

**ALASKA STATE LEGISLATURE  
SENATE EDUCATION STANDING COMMITTEE**

January 25, 2017

8:03 a.m.

**MEMBERS PRESENT**

Senator Shelley Hughes, Chair  
Senator Cathy Giessel  
Senator John Coghill  
Senator Tom Begich

**MEMBERS ABSENT**

Senator Gary Stevens

**COMMITTEE CALENDAR**

OVERVIEW: K-12 FOUNDATION FORMULA

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

MINDY LOBAUGH, School Finance Specialist II  
Department of Education and Early Development (DEED)  
Juneau, Alaska

**POSITION STATEMENT:** Presented information on the K-12 Foundation Formula.

MICHAEL JOHNSON, Ph.D., Commissioner  
Department of Education and Early Development (DEED)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions about the Foundation Formula.

**ACTION NARRATIVE**

8:03:16 AM

**CHAIR SHELLEY HUGHES** called the Senate Education Standing Committee meeting to order at 8:03 a.m. Present at the call to

order were Senators Giessel, Begich, and Chair Hughes. Senator Coghill arrived shortly thereafter.

**OVERVIEW: K-12 FOUNDATION FORMULA**

[8:03:49 AM](#)

CHAIR HUGHES announced that the only order of business would be a presentation by Department of Education and Early Development (DEED) on the K-12 Foundation Formula. She noted that the K-12 formula is about \$1.3 billion, and she thought it important for the committee to understand the details. She requested that members' questions be held until the end of the presentation.

[8:06:31 AM](#)

At ease due to technical problems.

[8:06:41 AM](#)

MINDY LOBAUGH, School Finance Specialist II, Department of Education and Early Development (DEED), presented information on the K-12 Foundation Formula.

[8:06:59 AM](#)

At ease

[8:08:18 AM](#)

CHAIR HUGHES noted that members could view the written presentation.

MS. LOBAUGH began by provided the history of the state public school funding formula. It was established under SB 36 in 1998 and implemented in 1999. It is defined in Alaska Statute 14.17.

She provided an outline of her presentation:

1. October count and Average Daily Membership (ADM).
2. Calculations of Adjusted Average Daily Membership (AADM).
3. Calculation of Basic Need.
4. Funding Components of Basic Need ~ (*Who Pays*)
5. Additional Funds above Basic Need

[8:09:58 AM](#)

MS. LOBAUGH discussed average daily membership (ADM) reporting requirements:

ADM is the number of enrolled students during the 20 school-day count period ending on the fourth Friday of October.

Reports are due within two weeks after the end of the 20 school-day count period.

Projected student count reports are due November 5.

MS. LOBAUGH addressed who qualifies as a student and reviewed the eligibility for state foundation funding:

A child who is 6 years of age before September 1, and under the age of 20, and has not completed the 12th grade.

A child who is 5 years of age before September 1, may enter kindergarten.

A child with a disability and an active Individualized Education Program (IEP) may attend school if at the age of 3 or if under the age of 22 by July 1.

She listed the six steps to the district adjusted ADM used to calculate entitlement:

- Step 1. Adjust: ADM for School Size
- Step 2. Apply: District Cost Factor
- Step 3. Apply: Special Needs Factor
- Step 4. Apply: Vocational & Technical Factor (CTE)
- Step 5. Add: Intensive Services Count
- Step 6. Add: Correspondence Student Count

[8:11:56 AM](#)

At ease

[8:12:43 AM](#)

CHAIR HUGHES noted the presence of Commissioner Johnson from the Department of Education and Early Development (DEED).

[8:13:19 AM](#)

MS. LOBAUGH reviewed Step 1 of the ADM adjustment for school size. She noted that a community with an ADM of:

**Under 10** is added to the smallest school with an ADM greater than 10.

**10 through 100** in Grades K-12, the ADM is combined and adjusted once; adjusted as one school.

**101 through 425** - ADM for grades K-6 and 7-12 are adjusted separately; adjusted as two schools.

**Greater than 425** - the ADM of each facility administered separately as one school is adjusted.

She addressed how the ADM is adjusted for alternative schools and charter schools:

**Alternative** school with an ADM of 175 or greater and administered as a separate facility the ADM will be adjusted separately, unless:

1. It is in the first year of service with ADM between 120 to 175 receives an adjustment of 1.33; **OR**

2. It had an ADM of 175 or greater in the prior year but drops below 175 in the current fiscal year it will receive an adjustment of 1.33; **OR**

3. It has an ADM of less than 175 it shall be counted as a part of the school in the district with the highest ADM.

**Charter** school with an ADM of 150 or greater is adjusted as a separate facility unless:

1. It is in the first year of service with ADM between 75 to 150 it receives an adjustment of 1.45; **OR**

2. It had an ADM of 75 or greater in the prior year but drops below this in the current fiscal year it will receive an adjustment of 1.45; **OR**

3. It continues to stay below 75 ADM then it receives an adjustment of 1.18.

She showed an example of the projected FY2017 ADM for the Nome Public Schools. She detailed the adjustment by school size parameters and described the calculations for grades K-6 and 7-12.

