

**ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE EDUCATION STANDING COMMITTEE
SENATE EDUCATION STANDING COMMITTEE**

January 21, 2013

8:01 a.m.

MEMBERS PRESENT

HOUSE EDUCATION STANDING COMMITTEE

Representative Lynn Gattis, Chair
Representative Gabrielle LeDoux
Representative Lora Reinbold
Representative Paul Seaton
Representative Peggy Wilson
Representative Harriet Drummond

SENATE EDUCATION STANDING COMMITTEE

Senator Gary Stevens, Chair
Senator Mike Dunleavy, Vice Chair
Senator Charlie Huggins
Senator Berta Gardner

MEMBERS ABSENT

HOUSE EDUCATION STANDING COMMITTEE

Representative Benjamin Nageak

SENATE EDUCATION STANDING COMMITTEE

Senator Bert Stedman

OTHER LEGISLATIVE MEMBERS PRESENT

Representative Tammy Wilson

COMMITTEE CALENDAR

OVERVIEW: ALASKA DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT ON
THE FOUNDATION FUNDING FORMULA

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

ELIZABETH NUDELMAN, Director
School Finance and Facilities Section
Department of Education and Early Development (EED)
Juneau, Alaska

POSITION STATEMENT: Provided an overview of the Alaska Public School Funding Formula, on behalf of the department.

ACTION NARRATIVE

[8:01:38 AM](#)

CHAIR GARY STEVENS called the joint meeting of the House and Senate Education Standing Committees to order at 8:01 a.m. Present at the call to order from the House Education Standing Committee were Representatives Gattis, Seaton, P. Wilson, Drummond, Reinbold, and LeDoux. Present from the Senate Education Standing Committee were Senators Stevens, Huggins, Gardner, and Dunleavy.

OVERVIEW: ALASKA DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT ON THE FOUNDATION FUNDING FORMULA

[8:03:10 AM](#)

CHAIR STEVENS announced that the only order of business would be an overview of the Alaska Public Schools Funding Formula as provided by the Department of Education and Early Development (EED).

[8:04:52 AM](#)

ELIZABETH NUDELMAN, Director, School Finance and Facilities Section, Department of Education and Early Development (EED), stated that the public school funding formula was adopted under SB 36 in 1998, implemented in 1999, and is defined in AS 14.17. Changes have been made in the formula since its adoption but the methodology has remained the same. She explained that average daily membership (ADM) is the number of enrolled students during the 20 school-day count period ending on the fourth Friday of October; also referred to as the October count period. The count is reported to the department within two weeks following the 20 school-day count period. An additional report is due on

November 5, projecting the student count for the following year. The projected numbers are what EED uses to build the subsequent years budget; a component of the governor's budget each year.

[8:06:29 AM](#)

REPRESENTATIVE LEDOUX asked whether adjustments are allowed outside of the count period.

MS. NUDELMAN responded, no, and added that the count period establishes the total funds to be provided for the school year.

[8:07:24 AM](#)

MS. NUDELMAN reviewed the eligibility points to be considered as a student for counting purposes, which are: a child who is 6 years of age before September 1, and under the age of 20, who has not completed the 12th grade; a child who is 5 years of age before September 1, may enter kindergarten; or a child with a disability who has an active Individualized Education Program (IEP) may attend school at the age of 3 or if under the age of 22.

[8:08:05 AM](#)

MS. NUDELMAN explained that the aforementioned criteria establish the ADM count, which is further adjusted to arrive at a district adjusted average daily membership (AADM). The six components used in this step are: 1) adjust the ADM for school size; 2) apply the district cost factor; 3) apply any special needs factor; 4) apply any vocational and technical factor; 5) add intensive services counts; and 6) add correspondence student counts. The base student allocation (BSA) is applied to the outcome of the AADM in order to arrive at a figure that represents a district's basic entitlement need.

[8:09:15 AM](#)

SENATOR DUNLEAVY questioned how the correspondence student count is reflected in the ADM, as well as the funding level factor.

MS. NUDELMAN replied that a correspondence student is funded at a level of .80 of the BSA. The lower funding percentage is established considering specific elements such as the fact that a correspondent student does not require a brick and mortar school, with the associated operational costs, and the student to teacher ratio difference. To a follow-up question, Ms.

