



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

November 20, 2024

Deena Bishop
Commissioner
Alaska Department of Education and Early Development
801 West 10th Street, Suite 200
Juneau, AK 99801-1894

Dear Dr. Bishop:

Enclosed are a certification and related report confirming that Alaska meets the requirements of section 7009(b) of the Elementary and Secondary Education Act (ESEA). As a result, the State is eligible to consider a portion of Impact Aid payments as local resources in determining State aid entitlements for the period July 1, 2024, through June 30, 2025 (State fiscal year 2025), pursuant to delegation by the Assistant Secretary for the Office of Elementary and Secondary Education, and subject to the conditions in the attached report. This certification does not indicate whether Alaska meets any education funding requirements in other programs administered by the U.S. Department of Education, such as the Elementary and Secondary School Emergency Relief Fund authorized under the American Rescue Plan Act.

A copy of the certification and report is being sent to all school districts in Alaska to inform them of their right to a hearing. Any local educational agency adversely affected by this action may request, in writing and within 60 days of the receipt of this notice, a hearing under ESEA section 7009(c)(3)(B) and 34 CFR § 222.165. A hearing request that specifies the issues of fact and law to be considered may be sent by email to [Faatihah.Muhammad@ed.gov](mailto:Faatimah.Muhammad@ed.gov).

Sincerely,

Faatimah Muhammad, Director
Impact Aid Program

Enclosure
cc: Alaska Superintendents

www.ed.gov

400 MARYLAND AVE., SW, WASHINGTON, DC 20212

The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

REPORT FOR THE YEAR JULY 1, 2024 - JUNE 30, 2025 (STATE FISCAL YEAR 2025)
UNDER SECTION 7009(B) OF THE ELEMENTARY AND SECONDARY EDUCATION
ACT OF 1965 (20 U.S.C. § 7709(b))

State - Alaska

Section I. Background

A. Procedural History

The Commissioner of the Alaska Department of Education and Early Development (Alaska, or State) timely notified the U.S. Department of Education (Department) and all Alaska school districts of the State's intention, under Section 7009(b) of the Elementary and Secondary Education Act of 1965, as amended (ESEA), to take Impact Aid payments into consideration in the calculation of school aid for the period of July 1, 2024 to June 30, 2025 (State fiscal year (FY) 2025). The notice was by letter to this office dated March 1, 2024. The State sent a notice by memorandum to all school districts in the State dated February 29, 2024.

By memorandum dated April 3, 2024, the Impact Aid Program (IAP) notified all Local Educational Agencies (LEAs, or school districts) in the State of their opportunity to request a predetermination hearing concerning the State's notice, as provided in ESEA section 7009(c)(2) and 34 CFR § 222.164(b)(5). The notice linked to the disparity data posted on the State's website. Fairbanks North Star Borough school district requested a pre-determination hearing and IAP held it on June 3, 2024. IAP held the hearing record open for 15 days per 34 CFR § 222.164(b)(5)(iii) and received post hearing comments from the State and Fairbanks North Star Borough School District by the June 18, 2024, deadline.

On June 28, 2024, IAP provided permission for the State to make estimated State aid payments for FY 2023 that take Impact Aid funds into account as local effort until IAP could issue this final determination.

B. The Disparity Test Analysis Generally

When determining State aid entitlements to school districts, States are generally prohibited from taking into consideration Impact Aid payments. Under a narrow exception to this general rule, the statute provides that a State may take Impact Aid payments into consideration if the IAP “determines and certifies . . . that the State has in effect a program of State aid that equalizes expenditures for free public education among [school districts] in the State.” (ESEA 7009(b)(1)). The disparity test is the method by which the IAP determines whether a State's program of State aid equalizes expenditures among school districts. See 34 CFR § 222.162.

A State aid program is determined to equalize expenditures amongst LEAs “if the disparity in the amount of current expenditures or revenues per pupil for free public education among LEAs is no more than 25 percent.” (ESEA § 7009(b)(2) and 34 CFR § 222.162(a)). The regulations define “revenue” as including “only revenue for current expenditures.” (34 CFR § 222.161(c)). The disparity test includes all revenues for current expenditures received by districts, regardless

of whether they are provided by the State through a State-designated equalization program or under another State funding mechanism.

