



HANDOUT E2



Research Report

Review of Declining Enrollment and Student Growth 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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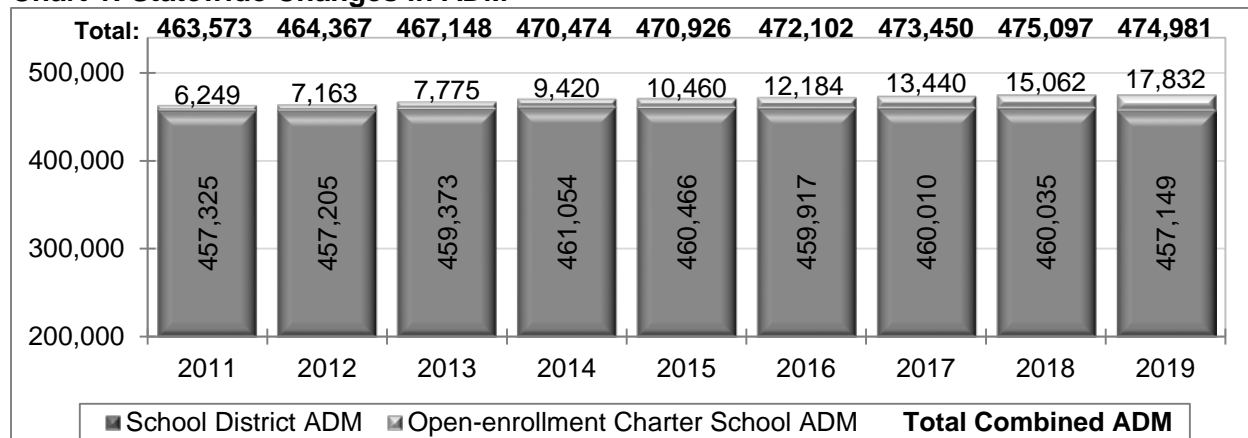
INTRODUCTION

The Adequacy Study statute (Arkansas Code §10-3-2102) requires the House and Senate Education Committees to evaluate the entire spectrum of public education to determine whether students receive equal opportunity for an adequate education. As part of the effort to accomplish that responsibility, the statute calls for the House and Senate Education Committees to review expenditures from two types of funding sources, declining enrollment and student growth funding. These funding sources are designed to help districts cope with incremental increases or decreases in their student population. The purpose of this report is to explain how these funding types are distributed and how districts and open-enrollment public charter schools spend the money they receive.

STATEWIDE CHANGES IN ENROLLMENT

Since this report examines the funding provided to districts based on changes to their student enrollment, it is important to understand the statewide enrollment patterns. The chart below shows that for all public schools, the total average daily membership (ADM), the calculation representing student count, is increasing slightly—just over 2% between 2011 and 2019. However, total ADM in traditional school districts has stagnated since 2014, while the total ADM in open-enrollment public charter schools continues to increase as more charters are granted (25, excluding the Excel Center, in 2018-19, compared with 17 in 2010-11). Total charter school ADM more than doubled between 2011 and 2019.

Chart 1: Statewide Changes in ADM

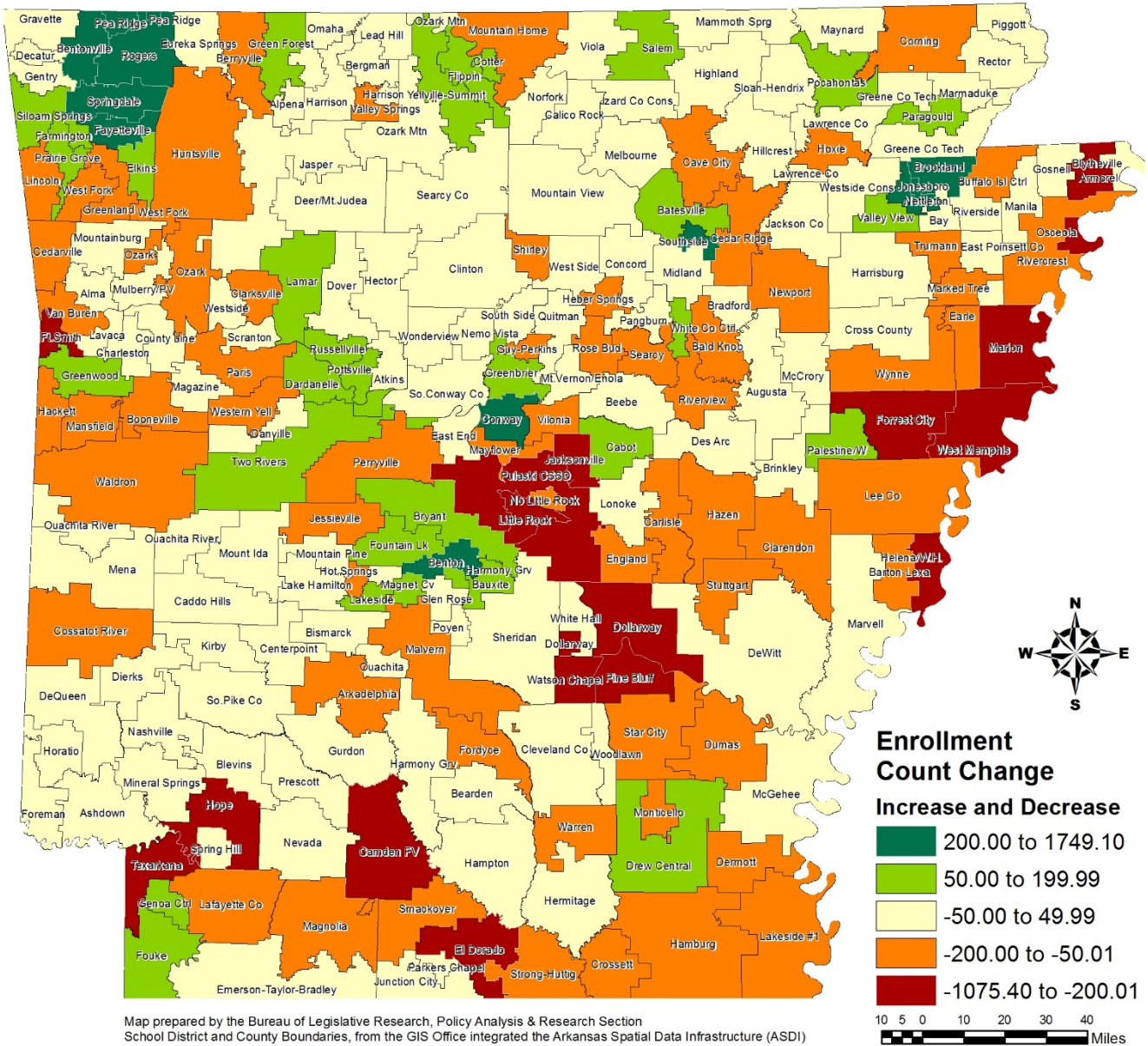


Data Source: State Aid Notices 2011-12 through 2018-19 and the DESE¹. The data above represent the three-quarter ADM for the years indicated.

