor of 39.6. For student populations of 20-29, a factor of 1.63 is added. For student populations of 30-75, the base factor is 55.8 plus an added factor of 1.49. The sliding scale continues up through school populations of over 750. Larger schools are expected to be more efficient and thus need proportionately less revenue.

[8:17:04 AM](#)

MR. JEANS explained the AADM formula for the K-6 program in an example school: $444 - 400$ which equaled 44, which was multiplied by .92 which equaled 40.48 which was added to 471.6 which equaled an AADM of 512 for the example school. He then gave another example of the equation for a high school and a youth facility, and explained that the three would then be added together for a total district budget.

[8:18:39 AM](#)

MR. JEANS said that the next adjustment in the foundation program was the Area Cost Differential. SB 36 required the DEED to monitor and recommend adjustments to the cost factors every other year, which they tried to do with the McDowell methodology. The DEED decided that the methodology was not effective, and asked the legislature for funding to do its own cost study. The legislature appropriated money from the legislative budget to do the study itself. Two separate studies have been done since 2001, one by the American Institute for Research (AIR) and the other being the legislature's study contracted with the ISER group with the University of Alaska. The ISER group determined that the data used by AIR wasn't used properly. ISER was contracted to modify the data and re-determine the cost differentials. In 2006 the legislature did pass funding for a one-quarter increase in the cost differentials as recommended by ISER. That legislation was intended for only the fiscal year 2007; the differentials will revert to the former level unless new legislation is passed.

[8:20:25 AM](#)

CHAIR STEVENS asked to be reminded what the governor has in the budget for this topic.

MR. JEANS replied that the governor did include \$24 million earmarked for cost differentials, but that she didn't propose legislation to reinstate the expired increase. Instead districts will receive a grant in fiscal year 2008 equal to the amount generated by the cost differential of fiscal year 2007. This will not take into account any changes in student population.

[8:21:20 AM](#)

SENATOR WILKEN said he thought it was incorrect to state that two separate studies were done. There has been only one study, by AIR, and an analysis of the original study by ISER. ISER applied a different theory of school funding, but that was a revision and not a new study. Last year the legislature tried to blend the AIR and ISER studies, but was unsuccessful and so agreed to take a one-quarter percentage of the ISER study findings to use in the AADM formula, with a one-year limit. The action was not a validation of ISER's study, but a proxy with the goal of increasing funding for education.

[8:23:59 AM](#)

SENATOR STEVENS asked Senator Wilken to explain why a one-quarter percentage was chosen.

[8:24:08 AM](#)

SENATOR WILKEN explained that the legislature knew what it could afford.

[8:24:23 AM](#)

SENATOR HUGGINS asked whether the one-quarter tabulation was to be continued by the governor in the form of a grant.

MR. JEANS said that Senator Huggins was correct.

[8:25:29 AM](#)

MR. JEANS said that the district cost factors are applied to each school district, and currently range from 1.00 (Anchorage) to 1.736 (Aleutian region). The calculation is the school size AADM multiplied by the district cost factor. The next step is increasing the product by 20 percent for special needs students. School districts must submit a plan for special needs services in order to receive funding.

[8:27:25 AM](#)

MR. JEANS explained that school districts receive funding for intensive service students. The number of students being claimed for intensive services is multiplied by five and the resulting number is the adjustment for funding. The DEED has been doing audits of this funding in recent years, but because of a lack of funding could only do random samples. The districts were only held accountable for the cases of funding misuse that were found. Recently funding was granted for 100 percent audits and many more cases of funding misuse were found.

[8:29:23 AM](#)

CHAIR STEVENS asked for an estimation of the percentage of students statewide in the intensive needs category.

[8:29:35 AM](#)

MR. JEANS responded that of 130,000 students statewide, 1,800 are intensive needs.

[8:30:04 AM](#)

CHAIR STEVENS asked for a definition of intensive need.

[8:30:07 AM](#)

MR. JEANS responded that such a student would be severely multi-handicapped and require a full-time aide.

[8:30:17 AM](#)

SENATOR HUGGINS asked if the Matanuska-Susitna district was audited and was shown to be a problem area.

[8:31:21 AM](#)

MR. JEANS responded that Senator Huggins was correct.

SENATOR HUGGINS asked if the problem was the interpretation of the definition of intensive needs.

MR. JEANS replied that the problem was due to insufficient auditing and misinterpretation of the definition of intensive need.

[8:31:28 AM](#)

SENATOR HUGGINS asked if the state had recently changed the definition of intensive need.

[8:31:46 AM](#)

MR. JEANS replied that the definition has not been changed, only the review process.

[8:32:20 AM](#)

CHAIR STEVENS asked if the issue could be solved by more intensive review of the program.

MR. JEANS replied that the DEED would continue with the reviews on a 100 percent basis, and that he believed there would be less disparity between claims and eligibility. Another possibility would be setting a fixed percent for funding.

[8:33:34 AM](#)

SENATOR WILKEN remarked that Intensive Needs students tend to be concentrated in certain areas of the state. He asked Mr. Jeans how state and the federal funding intersect.

[8:34:06 AM](#)

MR. JEANS said that the Mat-Su claim numbers have been lowered.

[8:34:42 AM](#)

SENATOR HUGGINS remarked that the school districts need to be conscientious but not over-costly.

