

HB

203

HAFIN

FILE



Alaska State Legislature

*Representative Peggy Wilson
Putting Alaska's Families First*

SPONSOR STATEMENT

HB 203

“ An Act making an appropriation to the Legislative Council for a study of school district cost factors; and providing for an effective date.”

Alaska has a constitutional obligation to provide a full education for all students. The challenge inherent in this mission is to account for diverse geographic, cultural and economic conditions.

The formula currently employed, while well-intentioned, has unintentional consequences. A design error, which tracked expenses as opposed to actual costs of doing business in each school district, has resulted in flawed district cost factors. Failure to precisely measure differential costs across the state has resulted in inequitable funding.

What is the cost of providing an education in each school district as it relates to Anchorage as a base? What are the exact costs of electronic communications in Yakutat? What is the specific cost of fuel in Dillingham? What are the property insurance rates in Tok? What does it cost to get a school fire code inspector to Angoon?

HB 203 will provide factual answers to these questions. HB 203 proposes an independent study of school cost differentials to be contracted by the Legislative Council at the cost of \$350,000.

Contact Representative Peggy Wilson

3/23/01

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CS FOR HOUSE BILL NO. 203(EDU)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON EDUCATION

Offered: 4/5/01
Referred: Finance

Sponsor(s): REPRESENTATIVES WILSON, Lancaster, Cissna, Stevens

A BILL

FOR AN ACT ENTITLED

1 "An Act making an appropriation to the Legislative Council for a study of school
2 district cost factors; and providing for an effective date."

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

4 * Section 1. LEGISLATIVE INTENT. The Alaska State Legislature intends that the
5 Legislative Council ^{(#4) in consultation with the DEED and (#2)} use the appropriation made by sec. 2 of this Act to prepare ~~or~~ contract for
6 the preparation of a study ^{Recommending to be (#3)} of the district cost factors, used as a component of the formula for
7 determining funding of public education under AS 14.17.460 and submit the study to the
8 legislature by January 15, 2002. The study ^{Providing an education (#1)}
9 (1) should be based on the cost of ~~doing business~~ in each school district;
10 (2) should consider the cost of living, including the cost of food, housing,
11 utilities, transportation, medical expenses, property values, or other costs that contribute to the ^{actual}
12 cost of ~~doing business~~; ^{operating a school (#1)}
13 (3) should use Anchorage as a base value for comparing costs between school
14 districts;

1 (4) may consider information from state, federal, or private sources to
2 document cost differentials between districts; and
3 ^{shall (→ ?)}
(5) ~~may~~ be completed by contract.

4 * Sec. 2. LEGISLATIVE COUNCIL. The sum of \$350,000 is appropriated from the
5 general fund to the Legislative Council for a study of school district cost factors for the fiscal
6 year ending June 30, 2002.

7 * Sec. 3. This Act takes effect July 1, 2001.

ALASKA SCHOOL OPERATING COST STUDY

REVIEW OF CALCULATED COST FACTORS

PREPARED FOR:

**Alaska Department of Education
and Early Development**

801 WEST 10TH STREET

JUNEAU ALASKA, 99801

PREPARED BY:



Juneau • Anchorage

January 2001

Statement of the Situation

In early 1998, the McDowell Group prepared the *Alaska School Operating Cost Study* for the State of Alaska Legislative Budget and Audit Committee. The purpose of the study was to determine adjustment factors that compensate for the impact of school size and geographical location on school operating costs. These factors were incorporated into the Public School Funding Formula.

It is important to stress that this study dealt with only one piece – operating costs – of a large and complex puzzle termed the School Foundation Formula. It was not intended to determine the cost of basic educational (Basic Need), but only how to allocate a portion of Basic Need (i.e., certain school operating costs) as defined by legislative appropriation. Also, Basic Need is only a starting point for public school funding; many adjustments are made for local contributions, federal impact aid, special needs, and other factors. Since the report was published, additional legislation has been enacted which has “adjusted” the District Cost Factors; all of these adjustments have been determined outside of the study analysis.