The maps on the following pages look at enrollment increases and decreases over time by district. Map 1 shows the increases and decreases in the number of students and Map 2 looks at the enrollment percentage increases and decreases. As shown later in the report, many of the districts with the highest enrollment number and percentage increases and decreases are also districts that consistently received among the highest student growth payments over the last five school years. With the exception of Yellville-Summit, which received a mixture of student growth and declining enrollment funding during this time frame, all of the districts with the highest increases also received student growth payments. In addition, all of the districts with the highest enrollment number and percentage decreases are districts that received declining enrollment funding in the last five years. Pine Bluff, Forrest City, West Memphis, Little Rock, Dollarway, and Helena-West Helena were among the ten districts receiving the most declining enrollment funding over the past five years.

¹ <https://myschoolinfo.arkansas.gov/>

Map 1: Enrollment Count Increase and Decrease from 2014-15 to 2018-19

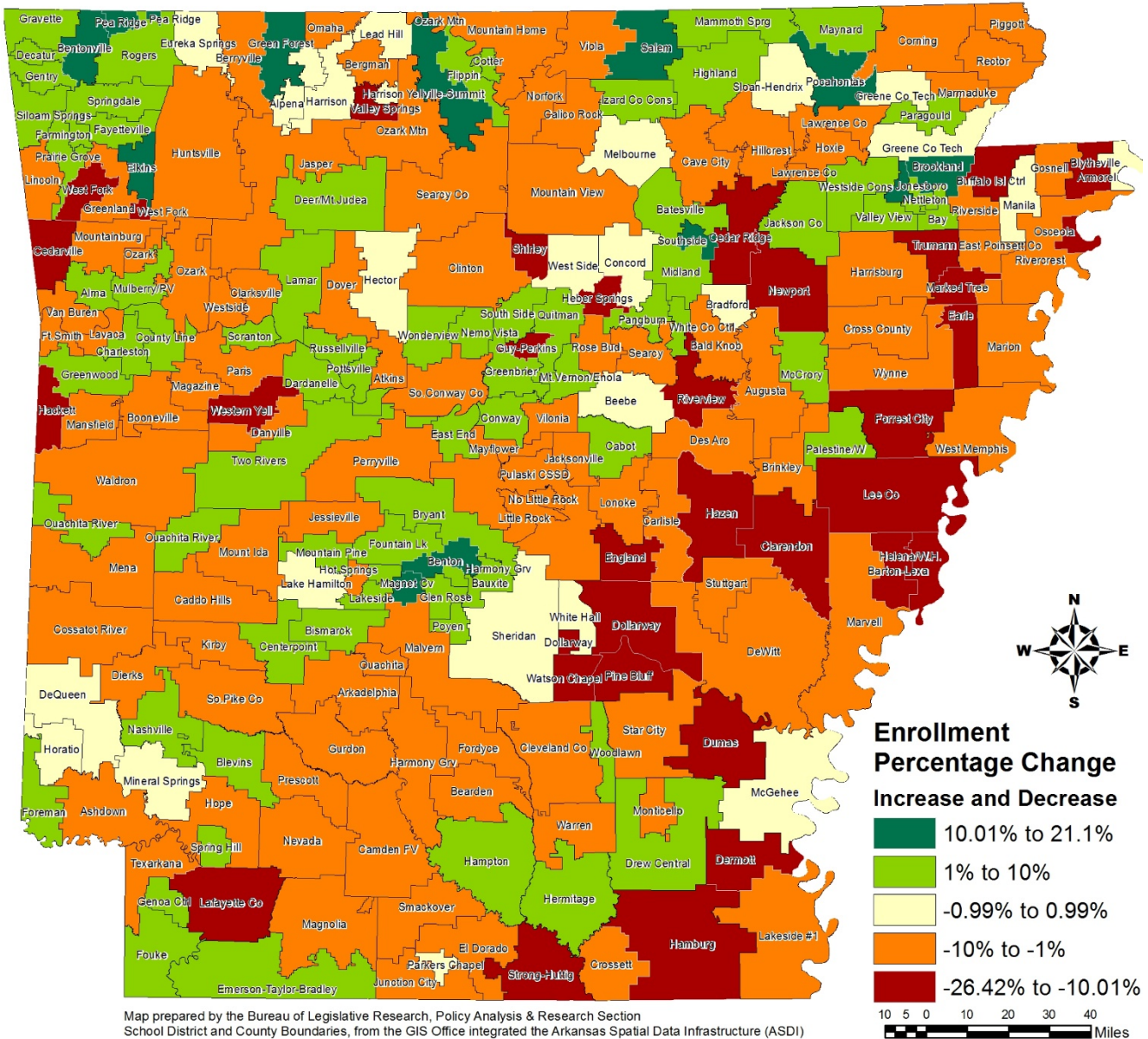


Data Source: State Aid Notices 2014-15 through 2018-19. The data above represent the three-quarter ADM for the years indicated. For the purposes of comparison, the Jacksonville school district's three-quarter ADM was analyzed separately from the Pulaski County Special school district in the above years, even though the Jacksonville school district did not exist until 2016-17.

Table 1: Highest Enrollment Count Increases and Decreases from 2014-15 to 2018-19

Highest Enrollment Increases		Highest Enrollment Decreases	
District	Count	District	Count
Bentonville	1,749.10	Pine Bluff	-1,075.40
Springdale	842.31	Little Rock	-893.97
Fayetteville	797.24	Forrest City	-457.86
Rogers	647.64	West Memphis	-417.73
Jonesboro	588.05	Texarkana	-361.70

Map 2: Enrollment Percentage Increase and Decrease from 2014-15 to 2018-19



Data Source: State Aid Notices 2014-15 through 2018-19. The data above represent the three-quarter ADM for the years indicated. For the purposes of comparison, the Jacksonville school district's three-quarter ADM was analyzed separately from the Pulaski County Special school district in the above years, even though the Jacksonville school district did not exist until 2016-17.

Table 2: Highest Percentage Increases and Decreases in Enrollment from 2014-15 to 2018-19

Highest Percentage Increases in Enrollment		Highest Percentage Decreases in Enrollment	
District	Count	District	Count
Brookland	21.1%	Dollarway	-26.4%
Southside (Independence)	19.3%	Pine Bluff	-25.4%
Yellville-Summit	14.6%	Helena-W Helena	-19.7%
Pea Ridge	16.8%	Clarendon	-19.3%
Elkins	13.2%	Lee County	-19.2%

BACKGROUND

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.”² Districts receive two types of state funding to help ease the financial burden that comes with incremental increases or decreases in students: student growth funding and declining enrollment funding.

