

ANCHORAGE SCHOOL DISTRICT
ANCHORAGE, ALASKA

ASD MEMORANDUM #33 (2011-2012)

August 8, 2011

TO: SCHOOL BOARD

FROM: OFFICE OF THE SUPERINTENDENT

SUBJECT: SIX-YEAR FISCAL PLAN - FY 2012-2017 REVISION UPDATE

ASD Goal: ASD will manage effectively and efficiently all financial and human resources.

PERTINENT FACTS:

On June 27, 2011 the School Board approved a revision to the Anchorage School District FY 2011-2012 Financial Plan, ASD Memorandum #354 (2010-2011). The memorandum provided an update of various changes that had an impact on the FY 2011-2012 financial plan since the approval by the Anchorage Assembly on March 29, 2011. The changes included legislative action taken during the first special session of the Twenty-seventh Legislature. The district appreciates the State Legislature and Governor supporting education through the approval of House Bill (HB) 108 and Senate Bill (SB) 84. HB108 provided one-time supplemental state aid funds for education totaling \$6.1 million. SB84 relating to funding for high school vocational and technical instruction, increased the foundation funding for vocational and technical education received from the state by applying an on-going 1.01 factor to the state foundation funding formula. For FY 2011-2012 this adjustment factor will result in \$3.6 million for ASD. As of July 22, 2011 both HB108 and SB84 have been signed by the Governor.

Other major changes included in the projections include the Alaska Retirement Management Board (ARMB) approved increase to the Teachers' Retirement System (TRS) and the Public Employees' Retirement System (PERS), and adjustments to the Federal Impact Aid and Medicaid. Additionally, the district has increased the Debt Service Fund based on predicted voter authorized bonds to support the needs identified in the 10-year Capital Improvement Plan (CIP). The increases are based on a historical analysis comparing the CIP to the actual bond propositions and voter approval of those propositions. Other cosmetic changes to the document include a combined summary of all four major funds together.

Included in the six-year projections are two revenue scenarios for the General Fund with continued anticipated increasing expenditures.

They are presented as follows:

- Scenario 1 – “Flat Funding” which assumes that the district receives an adjustment factor of 1.01% in the state funding formula from the State of Alaska for CTE (provided by recent passage of SB84), but no revenue increases to the BSA from the State of Alaska Department of Education and Early Development (DEED) or the Municipality of Anchorage (MOA), and use of a 2.5 percent inflationary factor for Other Local and Federal revenues where appropriate.
- Scenario 2 – “Conservative Estimate of Funding” which assumes a \$100 increase in the base student allocation for FY 2013-2014 through FY 2016-2017 (based on DEED ten-year plan), a BSA adjustment factor of 1.01% from the State of Alaska for CTE in the state funding formula (provided by SB84), and a 1.5 percent increase in local property taxes (based on MOA administration’s six-year plan), and a 2.5 percent inflationary factor for Other Local and Federal revenues where appropriate.

The attached updated six-year financial projections provide an update to include the approved ASD Memorandum #354. As in the early version of the six-year fiscal plan, without a minimum level of inflationary forward funding by the State Legislature, Governor, Anchorage Assembly and Mayor who authorize and approve the majority of the funding for ASD, the accuracy of the projections in the revenue scenarios are severely limited and result in a fiscal gap. The only tool the district has to produce a balanced budget is annual cuts once specific funding levels are known.

CC/CS/MSL

Attachment

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Approved by: Chad Stiteler, Chief Financial Officer

Anchorage School District Six-Year Financial Plan

FISCAL YEARS 2012-2017



Anchorage School District

Educating All Students for Success in Life

As Amended
August 8, 2011

ASD MEMORANDUM #33 (2011-2012) Attachment

Anchorage School District
Six-Year Financial Plan
FISCAL YEARS 2012-2017

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Anchorage School District

Six-Year Financial Plan

FISCAL YEARS 2012-2017

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Mission, Goals, Directives

The Anchorage School District has adopted the following goals and directives to help align the district and focus the energy of the staff into specific achievements as identified by the School Board and implemented by the Superintendent and her administration.

Mission: To educate all students for success in life

School Board Goals 2010-2011

1. All students will graduate from high school prepared for postsecondary academic/vocational/career opportunities.
2. The achievement gap between racial, ethnic and economic groups in the highly diverse ASD will be eliminated through education that is accessible, culturally responsive, supportive of students and safe.
3. ASD will partner with parents and the community for greater educational success for our students.
4. ASD will manage effectively and efficiently all financial and human resources.
5. All ASD departments will support the mission of the District with good customer service, both internally and externally.

Approved August 9, 2010 ([see board memo #37](#))

School Board-directed objectives 2010-2011

1. Budget Process

Develop a budget process that (1) identifies the relative value and importance of all ASD programs and services to establish a comparability standard for allocation of funding, and (2) uses measurable and meaningful deliverables to provide

accountability, to test the benefit assumptions used to assign values, and to inform subsequent budgeting. The process should provide information with which the Board can weigh the effectiveness of taxpayer dollars. Where feasible, the data should be capable of comparison to other school districts of comparable size (e.g., using Key Performance Indicators developed by the Council of the Great City Schools) and Alaskan employers.

Target dates:

Budget process development	2010-2011
Data to Board for budget development	2012-2013

2. Bond Proposition Development Process

Beginning with a Board work session in August, begin much earlier development of a possible bond proposition to allow for greater public engagement and understanding of the needs proposed to be addressed. At the work session consider development of a proposal to bond the capital cost of significantly expanding vocational technical opportunities by, for example, funding facility addition or adaptation and equipment.

Target date:

Fall 2010, with ongoing work on bond proposal, Board approval and community engagement for the April 2011 ballot.

3. Career/Technical and Vocational Course Obstacles

Develop a comprehensive plan to address obstacles to expanding career/technical and vocational programs in middle and high schools, including “highly qualified” teacher certification and high school core credit eligibility.

Target date:

Prior to 2011 legislative session for appropriate legislative action.

4. Staff Evaluation Instrument and Process

Develop a comprehensive model for evaluation of classroom effectiveness, explicitly incorporating student achievement data and other evidence of academic outcomes, in the evaluation of instructional staff. The emphasis should be a framework for consideration of available student achievement data to the full extent of its limited value as soon as possible, such that the data is neither ignored nor given undue influence. This consideration is not expected to yield numerical scores or rankings, but serve only as an indicator and aid in identifying areas where greater attention may be warranted. Investigate options for using computer learning programs to evaluate academic progress of students during the school year. Develop a model for also considering outcome data in evaluation of other student-contact staff.

Target date:

Status report at Board informational work session in Spring 2011.

