



Research Report

Arkansas Public School Funding Overview

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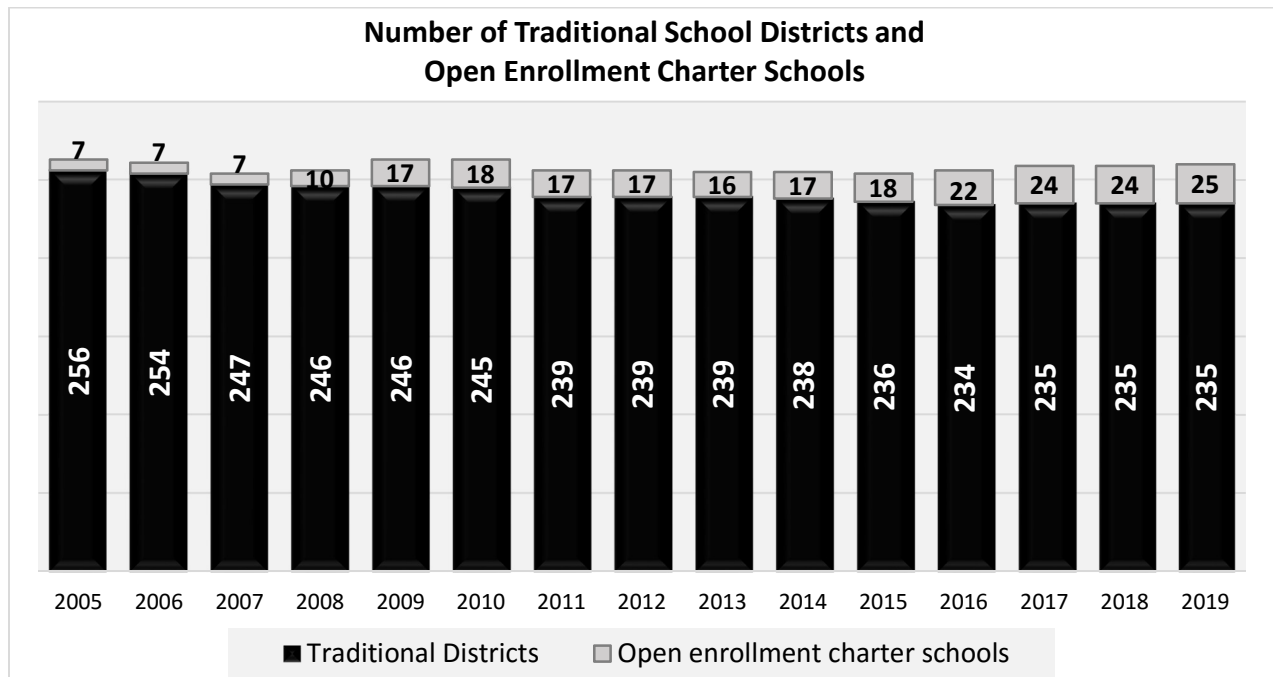
Overview of the Arkansas Education Finance System

PUBLIC SCHOOL SYSTEM

The state funds two main types of public local educational agencies (LEAs): traditional school districts and open enrollment charter schools. Traditional school districts have the ability to generate revenues through local property taxes, are governed by a locally elected school board,¹ and draw students mostly from their attendance zone. Open enrollment charter schools are operated by private organizations, do not have a local taxing base and select their students from a lottery of applicants who live across a variety of district attendance zones.

In 2018-19, nearly 460,000 students were enrolled in the 235 traditional school districts and more than 18,000 students attended one of the 25 K-12 open enrollment charter schools. In 2005, charter schools made up about 3% of the LEAs. In 2019, they made up about 10%. In 2005, individual students in charter schools made up less than a half of a percent (0.2%) of all public school students statewide. That proportion has grown to nearly 4% in 2019.

School districts range in size from less than 300 students (Strong-Huttig) to nearly 22,000 students (Springdale). The median size is about 900 students. Charter schools range from about 60 students (Imboden Charter School) to more than 3,000 (eSTEM).



Outside the public school system, there are more than 20,000 home-schooled students (2017-18)² in Arkansas and about 19,000 private school students (2015-16)³.

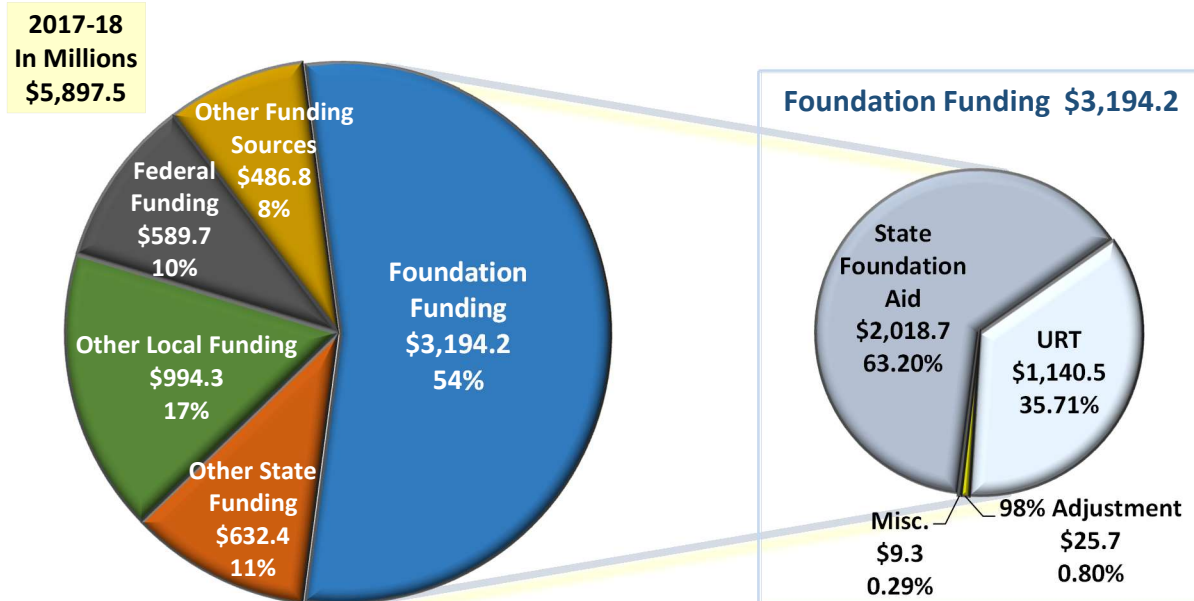
¹ There are exceptions for school districts the state finds in specific forms of mismanagement. In those cases, the state can remove and replace the local school board.

² Arkansas Department of Education, 2017-18 Home School Annual Report: http://www.arkansased.gov/public/userfiles/Learning_Services/Charter%20and%20Home%20School/Home%20School-Division%20of%20Learning%20Services/2017-2018_Arkansas_Home_School_Report.pdf

³ U.S. Department of Education, National Center for Education Statistics, "Private School Universe Survey (PSS)", 2015-16.

