

**ALASKA STATE LEGISLATURE
HOUSE EDUCATION STANDING COMMITTEE**

March 30, 2018

8:02 a.m.

MEMBERS PRESENT

Representative Harriet Drummond, Chair
Representative Justin Parish, Vice Chair
Representative Tiffany Zulkosky
Representative Ivy Spohnholz
Representative Jennifer Johnston

MEMBERS ABSENT

Representative Chuck Kopp
Representative David Talerico
Representative Lora Reinbold (alternate)
Representative Geran Tarr (alternate)

COMMITTEE CALENDAR

HOUSE BILL NO. 406

"An Act relating to the calculation of state aid for schools that consolidate; relating to the determination of the number of schools in a district; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 406

SHORT TITLE: SCHOOL FUNDING FOR CONSOLIDATED SCHOOLS

SPONSOR(S): EDUCATION

03/26/18	(H)	READ THE FIRST TIME - REFERRALS
03/26/18	(H)	EDC, FIN
03/28/18	(H)	EDC AT 8:00 AM CAPITOL 106
03/28/18	(H)	Scheduled but Not Heard
03/30/18	(H)	EDC AT 8:00 AM CAPITOL 106

WITNESS REGISTER

GEORGE ASCOTT, Staff
Representative Harriet Drummond
Anchorage, Alaska

POSITION STATEMENT: During the hearing of HB 406, presented the legislation on behalf of the House Education Standing Committee, Representative Drummund, Chair.

JONATHAN KING, Staff
Senator Natasha von Imhof
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During the hearing of HB 406, offered a technical presentation.

DEENA BISHOP, Superintendent
Anchorage School District (ASD)
Anchorage, Alaska

POSITION STATEMENT: During the hearing of HB 406, testified in support of the legislation.

JIM ANDERSON, Chief Financial Officer
Anchorage School District (ASD)
Anchorage, Alaska

POSITION STATEMENT: During the hearing of HB 406, testified.

MARTIN STEPETH
Juneau, Alaska

POSITION STATEMENT: During the hearing of HB 406, testified in support of the legislation.

ACTION NARRATIVE

[8:02:09 AM](#)

CHAIR HARRIET DRUMMOND called the House Education Standing Committee meeting to order at 8:02 a.m. Representatives Johnston, Spohnholz, Zulkosky, Parish and Drummond were present at the call to order.

HB 406-SCHOOL FUNDING FOR CONSOLIDATED SCHOOLS

[8:02:50 AM](#)

CHAIR DRUMMOND announced that the only order of business would be HOUSE BILL NO. 406, "An Act relating to the calculation of state aid for schools that consolidate; relating to the determination of the number of schools in a district; and providing for an effective date."

[8:03:14 AM](#)

GEORGE ASCOTT, Staff, Representative Harriet Drummond, advised that the House Education Standing Committee introduced HB 406 as a companion bill to SB 216, a Senate Finance Committee bill. He explained that this legislation will fix an unforeseen obstacle to school districts that wish to consolidate due to shrinking enrollment which results in a problematic sudden drop in state funding. Currently, he offered, under the school size factor of the foundation formula, school districts receive money based upon the number of students enrolled per school. Schools with a higher density of population receive less funding because they can operate more efficiently and, he pointed out, temporary additional costs are incurred when consolidating and changing the number of people, transportation, curriculum, staffing, and the physical aspects of moving. Consolidations would ultimately save money for schools and the state, but an immediate decrease in funding is problematic for school districts. He advised that this legislation will solve this problem by allowing school districts to adjust gradually to the reduction in funding over a four year period, as follows: during the first two years of consolidation, the school districts will receive full funding as if they had not consolidated; the third year, school districts will receive 66 percent of the difference between pre-consolidation and post-consolidation; the fourth year, school districts will receive 33 percent of the difference between pre-consolidation and post-consolidation; and the fifth year, school districts will be funded as intended under the completed consolidation, and will operate from that point on with reduced funding.

MR. ASOTT related that this bill would simply give school districts the tools to consolidate, it does not force them to consolidate, he explained, and it also addresses a separate and unique problem faced by the community of Hooper Bay. Hooper Bay has one single K-12 school, yet for funding purposes, it is calculated to have two schools until the average daily membership reaches 425 students, after which it will be considered one single school by the formula. He advised that the anticipated cost of the Lower Yukon School District is roughly \$700,000, even though their costs have actually increased due to higher student numbers. He suggested that other schools that may eventually encounter this problem would be helped by HB 406.

[8:06:07 AM](#)

JONATHAN KING, Staff, Senator Natasha von Imhof, Alaska State Legislature, offered a technical presentation on how HB 406 would work. He drew attention to the first slide of the presentation, included in the committee packet, and pointed out an error: AS 14.17.150(a) should read AS 14.17.450(a). He explained that is Alaska Statute that contains the school size factor adjustment.