[8:18:35 AM](#)

MS. LOBAUGH described how it would work for the Anvil Charter School, a youth facility, and the total school size adjusted ADM.

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MS. LOBAUGH reviewed the hold harmless provision. It is available up to three years, provided the district stays below

the base year. She compared the differences by year. She said understanding the base year is key for districts.

The Hold Harmless provision was established for those districts experiencing a reduction in enrollment. To determine eligibility, the district's sum total of the School Size Adjustment is compared against the prior fiscal year. If a decrease of 5% or greater has occurred, then the prior fiscal year will become the base.

It is available up to 3 years provided district stays below the base year.

1st year 75% of difference to the base year is retained.  
2nd year 50% of difference to the base year is retained.  
3rd year 25% of difference to the base year is retained.

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She again used Nome Public Schools to demonstrate the hold harmless provision.

MS. LOBAUGH turned to Step 2 - the district cost factors which are specific to each school district and range from 1.000 to 2.116. The formula is to multiply the school size adjusted ADM by the district cost factor.

She showed how it applies to Nome.

She related that Step 3 involves special needs funding. It includes special education (except intensive), vocational education, gifted/talented, and bilingual/bicultural. These are block funded at 20 percent.

She showed how it would work in Nome.

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MS. LOBAUGH explained Step 4, vocational and technical funding. Career & Technical Education (CTE) is funded at a factor of 1.015. It is intended to assist districts in providing career and technical education services in grades seven through 12. It excludes costs associated with administrative expenses and instruction in general literacy, mathematics, and job readiness skills.

She showed how it would be figured for Nome.

MS. LOBAUGH explained that Step 5 is funding for intensive services. A school district will receive funding for intensive services students that:

1. Are receiving intensive services and;
2. Enrolled on the last day of the 20-school-day count period and;
3. Meet intensive qualifications for each intensive services student.

She pointed out that (Intensive Student Count) x 13 = Intensive Student Funding and an Intensive Services student generates \$77,090.

Nome Public Schools has five students that qualify, and she showed the calculations.

MS. LOBAUGH turned to Step 6, correspondence programs. Districts offering correspondence programs receive funding based on 90 percent of the correspondence ADM. The formula is to multiply the correspondence ADM times .90 to get the level of funding, and each correspondence ADM generates \$5,337.

The Nome Public Schools reported 10 correspondence students. She showed how Basic Need for Nome is calculated: multiply the district adjusted ADM by the BSA to get the Basic Need entitlement.

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MS. LOBAUGH summarized all steps as they apply to the Nome Public School District's Basic Need summarized.

[8:28:58 AM](#)

MS. LOBAUGH turned to the components of Basic Need and addressed who pays. It consists of a required local contribution, federal impact aid, and state aid.

She addressed the full and true value/ local effort calculations. The current year full and true value, as provided annually by the State Assessor's Office, is multiplied by 2.65 mils for the purposes of calculation the required local effort for foundation funding.

[8:30:13 AM](#)

She described the calculations required for the local contribution and used Nome as an example.

[8:30:52 AM](#)

MR. LOBAUGH addressed the Title VII Federal Impact Aid payments which are received from March 1 through the last day of February and are used as payment for Basic Need. The state must first deduct out the federal funding for special education (SPED), 1/5th Native lands, and construction funds.

She described how it worked for Nome.

[8:31:55 AM](#)

She explained impact aid percentage. The formula for that is the required local contribution divided by the budgeted local contribution. The budgeted local contribution, for the purposes of calculating the impact aid percentage, is found in the budgets submitted on July 15 of each year and may consist of: appropriations, investment earnings, in-kind services, and other local funding.

She worked the formula for the Title VII percentage for Nome.

[8:33:01 AM](#)

She figured out the impact aid calculations for Nome. She pointed out that regional educational attendance areas do not require the 42.1 percent. Their eligible amount is applied against 90 percent.

