
PURPOSE OF THE REPORT

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the activities of the Department of Education and Early Development, Special Education Service Agency (SESA). The purpose of this audit was to determine if there is a demonstrated public need for the continued existence of this agency.

REPORT CONCLUSIONS

Alaska Statute 44.66.010(a)(14) requires that the Special Education Service Agency (SESA) be terminated on June 30, 2004 with AS 44.66.010(b) providing for a one-year wrap up period. If no action is taken by the legislature, the agency will be dissolved as of June 30, 2005.

We find that SESA has delivered a sufficient quantity and quality of service to justify the agency’s continuation in the public interest. We further support SESA’s continuation in its present form as a nonprofit corporation for the immediate future.

However, we also believe that much has changed in SESA’s operating environment since our last review almost a decade ago. This is a turning point for SESA, and some important redirection of its efforts is needed to ensure its sustainability in the years ahead.

At this point, SESA’s existing structure appears to be the most capable means for implementing the redirection detailed in our Findings and Recommendations section of the report. We recommend that AS 44.66.010(a)(14) be amended to extend SESA’s termination date to June 30, 2008.
FINDINGS AND RECOMMENDATIONS

In our prior review, we noted the need for the enabling statute to reflect any changes in the funding formula used by the Department of Education and Early Development (DEED). In 1998, SESA’s statutory funding formula was modified as part of legislation that overhauled the state’s support for public schools.

1. SESA should transition to videoconferencing as the norm for delivery of its service.

2. SESA’s management should spearhead a state special education training consortium to formally advance the capabilities of school district personnel.

3. SESA should apply for a federal subsidy of up to 90 percent of its telecommunications expense.

4. SESA’s management should aggressively pursue opportunities for more diversified funding.

5. SESA should continue to enhance the availability of its specialized library to the general public.

6. DEED and the Governor’s Council should appoint representatives who will attend SESA board meetings.

7. As a statutorily-created entity of state government, SESA should investigate the necessity of filing tax returns and paying excise taxes.
January 8, 2004

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 and Title 44 of the Alaska Statutes (sunset legislation), the attached report is submitted for your review.

DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT
SPECIAL EDUCATION SERVICE AGENCY
SUNSET REVIEW

December 18, 2003

Audit Control Number

05-20026-04

This audit was conducted as required by AS 44.66.050 and under the authority of AS 24.20.271(1). Alaska Statute 44.66.050(c) lists criteria to be used to assess the demonstrated public need for a given board, commission, agency, or program subject to the sunset review process. Currently, under AS 44.66.010(a)(14), the Special Education Service Agency (SESA) is scheduled to terminate on June 30, 2004.

In our opinion, the termination date for this agency should be extended. However, some important redirection of its efforts is needed to ensure its sustainability in the years ahead. We recommend the legislature extend the termination date to June 30, 2008.

The audit was conducted in accordance with generally accepted government auditing standards. Fieldwork procedures utilized in the course of developing the findings and discussion presented in this report are discussed in the Objectives, Scope, and Methodology section.

Pat Davidson, CPA
Legislative Auditor
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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 and Title 44 of the Alaska Statutes (sunset legislation), we have reviewed the activities of the Special Education Service Agency (SESA) to determine if it should continue in existence.

Objectives

As required by legislative intent, this report shall be considered during the legislative oversight hearings in determining whether SESA should be reestablished. The law currently specifies that SESA will terminate on June 30, 2004, and will have one year from that date to conclude its affairs.

Our analysis of public need, findings and recommendations, and our conclusions have been summarized in the applicable sections of this report.

Scope and Methodology

Alaska Statute 44.66.050 requires that the factors outlined in the Analysis of Public Need section of this report be evaluated as part of this audit in order to determine the need for SESA’s continued existence. For the purpose of this analysis, we reviewed SESA’s structure, management, service delivery, and relations with oversight entities. Fieldwork included reviewing transactions and records and making inquiries related to the period since our prior sunset review. More specifically, our fieldwork included the following:

- Review of applicable statutes, bills, and legislative committee minutes.
- Review of board bylaws and minutes.
- Review of written policies and procedures.
- Review of selected financial and program records.
- Interviews of SESA personnel and board members.
- Interviews of the executive director of Governor’s Council for Disabilities and Special Education, the executive director of Mental Health Trust Authority, and the special education administrator at the Department of Education and Early Development.
- Interviews of representatives of the American Federation of Teachers and review of the current collective bargaining agreement.
- Interviews of 52 school district special education directors.
• Review of letters of support from school districts.

• Review of SESA’s public information materials.

• Attendance at a SESA board meeting.

• Interviews or correspondence with the following: state ombudsman, Professional Teaching Practices Commission, Alaska Human Rights Commission, U.S. Equal Employment Opportunity Commission, Disability Law Center, Department of Law ethics attorney, Department of Administration, Department of Health and Social Services, and Department of Labor and Workforce Development.
The Special Education Service Agency (SESA) was established as a public organization by chapter 112, SLA 1986 and formed as a not-for-profit corporation in August 1986. SESA is governed by the Governor's Council on Disabilities and Special Education.\(^1\)

Per SESA’s bylaws, not less than five nor more than seven council members are members of SESA’s board. This gives the council a voting majority on SESA’s board. Representation on SESA's board of directors also includes the Alaska Council of Administrators of Special Education, the National Education Association of Alaska, the Alaska Association of School Administrators, and the special education administrator of the Department of Education and Early Development (DEED).

Under SESA’s enabling statutes, the agency submits its operational plan and budget to DEED.\(^2\) SESA has an FY 04 budget of $2.8 million. Though SESA receives a few specialized program grants, the agency’s funding is predominantly derived from a single source, that is, state education funds that DEED annually allocates under the statutory foundation formula\(^3\) (see Appendix C). Though SESA has a dual legal status as a government agency and a not-for-profit organization, private donations are seldom received and immaterial in amount.

SESA currently has 26 employees, including an executive director, a finance officer, program administrators, 15 teachers, a librarian, and 7 administrative support staff. Though SESA employees are not under the executive branch’s classified personnel system, they are statutorily under PERS or TRS for retirement purposes.\(^4\)

Alaska Statute 14.30.630(b)(1) states that SESA shall provide the following special education services:

\((A) \) itinerant outreach services to deaf, deaf-blind, mentally retarded, hearing impaired, blind and visually impaired, orthopedically handicapped, other health-impaired, severely emotionally disturbed, and multi-handicapped students;

\((B) \) special education instructional support and training of local school district special education personnel; and

\((C) \) other services appropriate to special education needs;

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\(^1\) AS 14.30.610 and AS 47.80.090(12).

\(^2\) AS 14.30.630(b).

\(^3\) AS 14.30.650.

\(^4\) AS 14.30.620.
Per AS 14.30.640, the eligibility of school districts for SESA services is as follows:

The services of the agency shall be available to school districts that serve children whose special education needs occur infrequently, who require specialized services not normally available in the school district, and who cannot be easily served by local school district personnel because of the low number of students in the district in need of the particular service.\(^5\)

SESA currently provides its services through the following programs:

**Low Incidence Disability Outreach Services** – SESA aids rural school districts in providing special education technical assistance through itinerant specialists. SESA’s primary target group is students, ages three through 21, with low incidence disabilities. SESA’s low incidence disability outreach services are classified into the following categories: assistive technology, autism, emotional disturbance, hearing impairment, multiple disabilities, and vision impairment.

**Alaska Dual Sensory Impairment Services** – This program provides parents and professionals with consultation/training concerning children and youth up to 21 years old who have both vision and hearing impairments.

**Visual Impairment Services for Infants and Toddlers** – This is a statewide, family-focused early intervention outreach program for children up to three years old who have visual impairments.

**Consultation and Education for Early Hearing Impairment** – This is a statewide program that provides service to Infant Learning Program providers, caregivers, and families who have children up to three years old who have hearing loss.

**Alaska Autism Resource Center** – This program provides information, referrals, training, and consultation to families, caregivers, and providers who have individuals with Autism Spectrum Disorders.

**SESA Library** – The library provides SESA specialists with information and equipment to assist in their work. The library also serves parents, teachers, and other concerned individuals with information and materials that will assist them in working with children with special needs.

\(^5\) AS 14.30.640.
Alaska Statute 44.66.010(a)(14) requires that the Special Education Service Agency (SESA) be terminated on June 30, 2004 with AS 44.66.010(b) providing for a one-year wrap up period. If no action is taken by the legislature, the agency will be dissolved as of June 30, 2005.

We find that SESA has delivered a sufficient quantity and quality of service to justify the agency’s continuation in the public interest. We further support SESA’s continuation in its present form as a nonprofit corporation for the immediate future.

However, we also believe that much has changed in SESA’s operating environment since our last review almost a decade ago. This is a turning point for SESA, and some important redirection of its efforts is needed to ensure its sustainability in the years ahead.

At this point, SESA’s existing structure appears to be the most capable means for implementing the redirection detailed in our Findings and Recommendations section. We recommend that AS 44.66.010(a)(14) be amended to extend SESA’s termination date to June 30, 2008.
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FINDINGS AND RECOMMENDATIONS

In our prior review, we noted the need for the enabling statute to reflect any changes in the funding formula used by the Department of Education and Early Development (DEED). In 1998, the statutory funding formula for the Special Education Service Agency (SESA) was modified as part of legislation that overhauled the state’s support for public schools.

Recommendation No. 1

SESA should transition to videoconferencing as the norm for delivery of its service.

Over SESA’s 17-year lifespan, this small agency’s core service has been delivered using a traditional itinerant teacher model. Fifteen teachers in travel status are dispatched from Anchorage and ride a circuit of remote bush villages. Despite a rigorous schedule, personal visits by SESA teachers are few and far between, ranging from quarterly to annually for any individual student in the caseload. Sometimes a personal visit is simply not possible due to limited resources.

However, this model is increasingly harder to sustain. Most importantly, it underserves the state’s school districts and underutilizes SESA talents in the development of local capabilities. SESA needs to transition to videoconferenced technology as the primary mechanism for delivering its core service. Physical travel to districts should be the exception rather than the routine.7

SESA has already completed the necessary infrastructure for real-time, two-way, satellite videoconferencing between its Anchorage office and many communities in the state. The contractor-utility reports that at least 89 schools are immediately ready for videoconferences.

This is sophisticated equipment with the quality needed for serious telemedicine applications. While SESA intended this system simply for follow-up to on-site visits it offers a more far-reaching potential for the effectiveness of SESA.

While school districts overwhelmingly desire more frequent visits by SESA, the agency is at a turning point in its ability to service further demand. Though SESA serves 200 to 300 persons a year, its director has stated that “we are unable to serve many referrals which should be served, and we feel we are not providing an adequate level of service (primarily in

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6 SESA asserts that travel expectations for its teachers “are generally in the 50% range” and that “[m]ost specialists alternate travel weeks with non-travel weeks.”

7 Though SESA’s statute refers in AS 14.30.630(b) to “itinerant outreach services,” we do not interpret that as a mandate that any particular child must be physically visited by a SESA teacher at any particular frequency. The need for the specialist to physically visit a particular child, rather than perform the outreach consultation via videoconferencing, should be left to SESA’s professional judgment. SESA’s enabling statute should be interpreted under current professional norms for itinerant assistance in an age of satellites, telemedicine, and distance education.
frequency and duration of site time) to many programs we are supporting.\textsuperscript{8} However, he believes that videoconferencing has the potential to improve this continuing condition.

Also, the assumption that SESA’s most experienced specialists must either keep traveling or retire seems short-sighted when the national recruiting competition is more acute than ever.\textsuperscript{9}

However, we recognize that there will always be individual circumstances in which the most sophisticated videoconferencing system simply cannot substitute for an on-site visit. It must be remembered, though, that the role of the SESA teacher is consultation for the local teachers of disabled students, rather than direct service to the students themselves.\textsuperscript{10} SESA does not provide such consultations until after a district’s own personnel have identified the existence of a disability and developed a plan for the student’s schooling.

Although there can be significant bush travel delays, the logistics of a single on-site visit\textsuperscript{11} typically involve three to four days of a SESA teacher’s time and estimated travel expenses of $1,000 to $2,000.\textsuperscript{12} On the other hand, SESA’s entire utility bill for unlimited statewide videoconferencing is only approximately $1,100 a month.

The SESA teacher should be able to do a significant number of videoconferenced consultations in the days that would otherwise be consumed by the logistics of a single site visit. The benefited school may be able to expect a meaningful monthly videoconference regarding a severely-disabled student rather than just an annual site visit.

In fact, SESA recognizes that videoconferencing may actually have some therapeutic advantages over on-site visits. Important diagnostic observations of a student’s performance are not skewed by the direct physical presence of an unfamiliar person. Parents and school personnel also make a more disciplined and focused use of SESA’s time when faced with a videoconferencing slot for consultation.

\textsuperscript{8} SESA newsletter fall 1997 (FY 98).

