

LEGISLATIVE RESEARCH REPORT

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IMPACT OF FUNDING SOURCES ON THE FY 06 BUDGETS OF SELECTED SCHOOL DISTRICTS

PREPARED FOR REPRESENTATIVE LES GARA

BY CHERIE NIENHUIS, LEGISLATIVE ANALYST

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You asked about the components of the Governor's recent education funding initiative and how the additional funding provided by the initiative, if approved by the Legislature, would affect the budgets of certain school districts. You also asked about the local contribution portion of the funding package for each of these districts, specifically, whether it is adjusted for inflation, and if not, how such adjustments would impact the school district budgets. You requested we obtain this information for the following school districts: Anchorage, Fairbanks North Star Borough, Haines, Juneau, Kenai Peninsula Borough, Ketchikan, Lower Kuskokwim, Mat-Su Borough, North Slope, Northwest Arctic Borough, and Petersburg City school districts.

SUMMARY

In November 2004, Governor Murkowski announced a K-12 education funding initiative that would provide additional funding of \$208 million to school districts over the course of two years.

According to the Governor's press releases, this level of funding, if approved by the Legislature, would cover increased retirement costs and other day-to-day inflation-related increases.

We contacted officials at eleven school districts to determine how the level of funding proposed by the Governor would impact FY 06 budgets. Of the eleven school districts we contacted, four report that the additional funding provided by the Governor's initiative would enable them to operate in FY 06 without a deficit. Six school districts expect deficits even with the additional funding, and one district has not yet determined whether it would face a budget deficit under the Governor's plan.

The local contribution portion of school district budgets have minimums and maximums set by state law. Alaska Statutes 14.17.410(2) stipulate that the local contribution must be a minimum of a four-mill tax property tax levy, and that it cannot exceed the value of 45 percent of the district's basic need. These two parameters leave a large margin in which local governments are given authority to fund. As such, local governments may provide funding to the "cap" (to the level of 45 percent of the district's basic need), or they may provide substantially less (in some cases, less than 50 percent of the cap).

It is difficult to know the extent to which inflation-proofing the local contribution would improve the financial outlook for many of these school districts. The local contribution is generally not a static figure in district budgets. For example, Anchorage was required to provide a minimum local contribution of \$67.845 million in FY 03, \$69.729 million in FY 04, and \$73.751 million in FY 05. Maximum contributions have likewise changed, from \$129.6 million in FY 03, to \$133.9 million in FY 04, to \$144.3 million in FY 05. The Municipality of Anchorage determines its local contribution based on a formula that includes population growth and the rate of inflation, yet, the school district is expected to be underfunded in FY 06. It is not known how far below the state maximum Anchorage's contribution will be in FY 06, but Department of Education and Early Development records show that the Municipality allocated \$10.8 million less than that allowable under state law in FY 05.¹ Several cities and boroughs provide funding to the maximum level. Required contributions for these local governments, like Anchorage, also generally increase annually without adjusting for inflation. Because they already fund to the maximum level allowed, however, these local contributions cannot be adjusted for inflation without exceeding the jurisdiction's cap.

Table 1 shows the limited information we received from personnel in the eleven school districts we reviewed. The expected deficits column shows the school district's best estimate of funding for FY 06 even with the Legislature's authorization of the Governor's funding initiative. We have also included some information about FY 05 local contribution levels and state maximums. We caution that these figures are preliminary; most school district officials have only begun their FY 06 budget process and do not know with certainty the level of funding provided by each of the funding sources.

¹ Department of Education and Early Development officials have declined to release calculated minimums and maximums for FY 06 because the numbers are not finalized.

**Table 1: FY 06 Budget Expectations of Selected Schools Districts, and
FY 05 Local Contribution Information**

School District	Expected Deficit	FY 05 Budgeted Local Contribution	FY 05 Local Contribution Adjusted for Inflation ¹	FY 05 Inflation-Adjusted Minus Budgeted Local Contribution	Allowable Increase in FY 05 Local Contribution to Reach State Cap ²
Anchorage	\$10,000,000	\$133,412,722	\$136,881,453	\$3,468,731	\$10,879,275
Fairbanks North Star Borough	\$1,500,000	\$36,545,700	\$37,495,888	\$950,188	\$6,664,100
Haines Borough	None ³	\$1,383,044	\$1,419,003	\$35,959	\$44,880
Juneau	\$625,000	\$18,835,000	\$19,324,710	\$489,710	\$34,940
Kenai Peninsula Borough	None	\$33,421,775	\$34,290,741	\$868,966	\$327,134
Ketchikan Gateway Borough	\$100,000	\$7,751,163	\$7,952,693	\$201,530	\$305,578
Lower Kuskokwim	None	N/A	N/A	N/A	N/A
Mat-Su Borough	Unknown	\$34,169,622	\$35,058,032	\$888,410	\$2,039,855
North Slope Borough	\$300,000 - \$1,000,000	\$22,991,968	\$23,589,759	\$597,791	\$7,036,784
Northwest Arctic Borough	None	\$3,215,493	\$3,299,096	\$83,603	\$4,039,891
Petersburg	\$80,000 - \$150,000	\$1,650,000	\$1,692,900	\$42,900	\$455,194

Notes: Above information is preliminary and subject to change. Budget deficits (or lack thereof) are based on funding levels proposed in the Governor's education funding initiative, which must be approved by the Legislature. Local contribution amounts are also uncertain; many districts have already factored increases in the local contribution into their expected deficit, and it is difficult to know how inflation-proofing the prior year's local contribution would impact these expectations. (1) Using the Anchorage All-Urban rate for 2004 of 2.6%. (2) The state cap for each district equals 45% of its basic need for the preceding year. (3) Haines Borough district officials have not assembled a budget using the Governor's funding initiative, but estimate that it will eliminate the budget deficit of \$254,000 calculated using current funding levels.

Sources: School district personnel from each of the eleven school districts. See report text for more detail.

COMPONENTS OF THE GOVERNOR'S EDUCATION FUNDING INITIATIVE

On November 5, 2004, Governor Murkowski announced his K-12 education funding initiative, which, according to press releases, would provide \$208 million in additional funding for the state's public schools. A closer look at this proposal shows that the \$208 million consists of three components:

- ◆ \$82 million—an amount equivalent to the funding increase appropriated last year by the 23rd Legislature for the 2004-2005 budget, which the Governor proposes to “make permanent.”
- ◆ \$77 million—the amount necessary to cover two years of increased Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) retirement costs (\$38 million in 2006 and \$39 million in 2007).
- ◆ \$49 million—the amount needed over two years to fund the “increased costs of day-to-day delivery of education” (\$24 million in 2006 and \$25 million in 2007). According to documentation provided at the Department of Education and Early Development (DEED) website, this increase was calculated using

a three-year average of the Anchorage Consumer Price Index (CPI), an inflation indicator.²

The \$208 million funding package translates into an increased student base allocation of \$598 over the course of two years. Under the proposal, the Governor's initiative would raise the student base allocation from \$4,576 per student (provided in the 2004-2005 school year) to \$4,869 in 2005-2006, and \$5,174 in 2006-2007, representing an increase of about 13 percent over two years.

As discussed above, the PERS/TRS retirement systems are expected to cost \$38 million in 2006 and \$39 million in 2007, and the inflationary cost component of the proposal is set at \$24 million in 2006 and \$25 million in 2007. These two components combine to equal \$62 million and \$64 million in 2006 and 2007, respectively. Of these amounts, the PERS/TRS component will absorb 61.3 percent of the proposed allocation the first year and 60.9 percent the second. That leaves 38.7 percent and 39.1 percent in 2006 and 2007 to cover inflation increases, which amount to \$113.4 and \$119.1 of the student base allocation, respectively. We calculate these allocation adjustments to represent an approximate 2.46 percent per year increase. Although the 2004 Consumer Price Index (CPI) for Anchorage has yet to be determined, we note that the average Anchorage CPI for 2001 through 2003 equals 2.466 percent.³

According to Legislative Research Report 04.065, prepared February 3, 2004—prior to the 23rd Legislature's action on the 2004-2005 K-12 education funding package—had the student base allocation been adjusted for inflation since FY 1999, it would have equaled \$4,422 for the 2004-2005 school year. As you know, in 2004, the Legislature authorized increasing the allocation to \$4,576, a total of \$154 per student above that calculated using the Anchorage CPI, giving the state's public schools a 9.76 percent boost from the prior year's funding. Last year's inflation rate was 2.7 percent.

LOCAL CONTRIBUTION

State law requires that cities and organized boroughs provide a local contribution to the school districts within their jurisdictions. Alaska Statutes 14.17.410(2) defines the minimum and maximum (also referred to as "the cap") local contribution for K-12 funding as follows:

. . . the equivalent of a four 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 Commerce, Community, and Economic Development under AS 14.17.510 and AS 29.45.110, not to exceed 45 percent of a district's basic need for the preceding fiscal year as determined under (1) of this subsection.

² From Governor Murkowski's press release, "Building the Future," Volume 32, November 9, 2004, and "Governor Murkowski's K-12 Funding Package," as posted at the Department of Education and Early Development's website, <http://www.eed.state.ak.us/news/K12graph.pdf>. We include a copy of each of these documents as Attachment A.

