

HOUSE FINANCE COMMITTEE
March 24, 2014
1:35 p.m.

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CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

Representative Mark Neuman, Vice-Chair
Representative Lindsey Holmes

ALSO PRESENT

David Teal, Director, Legislative Finance Division.

SUMMARY

HB 278 EDUCATION: FUNDING/TAX CREDITS/PROGRAMS

HB 278 was HEARD and HELD in committee for further consideration.

^PRESENTATION: LEGISLATIVE FINANCE DIVISION: EDUCATION BUDGETARY IMPACT

#hb278

HOUSE BILL NO. 278

"An Act increasing the base student allocation used in the formula for state funding of public education;

repealing the secondary student competency examination and related requirements; relating to high school course credit earned through assessment; relating to a college and career readiness assessment for secondary students; relating to charter school application appeals and program budgets; relating to residential school applications; increasing the stipend for boarding school students; extending unemployment contributions for the Alaska technical and vocational education program; relating to earning high school credit for completion of vocational education courses offered by institutions receiving technical and vocational education program funding; relating to education tax credits; making conforming amendments; and providing for an effective date."

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, provided a PowerPoint presentation titled "Funding Public Education in Alaska" dated March 24, 2014 (copy on file). He discussed that the Base Student Allocation (BSA) was an important piece of public education funding, but it was not the only factor. More complex issues surrounded education funding. The BSA was not the only determinant for what the state spent on K-12 education or for the amount of funding a school district received. He clarified that the amount of money that the state spent on education and the amount of funding a school district received were "two very different things." The difference created opposing viewpoints on education funding. Some felt that education had been flat funded and some legislators believed that education received substantial increases over the years. He addressed slide 2 titled, "Statutory Base Student Allocation (BSA)." He stated that the BSA had been flat at \$5,680 for the last four years but that the BSA could not be regarded as a "standalone measure for education funding." He hoped to illustrate the point in the next several slides.

Mr. Teal turned to slide 3 titled "Converting Head Count to Students that are Funded." He delineated that school funding was not the BSA multiplied per pupil. The formula for K-12 education funding was as follows: Basic Need equaled Student Count (ADM Average Daily Membership) multiplied by Adjustment Factors multiplied by the BSA. He defined that adjustment factors were adjustments made for school size, geographic location, special and intensive

needs education, vocational education and correspondence. Funding was based on the Adjusted Average Daily Membership (AADM). The conversion from the head count to the AADM was a critical component of determining funding. He pointed to the graph on slide 2 that depicted a decline in the ADM from 131,623 students in FY 04 to 129,322 students in FY 14. The state funded education based on the AADM and that had risen from 209,571 in FY 04 to 247,472 in FY 14. He restated that the adjustment factors determined how the head count was converted to the AADM and then multiplied by the BSA.

Mr. Teal voiced that if the BSA had remained constant during the past ten years per student funding would have increased by 20 percent. He moved to slide 4 titled, "BSA Adjusted for Factor Changes." The graph depicted what the BSA would have been if the factors for converting ADM to AADM was applied. He explained that mathematically applying adjustment factors to the student count was the same as applying the adjustment factors to the BSA. He exemplified that in FY 13 the BSA adjusted for factors was \$5,680 which amounted to 130,000 multiplied by 1.9; equal to the student count including adjustment factors. Each student was counted as 1.9 students. The calculation was the same as multiplying the BSA times 1.9 times 130,000. The ADM to AADM adjustment factor was applied to the BSA. Instead of adjusting the student count the BSA was adjusted to illustrate that education funding was not flat over the last ten years, it had increased by 63 percent since 2004 (\$3,482 in FY04 to \$5,702 in FY14). He qualified that over a ten year time period inflation had to be considered. He pointed to slide 6 titled, "Adjusted BSA in FY 13 Dollars." The numbers depicted on the graph were adjusted by the Consumer Price Index (CPI). The BSA had lost ground to inflation since FY 2011. He qualified that the BSA could be significantly increased yet still result in a reduction in basic need. He discussed the funding that originated outside of formula funding in the following slides. All of the following graphs contained inflation adjusted funding converted to the BSA.