STUDENT GROWTH FUNDING

For more than 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 1994 news article³, funding for growing districts became one of its top concerns.

The student growth funding program first began with Act 917 in 1995, which created a mechanism to determine how growth funding would be distributed to districts and later to charter schools. The act required student growth funding to be determined by comparing first quarter ADM of the current year to the previous year ADM for the first three quarters. That calculation has changed multiple times since its initial creation. The 80th General Assembly also passed Act 1194 of 1995 to appropriate \$29 million for student growth.

Providing adequate facilities for growing schools was an initial concern in developing student growth funding. In addition to establishing student growth funding, Act 917 of 1995 also established Growth Facilities Funding. At the time, the state did not yet have the Facilities Partnership Program which helps fund school construction today. Growth Facilities Funding was provided to districts that experienced student growth and was designated for school equipment and facilities. Act 1194 of 1995 also appropriated \$9.1 million for growth facilities funding for the 1995-96 and 1996-97 school years. According to the Adequacy Study Oversight Subcommittee in their 2006 adequacy report, providing adequate facilities for growing populations was the primary struggle of school districts experiencing sustained ADM growth.⁴ The growth facilities funding program was phased out in 2001.⁵

Student growth funding is used to provide foundation funding for the new students. Since foundation funding is based on the prior year’s ADM, when a district gains students, its foundation funding is not accounting for the new students. In essence, student growth funding ensures districts have enough in base funding to educate each student in the current year. Table 3 on the next page shows a scenario in which a school district is gaining students. In 2015, this district had 940 students so it received foundation funding in 2016 based on the 940 students, even though the district actually has 960 students in 2016. However, student growth funding provides the district with the additional foundation funding to accommodate for the 20 new students in the current year.

2, 3 A Report on Legislative Hearings for the 2006 Interim Study on Educational Adequacy (Act 57 of the Second Extraordinary Session of 2003), Final Report and

Recommendations of the Adequacy Study Oversight Subcommittee to the House Interim Committee on Education and the Senate Interim Committee on Education, Jan. 22, 2007

4 “Ideas to Pad School Funds Flood Panel New Money Vital, State Leaders Agree.” June 28, 1994. Reynolds, C., Arkansas Democrat Gazette.

5 “Summary of Action on Fiscal Legislation.” May 2001. Bureau of Legislative Research. Retrieved from: <http://www.arkleg.state.ar.us/assembly/2001/R/Fiscal%20Summary/Fiscal%20Summary.pdf>

Table 3: Student Growth Scenario

Year	Current Year Students	Foundation-Paid Students (Based on Previous Year's Students)	Difference Between Funded Students and Students District Is Actually Educating	Students Funded By Student Growth	Total Funded Students Above Current Year Students
2015	940				
2016	960	940	-20	+20	0
2017	980	960	-20	+20	0
2018	1,000	980	-20	+20	0
2019	1,020	1,000	-20	+20	0

Note: For the purpose of illustration, this scenario is based on yearly changes in enrollment instead of quarterly changes.

DECLINING ENROLLMENT FUNDING

While student growth funding surfaced as a topic in 1994 and was created in Arkansas in 1995, declining enrollment funding did not surface as a topic until 2005. The Special Masters appointed by the Arkansas Supreme Court to examine the issues raised in the *Lake View* lawsuit expressed concern in 2005 about the loss of students and the financial consequences for districts. The Special Masters specifically noted that “a loss of students does not necessarily translate into a reduction in the district’s financial need.”

The Adequacy Study Oversight Subcommittee held hearings on issues related to declining enrollment in February and March 2006. In April 2006, the General Assembly passed Acts 20 and 21 of the First Extraordinary Session of 2006. Those acts created declining enrollment funding and appropriated \$10 million for it.

The \$10 million appropriation was intended to be a temporary measure, providing funding until the funding’s effectiveness could be studied further. In August 2006, the Adequacy Study Oversight Subcommittee conducted further study, examining districts that qualified for funding, population trends in Arkansas counties, and other states’ declining enrollment funding programs.

The Adequacy Study Oversight Subcommittee, in its final 2006 Adequacy Report (published in January 2007), recognized that districts with declining enrollments (and thus declining revenues) do not always have similar decreases in costs. The Subcommittee further stated that because foundation funding is based on prior-year ADM, districts already receive a “cushion” for the loss of students. A district that has fewer students this year than in the previous year is still receiving foundation funding for the number of students from the previous year; the district is receiving funding for more students than the district is responsible for educating. Still, the Subcommittee’s report recommended that the state continue to pay declining enrollment funding while engaging in further study.

Since 2007, no changes have been made to declining enrollment funding. In 2018, both of the House and Senate Education Committees recommended no changes to declining enrollment funding.

STUDENT GROWTH FUNDING

STUDENT GROWTH CALCULATION

Since its initial creation in 1995, the formula for calculating student growth funding has changed multiple times to address concerns regarding the time period used to calculate increases in enrollment. Between 2007 and 2017, student growth funding had been determined by using the ADM for all four quarters for the current year and the three quarter ADM from the previous year. The calculation also used the foundation funding rate instead of a fixed rate so funding based on student growth was connected to the foundation funding received by districts and charters.

The DESE is required to calculate the amount of student growth funding based on the quarterly ADM data. The ADM is determined by adding the total number of school days attended to the total number of days absent by students in kindergarten through grade twelve during a given time period, and the sum of those two numbers is divided by the number of school days actually taught (see Arkansas Code § 6-20-2305(3)).

To determine the amount of growth in a district or open-enrollment public charter school, the DESE compares the ADM for each quarter in the current year to the prior year's three-quarter ADM, excluding the current fourth quarter ADM. The fourth quarter ADM is calculated by using the fourth quarter ADM from the prior year and the three quarter ADM from two years earlier. If there is an increase, the DESE multiplies the amount of growth from each quarter by .25, and this equals the quarterly growth rate. The quarterly growth rate for each quarter is summed to get the total growth rate. Finally, the total growth rate is multiplied by the foundation funding rate, and this equals the amount of total growth funding.

Table 4: Student Growth Funding Example Calculation

	Quarterly ADM	3 Qtr ADM	Growth	*	Quarterly Growth Rate
4th Qtr - FY18	524.57	506.87 – FY17	17.70	.25	4.425
1st Qtr - FY19	527.35	516.29 – FY18	11.06	.25	2.765
2nd Qtr - FY19	532.09	516.29 – FY18	15.80	.25	3.95
3rd Qtr - FY19	532.38	516.29 – FY18	16.09	.25	4.0225
Total Growth Rate					15.1625

$$\begin{array}{rcccl}
 \text{Total Growth Rate} & & \text{Foundation Funding Rate} & & \text{Total Student Growth Funding} \\
 15.1625 & \times & \$6,781 & = & \$102,517
 \end{array}$$

Ultimately this formula provides districts and charters the full rate of foundation funding for approximately each student added. However, if a district or charter has student growth in one quarter but declining enrollment in the remaining three, it is still possible for the district or charter to receive student growth funding for the one quarter.

