



Research Report

Review of Student Growth and Declining Enrollment Funding and Expenditures

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Prepared for
THE HOUSE 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 duty, the statute calls for the Education Committees to review expenditures from declining enrollment funding and student growth funding. The purpose of this report is to explain how these two types of funding are distributed and how districts spend the money they receive. The current statutes establishing these funding requirements are found in A.C.A. § 6-20-2305(c)(2)(A) and (a)(3)(A).

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, "[T]he subcommittee notes that 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."

STUDENT GROWTH FUNDING

For nearly two decades, the state has provided additional funding to growing districts to support increasing enrollments. Student growth funding was created based on the work completed by the 1994 Governor's Task Force To Study Arkansas School Funding. According to a news article written at the time and letters solicited during the Task Force's work, funding for growing districts was among the top concerns the Task Force heard. In 1995, the General Assembly passed Act 917 of 1995, which included new funding for student growth and appropriated \$29 million for that purpose.

During the Lake View lawsuit, school districts that were party to the lawsuit expressed concern about the time period for calculating enrollment increases, according to the 2007 Special Masters' Report. Growth funding had been based on enrollment growth in districts' first semester of their current year compared with the first semester of the previous year. Act 461 of 2007 changed the law so that the calculation would instead be done on a quarterly basis, providing funding to districts to more closely correspond with the actual increase in enrollment. Act 461 also changed the amount on which growth funding was calculated from a fixed \$5,400 per student to the established foundation funding rate, which typically increases each year.

Since its creation, the 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."

DECLINING ENROLLMENT FUNDING

The costs associated with declining enrollment surfaced as an issue many years after the creation of student growth funding. In 2005, the Special Masters, appointed by the Arkansas Supreme Court to examine the issues raised in the Lake View lawsuit, expressed concern about the financial impact of districts' loss of students. Referring to a financial impact of a declining enrollment as a "double whammy," the Special Masters noted that "a loss of students does not necessarily translate into a reduction in the district's financial need, e.g., fewer students may not mean fewer teachers are needed."

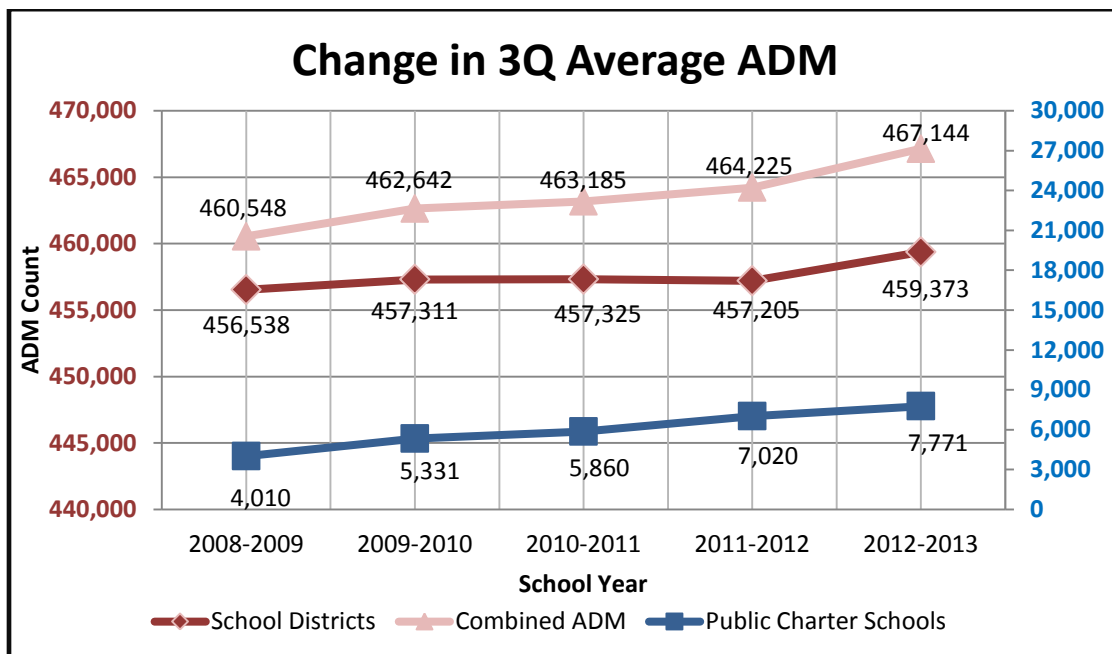
The following February and March, the Adequacy Study Oversight Subcommittee held hearings on issues related to declining enrollment. In April that year, the General Assembly passed Acts 20 and 21 of the First Extraordinary Session of 2006, creating the declining enrollment funding program and appropriating \$10 million for that purpose. Like student growth funding, declining enrollment funding was created as unrestricted money, meaning districts are free to use it however best fits their needs.

