



## Research Report

# Review of Student Growth Funding and Expenditures

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**THE HOUSE INTERIM COMMITTEE ON EDUCATION**  
**AND THE SENATE INTERIM COMMITTEE ON EDUCATION**



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## INTRODUCTION

The Adequacy Study statute (A.C.A. §10-3-2102) requires the Education Committees to "review and continue to evaluate the costs of an adequate education for all students." To accomplish that mandate, state statute stipulates that the Education Committees review expenditures from student growth funding. The purpose of this report is to explain (1) how student growth funding is distributed to districts and charter schools and (2) how districts and charter schools spend the money they receive.

## BACKGROUND

Districts receive additional funding to help ease the financial burden that comes with a rapid increase or decrease in students. As the Adequacy Study Oversight Subcommittee noted in its 2006 adequacy report, "the loss of one (1) or even twenty-five (25) students does not necessarily correlate into the reduction of a teaching position. By the same token, the addition of one (1) or twenty-five (25) students does not necessarily correlate into the addition of a teacher." The current statutes establishing these funding requirements are found in A.C.A. § 6-20-2305(c) (2) (A) and (a) (3) (A).

## STUDENT GROWTH FUNDING HISTORY

For two decades, the state has provided additional funding to growing districts to support increasing enrollments. In 1994, the Governor's Task Force to Study Arkansas School Funding completed work that was used in the creation of the student growth funding model. According to a news article as well as letters written to the Task Force, funding for growing districts became one of its top concerns.

Act 917 of 1995 created the new student growth funding program, and it provided a mechanism to determine how growth funding would be distributed to districts and later to open-enrollment charter schools. The act required student growth funding to be determined by comparing first quarter current year average daily membership (ADM) to the previous year ADM for the same time frame. The General Assembly passed Act 1194 of 1995 to appropriate \$29 million.

During the Lake View Lawsuit, the Special Masters' 2007 report noted that litigating districts were concerned about the time period used to calculate increases in enrollment. Initially, Act 917 required student growth funding to be based on first quarter ADM. Ten years later, Act 2283 of 2005 required student growth to be calculated using the two-quarter average ADM of the previous school year.

Two years later, the General Assembly passed Act 461 of 2007 to change the way student growth funding would be calculated. Instead of using the first or second quarter ADM from the current and previous year, Act 461 required student growth funding to be calculated based on the ADM for all four quarters of the current school year and the 3 Quarter Average from the previous year. This act allowed funding to correspond with real-time increases of enrollment, and it changed the fixed funding rate from \$5,400 per student to a variable rate that could increase each year.

## STUDENT GROWTH FUNDING

### STUDENT GROWTH CALCULATION

By January 31<sup>st</sup> of each year, the Arkansas Department of Education is required to calculate the amount of student growth funding based on the quarterly ADM data entered in the Arkansas Public School Computer Network (APSCN) [A.C.A §6-20-2305(c)(B)(i)(a)]. The ADM is determined by adding the total number of school days attended to the total number of days absent, and the sum of those two numbers is divided by the number of school days taught. This is illustrated below.

$$\frac{\text{Total Number of Schools Days Attended} + \text{Total Number of Days Absent}}{\text{Number of School Days Taught}} = \text{Average Daily Membership (Rounded to Nearest Hundredth)}$$

To determine the amount of *growth* in a district or charter school, compare the current year ADM for each quarter to the prior year's 3 Quarter Average. If there is an increase, multiply the amount of *growth* from each quarter by .25, and this equals the *quarterly growth rate*. Next, add the *quarterly growth rate* for each quarter to get the *total growth rate*. Finally, multiply the *total growth rate* by the foundation funding rate, and this equals the amount of total growth funding.

#### Example Calculation:

FY15	Qtr ADM FY15	3 Qtr Avg. FY14	Growth	*	Quarterly Growth Rate
1st Qtr - FY15	14,858.60	14,102.23	756.37	.25	189.09
2nd Qtr - FY15	14,829.79	14,102.23	727.56	.25	181.89
3rd Qtr - FY15	14,780.91	14,102.23	678.68	.25	169.67
4th Qtr - FY15	14,760.21	14,102.23	657.98	.25	164.50
<b>Total Growth Rate</b>					<b>705.15</b>

$$\begin{array}{rcccl} \text{Total Growth Rate} & & \text{Foundation Funding Rate} & & \text{Total Growth Funding} \\ 705.15 & \times & \$6,521 & = & \$4,598,283.15 \end{array}$$

Essentially, districts and charters receive the full rate of foundation funding for each student added.

