

HOUSE FINANCE COMMITTEE
February 28, 2023
1:31 p.m.

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CALL TO ORDER

Co-Chair Johnson called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

Representative DeLena Johnson, Co-Chair
Representative Julie Coulombe
Representative Mike Cronk
Representative Alyse Galvin
Representative Sara Hannan
Representative Andy Josephson
Representative Dan Ortiz
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

Representative Bryce Edgmon, Co-Chair
Representative Neal Foster, Co-Chair

ALSO PRESENT

Heidi Teshner, Acting Commissioner, Department of Education and Early Development; Sabrina Javier, Administrative Services Director, Department of Education and Early Development; Deb Riddle, Operations Manager, Innovation and Education Excellence, Department of Education and Early Development; Dr. Amy Philips-Chan, Director, Division of Libraries, Archives and Museums; Alexei Painter, Director, Legislative Finance Division.

SUMMARY

HB 39 APPROP: OPERATING BUDGET/LOANS/FUND; SUPP

HB 39 was HEARD and HELD in committee for further consideration.

HB 41 APPROP: MENTAL HEALTH BUDGET

HB 41 was HEARD and HELD in committee for further consideration.

FY 24 BUDGET OVERVIEW: DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT

PRESENTATION: HISTORY OF THE BASE STUDENT ALLOCATION FORMULA: LEGISLATIVE FINANCE DIVISION

Co-Chair Johnson reviewed the meeting agenda.

#hb39

#hb41

HOUSE BILL NO. 39

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making reappropriations; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 41

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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^FY 24 BUDGET OVERVIEW: DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT

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HEIDI TESHNER, ACTING COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced herself and relayed there were numerous people from the department available for questions. She provided a PowerPoint presentation titled "Department of Education and Early Development FY2024 Budget Overview," dated February 28, 2023 (copy on file).

She began with the department's mission, vision, and purpose on slide 2:

Mission:

An excellent education for every student every day.

Vision:

All students will succeed in their education and work, shape worthwhile and satisfying lives for themselves, exemplify the best values of society, and be effective in improving the character and quality of the world about them.

-Alaska Statute 14.03.015

Purpose:

DEED exists to provide information, resources, and leadership to support an excellent education for every student every day.

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Acting Commissioner Teshner moved to slide 3 titled "Strategic Priorities: Alaska's Education Challenge." She detailed that about five years back, parents, students, educators, policy makers, and tribal leaders had all gotten together to answer Alaska's call to create a shared vision for improving the state's public education system. The outcome had been Alaska's Education Challenge, which included five shared priorities [shown on the slide] to guide the Department of Education and Early Development's (DEED) work. She relayed that the implementation work continued.

Acting Commissioner Teshner discussed the department's organizational chart on slide 4. The commissioner reported to the State Board of Education and Early Development. The state board was appointed by the governor and consisted of nine members including a military advisor and a student advisor. The commissioner provided leadership and direction for the department. There were five divisions providing service to Pre-K through grade 12 including the Division of Innovation and Education Excellence, the Division of Finance and Support Services, the Division of Administrative Services, Mt. Edgecumbe High School, and the Division of Libraries, Archives and Museums. There were three boards, commissions, and corporations that fell under DEED administratively including the Alaska State Council on

the Arts, the Professional Teaching Practices Commission, and the Alaska Commission on Postsecondary Education. She noted that a colleague would provide more detail on the budgets of each of the divisions and components.

Representative Hannan asked how long the position had been vacant under the Division of Finance and Support Services.

Acting Commissioner Teshner answered that the position had been vacant for a little while, but she did not have an exact timeframe. She reported there was currently active recruitment underway that would be closing soon to hire for the position.

Representative Hannan asked if the vacancy had been a year or a couple of months. She stated that much of the current presentation would be about financing for schools. She remarked that having the position empty drew her attention. She was looking to figure out problem solving down the road and wondered how long schools had not had support from the specific position. Alternatively, she considered whether the situation was a normal transition where someone had retired, and the department was in the recruitment phase.

Acting Commissioner Teshner answered the position had been vacant not quite a year. She had been promoted to the deputy commissioner role and had previously filled the role. She was still supporting the [Division of Finance and Support Services] staff. There had been someone in acting status in the position for a while. She was currently helping to fulfill multiple roles within the department. She stated there had been no lack of support for districts in that area [covered by the division].

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Acting Commissioner Teshner addressed a budget organizational chart on slide 5. The chart reflected the same organizational structure but included the budget terminology. She explained that the organizational chart may help legislators to locate where funding was located within the department. For example, The Division of Innovation and Education Excellence included student and school achievement, teacher certification, early learning coordination, and Pre-K grants. She moved to a graphical representation of the department's operating budget and position history from FY 22 through FY 24 governor amended

on slide 6. The bar chart represented the funding sources that made up the department's overall budget. The dark blue reflected undesignated general funds (UGF), green represented federal COVID-19 relief funding, orange reflected "other" funds, light blue was designated general funds (DGF), and gray depicted federal funding. She noted that the green portion of the FY 24 governor amended bar was grayed out because it reflected an estimate of what DEED thought would be carried forward. She explained that the department's federal programs allowed DEED to carry over money and DEED did not know how much federal COVID money would carry over into FY 24. The amount would depend on when districts and other grantees requested drawdowns and submitted requests for reimbursements. She stated it would not likely be \$316 million, but DEED did not yet know.

Acting Commissioner Teshner continued to review slide 6. On average, UGF accounted for about 67 percent of the department's budget from FY 22 through FY 24. The figure was about 79 percent when excluding COVID funding. The department's total operating budget for FY 24 was \$1.65 billion. She noted the figure did not include the \$316 million in COVID relief funds (the budget would be about \$1.9 billion with COVID relief funds). She detailed that about 94 percent (~\$1.213 billion) of the department's UGF budget was the foundation formula and pupil transportation program.

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Representative Cronk asked how much money was impact aid that came back to the state.

Acting Commissioner Teshner answered that on average DEED took between \$70 million and \$80 million into consideration in the foundation funding formula.

Representative Ortiz highlighted that the foundation formula was also known as the Base Student Allocation (BSA).

Acting Commissioner Teshner agreed.

Representative Ortiz asked why the BSA had decreased from FY 23 to FY 24.

Acting Commissioner Teshner clarified that the foundation formula and pupil transportation did not account for the department's entire UGF budget. Those items accounted for about \$1.213 billion and a small portion of the UGF budget was unrelated. The FY 24 budget was built on projected student counts by districts for the following year. The number was trued up annually during the October count period and the department paid based on the actual number of students served. The number used to build the FY 24 budget would be trued up after the count period in October 2023.

Representative Ortiz looked at the \$1.361 billion in UGF spending in FY 23 compared to the \$1.285 billion in FY 24. He asked if the difference in the numbers resulted from projected enrollment decline.

Acting Commissioner Teshner stated it could be part of the reason, but she did not have the data on hand. She noted that the APS [Alaska Performance Scholarship] had moved from UGF to the Higher Education Fund, which would have contributed to a lesser amount in FY 24 UGF. There were several other contributing factors. She highlighted that the DGF line increased from \$2.7 million [in FY 23] up to \$25.9 million [in FY 24]. Part of the issue was a switch between UGF and DGF.

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Representative Ortiz recalled that the FY 23 budget had included a one-time increment. He asked if it was included in the number and helped explain the difference.

Acting Commissioner Teshner confirmed there had been a \$57 million UGF one-time increment outside the funding formula, which was reflected in the FY 23 column and not FY 24.

Representative Stapp acknowledged visitors in the audience.