The money was intended to be a temporary measure until the funding’s effectiveness could be studied further. The Adequacy Study Oversight Subcommittee continued studying the issue in August of 2006 by reviewing the districts that qualified for funding, general population trends in Arkansas counties and other states’ funding programs for districts with declining enrollment.

Then in its final 2006 Adequacy Report, published in January 2007, the Adequacy Study Oversight Subcommittee recognized that districts with declining enrollments (and therefore declining revenues) may not have commensurate decreases in costs. However, the Subcommittee also noted that because districts' foundation funding is based on the prior year’s average daily membership (ADM), the formula already provides a built-in “cushion” for loss of students from one year to the next. In other words, if a district has fewer students in this year’s enrollment than it had in last year’s enrollment and it’s being paid this year based on last year’s higher student count, the district is receiving funding for more students than it is actually responsible for educating. The Subcommittee recommended continued declining enrollment funding and additional study.

STATEWIDE CHANGES IN ENROLLMENT

Because this report examines the funding provided to districts based on changes in their enrollments, it is important to understand the statewide enrollment patterns. The chart below shows that the total ADM for all public schools is increasing slightly—about 1.4% between 2009 and 2013. Much of the increase is the result of growing population in open enrollment public charter schools, which increased nearly 94% between 2009 and 2013. The ADM for all traditional public school districts remained fairly steady between 2009 and 2012 and added more than 2,000 students in 2013.



STUDENT GROWTH FUNDING

STUDENT GROWTH CALCULATION

The amount of growth funding a district receives is calculated by multiplying the per-student foundation funding amount by the increase in districts' current ADM over the ADM from the previous year. However, the calculation calls for each quarter's ADM of the current year to be compared with the prior year's ADM and multiplied by .25 of the foundation funding rate.

Example Calculation:

FY13	Qtr ADM FY13	3 Qtr Avg. FY12	Growth	*	Rate
1st Qtr - FY13	14,858.60	14,102.23	756.37	.25	189.09
2nd Qtr - FY13	14,829.79	14,102.23	727.56	.25	181.89
3rd Qtr - FY13	14,780.91	14,102.23	678.68	.25	169.67
4th Qtr - FY13	14,760.21	14,102.23	657.98	.25	164.50
					705.15

$$\begin{array}{rclcl}
 \text{Growth Rate} & & \text{Foundation Funding Rate} & & \text{Total Growth Funding} \\
 705.15 & \times & \$6,267 & = & \$4,419,159.38
 \end{array}$$

For the 2012-13 school year, 104 districts received nearly \$35.5 million in student growth funding, an increase over both the number of districts and the amount of funding the previous two years. The increase is likely related to the statewide increase in ADM the same year. The following chart shows the total growth funding provided to districts in each of the last three years. (The figures do not include charter schools.)

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

The student growth payments for individual districts in 2012-13 ranged from \$1,034 (Ouachita School District) to \$4.4 million (Bentonville School District). The average district payment was \$341,122.

STUDENT GROWTH EXPENDITURES

The following table shows student growth funding provided to the districts and the districts' expenditures of those funds over the past three years.