Beginning in 2017-18, the student growth formula changed due to Act 741 of 2017. Prior to the calculation change, the fourth quarter growth rate was calculated using the fourth quarter ADM of the current year and compared against the three-quarter ADM from the prior year (instead of the fourth quarter ADM from the prior year being compared against the three-quarter ADM of two years prior). This change allows the Division of Elementary and Secondary Education (DESE) “to do a more accurate calculation instead of estimating.”⁶ The DESE explained that the first student growth payment has always gone out in January, but prior to Act 741, the district could not spend the money until July, at the end of the fiscal year, when actual ADM data were available. Now the DESE does not have to provide any adjustments to student growth funding in July unless a district adjusts its ADM. Since Act 741 went into effect, the DESE has made only minor adjustments, which resulted from districts correcting their ADMs.

Additionally, Act 741 introduced a provision that can reduce the amount of student growth funding that some districts can receive. The affected districts would be those that generate enough revenue through their Uniform Rate of Tax (URT) that they do not receive state foundation funding aid. There were four such districts in 2018-19: Armorel, West Side (Cleburne County), Mineral Springs, and Eureka Springs. If any of these districts are eligible for student growth funding, Act 741 calls for their student growth funding amount to be reduced by the amount of revenue they generate (URT and other related funding) that exceeds the foundation funding amount. In other words, if a district generates \$75,000 in URT above what is needed to meet the per-student foundation funding amount and is eligible for \$100,000 in student growth funding, the district would receive only \$25,000 in student growth funding. If the district received

⁶ Email from Anita Sacrey with the DESE, dated January 27, 2020.

\$125,000 in URT above what is needed for foundation funding and is eligible for \$100,000 in student growth funding, the district would receive \$0 in student growth funding.

Table 5 below shows the eligible student growth amounts for these four districts compared to the URT amounts exceeding the foundation funding amount. (Some of these districts received small amounts of declining enrollment funding.)

Table 5: Excess URT and Student Growth Funding Amounts 2018 – 2019

	Student Growth Eligible Amount	URT Amount in Excess of Foundation Funding Amount	Student Growth Amount Received
Armored	\$3,899	\$1,068,835	\$0
West Side (Cleburne County)	\$29,311	\$1,480,309	\$0
Mineral Springs	\$33,905	\$2,129,386	\$0
Eureka Springs	\$0	\$1,452,147	\$0

Student growth funding also has been impacted by Act 933 of 2017, beginning in 2017-18. Prior to Act 933, charter schools that were newly opened or added new grades received foundation funding based on current year ADM instead of prior year ADM to accommodate for the additional new students. In these cases, the charter did not receive student growth funding since the current foundation funding amount provided for the new students. With Act 933, the triggers for current year funding expanded to include charter schools operating under a new license (e.g. issued when an existing charter opens a new campus in another school district) and the first year of adding a new campus. For example, in 2018-19, eSTEM added a new campus and received foundation funding based on enrollment from 2018-19 instead of 2017-18, so the charter school will not receive any separate student growth funding. In 2018-19, 13 charters received current-year foundation funding amounts due to opening a new campus, adding a new grade, or being a new charter operating in its first year.

HISTORICAL STUDENT GROWTH FUNDING

Table 6 shows the numbers of districts and charters that received student growth funding as well as the total amounts received in each of the past five years.

Table 6: Districts and Charters Receiving Student Growth Funding

Year	Districts That Received Student Growth Funding	Total Student Growth Funding: Districts	Charters That Received Student Growth Funding	Total Student Growth Funding: Charters	Total Student Growth Funding
2015	97	\$26,015,945	8	\$3,048,812	\$29,064,757
2016	101	\$19,028,284	6	\$1,826,664	\$20,854,948
2017	101	\$28,562,548	9	\$5,335,592	\$33,898,140
2018	117	\$25,702,411	6	\$2,920,878	\$28,623,289
2019	110	\$20,644,366	7	\$3,422,676	\$24,087,042

In 2018-19, 110 districts received \$20.6 million in student growth funding. This is a decrease of about \$8 million since 2017, though the number of districts receiving student growth funding increased by nine. The average student growth funding payment decreased from \$282,798 in 2016-17 to \$187,676 in 2018-19. Student growth payments in 2018-19 ranged from \$882 (Conway School District) to \$2,235,424 (Bentonville School District).

In the same school year, seven charters received \$3.4 million in student growth funding. As seen in Table 6 above, student growth funding for charter schools tends to be more unpredictable. The increase in 2017 was due to the expansion of LISA Academy, which increased its enrollment cap when it opened a new K-6 campus in West Little Rock. The average student growth payment in 2018-19 was \$428,178. Student growth payments for charters in 2018-19 ranged from \$2,746 (SIA Tech) to \$2,038,572 (AR Virtual Academy).

Table 7 shows the districts and charters that received that highest student growth payment for 2018-19.

Table 7: Highest Student Growth Payments

Districts		Charters	
Bentonville	\$2,235,424	AR Virtual Academy	\$2,038,572
Jonesboro	\$1,722,188	LISA Academy	\$553,601
Fayetteville	\$1,683,536	NW AR Classical	\$482,638
Benton	\$1,597,485	Haas Hall (Bville)	\$272,715
Springdale	\$880,954	Imboden Area	\$31,989

STUDENT GROWTH EXPENDITURES

Since its creation, student growth funding has been considered unrestricted funding, meaning districts and charters can spend the money however it best fits their needs. Districts' and charter schools' student growth expenditures can be viewed by the type of programs or services on which districts spend the funds. For the purpose of this report, expenditures of student growth funds (and declining enrollment funds described later in this report) were broken down into the following general categories:

Regular Instructional Programs

Includes classroom teacher salaries and instructional materials.

Other Instructional Programs

Includes expenditures for special education, career education, compensatory educational programs (e.g., before- and after-school programs, tutoring), and instruction for gifted and talented, music, computers, English as a second language, alternative learning environment, fine arts, and ROTC.

Examples include teacher salaries and instructional materials for these other instructional programs.

Student Support Services

Includes expenditures for social work services, guidance services, physical and mental health services (that are not direct instruction), psychological services, speech pathology services, physical and occupational therapy, parental involvement, and Medicaid match payments.

Instructional Support Services

Includes instructional services improvements (curriculum development, staff training), library/media services, and expenditures for gifted and talented coordinators, special education directors, instructional facilitators, 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, vehicles, and equipment and security services.