Nudelman confirmed that the correspondence figure is established under law not by departmental regulation.

[8:12:08 AM](#)

MS. NUDELMAN drew attention to the table indicating school size, contained in the presentation packet titled Alaska Public School Funding Formula Overview, and began to explain the first of the six component adjustment steps. A school with a 10-20 ADM is adjusted to 39.60. The BSA of \$5,680 will be factored into this figure she said and pointed out that the resultant funding total is significantly different when applied to an ADM of 10-20 versus the adjusted count of 39.60. Representative LeDoux stated her understanding that a school might be faced with closure if the ADM is below 10, and Ms. Nudelman assured the committee that the topic would be addressed within the parameters of the presentation. Continuing, she stressed that that all of the October ADM counts are adjusted upward in arriving at a school's AADM to which the BSA is subsequently applied.

[8:15:11 AM](#)

REPRESENTATIVE REINBOLD asked what the basis is for using 39.60 in the formula.

MS. NUDELMAN said it was established under law with the passage of SB 36. She then returned to Representative LeDoux's earlier question regarding a school with an ADM count of less than 10 and explained that these schools are not considered singularly but have their counts added into the district's next smallest school count.

REPRESENTATIVE LEDOUX concluded that a school would not have to close due to an October count of less than 10.

MS. NUDELMAN underscored that school closure is not a given under state law, but rather a decision that involves the entire effected community. Additionally, she pointed out that a hold harmless provision is built into the foundation formula, which provides support to a community with low enrollment issues to allow alternative actions to be considered and operational decisions made.

CHAIR STEVENS stressed that a school closure decision is under the purview of the local school board, working in conjunction with community members. A district must redirect funds from

larger schools in order to maintain any with a low ADM. He then established that five of the current committee members have served on school boards.

8:18:56 AM

MS. NUDELMAN continued by explaining how a community with an ADM of 10-100 will have the K-12 ADMs combined and adjusted as one school, while a community with an ADM of 101-425 will have the grades K-6 and 7-12 adjusted separately as two schools. She pointed out that these ADM brackets are important because a school size formula exists which increases funding for smaller schools, as well as there being a constraint placed on the number of schools allowed in a community. Thus, a community would not be able to configure a district into 25 schools of 10 students each. Finally, a community with an ADM greater than 425 will have each facility, that is administered separately, adjusted as a school.

8:20:06 AM

SENATOR GARDNER inquired about the impact of these combined and separate adjustments, as well as the rationale; what do these measures actually accomplish.

MS. NUDELMAN replied that the formula funds a single school at a slightly lower level than it does two schools; a policy which may encourage a community to combine school services.

REPRESENTATIVE P. WILSON shared that Wrangell operates three schools while being funded for only two, due to the ADM counts and the combined adjustment, as described.

8:22:56 AM

MS. NUDELMAN moved on to considerations for alternative schools and said that an alternative school with an ADM of 175 or greater is administered as a separate facility. Two exceptions exist, which are: the school is in its first year of service with an ADM of 120-175; the adjustment being 1.33. This action allows support for alternative schools that are being established and still gaining enrollment. An alternative school which has had an ADM of 175 or greater, in the prior year, but drops below 175 in the current fiscal year (FY), will also receive an adjustment of 1.33 to allow for stability in the funding mechanism. If neither of these two exceptions applies and an alternative school has an ADM of less than 175, it is

added to that of school in the district with the highest ADM. A charter school with an ADM of 150 or greater is adjusted as one facility. The exceptions to this are similar to those of the alternative school: a charter school in its first year of service with an ADM of 120-150, will receive an adjustment of 1.38; if it had an ADM of 150 or greater in the prior year but drops below that number in the current FY, it will still receive an adjustment of 1.38. However, if it is an established charter school with an ADM that continues to stay below 150, the adjustment will be calculated at the 1.18 level.

[8:24:51 AM](#)

REPRESENTATIVE LEDOUX asked whether the adjustments for alternative and charter schools represent a greater or lesser amount than the adjustment for standard state schools.