Mr. Teal addressed pupil transportation on slide 6 titled "K-12 Expenditures per AADM (in FY 13 \$)." In FY 07, FY 13, and FY 14 pupil transportation funding was reflected as a BSA of \$300. He detailed that \$75 million was funded as pupil transportation but at the conversion rate of approximately \$25 million in costs for every \$100 increase

in the BSA the \$75 million translated into the \$300 BSA. Pupil transportation funding had declined from 2004 through 2012. The formula was increased and inflation adjusted in 2012. He examined slide 7 titled "K-12 Expenditures per AADM (in FY 13 \$)." The graph portrayed funding provided as one-time items outside of formula funding but distributed according to the foundation formula. A district may not choose to count any funding distributed for use outside of the classroom, as education spending but the legislature considered all general fund expenditures for education as education funding. He moved to slide 8 titled, "K-12 Expenditures per AADM (in FY13\$)." He expounded that the graph included Capital Budget grants, which were grants for items that would normally be paid for through formula funding.

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Mr. Teal turned to slide 9 titled, "K-12 Expenditures per AADM (in FY13\$)" that included operating expenditures of the Department of Education and Early Development (DEED). [The operating expenditures for K-12 included state funds awarded as grants to school districts.] He restated that the funds were not designated for classroom use but were expended for education. He pointed to slide 10 titled, "K-12 Expenditures per AADM (in FY13\$)" that included "substantial" retirement costs. The graph depicted unfunded liability costs beginning in FY 08 amounting to currently over \$350 million for school districts. He commented that liability converted into the BSA was "significant." He reiterated that some may argue that the money was not directly spent in the classroom and not considered education funding. But some share the viewpoint that the funding was a "cost of doing business" and therefore, an educational expense. He turned to slide 11 titled, "K-12 Expenditures per AADM (in FY13\$)." The graph depicted capital costs which included debt service, school construction, and major maintenance costs.

Mr. Teal observed that the shape of the graphs from slides 7 through 11 had not changed even after adding retirement funding. The curve rose and peaked in FY13 with a slight decrease in FY14. He pointed to a chart on slide 12. He asserted that examining the same education expenditures simply in terms of money, not converted into the BSA had continually increased in inflation adjusted dollars in the same time period. He recounted that the

student count declined steadily over the same period of time. He noted that the chart "understated the per student spending." He referred to slide 5 and noted that the graph illustrated that education funding had kept pace with inflation. The BSA alone had not kept up with inflation. He reiterated that there was much more to education funding than the BSA. He felt that education funding was a complex issue.

Mr. Teal discussed other informational items had been requested by the committee. He mentioned that information on district by district funding comparisons for the last three years and district costs categorized by fuel, travel, etc., was available from DEED. He addressed the committee's information requests about how the formula worked, municipal versus state versus federal funding, and the effects of education funding increases on the state's budget. He developed an interactive Excel spreadsheet titled, "FY 14 Projections - Converting Student Head Count to Adjusted Average Daily Membership by District (static copy on file). The formula converted a head count to the AADM, which was multiplied by the BSA to determine basic need (total funding). He explained that the math was simple, but every factor affected school districts differently, which made the policy choices associated with the formula complex. School districts could distribute its funding "in any way it saw fit," regardless of how the funding was originally appropriated.

Mr. Teal cautioned that the adjustment factors all worked together and any changes to the formula had to be holistic as opposed to piecemeal. He examined the size factor for the Aleutian Region School District that had 26.5 students and grew to 52.7 due to the size factor which totaled 79.2 students. The size factor was adjusted for "economies or diseconomies of scale" for each school in a school district and changed yearly. He detailed that "the economies or diseconomies were... massive." In small schools each student could be counted as four students and as the school size increased the count went down to .84 percent of one student. The conversion table was contained in statute. He exemplified that a school with 32 students was converted to a base of 55 students, which would be multiplied by the \$5,680 BSA. He pointed out that a larger school with 64 students grew to 106 students when adjusting for the size factor.

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Mr. Teal continued that a school size of 106 students amounted to 190 students after the size factor adjustment. As the size of the school increased the size factor decreased. A school of 1,200 received a count of less than 1,200. He stated that "the size factor had a tremendous impact." The conversion table was devised in 1997. He thought that at the time the table was accurate and was still appropriate for small schools, but was inaccurate for large schools and should be increased. He felt that the formula should be "dynamic." He moved on to the geographic factor that was meant to account for differing costs across the state. The Anchorage student population was the base for the geographic factor and had a factor of one so the school district did not gain an extra student count. The geographic factor varied from one to over two. The geographic factor took the ADM and multiplied it by the geographic differential which was 1.94 percent for the Aleutian Region School District. The district's 26.5 students increased to 153.6 students.

