

**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

**House Interim Committee on Education
and the
Senate Interim Committee on Education**

With Committee Amendments



**As adopted on January 22, 2007 by
The House Education Committee and the Senate Education Committee**

I. EXECUTIVE SUMMARY

The purpose of this document is to report on the work of the 85th General Assembly, the House Interim Committee on Education, Senate Interim Committee on Education, Adequacy Oversight Subcommittee, and Academic Facilities Oversight Committee conducted pursuant to Act 57 of the Second Extraordinary Session of 2003, or The Continuing Adequacy Evaluation Act of 2004.

The report's discussion in the introduction, section IV, gives a history of the state's efforts, through legislative sessions and litigation, to determine a constitutionally sound method of funding a public school system that delivers the opportunity for each public school student to have an adequate education. This section outlines the legislative hearings, expert testimony and reports, and witnesses who presented testimony at those hearings.

Next, the report discusses how the subcommittee and the committees conducted their review following the eight basic components of Act 57. Many of the accomplishments of the public education system in Arkansas are found in this section, along with a background explanation of some of the funding mechanisms for public schools.

The report also contains the findings and recommendations of the Adequacy Oversight Subcommittee, the House Interim Committee on Education, Senate Interim Committee on Education, and Academic Facilities Oversight Committee. The findings and recommendations focus primarily, although not exclusively, on the recalibration of the foundation funding matrix. Some issues have been referred for further study, and those are listed in section VI.D. of the report.

Data Sources

Various sources of data were used in the completion of this study. Lawrence O. Picus and Associates (Picus), education policy experts hired by the Adequacy Oversight Subcommittee, provided a research report and recommendations for recalibrating the foundation funding matrix.¹ The Picus research and recommendations provided a starting point for the adequacy study discussions, as the report, alone, cannot provide all of the evidence that is needed for legislative deliberations. Indeed, some issues remain elusive to researchers and legislators, as indicated recently in an article by the Hoover Institution's Education Next:

The evolving concept of financial adequacy requires researchers to ascertain far more elusive relationships between education inputs, processes, throughputs, and outcomes. Researchers have simply not yet discovered answers to many of the questions regarding these relationships. For example, the amount of money or configuration of schooling resources needed to compensate educationally for impoverishment, disability, or language deficiency is simply not known.²

Studies such as the Picus report are not binding on the General Assembly³. Therefore, the subcommittee considered other sources of information in addition to the Picus research. The Arkansas Department of Education, the Division of Legislative Audit, and the Bureau of Legislative Research provided data and research that included actual district expenditure data, audits, performance reviews, surveys of other states, surveys within the state, school site visits and data from national and regional authorities such as the National Education Association (NEA) and the Southern Regional Education Board (SREB). The

¹ Lawrence O. Picus and Associates, *Recalibrating the Arkansas School Funding Structure*, August 30, 2006.

² James W. Guthrie and Matthew G. Springer, "Courtroom Alchemy: Adequacy advocates turn guesstimates into gold," *Education Next*, Winter 2007, p. 22.

³ Act 37 of the First Extraordinary Session of 2006; Arkansas Code Annotated § 10-2-130.

Comparable Wage Index (CWI) developed by the National Center for Education Statistics (NCES) was used to compare Arkansas teacher salaries with other states. It also influences the decision making process utilized by the committees in determining appropriate funding levels in other areas. Projections from Global Insight, a producer of national economic forecasting services, are used to determine inflation factors.

Picus' recommendations were also based on a web survey of superintendents, school site visits, expenditure data provided by the Department of Education, national trends, and practices in other states. Different sources were relied on to build different components of the matrix. In some instances the committees decided to rely on Arkansas data rather than costs derived from studies in other states. The CWI indicates that comparable costs in Arkansas are for the most part lower than those in other SREB states.

One additional area of research needing to be completed during the upcoming session relates to the duplication of funding sources in the use of district expenditure data. This data was used by Picus as well as all state level researchers for this study. The extent to which funding for these expenditures is duplicated in other line items, from both the public school fund appropriation and other sources, will affect final decisions. Appropriate funding reductions will be made during the session to adjust either the foundation funding level or the other line items.

The Recalibrated Matrix

It cannot be emphasized enough that the recalibration of the foundation funding matrix provided by Picus and further analyzed by other state researchers represents a change in how the matrix is calculated rather than merely inflating or adjusting the existing matrix line by line. To "recalibrate", or to compare to the evidence and make corrections in, the foundation funding matrix, the committees are recommending that some items be moved, increased, decreased, added, or eliminated. Therefore, some items used in the original Bisbee matrix may no longer directly correlate with the recalibrated matrix. A table containing the recalibrated matrix is included on page 26.

Picus presented a recalibration of the matrix that is the basis for determining the per student level of foundation funding. Their recalibration was constructed based on the assumption that the state should seek to "double student performance." Doubling student performance is an optimal standard, not a constitutional standard. Achieving adequacy will, however, involve improving student performance. The subcommittee and the committees have made recommendations to accomplish that.

In short, this report reflects how the committees and their subcommittees have worked diligently to conduct an evidence-based study of the state's system of funding public education to provide educational adequacy. The proposed legislation attached to this report embody their recommendations to the 86th General Assembly of the State of Arkansas.