## STUDENT GROWTH FUNDING – PUBLIC SCHOOL DISTRICTS

In 2014, 113 districts received a total of \$29.2 million in student growth funding. In spite of more districts receiving growth funds, there was an 18% decrease in the amount of total student growth funding compared to the previous year. Table 1 shows the total growth funding provided to districts in each of the last four years. (These figures do not include charter schools. See Student Growth Funding – Open Enrollment Charter Schools.)

TABLE 1 DISTRICTS RECEIVING STUDENT GROWTH FUNDING

Year	Districts That Received Student Growth Funding	Student Growth Funding
2010-2011	97	\$26,267,981
2011-2012	94	\$24,390,665
2012-2013	104	\$35,476,686
2013-2014	113	\$29,210,065

In 2014, student growth payments ranged from \$783 (Viola School District) to \$2.8 million (Springdale School District). The average student growth payment was \$258,496.

## STUDENT GROWTH FUNDING – OPEN ENROLLMENT CHARTER SCHOOLS

In 2014, nine open enrollment charter schools received a total of \$4.5 million in student growth payments. There were increases across the board in enrollment, the number of charter schools receiving funding, and amount of growth funding received. Table 2 shows student growth funding for the last four years received by charter schools.

TABLE 2 CHARTERS RECEIVING STUDENT GROWTH FUNDING

Year	Charter Schools That Received Student Growth Funding	Student Growth Funding
2010-2011	8	\$2,007,800
2011-2012	6	\$1,897,328
2012-2013	6	\$1,414,698
2013-2014	9	\$4,520,698

In 2014, student growth payments ranged from \$3,724 (Haas Hall Academy) to \$3.48 million (Arkansas Virtual Academy). Last year, the majority of student growth funding went to the Arkansas Virtual Academy.

Prior to 2013, the Arkansas Virtual Academy's enrollment was capped at 500 due to a special language provision. In 2013, the General Assembly passed Act 1309 that included special language (non-codified) raising the enrollment cap from 500 to 3,000. The following school year, Arkansas Virtual Academy enrolled 1,334 students and received growth funding for the increase in students.

## STUDENT GROWTH FUNDING EXPENDITURES AND FUND BALANCES

### STUDENT GROWTH EXPENDITURES – DISTRICTS

Since its creation, student growth funding has always been considered unrestricted, meaning districts can spend the money however best fits their needs. Although the General Assembly did not designate a specific use for the funding, the 2006 report of the Adequacy Study Oversight Subcommittee noted that the increased costs associated with growing enrollments are “primarily related to teachers” and “providing adequate facilities for the growing population.”

Table 3 shows student growth funding provided to the districts and the districts’ expenditures of those funds over the past four years.

TABLE 3 STUDENT GROWTH FUNDING AND EXPENDITURES

Year	Funding	Expenditures
<b>2010-2011</b>	\$26,267,981	\$22,245,232
<b>2011-2012</b>	\$24,390,665	\$20,990,377
<b>2012-2013</b>	\$35,476,686	\$28,352,624
<b>2013-2014</b>	\$29,210,065	\$22,632,058

Districts’ student growth expenditures can be viewed by the type of programs or services on which districts spend the funds. For the purposes of this report, district expenditures of growth funds have been broken down into the following general categories:

#### **Regular Instructional Programs**

Includes expenditures for regular instruction for kindergarten through high school instruction as well as athletics and extracurricular activities.

#### **Other Instructional Programs**

Includes expenditures for career education, special education, and compensatory educational programs (e.g., before- and after-school programs, tutoring).

#### **Student Support Services**

Includes expenditures for social workers, speech pathology services, nurses and parental involvement services.

#### **Other School-Level Instructional Staff**

Includes expenditures for gifted and talented coordinators, special education directors and computer technology instructors.