Acting Commissioner Teshner moved to two pie charts on slide 7 and discussed the FY 24 governor's amended budget. She noted the slide included the \$316 million in federal COVID relief funding for a total of \$1.97 billion. The pie chart on the left broke out the information by line. She detailed that 94 percent of the budget was passthrough grants to school districts and other entities for the foundation formula, pupil transportation, state grant

programs, and federal grant programs (e.g., Title 1 and special education). The pie chart on the right provided a breakdown of the divisions and amount associated with each.

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Representative Galvin looked at slide 7, specifically related to Innovation and Education Excellence. She asked if anything related to early education for kids up to five years of age was included in that segment of the budget.

Acting Commissioner Teshner answered that children from age zero to three were served by the Department of Health. The Department of Education and Early Development served young children from three to five years of age. She explained that any Pre-K grant funding that went to school districts and ~\$6.8 million for Head Start was included in the early learning and Pre-K grant components under the Division of Innovation and Education Excellence.

Representative Galvin asked for the number of students currently served by early education programs in the three to five-year old population.

Acting Commissioner Teshner would follow up with the information.

Representative Galvin asked for the dollar figure.

Acting Commissioner Teshner answered there was about \$6.8 million in grants allocated to Head Start entities for their match requirement.

Representative Galvin asked for the federal match figure.

Acting Commissioner Teshner replied that the department would follow up with the information.

Representative Galvin requested data on the number of early learning students presently served and the amount of associated funding. She was particularly interested in the department's mission of ensuring children were ready to read. She wanted to make certain children were arriving ready at the age of five.

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Acting Commissioner Teshner referred to a DEED early learning report she had just been handed and would provide to the committee. She detailed there were 674 children served by Pre-K grants of about \$5.7 million in 2023. The Parents as Teachers program currently served 123 students with \$474,000.

SABRINA JAVIER, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, relayed that the department's total FY 24 budget (excluding federal COVID-19 relief funding) was approximately \$1.65 billion. She would break down the budget to the division level on the coming slides. She reviewed the budget for the Executive Administration Division on slide 8. The division included the commissioner's office and the State Board of Education. The division provided policy direction to the other DEED divisions and provided support to the department's stakeholders. The FY 24 budget for the division totaled just under \$1.5 million comprised of ~\$1 million UGF and \$500,000 in interagency receipts. There were seven full-time positions and one non-permanent position within the division.

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Ms. Javier turned to the budget for the Division of Finance and Support Services on slide 9. The division included School Finance, School Facilities, and Child Nutrition programs. The largest portion of DEED funding resided within the division at a total of just under \$1.4 billion. There were 22 full-time positions within the division. The School Finance Section administered the foundation formula and pupil transportation funding and provided financial support to school district business offices. The School Facilities Section oversaw school capital projects and administered the Major Maintenance and School Construction grant programs. The Child Nutrition Section administered child nutrition programs that most school districts participate in including the national school lunch program, the school breakfast program, and the summer foods service program. She reviewed a bar chart on slide 9 showing the division's budget. The majority of the UGF shown in blue was allocated to the foundation and pupil transportation programs for school districts. The gray section of the bars represented federal receipts, which were primarily awarded by the U.S. Department of Agriculture as passthrough funds for child nutrition programs. The small orange portion of

the bar reflected "other" funds of about \$32.7 million from federal impact aid revenue. She clarified that the \$32 million was the Public School Trust Fund.

Representative Hannan asked what impact aid entailed.

Acting Commissioner Teshner replied that the \$20 million shown on the slide represented what the department applied for on behalf of three military bases and Mt. Edgecumbe High School. The \$70 million to \$80 million figure she had provided to Representative Cronk earlier in the presentation was what the department applied towards the foundation formula to determine how much state aid DEED paid to school districts. Most districts applied directly, but DEED had an agreement to apply on behalf of the three military bases (in Kodiak, Fairbanks, and Anchorage) and Mt. Edgecumbe High School.

Representative Hannan asked if impact aid was about federal nontaxable lands within a district's boundaries.

Acting Commissioner Teshner agreed.

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Representative Ortiz looked at the UGF figure of \$1,285,331,800 for the BSA on slide 6 compared to slide 9 showing funding for the foundation formula at \$1,140,791,600. He asked for the difference in the two figures.

Acting Commissioner Teshner answered the UGF column on slide 9 was included in the \$1.28 billion shown on slide 6. Slide 9 broke the figure down to show which components contributed to the UGF total.

Representative Ortiz stated the BSA was a big topic during the current session. He remarked that the two [UGF] numbers [shown on slides 6 and 9] were different. He stated it did not all match up.

Acting Commissioner Teshner replied that the answer would become clearer as they moved through the slides. She explained that all of the UGF components should add up to the total on slide 6.

Representative Tomaszewski used slide 6 as an example and requested totals at the bottom of the FY 22 actuals, FY 23 management plan, and FY 24 governor amended budget columns.

Acting Commissioner Teshner agreed to make the change to the slides.

Ms. Javier discussed the Division of Administrative Services budget on slide 10. The division provided internal department services including accounting, information technology, human resources, procurement, and grants administration. The budget components included administrative services, information services, facilities rent. The total FY 24 budget for the division was \$6.5 million and included 17 full-time positions. The one significant budget change within the division's budget was a \$2 million request for interagency receipt authority to allow the division to have a more consistent method for allocating the chargebacks it received from the Department of Administration Office of Information Technology, Shared Services of Alaska, personnel and labor relations, and services provided by the Division of Finance. The services did not all use the same rate methodology; therefore, it was DEED's intention to streamline the methodology for all of the expenditures, collect the funds from each of the divisions, and pay them from the appropriation under the Division of Administrative Services. There was no budgetary impact to the department and the change would help DEED manage and track its chargeback costs more efficiently.

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Ms. Javier discussed the budget for the Division of Innovation and Education Excellence on slide 11. The division was comprised of the early learning coordination, Pre-K grants, student and school achievement, and teacher certification components. The division's total FY 24 budget (excluding estimated federal COVID-19 carryforward funding) was approximately \$201.4 million with 68 full-time positions and five non-permanent positions. The division had received a considerable amount of federal COVID-19 funds from the U.S. Department of Education from all three [relief funding] acts. The funds were housed within the division. The green section of the bar chart reflected the spend in FY 22, the FY 23 management plan, and the estimated carryforward amount. She encouraged members to visit the department's COVID-19 funding dashboard on the

DEED website, which enabled the user to drill down to awarded and expended funding at the school district and grantee levels.

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Representative Galvin asked for verification that Ms. Javier had stated there were 68 positions for the division.

Ms. Javier agreed.

Representative Galvin asked for the number of early learning coordination and Pre-K positions. She assumed there were no other positions in other areas of the department for the two specific components.

Acting Commissioner Teshner responded there were currently no positions in the Pre-K grants component. The staff supporting the Pre-K grants were in the early learning coordination component. She believed there were a total of five positions including three positions recently added through the Alaska Reads Act. She would follow up with the precise information.

Representative Galvin asked for verification that there were around five early learning positions (for three to five year olds) out of 68.

Acting Commissioner Teshner agreed.

Representative Josephson asked about the \$312 million in COVID-19 funds. He asked why the funding kept coming and what it was for.

Acting Commissioner Teshner responded that the federal COVID relief funding was appropriated by the U.S. Department of Education and encompassed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and American Rescue Plan Act (ARPA). The funding was provided to states in response to the COVID-19 pandemic to help with learning loss, personal protective equipment, and other items. She elaborated there was a wide variety of allowable expenditures. Under ARPA, there was a [federal] requirement that districts had to spend 20 percent of the funding on learning loss.

