



ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE


Legislative Finance Division

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Juneau, Alaska
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MEMORANDUM

DATE: January 30, 2023

TO: Senator Löki Tobin
Attn: Michael Mason

FROM: Alexei Painter
Legislative Fiscal Analyst 

SUBJECT: Impact of Inflation on K-12 Funding and Cost Estimates of Potential BSA Increase

You asked for a comparison of Alaska's K-12 foundation formula funding to inflation over the past decade, as well as for cost estimates of various potential BSA changes.

Background on Foundation Formula

Alaska's K-12 foundation formula (AS 14.17) is the largest source of funding for Alaska's school districts. The formula is based on multiplying the actual student count on Alaska's schools (known as the Average Daily Membership, or ADM) by a series of factors to adjust for differences between districts, including a school size factor and district cost factors, as well as block grants for special education and career and technical education, to arrive at an adjusted student count (Adjusted Average Daily Membership, or AADM). The AADM is then multiplied by the Base Student Allocation (BSA) to arrive at Basic Need, the total amount of funding provided by the formula. Basic Need is then paid by a combination of required local funding for municipal school districts, deductible federal impact aid, and State funds.

In addition to funding inside this formula, the legislature has frequently included one-time funding outside the foundation formula but distributed in the same way as the formula. This outside the formula funding makes comparisons across years that only use the BSA somewhat incomplete. This analysis will provide both comparisons to provide a fuller picture.

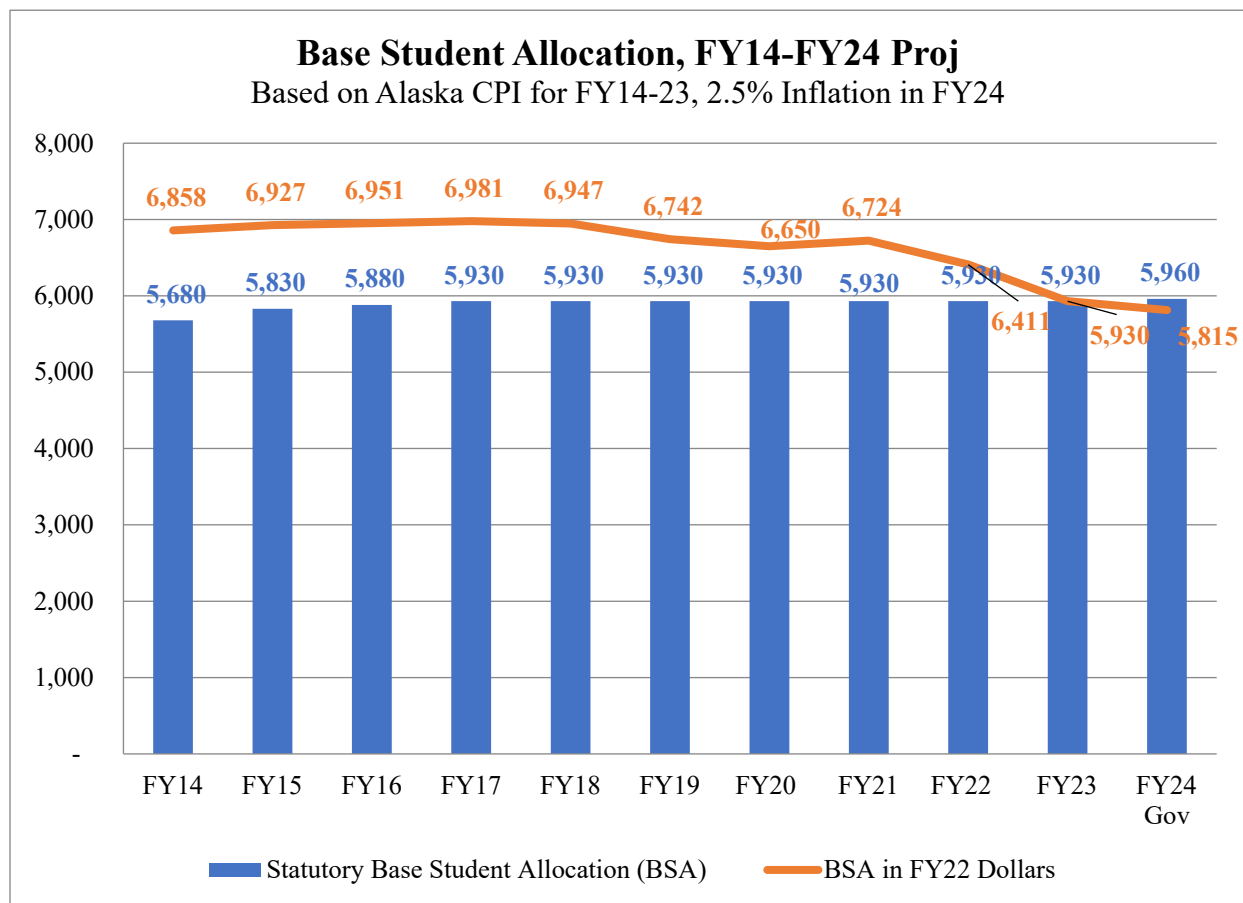
Impact of Inflation from FY14 through FY24