5. Post-Implementation Review of Curricular Materials

Conduct a review of the effectiveness of recently adopted math and language arts curricular materials, including pre- and post-implementation achievement data and survey of observed strengths, weaknesses and adaptation of materials to ASD as implemented. Report findings to the Board. As appropriate, develop options for more effective use or possible replacement of materials, including analysis of and improvements to the selection process to identify best-adapted materials.

Target date:

Everyday Math and Mathscape	Report: Spring 2011 Options: 6/2011
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Houghton-Mifflin	Report: Spring 2012 Options: 6/2012
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6. Purchasing Program Restructure

Develop and initiate a plan to implement purchasing program changes recommended by the recent management review. Distinguish those changes that require Board approval through policy revision and those that can be implemented administratively, such as staff training or organizational re-structure.

Target date:

Report plan to Board	October 2010
Restructure plan	2011-2012 budget development process
Begin staff training	Spring/Summer 2011
Implement restructure	2011-2012

7. Open Campus Review

Evaluate the effect of open campus on high school student success, focusing on freshman and sophomores, the role of open campus in drug/alcohol violations, missed classes and other disciplinary issues and resulting academic impacts. Explore benefits, costs and downsides of restricting open campus for freshmen, sophomores and students with a previous drug/alcohol or other disciplinary violation.

Target date:

Report findings to Board	November 2010
Develop any implementation plan	2011-2012 budget development process
Implement any plan	2011-2012

8. Communications/Public Relations/Community Engagement Plan

Develop a comprehensive communications/public relations/public engagement plan for the Anchorage School District, to include more effective use of Channel 14.

Target date:

Report plan to Board	October 2010
Implement plan	Upon completion, especially in budget and bond development process

9. Civics Education Plan

Develop a written plan for integrating civic education into the elementary curriculum in core subjects and the arts, as well as for making civic education more intentional and more engaging to students at the middle and high school level.

Target date:

Report findings and plan report to Board	February 2011
Report implementation plan to Board	April 2011
Begin plan implementation	2011-2012

Approved September 13, 2010 ([see board memo # 63](#))

Background

The Anchorage School Board is tasked with providing a quality education and educational environment for the students of Anchorage. This responsibility coincides with the district's mission of "Educating All Students for Success in Life." To achieve the mission, the Anchorage School Board has adopted both a Six-Year Instructional Plan and a Ten-Year Capital Improvement Plan. Both of these documents identify needs within the district. It is important to note that neither of the documents associate the funding sources required to satisfy the needs identified, but attempt to provide an outline of instructional change and deferred maintenance needs to continue to support the mission and infrastructure of the school district.

This Six-Year Financial Plan does attempt to project the possible funding levels for the future, but does not incorporate specific effects of what those funding levels may achieve in the instructional and capital long-term plans. Unfortunately, the nature of the district's funding mechanisms does not allow these three documents to be linked entirely.

The Anchorage School District (district) is a dependent unit of the Municipality of Anchorage (municipality) and a political subdivision of the State of Alaska (state). The district relies almost entirely on funding from both the municipality and state. This reliance upon both governing entities for funding means the district has no direct control over the two major sources of revenue that determine the level of operation for the district each year.

A small portion of the budget, less than one-half of one percent, comes from student-based fees for parking, student activities, building rentals, summer school and other fees created to help offset, but not cover, the actual costs of services provided. Interest from investments also accounts for less than one-half of one percent of the district's annual budget, meaning the district only determines about one-percent of its funding.

Current funding mechanisms from both governing entities provide annual appropriations for the district. These annual appropriations support the district's activity each year, but leave the future largely unknown. Historically, the district has projected revenues and expenditures for three future years and has encouraged, lobbied and provided information to educate the legislature, assembly and public of the need for the state and local community to support forward funding.

Funding beyond an annual appropriation would provide value to future year financial projections and provide the district the opportunity to meld the instructional, capital and financial long term plans together for a true six-year educational plan. However, without direct control or acknowledgement on such critical funding sources, this six-year forecast should primarily be used as a guide to bring awareness to the stakeholders regarding the financial outlook of the district.

To support the effort of this financial six-year plan, the district has relied heavily on assumptions and projections listed in the State of Alaska Department of Education and Early Development's (DEED) Ten-Year Financial Plan, and the Municipality of Anchorage's 2011-2016 Six-Year Fiscal Program. Additional resources for this document come from the State of Alaska Department of Labor, MOA Department of Public Works, Anchorage Economic Development Corporation (AEDC) and McDowell Group, among others.

The Six-Year Financial Plan was originally approved on February 28, 2011, ASD Memorandum #247 (2010-2011). This Six-Year plan was updated to include School Board action taken on June 27, 2011 as a result of legislative action during the first special session of the Twenty-seventh Legislature passing SB84 and HB108 with approval by the Governor. This update also includes an adjustment to the Debt Service Fund to anticipate future voter approval of educational capital needs.

Economic Overview

As national economic conditions continue to stabilize, 2011 is beginning to show improvement over previous years. Alaska and Anchorage continue to retain stronger economies than much of the nation. The Consumer Price Index for Anchorage during calendar year 2010 shows inflation of 1.8 percent calculated as the average for the first half of 2010, at 2.5 percent and 1.0 percent for the close of the year. Unemployment in Anchorage continues to drop from the high in March 2010 of 7.8 percent to 6.4 percent in December 2010 while the national average remains over 9 percent for the same time period. Financial markets also continue to stabilize and while some volatility remains, many national analysts and economists expect moderate growth through 2011.

Locally, the AEDC also anticipates moderate growth in the Anchorage workforce in 2011. AEDC identifies jobs by different sectors of employment and projects stability or growth in each employment sector, except for government for 2011. This amounts to a net total increase in jobs in Anchorage of 1,100 or .7 percent of the total Anchorage workforce.

The Department of Labor and Workforce Development also projects that the overall population will grow modestly in 2011 to reach the benchmark of 300,000 citizens in Anchorage, and the population will continue to grow through 2017 by about one percent each year.