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Representative Josephson asked if districts could use the federal COVID-19 funding like they used BSA dollars.

Acting Commissioner Teshner agreed. She relayed there had been significant flexibility [in the way the federal funding could be used]. She noted that DEED had to review and approve how the funds were spent.

Representative Josephson asked if the funding was FY 24 dollars.

Acting Commissioner Teshner replied it was the amount the department anticipated could be carried over into FY 24. She did not believe the amount would be quite \$312 million. She explained that districts already knew their allocations under each of the three federal acts. She detailed that the CARES Act had closed in September 2022, funds from CRRSAA could be spent until September 2023, and funds from ARPA could be used until September 2024. She noted that districts had not all allocated how they would spend the money. She noted that the department's COVID dashboard [on the DEED website] included detailed information. She explained that the budget indicated a long-term range where districts were planning how they would spend the money.

Representative Coulombe asked if the \$312 million would expire in September 2023 or 2024.

Acting Commissioner Teshner answered that a portion of the funding would expire in 2023 and another portion would expire in 2024. She did not have the breakdown on hand. She clarified that school districts did not receive the money up front; the department only paid them for what they expended.

Representative Ortiz saw that a large portion of the COVID relief funding went to support the Division of Innovation and Education Excellence. He remarked that the funding would go away at some point. He wondered what kind of problems the situation would bring the division.

Acting Commissioner Teshner answered that the funding was primarily for pass through grants and DEED kept very little internally for daily operations. The department had hired three nonpermanent positions to help support the additional

work that came with the COVID funding including federal reporting and the review of additional applications from school districts. The positions would expire when the funding expired. The department had not added a lot of long-term range expenditures that would require ongoing support from the state. The department tried to ensure it was spending the money on one-time expenditures at the state level in order to sustain its work for the long term.

Representative Ortiz asked for verification that Pre-K grants and student and school achievement would not be impacted even though it appeared the COVID funding made up a large portion of the [Division of Innovation and Education Excellence] budget.

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Acting Commissioner Teshner replied that the funding included in the first four columns [in the table on the lower half of slide 11] included the division's ongoing work. The COVID money was additional work added on. She stated that everything else would continue when the COVID money expired.

Representative Galvin asked for verification that the \$312 million was passthrough funding for districts to cover anything related to catching students up. She had heard from some districts that were using the funds to do the work at hand. She asked if it was something the department had heard as well.

Acting Commissioner Teshner responded affirmatively. She relayed that when the department had reviewed the districts' budgets, it had cautioned districts if an item was an ongoing expenditure. The department had provided a memorandum to districts cautioning them against using the one-time funding for ongoing expenditures. The department could not deny districts' from using the funding [on ongoing expenditures] because it had been an allowable use from the federal government.

Representative Hannan asked for a description of work provided under student and school achievement for standards, assessment, and accountability on a regular basis.

Acting Commissioner Teshner deferred to a colleague.

DEB RIDDLE, OPERATIONS MANAGER, INNOVATION AND EDUCATION EXCELLENCE, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, replied that the Division of Innovation and Education Excellence had nine teams, which covered assessments, data, and reporting, early learning, federal programs, special education, school improvement, and the Alaska Reads Act. On a day to day basis the department collaborated and provided support. The majority of the federal money went out to districts as grants. The department managed the grants and provided support. She detailed that programs like the academic support team and school improvement team provided support to help struggling districts. The special education team managed special education programs and ensured students were served the way they were needed. The early education program had one staff who worked with Head Start. There was also a staff who worked with special education and Pre-K grants. The department had found out earlier in the day that it had an administrator for the team associated with the Reads Act. Primarily, the division supported districts in moving their programs forward and providing resources as needed.

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Ms. Javier finished with slide 11 pertaining to the Division of Innovation and Education Excellence. The majority of the division's budget was federal receipts and primarily included pass through title funding from the U.S. Department of Education. The federal increase from FY 23 to FY 24 was the governor's amended request of \$22.3 million of federal receipt authority in order to address the increase title rewards from the U.S. Department of Education. The proposed FY 24 UGF for the division was approximately \$30 million. The significant change in FY 24 UGF was primarily \$6.3 million for the second year implementation of the Alaska Reads Act passed in 2022. Additionally, there was a temporary increase for Pre-K grants of \$2.5 million. The department was requesting to consolidate the system of support component into the student and school achievement component; therefore, it was not included on the slide. The two components performed overlapping work and the department decided it was wise to consolidate them for efficiency.

Ms. Javier addressed the budget for the Division of Libraries, Archives, and Museums on slide 12. The division included components for Andrew P. Kashevaroff Facilities Maintenance, Broadband Assistance Grants, Library Operations, Live Homework Help, Museum Operations, and Online with Libraries (OWL). The Andrew P. Kashevaroff building in Juneau housed the Alaska state archives, the state library, and state museum. The state also had the Sheldon Jackson Museum in Sitka. The total operating budget for FY 24 was approximately \$18.26 million with 49 full-time positions and one non-permanent position. The division's budget remained flat, and the department did not have a proposed request for FY 24.

Representative Josephson referenced Ms. Javier's mention of OWL funding in the division's budget. He referred to a similar program called SLED [Statewide Library Electronic Doorway]. He detailed that the legislature had repeatedly appropriated money, particularly at the request of state libraries, and the governor had repeatedly vetoed the funds. He asked for the status on SLED funding.

Ms. Javier deferred to a colleague.

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DR. AMY PHILIPS-CHAN, DIRECTOR, DIVISION OF LIBRARIES, ARCHIVES AND MUSEUMS, answered that the SLED database was part of the department's IMLS [Institute of Museums and Library Services] funding received annually as part of an interlibrary cooperation grant. She explained the competitive grant program had been around since the 1980s and the SLED database was run by the Alaska Library Network, which applied for the grant annually.

Representative Josephson stated that the librarians he met with annually told him the money had been vetoed or had not been supplemented in years. He was taking his "marching orders" from Steve Rollins, the head librarian at the University of Alaska Anchorage. He did not believe Mr. Rollins was wrong about that. He thought Dr. Philips-Chan was suggesting the funding was there.

Ms. Philips-Chan replied that in FY 23 the SLED databases received \$500,351 in grant monies through the IMLS interlibrary cooperation grant program.

Representative Hannan asked about broadband assistance grants component on slide 12. She presumed the funds had been used to support school districts with limited broadband. She asked if the specific grant funding would be eliminated in five years once Alaska implemented state of the art broadband throughout the entire state. She referenced the new Broadband Office and associated funding.

Acting Commissioner Teshner replied it was a standalone grant separate from the Broadband Office. The department had not yet had conversations with the office; DEED had a department representative as part of the specific group. The department was assuming the program would continue as long as the statute remained in place.

Representative Hannan encouraged the department to speak directly with the Broadband Office. She detailed that the office was floating maps of underserved communities. She stated that the future distribution of the federal funding depended on verifying that the service in a variety of locations was not adequate. She highlighted the importance of ensuring the grantees [currently receiving broadband assistance funding] were represented as the maps were being developed. She explained it was important for the state to communicate where it had been giving grants because the state knew the locations did not have service.

