

H B

398

HOUSE COMMITTEE REPORT

3/13

(7)

Date Referred: January 8, 1990

FURTHER REFERRALS: FINANCE

Date of Committee Action: 3/12/90

The HEALTH, EDUCATION, & SOCIAL SERVICES Committee considered: HB 398

HOUSE BILL NO. 398

ADJUSTMENTS OF PRIOR YR FOUNDATION AID

"An Act providing authority for the Department of Education to adjust a school district's state foundation aid in a fiscal year to correct for previous underpayments or overpayments."

RECOMMENDATIONS:

- be replaced with CSHB 398 (HESS) the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):
(Dept)

APPROVES PREVIOUS: _____ (Date/Dept)

- fiscal impact _____
- zero fiscal note _____
- zero with analysis _____

- fiscal note(s) _____
- zero fiscal note(s) 1/8/90 DoE
- zero fn/analysis _____

SIGNING DO PASS:

SIGNING:
(Check approp. column)

Do Not Pass No Rec Amend

SIGNING DO PASS:	SIGNING:	Do Not Pass	No Rec	Amend
<u>Ellis</u> 40P 2WR ELLIS				
<u>Boyer</u> GOLL				
<u>Cheri Davis</u> C. DAVIS	<u>Mark Boyer</u> BOYER			X
<u>George Furnace</u> FURNACE	<u>George Furnace</u> TACKO			X

J. Ellis
Chairman's Signature

A M E N D M E N T

OFFERED IN THE HOUSE

BY REP. GOLL

TO: HB 398

Page 1, line 9:

Delete "or overpayments"

Insert "; relating to the number of allowable instructional units in determining state foundation aid for a school district; and providing for an effective date"

Page 1, after line 18:

Insert a new bill section to read:

"* Sec. 2. AS 14.17.031(b) is amended to read:

(b) If the instructional units that a school district is eligible to receive under (a) of this section decrease by 10 percent or more from one fiscal year to the next, the school district may use the last fiscal year before the reduction as a base fiscal year and offset its reduction according to the following schedule: (1) for the first fiscal year after the base fiscal year, the school district is eligible to receive the instructional units determined under (a)(1) of this section plus 75 percent of the difference in instructional units between the base fiscal year and the first fiscal year after the base fiscal year; (2) for the second fiscal year after the base fiscal year, the school district is eligible to receive the instructional units determined under (a)(1) of this section plus 50 percent of the

difference in instructional units between the base fiscal year and the second fiscal year after the base fiscal year; (3) for the third fiscal year after the base fiscal year, the school district is eligible to receive the instructional units determined under (a)(1) of this section plus 25 percent of the difference in instructional units between the base fiscal year and the third fiscal year after the base fiscal year. The schedule established in this subsection is available to a school district for the three fiscal years following the base fiscal year only if the instructional units received by the school district under (a)(1) of this section for each fiscal year is less than the instructional units received by the school district in the base fiscal year. This subsection does not apply to a decrease in instructional units resulting from a loss of enrollment that occurs as a result of a boundary change under AS 29 [FOR PURPOSES OF (a)(1) OF THIS SECTION, IN FISCAL YEARS BEGINNING AFTER JULY 1, 1987, 90 PERCENT OF THE DISTRICT'S TOTAL ELEMENTARY AND SECONDARY INSTRUCTIONAL UNITS FOR THE PRECEDING FISCAL YEAR IS USED IF THAT NUMBER IS GREATER THAN THE DISTRICT'S TOTAL UNDER (a)(1) OF THIS SECTION FOR THE CURRENT FISCAL YEAR]."

Renumber the following bill section accordingly.

A M E N D M E N T

OFFERED IN THE HOUSE

BY REP. GOLL

TO: HB 398

Page 1, line 9:

Delete "or overpayments"

Insert "; relating to the number of allowable total elementary and secondary instructional units in determining state foundation aid for a school district; and providing for an effective date"

Page 1, after line 18:

Insert a new bill section to read:

"* Sec. 2. AS 14.17.031(b) is amended to read:

(b) If the total elementary and secondary instructional units that a school district is eligible to receive under (a) of this section decrease by 10 percent or more from one fiscal year to the next, the school district may use the last fiscal year before the reduction as a base fiscal year and offset its reduction according to the following schedule: (1) for the first fiscal year after the base fiscal year, the school district is eligible to receive the total elementary and secondary instructional units determined under (a)(1) of this section plus 75 percent of the difference in total elementary and secondary instructional units between the base fiscal year and the first fiscal year after the base fiscal year; (2) for the second fiscal year after the base fiscal year, the school district is

eligible to receive the total elementary and secondary instructional units determined under (a)(1) of this section plus 50 percent of the difference in total elementary and secondary instructional units between the base fiscal year and the second fiscal year after the base fiscal year; (3) for the third fiscal year after the base fiscal year, the school district is eligible to receive the total elementary and secondary instructional units determined under (a)(1) of this section plus 25 percent of the difference in total elementary and secondary instructional units between the base fiscal year and the third fiscal year after the base fiscal year. The schedule established in this subsection is available to a school district for the three fiscal years following the base fiscal year only if the total elementary and secondary instructional units received by the school district under (a)(1) of this section for each fiscal year are less than the total elementary and secondary instructional units received by the school district in the base fiscal year. This subsection does not apply to a decrease in total elementary and secondary instructional units resulting from a loss of enrollment that occurs as a result of a boundary change under AS 29 [FOR PURPOSES OF (a)(1) OF THIS SECTION, IN FISCAL YEARS BEGINNING AFTER JULY 1, 1987, 90 PERCENT OF THE DISTRICT'S TOTAL ELEMENTARY AND SECONDARY INSTRUCTIONAL UNITS FOR THE PRECEDING FISCAL YEAR IS USED IF THAT NUMBER IS GREATER THAN THE DISTRICT'S TOTAL UNDER (a)(1) OF THIS SECTION FOR THE CURRENT FISCAL YEAR]."