In performing this disparity test, a State must choose to compare either current expenditures or current revenues and must choose how to account for allowable special cost differentials (funds designated to a district because of specific characteristics of that district or specific characteristics of students in that district). (34 CFR § 222.162(d)). Alaska has chosen the “revenue per Average Daily Membership” basis, i.e. the exclusion method on a revenue basis, where “The State subtracts revenues associated with the special cost differentials from total revenues and divides this net amount by an unweighted pupil count.” (34 CFR § 222.162(d)(3)). Under this test, the State first considers each LEA’s revenue in the given fiscal year. Only revenue that can be used for current expenditures is considered. (34 CFR § 222.161(c)). Revenues for special cost differentials are excluded. Special cost differentials are funds associated with “pupils having special educational needs” or “particular types of LEAs.” (34 CFR § 222.162(c)(2)). Finally, the State divides the resulting revenues by an unweighted pupil count (34 CFR § 222.162(d)(3)). This is the amount of revenue per pupil that is then compared to the other LEAs to determine if the State aid program has equalized expenditures.

C. Revenues - Funding of School Districts in Alaska

As we understand the Alaska public school funding program that was in effect for FY 2023, the relevant data year for this determination, funding for public schools consisted of State aid (Basic Need and transportation), a required local contribution, and eligible Federal Impact Aid, which we authorized the State to include for FY 2023. Under the formula (Alaska Stat. § 14.17.410), each district’s “basic need” is calculated by multiplying the adjusted average daily membership (AADM) by the base student allocation (BSA). BSA is set by statute (see Alaska Stat. § 14.17.470). The AADM is the average daily membership adjusted to reflect a district’s size, geographic cost differentials, special needs funding, vocational and technical funds, intensive student funding, and correspondence student funding. Alaska calculates each LEA’s AADM by first subtracting from the LEA’s ADM all correspondence students to get the ADM of in-person students. Next, Alaska multiplies the ADM of in-person students by the specific factors required by State law (district’s size, geographic cost differentials, special needs funding, vocational and technical funding). To this number, Alaska adds the number of students requiring intensive special education services multiplied by 13. Last, Alaska adds 90% of the ADM of correspondence students. That number is the final AADM which is multiplied by the BSA to determine “basic need.”

The Basic Need is met through a combination of (1) State Aid, (2) local contributions, and (3) eligible Impact Aid. City and borough school districts must contribute a required local amount. The State aid portion of Basic Need is equal to: Basic Need minus a required local contribution and 90 percent of eligible Impact Aid for that fiscal year. The reduction for Impact Aid is based on FY 2023 certification of the State under ESEA section 7009 by the Department. 34 CFR § 222.163.

To determine a district’s eligible Impact Aid, the State subtracts basic support payments received under ESEA section 7003(a)(2)(B) weighted in excess of 1.0 (children residing on Indian lands),

supplemental payments under ESEA section 7003(d) (children with disabilities), and funds received under ESEA section 7003(b)(2) (heavily impacted LEAs) that are in excess of amounts calculated under ESEA section 7003(b)(1) (Basic Support payments). The State multiplies the result by the ratio of the district's required local contribution to its actual local contribution, as required under ESEA section 7009(d)(1)(B) and 34 CFR § 222.161(a)(ii).

After a district's Basic Need is met, city and borough districts may raise additional funding, up to a cap. (see Alaska Stat. § 14.17.410). The State legislature may also appropriate additional funds in any given year that are outside of the funding formula. These one-time grant funds are distributed in the same manner, based on a district's AADM. The revenues meet the Impact Aid definition of revenue for current expenditure. In addition to the Basic Need, the State provides for Quality School Funding on an AADM basis.