CHAIR STEVENS requested that a definition of alternative and charter schools be provided to the committee and Ms. Nudelman said she would make them available for distribution. Then in response to Representative LeDoux's question, said that the adjustments fall midway in the size table, and directed attention to the funding formula overview page previously addressed titled Step 1. Adjust the ADM for School Size, and the chart indicating adjustment values ranging from 1.62 to 0.84., according to the school ADM.

[8:26:45 AM](#)

REPRESENTATIVE P. WILSON opined that the formula provides an advantage to urban schools inherent to having a larger population from which to draw alternative and charter school membership. Smaller, rural schools may still struggle under the formula and questioned why [the alternative school] membership is 175 while [the charter school] is adjusted at the 150 level. She indicated that the alternative high schools, in the area that she represents, support a membership of about 30 of the population. She said it would be unforeseeable that the minimums indicated would ever be reached by similarly rural districts.

SENATOR DUNLEAVY stated his understanding that, as a school grows in scale, less money is received for the larger school. He reported discussions from his district regarding capping the size of a school to take advantage of that aspect of the formula. The rural schools, of a certain size, may receive as much or more money than a school of 1,200-1,500, he opined.

REPRESENTATIVE P. WILSON pointed out that, as the formula figures adjusted further in the process, the numbers will change that scenario.

SENATOR DUNLEAVY maintained that capping correspondence and charter schools at a certain size could garner more funds, through the formula, for some districts.

[8:29:46 AM](#)

MS. NUDELMAN directed attention to the committee handout titled, Public School Funding Program Overview, September 2012, and directed members to the spread sheets provided on pages eight and nine. She said that this chart is a good reference guide to view how the adjustments affect the individual school districts.

[8:30:34 AM](#)

MS. NUDELMAN used the Nome Public School District to provide an example of how each adjustment is applied to a district's ADM in order to arrive at the AADM. The total ADM for the four Nome schools is 715, as represented by the following count totals: Nome Elementary School - 384, Nome-Beltz Jr./Sr. High School - 273, Anvil City Science Academy 44, and the Nome Youth Facility - 14. Applying each facilities October count to the school size chart and making the allowed adjustments, as illustrated in the example, the resulting AADM for Nome is 896.01.

[8:33:01 AM](#)

MS. NUDELMAN addressed the hold harmless provision to explain how it is implemented. Each district's AADM is compared to the previous year's AADM to determine if the area is experiencing an enrollment reduction of five percent or more, which would activate this provision to allow a district to receive up to three years of continued funding despite maintaining a school with an ADM that drops below 10. The first year that it is realized, the district would receive 75 percent of the base year AADM; the second year 50 percent; and the third year 25 percent. She explained that the hold harmless provision provides extends stability and certainty to a district when the October count indicates a drop in enrollment. A school whose ADM falls from 10 to 8 will not certainly, but does usually, trigger the five percent indicator, she said.

[8:34:54 AM](#)

REPRESENTATIVE REINBOLD asked what the annual cost of the hold harmless provision is to the state.

MS. NUDELMAN agreed, on request of Chair Stevens, to provide that information to the committee and said that it could also be calculated utilizing the formula. She explained that the previously referenced pages 8 and 9, in the handout titled Public School Funding Program Overview, September 2012, could be used to understand the cost of each component. The total of each column, when divided by the \$5,680 BSA figure will result in the component cost. However, she cautioned, the formula works as a whole and limitations may result from isolating specific aspects. In response to Representative P. Wilson, she said the hold harmless provision element is located on page 8, column "0" of the referenced handout. Returning to the presentation, she referred to the Nome example to test the hold harmless provision, indicating that the Nome School Districts FY 12 AADM was 871.63 and the FY 13 AADM is 896.01, for an increase in the AADM of 24.38. There was not a drop in enrollment, thus the hold harmless provision does not apply.

[8:37:30 AM](#)

MS. NUDELMAN addressed Step 2: the District Cost Factors, which, she explained, are specific to each school district and span a range from 1.000 to 2.116. Utilizing the Nome example, she indicated that the AADM of 896.01 is multiplied by the district's cost factor of 1.450 to arrive at a new AADM of 1,299.21.

[8:38:07 AM](#)

CHAIR STEVENS recalled the area cost differentials being established and inquired when it is expected that these figures will be reviewed or updated.