#### **General Administration and Central Services**

Includes expenditures for the school board, superintendent’s office, principal’s office, fiscal services (e.g., accounting services) and administrative technology services.

#### **Operations and Maintenance**

Includes expenditures for the operation and maintenance of buildings and equipment as well as security services.

#### **Student Transportation Services**

Includes bus operation, service and maintenance.



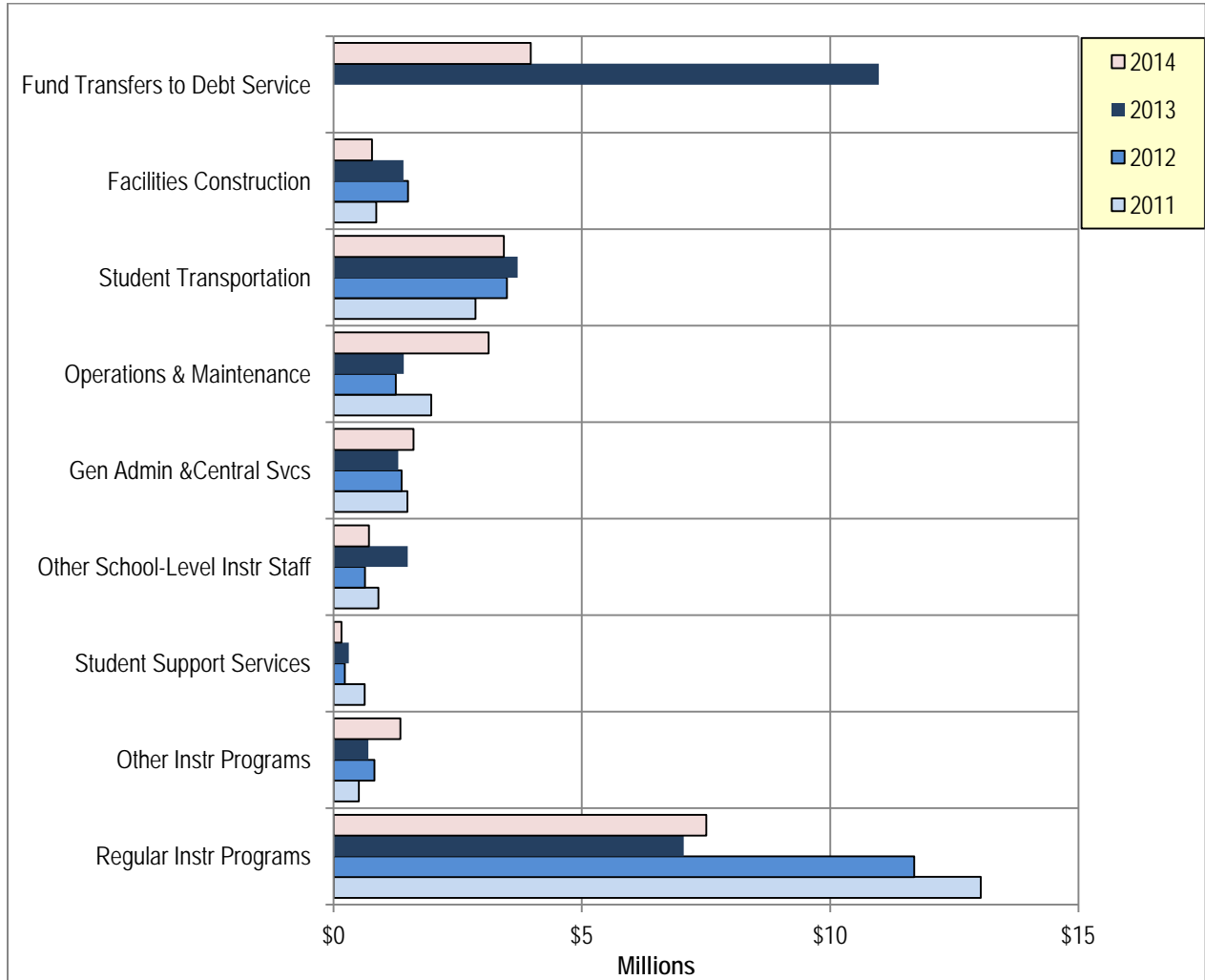
**Facilities Acquisition and Construction**

Includes expenditures for land acquisition, building construction and site improvements (e.g., fences, walkways, landscaping, etc.).