MR. KING continued, as follows:

The school size ... adjustment, as Mr. Ascott noted, is a component of our state education funding formula contained in AS 14.17.410, and as you can see, this factor ... has a curve to it. It's got those up-slopes on the left-hand side and a downslope on the right-hand side. And what our school funding formula does is it tells our districts to take the average daily membership, in other words the number of ... counted students ... during the measurement period, and, ... in part, to multiply them by the points on this curve where they lie depending on the students. And so, what you can see is that ... if you have 200 students, ... you go up from 200 down on the bottom, you follow that up to the curve, you end up with a multiplier of 1.4. If you have 1,000 students, your multiplier is about 1. And so, as Mr. Ascott noted, this is to adjust for the fact that smaller schools tend to be less efficient - in terms of a per student basis, in terms of costs - than larger schools. However, while this encourages us to build smaller schools and to provide more funding for smaller schools, it also has the inverse effect which is that the larger schools, they receive less funding.

[8:08:40 AM](#)

MR. KING turned to slide 2, titled "Effect of the School Size Factor on Consolidation, Example 1," which read as follows [original punctuation provided]:

If you flip the page from slide 1 to slide 2, I will give you an example of what this means if you are a school district of 1 to consolidate. So, the distribution here, a blue dot, is actually the distribution of a school in the Anchorage School District. And, their school size factor as determined by state statute in AS 14.17.450(a), and you'll see on

this slide, two green dots ... that have next to them 1.06755 and 1.05798. So, let us presume that we are a school district and we have these two schools with 755 ADM and 798 ADM, with 1.06 and 1.05 represents their - - the school size factor applied in formula. And, we want to put this together, and just say that the building -- the building housing the 798 students has capacity to take on those 755 students. We're going to create a combined school that is now equal to the red dot on the right, which says 0.95; 1,553, that is the combined school. And you can see that our cost factor per student has shifted from 1.05 to 1.06 down to 0.95. Well, for the district, this has an immediate fiscal impact when combined, or a previous combination, the state aid for those schools is equal to about \$11.8 million a year excluding any intensive student factor that's a separate part of the funding formula. But when we consolidate those two schools because of the change in the school factor dropping to 0.95, that state aid drops down to \$10.6 million. So, that's a ten percent or \$1.2 million drop in funding from consolidation.

[8:10:52 AM](#)

In addition, in this case, because the Municipality of Anchorage provides the maximum allowed under state law for local state aid, the district would also lose \$0.27 million in local -- in a local funding match. So the loss in terms of funding for the school district is almost \$1.5 million, \$1.47 million. So, for the school district, as they think about consolidating these schools, they have to ask themselves the question, are we going to save more than \$1.47 million -- are we going to save more than \$1.5 million. If we're not, then the accurate consolidation is a net loss in terms of funding. So, for school districts they can maximize their funding by maintaining these smaller unconsolidated schools even -- so, we're creating a disincentive for them to put those schools together if that makes sense for, you know, full financial and other reasons. There are benefits to consolidating schools. Right now we have, you know, special topic teachers that transit back and forth between schools, there is lost time in productivity in that transition. In addition, with some smaller schools, they might be operating one

language at one school and one language in another school and by putting them together we could offer the two languages at both schools, just as an example.

So, there's a calculus that is going on here where the current funding can create a situation where the school is disincentivized to even consider consolidation.

8:12:39 AM

MR. KING turned to slide 3, "Consolidation Example 2," and continued his presentation. Slide 3 read as follows [original punctuation provided]:

So, moving on to slide 3, this is -- this is an actual example provided by calculator -- from a calculator that the Anchorage School District provided to us that we then modified.

And so, this is an elementary school example. So, you'll see lines 1 through 6, in that grey bar, are in a school district, say a school district had say 5 elementary schools between 320 and 375 students. And, then you'll see lines 7 through 12 are when we get to a post-consolidation where we've taken 5 schools and we've reduced them to 4. So, if you just go all the way to the right where it says "Total" on lines 1 through 6. You can see we start with 1,720 students and we walk our way going through the line, through the different elements of our school funding formula, until we get to line 6 where you'll see a total on the right of \$15,069,525. That is the amount of state aid for these 5 elementary schools in a pre-consolidation mode. If a school district were to decide to consolidate them into 4 schools, we would end up with funding of \$14.4 million. And, that's line 12, all the way over to the right where it says, "Total." You drop down to line 15, the smaller grey box in the bottom left-hand corner, you'll see that under consolidation, the school district loses about \$650,000 in state funding, then it loses another \$150,000 in local funding, and a small amount in the Quality Schools Grant. So, the total loss in funding is \$798,000.

8:14:42 AM

Now, of course there is saving involved there in terms of, you know, the fiscal plans and not having to operate the fiscal plans, you would need one less principal in this case. And, it turns out that when you go through those calculations, that the amount of saving of closing that school are less than that loss of \$647,000.

In addition, because you are going to have to change school size boundaries, boundaries for those individual schools to determine the home districts for students, you're also going to have to add additional busing because you are going to be creating slightly larger districts. And that eats into those savings as well. (Audio difficulties) walk all the way down through this is that the district ends up in a position of losing about \$500,000 through the act of consolidation. So, this is an immediate disincentive for school districts even consider consolidation.