This analysis equalizes funding to the level in calendar year 2022, the most recently completed year, and applies that to FY23. It then assumes 2.5% inflation in FY24 (based on Callan and Associates' assumptions that are used by the Alaska Permanent Fund). The inflation data is the federal Bureau of Labor Statistics data for all urban Alaska consumers.

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Previous CY Inflation Rate	3.1%	1.6%	0.5%	0.4%	0.5%	3.0%	1.4%	-1.1%	4.9%	8.1%	2.5%
Inflation Factor to FY23	1.21	1.19	1.18	1.18	1.17	1.14	1.12	1.13	1.08	1.00	0.98

This table can be read to say that one dollar appropriated in FY14 would have the same buying power as \$1.21 appropriated in FY23.

Base Student Allocation Adjusted for Inflation

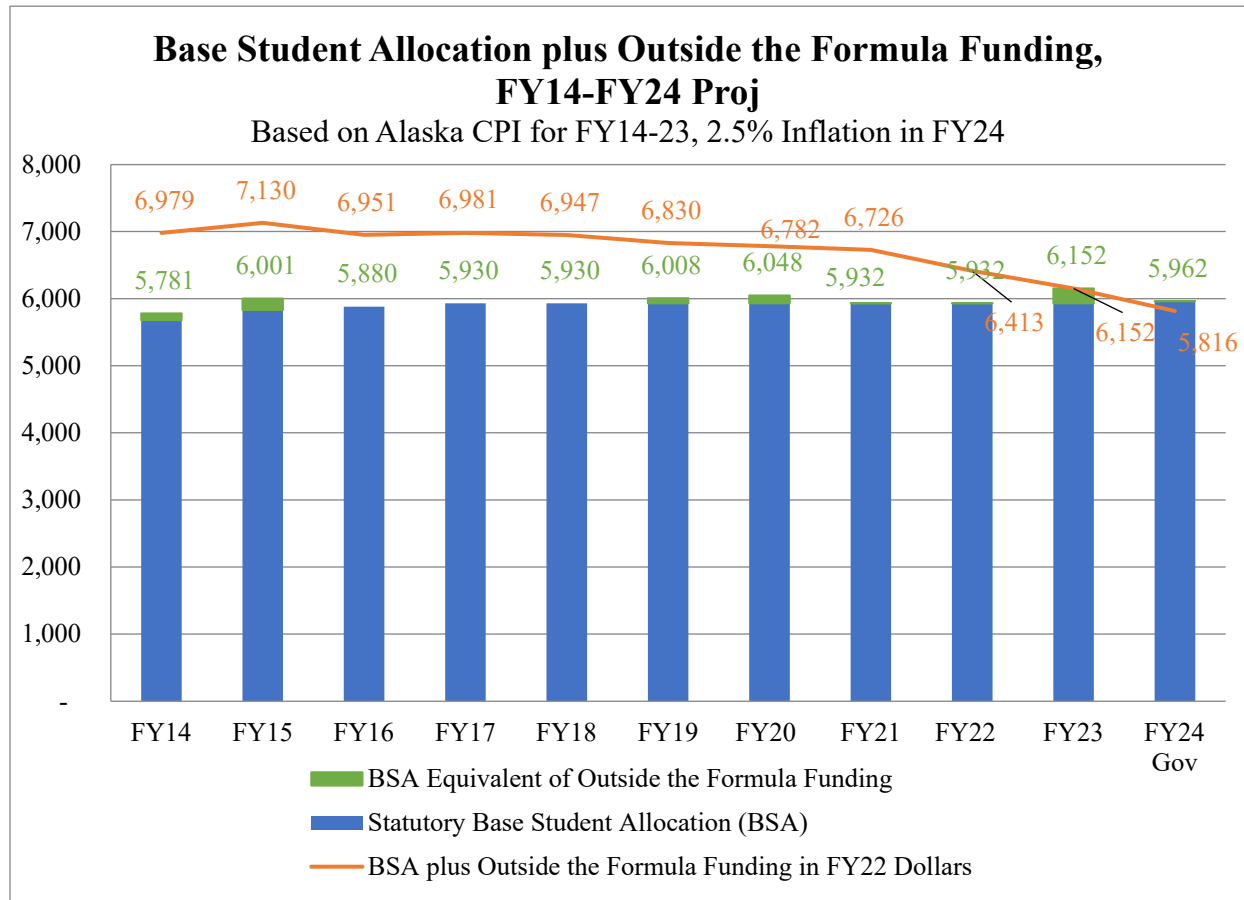


The BSA was \$5,930 from FY17-23 and is \$5,960 in FY24. The peak year over the past decade, adjusted for inflation, is FY17, which would be \$6,981 in FY23 dollars, while the FY24 figure is \$5,815 in FY23 dollars. Adjusting that FY17 figure to projected FY24 dollars would total \$7,155. To match the buying power of the FY17 BSA in FY24, the BSA would therefore need to increase by the \$1,195, from \$5,960 to \$7,155.

Depending on which year is selected as the base, “inflation proofing” the BSA would require different amounts: \$611 (to match the BSA in FY22 in real terms) to the above calculation of \$1,195. Therefore, which year is selected as the “base” for inflation-proofing makes a substantial difference in how much the formula would need to be adjusted in FY24.

