



Research Report

Review of Declining Enrollment Funding and Expenditures

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Prepared for

**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 duty, the statute calls for the Education Committees to review expenditures from declining enrollment funding. The purpose of this report is to explain how this type of funding is distributed and how districts spend the money they receive. The current statute establishing these funding requirements are found in A.C.A. § 6-20-2305(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."

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."

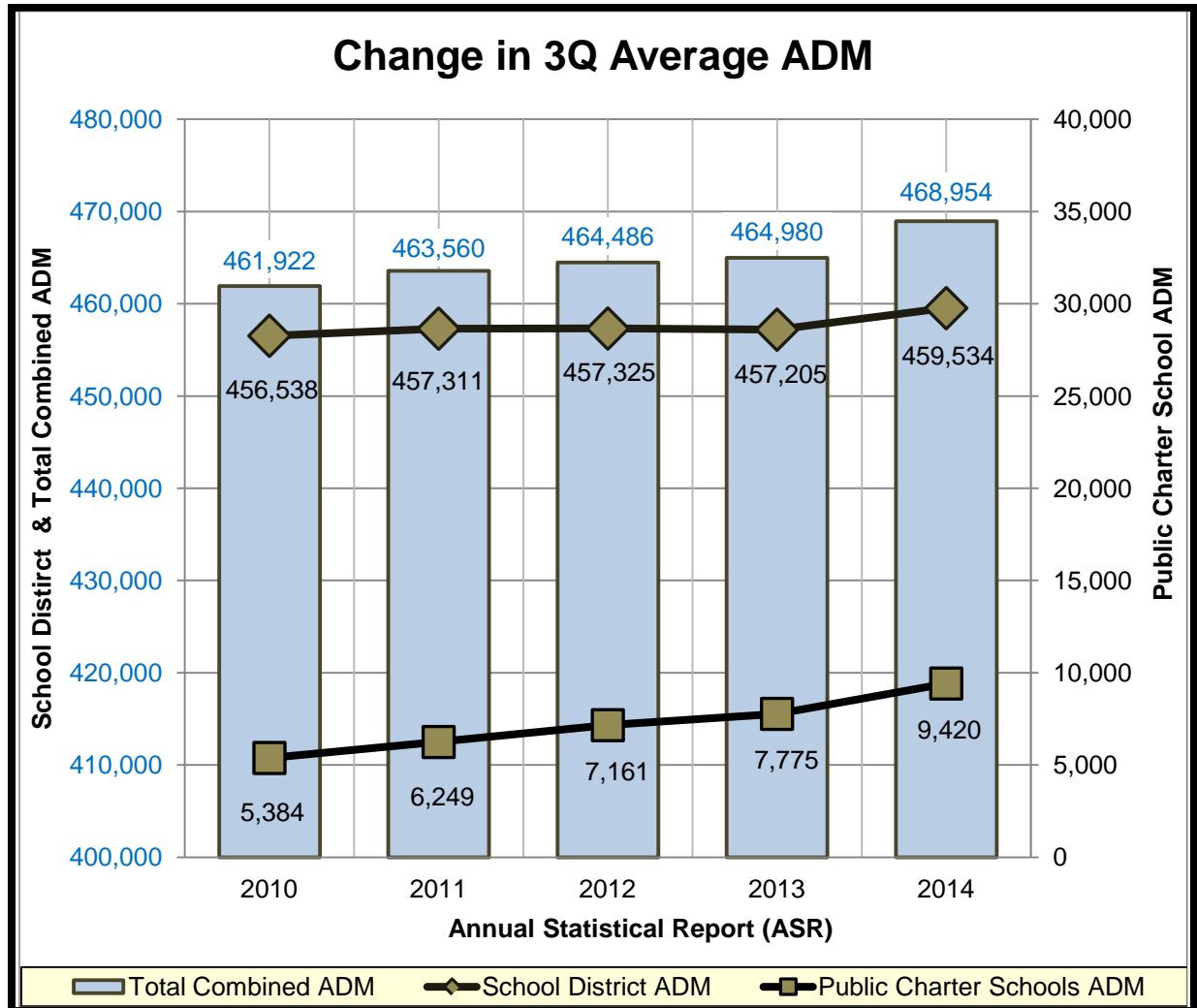
The following February and March, the Adequacy Study Oversight Subcommittee held hearings on issues related to declining enrollment. In April that year, the General Assembly passed Acts 20 and 21 of the First Extraordinary Session of 2006, creating the declining enrollment funding program and appropriating \$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 1.5% between 2010 and 2014. Much of the increase is the result of growing population in open enrollment public charter schools, which increased 75% between 2010 and 2014. The statewide ADM for all schools grew less than 1,000 per year between 2010 and 2012 but added almost 4,000 students in 2013, as reported in the 2014 Arkansas Statistical Report (ASR).