ARKANSAS PUBLIC SCHOOL FUNDING OVERVIEW

Arkansas schools receive many different types of funding totaling nearly 5.9 billion in 2017-18. The following chart illustrates the variety of revenue sources districts and charter schools have. Generally speaking, about half of school district/charter school operating revenue comes from state sources, about 40% is generated locally and about 10% comes from the federal government.



- **Foundation Funding** primarily consists of local property tax revenues (uniform rate of tax, or URT) and the state aid portion of foundation funding. (The state and local components of foundation funding are described in on page 3 of this report.)
- **Other State Funding** includes state funding such as state categorical funds, student growth, declining enrollment, and isolated funding. Other significant funding sources in this category include Desegregation funding, Arkansas Better Chance grants and the Arkansas Facilities Partnership Program.
- **Other Local Funding** includes property tax revenue that districts raise through millage above the first 25 mills. This includes debt service millage the community approves for school construction and any additional mills for school operations.
- **Federal Funding** includes Title I funding, the Individuals with Disabilities Education Act (IDEA), Part B funding, school lunch and breakfast grant funds and other federal grant funding.
- **Other Funding Sources** include the sale of bonds for construction activities, loans, insurance compensation for loss of assets, other gains from disposals of assets and other miscellaneous funding. These funding sources are not considered revenues, since they have a corresponding debt liability, are compensation for the sale or loss of an asset or are transfers between funds.

TYPES OF STATE FUNDING

The General Assembly provides a variety of different types of state funding. The main form of state funding is **foundation funding**, which is provided equally (same per-student funding rate) to each district and charter school. However, school districts have additional challenges that are not shared equally across all districts. For example, some school districts may have significant numbers of English language learners, who require additional services to increase their proficiency with the English language. Other school districts have large proportions of low-income students, who may need more instructional services than their more affluent peers. To more equitably meet the needs of districts with greater challenges, the state provides four types of **categorical funds**. Finally, some districts have more operational challenges due to their location or fluctuations in enrollments. The state provides **other state funds** to address these issues as well. Each type of funding is described in more detail below.

FOUNDATION FUNDING OVERVIEW

Foundation funding is the building block of public education funding in the state of Arkansas (A.C.A. § 6-20-2301 et seq.). Every year the state distributes foundation funding to each school district on a per-student basis. Foundation funding is **unrestricted**, meaning the state does not specify what school districts may or may not purchase with it. This policy is intended to provide flexibility for the specific needs of each school district, allowing some districts to spend more on teacher salaries, for example, while other districts may have higher transportation needs.

Foundation funding is distributed based on a school district's **average daily membership (ADM)**, which is the calculation representing a district's total number of students. Each school district receives the foundation funding amount set for each year multiplied by its prior year ADM. For example, the foundation funding rate was \$6,713 for the 2017-18 school year. If a school district's ADM was 1,000, its funding would be determined by multiplying \$6,713 by 1,000 for a total of \$6,713,000.

Foundation funding is made up of two main sources of funding: the **Uniform Rate of Tax (URT)** and **state foundation funding aid**. The URT is a constitutionally mandated minimum millage rate (or property tax rate) that school districts must levy at the local level. This rate is set at 25 mills and the revenue generated is used specifically for school operations. State foundation funding aid is then provided to make up the difference between the amount of money raised through the URT and the funding level set by the Legislature. For example, if a district's URT generated \$2,713 per student in 2017-18, the district would have received an additional \$4,000 per student in state foundation funding aid, for a total of \$6,713.

The two smaller components of foundation funding are the 98% URT Actual Collection Adjustment and other types of funding collectively known as "miscellaneous funds". The **98% URT Adjustment funding** is state money used to supplement districts where actual URT collections are less than 98% of what was anticipated based on assessments. This funding ensures that districts receive at least 98% of their total URT funding when the county is unable to collect the full amount from its citizens. **Miscellaneous funds** are monies school districts receive from "federal forest reserves, federal grazing rights, federal mineral rights, federal impact aid, federal flood control, wildlife refuge funds, and severance taxes," that are provided "in lieu of taxes and local sales and use taxes dedicated to education" [§ 6-20-2303(12)(A) and (B)].

Among districts statewide in 2017-18, URT made up about 36% of the total foundation funding (including funding for charter schools), while state foundation funding aid covered about 63%. Since 2011, state foundation aid has consistently made up 63-65% of foundation funding, while URT has made up 34-36%.

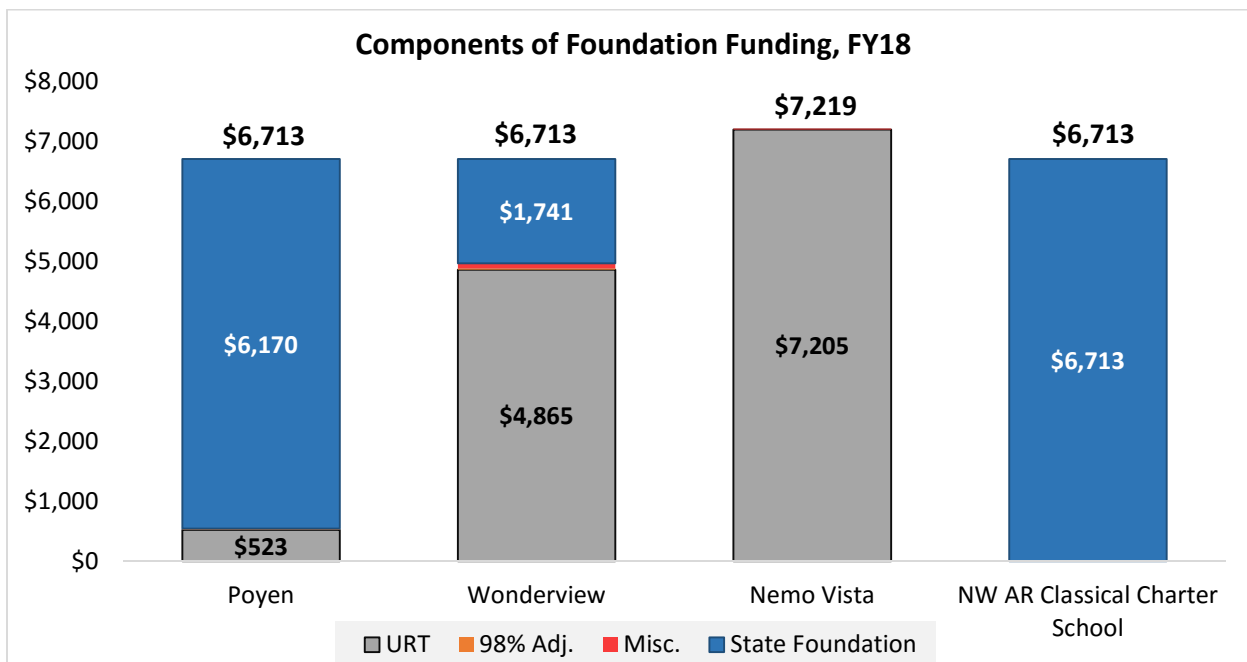
Foundation Funding Components	District Total	% of Total	Charter Total	% of Total
URT	\$1,140,532,420	36.9%	\$0	0%
State Foundation Funding Aid	\$1,919,539,087	62.0%	\$99,198,255	100%
98% Adjustment	\$25,660,541	0.8%	\$0	0%
Miscellaneous	\$9,301,474	0.3%	\$0	0%
Total	\$3,095,033,522		\$99,198,255	

While from a statewide perspective, URT and state foundation aid make up 36% and 63% respectively, the proportions in each district vary considerably. The following table shows four similarly sized districts and a charter school with varying levels of revenue generated from the Uniform Rate of Tax.