In our report, we cautioned the Committee that this was an important step, but only a first step in the process of transforming the funding process into one that has a scientific and empirical basis. Previous to 1998, District Cost Factors were based primarily on outdated (1985) household market basket costs unrelated to the cost of operating schools. A major advance of the Alaska School Operating Cost Study was, for the first time since statehood, to base District Cost Factors on what it cost to actually operate schools. The priority focus of the study effort was placed on the most significant part of operating costs, namely school level or instructional costs accounting for at least 70% of the total. The second major advance was to base school level (instructional) costs on standards for staffing schools of various sizes. The result was a sound defensible means of allocating instructional costs consistent from district to district that allows for updating based on changes in ADM.

However, such a standard was not possible for district level costs and the solution was an imperfect one that now prevents updating of the district level cost component of the DCF. Instead of a uniform standard like that calculated for school size, districts were simply allocated district level costs based on each district's actual expenditures per student in FY 1996, the most recent year available at the time of the study. As a result of this acknowledge shortcoming, we recommended that the Committee implement a transition period to evaluate if adjustments are needed, and put further work into understanding the non-personnel and administrative costs, research that eventually could lead to standards for district level costs.

The Alaska Department of Education and Early Development is now in the process of recalculating the cost factors using 1999 data. Several issues and concerns about the District Cost Factors have emerged in this work. The McDowell Group views this situation as an excellent opportunity to review the assumptions, strengths and limitations of our earlier study.

Recommendations for Further Work

The 1998 McDowell Study put significant analysis into school level (instructional) costs, which comprise the major percentage of school operating costs. This analysis produced a methodology that can be updated yearly with the assurance of providing meaningful allocations.

As stated in the 1998 report, the State of Alaska should continue to improve its Public School Funding Formula and engage a similar quantitative effort into district level costs. Though the magnitude of these costs is well below instructional costs, they comprise a value that is certainly significant and can impact many districts, especially those on the margin of adequate funding. Data collection and standardization has apparently improved to the point that such a study will produce meaningful results.

Updating the District Cost Factors using the current methodology with 1999 data will result in more questions than answers. We recommend that the current DCF's be maintained and the Department's efforts be placed in re-examining the methodology.

There are two primary approaches to an analysis of district level costs. The first is a study similar to the one in 1998 that seeks to understand the reasons for why these costs vary by school size and location. For these types of indirect costs, a typical study would be to determine major cost pools and identify unique drivers for the pools. A private industry approach to understanding indirect costs is to develop cost pools based on distinct activities, hence the name activity-based costing (or ABC). The ABC approach has become quite popular in the public sector as well, as it can lead to the creation of standards that can be used to monitor and control indirect costs.

The second approach is a rate-setting approach. Indirect cost would be examined to the extent that expenditure goals could be developed. A funding methodology could then be devised to provide incentives to school districts for achieving these goals. This approach requires a more clearly defined public policy component than the activity-based approach.

In closing, the McDowell Group offers a two-step recommendation. The first is to assemble a preliminary study team comprised of Alaska education experts with a mix of rural and urban school district operations experience. This study team would determine and examine critical issues and develop project objectives. The second step is to design an on-going cost research program that specifies data that will properly account for regional and school size differences in district level and administrative costs.



Public School Funding Formula District Cost Factors

study methodology shows that those schools with correspondence students have an elevated cost factor. For example, Galena's cost factor is set in statute at 1.348 but using the cost study methodology with FY99 correspondence dollars assigns Galena a cost factor of 6.631. The increases the methodology calculates for districts with correspondence students are not warranted by increased costs. Additionally, because the formula simply divides each district's average basic need per student by the statewide average basic need per student, the impacts affecting districts with correspondence studies are also carried into the statewide average.

By using a calculation based on adjusted average daily attendance and average basic need to calculate cost factors any imperfections in the adjustment to average daily attendance or in the determination of basic need, are incorporated into district cost factors. Further, without identifying the underlying elements of true cost differences there is not a process to evaluate outcomes.