MS. NUDELMAN returning to the "Public School Funding Program Overview," September 2012, she drew attention to page 10 and said that under House Bill 273 [25th Alaska State Legislature] the formula was adjusted and the cost differentials were studied. The ISER consults recommended the levels of cost differential and these were implemented over a five year span, the final year being FY 13.

CHAIR STEVENS asked whether the area increment adjustments appear to be appropriate or if they require further attention.

MS. NUDELMAN opined that the cost factors appear to be working well and may serve the districts for a few years to come.

[8:40:15 AM](#)

SENATOR GARDNER noted that the handout does not indicate that all of the ISER recommendations have been fully implemented.

MS. NUDELMAN explained that the ISER recommendations adopted under House Bill 273 included the area cost differential increments, which were to be implemented over five years, as well as increases to the intensive special education student services and the BSA. The latter two elements came as a package and were implemented over a period of three years. These increases are indicated on page 10 and reflected in the totals under the BSA column for FY 2009-2011, she pointed out.

[41:37 AM](#)

SENATOR GARDNER asked whether a recommendation was made by the Education Funding Task Force to ensure that the BSA would be inflation proofed.

MS. NUDELMAN said that the task force report included a number of recommendations for changes and priority areas for future review. However, she said that she could not accurately state whether the report included a specific recommendation for inflation proofing the BSA.

CHAIR STEVENS recalled being a member on the task force and said the report would be distributed to the joint committee members.

REPRESENTATIVE SEATON pointed out that one outcome of the task force was to create the legislative standing education committees as currently convened.

[8:43:28 AM](#)

MS. NUDELMAN continued with the next step of the public school funding formula: "Step 3: Special Needs Funding." This step adjusts her special education, save for intensive students, vocational education, gifted/talented, and bilingual/bicultural. The funding factor is a 1.20 multiplier, which, when applied to the Nome example AADM of 1,299.21 results in a new AADM total of 1,559.05.

8:44:16 AM

REPRESENTATIVE LEDOUX inquired about the parameters distinguishing special education from the intensive status noted as an exception to this funding.

MS. NUDELMAN indicated that the intensive student is identified as one with very high needs, thus requiring a higher level of resources and services. Intensive students are funded at a higher level and will be addressed further along in the formula overview, she said.

8:44:44 AM

MS. NUDELMAN moved to the next component to be added to the funding formula, which is the career and technical education (CTE) factor of 1.015. It is intended to assist districts in providing career and technical education services to grades 7-12. The factor applied to the Nome example AADM of 1,559.05 results in a new AADM of 1,582.44.

8:45:27 AM

SENATOR GARDNER referred to the last two components, special education and CTE funding, and asked whether districts are mandated to spend the allocated funds on these specific services.

MS. NUDELMAN responded that there are no laws for categorical funding in the foundation formula. The factors are intended to estimate what districts will need to serve their students. When funds are dispersed to districts, actual expenditures are under the purview of the local school authorities; however, language is included in statute that specifically directs districts not to spend CTE funding on costs associated with administrative expenses, general instruction, mathematics, or job readiness skills.

8:46:57 AM

MS. NUDELMAN continued on to "Step 5: Intensive Services Funding," which applies to identified students enrolled on the last day of the 20 school-day count period. The criteria for being eligible are at AS 14.30, as well as in EED regulation. Intensive students are those who require significantly more complex, frequent services. An example would include a medically fragile student that requires a 1:1 aid throughout the school day. The adjustment is the one day count multiplied by a

factor of 13. Returning to the Nome example, a count of 6 times the 13 results in a product of 78 which, when added to the AADM of 1,582.44 raises the AADM to 1,660.44.

8:48:37 AM

CHAIR STEVENS recalled an Education Task Force hearing, held in Anchorage, during which a school principal testified to a scenario of an intensive student who required a teacher, two aids, and a designated classroom. Although the district cost for educating this student was not disclosed at the hearing, he noted that consideration should be given to a school suddenly having a child with these types of requirements arriving outside of the count date. He asked and whether funding could be attached to the student to alleviate such concerns.