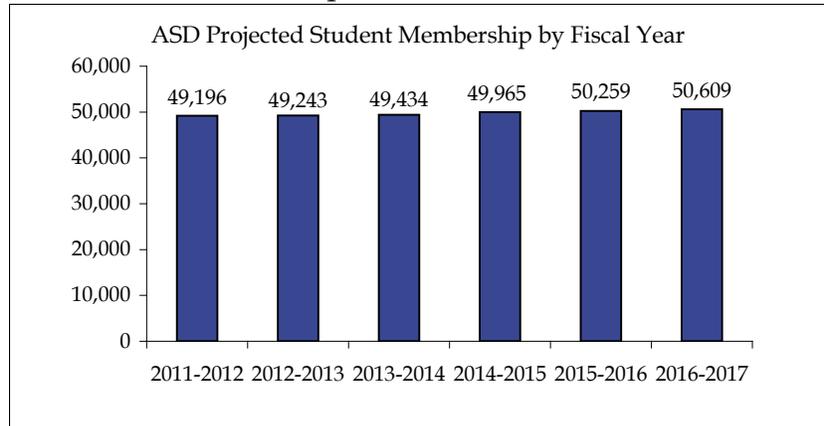
Business growth and population increases are both major indicators of an increasing economy. For the ASD however, the bulk of funding is based as much on legislative action than as strict economic basis. Thirty percent of the district's funding comes from local property taxes approved by the municipality. More than 65 percent of district funding is received from the state, appropriated by the legislature each year and approved by the Governor. These factors affect the future funding of the district far more directly than some of the more traditional economic factors.

Membership Projections Summary: FY 2011-2012 to FY 2016-2017

The assumptions employed in developing the FY 2011-12 to FY 2016-17 membership forecasts do not reflect the impact of any major events occurring in the next six years: construction of the natural gas pipeline, opening of ANWR for oil exploration, closure of military installations, or major changes in the state’s economic or political structure. It is assumed however that oil and mineral exploration will continue in Alaska throughout the decade. It

is also assumed that industry in Anchorage will continue to develop and resulting employment levels will affect the district membership.

Economic, demographic, and housing data are



Projected Student Membership by Fiscal Year					
2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
49,196	49,243	49,434	49,965	50,259	50,609

utilized in the formulation of long-range student membership projections.

The projected membership for FY 2012-2013 through FY 2016-2017 is increasing. The demographic information indicates that Anchorage has experienced a one percent growth rate. This growth rate is fueled by a natural increase (births minus deaths) over the last ten years, which is expected to continue into the future. In addition, trends indicate that the district should expect to receive 86 percent, on average, of new births as future potential students, with the remainder attending private schools, home schooled, or leaving the area.

A large percentage of district funding (48% of FY 2011-2012 revenues) is directly related to the level of student membership through the Alaska Public School Funding Program. The district’s budget will fluctuate with student membership; increases or decreases result in a corresponding change in expenditures associated with educating each student and the associated revenues received from the state.

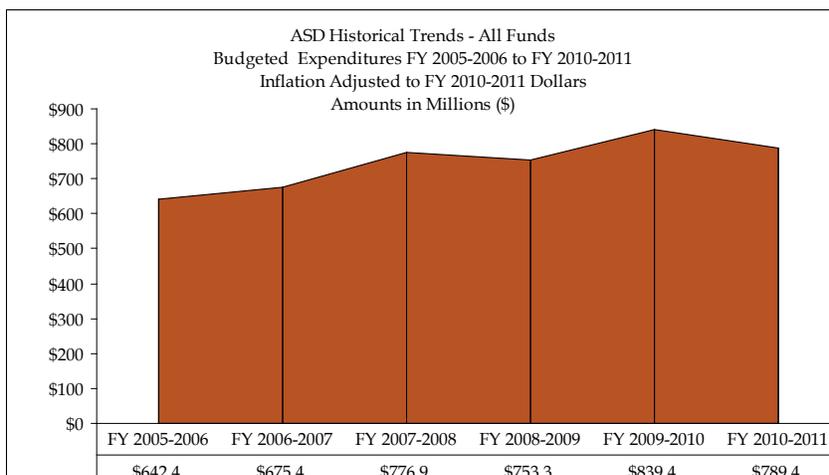
Historical Budgetary Trend

The following provides a graphical view of the expenditure trends from FY 2005-2006 to current. These trends have been adjusted for inflation. Key indicators to consider over the past six years include the combined addition of \$65 million to \$90 million of Certificated (TRS) and Classified (PERS) employer retirement relief beginning in FY 2007-2008.

The State of Alaska Department of Education and Early Development require school districts, unlike the Municipality of Anchorage (MOA), to include the state-provided TRS/PERS on-behalf employer relief within the school district budget. Doing so appears to enlarge the district's budget relative to the MOA budget, but Generally Accepted Accounting Principles (GAAP) requires that the district report the employer retirement relief as both a revenue and an expenditure in the district's Comprehensive Annual Financial Report (CAFR).

During the same six-year period, aging school facilities have required increasing major maintenance and updating, and both a new high and a new middle school have been built. Although voter-approved debt service increased 15 percent on a nominal dollar basis over that period, adjusted for inflation the constant dollar increase was less than one-half percent and the majority of that increase is subject to state debt reimbursement.

Personnel costs including the TRS/PERS on-behalf employer relief and two-year ARRA funds, during the past six years increased, unadjusted, by 47 percent. The number of employees including ARRA positions increased 9 percent. Spending per student, all



funds, increased by 38 percent, unadjusted, based on our changing community demographics and better identification of student needs.

Fiscal Projections and Scenarios

The district includes two scenarios in the six-year financial plan. The major differences between the two scenarios are the revenue streams for the district. Both scenarios include the same assumptions on expenditures, which rise each year based on inflation, either assumed or known in the case of certain negotiated agreements for the first years of the scenarios.

SIX-YEAR PROJECTIONS - ALL FUNDS (SCENARIO #1)						
Amounts in Millions (\$)						
	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017
REVENUES						
Food Service	\$19.24	\$19.31	\$20.15	\$21.05	\$21.71	\$22.39
Debt Service	87.66	87.35	88.52	90.64	89.03	87.39
Local, State and Federal Grants	68.13	62.00	63.50	65.05	66.65	68.30
General Fund (a)	655.69	645.12	648.68	656.29	661.62	667.08
TOTAL	\$830.72	\$813.78	\$820.85	\$833.03	\$839.01	\$845.16
EXPENDITURES						
Food Service	\$19.24	\$19.31	\$20.15	\$21.05	\$21.71	\$22.39
Debt Service	87.66	87.35	88.52	90.64	89.03	87.39
Local, State and Federal Grants	68.13	62.00	63.50	65.05	66.65	68.30
General Fund	655.69	679.57	702.31	726.19	749.51	773.40
Cuts Required To Balance Budget (General Fund)	0.00 (c)	(34.45)	(53.63)	(69.90)	(87.89)	(106.32)
TOTAL	\$830.72	\$813.78	\$820.85	\$833.03	\$839.01	\$845.16
Change from prior year		-2.04%	0.87%	1.48%	0.72%	0.73%

Estimated Amount and Possible FTE Reduction Necessary to Balance Budget Based on FY 2011-2012 Service Level						
	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017
CUTS REQUIRED TO BALANCE BUDGET	(\$19.49) (c)	(\$34.45)	(\$53.63)	(\$69.90)	(\$87.89)	(\$106.32)
EXAMPLE OF CUTS TO BALANCE BUDGET WITH FTE (b)	103 (c)	350 - 525	525 - 775	650 - 975	825 - 1225	975 - 1400
(a) Assumes "flat funding", meaning no additional local property taxes, an adjustment factor of 1.01 in the state funding formula for CTE, and no increase in the Base Student Allocation (BSA).						
(b) FTE - Full time equivalent positions						
(c) FY 2011-2012 Initial \$19.49M gap reduced as a result of School Board action: Jobs Bill, use of fund balance, and expenditure reductions identified in ASD Memo #219 (2010-2011).						

