

**HB**

**203**

SFIN

FILE

HB 203

was referred to the  
Senate Finance  
Committee

Hearing(s) were held

The bill did not move  
from Committee

Bill was WAIVED from Committee



OFFICIAL BUSINESS

Alaska State Legislature  
Senate  
Office of the Secretary

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**FOR YOUR IMMEDIATE ATTENTION**

DATE: May 14, 2002  
TO: Finance Committee  
(Mindy - Room 520)  
FROM: Office of the Senate Secretary  
SUBJ: Waived Bill(s)

The Chair of the Committee noted above has waived referral on the following bill(s):

**RETRIEVE**

CS FOR HOUSE BILL NO. 182(FIN) am

"An Act relating to certain vehicles, including motorcycles and trailers; relating to the registration, bonding, and other regulation of motor vehicle dealers; relating to the registration and other regulation of certain motor vehicle buyers' agents; relating to acts and transactions involving vehicles, including trailers, and to the acts and practices of certain persons and entities involved in vehicle transactions, including trailer transactions; relating to consumer protection for used vehicle buyers; amending Rule 3, Alaska Rules of Civil Procedure; and providing for an effective date."

CS FOR HOUSE BILL NO. 203(FIN)

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

HOUSE BILL NO. 451 am

"An Act relating to municipal bond reimbursement for school construction; and providing for an effective date."

Please give the bill file(s) to the page for forwarding to the next Committee of referral. Thank you.



# Alaska State Legislature

*Representative Peggy Wilson  
Putting Alaska's Families First*

## SPONSOR STATEMENT

### HB 203

**" An Act making an appropriation to the Legislative Budget and Audit 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 the actual cost of providing an education 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 Budget and Audit at the cost of \$350,000.

Contact Representative Peggy Wilson

4/27/01



## Public School Funding Formula *District Cost Factors*

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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.



## Public School Funding Formula *District Cost Factors*

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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 calculations 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.



## 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.

# **ALASKA SCHOOL OPERATING COST STUDY**

**REVIEW OF CALCULATED COST FACTORS**

**PREPARED FOR:**

**Alaska Department of Education  
and Early Development  
801 WEST 10<sup>TH</sup> STREET  
JUNEAU ALASKA, 99801**

**PREPARED BY:**



**Juneau • Anchorage**

**January 2001**

## Statement of the Situation

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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

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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.

# SENATE COMMITTEE REPORT

DATE: 4/17/01

FURTHER: Finance

DATE TURNED IN TO OFFICE: 04/28/01

Health, Education and Social Services Committee considered CS FOR HOUSE BILL NO. 203(FIN)

*APPROPRIATION: STUDY OF SCHOOL COST FACTORS*

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

and recommends:

- be replaced with SCS CS HB 203 (HES)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**Senate Bill:**

- same title
- new title

**House Bill:**

- same title
- technical title
- new: SCR # 13

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Orin A. ...</i>			<input checked="" type="checkbox"/>	
<i>Gary ...</i>	<input checked="" type="checkbox"/>			
<i>George ...</i>	<input checked="" type="checkbox"/>			
CHAIR: <i>Lyle ...</i>			<input checked="" type="checkbox"/>	

SENATE FINANCE COMMITTEE

SIGN-IN

HB 203-APPROP: STUDY OF SCHOOL COST FACTORS

NAME: Eddy Jeans Subject/Bill No: HB 203  
Co./Dept./Title: Education, School Finance Manager Phone: 8679  
Address: 801 West 10th St. Suite 200 <sup>Juneau</sup> Zip: 99801  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

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Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions