

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

March 6, 2017
8:02 a.m.

MEMBERS PRESENT

SENATE EDUCATION STANDING COMMITTEE

Senator Shelley Hughes, Chair
Senator Gary Stevens
Senator Cathy Giesel
Senator John Coghill
Senator Tom Begich

HOUSE EDUCATION STANDING COMMITTEE

Representative Harriet Drummond, Chair
Representative Justin Parish, Vice Chair
Representative Zach Fansler
Representative Ivy Spohnholz
Representative Jennifer Johnston
Representative David Talerico

MEMBERS ABSENT

SENATE EDUCATION STANDING COMMITTEE

All members present

HOUSE EDUCATION STANDING COMMITTEE

Representative Chuck Kopp
Representative Lora Reinbold (Alternate)
Representative Geran Tarr (Alternate)

COMMITTEE CALENDAR

**PRESENTATION: COMMONWEALTH NORTH OPERATING BUDGET REPORT - K-12
FUNDING**

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MARK FOSTER, Consultant
Commonwealth North (CWN)
Anchorage, Alaska

POSITION STATEMENT: Presented information on a Fiscal Review of Alaska K-12 Investments.

ACTION NARRATIVE

[8:02:47 AM](#)

CHAIR SHELLEY HUGHES called the joint meeting of the Senate and House Education Standing Committees to order at 8:02 a.m. Present at the call to order were Senators Giessel, Begich, Coghill, Stevens, and Chair Hughes and Representatives Parish, Fansler, Johnston, Spohnholz, Talerico, and Chair Drummond.

PRESENTATION: COMMONWEALTH NORTH OPERATING BUDGET REPORT - K-12 FUNDING

[8:03:41 AM](#)

CHAIR HUGHES announced that the only order of business would be a presentation by Commonwealth North Operating (CW) on the operating budget report for K-12. She related that CWS has a long commitment to support sound fiscal policies in Alaska. Today's report is their latest effort toward that commitment. She hoped it would be a valuable tool for the legislature to consider as it looks for ways to deal with the fiscal gap and the education system.

[8:04:51 AM](#)

MARK FOSTER, Consultant, Commonwealth North (CWN), presented information on a Fiscal Review of Alaska K-12 Investments. He shared his professional background as the former Chief Financial Officer of the Anchorage School District and the Executive Director of the Office of Budget and Management. He continues to provide consulting services, none of which are related to K-12 finances. He said that he would present CWN's recommendations regarding school consolidations.

He highlighted two recommendations the CWN fiscal study group made related to K-12:

Education funding needs to refocus on direct instruction that yields measureable improvements in student achievement. State K-12 funding should be reduced by 1 to 3 percent per year for four years, during which funding would have to be reallocated from administrative/operations, other than direct instruction, to maintain funding for direct instruction.

Prior to making investments in UA teacher training programs, teacher training programs both inside and outside Alaska should be evaluated to identify those that have produced high quality teachers who have generated high student achievement results.

8:08:00 AM

CHAIR HUGHES asked about the findings of the report dealing with overall spending versus spending in the classroom.

MR. FOSTER noted that discussion would be covered shortly.

He continued with a question CWN asked about how to address the cost and the performance of the formula programs. He stressed looking at the quality of the programs, not whether their funding should be increased or decreased.

He turned to two elements critical to understanding CWN's recommendations, descriptions of the fiscal gap as it relates to Alaska's future, and consideration of the pension funding challenges.

8:09:53 AM

MR. FOSTER turned to graphs from Alaska's Future website on the impact of five permanent fund earnings bills and the status quo on the deficit, dividends, and fund growth, with and without including pension fund challenges. The analysis by Alaska's Future suggests that even with the use of permanent fund earnings to help support both government and dividends, there will still be a significant structural deficit. He said, with that remaining gap in mind, the CWS study group looked across state functions and concluded that the essential state functions will need to take modest cuts, while other functions may take deeper cuts. The rationale for reducing K-12 funding by 1 percent to 3 percent per year for four years came from looking at the overall budget outlook.