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Ms. Javier discussed the budget for the Professional Teaching Practices Commission on slide 13. She explained that the commission had the responsibility and power to discipline members of the teaching profession and may issue reprimands, suspensions, and revocations of educators' certificates. The commission's executive director was its one full-time employee and the commission was comprised of five teachers, one superintendent, one principal, one university representative, and one department representative. The commission's total proposed FY 24 budget was \$268,000 with a request for a fund change of \$100,000 from general fund program receipts to UGF. The commission was funded through teacher certification fees under the teacher certification component; however, the department was anticipating the revenue would not be sufficient to cover the teacher certification component and the Professional Teaching Practices Commission component. She explained the shortfall was primarily because the cost

of teacher certification fees had not been increased since FY 16 to meet the increasing operational costs in both components. She detailed that taking regular salary increases, increased chargeback costs, and other increases into account left a shortfall in the budget. The fund change would allow teacher certification and the commission to continue operations without increasing fees for teachers. The commission also had a \$105,000 request to address increased administrative hearing and legal services costs for FY 23. The commission had been assigned four administrative law judges in response to four administrative hearing requests. She explained it was a unique situation that did not occur annually; the last hearing was in 2018. She noted it was difficult to budget for the requests.

Ms. Javier reviewed the budget for the Alaska State Council on the Arts on slide 14. The mission of the council was to represent, support, and advance the creative endeavors of individuals, organizations, and agencies throughout Alaska. The council was a public corporation that provided a wide range of services and programs to Alaskans. The council's FY 24 budget totaled ~\$4.4 million with five full-time positions and one nonpermanent position. The council was primarily funded by other funds (statutory designated program receipts) reflected by the orange portion of the bars in a graph on slide 14. She detailed that the council received program receipt funding the Rasmuson Foundation and the Margaret A. Cargill philanthropies. The next largest funding source was federal receipts from the National Endowment for the Arts [shown in gray], followed the UGF shown in blue, reflecting the general fund match requirement for the federal funds.

Ms. Javier continued to review the budget for the Alaska State Council on the Arts on slide 14. The council had received federal COVID-19 funding that would expire at the end of the current fiscal year. The council had two requests in the FY 24 budget. The first request was for \$20,000 in arts in public places funding. She explained the arts in public places were receipts collected under the authority of AS 44.27.060, which placed 1 percent of the construction costs of the building or facility into the fund. Currently, the council had authority to spend up to \$30,000 of the fund. The one-time increase of \$20,000 would bring the total up to \$50,000 in order for the council to digitize inventory and track its art bank collection and

allow borrowers to review and request the available artwork online. The second request was for \$5,000 UGF in response to the passage of Senate Bill 71 in 2022, which created a special vehicle registration plate celebrating the arts. The council would use the receipts from the license plates to sustain the program and cover the cost for the artists' design fee, preparation for production, and educational materials about the program.

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Ms. Javier reviewed the budget for the Alaska Commission on Postsecondary Education (ACPE) on slide 15. The commission's mission was to promote access to and success in education and career training beyond high school. The commission's budget was comprised of the Alaska Performance Scholarship (APS) award, Alaska education grants, loan servicing, program administration and operations, and the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) medical education program. The commission had 53 full-time positions and one nonpermanent position budgeted for FY 24 with a total budget of ~\$43.3 million. The largest budgetary change from FY 23 to FY 24 was a fund change of approximately \$21.4 million from UGF to DGF from the Alaska Higher Education Investment Fund. In the current fiscal year, the APS, Alaska education grants, WWAMI, and some of the program administration and operations for ACPE were funded with UGF.

Ms. Javier continued with slide 15 and addressed an increase of \$1,647,500 in the Higher Education Investment Fund to continue the expansion of WWAMI from 20 to 30 seats for Alaskan students. The increment had initially been added to the budget in 2022 as a multiyear appropriation, but after further discussions with the University of Alaska Anchorage (UAA) and the University of Washington School of Medicine it had been determined that UAA needed to expand its facilities to meet the need. The request would cover the additional costs associated with the University of Washington School of Medicine contract.

Ms. Javier noted high level budget changes on slide 16.

Acting Commissioner Teshner looked at a chart showing the BSA Funding history from FY 99 through FY 24 on slide 18. The chart also included an inflation chart and instances where appropriations had been made that fell outside of the

funding formula. She detailed that in FY 23, \$57 million had been funded outside of the formula that was distributed through grants based on average daily membership.

Representative Stapp asked how much progress had been made on the state tribal compacting initiatives discussed in recent years.

Acting Commissioner Teshner replied that the State Board of Education would select up to five tribes from Senate Bill 34 at its March 17th meeting. She explained that the state board could work with up to five tribes to go through the negotiation process. On March 16 the board would make its final decision on the tribes it would select. She shared that the board had issued a request for applications (RFA) and five tribes had submitted applications. In April the department would have a kickoff meeting with the tribes to start off the process to hit the ground running in May to begin negotiating on who would do what. There was a timeline over the next 10 months and a report would be provided to the legislature in January 2024 that would summarize the negotiation process with potential legislation of what tribal education compacting would look like.

Representative Stapp asked which five tribes had applied.

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Acting Commissioner Teshner answered the department had to wait a couple of weeks before making the names public.

Representative Galvin looked at the chart showing the historical BSA amounts on slide 18. She asked if the department had a visual representation showing the change in cost of educating students with regard to inflationary costs.

Acting Commissioner Teshner answered that slide 19 included a historical graph showing what had been paid out as state aid. The department's website included budget and actual reporting showing how districts had spent their operating and special revenue funding. The information was not included in the current presentation.

Representative Galvin wondered if it would be helpful for the committee to understand the various cost changes. For

example, the committee knew districts were changing up their programs and reducing the number of people. She was interested in a measurement of inflation compared to the dollars spent on education.

Acting Commissioner Teshner would follow up with the information.

Representative Ortiz looked at high-level budget changes on slide 16 specifically related to a \$6.3 million increment for second year implementation of the Alaska Reads Act. He had been hearing a lot of concern from around the state that the program was significantly underfunded. He asked for comment.

Acting Commissioner Teshner answered that the Reads Act called for best practice and districts should be doing that already. The department recognized that it would be a large amount of work in the beginning for districts with a number of students who were not proficient in reading (especially with individual reading plans and extra support needed based on the Reads Act). She noted the small \$30 BSA increase to help support the implementation of the act at the district level.

[2:33:19 PM](#)

Representative Josephson thought that if he asked the Legislative Finance Division (LFD) to inflation adjust the FY 17 numbers, LFD would say the budget was short by about \$260 million. He asked if there had ever been a funding gap of that size historically.

Acting Commissioner Teshner answered not to her knowledge.

Representative Josephson asked if the state should be concerned about litigation related to the state's duty to fully fund public schools.

Acting Commissioner Teshner answered that the department recognized BSA funding had not kept up with inflation and it needed to be addressed. She stated that whether or not the state was adequately funding its schools was a policy call that needed to be determined based on data and the students served.

Co-Chair Johnson stated it was up to the legislature as policy makers to grapple with.

[2:35:17 PM](#)

Representative Josephson had asked his staff to follow up the University's top librarian at the UAA campus. The individual reported that SLED did not have funding and it had been vetoed by the governor.

Co-Chair Johnson thanked the presenters. She noted there was another presentation.

[2:36:14 PM](#)

AT EASE

[2:41:23 PM](#)

RECONVENED

^PRESENTATION: HISTORY OF THE BASE STUDENT ALLOCATION FORMULA: LEGISLATIVE FINANCE DIVISION

[2:41:28 PM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, provided a PowerPoint presentation titled "K-12 Funding History: House Finance Committee," dated February 28, 2023 (copy on file). His overview would address funding for school districts including direct and indirect sources, funding comparison to other states, the state's formula funding history, and funding levers for the legislature. He began with a pie chart on slide 3 reflecting FY 23 school district budgeted revenues by payor (from the Department of Education and Early Development). He detailed that 63 percent of the revenue came from the state, 25 percent came from local governments, 11 percent came from the federal government (including E-rate funding), and about 1 percent in other funding from tuition and investment returns. The vast majority of the funding was from the state, with local governments making up the second largest contribution.

