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HOUSE COMMITTEE REPORT

4/3

(7)

Date Referred: March 21, 1989

FURTHER REFERRALS FINANCE

Date of Committee Action: 4/3/89

The HEALTH, EDUCATION, & SOCIAL SERVICES Committee considered: HB 233

HOUSE BILL NO. 233 [LOCAL CONTRIBUTION: ST. AID FOR EDUCATION]
"An Act relating to local contributions for education; and providing for an effective date."

RECOMMENDATIONS:

- [X] be replaced with CS HB 233 (HESS) [] the same title [X] a new title
[] have attached amendment(s)
[] do pass
[] do not pass
[] no recommendation
[X] individual recommendations
[] additional referral to the Committee

ADOPTS: letter of intent

ATTACHES NEW FISCAL NOTE(S): APPROVES PREVIOUS: (Date/Dept)

- [] fiscal impact [] fiscal note(s)
[X] zero fiscal note Education [] zero fiscal note(s)
[] zero with analysis [] zero fn/analysis

SIGNING DO PASS:

Chris Davis
Mark Kuntze
J. Ellis

SIGNING: (Check approp. column)

Table with 4 columns: Name, Do Not Pass, No Rec, Amend. Rows include Mark Boyer, Joseph JACKO, Peter Lee, W. Umara.

J. Ellis
Chairman's Signature

HOUSE AMENDMENT

TO: CSHB 233 (HESS) draft #6-1024E

BY: BOYER

Page 1 Line 6 & 7

Delete lines 6 & 7 of Page 1 and replace with the following:

"An Act relating to local contributions for education as a percentage of the district's basic need and providing for an effective date."

Submit original amendment to the Chief Clerk.
It will then be numbered and duplicated.

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Education
 Title: Local contributions for education BRU: K-12 Support
 Sponsor: Ulmer Components: Foundation
 Requestor: House HFSS

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Mary Hakala Phone: 465-2800
 Division: Commissioner's Office Date: 3/28/89
 Approved by Commissioner: William G. Demmert Date: 3/28/89
 Agency: Education

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Alaska State Legislature

Representative Fran Ulmer



P.O. Box V
Juneau, Alaska 99811
(907) 465-4947

HOUSE OF REPRESENTATIVES

MEMORANDUM

March 28, 1989

TO: Rep. Johnny Ellis, Chair
House Health, Education and Social Services Committee

FROM: Rep. Fran *Ulmer*

RE: HB 233, relating to local contributions for education

By law, a limit is set on the amount of money which may be appropriated to a school district to operate. This limit or cap is designed to ensure relative parity among school districts and their educational programs across the state. Under this law, there shall be no difference in funding greater than 25% between districts.

Current law establishes a maximum local contribution of 21% of the instructional unit value in AS 14.17.056. HB 233 raises that cap on local contributions to 23% of the instructional unit value; there is no change to the minimum requirement. There are several districts close to the existing limits, including Fairbanks, Juneau, Kenai, Ketchikan, and Sitka. This increase in local contributions will maintain the policy of parity among districts while allowing districts to better maintain the level of service currently in place.

The decline in state revenues, and the potential reduction in funding of the foundation formula program, makes this increase crucial to the stable operation of Alaska's school districts. As an example, Juneau's allowable local contribution under current law is \$499,033. If the legislature enacts a 5% reduction to the foundation formula, the total allowable local contribution would be \$254,529, a reduction of \$244,502. Since the Juneau School District has already submitted a "maintenance" budget to the borough which requires a local contribution in excess of the current, allowable, local contribution, a reduction in state funding and the resultant lowering of the local contribution will be a heavy blow to the operation of the district.

Attached you will find information prepared by the Department of Education which displays a comparison of funding levels for a number of Alaska school districts, both under current law and under HB 233.

District 4B — Juneau

MEMORANDUM

State of Alaska
Department of Education

TO: Steve Hole
Deputy Commissioner

DATE: March 28, 1989

FILE NO: FAC 1831

TELEPHONE NO: 465-2865

FROM: Tom Ryan 
Acting Director

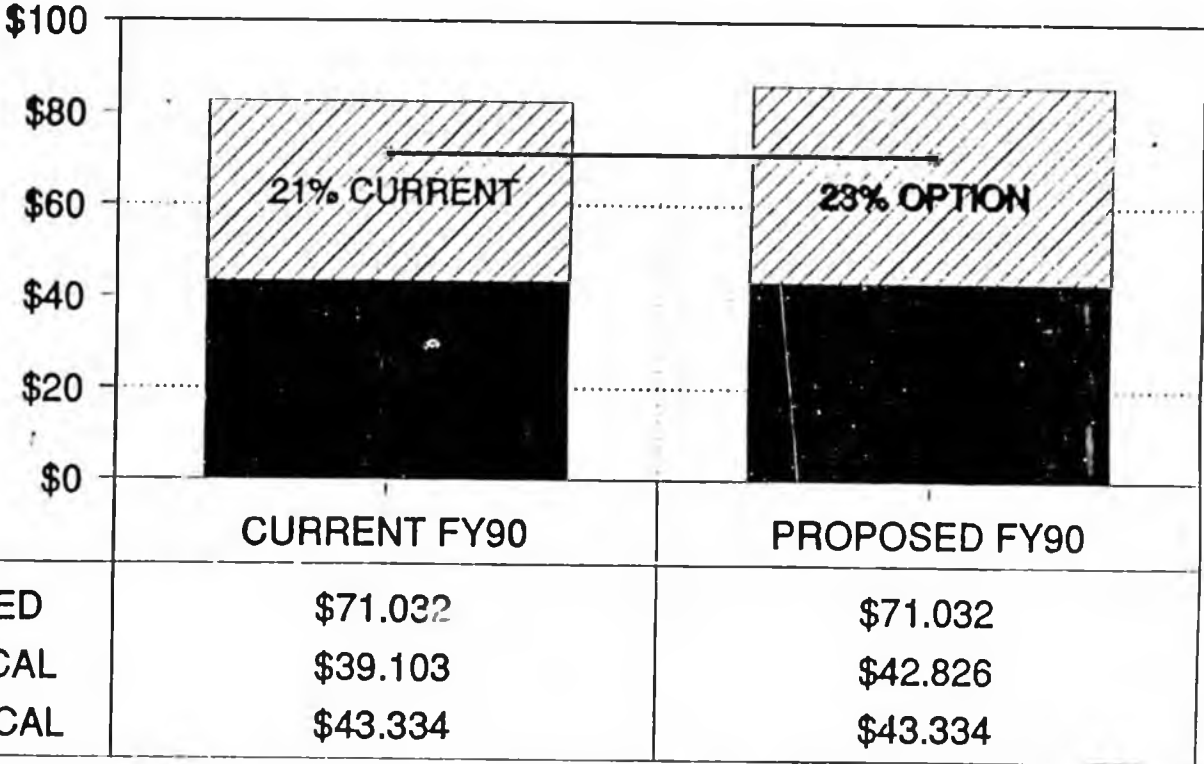
SUBJECT: HB 233 Impact

As requested I have reviewed House Bill 233. The bill would not require additional payments by any district, but would permit additional payments by any districts approaching the existing limits. Those especially close to the limit include Fairbanks, Juneau, Kenai, Ketchikan, and Sitka.