Conclusion

The 1998 Alaska School Operating Cost Study reported that compensating districts for actual district costs incurred was an unsatisfactory long-term solution. Based on our review of the methodology, and the outcome of calculation using FY99 data, we agree with the study's conclusion that the current methodology is unsatisfactory.

We recommend that a request-for-proposal be developed that requires identification of the underlying elements affecting school costs and determines a methodology for measuring those underlying elements. This will improve our cost factor methodology from that of compensating districts for current basic need to an improved method of allocating funding based on differences in applicable costs.



Public School Funding Formula *District Cost Factors*

Consideration should be given to the elements that contribute to costs in school districts. The investigation should evaluate whether the previously studied elements of travel, supplies, utilities, insurance, and communication correctly identify cost elements in districts, or whether other items should be added, or if different factors driving school district costs are applicable. Once the underlying elements are identified, a measurement tool applicable to each element should be identified.

The results obtained from recalculating cost factors using FY99 data under the 1998 cost study methodology do not provide a basis to recommend changes to existing cost factors because the formula does not adequately evaluate for cost differences in district level costs and the methodology does not adequately account for changes in the foundation formula after SB 36.

Recommendation

The department recommends that district cost factors remain at their current levels as designated in statute under AS 14.17.460 because there is not any empirical data to support changing the district cost factors at this time. The department also recommends that a new district cost model be developed to properly account for cost differences between districts on an ongoing basis.

IV. Conclusion – Continuous Improvement

Alaska adopted the Quality Schools Initiative with the understanding that **ALL** children can reach higher standards. Furthermore, the Quality Schools Initiative promises that no child will be left behind. This indeed is an enormous undertaking and is the first time the State of Alaska has made such a promise to *all* children.

That promise means every child will read, write and do math at higher levels than ever before. It means schools and parents will no longer let children move through the grades without gaining essential skills along the way. It means more children will have a bright future and will become good citizens.

It means Alaska's policy makers need to follow through and provide the support and necessary resources that teachers and schools need in order for Alaska to make good on its promise to youth.

Members of the task force recognized from the outset the challenge in estimating the funds needed to educate *all* Alaska students to high standards. In structuring the assignment for the task force, members relied on the staff of the Department of Education & Early Development to provide extensive background information. Issues related to prior statutory amendments to the foundation formula, cost-of-doing-business in relationship to annual allocations of funds through the formula, analyses of district expenditures of funds, and individual and professional experiences all played a significant role in the formulation of the recommendations.

Task force members extensively examined the recent report entitled *Alaska's Public School Funding Formula: A Report to the Alaska State Legislature*. In reviewing the report, the task force

- agreed that districts had lost purchasing power;
- concluded that a new methodology needs to be determined to more precisely fund the cost-of-doing-business in each Alaska community; and
- recognized that the foundation formula's funding floor reduction should be suspended until a new district cost factor study is conducted and fully implemented.

Sec. 14.17.450. School size factor. (a) For purposes of calculating a school's ADM to determine state aid, the ADM of each school in a district shall be computed by applying the following formula:

| If the student count in a school is | | The adjusted student count is | | | | |
|-------------------------------------|---------------|-------------------------------|------------|-------------------------------------|---|-------|
| At least | But less than | Base | Multiplier | The number of students in excess of | | |
| 10 | - 20 | 39.6 | | | | |
| 20 | - 30 | 39.6 | + | (1.62 | x | 20) |
| 30 | - 75 | 55.8 | + | (1.49 | x | 30) |
| 75 | - 150 | 122.85 | + | (1.27 | x | 75) |
| 150 | - 250 | 218.1 | + | (1.08 | x | 150) |
| 250 | - 400 | 326.1 | + | (0.97 | x | 250) |
| 400 | - 750 | 471.6 | + | (0.92 | x | 400) |
| 750 or over | | 793.6 | + | (0.84 | x | 750). |