³ As calculated using the Anchorage CPI values shown on the Alaska Department of Labor and Workforce Development website, of 2.7, 1.9, and 2.8; <http://almis.labor.state.ak.us/?PAGEID=67&SUBID=198>.

The minimums and maximums provided by the local contribution requirement leaves a wide budget range for local governments, especially those of the larger cities and boroughs. For example, in FY 05, the Fairbanks North Star Borough local contribution minimum of four mills was calculated to be \$20.3 million; the maximum was set at \$43.2 million (the equivalent of an 8.5 mill property tax). The borough settled on a local contribution of \$36.5 million—approximately 85 percent of the maximum, representing a 7.2 mill equivalent. Roughly \$6.6 million more could have been provided by the local government without exceeding the local contribution “cap.”⁴

Records kept by the Department of Education and Early Development show that few cities and boroughs fund school districts to the local contribution maximum set by state law. In FY 05, only Haines, Juneau, Kenai, Ketchikan, Kodiak, Unalaska, and Valdez provided local contributions of 95 percent or greater of their maximums. In contrast, Tanana provided 8.3 percent of its maximum, and the Lake and Peninsula and Northwest Arctic boroughs each provided less than 50 percent of the contribution level allowed.

IMPACT ON SELECTED SCHOOL DISTRICT BUDGETS

Although the funding proposed in the Governor’s initiative must be approved by the Legislature, most of the school district officials with whom we spoke were eager to incorporate the additional dollars into their FY 06 budgets. Because it is still so early in the budget process, however, they could provide only the following limited information in answer to your questions.

Anchorage School District

Prior to the Governor’s initiative announcement, the Anchorage School District anticipated a \$29 million shortfall for the 2005-2006 school year. With implementation of the additional funding, the ASD currently predicts that it will face a \$10 million shortfall for year.⁵

The ASD budget, like that of most school districts, is dependent on revenue from many sources, one of which is the local property tax base. For the 2004-2005 school year, approximately \$132.9 million in Anchorage property taxes went to support the ASD operating budget. For the 2005-2006 school year, the ASD expects this amount to increase to \$144.2 million. According to Janet Stokesbary, Chief Financial Officer, ASD, the increase is a projection that is contingent on several factors.

The Anchorage property tax contribution for the 2005-2006 school year is calculated using the prior year’s contribution, a projected five-year average of the population change, and a projected inflation rate. The ASD has estimated the population to have increased 1.16 percent, and the inflation rate to be 2.8 percent; the two of them added together equal 3.96 percent. The prior year’s property tax contribution of \$132.9 million (excluding the debt service contribution)

⁴ According to Mindy Lobaugh, Department of Education and Early Development; Ms. Lobaugh can be reached at 465-2261.

⁵ This revised estimate from the previous estimate of \$7 million (the amount reported in many budget documents) reflects an amendment made by the Anchorage School Board regarding the use of the undesignated fund balance. Approximately \$3 million of this fund will be used to cover existing one-time expenditures—costs that fall outside the school district’s 2005-2006 budget.

increased by 3.96 percent totals \$138.16 million. Together with other authorized tax contributions of approximately \$6 million, the ASD has projected the local tax contribution to be about \$144.16 million for the 2005-2006 school year.⁶ Ms. Stokesbary notes that this is the maximum contribution the school district can expect from the local property tax base, and it is contingent on authorization from the Anchorage Assembly. The Assembly has not always authorized the maximum contribution, Ms. Stokesbary adds.⁷

In answer to your question about the local contribution being adjusted for inflation, therefore, it appears from the above description that the property tax contribution in Anchorage is routinely adjusted for inflation each year. We note that the ASD had already dramatically increased other fees for the 2004-2005 school year; for example, summer school sessions increased from \$50 to \$75 per session, and high school activity fees increased from \$75 to \$125 per sport.

Ms. Stokesbary explains that because the budget is contingent on several factors, it is difficult to know with certainty how much the school district will have to cut from the budget. To further complicate matters, a decrease in student enrollment is projected, down 168 full-time equivalent students from the current school year. At this point, the ASD is expecting to trim approximately \$10 million from its projected expenditures—just how that will be done is still in question. Stokesbary tells us that all options are on the table, including staffing cuts. She anticipates that the ASD budget will be the topic of much discussion and debate in the coming months.

Fairbanks North Star Borough School District

Mike Fischer, Chief Financial Officer of the Fairbanks North Star Borough (FNSB) School District, expects that even with the additional funding as proposed by the Governor's initiative, the district will be faced with a shortfall in the range of \$1.5 million. Mr. Fischer told us that the procedure in Fairbanks is for the district to submit its budget to the Borough Assembly by April 1st of each year. The Assembly then has 30 days in which to inform the district of the minimum level of funding it will provide. Following this action, the Assembly generally awaits further information from the Legislature before finalizing its local contribution budget. In FY 05, the FNSB could have provided additional funding of \$6.6 million without exceeding the state's cap.

According to Mr. Fischer, the Borough does not have an inflation-proofing mechanism in place for its local contribution. If it did, last year's contribution of \$36.5 million would increase by approximately \$1 million for FY 06, using an Anchorage CPI rate of 2.6 percent. Although under the current scenario, the district budget may have to be cut by \$1 million, Mr. Fischer does not anticipate an increase in class size.

Haines Borough School District

The Haines Borough School District has not yet prepared a budget using the level of funding provided by the Governor's initiative. Ashley Sage, Administrative Secretary and bookkeeper, expects the district to be \$254,000 in the red if funding is provided at the current level. Ms. Sage estimates that the additional proposed funding would fill this deficit, if authorized by the Legislature.⁸

⁶ We include ASD budget documentation detailing fund sources as Attachment B.

⁷ Janet Stokesbary, Chief Financial Officer, ASD, can be reached at (907) 742-4369.

⁸ Ashley Sage, Administrative Secretary, can be reached at (907) 766-2644.

The Haines Borough government has in past years funded schools close to the maximum allowed under state law. For the prior two years, however, the Borough has provided slightly less, funding to about 97 percent of maximum in FY 05 and 96 percent in FY 04. The Borough has no formula or inflation-proofing mechanism for determining its local contribution, and the level of funding is determined based on how much the Borough can afford, according to Borough Manager, Robert Venables.⁹ Using the 2004 Anchorage CPI rate, we calculate that FY 05's local contribution of \$1.38 million would increase by about \$36,000 to close to \$1.42 million, if adjusted for inflation.

Juneau School District

Superintendent Peggy Cowan estimates that even with the increases proposed by the Governor, the Juneau School District expects a deficit of \$625,000.¹⁰ This level of shortfall assumes that the city funds the school district "to the cap," Ms. Cowan added.

Ms. Cowan states that for the past several years, the Juneau Assembly has funded the district to the cap; she expects the FY 06 local contribution to be no different in that respect. Ms. Cowan anticipates that the deficit will require the Juneau School District to reduce staff, some of which are teachers, but she does not know how many.¹¹

As long as the Juneau Assembly funds education at the highest level allowable under state law, the fact that it does not have a specific inflation-adjusting mechanism is a moot issue. One might also argue that the local contribution provision already has an inflation-adjusting mechanism built into it, through the property tax requirement. Although inflationary forces do not have as immediate an effect on property values as they do on other commodities, there is often a relationship, albeit indirect, between the two economic measures.

Kenai Peninsula Borough School District

Melody Douglas, Chief Financial Officer of the Kenai Peninsula Borough School District, expects that the district will not suffer any shortfall in the FY 06 budget, assuming the Governor's proposal is authorized by the Legislature. The local contribution for the school district is funded by sales and property taxes, and the Borough Assembly generally funds to the state's cap. Ms. Douglas also told us that the district is in the process of re-evaluating staffing formulas due to the district's ongoing declining enrollment.¹²

Ketchikan Gateway Borough School District

Business Manager David Means estimates that the Ketchikan Gateway Borough School District may be facing a \$100,000 deficit in FY 06, assuming the local contribution is funded to the state maximum. He expects retirement costs to absorb about \$600,000 of the additional funding provided by the Governor's initiative. He also projects an increase of about \$500,000 next year

⁹ Robert Venables, Haines Borough Manager, can be reached at (907) 766-2711.

¹⁰ When we first contacted Ms. Cowan in December, she estimated the deficit to total up to \$600,000; we revised this figure to the more recent amount, as reported in the Juneau Empire and web posted on January 19, 2005.

¹¹ Peggy Cowan, Superintendent, Juneau School District, can be contacted at (907) 463-1700, ext. 214.

¹² Melody Douglas, Chief Financial Officer, Kenai Peninsula Borough School District, can be contacted at (907) 714-8888.

due to the opening of a middle school that had been under construction. Although it is very early in the budget process, Mr. Means believes the reductions could include teacher lay-offs.

The Ketchikan Borough Assembly has funded the local contribution at the level requested in past years, but Mr. Means is uncertain that they will do so this year. He indicates that the decision is a political one; there is no formula or provision for inflation-proofing. The FY 05 local contribution for the Borough, adjusted for inflation using the anticipated Anchorage CPI rate of 2.8 percent, would provide an increase of more than \$200,000 in FY 06.

