

**ALASKA STATE LEGISLATURE  
HOUSE EDUCATION STANDING COMMITTEE**

February 18, 2015  
8:05 a.m.

**MEMBERS PRESENT**

Representative Wes Keller, Chair  
Representative Jim Colver  
Representative Paul Seaton  
Representative Harriet Drummond

**MEMBERS ABSENT**

Representative Lora Reinbold, Vice Chair  
Representative Liz Vazquez  
Representative Jonathan Kreiss-Tomkins

**COMMITTEE CALENDAR**

OVERVIEW: ALASKA'S PARTICIPATION IN IMPACT AID (PUBLIC LAW 874)

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

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

**POSITION STATEMENT:** Provided the presentation on Alaska's Participation in Impact Aid (Public Law 874), and responded to questions.

LES MORSE, Deputy Commissioner  
Office of the Commissioner  
Department of Education and Early Development (EED)  
Juneau, Alaska

**POSITION STATEMENT:** Responded to questions, during the presentation on Alaska's Participation in Impact Aid (Public Law 874).

## **ACTION NARRATIVE**

[8:05:24 AM](#)

**CHAIR WES KELLER** called the House Education Standing Committee meeting to order at 8:04 a.m. Representatives Keller, Seaton, Colver, and Drummond were present at the call to order.

### **OVERVIEW: ALASKA'S PARTICIPATION IN IMPACT AID (PUBLIC LAW 874)**

[8:05:46 AM](#)

CHAIR KELLER announced that the only order of business would be a presentation on Alaska's Participation in Impact Aid (Public Law 874).

[8:07:45 AM](#)

ELIZABETH SWEENEY NUDELMAN, Director, School Finance and Facilities Section, Department of Education and Early Development (EED), explained that Impact Aid is a federal formula grant program that is designed to assist local school as identified by one, or both, of the qualifying characteristics: lost revenue due to tax-exempt federal related property; or incurred increased expenditures due to the enrollment of federally connected children. The federal Impact Aid law was effected in 1950, and Alaska has been a participant since inception; primarily due to the military bases. The equalization provision was added to the law in 1976, and Alaska adopted the change upon introduction. Program participants include: children of military personnel and others whose parents work on federal land, such as park ranger dependents; and children whose parents reside on Indian lands or live in federally eligible, low rent, housing. Although the majority of districts apply directly to the federal government for Impact Aid, a special provision allows the department to apply for three districts: Anchorage, Fairbanks, and Kodiak. Mt. Edgecumbe is another exception with the department making application. Under the provision, created by the late Honorable U.S. Senator Ted Stevens, receipts are received for direct transmittal to the named districts and Mt. Edgecumbe.

[8:11:52 AM](#)

MS. NUDELMAN said that other participation eligibility guideline requirements may be met by a district if: the number of eligible federally connected children equals at least 3 percent of the total number of students in average daily attendance (ADA); or the average number of eligible federally connected children in ADA is equal to 400. The count date is selected by the district but can be no earlier than the fourth day of school and no later than January 31. The reason for the restriction based on the ADA is to create a practical working base number and ensure that an effective program is being administered. She explained the application process, stating that it is open to any public school district with an enrollment concentration of federally connected children. The application deadline is January 31 and a signed electronic form may be submitted through the government site. Late applications are accepted for up to 60 days following the deadline; however, a 10 percent reduction in funding will be applied. Following the application, a district may make modifications or updates until September 30.

[8:14:37 AM](#)

REPRESENTATIVE DRUMMOND asked whether the application deadline and 60 day grace period is designed to tie in with military relocation schedules.

MS. NUDELMAN answered that the districts identify a meaningful count date, to suit the local situation. Further, an application can be amended, and the flexibility allows time to alter the count number. The sixty day deadline for late applications is an administrative measure.

[8:17:10 AM](#)

MS. NUDELMAN identified the funding categories to which Impact Aid applies: 8003 is the basic support for students living on federal lands; heavily impacted districts, which in Alaska is Annette Island and receives higher funding; and children with identified special needs/disabilities; 8007 relates to construction; and two other categories exist, for which Alaska does not qualify, property and facilities, 8002 and 8007

respectively. She pointed out that the special education and construction receipts are minimal.

[8:20:22 AM](#)

MS. NUDELMAN expanded on the 8003 basic support payments, which are based on a formula considering the number of eligible, federally connected students in a district. The average, statewide, per pupil, expenditure is aggregated at the highest level and identified as discretionary to the point that it is spent on free education for eligible students. Disability payments are incremental, with a payment rate ranging from \$500 to \$1,200 per child. The construction fund payment is provided when the federally connected children equal at least 50 percent of the membership in the school districts ADA.