Student Transportation Services

Includes bus operation (and any other vehicle used for student transportation services), service and maintenance.

Non-Instructional Services

Includes food services and community services operations.

Facilities Construction

Includes expenditures for land acquisition, building acquisition and construction, and site and building improvements.

LEA Indebtedness

Includes bonded indebtedness and other forms of debt service payments.

Fund Transfers to Debt Service

Includes transfers of student growth funding to debt service.

Other Non-Programmed Costs

Includes refund of state revenue to state.

Chart 2: Student Growth Expenditures, 2018-19

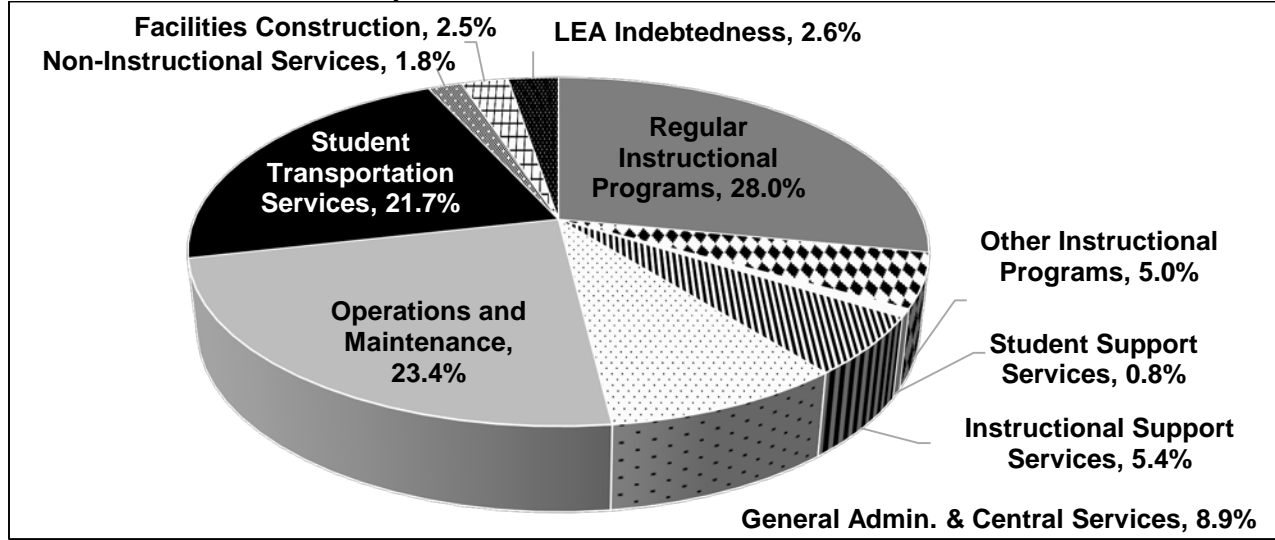
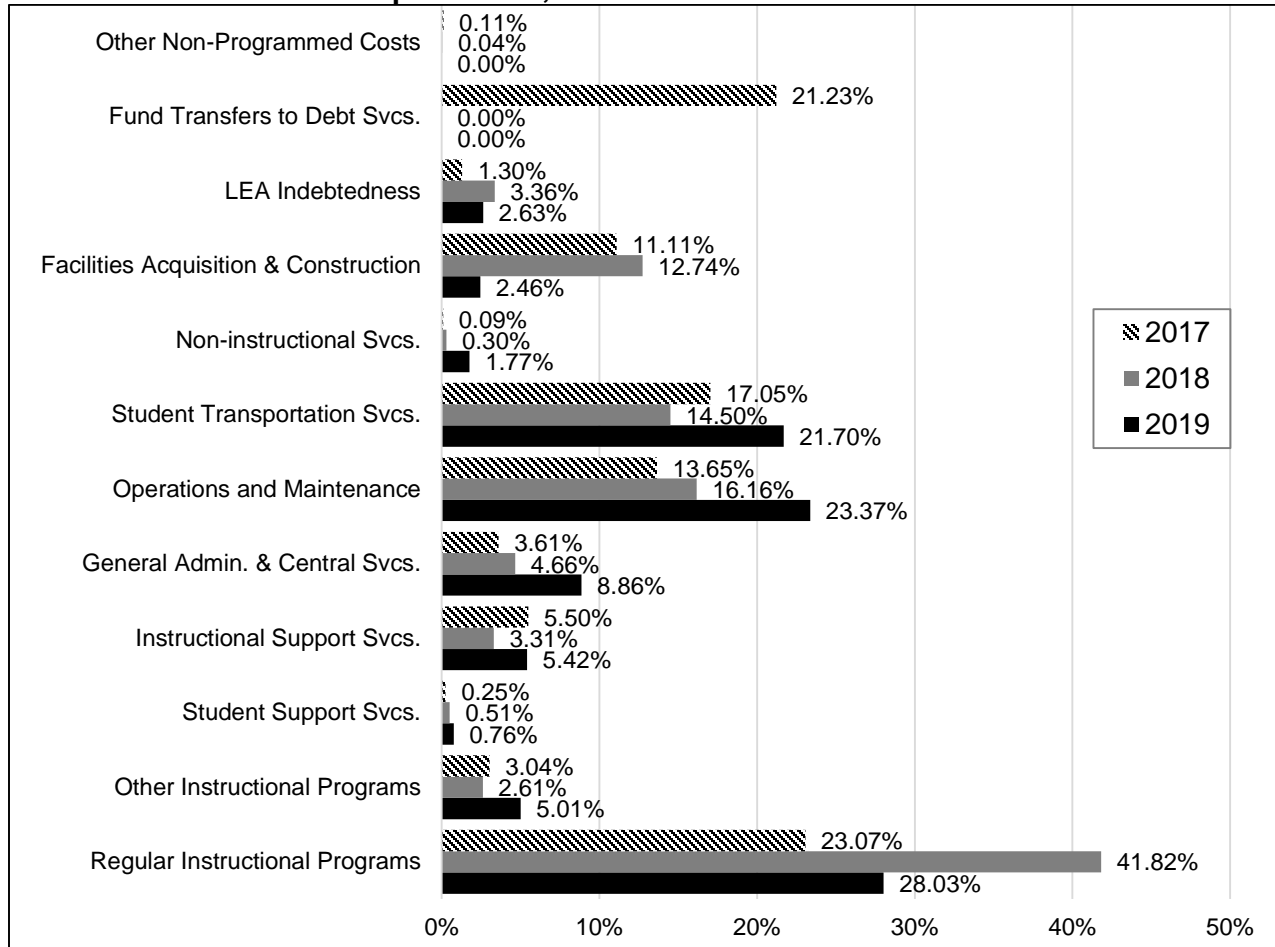


Chart 2 shows how districts and charters spent their student growth funding in 2018-19. In 2018-19, regular instructional programs, operations and maintenance, and student transportation services were the most common student growth expenditures.