Lower Kuskokwim School District

Bill Ferguson, Superintendent, Lower Kuskokwim School District, told us that he built two budgets: one using last year's figures and one using the Governor's proposed funding. He estimates that the district will be facing a \$3.4 million deficit unless the funding is provided at the level proposed by the Governor, under which he expects there will be no shortfall. Since the district represents schools that fall outside traditional taxing jurisdictions, there is no local contribution for the Lower Kuskokwim School District. According to Mr. Ferguson, the federal impact aid typically fills this void, providing about \$10 - \$12 million to the district each year.¹³

Mat-Su Borough School District

Kim Floyd, Public Information Specialist with the Mat-Su Borough School District, told us that it is too early to tell if the district will be facing a budget deficit in FY 06. She indicates that the district requested a 17 percent increase in the local contribution, up about \$5.8 million from the previous year, which, using the Governor's proposed funding levels, represents the maximum local contribution under state law. She does not expect that the Borough Assembly will provide funding to that level, however.¹⁴

Section 3.04.045 of the Mat-Su Borough delineates the funding formula for local school support. One component of that formula incorporates a ten-year average of the Anchorage CPI; we include a copy of this section Mat-Su Borough code as Attachment C.

North Slope Borough School District

Lucienne Smith, Director of Business Affairs, North Slope Borough School District, anticipates a shortfall of up to \$1 million in FY 06, even if the Governor's initiative is approved by the Legislature. She told us that the district would request a \$700,000 increase in the local contribution over last year. Even if granted, the district would be required to cut the budget by \$300,000 under this scenario. Ms. Smith told us that, if faced with such a deficit, the district would likely eliminate the immersion program, a special program offered by the district that has several retiring teachers. The elimination of the immersion program would increase class sizes, Ms. Smith added.¹⁵

¹³ Bill Ferguson, Superintendent, Lower Kuskokwim School District, can be contacted at (907) 543-4800.

¹⁴ We originally contacted Nancy Chiappinelli-Munoz, Supervisor of Finance/Budget, Mat-Su Borough School District, for information related to this request. Three weeks after faxing our questions to the district, we were put in contact with Ms. Floyd, who answered our questions to the best of her ability. Ms. Floyd can be reached at (907) 746-9251.

¹⁵ Lucienne Smith, Director of Business Affairs, North Slope Borough School District, can be reached at (907) 852-5311.

The Borough government generates revenue for the school district with property tax, with much of it coming from oil property. The Borough Assembly does not incorporate an inflation-proofing mechanism in determining how much to appropriate to the school district. In FY 05, the Borough contributed close to \$23 million to the district; if adjusted for inflation using the anticipated Anchorage CPI, the local contribution for FY 05 would total \$23.6 million, an increase of close to \$600,000. The North Slope Borough could have appropriated approximately \$7 million more for the local contribution in FY 05 without exceeding the state maximum.

Northwest Arctic Borough School District

Roger Helmer, Director of Administrative Services, Northwest Arctic Borough School District, anticipates that the district will not face a deficit if funding is provided at the level proposed by the Governor. He added that declining enrollment has been a problem for the district, however, and that the district is about six months behind in its payment of utility expenses. If state funding falls short of the level proposed by the Governor, the district will be forced to reduce staff. For example, Mr. Helmer estimated that a \$300,000 shortfall would require the district to lay off a minimum of five teachers in FY 06.

Department of Education and Early Development (DEED) records show that the local contribution for the Northwest Arctic Borough School District for the past three years has been approximately \$3.2 million per year. According to Mr. Helmer, the local contribution consists primarily of property taxes, and does not have an inflation-adjustment mechanism; he pointed out, however, that property taxes are based on assessed values, which are sensitive to inflation rates. The Borough's FY 05 funding level of just over \$3 million was well within the state's cap for local contributions, which was set at \$7.2 million, according to DEED calculations. Therefore, the Borough is not barred by state law from increasing its local contribution by the 2004 Anchorage CPI rate of 2.6 percent, to close to \$3.3 million for FY 06. It is not known at this time what the local contribution for FY 06 will be, Mr. Helmer stated.¹⁶

Petersburg City School District

Terry Erholtz, Superintendent, Petersburg City School District, who oversees a much smaller school district than the others included in this report, told us that the district's budget future is largely dependent on the actions of the Petersburg City Council. The council has appropriated varying amounts over the years, providing funding of up to \$2 million in any given year. According to Mr. Erholtz, when it was announced last year that the Legislature had approved an increase in education funding, the City of Petersburg "took it away," by reducing the local contribution to \$1.65 million. The amount of funding the council appropriates is a political decision, not a formula-driven one, Mr. Erholtz commented.

Assuming that the Governor's funding proposal is approved and the local contribution for FY 06 is equivalent to the amount appropriated in FY 05, Mr. Erholtz expects the district to be faced with a deficit of \$80,000 to \$150,000. Due to declining enrollment, Mr. Erholtz does not anticipate this shortfall to change the student-to-teacher ratio much, but it could result in a reduction in the number and types of programs offered. If the local contribution were to be adjusted for inflation by the 2004 Anchorage CPI rate of 2.6 percent, however, the district would receive close to

¹⁶ Roger Helmer, Director of Administrative Services, Northwest Arctic Borough School District, can be reached at (907) 442-3472.

\$43,000 in additional funding, which would help to reduce the budget shortfall and still be below the state's maximum local contribution rate.¹⁷

I hope you find this information to be useful. Please do not hesitate to contact us if you have questions or need additional information.

¹⁷ Terry Erholtz, Superintendent, Petersburg City School District, can be reached at (907) 772-4271.

Attachment A

Governor Frank Murkowski,
“Building the Future,” November 9, 2004

and

“Alaska K-12 Funding and Governor Murkowski’s
K-12 Funding Package,” as posted at the
Department of Education and Early Development website,
<http://www.eed.state.ak.us/news/K12graph.pdf>



Building the Future

A biweekly update from Governor Murkowski

Taking Responsibility Today for Alaska's Tomorrow

Volume 32

November 9, 2004

The Word on the Street:

“This will go a long way toward narrowing the gap and allowing us to plan and concentrate on increasing student achievement, negotiating in good faith with our employees, and try to do what we need to do to run our educational system.”

- Carol Comeau
Superintendent,
Anchorage School
District

Looking Ahead:

Nov. 9-13 – Thailand
Governor participates in
CSG Trade Mission to
Thailand.

Wandering the Web

Industrial Roads

Find a thorough information resource on the state's Roads to Resources initiative.

Mining Home Page

Get to know Alaska's rich mineral resources from the experts at the Division of Geological and Geophysical Surveys

Governor Announces K-12 Education Funding Initiative

Governor Frank H. Murkowski told the Association of Alaska School Boards that he will ask the Legislature to not only make permanent the \$82 million increase to K-12 education approved this year, but to increase education by another \$126 million over the next two budget years. That would amount to a \$208 million for K-12 funding. He will ask the Legislature for early funding of the fiscal 2006 and 2007 education budgets to avoid the unnecessary cycle of pink slips being sent to teachers each year. Governor Murkowski hopes that this education package will let schools focus on teaching over the next two years instead of making ends meet. This significant education initiative would cover fixed retirement costs, higher-than-expected cost of fuel, and other increases in the day-to-day delivery of education services as well as providing additional funding for classrooms. As part of this education initiative, the state's per-student funding will increase by \$293 next year and by another \$305 the following year – from \$4,576 to \$5,174 by Fiscal Year 2007. The Governor recognized a 7 percent improvement in achieving math and language arts targets, and told the group he sees it as a significant step in closing public school students' achievement gap.

Concerns For Rural Economic Development Addressed

Governor Murkowski met with the executives of Alaska's Native corporations to listen to their concerns for their regions. First among the concerns expressed were the high cost of energy as a barrier to economic development in rural Alaska, the need for infrastructure development in rural areas, and the fiscal challenges brought on by the cost of public services. The Governor, speaking to the Alaska Federation of Natives annual statewide convention, pledged continued cooperation to address concerns and make development goals a reality. Improved transportation and lower energy costs are key to economic development in rural Alaska, the Governor told the group, as he announced an initiative to provide financial assistance to about 120 rural communities disproportionately hit by high energy costs, largely in the form of high prices for diesel fuel that is used to power electric generators. Villages with populations of under 100, 100-600 and 600-1,200 residents would stand to receive \$25,000, \$50,000 and \$75,000, respectively. The Governor and corporation leaders agreed to continue to work jointly to meet the challenge of making sure rural communities have sufficient revenue to support public services. In addition, the meeting participants pledged to work with the administration to identify infrastructure projects that hold the potential to foster economic development activity in their respective regions. Participants pledged to draw upon their knowledge and experience in the public and private sectors to help identify and secure funding for these infrastructure projects. "The natural resources that are the foundation of Alaska's wealth lie largely in rural Alaska. Roads, ports, utilities and other infrastructure must be developed, and the state must join in the infrastructure investment," the Governor told the delegates.

(continued on page 2)

Did You Know ...

Alaska is rich in rare and costly Platinum Group Metals: platinum, palladium, rhodium, ruthenium, iridium and osmium. PGMs are also called noble metals because of their high resistance to oxidation and corrosion, and are mainly used in catalysts, electronics and jewelry. Known deposits can be found at Goodnews Bay, Kahlitna Valley, Valdez Creek and in the Yentna mining district.

Diamonds were first discovered in the Canadian Arctic in 1991, and are known for their quality. Rumors of diamond

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Gov. Frank Murkowski
P.O. Box 110001
Juneau, AK 99811
(907) 465-3500 phone
(907) 465-3532 fax

Governor: 'Bring the Kids Home' From Outside Care Centers

Speaking to the Alaska Federation of Natives, Governor Murkowski expressed concern over the number of Alaska children who must leave the state to be treated for behavioral problems. The Governor explained that over the past decade children with behavioral disorders are more and more often treated at inpatient care facilities located outside Alaska. Stating his conviction that such a situation is unacceptable, the Governor presented his "Bring the Kids Home" initiative designed to create new opportunities to treat Alaska youth in community-based care or inpatient facilities within Alaska. There are between 500 and 650 Alaskan youngsters in out-of-state treatment at any given time. The Governor said he intends to include funds for in-state residential treatment in his upcoming budget request.

Disaster Declaration Issued for Nome, Western Alaska

While touring the region, Governor Murkowski issued a state disaster declaration for the Northwest Arctic Borough, the Bering Strait REAA and the village of Mekoryuk in response to ocean storms that caused widespread damage. Villages along the Bering Sea and Norton Sound experienced coastal flooding, high winds and wind-driven tide surges. Damage in Nome is estimated at nearly \$5.5 million. The Governor has asked President Bush to declare a federal disaster area in order to allow the Federal Emergency Management Agency to provide additional assistance.

Rational Regulation, New Roads Will Boost Mining Effort

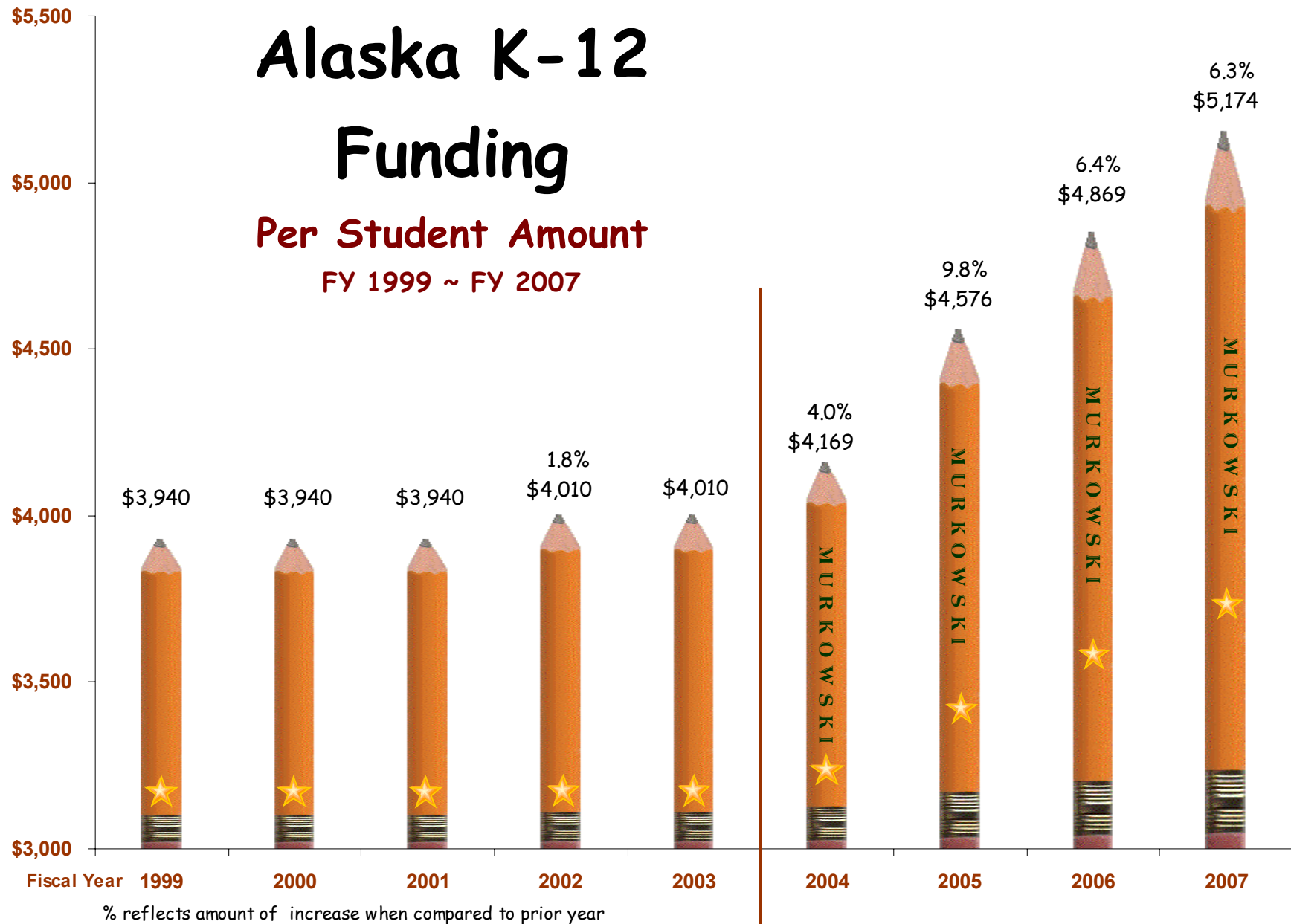
Emphasizing the importance of exploration, Governor Murkowski told the Alaska Miners Association he will direct additional funding to airborne geophysical data acquisition – which is the use of aircraft and high-tech equipment to survey an area for potential mineral deposits. The Governor remarked that this is the eighth consecutive year that Alaska's mining industry has passed the billion-dollar threshold. Alaska miners continue to demonstrate hard work and a determination to overcome challenges in the effort to convert the earth's riches into economic benefit. These challenges can be natural – a record-setting year for forest fires, for example – or regulatory. To assist in that arena, the Murkowski administration has enhanced the large mine permit team within the Department of Natural Resources. The actions include moving Alaska Coastal Zone Management to DNR and combining functions of the Habitat Division within DNR, and develop rational rules to allow the state to authorize multiple waste management or disposal activities at a single large mine facility. The Governor also told the miners his 'Roads to Resources' initiative will improve infrastructure to better allow mines to connect with tidewater or river ports. A major focus is being placed on connecting the Yukon and Kuskokwim Rivers, building a road to connect the Pebble Gold and Copper Mine with Cook Inlet, and improving the DeLong Mountain port which serves the Red Dog Mine.

Judges Appointed to Kenai, Palmer District Court

Governor Murkowski has appointed John W. Wolfe to the Palmer District Court, and David S. Landry to the Kenai District Court. Both benches are newly-created. Wolfe, 46, has been a prosecutor since 1985 and served in district attorney's offices in Kenai, Dillingham and Bethel. Wolfe graduated with a law degree from the University of Oklahoma in 1983 and has practiced law for more than 20 years. He is a member of the Children's Advocacy Center Board and the Community Justice Alliance in Dillingham. Landry, 52, served as Kenai District Court Magistrate since 1999 and is a former partner at the law firm of Molloy & Landry. Landry graduated from Western New England College School of Law in 1991 and served as a law clerk in the Kenai Superior Court and as an intern in the Kenai District Attorney's office. Landry played professional soccer from 1974-77 for the Seattle Sounders and Portland Timbers.

Alaska K-12 Funding

Per Student Amount
FY 1999 ~ FY 2007



Governor Murkowski's

K-12 Funding Package

- **Predictability in future funding.**

Approve two years of funding (Fiscal Year 2006 and 2007) instead of only one year so school districts will know on how much state funding they can rely.

- **State pays PERS and TRS increases.**

The state will cover the increased retirement system costs for school districts, estimated to increase \$38 million next year and another \$39 million the year after.

- **More state funds to cover other increased costs.**

Additional funding to cover increased costs of day-to-day delivery of education. Using a three year average for Anchorage CPI, this would provide an estimated \$24 million in increased funding next year and another \$25 million increase the following year.

- **Increase state's "student base allocation."**

Increase the per student education funding formula by \$293 (to \$4,869) next year and by another \$305 (to \$5,174) the following year.

- **The bottom line: \$208 million more for K-12 schools**

The state's support per student will have increased 29% during the first four years of this Administration. This translates into a \$208 million increase in state support for education.

Attachment B

Anchorage School District,
"ASD Memorandum #95 (2004-2005),
November 15, 2004, as posted at
http://www.asdk12.org/depts/budget/0506/20041115_Amended_M095.pdf

ANCHORAGE SCHOOL DISTRICT
ANCHORAGE, ALASKA

ASD MEMORANDUM #95 (2004-2005)

November 15, 2004

TO: SCHOOL BOARD

FROM: OFFICE OF THE SUPERINTENDENT

SUBJECT: FY 2005-2006 FINANCIAL PLANNING

RECOMMENDATION:

It is the Administration's recommendation that the School Board approve and authorize the Superintendent to prepare the Anchorage School District's FY 2005-2006 Preliminary Financial Plan in accordance with the financial projections set forth in this memorandum. Specifically, the budget for FY 2005-2006 is to be established for planning purposes with projected revenues and use of fund balance not-to-exceed \$566,920,364. This includes individual fund budgets currently projected as follows:

	<u>FY 2005-2006 Financial Plan</u>
General Fund	\$ 429,540,000
Food Service Fund	14,525,583
Debt Service Fund	77,854,781
Local/State/Federal Projects Fund	<u>45,000,000</u>
Total - All Funds	<u>\$ 566,920,364</u>

It is further recommended that the School Board authorize the Superintendent to adjust the budget expenditure ceiling indicated above in accordance with any negotiated contract adjustments and other associated costs increases, further review of the fees' structure, School Board requests, Administration, community, staff and students' budget review team recommendations as implemented by the Superintendent. In addition, flexibility must be allowed for adjustments based on the budget being in alignment with academic achievement, updated demographic and/or economic information, as well as

the status of the Waldorf and The Master's Preparatory Leadership Academy Charter School applications scheduled for School Board review.

This guidance directs the Administration to build the budget based on the Governor's proposed funding without use of fund balance, plus \$6.5 million from the fund balance for one-time expenditures outside the ordinary annual budget.

PERTINENT FACTS:

The above underlined paragraph reflects the amendment made by the School Board at the November 15, 2004 School Board meeting. The following information in this memorandum does not reflect amendment. The fiscal gap of \$7 million referenced below is revised to \$10 million as a result of the amendment made by the School Board.

Since the announcement of the Governor's educational funding plan and the direction of the School Board at the work session on November 8, 2004 to proceed with the Governor's plan as a base for the Alaska Public School Funding Program, the fiscal gap was reduced from \$29.0 million to \$10.0 million. In addition, at the work session, the School Board directed the Administration to use some of the undesignated fund balance as a funding source, while still maintaining a five percent undesignated fund balance to cover unforeseen contingencies. With the use of fund balance to cover existing one-time expenditures, the fiscal gap was reduced to \$7.0 million. This memorandum is presented to assist the School Board in their review of the District's educational obligations that need to be addressed during the FY 2005-2006 financial planning process. This memorandum presents financial planning considerations that will be used in developing the FY 2005-2006 Financial Plan, allowing the School Board the opportunity to review significant financial issues which will be addressed during the budget hearings in January.

THE BUDGETING PROCESS

The budget provides a blueprint for the Anchorage School District's educational goals. When developing the budget, the Anchorage School District has an obligation to its many stakeholders—the students, parents, employees, and community members—to consider each group's priorities and balance them with the District's stated mission of educating all students for success in life. The FY 2005-2006 budget projections reflect the District's on-going efforts to achieve this balance, maximize performance and contain costs.

These initial projections for FY 2005-2006 are prepared using the most current information available. Existing funds and cost savings are directed to District programs to ensure that progress is made in achieving the current School Board Goals. The budget development process is mindful of the District's Six Year Instructional Plan with the responsibility of designating financial and human resources within projected revenues.

The budget continues to realign the District's priorities, as budgeting is a progressive process. The balanced budget concept, Alaska Public School Funding, and the local property tax limitation necessitate early predictions of both revenues and expenditures. Departments and schools review their programs and responsibilities; assess what is being done during the current fiscal year and what progress is being made; begin making plans for next year and future years and then prepare budget requests based on their program requirements and how they support the Goals and Mission of "educating all students for success in life." Input from prior year budget review teams recommendations, community members, students and staff members may result in change or elimination of existing programs or implementation of new ones. In spite of the fiscal gap of \$7.0 million, the focus still remains on evaluating the need for additional staff, supplies, and other operating expenses. It may be determined that efficiencies can be achieved through better resource management or teaming with other agencies.

Federal, State or local mandates may necessitate the District to incorporate additional responsibilities and/or initiate new programs within the District. Various demographic and economic factors must be evaluated for their impact on the budget. Then, the total of all department budgets plus any new facilities or change in program requirements are compared to anticipated revenues.

Student enrollments, revenues, and expenditures are projected on a preliminary basis. The following sections on Student Enrollment Projections, General Fund Revenues and Expenditures, and Other Funds summarize the principal financial planning factors involved in preparing initial FY 2005-2006 projections. Major revenue and expenditure considerations and budget development criteria are also included.

STUDENT ENROLLMENT PROJECTIONS

Student Enrollment—The most significant factor in the budget development process is the number of students served. Enrollment projections are based on enrollment history, profile, and both demographic and economic considerations. The General Fund budget is developed using the FTE (full-time

equivalent) student count, weighting both half-day kindergarten and preschool students at one-half, which is consistent with their programs.

In order to project student enrollment, District staff works closely with the Municipality of Anchorage in utilizing the Municipality's Geographic Information System. The following schedule summarizes the actual or projected student enrollment information for FY 2002-2003 through FY 2005-2006 on both a full count and FTE basis.

	Actuals 2002-2003 <u>9/30/02</u>	Actuals 2003-2004 <u>9/30/03</u>	Actuals 2004-2005 <u>9/30/04</u>	Projected 2005-2006 <u>9/30/05</u>
Total Number	50,029	49,663	49,454	49,289
Change over previous year		(366)	(209)	(165)
FTE (Full-Time Equivalent)	49,791	49,431	49,239	49,071

Variable General Fund expenditures will be revised periodically for changes in enrollment projections. We will review projected enrollment to determine if we need to make adjustments before the Preliminary Budget is submitted to the School Board in January 2005.

GENERAL FUND

The General Fund, consisting of each school's and department's budgets, accounts for the majority of the District's operations and activities. Therefore, this memorandum and most of the subsequent discussion and decisions on balancing the budget for next year will focus primarily on estimated revenues and expenditures of the General Fund.

Revenues

Alaska Public School Funding Program—The largest single revenue source to the District comes from the Alaska Public School Funding Program. The School Board and the Administration appreciate the Governor's recognition of the need for increased K-12 education funding, and the additional need to mitigate the extraordinary increases in Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) employer contributions. The District appreciates the prominent placement of early and increased K-12 education funding on the Governor's legislative agenda. Hopefully, during this upcoming legislative session, the Legislature will continue to advocate for the students in our communities with early approval of the Governor's educational funding package and also advocate for additional increases in revenues supporting public education so as to ensure solid education programs continue.

This Program is expected to provide approximately 56 percent of the District's General Fund revenues. The Governor's November 5th educational funding proposal to increase the per pupil amount to \$4,869 (an increase of \$293 over FY 2004-2005) and continuation of the Quality School Grant at \$16 per pupil, provides for more State revenues for FY 2005-2006. Based on current enrollment projections, the amount of funding for FY 2005-2006 is \$242.433 million, which is \$12.452 million more than the current FY 2004-2005 budget. Three other factors also impacted the projected level of funding: (1) lower anticipated enrollment, (49,499 budgeted for FY 2004-2005 and 49,289 projected for FY 2005-2006); (2) a change in the State regulations of identifying Level III intensive special needs students results in a \$3.165 million loss of revenue; and (3) the \$1.4 billion increase in State assessed property valuation for the Municipality. This increase in assessed valuation results in larger required deductions causing a loss of approximately \$3.1 million in the Public School Funding formula calculation.

The Alaska Public School Funding program is based on the average daily membership (ADM)—determined by the District's enrollment and special education intensive count—processed through a school size factor and special needs formulae to establish the District's "basic need." The required local share and a percentage of the Federal Impact Aid funding that the District receives for Federally-connected students is then subtracted from the "basic need" to determine revenue. The Alaska Public School Funding formula defines the required local share as being the lesser of 45 percent of "basic need" or 4 mills times one-half of the annual increase in assessed valuation compared to the 1999 base year of total State assessed full and true valuation of local real estate, inventory and other taxed personal property for the second preceding year, added to the prior year's calculated assessed valuation. **An increase to the assessed valuation reduces the potential amount of Public School Funding revenue.** The Alaska Department of Community and Economic Development has notified the District that the assessed valuation for Anchorage has increased from \$21.215 billion to \$22.651 billion.

Local Property Taxes—Local property tax contribution is the District's second largest General Fund revenue source. **Projected local property tax revenue for FY 2005-2006 is based on requesting the full amount of taxes available under the local property tax limitation.** The local property tax limitation provides for an annual adjustment for inflation, five-year Anchorage population change, operation and maintenance on new voter approved facilities and new construction.

The projected inflation rate used for planning purposes is 2.80 percent. This preliminary estimate is the rate being used by both the District and the Municipality of Anchorage in the property tax limitation calculations. The

official Consumer Price Index will not be available until February 2005. As determined by the State Department of Community and Regional Affairs, the five-year Anchorage municipal population change used for planning purposes is 1.16 percent, with the official percentage growth not available until January 2005. The projected combined rate of 3.96 percent for FY 2005-2006 is .10 percent more than the current rate of 3.86 percent for FY 2004-2005.

Included in the revenue projections are taxes associated with the opening of Eagle River High School, and the completion of Phase 2A—West Classroom Wing, Renovation/Addition at Service High School.

It is anticipated that these increases—and increased taxes allowed on new construction or property improvement—will increase the amount of taxes available in the General Fund by approximately \$10.8 million. However, the Anchorage Assembly must first consider and approve the District's local property tax request.