MS. NUDELMAN responded that the current system does not allow for a good means to transfer funding through the formula, and added that neither law nor regulation would prohibit a district from coordinating and working internally to address such an issue.

CHAIR STEVENS opined that this is a question worthy of consideration, considering the damaging financial effect of an unexpected intensive student transfer.

REPRESENTATIVE P. WILSON questioned how a school handles employees under contract to work as intensive aids or teachers, if the student transfers from the district.

MS. NUDELMAN said that she is not familiar with the specifics for how this situation would be addressed. Each district would have independent oversight regarding resources.

CHAIR STEVENS requested a response from the department.

SENATOR HUGGINS offered that contractual agreements are observed and a school district has local control of resources. He said this control would include relocating staff if necessary, should the task and mission change.

CHAIR STEVENS concurred that changes of this nature within a district would be handled differently than the situation arising between districts.

8:52:26 AM

REPRESENTATIVE REINBOLD reviewed the step 5 multipliers and asked where the actual intensive services ADM cost of \$73,840 is inserted. Further, she requested the bottom line cost that would be attached to the six intensive students identified in the Nome example.

MS. NUDELMAN restated that the AADM of 1,582.44 is the result of adjusting the original ADM through the first four steps. The count of 6 intensive students is then multiplied by 13 and the product, 78, is added to 1,582.44, thus arriving at the new AADM of 1,660.44. The approximate actual cost of the intensive funding results when 13 is multiplied by the BSA, \$5,680.00. She relayed that each time a new AADM is calculated through the steps, it is re-multiplied by the BSA to compute the actual costs.

REPRESENTATIVE REINBOLD asked for the actual cost of the 6 example students.

MS. NUDELMAN answered that it is approximately \$74,000 times 6.

CHAIR STEVENS reminded the committee that the state must comply with federal laws, as well as moral obligations, that may or may not be backed by federal funding.

MS. NUDELMAN concurred and said that many federal laws have no funds attached but must be upheld by the state.

[8:53:23 AM](#)

REPRESENTATIVE DRUMMOND recalled that Medicaid has been a source for funding of intensive student medical needs and asked whether this still occurs.

MS. NUDELMAN said it is an optional program that allows districts to join a school based reimbursement program, to cover some of the services provided to intensive students. Because it is a Medicaid program, she added, appropriate infrastructure must be in place in order to participate. Additionally, specific criteria and involvement of licensed oversight professionals is required. Although it is an option, she said that it does not play a large part of funding in Alaska's schools.

REPRESENTATIVE DRUMMOND asked whether the department or the schools would be in charge of tracking these funding receipts.

MS. NUDELMAN responded that it is up to the school district to work jointly with the Department of Health and Social Services (DHSS) to obtain a Medicaid program and reflect any revenues in the district's year end audit. However, EED does not track this on a detailed level.

REPRESENTATIVE P. WILSON recounted her experience as a school's Registered Nurse, overseeing intensive student aids and ensuring that standards were maintained.

[8:58:51 AM](#)

MS. NUDELMAN said the final component is step 6 which adjusts for the correspondence programs based on 80 percent of the ADM. Utilizing the Nome example, she pointed out that there are 12 students, which when multiplied by the .80 factor, results in a product of 9.60. The AADM is increased by the 9.60 giving Nome a final AADM of 1,670.04.

[8:59:47 AM](#)

CHAIR STEVENS asked about eligibility for inclusion in the correspondence student count. Specifically, is it required that the students study via correspondence on a full-time basis.

MS. NUDELMAN responded that the ADM accounts for part-time students. If a student is enrolled in a district half-time a factor of .50 ADM would be included in the equation. Thus, the Nome example could represent 12 full-time or 24 half-time students.

REPRESENTATIVE LEDOUX asked how a part-time student who is also participating in a correspondence course would be counted; is there a possibility of counting the student twice.

MS. NUDELMAN answered that an identification system is in place at the department level which ensures that each Alaskan student is counted only once in the ADM. The student may be enrolled at more than one school requiring that the count be split between the participant's schools.

[9:01:51 AM](#)

MS. NUDELMAN said the final AADM of 1,670.04, is multiplied by the BSA, currently set at \$5,680, establishing that the annual basic need, or entitlement, for Nome is \$9,485,827. She then drew attention to the handout page summarizing the example from

Nome and reviewed the adjustments and final calculation as presented.

