

ANCHORAGE SCHOOL DISTRICT

ANCHORAGE, ALASKA

ASD MEMORANDUM # _____ (2022-2023)

September 20, 2022

TO: ANCHORAGE SCHOOL BOARD

FROM: ANCHORAGE SCHOOL BOARD FINANCE COMMITTEE

SUBJECT: SUBSTITUTE FOR MEMORANDUM #024: "APPROVAL OF BUDGET REVISIONS FOR FY 2022-2023"

ASD Core Values: *The District will be open, transparent and accountable to the public.*

RECOMMENDATION:

It is the recommendation of the Anchorage School Board Finance Committee that the Board approves the following cost neutral FY 23 Budget transfers recommended in Memorandum 024, dated September 6, 2022:

- Native Education Budget Revision: transferring \$584,785 between Paraprofessional and Professional/Technical categories to allocate 6 FTE for ACE 6 Community Counselors, by eliminating 8.3 Totem Youth Development Tutor positions; and
- Special Education Budget Revision: transferring \$483,221 to convert 7.05 FTE behavior support paraprofessional positions to 4 FTE Intervention Coaches and 1 FTE Counselor, to provide additional classroom support for students.

It is also the recommendation of the School Board Finance Committee that the Board supports the following FY 23 Budget revision recommendations in fulfillment of "Option 3" detailed in Memorandum 024 and as a substitute for that document:

- \$16,102,500 in one-time operational funding to the General Fund in order to lower the district's projected budget gap for FY 24 to approximately \$68 million, as proposed in Memorandum 024.
- \$9.5 million in major maintenance to Capital Projects. Proposed projects shall be presented to the full Board for prior approval.
- \$7,359,072 in secure vestibule and security improvements during the 2023 construction season at the seven Anchorage elementary schools assessed as having the district's most pressing needs for improved security, as detailed in Memorandum 024, Attachment A:
 - Chester Valley Elementary School
 - Chugach Optional Elementary School
 - College Gate Elementary School

- Fire Lake Elementary School
- Government Hill Elementary School
- Kincaid Elementary School
- Ursa Minor Elementary School
- \$38,445,000 in urgent capital improvement projects targeting failing boilers, leaking roofs, seismic upgrades, security cameras, core safety projects and future design needs at the following locations during the 2023 construction season, as detailed in Memorandum 024, Attachment A:
 - Birchwood Elementary School
 - Steller High
 - Wendler Middle
 - Russian Jack Elementary
 - Eagle River High
 - Mirror Lake Middle School
 - Campbell Elementary School
 - Chinook Elementary School
 - Kincaid Elementary School
 - Maintenance and CP&C Building
 - Ursa Minor Elementary School
- \$3,000,000 to the ASD Major Maintenance line item, intended to address the existing backlog of over 2,600 minor maintenance project needs via the use of term contracts, job order contracts and other purchasing methods. To the extent feasible, these funds shall be used to facilitate the prioritization and successful completion of outstanding building ventilation repairs and maintenance.
- \$37,712,912 to the ASD Capital Projects Fund, to be further reallocated following Board passage of the FY 24 Budget, toward future large scale capital project(s) which prioritize student, staff and community safety and security.

PERTINENT FACTS

As of June 30, 2022, the Anchorage School District (ASD) has received approximately \$115.8 million in one-time funding from the Alaska Legislature in the form of \$16.1 million for operating funds, \$9.5 million for major maintenance, and \$90.2 million for School Bond Debt Reimbursement (SBDR).

The Board is grateful for the hard work and commitment of legislators who secured these vital funds intended to assist ASD in accelerating student learning while addressing a considerable budget shortfall, significant capital needs, and community concerns about safety, staffing, and tax burdens. The Board is committed to addressing these needs while remaining focused on its ambitious goals for student proficiency in reading, math and college, career and life readiness; we appreciate this opportunity to support educational growth across the District through judicious use of these one-time funds.

These funds have become available as ASD confronts a profound financial shortfall that has been years in the making.

The State of Alaska last studied the Foundation Funding Formula's "District Cost Factor" (DCF), essentially a geographic cost differential, in 2004. This outdated DCF may be inequitably funding Anchorage students and unduly burdening Anchorage-area taxpayers. In addition, the State has not adjusted the Base Student Allocation (BSA), another key component of the Funding Formula, to align with inflation since the 2016-2017 school year. A fully inflation-proofed BSA would need to increase by \$640 per student in FY 24. Nor has the State increased transportation reimbursements since the 2015-16 school year, which have remained at \$481 per student. Flat funding in these areas, combined with inflation, has reduced purchasing power to a level of approximately \$80 million less than what the District could afford in 2017 in real dollars.