	Poyen 581 Students	Wonderview 453 Students	Nemo Vista 420 Students	NW AR Classical 565 Students
URT	\$304,050	\$2,203,982	\$3,026,765	\$0
98% Adjustment	\$11,464	\$7,887	\$0	\$0
Miscellaneous	\$32	\$40,543	\$5,238	\$0
State Foundation Aid	\$3,583,499	\$788,577	\$0	\$3,794,389

Because Poyen raises about \$300,000 from its 25 mills, the district generates only \$523 per student from URT. To get Poyen to a funding level of \$6,713 per student, most of the remaining funding must come from the state’s state foundation aid. On the other hand, Wonderview’s URT generates \$2.2 million, leaving the state to provide only about \$1,741 per student to that district.

Some school districts (seven in 2018) generate enough funding from their URT to fully cover the full per-student foundation funding rate, so they do not need any state foundation aid from the state. For example, Nemo Vista generates more than \$3 million from its 25 mills, enough to provide its 420 students more than \$7,200 each. Unlike traditional school districts, open enrollment charter schools do not have a property tax base from which to generate revenue. Charter schools rely on state foundation aid to cover the full amount of their foundation funding.



THE FOUNDATION FUNDING FORMULA: THE MATRIX

Arkansas uses a specific formula, known as the **matrix**, to arrive at the per-student funding amount. The matrix calculates the per-student funding based on the cost of personnel and other resources needed to operate a prototypical school of 500 students. Legislators involved in the biennial Adequacy Study determine the resources included in each line of the matrix and the dollar amount needed to fund it. Unlike the foundation funding rate (\$6,781 for 2018-19), the matrix is not established in statute. Instead, it is used as a tool to set the foundation funding rate. The matrix is divided into two basic sections: 1.) the number of school-level staff (full-time equivalents, or FTEs) needed for the prototypical school of 500 students and 2.) the cost of all needed resources. The first section describes the 35.69 school-level personnel needed for the prototypical school.

	Matrix Item	2019 FTE
Classroom Teachers	Kindergarten	2.00
	Grades 1-3	5.00
	Grades 4-12	13.80
	Non-Core	4.14
	Subtotal	24.94
Pupil Support Staff	Special Education	2.90
	Instructional Facilitators	2.50
	Library Media Specialist	0.85
	Counselors & Nurses	2.50
	Subtotal	8.75
Administration	Principal	1.00
	Secretary	1.00
	Total	35.69

The second section of the matrix specifies the cost of the staff described in the first section of the matrix, as well as the cost of all other needed resources. This second section is divided into three cost categories:⁴

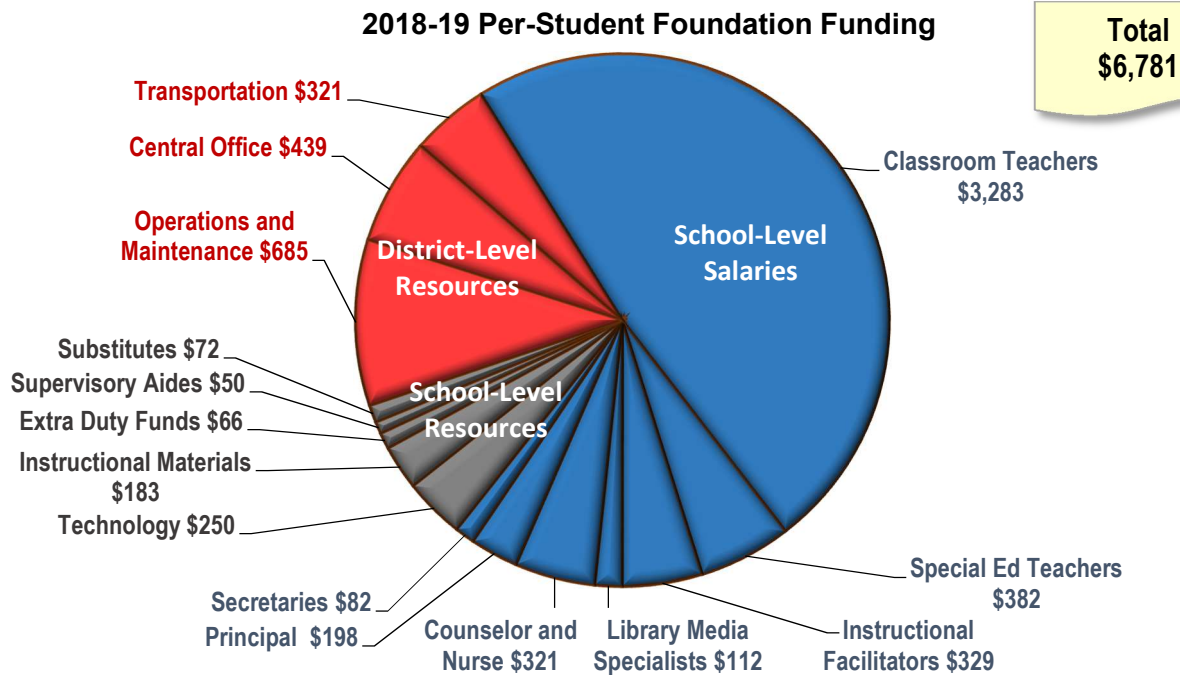
- School-level salaries** of teachers and other pupil support staff, a principal and a secretary. The matrix also identifies the salaries for the school-level staff and calculates the per-student cost of paying the identified salaries for the number of staff needed. For example, 24.94 classroom teachers at \$65,811 each costs a total of \$1,641,326. For a school of 500 students, that calculates to \$3,283 per student.
- School-level resources** including instructional materials and technology-related expenses.
- District-level resources**, which include funding for districts' operations & maintenance, central office and transportation expenses.