**Fund Transfers to Debt Service**

Transfers of student growth funding to be used for debt service.

**CHART 1 PUBLIC SCHOOLS STUDENT GROWTH EXPENDITURES, 2011-2014**



Since 2011, districts have reduced (by nearly half) the amount of student growth funding spent on regular instructional programs. In 2014, \$7.5 million was spent on regular instructional programs. In 2013, fund transfers to debt service accounted for about 38% or \$ 10.9 million of total student growth funding expenditures. In 2014, about 17.5% or nearly \$4 million was transferred for debt service. In 2014, districts spent \$3.1 million on O & M expenditures, which grew compared to the previous year.

## STUDENT GROWTH EXPENDITURES – OPEN ENROLLMENT CHARTER SCHOOLS

Like traditional public school districts, open enrollment charters also receive unrestricted student growth funding. Table 4 shows student growth funding provided to charters and their expenditures for those funds over the past four years.

**TABLE 4 CHARTER SCHOOL STUDENT GROWTH FUNDING AND EXPENDITURES**

Year	Funding	Expenditures
2010-2011	\$2,007,800	\$1,226,452
2011-2012	\$1,897,328	\$1,738,441
2012-2013	\$1,414,698	\$1,006,704
2013-2014	\$4,520,698	\$4,498,902

Similar to traditional public school districts, this report also provides the types of program and service expenditures for open enrollment charter schools that receive and utilize student growth funding. (See pages 4 and 5 for list and definitions of general categories)

Chart 2 shows student growth expenditures for public charter schools.

