Alaska's K-12 Capital Spending

By
Bob Loeffler, Research Professor of Public Policy

Institute of Social and Economic Research
University of Alaska Anchorage
3211 Providence Drive
Anchorage, Alaska 99508

March 24, 2021

UAA Institute of Social and Economic Research
UNIVERSITY of ALASKA ANCHORAGE

Acknowledgements

Bob Loeffler would like to thank Tim Mearig, Facilities Manager with the Alaska Department of Education and Early Development (DEED). Mr. Mearig provided an extraordinary level of knowledge, insight, and internal data to allow the author to make the calculations in this report. The data validity and conclusions in this paper are the responsibility of the author, and do not represent policy or opinions of Mr. Mearig or DEED.

Mr. Loeffler would also like to thank Shelly Willhoite, Chief Budget Analyst with the Alaska Office of Management and Budget for providing information about legislative capital budgets FY 2000 through FY 2020.

Mr. Loeffler holds a position as a research professor of public policy at UAA/ISER. Mr. Loeffler's position and therefore his work on this paper, was funded by a grant to the University of Alaska Foundation from the Council of Alaska Producers. The opinions and conclusions of this paper are those of the author and do not represent those of the Council of Alaska Producers, the University of Alaska, or the Institute of Social and Economic Research.

Alaska's K-12 Capital Spending

Table of Contents

List of Tables

List of Figures

Alaska's K-12 Capital Spending

Executive Summary

School buildings are among a community's most valuable physical assets, especially in Alaska. Maintaining a school building in good condition is important for education and may also be important for the community's self-image. A building's upkeep or deterioration can be a reflection of the surrounding community and can also affect the quality of education that happens inside.

This paper is about one specific portion of education funding: the money Alaska pays to build and to maintain its schools, the structures themselves. It is about K-12 capital spending, primarily by the state and local governments.

The paper discusses spending for municipal schools separately from schools outside our cities and boroughs. Capital spending for city and borough school districts is determined by appropriations by both the Alaska Legislature and local governments, and funding is subject to the discretion of each. Capital spending for Alaska's rural districts is almost exclusively dependent on the legislature with only minor amounts coming from local and federal sources.

According to the Alaska Department of Education and Early Development (DEED), the 2020 replacement value of Alaska's 498 schools is $9.4 billion. Like all buildings, our schools need on-going maintenance, and like all buildings, they also occasionally need major expenditures for replacement, major maintenance, and renovation. These major expenditures are termed "capital projects." This paper is about the funding for major projects to replace, renew, or construct Alaska's schools.

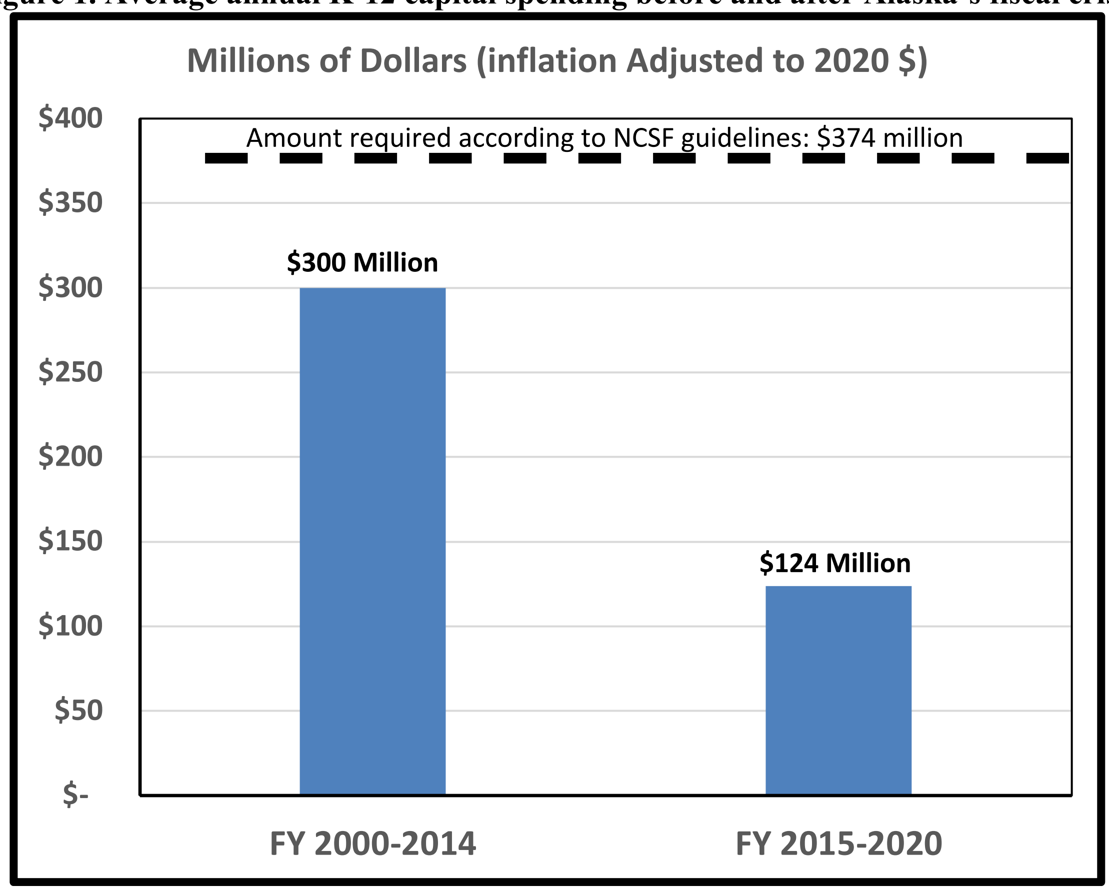
How much should we spend each year? 4% of replacement value or $374 million. A detailed answer to the question of how much is required to adequately maintain Alaska's school facilities would require a detailed facility assessment for each of Alaska's schools. Fortunately, there are some general guidelines. The National Council on School Facilities (NCSF) is a non-profit council with the mission to help states deliver "educationally appropriate public-school facilities that are sustainable and fiscally sound." The Council has established general guidelines which answer this specific question. While they are only guidelines – the needs of Alaska's individual schools may differ from the national average – they provide a useful measure of what Alaska should spend to maintain our schools. The NCSF recommends annual spending equal to 4% of a state's school facilities' current replacement value be spent each year on capital projects. As DEED estimates that the current replacement value of Alaska's schools is $9.4 billion, the NCSF's guideline suggests that Alaska should invest 4%, or $374 million, each year in capital funding to maintain our schools in good condition. According to the National Council's guidelines, Alaska should be spending that much on deferred maintenance; replacing key components which wear out such as roofs, windows, and boilers; and on keeping up with as-needed alterations addressing environmental concerns, code and life-safety issues, and so forth.

How much do we spend each year? From 2000-2020, the average has been $249 million per year. (2020 dollars). Over the last 21 years, from fiscal year 2000 to 2020, Alaska's spending on K-12 capital projects has averaged $249 million per year, adjusted for inflation, or about two-thirds of what the National Council recommends. However, the 21-year average hides variable annual expenditures. Alaska spends more money when it has more money. Specifically, it spends more when government oil revenue is higher.

Alaska's fiscal crisis has significantly altered the amount Alaska spends on K-12 capital projects. The 21-year average includes higher spending before the recent crisis and lower spending afterwards. Figure 1 shows the difference. From FY 2000 to FY 2014, Alaska averaged $300 million, but only $124 million afterwards. This amount represents 80% of the NCSF's recommendation before the budget crisis, and 33% afterwards.

The analysis treats the guideline suggestion of $374 million, which is based on the replacement value of Alaska's school facilities, as if school facilities have been unchanged since 2000. While Alaska's school population as a whole has not changed much since 2000, some districts, especially the Matanuska-Susitna Borough and several districts in Western and Southwestern Alaska, have had to build new schools or significant additions to accommodate an expanding school population. Therefore, the 80% figure slightly overestimates the capital spending on existing schools before 2015. The chart does make the point that since 2015, K-12 capital spending is greatly less than the pre-crisis amount, and greatly less than the recommended amount.

Figure 1. Average annual K-12 capital spending before and after Alaska's fiscal crisis

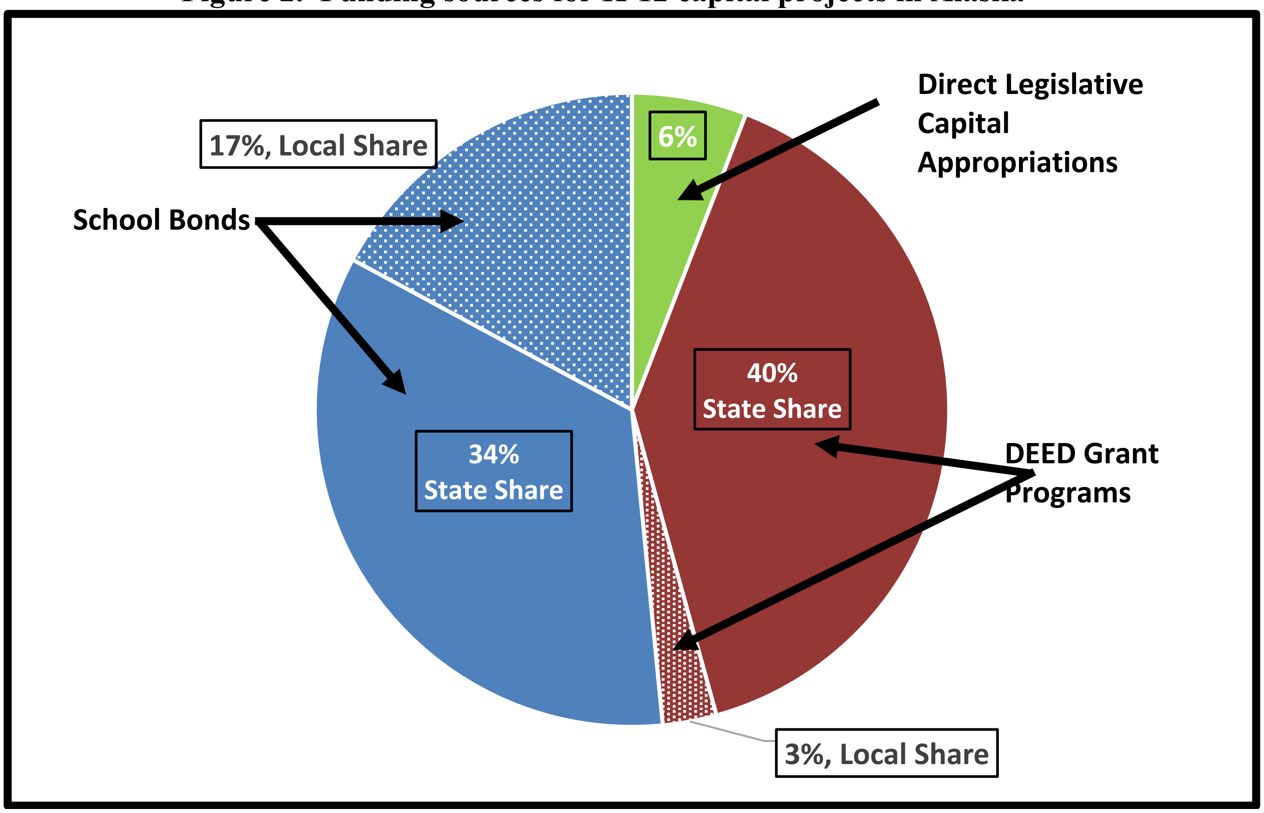


The National Council's guideline is just that – a guideline. It is unlikely to exactly represent Alaska's situation. However, the difference between the guideline and Alaska's current K-12 spending is large. Continued spending at this lower level in the long run will cause the state's school facilities to degrade.

Funding Sources. The budget crisis has affected capital spending differently for Alaska's municipal school districts and for districts outside of local government. These latter districts are called Rural Education Attendance Areas (REAAs). Within municipalities, local government has the ability to use local tax revenues for education capital projects. REAAs include areas outside of local government, and therefore lack taxing authority. Some REAAs include incorporated cities such as Bethel which have taxing authority but have not taken on the responsibility to fund education.

Alaska funds K-12 capital improvements – construction, major maintenance, renovation, and similar large projects – primarily through the sources shown in Figure 2. It documents funding for 21 years, FY 2000 through FY 2020.

Figure 2. Funding sources for K-12 capital projects in Alaska



The largest funding source is school bonds issued by local governments. The local governments issue the bonds, but until 2015, state law provided that most of the annual debt service to repay the bonds was reimbursed by the state through annual legislative appropriations in the operating budget. In Figure 2, the amount reimbursed by the state is shown as the "state share." The amount paid by the local government is shown as the "local share." In 2015, the legislature instituted a moratorium on new municipal bonds being eligible for debt service reimbursement. The legislature's moratorium, originally due to sunset in January of 2021, was amended by the

2020 Legislature to run until 2025. Without the state's debt service reimbursement, the cost to school districts for new school bonds – and therefore new capital projects – has effectively tripled. Since 2015, only Anchorage and North Slope voters have approved new school bonds. In addition, in 2017, 2019, and 2020 some or all of the funds to reimburse municipalities for current debt service obligation for past projects were vetoed by the governor.

The next largest source of funds are capital grant programs administered by DEED. The grant program includes two categories of project type: school construction projects, and major maintenance projects. DEED prioritizes projects for this grant programs annually from applications submitted by school districts statewide, and the legislature appropriates funds for these projects into one or more of three statutory funds: the school construction grant fund, the major maintenance grant fund, and the REAA and small municipal school district fund. When allocating funding, the legislature can also name specific projects from DEED's prioritized lists through the legislative capital budget. In recent years, the legislature has provided some money for DEED to direct to its priority list without having the project named specifically in the capital budget. This is a relatively small amount.

Finally, the legislature appropriates some funds outside of the two DEED programs through the annual capital budget that include specific education-related projects.

While the grant program accepts applications and prioritizes school capital projects in all types of districts – cities, boroughs, and REAAs – the award of grants differentiates between district types. Projects from all districts may receive grants from the school construction and major maintenance grant funds, but only a subset of school districts may receive grants from the REAA and small municipal school district fund. The subset includes all REAA districts and four cities with a small student population and a low ratio of taxable property value to student population.