He addressed the fiscal outlook including pension fund obligations. He reminded the committee about the underfunded liability related to the pension. He showed a graph that included Moody's standard pension liability adjustments of approximately \$250 million per year. He addressed the combination of the structural deficit and the off-book deficit.

[8:12:20 AM](#)

CHAIR DRUMMOND referred to page 7 of the presentation and noted that Moody's Standard Pension Liability Adjustments have been added.

[8:12:48 AM](#)

MR. FOSTER said that was correct.

[8:12:57 AM](#)

CHAIR DRUMMOND asked if it takes into consideration the annual payments the state is making of about \$250 million in pension obligations.

MR. FOSTER opined that there is additional pension liability that is not part of the pay down that is commonly calculated by Moody's when trying to assess the capacity of the state. It is based on actuarial estimates and not on the risk-adjusted estimates that third parties use.

CHAIR DRUMMOND asked if he is suggesting the state provide an additional \$250 million.

MR. FOSTER clarified that it is another \$250 million of liability and the question is how to account for it. To estimate the overall liability going forward, he would add it to the consideration when thinking about the structural benefit.

[8:14:12 AM](#)

SENATOR BEGICH asked about CWN's philosophy regarding the 1 percent to 3 percent cut based on whether to use certain revenues in lieu of other revenues.

MR. FOSTER explained that there was a wide variety of discussion within CWN's fiscal study group. The combination of interests led to the compromise number of 1 to 3 percent.

SENATOR BEGICH stated it is a compromise number based on a philosophical discussion, not an evidence-based number.

MR. FOSTER disagreed. He said there was benchmark evidence on both sides of the issue.

8:15:38 AM

SENATOR STEVENS asked for an explanation between actuarial versus risk adjustment.

8:16:04 AM

MR. FOSTER drew attention to Moody's downgrade of state debt found in an eight-page report from July 2016 where experts made adjustments to the actuarial analysis to take into account what they believe is a fair representation of liability including future cash flow requirements. That number is significantly different than the actuarial analysis. He offered to write a summary of that information.

SENATOR STEVENS agreed it would be good to have it in writing.

MR. FOSTER provided an example of the actuarial analysis using an 8 percent return assumption; Moody believes in a lower return number.

CHAIR HUGHES requested a short brief on the topic.

8:17:30 AM

MR. FOSTER turned to a report from July 2015 by Augenblick, Palaich and Associates (APA) consulting group entitled, "Review of Alaska's School Funding Program." One of their findings was the regression analysis examining the relationship between instructional expenditures and district proficiency levels, which showed a positive relationship between spending and performance in both reading and math. Contrasted to instructional expenditure per pupil, the analysis indicated that there is no significant relationship between total district expenditure per pupil and district proficiency levels. There is a positive response on student performance from instructional investment, but a negative response by investments other than instruction. This suggests a need to examine the system of funding to ensure a return, not losing ground.

8:19:32 AM

REPRESENTATIVE PARISH asked if it is a correlative or causal relationship.

MR. FOSTER understood that the APA Study was correlative.

CHAIR DRUMMOND requested a copy of the study.

8:21:00 AM

REPRESENTATIVE PARISH asked if the study was controlled for any other factors such as location, rural or urban, or spending on connectivity.

MR. FOSTER said APA did account for a few demographic factors.

8:21:44 AM

MR. FOSTER related that the Anchorage School District hired consultants to address the question where to focus financial investment in education. They did a study on the number of teachers versus support staff and found that high performing districts were successful due to having more teachers than support staff. They found ways to reduce administrative and support costs in order to employ more teachers. They also found that many rural districts have more support staff than teachers. It was suggested that rural districts might have challenges with teacher recruitment, so they use support staff to backfill empty positions. The challenge was that this did not yield measurable performance benefits in proficiency or growth.