School-Level Salaries	Salary & Benefits	2019 Per-Student Funding Amt.
Classroom Teachers	\$65,811	\$3,282.68
Pupil Support Staff	\$65,811	\$1,151.72
Principal	\$99,012	\$198.10
Secretary	\$40,855	80.10

School-Level Resources	2019 Per-Student Funding Amt.
Technology	\$250.00
Instructional Materials	\$183.10
Extra Duty Funds	\$66.20
Supervisory Aides	\$50.00
Substitutes	\$71.80

District-Level Resources	2019 Per-Student Funding Amt.
Operations & Maintenance	\$685.00
Central Office	\$438.80
Transportation	\$321.20

⁴ The individual per-student funding amounts total \$6,780.30, which was rounded up to \$6,781 per student for the total foundation funding rate.



CATEGORICAL FUNDING OVERVIEW

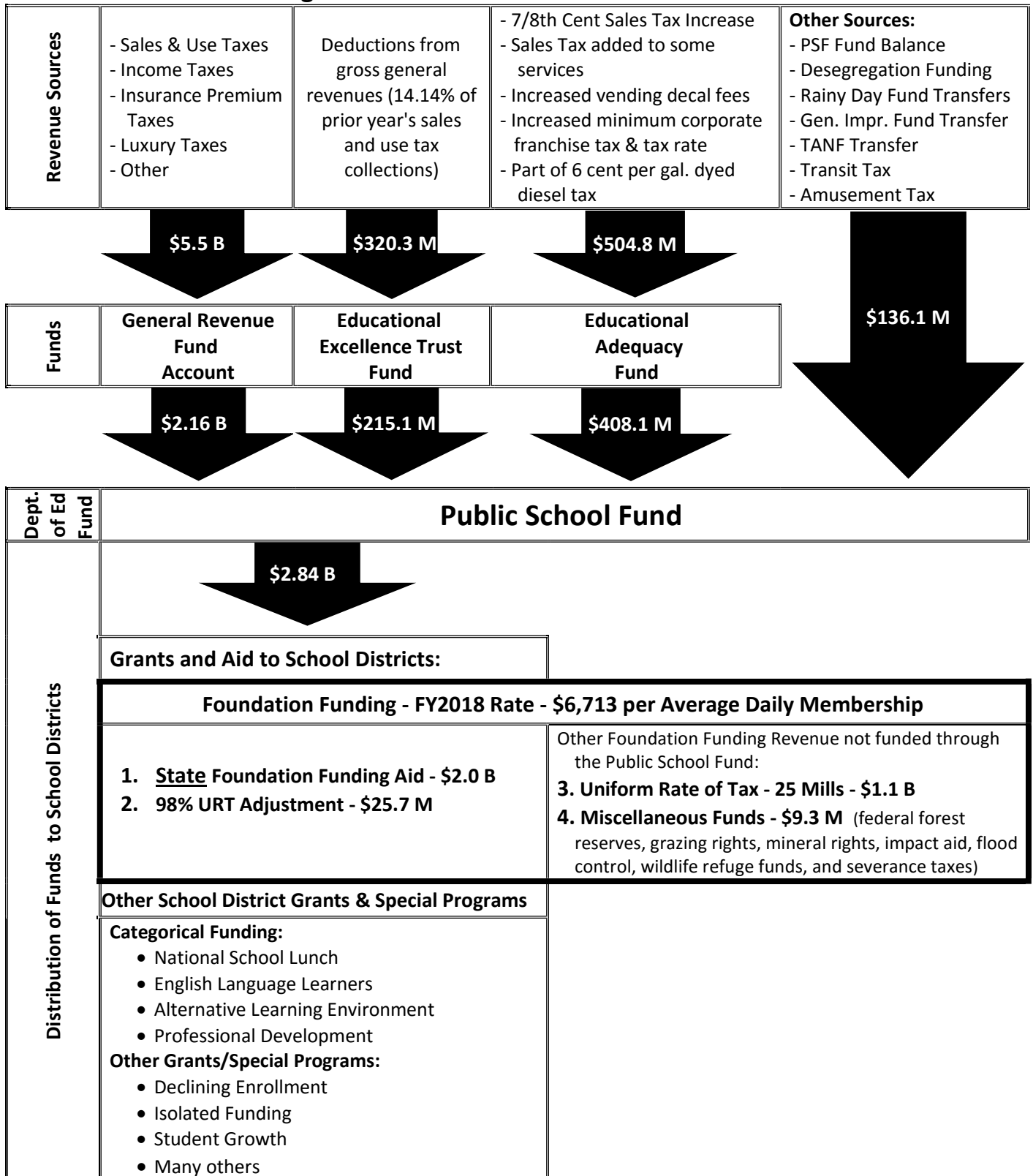
In addition to foundation funding, districts receive four types of state categorical funding. Three of the four categorical funds are used to promote equitable funding among school districts by helping schools educate students with particular needs. The fourth categorical fund is designed to pay districts for providing staff professional development. Unlike foundation funding, categorical funds are considered restricted, meaning districts can use these funds only for their intended purpose.

Categorical Funding Type	Description	2017-18 Funding	2018-19 Funding
English Language Learners (ELL)	Funding designed to help school districts educate students with limited English language proficiency.	\$338 per ELL student	\$338 per ELL student
Alternative Learning Environment (ALE)	Funding designed to help school districts educate students who need different learning environments due to social or behavioral factors that make learning difficult in the traditional classroom.	\$4,640 per ALE student	
National School Lunch (NSL) Now known as Enhanced Student Achievement (ESA)	Funding designed to help school districts with high percentages of low income students. The funding rate increases as districts' percentage of free and reduced price lunch students increases. The name of this program was changed to Enhanced Student Achievement by Act 1083 of 2017.	<ul style="list-style-type: none"> • <70% of students eligible for free or reduced price lunch (FRL): \$526 per FRL student • 70%-<90% FRL: \$1,051 per FRL student • =/>90% FRL: \$1,576 per FRL student <p>Another \$4.3 million was provided in FY2018 and FY2019 in matching grants to eligible districts.</p>	
Professional Development (PD)	Funding designed to pay for professional development for teachers and staff. Most of the PD funding goes directly to districts, but up to \$3.5 million annually supports a statewide online PD program.	<p>\$32.40 per student (Of that amount, districts received \$26.05 per student in FY2018 and \$27.40 in FY2019, while ADE's online PD program received the remaining amount.)</p> <p>Another \$4 million was provided in FY2018 and about \$8.5 million in FY2019 to support professional learning communities.</p>	

WHERE DOES THE FUNDING COME FROM?

The following chart shows the sources of revenue used to fund the state's portion of education funding and the path those funds follow through distribution to school districts/charter schools.