Federal Impact Aid—The initial revenue projection for Federal Impact Aid has been projected at 100 percent of projected entitlement, an anticipated \$12.8 million. Uncertain at this time is the scheduling of the movement of the Stryker Brigade, the formation of the new Alaska Airborne Brigade, and the deployment of military personnel and the relocation of their families. The outcome of these military decisions will have an impact on future funding.

The amount of Federal Impact Aid revenue each year is uncertain because it is subject to pro-rata based on the annual funding appropriated by Congress. In addition, the percentage of the total number of federally-connected students to the total number of students the State has direct responsibility for—including military students and children educated at Mt. Edgecumbe—and potential formula changes, could result in fluctuations in Federal Impact Aid funding to the District. This coupled with the fluctuation from year-to-year in the number of students living on military land, which can partially result from on base/post housing renovations, adds to the uncertainty of Federal Impact Aid revenue during the budget process.

This Program is subject to annual Congressional appropriation and should be monitored. We do not know, for example, if the District will receive prior year adjustment payments during FY 2005-2006.

Fund Balance—The District's undesignated fund balance for the General Fund is a potential one-time source of revenue. Deciding the appropriate level of fund balance required for a contingency reserve requires an exercise of judgment. Industry standards recommend undesignated fund balances or

contingency reserves remain between 3 to 5 percent of the budget. The undesignated fund balance needs to be maintained to protect against shortfalls in revenue collection, to allow for adequate cash flow management, and to provide the financial ability to meet emergencies. As of June 30, 2004, the undesignated fund balance was approximately \$27.989 million.

At this time, based on guidance from the School Board at the November 8th Work Session, the Administration has included \$6.5 million of fund balance as a revenue source. The initial projection as shown on page 11 of this memorandum, is based on using \$3.0 million of the \$6.5 million fund balance as a funding source to cover existing one-time expenditures. The remaining \$3.5 million of fund balance will be used to fund additional one-time expenditures to enhance programs. Using \$6.5 million of fund balance will provide an undesignated fund balance of \$21.489 million or 5 percent of the FY 2005-2006 projected General Fund budget of \$429.540 million.

Pupil Transportation Reimbursement—The proposed FY 2005-2006 revenue projection for Pupil Transportation is based on full funding for the District using the current formula for State funding of pupil transportation including a provision for COLA.

User Charges and Fees— Fees will continue to be assessed for musical instrument usage, ASD documents, High School and Middle Level Student Activity fees, High School parking fees, summer school, credit course training fees, and rental fees. Based on input from the School Board, further review of rate adjustments will continue until the Financial Plan is brought forward to the School Board in January 2005. The rates in this memorandum are those in place for FY 2004-2005 and are as follows:

Graduation Support Services	\$75 per course
Summer School	\$75 per course
Music Instrument Usage Fee	\$15 per instrument
Middle Level Activity Fees	\$75 per activity
High School Activity Fees	\$125 per activity
High School Parking Fees	\$50 per semester
Facility Rental Fees	\$572,000
Family Cap for Activity Fees	\$300

Medicaid— Based on FY 2003-2004 actual revenues and current year projections, it is estimated that the District will receive approximately \$1,100,000 in Medicaid funding based on information from the Alaska Department of Education and Early Development (DEED).

E-Rate— The Federal Communications Commission (FCC) directed the Universal Service Administrative Company (USAC), the administrator of the

Schools and Libraries (E-rate) and Rural Health Care Universal Service Support Mechanisms, to change USAC's accounting methodology by October 1, 2004 to the same methodology that the Federal Government uses. The result of the change is that the District, as well as many other school districts across the country, has not yet received funding commitment notification for FY 2004-2005. USAC has once again started sending out funding commitment notification in November and the District anticipates receiving funding commitment for FY 2004-2005 in the next few months. Other than notification delays, no other significant program changes have occurred that would alter FY 2005-2006 revenue projections from the FY 2004-2005 anticipated funding level.

Expenditures

Primarily student and program needs and a commitment to use the funds economically drive expenditure projections. Over the next several weeks the recommendations submitted from the budget review teams last year, and the suggestions received from interested community members, staff, students, and the administration, will be considered and incorporated into the budget where appropriate, and may change the following assumptions used for these projections. **Both revenue enhancements and expenditure reductions will be incorporated to bring the budget into balance.**

Salaries and Benefits—Employee salaries, wages, and benefits are projected to be approximately 86 percent of the operating cost of the District. The projections include consideration for contract negotiations for the Anchorage Principals Association (APA), Maintenance (Teamsters Local 959), Anchorage Education Association (AEA), and compensation consideration for Exempt personnel. Depending upon the settlement parameters defined by the School Board for collective bargaining for these contracts, the total revenue needed to support the programmatic assumptions discussed herein may be revised. Compensation provisions for completed contracts have been included in the projections. Funding for mandatory retirement increases for certificated retirement (16 percent to 21 percent) and classified retirement (14.25 percent to 19.25 percent), and payroll tax adjustments known at this time are also included in the expenditure projections.

Average Teacher Salary—Further review and analysis of the current teacher salaries will be made to assist in determining the final average teacher salary to be used in the budgeting process for FY 2005-2006. Contributing factors that will determine the average teacher salary to be used based on historical information will be step increases, educational attainment and projected turnover. An analysis of the number of vacancies at any given time will also be considered.

Staffing—Staffing requirements have been adjusted based on the official projections set forth for September 30, 2005. Official projections are based on actual enrollment as of September 30, 2004.

Certificated Teaching Positions—Budgeted teaching staff is based on the FY 2004-2005 PTR (pupil to classroom teacher staff ratios). Adjustments have been included for staffing based on enrollment changes, program realignment, and for staff requirements based on rural-urban transitioning and immigration from other countries that provides the District with a wealth of opportunities with 94 languages spoken in the Anchorage Schools other than English.

Kindergarten (FTE)	20.5 to 1
Grade 1	21 to 1
Grades 2-3	24 to 1
Grades 4-6	27 to 1
Grades 7-8	25.54 to 1
Grades 9-12	27.08 to 1
Special Education	Staffing is based upon Demonstrated need and Program (consistent with current year)

Indirect Cost—In addition to charging eligible grants, the Administration plans to continue the practice put in place for charging the Food Service Fund the State approved indirect cost rate. This will more accurately reflect the cost of services provided to the Food Service Fund by various departments budgeted in the General Fund. It is anticipated that by early spring 2005 the District will be appraised of the approved indirect cost rate for FY 2005-2006.

Contracted Services—Where appropriate, an inflationary adjustment to contracts will occur. A very close review of actual contracted services will determine if inflationary increases are warranted. If other known rate increases are warranted, they will be included in the budget. Utilities are budgeted based on analysis of usage and cost saving measures being taken, and are then adjusted according to projected rate increases and/or decreases as announced by the utility agencies. With rate adjustments and review of actual expenditures, 3 percent to 10 percent increases for the utilities are projected.

Pupil Transportation—Contracted pupil transportation routes for FY 2005-2006 include an estimated increase based on COLA of 2.8 percent.

Major Maintenance—The Administration recommends maintaining the funding level for major maintenance projects of \$2.491 million for some of the District's more than 93 school facilities. As our facilities continue to age, periodic maintenance must take place on a regular basis to keep the buildings in

good repair for optimum safety and efficiency. The community has voiced strong support for prioritizing this use of funds.

Supplies—In general, the supply budget will not be increased. Some departments, however, may show an increase in supplies based on departmental need to service the total District program requirements (i.e., fuel requirement to run District buses and vehicles). The current projections include the same school supply and equipment per pupil allocation as in the current year. For the first year of opening, Eagle River High School will be given a triple allocation to support start-up costs that are not eligible to be charged to the construction funds.

Equipment—Replacement equipment purchases between \$5,000 and \$50,000 will be purchased from the Equipment Replacement Fund.

New School and Additions—Included in our expenditure projections are costs associated with the opening of Eagle River High School and completion of the Phase 2A—West Classroom Wing, Renovation/Addition at Service High School.

Charter Schools—Two applications for new charter schools, Waldorf and The Master's Preparatory Leadership Academy Charter School, have been received by the Administration for consideration for FY 2005-2006. These charter school applications will be brought before the School Board during the next month for consideration. If approved, we will make adjustments accordingly.

Additional Programs/Enhancements—At the School Board Work Session on November 8th the School Board requested the Administration look at using fund balance for one-time expenditures such as critical need maintenance projects, district-wide technology and classroom technology enhancements. The School Board also requested that the Administration consider the budget review teams, community, staff and student budget suggestions for budget reductions and/or cost saving measures for inclusion in the FY 2005-2006 Financial Plan. During the next several weeks, careful review and consideration of those suggestions will be given. In addition, recommendations such as summer school enrichment and after school activity programs will also be reviewed and may or may not be included in the Preliminary Budget presented to the School Board in January.

OTHER FUNDS

Food Service Fund—This fund is used to budget and account for operations of the Student Nutrition Program. The budget for this fund covers both the direct

and indirect cost of providing meals to students. These costs include all payroll costs, including increased hours for staff, food costs, the cost of support services, equipment repair and replacement costs, and overhead charges. The FY 2005-2006 budget has been increased from \$13.785 to \$14.525 million to accommodate the opening of Eagle River High School, employee negotiated contracts, the mandated classified retirement increase from 14.25 percent to 19.25 percent, and upward movement in food costs.