Year	Funding	Expenditures
2010-2011	\$26,267,981	\$22,245,232
2011-2012	\$24,390,665	\$20,990,377
2012-2013	\$35,476,686	\$28,352,624

Student growth funds are considered unrestricted, meaning districts may use the funds however they believe best fits their needs.

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.

Other Instructional Programs

Includes expenditures for athletics, extracurricular activities, career 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.

Food Services Operations

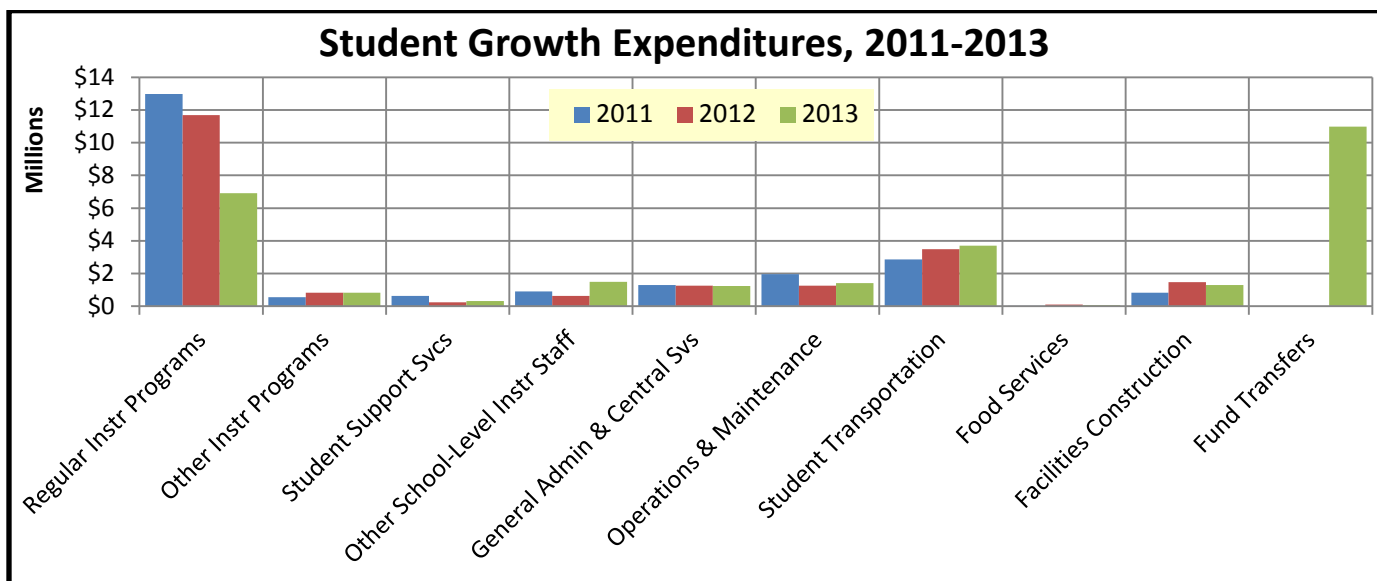
Includes expenditures for the operation of school lunch and breakfast programs.

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.



Note: The chart above does not include several types of relatively small expenditures that didn't fit within the larger categories, including Medicaid match expenditures, postdated warrants, and lease purchase payments.

Districts have reduced by nearly half the amount of student growth funding they have spent on regular instructional programs over the last three years and have slightly increased the amount spent on transportation. In 2013, a significant amount of student growth funding was transferred by five districts to be used for debt service. One of these districts said the new use was the result of recent conversations several districts had with ADE officials about the best way to spend student growth funding. The district noted that, because it's difficult to spend the funding for incremental increases in resources needed for additional students (i.e., a few more textbooks, an additional teacher, several extra computers, etc.), these districts sought permission to use the funding in a more lump sum manner to pay down debt. The district expects similar expenditures to increase in future years.