The district submits an annual financial plan with four funds: Local, State and Federal Grants, Food Service, Debt Service and the General Fund. In both scenarios the General Operating Fund is the only fund with revenue shortfalls to consider and therefore is the focus of the scenarios. The other three funds are projected to be self-supporting each year and do not include deficits within the six years considered. Each of the funds is summarily reviewed with a more in-depth analysis on the General Fund.

Food Service Fund

This fund is used to budget and account for operations of the Student Nutrition Program. The budget for this fund covers both the direct and indirect cost of providing meals to students. The district currently runs breakfast, lunch, and after school snack programs and experiences a 40 percent participation rate among district students. The projections for the Student Nutrition Program keep in mind the criteria imposed by the Child Nutrition and WIC Reauthorization Act. The reauthorization act focuses on the assurance of the availability of quality and healthy meals to be provided to students every day. The reimbursement rates and participation rates used in the projection are in accordance with figures and estimates provided by the reauthorization act.

Debt Service Fund

The Debt Service Fund pays for the principal and interest payments for the district's voter-approved bond propositions for improving schools and infrastructure. With about 100 schools (including 12 schools which exceed 50 years and 29 schools which exceed 30 years) and buildings around the municipality, the district has an extraordinary amount of infrastructure to maintain. Voter-authorized bond propositions are the district's main avenue to achieve the capital maintenance requirements for buildings. Most district bonds over time had the benefit of state debt reimbursement which pays for 60 to 70 percent of the cost of the bonds, leaving the tax payer responsible for the remaining amount.

Upon voter approval of a bond, taxes are allocated to fund the annual amount of debt repayment each year. State debt reimbursement funding is annually appropriated by the legislature and has been funded at 100 percent since 1992.

Based on the district's 10-year Capital Improvement Plan (CIP), the district does have many unfunded capital needs. As stated earlier, the district currently uses the CIP to identify the capital needs of the district's aging infrastructure, but not as a plan identifying the public bonding requests. Analysis of historical CIP documents and

previous school bond propositions show the public process, existing debt levels, market conditions and other factors end up reducing the dollar amounts of propositions when compared to the annual needs identified in the CIP. The debt service projections in this revised six-year financial plan include annual increases to the district's debt service payments based on these historical trends applied to the current CIP projections through FY 2016-2017.

It is recognized that the slow national economic growth and reduction of Alaskan oil production may influence the community, school board, and assembly to consider bond holidays and/or reduced bond propositions below historical trends. However, the administration believes these historical trend projections provide a systematic data analysis that will best anticipate the effect of voter authorization over the period the financial plan.

Local, State and Federal Grants Fund

This fund carries all the district's categorical grants, many of which are entitlements including No Child Left Behind (NCLB) grants such as Title I for economically disadvantaged students, Title III for English Language Learners, Title VII for Indian Education Program supporting Native students, and special education Title VI-B of the Individuals with Disabilities Education Act (IDEA) for student with disabilities. Other grants are funded on a competitive basis, such as Project Connect, which addresses the academic and social and emotional needs of students from active military families; and directs resources to secondary schools with high concentrations of these students.

Grants in this fund are generally supplemental to the regular and required educational services provided by the district through local and state funding. Given the current federal budget discussions, the many unknowns with the potential reauthorization of federal entitlements and the nature of competitive grants, there are more unknown than known factors.

As more information is known on President Obama's and Congress' reauthorization of NCLB/Elementary and Secondary Education Act (ESEA) and the rumored reduction of entitlements but with more competitive grants, the district is likely to maintain or increase its share of available funds for increasing student achievement in Alaska. Based on current information, the district is anticipating a slow increase over the period to match inflation, with the exception of a drop from FY 2011-2012 to FY 2012-2013 to take into account the termination of the Education Jobs Bill authorized in the fall of 2010.

General Fund

The district General Operating Fund Budget is made up almost entirely of personnel costs—89 percent in FY 2010-2011, rising to 90 percent by FY 2016-2017. Clearly, the assumptions on any increases to labor contracts within the plan have the most dramatic effect on increasing costs. Historically, labor contracts and the average salary have increased approximately with inflation over the past 10 years. Looking forward, the administration has included projections that reflect ongoing increases earned by the district's employees to increase personnel pay similarly.

Health insurance has been increasing at double digit rates each year and continues to be one of the largest annual percent increases in the budget. The district anticipates this to continue but is implementing a wellness plan, positive enrollment and other cost saving measures to minimize increases in health care as much as possible. The district is self-insured and the health insurance fund is adequately funded and reviewed closely to ensure future costs are able to be covered with existing contributions.

The other items in the budget include contracted services, supplies, equipment and other items. Utilities are a major part of the contracted services and are regulated by commissions; they have generally increased rates over time with inflation or beyond. Supply and equipment purchases have been minimized over time at the district as

funding hasn't kept pace with the changing educational needs and are reaching bare minimum levels for adequacy.

General Fund Scenarios

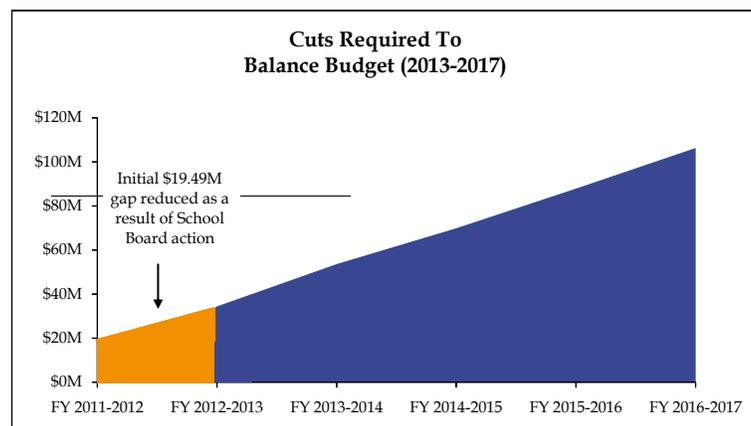
The projections contained within this six-year plan are presented as two scenarios:

- 1) "Flat Funding" which assumes no additional local property taxes or state funding increase beyond current statute; and
- 2) "Conservative Estimate of Funding" which assumes a 1.5 percent increase in local property taxes (based on MOA six-year plan), an increase in the state funding of \$100 increase in base student allocation (BSA) for FY 2012-2013 through 2016-2017 (based on State of Alaska DEED ten-year plan), and a 1.01 adjustment factor in the state funding formula for CTE (based on SB84).