The revenue sources for the Food Service Fund budget includes revenue from meal sales, Federal reimbursement for meals served, and the undesignated fund balance. This budget projects increases in meal sales and reimbursement revenue.

The Administration is recommending the use of Food Service fund balance for the FY 2005-2006 Food Service Fund budget. The undesignated fund balance for the Food Service Fund as of June 30, 2004 was approximately \$1.278 million. Use of the undesignated fund balance of \$369,413 is being recommended to support the FY 2005-2006 Food Service budget. This will leave an approximate amount of \$908,587, which is 6.25 percent of the FY 2005-2006 Food Service Fund budget as presented in this memorandum. These projections reflect a 20-cent increase in elementary and middle school breakfast and lunch full price meals. **This year's budget will be monitored through the middle of December to determine if this projected price per meal increase needs any adjustment before the Preliminary budget is presented in January.** It is projected that no local tax support will be required for the Food Service Fund in FY 2005-2006.

Debt Service Fund—This fund is used to budget and account for principal and interest payments on existing school bonds as well as the revenues necessary to fund these expenditures. Some of the District's bonds receive State debt reimbursement, which varies depending on the year in which the bond proposition was approved. Due to savings incurred from the sale of new bonds at lower than anticipated interest rates, refinancing outstanding bonds, and receiving additional State revenues in the current year, the District is able to use accumulated fund balance as a revenue source, thereby reducing the amount being requested for local taxes.

Local / State / Federal Projects Fund—Expenditures in the Local/State/Federal Projects Fund are offset by matching revenues. The District continues to be successful in increasing grant funding from various State and Federal agencies and other sources. Revenues available through grants for these projects include competitively awarded grant funds—most of which are subject to federal and State annual appropriations. It is projected that budgets for FY 2005-2006 grants may increase approximately \$2.0 million based on discussion with grant writers.

Ongoing monitoring of these grants will help determine if adjustments should be made when bringing the budget forward in January.

FISCAL YEAR BUDGET COMPARISON

The following schedule compares by fund the FY 2005-2006 projected revenue/expenditures with those currently approved for FY 2004-2005. **The amount of the projected General Fund expenditure budget is \$7.0 million more than the amount projected for revenues.** At this time, unknowns still remain such as contract negotiations and mandated services that may require funding.

REVENUE/EXPENDITURE BUDGETS				
	Revised Budget FY 2004-2005	Pro Forma Budget Revenues FY 2005-2006	Pro Forma Budget Expenditures FY 2005-2006	Estimated Budget Shortfall FY 2005-2006
General Fund	\$398,712,237	\$429,540,000	\$436,575,000	(\$7,035,000)
Food Service	13,785,312	14,525,583	14,525,583	-0-
Debt Service	70,463,617	77,854,781	77,854,781	-0-
L/S/F Projects	<u>43,000,000</u>	<u>45,000,000</u>	<u>45,000,000</u>	<u>-0-</u>
All Funds	<u>\$525,961,166</u>	<u>\$566,920,364</u>	<u>\$573,955,364</u>	<u>(\$7,035,000)</u>

TAXES	Revised FY 2004-2005	Pro Forma Taxes FY 2005-2006	Increase
General Fund	\$133,412,722	\$144,169,454	\$10,756,732
Debt Service	<u>30,090,600</u>	<u>33,849,499</u>	<u>3,758,899</u>
All Funds	<u>\$163,503,322</u>	<u>\$178,018,953</u>	<u>\$14,515,631</u>

STUDENT ENROLLMENT PROJECTIONS

	FY 2004-2005 Actuals Sept. 30, 2004	FY 2005-2006 Projected Sept. 30, 2005	Change Over Prior Year's Actual
Enrollment	49,454	49,289	(165)
Full Time Equivalent (FTE)	49,239	49,071	(168)

In preparing the FY 2005-2006 Financial Plan, many budget development uncertainties face the District.

- School Board areas of interest
- Community, staff, and students recommendations including last year's budget review team recommendations
- Projected enrollment
- FY 2005-2006 – Contract negotiations for Maintenance (Teamsters Local 959), AEA (Anchorage Education Association) and a settled contract for FY 2004-2005 for APA (Anchorage Principals Association) and consideration for Exempt personnel
- ESEA-No Child Left Behind requirements
- Further evaluation of current/new fees
- Approval of more charter schools
- Six Year Instructional Plan
- Assessment/Testing Impact
- State of Alaska Quality Schools Initiative
- Implement Technology Plan
- Scheduling of the movement of the Stryker Brigade; formation of Alaska Airborne Brigade; deployment of military personnel
- CPI and 5-year average population growth used for local tax limitation not finalized until February 2005
- New construction and assessed valuation used for local tax limitation not finalized until March/ April 2005
- Federal Impact Aid subject to annual appropriation
- Legislative action
- Potential approval of new charter schools

SUMMARY

The next couple of months will be a tremendous challenge to the Administration to accomplish the task of bringing the budget into balance. Our assumptions in preparing these initial FY 2005-2006 projections are based on, but not limited to, the following criteria:

- Alaska Public School Funding Program- Implemented the Governor's increase to per pupil allocation from \$4,576 to \$4,869, a \$293 increase
- Balanced budget for presentation to the Anchorage Assembly – Expenditures equal Revenues
- Local Property Taxes – Full amount available under the property tax limitation
- Use of Fund Balance as a revenue source – the undesignated fund balance as of June 30, 2004 was \$27.989 million. Using \$6.5 million will bring the undesignated fund balance to \$21.489 or 5 percent of \$429.540 million

- Quality Schools Grant - no increase to per pupil amount of \$16
- State Pupil Transportation Reimbursement -Current State formula which includes a provision for COLA
- Potential adoption or expansion of programs must be funded within existing resources

Attachments

CC/JS/MSL

Prepared by: Marie S. Laule, Budget Director

Approved by: Janet Stokesbary, Chief Financial Officer

Anchorage School District
Fiscal Year 2005-2006

PROJECTED REVENUES AND EXPENDITURES SUMMARY
USING THE GOVERNOR'S FY 2006 FUNDING PROPOSAL

Fund	Revenues and Fund Balance				FY 2005-2006 Revenue/Source Projections	FY 2005-2006 Expenditure Projections	FY 2005-2006 Fiscal Gap Projections
	Taxes		Other				
	Local	State	Federal				
General	\$ 144,169,454	\$ 10,536,000	\$ 261,494,546	\$ 13,340,000	\$ 429,540,000	\$ 436,575,000	\$ (7,035,000)
Food Service	0	6,925,621	0	7,599,962	14,525,583	14,525,583	
Debt Service	33,849,499	3,678,410	40,326,872	0	77,854,781	77,854,781	
	178,018,953	21,140,031	301,821,418	20,939,962	521,920,364	528,955,364	(7,035,000)
Local, State and Federal Projects	0	775,000	1,350,000	42,875,000	45,000,000	45,000,000	
TOTAL	\$ 178,018,953	\$ 21,915,031	\$ 303,171,418	\$ 63,814,962	\$ 566,920,364	\$ 573,955,364	\$ (7,035,000)
Percentage of Revenue Sources to Total Revenue Projections							
	31.40%	3.86%	53.48%	11.26%	100.00%		

Computation of Total Taxes
for Calendar Year 2005

	General Fund	Debt Service Fund
Amount required to fund second half of Adopted FY 2004-2005 Budget: January 1, 2005/June 30, 2005	\$ 66,456,361	\$ 15,045,300
Amount required to fund first half of Adopted FY 2005-2006 Budget: July 1, 2005/December 31, 2005	72,084,727	16,924,750
TOTAL Taxes for Calendar Year 2005	\$ 138,541,088	\$ 31,970,050
Total Taxes for Calendar Year 2005		
1) Total Taxes 2005	\$ 170,511,138	\$ 31,970,050
Assessed Valuation	\$ 22,297,878,735	\$ 22,297,878,735
	6.21 mills	1.44 mills

1) The 2005 mill rate estimate is based on assessed valuation provided by the Municipality of Anchorage
Office of Management and Budget (Verified 11/16/04).

Anchorage School District
Fiscal Year 2005-2006

SCHEDULE OF GENERAL FUND REVENUES FROM LOCAL SOURCES/FUND BALANCE

Local Sources	FY 2003-2004		FY 2003-2004		FY 2004-2005		FY 2005-2006	
	Audited		Revised		Revised		Projections	
Municipality of Anchorage Appropriation of Taxes	Actual	\$ 121,490,634	\$	121,490,634	\$	133,412,722	(A)	\$ 144,169,454
Other Local								
Career Center Instructional Projects	72,519		77,700		81,200		81,200	
Facilities Rentals (B)	412,466		435,000		552,500		572,000	
Nonresident Tuition	1,075		10,000		1,000		1,000	
Graduation Support Services (C)	42,937		40,000		60,000		60,000	
Summer School - Elementary (D)	23,006		35,000		18,500		35,000	
Summer School - Middle Level (D)	20,450		27,000		13,000		30,000	
Summer School - Secondary (D)	86,854		73,000		168,000		130,000	
Music Instrument Usage Fee (E)	7,047		10,000		13,800		13,800	
Middle School Activity Fees (F)	140,805		130,000		205,000		210,000	
High School Activity Fees (G)	359,125		330,000		510,000		550,000	
High School Parking Fees (H)	117,129		105,000		215,000		225,000	
Community Schools Fees (I)			65,000					
Charter School Fees	25,155		30,800		30,800		53,500	
Other Fees (Training Fees, Documents) (J)	30,689		77,500		77,500		77,500	
Property Sales, Insurance Proceeds, and Miscellaneous	269,438		256,500		197,000		297,000	
Interest	539,695		1,375,200		525,000		600,000	
E-rate (K)	199,017		1,148,000		1,100,000		1,100,000	
Fund Balance	3,854,860		5,465,650				6,500,000	
	6,202,267		9,691,350		3,768,300		10,536,000	
TOTAL	\$ 127,692,901		\$ 131,181,984		\$ 137,181,022		\$ 154,705,454	

No fee increases are included in these projections - only participation increases are projected

(A) \$500,000 of the \$1.0 million previously authorized and collected by the Municipality is being given back.