[8:34:20 AM](#)

MS. LOBAUGH summarized the state aid for Nome, resulting in \$8,803,771.

She noted there are additional funds above Basic Need such as additional local contributions and Quality Schools Grants.

She showed how the calculation is done for additional local contribution for Nome and the maximum local contribution for Nome.

[8:36:36 AM](#)

MS. LOBAUGH described the Quality Schools Grant as established in AS 14.17.480. The grant equals the districts' adjusted ADM times \$16. This grant costs the state about \$4 million. She calculated what it would be for Nome's total state aid.

She pointed out that if the amount appropriated by the legislature is insufficient to meet the total amount of public school funding authorized, then all districts' Basic Need will be reduced pro rata.

She showed a one-page summary of the Foundation Funding Formula - FY2018 projection, a snapshot of the bottom line totals going through the formula.

8:38:59 AM

SENATOR GIESSEL expressed appreciation for a well-done presentation. She suggested numbering the slides next time. She inquired if correspondence funding is "per student."

MS. LOBAUGH clarified that correspondence funding is 90 percent times the ADM. She added that two students can equal one ADM if they are both part time.

SENATOR GIESSEL used an example of a homeschooled student who is enrolled in the Anchorage School District for orchestra and asked how the ADM would be calculated.

MS. LOBAUGH explained that the orchestra class would be reported as .25 ADM and the correspondence classes would be .75 ADM.

8:41:16 AM

SENATOR GIESSEL asked how independent home schools are calculated.

MS. LOBAUGH said they are not calculated; only public schools are funded.

SENATOR GIESSEL noted that there are schools that are completely correspondence. She asked how many schools like that there are.

MS. LOBAUGH referred to page 8, column L in the public school funding document that shows which schools are using the correspondence process.

8:42:40 AM

CHAIR HUGHES noted the arrival of Senator Coghill.

SENATOR GIESSEL asked how many districts receive funds at the local contribution cap.

MS. LOBAUGH offered to provide that information.

SENATOR GIESSEL thought Juneau funded to the cap.

MS. LOBAUGH believed that was true.

[8:44:05 AM](#)

SENATOR BEGICH asked why Anchorage is used as the base.

MS. LOBAUGH recalled a district cost factor study done in the early 2000s. She offered to provide information about it.

SENATOR BEGICH said he is asking for information purposes. He wondered if Anchorage School District still has the lowest costs.

MS. LOBAUGH said yes; the Yukon Flats District has the highest costs.

SENATOR BEGICH asked if the cost study is done on a regular basis.

MS. LOBAUGH said the last one was done in 2005 by the Institute of Social and Economic Research (ISER). The cost factors did not get completely implemented until FY2013 and have not been revisited since then.

[8:46:27 AM](#)

CHAIR HUGHES asked for the history of BSA adjustments.

MS. LOBAUGH offered to provide that information in chart form. She related that the BSA was \$5,380 in 2008 and it is \$5,930 in 2017, an increase of \$550.

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SENATOR BEGICH asked if any of the districts qualify for the 45 percent local contribution.

MS. LOBAUGH said there are three districts with 45 percent of prior Basic Need: North Slope, Skagway, and Valdez, largely due to the pipeline or tourism, in Skagway's case.

[8:48:28 AM](#)

CHAIR HUGHES said she was impressed by the presentation. She asked how kindergarten is counted and why the word "may" is used.

MS. LOBAUGH replied that kindergarten is counted. The word "may" is there because children are not required to attend school until the age of 6, but they may attend at age 5.

CHAIR HUGHES asked about advantages of small schools not merging, such as receiving more funding as two schools.

MS. LOBAUGH thought it depended on the student count and other factors. She provided an example of a combined school of 110 students, which has an advantage over one 50-student school and one 60-student school.

[8:51:05 AM](#)

CHAIR HUGHES she cautioned not to disincentivizing school consolidation, considering the fiscal gap and the amount that goes toward education.

She asked how portable intensive needs funding is when a student move to another school mid-year.

[8:51:57 AM](#)

MS. LOBAUGH provided an example of a student who was funded in one district and moves to another district. That funding does not follow the student. If the move was within a district, it does.

CHAIR HUGHES asked if there has been any discussion of fixing that. She opined that it needs to be addressed.

MS. LOBOUGH did not know.

[8:52:57 AM](#)

SENATOR BEGICH asked whether the eight school size adjustments were created to address the question of nuances in school size and an attempt to avoid duplication and "student hopping." He thought the categories were made to disincentivize abuse of the formula.