Chart 3 shows how districts and charters have used their student growth funding between the 2016-17 and 2018-19 school years.

Chart 3: Student Growth Expenditures, 2017-2019



Regular instructional programs continue to be one of the biggest student growth expenditures, followed by student transportation services and operations and maintenance. Regular instructional programs typically make up about a quarter of student growth expenditures, though that increased to nearly 42% in 2017-18.

As seen in the chart above, transfers to debt service used to be a big use of student growth funding. These were not traditional expenditures since this money was just moved to an account to be used for debt service payments for construction or maintenance projects. Once it is in the debt service account, it can no longer be tracked as a student growth expenditure at a later date. In past years, this use of funds accounted for between 15% to over 30% of student growth expenditures. However, these transfers dropped off entirely in 2017-18. The DESE noted that this drop off is likely due to the fact that they have emphasized the importance of spending the funds directly out of the student growth fund instead of transferring out and that districts are likely more aware of the need to do that. Additionally, a change in DESE rules (effective January 2019) now prohibits districts from transferring student growth funds (and declining enrollment funds) to another fund prior to being expended, but must be expended directly from the student growth fund.⁷

Table 8 shows student growth funding provided to school districts compared with districts' total student growth expenditures over the past five school years.

Table 8: Student Growth Funding and Expenditures

Year	Districts		Charters	
	Student Growth Funding	Expenditures	Student Growth Funding	Expenditures
2015	\$26,015,945	\$27,789,677	\$2,686,505	\$2,932,826
2016	\$19,028,284	\$21,949,785	\$1,826,664	\$1,929,759
2017	\$25,562,548	\$40,295,141	\$5,420,593	\$2,137,368
2018	\$25,702,411	\$30,730,041	\$2,920,878	\$3,649,647
2019	\$20,644,366	\$22,427,435	\$3,422,676	\$4,619,021

In 2018-19, districts received \$20.6 million in student growth funding, and their student growth expenditures totaled \$22.4 million. Table 8 above shows that districts' student growth expenditures have consistently exceeded their student growth funding for the past five years. This indicates that some districts were spending from their balance carried over from previous year(s) in addition to any student growth funding they may have received in the current school year. This results in smaller ending fund balances being carried over at the end of the school year.

In 2018-19, charter schools received \$3.4 million in student growth funding, and their student growth expenditures totaled \$4.6 million. In each of the last five years, excluding 2016-17, charters' student growth expenditure also exceeded their student growth funding. This means that some charter schools are also spending from their student growth balance held from previous year(s) in addition to any funding they may have received in the current school year.

DECLINING ENROLLMENT FUNDING

Arkansas Code §6-20-2305(a)(3)(A)(i) provides additional funding for school districts that have experienced a decrease in student population over the two immediately preceding school years. Declining enrollment funding is provided to help districts deal with the loss in foundation funding that results from the loss of students.

Not all district costs are easily reduced as districts lose students (and foundation funding). Costs like textbooks can be easily reduced as districts lose students; however, other costs are much harder to reduce. If a district loses 25 students, it may be able to reduce its teaching staff.

⁷ "Rules Governing Declining Enrollment and Student Growth Funding for Public School Districts." Arkansas Department of Education. (Jan. 2019)

But eliminating a principal or the operating expenses of a school building may not be feasible until a district has lost several hundred students.

DECLINING ENROLLMENT CALCULATION

Declining enrollment is calculated by subtracting a district's ADM for the previous year from the average ADM for the previous two years. This amount is multiplied by the per-student foundation funding amount, **resulting in providing foundation funding rate for about half of the students the district lost in a given year.**

Table 9: Declining Enrollment Funding Example Calculation:

FY17 3-Qtr. ADM	FY18 3-Qtr. ADM	FY17 and FY18 Average ADM	FY19 Foundation Funding Amount
2,000	1,800	1,900	\$6,781

Prior 2 Year Avg. ADM		Prior Year ADM		Difference
1,900	-	1,800	=	100
ADM Difference		Foundation Funding Rate		Declining Enrollment Funding
100	X	\$6,781	=	\$678,100

It is important to note three ways in which the declining enrollment formula differs from the student growth formula.

1. Declining enrollment funding is based on the previous year's ADM, while student growth funding is based on a district's growth mostly in the current year.
2. Declining enrollment funding is based on annual decreases, while student growth funding is based on quarterly student counts.
3. Declining enrollment funds half the foundation funding rate for each student lost, while student growth funding funds the full foundation rate for each student added.

It is also important to note, as mentioned before, that districts with declining student populations receive foundation funding for more students than the districts are actually educating. This is because foundation funding is based on previous year ADM.

Table 10: Declining Enrollment Scenario

The table below illustrates how a district receiving declining enrollment actually receives money for one and a half times the number of students the district lost (through foundation funding and declining enrollment funding). Declining enrollment pays a district for students the district does not have; however, since foundation funding is based on prior year ADM, districts receiving declining enrollment funding receive foundation funding for more students than they are actually responsible for educating.

Year	Current Year Students	Foundation-Paid Students (Based on Previous Year's Students)	Difference Between Funded Students and Students District Is Actually Educating	Students Funded By Declining Enrollment	Total Funded Students Above Current Year Students
2015	1,020				
2016	1,000	1,020	+20		
2017	980	1,000	+20	+10	+30
2018	960	980	+20	+10	+30
2019	940	960	+20	+10	+30

HISTORICAL DECLINING ENROLLMENT FUNDING**Table 11: Districts and Charters Receiving Declining Enrollment Funding**

Year	Districts That Received Declining Enrollment Funding	Total Declining Enrollment Funding: Districts	Charters That Received Declining Enrollment Funding	Total Declining Enrollment Funding: Charters	Total Declining Enrollment Funding
2015	85	\$8,619,162	1	\$145,320	\$8,764,482
2016	99	\$13,448,877	4	\$262,339	\$13,711,216
2017	83	\$11,267,662	1	\$58,850	\$11,326,512
2018	93	\$12,743,391	8	\$500,185	\$13,243,576
2019	96	\$11,714,039	7	\$953,918	\$12,667,957

Declining enrollment funding typically provides districts and charter schools with an additional \$8 million to \$14 million each year. In 2018-19, 96 districts received \$11.7 million in declining enrollment funding. This is a slight decrease of about \$1 million from 2017-18. In the last five years, the total amount of declining enrollment funding for districts peaked in 2016 and has remained above the funding amount for 2014-15. The average payment to districts peaked in 2017-18, in which the average payment was approximately \$122,000. Payments to districts in 2018-19 ranged from \$305 (Star City) to \$1,134,461 (Pine Bluff).