Mr. Teal demonstrated that the factors had an enormous impact. He calculated that an increase of 25,000 to the student count cost \$145 million and an increase in the geographic factor of 28,000 students cost \$163 million. He identified the special needs factor of 20 percent for every school district. He felt that that was illogical because the intent of the education funding formula was to adjust for differences. When the intensive needs factor was developed the special needs factor was flat funded. He moved to the career and technical education factor which was 1.5 percent for every school district. At this point in the factors the Aleutian Region AADM was now 187. He highlighted that the intensive needs factor was not a multiplier but was an add-on. Each intensive needs student was counted as 13 students and was also counted in the regular BSA. He exemplified that in the Aleutian Region School District which began at 26.5 and grew to 187 before the intensive needs add-on, the intensive need student was already counted as 7 students. With the intensive need add-on of 13, an intensive needs student in the Aleutian Region School District counted as 20. Contrasted by the Anchorage school district that has lower multipliers for size and geographic factors, the student count was only increased by 1.3 therefore, an intensive need student in Anchorage was counted as 14.3 students. The impact of the intensive needs

factor amounted to approximately 28,000 students and cost the state another \$162 million. He added that the correspondence factor was also a head count add-on of .8 per student and was added to the AADM, which completed the list of adjustment factors. All of the factors were totaled and counted as the AADM then multiplied by the BSA of \$5680, which totaled \$1.4 billion in basic need. He computed that the effective BSA divided the basic need by the head count which determined the per pupil cost. He noted a "tremendous variation" in the costs per school district. He pointed out that the per student cost in the Aleutian Region School District was \$48,451 and \$8,896 in the Anchorage School District. The aggregate average cost per pupil was \$11,845. He proposed that in effect there were multiple BSA's which varied tremendously by school district.

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Mr. Teal discussed the proportion of state, local, and federal government's education costs. He elucidated that state, local, and federal governments cost were split. He defined the split as: state aid equaled basic need minus required local effort (RLE) minus federal funding. He explained that required local effort was simply property tax multiplied by the mil rate set at .0265 percent, which totaled 15.8 percent of basic need. The RLE was recently reduced from 0.04 percent. He stated that local effort was important because every dollar of local effort was off-set by one dollar of state aid. If the local mil rate was set at 0.04 percent, similar to previous years the RLE would have amounted to \$334 million instead of \$222 million; a savings to the state of \$113 million. When the mil rate was reduced the state became responsible for a larger share of the costs. He ascertained that the mil rate savings of \$113 million could have been reinvested into a BSA increase of \$450 without reducing the general fund. The local government would have contributed an additional \$113 million to the school districts. He pointed out that the above scenario was an example of how the state contributed to education funding outside of the BSA and noted that the impact of the \$113 million was not included in the BSA charts and understated the contribution from the state for education funding.

Mr. Teal mentioned federal impact aid. The state received \$99,797,886 million in federal aid. The federal government

determined eligibility through a complicated formula and paid 90 percent of the eligible amount. The school districts retained approximately \$31 million of federal aid without reduction in state aid and approximately \$67 million was deductible and reduced the state's contribution to education funding. He directed attention to the final piece of the formula related to voluntary local effort. He elaborated that the local allowable contribution rate was limited to 23 percent of basic need for most of the school districts. Some school districts were allowed to contribute a higher amount and Regional Education Attendance Areas (REAA) was not allowed to contribute at all. He calculated that when adding the required and voluntary local efforts together the maximum effort was determined. In FY 14, communities could have contributed an additional \$66 million voluntary local effort. However, communities had contributed \$231 million or 78 percent of allowable voluntary local effort. He restated that voluntary local effort was limited and explained that the phrase, "funding to the cap" meant that a school district's voluntary local effort was at the 23 percent limit.

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Mr. Teal returned to slide 12 that displayed the formula for education funding from FY 2000 to FY 14 on a spreadsheet. He reminded the committee that state aid equaled basic need minus required local effort minus 90 percent of deductible Federal Impact Aid. He examined the components of basic need. The ADM decreased by 3.9 percent from the FY 2000 to FY 14. Correspondence ADM increased by 30 percent during the same time period. Added together the ADM still declined by approximately 2 percent. The AADM had increased over 18 percent since FY 2000. The BSA increased 44 percent since FY 2000. Basic need increased by 70.9 percent since FY 2000. Required local effort increased by 53.6 percent since FY 2000. Federal Impact Aid increased from \$49 million in FY2000 to approximately \$67 million in FY 14, an increase of 35 percent. State aid increased from approximately \$655 million in FY 2000 to \$1.1 billion in FY 14 which was an increase of 70 percent. The required local effort rose 53.6 percent, even with the reduction, over the same time period. Higher property taxes more than offset the reduction in required local effort. He pointed out that the voluntary local effort climbed to 87 percent from FY 2000 to FY 14. Overall, the total local contributions rose 69.1 percent. He continued that in FY 2000 the state paid