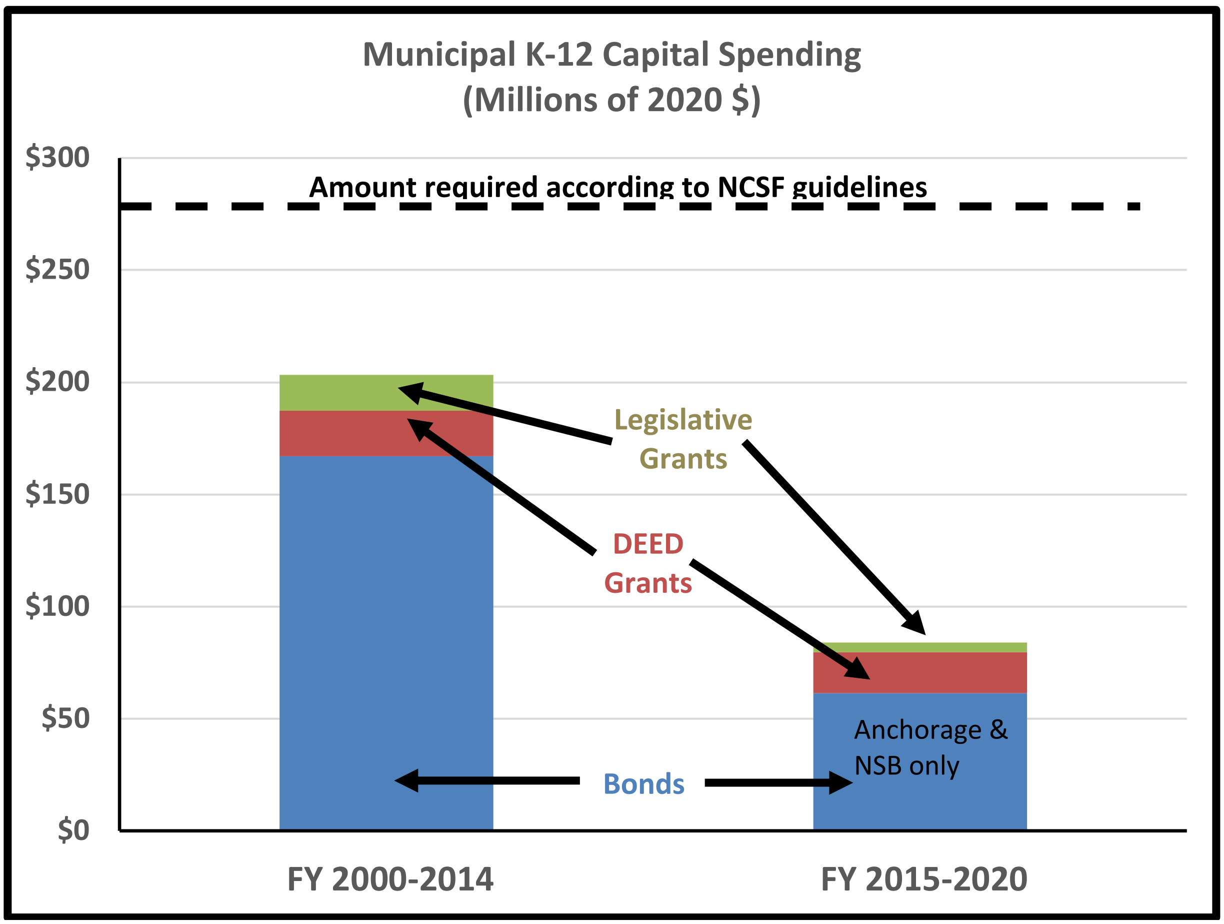
In 2011, the state and plaintiffs representing rural schools signed an agreement, known as the Kasayulie Consent Decree, to resolve long-running litigation about capital funding for rural schools. Part of the issue was that funding for rural schools was a matter of variable annual appropriations while projects in municipal districts received automatic funding through bond reimbursement. The agreement required that the state provide annual capital funding to rural schools equal to 24% of school bond reimbursement, which at the time amounted to approximately $38 million. In, addition, the state agreed to fund $146 million in capital projects for five rural schools in Emmonak, Koliganek, Nightmute, Kwethluk, and Kivalina over and above the typical annual funding. These five schools were funded through the capital budgets between 2011 and 2018.

In 2012, in response to the Kasayulie Decree, the legislature established a DEED grant fund for school districts outside of organized government (which therefore could not issue school bonds) and for those too small to realistically issue bonds. This grant fund is set out in AS 14.11.025: State aid for school construction in regional educational attendance areas and small municipal school districts. The small districts are the four cities with a low ratio of taxable property value to student population.

Effect of the Budget Crisis on Municipal School Districts. The decrease in the state's budget since 2015 has not affected all school districts in the same way. As noted earlier, the state's reimbursement program for new school capital project debt has been eliminated for the past six years and is set to extend for another four years for a total of 10 years: 2015-2025. As Figure 2 showed, this program was responsible for 51% of Alaska's school capital funding: 34% from the state and 17% from local governments. The program was only available to municipalities – cities and boroughs – though only 13 of the eligible 30 municipalities took advantage of the program in the last decade.

The NCSF guidelines indicate that Alaska should be spending $280 million dollars for K-12 capital projects for schools within municipalities. Since the moratorium on reimbursing new school debt began in 2015, Alaska's municipal school districts have approved an average of only $84 million per year on K-12 capital facilities, which is less than a third of the amount recommended by the guidelines. Even more concerning is that $59 million of that $84 million average is due to Anchorage and North Slope Borough bond issues, which were approved by voters after the debt reimbursement moratorium. If the bond approvals from Anchorage and the North Slope are excluded, the remainder of the municipal school districts in the state have spent an average of only $21 million/year. This is far less than is needed to maintain school facilities. See Figure 3.

Figure 3. Average annual K-12 capital spending in municipal school districts before and after Alaska's fiscal crisis

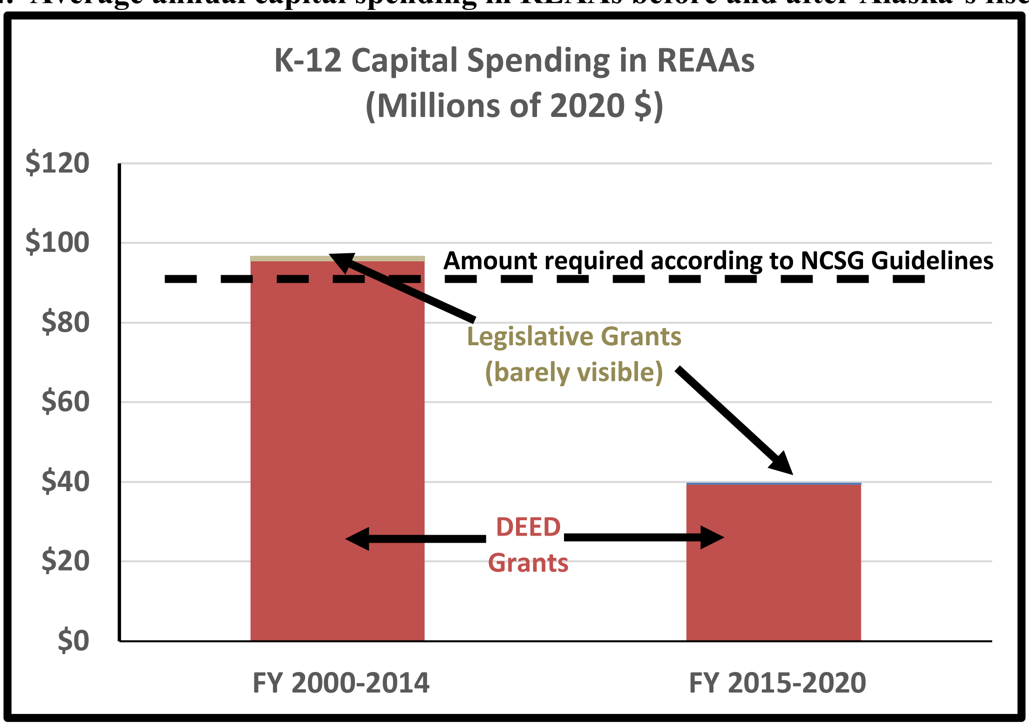


The chart shows the decline in spending since the budget crisis. Since 2015, capital funding for schools within municipal school districts was less than 30% of what the NCSF recommends. The chart shows that the major decline is due to the debt reimbursement moratorium. The decline statewide would have been much more, except for the local, non-reimbursable school bond issues passed by Anchorage and North Slope Borough voters.

Effect of the Budget Crisis on REAA School Districts. Previous figures showed that the moratorium on state reimbursement of new school debt has resulted in a dramatic reduction in school capital spending by municipalities. The decline in spending for REAAs is also significant. Since the REAA funding is tied to expenditures on past debt reimbursement approvals, that grant fund has continued to receive annual deposits based on the relatively high level of state participation in reimbursing pre-moratorium school debt. REAA funding is mandated by the Kasayulie Consent Decree. Over the past nine years of the REAA fund's existence, the Kasayulie Decree has protected it from large legislative budget cuts. However, since the fund is indexed to annual debt reimbursement expenditures, in the years that the debt reimbursement program was partly (FY17, FY20) or entirely (FY21) vetoed by the governor, the REAA fund had a corresponding reduction. NCSF guidelines indicate that Alaska should be spending approximately $90 million per year on schools within REAA. Funding since 2015 has averaged $39.8 million, which is 45% of the that amount. While this funding is less than the NCSF guidelines, the gap is less than for municipal school districts.

K-12 capital spending before and after Alaska's fiscal crisis is provided in Figure 4. However, when interpreting the figure, note that the pre-2015 average, which is greater than the NCSF's recommended guideline, reflects a few years of unusual high expenditures to implement the Kasayulie Decree. These expenditures may be making up for years of lower expenditures and may not be indicative of longer-term previous spending.

Figure 4. Average annual capital spending in REAAs before and after Alaska's fiscal crisis



Conclusion. The current level of capital funding for municipal school districts is not adequate. Without more money our schools will deteriorate. From 2015 through 2020 – after the fiscal crisis – Alaska has averaged only $59 million per year on capital projects for K-12 education, and most of that is being spent by the Anchorage and the North Slope Boroughs. According to NCSF guidelines, Alaska should be spending $220 million more than that amount each year if we are to prevent our schools from deteriorating. This money must come from somewhere: either our communities or the legislature. The easiest method may be to rescind the moratorium for new school bond issues and to recommit to the debt service reimbursement program at some percentage. The only options for adequate investment in our school facilities are to increase grant funding from the state or to force much greater costs to be absorbed by the communities.

For REAAs, the conclusion is similar. Like municipal districts, spending in REAAs also dropped after the sharp drop in revenue available to the legislature and after the significant spending from the Kasayulie Decree. From 2015 to 2020, K-12 spending in REAAs averaged approximately $40 million per year, which is approximately 45% of the recommended level of $90 million per year. For REAAs, which lack the ability to provide local funding, there is only one option: funding must come from the legislature.

I. Introduction

A. What is Capital Spending?

Funding for education includes operating expenditures: teachers' salaries, paying for school buses, buying books, and cleaning hallways, etc. It also includes large expenditures to build or maintain school facilities: building a new school, fixing a roof, or paying for other once-in-a-great while expenses. These large, infrequent expenditures are capital projects.

School districts around Alaska fund the day-to-day maintenance on their buildings from their district's operating budget. Examples of this normal maintenance include fixing a leaking faucet, broken stairs, or a pothole in the driveway. But large tasks, such as a new roof, a major remodel, or a new gym floor usually require capital funding.

One way to understand the definition of a capital project is to think of your family's budget. You may not think of having a personal capital budget, but you may actually budget your spending as if you do. When you buy a car, it may be that you cannot take the car's purchase out of that year's earnings but get a loan instead. This makes the car purchase into a capital project and you pay off the loan over many years. Many activities you do to maintain your house – vacuuming, painting a window, fixing a fence, or replacing the downspout on a gutter – are just maintenance. You take the money out of that year's earnings and do the work. But some work is expensive enough that you save up for it. Even if you do not get a loan, you may know that you are spending accumulated savings for a project that will last many years, such as for a new roof on your house. In addition, a capital project does not need to be only construction or purchase of a thing. When your child goes to college, you may have saved up money for tuition, or maybe the child will take out a loan and pay the college cost over multiple years. The author's daughter just started college, and the family could think of her college tuition as capital spending for our family.

Since 2000, more than 90% of K-12 capital funding appropriated by Alaska's legislature has been spent on buildings. The remaining 10% is approximately evenly split between commodities/equipment, and other items, which is a catch-all category for many unrelated categories. Table 1 provides examples of these projects from legislature's Fiscal Year 2014 capital funding for K-12 Education.

Table 1. Examples of K-12 education projects (FY 2014)

Project Name	District Type	Grant Or Debt	Project Cost
Airport Heights Elementary School Addition and Renovation	Municipal	Debt Reimbursement	$ 22,800,000
Metlakatla Elementary School Renovation	REAA	Grant	$ 14,812,227
Tenakee K-12 School HVAC Controls Renovation	REAA	Grant	$ 32,618
Cantwell K-12 Sprinkler and Fire Alarm Upgrades	Municipal	Grant	$ 881,079
Ticasuk Brown Elem Roof Replace & Exterior Upgrades	Municipal	Debt Reimbursement	$ 3,905,246
GILA Composite Building Roof Renovation	Municipal	Grant	$ 1,073,039
Holy Cross K-12 School Roof Replacement	REAA	Grant	$ 293,748
Kake High School Boiler Replacement	Municipal	Grant	$ 57,054
Homer High School Turf Upgrade	Municipal	Debt Reimbursement	$ 1,991,718
Roof Replacements – 10 schools	Municipal	Debt Reimbursement	$ 20,995,282
Districtwide Energy Upgrades	Municipal	Debt Reimbursement	$ 1,800,000
Nightmute School Renovation/Addition	REAA	Grant	$ 33,638,062
Nenana K-12 ADA Access Improvements	Municipal	Grant	$ 951,353
Nome Beltz Building D Fire Sprinkler Replacement	Municipal	Grant	$ 521,688
Petersburg Elementary School Exterior Wall Renovation	Municipal	Grant	$ 3,075,393
Valdez High School Roof Replacement	Municipal	Grant	$ 1,409,480

The examples in Table 1 are not picked to be statistically representative. The author pulled an example from each community funded in FY 2014. If the projects were representative, all but one or two of the examples would show construction, remodeling, or major repair, which is 90% of the education-related capital projects. What is representative is that there are many smaller projects but a few expensive projects, which include two that are building new school space: the $23 million, first project and the $33 million, twelfth project on the list. Also, this paper focuses on K-12 capital projects, but it also includes in the calculations some capital projects for related activities such as pre-K or Head Start.

B. Who Funds K-12 Capital Projects? Local & State government

Education funding, especially for capital projects, is almost entirely a state and local responsibility. Money to build, remodel, and maintain school-related facilities comes from the state and from municipal sources. There are limited federal dollars for K-12 school facilities. Federal funding for K-12 capital projects in Alaska has been approximately 1% of what the state has spent since 2000. The 1% figure comes from analyzing the state's capital budget from 2000 through 2019. There may be some very amount of federal funds that goes directly to individual school districts, which is not included in the analysis, but that is likely small.

Without federal funds, the responsibility to fund Alaska's K-12 facilities falls on the state and local governments. Local governments are an important funding source. Of course, to have local government funding, one must first have a local government. Large parts of Alaska are sparsely populated and within what is called the unorganized borough. These areas have no local government. Schools within these areas are administered by REAAs. Unlike school districts within cities and boroughs, there is no taxing authority, and no local source of income. REAAs are financially dependent on the state. There are also some communities within REAAs that have limited property to tax. Some of these have incorporated but have not assumed education powers.

Capital projects for REAAs and these small communities are solely dependent on state appropriations. The responsibility for school facilities in Alaska's municipalities is split between the state and the local government. Both the state and local governments have historically paid a portion of the cost to build and maintain Alaska's K-12 school facilities.

C. Data Sources and Accuracy

Most information on capital projects funded through DEED's Debt Service Reimbursement Program and the DEED grant programs comes from the agency. Information from FY 2011 through FY 2020 comes from an informative DEED publication: School Capital Project Funding Under SB 237, A Report to the legislature; February 28, 2020. Information from FY 2000 through FY 2010, and information about the percent of the project paid by local districts for all projects in this study, is taken from a variety of internal spreadsheets maintained and generously provided by DEED.