9:03:20 AM

REPRESENTATIVE P. WILSON referred to her comment earlier in the presentation regarding the possibility for bias towards rural v. urban schools to point out that seeming inequities are fairly resolved when the formula is considered as a whole.

9:04:35 AM

MS. NUDELMAN continued with the Nome example to identify the three funding sources that are drawn upon to meet the district's basic need of \$9.5 million, which are: required local contributions, federal impact aid, and state aid. Not every district has access to all three of these sources, some may rely on only one or two, but, she said, at the end of the day the basic need is provided for. She explained that the required local contribution is calculated on the current year property value, as provided by the state assessor, and multiplied by 2.65 mills, a rate that applies only to cities and boroughs. Allowable local contribution will be the greater of 2.65 mills or 45 percent of the basic need. Three districts in the state pay the local contribution based on 45 percent of the basic need calculation rather than using the mill rate multiplier; having an effective rate that is somewhat less than 2.65 mills. She then invoked the Nome example to illustrate how an area comparing the 2.65 mill rate to the 45 percent of the prior year basic need calculates the local contribution. The mill rate is factored with the full and true value of taxable real and personal property, as received from the Department of Commerce, Community & Economic Development (DCCED) Office of the State Assessor. The Nome assessment is \$326,939,700 and equates to a product of \$866,390. Factoring the prior year basic need for Nome, of [\$9,262,206], with .45 the resulting product is \$4,167,993. Thus, the mill rate figure is used as the local contribution.

9:08:18 AM

REPRESENTATIVE DRUMMOND recalled that the Anchorage School District local effort was reduced in the current school year, and asked whether the amended mill rate caused that change.

MS. NUDELMAN responded yes, and explained that the previous legislature passed policy which altered the mill rate component

of the formula. The action removed the nominal 4 mill rate that was being imposed statewide in order to provide latitude for community growth. Any associated transition adjustment costs were assumed by the state. However, she pointed out that because the formula deals with the basic need plus 23 percent, this action did not increase or decrease funding to districts but merely caused a cost shift for the component funding sources of the basic need.

REPRESENTATIVE DRUMMOND clarified that the cities contributed less and the state more, during that period of adjustment.

[9:10:54 AM](#)

SENATOR GARDNER described a scenario of a basic needs cost increasing by 5 percent and asked that, if a district is not allowed to exceed .45 percent of the prior year basic need, how is the cost difference covered.

MS. NUDELMAN said that the state would assume the cost difference.

REPRESENTATIVE LEDOUX noted that, being an equalized formula, the law doesn't allow wealthy communities to prioritize the local schools and provide additional funding.

MS. NUDELMAN concurred and said that the equalized formula provides that each district will receive basic need and no district will receive more than basic need plus 23 percent. She added that there is less than a 25 percent funding differential between the lowest and highest AADM funding to any district. To a follow-up question, she concurred that these parameters are specified under statute, not departmental regulation, and it allows the state to take advantage of federal impact aid as a piece of the basic need funding.

CHAIR STEVENS interjected that there is a required local contribution, which is capped at a certain level, and asked whether the cap falls outside of the formula.

MS. NUDELMAN indicated that the cap falls within the formula, and responding to a committee member, said that not following the cap guidelines would interrupt the federal impact aid funding.

[9:14:06 AM](#)

REPRESENTATIVE P. WILSON requested the names of the three districts which contribute the required local amount based on .45 percent of the prior year basic need rather than the mill rate.

MS. NUDELMAN recalled and named two: the North Slope and Skagway. She pointed out that in a district with a high assessed value, the 2.65 percentage product may equate to the area paying the total basic need and the state not contributing any funds. Hence, the .45 percent cap is imposed to ensure state contributions.