Renumber the following bill section accordingly.

---REVISED---

1990 SESSION STATUTORY APPROPRIATION LIMIT CALCULATION
GENERAL FUND AND GENERAL FUND/PROGRAM RECEIPTS
BASED ON A.S. 37.05.540

APPROPRIATIONS ENACTED IN FY89

Operating	2,032.5	
Capital	132.8	
Loans	10.0	
G.O. Debt	120.4	
Other Debt	12.1	
Special Appropriations		
Ch 117 Sec 206, Oil/Hazard Fund	32.0	
Ch 13, Oil/Hazard Fund	20.0	
Science & Technology Endowment	34.0	
Ch 62, Business Incentive Training	0.3	
Ch 103, Arctic Winter Games	0.1	
Supplementals (for FY89 and prior years)	91.2	
Supplementals (for FY88 and prior years)	55.9	
TOTAL APPROPRIATIONS		2,541.3

EXCEPTIONS TO THE APPROPRIATION LIMIT

G.O. Debt Retirement	-120.4	
Reappropriations		
Ch 117, Sec 35, Foundation	-3.5	
Ch 117, Sec 195, PCE Grants	-1.8	
Ch 117, Sec 204, DCAP	-0.4	
Science & Technology Endowment (Enacted FY88)	-34.0	
TOTAL EXCEPTIONS		-160.1

TOTAL APPROPRIATIONS SUBJECT TO LIMIT 2,381.2

Multiply by 5% plus the change in population and inflation 1.0794

1990 SESSION APPROPRIATION LIMIT 2,570.3

APPROPRIATIONS REQUESTED - 1990 SESSION (Subject to Spending Limit)

Operating	2,063.1	
Capital	228.5	
Loans	13.7	
School Debt	107.8	
Other Debt	12.1	
Special Appropriations		
Oil/Hazardous Fund	27.0	
Supplementals (for FY90 and prior years)		
HB 428	61.5	
HB 464	48.8	
HB 453	0.9	
HB 459/SB 424	8.6	
New Legislation	10.0	
TOTAL REQUESTED APPROPRIATIONS		2,532.0

BALANCE OF SPENDING LIMIT OVER APPROPRIATIONS -11.7

Assumptions: "An appropriation is considered to be made in the fiscal year in which it is enacted" All appropriations included in the FY89 base are those signed into law during that fiscal year, whether it relates to FY89 or FY90. Differences between this calculation and the 1/24/90 version of the spending limit computations are a result of the identification of the actual enactment date of the supplemental appropriation for FY88 (signed by the Governor on 7/3/88). Debt Retirement - The statute refers to general obligation bonds as exceptions to the spending limit. In the more strict interpretation of this statement we would not exclude any other debt. Railbelt Energy Fund expenditures are shown as general funds subject to the spending limit.

FY90 SPENDING LIMIT COMPUTATION
MULTIPLICATION FACTOR

PERCENTAGE
CHANGE

SET BY STATUTE

5.00

CHANGE IN POPULATION

Source: Greg Williams, Dept. of Labor, Research and Analysis

1988	531,000
1989	<u>534,400</u>
	3,400

0.64

CHANGE IN INFLATION

Source: Dept. of Labor, Research and Analysis
CPI - Urban Consumers - Anchorage

First half of 1988	108.4
First half of 1989	<u>110.9</u>
	2.5

2.30

TOTAL

7.94

**1989 SESSION STATUTORY APPROPRIATION LIMIT CALCULATION
GENERAL FUND AND GENERAL FUND/PROGRAM RECEIPTS
BASED ON A.S. 37.05.540**

APPROPRIATIONS ENACTED IN FY88

Operating		
FY89	1,973.1	
Capital		
FY89	83.2	
FY88 (signed by Governor 7/23/87)	88.5	
Loans		
FY89	16.7	
FY88 (signed by Governor 7/23/87)	1.0	
G.O. Debt		
FY89	135.6	
Other Debt	11.8	
Special Appropriations		
Science & Technology Endowment (Sec 1, Ch 5, FSSLA 87 repealed & reauthorized at Sec 189, Ch 173, SLA 88)	100.0	
Ch 10, SLA 88, Jobs Bill	75.1	
Ch 137, SLA 88, Circumpolar Health Studies	0.3	
Ch 171, SLA 88, Enforcement of Alcohol Laws	0.2	
Supplementals (for FY88 and prior years)	3.6	
TOTAL APPROPRIATIONS		2,499.2

EXCEPTIONS TO THE APPROPRIATION LIMIT

G.O. Debt Retirement, FY89	-135.6	
TOTAL EXCEPTIONS		-135.6

TOTAL APPROPRIATIONS SUBJECT TO LIMIT 2,363.6

Multiply by 5% plus the change in population and inflation 1,049.9

1989 SESSION APPROPRIATION LIMIT 2,481.5

APPROPRIATIONS - 1989 SESSION (Subject to Spending Limit)