65 percent of total school district funds and paid 66 percent in FY 14 and local communities now paid 26 percent in FY 2000 and paid 27 percent in FY 14. Federal funding fell from 9 percent in FY 2000 to 7 percent in FY 14.

Mr. Teal referenced another fiscal projection model that predicted when the state's reserves would be depleted. He summarized that the base scenario demonstrated that at the state of Alaska's budget; a flat capital budget, zero growth in the operating budget and status quo in the retirement plans; the reserves will be depleted in 2024. The governor's proposed \$85 increase in the BSA would increase education funding \$50 million per year and would further diminish the reserves \$500 million over a ten year period.

Representative Gara relayed that according to Legislative Research the six largest school districts in the state lost over 600 full-time staff since 2011. He listed five of the largest districts; Juneau, Anchorage, Fairbanks, Matanuska-Susitna, and Kodiak. He asked what "attributed" to the staff losses given the conclusions of the education funding presentation.

Mr. Teal emphasized that the charts addressed state spending on education and not necessarily the funding that the school districts actually received. He acknowledged that the districts had not received enough funding to carry out the same level of services as they had before. He stated that the "counter argument was that the state could not continue to spend more and more money on education."

Representative Gara requested an analysis of inflation adjusted per student school funding exclusively for classroom expenses since 2011. He requested removing PRS/TRS, school debt reimbursement, student transportation, and DEED department operations from the equation.

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Co-Chair Stoltze interjected that if variables were removed the information would not be accurate.

Mr. Teal replied that the information was depicted on chart 7 of the presentation. He reminded the committee that the figures were inflation adjusted and that based on the factors mentioned by Representative Gara education had

"outpaced" inflation from FY 2004 until FY 14 when the funding had not kept up with inflation.

Representative Gara requested more clarification about the chart. He wondered what capital budget grants for education were.

Mr. Teal replied that the grants were "classroom items." He defined that capital grants was funding included in the Capitol Budget the legislature had given to individual school districts for items that would normally be funded by formula funds. When traditional funding was reduced, other sources were sought. The capital grants had increased substantially since 2004.

Representative Gara asked if the grants included items like sports utility upgrades. Mr. Teal responded in the affirmative.

Representative Wilson pointed out that capital grant funds could be utilized for classroom materials. Mr. Teal agreed.

Representative Wilson asked whether the education formula historically included factors like curriculum or energy.

Mr. Teal answered that did not know. He was familiar with the formula since 1997.

Representative Wilson wondered whether federal grants for special education was included in slide 8.

Mr. Teal answered that the grants were not included. He explained that the chart only included impact aid, which he described as "payments on behalf or in lieu of taxes." He exemplified a military base with tax exempt property where a number of base children attended the local public school. In the described scenario, the federal government contributed educational funding on behalf of the local government.

Representative Wilson asked whether the formula applied equally to charter schools.

Mr. Teal responded that charter schools were counted against the regular formula but were not counted as independent schools. A charter school was not always

counted as an independent school and received a reduced count.

Representative Wilson asked for clarification about the correspondence factor. She observed that the correspondence factor was a headcount that was added to the number of students multiplied by 80 percent of the BSA. Mr. Teal answered in the affirmative.

Representative Costello addressed Mr. Teal's point that students were not all counted equally. She wondered about the rationale that had gone into the current funding formula calculations.

Mr. Teal provided a hypothetical example. If the cost of a superintendent was \$200 thousand per year, in a school district with 50 thousand students the per student cost was \$4. The cost was \$2,000 per student in a school district with 100 students. He noted the "tremendous range of fixed costs spread over large districts and small districts." The factors were "intended to adjust for the differences in costs." He expounded that whether fixed costs were being spread out over few versus many students, paying for fuel that was \$8 to \$10 per gallon versus \$3 to \$4 per gallon, shipping school supplies, size of a school, etc.; the factors were developed to "equalize funding" and adjusted for the actual costs of providing education under disparate circumstances. He believed that it was difficult to compensate for some of the variables between rural and urban schools. The calculations attempted to provide equalization.