STUDENT GROWTH FUND BALANCES

In 2013, 141 districts have a collective student growth fund balance of \$32.6 million, an increase over previous years. (Districts are allowed to carry over student growth funding from one year to the next, so more districts may have fund balances than just those that received funding in a given year.)

	Total Student Growth 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

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.

Because districts do not have a complete picture of their growth funding until July 31, some districts do not spend the current year's funding until the following year. An example of this was heard by Bureau of Legislative Research staff on a site visit to one of the 74 schools surveyed for the adequacy study. The school official stated that the district spends all of its growth funding in the following year because district officials are uncertain how much they will receive. Because of this budgeting practice, it is not uncommon for districts to carry fund balances.

DECLINING ENROLLMENT FUNDING

DECLINING ENROLLMENT CALCULATION

A.C.A. §6-20-2305(a)(3)(A)(i) provides additional funding for school districts that have experienced a decrease in their student population. The funding is designed to provide extra money to schools to help these districts deal with a decrease in foundation funding resulting from the loss of students. To calculate declining enrollment funding, districts subtract the ADM for the previous year from the average ADM for the previous two years and multiply that amount by the per-student foundation funding amount.

Example Calculation:

FY11 3-Qtr. ADM	FY12 3-Qtr. ADM	FY11 and FY12 Average ADM	FY13 Foundation Funding Amount
2,241.96	1,897.12	2,069.54	\$6,267

$$\begin{array}{rcl}
 \text{Prior 2 Year} & & \text{Prior Year} \\
 \text{Avg. ADM} & & \text{ADM} \\
 2,069.54 & - & 1,897 \\
 & & = \\
 & & 172.42
 \end{array}$$

$$\begin{array}{rcl}
 \text{ADM} & & \text{Foundation} \\
 \text{Difference} & & \text{Funding Rate} \\
 172.42 & \times & \$6,267 \\
 & & = \\
 & & \$1,080,556.14
 \end{array}$$

In 2012-13, 89 school districts received \$10.2 million in declining enrollment funding. Fewer districts received funding in 2013 than received it in either of the two previous years. The total amount of declining enrollment funding decreased from 2012, but the 2013 funding level represents an increase over 2011. (The figures do not include open enrollment charter schools.)

Year	Districts that Received Declining Enrollment Funding	Total Declining Enrollment Funding
2011	91	\$9,991,197
2012	99	\$12,766,209
2013	89	\$10,233,450

The declining enrollment payments for individual districts in 2012-13 ranged from \$8,962 (Mulberry/Pleasant View Bi-County School District) to \$1.1 million (Helena-West Helena School District). The average district payment was \$114,983.