Operating	2,026.8	
Capital	132.8	
Loans	10.0	
Other Debt	12.1	
Special Appropriations		
Oil/Hazardous Fund (Prior Years)	20.0	
Oil/Hazardous Fund	32.0	
Supplementals (for FY88 and prior years, signed by Governor 7/8/88)	55.9	
Supplementals (for FY89 and prior years)	91.2	
TOTAL APPROPRIATIONS		2,380.8

BALANCE OF SPENDING LIMIT OVER APPROPRIATIONS 100.7

Assumptions: According to the statute "an appropriation is considered to be made in the fiscal year in which it is enacted." This would require all appropriations included in the FY88 base to be any that were made during the FY88 legislative session, whether it relates to FY88 or FY89.

Debt Retirement - The statute refers only to general obligation bonds as an exception.

FY89 SPENDING LIMIT COMPUTATION
MULTIPLICATION FACTOR

PERCENTAGE
CHANGE

SET BY STATUTE

5.0000

CHANGE IN POPULATION

Source: Greg Williams, Dept. of Labor, Research and Analysis

1987	537,800
1988	<u>531,000</u>
	-6,800

-0.0126

CHANGE IN INFLATION

Source: Dept. of Labor, Research and Analysis
CPI - Urban Consumers - Anchorage

First half of 1987	108.3
First half of 1988	<u>108.4</u>
	0.1

0.0009

TOTAL

4.9883

1988 SESSION STATUTORY APPROPRIATION LIMIT CALCULATION
 GENERAL FUND AND GENERAL FUND/PROGRAM RECEIPTS
 BASED ON A.S. 37.05.540

APPROPRIATIONS ENACTED IN FY87		
Operating		1,846.9
Capital - signed by Governor 7/23/87		0.0
Loans		19.4
G.O. Debt		148.0
Special Appropriations		
Ch 32, Alaska AIDS Program		0.5
Ch 86, Arctic Winter Games		0.6
Supplementals (for FY87 and prior years)		22.6
TOTAL APPROPRIATIONS		2,038.0
EXCEPTIONS TO THE APPROPRIATION LIMIT		
GO Debt		-148.0
TOTAL EXCEPTIONS		-148.0
TOTAL APPROPRIATIONS SUBJECT TO LIMIT		1,890.0
Multiply by 5% plus the change in population and inflation		1.0498
1988 SESSION APPROPRIATION LIMIT		1,984.2
APPROPRIATIONS - 1988 SESSION (Subject to Spending Limit)		
Operating		
FY89		1,973.1
Capital		
FY89		88.2
FY88 (signed by Governor 7/23/87)		88.5
Loans		
FY89		16.7
FY88 (signed by Governor 7/23/87)		1.0
Other Debt		11.8
Special Appropriations		
Science & Technology Endowment (Sec 1, Ch 5, FSSLA 87 repealed & reauthorized at Sec 189, Ch 173, SLA 88)		100.0
Ch 10, SLA 88, Jobs Bill		75.2
Ch 137, SLA 88, Circumpolar Health Studies		0.3
Ch 171, SLA 88, Enforcement of Alcohol Laws		0.2
Supplementals (for FY88 and prior years)		8.6
TOTAL APPROPRIATIONS		2,363.6
BALANCE OF SPENDING LIMIT OVER APPROPRIATIONS		-379.4

Assumptions: According to the statute "an appropriation is considered to be made in the fiscal year in which it is enacted." This would require all appropriations included in the FY87 base to be any that were made during the FY87 legislative session, whether it relates to FY87 or FY88.

Debt Retirement - The statute refers only to general obligation bonds as an exception.