Mr. Painter turned to slide 4 and addressed FY 23 sources of funding for school districts. The largest funding source was the foundation program at about \$1.2 billion, which represented just over half of the funding [to districts]. Local funding accounted for 23 percent of the funding including indirect funding the state paid towards school

districts. There were numerous funding sources going to districts including the direct foundation program, pupil transportation, additional foundation funding paid out for FY 23, deductible federal impact aid that went against the foundation formula, local contributions, federal funding, Teachers' Retirement System (TRS) and some Public Employees' Retirement System (PERS) payments on behalf of school districts (the funding did not show up in the classroom, but the state paid the amount on behalf of school districts directly to the retirement system), school debt reimbursement (the state reimbursed municipalities for their share of debt service on school projects; the cost was not shown in district revenue because the money went to local governments, but it was part of the state's contribution to education funding) Regional Educational Attendance Area (REAA) funding went to rural school construction and major maintenance (also funding that did not show up in the classroom, but reflected funding the state paid for local projects).

[2:45:39 PM](#)

Representative Coulombe asked where the Public School Trust Fund funding was included in the pie chart [on slide 4].

Mr. Painter answered it was included in the foundation program. He elaborated that currently all of the Public School Trust Funds were used as one of the state sources of money for the foundation program.

Representative Coulombe thought it sounded like the trust fund had numerous limitations on the amount that could be withdrawn. She asked for the current balance of the fund.

Mr. Painter answered that the balance was in the \$600 million to \$700 million range at present.

Representative Ortiz asked if it was optional for the state to fund school bond debt reimbursement.

Mr. Painter answered that while the state had agreed through statute to take on the debt, it was subject to appropriation by the legislature annually.

Representative Ortiz asked if the legislature had ever not funded school debt reimbursement under the statutory guidelines.

Mr. Painter responded affirmatively. He elaborated that school debt reimbursement had not been fully funded in FY 17, FY 20, FY 21, and initially in FY 22. He noted the state had repaid the past unfunded amounts from those years in the FY 22 supplemental budget. There were some other periods in the 1990s where the funds had not been paid in full.

Representative Ortiz asked for verification that the administration had the power to veto the funds.

Mr. Painter agreed.

[2:48:06 PM](#)

Representative Stapp asked if there was any issue with paying existing bond debt while maintaining the moratorium on new [school construction costs].

Mr. Painter answered the moratorium (on new debt) period was 2015 through 2025. The debt the state was paying had been incurred since the moratorium. He thought districts would prefer to keep being reimbursed for debt that had already occurred. He explained that if districts incurred new debt, the state would not kick in a share. If the election was held after July 1, 2025, districts would be entitled to a share of state reimbursement at that point.

Mr. Painter reviewed direct versus indirect sources on slide 5:

- School districts receive direct funding through the State foundation and pupil transportation formulas, federal impact aid and title programs, municipal contributions, and E-Rate funding.
- They also receive indirect funding that does not show up in their revenue reports but is spent by the State on their behalf. This includes PERS and TRS funding above the employer caps, school debt reimbursement, school construction and major maintenance funding.
- The Census Bureau's school finance data (used for cross-state comparisons) includes PERS and TRS funding but not other indirect sources.

- Most of this presentation will focus on the foundation and pupil transportation formulas, as well as municipal contributions.

Mr. Painter elaborated that when looking at various ways to slice the funding, there were different totals that did not add up to the same thing. For example, [the pie charts] on slides [3 and 4] did not add up to the same thing because one included indirect funding and the other did not. Additionally, the Census Bureau's numbers would not add up to the same thing because not all indirect sources were included.

Mr. Painter moved to slide 6 showing a chart of all states education funding for FY 20 sorted by state funding (from the U.S. Census Bureau). The chart sorted the states by per pupil funding of state funds only. He reported that by state funds only, Alaska ranked fourth in the nation in FY 20. He noted that it was not necessarily a particularly logical way to sort the bars; the total funding bars did not really line up. He remarked that sometimes it was said that Alaska spent more on education than any other state or was in the top few. He confirmed that the state share was fourth in FY 20, but it would be a bit lower in FY 23. He explained that when considering all funds, Alaska ranked 11th rather than fourth. The reason for the difference was that Alaska was ninth nationally in the proportion of funds coming from state government. While Alaska had an unusually large amount of federal funding, it had a more "state heavy" versus "municipal heavy" education formula. The state had chosen to take on the majority of that funding, whereas in many states, there was more of a mix.

[2:52:11 PM](#)

Mr. Painter moved to slide 8 titled "Notes on National Comparisons." He relayed that Alaska's formula in FY 20 was 64 percent funded by state government compared to the national median of about 48 percent. Alaska's system was more state heavy. He clarified it did not mean the system was more expensive, but when doing a comparison of state funds only it made Alaska look more expensive than a comparison using all funds. He relayed that Institute of Social and Economic Research (ISER) had done comparisons adjusting for cost of living differentials.

Representative Hannan looked at the comparison of education funding for all states in FY 20 on slide 7. She asked if LFD had done any analysis between municipal school districts and REAAs. She observed that other states had counties contributing to local governments. She clarified she was not advocating for lowering funds. She asked if the state had accounted for what Alaska funded in city school districts compared to city school districts in other states versus Alaska's rural school districts and counties that may contribute.

Mr. Painter answered that he had not tried to look at the comparison of only looking at municipal school districts. He considered the fact that there were districts that did not contribute would likely be a factor in why Alaska was relatively state heavy. He had done analysis in the past, but it was very speculative and difficult to get numbers on. He explained that if every area in the state organized there would be a few results that would impact the state. First, the municipalities would have a local contribution in those areas; however, the entire property tax went to the state in unorganized areas with significant oil and gas property. He explained that if those areas organized the municipalities could levy a tax on the property that would be deducted from the state tax, which would result in a revenue deduction to the state. There were certain areas in Alaska where the state would lose money if they had a local government.

Mr. Painter stated another factor was in the deductible impact aid. One of the reasons Alaska was relatively high on the federal funding number was due to a significant amount of impact aid for military activity and Alaska Native tribal lands that were not taxed. In municipal school districts, the deductible portion of the impact aid was multiplied by a factor relating to the local taxing effort. The state could only deduct about half of 90 percent of deductible impact aid. For some of the districts with significant amounts of local impact aid, the amount the state deducted would go down by so much that it would outweigh any local contribution because their most valuable land was often nontaxable because it was tribal land. There were many factors about whether the system resulted in the state cost being "on net" higher than if there were organized areas. He thought it was ambiguous at best.

[2:56:53 PM](#)

Mr. Painter turned to slide 8a and provided "Basics of Foundation Formula." He provided a brief description of how the formula worked:

- Average Daily Membership (ADM) - student count taken in 20-day period ending in the last Friday in October
- Adjusted Average Daily Membership (AADM) - student count as modified by factors:
 - Correspondence students are not multiplied by other factors, but count as 0.9 ADM
 - Non-correspondence student count is multiplied by:
 - School size factor, providing more funds per student for smaller schools. District values range from 1.12 (Anchorage) to 2.83 (Pelican)
 - District cost factor, adjusting for cost differentials between districts. Values range from 1.000 (Anchorage) to 2.116 (Yukon Flats)
 - Special Needs Factor, a block grant multiplying every district's ADM by 1.20
 - Career and Technical Education (CTE) Factor, a block grant multiplying every district's ADM by 1.015
 - Special Education (SPED) Intensive factor, providing 13x ADM for special education students in a high-need category
- The AADM is then multiplied by the Base Student Allocation (BSA) to get Basic Need
- Basic Need is paid by a combination of the required local contribution, deductible federal impact aid, and state aid.