In 2018-19, seven open-enrollment public charter schools received almost \$100,000 in declining enrollment funding. The number of charter schools receiving declining enrollment funds rose in 2018, with eight open-enrollment charters receiving funding, as opposed to only one open-enrollment charter receiving funding in 2017. The ADM of charter schools across the state rose from 13,440 to 15,062 from 2017 to 2018, while the ADM of districts rose by only 25 (from 460,010 to 460,035). While the number of charters receiving funds jumped in 2017-18, the average payment did not; the average payment for 2016-17 was almost \$59,000, while the average payment for 2017-18 was around \$62,500. However, the average payment rose sharply in 2018-19 to \$136,274, with only one less charter receiving declining enrollment funds than in 2017-18.

The table below shows the districts and charters that received the highest declining enrollment payments for 2018-19.

Table 12: Highest Declining Enrollment Payments

Districts		Charters	
Pine Bluff	\$1,134,461	KIPP Delta	\$261,577
Little Rock	\$618,325	Jacksonville LH	\$260,289
West Memphis	\$420,286	Capitol City LH	\$178,069
Dollarway	\$387,941	Covenant Keepers	\$70,421
Texarkana	\$379,194	SIA Tech	\$65,301

For 2018-19, Pine Bluff received the highest amount of declining enrollment funding, almost twice as much funding as Little Rock (the district with the second-highest amount).

The changes to student growth funding in Act 741 of 2017 also impact declining enrollment funding. As discussed earlier, districts that qualify for student growth funding but generate enough revenue through URT that they do not receive state foundation funding aid have their student growth funding reduced by the amount of revenue generated that exceeds the foundation funding amount. If the amount a district generates in URT above the foundation funding amount exceeds the amount of student growth funding the district qualifies for, the district does not receive any student growth funding.

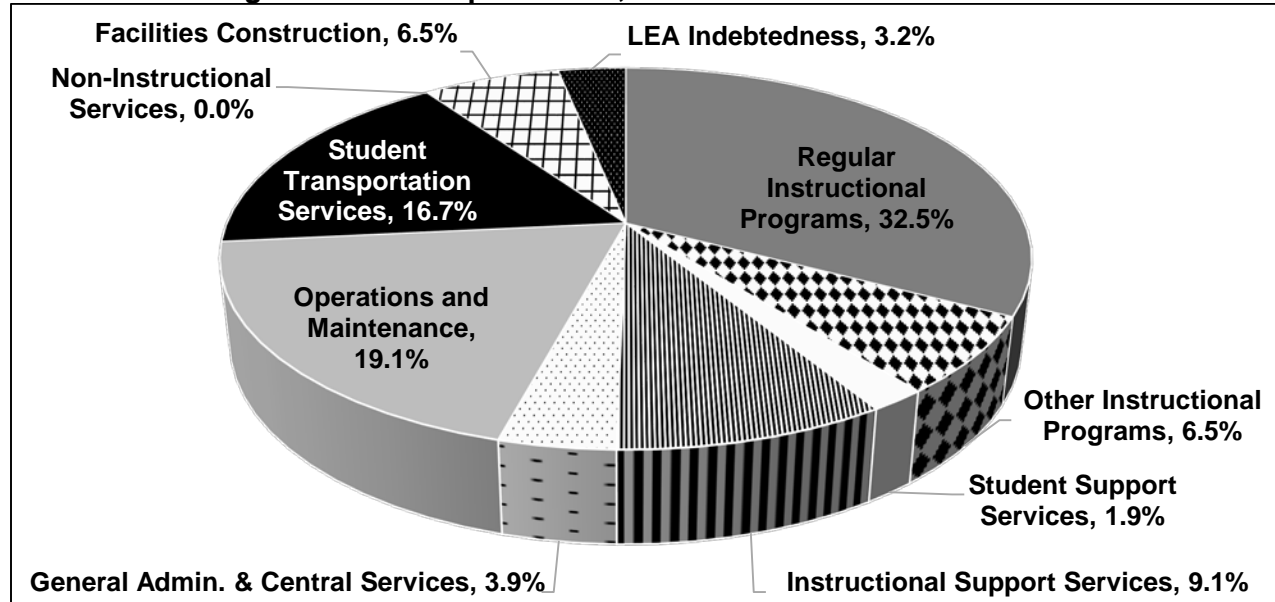
Because of the difference in calculating student growth funding and declining enrollment funding, it is possible for a district to qualify for both types of funding in one year (although a district may only receive one type). Unlike student growth funding, declining enrollment funding is not reduced if a district does not receive foundation funding due to an excess of URT funds.

This means that additional districts that previously would have received student growth funds may now receive declining enrollment funds. Thus far, the additional amounts of declining enrollment funding have been less than \$850 per school year. The table on page 8 shows the districts that did not receive foundation funds for 2018-19.

DECLINING ENROLLMENT EXPENDITURES

Declining enrollment expenditures are unrestricted, meaning that no restrictions are placed on how districts can use the funds.⁸ As with student growth, this report examines how districts spent their declining enrollment funds. The chart below uses the same expenditure categories found on page 9.