School districts operating a transportation system that convey students to and from school are eligible for transportation funding under AS 14.09.010. The funding amount is determined by multiplying the district's average daily membership (excluding correspondence students) by an established transportation cost per child. These costs, which are specified in State law, were established based on an analysis of actual expenditures for transportation from FY 2013, adjusted for inflation in FY 2014 and 2015. School districts report pupil transportation revenues in a special, dedicated revenue fund. Transportation revenues meet the Impact Aid definition of revenue for current expenditure.

Section II. Alaska's FY 2025 Disparity Calculation

A State may take into consideration Impact Aid payments in calculating State aid if IAP determines that the amount of per-pupil expenditures or revenues of the LEA with the highest per-pupil expenditures or revenues in the State did not exceed the per-pupil expenditures or revenues of the LEA with the lowest per-pupil expenditures or revenues by more than 25 percent, per section 7009(b)(2)(A) of the ESEA. As described below, Alaska has satisfied this requirement for FY 2025.

Alaska elected to use the "exclusion method on a revenue basis" in 34 CFR § 222.162(d)(3) to calculate disparity. That means "The State subtracts revenues associated with the special cost differentials from total revenues and divides this net amount by an unweighted pupil count." (34 CFR § 222.162(d)(3)). When a State is calculating its disparity test using the "exclusion method on a revenue basis," it means they exclude the weights and revenues associated with the special additional costs, which are known as "special cost differentials." Special cost differential is specifically defined in the program regulations at 34 CFR § 222.162(c)(2).

In making this determination, we disregarded LEAs with expenditures or revenues above the ninety-fifth percentile or below the fifth percentile of such revenues or expenditures in the State as required under ESEA section 7009(b)(2)(B)(i) and 34 CFR § 222.162(a).

A. Special Cost Differentials

As required by ESEA section 7009(b)(2)(B)(ii), we also considered the extent to which the State's program reflects the additional cost of providing free public education in particular types

of LEAs or to particular types of students. Revenues associated with weights for school size (as defined in Alaska Stat. § 14.17.990), district cost factor (as defined in Alaska Stat. § 14.17.460), special needs and intensive services (as defined in Alaska Stat. § 14.17.420(1)), vocational and technical students (as defined in Alaska Stat. § 14.14.420(3)), and correspondence students (as defined in Alaska Stat. § 14.17.420(2) and Alaska Stat. § 14.17.430) are excluded from each LEA's per pupil revenue calculation because they meet the qualifications for adjustments defined in 34 CFR § 222.162(c)(2) as a special cost differential. The specific revenues excluded are the funds generated by the additional weights under the Base Student Allocation of \$5,930 per AADM and Quality School Funding of \$16 per AADM. A portion of optional "additional local revenues" are excluded for each LEA, as these revenues are limited in Alaska Stat. § 14.17.410 to no more than 23 percent of an LEA's Basic Need. The State determined how much each LEA contributed per AADM and excluded only the funds attributable to the LEA's additional weights for special cost differentials. As noted above, Basic Need is established by multiplying an LEA's AADM by the Base Student Allocation, so there is a direct relationship between the limit on these optional local contributions to revenue and the district's weighted student count.

Transportation revenue is also excluded as it reflects the additional cost of providing free public education in "particular types of LEAs such as those affected by geographical isolation" per 34 CFR § 222.162(c)(2)(ii). The data provided to IAP calculated revenues per student on an unweighted average daily membership (ADM) basis.

B. Disparity

The revenue per ADM at the ninety-fifth percentile is \$8,923 (Kuspuk School District), and the revenue per ADM at the fifth percentile is \$7,380 (Lower Yukon School District). The resulting disparity is 20.91 percent.

Section III. Findings

Consistent with the requirements in 34 CFR § 222.164(b)(5), Fairbanks North Star Borough School District (Fairbanks) requested a predetermination hearing and submitted post hearing comments raising two issues related to Alaska's disparity test submission. We discuss both issues below.

A. One-Time Funding:

For State FY 2025, Alaska approved an additional \$7,305,894 for the LEAs, to be distributed proportionally according to the State's existing transportation funding program, and an additional \$680 per unweighted student in the current BSA.