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II. ABSTRACT OF RECOMMENDATIONS

A. *Foundation Funding for Instruction and Operations*

	FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
A. PROTOTYPICAL SCHOOL FOR FOUNDATION FUNDING CALCULATIONS				
1	School and Class Size (for Determining a Per Pupil Figure for the Foundation Program)			
(a)	School Size (1) Although this issue is complex, the subcommittee concludes that at least for school-based services, the recalibration effort can identify a new expenditure per pupil level using 500 students – the approach used in the Bisbee memo.	Continue with the method established by the General Assembly.		
	(2) The subcommittee recommends that in the future the state strongly consider constructing schools that are of a sufficient size to maximize efficiencies in building and maintaining buildings, as well as staffing them with teachers and administrators.			
	(3) The subcommittee recommends that the Academic Facilities Oversight Committee study the Picus suggestion that the state consider constructing schools that are of a sufficient size to maximize efficiencies in building and maintaining buildings and report to the Education Committees on or before October 19, 2006.	Academic Facilities Oversight Committee Report received.		
(b)	Class Size Because the class size figures used in Act 59 reflect or enhance the Arkansas class size standards, and because the Oversight Committee decided at its December 1, 2005 meeting to retain the class size numbers in Act 59, the new per pupil figure will be calculated on the basis of those class size figures.	Continue with the method previously established by the General Assembly.		

	FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
(c)	Kindergarten The subcommittee recommends including full day kindergarten in the recalibration, with a class size of twenty (20) students in each class.	Continue with the method previously established by the General Assembly.		
2	School Level Salaries			
(a)	Teacher Salary Component			
	<p>The committees find that using NEA data, Arkansas has the second highest average teacher salary among her surrounding states and ranks ninth among SREB states. When the comparison is made using the Comparable Wage Index (adjusting for costs of living within the states), Arkansas ranks first and second, respectively.</p> <p>The committees recommend that the calculation methodology recommended by Picus for the teacher salary component should be utilized and increased by 2.0% for inflation. The resulting teacher salary component figure including retirement benefits should be \$53,429 for 2007-2008. In addition, a 2.0% inflationary adjustment to \$54,465 should be included for 2008-2009.</p> <p>The subcommittee recommends the per pupil funding previously allocated for five (5) continuing education days should be rolled into the average teacher salary component of foundation funding. This means that the teacher salary figure used by Picus to estimate the recalibrated per pupil figure will include sufficient funds for the additional five days.</p>	<p>86th General Assembly Begin with 2007-2008 school year.</p> <p>86th General Assembly Beginning with the 2007-2008 school year.</p>	\$53,429.00	\$54,465.00
	(1) Classroom Teachers The subcommittee recommends continuing funding for classroom teachers at 20.79 full time		\$2,221.60 per pupil	\$2,264.70 per pupil

	FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
	equivalents for the 500-student school. Based on the recommendation for the teacher salary component, the per pupil amount for classroom teachers would be \$2,221.60 for 2007-2008 and \$2,264.70 for 2008-2009.			
	(2) Specialist Teachers: Physical Education, Art, Music, etc. The subcommittee recommends continuing funding for specialist teachers at the rate of twenty percent (20%) of core teachers, or 4.2 specialist teachers, at the foundation funding teacher salary component figure.	Continue with the method previously established by the General Assembly.	\$443.50 per pupil	\$452.00 per pupil
	(3) Instructional Facilitators (A) The subcommittee recommends the continued funding of instructional facilitators (or instructional coaches), to cover coaching for content areas as well as using technology in the curriculum, at the ratio of 2.5 full time positions for every 500 students (i.e., one instructional facilitator position for every 200 students), at the foundation funding teacher salary component figure	Continue with the method previously established by the General Assembly.	\$267.10 per pupil	\$272.30 per pupil
	(B) The committees recommend that legislation be drafted by February 1, 2007, requiring that ACSIP will include monitoring of the use of instructional facilitators (as defined in the Department of Education report) in school improvement plans.	Department of Education Begin with the 2007-2008 school year.		
	(C) The subcommittee recommends that the House Interim Committee on Education and the Senate Interim Committee on Education study all of the following: i) That the state consider "pulling out" the resources from the foundation expenditure per pupil level and allocating the resources	Report of the House Interim Committee on Education and the Senate Interim Committee on Education due May 1, 2008.		

	FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
	<p>on a categorical basis;</p> <p>ii) That these resources be left in foundation funding, but that the legislature mandate that school districts use the number of facilitators in the matrix; and</p> <p>iii) That the General Assembly mandate that districts have a minimum of one instructional facilitator for every 250 pupils and give districts the freedom to use the other 0.5 position either for an instructional facilitator or other position, such as assistant principal. However, any funds remaining after use for an assistant principal must be used as funding for instructional facilitators.</p>			
	<p>(4) Special Education</p> <p>(A) The subcommittee recommends that the funding system for census resourcing for all high-incidence, lower-cost students with disabilities continue to include the 2.9 staff, at the foundation funding teacher salary component figure.</p>	Continue with the method previously established by the General Assembly.	\$309.90 per pupil	\$315.90 per pupil
	<p>(B) The subcommittee included in Section V.H.2 of this report a memorandum from Ms. Marcia Harding, Associate Director, Special Education setting out the existing funding which already at least complies with the Picus recommendation. This memorandum is subject to the reaffirmation by the House Interim Committee on Education and the Senate Interim Committee on Education at their next meeting.</p>	Report reaffirmed.		
	<p>(5) Library Media Specialists</p> <p>The subcommittee recommends that the prototypical 500 student school be allocated a 0.825 library media specialist position, an increase from the current 0.7 position, at the</p>	<p>86th General Assembly</p> <p>Begin with the 2007-2008 school year.</p>	\$88.20 per pupil	\$89.90 per pupil

	FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
	foundation funding teacher salary component figure.			
	<p>(6) Pupil Support Staff</p> <p>The subcommittee recommends that there be 2.5 positions for counselors, nurses, social workers, psychologists, family outreach, etc. in the foundation funding, at the foundation funding teacher salary component figure, at the foundation funding teacher salary component figure. Pursuant to the Picus recommendation and Arkansas Code § 6-18-706, 0.67 of the 2.5 positions must be a school nurse.</p>	<p>86th General Assembly</p> <p>Begin with the 2007-2008 school year.</p>	\$267.10 per pupil	\$272.30 per pupil
(b)	Principal			
	<p>(1) Principal Salary Component</p> <p>(A) The subcommittee recommends the prototypical school of 500 students be allocated one (1) principal in the foundation funding formula.</p>	<p>Continue the method previously established by the General Assembly.</p>		
	<p>(B) The committees find that the salary figure used in the foundation funding matrix for principals should be changed due to an oversight in calculations from 2004 through 2006. The revised salary figure including benefits should be increased by 12.88% to \$86,168 for 2007-2008. In addition, a 2.0% inflationary adjustment to \$87,860 should be included for 2008-2009.</p>	<p>86th General Assembly</p> <p>Begin with the 2007-2008 school year.</p>	\$172.30 per pupil	\$175.70 per pupil
	<p>(2) Leadership Training</p> <p>The subcommittee strongly recommends that the committees, with the assistance of the Department of Education and Department of Higher Education, study the requirements of an exemplary statewide leadership program, including the components of the existing leadership training program, and recommend further that the</p>	<p>Department of Education report by March 1, 2007.</p> <p>General Assembly, Department of Education, and Department of Higher Education</p> <p>Begin with the 2007-2008 school year.</p>		

	FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
	Department of Education prepare a plan for an exemplary statewide leadership program and specify the funding needs for the program for presentation to the 86th General Assembly.			
(c)	School Secretaries			
	(1) The subcommittee recommends that the two (2) school secretaries be moved from the central office allocation to a separate line item in the foundation funding matrix.	86th General Assembly Begin with the 2007-2008 school year.		
	(2) The committees recommend that the foundation funding matrix include two (2) secretaries for the prototypical 500-student school, at \$34,751 salary and benefits for 2007-2008. In addition, a 2.0% inflationary adjustment to \$35,415 should be included for 2008-2009.	86th General Assembly Begin with 2007-2008 school year.	\$139.00 per pupil	\$141.70 per pupil
3.	Per Pupil Resources			
(a)	Computers and Software			
	The subcommittee recommends that the per pupil figure for computers software be increased from the existing \$185 per pupil to a total of \$220 for 2007-2008. In addition, a declining inflationary index to \$201 should be included for 2008-2009.	86th General Assembly Begin with the 2007-2008 school year.	\$220.00 per pupil	\$201.00 per pupil
(b)	Instructional Materials and Supplies			
	The subcommittee recommends the recalibrated funding model include the \$160 per pupil recommended by Picus for instructional materials, books, supplies, including library resources, beginning with the 2007-2008 school year, and increased to \$163.20 in 2008-2009 with an inflationary adjustment.	86th General Assembly Begin with the 2007-2008 school year.	\$160.00 per pupil	\$163.20 per pupil
(c)	Extra Duty Funds			
	(1) The committees recommend that the level of per pupil funding for	86th General Assembly Begin with the 2007-2008	\$50.00 per pupil	\$51.00 per pupil

	FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
	extra duty funds be \$50 per pupil for 2007-2008, based on a weighted average of the costs for extra-duty funds among schools of various grade levels (elementary, middle school, and high school). In addition, a 2% inflationary adjustment to \$51 should be included for 2008-2009.	school year.		
	(2) The committees further recommend that the Department of Education study the issue of whether the average teacher salary used in the funding model covers the extra duty funds paid to certified personnel; if so, the funding would be duplicated.	Department of Education Report received. See Exhibit 13.		
(d)	Supervisory Aides			
	(1) Based on the report of the Department of Education dated November 9, 2006, regarding the actual data for use of supervisory aides in Arkansas school districts, the subcommittee finds that one (1) supervisory aide is sufficient.	86th General Assembly Begin with the 2007-2008 school year.		
	(2) The committees find that based on the Picus recommendation for the salary amount, the foundation funding formula salary amount for supervisory aides should be increased by 33%, resulting in funding for one (1) supervisory aide at \$49.35 per pupil for the 2007-2008 school year. In addition, a 2% inflationary adjustment to \$50.35 should be included for 2008-2009.	86th General Assembly Begin with the 2007-2008 school year.	\$49.35 per pupil	\$50.35 per pupil
	(3) The subcommittee recognizes that the utilization of supervisory aides needs more definitive evidence from actual school practices. The committees request the Department of Education and AAEEA to report back to the subcommittee on or before May 1, 2008 concerning the needed personnel.	Department of Education report received. See Exhibit 14.		

	FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
(e)	Substitutes			
	(1) Based on evidence of actual school practices presented to the subcommittee, the subcommittee recommends that the amount provided for substitute teachers be continued at \$59 per pupil.	Continue with the method previously used by the General Assembly.	\$59.00 per pupil	\$59.00 per pupil
	(2) The subcommittee recommends that the House Interim Committee on Education and the Senate Interim Committee on Education, with the cooperation of the Department of Education, conduct a study to determine if there are sufficient numbers of certified teachers available in the job market to meet school district needs for substitute teachers.	Report of the House Interim Committee on Education and the Senate Interim Committee on Education due May 1, 2008.		
4.	Operations			
(a)	Former "Carry Forward"			
	The committees recommend that beginning with the 2007-2008 school year, operations and maintenance, central office, and transportation should be moved from the carry forward into a separate line items.			
(b)	Operations and Maintenance			
	The committees recommend that an amount equal to 9% of the foundation funding (excluding the funding for operations and maintenance) plus \$27 for the cost of property insurance be included in foundation funding for operations and maintenance; provided that the \$27 may only be spent for property insurance. This would bring the total foundation funding amount for operations and maintenance to \$581 per pupil.	86th General Assembly Begin with the 2007-2008 school year.	\$581.00 per pupil	\$581.00 per pupil
(c)	Central Office			
	The committee agrees with the finding of the subcommittee that the	86th General Assembly	\$376.00 per pupil	\$383.50 per pupil

	FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
	figures Picus used in its report are inflated because of being computed on higher priced geographical areas and on more duties than are required in Arkansas. Based on a study by the Department of Education of the comparable districts the committees recommend that \$376 per pupil (which reflects \$395 per pupil, less \$19 for the per pupil cost of the Director of Maintenance and Operation and a secretary which are included in the operations and maintenance line item), be included in the foundation funding for central office. The committees recommend that the foundation funding amount for 2008-2009 be \$383.50, including an inflationary adjustment of 2.0%.	Begin with the 2007-2008 school year.		
(d)	Transportation			
	(1) The subcommittee recommends that foundation funding be provided for transportation at \$286 per pupil for 2007-2008, awaiting the development of a formula for providing funding based on fair and accurate costs for all school districts. (Also see recommendation #3 in the Academic Facilities Funding).	Continue with the method established by the General Assembly.	\$286.00 per pupil	\$286 per pupil
	(2) The subcommittee recommends the Academic Facilities Oversight Committee should conduct a study to develop a formula for transportation funding that is based on actual costs and will be fair to all districts. The following persons are requested to assist the committee in the study: one person chosen by the Arkansas School Boards Association, two persons chosen by the Arkansas Association of School Administrators, and one person chosen by the Arkansas Education Association who can be a school bus driver.	Academic Facilities Oversight Committee report due by February 1, 2007 for consideration by the 86th General Assembly.		

	FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
5.	Other Adjustments			
(a)	Adjustments for Teacher Retirement Contribution Rate			
	In accepting the Picus methodology for calculating the average teacher salary component of the foundation funding matrix, the subcommittee recommends that legislation be drafted to incorporate the \$42 per pupil for personnel retirement benefits paid by employers into salary components for certified and non-certified personnel in the foundation funding matrix.	86th General Assembly Begin with the 2007-2008 school year.		
(b)	State Uniform Rate of Tax			
	The subcommittee recommends that using actual collections, after commissions, is the best method to ensure that each school district receives the same amount per pupil when the foundation formula is distributed. Based on a Division of Legislative Audit report, the approximate amount needed to carry out this recommendation is \$13,295,100 in the 2007-2008 school year and \$14,170,197 in the 2008-2009 school year.	86th General Assembly Begin with the 2007-2008 school year.	13,295,100.00	\$14,170,197.00

B. Categorical Funding

	CATEGORICAL FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
1.	Professional Development			
(a)	(1) The subcommittee recommends that the state retain the current funding level for professional development, which provides \$50 per pupil, with approximately \$8.89 per pupil committed to the statewide online professional development program.	Continue with the method previously established by the General Assembly	\$50.00 per pupil \$41.11 to school districts \$8.89 to Department of Education	\$50.00 per pupil \$41.11 to school districts \$8.89 to Department of Education

	CATEGORICAL FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009																
	<p>(2) Professional development is a critical area for improving student performance and ensuring highly-qualified teachers in the classroom.</p> <p>The quality of the professional development in the state needs continued, focused attention and improvement.</p> <p>The Department of Education has hired an Associate Director of Professional Development and a Public School Program Advisor to fill the two new positions provided to the Department of Education through legislation in the First Extraordinary Session of 2006.</p>	Department of Education																		
(b)	The subcommittee recommends all districts align use of the federal Title II funds, which are also for professional development, with the districts' and schools' overall professional development strategies. This alignment shall be included in ACSIP and monitored.	Department of Education Begin with the 2007-2008 school year.																		
2.	NSL Students																			
(a)	The subcommittee recommends increasing NSL funding by 3.28%.	86th General Assembly Begin with the 2007-2008 school year.	<table> <thead> <tr> <th><u>NSL %</u></th> <th><u>Per NSL Student</u></th> </tr> </thead> <tbody> <tr> <td>> 90%</td> <td>\$ 1,488</td> </tr> <tr> <td>70% - 90%</td> <td>\$ 992</td> </tr> <tr> <td>< 70%</td> <td>\$ 496</td> </tr> </tbody> </table>	<u>NSL %</u>	<u>Per NSL Student</u>	> 90%	\$ 1,488	70% - 90%	\$ 992	< 70%	\$ 496	<table> <thead> <tr> <th><u>NSL %</u></th> <th><u>Per NSL Student</u></th> </tr> </thead> <tbody> <tr> <td>> 90%</td> <td>\$ 1,488</td> </tr> <tr> <td>70% - 90%</td> <td>\$ 992</td> </tr> <tr> <td>< 70%</td> <td>\$ 496</td> </tr> </tbody> </table>	<u>NSL %</u>	<u>Per NSL Student</u>	> 90%	\$ 1,488	70% - 90%	\$ 992	< 70%	\$ 496
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(b)	(1) The subcommittee recommends that the change in the amount of NSL funding for school districts that drop below the 70% and 90% thresholds be phased-out in equal amounts over a period of three (3) years and that for school districts that exceed the 70% and 90% threshold, be phased-in in equal amounts over a three-year period is recommended. (See Recommendation #22 for the increase in NSL categorical funding.)	Begin with the 2007-2008 school year.																		