\textsuperscript{9} Minutes from SESA’s June 2003 board meeting state:

\begin{quote}
The executive director and program administrator conducted a number of recruiting activities in FY 03 to no avail. SESA is not alone — our situation is looking for a sliver of a slice of specialists in low incidence disabilities nationwide who have the professional interest and personal freedom to take on a traveling position. The travel requirement of the position is probably the first thing that moves people away from interest . . .
\end{quote}

\textsuperscript{10} SESA’s spring 2002 newsletter states that its consultations are intended to produce “micro-environments of local competence around local kids” and that “when school personnel know what to do and how to do it, all kids win.”

\textsuperscript{11} While a single trip will, when possible, serve multiple students, this may not be possible due to the very nature of serving a population of “low incidence” beneficiaries.

\textsuperscript{12} This is largely for airfare. While SESA’s itinerant teachers get per diem payments for meals and incidentals, accommodations range from a bed in school district housing to a sleeping bag on a classroom floor.
Recommendation No. 2

SESA’s management should spearhead a state special education training consortium to formally advance the capabilities of school district personnel.

The desire of district teachers for more regularized training by SESA repeatedly surfaced in our interviews of the state’s school districts. While SESA has always tried to accommodate districts,13 its capacity has been constrained by travel logistics and teacher schedules. The result is that structured classes by SESA’s experts are infrequent and sporadic for most teachers and teacher aides.

However, the University of Alaska and various federal agencies are now actively promoting “distance education” in health-related fields. We recommend that SESA take the lead in organizing a training consortium of related agencies14 that can together use the videoconferencing network and their shared facilities to offer regular classes15 in various formats (see Exhibit 1).

This consortium should promote long-term capabilities and employment opportunities in rural school districts, particularly in the availability of certified teacher aides16 that may develop the most continuous contact with disabled students.17 Funding sources that

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13 One example would be the regional in-service training that six SESA teachers offered at Bethel. Staff from five rural school districts attended. In the past two years, SESA has conducted approximately 40 in-service trainings for school districts around the state.

14 Examples of potential consortium members would be the university’s special education departments, the Alaska Staff Development Network, the cooperative extension service, the Alaska Mental Health Trust Authority, the university’s academic technology (distance education) unit, and the Anchorage School District. The latter school district serves almost half of the state’s special education students.

15 We recognize that academic credit is an important component of teacher certification and career paths.

16 DEED is exploring practical approaches to the requirements imposed on states by the federal “No Child Left Behind” legislation. For instance, new hires for a teacher aide position are expected to have two years of college or some type of certification that is left to states to develop. This can be a challenge in remote parts of Alaska.

17 Minutes from SESA’s Oct. 2000 board meeting state:

Board discussion noted that students with low incidence disabilities are spending a vast majority of their school day with paraprofessionals. From SESA’s perspective, aides are implementing program directives and modifications.
emphasize rural capacity, training, and sustainability may be particularly supportive of such a consortium.

Though there has been some recent progress, SESA has in the past been hesitant to engage in coordinated planning with other agencies. One benefit of a consortium should be a more integrated cooperation among SESA, clinics, schools, the university, cooperative extension, the Mental Health Trust Authority, the Alaska Staff Development Network, and other entities together in serving village health needs as a continuous system rather than as fragmented providers.

Also, the traditional assumption has been that SESA’s well-respected specialists must be recruited from out-of-state. Given SESA’s perpetual difficulty with such recruitment, the consortium should explore the potential for long-term enhancement of our existing in-state programs for graduate study in special education. Distance education partnerships with noted Lower 48 colleges may assist the University of Alaska in meeting this need. Assignment of student-teachers and graduate interns to SESA may be yet another possible way to encourage Alaska residents to consider careers in SESA’s challenging work. SESA may also be able to recruit visiting faculty from Lower 48 schools to offer advanced courses through the consortium during the summer or while on sabbatical.

There are numerous possibilities that energetic in-state leadership in health and education can pursue for such a consortium. We believe that SESA is an excellent candidate to be the primary facilitator of such an innovative network.

Recommendation No. 3

SESA should apply for a federal subsidy of up to 90 percent of its telecommunications expense.

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18 One noteworthy effort is SESA’s facilitation of the Alaska Autism Research Center, starting in May 2003. Another positive step is participation by SESA’s executive director on a university advisory board discussing distance delivery of speech pathology classes.

19 Minutes from SESA’s September 2001 board meeting state:

   Board consensus was to not enter into a formal planning process with external representatives and constituent input because there are too many external unknowns — political, economic, and interagency to make a formalized, externally oriented planning process an effective and prudent exercise.

20 The cooperative extension service is a federally-funded liaison between the U.S. Department of Agriculture (USDA) and state agencies. In the Lower 48, USDA has advanced beyond traditional farming concerns into programs for rural “at risk” children, telemedicine, and distance education.

21 No statutory changes are needed for such a consortium. SESA’s responsibilities under AS 14.30.630(b) include “special education instructional support and training of local school district special education personnel” and “other services appropriate to special education needs.” Under AS 14.30.630(a), SESA is empowered to “contract with the department [DEED] and other public or private agencies for the provision of special education or related services” and “do whatever is necessary to carry out the purposes of AS 14.30.600 - 14.30.660.”
The federal Telecommunications Act provides a discount of up to 90 percent of a school’s costs for services such as telephone, internet, and videoconferencing. The actual rate of discount for this “E-rate” subsidy is dependent upon the poverty level and rural nature of the area benefited. Eligibility for the discount is determined by a state designee of the Federal Communications Commission (FCC).

Many of Alaska’s rural schools have been found eligible for the program. Since the discount began in 1998, Alaska schools and libraries have received subsidies totaling approximately $62 million.

SESA has so far not submitted an application for this subsidy. Given the extensive services provided by SESA to rural districts (see Appendix A), we believe that it may be eligible for a potential statewide subsidy of $15,000 to $25,000 using a rate computed on some type of composite basis. SESA is a unique form of support for schools in a unique setting and a meaningful adaptation of the FCC criteria can hopefully be negotiated.

As discussed in Recommendation No. 1, satellite videoconferencing has an important role in SESA’s future sustainability. The potential for a discount of up to 90 percent of the cost is significant and needs to be aggressively pursued by SESA’s management. Until SESA formally pursues an application and, if necessary, obtains an FCC interpretation, we do not know if any change in SESA’s enabling statute is necessary to qualify under the technicalities of the federal criteria.

Recommendation No. 4

SESA’s management should aggressively pursue opportunities for more diversified funding.