Mr. Painter elaborated on slide 8a. He expounded that the BSA was often conflated with the entire formula, but basic need was the end result. The state aid was calculated by taking basic need, subtracting the required local contribution and the deductible federal impact aid.

Co-Chair Johnson asked if the information was written out in the formula structure somewhere.

Mr. Painter answered that DEED had a presentation showing more detail on how the foundation formula worked; the information was also on the DEED website. The LFD website included the citizen's guide to the K-12 formula that also showed the calculation in depth. He offered to provide the information to the committee.

[3:01:20 PM](#)

Representative Stapp asked if the school size factor was amalgamated through the entire district or reflected a multiplier per school per student.

Mr. Painter answered it was based on per school calculations.

Representative Stapp asked if someone had ever looked at the urban districts in Anchorage and Fairbanks and the number of facilities and students enrolled compared to other areas. He stated if it were him, he would try to maximize potential revenues by considering the idea.

Mr. Painter replied that LFD did not look at district funds that way. There was a hold harmless provision added by the legislature several years back that enabled districts to consolidate schools and retain their previous school size factor declining over several years in order to balance the local revenue piece against cost savings. He noted it had been an area of controversy in Anchorage in the past several years. The provision had been added in order enable districts to get the savings from consolidating schools rather than the savings going to the state (at least for the three years of the hold harmless provision).

Representative Ortiz looked at the special education intensive factor providing 13x the ADM. He asked for more detail. He thought the federal government had something to do with added funding for the particular category.

Mr. Painter answered the federal government did have a funding piece for the [special intensive factor], but the 13x was the state cost. There may be other federal funds available for some students. To be categorized as intensive, the district had to certify that the student needed the services and to provide a certain level of services to the student. He deferred to the department for more detail.

Representative Ortiz asked if an IEP [individual education plan] was required to qualify for the funding.

Mr. Painter would follow up.

[3:04:49 PM](#)

Representative Coulombe followed up on Representative Ortiz's question related to the special education intensive factor. She relayed that DEED had explained in subcommittee that the funding was for children with severe physical and mental needs. She agreed the students would be on an IEP and reiterated the funding was for students with high needs.

Representative Hannan considered the school size factor created in 1998. She asked if the state had changed the school size factor for Hooper Bay in 2022. She wondered if it was an anomaly.

Mr. Painter replied there were a couple of kink points in the school size factor where a district lost out on a significant amount of money when its school size hit those points. He stated that Hooper Bay had a charter school and charter schools were treated differently. He did not recall the specifics of the bill, but it related to a very specific situation around one of the kink points.

Representative Galvin looked at the local contribution for education. She knew there was a cap and that several of the state's communities (those with taxation) had been contributing to the cap. She asked if there had historically been talk about raising the cap and what the ramifications to the overall formula and federal funding would be.

Mr. Painter replied that he would answer the question on an upcoming slide.

Representative Tomaszewski asked if there was an average total BSA with all of the factors.

Mr. Painter answered the BSA in statute was the same for all districts and was currently \$5,960 for FY 24. The BSA was multiplied by all of the factors [shown on slide 8a]. He noted that a subsequent slide would show what the multipliers ended up being for all of the districts.

Co-Chair Johnson thanked Mr. Painter for including the information on slide 8a.

[3:08:12 PM](#)

Mr. Painter discussed foundation formula history on slide 9. He relayed that the current formula was established in 1998 and the legislature had modified the factors several times. He explained that \$1 in the BSA in FY 99 was not equivalent to \$1 in the BSA in FY 23. He elaborated that graphs showing the BSA only did not reflect the entire picture because \$1 in the BSA was not equivalent over time. The same was true for looking only at state contributions over time versus the entire amount of basic need; it was not the entire picture and could be misleading because there were other payors. The district cost factors were the largest change. The original factors were adopted in 1998 and modified in 2008 to implement a study commissioned by the legislature conducted in 2005, which was based on data collected from FY 00 through FY 03. The new factors were phased in from FY 09 through FY 13 and had remained. He stated that the data behind the current factors was 20 to 25 years old.

Mr. Painter continued to review the foundation formula history on slide 9. The intensive special education factor had been increased from 5x in FY 10 to 11x in FY 11 and to 13x in FY 12. The factor had remained at 13x ever since. In FY 15, the career and technical education factor was added [Mr. Painter later corrected that the career and technical education factor was added in FY 10] and the correspondence multiplier increased from 0.8 to 0.9.

[3:10:18 PM](#)

Representative Hannan asked for more information on district cost factors. She presumed the original study had been done on the cost of goods and services delivered in various areas and looking at geographic cost differentials. She asked what other things may have been included and whether it reflected things like a school district losing a building to a fire.

Mr. Painter answered that the study adopted in 2005 was the third take of the study. The original study had been conducted by the McDowell Group and had developed the original formula. There was another study commissioned by the legislature that had not been implemented. Additionally, DEED had a statutory requirement to develop formula factors every two years. He explained that when the department had done so in the early years, the legislature had rejected DEED's work as well. Finally, there had been a study conducted in 2005 by Institute of Social and Economic Research (ISER) school finance experts. The ISER study looked at a broad range of factors, the largest of which was the difference in the cost of employees. The study had considered what a teacher needed to be paid in order to have an equivalent quality educator throughout the state. In addition to cost, the study had looked at the desirability of districts. The study also included amounts for energy costs based on actual costs experienced by districts in those years. He remarked that the energy costs may have changed and the form of energy consumption in those districts may have changed. He believed there had been about 11 factors, which also included shipping costs. The original study was on DEED's website. The attempt had been to look at all of the places districts were spending money and determine how costs would need to be adjusted to make them equivalent across districts.

[3:13:17 PM](#)

Representative Galvin asked if anything popped out as something that one community may have changed drastically over another when considering the many factors explored by ISER. She remarked that everyone in the [Capitol] building was talking about that the current formula needed to change in terms of the base dollar amount. She asked if anything jumped out as a red flag that needed to be fixed before making a basic adjustment to help all districts and students.

Mr. Painter replied that given that the study was released 18 years back, it was hard to isolate an individual thing that may be wrong. He stated that the study reflected a very different world. He elaborated that it had been conducted in a pre-Amazon Prime world for shipping costs and there had been very different energy prices and energy mixes compared to the present day. He highlighted educator salaries and health insurance and explained there may have been quite a number of differences that had arisen in the past 25 years that made it very difficult to look at any particular factor as standing out as out of date.

Representative Galvin stated that much had changed in 15 years. She remarked that everyone had experienced Amazon Prime in Alaska. Additionally, everyone had experienced the changes in many of the other costs associated with education including inflation. She commented that the study had taken a significant amount of time. She highlighted that the schools needed to be able to retain and attract teachers. She reasoned that if Mr. Painter did not see any red flags about one community over another, perhaps the legislature could still proceed with shoring up education.

[3:15:53 PM](#)

Representative Coulombe noted that the previous year DEED had failed the 25 percent disparity test. She asked if it was a red flag indicating the formula was off.