The budget gap projected under the "Flat Funding" and "Conservative Estimate of Funding" scenarios are substantial and will require both a combination of increasing revenues and decreasing expenditures in order to achieve a balanced budget. The district advocates for forward funding of revenue from the municipality and the State of Alaska's Public School Funding Formula. The district also proactively searches for areas where expenditures could be reduced through efficiencies, outsourcing, strategic cuts and eliminations of personnel and programs in the General Fund regularly.

Scenario 1: Flat Funding

Scenario 1 assumes the major revenue components are flat funded. The major components include no increase to local property tax receipts beyond what



is currently anticipated for FY 2011-2012. State funding is also held to the current statutory level for the same time frame except for a 1.01 adjustment factor in the state funding formula for CTE (based off of SB84). This results in a funding gap ranging from \$34 million in FY 2012-2013 to \$106 million in FY 2016-2017 for continuation of services at current levels. If inflation continues at this level and education funding remains at existing levels, massive cuts will occur to service levels.

Revenue Assumptions

- No increase for local property tax for FY 2012-2013 through FY 2016-2017
- No use of fund balance for FY 2012-2013 through FY 2016-2017
- Inflationary adjustment of 2.5 percent for fees and other revenues for FY 2012-2013 through FY 2016-2017
- Alaska Public School Funding Program FY 2012-2013 through FY 2016-2017, no increase to BSA
- 1.01 adjustment factor added to the state funding formula for CTE (from SB84)

Expenditure Assumptions

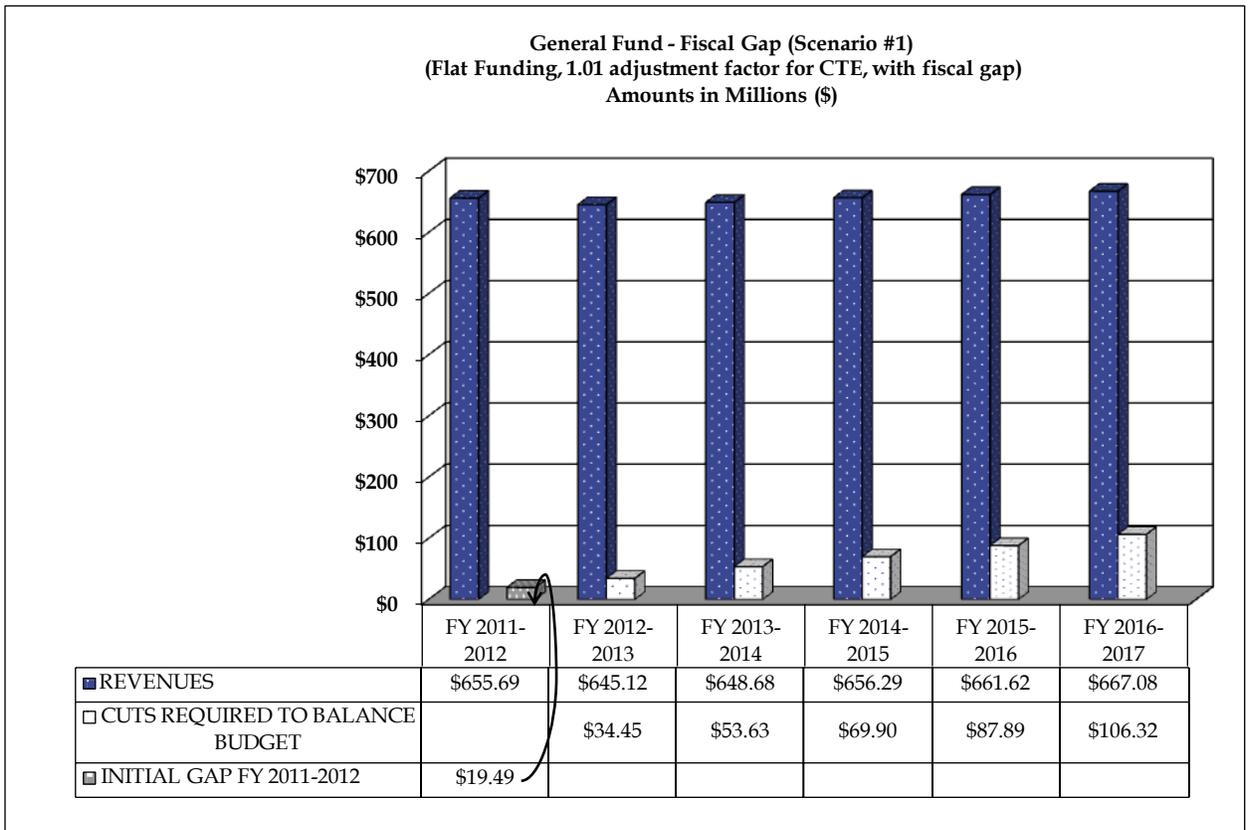
- Added back 82 teachers in FY 2012-2013 supported by one-year funding from the Federal Education Jobs Bill in FY 2011-2012
- As an educational human resource industry, personnel costs are the largest category of expenses. The personnel costs include salary and benefits and are assumed to increase based on good-faith bargaining negotiations
- Purchased services, supplies and materials, capital outlay and other expenses assume a 2-3 percent CIP adjustment

Again, it is recognized that the budget gap is substantial and will require a combination of increasing revenues, pending approval by governing authorities, and decreasing expenditures in order to achieve a balanced budget each year.