FY88 SPENDING LIMIT COMPUTATION
MULTIPLICATION FACTOR

PERCENTAGE
CHANGE

SET BY STATUTE

5.0000

CHANGE IN POPULATION

Source: Greg Williams, Dept. of Labor, Research and Analysis

1986	547,600
1987	<u>537,800</u>
	-9,800

-0.0179

CHANGE IN INFLATION

Source: Dept. of Labor, Research and Analysis
CPI - Urban Consumers - Anchorage

First half of 1986	239.0
First half of 1987	<u>289.2</u>
	0.2

0.0007

TOTAL

4.9828

STATE OF ALASKA				
ENACTMENT OF APPROPRIATIONS				
GENERAL FUNDS AND GENERAL FUND PROGRAM RECEIPTS				
YEAR OF ENACTMENT	Date of Enactment	FY87	FY88	FY89
Ch 95, SLA 87	6/30/87			
Conference Committee		1,632.0		
New Legislation		12.5		
Program Receipts		45.4		
Sec 19 & 20 Legal Proceedings		9.8		
Sec 22, Pers Svcs		37.7		
School Debt		109.5		
GO Debt		148.0		
Loans		3.7		
Ch 2, SLA 87-Disaster Relief	3/17/87	0.0		
Ch 32, SLA 87-AIDS Program	5/30/87	0.5		
Ch 86, SLA 87-Arctic Winter Games	6/15/87	0.6		
Ch 90, SLA 87-FY87 Supplementals	6/17/87	22.6		
Ch 93, SLA 87 - Student Loans	6/17/87	15.7		
Ch 3, SLA 87 FSS	7/23/87			
Capital			88.5	
Loans			1.0	
Reappropriations-Operating			2.6	
Reappropriations-Capital			7.6	
Ch 5, SLA 87 FSS	7/23/87			
To budget Reserve Fund			250.0	
Ch 154, SLA 88	6/10/88			
Conference Committee			1,399.8	
New Legislation			2.1	
GO Debt			135.6	
Other Debt			11.8	
Ch 12, SLA 88	3/26/88			
Foundation			461.7	
School Debt			109.5	
Ch 172, SLA 88 - Capital	6/17/88			
Loans			16.7	
Ch 10, SLA 88 - JOBS	3/3/88			
			75.2	
Ch 173, SLA 88	7/8/88			
Reappropriations - Operating				10.4
Reappropriations - Capital				30.2
Reapprop-Ch 5, SLA 87-GF*				
FY88 Supplementals				55.0
Ch 6, SLA 88 - FY88 Supplemental	2/25/88			
			0.3	
Ch 20, SLA 88 - FY88 Supplemental	4/22/88			
			8.3	
Ch 137, SLA 88-Circumpolar Hlth	6/8/88			
			0.3	
Ch 153, SLA 88-Disaster Relief	6/9/88			
			0.0	
Ch 171, SLA 88-Alcohol Laws	6/17/88			
			0.2	

YEAR OF ENACTMENT	Date of Enactment	FY87	FY88	FY89
Ch 116, SLA 89	6/17/89			
Conference Committee				1,286.8
New Legislation				3.1
School Debt				107.3
Shared Taxes				18.6
Fisheries Enhancement				10.5
GO Debt				120.4
Other Debt				12.1
Loans				10.0
Ch 117, SLA 89	6/30/89			
Capital				132.2
Reappropriation - Operating				5.7
Reappropriation - Capital				47.4
Ch 87, SLA 89-FY89 Supplementals	6/1/89			37.7
Ch 43, SLA 89-FY89 Supplemental	5/26/89			3.5
Ch 103, SLA 89-Arctic Winter Games	6/13/89			0.1
Ch 62, SLA 89-Business Incentive	5/30/89			0.3
Ch 13, SLA 89-Oil Spill	4/12/89			30.0
TOTALS		2,038.01	2,659.41	2,563.3
* Original Appropriation to Budget Reserve Account. Reappropriation changed it to Science & Technology Endowment and reduced amount to \$100.0 million. Also added contingency.				

FY 90 APPROPRIATION LIMIT CALCULATION
GENERAL FUND AND GENERAL FUND/PROGRAM RECEIPTS
Based on AS 37.05.540

1. Appropriations Enacted in FY89		
A. Operating-Ch. 116, SLA1990 (enacted 6/18/89)		2,026.7
B. Capital		132.8
C. Loans-Ch. 116, SLA 1990		10.0
D. G.O. Debt- Ch. 116, SLA 1989		120.4
E. Lease/Purchase Debt-Ch. 116, SLA 1989		12.1
F. Supplementals-Ch. 87, SLA 1989		91.2
G. Exxon Valdez-Ch. 13, SLA 1989		20.0
H. Transfer Science & Tech to Permanent Fund		34.0
I. Special Appropriations Oil Fund		32.0
J. Other Appropriations-Ch. 43, Ch. 103, Ch 62, SLA 89 Ch. 173, SIA 1988		3.9 55.9
TOTAL APPROPRIATIONS ENACTED IN FY89		2,539.0
2. Not Subject to Limit		
A. G.O. Debt Retirement		-120.4
B. Science & Tech to the Permanent Fund		-34.0
3. Total Appropriations Subject to Limit		2,384.6
4. Multiply #3 by 5% plus the Change in Population and Inflation	X	1.0794
5. MAXIMUM FY 90 APPROPRIATION LIMIT		2,573.9
Under AS 37.05.540		
6. Proposed Appropriations Enacted in FY 90 (Subject to the Spending Limit)		
A. Operating-Governor's FY91 Request		2,170.9
B. Capital (Introduced 2/1/90)		113.5
C. Loans- Governor's Request		13.7
D. G.O. Debt Retirement/Lease Purchase		12.1
E. Special Appropriations Oil Fund		27.0
F. Supplementals-HB428, HB459 & SB 396		75.0
G. Special Maintenance Capital Bill (2/1/90)		48.8
TOTAL APPROPRIATIONS ENACTED IN FY90		2,461.0
7. Amount FY 90 Appropriations are Below the Limit		112.9

Notes: (1) Enacted defined as "when the Governor signs a bill".

(2) Appropriations not subject to the appropriation limit include: G.O. Debt-95.6.
Asibelt Energy Fund Reappropriation 115.0 and transfers to the Permanent Fund.



ALASKA ASSOCIATION OF ELEMENTARY SCHOOL PRINCIPALS
ALASKA ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS
ALASKA ASSOCIATION OF SCHOOL ADMINISTRATORS

• ALASKA COUNCIL OF SCHOOL ADMINISTRATORS •
326 Fourth St., Suite 408 Juneau, Alaska 99801 586-9702

POSITION PAPER

HB 398

"Adjusting a school district's state foundation aid in a fiscal year"

The Alaska Council of School Administrators supports HB 398 with the addition of amendment #1 detailing a process for the reduction of fund under the foundation support program to school districts.