SESA delivers important, high-quality services to school districts to the extent possible with its funding. Those funds are heavily derived from a single source, that is, state education funds calculated by the formula in SESA’s statute. Such heavy reliance on this traditional source constrains the available services and, given the state’s fiscal situation, leaves SESA in an uncertain, vulnerable position in the years ahead.

The current arrangement presumes that the legislature will continue to fully fund SESA, a nonprofit organization, to provide all of these services. It may be entirely possible, though, to strengthen SESA’s long-term sustainability through more diversified funding sources. SESA’s management should immediately begin exploring potential supplementary funding from other sources, such as the ones we list on the next page in Exhibit 2.
Such potential sources obviously vary in their expectations. Some may be interested in enhancing direct services to particular clienteles, while others only initiate innovations that the applicant must itself sustain in the long term. A training consortium is an example of the latter that some of these funding sources may find quite attractive.

If SESA’s leadership needs assistance in this important aspect of strategic management, it may need to contract for it. Other possibilities include various university services as well as loaned executives from the private sector.

We encourage SESA to explore diversified funding. While the school districts are pleased with the quality of SESA services, both the districts and SESA indicate that more services are needed.

Management believes diversified funding would dilute its existing services. In contrast, we believe that diverse funding would enhance the availability and sustainability of SESA’s existing services rather than dilute them.

Recommendation No. 5

SESA should continue to enhance the availability of its specialized library to the general public.

For most government agencies, their internal library is simply an incidental part of their operations. However, for SESA, the in-house library is both an important asset and a major justification offered for SESA’s continued existence as an independent entity. It is also the main service that SESA offers to school districts too large to qualify for site visits.

With 4,400 books and 2,400 additional items about special education, we are convinced that SESA’s library is indeed the state’s premier collection on the subject. Current subscriptions to 55 professional periodicals are a bit short of the 100 advertised in SESA materials, but still a very substantial offering.

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22 Assistance in exploring funding alternatives may be available from the following: University of Alaska Corporate Programs, UAA Small Business Development Center, UAA Resource Solutions, UAA College of Business and Public Policy, and Alaska Cooperative Extension.

23 While SESA is by statute a public corporation, we note that it also has the status of a charitable organization under Internal Revenue Code § 501(c)(3). We note that corporations sometimes loan executives to charitable organizations for particular projects. Also, the U.S. Small Business Administration has its Service Corps of Retired Executives.

**EXHIBIT 2**

**POTENTIAL FUNDING SOURCES**

- Denali Commission - projects in support of rural schools and employment
- Alaska Mental Health Trust Authority - developmental disabilities funding under AS 47.30.056(e)
- Department of Defense - severe disabilities impact aid under 20 USC § 7703a
- Cooperative Extension Service children - youth, and families at risk program
- U.S. Department of Agriculture - distance education and telemedicine grants
- Regulatory Commission of Alaska - rural internet access grants
- University of Alaska distance education
- Native corporations
- Corporate donors
SESA’s devotion to this library is reflected in its employment of a seasoned librarian with a graduate degree in library science.

In our interviews of the state’s school districts, special education personnel praised the quality and availability of SESA’s library in helping them serve their students. Further, SESA asserts that its librarian and collection are also available to serve the general public for reference questions and in-state lending.

We thus encourage SESA’s librarian to take several actions to advance public awareness of this valuable resource: (1) continue to informally network with other reference librarians in the state; (2) list SESA’s collection in the electronic catalogs for the university and the Alaska State Library; (3) list SESA’s collection in the national WorldCat database.24

To assist in planning the library’s needs, we also recommend that the librarian statistically track all contacts with the library, whether lending, visit, or phone.

Recommendation No. 6

**DEED and the Governor’s Council should appoint representatives who will attend SESA board meetings.**

Under SESA’s enabling statute, the primary oversight mechanisms are DEED and the Governor’s Council on Disabilities and Special Education. The Governor’s Council has implemented this oversight by appointing a corporate board of directors that governs SESA through votes at board meetings.

Included on this board of directors are the DEED special education administrator, as a voting member, and the executive director of the Governor’s Council, as a nonvoting member. They are important representatives of the larger public interest on a ten-member board that currently includes five employees of the school districts that use SESA services.

While user representation is, of course, valuable for such a board, these members understandably have incentives to maximize state-funded services and reduce local responsibilities. However, the balance of a broader perspective is also needed since SESA’s automatic statutory funding, in a sense, gives it a monopoly in providing these services.

Unfortunately, both the DEED representative and the executive director of the Governor’s Council are too busy to attend SESA board meetings on a regular basis, even with teleconferencing.25 Although both individuals feel they are well informed about SESA’s ongoing activities and respect SESA’s management, their absence detracts from state

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24 Inclusion in WorldCat for reference does not mean that SESA must lend materials out of state.

25 For instance, DEED’s special education administrator has missed at least the last seven board meetings.
oversight over SESA. The two organizations should make it a priority for their designees to conscientiously attend or at least empower a substitute.

**Recommendation No. 7**

As a statutorily-created entity of state government, SESA should investigate the necessity of filing tax returns and paying excise taxes.

SESA routinely pays an accounting firm to generate an annual federal tax return with approximately 15 pages of considerable detail. However, we think it is likely that the Internal Revenue Service (IRS), if asked, would confirm that SESA qualifies as a “state institution,” “governmental unit,” or “affiliate of a governmental unit,” and is not required to file these tax returns.\(^\text{26}\)

The IRS may also confirm, if asked, that SESA is exempt from certain federal excise taxes.\(^\text{28}\) For example, SESA currently pays the federal tax that appears on its telephone bills.

Given SESA’s clear statutory status, clarification of exemption from tax requirements might be easily facilitated through a contact with the Anchorage IRS taxpayer advocate. While SESA will need to ascertain the IRS position on these issues, we note that any unnecessary payments for tax returns and taxes constitute a recurring waste of resources.

\(^{26}\) SESA is a statutorily-created “public organization,” directly funded by the state, and governed by the Governor’s Council on Disabilities and Special Education. See AS 14.30.600, 14.30.610, 14.30.650, 47.80.090(12). SESA’s articles of incorporation indicate the corporate name to be the “Special Education Service Agency, a public agency.”

\(^{27}\) See 26 CFR § 1.6033-2(g)(1)(v); IRS Revenue Procedure 2003-12 § 2.03; IRS Revenue Procedure 95-48; IRS Revenue Procedure 83-23 § 3.01(7).