There are some caveats for the use of this information. With respect to local bond issues, the report treats local bond issues as if the money were spent when DEED approves the project. That is not accurate. Once DEED approves a bond project, the bonds still need to be issued, the project bid out, etc. Spending from these bond issues often trails approval by a few years. Therefore, while the total spending is accurate when viewed over multiple years, the year-to-year totals do not reflect the actual year-to-year spending rate; rather, they reflect the rate at which funds are approved from year-to-year. Also, in some cases the project requires less than the bond amount. In those cases, some money may remain unspent, or more likely it is reappropriated by the school district and DEED to another needed K-12 capital project. That is why some projects are listed in the source documents as having zero cost. The project is not free, but it uses previously approved, reappropriated funds.

This report discusses bond approvals as if the state paid for a portion of the bond. In fact, the state does not pay for the bond issue itself, but instead reimburses the municipality for the annual debt service payment (except for when that appropriation is vetoed, as is also discussed in this report). This is an economist's short-cut, which makes it easier to present the information.

When comparing internal DEED spreadsheets, it became evident that especially in old spreadsheets from before 2005, there is some confusion on dates. Sometimes dates are recorded in fiscal years and sometimes in calendar years. This confusion does not change the overall totals but may change the year-to-year totals, especially before 2005.

Information on legislative capital projects is taken from spreadsheets of annual capital appropriations generously provided by the Alaska Office of Management and Budget.

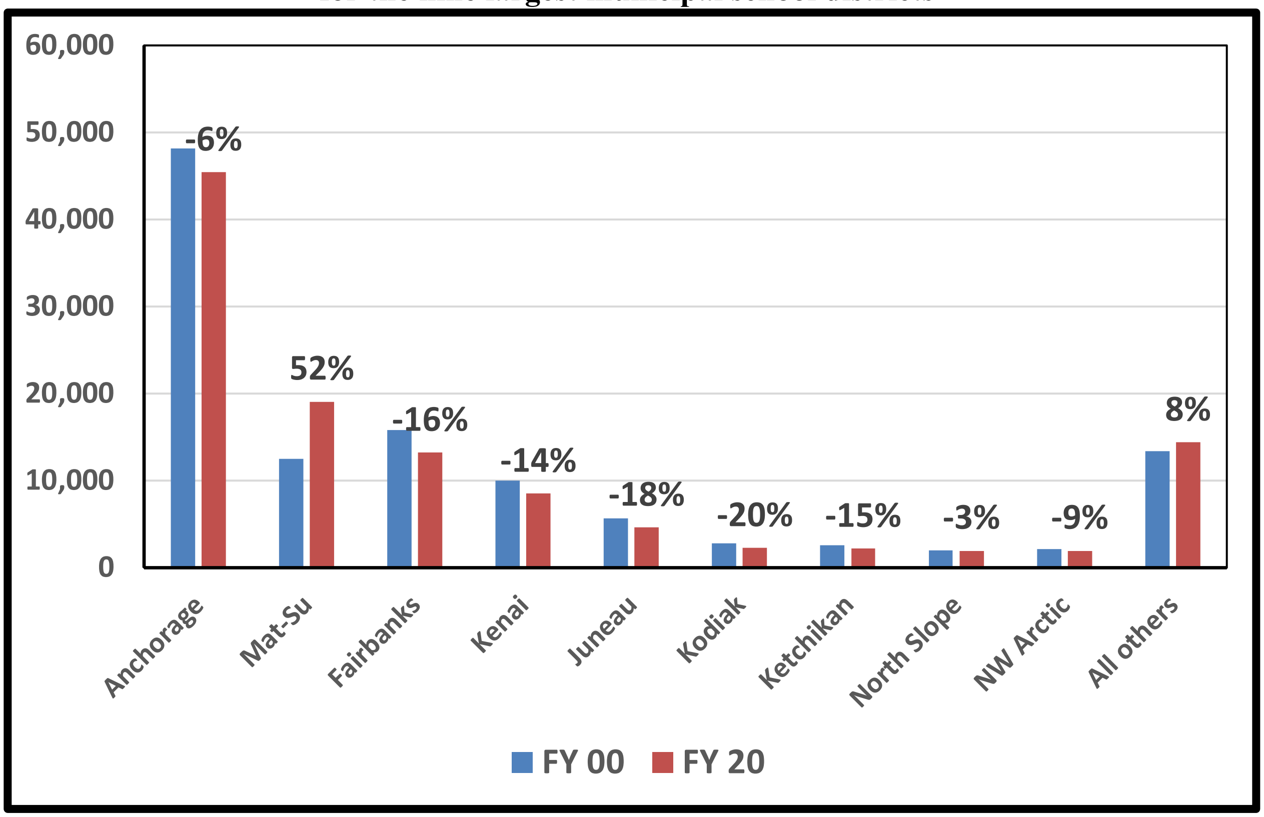
Finally, this report compares historic spending from FY 2000 through FY 2020 with spending recommendations based on the current replacement value of Alaska's school facilities. The report treats the current replacement value as if it has been the same since FY 2000. The differences created by inflation between 2000 and 2020 are accounted for by changing all values to 2020 dollars so they are comparable. To the extent that schools were being built to accommodate increasing enrollment – thus increasing the number of facilities and overall replacement value – the current replacement value over-estimates the replacement value that existed in 2000. However, as is discussed further in this report, Alaska's school districts as a whole have seen decreasing enrollment since 2000. The notable exceptions are the Matanuska-Susitna Borough (52% increase) and, to a lesser extent, the Lower Kuskokwim School District (12% increase). The effect of spending in these two districts when averaged over all districts in the state and over 21 years of spending creates only minor difference in overall replacement value.

II. K-12 Capital Funding for Schools <u>within Municipalities</u>

Alaska has 35 municipal school districts – districts within either a city or a borough. In FY 2020, the 35 districts educated 113,727 students in 359 schools.[1] Of these 35 districts, the four largest districts – Anchorage, Matanuska-Susitna, Fairbanks and Kenai – together educated just more than three-quarters of all of the students in municipal schools.

Overall, school enrollment in Alaska has not been increasing. In total, Municipal school districts have decreased enrollment by approximately 1% between 2000 and 2020, though the decrease does not apply to all districts. Figure 5 shows school district enrollment in 2000 and 2020 for the nine largest municipal school districts. The figure shows that eight of these nine largest districts lost enrollment. The exception is the Matanuska-Susitna School District, which increased enrollment by a large 52%. The figure also shows that the remaining 26 districts, together, slightly increased enrollment, though this figure includes correspondence schools. Without the correspondence schools, most of these districts also lost students.

Figure 5. Enrollment in FY 2000 and FY 2020
for the nine largest municipal school districts



The figure shows that, except for the Matanuska-Susitna Borough, Alaska's municipal school districts did not have to build schools to accommodate increasing students. The Matanuska-Susitna Borough had the opposite problem. It had to build schools to keep up with a quickly growing enrollment.

Funding to maintain the facilities in those districts comes from either local taxes or the state.

[1] DEED website: https://education.alaska.gov/data-center. Website visited January 2020.

The method by which the state funding ultimately gets to the school district can be complicated. There are number of different programs, funded in different ways. It is useful to look at each of these methods separately.

A. Local Government General Obligation Bonds & Debt Service Reimbursement

Local governments often borrow money for large, one-time projects, such as building a school or a major school-maintenance project. A family might do the same. Your family probably takes out a bank loan to pay to build a house, or sometimes even for a major maintenance project such as a remodel.

Local governments borrow by issuing general obligation revenue bonds. Repayment of these bonds is backed by local governments' ability to raise taxes to repay these bonds. Beginning in the 1970s, the state has had a program to reimburse local governments for the annual debt service cost for repaying these school-related bonds. While the legal obligation to repay these grants remains with the municipality, the bonds were issued with the understanding that the state would reimburse most of a municipality's annual repayment cost.

The percentage reimbursement has changed over years. For many years, the state reimbursed 90% of the annual debt service payment required by the bonds. By 2000 it had changed to 70%. The way it worked was that a local government applied to DEED, and once DEED determined that the project met certain criteria, the project would qualify to have the legislature pay for 70% of the annual debt service on the bonds for that project. Each year, the legislature would appropriate the money from the annual operating budget in the amount DEED calculated was needed to reimburse all of the districts for their qualifying debt service payment. The 2002 legislature created an additional category that allowed bond projects which did not meet DEED criteria to qualify for 60% reimbursement. The criteria involve the amount of space needed per student. Districts needing to add space to meet the space-per-student standards qualify for reimbursement at 70%. Districts adding space for other reasons are reimbursed at the 60% rate. Since January 1, 2003, the state has reimbursed local government borrowing for some school capital projects at the 70% rate, others at the 60% rate.

The law's promise of reimbursement lowered the cost that local governments need to repay school bonds. Governments considering an education-related capital project expected that the effective cost to their taxpayers would be reduced by 70% or 60%, depending on the project.

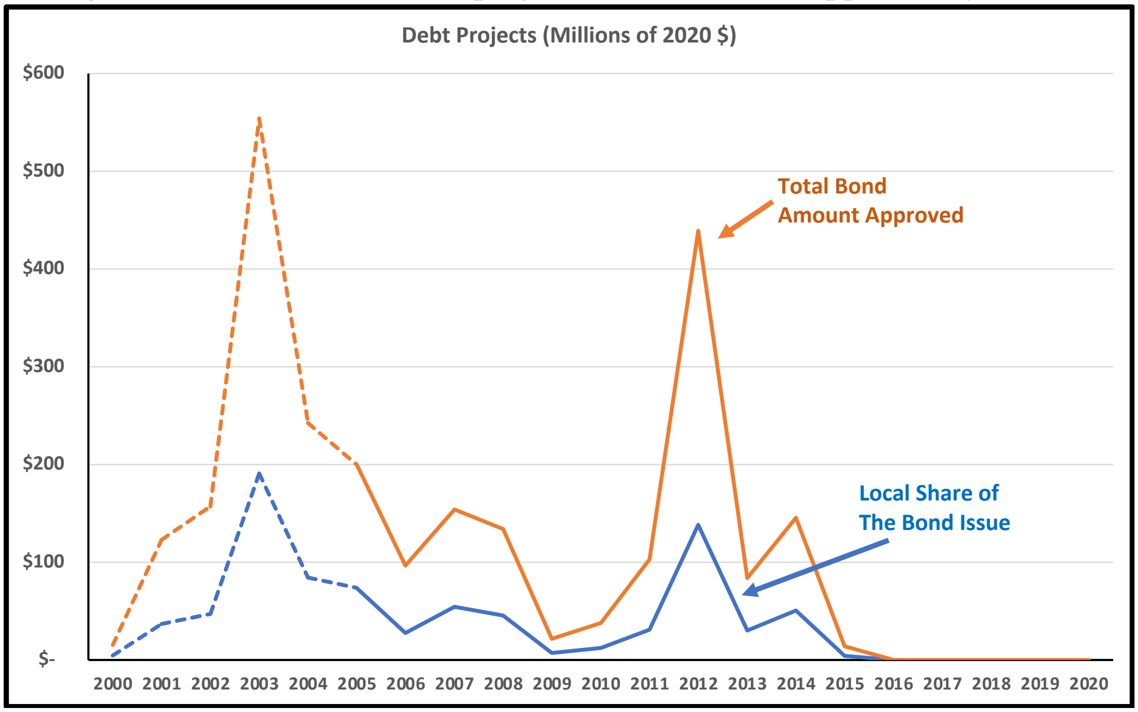
In 2015, as a response to the state's budget issues, the legislature suspended the program for school bonds issued between January 1, 2015 and before July 1, 2020. It also changed the reimbursement rate, to take effect when the program re-opens, from the 70%-60% rate, to 50%-40%. The 2020 legislature extended the end date of this moratorium through July 1, 2025.[2] In addition, in FY 2017, the governor vetoed 25% of the state funds to reimburse municipalities for debt repayment. Therefore, municipalities received only 75% of the expected funding. In FY 2018 and FY 2019, the legislature funded, without veto, the full amount. In FY 2020, the governor vetoed 50% of the reimbursement funding, and in FY 2021, the governor vetoed the full amount of the reimbursement funding.

[2] HB 106; Chapter 6 SLA 20.

According to DEED files, the department has approved $2 billion in local government school bonds since 2000 ($2.5 billion in 2020 dollars). All of these occurred before the 2015 moratorium.

The school-bond debt reimbursement program is funded through the state's operating budget, not its capital budget. The value of school bonds issued by local government varies considerably from year to year. The amount approved by the DEED is provided in Figure 6.

Figure 6. Annual debt service projects reimbursement approved by DEED



The dotted line before 2005 indicates that while the total amount of bonds approved is correct, there may be some projects recorded in calendar year rather than fiscal year, so the year-to-year totals are less accurate.

Figure 6 shows a large year-to-year variation in spending. It shows the total amount approved by DEED, and the local government portion of the amount. Low-funding years included $15 million in FY 2000, $21 million FY 2009, and, of course, nothing after the moratorium took effect halfway through FY 2015. The average annual value of bonds approved for K-12 capital projects for the 15 years including FY 2000 through FY 2014 was $168 million (figures in 2020 $).

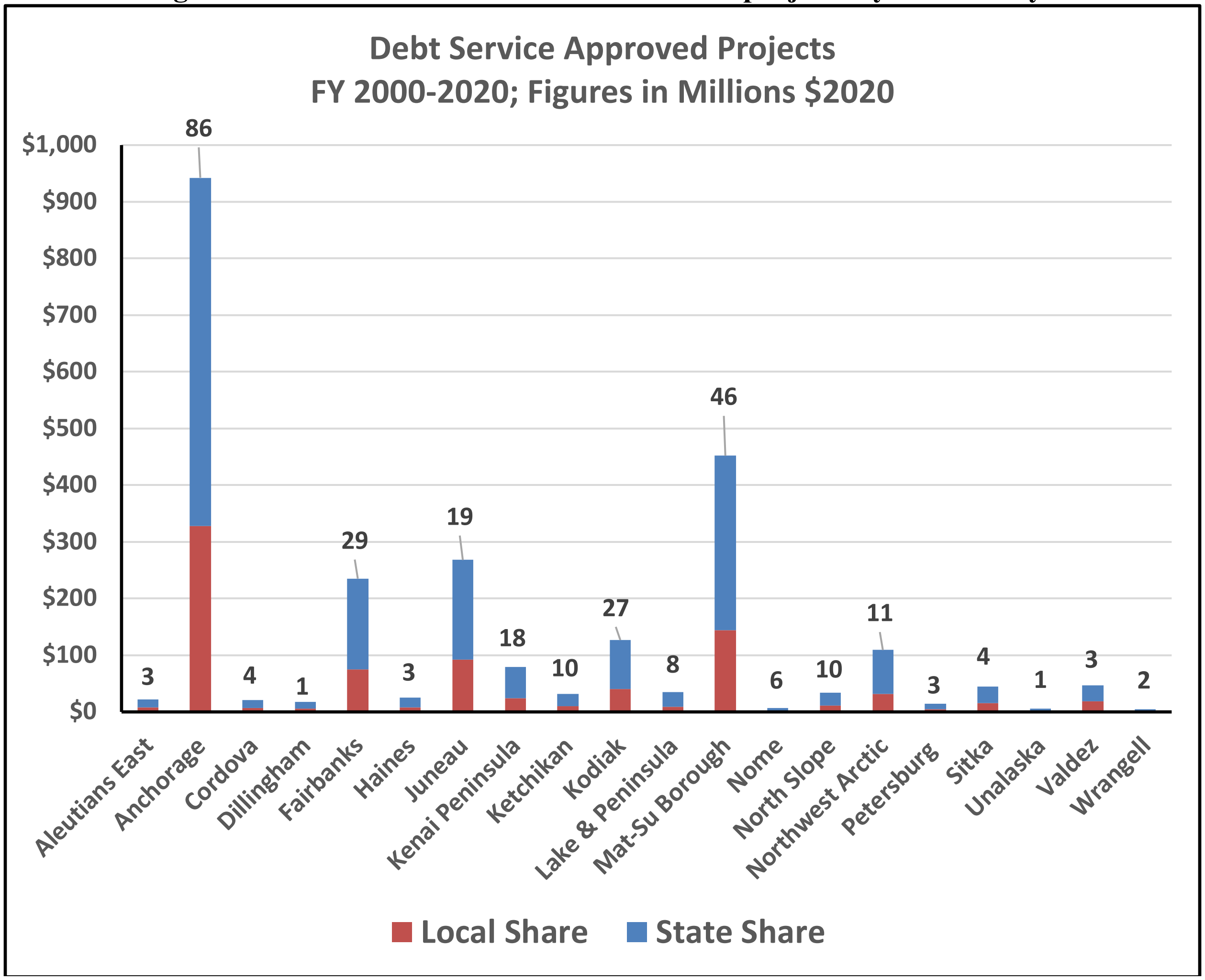
The figures in this section show when debt issuance was approved for reimbursement. Because of the time required to issue bonds, and to plan and build facilities, the money is generally spent a few years following approval.[3] Therefore, actual construction was not as variable as the approval shown in Figure 6, but was likely spread out over the following years. It also means that districts may be still spending money approved before the moratorium was enacted.
In addition, the total construction cost may not equal the total amount of the bonds approved for repayment. Sometimes districts will get a greater amount approved than they ultimately spend.