HB 233 would raise the maximum percentage of a school district's basic need that may be contributed by a city or borough over and above the minimum requirement. The minimum local contribution is unchanged. The federal disparity test, under 34 C.F.R.222.63, limits the disparity between revenues to districts to under 25%. Though it reduces our "cushion" from four percent to two percent, this change still provides the state adequate protection.

Attached are graphs showing FY 89 budgeted local contributions compared to proposed FY 90 minimum local contributions and optional contribution for the districts nearing the cap. Also attached is a graph showing all municipal school districts and the relationship of budgeted local revenues to the cap.

ANCHORAGE SCHOOL DISTRICT OPTIONAL LOCAL EFFORT

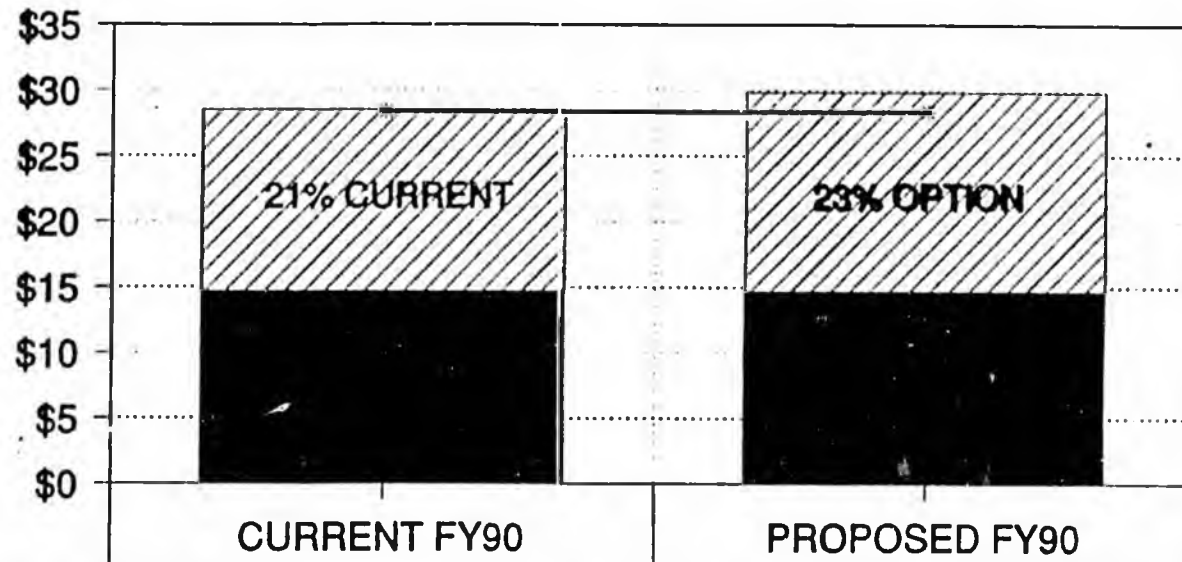


MILLIONS OF DOLLARS

REQUIRED LOCAL
 OPTIONAL LOCAL
 FY89 BUDGETED

PROPOSED CHANGE TO AS 14.17.025(b)

FAIRBANKS BOROUGH SCHOOL DISTRICT OPTIONAL LOCAL EFFORT



	CURRENT FY90	PROPOSED FY90
FY89 BUDGETED	\$28.373	\$28.373
OPTIONAL LOCAL	\$13.827	\$15.144
REQUIRED LOCAL	\$14.684	\$14.684

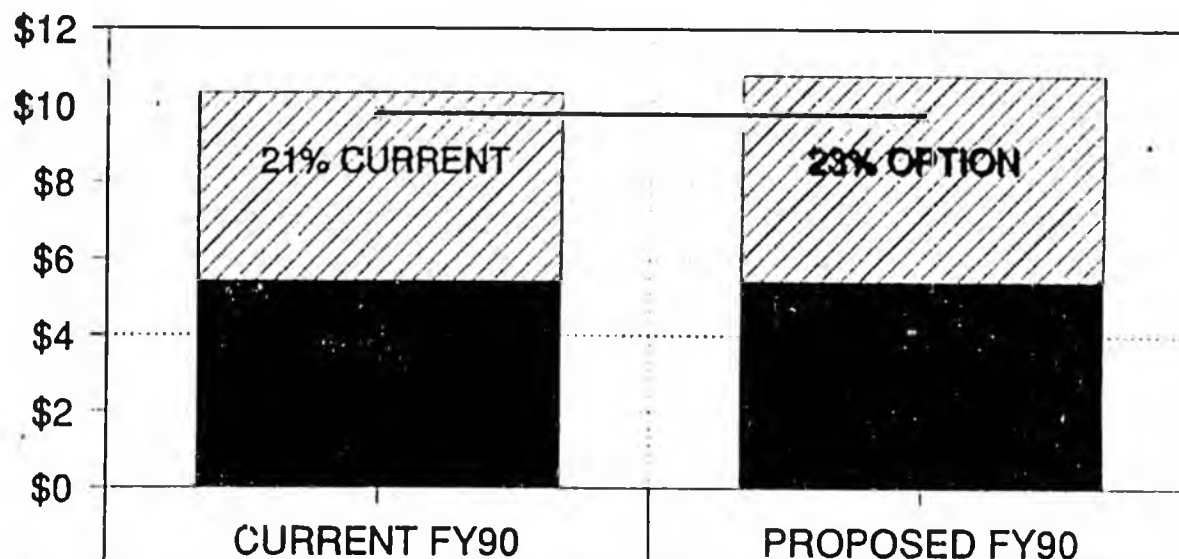
MILLIONS OF DOLLARS

REQUIRED LOCAL
 OPTIONAL LOCAL
 FY89 BUDGETED

PROPOSED CHANGE TO AS 14.17.025(b)