(b) If the ADM in a school is less than 10, those students shall be included in the ADM of the school in that district with the lowest ADM as determined by the most recent student count data for that district. (§ 2 ch 83 SLA 1998)

Sec. 14.17.460. District cost factors. (a) For purposes of calculating a district's adjusted ADM under AS 14.17.410(b)(1), the district cost factor for a school district is as follows:

| DISTRICT | DISTRICT COST FACTOR |
|------------------------|----------------------|
| Alaska Gateway | 1.291 |
| Aleutians East | 1.423 |
| Aleutians Region | 1.736 |
| Alyeska Central School | 1.000 |
| Anchorage | 1.000 |
| Annette Island | 1.011 |
| Bering Strait | 1.525 |
| Bristol Bay | 1.262 |
| Chatham | 1.120 |
| Chugach | 1.294 |
| Copper River | 1.176 |
| Cordova | 1.096 |
| Craig | 1.010 |
| Delta/Greely | 1.106 |
| Denali | 1.313 |
| Dillingham | 1.254 |
| Fairbanks | 1.039 |
| Galena | 1.349 |
| Haines | 1.008 |
| Hoonah | 1.055 |
| Hydaburg | 1.085 |
| Iditarod | 1.470 |
| Juneau | 1.005 |
| Kake | 1.025 |
| Kashunamiut | 1.389 |
| Kenai Peninsula | 1.004 |
| Ketchikan | 1.000 |
| Klawock | 1.017 |

| | |
|--------------------|-------|
| Kodiak Island | 1.093 |
| Kuspuk | 1.434 |
| Lake and Peninsula | 1.558 |
| Lower Kuskokwim | 1.491 |
| Lower Yukon | 1.438 |
| Matanuska-Susitna | 1.010 |
| Mt. Edgecumbe | 1.000 |
| Nenana | 1.270 |
| Nome | 1.319 |
| North Slope | 1.504 |
| Northwest Arctic | 1.549 |
| Pelican | 1.290 |
| Petersburg | 1.000 |
| Pribilof | 1.419 |
| Sitka | 1.000 |
| Skagway | 1.143 |
| Southeast Island | 1.124 |
| Southwest Region | 1.423 |
| St. Mary's | 1.351 |
| Tanana | 1.496 |
| Unalaska | 1.245 |
| Valdez | 1.095 |
| Wrangell | 1.000 |
| Yakutat | 1.046 |
| Yukon Flats | 1.668 |
| Yukon/Koyukuk | 1.502 |
| Yupit | 1.469 |

(b) The department shall monitor the cost factors established under (a) of this section and shall prepare and submit to the legislature by January 15 of every other fiscal year proposed district cost factors. (§ 2 ch 83 SLA 1998)

Cross references. — For transitional provisions required under (b), see § 41, ch. 83, SLA 1998 in the relating to initial proposed district cost factors re- 1998 Temporary and Special Acts.

Sec. 14.17.470. Base student allocation. The base student allocation is \$3,940. (§ 2 ch 83 SLA 1998)

Sec. 14.17.480. Quality school funding. (a) As a component of public school funding, a district is eligible to receive a quality school funding grant not to exceed the district's adjusted ADM multiplied by \$16. The department shall by regulation establish a grant process to implement this section.

(b) For purposes of the reduction required under AS 14.17.400(b), funding authorized under (a) of this section is treated the same as the state share of public school funding under AS 14.17.410. (§ 2 ch 83 SLA 1998)

Sec. 14.17.490. Public school funding adjustments. (a) Except as provided in (b) (e) of this section, if, in fiscal year 1999, a city or borough school district or a regional educational attendance area would receive less public school funding under AS 14.17.410 than the district or area would have received as state aid, the district or area is, in each fiscal year, eligible to receive additional public school funding equal to the difference between the public school funding the district or area was eligible to receive under AS 14.17.410 in fiscal year 1999 and the state aid the district or area would have received in fiscal year 1999.

(b) A city or borough school district is not eligible for additional funding authorized under (a) of this section unless, during the fiscal year, in which the district receives