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

$$\begin{array}{rcl}
 \text{Prior 2 Year} & & \text{Prior Year} \\
 \text{Avg. ADM} & & \text{ADM} \\
 2,069.54 & - & 1,897.12 \\
 & & = \\
 & & 172.42
 \end{array}$$

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

In 2013-14, 78 school districts received \$9.8 million in declining enrollment funding. Fewer districts received funding in 2014 than received it in any of the three previous years. The total amount of declining enrollment funding decreased from the 2012 and the 2013 funding level. (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
2014	78	\$9,773,009

The declining enrollment payments for individual districts in 2013-14 ranged from \$1,151 (Cedarville School District) to \$1.27 million (Little Rock School District). The average district payment was \$125,295.

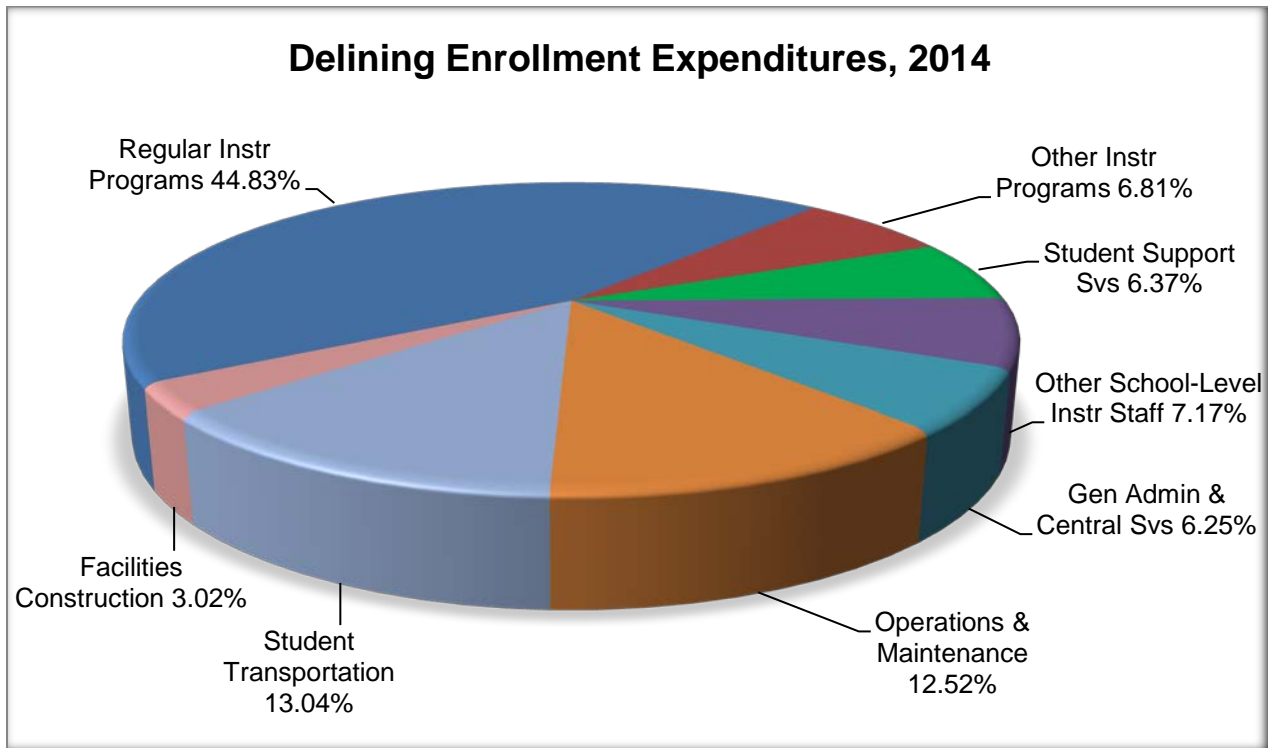
DECLINING ENROLLMENT EXPENDITURES

The following table shows the funding provided to districts compared with the total district expenditures over the past four years. Total expenditures have slightly increased during the most recent school year.

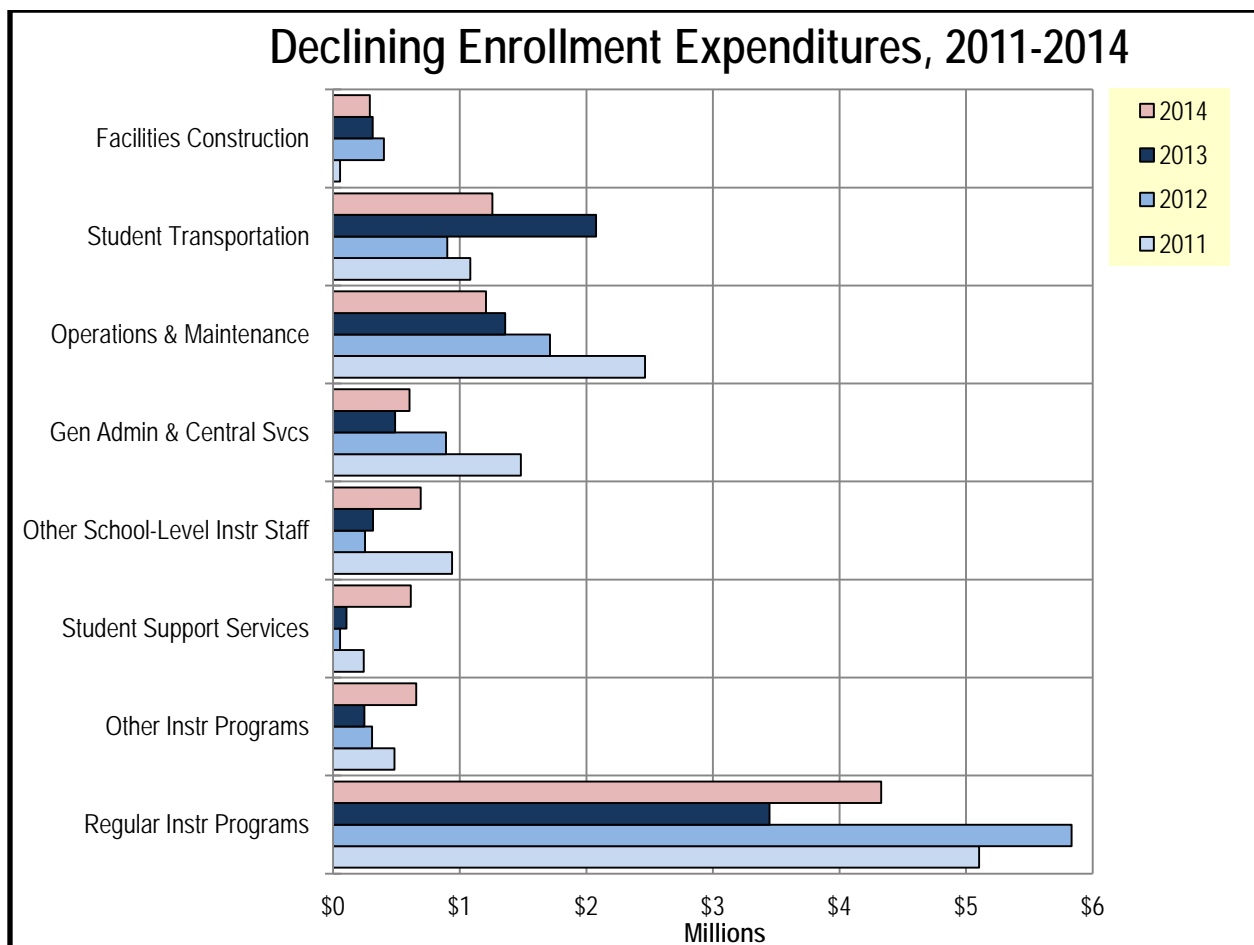
Year	Funding	Expenditures
2010-2011	\$9,991,197	\$11,853,615
2011-2012	\$12,766,209	\$10,354,057
2012-2013	\$10,233,450	\$8,355,116
2013-2014	\$9,773,009	\$9,654,965