JUNEAU BOROUGH SCHOOL DISTRICT

OPTIONAL LOCAL EFFORT



	CURRENT FY90	PROPOSED FY90
FY89 BUDGETED	\$9.772	\$9.772
OPTIONAL LOCAL	\$4.913	\$5.381
REQUIRED LOCAL	\$5.413	\$5.413

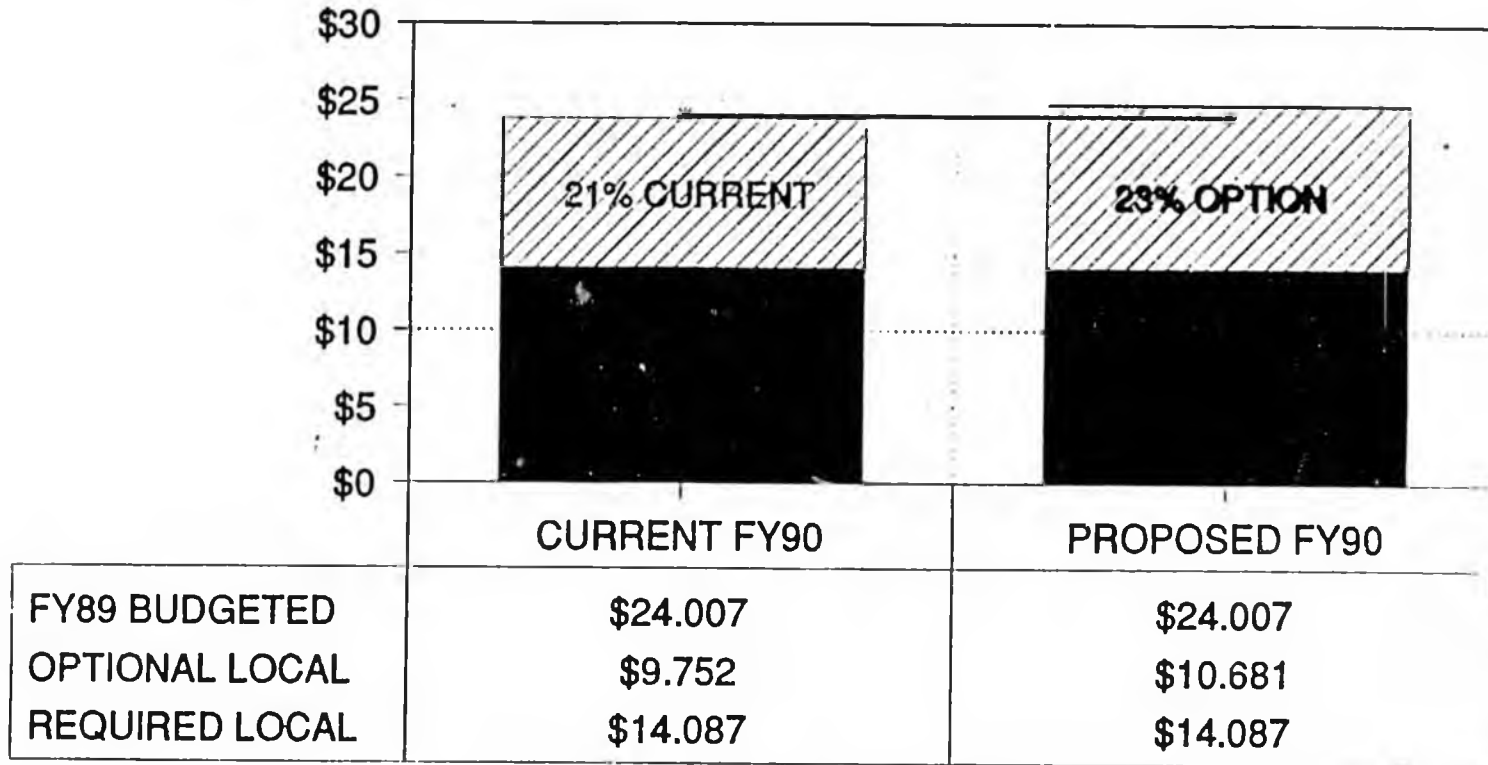
MILLIONS OF DOLLARS

REQUIRED LOCAL
 OPTIONAL LOCAL
 FY89 BUDGETED

PROPOSED CHANGE TO AS 14.17.025(b)

KENAI SCHOOL DISTRICT

OPTIONAL LOCAL EFFORT

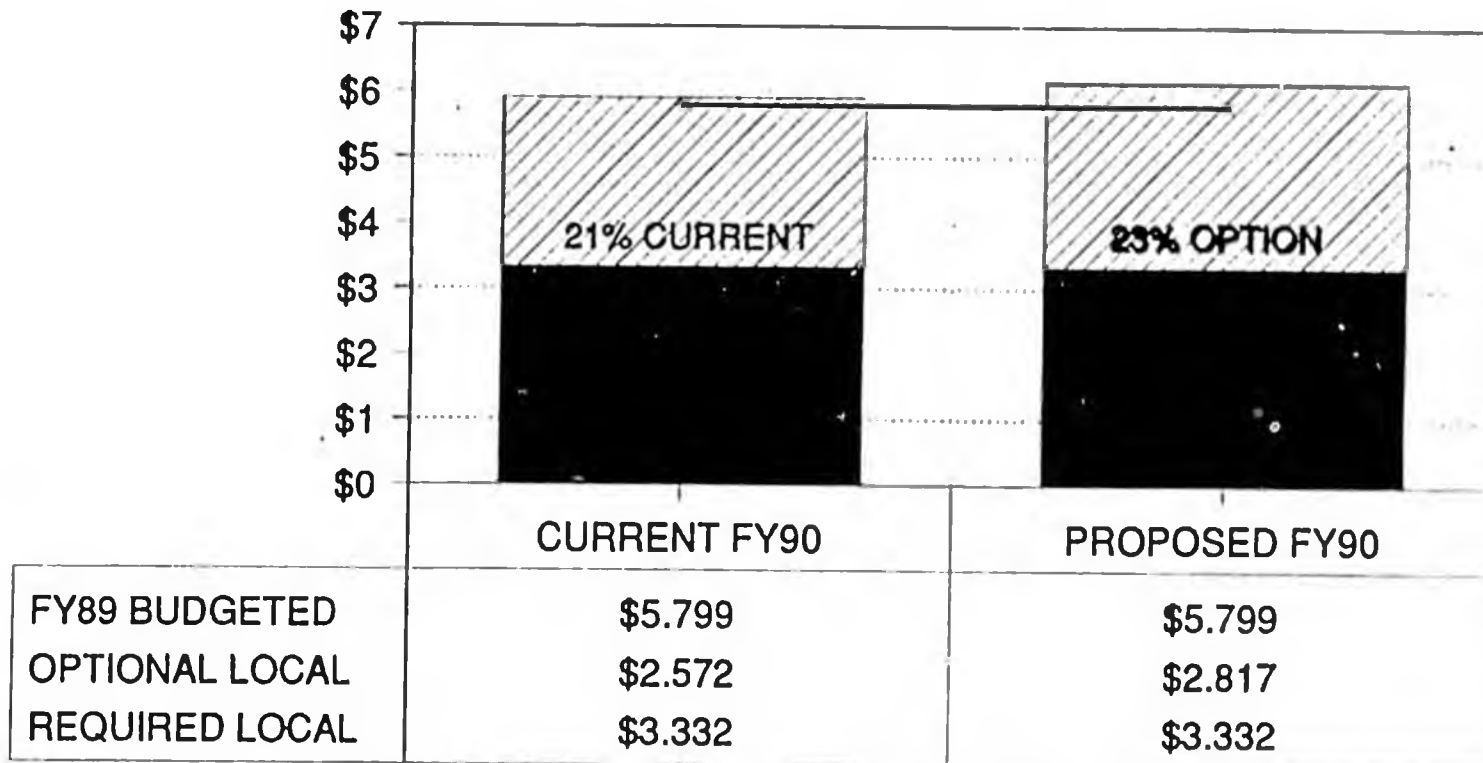


MILLIONS OF DOLLARS

REQUIRED LOCAL
 OPTIONAL LOCAL
 FY89 BUDGETED

PROPOSED CHANGE TO AS 14.17.025(b)