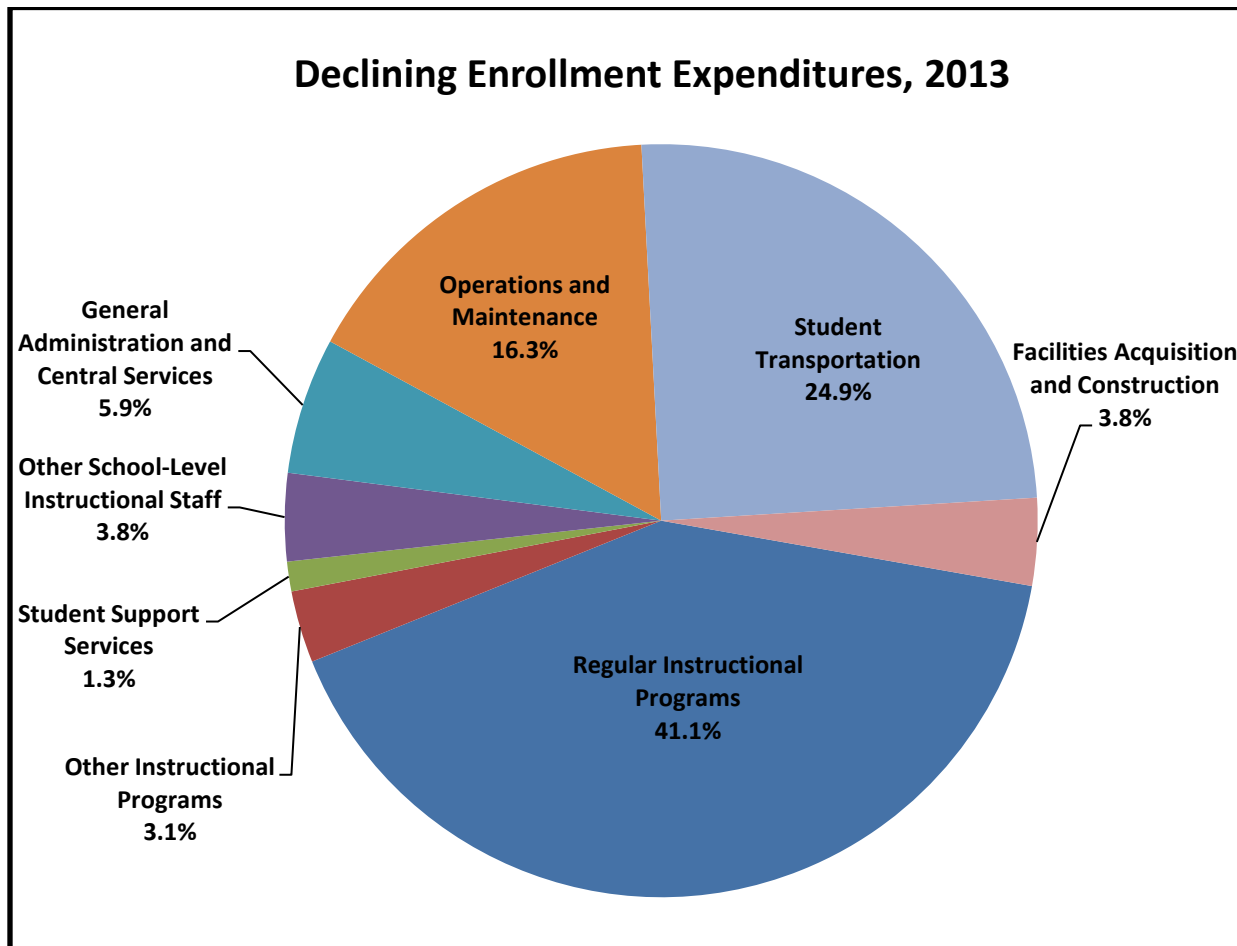
DECLINING ENROLLMENT EXPENDITURES

The following table shows the funding provided to districts compared with the total district expenditures over the past three years. Total expenditures have decreased each of the last three years.

Year	Funding	Expenditures
2010-2011	\$9,991,197	\$11,853,615
2011-2012	\$12,766,209	\$10,354,057
2012-2013	\$10,233,450	\$8,355,116