Incorporating Outside-the Formula Funding

In Fiscal Years 2014, 2015, 2019, 2020, and 2023, the legislature appropriated additional funding outside the formula ranging from \$20 million to \$57 million. This funding is distributed according to the formula, and so the following graph converts it into a BSA equivalent.



When outside the formula funding is added in, FY15 becomes the new peak year due to \$43.0 million of outside the formula funding that year. For FY24 to match FY15's funding level in real terms, the BSA would need to increase by \$1,348 in FY24.

Cost of Increasing the Base Student Allocation

Based on the Department of Education and Early Development's (DEED) FY24 Foundation Report Projections as of November 15, 2022, each \$100 change in the BSA is estimated to increase State funding by \$25.7 million. The following table shows the estimated cost at \$100 intervals to \$1,000, as well as for an \$860 increase as requested.

BSA Change	New BSA	Projected State Aid	Projected Increase in FY24
\$100	\$6,060	\$1,213,541,843	\$25,718,583
\$200	\$6,160	\$1,239,260,426	\$51,437,166
\$300	\$6,260	\$1,264,979,009	\$77,155,749
\$400	\$6,360	\$1,290,697,592	\$102,874,332
\$500	\$6,460	\$1,316,416,175	\$128,592,915
\$600	\$6,560	\$1,342,134,758	\$154,311,498
\$700	\$6,660	\$1,367,853,341	\$180,030,081
\$800	\$6,760	\$1,393,571,924	\$205,748,664
\$900	\$6,860	\$1,419,290,507	\$231,467,247
\$1,000	\$6,960	\$1,445,009,090	\$257,185,830
\$860	\$6,820	\$1,409,003,074	\$221,179,814