KETCHIKAN GATEWAY SCHOOL DISTRICT OPTIONAL LOCAL EFFORT



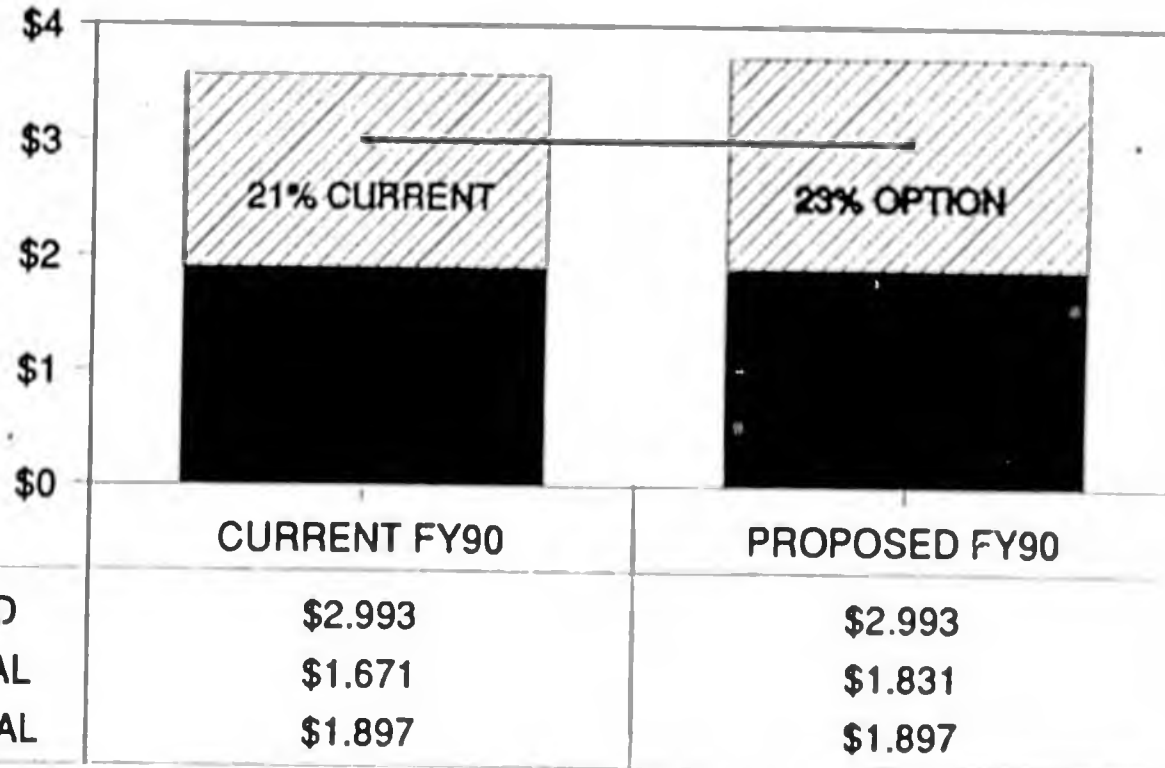
MILLIONS OF DOLLARS

REQUIRED LOCAL
 OPTIONAL LOCAL
 FY89 BUDGETED

PROPOSED CHANGE TO AS 14.17.025(b)

SITKA BOROUGH SCHOOL DISTRICT

OPTIONAL LOCAL EFFORT

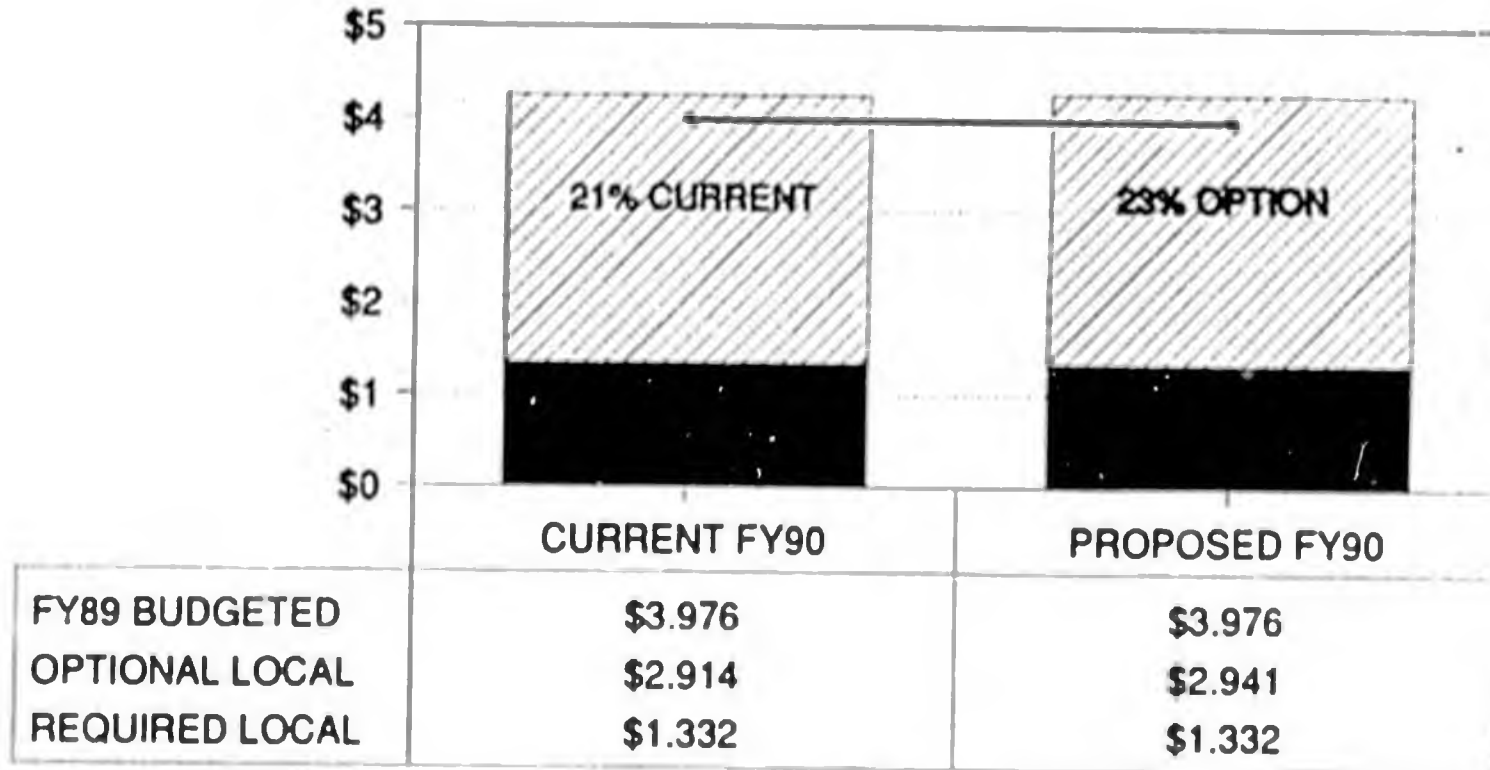


MILLIONS OF DOLLARS

REQUIRED LOCAL
 OPTIONAL LOCAL
 FY89 BUDGETED

PROPOSED CHANGE TO AS 14.17.025(b)