SIX-YEAR PROJECTIONS - GENERAL FUND FISCAL GAP (SCENARIO #1) (a)						
Amounts in Millions (\$)						
	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017
REVENUES						
Property Taxes (a)	\$196.31	\$196.31	\$196.31	\$196.31	\$196.31	\$196.31
Other Local	7.20	7.35	7.49	7.65	7.80	7.94
Fund Balance	5.20	0.00	0.00	0.00	0.00	0.00
State (a)	337.84	320.96	319.70	321.63	321.69	321.95
State Incremental Retirement	88.34	93.65	97.58	101.75	105.82	110.03
Federal	20.80	26.85	27.60	28.95	30.00	30.85
TOTAL	\$655.69	\$645.12	\$648.68	\$656.29	\$661.62	\$667.08
EXPENDITURES						
Personnel Costs	\$579.91	\$605.68	\$ 626.85	\$ 649.11	\$ 670.78	\$ 693.06
Contr./Supp./Equip./Other	75.78	73.89	75.46	77.08	78.73	80.34
Cuts Required To Balance Budget	0.00 (c)	(34.45)	(53.63)	(69.90)	(87.89)	(106.32)
TOTAL	\$655.69	\$645.12	\$648.68	\$656.29	\$661.62	\$667.08
Change from prior year		-1.61%	0.55%	1.17%	0.81%	0.83%

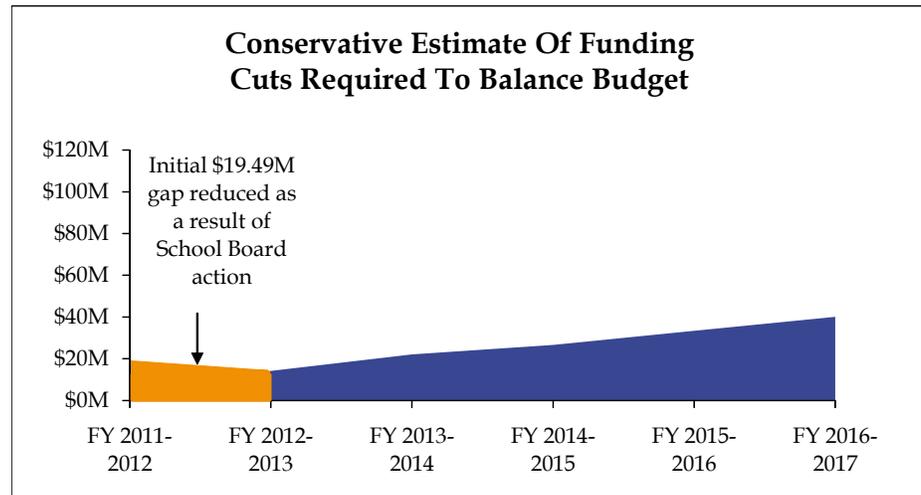
Estimated Amount and Possible FTE Reduction Necessary to Balance Budget Based on FY 2011-2012 Service Level						
	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017
CUTS REQUIRED TO BALANCE BUDGET	(\$19.49) (c)	(\$34.45)	(\$53.63)	(\$69.90)	(\$87.89)	(\$106.32)
EXAMPLE OF CUTS TO BALANCE BUDGET WITH FTE (b)	103 (c)	350 - 525	525 - 775	650 - 975	825 - 1225	975 - 1400

(a) Assumes "flat funding", meaning no additional local property taxes, an adjustment factor of 1.01 in the state funding formula for CTE, and no increase in the Base Student Allocation (BSA).
(b) FTE - Full time equivalent positions
(c) FY 2011-2012 Initial \$19.49M gap reduced as a result of School Board action: Jobs Bill, use of fund balance, and expenditure reductions identified in ASD Memo #219 (2010-2011).



Scenario 2: Conservative Estimate of Funding

Scenario 2 assumes a 1.5 percent increase in local property taxes (based on MOA administration's six-year plan) and a \$100 increase in BSA for FY 2012-2013 through FY 2016-2017 (based



on State of Alaska DEED ten-year plan), as well as the addition of a 1.01 adjustment factor to the state funding formula for CTE (from SB84). This results in a funding gap ranging from over \$14 million in FY 2012-2013 to ultimately a funding gap of over \$40 million in FY 2016-2017 for continuation of services. If inflation continues at this level and education funding remains at existing levels, massive cuts will occur to service levels in the following years.

Revenue Assumptions

- Local property taxes, 1.5 percent increase for FY 2012-2013 through FY 2016-2017
- No use of fund balance for FY 2012-2013 through FY 2016-2017
- Inflationary adjustment of 2.5 percent for fees and other revenues for FY 2012-2013 through FY 2016-2017
- Alaska Public School Funding Program \$100 increase to BSA for FY 2012-2013 through FY 2016-2017
- 1.01 adjustment factor added to the state funding formula for CTE (from SB84)