8:24:26 AM

SENATOR BEGICH inquired if rural districts are backfilling because they can't get teachers and the recommendation from CWN is to reduce the amount of money available to districts, how that would measurably improve educational outcomes. He asked if the comparison of Alaska with Wyoming includes rural or successful districts.

MR. FOSTER said both are compared.

SENATOR BEGICH restated his first question. He questioned the level and depth of the analysis.

MR. FOSTER replied that rural districts may have invested in things other than direct instruction. The challenge is to supply quality instruction and improve compensation packages for teachers. He noted the same phenomenon occurs in urban districts; instead of investing in teachers, they invest in teacher assistants and that doesn't yield benefits. It appears to be cost effective, but it is not educationally effective. There is a state fiscal challenge, so it makes sense to reduce overall levels of financial support, but invest available resources in trained teachers.

8:27:13 AM

SENATOR BEGICH asked again how a one-to-three percent reduction is possible when teachers cannot be recruited to urban areas. He requested evidence for a causal correlation.

MR. FOSTER replied there is no direct evidence that reducing the budget will help education. He pointed out that a lot of money has been spent without getting results and there is a need to construct systems to support measurements of success and encourage investment in areas that are getting return.

[8:28:52 AM](#)

REPRESENTATIVE JOHNSTON asked if he is suggesting that by lowering the budget, it allows policymakers to create a vision that provides great teachers to all of Alaska students, with consideration of virtual education and support staff in the classrooms to assist great virtual teachers.

MR. FOSTER said that is one model.

[8:29:45 AM](#)

REPRESENTATIVE SPOHNHOLZ said she doesn't disagree with the idea that having more teachers will yield better outcomes, but is confused about the strategy. Requiring cuts to the budget to achieve an outcome that does not have a clear connection to budget cuts is confusing. She asked if they explored any other proposals, such as requiring a larger percentage of resources being allocated to the classroom by district.

[8:30:41 AM](#)

MR. FOSTER clarified that their focus was on getting more resources for teachers. The context was that the overall budget gap appeared to be significant enough that even essential services probably merited reductions. That is in part due to benchmarking those essential services against other states and concluding that even after adjusting for cost, the state is paying at least as much as other states for education and not getting a return on that investment.

[8:31:28 AM](#)

REPRESENTATIVE SPOHNHOLZ did not disagree with that point, but asked how cutting the budget, overall, is supposed to inspire districts to reallocate resources to the classroom.

MR. FOSTER explained that CWN is not arguing that the cuts realign, but are suggesting that the legislature needs to consider shifting monies toward direct classroom instruction by quality teachers as a move toward best practices.

REPRESENTATIVE SPOHNHOLZ understood he is not proposing that budget cuts would produce this outcome. Instead, the legislature should focus on re-allocating resources from administration and support into the classroom.

MR. FOSTER said yes.

CHAIR HUGHES commented that not reducing teachers, but reducing administration is the bottom line. Overall spending per pupil does not have great results, but spending for class instruction does impact results.

[8:33:26 AM](#)

REPRESENTATIVE PARISH commented that the evidence does not suggest results, it suggests correlation.

[8:33:55 AM](#)

MR. FOSTER continued with a graph on the support staff ratio per 100 students by school district. The evidence-based resource model found that six support staff per 100 students was justified. Only two districts had that suggested ratio, Mt. Edgecumbe and Mat-Su.

[8:35:35 AM](#)

CHAIR HUGHES asked whether support staff includes teacher aides and instructional aides in the classroom.

MR. FOSTER said yes.

He continued with a graph comparing on Alaska's K-12 investment and performance levels with other states in FY2014-FY2015. It showed very little correlation on spending and student performance at the state level. Recently, Alaska has migrated from the "middle" of spending and performance toward high spending/low performance quadrant.