Mr. Painter answered that initially the state had failed the disparity test. He explained that the disparity test was performed by the federal government to determine whether the state's districts were equalized in their funding. The state was allowed to use the adjusted average daily membership level in the test. He noted that because the state foundation formula was equal for every district, the state always passed that component. The variable was local funding. The reason the state had failed was due to the inclusion of the pupil transportation formula. He clarified there were many districts that did not have a pupil transportation program for practical reasons. Adding pupil transportation [to items considered under the disparity test] had caused the state to fail. The department had successfully appealed, and pupil transportation was now excluded; therefore, the state had passed the disparity test. He stated he would address the local funding component on the next slide.

Co-Chair Johnson asked members to hold questions until the end of the presentation.

Mr. Painter reviewed changes in state and local contributions on slide 10:

- 34 of Alaska's 53 school districts are in organized areas, meaning that their boundaries correspond to municipal boundaries. The remaining 19 districts are Regional Educational Attendance Areas (REAAs), with no municipal government and no taxing power.
- Municipal school districts have a required local contribution and a maximum local contribution.
- Until FY01, the required local contribution is the lesser of 4 mills (0.4% of property value) or 45% of Basic Need. From FY02 to FY11, only 50% of the increase in property values could be added to the local contribution each year, resulting in many districts paying less than 4 mills. From FY12 on, the contribution has been fixed at 2.65 mills or 45% of Basic Need.

Mr. Painter elaborated on the third bullet point on slide 10. The required local contribution had increased over the entire period faster than the education formula as a whole because local property tax values had increased faster than the educational formula despite the lower mill rate. He reviewed the last bullet point on the slide:

- The maximum optional local contribution for most districts is 23% of Basic Need, allowing Alaska to pass the federal disparity test (which requires no more than 25% difference in funding per AADM and allows Alaska to deduct \$73.3 million of federal impact aid from the State share of funding).

Mr. Painter elaborated on the last bullet point on slide 10. He explained that if the state did not pass the federal disparity test, it could not deduct the federal impact aid from basic need. He elaborated that districts would still receive the \$73.3 million in impact aid, but the state would not be able to deduct it from its local share, which would cause state cost to increase by \$73 million. The legislature had made the policy decision to cap local

contributions in order to ensure the state passed the disparity test and to keep costs down by deducting the federal impact aid. He clarified that if the state failed the disparity test and allowed districts to contribute whatever they wanted, it would result in a much more unequal formula. He expounded that there would be districts receiving impact aid that would not be deducted; therefore, those districts would receive much more federal money and total funding. He explained that districts with high tax bases would be able to contribute much more because there would be no cap. Districts without a local tax base and no impact aid would be no better off and the state would be picking up their cost.

[3:21:58 PM](#)

Mr. Painter advanced to a bar chart on slide 11 showing a history of the average daily membership in blue and the adjusted average daily membership in red. He noted that LFD could provide the data prior to FY 05 at the committee's request. He highlighted that the ADM had not really increased over time. In FY 05, the ADM had been just under \$131,000 and it had been around \$130,000 ever since. He noted the number of students had been about the same since the late 1990s. The number of students in the AADM had increased substantially beginning in FY 09 through FY 13 as the new district cost factors came online. He remarked that it was important to look at the difference because a BSA only chart made it look like funding in FY 08 and FY 24 was multiplied against the same thing, but that was not the case; there was a significant difference from year to year.

Mr. Painter turned to slide 12 showing the impact of factors per non-correspondence ADM from FY 05 to FY 24. The chart reflected the relative value of each of the factors and how it had changed over time. The data showed the impact of the various factors on an individual non-correspondence student. The school size factor had mostly remained the same with the exception of FY 21 because during the COVID-19 pandemic many students had gone from brick and mortar classrooms to correspondence programs, which triggered hold harmless provisions in many districts. In FY 21, there was a spike in the school size/hold harmless multiplier. The cost factor multiplier had increased significantly as a result of building in the higher cost factors from FY 09 through FY 13. The special needs factor was 1.2 every year and did not change. The new

career and education factor began at .1 in FY 10 and increased to .15 in FY 15. He noted an error on a previous slide [slide 9] specifying that it began in FY 15. The multiplier for the special education intensives went up several times over the FY 09 through FY 13 period due to the higher multiplier and more students being counted as intensives when more funding was available. He relayed that between FY 05 to FY 08 each ADM had been worth about 1.6 to 1.7 AADM, compared to the present number of about 2.2. The result of all of the changes in the factors was significantly more money going out to districts per \$1 in the BSA.

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Representative Stapp provided an example where a student started off in the school system and enrolled in a correspondence program through their own brick and mortar school district. Under the scenario he asked if brick and mortar schools could use the hold harmless provision to maintain brick and mortar funding.

Mr. Painter answered it could be done through the life of the hold harmless, but not repeatedly. He stated it had happened in some cases where students had switched from brick and mortar to correspondence in their own school district. He explained that the action had triggered the hold harmless provision and the student had been counted as a correspondence student. The schools had seen an increase in funding, but it had largely worked its way through the formula "at this point" because the three-year hold harmless period had concluded. He confirmed that in the first year some districts had been able to get funding on both sides. He highlighted that many schools without a correspondence program had lost students. He stated that the impact had been disparate by district.

Representative Galvin was interested in the different cost multipliers that changed from FY 09 to FY 15. She mentioned the school size factor. She asked for verification that special education and special needs were not included.

Mr. Painter answered that the district cost factor had changed from FY 09 through FY 13. Additionally, the special education multiplier increased from 5 to 13 from FY 09 through FY 12. He pointed to the green portion of the bars on slide 12 reflecting an increase in the cost factor

multiplier from FY 09 through FY 13. The orange portion of the bars showed an increase in the special education intensives from FY 09 to FY 12.

Representative Galvin stated her understanding that the special needs factor and the special education intensive factor were intended to address legal challenges brought against the state. She asked for verification that the state could not make changes to reduce the items.

Mr. Painter responded it was not optional for the state to pay for the items, but the payment method was up to the legislature. The 13x multiplier had been selected based on districts presenting the actual costs for students, finding that the factor did not meet the actual costs districts were facing. The change was made based on the feedback from districts on the costs they were experiencing and what multiplier was needed to meet the costs. The multiplier had been selected by the legislature based on the feedback. He explained that some states specified that the state would pick up any cost over a certain dollar figure directly. Other states allowed districts to submit invoices to the state for costs incurred for students. Other states had a more complex system where there may be many different levels of need and different factors for the different levels. He stated it was another system the state could go to. It was difficult because the costs did have to be paid by the district; it was just a question of how the state chose to fund the costs. The state had the constitutional responsibility to provide for assisting public schools.

[3:31:37 PM](#)

Mr. Painter looked at the BSA history in nominal dollars on slide 13. He reiterated his earlier statement that looking at the BSA alone was misleading because it did not include all funding. The chart showed a significant increase in the BSA from FY 05 through FY 07. The BSA had not changed substantially since that time. He highlighted that between FY 07 and FY 24 the number had increased from \$5,380 to \$5,960.

Mr. Painter moved to slide 14 and discussed the BSA history in FY 22 dollars. Over the last 20 years the peak BSA year was FY 07 (the last year of a three-year increase) and the number had since declined. The BSA was currently below the lowest it had been in the last 20 years adjusted for

inflation. He noted that FY 23 and FY 24 were based on 2.5 percent inflation projections.

[3:33:05 PM](#)

Mr. Painter looked at a chart titled "Basic Need, FY 05-FY24 Projection (Nominal dollars)" on slide 15. He believed the slide was more useful than the prior slide because it included the differences in the factors and differences in the BSA in the total funding amount. In terms of nominal dollars, the required local contributions had increased for the entire period despite the 4 percent dropping to 2.65 percent [shown on slide 10]. The deductible state impact aid had also increased state funding and had increased over the period but had been relatively flat since around FY 18. He noted the slide did not include funding outside of the foundation formula.