VALDEZ CITY SCHOOL DISTRICT OPTIONAL LOCAL EFFORT



MILLIONS OF DOLLARS

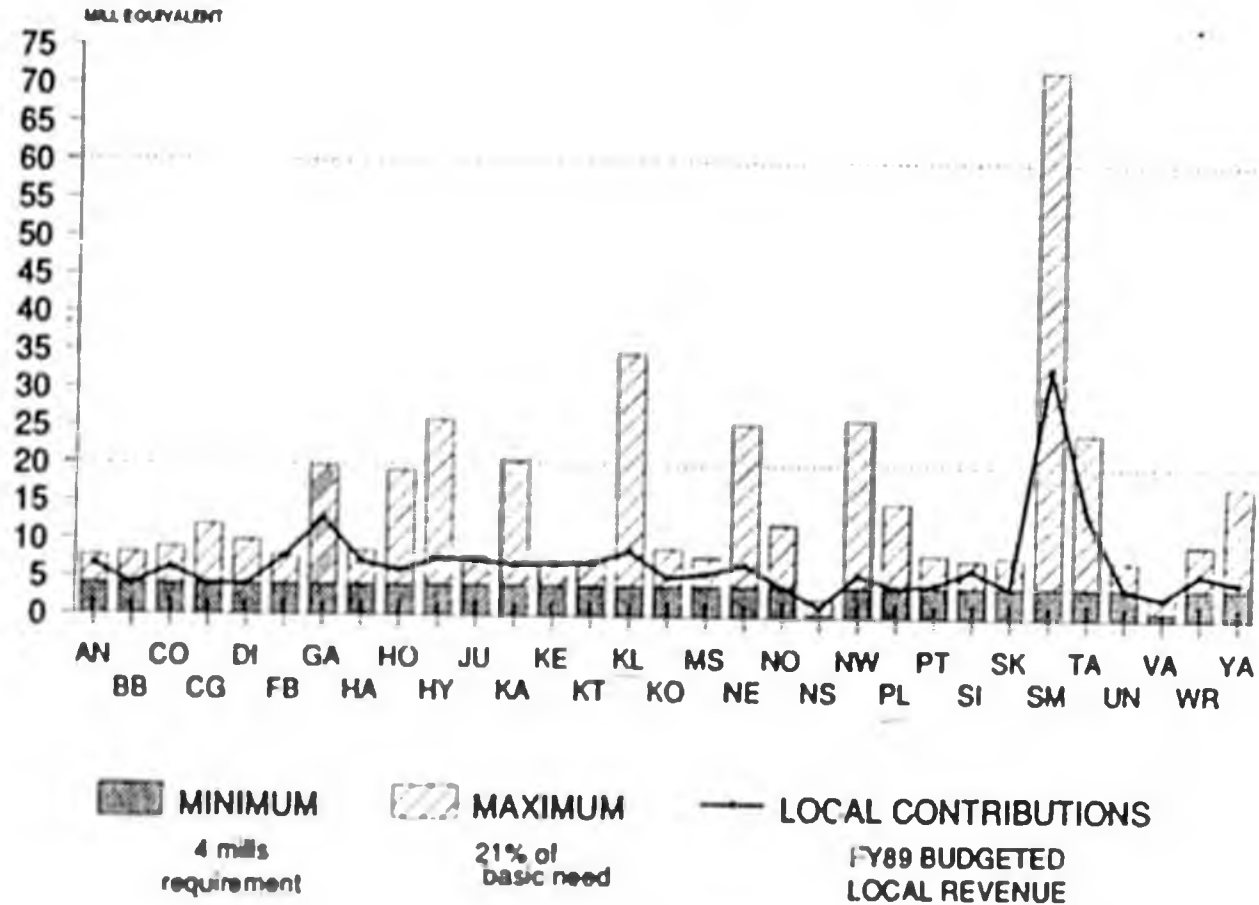
REQUIRED LOCAL
 OPTIONAL LOCAL
 FY89 BUDGETED

PROPOSED CHANGE TO AS 14.17.025(b)

School District abbreviations

- Anchorage - AN
- Etivak Bay - EB
- Cordova - CO
- Craig - CG
- Dillingham - DI
- Fairbanks - FB
- Galeana - GA
- Haines - HA
- Hoonah - HO
- Hydatsug - HY
- Juneau - JU
- Kake - KA
- Ketchikan - KE
- Ketchikan - KT
- Kasaan - KL
- Kodiak - KO
- Mat Su - MS
- Nenana - NE
- Nome - NO
- North Slope - NS
- Northwest Arctic - NW
- Pelican - PL
- Petersburg - PT
- Sitka - SI
- Stagway - SK
- St. Mary's - SM
- Tanana - TA
- Unalakleet - UN
- Valdez - VA
- Wentz - WR
- Yakutat - YA

CITY/BOROUGH SCHOOL DISTRICTS FY90 LOCAL CONTRIBUTIONS



ALASKA PUBLIC SCHOOL FOUNDATION FUNDING PROGRAM
 FY90 MAXIMUM LOCAL EFFORT AT 2 1/8 AND 2 3/8 OF BASIC NEED
 COMPARED TO BUDGETED FY89 LOCAL REVENUES
 PREPARED 2/27/89