School districts develop budgets around the best information available and on current enrollment as well as projected enrollment for the coming school year. As the school year begins and because of unanticipated events which causes a severe reduction in enrollment, districts can be seriously impacted and with this amendment, the reductions in staff and programs can be accomplished in a gradual, well planned process which will cause as little disruption as possible to the over-all educational program.

We urge this committee to pass the amendment.

② Will
file in H. Hess

AMENDMENT TO HB398

If instructional units which a school district is entitled to under the state foundation funding formula decreases by 10% or more from one year to the next, the school district may use the last year before the reduction as a base year and offset its reduction according to the following schedule:

(1) For the first year after the base year, the school district is entitled to 75% of the difference in instructional units between the base year and the first year.

(2) For the second year after the base year, the school district is entitled to 50% of the difference in instructional units between the base year and the second year.

(3) For the third year after the base year, the school district is entitled to 25% of the difference in instructional units between the base year and third year.

The schedule established in this subsection is available to a school district for the three years following the base year only so long as the entitlement to the instructional units for each year is less than the entitlement of the base year.

This subsection does not apply to a decrease in instructional units resulting from a loss of enrollment which occurs as a result of a boundary change.

STEVE COWPER
GOVERNOR



ce
HB398

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 8, 1990

The Honorable Sam Cotten
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the public school foundation program. The bill would simplify the process of making corrections to underpayments made to school districts in previous fiscal years by permitting current-year state aid to be adjusted rather than requiring a supplemental appropriation. The need for this bill arises from the relationship between the Department of Education and the federal government for federal impact aid purposes under P.L. 81-874.

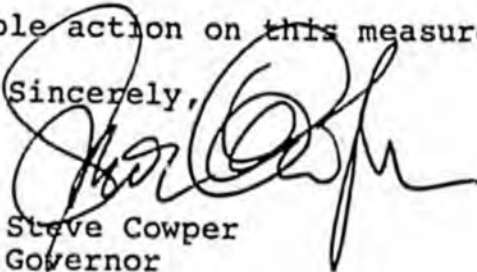
Under P.L. 81-874, as amended, a state is authorized to consider federal impact aid payments made to school districts as "local resources" under the state's school aid formula, and thus reduce the amount of state aid needed, only if the state's program meets federal equalization criteria. One of those criteria, according to the United States Department of Education's interpretation of its regulations, is that if a state distributes state aid based on an estimated ratio of local support to the district covered by the state's equalization plan to total local support (as Alaska does) then it must make appropriate corrections after the local support estimates are replaced by actual, audited data.

Currently, under AS 14.17.170, the department can require a district to return any overpayments made to it. By implication, it may reduce current-year foundation support by the amount of any overpayment made in a previous fiscal year. There is no statutory provision, however, authorizing the department to use money appropriated for the current-year foundation program to correct underpayments made in prior fiscal years. The Department of Education recommends this bill to permit that use of the current-year

foundation program appropriation, even if that use would sometimes require prorating current-year support to all districts. That would eliminate the need for a supplemental appropriation each year to make what are relatively minor adjustments to the previous fiscal year's state aid distribution.

I urge your prompt and favorable action on this measure.

Sincerely,



Steve Cowper
Governor

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FISCAL NOTE

REQUEST:

Revision Date: _____
Title: ... Adjust a School District's
State Foundation Aid...
Sponsor: Rules Committee
Requestor: Governor

Agency Affected: Education
BRU: K-12 Support
Components: Foundation

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
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 : (Att... a separate page if necessary)

Prepared by: Steve Hole
Division: Commissioner's Office
Approved by Commissioner: William Demmert
Agency: Education

Phone: 465-2800
Date: 12/7/89
Date: 12/7/89

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

#1

AMENDMENT TO HB398

If instructional units which a school district is entitled to under the state foundation funding formula decreases by 10% or more from one year to the next, the school district may use the last year before the reduction as a base year and offset its reduction according to the following schedule:

(1) For the first year after the base year, the school district is entitled to 75% of the difference in instructional units between the base year and the first year.

(2) For the second year after the base year, the school district is entitled to 50% of the difference in instructional units between the base year and the second year.

(3) For the third year after the base year, the school district is entitled to 25% of the difference in instructional units between the base year and third year.

The schedule established in this subsection is available to a school district for the three years following the base year only so long as the entitlement to the instructional units for each year is less than the entitlement of the base year.

This subsection does not apply to a decrease in instructional units resulting from a loss of enrollment which occurs as a result of a boundary change.

STATE OF ALASKA

DEPARTMENT OF EDUCATION

OFFICE OF THE COMMISSIONER

STEVE COWPEL, GOVERNOR

GOLDBELT PLACE
801 WEST 10TH STREET
P.O. BOX F
JUNEAU, ALASKA 99811-0500

February 8, 1990

Jim Nordlund
House HESS Committee
PO Box V
Juneau, Alaska 99811

Dear Mr. Nordlund:

The Department of Education annually must pass a federal disparity test to determine whether Alaska's Public School Foundation Program meets U.S. Department of Education regulations for states that use P.L. 81-874 funds as part of their school funding distribution mechanism. In the past, the federal government has given a conditional determination that Alaska has passed the disparity test, with an exception. The exception is made because the State disburses funds through the foundation program based on budgeted data. The disparity test itself is based on audited data. The federal government will issue a final determination that Alaska meets the disparity test only after payments to districts are reconciled with the audited data. In the past, the State has made these reconciliations through its annual supplemental appropriation.

