

CS HB278 Talking Points and Background Memorandum

Prepared for CEAAC Members

Attached is a draft memo outlining some of the policy changes in the recent legislation proposed by the House Finance Committee, and a draft position statement that reflects our discussion earlier today. The position statement is also included below. Here are some key talking points:

- 1) CEAAC/Our District/We support[s] efforts to fairly increase the BSA – if the Legislature recognizes that there is a need for a funding increase they should provide that funding increase under the present formula. The failure to fund an increase to the BSA in years has had an impact on all districts. There is no justification, based on the facts, for disproportionately increasing urban funding over rural funding.
- 2) If there is a desire to rewrite the BSA formula, it should be based on hard data and a deliberative process, as it has been done in the past. Allowing election-year expediency to trump sound public policy is unfair to all of Alaska’s children and will only fuel a divide between rural and urban education.
- 3) The increased government overreach by the State Board and the Department of Education that this bill proposes is an unfair burden on those districts that have struggled to meet exceedingly higher energy and other costs with little or no consistent or predictable funding increases. Section 11 of the CS implies a weakening of local control over decisions best made at the local level.

It should be noted, that there is a significant series of additions to the tax credit provisions that were in the initial Governor’s bill. Those provisions were to provide tax exemptions or credits for businesses support students for dual education or for the construction of RLC housing. The new language goes further by allow credits for “ a public or private non profit elementary or secondary school in the state”. Which is a public subsidy of private education.

The bill is currently on the House floor and debate will continue on Friday, April 4.

Position Statement:

CEAAC supports the concept of a substantial increase in the BSA the enhance educational opportunity for all of Alaska’s children, but opposes the determination of a new BSA formula created without apparent regard to economic and other data and without an open and deliberative process. For twenty years CEAAC has sought to ensure our rural residents are provided an opportunity for the same level of education and the same prospects for success as all students. This CS turns the clock back to a two-tiered system that sacrifices our rural residents to political expediency.

Further, a key element of the Governor's proposed legislation that was supported by rural schools, the regional learning centers stipend and open selection period, has been unnecessarily eliminated from the legislation.

At best these efforts show a disregard for the progress of rural education in the past twenty years and at its worst potentially reignites the harmful competition that has separated rural and urban districts in the past.

Date: April 2, 2014

Memo To: CEAAC Executive Committee

From: Tom Begich, Government Relations Director

RE: Recent Amendments to HB 278 Proposed in the State House

As many of you know, on April 1 the House Finance Committee introduced a proposed Committee Substitute (CS) to the Governor's proposed Education bill. While it is difficult to fully understand all of what has been done to the bill, I will try to identify for you in this brief memo the key changes to the provision and offer some thoughts on our direction. Before doing so, it should be noted that the very fact that this amendment proposes a higher BSA number indicates that our efforts and those of individual districts and organizations is having some effect on the political environment. This issue is no longer "should there be an increase", it is "how much should this increase be and what form should it take..."

There are four key changes that I note. First, the top two tiers of the current Foundation Formula calculation for the BSA are removed ensuring that larger schools count all students as a full student for purposes of the BSA. Second, there are greater restrictions on use of funds generated by charter schools for administrative purposes and specific time schedules for appeals for charter school rejections. Third, there is greater direction and involvement of the Alaska State Board of Education in how Districts spend formula-generated funds. Finally, there is a proposed new method for calculating and addressing teacher retirement. It should also be noted that the RLC stipend increase language that was in this bill is removed, though our stand-alone legislation continues to wend its way through the process.

Primary changes:

1) The proposed CS would eliminate the top tiers of the Foundation Formula calculation for BSA. In the past these top tiers equalized the efficiencies of scale realized by large schools in urban districts and ensured the actual cost of education was balanced between urban and rural districts. When these top tiers are eliminated the essential effect of a BSA increase is proportionally greater to School Districts with larger schools. This would mean that the proportion of any increase

that would have come under the old formula is less for rural schools. If, for example, \$300 million were added to education, the amount rural schools would have gotten under the old formula would be greater than the amount they will receive under this proposed formula. Its tricky to understand, because the House Majority discusses it in the context of “increases to the BSA” rather than the overall cost of the increases to the BSA. So, more money will be spent on education, but proportionally less of that money will go into rural schools. This ignores the thoughtful work and years of research that has gone into developing the complex formula on which the formula has been based.

2) Charter schools language continues to evolve. Under the CS the time for hearing an appeal of a charter school rejection is tightened, but more importantly specific language is added to, as the Majority says in their press release: “...explicitly state that districts cannot take a portion of a charter student’s formula for administrative costs.”

3) Consistent with the increasing control issues that the Majority appears willing to impose from the state on local districts, the legislation also requires the Alaska Board of Education to track how formula funds are expended by districts “and suggest efficiencies”.

4) The CS proposes radical changes to how the TRS liability is addressed. Based on a statement from Rep. Austerman in the press release, it is the position of the Majority that the TRS Trust Fund should be spent down to cover retirement until we begin to realize more funds from oil and gas production. His quote: we should “make sure we wisely conserve our savings until we can see the new revenues from increased oil and gas activity make their way to the treasury”, a dubious promise at best... Even the Governor’s staff have a belief that this is a highly risky move that could effect our State’s Bond rating (and potentially future bonding efforts for school construction) and have indicated their opposition to this approach.

Discussion: On the BSA, as stated above, while this would increase the BSA for Rural and Urban districts, this would have the effect of creating a disparity in that increase between rural and urban districts. This change effectively rewrites portions of the Foundation Formula in the last days of the Legislative Session, behind closed doors, without any review of the underlying facts and assumptions for how the formula change is determined. Past revisions have been preceded by work by ISER or other entities, in the open and with substantive public comment to ensure that the formula is not arbitrary and takes in to account cost factors necessary to ensure all children in the state are counted in a manner that truly reflects the cost of educating a child. Balancing these costs fairly between rural and urban districts, takes into account all economic factors that districts must address and establishes a number that reflects all of these factors. Anything other than a balanced process in effect creates a two-tiered education system. At the very least we should demand to know the underlying data that has prompted the suggested changes.

I am not sure that our rural district members are as interested in the charter school provisions, but the outright prohibition on use of charter school generated formula funds and other funds for administration appears to create a significant disconnect for urban districts charged with serving all schools and students.

The increasing control from the Board and DEED on expenditure of formula generated funds could have significant ramifications for rural districts who have had to be consistently creative in assuring basic costs are met so that the facilities and resources are available to ensure every child can be educated. This would likely replicate some of the experiences of those districts that have already felt the hand of intervention.

The fundamental risk to our credit rating based on the unknown nature of future funding to the treasury as a backup to spending down the Teacher Retirement Trust Fund is of such concern that I cannot imagine this would survive the legislative process. It is almost as though these folks have decided to bet the bank on a spin of a roulette wheel. I am as dumbfounded as the Governor about this.

Proposed position statement:

CEAAC supports the concept of a substantial increase in the BSA to enhance educational opportunity for all of Alaska's children, but opposes the determination of a new school funding formula created without apparent regard to economic and other data and without an open and deliberative process. For twenty years CEAAC has sought to ensure our rural residents are provided an opportunity for the same level of education and the same prospects for success as all students. This CS turns the clock back to a two-tiered system that sacrifices our rural residents to political expediency.

Further, a key element of the Governor's proposed legislation that was supported by rural schools, the regional learning centers stipend and open selection period, has been unnecessarily eliminated from the legislation.

At best these efforts show a disregard for the progress of rural education in the past twenty years and at its worst potentially reignites the harmful competition that has separated rural and urban districts in the past.