Representative Costello asked about the measure of flexibility districts had to spend its allocated funds.

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Mr. Teal replied that districts had total discretion about how to spend its funding. He exemplified the intensive needs factor which allotted 13 or 14 times the BSA. The school district did not have to spend the entire amount on special needs services. There was no mandate that money generated by a certain factor had to be spent in a definitive way.

Representative Costello pointed to the interactive Excel spreadsheet. She wondered what effect increasing the BSA to

\$200 and \$400 would have on the state's reserve accounts. She asked when the state would run out of savings.

Mr. Teal replied that a \$200 BSA would cost approximately \$50 million. The scenario was currently built in to the spreadsheet. The governor had proposed an increase of \$85 which would raise the BSA to approximately \$200. If the BSA was doubled the impact was doubled.

Representative Guttenberg pointed to the various differentials and cost factors. He wondered whether anyone evaluated the formulas on an ongoing basis for the cost of doing business in various communities.

Mr. Teal replied that there was no scheduled review; it was up to the legislature to make the changes to the factors. He informed the committee that the McDowell Group was commissioned to perform a study in 1997. He reported that the study concluded that the geographic factors were weak. The legislature subsequently engaged the Institute of Social and Economic Research (ISER) to perform another study on the funding factors. He believed that ISER had done a good job examining components of the geographic factors that the McDowell Group report did not contain. The institutes study recommended some significantly higher geographic factors. He believed that although its geographic factors were low, the McDowell Group study utilized other factors that worked together well. He felt that ISER's geographic factors did not work as well in combination with size and other factors. The argument could be made that ISER's geographic factor favored rural and small districts over larger urban ones. He suggested that the legislature should consider readjusting the geographic factor formula when necessary. The way to determine when readjustment was necessary was to determine which school districts were experiencing more fiscal difficulty than others. The size factor could be adjusted when the urban school districts were struggling more than rural districts. He exemplified that if the larger school districts size factor was adjusted up the funding increase would total \$13 million; the increase for Anchorage alone would be \$9 million.

Mr. Teal deduced that adjusting factors was a more efficient and less expensive way to assist financially struggling districts. In order to increase the BSA enough for Anchorage to receive a \$9 million increase the BSA had

to be increased by approximately \$40 million. He thought that school district operations were dynamic; therefore, the funding formula should be "as dynamic as the operating costs." He advised that the legislature adjust the factors on an as needed basis to "change the distribution of funding" rather than simply increasing the BSA. He concluded that the legislature should determine how much money to appropriate for education and for "the most efficient way" to spend where the funds were needed.

Representative Guttenberg noted that there were quite a few school districts in the state. He asked Mr. Teal if he met with DEED to determine what factors like dropout rates, graduation rates, etc. made a significant difference.

Mr. Teal replied that he only dealt with the financial aspect of education funding.

Co-Chair Stoltze stated that the current fiscal year budget appropriated \$25 million for safety and security which was "used in any way possible" for classroom support and other \$25 million was appropriated for energy. He wondered what the two appropriations equaled as a BSA increase.

Mr. Teal responded that \$25 million equated to a \$100 increase in the BSA and \$50 million equated to a \$200 increase.

Co-Chair Stoltze requested that Mr. Teal explain what the difference was between the ways the funding was increased.

Mr. Teal answered that when money was distributed outside of the formula the districts did not receive the same money as they would have if it was included in the formula. He exemplified the correspondence factor which was an add-on and not a multiplier. Simply increasing the BSA by \$100 would cost more than the \$25 million appropriated outside of the formula. In addition, an appropriation outside of the formula was not considered basic need. When included inside the formulas basic need was increased by \$25 million therefore, voluntary local effort was increased by 23 percent of the amount and the districts at the cap could contribute more. He stated that the matter was not simple and increases outside of the BSA were not equal to BSA increases.

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Co-Chair Stoltze addressed federal funds. He discussed the federal American Recovery and Reinvestment Act (ARRA) funds provided to states for education in 2009. He remembered that the funding was appropriated as "one time money" and was not to be "integrated into school growth." Some large school districts used the funds for reoccurring expenses. He wondered what the ARRA funding repercussions were on the state now that the absence of the funds was viewed as "underfunding" in some school districts.