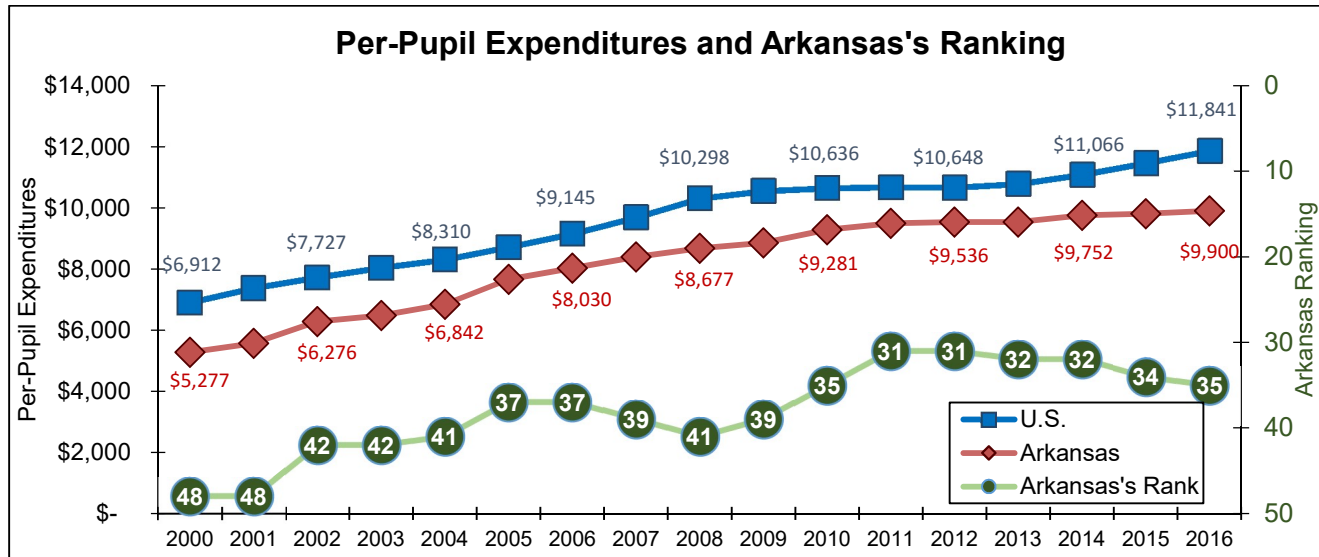
State Funding for Grants and Aid to School Districts - FY2017-18



School Funding Measures

PER-PUPIL EXPENDITURES

According to the 2018 *Digest of Education*, Arkansas ranked 35th among the 50 states and the District of Columbia in FY 2016 on spending per student, at \$9,900, compared to the national average of \$11,841. A more recent national survey of FY 2017 school *district* spending, using a different methodology,⁵ finds that Arkansas ranked 37th in districts' per-pupil expenditures.

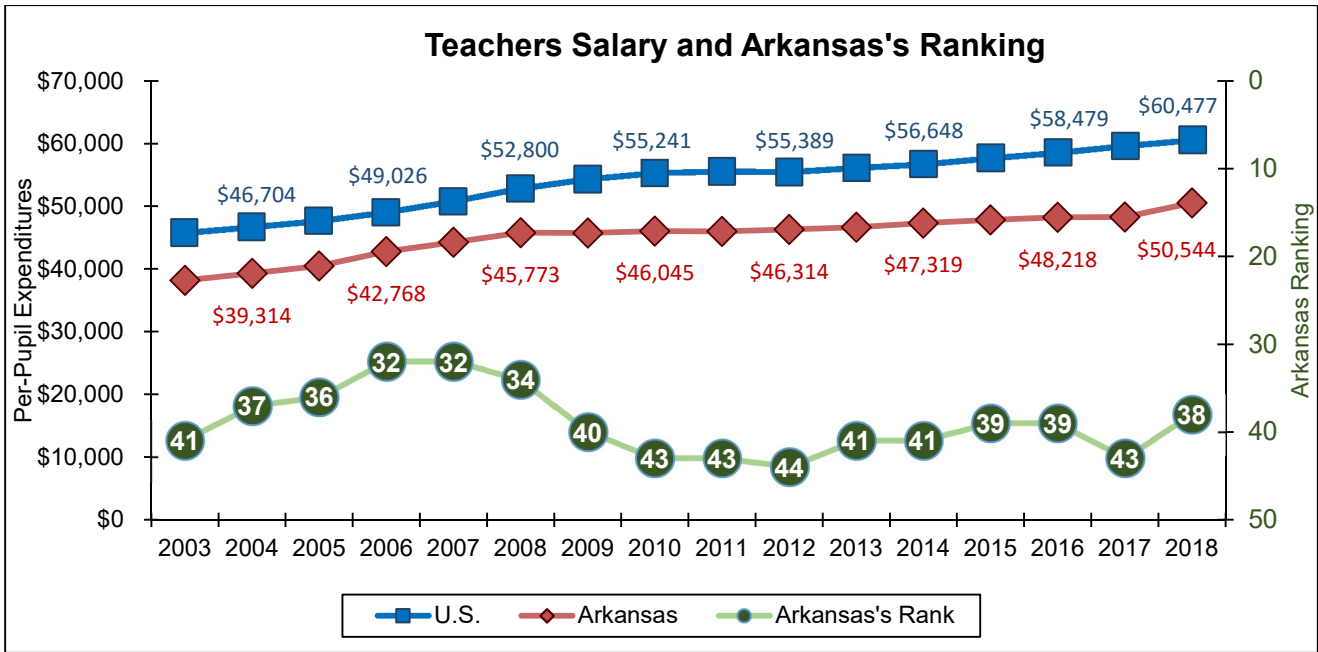


Source: *Digest of Education Statistics: Various years*. National Center for Education Statistics, Current expenditure per pupil in fall enrollment in public elementary and secondary schools, by state or jurisdiction: Selected years, 1969-70 through 2015-16.

TEACHER SALARIES

In 2018, Arkansas ranked 38th in average annual teacher salaries at \$50,544, compared to the national average of \$60,477. The first wave of new funding streams following the *Lake View* lawsuit brought new funding specifically intended to raise teacher salaries. The state implemented its first minimum salary requirement in 2004-05 (districts were required to pay at least the minimum, but many paid more), and increased this requirement for each school year through 2009-10. As a result, Arkansas's average teacher salary increased about \$1,600 annually on average through 2007-08. The state's teacher salary ranking rose to 32nd. The state's average teacher salary continued to increase by about \$300 per year on average through 2015, but the state fell in the ranking moving between 39th and 44th. During these years, the General Assembly increased the foundation funding provided to school districts for teacher salaries but made no changes to the minimum teacher salary districts were required to pay. For 2016, the General Assembly began increasing the minimum teacher salary again, with increases each year through 2023.