[8:35:13 AM](#)

CHAIR STEVENS asked why there would be a concentration of intensive needs students in certain areas.

[8:35:29 AM](#)

MR. JEANS replied that the larger communities have better services available.

CHAIR STEVENS said that across-the-board two percent funding would perhaps not be equitable.

MR. JEANS replied that there is a varying level of percentage funding. A truly intensive student might cost in excess of \$75,000 annually to educate. Currently such students are funded at \$26,900 annually.

[8:37:05 AM](#)

SENATOR HUGGINS asked if Juneau was the only aberration in terms of having low numbers of intensive need students.

MR. JEANS said that Sitka was an anomaly as well. He added that a number of preschool students who were claimed for intensive service funding were later dropping out of the program, and thus probably should not have been classified as intensive needs in the first place.

[8:39:13 AM](#)

SENATOR WILKEN asked how federal funding and its definition of intensive needs factor in.

MR. JEANS replied that the federal government does not define intensive needs. The state legislature determined that the category needed additional support.

[8:39:56 AM](#)

SENATOR WILKEN asked if the federal government tied its money to certain actions on the state's part, and how the gap between its funding and desires was met.

MR. JEANS replied that the gap can't be completely filled, and even if spending was doubled it would still be short of what districts say they need. Funding is available in other categories that helps offset the difference.

[8:41:20 AM](#)

SENATOR DAVIS asked if it was true that the Individuals with Disabilities Education Act (IDEA) was only paying 40 percent of the intensive needs funding.

MR. JEANS replied that more funding from the IDEA would help alleviate some issues. He then returned to the funding formula calculations, explaining that correspondence programs are funded at 80 percent. Each such student generates \$4,300 in funding.

[8:44:12 AM](#)

MR. JEANS explained that school funding comes from a required local contribution in the state, federal impact aid, and state aid. SB 174 changed the way that required local effort is calculated. The Education Full Value Determination, depending on the value of the real and taxable property in a community, is set by the state assessor. Individual communities may have property tax exemptions, but the assessor considers all property.

He then offered an example of how the FVD works: different districts must pay different percentages of their communal property value. Increasing or decreasing property values and local economies in certain areas of the state may mean disproportionate payments to school funding.

[8:50:53 AM](#)

MR. MORSE explained that Federal Impact Aid is calculated by the amount of money received by school districts from March through

the last day of February. State aid is calculated by the dates of the funding vouchers sent by the Feds. Impact aid is paid to school districts because they have lands that are non-taxable at the local level. School districts receive \$120 million in impact aid per year.

[8:52:04 AM](#)

SENATOR HUGGINS asked if there was an impact aid provision for the families of commercial fisherman.

MR. JEANS replied that there was not. He added that people who live on national forest land also generate impact aid.

[8:53:08 AM](#)

SENATOR WILKEN asked for a table with the total impact aid for the state.

[8:53:32 AM](#)

MR. JEANS said that the statewide amount of impact aid is \$120 million, adjusted to \$80 million after subtracting special education and Indian lands money.

[8:54:36 AM](#)

MR. JEANS explained that for municipalities, impact aid may only be considered in an amount equal to the ratio of required local contribution to total local contribution. The required local contribution is divided by the budgeted local contribution which equals a percentage, which is then applied to the impact aid before the statutory deduction of 90 percent.

[8:55:43 AM](#)

MR. JEANS restated the steps for determining state aid for the Nome public school example. Other funds include additional local contributions that the municipalities may contribute, quality school grants, and supplemental equalization.

[8:56:49 AM](#)

MR. JEANS explained that Quality Schools Grants equal \$16 per AADM, and all school districts qualify for these grants. The Supplemental Funding Floor (SFF) is a transition provision to help districts move between the old and current formulas.

Schools may receive the difference between old and current funding for one year to aid in transition.

[8:57:50 AM](#)

SENATOR HUGGINS asked how cyber schools fit into the funding factoring.

MR. JEANS replied that such schools are categorized as correspondence schools.

[9:00:14 AM](#)

MR. JEANS explained that the SFF cannot be increased, but may be reduced by an increase in basic need or a decrease in student population. He then gave an example of how the funding floor is reduced depending on schools' basic need.

[9:01:53 AM](#)

SENATOR WILKEN asked how many school districts currently have transition funding.

MR. JEANS replied that nine districts currently receive transition funding. The floor is currently at \$1 million, down from \$17 million at the beginning of the program.

SENATOR WILKEN asked if these were primarily smaller districts.

MR. JEANS responded that they were.

[9:02:40 AM](#)

MR. JEANS said that the Funding Formula could be prorated if the legislature did not provide sufficient funding for all components of the formula. He then concluded his presentation and offered to take questions.

[9:03:14 AM](#)

CHAIR STEVENS thanked Mr. Jeans for his thorough presentation.

SENATOR WILKEN asked if there were school districts paying less than 2.8 percent for the required local contribution.

MR. JEANS replied that regional education attendance areas were not required to make a contribution. Some communities provide

less than 2.8 percent because of a floor set in the statute that guarantees state funding.

9:04:19 AM

SENATOR WILKEN asked to review a flow chart about the funding formula with Mr. Jeans to then present to the committee.

CHAIR STEVENS thanked Mr. Jeans again and, seeing no further business, adjourned the Special Committee on Education meeting at 9:05:05 AM.