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.

As reflected on the following chart, districts spent the largest portions of their declining enrollment funding on regular instructional programs, transportation and operations & maintenance.



The chart on the following page shows that over the last four years, districts have adjusted spending their declining enrollment funding between regular instructional programs, operations and maintenance, and 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 24 districts that have received declining enrollment every year for each of the last four years. The table shows the average non-federal operating expenditures and the average non-federal FTEs each year for these 24 districts. On average, there has been little change in the operating expenditures and total FTEs in these districts. In fact, in the period beginning 2010-11 and ending 2013-14, while the 24-district aggregate ADM declined 10.31%, their average FTEs decreased 4.5% and expenditures fell only 8/10 of 1%.

Declining Enrollment	2010-2011	2011-2012	2012-2013	2013-2014
Average Expenditures	\$11.27 million	\$11.29 million	\$11.22 million	\$11.17 million
Average FTEs	196.9 FTEs	200.0 FTEs	195.9 FTEs	188.0 FTEs

Some individual districts have made necessary reductions, while others have not. Of the 24 districts that consistently received declining enrollment funding:

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

DECLINING ENROLLMENT FUND BALANCES

In 2014, 106 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
2013-14	\$15.0 million	106

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 the 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
2014	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 and 2013-14 school years. 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)
2013-14	619.00	\$81,255.(Declining Enrollment Funding)

During the four school years between 2011 and 2014, 106 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 four 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
2014	20

DECLINING ENROLLMENT IN CHARTER SCHOOLS

As reflected in the list below, a few Charter Schools have also received Declining Enrollment Funding over the period 2011-2014:

2010-11	Dreamland Academy	\$ 88,689
	Arkansas Virtual Academy	\$ 10,747
2011-12	Imboden Charter School	\$ 5,038
	Dreamland Academy	\$ 27,464
	Covenantkeepers Charter School	\$ 7,987
2012-13	Imboden Charter School	\$ 23,313
2013-14	Covenantkeepers Charter School	\$ 26,371
	SIA Tech Little Rock Charter	\$166,506

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.

In 2013-14, 78 districts received about \$9.8 million in declining enrollment funding. Beginning in 2011-12, the number of districts receiving declining enrollment has decreased each year.

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 2014, 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 four years, districts spent the greatest amount of declining enrollment funds on regular K-12 instruction. Districts also spent a significant amount of their declining enrollment funds on student transportation and operations & maintenance.

Total district fund balances for declining enrollment funding have increased each year for the last four years, however, the number of districts with ending fund balances had decreased during the period 2010-13, but school year 2013-14 reflects a return to a larger number. At the end of school year 2013-14, ending fund balances for declining enrollment totaled \$15.0 million.