	CATEGORICAL FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
	(2) An examination of fund balances and field studies indicate that sufficient funds are being provided. The problem is that most of the districts are not implementing existing strategies. The Department of Education and the Bureau of Legislative Research should continue to monitor use of funds and implementation of strategies to determine future need.	Report of Bureau of Legislative Research and Department of Education due by May 1, 2008.		
(c)	The Department of Education, through APSCN, is requested to determine how much of restricted categorical funding has been used by districts for across the board salary increases	Department of Education report due by February 1, 2007.		
(d)	The subcommittee finds that it is premature to establish a licensure category for teacher tutors. The Department of Education is requested to report by May 1, 2008, on the status of strategies for NSL categorical funds being used by school districts and its recommendations for standards and licensure of tutors. Continued monitoring through APSCN and ACSIP is recommended.	Department of Education to report by May 1, 2008. Continue monitoring through 2009.		
(e)	The subcommittee requests the Department of Education to consider allowing NSL funds to be used for research-based programs such as Jump Start Bridge Program to help secondary students prepare for Smart Core and other rigorous curricula.	Department of Education		
3.	ELL Students			
	Upon examination of district fund balances for ELL students, it is evident that there is a need for additional funding to support ELL. The subcommittee recommends that legislation be enacted to adjust the pupil-teacher ratio requirement in order to effectively increase funding by 50% per 100 ELL pupils. This is	86th General Assembly Begin with the 2007-2008 school year.	\$293.00 per ELL pupil	\$293.00 per ELL pupil

	CATEGORICAL FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
	in addition to NSL categorical funding.			
4.	Tutoring; Extended Day; Summer School			
	The state recognizes that under the appropriate circumstances tutoring, extended day programs and summer schools have proven to be effective methods for improving student performance under certain conditions. School districts are encouraged to continue providing such programs if they have proven to be successful for struggling students in that district. The subcommittee recommends that the House Interim Committee on Education and the Senate Interim Committee on Education in coordination with the Department of Education conduct additional studies to determine the best practices for such programs prior to limiting the use of NSL funding to one particular method.	Report by House Interim Committee on Education and the Senate Interim Committee on Education due by May 1, 2008.		
5.	ALE Programs			
(a)	The subcommittee recommends an increase in staffing for ALE programs to one (1) teacher position for every twelve (12) full time equivalent ALE students. This recommended increase in staffing effectively provides \$4,063 per full time equivalent ALE pupil, which is a 25% increase over the 2006-2007 funding level of \$3,250.	86th General Assembly Begin with the 2007-2008 school year.	\$4,063.00 per FTE	\$4,063.00 per FTE
(b)	(1) The subcommittee recommends that the House Interim Committee on Education and the Senate Interim Committee on Education in coordination with the Department of Education is requested to conduct a study to determine the best ALE practices in the state as a follow up to the Bureau of Legislative Research Report on Alternative Learning Environments.	Report by House Interim Committee on Education and the Senate Interim Committee on Education due by May 1, 2008.		

	CATEGORICAL FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
	(2) The subcommittee recommends that four (4) positions be added immediately to the Department of Education to adequately assess, monitor, and evaluate the effectiveness of ALE programs. (In the absence of finding qualified applicants, it is suggested that professional services contracts be used to fill these positions until qualified individuals can be hired.)	Department of Education report received. 86th General Assembly Begin with 2006-2007,		
	(3) After these immediate steps are taken, the Department of Education is requested to follow-up by December 12, 2006, with a long term plan for the number of positions required and a statewide plan to implement effective ALE practices.	Department of Education report received.	\$400,000	\$384,000

C. Non-Foundation Funding Issues

	NON-FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
1.	ACSIP Monitoring			
(a)	Instructional Facilitators The committees recommend that \$242,000 of funding be provided to the Department of Education to monitor or to assure that the school districts have done what their school improvement plan calls for, as described in the Department of Education report presented to the committees on December 19, 2006.	86th General Assembly Begin with the 2007-2008 school year	\$242,000.00	\$242,000.00
(b)	Categorical Issues The committees recommend that the Department of Education use ACSIP to expand monitoring of the accounting system and of school district fund balances to assist the committees in determining whether to mandate any part of categorical funding, and report its findings to the committees by May 1, 2008.	Department of Education report due by May 1, 2008		