The amendment to AS 14.17.021(a) in House Bill 398 authorizes the State to make those reconciliation payments prior to submitting to a federal disparity test. This bill is necessary because the federal government has requested the State to prorate payments to districts during the school year based on audited data. The federal concern is that the Legislature may find itself in a position not to fund a supplemental appropriation. Should that occur Alaska is at risk of losing all PL 81-874 funds that come to the State. Total potential loss is about \$70 million per year.

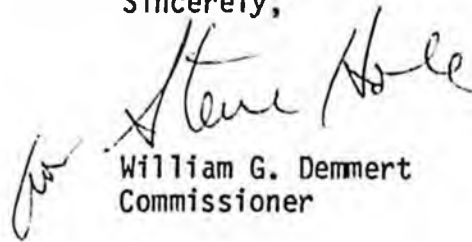
Meanwhile, as payments are prorated under authorization of House Bill 398, the Legislature can, as it has done in the past, make up full funding to districts in an annual supplemental appropriation. If some catastrophic emergency prohibits a supplemental, then the State does not risk losing its PL 81-874 receipts because of imbalances in the State's foundation program distribution.

Jim Nordland
February 8, 1990
Page 2

Enclosed is a letter from Charles Hansen, Director, Impact Aid Program. U.S. Department of Education, noting the requirement that the Alaska Department of Education must secure funds from the State Legislature to reimburse those school districts that failed to receive adequate foundation funding in FY 88 and FY 89, according to the federal disparity test.

I am available if you need further information about this matter.

Sincerely,


William G. Demmert
Commissioner

Enclosure



UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

DEC 29 1989

22 DEC 1989

John E. Anttonen, Director
Educational Finance and Support Services
Alaska State Department of Education
Goldbelt Place
801 West 10th Street, P.O. Box F
Juneau, Alaska 99811-0500

Dear Mr. Anttonen:

This is to notify you that, based upon examination of the data sets provided for our review, we are approving the disparity test results dated November 13, 1989 for fiscal year (FY) 1988 as computed by your office under Section 5(d)(2) of Public Law 81-874, subject to the following condition.

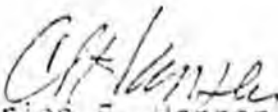
As stated in my letter of October 23, 1989, the State Department of Education must secure from the State legislature an appropriation to reimburse those school districts from which State foundation aid funds were improperly withheld under Section 5(d). If the appropriate adjustments are made in the amounts indicated in the November 13 data, and are reported to this office, this Department will let stand the existing determination for FY 1988.

In addition, we still have not received either a copy of the State's legislative proposal requesting additional appropriations, or the proposal requesting authority to make adjustments in future-year State aid payments, both of which your office agreed to submit to us prior to submission to the legislature in the upcoming legislative session.

Finally, I would like to relay to you the fact that both Dr. Robert Farning and Kerry Wingell of my staff were pleased with the outcome of the recent State workshop in Anchorage. Apparently a number of attendees engaged in some lively exchanges and contributed significantly to forging a better understanding of Alaska school conditions as they relate to the Impact Aid Program. Equally as important, my staff now feel confident that the morning session during which they explained the FY 1989 payment vouchers to Eddy Jeans of your staff should enhance your ability to prepare submissions to the Department.

Thank you for your cooperation in working to remedy the deficiencies in the prior FY 1988 disparity test. I look forward to your continuing support as we proceed with the determination process for the ensuing fiscal years.

Sincerely,


Charles E. Hansen, Director
Impact Aid Programs
Elementary and Secondary Education

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Education
 Title: Authority for the Department of BRU: K-12 Support
Education to adjust a school district's..
 Sponsor: Rules Components: Foundation
 Requestor: House HESS

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
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: 2/13/90
 Approved by Commissioner: William G. Demmert Date: 2/13/90
 Agency: Education

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

PROPOSAL

For a Feasibility Study of

Alaska Foundation Funding Program

(Educational Equity and Cost Effectiveness)

ABSTRACT

Due to the substantial interest in financing of public education in Alaska and with continued litigation throughout the United States concerning the issue of equity in education finance, it seems desirable to investigate all the various concerns relating to the funding of public schools in Alaska. A study of the State Foundation Funding Program should be conducted to address the questions relating to educational equity and cost effectiveness.

STATEMENT OF PURPOSE

It is essential that the State of Alaska have a mechanism in place to properly finance the public education system. Alaska's school districts vary greatly in size, political complexity, and district wealth. While some municipal districts are comparable to those in other states, others are remote, with many small schools isolated from one another. Several small city districts consist of single attendance centers which are located in rural areas of the state. Due to this diversity it is logical to assume that the actual cost of education may vary greatly on a district-by-district basis, and it is difficult to guarantee that true equity in educational funding exists. For the same reason it is equally difficult to ensure that every district receives sufficient funds to offer an acceptable educational program for all students. Finally, it is essential that all education services are provided as cost effectively and as efficiently as possible.

EDUCATION EQUITY AND SCHOOL FINANCE

Throughout the country a major portion of state and local taxes are dedicated to the support of public education. Public education is expensive and there has been considerable scrutiny of school finance methods. During the last twenty years much of this scrutiny has been directed toward equity in education.