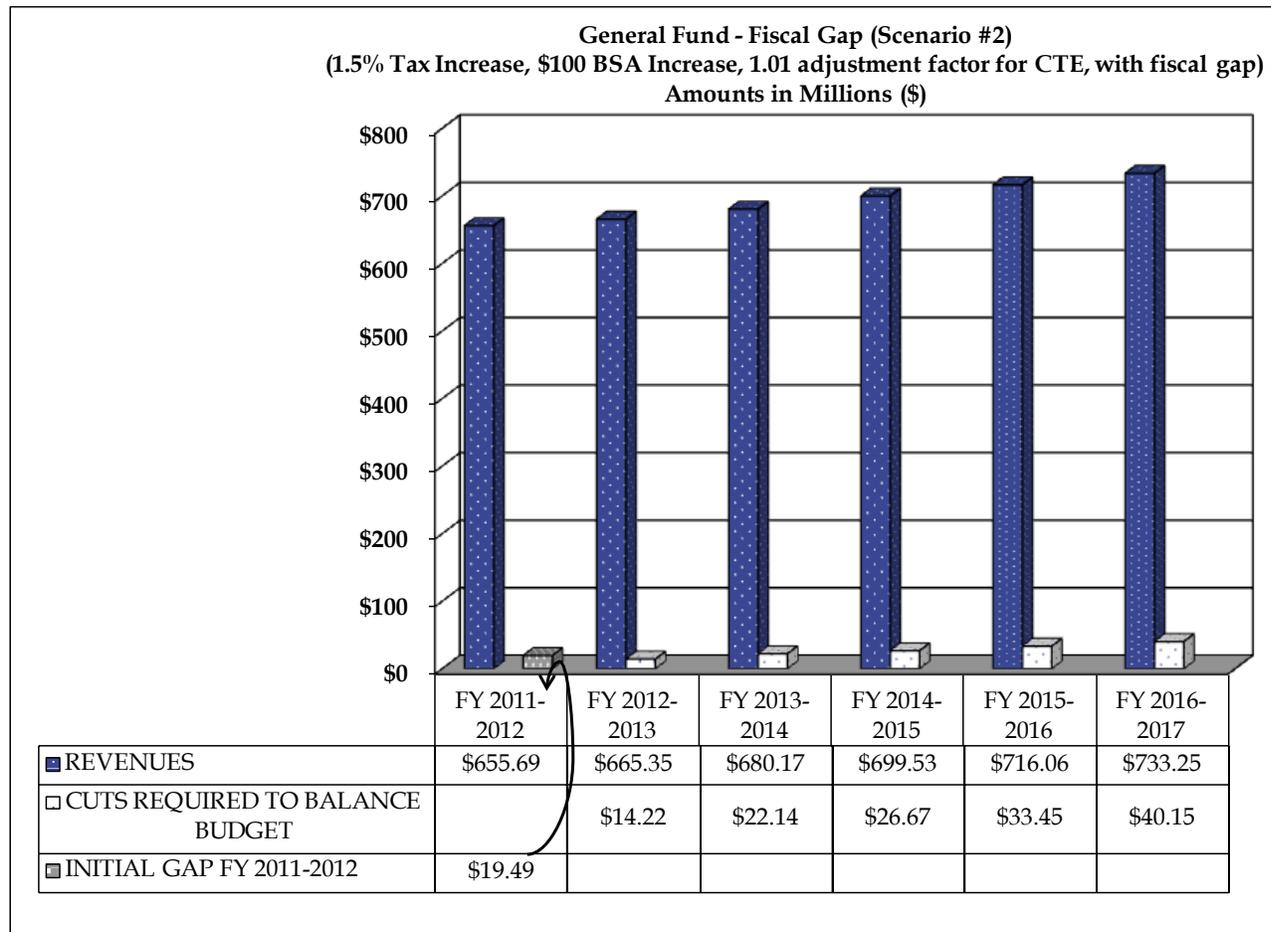
Expenditure Assumptions

- Added back 82 teachers in FY 2012-2013 supported by one-year funding from the Federal Education Jobs Bill in FY 2011-2012
- As an educational human resource industry, personnel costs are the largest category of expenses. The personnel costs include salary and benefits and are assumed to increase based on good faith bargaining negotiations
- Purchased services, supplies and materials, capital outlay and other expenses assume a 2-3 percent CIP adjustment

Again, it is recognized that the budget gap is substantial and will require a combination of increasing revenues pending approval by governing authorities and decreasing expenditures in order to achieve a balanced budget each year.

SIX-YEAR PROJECTIONS - GENERAL FUND FISCAL GAP (SCENARIO #2) (a) (b)						
Amounts in Millions (\$)						
	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017
REVENUES						
Property Taxes (a)	\$196.31	\$199.25	\$202.24	\$205.58	\$208.35	\$211.48
Other Local	7.20	7.35	7.49	7.65	7.80	7.94
Fund Balance	5.20	0.00	0.00	0.00	0.00	0.00
State (b)	337.84	338.25	345.26	355.60	364.10	372.94
State Incremental Retirement	88.34	93.65	97.58	101.75	105.81	110.04
Federal	20.80	26.85	27.60	28.95	30.00	30.85
TOTAL	\$655.69	\$665.35	\$680.17	\$699.53	\$716.06	\$733.25
EXPENDITURES						
Personnel Costs	\$579.91	\$605.67	\$626.84	\$649.12	\$670.79	\$693.06
Contr./Supp./Equip./Other	75.78	73.90	75.47	77.08	78.72	80.34
Cuts Required To Balance Budget	0.00 (d)	(14.22)	(22.14)	(26.67)	(33.45)	(40.15)
TOTAL	\$655.69	\$665.35	\$680.17	\$699.53	\$716.06	\$733.25
Change from prior year		1.47%	2.23%	2.85%	2.36%	2.40%

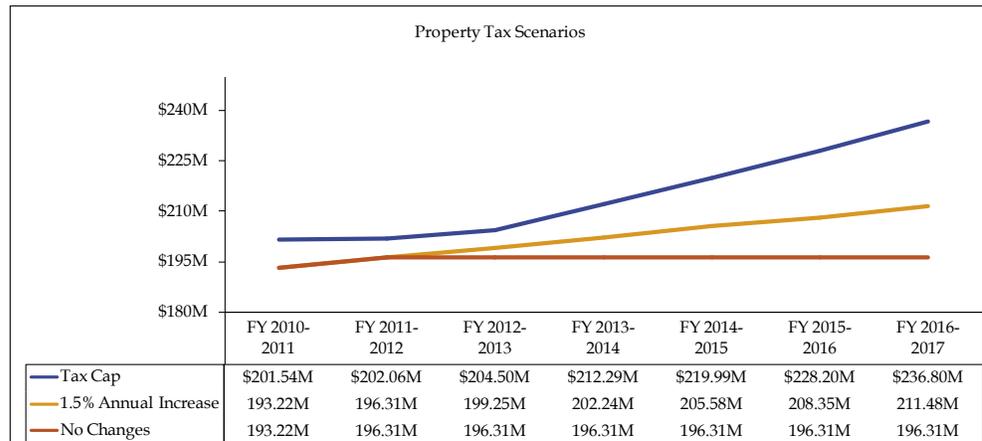
Estimated Amount and Possible FTE Reduction Necessary to Balance Budget Based on FY 2011-2012 Service Level						
	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017
CUTS REQUIRED TO BALANCE BUDGET	(\$19.49) (d)	(\$14.22)	(\$22.14)	(\$26.67)	(\$33.45)	(\$40.15)
EXAMPLE OF CUTS TO BALANCE BUDGET WITH FTE (c)	103 (d)	150 - 200	225 - 325	275 - 400	350 - 500	400 - 500
(a) Property Tax increase at 1.5% for FY 2012-2013 through FY 2016-2017						
(b) Alaska Public School Funding Program FY 2012-2013 through FY 2016-2017 - \$100 increase to Base Student Allocation (BSA) and an adjustment factor of 1.01 in the state funding formula for CTE						
(c) FTE - Full time equivalent positions						
(d) FY 2011-2012 Initial \$19.49M gap reduced as a result of School Board action: Jobs Bill, use of fund balance, and expenditure reductions identified in ASD Memo #219 (2010-2011).						