9:15:40 AM

MS. NUDELMAN continued to the handout page titled, Title VIII Federal Impact Aid Payments, and said funds are received from March 1 through the last day of February and are a component in calculating the state aid. The funds are received for land that is in federal status, such as the military bases and Indian land holdings. The federal government restricts certain components from being included in the basic need calculation: the 25 percent special education add-on, the 25 percent Indian lands add-on, and some construction funds. An eligible amount of the impact aid may be considered for deduction and in the example of Nome, that amount is \$44,300. To determine the impact aid percentage the required local contribution is divided by the budgeted local contribution. The local contributions are defined as appropriations, investment earnings, in-kind services and other local effort. For the Nome example, she established that the required local amount of \$866,390 is divided by the actual amount contributed, \$2,049.811, resulting in a quotient of 42.27 percent. She pointed out that districts are allowed to provide funding above the required amount, in accordance with formula parameters.

9:18:15 AM

MS. NUDELMAN continued to explain the calculation for determining the amount of impact aid that a district is allowed to deduct. The equation is the eligible impact aid times the Title VIII percentage times 90 percent. In the Nome example the figures are \$44,300 times 42.47 percent times 90 percent for a product of \$16,853. She reminded the committee that the impact aid calculation relates to the cities and boroughs of Alaska, not to the regional education attendance areas (REAAAs). By using this ratio calculation the state is able to distribute the annual federal funds received, approximately \$140 million, while

retaining about \$70 million in the foundation formula to offset basic need obligations. In order to continue with this arrangement it is necessary for the state to continue to meet the criteria set forth by the federal government to maintain an equalized formula. In response to a committee request, Ms. Nudelman restated the explanation for clarity.

[A brief discussion of the points ensued to provide a better understanding of the equation.]

[9:26:29 AM](#)

REPRESENTATIVE LEDOUX confirmed that districts are incentivized to make contributions but only to a point.

MS. NUDELMAN agreed with the representative's summation.

[9:27:27 AM](#)

REPRESENTATIVE DRUMMOND returned to the point made which indicated that Alaska receives roughly \$140 million in education funds from the federal government but only distributes \$70 million through the framework of the foundation formula, to inquire about the remaining funds.

MS. NUDELMAN indicated that schools apply directly to the federal government for the funding and are allowed to retain what is not distributed through the foundation formula.

REPRESENTATIVE DRUMMOND recalled that, prior to passage of the applicable statute, some districts made requests to contribute above the required local effort but were not permitted to do so, and suggested that a historical account might prove interesting for the committee.

CHAIR STEVENS interjected that there is a rationale for providing equal educational opportunities throughout the state. It would be unfair to allow a wealthy community to overshadow the possibilities of a less fortunate district.

REPRESENTATIVE LEDOUX questioned the rationale to impose a cap. She agreed that an equalized budget for a baseline education is imperative, and opined that placing a cap on a community that would like to provide its area schools with more opportunities is not appropriate.

REPRESENTATIVE SEATON offered that equality of educational funding is required by federal law and if discrimination in state allocations exceeds 25 percent, between any two students, the federal funding to the state will be reduced or curtailed. Thus, the practice of funding to the 23 percent level provides a cushion for error and helps to preserve federal receipts.

[9:30:16 AM](#)

MS. NUDELMAN reviewed the Nome example to arrive at the state aid provided after the consideration of the required local and impact aid assessments: basic need of \$9,485,827, less the required local contribution of \$866,390, less the federal impact aid of \$16,853, arriving at the total state aid contribution of \$8,602,584.

[9:31:24 AM](#)

MS. NUDELMAN said that the two additional funding sources allowed are additional local contributions and the quality schools grant. School districts are allowed to provide the greater of 2 mills of the assessed value tax base or 23 percent of the district's current year basic need as an additional local contribution. In the Nome example .002 factored with the assessed value of \$326,939,700 provides \$653,879. A comparison is drawn by factoring .23 percent with the basic need of \$9,485,827 for a value of \$2,181,740. Thus, in addition to the \$866,000 required contribution, Nome may also contribute \$2,181,740, putting the total allowed local contribution for Nome at \$3,048,130.

SENATOR GARDNER concluded that, given this scenario, there is limited room for inequities.

MS. NUDELMAN agreed, and said it is limited to 23 percent.

[9:33:53 AM](#)

REPRESENTATIVE P. WILSON asked how many schools can afford to provide the additional local contribution.

MS. NUDELMAN responded that many districts are near the cap but that there is a continuum.