**CHART 2 CHARTER SCHOOLS STUDENT GROWTH EXPENDITURES, 2011-2014**

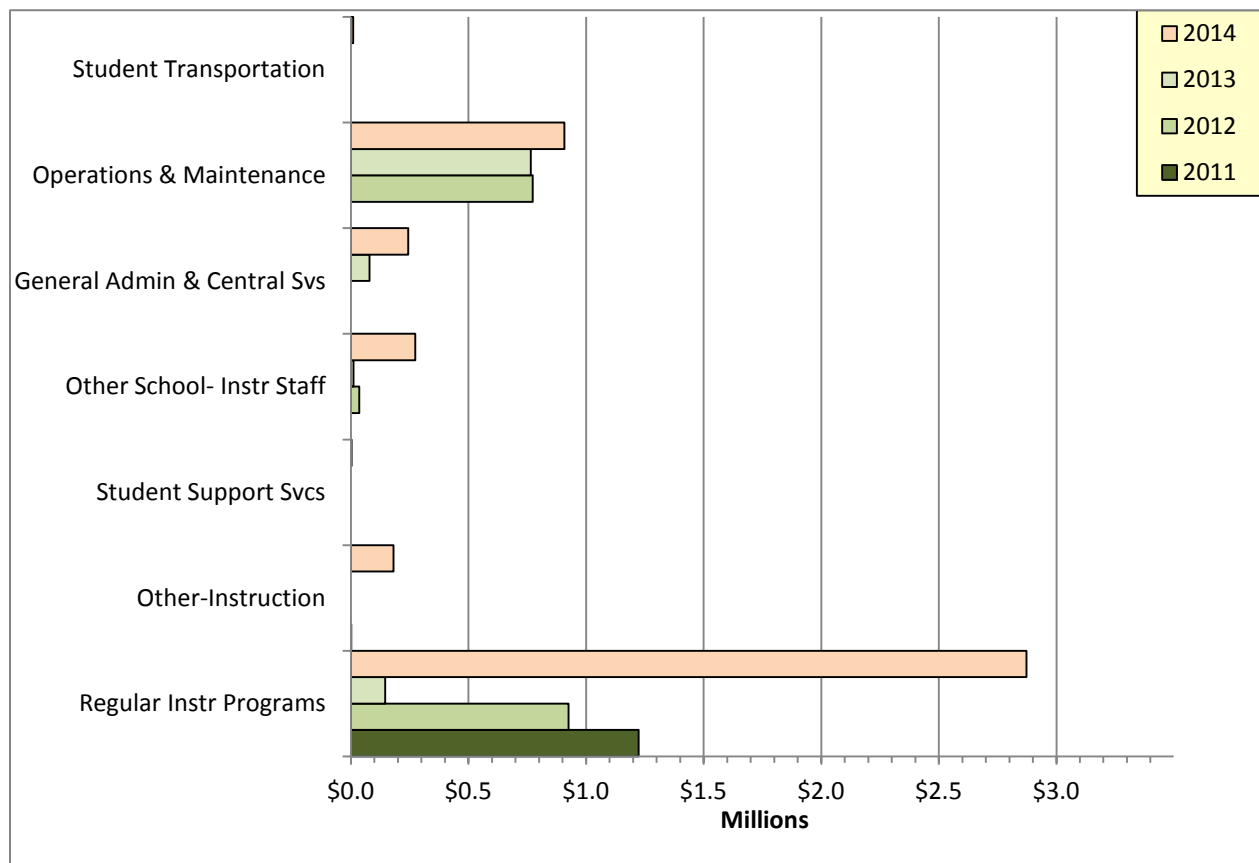
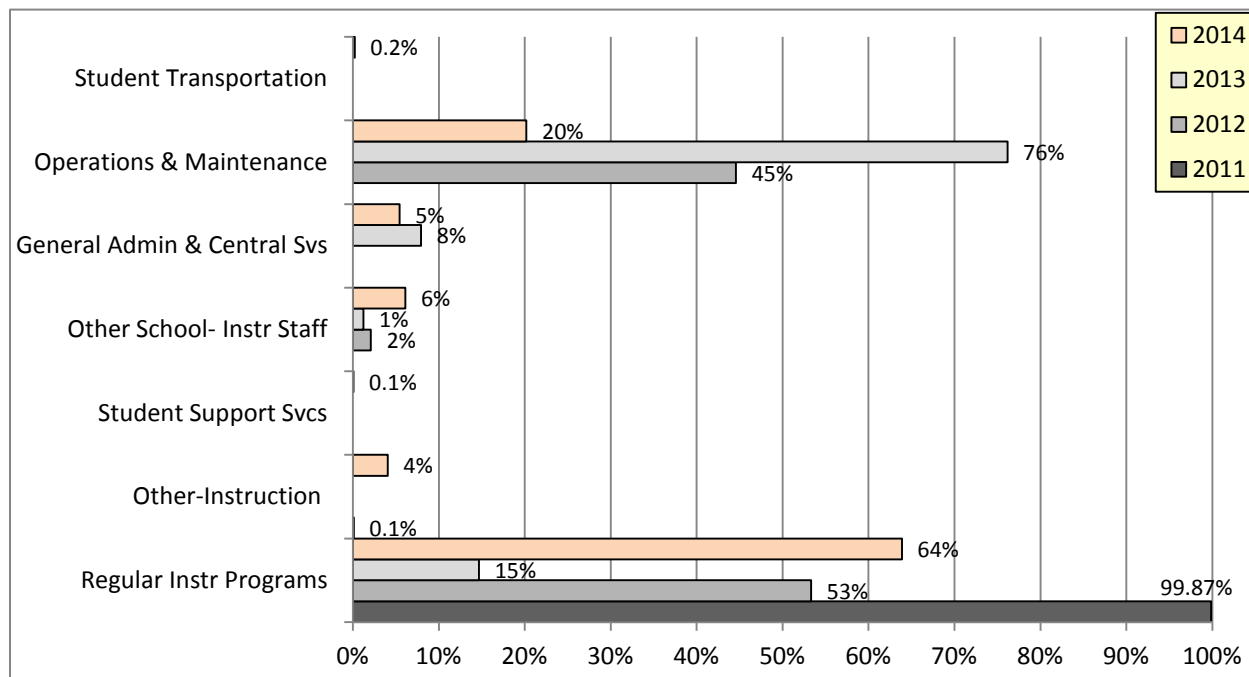


Chart 3 shows charter school expenditures based on the percentage of growth funding used. It is easier to see how and where charter schools spent their student growth funding over a period of time.

**CHART 3 CHARTER SCHOOL EXPENDITURES 2011-2014**



In 2014, charter schools received more funding compared to previous years. However, the use of student growth funding varies from year to year compared to the steadier funding of traditional public schools.