[3] A few projects were built after 2016. using bond funds that had been approved for another project. Funds were not needed for that project and were re-purposed. These add to only a few million, however.

Nevertheless, the bond approval is a reasonable representation of the money spent, even though the actual spending can occur through the years after approval.

The debt service reimbursement program has been an important part of the methods local government use to finance school-related capital projects. Since 2000, 20 municipalities have used school bond-debt reimbursement, for a total of 294 projects. These include the most populous municipalities – Anchorage, Matanuska-Susitna, and Fairbanks – down to the Lake and Peninsula Borough with a population of 1,600. Figure 7 shows debt service projects approved for each of the 20 municipalities between the beginning of FY 2000 and when the moratorium on new approvals took effect, January 1, 2015.

Figure 7. DEED debt service reimbursement projects by community[4]



The largest four users of this program have been the Anchorage, Matanuska-Susitna Borough, Juneau, and Fairbanks. That is not surprising, given that they have the some of the largest school populations in Alaska. In addition, the number of debt service projects in the Matanuska-Susitna Borough reflects that borough's need to accommodate the large growth in students.

[4] Source: School Capital Project Funding Under SB 237: A Report to the Legislature. February 2020, Appendix B, DEED, and DEED files.

Since the 2015 moratorium on reimbursement of new school bond debt, no bond issues have been approved by the state. Between 2000-2015, all local governments submitted their school bonds to the state because it greatly decreased their cost.

The moratorium on reimbursement of school bonds issued after January 1, 2015 and the successive vetoes of the reimbursement appropriations dealt a double blow to locally funded school capital projects. First, it eliminated the expectation that the state would reimburse the locality for the cost of the project. This effectively tripled the price of the projects to local government, since the state had been promising reimbursement between 60% and 70%. Second, the vetoes have diverted money that might have been spent on debt service for newly issued bonds to pay for previously issued bonds. Of course, after the moratorium, local governments could still issue school bonds, they just will not get them reimbursed by the state. However, only Anchorage and the North Slope borough have done so.[5,6] See Table 2.

Table 2. Anchorage and North Slope Borough school bonds *not* reimbursable by the state

	Current Dollars		
Year	Anchorage	North Slope Borough	Total
2015	$59,250,000		$ 59,250,000
2016		$ 11,825,000	$ 11,825,000
2017	$58,450,000	$ 10,840,000	$ 69,290,000
2018	$50,656,500	$ 13,045,000	$ 63,701,500
2019	$59,113,000	$ 3,735,000	$ 62,848,000
2020	$82,833,000		$ 82,833,000
Total:	$310,302,500	$ 39,445,000	$ 349,747,500

Before the school bond reimbursement moratorium took effect in 2015, the average value of bonds issued was $168 million (2020 $). Since that time, only Anchorage and the North Slope Borough have issued bonds, which has averaged just over $52 million. Other municipalities within Alaska have not borrowed new money to pay for K-12 capital projects.

Also, the legislative reimbursement does not occur when the bonds are approved. Until the vetoes began in 2017, the legislature appropriated the money needed to reimburse the state's share of that year's debt service payments that it had committed to under the law. The amount varied year-by-year depending on the debt service requirements of the bonds issued by local government for projects previously approved by DEED. Until the vetoes, the legislature

[5] All of the smaller municipalities issue school bonds through the Alaska Municipal Bond Bank, which is housed in the Department of Revenue. According to the Bond Bank's Finance Director, no school bonds were issued by the bond bank after the 2015 reimbursement moratorium. Further, he told the author that the only municipalities with issue bonds outside the bond bank are the Anchorage, Matanuska-Susitna, North Slope, and Valdez boroughs. The author of this study called personnel at each of these four boroughs, who confirmed that only the Anchorage and North Slope Boroughs had issued school bonds since 2015.

[6] Anchorage issued bonds in Fiscal Year 2015 as the table shows. The bonds were approved by voters after the January 1, 2015 moratorium took effect and are therefore not subject to state reimbursement. The North Slope Borough also issued bonds in the amount of $10,245,000 in Fiscal Year 2015. However, these bonds were approved before January 1, 2015, and are therefore eligible for state debt service reimbursement. They are included in Figures 6 and 7, but not in Table 2.

approved the amount of funds required. These funds came out of the state's operating budget even though the money was used for local capital projects.

B. Department of Education Statewide Grant Programs

To help maintain facilities in the municipal school districts, DEED administers two statewide grant programs for K-12 Capital Projects for school facilities. These programs provide money for projects both within municipalities and REAAs. It also operates a third grant program solely for REAAs and small districts, which is discussed later in this paper. Unlike the debt service reimbursement program, these are, as the title indicates, grant programs. DEED provides the funds for K-12 construction or major maintenance projects. The money for these projects comes from the Alaska Legislature's capital budget.

One of the grant programs is for new construction, the other is for major maintenance projects. Not surprisingly, they are named:

- School Construction Grant Program
- Major Maintenance Grant Program

School districts submit an application for these programs to DEED. Projects must cost more than $50,000 and be for construction or for major, not routine, maintenance. DEED prioritizes the applications on two lists. Construction projects "add space to existing facilities, improve the instructional program, or correct unsafe conditions that threaten the physical welfare of the occupants." Maintenance projects "protect the structure of an existing school building, correct building code deficiencies of an existing school building, or result in an operational cost savings for an existing school building.[7]"

The legislature funds these projects according to DEED priorities. Until FY 2017, recipients were appropriated individually in the state's capital budget. Since that time, some projects are named in the capital budget, but the legislature has also appropriated capital budget amounts to DEED, which awards the money through its evaluation processes. Finally, since FY 2017, DEED has used unused funds and interest in the grant funds to award projects consistent with its own evaluations. There are more applications than there is funding. The amount distributed in these programs is approximately 15% of the amount requested in applications received from districts.[8]

Like the debt reimbursement program, the grant program also requires a local contribution. The amount required varies from a low of 2% for REAAs, 5% for the smallest cities up to 35% according to complicated statutory criteria. The criteria is related to the per student assessed valuation of property in the municipality. While Anchorage is at 35% in 2020, it was at 30% in 2016. Many communities have qualified for different percentages over the years, in part due to how they qualify, and in part due to statute changes.

Table 3 shows the local percentages required for Alaska's municipal school districts. It uses FY 2020 as an example year. Other years would be slightly different. The table shows that the local share requirement varies from 5% to 35% in FY 2020. In that year the median rate was 30%. All REAAs are required to contribute 2%.

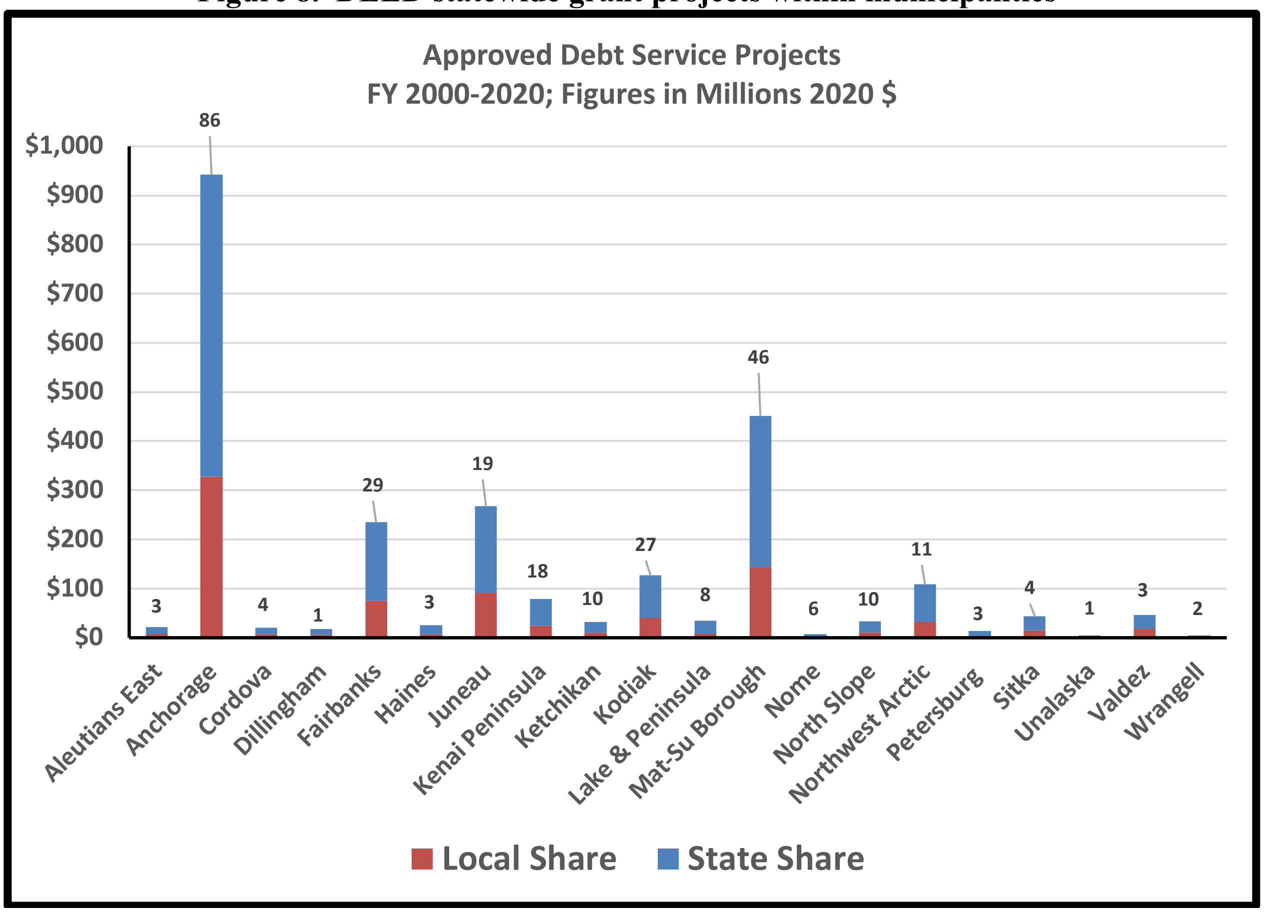
[7] School Capital Project Funding Under SB 237: A Report to the Legislature. DE&ED. February 28, 2020., page 4
[8] School Capital Project Funding Under SB 237: A Report to the Legislature. DE&ED. February 28, 2020., page 6

Table 3. Required local share for grant projects in FY 2020

Required Local Share for Grant Projects in FY 2020	
35% Local Share Aleutians East, Anchorage, Bristol Bay, Cordova City, Fairbanks North Star, Haines, Juneau, Kenai, North Slope, Pelican, Petersburg, Sitka, Skagway, Unalaska, Valdez, Yakatat	**30% Local Share** Dillingham, Hoonah, Ketchikan, Klawock, Kodiak, Lake and Peninsula, Nome, Wrangell
20% Local Share Craig, Kake, Northwest Arctic, Tanana	**10% Local Share** Hydaburg, Saint Mary's
5% Local Share Galena, Nenana	

From 2000 through 2020, the two grant programs distributed $354 million to school districts in 30 municipalities (cities and boroughs) for 150 projects. On average for those 21 years, DEED distributed $16.9 million per year. To receive that money, districts pledged $4.8 million. See Figure 8.

Figure 8. DEED statewide grant projects within municipalities



The figures for the Northwest Arctic Borough in the figure include an unusually large single project: building a new school for Kivalina. This project was required by the Kasayulie Consent Decree. It was a $63 million project, for which the Borough contributed 20% ($12.6 million) and the grant program contributed over $50 million. The next largest municipal recipient for these funds was Anchorage, then the small village of Saint Mary's, then the Matanuska Susitna Borough.

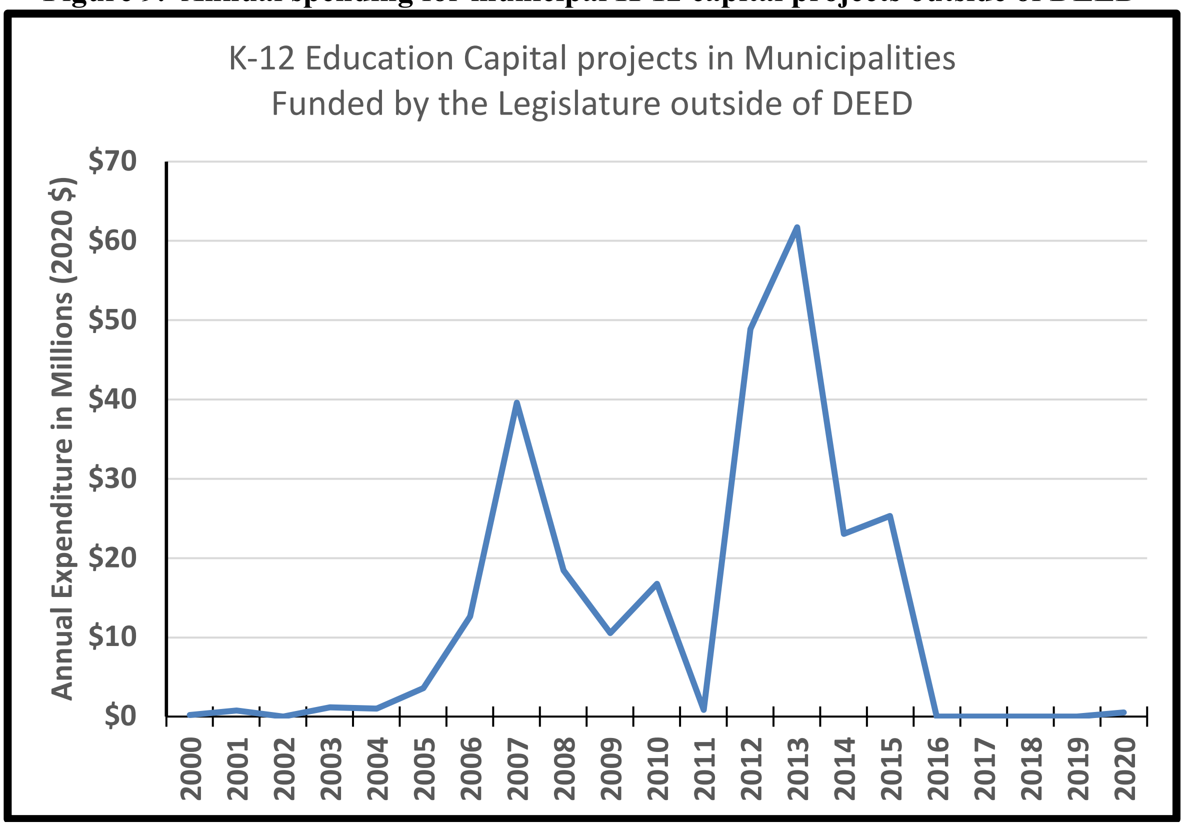
C. State Funding of K-12 Municipal Capital Projects outside of DEED programs

The Alaska Legislature funds the two grant programs discussed above through its annual capital budget. However, it also funds other K-12 Capital Projects in the capital budget. These include K-12 education projects which do not qualify for DEED or which are included separately for some other reason.