Mr. Teal replied that most of the ARRA funding was expended by 2013. He thought that the situation could have contributed to some of the school districts recent layoffs. The layoffs should be examined against the number of staff hired in 2009 based on the ARRA funds. He acknowledged that the legislature clearly advised districts not to spend the federal funds on recurring items, but some of the districts had not followed the advice.

Co-Chair Stoltze indicated that an increased BSA to \$400 translated into a \$200 million budget increase for the current year when counting the forward funding mandate. He wondered how the expenditure would erode the state's savings over time. He wondered how quick it would put the state in the position of spending the permanent fund or implementing an income tax.

Mr. Teal stated that the fiscal model depicted the BSA at \$400 which increased education funding by \$100 million.

Co-Chair Stoltze asked whether his forward funding assumption of \$200 million was correct.

Mr. Teal replied in the affirmative and stated that the doubling only applied for the first year.

Representative Edgmon appreciated the value of the discussion. He asked whether the size factor and the geographical differential compensated small rural districts for the cost structure in rural Alaska versus the Anchorage school district that benefited from its economy of scale. He wondered if the factors adequately compensated for the higher costs in rural Alaska.

Mr. Teal believed the ISER study was comprehensive. He thought that the factors were adequate. He stated that the information had to be provided by districts. He qualified

that he wasn't familiar with the financial problems in rural parts of the state. He thought that his opinion was biased based on the information he had access to which suggested that urban districts were suffering but rural districts were not. Analysis of each district's spending information would determine whether the districts were all struggling equally or whether a difference between rural and urban existed. He reiterated that he examined the funding on a large scale.

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Representative Edgmon believed the numbers shown in the presentation were indisputable and the big picture analysis was educational. He agreed that education funding involved much more than the BSA including teachers' retirement, grants, pupil transportation, maintenance funds, capital funds and other funding sources. Rural school districts were finding it increasingly difficult to provide required curriculum needs. The presentation highlighted that the state was facing an "incredible conundrum." He wondered how the state could continue to adequately fund public schools in light of eroding cash reserves. He observed that it was a "tremendously complicated policy issue." He welcomed a discussion regarding education needs and spending in rural districts.

Representative Gara recounted that the legislature reduced the required local contribution mil rate from 4 percent to approximately 2.7 percent. He deduced that if the amount that the localities contributed was reduced the amount of state funding increased.

Mr. Teal replied in the affirmative.

Representative Gara asked if the increase was on a dollar for dollar amount.

Mr. Teal answered in the affirmative.

Representative Gara surmised that the school districts do not pay more; the increase shifted to the state.

Mr. Teal answered in the affirmative. He reminded the committee that an increase in the BSA increased basic need and allowable local contributions.

Representative Gara wondered whether increasing the funding cap on school districts to allow a higher mil rate would increase funding for the school districts or shift the costs to the municipality.

Mr. Teal replied that the example would shift the costs. He used Fairbanks as an example because they were not currently funding to the cap. If the required contribution was raised the school district might reduce the voluntary contributions by the same amount in lieu of raising taxes. A school district would gain nothing and even lose because the state would reduce its contributions by the required amount and the local tax payers would pay more.

Representative Munoz discussed deducting 20 percent of the special education factor and transferring the amount into a BSA increase. She wondered whether the increase would be proportionately spread throughout the districts.

Mr. Teal responded that because the intensive needs and correspondence factors were additive and not multiplicative, the increase would not be the same for every district. The funding would be redistributed, but not necessarily in the most effective way. He exemplified that the Galena school district which had 3000 correspondence students and only approximately 300 traditional students. Galena's correspondence factor would rise by 80 percent of the increase which would essentially double Galena's correspondence factor, if the 20 percent special needs factor was reapportioned into the BSA. He expounded that Galena's funding formula was driven by correspondence students. The correspondence formula would double, regardless of need, at the expense of the regular students. Other factors in the formula might need to be adjusted if a factor was changed. He cautioned against adjusting the factors singularly because they all interact.

Co-Chair Stoltze recalled that the state's budget three biggest cost drivers were Medicaid, education spending, and retirement and would use 95 percent of general fund revenues by 2023. He requested that Mr. Teal update the fiscal projections by adding in higher education expenditures. He observed that the legislature had increased education spending above the rate of inflation.

Mr. Teal agreed but stipulated that the conclusion would be the same and that education funding, Medicaid, and

retirement would consume all of the state's revenues if the state continued on the same path.

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ADJOURNMENT

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The meeting was adjourned at 3:06 p.m.