\(^{28}\) See Internal Revenue Code § 4253(i) (state governments and political subdivisions exempt from federal excise tax on phone service); IRS Rev. Rul. 83-140 (exemption from various excise taxes for nonprofit educational organization); Alaska Administrative Manual 35.220 (exemption of state agencies from various federal taxes).
The following analysis of agency activities relates to the public need factors defined in the “sunset” law, AS 44.66.050(c). This analysis was not intended to be comprehensive, but address those areas we were able to cover within the scope of our review.

**The extent to which the board, commission, or program has operated in the public interest.**

Our review of SESA’s program records and interviews of the state’s school districts show a sufficient quantity and quality of service to justify the agency’s continuation in the public interest.

SESA is a small agency that currently employs 15 teachers. It provides school districts with two basic types of service: (1) consultations with local special education teachers and (2) formal in-service training classes for groups of teachers.

As shown in Appendix A, SESA specialists have assisted school districts with approximately 500 different students over the past five years. Those services have been concentrated in the state’s rural school districts that are least able to employ their own specialists. This is consistent with the prioritization reflected in the agency’s statutory mandate in AS 14.30.640:

> The services of the agency shall be available to school districts that serve children whose special education needs occur infrequently, who require specialized services not normally available in the school district, and who cannot be easily served by local school district personnel because of the low number of students in the district in need of the particular service.

Many of the state’s 54 school districts wrote letters of support for SESA. While SESA has limited personnel that must be rationed among the districts, all interviewed districts, from the smallest to the largest, support SESA’s continuation.

When SESA teachers visit a school, districts are consistently pleased with the quality, competence, and professionalism of the service. However, districts wish SESA teachers had the resources to visit more frequently and serve more students.

When SESA teachers are available to give training classes, districts appreciate the high quality. However, districts wish that SESA had the resources to offer more training to teachers and paraprofessionals.

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29 However, there are two exceptions to SESA’s overall focus on small rural school districts. All districts, regardless of size, are eligible for SESA services that assist students who are both deaf and blind (dual sensory impairment). Also, children up to three years old are eligible for certain SESA services regardless of location.
Districts of all sizes continue to have problems in recruiting special education teachers due to nationwide shortages. Districts and SESA also assume that teachers with the necessary training and experience in severe disabilities must usually be obtained from out-of-state.

Recommendations Nos. 1 and 2 discuss some in-state opportunities to remedy these various shortages.

The extent to which the operation of the board, commission, or agency program has been impeded or enhanced by existing statutes, procedures, and practices that it has adopted, and any other matter, including budgetary, resource, and personnel matters.

SESA delivers important, high-quality services to school districts to the extent possible with its funding. Those funds are heavily derived from a single source, that is, state education funds calculated by the formula in SESA’s statute. Such heavy reliance on this traditional source constrains the available services and, given the state’s fiscal situation, leaves SESA in an uncertain, vulnerable position in the years ahead.

The current arrangement presumes that the legislature will continue to fully fund SESA, a nonprofit organization, to provide all of these services. Recommendation No. 4 discusses how SESA may be able to strengthen its long-term sustainability through more diversified funding sources.

Recommendation Nos. 3 and 7 discuss potential savings connected with particular operating expenses.

In Recommendation No. 6, we discuss an oversight problem concerning SESA’s board of directors. Both DEED and the Governor’s Council on Disabilities and Special Education have seats on SESA’s board, but the designated representatives are too busy to attend the meetings. Those two seats provide important public oversight and balance on a board that is heavily composed of members with incentives to maximize state-funded services and reduce local responsibilities.

The extent to which the board, commission, or agency has recommended statutory changes that are generally of benefit to the public interest.

SESA has not initiated any statutory changes since our last review.

In 1999, SESA was included with other educational entities in legislation that allowed additional PERS credit for various nonteacher administrative personnel. In 2002, terminology in SESA’s enabling statute was amended to clarify that the agency serves exceptional children with disabilities rather than the gifted.
The extent to which the board, commission, or agency has encouraged interested persons to report to it concerning the effect of its regulations and decisions on the effectiveness of service, economy of service, and availability of service that it has provided.

SESA provides limited, but adequate, opportunities for interaction with the general public. Board meetings are open to the public. A variety of relevant user groups are consistently represented on SESA’s board.

SESA publishes a twice-yearly newsletter. Five types of articles appear in that publication: (1) new developments in schooling persons with the disabilities served by SESA; (2) upcoming events, such as training opportunities and conferences; (3) available resources for special education; (4) staff changes at SESA; and (5) SESA’s accomplishments. The newsletter, is thus a combination of technical advice and public relations. Many of the technical articles are written by SESA’s own in-house experts.

Subscriptions to the newsletter are free. Approximately 2,200 copies of the newsletter are mailed out, with 92 percent going to in-state addresses. Though SESA’s office is located in Anchorage, we note that over 80 percent of the in-state mailings are to addresses beyond Anchorage. The newsletter offers readers the option of requesting the publication in large print or Braille, but SESA has not received any requests for those alternatives. We suggest that SESA explore potential savings from paperless distribution of this newsletter by email.

A valuable feature on SESA’s home page is a complete online catalog of its library that is updated once a month. With 4,400 books and 2,400 additional items about special education, we are convinced that it is indeed the state’s premier collection on the subject. In our interviews of the state’s school districts, educators praised the quality and availability of SESA’s library in helping them serve their students. In Recommendation No. 5, we recommend that SESA continue to enhance the availability of this special collection to the general public.

The extent to which the board, commission, or agency has encouraged public participation in the making of its regulations and decisions.

The agency’s core service consists of consultations to a specialized audience of special education teachers. SESA’s services to school districts and the public at large are discussed above.
The efficiency with which public inquiries or complaints regarding the activities of the board, commission, or agency filed with it, with the department to which a board or commission is administratively assigned, or with the office of victims’ rights or the office of the ombudsman have been processed and resolved.

DEED conducts an oversight review of SESA every five years. The latest review was recently issued and contained no significant departures from expected program practices.  

We contacted the various regulators and advocates listed in our Objective, Scope, and Methodology section. None of these entities noted any complaints about SESA services, personnel, or working conditions in the years since our prior sunset review.

SESA’s teachers are represented by the United Special Education Service Employees Local No. 4688, an affiliate of the American Federation of Teachers. This union reports that its concerns at SESA have been successfully resolved through discussions and collective bargaining, without resort to arbitration, strikes, or litigation.

SESA has not been a party to any litigation in the years since our prior sunset review. No attorney general opinions have been published concerning SESA.

The extent to which a board or commission that regulates entry into an occupation or profession has presented qualified applicants to serve the public.