SCHOOL DISTRICT	AS 14.17.025(a) LOCAL CONTRIBUTION SHALL INCLUDE LESSER OF 4 MILLS OR 3 1/8 BASIC NEED			AS 14.17.025(b) IN ADDITION, LOCAL CONTRIBUTION NO MORE THAN 2 MILLS OR 2 1/8 BASIC NEED			"MAXIMUM LOCAL" REQUIRED LOCAL PLUS THE GREATER OF 2 1/8 OR 2 MILLS			"MAXIMUM LOCAL" REQUIRED LOCAL PLUS THE GREATER OF 2 3/8 OR 2 MILLS		
	1988 ASSESSED FULL VALUE AT 4 MILLS FY90 FOUNDATION	3 1/8 OF FY89 BASIC NEED FY90 FOUNDATION	ESTIMATED FY90 REQUIRED LOCAL CONTRIBUTION	1988 ASSESSED FULL VALUE AT 2 MILLS FY90 FOUNDATION	2 1/8 OF FY90 BASIC NEED	ESTIMATED FY90 ADDITIONAL LOCAL CONTRIBUTION	FY89 BUDGETED LOCAL REVENUES	FY89 BUDGETED COMPARED TO MAXIMUM LOCAL	%	FY90 BASIC NEED	GREATER OF 2 3/8 OR 2 MILLS	FY89 BUDGETED COMPARED TO INCREASED LOCAL
ANCHORAGE	143,334,202	865,170,770	843,334,202	121,667,101	839,102,462	839,102,462	882,436,664	871,031,578	86.17%	842,826,506	886,160,708	82.44%
BRISTOL BAY	1472,721	8806,820	8472,721	1236,360	8184,092	8484,092	8956,813	8449,182	46.95%	8530,196	81,002,917	44.79%
COPPOVA	1464,414	1945,420	1464,414	1232,207	1567,252	1567,252	81,031,666	8716,342	69.44%	8621,276	81,005,690	65.98%
CRAIG	8155,135	1507,150	8155,135	877,568	8304,290	8304,290	8459,425	8118,270	25.74%	8333,270	8488,405	24.27%
DILLINGHAM	8486,275	81,159,410	8486,205	8243,102	8695,646	8695,646	81,181,851	8395,181	33.44%	8761,898	81,248,103	31.66%
FAIRBANKS	814,683,509	823,045,610	814,683,509	87,341,755	813,827,356	813,827,366	828,510,875	828,372,555	99.51%	815,144,258	829,827,767	95.17%
GALENA	878,340	8510,300	878,340	839,170	8306,180	8306,180	8384,520	8248,629	64.66%	8335,340	8413,680	60.10%
HAINES	8450,452	8834,750	8450,452	8225,276	8500,850	8500,850	8951,302	8797,039	83.73%	8548,550	8999,022	79.78%
HYOMAH	890,888	8571,410	890,888	845,444	8342,846	8342,846	8433,734	8134,212	30.94%	8375,498	8466,386	28.78%
HYDABURG	837,996	8344,400	837,996	818,998	8206,640	8206,640	8244,636	870,334	28.75%	8226,320	8264,316	26.61%
JUNEAU	85,413,218	88,189,160	85,413,218	82,706,624	84,913,496	84,913,496	810,326,744	89,772,431	94.63%	85,381,448	810,794,696	90.53%
KAKE	870,921	8483,420	870,921	835,461	8290,052	8290,052	8360,973	8118,2	32.87%	8317,676	8588,597	30.53%
KENAI	814,086,937	816,254,210	814,086,937	87,043,469	89,752,526	89,752,526	823,839,463	824,006,628	100.70%	810,681,358	824,768,275	96.92%
KETCHIKAN	83,331,958	84,786,100	83,331,958	81,665,979	82,571,660	82,571,660	85,903,618	85,798,750	98.22%	82,816,580	86,148,538	94.31%
KING COVE	8106,145	8476,490	8106,145	853,072	8285,894	8285,894	8392,039	8105,955	27.03%	8113,122	8419,267	25.27%
KIASHOK	838,712	8493,500	838,712	819,356	8296,100	8296,100	8334,812	887,816	24.74%	8324,300	8363,012	22.81%
KODIAK	82,378,504	84,861,290	82,378,504	81,189,252	82,916,774	82,916,774	85,295,278	83,050,367	57.61%	83,194,562	85,573,066	54.73%
KAT-SU	89,159,961	814,355,600	89,159,961	84,579,980	88,613,360	88,613,360	817,773,321	812,809,850	72.07%	89,433,680	818,593,641	68.89%
KENAMA	866,062	8588,000	866,062	833,011	8352,800	8352,800	8418,862	8113,123	27.01%	8386,400	8452,462	25.00%
KOME	8560,332	81,893,780	8560,332	8280,166	81,136,268	81,136,268	81,696,600	8498,761	29.40%	81,244,484	81,804,816	27.64%
NORTH SLOPE	84,150,440	84,174,380	84,150,440	824,583,939	82,504,628	824,583,939	828,734,379	816,422,448	57.15%	82,743,164	828,734,379	57.15%
NORTHWEST ARCTIC	8632,184	85,783,400	8632,184	8316,092	83,470,040	83,470,040	84,102,274	8445,117	21.58%	83,800,520	84,432,704	19.97%
PELICAN	842,321	8195,720	842,621	821,311	8117,432	8117,432	8160,053	832,470	20.29%	8128,616	8171,237	18.96%
PETERSBURG	8692,336	81,215,480	8692,336	8346,168	8729,288	8729,288	81,421,624	8744,312	52.36%	8798,744	81,491,080	49.92%
SAND POINT	8141,962	8488,880	8141,962	870,981	8293,328	8293,328	8435,290	8143,279	32.92%	8321,264	8463,226	30.93%
SITKA	81,896,637	82,785,650	81,896,637	8948,318	81,671,390	81,671,390	83,568,027	82,993,379	83.89%	81,830,570	83,727,207	80.31%
SKAGWAY	8221,834	8379,890	8221,834	8110,917	8227,934	8227,934	8449,768	8159,179	35.39%	8249,642	8471,476	33.76%
ST. MARY'S	816,739	8475,020	816,739	88,369	8285,012	8285,012	8301,751	8137,805	45.67%	8312,156	8328,895	41.90%
TANANA	846,048	8391,230	846,048	823,024	8234,738	8234,738	8280,786	8158,064	56.29%	8257,094	8303,142	52.14%
UNALASKA	8386,275	8572,670	8386,275	8193,137	8343,602	8343,602	8727,877	8302,884	41.50%	8376,326	8762,601	39.72%
VALDEZ	81,331,610	81,360,800	81,331,610	82,914,263	8816,480	82,914,263	84,245,873	83,976,298	93.65%	84,245,873	84,245,873	93.65%
WRANGELL	8417,379	8993,510	8417,379	8208,690	8596,106	8596,106	81,013,485	8616,571	60.84%	8652,878	81,070,257	57.61%
YAKUTAT	876,168	8427,770	876,168	838,084	8256,662	8256,662	8332,830	891,087	27.37%	8281,106	8357,274	25.69%
TOTALS	8105,518,875	8165,021,990	8105,518,875	877,516,614	899,013,194	8123,190,288	8228,709,163	8185,353,538		8106,443,022	8237,822,695	

Discussion of Local Contribution Limitations

	<u>100% State Funding</u>	<u>95% State Funding</u>
Formula Generated State Revenue*	\$17,908,367	\$16,740,801
Other Revenue--Federal & Indirect	153,000	153,000
Sub-total	18,061,367	16,893,801
Local Maximum Revenue	10,180,033	9,935,529
Total Allowable Revenue	28,241,400	26,829,330
Allowable <u>Additional</u> Local Contribution	499,033	254,529
Projected Shortfall for Program Rollover	70,000	1,481,932

Explanation

By law, a limit is set on the amount of money a District may have to operate. This limit or CAP is established to assure equal opportunity for all students across our state. Essentially, state law prohibits more than a 25% difference in funding among Districts.

This limit or CAP is established on operating funds only. The City and Borough of Juneau could provide additional funds for three (3) special revenue funds including pupil transportation (150,000), community schools (86,000) and pupil activities (107,000).

February 15, 1989

*Adjusted to reflect projected student enrollment of 4702.

MEMORANDUM

State of Alaska
Department of Education

TO: Steve Hale
Deputy Commissioner

DATE: March 28, 1989

FILE NO: FAC 1833

TELEPHONE NO: 465-2865

FROM: Tom Ryan 
Acting Director

SUBJECT: HB 233 Amendments
Foundation Program

We propose the enclosed amendments to House Bill 233. Each amendment is discussed below:

DOE #1 Deletes redundant language which defines the cap on local contribution as a percent of three factors. AS 14.17.021 already defines basic need as the product of those factors, so it is redundant to repeat the factors when the cap can be simply expressed as "23% of basic need."

DOE #2 Changes the consequences should a city or borough not pay the required minimum local contribution under AS 14.17.025 (a). Rather than stop foundation payments to the district and effectively close schools, the proposal would require that the shortfall be paid to the school district from municipal entitlements under title 29.60. The Department of Community and Regional Affairs would pay the amount to the school district rather than to the municipal government, until the shortfall is made up.

DOE #3 Amends the phase-in provisions of AS 14.17.025(f) so that the obligation of a local municipal government to contribute to the support of its associated school district is phased in over a period of time. The current language provides for a two year phase in. A separate phase-in provision for REAA schools that become city or borough schools is in AS 14.17.210. The two provisions are difficult to reconcile. As amended, AS 14.17.025(f) will provide for a single three year phase in.

In the first fiscal year in which a newly formed municipal school district operates, the municipality need not make any local contributions to the school district. In the second year it must pay enough so that the total local contribution, not counting a percentage of the district's impact aid, comes to the equivalent of at least a 2 mill property tax. In the third year the millage equivalent is at least 3 mills. These changes comport with a state policy of encouraging borough formation.

DOE #4 Provides an area cost differential for the new Aleutian East Borough and deletes differentials for King Cove and Sand Point which become part of that Borough.