The legislature funded 1,286 projects within local governments outside of the DEED process between 2000 and 2020. The projects totaled $265 million over that time, or an average of $12.6 per year (2020 $).

Figure 9 shows that these projects were primarily funded during periods of high oil prices. Only one project of this type has been funded since the oil crash in 2014.

Figure 9. Annual spending for municipal K-12 capital projects outside of DEED



While the expenditures were large in a few years, for most years they were a small part of the overall annual funding total.

D. Other Funding

Some districts may have other sources of capital funding. These could include federal or other non-state grants, local government expenditures not funded through bonds, or other means. While these undoubtedly exist, they are not a large part of the total capital funding picture.

E. Summary

K-12 Education capital projects for schools located within municipalities are funded in three ways: through general obligation bonds issued by the municipality with annual debt service payments mostly reimbursed by the state until recently, by DEED's grant programs, and by appropriations from the legislative capital budget.

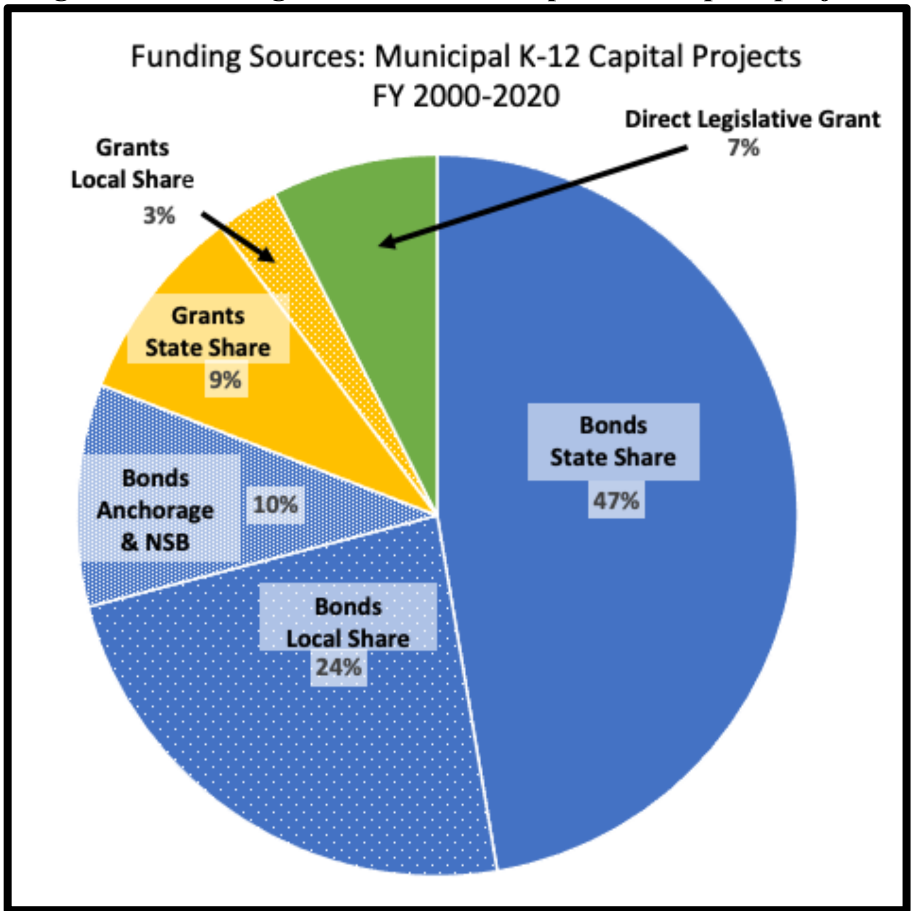
- ***General obligation bonds issued by the municipality***. Until governors' vetoes beginning 2017, between 60% and 70% of the annual repayment obligation was paid by the state, through the state operating budget. The remaining annual repayment was paid by each municipality itself, through its own tax revenues. The debt service reimbursement program is housed within DEED, but there is a moratorium on debt service payments for new projects under this program until 2025.

- ***DEED's statewide grant programs.*** These two grant programs, for construction and major maintenance, fund schools with municipalities and within REAAs.

- ***Legislature Capital Appropriations.*** The legislature appropriates funds for K-12 capital projects outside of the DEED process.

Figure 10 shows the sources of K-12 municipal capital funding for the years of this study.

Figure 10. Funding sources for municipal K-12 capital projects



It shows that from FY 2000 through FY 2020 over 80% of municipal funding for K-12 capital funding comes from local school bonds (including Local Share and State Share). DEED grants have totaled 12%, and a quarter of that amount has come from local municipalities. Finally, other legislative grants from the capital budget account for 7% of spending.

Table 4 on the next page shows annual detail for these programs.[9]

[9] For consistency, expenditures for St. Mary's, which is a small municipality, are not included in Table 4. They are included with the discussion of REAAs.

Table 4. Annual spending on K-12 capital projects within municipalities

K-12 Capital Spending in Municipalities. Figures in Millions of 2020 $										
	Bonds Approved by DEED			Anchorage	DEED Grants to Municipalities					
	State	Local		& NSB	State	Local		Legislative		% Locally
Fiscal Year	Share	Share	Total	Bonds	Share	Share	Total	Appropriations	Total	Funded
2000	$ 10.8	$ 4.6	$ 15.4	-	-	-	-	$ 0.2	$ 15.6	30%
2001	$ 86.1	$ 36.9	$ 122.9	-	$ 3	$ 0	$ 3.4	$ 0.8	$ 127.2	29%
2002	$ 110.0	$ 47.1	$ 157.1	-	$ 7	$ 2	$ 9.0	-	$ 166.1	30%
2003	$ 363.1	$ 190.8	$ 554.0	-	$ 40	$ 11	$ 50.5	$ 1.2	$ 605.6	33%
2004	$ 158.1	$ 84.3	$ 242.4	-	-	-	-	$ 1.0	$ 243.4	35%
2005	$ 126.0	$ 73.8	$ 199.8	-	$ 1	$ 0	$ 1.0	$ 3.5	$ 204.3	36%
2006	$ 68.7	$ 27.7	$ 96.4	-	$ 7	$ 2	$ 9.4	$ 12.7	$ 118.5	25%
2007	$ 99.8	$ 54.4	$ 154.2	-	$ 35	$ 5	$ 40.3	$ 39.6	$ 234.1	25%
2008	$ 88.6	$ 45.3	$ 133.9	-	$ 8	$ 1	$ 9.4	$ 18.5	$ 161.9	29%
2009	$ 14.4	$ 7.2	$ 21.6	-	$ 73	$ 30	$ 103.1	$ 10.5	$ 135.2	27%
2010	$ 25.6	$ 12.1	$ 37.7	-	$ 21	$ 4	$ 25.2	$ 16.7	$ 79.6	21%
2011	$ 72.0	$ 30.9	$ 102.9	-	$ 24	$ 10	$ 34.7	$ 0.8	$ 138.4	30%
2012	$ 301.1	$ 138.2	$ 439.3	-	$ 3	$ 1	$ 4.3	$ 48.9	$ 492.4	28%
2013	$ 53.3	$ 30.4	$ 83.6	-	$ 2	$ 1	$ 3.1	$ 61.7	$ 148.4	21%
2014	$ 95.1	$ 50.6	$ 145.7	-	$ 8	$ 2	$ 10.2	$ 23.0	$ 178.9	30%
2015	$ 9.6	$ 4.3	$ 13.9	$ 62	-	-	-	$ 25.3	$ 101.0	65%
2016	-	-	-	$ 12	$ 52	$ 13	$ 65.5	-	$ 77.8	33%
2017	-	-	-	$ 72	$ 10	$ 6	$ 15.9	-	$ 87.5	88%
2018	-	-	-	$ 64	-	-	-	-	$ 63.9	100%
2019	-	-	-	$ 62	$ 12	$ 6	$ 17.6	-	$ 79.7	85%
2020	-	-		$ 83	$ 7	$ 4	$ 11.3	$ 0.5	$ 94.6	92%
TOTAL:	$ 1,682.3	$ 838.5	$2,520.7	$ 354.5	$ 315.2	$ 98.9	$ 414.1	$ 264.9	$ 3,554.2	36%
Average FY 2000-2014	$ 111.5	$ 55.6	$ 167.1	-	$ 15.6	$ 4.7	$ 20.3	$ 15.9	$ 203.3	29%
Average FY 2015-2020	$ 1.6	$ 0.7	$ 2.3	$ 59.1	$ 13.7	$ 4.7	$ 18.4	$ 4.3	$ 84.1	77%

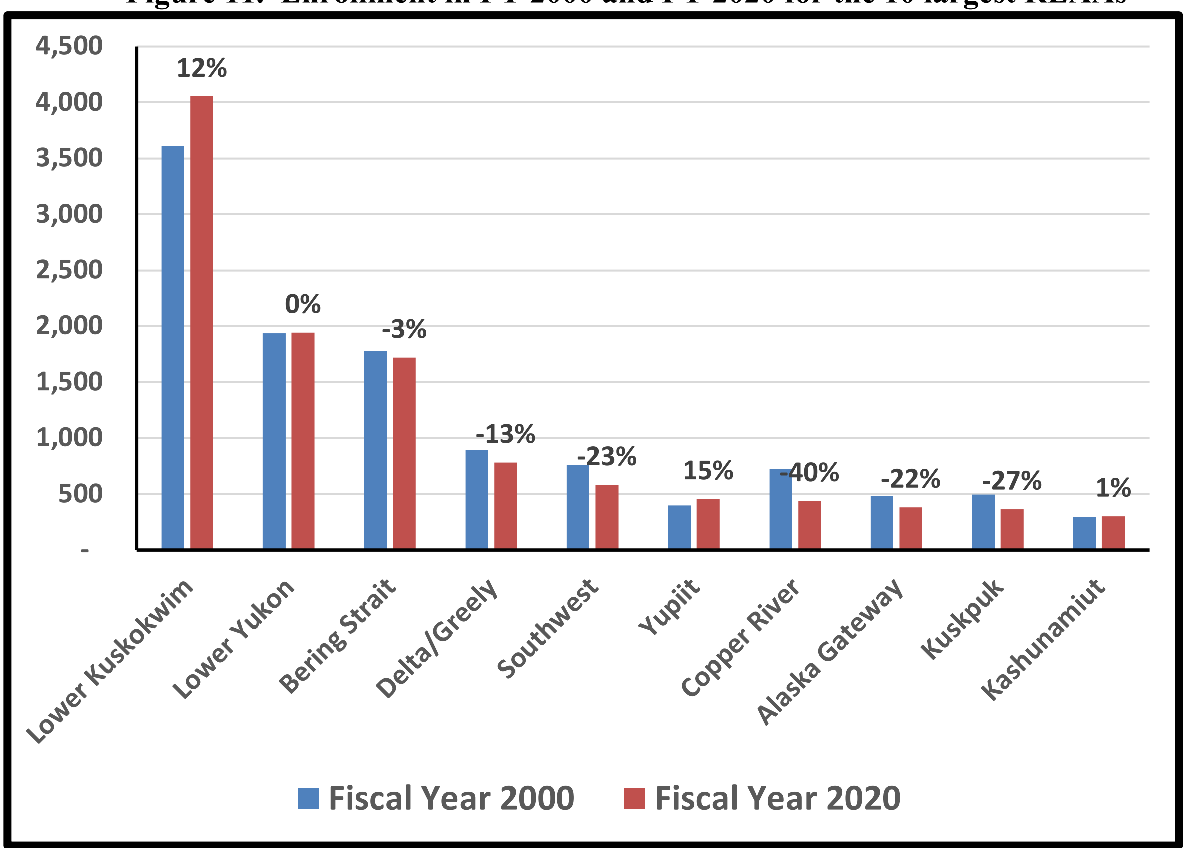
The table shows that in today's dollars, Alaska has spent over $3.5 billion on K-12 capital projects within municipalities since 2000. On average over those years, about one-third has come from municipalities and the remaining two-thirds has come from the state. But the average obscures the significant change which occurred when oil prices collapsed in 2014. Before that time, the local share – including both grants and bonds – was 29%. After that time, it has been 77%. And more than two-thirds of those funds have come from Anchorage and North Slope Borough bonds. The other municipalities have spent or received very little on capital projects.

III. K-12 Capital Funding for Regional Education Attendance Areas

REAAs are located in areas without local government. In a few areas, such as Bethel, the REAA includes a city which has local government but has not taken over authority for education. In any case, the REAA is not backed by government with the ability to issue general obligation bonds. Capital projects in REAAs are dependent completely on state funding. They are funded from three grant sources: DEED's statewide new construction and major maintenance grant program described in the previous section; a targeted DEED grant program titled, "School Aid for School Construction in REAAs and Small Municipal Districts," and direct legislative capital grants.

Alaska has 19 REAAs. In 2020, they educated 14,641 students in 139 schools.[10] That is 11% of the pre-K to 12th grade students educated in Alaska, but 27% of the schools. Overall, total enrollment in REAA schools over the last 20 years has been approximately static, but that total varies by district. Figure 11 shows enrollment in the 10 largest REAA school districts. Note that enrollment is, of course, much smaller than in the larger municipal districts. The Anchorage School District has over 45,000 students; Mat-Su has over 19,000, and the largest REAA, the Lower Kuskokwim School District, has just over 4,000. Most of the 19 REAAs have fewer than 500 students. The figure shows that most REAAs, like the municipal districts, and with the exception of the Lower Kuskokwim School District, have lost enrollment over the last two decades.

Figure 11. Enrollment in FY 2000 and FY 2020 for the 10 largest REAAs



[10] DEED website: https://education.alaska.gov/data-center. Student count is as of October 1, 2019. Website visited November 2020.