Mr. Painter addressed a chart titled "Basic Need, FY 05-FY24 Projection (FY22 dollars)" on slide 16. He relayed that despite the BSA being \$1,000 lower, the factors were much bigger and as a result the amounts in FY 05 and FY 24 were relatively similar. The slide showed a peak total funding level in FY 17 with a reduction to the FY 05 level in FY 24 in terms of total basic need in inflation adjusted dollars. He noted that factor dollars did not impact all districts equally. He explained that Anchorage was one in all of the scenarios because it had always been the base. He elaborated that Anchorage did not receive an increase from the school size factor, but other districts did. He highlighted that while FY 05 and FY 24 were [close to] the same, they were not necessarily the same on a district by district level (some districts may have benefited from the higher school size factor adjustments, while others did not).

[3:35:16 PM](#)

Mr. Painter turned to a chart on slide 17 titled "Foundation Funding Plus Additional Formula Funding and Pupil Transportation, FY05-24 (Nominal dollars)." The slide layered in the pupil transportation formula and additional formula funding. He detailed that the pupil transportation formula went to districts that operated a pupil transportation system (busses and aircraft in one case). The amounts had been a fixed amount per student since FY 15 with no adjustments. Prior to that there had been periodic

inflation adjustments, the most recent was implemented from FY 13 through FY 15. The program had originally been a state reimbursement program where the state reimbursed the actual costs experienced by districts. The program had subsequently switched to a per ADM grant and had been rebased a few times in the mid-2000s and early 2010s to try to adjust to the actual cost districts were experiencing. The rebasing had not occurred in over a decade and the number had not been inflation adjusted since FY 15. The green portion of the bar reflected additional funding provided by the state on top of the BSA formula to be distributed according to the formula (including the \$57 million in FY 23).

Mr. Painter turned to slide 18 and reviewed a chart showing the same information but in FY 22 dollars. The peak year was no longer FY 17 as it was based on BSA only; the peak year was now FY 15 because of outside the formula funding. He noted that FY 24 was comparable to FY 05.

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Mr. Painter looked at slide 19 and addressed a chart titled "Foundation Funding Plus Additional Formula Funding, Pupil Transportation, and Additional Local Contribution, FY05-24 (Nominal Dollars)." The slide added in optional funding from local government. He noted the slide did not show the complete picture, but included funding that went out through the formula and municipal appropriations. The amounts had increased a bit over time because they were based on basic need. He explained the amounts could not really increase much faster than basic need; therefore, additional local contributions had not changed substantially over time.

Mr. Painter turned to slide 20 and discussed the same information [shown on slide 19] in FY 22 dollars with inflation adjustments. He stated it was a pretty similar picture to the last several slides.

[3:38:27 PM](#)

Mr. Painter turned to slide 21 and discussed funding levers for the legislature. He stated that the legislature had several levers to impact school funding, each with different impacts to districts. The first was the BSA, which provided across-the-board funding to all school

districts on an equal per-adjusted-student basis. The second was outside-the-formula funding, which was distributed the same way, but as a one-time item through the budget. He noted that districts did not necessarily want to build the funding into their base because of the one-time nature of the funding. The third was changing the formula factors that would affect districts differently. He explained that the option could result in more funding going to some districts and less funding going to some districts. The method could be used to target funding to particular districts or particular types of districts in need. In the past there had often been studies to determine the cost factors, some of which were never implemented.

Mr. Painter continued to review funding levers on slide 21. The fourth lever was the TRS on-behalf payment cap of 12.5 percent. He explained that adjusting the payment cap up or down would change the amount districts paid in their budget, which provided an equal amount of funding to districts on a per-employee salary basis (rather than per-student). He pointed out that changing TRS funding or the BSA by an equivalent amount would impact districts differently. The fifth lever was to change the required local contribution of 2.65 mills. He explained it would shift who paid between State and local governments, but it would not necessarily impact the amount of money districts received. The last lever on slide 21 was to change the local contribution cap, which could allow greater contributions by some municipalities, but it could result in losing an equalized formula, which would increase the state costs but would provide more funding to some districts. He offered that LFD could provide numbers showing how different levers would impact districts. He noted there were a few additional options that were more complex. The presentation contained several appendices showing the numbers behind some of the slides.

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Representative Galvin referenced slide 12 and noted that the special education factor had been increased to 13 by FY 12. She was hearing a lot of buzz about the topic in various news reports. She stated her understanding that changing the BSA in a way that did not look at specific students would be to the detriment of some rural communities. She asked for comment.

Mr. Painter answered that if the special needs factor was eliminated and replaced with a block grant, the districts with a disproportionate number of the students would not have sufficient funding. The special education factor count by district was not equivalent; the students were not equally distributed throughout the state and there were significant differences on a district by district level. There would be some districts that would likely be better off and other districts (especially small districts) may not have the resources to handle the costs.

Mr. Painter continued to answer Representative Galvin's question. He referenced a special needs block grant and relayed that the legislature had commissioned a study in 2015 that looked at the formula. The study considered whether the special needs factor should be converted to a per student formula providing different levels of funding based on counts of special needs students. The study had found there were significant differences in the number of special needs students, especially English language learners, by district. The study recommended looking into turning the block grant into a counted program like the special education program. There were differences in the underlying characteristics of districts that the block grant did not reach, whereas the special education intensives did, but only for certain students with the highest level of need.

Representative Galvin appreciated the explanation and wanted to make certain the state did not set itself up for litigation. She surmised that the per pupil transportation had changed. She stated that originally there had been a reimbursement. She considered larger districts and the fact that buses had to run whether they were picking up one student or 24. She noted that it had not changed since 2015 and local governments had tried to contribute what they could. She asked if it would be more beneficial for some of the larger districts to move back to receipts.

Mr. Painter responded that he had looked at the reasoning behind why the legislature chose to go from the reimbursement method to a per student method (it was a different per student amount by district based on their historical cost). The reasoning was to try to ensure the accountability for the funding was with the districts where districts would provide the services for the lowest cost possible because they received a set amount of money

instead of getting reimbursed no matter what the costs were. The legislature had rebased the numbers several times after looking at what districts were actually spending on pupil transportation versus how much the state was paying. He believed the most recent change had been in FY 13. He stated it was a policy choice, but the legislature had not gone back to determine whether costs districts were incurring for pupil transportation being adequately covered by the pupil transportation formula or whether some districts were over funded or underfunded.

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Representative Galvin asked about funding for transportation and classroom learning. She thought it sounded like there were opportunities in place to shore them up in a lasting way. She asked what Mr. Painter was hearing from superintendents about the preference for one-time funding versus a systemic BSA increase.

Mr. Painter replied that he had not spoken with any superintendents in the current year. He relayed that generally the districts preferred predictable funding in the BSA. He explained that one-time funding would not be included in the budget the following year, just as the \$57 million in FY 23 was not included in the base FY 24 budget. He explained that changing the BSA provided more consistency from year to year. He stated that the outside the formula funding had been used when the legislature wanted to provide more money than it was comfortable with giving permanently. He relayed that districts would prefer getting more money in statute versus in an appropriation bill.

Co-Chair Johnson thanked Mr. Painter for the presentation. She reviewed the schedule for the following day.

HB 39 was HEARD and HELD in committee for further consideration.

HB 41 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[3:49:34 PM](#)

The meeting was adjourned at 3:49 p.m.