REPRESENTATIVE P. WILSON asked whether the Anchorage School District, changing from the 4 mill rate to the 2.65, had to

adjust the amount of the allowed additional local contribution as well.

MS. NUDELMAN replied, yes.

REPRESENTATIVE LEDOUX asked whether the allowed percentage is dictated by the federal government.

MS. NUDELMAN responded that the federal constraint imposed is the 25 percent figure, and is a requirement for receipt of impact aid funding. Hence, the state has set the level at 23 to insure compliance; a strategy which has worked well and withstood the test of time.

REPRESENTATIVE LEDOUX acknowledged that it has worked well for the state but questioned whether it has worked well from the point of view of the districts.

MS. NUDELMAN offered to consider all of the elements of the question to provide an accurate response.

REPRESENTATIVE LEDOUX inquired whether non-profit organizations can contribute funding to a district for specific purposes outside of the federal constraints.

MS. NUDELMAN explained that funds received by a district are aggregated and provided to the federal government for subjection to what is termed a disparity test. Any non-profit organization contributions are included in the aggregate of receipts, and it is the reason that the state has restricted the contribution level to 23 rather than 25 percent. It would be possible to be found non-compliant in the disparity test if the 2 percent leeway were not implemented to accommodate any differences. She stressed that if Alaska failed the disparity test, the loss would leave a \$70 million dollar gap in the foundation program, due to the loss of the federal money.

[9:39:07 AM](#)

CHAIR STEVENS asked about accounting for in-kind services within the formula.

MS. NUDELMAN pointed out that in-kind services are captured as part of the local effort and spending to the local cap.

CHAIR STEVENS inquired how a jointly used civic swimming facility might be considered.

MS. NUDELMAN offered that school use of a community run pool or auditorium would not be subject to the school district formula.

[9:41:01 AM](#)

REPRESENTATIVE P. WILSON questioned whether the 25 percent limit applies to individual districts or to the state as a whole, for reporting and eligibility purposes.

MS. NUDELMAN responded that if one school fails the federal disparity test, the state would lose all federal impact aid receipts.

REPRESENTATIVE REINBOLD commented that it appears that Nome is required to contribute less than 10 percent of the basic need leaving the state to provide about 90 percent. She suggested that the usefulness of the formula is subjective and may not be viable over a sustained period of time or produce the desired affects.

[9:43:24 AM](#)

MS. NUDELMAN continued with the quality schools grant; the final adjustment allowed under AS 14.17.480. A districts AADM is factored by \$16, which in Nome means 1,670.04 times \$16.00 for a product of \$26,721; added to Nome's state aid results in a total state entitlement of \$8,629,305. Finally, she summarized from AS 14.17.400(b), which states that if the amount appropriated by the legislature is insufficient to meet the total of the amounts authorized then all districts will be reduced pro rata under the foundation formula.

[9:44:46 AM](#)

REPRESENTATIVE P. WILSON noted that the calculated state aid had the quality grant amount added, which raises the total that the state pays.

MS. NUDELMAN concurred.

REPRESENTATIVE P. WILSON asked whether some districts receive less than the calculated state aid and some more.

MS. NUDELMAN answered that once the final number for basic need is calculated each district receives the funds in twelve installments throughout the year.

REPRESENTATIVE P. WILSON asked if a calculated total is ever a negative number.

MS. NUDELMAN assured the committee that the figure is always positive and every school receives the state aid component.

[9:46:54 AM](#)

REPRESENTATIVE SEATON stressed that the formula is calculated in a specific and essential sequence. He stressed that it is important to consider it in the whole rather than parsed into isolated components.

[9:48:08 AM](#)

CHAIR STEVENS commented that the governor has expressed concern for the state drop-out rate and established specific graduation goals.

REPRESENTATIVE DRUMMOND added that the Anchorage United Way has prioritized these same goals and, as a result, a marked difference in graduation numbers is being realized. A consolidated effort is essential and should include partnerships with community based organizations, she opined.

[9:50:48 AM](#)

CHAIR STEVENS thanked the participants and announced the topic for a future joint session of the education committees.

ADJOURNMENT

There being no further business before the committee, the joint meeting of the House and Senate Education Standing Committees was adjourned at 9:50 a.m.