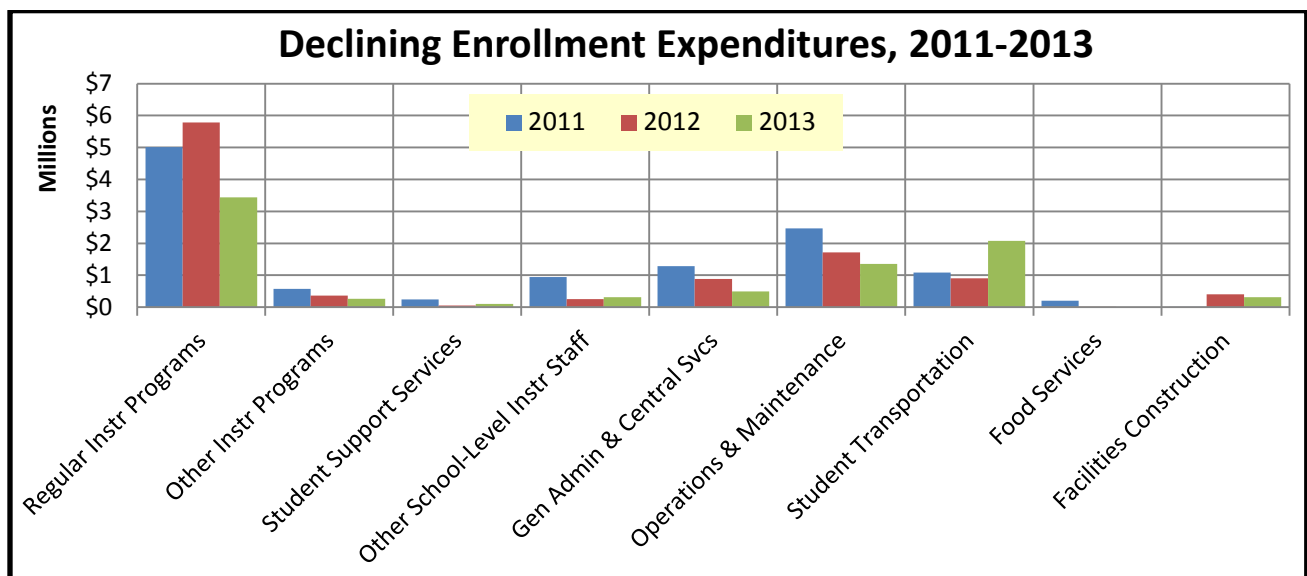
Like growth funding, declining enrollment expenditures are also considered unrestricted. To examine how districts spent their declining enrollment funds, this report categorizes expenditures by program or service type. **See page 4 for a description of the categories.**

As shown on the following chart, districts spent the largest portions of their declining enrollment funding on regular instructional programs, transportation and operations and maintenance. While transportation expenditures accounted for a quarter of all declining enrollment expenditures in 2013, the majority of those expenditures were incurred by a single district (Pulaski County Special School District).



Note: The chart above does not include several types of relatively small expenditures that didn't fit within the larger categories, including postdated warrants and lease purchase payments.

The chart on the following page shows that over the last three years, districts have begun spending less of their declining enrollment funding on regular instructional programs and operations and maintenance. At the same time, they have increased spending on student transportation.



Note: The chart above does not include several types of relatively small expenditures that didn't fit within the larger categories, including postdated warrants and lease purchase payments.

Declining enrollment funding was designed to ease districts' transition to a smaller student population, not prevent necessary staffing reductions. To examine whether districts that have received declining enrollment are actually reducing their overall operating expenditures and full-time employees (FTEs), the following table provides information on the expenditures and FTEs of the 40 districts that have received declining enrollment every year for each of the last three years. The table shows the average non-federal operating expenditures and the average non-federal FTEs each year for these 40 districts. On average, there has been little change in the operating expenditures and total FTEs in these districts.

Declining Enrollment	2010-2011	2011-2012	2012-2013
Average expenditures	\$10.48 million	\$10.49 million	\$10.45 million
Average FTEs	184.6 FTEs	186.1 FTEs	182.7 FTEs

Some individual districts have made necessary reductions, while others have not. Of the 40 districts that consistently received declining enrollment funding:

- **Five** consistently reduced their expenditures over the three-year period.
- **Three** have not made any reductions in expenditures over the three-year period.
- **Eight** consistently reduced the number of FTEs they employed over the three-year period.
- **One** has not made any FTE reductions over the three-year time frame.

DECLINING ENROLLMENT FUND BALANCES

In 2013, 99 districts collectively had a fund balance of declining enrollment funding of nearly \$15 million, an increase over previous years.

	Total Declining Enrollment Fund Balance	Districts with Ending Fund Balances
2010-11	\$10.6 million	102
2011-12	\$13.0 million	101
2012-13	\$14.9 million	99

Unlike student growth funding, declining enrollment funding is distributed to districts in a single January payment. Because the payment is made earlier in the year and there is more certainty about the amount of funding districts will receive, declining enrollment fund balances may be less related to payment timing than student growth fund balances are.

