

Exhibit 47



STATE OF ARKANSAS
**Department of Finance
and Administration**

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August 1, 2006

The Honorable Jim Argue, Chair of the Senate Interim Committee on Education
The Honorable Joyce Elliott, Chair of the House Interim Committee on Education
171 State Capitol
Little Rock, Arkansas 72201

Dear Senator Argue and Representative Elliott:

I have reviewed the past and present methodologies for determining growth rates related to the calculations of cost of living in the planning process for education funding in Arkansas. I concur with the selection of COLA indicators and their use in a component-based approach to foundation funding growth and the use of forecast values from our current forecast service provider.

The analytical approach to the question of inflationary impact was previously addressed with overall consumer price inflation (CPI) measures, with forecast values derived from the subscription service to U.S. macroeconomic forecasts at Global Insight, Inc. This approach was generally reasonable as an overall COLA indicator, but did not provide any detail for component classes of spending within the education cost components (i.e. salaries vs. non-salary cost components).

A more appropriate measure of inflation for state and local expenditures is provided in the series of price deflator components for government purchases. This series includes coverage for state and local government consumption overall and by several major components. Forecast values of this series are available through the existing U.S. macroeconomic services that are jointly provided to the Department of Finance and Administration and the Legislative Council. Differentiation between wage inflation and non-wage, fixed capital investment is provided as part of that forecast service.

One other choice in the use of inflation measures was considered in the case of computer purchases and related technology equipment. The use of a computer-related price component from the CPI price series or its equivalent is considered appropriate for the technology component of the foundation cost breakout. This small component and its selected price series provide a small deflationary component in the overall COLA formula,

due to the pattern of falling prices in consumer-based computer technology.

The updated inflation measures have also been reviewed to gauge the change from the previous forecast. There has been a significant increase in the current and expected price change, due in part to changes in energy costs and some upward revision to core inflation.

In summary, I concur with the Bureau of Legislative Research in the approach using 1) component inflation measures and 2) in the selective choices of the inflation measures for pairing with foundation spending components.

Sincerely,

A handwritten signature in black ink, appearing to read "John Shelutt". The signature is written in a cursive, flowing style.

John Shelutt, Ph.D.
Administrator for Economic Analysis and Tax Research

JPS:wlm

Act 108 Funding Mechanism

"In the event the Chief Fiscal Officer of the State determines that the transfers from the Educational Adequacy Fund, when added to the other resources available to the Department of Education Public School Fund Account of the Public School Fund, are not sufficient to meet the state's financial obligation to provide an adequate educational system as authorized by law...."

The following is a hypothetical illustration of how this provision would be implemented by the Chief Fiscal Officer of the State in any given state fiscal year:

Official Forecast of General Revenue Available for Distribution =	\$1,698,500,000
Revenue Stabilization Law Allocations:	
"A" =	\$1,400,000,000
"B" =	\$200,000,000
Total Allocations =	\$1,600,000,000
Projected Surplus:	\$98,500,000

At this point the State General Revenue budget is fully funded with a projected surplus of \$98.5 million

In August, the Chief Fiscal Officer of the State receives a certification from the Commissioner of Education indicating a need for additional funding for education. The Chief Fiscal Officer of the State determines there is a need above all other funding sources for resources to provide for an adequate educational system of \$200 million

The Chief Fiscal Officer of the State would authorize proportionate transfers monthly from the "A" allocation (pursuant to law) from the remaining fund accounts under revenue stabilization. The \$200 million needed would then be transferred monthly to the Public School Fund for distribution to school districts.

The state agencies and programs with funding from the "A" allocation would suffer budget cuts totaling \$200 million taken in August on a monthly basis. The assumption here is also that no other "need" for education is determined subsequent to the August reduction, and that state general revenue collections come in exactly as projected in June of the fiscal year. As a practical matter, in August the forecast becomes "A" + 49.25% of "B".

Actual Collections of General Revenue Available for Distribution =	\$1,698,500,000
LESS: \$200 million transferred to the Public School Fund =	\$200,000,000
Available for distribution under Revenue Stabilization =	\$1,498,500,000
"A" Allocation fully funded =	100% of "A" = \$1,400,000,000
\$98.5 million available for the "B" Allocation	49.25% of "B" = \$98,500,000
Total Revenue Stabilization Funding =	\$1,498,500,000

Under this illustration and current law for this hypothetical fiscal year, the Act 108 funding mechanism would have provided \$200 million in additional funding for education as determined in August. State agencies and programs funded under the revenue stabilization law would have been cut proportionately in August to fund the \$200 million on a monthly basis determined to have been needed for education.