**STUDENT GROWTH END FUND BALANCES – DISTRICTS AND CHARTER SCHOOLS**

Districts are allowed to carry over student growth funding from one year to the next. As a result, more districts may have ending fund balances that include funding received from the previous year(s). Districts receive student growth funds in two parts: once in January and again in April. These payments are based on ADM estimates, and the exact amounts are not finalized until July 31 when actual ADM counts are available. Therefore, districts do not know their true funding until after the school year is complete.

Table 5 shows the total student growth ending fund balance and the number of districts with ending fund balances.

**TABLE 5 DISTRICTS ENDING FUND BALANCE**

	Total Student Growth Ending Fund Balance	Districts with Ending Fund Balances
2010-11	\$22.1 million	124
2011-12	\$25.1 million	125
2012-13	\$32.6 million	141
2013-14	\$39.1 million	144

In 2014, 144 districts had a total ending fund balance of \$39.1 million, which reflects an increase in the total student growth fund balance and the number of districts with ending fund balances compared to the previous year. To determine one possible reason for the increase, the Bureau of Legislative Research contacted districts with ending fund balances of at least \$ 1 million dollars. The reason commonly stated by those districts was that the funding is being pooled for future capital improvements. In addition to capital improvements, a district representative stated that growth funds in their district were also used to purchase new buses and provide employee bonuses.

Since districts do not have a complete picture of their growth funding until July 31<sup>st</sup>, some districts do not spend the current year's funding until the following year. Because of this budgeting practice, it is not uncommon for districts to carry fund balances.

Similar to traditional public school districts, open enrollment charter schools are also allowed to carry over student growth funding from the previous year to the next year. Table 6 shows the total student growth fund balance and the number of charter schools with an ending funding balance for the last four years.

**TABLE 6 CHARTER SCHOOL ENDING FUND BALANCE**

	<b>Total Student Growth Ending Fund Balance</b>	<b>Charter Schools with Ending Fund Balances</b>
2010-11	\$961,586	6
2011-12	\$1,120,473	6
2012-13	\$1,528,466	6
2013-14	\$1,549,924	7

Between 2011 and 2012 there were modest increases of the total ending fund balance. However, public charter school fund balances between 2012 and 2014 remained steady. Similar to traditional public school districts, public charter schools do not have a complete picture of their funding due to when it is disbursed.

In general, large ending fund balances may be indicative of districts or charters not spending money. Because student growth funds are unrestricted, districts and charters may opt to pool student growth funding to use toward other projects. In addition, ending fund balances may also parallel the times when student growth payments are disbursed to the charters and districts throughout the year.

## CONCLUSION

The state of Arkansas provides student growth funding to traditional public school districts and open enrollment charter schools to help them manage increases to their enrollment. When students are added to the rosters, the charter or district will need extra resources to serve the needs of that student.

To determine the amount of growth funding, the quarterly ADM totals of the current year are compared to the 3 Quarter Average of the previous year. Essentially, charters or districts receive the full foundation funding rate based on quarterly increases to student enrollment. In 2014, 113 districts received a total of \$29.2 million in growth funding. In that same year, nine charter schools received \$4.5 million.

Since student growth funding is unrestricted, districts and charters have flexibility in where and how growth funding can be used. In 2014, district expenditures totaled \$22.6 million and charter school expenditures totaled \$4.4 million. Charter schools and districts had comparable uses of

growth funding. The most common uses for growth funds were regular instruction programs, O&M, and General Administration/Central Services.

In addition to being unrestricted, growth funds may be carried over from one year to the next. As a result, districts and charters may have ending fund balances that include funding from the previous year. Thus, it is not uncommon to see districts or charters with an ending fund balance. In 2014, 144 districts had a total ending fund balance of \$39.1 million, which reflects an increase in the number of districts with ending fund balances and the total amount of the ending fund balance. To determine a possible reason for this increase, districts with ending fund balances of \$1 million were contacted. Among the districts surveyed, the most common reasons were that the funds are being pooled for capital improvement projects (i.e. new buildings), transportation, and technology purchases. In 2014, seven open enrollment charter schools had an ending fund balance totaling \$1.5 million.