AS 14.17.025 LOCAL CONTRIBUTIONS: paragraph (b) (2) is amended to read:

23 percent of the district's basic need for the fiscal year
under AS 14.17.021(b) or AS 14.17.225(b) [THE PRODUCT OBTAINED BY
MULTIPLYING

- (A) 21 PERCENT OF THE INSTRUCTIONAL UNIT VALUE IN
AS 14.17.056;
- (B) THE NUMBER OF INSTRUCTIONAL UNITS APPROVED FOR
THE DISTRICT FOR THE FISCAL YEAR; AND
- (C) THE AREA COST DIFFERENTIAL OF THE DISTRICT UNDER
AS 14.17.051]

AS 14.17.025 LOCAL CONTRIBUTIONS is amended to add a new section:

"(e) If the commissioner determines that the local contributions to a city or borough school district in any fiscal year were insufficient to meet the requirements of this section, the Department of Community and Regional Affairs shall pay the amount of the shortfall to the school district from the municipality's entitlement to municipal assistant under AS 29.60.350 - 29.60.375, and, if that source is not sufficient to meet the shortfall, then from the municipality's entitlement to tax resource equalization which is available for areawide purposes under AS 29.60.010 - 29.60.080. [A STATE FOUNDATION AID PAYMENT MAY NOT BE MADE TO A CITY OR BOROUGH SCHOOL DISTRICT IN WHICH THE REQUIREMENTS OF (a) OF THIS SECTION HAVE NOT BEEN MET.]

AS 14.17.025 LOCAL CONTRIBUTIONS is amended to add a new section:

(f) For the first three [TWO] fiscal years 'n which a newly formed city or borough school district operates schools [IS SUBJECT TO THIS SECTION], local contributions may be less than the amount that would otherwise be required under (a) of this section. However,

(1) In the second fiscal year of operation, local contributions must be at least the greater of

(A) [1] the local contributions, excluding any federal impact aid, for the previous fiscal year; or

(B) [2] the sum of 10 percent of the district's eligible federal impact aid for that year and [AND FOR THE SECOND YEAR, THE EQUIVALENT OF A THREE MILL TAX LEVY] on the full and true value of the taxable real and personal property in what is now the district as of January 1 of the second preceding fiscal year, as determined by the Department of Community and Regional Affairs under AS 14.17.140 and AS 29.45.110; and

(2) In the third fiscal year of operation, local contributions must be at least the greater of

(A) the local contributions, excluding any federal impact aid, for the previous fiscal year; or

(B) the sum of 10 percent of the district's eligible federal impact aid for that year and the equivalent of a three mill tax levy on the full and true value of the taxable real and personal property in the district as of January 1 of the second preceding fiscal year, as determined by the Department of Community and Regional Affairs under AS 14.17.140 and AS 29.45.110.

(g) A school district is eligible for additional state aid in the amount by which the local contributions that would otherwise have been required under (a) of this section exceed the district's actual local contributions under (f) of this section.

AS 14.17.210 is repealed.

*Sec. 2. AS 14.17.051 is amended to read:

Sec. 14.17.051. AREA COST DIFFERENTIAL. The area cost differential for a school district is as follows:

School District	Area Cost Differential
Adak	1.27
Alaska Gateway	1.19
Aleutian Region	1.31
<u>Aleutians East</u>	<u>1.31</u>
Anchorage	1.00
Annette Island	1.03
Bering Strait	1.39
Bristol Bay	1.27
Chatham	1.03
Chugach	1.14
Copper River	1.14
Cordova	1.11

Craig	1.03
Delta/Greely	1.16
Dillingham	1.27
Fairbanks	1.04
Galena	1.30
Haines	1.05
Hoonah	1.08
Hydaburg	1.03
Iditarod	1.33
Juneau	1.00
Kake	1.03
Kashunamiut	1.33
Kenai	1.00
Ketchikan	1.00
[KING COVE	1.27]
Klawock	1.03
Kodiak	1.09
Kuspuk	1.33
Lake & Peninsula	1.31
Lower Kuskokwim	1.42
Lower Yukon	1.35

Matanuska-Susitna	1.00
Nenana	1.20
Nome	1.34
North Slope	1.45
Northwest Arctic	1.45
Pelican	1.08
Petersburg	1.00
Pribilof	1.30
Railbelt	1.23
[SAND POINT	1.27]
Sitka	1.00
Skagway	1.05
Southeast Island	1.04
Southwest Region	1.31
St. Mary's	1.30
Tanana	1.30
Unalaska	1.27
Valdez	1.11
Wrangell	1.00
Yakutat	1.08
Yukon Flats	1.46
Yukon-Koyukuk	1.34
Yupik	1.41

MEMORANDUM

State of Alaska

Department of Law

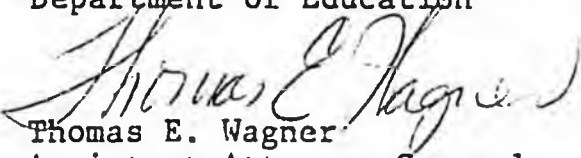
TO: Hon. David Hoffman, Commissioner DATE: March 6, 1989
Department of Community
and Regional Affairs

FILE NO: 663-88-0341

TEL. NO: 465-3603

Hon. William Demmert, Commissioner
Department of Education

SUBJECT: Transition in school
funding for newly formed
borough

FROM: 
Thomas E. Wagner
Assistant Attorney General
Human Services-Juneau

A. Introduction

This memorandum is to elaborate on my January 11, 1988, memorandum to the commissioner of education, discussing the transition in funding for schools located in the newly formed Aleutians East Borough (our file 663-88-0270). To the extent this memorandum is inconsistent with that memorandum, that memorandum is superseded.

As noted in our previous memorandum, the basic structure of the transition is as follows. AS 29.05.130(a) and 29.-05.140(a) provide that a newly incorporated borough must assume the operation of schools formerly in educational service areas (REAA's) and in city school districts within its boundaries, within two years of the date of its incorporation. Until the new borough takes over the education function, existing REAA and city districts will continue to provide education services, and will be funded under the foundation program. When the new borough takes over the education function, it assumes the rights, powers, duties, assets, and liabilities of the school districts formerly providing the education function, whether REAA or first class city districts. At that point, any former school district will cease operating, or will be reduced in size if only part of the district has been incorporated in the new borough. More specific aspects of transition are discussed below.

B. Implementation of AS 14.17.025 and AS 14.17.210

An REAA school that becomes a city or borough school is considered an REAA school for funding purposes "until the expiration of a complete fiscal year after the date on which the school becomes a city or borough district school." AS 14.17.210. We interpret that language to mean until the expiration of a complete fiscal year after the fiscal year in which the new borough assumes the education function, even if the date of that assumption is on July 1, the first day of a fiscal year. Thus if a new borough assumes the education function on the first day of fiscal year 1990 (July 1, 1989), former REAA schools taken over by the

borough are to be treated for funding purposes as REAA schools in fiscal years 1990 and 1991.

Under AS 14.17.021(a), state aid to a school district is calculated by subtracting from the district's "basic need," (1) the required local contributions under AS 14.17.025(a); and (2) 90 percent of the district's eligible federal impact aid for that year. Subsection (g) of AS 14.17.025 provides for an additional state subsidy for districts that have a lower local contribution under subsection (f) than would ordinarily be required under subsection (a).