Continuation Service Level Funding - Revenues to Eliminate the Fiscal Gap

Property Taxes

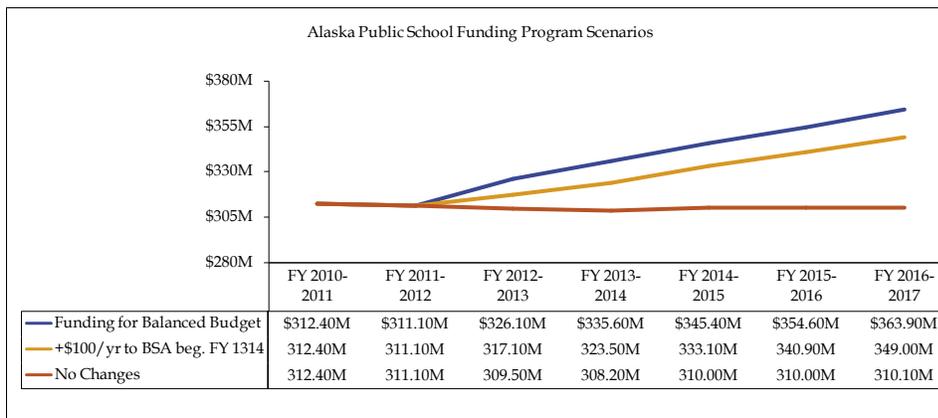
Even if property taxes are increased 1.5 percent every year, as shown in the MOA



administration’s six-year plan, the district would still have to make cuts to balance the budget in future years. If property taxes were raised “to the cap,” substantially more funds would be available each year for education.

Taxing to the cap would allow the local contribution to grow equivalently at the same level of growth within the municipality.

State Funding – Alaska Public School Funding Program



This chart shows how the Alaska Public School Funding Program revenue is projected using various assumptions. The

BSA is currently set at \$5,680 in statute. If in addition to taxing “to the cap” locally as suggested above, and the BSA were also raised in the following amounts, General Fund programs and personnel cuts would be avoided: \$118 in FY 2012-13, \$156 in FY 2013-14, \$154 in FY 2014-15, \$168 in FY 2015-16, and \$180 in FY 2016-17.

Specifics for FY 2011-2012 Financial Plan

With the completion of the FY 2011-2012 adopted financial plan, there are more specifics available regarding the first year of the six-year financial plan. The major components to the first year of the six-year plan are summarized below along with details of the budgeting process that occurred.

The district's projected shortfalls contained within this six-year financial projections are caused primarily by compensation provisions for employee contracts, benefits and payroll tax adjustments, adding back of 82 teachers (transferred to the one-year Federal Jobs Bill for FY 2011-2012), supplies and other general cost of living increases. Some of these shortfalls were offset by increased state funding; \$3.6 million for increased CTE (Career Technology Education) opportunities for students and \$6.1 million for supplemental state aid for education.

The district conducted three public dialogue sessions and one student session in early December 2010 to engage the community and students in the budget process. These conversations with the community and students gave the district the opportunity to solicit the opinion of the community as a whole, and where feasible, to build these preferences into the program evaluation process. The district's final budget balancing decisions incorporated the information gained from the value-based budget process and public dialogue sessions to assist the administration in determining which reductions would have the least impact on student outcomes.

In addition to the public dialogues, the district continually solicits public input through its website, e-mails and testimony at board meetings. A recurring topic that has been cited by the public is the use of outsourcing for maintenance functions to reduce cost. As this topic seems to be critical to the public, the district is implementing a pilot snow removal program in FY 2011-2012 at six schools in east Anchorage to determine the cost savings and level of service provided and thus the potential feasibility for further

outsourcing. For FY 2011-2012 the district is adding an Energy Conservation Manager to manage the expansion and operation of the district's energy conservation initiative from its current coverage of 36 schools to a district-wide rollout, resulting in an estimated 10 percent reduction in utilities costs. This added position will be entirely funded by the reduction of utilities costs.

During the past few months the administration prepared the FY 2011-2012 Revised Financial Plan. The closing of the district's budget gap and difficult decisions pertaining to the programs which were funded in the ARRA grant were assisted by the use of data gained from the new value based budget process which began this year. The budget gap was in no way related to programs initiated and funded by ARRA funds but remains strictly due to inflationary increases.

The new budget process has enabled the administration to reassess its existing programs and workload while undertaking reorganization within departments to gain efficiencies. By implementing these changes, the district has been able to achieve a balanced budget while minimizing the effect on its most effective programs and student outcomes as compared to the results of flat percentage reductions across all programs.

School Board approved FY 2011-2012 Financial Plan February 3, 2011 and revised it June 27, 2011.

[\(see board memos # 219 and # 354\)](#)

Legislative Session

The first session of the 27th Alaska State Legislature commenced January 18, 2011. Two bills were approved during the special session that followed that will significantly affect the Anchorage School District during the 2011-2012 school year. Senate Bill 84 (SB84) provides ongoing funding for career and technology education. This funding comes through a 1.01% adjustment to the BSA and the state funding formula. The \$100 BSA increases each year FY 2011-2012 through FY 2013-2014, included in SB84 were not

passed; the BSA will remain at \$5,680 for the foreseeable future. However, House Bill 108 (HB108) provides one-time funding as state supplemental aid for education for FY2011-2012.

Ongoing Uncertainty

Due to the number of variables contained within the projections and the district's limited ability to raise additional revenues, there can be no certainty regarding the future financial challenges the district faces. The only aspect of the projected budget shortfall which the district has direct control over is the portion of expenditures that are not required by law (e.g. special education in excess of federal mandates, sports, etc.). Despite this fact, without guidance as to the future revenues, any projection will be of limited value. Without forward funding guidance by the municipality and state (the district's two largest revenue sources), the projected budget shortfall could change substantially based on future action or funding changes implemented by either entity.

These projections contain the district's best attempt at estimating the future financial outlook and potential shortfall expected through FY 2016-2017. The district will continue its efforts to increase efficiency through its new value based budget process, continual reassessment of current practices and reevaluation of potential cost reduction measures if current attempts demonstrate feasibility (e.g. further outside contracting of snow removal). The district is hopeful that forward funding by the state and municipality will again be initiated to allow more robust and accurate projections and therefore enhance the district's ability to act as a steward of public resources.

Fiscal Plan

The School Board will continue to meet all applicable local, state and federal laws and guidelines set in place for the Anchorage School District. This includes School Board Policy, State Statute, Municipal Charter and federal regulations.

Bringing forward this fiscal plan, the district realizes there is no question the district should continue with value-based budgeting. The information gained through this process will assist with the major changes in the delivery of education that should be made and that will be necessary without an increase in funding. Looking forward the district will continue to explore opportunities to maintain adequate service levels across the district with increasing student outcomes despite fiscal uncertainty.

The district will continue the following strategic actions to achieve a balanced financial plan while fulfilling the mission of “Educating All Students for Success in Life”:

- The district will continue to review all applicable fiscal policies for sound fiscal accountability and will specifically
 - Maintain fund balance to support municipal bond ratings and other legal/financial requirements
 - Continue to present an annual balanced budget by addressing any fiscal gap through reduced expenditures, and/or increased revenues
- The district will continue to develop and implement the value-based budget process to
 - Review and assess all programs, departments and services to increase effectiveness and efficiency
 - Implement program and department evaluations based on available comparable data of similar school districts and governmental entities