Fairbanks North Star Borough School District argued that Alaska must submit projected disparity data for FY 2025 because Alaska has substantially revised its funding formula. Fairbanks Response at 2. If IAP considers the one time funding a substantial change to the formula, Alaska would need to submit projected FY 2025 data for the disparity test rather than the currently submitted FY 2023 data. Fairbanks generally argues that the "one-time funding

allocated to school districts separate and apart from the school funding formula which governed state aid to Alaska school districts for FY23 [] substantially revises funding for FY25.” *Id.* at 1.

Alaska argues in response that, “[n]either the controlling statutes nor regulations define what constitutes a substantial revision.” AK Response at 10. Alaska also notes in its response that one time funding is common in Alaska:

For example, DEED mentioned this type of funding its Response to Chatham School District’s Predetermination Challenge four years ago. (footnote omitted). DEED also referenced this type of funding in its response to the transportation funding predetermination hearing, three years ago. (footnote omitted). Last year, in FY24, the legislature appropriated approximately \$174 million in one-time education funding. (footnote omitted).

Id.

IAP has previously determined in the Kansas FY 2022 decision¹ that an increase in base state aid per pupil from one year to the next is not a substantial revision to the state aid program. KS FY 2022 Decision at 4. This is a standard increase in base state aid for students across all LEAs, not a significant change to the funding formula.

The one-time funding also proportionally increases transportation funding to the LEAs that receive transportation money. Again, this is not a change to the funding formula, but an increase in transportation funding.

B. Correspondence Students

In Alaska, correspondence students are treated differently than “in person” students in the funding formula. To calculate the AADM, in person ADM is adjusted with the statutorily required weights, then 90% of the correspondence ADM is added to that number. The combined in person and correspondence AADM is multiplied by the BSA to get each LEA’s “basic need.” Alaska considers correspondence student revenues as a special cost differential because it reflects the additional cost of providing free public education to particular types of students. Alaska uses the exclusion method on a revenue basis to calculate per pupil revenues, which is where “[t]he State subtracts revenues associated with the special cost differentials from total revenues and divides this net amount by an unweighted pupil count...” 34 CFR § 222.162(d)(3). Therefore, Alaska removes correspondence ADM from the AADM and the revenues from the disparity test that are associated with the correspondence students.

Fairbanks argues that excluding the correspondence students from the pupil count is wrong and that Alaska should include correspondence student ADM and the associated revenues in the per-pupil revenue computation for the disparity test. Fairbanks Response at 3. Alaska argues that unweighted “means that once the revenues and pupil count for all special cost differentials are removed, the remaining pupil count must weigh all of those students equally.” AK Response at 19.

¹ REPORT FOR THE YEAR JULY 1, 2021 – JUNE 30, 2022 (STATE FISCAL YEAR 2022) UNDER SECTION 7009(b) OF THE ELEMENTARY AND SECONDARY EDUCATION ACT OF 1965 (20 U.S.C. § 7709(b)).

When using the exclusion method to calculate the per pupil revenues for the disparity test, “[t]he State subtracts revenues associated with the special cost differentials from total revenues...” (34 CFR § 222.162(d)(3)) to generate an unweighted revenue amount. The parallel structure for the unweighted pupil count would be to subtract all weights associated with the special cost differentials from the total weighted pupil count (the AADM in Alaska). Since the correspondence students are a special cost differential as defined in ESEA section 7009(b)(2)(B)(ii) and further defined in 34 CFR § 222.162(c)(2), Alaska appropriately removed correspondence students from the AADM and the associated revenues when calculating the per pupil revenues for the disparity test.

C. Determination

Pursuant to the delegation from the Assistant Secretary for Elementary and Secondary Education to the Impact Aid Program Director, the Alaska State aid formula meets the requirements to be certified under section 7009 for FY 2025, because the revenue disparity percentage is within the 25 percent disparity allowed under section 7009(b)(2). Therefore, the State may take into consideration Impact Aid payments when calculating State aid to districts for FY 2025.

Approved and Issued By:

Faatimah Muhammad, Director Date
Impact Aid Program