	NON-FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
2.	Declining Enrollment			
	The subcommittee recommends that the funding under Arkansas Code Annotated § 6-20-2305, which provides a two-year "cushion" to address budgetary issues related to declining enrollment, be continued for the 2007-2008 and 2008-2009 school year to allow the General Assembly to assess the effectiveness of funding a school with a declining enrollment.	86th General Assembly Begin with the 2007-2008 school year.	\$10,000,000.00	\$10,000,000.00
3.	Isolated Schools			
(a)	(1) Isolated The subcommittee recommends that the state continue to fund isolated schools and that the funding mechanism under Arkansas Code Annotated § 6-20-603 be rewritten.	86th General Assembly Begin with the 2007-2008 school year.	\$7,896,000.00	\$7,896,000.00
	(2) Special Needs Isolated The subcommittee recommends that the state continue special needs isolated funding and that the funding mechanism under Arkansas Code Annotated § 6-20-604 be rewritten.	86th General Assembly Begin with the 2007-2008 school year.	\$3,000,000.00	\$3,000,000.00
4.	ADM growth Funding			
(a)	The committees recommend that the method of funding previously established by the General Assembly in Arkansas Code Annotated § 6-20-2303(19) be continued.	Continue with the method previously established by the General Assembly.	\$5,400 per pupil	\$5,400 per pupil
(b)	The committees recommend that a study be conducted in the upcoming biennium to recommend the actual per student funding amount needed to meet ADM growth needs. The study should: (1) determine the amount of funding change, if any, in the operations and maintenance component of the	86th General Assembly to adopt the interim study proposal attached to this report.		

	NON-FOUNDATION FUNDING ISSUE	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
	<p>matrix to account for efficiency;</p> <p>(2) identify whether and to what degree other components of the foundation funding matrix may need to be changed;</p> <p>(3) assess student mobility from district to district within the state; and</p> <p>(4) review what level of ADM growth may necessitate a need for additional funding.</p>			

D. Foundation Funding Issues Referred For Study

	STUDY ISSUE	IMPLEMENTATION SCHEDULE
1.	Teacher Support System	
(a)	The subcommittee recommends including in the recalibrated funding system the establishment of a Teacher Support System. Conceptually, the center would combine the recommended functions related to instructional quality under one umbrella. This Teacher Support System would provide support to teachers as they develop more knowledge and skills in use of data, instructional strategies and would focus the training resources of the higher education system toward development of the same needed skills for teachers.	86th General Assembly and Department of Education Begin with the 2007-2008 school year.
(b)	The Department of Education is further requested to provide a plan for the teacher support system and report to the Education Committees by February 15, 2007.	Department of Education report due by February 15, 2007. Bill draft needed after plan is approved.
2.	Fund Balances	
	The subcommittee recommends that the Department of Education's accounting committee develop more detailed, uniform reporting requirements for fund balances.	Report received. See Exhibit 1.
3.	Accounting	
	The committees recommend that the Department of Education continue to consider how to upgrade financial reporting systems so that school districts can provide crucial information to the General Assembly more promptly and to enable school district leadership to improve management.	Arkansas Legislative Council approved and Bureau of Legislative Research signed a contract with InfoSentry for review of accounting system.

		Department of Education is requested to cooperate with consultant.
4.	Educational Excellence Trust Fund	
	The subcommittee recommends that the committees continue to review issues associated with changes in the allowable uses of the Educational Excellence Trust Fund.	86th General Assembly to review further.
5.	Superintendent Contracts	
	The subcommittee recommends that additional study be given to the proposal to require a uniform superintendent contract statewide with the contract containing provisions to allow terminations for cause.	86th General Assembly to review proposed legislation attached.
6.	Stipends and Supplemental Pay	
	The subcommittee recommends that the committees refer for additional study the proposal to require parity in stipends and supplemental pay among certified school employees.	Report by House Interim Committee on Education and the Senate Interim Committee on Education due by May 1, 2008.
7.	Health Insurance	
	The subcommittee recommends that the committees refer for additional study the impact of removing from foundation funding the amount that funds the employer contributions for school employee health insurance and transferring that obligation to the state.	Report by House Interim Committee on Education and the Senate Interim Committee on Education by May 1, 2008
8.	Employee Benefits Equal	
	The subcommittee recommends that the 86th General Assembly review the impact of Act 24 and Act 25 of the First Extraordinary Session of the 85th General Assembly and revise the law as needed.	86th General Assembly
9.	Increases to Retirement	
	The committees refer to the 86th General Assembly for further study the proposal that any future increases to the teacher retirement contribution rate or grants of additional authority to the system should not be considered by the Arkansas Teacher Retirement System without further review.	86th General Assembly
10.	Teacher Retirement Benefits Protection	
	The committees refer to the 86th General Assembly for further study the proposal to limit the authority of the Arkansas Teacher Retirement System to reduce employee benefits.	86th General Assembly

E. Recommendation in Addition to Adequacy

RECOMMENDATION	IMPLEMENTATION SCHEDULE	2007 - 2008	2008 - 2009
<p>The Department of Education is requested to work in conjunction with the professional associations to provide a plan for the statewide rollout of formative assessments to begin in the 2007-2008 school year with an understanding that in the first year participation is by choice, thus giving the department time to fully develop the program.</p> <p>The subcommittee recommends that the amount of \$25 per student participant be allocated to the Department of Education for the purpose of implementing a pilot program using formative assessments to identify the specific areas of instructional support that teachers and students need. The department anticipates the pilot will include approximately 200,000 students.</p>	<p>Department of Education report due by February 15, 2007.</p> <p>86th General Assembly Begin with the 2007-2008 school year.</p>	<p>\$5,000,000.00</p>	<p>\$5,000,000.00</p>