While the REAA capital funding occurs through different programs, a minimum amount is set in the Kasayulie Consent Decree of 2011. This decree was the result of a long-running court suit alleging discriminatory capital funding for rural schools. Part of the argument was that urban schools had an automatic funding source in debt service reimbursement, but rural funding was dependent on the will of the Alaska Legislature. The Kasayulie Decree committed the state to funding $146 million by 2015 to build five new schools in Emmonak (Lower Yukon School District), Koliganek (Southwest Region School District), Nightmute (Lower Kuskokwim School District), Kwethluk (Lower Kuskokwim School District), and Kivalina (Northwest Arctic School District – a rural borough school district, not an REAA). It also committed the state to annually funding 24% of school bond reimbursement, which amounts to roughly $38 million each year.

The Kasayulie Decree has made a significant impact on K-12 capital projects in REAAs over the last 10 years.

A. Department of Education Grant Programs

REAAs may submit applications to the two statewide grant programs for new construction and major maintenance. In addition, to implement the Kasayulie Decree, and because REAAs are not eligible for the debt service reimbursement program, the state has a grant program specific to REAAs: School Aid for School Construction in REAAs and Small Municipal Districts. The program includes four small municipalities without the ability to issue bonds: Kake, Hydaburg, Saint Mary's and Tanana. Klawock was included prior to FY 2018.[11]

The state, through its operating budget, provides money, which DEED draws on to fund capital projects for this grant program.

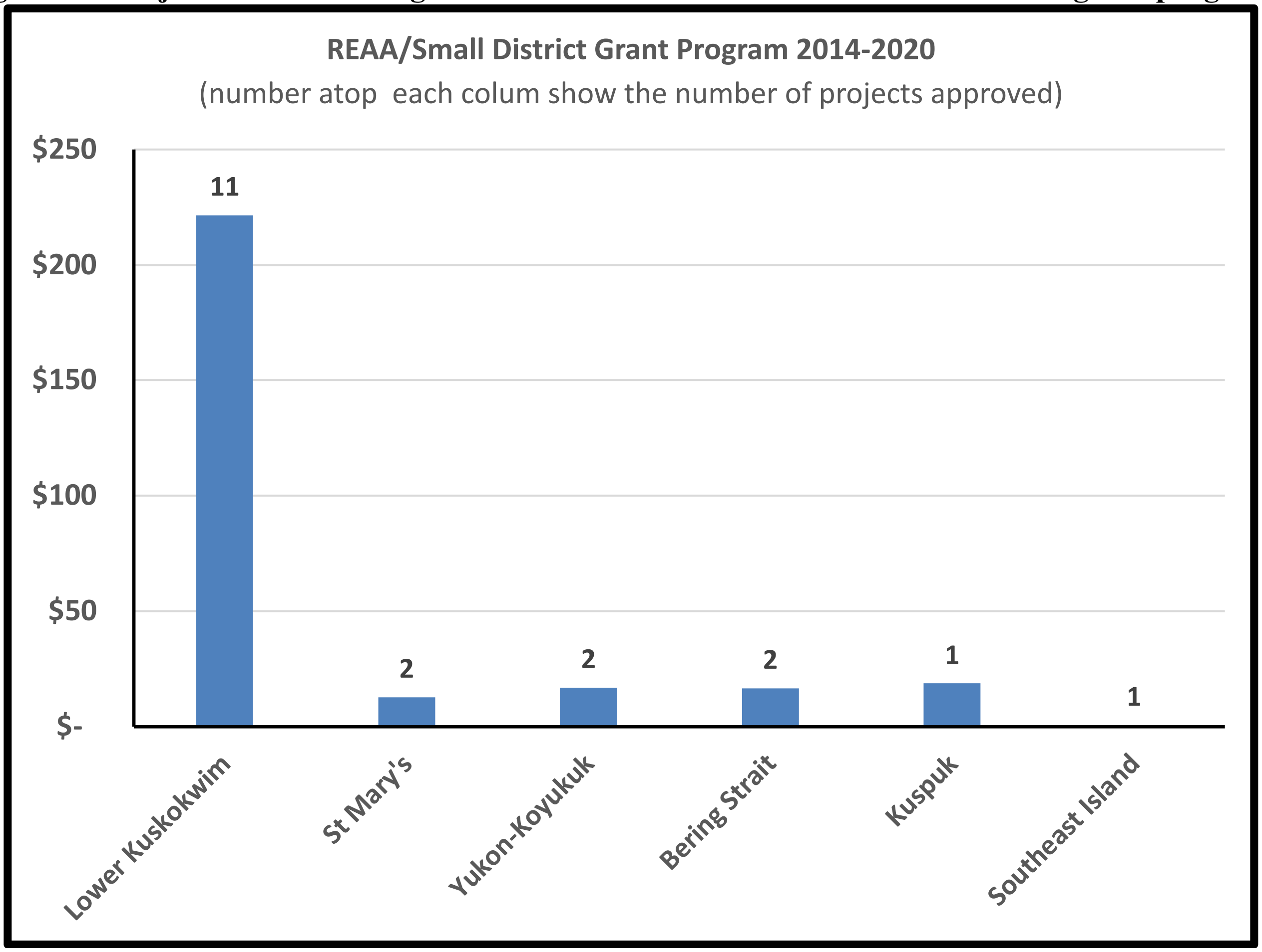
The REAA/small district program was established by the 2012 legislature, and the first disbursement was 2014. Between FY 14 and FY 20, there have been 19 projects funded from the fund for a total of $287 million (2020 $), an average of $41 million per year.[12] Figure 12 shows that 11 of the 19 projects and over three-quarters of the value was spent in the Lower Kuskokwim School District, which is the largest REAA in the state with the most schools.

While there is no local government to provide match money, the REAA is required to provide 2% of the grant out of its annual funding as a match. However, 2% is too small to be separately displayed and so it is not divided out in Figure 12, below.

---

[11] School Capital Project Funding Under SB 237: A Report to the Legislature. DEED, Page 7.
[12] School Capital Project Funding Under SB 237: A Report to the Legislature. DEED, Table 6, Page 9.

Figure 12. Projects funded through the School Aid to REAAs and Small Districts grant program

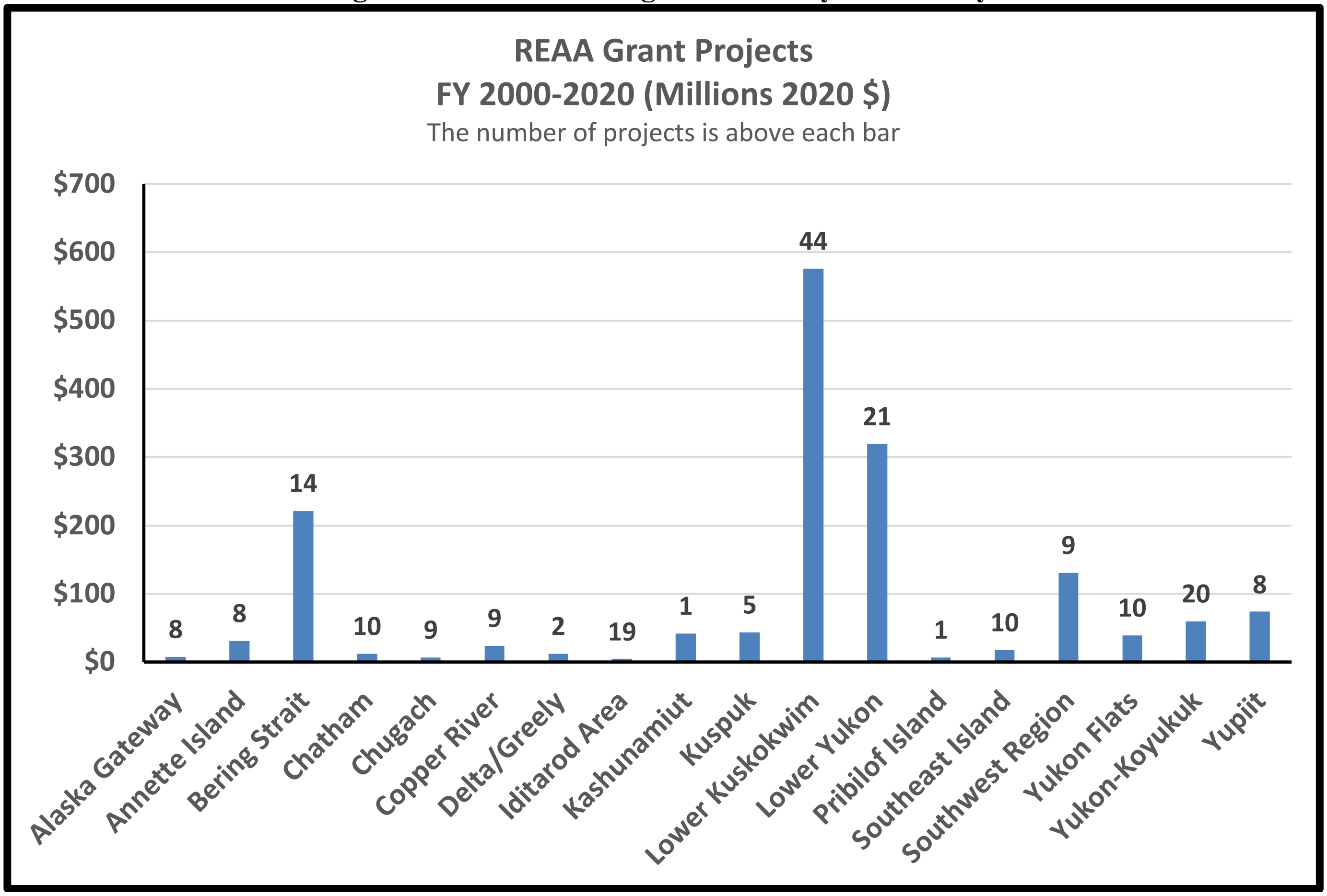


Before the grant program specific for REAAs/small districts was established pursuant to the Kasayulie Decree, education capital projects within REAAs were funded through the statewide grant programs described previously. Figure 13 shows REAA grant funding for the longer period – between FY 2000 and FY 2020. It includes projects funded by the statewide grant programs and those from the REAA/small district specific program provided in Figure 12.

Overall, in the last 21 years, from FY 2000 through FY 2020, the two programs funded 208 projects in REAAs for a total of $1.6 billion, or an average of $77 million per year. (See Figure 13).

This figure shows that the large Lower Kuskokwim School District received $576 million – or approximately one-third of the total amount. Otherwise, funds were distributed throughout Alaska's REAAs.

Figure 13. Grant funding in REAAs by community

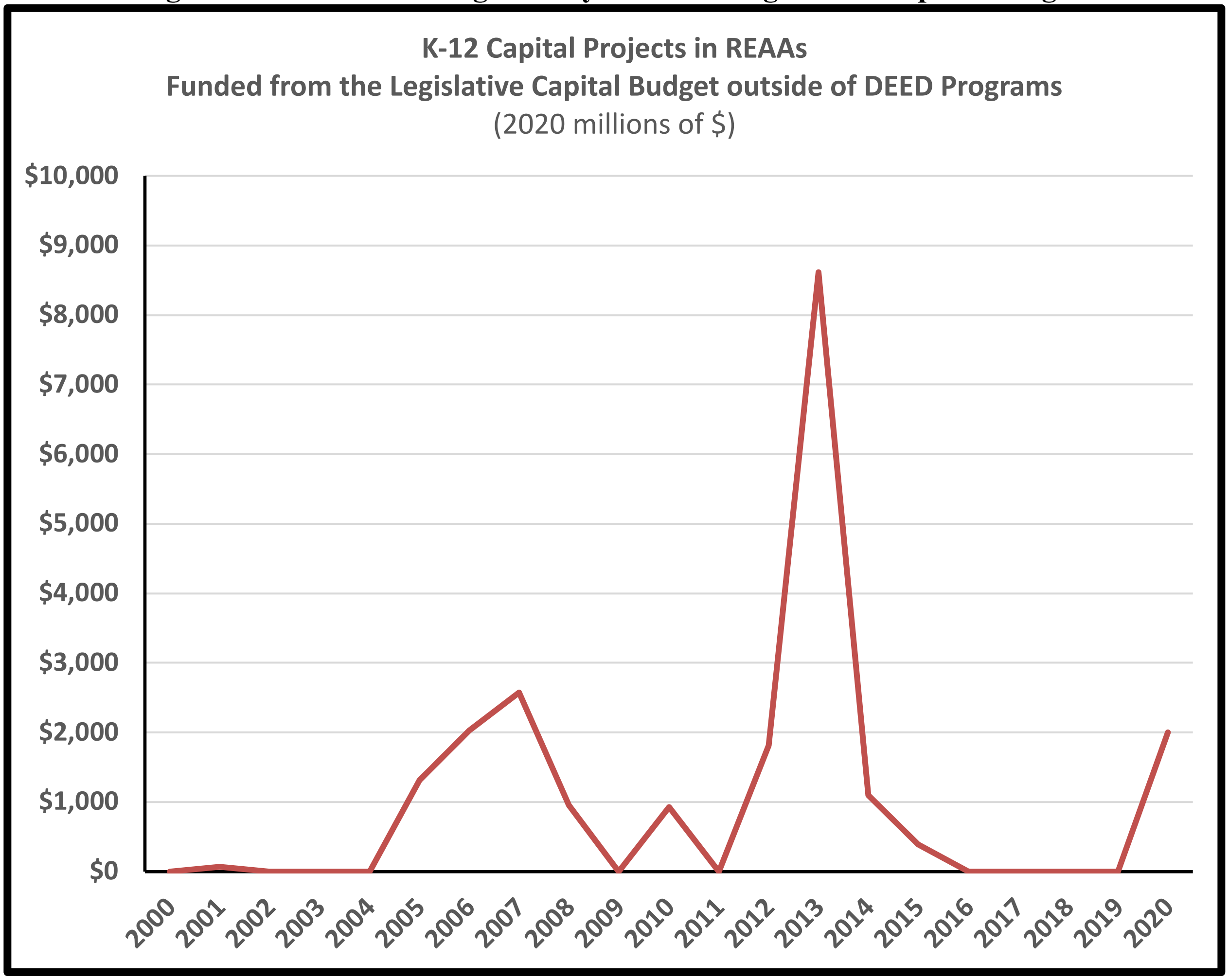


C. State Funding of K-12 REAA Capital Projects Outside of DEED Programs

The legislature's capital budget sometimes includes capital projects for education in REAAs outside of the DEED grant programs. These may be for Head Start or other non-school district functions, for other projects which do not qualify for DEED programs, or for other reasons.

As with municipalities, this funding exists, but it is significantly smaller than the grant funding. For, the 21 years from fiscal years 2000 through 2020, the total funding for REAAs in this category totals only $22 million, or just more than $1 million per year (2020 $). Figure 14 shows the annual funding from the legislature's capital budget in this category. It was highest during the high oil revenue years in 2013. After the oil price decline, it has been relatively low, which also coincides with the requirement to fund projects through DEED grant programs to comply with the Kasayulie Decree.

Figure 14. REAA funding directly from the Legislative Capital Budget



D. Other Funding

As with municipal school districts, some REAAs may have other sources of capital funding other than those discussed above. While these undoubtedly exist, they are not a large part of the total capital funding picture for the REAAs.

E. Summary

REAAs are dependent on state funding for K-12 Education. The funding for capital projects in these districts is set by the Kayasulie Decree and funded through grant mechanisms.