SESA provides school districts with highly-specialized support services when requested. The agency does not currently license or certify any personnel for occupational entry. However, Recommendation No. 2 describes the potential for an expanded SESA role in meeting the state’s need for special education training.

The extent to which state personnel practices, including affirmative action requirements, have been complied with by the board, commission, or agency to its own activities and the area of activity or interest.

We contacted the various regulators and advocates listed in our Objective, Scope, and Methodology section. None of these entities noted any employment-related complaints about SESA.

SESA is a small organization in which management supervises 15 traveling teachers and a seven-member support staff. Management has shown noteworthy initiative in organizing the agency in a form that supports and retains its team of teaching specialists.

---

30 This five-year DEED oversight revenue is limited in its scope and intensity. DEED visits SESA for four to five days and reviews procedure manuals, interviews staff, verifies teacher certifications, and checks the completion of forms in a sample of approximately 20 student files.
SESA teachers are paid up to approximately $72,000 for a 184-day contract involving extensive bush travel. Their per diem ranges up to approximately $2,400 a year. As shown in Exhibit 3, the three highest-paid administrators gross from $90,000 to $100,000 for contracts that range from 200 days to the full year. The recruiting value of such salary packages, along with the ability to still participate in public retirement plans, is asserted as a primary justification for SESA’s structure as a separate government entity rather than a private nonprofit or a division within DEED.

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<tr>
<th>Position</th>
<th>Annual days of work</th>
<th>Annual Salary</th>
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We found that SESA’s teachers and administrators have an overall high degree of job satisfaction, team cohesiveness, and dedication to the agency’s difficult mission. SESA serves persons with disabilities that present intense challenges for the best of educators and parents.

Management continues to face the nationwide problem of attracting more of these specialists to Alaska. The traditional assumption has been that SESA’s well-respected experts must be recruited from out-of-state. However, the training consortium we suggest in Recommendation No. 2 may enhance the capabilities of our existing in-state programs for specialized graduate study and experience.

The extent to which statutory, regulatory, budgeting, or other changes are necessary to enable the agency, board, or commission to better serve the interest of the public and to comply with the factors enumerated in AS 44.66.050.

Please refer to the Findings and Recommendations section.
## APPENDIX A
### DISTRIBUTION OF STUDENTS SERVED BY SESA DURING PAST FIVE YEARS

<table>
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<th>SCHOOL DISTRICT</th>
<th>AUTISM IMPAIRMENT</th>
<th>ASSISTIVE TECHNOLOGY</th>
<th>DUAL SENSORY IMPAIRMENT</th>
<th>EMOTIONAL DISTURBANCE</th>
<th>HEARING IMPAIRMENT</th>
<th>MULTIPLE DISABILITIES</th>
<th>VISUAL IMPAIRMENT</th>
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Source: Audited SESA records for primary service during period July 1, 1998 to October 28, 2003. Out of a total of 510 students served, 85 students received additional services beyond the primary service counted above.
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### APPENDIX B

**SCHEDULE OF REVENUES AND EXPENDITURES — FY 95 THROUGH FY 03**

(unaudited)

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<th>FY 97</th>
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<td></td>
<td></td>
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<td>105,624</td>
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<td>2,235,432</td>
<td>2,249,617</td>
<td>2,230,583</td>
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<td>2,360,021</td>
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<td><strong>FEDERAL REVENUE:</strong></td>
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<td></td>
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<tr>
<td>Dual Sensory</td>
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<td>149,493</td>
<td>127,424</td>
<td>132,412</td>
<td>130,276</td>
<td>119,994</td>
<td>120,277</td>
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<td>Alaska Transition Initiative</td>
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<td>132,690</td>
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<td>202,837</td>
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<td>Assistive Technology</td>
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<td>Federal Quota Funds for the Blind</td>
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<td>Other</td>
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<td>7,916</td>
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<td>2,121</td>
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<td><strong>TOTAL FEDERAL REVENUE</strong></td>
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<td>367,343</td>
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<td>372,121</td>
<td>392,586</td>
<td>155,671</td>
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<td><strong>INTEREST &amp; MISCELLANEOUS REVENUE</strong></td>
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<td>20,440</td>
<td>60,927</td>
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<td></td>
<td></td>
<td></td>
<td>2,008</td>
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<td><strong>TOTAL REVENUES</strong></td>
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<td>2,641,053</td>
<td>2,772,020</td>
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<td>Operations and Support</td>
<td>848,604</td>
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<td>986,379</td>
<td>976,732</td>
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<td>Programs</td>
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<td>1,670,387</td>
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<td>1,838,212</td>
<td>1,739,636</td>
<td>1,876,902</td>
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<td><strong>TOTAL EXPENDITURES</strong></td>
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<td>2,941,790</td>
<td>2,694,732</td>
<td>2,598,655</td>
<td>2,596,996</td>
<td>2,669,640</td>
<td>2,802,024</td>
<td>2,534,484</td>
<td>2,596,763</td>
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<td><strong>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</strong></td>
<td>112,570</td>
<td>(153,587)</td>
<td>14,801</td>
<td>42,398</td>
<td>175,024</td>
<td>(4,760)</td>
<td>(143,254)</td>
<td>(91,022)</td>
<td>(82,134)</td>
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</table>

*Source: SESA financial records. ● DEED = Department of Education and Early Development ● DHSS = Department of Health & Social Services ● MHTB = Mental Health Trust Board*
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## APPENDIX C
### SCHEDULE OF ESTIMATED REVENUES — FY 04
(unaudited)

<table>
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<tr>
<th>REVENUE SOURCES</th>
<th>AMOUNT</th>
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<td><strong>STATE REVENUE:</strong></td>
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<td>DEED-Foundation Formula</td>
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<td>DEED-Alaska Autism Resource Center</td>
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<td>DHSS-Infant Learning Programs</td>
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<td><strong>TOTAL STATE REVENUE</strong></td>
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<td><strong>FEDERAL REVENUE:</strong></td>
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<tr>
<td>Dual Sensory</td>
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<tr>
<td>Infant Learning Programs</td>
<td>83,249</td>
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<td>Alaska Autism Resource Center</td>
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<td><strong>TOTAL FEDERAL REVENUE</strong></td>
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<td><strong>PRIVATE DONATIONS</strong></td>
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<td><strong>TOTAL ESTIMATED REVENUE FOR FY 04</strong></td>
<td>$2,808,837</td>
</tr>
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</table>

*Source: SESA financial records*
(Intentionally left blank)
February 5, 2004

Pat Davidson
Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, Alaska 99811-3300

RE: Confidential Preliminary Audit Report

Dear Ms. Davidson:

The department has reviewed the December 18, 2003 preliminary audit report of the Special Education Service Agency (SESA), dated December 18, 2003. This correspondence provides the departments response as requested.