F. Academic Facilities

	ACADEMIC FACILITIES ISSUE AND RECOMMENDATION	IMPLEMENTATION SCHEDULE
1.	Academic Facilities Funding	
(a)	To date, all requests for state financial participation in approved public school academic facilities projects have been funded in a timely manner. The subcommittee recommends that the Academic Facilities Oversight Committee continue to assess, evaluate, and monitor academic facilities funding needs as the Public School Academic Facilities Program develops.	Academic Facilities Oversight Committee Continue during 2007-2009 biennium.
(b)	The subcommittee recommends that the Legislative Council review and consider during the interim and the Joint Budget Committee and the General Assembly review and consider during the 2007 Regular Session the budget request of the division for funds needed to provide state financial support for school districts for projects approved under the Academic Facilities Partnership Program for the 2007-2008 and 2008-2009 school years.	Joint Budget Committee and 86th General Assembly Consider during the 2007 Regular Session.
2.	Impact of Academic Facilities Wealth Index and the Extraordinary Circumstances Program.	
	The subcommittee recommends that the General Assembly review the proposal that will be submitted by the division in January 2007 and consider whether the proposal	86th General Assembly

	ACADEMIC FACILITIES ISSUE AND RECOMMENDATION	IMPLEMENTATION SCHEDULE
	adequately addresses the concerns of the General Assembly and warrants official legislative approval.	Consider agency proposal during the 2007 Regular Session.
3.	Transportation	
	The subcommittee recommends further study of the feasibility of using statewide fuel contracts and a statewide automated bus routing system.	Academic Facilities Oversight Committee Report due by February 1, 2007.
4.	Bonded Debt Assistance	
	The subcommittee recommends that the Academic Facilities Oversight Committee should assess, evaluate, and monitor the 2005 program of bonded debt assistance during the 2007 biennium in relation to the continued distribution of state financial assistance for public school academic facilities.	Academic Facilities Oversight Committee Continue during 2007-2009 biennium and report to the House Interim Committee on Education and Senate Interim Committee on Education by May 1, 2008.
5.	General Considerations	
(a)	The subcommittee recommends that the division work with the Bureau of Legislative Research to identify areas in the current law governing the Arkansas Academic Facilities Program that may be in need of revision or amendment to the program discovered during the implementation process.	
(b)	The subcommittee recommends that this report be amended to address pertinent information that becomes available to the committee.	

III. EDUCATIONAL ADEQUACY MATRIX CALCULATIONS

A. FOUNDATION FUNDING CALCULATIONS FOR INSTRUCTION AND OPERATIONS				
1.	Prototypical School and Class Size		FY08	FY09
	SCHOOL SIZE:			
	Kindergarten, 8%		40	40
	Grades 1-3, 23%		115	115
	Grades 4-12, 69%		345	345
	Prototypical School and Class Size		500	500
2.	School Level Salaries			
(a)	Teacher Salary + Benefits ¹		53,429.00	54,465.00
	Per Student Matrix Expenditure		3,597.40	3,667.10
	Includes: (per pupil amounts)			
(1)	Classroom Teachers	2,221.60		2,264.70
(2)	Specialist Teachers (Physical Education, Art, Music, etc.)	443.50		452.00
(3)	Instructional Facilitators	267.10		272.30
(4)	Special Education	309.90		315.90
(5)	Library Media Specialist	88.20		89.90
(6)	Pupil Support Staff	267.10		272.30
(b)	Principal Salary + Benefits		86,168.00	87,860.00
	Per Student Matrix Expenditure		172.30	175.70
(c)	Secretary Salary + Benefits		34,751.00	35,415.00
	Per Student Matrix Expenditure		139.00	141.70
	School Level Salaries Per Student		3,908.70	3,984.50
3.	Per Pupil Resources			
(a)	Computers and Software		220.00	201.00
(b)	Instructional Materials		160.00	163.20
(c)	Extra Duty Funds ²		50.00	51.00
(d)	Supervisory Aide		49.35	50.35
(e)	Substitutes		59.00	59.00
	Per Pupil Resources		538.35	524.55
4.	Operations			
(a)	Former "carry forward" is divided into three items.		n/a	n/a
(b)	Operations and Maintenance		581.00	581.00
(c)	Central Office		376.00	383.50
(d)	Transportation		286.00	286.00
	Operations Per Student		1,243.00	1,250.50
	Total Per Student Foundation Funding		5,690.00	5,760.00
5.	Other Adjustments			
(a)	Salary components for all certified and non-certified personnel in the matrix are adjusted to include a pro rata amount for the 2006-2007 teacher retirement contribution rate of \$42 per pupil.	--	--	
(b)	Calculation to ensure all districts are funded using a 98% collection rate	13,295,100.00	14,170,197.00	
	¹ Includes 5 days of teacher continuing education pay (funded at \$96 per pupil in 2006-2007)			
	² Calculated using the teacher salary component figure.			