In addition, ASD has seen enrollment decline since FY 13. Between the 2012-2013 school year and 2018-2019, enrollment dropped by more than 2,000 students. Enrollment further declined during and after the 2019-2020 school year, as it did in districts nationwide. Although this trend has reversed, with the total number of students enrolled on track to increase in both 2021-2022 and 2022-2023, a net result is that ASD enrollment has fallen by 5,000 students over nearly a decade.

In response to flat funding, inflationary drivers, and a net enrollment decline, ASD has promoted efficiencies, generated new revenues, and used a series of one-time funding allocations to mitigate annual structural operating budget deficits of \$10-12 million. Three of the most consequential sources of one-time funds for ASD came from the federal government in 2020 and 2021 via the Elementary and Secondary School Emergency Relief Fund (ESSER I), the Coronavirus Response and Relief Supplemental Appropriations Act (ESSER II), and the American Rescue Plan Act (ESSER III). These allocations masked ongoing deficits, were granted with stringent parameters for spending, and must be obligated by September 2024.

The expiration of these funds means that the gap between ASD's expenditures and revenues will reappear during 2023-2024 school year (FY 24) and may exceed \$100 million if no action is taken. Throughout the fall of 2022, and in advance of the Board's passage of a balanced budget for FY 24 in February 2023, the Board and administration will engage in ongoing conversations about "right sizing" ASD. The forthcoming conversations about cost reduction measures, courtesy of programmatic changes and school closures, will be complex and extremely challenging.

Even so, the Board also understands the importance of maintaining safe, healthy, and resilient District facilities. As of June 30, 2022, ASD registered a backlog of \$824 million

in deferred maintenance across its 91 facilities. This amount includes both major and minor maintenance needs. Projects costing more than \$50,000 are considered “major” maintenance. Examples include roof, boiler and seismic repairs. Minor maintenance projects, by contrast, do not meet this threshold. On September 6, 2022, the administration shared details about its backlog of more than 2,600 “high priority” minor maintenance projects. Details included the suggestion that the significant “delta” between what ASD pays its HVAC specialists and current rates for HVAC specialists elsewhere may be one cause for the District’s labor shortages in this area, which in turn are delaying projects, hundreds of which will need more than 120 days for repairs.

The Board understands that District facility needs are not limited to repairs and is interested in promoting best practices in student safety. Board priorities in this respect are to establish secure vestibules in elementary schools and provide enhanced security cameras across the District. Costs for these supplies, however, are increasing, and the District is limited in the number of vestibules that it can build in any given year.

The Board recognizes that making headway on these collective facility needs remains an ongoing challenge, especially in the context of what has amounted to additional financial strain on the District and additional tax burdens placed on local taxpayers over recent years. Gubernatorial vetoes of School Bond Debt Reimbursement in FY 17, FY 20, FY 21, and FY 22 forced the Anchorage School District to allocate a total of \$5.6 million directly from the ASD General Fund and transfer \$11.8 million from the ASD Debt Service Fund to help make payments in the years that reimbursements were reduced. The vetoes also resulted in Anchorage taxpayers bearing \$74.6 million in additional taxes between 2020 and 2022, as the Municipality of Anchorage sought to maintain an adequate level of education funding.

The Board also recognizes that its abilities to address major and minor maintenance, as well as security, were hindered by the narrow failure of the April 2022 bond. Many of those projects, however, cannot wait for a future Bond as they are integral to the District’s responsibilities to provide safe, healthy, and resilient facilities in which to educate its students. The Board is also cognizant of its responsibility to ensure that the District’s educational facilities enhance the quality of life across Anchorage and promote the municipality’s long term economic success.

Given this overall context, in light of the fact that the Anchorage School District administration has already transferred \$3,727,683 from the \$90,244,671 in SBDR to the General Fund to repay outstanding amounts that were owed, and in response to the three options noted in the administration’s Memorandum 024 for allocating the remaining \$86,516,988 in SBDR, the Finance Committee recommends the revisions and transfers noted above to the Anchorage School Board and urges the Board to remember that these targeted allocations of one-time funds across budgetary, capital, student, and taxpayer needs have not been taken lightly and are being proposed out of awareness of

fundamental and controversial conversations about the district's size, scope, and programming that will take place during the next six months.

Finally, the Board expects to receive the following guidance to inform discussion of future school bond propositions, with the understanding that the Board will offer taxpayer relief by not running a bond in 2023:

- 1) An updated list of capital priorities, i.e. the secure vestibules and capital projects itemized in Memorandum 024 Attachment B; and
- 2) Updated comparisons of the Inlet View Elementary School Rebuild project's total costs, for commencing construction in 2023 vs 2024.
- 3) An updated report detailing outstanding high-priority minor maintenance projects which also lays out a plan to leverage funds allocated in this memorandum to reduce the current backlog.

This substitute is written in the spirit of serving the educational needs of Anchorage students and their families as well as the fiduciary interests of Anchorage taxpayers.