In San Antonio v. Rodriguez (1973) the U.S. Supreme Court ruled that since education was not a right under the U.S. constitution the court had no jurisdiction in matters pertaining to equity in educational funding. This decision left the issue up to the state courts. In 1971, the California Supreme Court in Serrano vs Priest declared that the state's system for financing public schools was unconstitutional. This decision established a standard that the quality of a child's education must be based on the wealth of the state as a whole and not on the wealth of a local school district. Since this decision there has been considerable litigation relating to this issue. As of this date twelve states have upheld their education finance system and ten states have declared their system to be unconstitutional. Currently there is ongoing litigation concerning this issue in several other states. Alaska is one of these states.

Equity in education is a very complex problem. The fundamental question is, equity for who? There are two basic answers to this question. One, equity for the taxpayer; and two, equity for the children enrolled in the public schools. While equity for the taxpayer is an issue worthy of further investigation, the focus of this proposal will be equity for the pupil.

The various state supreme courts have not been able to agree on the concept of equity. One court stated that since the plaintiff had not been able to show that a single child had been deprived of an educational opportunity the complaint was denied. In the same article the author pointed out that the Louisiana State Supreme Court upheld the Louisiana finance system stating that it was sufficient to ensure a minimum educational program for all students. California established a one-hundred-dollar-per-student band or variance whereby, all per-pupil expenditure must be within a hundred dollars of one another. This has been interpreted to include adjusted dollars which reflect inflation and cost differentials related to small versus large district operations. In Oklahoma the Supreme Court ruled that the state was under no obligation to guarantee equal expenditure per child in its educational system. While the federal government remains uninvolved, it is studying the issue.

While there appears to be no single method to determine equity in education finance, there are several areas that if properly addressed increase the probability of a given formula withstanding the scrutiny of the courts. These areas are as follows:

- 1) Horizontal Equity
- 2) Vertical Equity
- 3) Equal Opportunity
- 4) Adequacy of Funding

Horizontal equity means the "equal treatment of equals." This is the principle upon which many state funding programs are based. This principle assumes that all children are equal with equal problems and the equal ability to learn. Since this can readily be shown not to be the case this principle by itself simply will not survive legal review. This principle is valid when it is applied to subgroups of children where it can be demonstrated that they have like or similar characteristics.

Vertical equity is the "unequal treatment of unequals." This principle recognizes legitimate differences among pupils and allows for additional funds for these differences. Such legitimate differences include identified special educational needs, socio-economic factors that affect children, cultural or language barriers that impact children and their learning behavior, and other agreed-upon categories that affect the learning process. This principle can also be applied on a district basis when it can be demonstrated that differences exist which impact the cost of education. Such differences include size, locations, geographic considerations and population density.

Equal opportunity. While this principle contains all of the generally accepted concepts relating to discrimination on the basis of sex, age, handicapping conditions, race, and religion, it also refers to something different. This principle also relates to educational discrimination based on local wealth, fiscal capacity, or resources. In effect, this principle states that education should not be a function of a district's wealth.

Adequacy. This principle means that the educational finance system must provide sufficient funds to ensure that an acceptable minimum educational program can be offered to every child. This issue was addressed recently in the Texas case where the court stated as part of its decision that sufficient funds were not made available to financially support minimum state-mandated programs.

If properly taken into consideration, the above four principles can help establish an education finance system that has a good chance of withstanding legal challenges.

The courts seem to respond more favorably to systems that are based on a per pupil or per unit basis rather than on a program basis. When the amount of money available changes on a per pupil basis, it impacts all pupils the same whether it increases or decreases the available funds. The courts also seem to be favorably impressed with funding formulas that are based on sound research, logic, and good judgement.

There are several statistical tests available which can be used to argue equity or inequity. Such tests usually relate to dispersion or correlation. In California it was successfully argued that since 93% of all students fall within the 100-dollar range (adjusted dollars), the test of equity was satisfied. A two-tailed test of dispersion was used for this purpose. Statistics books are full of tests that can be used in equity arguments. Caution should be observed in the use of these tests since statistics are often misused, misunderstood, and misapplied.

ALASKA'S FOUNDATION FUNDING PROGRAM

Alaska's current method of financing public education was enacted into law in 1987. This act, contained in AS.14.17, was the result of considerable study over a relatively long period of time. An examination of this process clearly indicates that the four principles described above were taken into account. The current system (attached) is responsive to both vertical and horizontal equity, adequacy, and equal opportunity. The fact that the above described principles are addressed by this funding method does not guarantee that the formula is perfect, acceptable to all districts, or that it will withstand legal challenge. There have been several claims that the existing law does not meet the current educational needs of the state. While no real empirical evidence has been submitted to substantiate these claims, sufficient subjective evidence presented warrants an investigation into these allegations. A review of these claims suggests that the study give serious consideration to the questions mentioned in the next section of this proposal.

Study Goals

- 1) To maintain an education finance system which will meet all federal program eligibility requirements, provide a minimum level of funding to ensure that all students have the opportunity to benefit from a basic educational program, and withstand challenges relating to the legality of the system.

- 2) To develop a statewide education delivery system which will be operationally cost efficient and programatically effective.