⁵ The data in the chart come from the NCES Digest of Education Statistics using the National Public Education Finance Survey. The more recent 2017 per pupil expenditures come from the Survey of School System Finances (F-33): https://census.gov/data/tables/2017/econ/school-finances/secondary-education-finance.html?utm_campaign=20190521msacos1ccstors&utm_medium=email&utm_source=govdelivery. The differences between the two surveys are described here: <https://nces.ed.gov/pubs2018/2018301/technotes.asp>

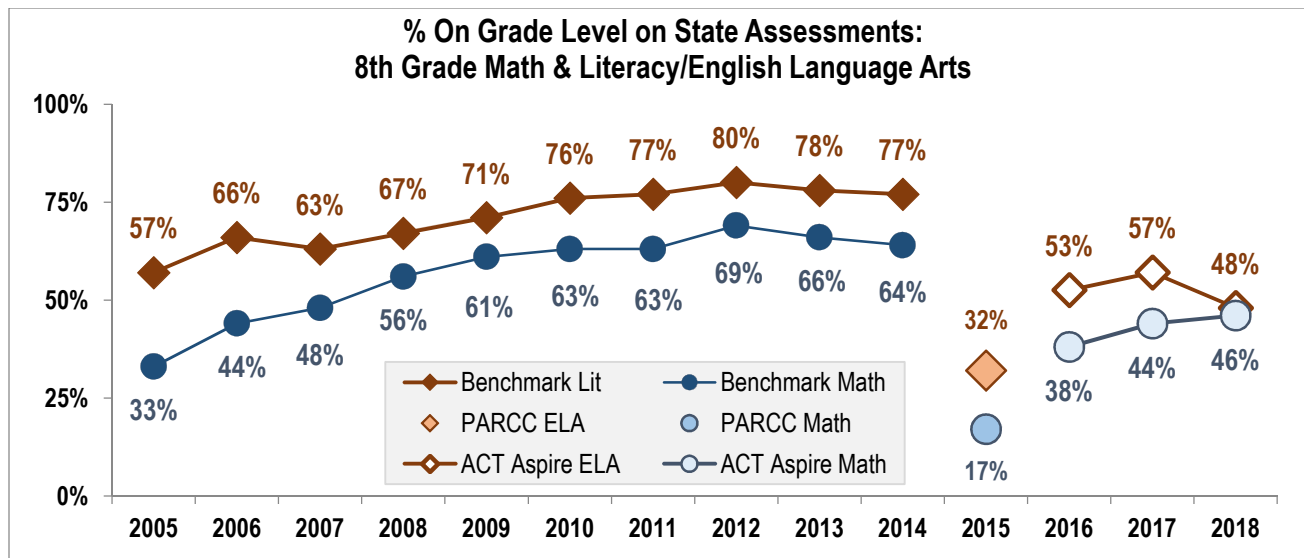
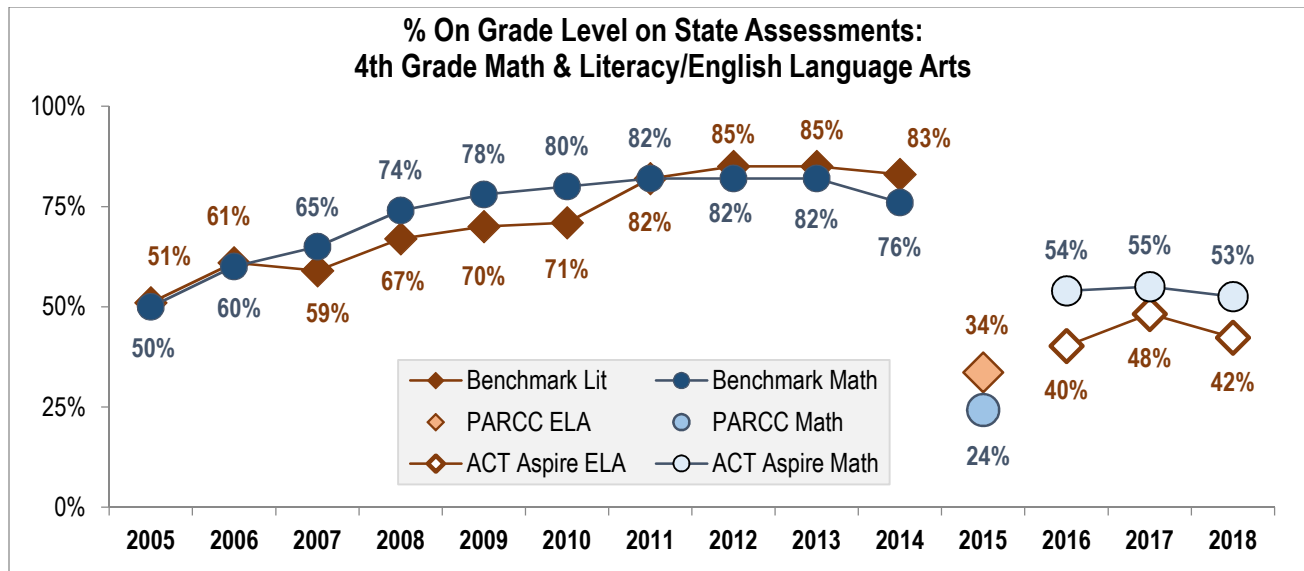


Sources: *Digest of Education Statistics*, National Center for Education Statistics (NCES), Estimated average annual salary of teachers in public elementary and secondary schools, by state: Selected years, 1969-70 through 2015-16; The NCES data uses annual estimated averages calculated by the National Education Association for its most recent year of data. However, in its *Rankings of the States 2018*, the National Education Association (NEA), provides actual 2017 and 2018 figures which are used in the chart above, April 2018, Table B-6 Average Salary of Teachers.

