



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

May 16, 2025

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 concluding that Alaska does not meet the requirements of section 7009(b) of the Elementary and Secondary Education Act of 1965, as amended (ESEA). As a result, the State is not eligible to consider a portion of Impact Aid payments as local resources in determining State aid entitlements for the period July 1, 2025, through June 30, 2026 (State fiscal year 2026). This determination is made pursuant to the authority delegated to me by the Assistant Secretary for Elementary and Secondary Education.

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. The State or 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 Faatimah.Muhammad@ed.gov.

Sincerely,

Faatimah Muhammad, Director
Impact Aid Program

Enclosure
cc: Alaska Superintendents

www.ed.gov

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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, 2025 - JUNE 30, 2026 (STATE FISCAL YEAR 2026)
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, 2025 to June 30, 2026 (State fiscal year (FY) 2026). The notice was by letter to this office dated March 3, 2025. The State sent a notice by memorandum to all school districts in the State dated February 28, 2025.

By memorandum dated March 25, 2025, 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. No LEA requested a hearing.

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 section 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. (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 section 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 the State provides them through an equalization program or under another 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 2024, 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 2024. 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 (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 2024 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. (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. In addition to the Basic Need, the State provides for Quality School Funding on an AADM basis (Alaska Stat. § 14.17.480) and distributes proceeds from the permanent fund dividend fund on an AADM basis (Alaska Stat. §§ 43.23.220(d)(2) and 43.23.230(c)). The revenues meet the Impact Aid definition of revenue for current expenditure.

School districts operating a transportation system that convey students to and from school are eligible for transportation funding under Alaska Stat. § 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 2026 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 not satisfied this requirement for FY 2026.

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. § 14.17.450), district cost factor (as defined in Alaska Stat. § 14.17.460), special needs and intensive services (as defined in Alaska Stat. § 14.17.420(a)(1)-(2)), vocational

and technical students (as defined in Alaska Stat. § 14.17.420(a)(3)), and correspondence students (as defined in 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 \$5,960 per AADM, Quality School Funding of \$16 per AADM, a "one time" grant of \$337 per AADM for FY 2024, and permanent fund dividend raffle grants of \$5 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(c)(2) 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 that the State provides under the formula in Alaska Stat. § 14.09.010 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 "per student amount" in the formula is based on each LEA's past per-student transportation cost, which factors in Alaska's wide geographical diversity. The data provided to IAP calculated revenues per student on an unweighted average daily membership (ADM) basis.

When providing the FY 2024 disparity data, Alaska excluded all transfers from an LEA's general fund to its transportation fund for the first time. In prior years, Alaska excluded only revenues provided through the Alaska State transportation funding formula. These transfers reflect movement between funds and do not meet the definition of a special cost differential, which must "reflect[] the additional cost of providing free public education in particular types of LEAs...or to particular types of students" (ESEA Section 7009(b)(2)(B)(ii)). First, transfers do not reflect an "additional cost" to LEAs because they do not add to an LEA's total revenues for current expenditures. Second, transfers do not reflect additional costs incurred by "particular types of LEAs" with specific circumstances, as contemplated by the statute. Any LEA can transfer money between its general fund and transportation fund as needed; there is nothing about its "type" that allows the transfer.

B. Disparity

Because the State improperly excluded transfers between each LEA's general fund and its special revenue fund for transportation, and improperly included transfers from the transportation fund to the general fund as a revenue, [the disparity calculation on which this determination is based](#) removes these transfers.

The revenue per ADM at the ninety-fifth percentile is \$8,703 (Northwest Arctic School District), and the revenue per ADM at the fifth percentile is \$6,859 (Lower Kuskokwim School District). The resulting disparity is 26.88 percent.

Section III. Findings

Pursuant to delegation from the Assistant Secretary for Elementary and Secondary Education to the Impact Aid Program Director, the Alaska State aid formula is not certified under section 7009 for FY 2026, because the revenue disparity percentage is not within the 25 percent disparity allowed under ESEA section 7009(b)(2). Therefore, the State may not take into consideration Impact Aid payments when calculating State aid to districts for FY 2026.

The State or 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 Faatimah.Muhammad@ed.gov.

Approved and Issued By:

_____	_____
Faatimah Muhammad, Director	Date
Impact Aid Program	