(B) Facilities Rentals-Projections reflect more usage with the opening of the new high school

(C) Graduation Support Services - \$75 (\$50 for FY 2003-2004)

(D) Summer School - \$75 per summer school session. (\$50 for FY 2003-2004)

(E) Music Instrument Usage Fee - \$15 (\$10 for FY 2003-2004)

(F) Middle School Activity Fees \$75 (\$50 for FY 2003-2004) Family Cap of \$300 (Middle and High Schools combined.)

(G) High School Activity Fees \$125/sport (\$75 for FY 2003-2004) Family Cap of \$300 (Middle and High Schools combined.)

(H) High School Parking Fees \$50/semester (\$25 for FY 2003-2004)

(I) Community School Fees - No fees are projected as the Community Schools Program has been eliminated.

(J) Training fees - \$20 per course with continuation for FY 2005-2006

(K) E-rate established by Congress to provide funding to K-12 schools for telecommunications, Internet access and internal connections (Network Infrastructure).

COMPUTATION OF MUNICIPAL TAX LIMITATION

Taxes Projected—Anchorage School District FY 2004-2005	\$	163,503,322
Less: Taxes assessed in calendar year 2004 and returned to the Municipality		500,000
Less: Prior Year Taxes Required for Debt Service		<u>30,090,600</u>
Net Taxes Approved for General Fund		132,912,722
Adjustment Factors		
Population 5 year Average	1.16 %	
CPI—Anchorage Urban	<u>2.80</u>	
	3.96 %	<u>5,263,344</u>
Basic Tax Limitation		138,176,066
Plus Exclusions:		
Taxes for Operations and Maintenance on New Voter Approved Facilities (1)		2,260,342
Taxes Requested on New Construction/Property Improvements (2)		<u>3,733,046</u>
Tax Limitation—General Fund		<u>144,169,454</u>
Taxes Requested for Debt Service		<u>33,849,499</u>
TAX LIMITATION FY 2005-2006		178,018,953
General Fund		144,169,454
Debt Service Fund		<u>33,849,499</u>
TAXES PROJECTED IN FINANCIAL PLAN—FY 2005-2006 (3)		<u>178,018,953</u>
AMOUNT (OVER) LESS THAN TAX LIMITATION	\$	<u><u>0</u></u>

Note:

(1) The taxes approved for debt service are for sold bonds approved by the qualified voters.

(2) Taxes on new construction or property improvements, excluded from the limitation the first year, are computed as follows: 7.25 mills x \$514,902,935 (estimated 2004 new construction/property improvement value verified by the Municipality of Anchorage's Office of Management and Budget) = \$3,733,046.

(3) The Anchorage Assembly may approve more or less taxes than this within the combined total of the tax limitations for the Municipality of Anchorage and the Anchorage School District.

Anchorage School District
Fiscal Year 2005-2006

ANCHORAGE SCHOOL DISTRICT
FUNDING SUMMARY

State Sources		FY 2003-2004 Audited Actual	FY 2003-2004 Revised	FY 2004-2005 Revised	FY 2005-2006 Projections
Alaska Public School Funding Program	(A)	\$ 205,100,316	\$ 206,308,819	\$ 229,980,895	\$ 242,432,876
Pupil Transportation	(D)	17,019,454	16,237,400	17,028,333	17,009,683
Tuition	(E)	46,785			
Supplemental State Funding and Grants:					
On-Base Schools	(F)	408,484	408,484	408,484	408,484
McLaughlin Youth Detention Grant	(F)	471,390	625,000	413,503	413,503
Providence Heights Grant	(F)	113,913	90,000	90,000	130,000
Alaska National Guard Youth Corps	(F)	14,644	50,000	50,000	
Medicaid Reimbursement	(G)	962,963	900,000	1,100,000	1,100,000
TOTAL		\$ 224,137,949	\$ 224,619,703	\$ 249,071,215	\$ 261,494,546
Notes:					
(A) Alaska Public School Funding Program - FY 2005-2006 Implementing the Governor's Proposal as of November 5, 2004					
		Basic Need Equals 66,464.41 Adjusted ADM x \$4,869 Student Allocation \$ 323,615,214 Minus 4 Mills x Foundation Defined Anchorage Assessed Valuation of \$19.156 billion (76,624,175) Minus Deductible Portion of Federal Impact Aid (5,621,594) Add \$16/ adjusted ADM for Quality Schools 1,063,431 Total Alaska Public School Funding Program Aid \$ 242,432,876			

- (B) Learning Opportunity Grant funding rolled into the Alaska Public School Funding Program
- (C) Section 93 of Senate Bill 2006 funding rolled into the Alaska Public School Funding Program
- (D) Pupil Transportation - Reimbursement estimate based on FY 2002-2003 actual expenditures/number of FY 2002-2003 actual ADM less Correspondence Programs
times FY 2005-2006 estimated ADM less Correspondence Programs.
- (E) FY 2003-2004 and forward, Tuition funding eliminated by the State.
- (F) State of Alaska supplemental grant to partially fund this program; Alaska National Guard Youth Corps program is no longer a program through the Anchorage School District.
- (G) Medicaid reimbursement for indirect health services to students who are Medicaid eligible in the schools.

Anchorage School District
Fiscal Year 2005-2006

SCHOOL FUND FROM FLSURE

Federal Sources	FY 2003-2004 Audited Actual	FY 2003-2004 Revised	FY 2004-2005 Revised	FY 2005-2006 Projections
Federal Impact Aid	\$ 13,347,439	\$ 11,800,000	\$ 11,900,000	\$ 12,750,000
R.O.T.C.	440,445	415,000	560,000	590,000
TOTAL	\$ 13,787,884	\$ 12,215,000	\$ 12,460,000	\$ 13,340,000

(A) Federal Impact Aid revenue is received for students living on military land and for other federally-connected students.

(B) During FY 2004-2005 one R.O.T.C. instructor was added for West and two were added for South Anchorage High Schools; revenues for FY 2005-2006 were adjusted to reflect actual receipt of revenues and additional positions added for Eagle River High School.

Attachment C

Mat-Su Borough Code
Section 3.04.045,
“Funding Formula for Local School Support”

Untitled

3.04.045 FUNDING FORMULA FOR LOCAL SCHOOL SUPPORT.

(A) The borough shall include within the manager's proposed budget an amount for local school support. The amount of local support for the general educational operating fund, pupil transportation, student activities, and community services shall be calculated utilizing the following formula:

(1) Base year. The base year (1994) formula for support is as follows:

(a) $\text{Support} = 11,315 \text{ projected students} \times \$1,710 \text{ per student}$ which would equal \$19,348,650; unless there are sufficient alternative revenue sources available for local support, in which case the formula shall be calculated according to the following formula:

(b) $\text{Support} = 11,315 \text{ projected students} \times \$1,850 \text{ per student}$ which would equal \$20,932,750.

(2) Subsequent years.

(a) $\text{Support} = \text{number of projected students} \times \$ \text{ per student in the prior year} \times \text{the change in the ten year moving average of the Anchorage CPI}$.

(B) The amounts calculated by the previous formulas may be adjusted for programs which are transferred between the borough and school district.

(C) The amount calculated in subsection (A) shall be shown in the general fund as a transfer to the education operating fund.

(D) The amount shown as a transfer in subsection (B) shall be shown as a revenue source in the education operating fund.

(E) The amount appropriated in the education operating fund shall be based upon the following formula:

(1) Base year.

(a) $\text{Appropriation} = \text{number of prior year student count} \times \$ \text{ per student calculated in subsection (A)}$.

(2) Subsequent year.

(a) $\text{Appropriation} = \text{number of prior year student count} \times \$ \text{ per student calculated in subsection (A)} \times \text{change in the ten year moving average of the Anchorage CPI}$.

(F) On the first of November of each year, the borough administration shall introduce an appropriation ordinance for local support based upon actual enrollment as of October 15.

(G) Additional revenue sources mean: sales and use tax, business license tax, value added tax, severance tax, corporate income tax, property transfer tax, head tax, employment tax, and fuel transfer tax.

(H) Supplemental appropriations shall not be included in computing the local support for the general education operating fund.

(Ord. 99-127, § 2, 1999; Ord. 94-001AM, § 4 (part), 1994; Ord. 92-140 (sub1), § 2, 1992)