Student Outcome Measures

STATE ASSESSMENTS

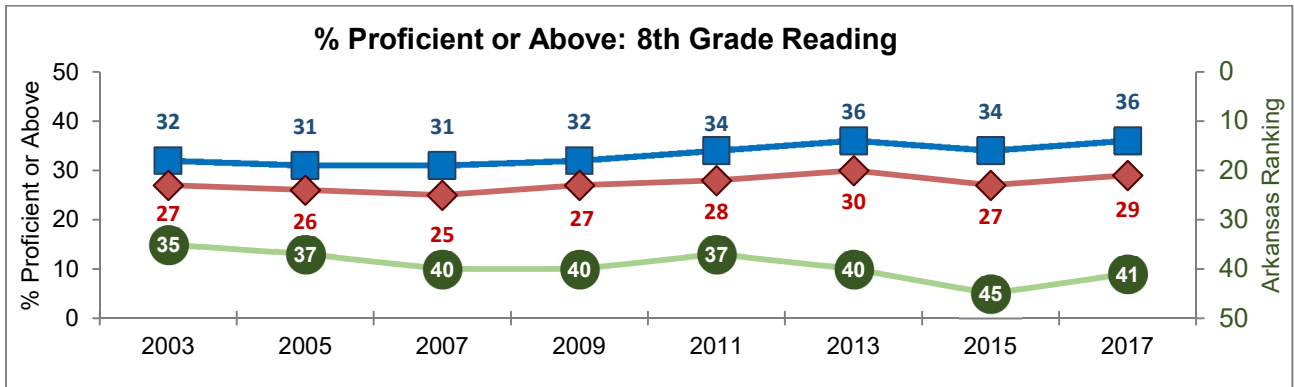
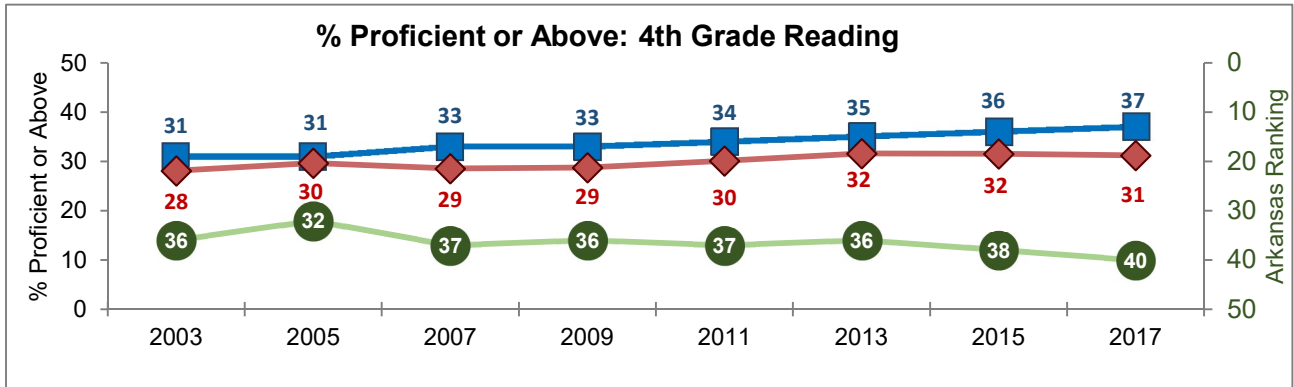
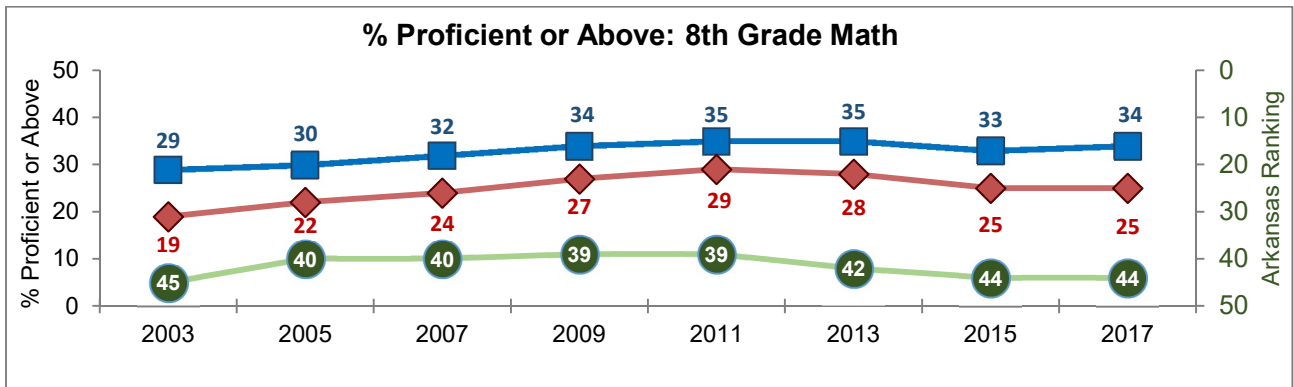
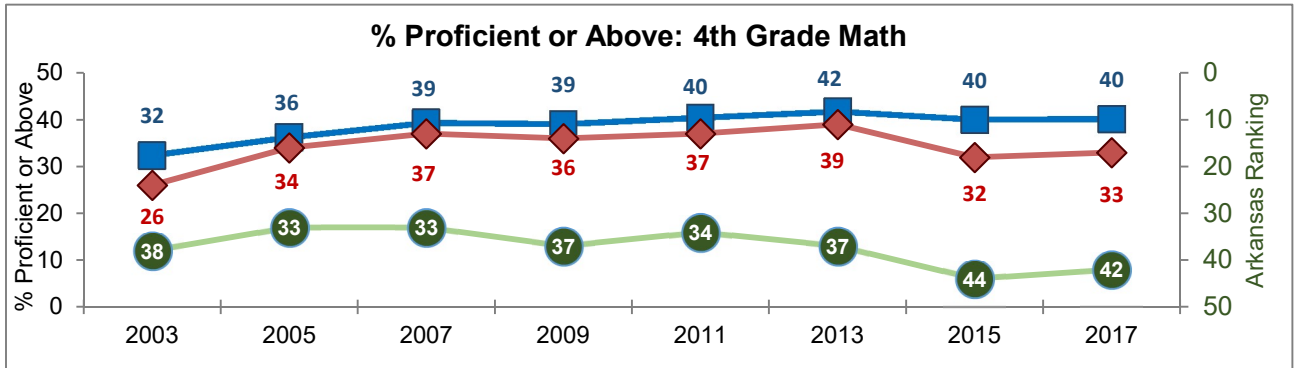
Since the state assessment has changed multiple times in the recent years, results are not completely comparable. Results from the Benchmark assessments from 2005 to 2014 show improvement in math and literacy among 4th and 8th grade students through 2012. The Partnership for Assessment of Readiness for College and Careers (PARCC) assessment was administered in 2015 and shows only about a third of 4th and 8th grade students scored on grade level in English language arts (ELA), and even fewer scored on grade level in math. (Different tests have varying cut scores and benchmarks for indicating grade level learning.) In 2016, the state began administering the ACT Aspire assessment. The 2018 ACT Aspire scores show a decrease in 4th grade students scoring ready or above in math and an increase in the 8th grade math scores. The ELA test scores appear to show a drop in these scores in 2018, but the decline actually reflects a change in the test cut scores. The ACT Aspire test company raised the cut score students must earn to achieve the proficiency level of “ready” or above for ELA. The higher cut score meant a lower percentage of students met it. Therefore the 2018 ELA percent ready or above is not comparable to earlier years.