He showed a graph of proficiency versus percent of school age children in poverty by state in January 2017. Student performance and percentage of school age children in poverty continues to be inversely correlated at the state level. Alaska made modest improvements in student performance, while other states have made more progress in that areas.

[8:38:20 AM](#)

REPRESENTATIVE PARISH referred to the extremely high R-squared values. He thought anything that can be done to reduce child

poverty would be a good investment. He asked if Mr. Foster agreed.

MR. FOSTER said yes.

[8:39:11 AM](#)

CHAIR DRUMMOND said the number of students in poverty in Alaska has increased from roughly 10 percent to 13.5 percent, yet student proficiency has increased slightly during that time.

MR. FOSTER said that was correct.

CHAIR DRUMMOND concluded that Alaska has taken some steps toward reducing the impacts of childhood poverty.

MR. FOSTER stated that the evidence suggests that education results have improved despite childhood poverty.

CHAIR DRUMMOND asked what has been done that has contributed to that improvement.

MR. FOSTER said he has not done that analysis.

[8:40:58 AM](#)

REPRESENTATIVE JOHNSTON asked if student poverty is measured by the free lunch program. She asked when Anchorage opened the program to all students. She wondered if the poverty rate decreased when all students were able to take free lunch.

MR. FOSTER reported that CWN's poverty numbers were independent from the free lunch data. The school district did move to a school-wide assessment for student free lunch eligibility.

[8:42:23 AM](#)

REPRESENTATIVE JOHNSTON asked how CWN measured the poverty rate.

MR. FOSTER explained that they used poverty estimates developed by the Bureau of Labor and cross-checked those against the census.

REPRESENTATIVE JOHNSTON said the graph shows that Anchorage School District is still below the norm.

MR. FOSTER agreed. He said Alaska has only made modest improvements in student performance and other states have made significant improvements. Most everyone else is doing better

than Alaska is, so Alaska needs to figure out how to get back on track and catch up.

8:43:43 AM

CHAIR DRUMMOND recognized the presence of Representative Fansler.

8:44:24 AM

MR. FOSTER turned to another graph that depicts K-12 investment levels and performance compared to other states after adjusting for poverty. Several states made significant progress in student performance with moderate increases in K-12 investment levels. Massachusetts student performance continues to outpace the rest of the states. Alaska and Hawaii are outliers - falling well below expected performance for their K-12 investment and child poverty levels. He noted the impact of the nationwide fiscal downturn. He explained that Alaska and Hawaii have modest increases in poverty despite spending a lot of resources; other states show increased performance. Alaska must figure out where to invest money to get a return.

8:49:18 AM

REPRESENTATIVE PARISH pointed out that this trend looks like it is just barely significant. He asked how much per pupil spending is attributable to high health care costs.

8:49:50 AM

MR. FOSTER thought it was a significant amount and much higher than in other states. Health care costs are more than what you might expect in Alaska, approximately \$3,000 per student.

8:50:29 AM

SENATOR BEGICH used an analogy of energy inefficiency in a house. It seems as though CWN suggests unplugging the electricity instead of determining the reasons for the inefficiency and changing those factors. He inquired how CWN can suggest budget cuts as a solution to inefficiency, instead of using and investing resources to do a better job of determining the cause of it. He noted APA's study said the foundation formula was doing well except how it served poverty, special education kids, and Alaska Native kids in rural Alaska. He questioned the relevance of the comparison between Massachusetts and Alaska given the vast differences in size and rural challenges.

8:52:17 AM

MR. FOSTER responded that the comparison was used due to high performance and poverty challenges in both states. Anchorage and Boston have similarities, such as heavy allocations of resources for support for teachers and high health care costs. He explained their recommendation for cuts as a way to improve performance being due to the whole challenging fiscal situation and the need to benchmark spending for staffing to understand what the appropriate levels are that will result in success. CWN is suggesting focussing on direct classroom instruction and teacher preparation.