RECOMMENDED PROCEDURE FOR THE STUDY

- 1) Select a group of individuals representing interested parties. This group should be appointed by the State Board of Education.
- 2) Contract with a consultant, who will conduct the study under the direction of the Director of the DOE Educational Finance and Support Services Division (EF&SS). This individual or firm must have extensive knowledge of school finance, school finance in Alaska and a thorough understanding of the issues facing education in Alaska today. This function might be provided through the University of Alaska.
- 3) The contractor should conduct a technical review of existing information concerning the issues and questions identified in this proposal.
- 4) The committee will meet five times during the course of this study. These meetings will be held on a regular basis and will be conducted by the Department of Education. Concerned parties will be invited to submit evidence regarding the issues being investigated at these meetings.
- 5) The department will provide the committee with detailed information relating to the issues under investigation.
- 6) Computer simulation models will be used to generate information to support decisions relating to school size, district size and/or regional service center size.
- 7) Upon completion of the review of all the evidence compiled as a result of the study, the committee, the contractor, and department representatives will meet to formulate recommendations for change in the existing program.
- 8) The department will present any recommendations for changes to the State Board of Education for their review and possible action.

STUDY ISSUES

- 1) Maintain a cooperative relationship with school districts. Without the cooperation and support of school districts any study on educational issues would fail.
- 2) The regional service center concept must be considered as part of this proposal. This concept has worked well in other states and has contributed to improved services to school districts with cost effectiveness. This issue is currently being addressed in part by a study being proposed relating to a statewide computer service network.
- 3) The consolidation of school districts for the purpose of improving the delivery of educational service must be investigated. Consolidation might prove to be a cost effective method to provide better educational services to pupils. Consolidation of school districts has proved itself to be an effective and efficient method of providing high quality educational programs in other states.
- 4) Equity in education finance needs to be addressed. A determination must be made relative to Alaska's foundation program and vertical and horizontal equity. It is essential that Alaska's funding method be consistent with the state's constitution.
- 5) Adequacy in education funding must be evaluated. The state's foundation program must provide sufficient funds to meet the minimum educational needs of all students. Critical to this issue is the value of the instruction unit (currently \$60,000) and the area cost differentials. These two factors must be studied to determine if they truly reflect the cost of education in Alaska.
- 6) Several questions have been raised concerning the state foundation program and small single/dual school districts. Claims have been made that the present formula does not adequately meet the needs of these districts. This study must take these questions into consideration.
- 7) Every child should have an equal opportunity to an education. This opportunity must exist regardless of a district's wealth. The state funding formula must take this factor into account. This study must address this principle especially as it relates to local effort.
- 8) Alaska currently funds capital improvements for education by three basic methods:
 - 1) Grants to municipalities.
 - 2) Grants to the Department of Education.
 - 3) The debt retirement program.Questions relating to equity and adequacy of these methods need to be addressed.
- 9) The operation of very small elementary and/or secondary schools may not be cost effective. Moreover, such small schools may not fully meet the educational needs of the pupils they serve. This study should investigate alternative methods of program delivery to children in these situations.

STUDY QUESTIONS

- 1) Does the existing formula adequately meet the needs of small single/dual site school districts?
- 2) Do the area differentials accurately reflect the actual cost of education throughout the state?
- 3) Should the state consolidate school districts in the interest of program effectiveness and operating efficiency?
- 4) Should the state adopt the regional education service center concept found in many other states to provide improved services to school districts?
- 5) Is the current \$60,000/unit sufficient to adequately meet the requirement for a basic educational opportunity for all Alaskan students?
- 6) Are the current methods of funding capital projects equitable and adequate?
- 7) Should Alaska establish municipal governments in the unorganized area of the state?
- 8) Should the state establish minimum enrollment requirements for the funding of elementary and secondary schools through the foundation program?

While these questions need to be addressed, it should be recognized that the existing formula may need very little modification in order to be responsive to changes required to satisfy equity questions.

Assumptions Relating to this Proposal

- 1) Available state funds for all government programs will decline.
- 2) The eligibility requirements for PL-81-874 must continue to be met as a condition of any changes in the foundation program as a result of this study.
- 3) Eligibility requirements for all other federal programs must continue to be met as a condition of any changes in the foundation program as a result of this study.
- 4) The expertise needed to conduct this study can be found in Alaska. Moreover, most of the data requirements to complete this investigation are available from school district records or Department of Education files. Given the above assumption it is recommended that \$260,000 be appropriated to the Alaska Department of Education to conduct this study. The department will oversee this project and provide the necessary support and other resources to ensure project completion.

Project Budget

Committee Meetings (est. 10 members meet 6 times)

20 total meeting days (10 * \$ 80 * 20) 16,000

6 rnd-trip airfare (10 * \$500 * 6) 30,000

In-State Consultant Assistance 200,000

Communication Costs

5 1-hr teleconf., 12 sites (12 * \$ 38 * 5) 2,280

Telephone, fax expenses 500

Mailing expenses 400

Consultation Time with DOE personnel

EFSS Director and staff 1,000

Adm Svcs Financial staff 2,600

Data Management staff 2,000

Printing, Binding Expenses 5,000

TOTAL \$259,780

STATE OF ALASKA THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907.465.3800

LEGISLATIVE AFFAIRS AGENCY LEGISLATIVE REFERENCE LIBRARY

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

H. HESS	2-15-90
H. HESS	2-21-90
H. HESS	2-27-90
H. HESS	3-12-90