[8:24:05 AM](#)

MS. NUDELMAN directed attention to the committee packet, page 11, and the page titled, "Sample Impact Aid Payment Vouchers," to illustrate the process. Using the two sample vouchers shown, she pointed out key lines and amounts, to explain how the aggregate number is determined, and to explain that the state has set the local contribution rate at 50 percent of the expenditures per student. Using the figures on the Bering Strait School District payment voucher sample, she described the computations used to arrive at the receipt totals, including the construction component, and compared the totals: basic support payment equals \$19,367,805 versus the special needs payment of \$178,926 and the construction total of \$219,130. The second sample on the same page, she indicated, is the military voucher, which is similar and uses the same contribution rate. Ms. Nudelman held up a voucher from 1956, not available in the packet, to demonstrate the consistency of the form through over the years.

[8:29:53 AM](#)

MS. NUDELMAN moved to the handout page titled, "State Consideration of Impact Aid Payments in Providing State Aid," to address Public Law 874, which allows a state to seek permission

to consider Impact Aid in its state formula, if the formula meets a specified equalization standard. She said that Alaska's, public school, Foundation Formula is designed as an equalized formula. Each year Alaska submits a disparity test calculation showing that the per-pupil revenue between the highest and lowest districts does not exceed a 25 percent difference. She explained that the disparity test is calculated using the Impact Aid program requirements. Basically, the test aggregates revenues per district and divides by the adjusted average daily membership (AADM) to arrive at adjusted per-pupil revenues for each district. The districts are sorted by highest to lowest AADM revenues and differences greater than 25 percent are disallowed.

[8:33:56 AM](#)

MS. NUDELMAN said Alaska integrates the Impact Aid into the Foundation Formula and the two programs are applied in concert. Prior to the calculation, the state must remove the count of children receiving disabilities funding. Additionally, one fifth of the funding for children who reside on Indian lands may not be considered. The construction funding and the heavily impacted district allowances are also removed for formula purposes. Annette Island School District (AISD) is Alaska's heavily impacted district. Thus, prior to considering the Impact Aid with the state education formula, of the \$140 million federal receipts, approximately \$26 million is removed prior to calculating the disparity consideration. Federal guidelines allow consideration on 100 percent of the remaining funds but under AS 14.17.410 the state only calculates 90 percent of the eligible Impact Aid. Districts with a local contribution can choose to further offset the 90 percent.

[8:38:26 AM](#)

MS. NUDELMAN turned attention to the committee handout pages 16 and 17, labeled, "District Example #1," and "District Example #2." She said these two areas are used to illustrate the calculations for a municipality, Anchorage, versus a regional educational attendance area (REAA), Lower Kuskokwim. She reviewed the Anchorage FY2014 worksheet calculations to show the

application of the eligible Impact Aid, \$20,220,105, with the local contribution percentage as required in statute and applied in the example at 48.73 percent, and the states 10 percent reduction, to arrive at the final figure of \$8,867,931. Thus, of Anchorage's \$20,887,370 in Impact Aid receipts, the state will withhold \$8,867,931 as payment towards Basic Need in the Foundation Formula rather than using state general funds.

[8:43:45 AM](#)

MS. NUDELMAN moved to example #2, using the Lower Kuskokwim FY2014 figures to explain the calculation. Kuskokwim is an REAA, meaning more money is subtracted as non-eligible, resulting in \$17,622,665. The Impact Aid percentage arrived at is at the 100 percent level, as no local contribution is required and only 10 percent is held back in the final calculation to arrive at \$15,860,399. Thus, of Lower Kuskokwim's \$22,417,251 in Impact Aid receipts, the state will withhold \$15,860,399 as payment towards Basic Need in the Foundation Formula rather than using state general funds.

[8:47:03 AM](#)

MS. NUDELMAN pointed out that federal Impact Aid revenues are approximately \$140 million annually, to Alaskan schools. She directed attention to page 19, of the committee handout, titled, "Impact Aid Summary," and the statewide listing, to indicate how the Anchorage and Lower Kuskokwim numbers fit into the district funding worksheet. Recapping the statistics shown, she stated that, in FY2014, districts received approximately \$132 million in Impact Aid, the state considered \$71 million as funding in the Foundation Formula, and districts retained \$61 million. The eligibility for the state to consider Impact Aid as a funding component of basic need, and the requirements, such as the percentage to be considered and the calculations required, are contained in the federal Impact Aid law. If the state did not consider Impact Aid as a funding source, in the Foundation Formula, the state general fund dollars would have been increased by \$71 million in FY14.

[8:51:21 AM](#)

MS. NUDELMAN turned to page 21, to illustrate how all the pieces fit together and briefly reviewed the ten columns. She said this page is posted on the EED website and is a familiar reference for the users. The fifth column contains the 90 percent deductible Impact Aid for each district, and Mt. Edgecumbe., and she pointed out where the Example #1 and #2 computations are located in the spreadsheet.

[8:54:31 AM](#)

REPRESENTATIVE DRUMMOND returned to the question regarding the hard deadline, to ask how military students, arriving after the count date, are accounted for.

MS. NUDELMAN said districts can select a count date up to January 31, and have 60 days to amend the number; essentially changes can be made to an application through March 31. However, an influx of students on April 1 would not be included. The Impact Aid is not forward funded, she added.