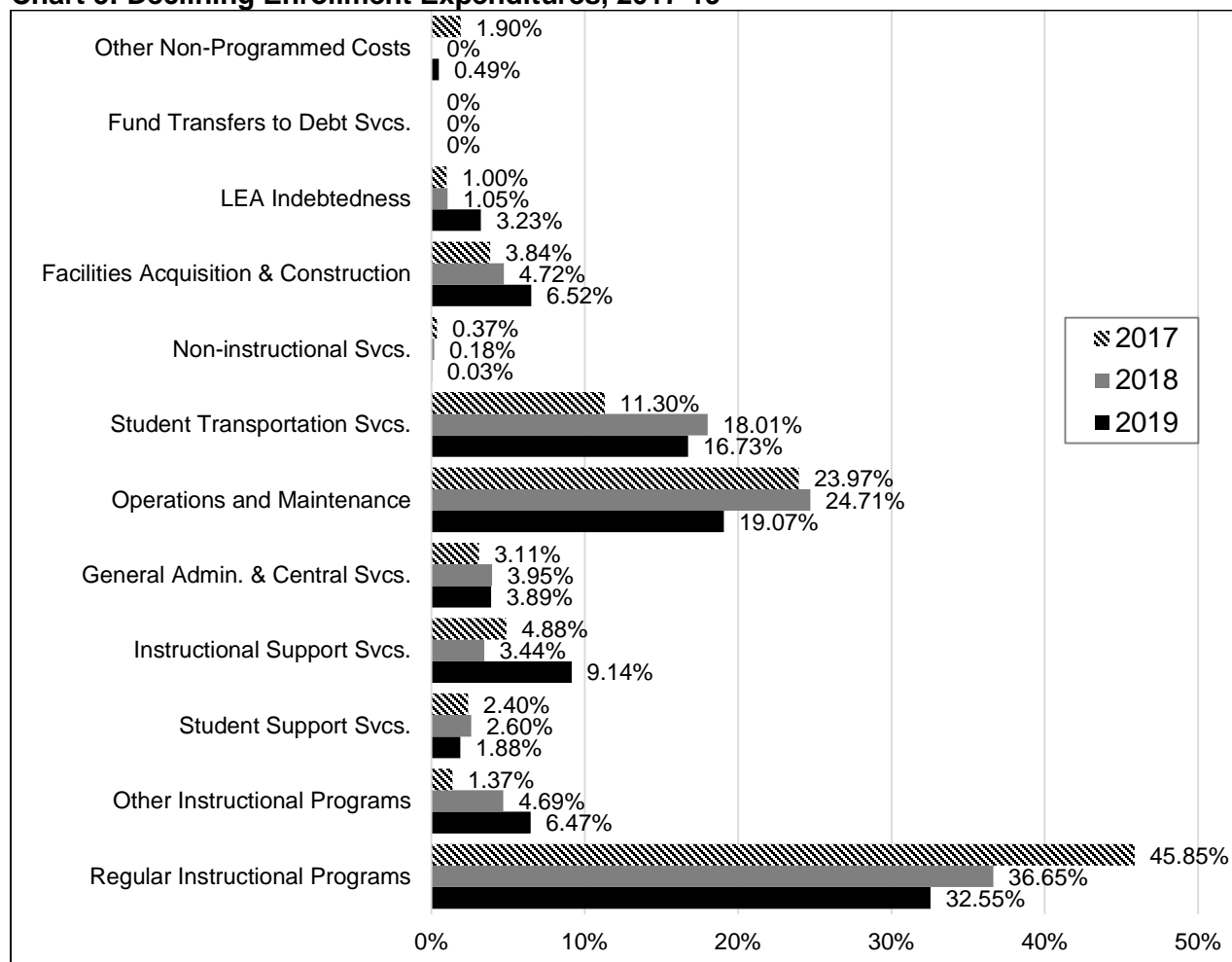
Chart 4: Declining Enrollment Expenditures, 2019



Districts and charters collectively spent the largest portions of their declining enrollment funding on regular instructional programs, operations and maintenance, and transportation. For the past five years (2015 to 2019), those three categories have been the three largest portions of declining enrollment expenditures across districts and charters. The chart below shows districts' and charter schools' spending patterns with declining enrollment funding over the last three years.

⁸ As discussed earlier, changes to DESE rules effective January 1, 2019, mandate that declining enrollment funding must be spent directly from the declining enrollment fund, rather than transferred to another fund. The rule states that the purpose is to enable tracking of the funding, which is not possible when the funds are transferred to another fund.

Chart 5: Declining Enrollment Expenditures, 2017-19



Districts and charter schools have spent a greater percentage of declining enrollment funding on instructional support services, other instructional programs, facilities acquisition and construction, and LEA indebtedness compared with earlier years, while spending a smaller percentage on regular instructional programs.

The table below shows declining enrollment amounts provided to districts and charters compared with total expenditures of declining enrollment funding. Districts' declining enrollment funding is dependent on their eligibility for student growth funding, since districts may not receive both types of funding under Arkansas Code § 6-20-2305(a)(3)(C). Districts may therefore be reluctant to spend money until funding amounts are finalized at the end of the year. See next section for information about the interaction between student growth funding and declining enrollment funding.

Table 13: Declining Enrollment Funding and Expenditures

Year	Districts		Charters	
	Funding	Expenditures	Funding	Expenditures
2015	\$8,619,162	\$10,559,728	\$145,320	\$161,604
2016	\$13,448,877	\$7,627,448	\$262,339	\$100,268
2017	\$11,267,662	\$21,839,985	\$58,850	\$157,957
2018	\$12,743,391	\$17,151,305	\$500,185	\$345,675
2019	\$11,714,039	\$11,386,810	\$953,918	\$1,093,291

INTERACTION BETWEEN STUDENT GROWTH AND DECLINING FUNDING

Because districts can *qualify* for student growth and declining enrollment funding even when they have small increases or decreases in ADM, some districts may receive student growth funding one year due to a slight increase in students and declining enrollment the next year. The Midland School District is one example of a district moving back and forth between these funding programs. Midland received declining enrollment funding in 2015, student growth funding in 2016, 2017, and 2018, and then declining enrollment again in 2019.

Table 14: Funding Received in Example School District

Year	Prior Year ADM	Funding Received
2014-15	503.86	\$42,419 Declining Enrollment
2015-16	496.75	\$97,065 Student Growth
2016-17	510.23	\$207,688 Student Growth
2017-18	541.80	\$51,019 Student Growth
2018-19	518.20	\$80,016 Declining Enrollment

Districts may also be eligible for both student growth funding and declining enrollment funding in the same year. This phenomenon is because the calculations for two types of funding are based on ADM changes in different years. For example, the 2019 declining enrollment funding is based on the change in ADM between 2017 and 2018, while the 2019 student growth funding was based on the ADM changes between 2017 and 2019. As a result, **it is 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.**⁹ Under the DESE rules, when a district qualifies for both, the DESE issues the funding type that would result in the most money for the district.

Table 15 below 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).

Table 15: Districts and Charters Eligible for Growth and Declining Enrollment Funding

Districts <u>Eligible</u> for Growth and Declining Enrollment Funding	
2014-15	52
2015-16	76
2016-17	56
2017-18	59
2018-19	41

Note: Includes districts that received special needs isolated funding instead of declining enrollment funding. It does not include charters that were ineligible for student growth funding due to receiving current year foundation funding or districts with URT funding that exceeded their eligible student growth funding amount.

INTERACTION BETWEEN DECLINING AND SPECIAL NEEDS ISOLATED FUNDING

Just as a district cannot receive both declining enrollment and student growth funding in the same year, a district cannot receive both declining enrollment and special needs isolated funding.¹⁰ (Special needs isolated funding was addressed in a separate report in October

⁹ Arkansas Code § 6-20-2305(a)(3)(C)

¹⁰ See Arkansas Code § 6-20-2305(a)(3)(A) providing that a “school district that has experienced a decline in average daily membership over the two (2) immediately preceding school years shall receive [d]eclining enrollment funding ... or [s]pecial needs isolated funding under § 6-20-604.”

2019.) Under DESE rules, if a district qualifies for both special needs isolated funding and declining enrollment funding, DESE awards the funding type that results in the most money for the district. In nearly all cases, districts receive special needs isolated funding instead of the declining enrollment funding. The table below shows the number of districts that were eligible for both types of funding over the past five years.

Table 16: Districts Eligible for Declining Enrollment and Special Needs Isolated Funding

Year	Districts
2015	17
2016	17
2017	11
2018	16
2019	17