[8:54:41 AM](#)

MR. FOSTER listed CWN's recommendations and strategies to shift resources toward improved performance at the district level and state level implementation options and considerations. He spoke of a level of fatigue districts go through during budget cycles and he suggested seeking benchmarks of districts finding success instead of looking at previous year benchmarks.

[8:56:21 AM](#)

MR. FOSTER reviewed school facility consolidation incentives. He did not find evidence that the formula, per se, drove small schools. The size of schools is driven by the neighborhood and the geography and the distance for transportation. He did not see that the school size factor in the top five school districts drove small schools.

He agreed that school size is a disincentive to school consolidation. He showed a graph of Average Daily Membership (ADM) by schools. He did a comparison of two schools using the foundation formula and ADM and concluded that school consolidation saves money. From a district perspective, there are efficiencies in administrative costs from consolidation, however, there are negatives in terms of finances and politics.

[9:00:49 AM](#)

CHAIR DRUMMOND said she is trying to figure out how two small rural villages, each with 200 students, that are 50 to 60 miles apart can benefit from consolidation. She thought it might work in a large district. She recalled presentations about consolidation of services among districts that have resulted in savings. She did not see consolidation working in rural districts.

[9:01:44 AM](#)

MR. FOSTER thought it was a consideration for suburban districts. He cautioned about spare capacity in the Anchorage School district associated with the military base (JBER).

[9:02:58 AM](#)

REPRESENTATIVE PARISH was reminded of a Russian story when there were plagues and many doctors, so they executed doctors as the solution - a fundamental problem of correlation and causation. He shared his experience as support staff and maintained that cutting support staff is the wrong solution considering Alaska's high rates of childhood sexual abuse and adverse childhood experiences. He stressed that cutting support to children is wrong. He wondered if the study considered adverse childhood experiences (ACEs).

MR. FOSTER related that he has studied that issue at the Anchorage-municipal level, but not at the state level. He agreed that there are high rates of ACEs and that urban districts nationwide have significant challenges. He offered that the investments focused in this area have not been very effective.

[9:06:04 AM](#)

REPRESENTATIVE JOHNSTON referred to the graph comparing student performance and investment levels in states, after adjusting for poverty. She asked which rural western states have made greater improvements in student performance.

[9:07:15 AM](#)

MR. FOSTER thought Minnesota was a better example than Montana due to its diverse population.

REPRESENTATIVE JOHNSTON asked if any states with large reservations have shown marked improvement.

[9:07:58 AM](#)

MR. FOSTER said he did not look at that detail.

[9:08:17 AM](#)

MR. FOSTER said that concludes his presentation and he thanked the committee for hearing about the CWN Fiscal Study. He suggested that Alaska focus investments going forward.

[9:08:57 AM](#)

CHAIR HUGHES said it was depressing to look at those graphs. She maintained that Alaska needs to improve. She asked what recommendations Alaska should consider to help change what we're seeing.

[9:09:54 AM](#)

MR. FOSTER responded that the study group did not come to consensus on the initiatives. He suggested to reduce administrative overhead and focus resources on the classroom. It can be done through intent language and fiscal adjustments. He opined that, long term, the formula warrants a fresh look in order to focus on teachers; attracting, retaining, and training the teacher pool.

[9:11:25 AM](#)

REPRESENTATIVE PARISH appreciated the suggestion to improve benefits for teachers and address child poverty, the strongest predictor of childhood outcomes. He asked if the legislature should focus on reducing childhood poverty and mitigating its effects.

[9:12:25 AM](#)

MR. FOSTER said yes. Some efforts to improve poverty are successful, and some are not. He suggested to be mindful of where to make investments.

[9:12:58 AM](#)

REPRESENTATIVE PARISH asked for a report on the correlation between high health costs and childhood traumas and lower performance, and the need for more support staff.