DISTRICTS ELIGIBLE FOR GROWTH AND DECLINING FUNDING

Because declining enrollment funding and student growth funding are based on the ADM of different years, it's possible for a school district to qualify for both declining enrollment and student growth funding in the same year. However, state statute prohibits districts from actually *receiving* both funding types in a single year. When a district qualifies for both, the Arkansas Department of Education (ADE) issues the funding type that would most benefit the district. The following chart shows the number of districts that were *eligible* to receive both student growth and declining enrollment funding in the same year (although none actually *received* both types of funding).

	Districts Eligible for Growth and Declining Enrollment Funding
2011	64
2012	58
2013	64

Because districts can qualify for growth or declining enrollment funding even when they have small increases or decreases in ADM, some districts may receive growth one year due to a slight increase in students and they may receive declining enrollment the next year. The McCrory School District is one example of a district moving back and forth between these funding programs. In 2010-11, McCrory received growth funding. The district received neither funding source in 2011-12 and received declining funding in the 2012-13 school year. This example is provided in the table below.

	ADM	Funding Received
2009-10	655.25	
2010-11	673.90	\$97,422 (Growth Funding)
2011-12	644.10	\$0
2012-13	618.68	\$93,378 (Declining Enrollment Funding)

During the three school years between 2011 and 2013, 72 districts received both types of funding in different years.

Additionally, state statute prohibits school districts from receiving both declining enrollment funding and special needs isolated funding. (Special needs isolated funding will be addressed in a separate report later in the adequacy study process.) When a district qualifies for both funding types, ADE issues the funding type that most benefits the district. In nearly all instances, districts that are eligible for both declining enrollment and special needs isolated actually receive the isolated funding amount. The following chart shows the number of districts that were *eligible* for both funding types over the past three years (although none of the districts actually *received* both types of funding).

	Districts Eligible for Declining Enrollment and Special Needs Isolated Funding
2011	14
2012	16
2013	17

CONCLUSION

Arkansas provides additional funding to school districts to help them manage changes in their student population. Student growth funds were designed to provide unrestricted funding to districts to help them serve increasing numbers of students. Declining enrollment funding was established to ease the financial issues that accompany the loss of students. Because the funds were developed to simply ease the transition from one district size to another, specific uses of the funds were not established.

An increasing number of districts receive student growth funding each year, while the number of districts receiving declining enrollment has decreased. This trend is perhaps the result of a slight upward trend in ADM statewide. The total amount of student growth funding provided to districts has also increased, while declining enrollment funding varied over the last three years.

In 2012-13, 104 districts received a total of about \$35.5 million in growth funds. Another 89 districts received about \$10.2 million in declining enrollment funding, for a total of 193 districts benefitting from these funding sources.

Student growth funding is calculated based on a district's current year ADM growth, while declining enrollment funding is based on the loss of students incurred in the prior year. Because the funding is based on change in ADM in different years, it's possible to qualify for both funding types in the same year. In 2013, 64 districts qualified for both student growth and declining enrollment funding (though these districts did not actually *receive* both types). Additionally, it's possible for districts to receive declining enrollment one year and growth funding the next because the funding calculations are based on changes in student numbers from one year to the next, rather than on a sustained level of increase or decrease.

Student growth and declining enrollment funding are considered unrestricted funds, meaning districts can spend the money however best fits their needs. Over the last three years, districts spent the greatest amount of both types of funds on regular K-12 instruction. Districts also spent an increasing amount of the funds on student transportation. Additionally, districts receiving declining enrollment have spent a significant, though decreasing, portion of those funds on operations and maintenance. Several districts receiving student growth funding have shifted toward using a large portion of those funds to pay down debt.

Total district fund balances for both student growth and declining enrollment funding have increased each year for the last three years. Ending fund balances for student growth funds totaled \$32.6 million for 2013, and ending fund balances for declining enrollment totaled \$14.9 million. However, large fund balances for student growth funding may be more related to the timing of the payments to districts during the year, than to any failure to spend the money.