“Funding Education First”

Act 108 of the 2nd Extraordinary Session of 2003 as amended (A.C.A. 19-5-1227) establishes a fund in the State Treasury known as the Educational Adequacy Fund and provides for distribution of specific tax levies to the Fund. The act also establishes a procedure for the Chief Fiscal Officer of the State to insure sufficient state funds are available “...to fulfill the financial obligation of the state to provide an adequate educational system as authorized by law...” The act includes a provision to insure that additional general revenue from other state agencies and programs is available for the K-12 educational system of the state if determined necessary by the Chief Fiscal Officer of the State.

Under the law, the Department of Education establishes the budget for funding the public schools and certifies to the Chief Fiscal Officer of the State if additional amounts are needed from the Educational Adequacy Fund to fund the budget. This is after consideration of all general revenues provided under the Revenue Stabilization Law, the Public School Fund allocation from the Educational Excellence Trust Fund and the local property tax assessments for the schools. If these sources and the certification from the Educational Adequacy Fund still do not provide sufficient funding for the schools, then the remainder of the state general revenue budget can be reduced proportionately until the education budget is fully funded.

Attached is a chart that shows the various funds and their source used to finance K-12 education in Arkansas. If sufficient funds do not exist from these sources, an additional chart attached illustrates the implementation of the Act 108 mechanism under a specific set of assumptions.

State Funding for Public Schools in Arkansas

Federal Funds

State appropriations are necessary to spend funds.

Federal Funds for education in Arkansas are appropriated by the United States Congress and are spent according to federal law. The stability of the national economy and the federal budget process and spending policies. The funds are distributed to federal accounts in the state Department of Education.

25 Mill Property Tax

No appropriation by the state necessary. Funds flow directly to the School Districts.

Property taxes are used to fund education as authorized by the State Constitution and statutory law. The stability of the funding is susceptible to local property assessment values in the school districts of the state. The funds are distributed at the local level to the school districts as administered by the Local School Board. State sales tax is also distributed to school districts through Property Tax Relief Trust Fund reimbursements.

State General Revenue

State appropriations authorized for the State Department of Education are necessary to send funds to School Districts.

State general revenues specified in law are available to fund public schools in the state under the provisions of the Revenue Stabilization Law. State general revenue is vulnerable to the economic health of the state in any given fiscal year. Allocations and appropriations to spend general revenue are made by the General Assembly and the Governor. The funds are distributed to school districts through the Public School Fund.

Educational Excellence Trust Fund

No appropriation by the state necessary. Funds are distributed to the Public School Fund under an allocation in law as a funding source for public education

Dedicated funds available under law from the Educational Excellence Trust Fund are used to supplement funding for education in Arkansas. A specific allocation of these funds is made for the Public School Fund and K-12 education by law. Essentially, a 1/2% increase in the state's sales tax rate passed in 1991 provides the funds distributed to the Fund. As such, these funds are susceptible to fluctuations in the state's economy.

Educational Adequacy Fund

No appropriation by the state necessary. Funds are distributed to the Public School Fund and the Dept. of Education Fund after certification by the State Dept. of Education and determination of need by the Chief Fiscal Officer of the State.

Actions by the General Assembly meeting in extraordinary session in 2004 established specified revenues to be deposited into a new fund called the Educational Adequacy Fund. The new fund and procedures established in law for its distribution, adds still another source of state funds for education. The funds are susceptible to the economic health of the state and are distributed by the Chief Fiscal Officer of the State after certification of need by the Department of Education. The primary source of funding is a 7/8 % increase in the sales tax.

ACT 108

Additional state general revenue for education is available through the provisions of Act 108. The mechanism provides that if other funds are insufficient to fully fund education, a proportionate share from each state agency funded in revenue stabilization can be transferred to the Public School Fund.

**PUBLIC SCHOOL FUND
STATE FUNDING TO SCHOOL
DISTRICTS**