MS. LOBOUGH thought that was a reasonable assessment.

SENATOR BEGICH recalled the Augenblick study commissioned by the Legislative Budget and Audit Committee two years ago, that indicated that the school size adjustments for students in a school building were perhaps a disincentive to districts and may be unfair due to being inflexible. The study suggested that even more categories may be needed to allow students more variety.

MS. LOBAUGH agreed.

SENATOR BEGICH used Juneau as an example of a district that chose not to split the schools for many years in order to maintain sports teams.

[8:56:20 AM](#)

MS. LOBAUGH said ultimately Juneau split into two high schools and now it works better for them in the formula calculation. On the other hand, Anchorage's ADM adjustments in the school size table decreases their benefits because they are such a large district.

[8:57:23 AM](#)

CHAIR HUGHES asked whether most high schools take advantage of the vocational technical adjustments and, if so, how many.

MS. LOBAUGH explained that how those funds are used are determined by the schools. The department is aware that most districts have career and technical education and are utilizing that funding source.

CHAIR HUGHES asked if there is an adjustment for use of technology.

MS. LOBAUGH said the formula does not apply to technology. That is covered through the Career and Technical Education (CTE) adjustment at the high school/middle school level. At the elementary level, the Quality Schools Grant can be used for technology.

[8:59:10 AM](#)

CHAIR HUGHES asked if there are federal funds that might become available for technology use in the schools.

MS. LOBAUGH did not know. She suggested asking the federal grant specialist.

SENATOR COGHILL said technology has a huge impact on districts depending on location and size.

[9:00:38 AM](#)

CHAIR HUGHES understood that when the formula was adjusted, the topic of teacher retention was brought up. It was suggested that the formula might need to be adjusted in order to provide salaries that might draw and retain teachers to districts. She pointed out that there is still a serious problem with teacher recruitment and retention. She asked if there was an adjustment made and if Ms. Lobaugh has retention data.

MS. LOBAUGH said she does not have that information.

[9:01:31 AM](#)

CHAIR HUGHES asked if there is anything in the formula to accommodate rapidly growing districts.

MS. LOBAUGH replied that there are only school size adjustments.

CHAIR HUGHES noted the difficulty of keeping up with the growth.

[9:02:22 AM](#)

SENATOR BEGICH said that the growth in Mat-Su is one of the reasons he brought up the BSA. He asked what impact having Mat-Su as the base would have on the amount of money Anchorage receives.

MS. LOBAUGH said she cannot speak to that, but the cost study would be a good resource for that information. She recalled that the first cost study put Mat-Su as the base.

SENATOR BEGICH asked for a copy of that information. He referred to the Augenblick study which concluded that Alaska has one of the fairest and most well-adjusted foundation formulas in the country. The study identified three areas of concern: underfunding special needs, poverty, and minority populations. He wondered if Ms. Lobaugh recalls those findings.

MS. LOBAUGH said she does not recall that information.

SENATOR BEGICH wondered if Commissioner Johnson recalls. He said he brings it up because he wonders if the state is providing enough resources for those special populations.

[9:06:11 AM](#)

MICHAEL JOHNSON, Ph.D., Commissioner, Department of Education and Early Development (DEED), answered questions about the foundation formula. He said it has been some time since he has read the study, but thinks that Senator Begich's recollections are correct. He offered to provide more information on it.

SENATOR BEGICH recalled that teacher retention was a factor in the Moore lawsuit, and not as a part of the foundation formula discussion. It led to a settlement with DEED and the state. Teacher retention was recognized by the court as a critical component in providing a constitutional and adequate education for Alaskans. He asked Commissioner Johnson if that was correct.

COMMISSIONER JOHNSON said it was, including principal and superintendent retention and, currently, is one of the five

priorities the Governor outlined in the State of the State address,.

[9:07:54 AM](#)

SENATOR COGHILL asked to review court cases related to the foundation formula and consent decrees the state is under.

CHAIR HUGHES agreed that teacher retention was part of the Moore lawsuit, but clarified that teacher retention was also a part of the foundation formula revisions.

MS. LOBAUGH thanked the committee for the opportunity to present.

CHAIR HUGHES said the department could answer more questions as they arise from committee members.

[9:09:32 AM](#)

CHAIR HUGHES noted the next meeting would address the baseline for broadband access in rural schools.

[9:10:05 AM](#)

There being no further business to come before the committee, Chair Hughes adjourned the Senate Education Standing Committee at 9:10 a.m.