[9:13:29 AM](#)

CHAIR DRUMMOND recalled that last year the legislature removed the 70/30 split between required expenditures in the classroom and all other school district expenditures due to rural schools having difficulty paying heating bills. She asked whether the CWN study took unavoidable operational costs into consideration when recommending reducing administrative expenditures.

[9:14:18 AM](#)

MR. FOSTER replied they did look at the cost of heating, electricity, housing, etc. in 2008. It appears that the cost of housing in Anchorage has risen faster than in rural areas. He said they need to redo data and list Mat-Su as the most expensive place to live. They didn't have sufficient data to include it in the report.

[9:15:54 AM](#)

CHAIR DRUMMOND said she is talking about the cost of running a school building in rural Alaska and housing teachers in rural

districts. Urban housing costs have no relevance to this question. She restated her question.

MR. FOSTER said they did not look at the 70/30 split.

[9:16:58 AM](#)

REPRESENTATIVE SPOHNHOLZ referred to Mr. Parish's earlier question and asked what the CWN study considered as classroom spending and if it was teachers only.

MR. FOSTER replied teachers; highly qualified professionals with direct classroom time with students for most of their day.

REPRESENTATIVE SPOHNHOLZ noted there are a lot of support staff in the classroom, such as paraprofessionals. She said her daughter is an appreciated teacher assistant in a kindergarten class. She provided another example of special education classes where teachers have much-needed support staff.

MR. FOSTER referenced a PICA Report done in Anchorage that reviewed the evidence whether an investment in support staff made a difference and found that it had minimal effect on yielding better test results. There is merit in looking at that resource and investing in more teachers, not support staff, especially in the lower grades.

[9:20:24 AM](#)

SENATOR BEGICH asked if energy and maintenance costs are included in non-instructional data in the study.

MR. FOSTER said he did not know if APA included those costs. He said he has only looked at staffing and not at energy and maintenance costs.

SENATOR GIESSEL thanked Mr. Foster for his work on the CWN Fiscal Study Group. She alluded to child poverty and adverse childhood events and maintained that schools have become social service providing entities. She thought there were creative solutions to that problem, such as schools contracting with private entities to provide mental health counseling. She appreciated the emphasis of poverty's effect on the outcomes of education. In Mat-Su one of the predictors of success in schools is whether there is a job in the home.

[9:23:44 AM](#)

REPRESENTATIVE SPOHNHOLZ questioned the re-allocation of support staff to lower grades. She asked how that would affect the student/teacher ratios.

9:24:33 AM

MR. FOSTER said the comparison of teacher salary and benefits versus support staff salary benefits would equal about 1.6 support staff to one teacher.

9:25:06 AM

SENATOR BEGICH referenced energy costs per district and read some of those costs. He pointed out that many smaller districts have energy costs that exceed numbers in the larger districts. Finding out if those costs are included would make a big difference in the outcomes of the study.

9:26:17 AM

CHAIR HUGHES asked Mr. Foster to find that information.

MR. FOSTER said he would try.

9:26:42 AM

REPRESENTATIVE FANSLER requested information about the cost of broadband/internet access to districts.

9:27:29 AM

CHAIR HUGHES thanked Mr. Foster. She referred to Alaska's academic achievement results and said it is hard to accept that Alaska is not doing a great job. Factors such as poverty, the home environment, and parents having a job can affect a child's educational chances of success. The Education Committees can't change what is going on in homes, however, they can create policy to ensure access to great teachers, which can overcome some of the poverty implications. She opined that the committee can make sure students have access to great teachers and better achievement. She encouraged everyone to think about opening access to better teachers and be willing to shake things up. Alaska is unique, but it is not alone with these challenges. Other states have had better academic improvement. She concluded that she believes that every student matters and can succeed if given the opportunity. The committees must work together for better student achievement.

9:31:40 AM

There being no further business to come before the committee, Chair Hughes adjourned the Joint Education Standing Committees at 9:31 a.m.