[8:15:56 AM](#)

MR. King turned to slides 4-7, "Expected State Savings Example 2, Continued," [which include year's 1-4 calculations] and continued his presentation as follows:

So, on slide 4, we walk through what this looks like in an aggregate fashion if HB 406 and the companion bill were to pass. So, take the example that is on the prior page, a district with a cost factor of 1, which is the Anchorage district, consolidates 5 schools with 1,720 students into 4 schools. Total state aid, pre-consolidation excluding intensive services factor, it is \$15.07 million a year. And you can see that on the prior slide in line 6. They are getting \$15 million a year.

So, under HB 406, if you were to allow them to consolidate, in the first two years they would receive \$15.7 million. So, instead of immediately stepping down from \$15.07 million to the \$14.42 million, they would stay at \$15.07 million for those two years. Allowing the school district time to figure out how to generate the best efficiencies within those schools and make this work for them.

In years 3,4, and 5, the state aid adjusts in equal increments until it reaches that natural level, that is the level underneath the existing funding formula of \$14.42 million for those 1,720 students. So, in years 3, we end up with \$14.85 million which is 66 percent of the distance or the difference between \$15.07 million and \$14.42 million. The state treasury then begins to save that \$220,000 in that year.

In year 4, as we stepped out to 33 percent of the difference between the pre- and post-consolidation numbers, the state receives \$430,000 or spends \$430,000 less. And in year 5, it (indisc.) back to the existing funding formula and the state treasury is spending \$0.65 million. So that is the technical way in which this would step down.

Slides 5, 6, and 7, are highly -- much more detailed examples. It's the exact same example of what we were doing before with the 5 schools going to 4 schools. But this allows you to see exactly how the math works, where the numbers would be pulled from, the bill line, and how that calculation would work out. And, it shows empirically that our funding pre-consolidation and post-consolidation match one another, which is intent of the bill.

[8:19:48 AM](#)

DEENA BISHOP, Superintendent, Anchorage School District, shared that HB 406 is a "win-win" for the state, as well as the Municipality of Anchorage and its education. There is not any more money to be gained by HB 406, as its intent is to allow school districts time to consolidate given the many aspects school districts would experience through consolidation. She advised that the largest costs in education are human resources, as it should be, and she would continue to hire school staff to work with students. The area of savings is in administration, but the school districts would need an opportunity to scale down. She explained that in Anchorage, approximately 45 percent of its schools were built in the 1950s, 1960s, and 1970s, and are approaching their life span prior to having major maintenance or any kind of reconstruction. In the event the committee was to consider HB 406, which strictly defines the operational costs of a school, and then couple that with the capital costs when the bond reimbursement program is reinstated at the state level as well as local, that is an additional

significant savings, particularly to the Anchorage school districts due to its many older schools. The members of this committee who were school board members remember that for many years there has been the request to find efficiencies, to look at schools and neighborhoods, to determine what could be done, she said. The math just never worked out with the formula, it did not make sense, and she related that this conversation is due to the capital costs incurred with the need to reduce schools because many schools are up for major maintenance activity. She remarked that this legislation is a win for our state and a win for the people of Anchorage.

[8:23:12 AM](#)

CHAIR DRUMMOND requested a description of the capital costs.

MS. BISHOP responded that the operation of the school building itself would need to be scaled down, but it would still have to be heated until "we find out what we could do." Many years ago, under House Bill 278, there was an intent to offer charter schools, or other entities, to possibly use former school buildings. The capital costs would include moving furniture because renovations may be necessary, for example, this year a school on base was shut down and the children were moved to four schools. The school district's savings was used to perform some capital improvements, such as, ADA improvements for students with disabilities; additional fencing; rooms were brought back to life that had been mothballed; and simply the capital costs of getting classrooms ready.

[8:25:17 AM](#)

JIM ANDERSON, Chief Financial Officer, Anchorage School District (ASD), advised that he was unsure he had more to add to this committee.

[8:25:59 AM](#)

MARTIN STEPETH pointed out that the witnesses who spoke today are from large districts. He noted that he comes from a small district, but HB 406 could work for that district in a time of transition. For many years, he said, the rural villages and other villages have been consolidating, and this legislation would also work for those villages. He pointed out that not all villages are shrinking, some villages are growing. He advised that out in the Pribilof Islands, "I know that the school on paper right now in Saint George is shut down. But, in a couple

of years, I know for a fact that'll be back up and growing again because there will be enough students there." The transitions offered in HB 406 would help give time and ease into the transition. He stressed that up until a few years ago this was a growing state, but not any longer, these are real problems in real time.

8:27:40 AM

CHAIR DRUMMOND, after ascertaining no one wished to testify, closed public testimony on HB 406.

[HB 406 was held over.]

8:28:18 AM

ADJOURNMENT

There being no further business before the committee, the House Education Standing Committee meeting was adjourned at 8:28 a.m.