- ***DEED's statewide grant programs.*** These programs, for construction and major maintenance, fund schools within REAAs, as well as within municipalities.

- ***DEED's School Aid for School Construction in REAAs and Small Municipal Districts***

- ***Direct Legislature Capital Appropriations.*** The legislature appropriates funds for K-12 capital projects outside of the DEED process.

For the decade ending in 2020, the amount spent under these three programs is provided in Table 5. The table and the following figure show that $1.7 billion (2020 $) was spent on REAA K-12 capital projects during that time period.

Table 5. Spending on K-12 capital projects within REAAs

Fiscal Year	Deed Statewide Grants	REAA and Small Districts Program	Direct Legislative Appropriations	Total
2000	$ -	$ -	$ -	$ -
2001	$ 131.9	$ -	$ 0.1	$ 132.0
2002	$ 110.6	$ -	$ -	$ 110.6
2003	$ 200.1	$ -	$ -	$ 200.1
2004	$ 1.1	$ -	$ -	$ 1.1
2005	$ 6.9	$ -	$ 1.3	$ 8.2
2006	$ 88.3	$ -	$ 2.0	$ 90.3
2007	$ 104.7	$ -	$ 2.6	$ 107.3
2008	$ 171.2	$ -	$ 1.0	$ 172.1
2009	$ 176.1	$ -	$ -	$ 176.1
2010	$ 29.8	$ -	$ 0.9	$ 30.8
2011	$ 150.9	$ -	$ -	$ 150.9
2012	$ 95.2	$ -	$ 1.8	$ 97.0
2013	$ 83.7	$ -	$ 8.6	$ 92.3
2014	$ 6.9	$ 74.6	$ 1.1	$ 82.6
2015	$ 4.2	$ 42.2	$ 0.4	$ 46.8
2016	$ 2.8	$ -	$ -	$ 2.8
2017	$ 2.7	$ 65.0	$ -	$ 67.7
2018	-	$ 39.9	$ -	$ 39.9
2019	$ 13.2	$ 45.5	$ -	$ 58.7
2020	$ 0.8	$ 20.1	$ 2.0	$ 22.8
Total:	$1,381.0	$287.2	$21.8	$1,690.0
Average FY 2000-2014	$ 90.5	N/A	$ 1.3	$ 96.8
Average FY 2015-2020	$ 3.9	$ 35.4	$ 0.4	$ 39.8

Note: table includes projects in St. Mary's

Three events have significant influence on the funding in the table. First, the Kasayulie Consent Decree in 2011 required an increase in funding of rural districts, and capital projects for specific schools. It also resulted in the REAA/small district grant program first implemented in 2014. However, also in 2014, oil revenue to the state crashed and the legislature was confronted with a large difference between historic spending and available revenue. In addition to the bond moratorium previously described beginning in 2015, the revenue crisis essentially eliminated direct capital budget funding. Note that the REAAs and small districts are required to provide a local grant match of 2% for the DEED grant programs. That amount is not shown separately in the table, which displays the total project cost, including the 2% match.

IV. The Capital Funding Needed to Maintain K-12 Facilities

Below some spending threshold, Alaska's schools will deteriorate. Just like capital projects for your house, if at some point you do not replace the shingles on your roof, paint the house, or replace your furnace, your home will deteriorate. During bad years, when other expenses proliferate – a family illness, a lost job, sending a child to college – your family can put off expensive home projects. But over the long run, if the work isn't done, your home will go downhill.

Schools are no different. Sometimes Alaska has a bad year: either expenses proliferate, or revenues go down. But over the long run, if schools are not maintained, they deteriorate.

How much money is needed, over the long run, to maintain our facilities? With so many facilities, each with different needs, we do not have an exact answer, but fortunately there are guidelines.

The National Council on School Facilities (NCSF) is a non-profit council, of which Alaska is a member, with the mission to help states deliver "educationally appropriate public-school facilities that are sustainable and fiscally sound." The Council publishes guidelines for spending needed to maintain school facilities. While the needs of individual schools and states may differ from these guidelines, they still provide a useful measure of what Alaska needs to spend to maintain our schools. The guidelines base spending on a percentage of the current replacement value of the school facilities. This replacement value is the value that it would cost to rebuild the facility today.

From the National Council[13]:

> The following proposed national standards for school facilities are based on building industry best practice. The percentages refer to the percentage of facilities' current replacement value that should be invested annually to maintain school buildings in good condition. Local conditions will vary. For example, school facilities in very poor condition will need more than 1 percent a year toward their deferred maintenance. But in general, if communities have stable funding at these levels, they should be able to deliver healthy, safe, educationally appropriate, and environmentally sustainable school facilities.

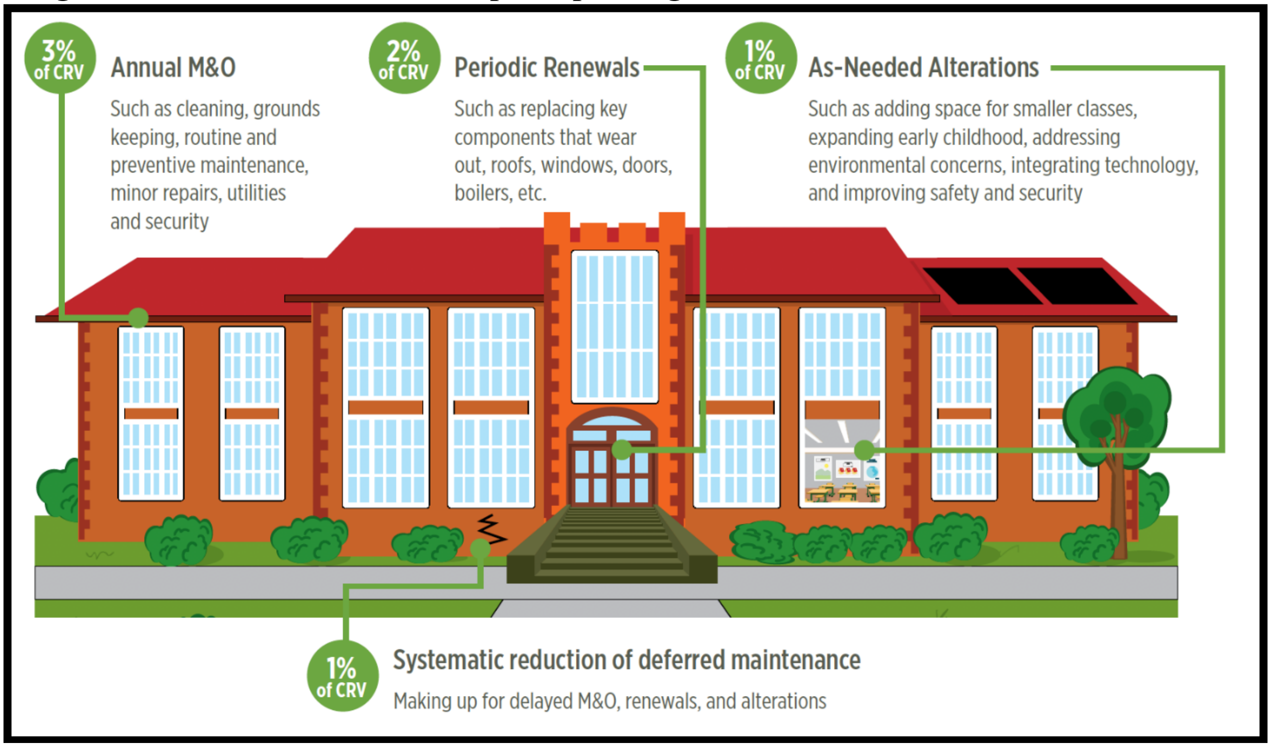
The National Council recommends 4% of a state's school facilities' current replacement value be spent to maintain these facilities. Their breakdown, as provided in Figure 15, is:

- 1% of current replacement value to make up for delayed maintenance and operations, renewals and alterations.
- 1% of current replacement value to make as-needed alternations to keep up with typical required changes: new technology, improved safety, environmental concerns, etc.
- 2% of current replacement value for periodic renewal for key components that wear out: roofs, windows, etc.

[13] The State of Our Schools: America's K-12 Facilities. 2016. Page 22. Prepared by the National Council on School Facilities; 21st Century School Fund; and The Center for Green Schools.

The needs are illustrated in Figure 15, taken from one of the National Council's publications. (This figure also contains a 3% recommendation for annual maintenance and operations, which does not factor into the analysis of capital spending this paper provides.)

Figure 15. Guidelines for K-12 capital spending, National Council on School Facilities[14]



Fortunately, DEED maintains an estimate of the current replacement value of Alaska's school facilities:

Table 6. Current replacement value of Alaska's schools[15]

Current Replacement Value 2020 estimated by DEED		Number of: Students	Schools	Average Value Per Student	Per School
City and Boroughs	$7,111,172,562	113,915	359	$62,425	$19,808,280
REAAs	$2,246,295,964	14,674	139	$153,080	$16,160,403
Total	**$9,357,468,526**	**128,589**	**498**	**$72,770**	**$18,790,097**

Applying the National Council's guidelines, this would require Alaska to spend the amounts listed in Table 7.

[14] Graphic taken from "The State of our Schools: America's K-12 Facilities," 2016. National Council on School Facilities, 21st Century School Fund, and The Center for Green Schools. Page 22.
[15] Current Replacement Value was provided an e-mail from DEED to the author. The number of students and schools is from the DEED website: https://education.alaska.gov/data-center. Student count is as of October 1, 2019. Website visited November 2020. The average value was calculated from that data by the author.

Table 7. Applying the National Council capital spending recommendations to Alaska

Category	Description	National Council Guideline	Municipal School Districts	REAAs	Total
Deferred Maintenance	Making up for delayed M&O*, renewals, and alterations	1% of CRV*	$71.1	$22.5	$93.6
Needed Alterations	as-needed alterations to keep up with typical required changes: new technology, improved safety, environmental concerns, etc.	1% of CRV*	$71.1	$22.5	$93.6
Periodic Renewal	periodic renewal for key components that wear out: roofs, windows, etc.	2% of CRV*	$142.2	$44.9	$187.1
		Total:	**$284.4**	**$89.9**	**$374.3**

*CRV means current replacement value. M&O stands for maintenance and operations.

The table shows that, applying the guidelines of the National Council for School Facilities, Alaska should be spending $284.4 million on capital projects for municipal school districts and $89.9 million for projects in REAAs, for a total of $374 million.

This $374 million recommendation is maintenance-level funding. It does not include funding for new facilities, whether they are new schools for expanding villages, new schools to accommodate growing population in the Matanuska-Susitna Borough: new vocational training facilities, rural boarding schools, etc.

Also, to the extent there is an unusual backlog of funding needs, which may have prompted the Kasayulie litigation, this amount does not take that into account.

V. Comparing Actual to Recommended Spending

The previous sections have discussed K-12 capital expenditures within municipalities and within REAAs. The last section discussed the level of capital funding that guidelines indicate is needed to maintain our facilities. This section compares the level of recommended funding to actual appropriations.

The discussion has listed sources of capital funding for K-12 facilities:

- Municipal Bonds
  - Bonds submitted for the School Bond Debt Reimbursement Program operated by the DEED, before January 1, 2015 (the cut-off date for the moratorium). State funds are appropriated through the legislature's operating budget. Of course, the portion not reimbursed is funded through municipal budgets.
  - Bonds issued by the Anchorage and North Slope boroughs after January 1, 2015, which were not submitted to DEED because of the moratorium. Funded through the Anchorage municipal budget.
- DEED New Construction Grant Program (Legislative capital budget)
- DEED Major Maintenance Grant Program (Legislative capital budget)
- DEED REAA and Small Municipal School District Fund (Legislative operating budget)
- Direct legislative appropriations from the state's capital budget (Legislative capital budget)

The funding from each of these sources over the last decades is provided in Table 8 on the next page for municipal school districts and REAAs.

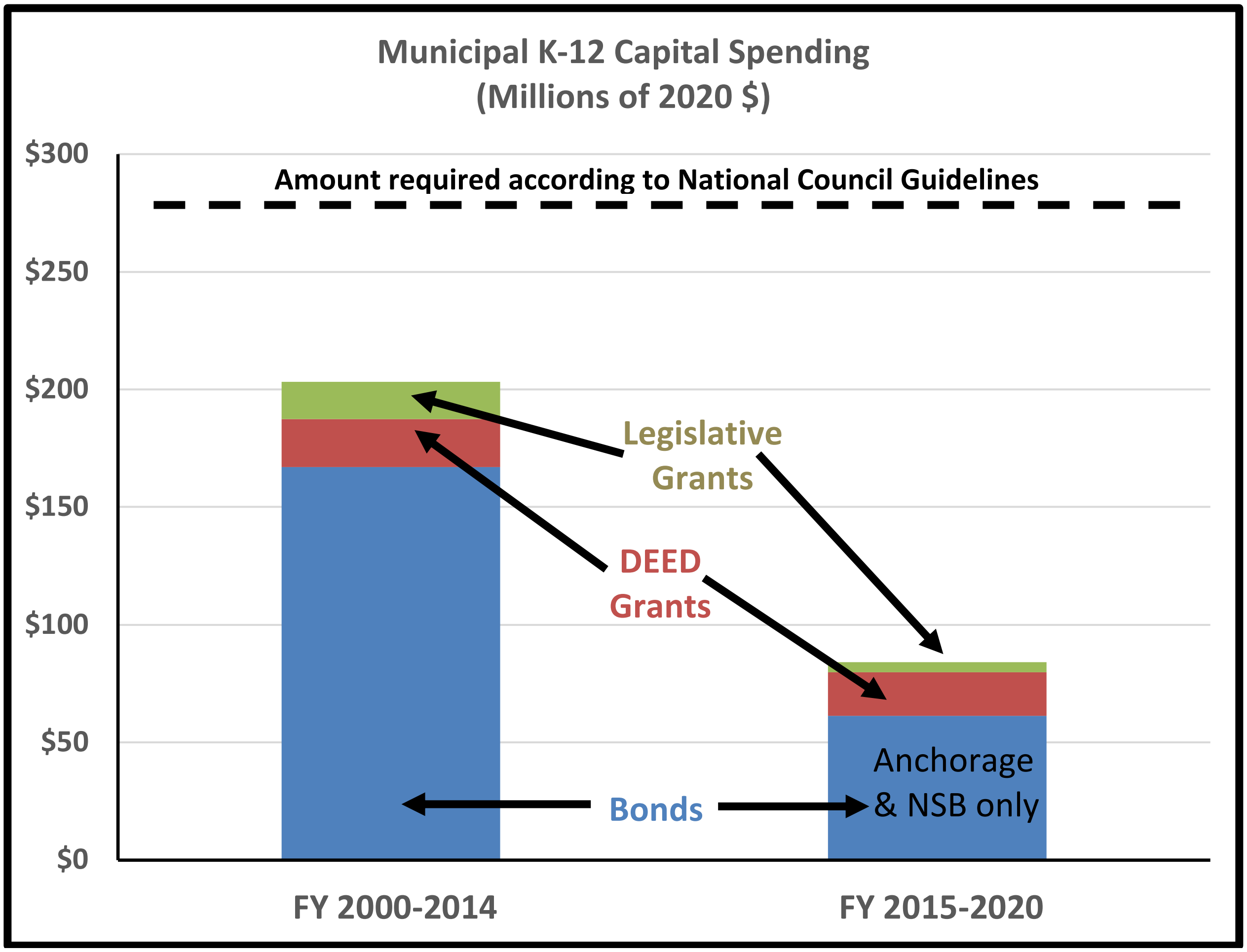
Table 8. Annual funding for K-12 Capital Projects