Report Conclusion:
Recommend the Legislature extend the termination date to June 30, 2008.

The preliminary audit conclusion would extend the agency’s sunset status for an additional four-year period. The department suggests that SESA be removed from the “sunset” provision.

Over SESA’s 17-year lifespan the agency has delivered a sufficient quantity and quality of service to justify the agency’s continuation in the public interest. The department believes that the intent and mission of SESA to provide special education services to children in eligible districts is an ongoing element of Alaska’s Public Schools and as such SESA should be removed from the “sunset” provision. The department believes that in providing services as prescribed in law at AS14.30.600 – 14.30.660 SESA will remain accountable to the public interest through interaction with Alaska’s 53 public school districts, through SESA’s annual submittal of operational plan and budget to DEED, through annual legislative appropriation, and by business practices such as SESA’s annual independent audit.

**Recommendation No. 1**
SESA should transition to videoconferencing as the norm for delivery of its service.

The department believes that continued and increased videoconferencing can enhance SESA’s service delivery. However, the department is unable to conclude that videoconferencing could become the norm at this time.
SESA has confirmed that the agency believes videoconferencing should be maximized and considers this recommendation to be a useful and desirable vision. The department encourages SESA to investigate strategies that may increase the use of video conferencing while providing effective services to districts.

Recommendation No. 2
SESA’s management should spearhead a state special education training consortium to formally advance the capabilities of school district personnel.

The department supports efforts by SESA to spearhead a state special education training consortium. The department encourages SESA to investigate the possibility of a statewide special education consortium or other related proposal fulfilling this intent. However, the department recognizes current statewide resources may limit SESA’s ability to fully implement the recommendation.

Recommendation No. 3
SESA should apply for a federal subsidy of up to 90 percent of its telecommunications expense.

The department concurs with Recommendation No. 3. The department supports efforts that would enable SESA to potentially secure “e-rate” subsidy.

Recommendation No. 4
SESA’s management should aggressively pursue opportunities for more diversified funding.

The department concurs with Recommendation No. 4.

Recommendation No. 5
SESA should continue to enhance the availability of its specialized library to the general public.

The department concurs with Recommendation No. 5. The department supports SESA’s efforts to advance public awareness of its very valuable resource collection of books and materials. SESA’s collection could be linked to the EED special education webpage.

Recommendation No. 6
DEED and the Governor’s Council should appoint representatives who will attend SESA board meetings.

The department concurs with Recommendation No. 6. The department has assigned the Special Education Director or their designee to work directly with the SESA Board to attend SESA Board Meetings. The department recommends SESA communicate with the Special Education Advisory Panel of the Governor’s Council on Disability and Special Education regarding the GCDSE appointment of a representative to attend SESA board meetings.
Recommendation No. 7
As a statutorily-created entity of state government, SESA should investigate the necessity of filing tax returns and paying excise taxes.

The department concurs with Recommendation No. 7. However, the department recognizes that legal entity status, internal revenue service tax-exempt status and operating in a “dual legal status as a government agency and a not-for-profit organization”31 are complicated issues and the outcome may or may not produce a cost savings.

Sincerely,

Roger Sampson
Commissioner

cc:  Karen J. Rehfeld, Deputy Commissioner

Barbara Thompson, Director
Division of Teaching and Learning Support

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January 30, 2004

Ms. Pat Davidson  
Legislative Auditor  
Division of Legislative Audit  
P.O. Box 11300  
Juneau, Alaska 99811-3300

Dear Ms. Davidson:

The Board of Directors of the Special Education Service Agency has received the December 18, 2003 Preliminary Report of the agency Sunset Review. This letter provides our written response to that report, as requested.

First, we wish to thank the auditors who performed this review for their professionalism and thoroughness. The Board understands that this review has been by far the most comprehensive of the five reviews now performed.

Before responding to the recommendations presented in the report, we would like to offer clarification or additional information on selected details from the report.

Page 3, Par. 4 – The number and type of staff currently employed by SESA are:

- Three grant Specialists/Coordinators (full-time service providers who also draft grant applications and reports)
- Thirteen Education Specialists (who have no grant duties)
- Four Program Assistants
- One Librarian/Technologist
- One Finance Clerk (part-time)
- One Executive Administrative Assistant
- One Finance Officer
- One Program Administrator
- One Executive Director

There is also one .50 FTE specialist position budgeted but vacant.

Page 19, Par. 1 – Regarding administrator compensation as displayed: SESA administrators pay full costs of elective dependent/family medical insurance premiums from their salaries. The Board pays employee-only medical insurance premiums. The Board provides no paid annual leave for any Administrators. Administrators other than the Executive Director receive sixteen days paid sick
leave over a twelve-month work calendar, accruable without limit. The Executive Director receives no paid sick leave, but receives ten days annual paid personal leave, accruable to 20 days but having no cash value if unused.

Regarding teacher compensation as described: teachers pay $50 monthly toward employee medical insurance, and pay 30% of premiums for dependent/family insurance. The Board provides the balance of monthly employee premiums, and 70% of dependent/family medical insurance premiums. Teachers receive 1.3 days paid sick leave for each month worked, typically ten months a year, accruable without limit. The Board provides no paid annual leave for teachers.

Page 21 and 23, Appendices A and B – Reporting student numbers served and agency revenues invites a calculation of “cost per student served.” The reported student numbers cannot meaningfully be used for the purpose of calculating a cost per student, because student-specific services are only one service methodology employed by the agency. The displayed numbers only count students who have been assigned to long-term, caseload outreach support. The students listed are generally seen for several years and roughly 20% of them have multiple disabilities and are seen by more than one disability specialist. Additionally, though students are beneficiaries of agency service, they are not our service recipients. Teachers, aides, and parents associated with the student are the agency’s service recipients.

As described on page 15 of the report, in-services, workshops, and courses are a second major method used to support local programs. SESA training is conducted at school, district, region, and state levels. In FY 2003, SESA documented 60 training events with over 900 recipients in 23 school districts, communities, and regional infant learning programs. In the future, we anticipate greater distribution of these trainings through the use of videoconference technology.