Source: ADE, <http://www.arkansased.gov/divisions/learning-services/student-assessment/test-scores>

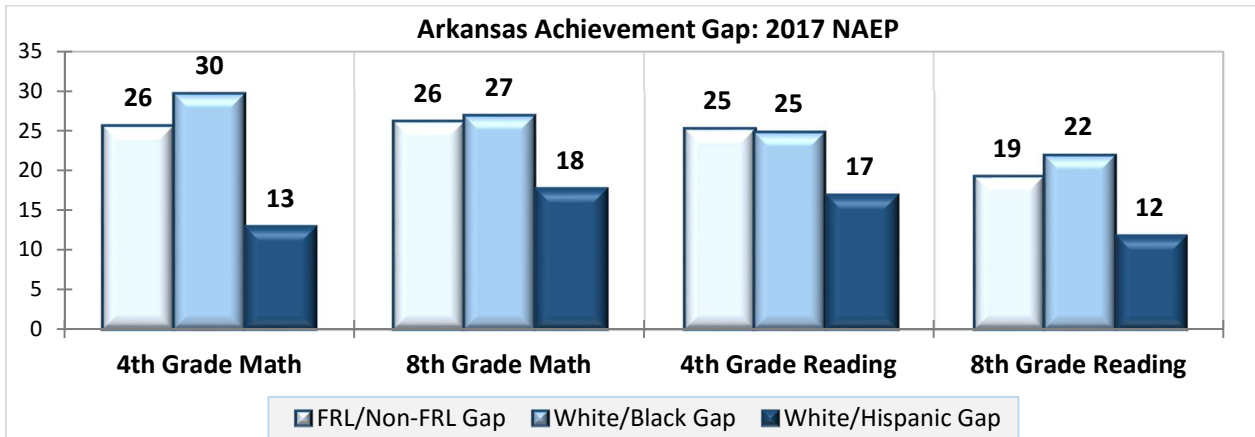
NATIONAL ASSESSMENT OF EDUCATIONAL PROGRESS SCORES

U.S. Arkansas Arkansas Rank



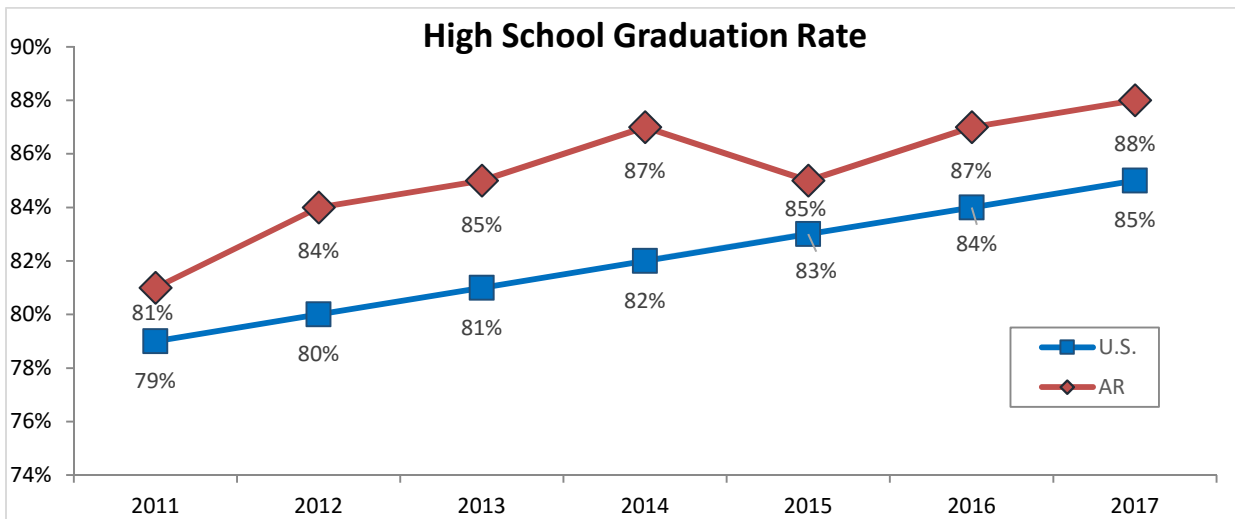
ACHIEVEMENT GAP

The following chart shows the achievement gaps that exist between student groups on the 2017 NAEP Assessment. Each bar represents the percentage point gap between the proficiency levels of each student group pairing. For example, in 2017, 24% of students eligible for free or reduced price lunch scored at the proficient or advanced level, while 50% of students who were not eligible for free or reduced price lunch scored proficient or advanced. The difference between the two groups was 26 percentage points. The achievement gap among boys and girls is less pronounced. In 2017, boys out performed girls by about 3-5 percentage points in math, while girls outperformed boys in reading by 5-8 percentage points.



HIGH SCHOOL GRADUATION RATE

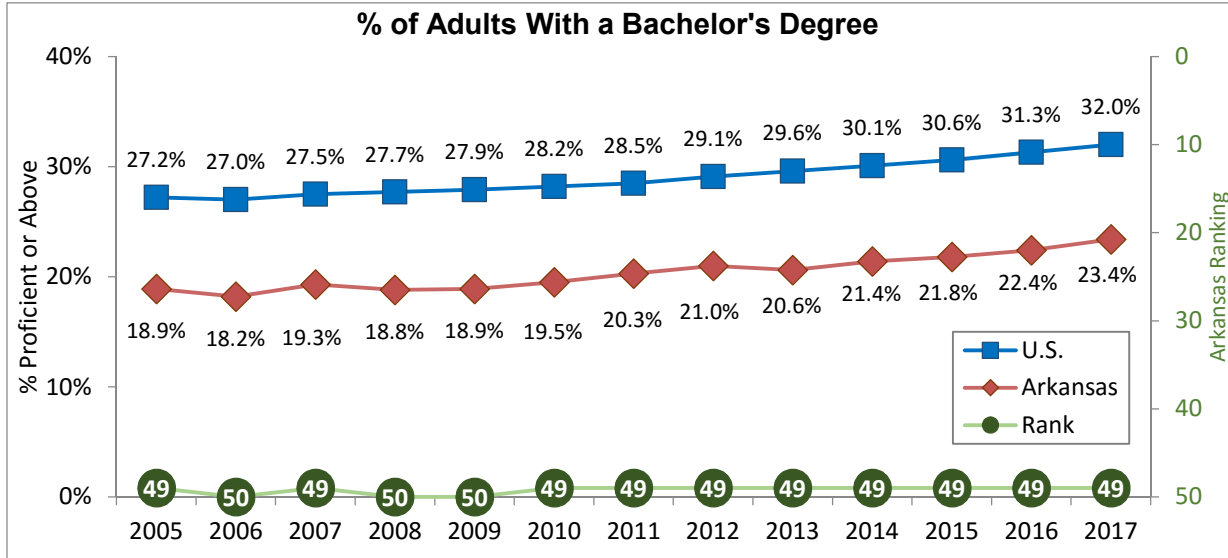
Arkansas’s high school graduation rate has increased since 2011 to 88% of high school students. While the overall increase mirrors the national trend, Arkansas has consistently achieved higher 4-year graduation rates than the national rates. The state typically has between the 15th and 25th highest graduation rate of the 50 states and Washington D.C.



Source: National Center for Education Statistics, *Digest of Education Statistics*, Public high school 4-year adjusted cohort graduation rate (ACGR), by selected student characteristics and state: 2010-11 through 2016-17

% OF ADULTS WITH A BACHELOR'S DEGREE OR HIGHER

According to the latest data from the U.S. Census Bureau, 23.4% of Arkansans 25 years old or older had a bachelor's degree or higher, compared with the national average of 32%. Although that percentage has increased steadily over the years, the state has consistently ranked 49th or 50th on this measure since 2005.



Source: U.S. Census Bureau, American Community Survey: 1-Year Estimate, Various Years.