K-12 Capital Spending FY 2000 - 2020. Figures in Millions of 2020 $											
	Spending in Municipalities						Spending in REAAs				Total All Programs
							DEED Grant Programs				
Fiscal Year	DEED Approved Bond Pjcts	Anchorage & NSB Bonds	DEED Grants	Legislative Grants	Total	% Locally Funded	Statewide	REAA	Legislative Grants	Total	
2000	$ 15.4	$ -	$ -	$ 0.2	$ 15.6	30%	$ -	$ -	$ -	$ -	$ 15.6
2001	$ 122.9	$ -	$ 3.4	$ 0.8	$ 127.2	29%	$ 131.9	$ -	$ 0.1	$ 132.0	$ 259.2
2002	$ 157.1	$ -	$ 9.0	$ -	$ 166.1	30%	$ 110.6	$ -	$ -	$ 110.6	$ 276.7
2003	$ 554.0	$ -	$ 50.5	$ 1.2	$ 605.6	33%	$ 200.1	$ -	$ -	$ 200.1	$ 805.7
2004	$ 242.4	$ -	$ -	$ 1.0	$ 243.4	35%	$ 1.1	$ -	$ -	$ 1.1	$ 244.5
2005	$ 199.8	$ -	$ 1.0	$ 3.5	$ 204.3	36%	$ 6.9	$ -	$ 1.3	$ 8.2	$ 212.6
2006	$ 96.4	$ -	$ 9.4	$ 12.7	$ 118.5	25%	$ 88.3	$ -	$ 2.0	$ 90.3	$ 208.8
2007	$ 154.2	$ -	$ 40.3	$ 39.6	$ 234.1	25%	$ 104.7	$ -	$ 2.6	$ 107.3	$ 341.4
2008	$ 133.9	$ -	$ 9.4	$ 18.5	$ 161.9	29%	$ 171.2	$ -	$ 1.0	$ 172.1	$ 334.0
2009	$ 21.6	$ -	$ 103.1	$ 10.5	$ 135.2	27%	$ 176.1	$ -	$ -	$ 176.1	$ 311.2
2010	$ 37.7	$ -	$ 25.2	$ 16.7	$ 79.6	21%	$ 29.8	$ -	$ 0.9	$ 30.8	$ 110.4
2011	$ 102.9	$ -	$ 34.7	$ 0.8	$ 138.4	30%	$ 150.9	$ -	$ -	$ 150.9	$ 289.3
2012	$ 439.3	$ -	$ 4.3	$ 48.9	$ 492.4	28%	$ 95.2	$ -	$ 1.8	$ 97.0	$ 589.5
2013	$ 83.6	$ -	$ 3.1	$ 61.7	$ 148.4	21%	$ 83.7	$ -	$ 8.6	$ 92.3	$ 240.7
2014	$ 145.7	$ -	$ 10.2	$ 23.0	$ 178.9	30%	$ 6.9	$ 74.6	$ 1.1	$ 82.6	$ 261.5
2015	$ 13.9	$ 62	$ -	$ 25.3	$ 101.0	65%	$ 4.2	$ 42.2	$ 0.4	$ 46.8	$ 147.8
2016	$ -	$ 12	$ 65.5	$ -	$ 77.8	33%	$ 2.8	$ -	$ -	$ 2.8	$ 80.6
2017	$ -	$ 72	$ 15.9	$ -	$ 87.5	88%	$ 2.7	$ 65.0	$ -	$ 67.7	$ 155.2
2018	$ -	$ 64	$ -	$ -	$ 63.9	100%	-	$ 39.9	$ -	$ 39.9	$ 103.7
2019	$ -	$ 62	$ 17.6	$ -	$ 79.7	85%	$ 13.2	$ 45.5	$ -	$ 58.7	$ 138.4
2020	$ -	$ 83	$ 11.3	$ 0.5	$ 94.6	92%	$ 0.8	$ 20.1	$ 2.0	$ 22.8	$ 117.5
TOTAL:	$ 2,520.7	$ 354.5	$ 414.1	$ 264.9	**$ 3,554.2**	36%	$ 1,381.0	$ 287.2	$ 21.8	**$ 1,690.0**	**$ 5,244.2**
Average FY 2000-2014	$ 167.1	$ -	$ 20.3	$ 15.9	**$ 203.3**	29%	$ 90.5	N/A	$ 1.3	**$ 96.8**	**$ 300.1**
Average FY 2015-2020	$ 2.3	$ 59.1	$ 18.4	$ 4.3	**$ 84.1**	77%	$ 3.9	$ 35.4	$ 0.4	**$ 39.8**	**$ 123.9**
Amount needed using guideline of 4% of replacement value:					**$280**					**$90**	**$370**

Municipal School Districts. The table shows that for municipal districts, the amount allocated for the fifteen years from FY 2000 to FY 2014, total spending on K-12 averaged just over $200 million per year, which is roughly three-quarters of the $280 million recommended by the National Council on School Facilities. But after the oil price drop in 2014, spending from all sources also dropped. Over the last six years, spending has only averaged $84 million, which is less than a third of the recommended amount. More troubling is that two-thirds of the amount being spent is being spent only by Anchorage and the North Slope School Districts. The remaining municipalities are spending very little. Spending at this level cannot continue without degrading the quality of Alaska's municipal schools.

The conclusion is illustrated in Figure 16 below.

Figure 16. Average annual capital spending in municipal school districts before and after Alaska's fiscal crisis



Between 2000 and the bond moratorium in 2015, municipal school districts expected to pay 30% or 40% of the repayment of local bond issues, and between 5% and 35% projects costs for DEED grants for major rehabilitation or new construction. In addition, some projects were funded through direct legislative capital appropriations. Including all of these sources, between 2000 and 2015, municipal school districts paid approximately 29% of the cost of capital projects for their educational facilities.

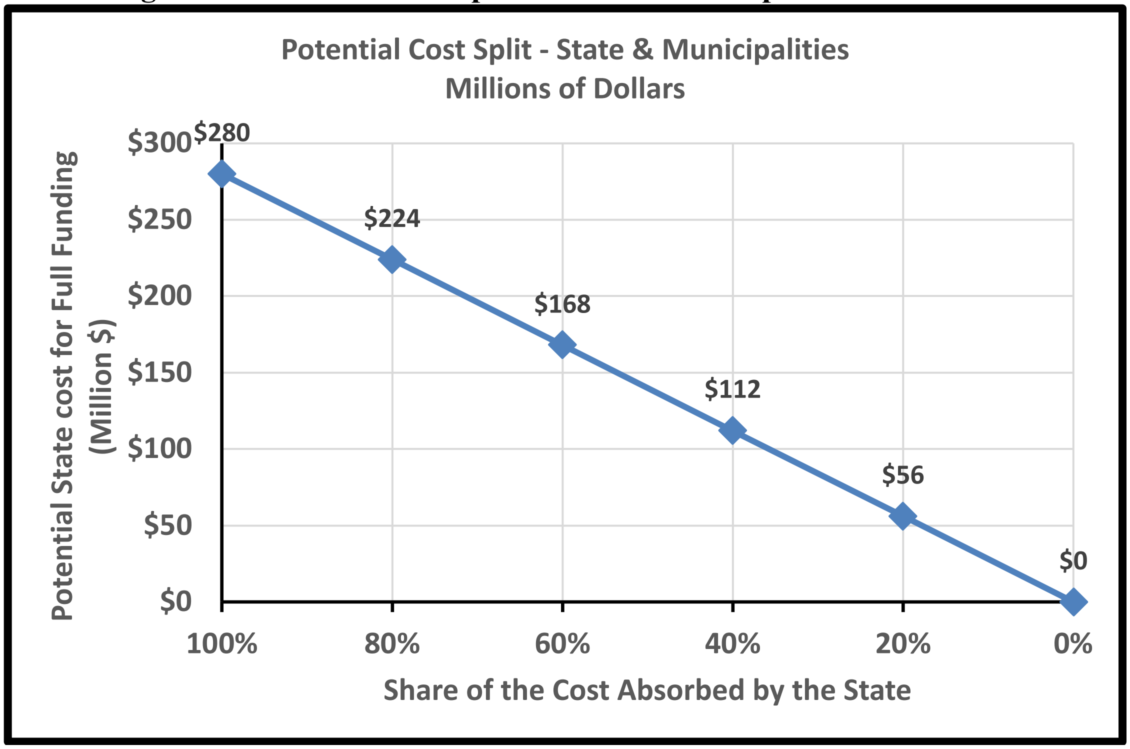
Alaska's revenue crisis changed that arrangement. First, the bond moratorium eliminated the major source of state funding for these projects through at least FY 2025. Second, vetoes of the promised annual debt service payment since then have likely diverted funds from current projects to pay the unexpected cost of previous capital projects. Funding for the DEED statewide grant program has remained roughly constant; the state's share of that program has paid only 9% of total capital cost since 2000. Finally, the budget crisis has dramatically decreased Alaska's legislative capital budget and essentially eliminated funding of educational facilities through the budget.

In total, between FY 2000 and FY 2014, the state paid (or promised to pay through its debt service reimbursement program) $127 million per year to municipal school districts. Since that time, the state's contribution has averaged only $15 million per year. Continued support at this low level is a major change in state policy. It remains to be seen which of Alaska's municipalities can absorb the significant cost of maintaining their schools. Even if the debt service reimbursement program is reauthorized in FY 2025, the 10-year moratorium is likely to create a more than a billion-dollar backlog of unfunded capital projects.

Given the state's budget crisis and recent actions, the Governor and legislature appears to be changing the percentage of the state's deb service reimbursement. The statutory local participation rate for the debt service reimbursement program, beginning in FY 2025 has changed from requiring 30%-40% participation to 50%-60%. This increase in the local participation rate would have required Alaska's municipalities to spend an extra $30 million per year if had been the rule before 2015.

Figure 17 shows the cost to the state under different percentage splits with local governments. The figure assumes full funding of the municipal districts' capital needs consistent with the NCSF guidelines. The figure shows that if the state wished to continue funding roughly 70% of the districts' needs, the cost would be $196 million per year (and the cost to the districts would be $84 million per year). If the state were to assume 50% of the needs, the state's cost would be $140 million. And so forth.

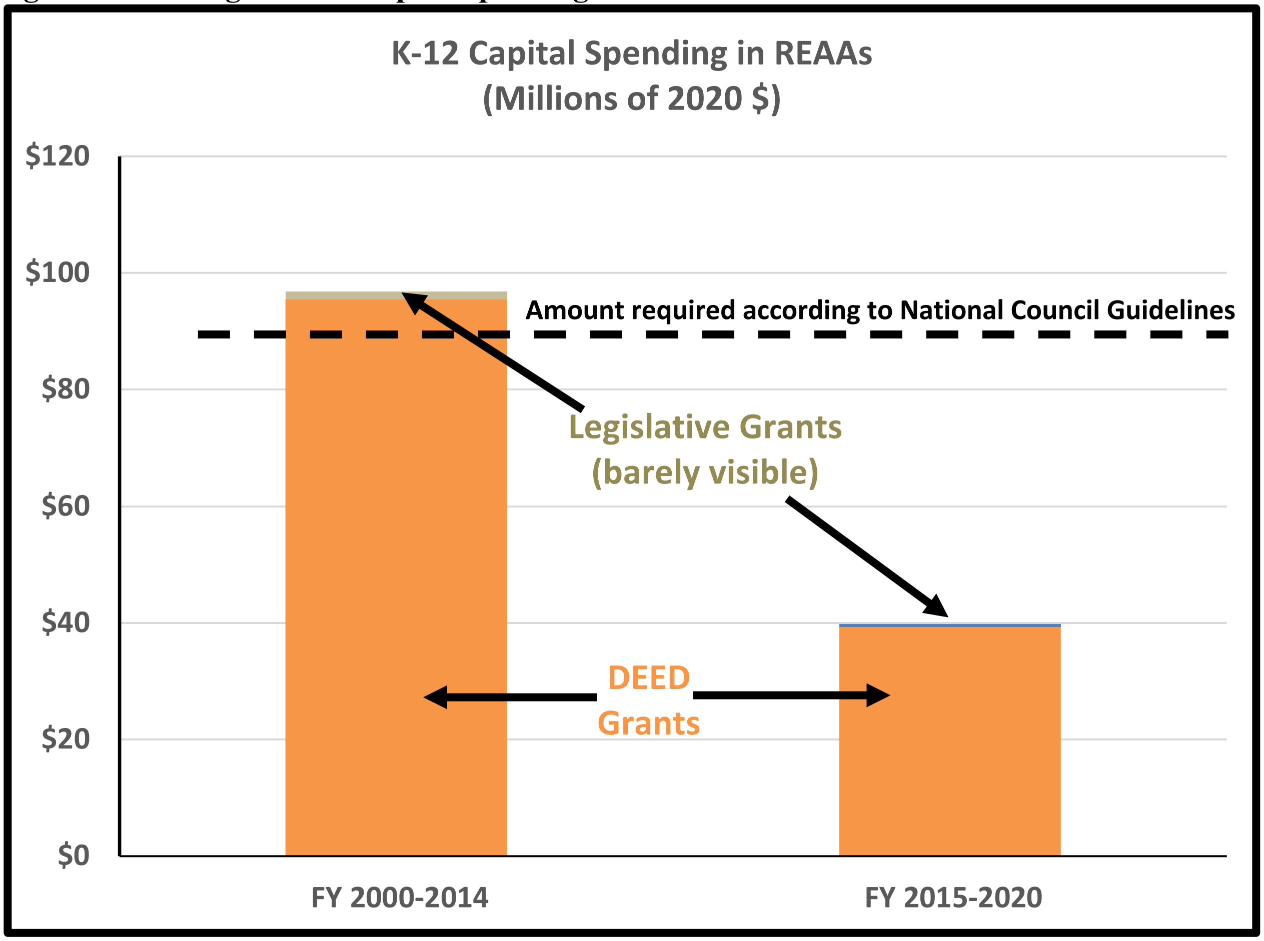
Figure 17. Potential cost split: state and municipal school districts



Overall, the current level of capital funding for municipal school districts is not sustainable. Without more money our schools will deteriorate. That money must come from somewhere: either our communities or the state legislature. The easiest method may be to rescind the moratorium for new school bond issues and to recommit to the debt service reimbursement program at some percentage. The only evident options are to increase grant funding from the state or to force much greater costs to be absorbed by the communities.

REAAs. For REAAs, the conclusion is similar. Table 8, displayed three pages ago, shows that REAAs received $97.8 million per year on average between 2000 and 2014, which is slightly more than the suggested guideline of $90 million. However, part of this "average" amount is due to one-time spending required by the Kasayulie Consent Decree, and is likely intended to address the backlog of funding which prompted the litigation. Like municipal districts, after the sharp drop in revenue available to the legislature and after the significant spending from the Kasayulie Decree, spending in REAAs also dropped. Over the last six years, it averaged approximately $40 million per year, which is about 45% of the recommended level. See Figure 18.

Figure 18. Average annual capital spending in REAAs before and after Alaska's fiscal crisis



As with the conclusion for municipal districts, continued funding of REAA capital projects at the current level will mean that rural schools are not adequately maintained.