1. Required Local Contributions

Under AS 14.17.025(d), local contributions are not required in an REAA district. AS 14.17.210 can therefore be implemented by excluding for the required period, from "the full and true value of the taxable real and personal property in the district," as that term is used to calculate the required local contribution under either subsection (a) or subsection (f) of AS 14.17.025, any property in the newly organized borough that was in an REAA school district prior to borough formation. Thus, if a new borough incorporated in fiscal year 1989, and assumed the education function in fiscal year 1991, property formerly in REAA's would be excluded from the property value on which the required local contribution is calculated for the new district in fiscal years 1991 and 1992. Under the formula in AS 14.17.021(a), any resultant lower local contribution would be replaced by increased state aid.

For the first two years a school district is subject to AS 14.17.025, its required level of local contributions is phased in under subsection (f) of that section. In our opinion, the phase-in provisions apply not only to existing city or borough districts that became subject to that section when it became effective following enactment of § 4, ch. 91, SLA 1987, but also to new city or borough districts formed thereafter. AS 14.17.025(f) provides:

(f) For the first two fiscal years in which a district is subject to this section, local contributions may be less than the amount that would otherwise be required under (a) of this section. However, local contributions must be at least the greater of

(1) the local contributions, excluding any federal impact aid, for the previous fiscal year; or

(2) the sum of 10 percent of the district's eligible federal impact aid for that year and, for the first year, the equivalent of a two mill tax levy and for the second year, the equivalent of a three mill tax levy, on the full and true value of the taxable real and personal property in the district as of January 1 of the second preceding fiscal year, as determined by the Department of Community and Regional Affairs under AS 14.17.140 and AS 29.45.110.

Tom Ryan, the Department of Education's acting director of the Division of Educational Finance and Support Services, has indicated the department's intention to interpret the term "local contributions . . . for the previous fiscal year," as used in AS 14.17.025(f)(1), to include only contributions to the new borough school district, and not contributions made by the former city districts to their associated school districts. Since the new borough district did not exist in the previous fiscal year, except possibly to gear up, it is likely that local contributions to that district were zero or very small. In that case, the amount calculated under subsection (f)(1) would be less than that calculated under (f)(2). The required local contributions would be the greater of the two amounts, the amount calculated under subsection (f)(2). Although it is not necessarily the only possible interpretation of that language, that interpretation is reasonable. It comports with the literal words of the statute and encourages borough formation. The Department of Education should adopt regulations setting forth its interpretation.

During the second year of the new school district's operation, the millage equivalent under subsection (f)(2) moves to three mills. As discussed above, the value of property formerly in REAA's should be excluded under AS 14.17.210 for the requisite period. In that year, the amount calculated under subsection (f)(1) would be the actual contributions to the new district during the previous fiscal year.

2. Eligible federal impact aid

Under AS 29.05.130, upon integration of an educational service area in a newly formed municipality into the municipality, the municipality succeeds to the rights, powers, duties, assets and liabilities of the service area. Accordingly, federal impact aid money received by an REAA on behalf of students whose education is transferred to the new municipality must be transferred to the new municipal school district. For that reason, the term "eligible federal impact aid," both as used in AS 14.17.021(a) and as used in AS 14.17.025(f)(2), should be

interpreted to mean federal impact aid received either by the former REAA or first class city school districts, or by the newly formed borough school district, on behalf of the children living in what has now become the new borough.

In the February 11, 1968 memorandum noted above, the final sentence of Assumption #5 indicates that \$577,241 is "the figure we estimate will be available as the 10 percent PL-874 payment to the prospective borough." (Emphasis added.) And in the final sentence, it states: "it is projected that the borough would receive a total of \$2,885,235 under the PL-874 program from fiscal year 1992 through fiscal year 1996, and would only be obligated to contribute a minimum of \$1,108,706 of this amount during this same period." (Emphasis added.) In weighing the potential benefits and burdens of borough formation, you should understand that that impact aid payments are made directly from the federal government to the school district involved. Although a portion of those payments may qualify to be counted as local contributions under AS 14.17.025(a) and (f), the impact aid payments are not made to the borough itself, but to its associated school district.

C. Area Cost Differentials

When a new district is formed, it will not have an area cost differential under AS 14.17.051. The period between the date of incorporation of a new borough and the time the borough takes over the education function provides an opportunity for the legislature to amend that statute to provide an area cost differential for the new borough school district. If for some reason the legislature fails to act in that time, a sensible solution would be for the Department of Education to adopt regulations for determining that figure administratively, perhaps by calculating a student-weighted average of the districts combining to form the new district.

D. Calculations when a new borough assumes the education function in mid-fiscal year

When a borough takes over the education function on a date other than the first day of a fiscal year, calculations will need to be apportioned. State aid to the old REAA and city school districts and to the new borough district should each be calculated for the complete fiscal year. Aid should then be apportioned according to the number of days each district was responsible for educating the children in the district.

Similarly, the local contributions from first class city governments to their associated school districts, and from

Hon. David Hoffman
Hon. William Demmert
663-38-0341

March 6, 1989
Page 5

the new borough government to its associated school district, should be apportioned according to the number of days each district is responsible for educating the children in the district. Remember, of course, that all assets of the city or REAA districts must be transferred to the new borough district when it assumes the education function.

E. Calculations when only a portion of an REAA district is assumed by a borough district

When a new borough incorporates only a portion of an REAA district, as when the Aleutians East Borough incorporated only a portion of the Aleutians REAA school district, state aid calculations should be based on the funding communities assigned to each district. Similarly, the "hold harmless" provisions in AS 14.17.031(b) and § 24, ch. 91, SLA 1987, should be applied to the smaller district that remains after the rest is incorporated into a new district, by measuring the differences in instructional units, basic need, or state aid, as the case may be, in that portion of the district that remains in the old district.

F. Conclusion

We apologize for the delay in responding to your inquiries. We have found the matter of transition funding to be somewhat complex. We also note that the Department of Education is considering seeking legislative action simplifying or clarifying some of the transition issues. We hope this memorandum clarifies some of the key points. Please contact me if we may be of further assistance.

/TE::ade

STATE OF ALASKA
THE LEGISLATURE

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Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

A. HESS

3-27-87

H. HESS

3-30-87

2 CS FOR HOUSE BILL NO. 233 (HESS)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to local contributions for educa-
7 tion; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 14.17.025(b) is amended to read:

10 (b) In addition to the local contributions required under (a) of
11 this section, local contributions to a city or borough school district
12 in a fiscal year may include no more than the greater of

13 (1) the equivalent of a two mill tax levy on the full and
14 true value of the taxable real and personal property in the district
15 as of January 1 of the second preceding fiscal year, as determined by
16 the Department of Community and Regional Affairs under AS 14.17.140
17 and AS 29.45.110; or

18 (2) 23 percent of the district's basic need for the fiscal
19 year under AS 14.17.021(b), as adjusted under AS 14.17.225(b) [THE
20 PRODUCT OBTAINED BY MULTIPLYING

21 (A) 21 PERCENT OF THE INSTRUCTIONAL UNIT VALUE IN
22 AS 14.17.056;

23 (B) THE NUMBER OF INSTRUCTIONAL UNITS APPROVED FOR THE
24 DISTRICT FOR THE FISCAL YEAR; AND

25 (C) THE AREA COST DIFFERENTIAL OF THE DISTRICT UNDER
26 AS 14.17.051].

27 * Sec. 2. This Act takes effect July 1, 1989.