The SESA library, newsletter, and web site represent a third and important service methodology, one that allows for user-initiated access to agency resources. In FY 2003, the library made over 2,000 loans, not including items reserved for the exclusive use of specialists. The patron database shows over 900 enrolled borrowers. Over the same year, our technical assistance web site received over 196,000 page requests during 92,000 sessions, many of which were with 6,200 repeat users. Average daily downloads were 508 pages. Each issue of the SESA Newsletter includes a technical assistance reference section developed by the agency, and is mailed to over 2,000 individuals and organizations, including every public school in Alaska.

Pages 23 and 24, Appendices B and C – The displays list “Foundation Formula” as the primary agency revenue source. This would likely be interpreted as school district foundation funds, or as revenue that would otherwise be part of a school district foundation formula appropriation. The revenue in question is made available to the agency not through the school foundation formula, but through a separate legislative appropriation to a DEED budget component called "Special Schools," which includes the allocation for SESA per A.S. 14.30.650. SESA funding and the school district foundation formula funding are unrelated.

Below are Board responses to the Conclusion and Recommendations as in the report.

Conclusion: Termination of the agency should be extended to June 30, 2008.
This conclusion would continue the agency’s sunset status for a refreshed period of four years. This represents a significant retreat from the Division’s November 1994 audit, which recommended either a ten-year sunset cycle or removal from sunset. Absent rationale otherwise, this conclusion appears to apply statutory sunset policy rather than to reflect concerns arising from the audit. The Board notes that the report is otherwise positive, and that certain recommendations appear intended to broaden the agency’s funding, activities, and influence.

The SESA Board does not concur with this conclusion. The Board believes that short periods of authorization impede the agency’s continued effective performance.

The agency must continue to attract highly trained specialists. Today’s national recruiting environment is an extreme “sellers’ market” for disability specialists with advanced training and experience. It is not realistic to ask specialists to invest in a move to Alaska to join an agency with a short-term and indefinite future. Statutory sunset policy will make recruiting very costly and very difficult.

We also believe the proposed period of authorization conflicts with those recommendations of the report that are long-term and “systems change” in nature.

The SESA Board believes that a longer period of authorization such as provided in 1995, or removal from sunset status, are needed to avoid a near-term hiring crisis, and to allow desired progress toward long-term recommendations of the report.

Recommendation No. 1: SESA should transition to videoconferencing as the norm for delivery of its service.

The Board concurs that videoconferencing (VC) should be maximized, but feels it is too early to conclude that VC can effectively become the norm for the delivery of all outreach services. We also believe effective outreach consultation requires at least foundational and periodic site presence. Further, because VC technology has only recently become installed, and in only limited parts of the state, certain regions may be targets for this recommendation while other regions may not be targets for some time.

We consider the recommendation to be a useful and desirable vision. While we question whether VC can be implemented as the “norm” for statewide service delivery, at least in the near future, we do want to see it used whenever and wherever it can be used effectively. We want the agency to be a leader in using VC for consultation and training.

Recommendation No. 2: SESA’s management should spearhead a state special education training consortium to formally advance the capabilities of school district personnel.

The Board concurs with the intent of this long-term recommendation, and agrees that as a successful innovation in its own right, the agency could invite others to the table for formative discussions about cooperative responses to needs cited in the report. The Board will direct its administration to explore the interest of potential state partners, and to prepare a FY 05 project plan for Board consideration at its June, 2004 meeting.
The Board notes, however, that the perceived viability and longevity of the agency will inevitably be instrumental to its ability to attract new long-term partnerships.

Recommendation No. 3: SESA should apply for a federal subsidy of up to 90 percent of its telecommunications expense.

SESA has not yet applied for this “E-rate” subsidy because the state coordinator for E-rate in Alaska had determined the agency to be ineligible to apply. However, the agency continues to work with the state coordinator; recently announced changes in federal criteria may allow an agency application to be developed for fiscal year 2005.

The Board concurs that SESA should pursue E-rate subsidy if the agency and its activities are determined eligible. If so advised by the Alaska E-rate coordinator, the agency will prepare and submit a timely application for FY 05 federal subsidy of eligible costs.

Recommendation No. 4: SESA’s management should aggressively pursue opportunities for more diversified funding.

The SESA Board concurs with this recommendation. Exploration of three recommended potential funding sources has already begun. At the Board’s February 16-17, 2004 meeting, agency administration will bring the Board up-to-date regarding the missions of potential funding sources and possible service proposals. Funding proposals will be developed appropriate to the timelines of funding sources and the agency.

Recommendation No. 5: SESA should continue to enhance the availability of its specialized library to the general public.

The Board concurs with this recommendation, but notes that loans to SESA staff and service recipients will continue to have priority over loans to non-affiliated patrons. Specialists are already concerned about current borrower demand on our more popular holdings. Added “marketing” may present added demands and costs. Our librarian will complete linkages with SLED, the university, and WorldCat by the start of FY 05.

Recommendation No. 6: DEED and the Governor’s Council should appoint representatives who will attend SESA board meetings.

The SESA Board concurs with this recommendation. The Board will promote awareness of this need on the parts of all members. We will remind members of bylaw policy on attendance at our next meeting, and thereafter will implement that policy.

Recommendation No. 7: As a statutorily created entity of state government, SESA should investigate
the necessity of filing tax returns and paying excise taxes.

The Board will seek counsel regarding this recommendation. The Board agrees that the agency is positioned to use its governmental status to become exempt from filing tax returns, but we are concerned with potential effects of not filing returns.

SESA is a statutory public organization and instrumentality of the state, and a public corporation with 501(c)(3) status. Each status conveys actual and potential benefits. While it is true that private donations to date have been minimal, so too have been costs of filing federal tax returns, at $800 yearly. Typically, the value of the private awards received because of the agency’s non-profit status has exceeded the cost of filing the tax return the year in which the award was made. It is also our experience that awarding organizations sometimes require copies of filed IRS Form 990s as part of award applications.

Pursuant to this report’s Recommendation No. 4, our administration is currently researching private foundations as possible added funding sources for new or existing agency activities. If we were to acquire significant private foundation funding, we believe we would be required to file tax returns even if otherwise exempt. We also believe that major foundations would require past filings as part of a proposal.

The Board thus will evaluate the pros and cons of not filing returns as we explore new funding options.

Research on federal excise taxes began during the course of the audit. Federal authorities tell us the agency is not exempt from airfare taxes, but the question of telephone excise tax is not yet settled. The Board has directed administration to pursue this question to resolution by the end of this fiscal year.

Thank you for the opportunity to reply to the Preliminary Report. If you desire further response I can be contacted as below.

Sincerely,

Gayla Valle, President
SESA Board of Directors
907-784-3317 days
907-784-3266 evenings

gvalle_@excite.com

cc: SESA Board of Directors