REPRESENTATIVE DRUMMOND asked whether the number of students on the count date generates the funding for the following school year.

MS. NUDELMAN explained that the funding is received from the federal program in the fall of the same year in which the application is made. The department anticipates the appropriation to be made at the federal level each fall. A nuance to the program is that, when the offset is made in the foundation program, the state looks back one year. Districts are directed to bank the Impact Aid, as a fund balance, because that year's Impact Aid will be looked at the following year in basic need.

[8:59:05 AM](#)

REPRESENTATIVE KELLER clarified that the term offset represents a budget term.

MS. NUDELMAN concurred, and further clarified the count date restriction as being between the fourth day of school and January 31.

[9:00:43 AM](#)

REPRESENTATIVE COLVER questioned the disparity test requirement and opined that perhaps the reverse effect is occurring. He pointed out that the districts receiving larger amounts of Impact Aid are subsidizing the metro areas. He asked what flexibility the state has for adjusting the 90 percent retention.

[9:03:24 AM](#)

LES MORSE, Deputy Commissioner, Office of the Commissioner, Department of Education and Early Development (EED), clarified the question as being whether the 90 percent requirement could be adjusted, and what the subsequent effect would be on the Impact Aid distribution. He then deferred.

MS. NUDELMAN offered to provide further information, to include where the 90 percent requirement can be found in statute.

[9:07:19 AM](#)

REPRESENTATIVE COLVER pondered the effect if the state removed the Impact Aid from the formula contributions and allowed the federal funds to go directly to the applicable districts, and whether that would be a plausible action.

MS. NUDELMAN responded that, considering the federal program administratively, it may be a possible option. However, most states use formulas for equalization purposes and the Alaskan formula model is viewed as very strong. The case of Moore, et al. v. State of Alaska, 3AN-04-9756 CI, (2010), although not specifically focused on the formula, tested its efficacy and found it to be adequate. She opined that for an education formula to stand the test of time, equalization is a major consideration. This equalization has the additional effect of the dollars being used in place of general fund money. Also,

she said, feedback from the REAA's would need to be solicited regarding the pros and cons of that concept.

[9:10:21 AM](#)

REPRESENTATIVE COLVER turned to page 12 and read [original punctuation provided]:

Public Law 874 allows a state to seek permission to consider Impact Aid in its state formula if the formula meets a specified equalization standard.

REPRESENTATIVE COLVER said arguments can be made for districts paying their own way, and questioned whether the current formula benefits students throughout the state, opining that it may not. He underscored his concern for unorganized school districts that may not be seeing the best benefit. Returning to his previous question regarding the 90 percent requirement, he said the answer may be contained in that response.

MR. MORSE offered that it may be possible to allow the federal funds to pass directly to the districts; possibly requiring legislative action. He reiterated that the idea behind the equalized formula is to ensure that everyone receives a fair educational learning opportunity, regardless of location. The other concern is for implementation of a funding formula that protects the state from litigation.

REPRESENTATIVE KELLER clarified that the disparity test is a federal requirement and the state funding formula is a means for compliance. It may be appropriate to further review the state education funding formula.

[9:17:16 AM](#)

REPRESENTATIVE SEATON directed attention to page 16, using Anchorage as an example district and asked how eliminating the local contribution would change the calculation, and conjectured that it would fail the federal disparity test.

MS. NUDELMAN responded that it would be difficult to know at what point the test is passed, but alteration, or removal, would cause volatility in the system.

REPRESENTATIVE SEATON opined that it is purely speculative, but making a change in the formula could result in unintended consequences.

[9:21:17 AM](#)

REPRESENTATIVE DRUMMOND turned to page 13, and asked about the per pupil range used for the disparity test calculation.

MS. NUDELMAN said the best resource would be to visit the department's website and view actual numbers.

REPRESENTATIVE DRUMMOND suggested that a review of the state Foundation Formula would also be helpful.

[9:25:30 AM](#)

REPRESENTATIVE KELLER asked how much of the Impact Aid funding is retained by the department for salaries or other administration.

MS. NUDELMAN answered zero; no Impact Aid funds are retained. The position she holds is funded under general funds. Further, she said the department makes application for the military districts, but all receipts are dispersed.

[9:27:38 AM](#)

REPRESENTATIVE KELLER clarified that the Impact Aid criteria is based on where a student's parents live and noted that some military families live off-base, and questioned the residency qualifiers.

MS. NUDELMAN offered to provide a detailed list of the criteria. In general, it is residing on government land; however, there is a smaller category of federally connected children whose parents

are civilian employees who work, rather than live, on federal property.

REPRESENTATIVE DRUMMOND commented that the population living off base but working on government land, would pay property tax.

[9:32:13 AM](#)

REPRESENTATIVE KELLER announced the upcoming meeting.

[9:32:39 AM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Education Standing Committee meeting was adjourned at 9:32 a.m.