Educational Adequacy Matrix Calculations, continued

B. CATEGORICAL FUNDING CALCULATIONS					
				<u>FY08</u>	<u>FY09</u>
1.	Professional Development --				
	To schools, per pupil			41.11	41.11
	To Department of Education, per pupil			8.89	8.89
2.	National School Lunch Students -- per NSL pupil				
	> 90%			1,488.00	1,488.00
	70% - 90%			992.00	992.00
	<70%			496.00	496.00
3.	English Language Learners -- per ELL pupil			293.00	293.00
4.	Tutoring, Extended Day, Summer School			n/a	n/a
5.	Alternative Learning Environments				
(a)	Per full time equivalent ALE student			4,063.00	4,063.00
(b)	Additional Department of Education ALE staff			400,000.00	384,000.00
<hr/>					
C. NON-FOUNDATION FUNDING RECOMMENDATIONS:					
				<u>FY08</u>	<u>FY09</u>
1.	ACSIP Monitoring of categorical spending and instructional facilitators			242,000.00	242,000.00
2.	Declining Enrollment			10,000,000.00	10,000,000.00
3.	Isolated Schools --				
(a)	Isolated Schools			7,896,000.00	7,896,000.00
(b)	Special Needs Isolated Schools			3,000,000.00	3,000,000.00
4.	Growth Funding -- per pupil			5,400.00	5,400.00
<hr/>					
<hr/>					
D. RECOMMENDATIONS IN ADDITION TO ADEQUACY					
				<u>FY08</u>	<u>FY09</u>
	Formative Assessment Pilot Program			5,000,000.00	5,000,000.00

IV. INTRODUCTION

The House Interim Committee on Education and Senate Interim Committee on Education of the 85th General Assembly of the State of Arkansas (the "committees") are charged with overseeing the completion of the 2006 study of educational adequacy required by the Continuing Adequacy Evaluation Act of 2004 ("Act 57").⁴ On October 25, 2005, the committees passed the following motion establishing the Adequacy Study Oversight Subcommittee (the "subcommittee") and charged the subcommittee with the responsibility of overseeing the implementation and completion of the adequacy study:

After considerable discussion and debate, Representative Abernathy made the following motion, which was adopted without objection:

The Chair of the House Interim Committee on Education and the Chair of the Senate Interim Committee on Education are authorized to establish and appoint an Adequacy Study Oversight Subcommittee. The Subcommittee, to be composed of seven (7) members of the House Interim Committee on Education and seven (7) members of the Senate Interim Committee on Education, is charged with the responsibility of overseeing the implementation and completion of the adequacy study. Picus and Associates are to be employed pursuant to the Arkansas Bureau of Legislative Research's Request For Qualifications No. 06-01, Evaluation and Update of Educational Adequacy Standards. The Chair of the House Interim Committee on Education and the Chair of the Senate Interim Committee on Education, or their designees, shall serve as the co-chairs of the Adequacy Study Oversight Subcommittee. All of the members of the House Interim Committee on Education and the Senate Interim Committee shall be notified of all meetings of the Subcommittee and encouraged to attend and actively participate in the meetings.

The subcommittee contracted with Lawrence O. Picus and Associates ("Picus") to conduct a study in conjunction with the Bureau of Legislative Research staff to compare the current foundation funding formula with current data and actual expenditures and make recommendations for recalibrating the funding level for Arkansas schools beginning with the 2007-2008 school year. The subcommittee also contracted with Picus to conduct additional studies to: (a) survey school districts regarding how dollars are spent on education in the state; (b) identify by educational strategy how 105 randomly selected schools use resources; and (3) analyze broad spending patterns and any significant changes in overall spending patterns over the past three school years. From November 2005 through August 2006, the subcommittee received testimony from Dr. Larry Picus, Professor of Education and Director of the Center

⁴ Act 57 of the Second Extraordinary Session of 2003; Arkansas Code Annotated § 10-3-2101 et seq.

for Research in Education Finance, Rossier School of Education, University of Southern California, Dr. Allan Odden, Professor of Educational Leadership and Policy Analysis, University of Wisconsin-Madison and Co-Director of the Consortium for Policy Research in Education, and their doctoral students, Michelle Turner Mangan and Michael Goetz.

In early 2006, the committees and the subcommittee conducted hearings in response to the Arkansas Supreme Court's December 15, 2005, decision in *Lake View School District No. 25 v. Huckabee*⁵ and issued their report and recommendations on March 16, 2006.⁶ In a special session called by Governor Mike Huckabee in April 2006, the 85th General Assembly passed legislation to implement many of the recommendations of that report.⁷

Following the special session, the committees and the subcommittee continued public hearings to review, evaluate, and make recommendations concerning delivery of an adequate education by the state pursuant to the following provisions of Act 57:

- 1) Assess, evaluate, and monitor the entire spectrum of public education across the state to determine whether equal educational opportunity for an adequate education is being substantially afforded to Arkansas' school children and recommend any necessary changes;
- 2) Review and continue to evaluate what constitutes an adequate education in Arkansas and recommend any necessary changes;
- 3) Review and continue to evaluate the state's method of providing equality of educational opportunity and recommend any necessary changes;
- 4) ...[E]valuate the effectiveness of any program implemented by a school, a school district, an education service cooperative, the Department of Education, or the State Board of Education and recommend necessary changes;
- 5) Review the average teacher salary in the state in comparison to average teacher salaries in surrounding states and member states of the Southern Regional Education Board and make recommendations for any necessary changes to Arkansas teacher salaries established by law;
- 6) Review and continue to evaluate the costs of an adequate education for all students in Arkansas, taking into account cost of living variances, diseconomies of scale, transportation variability,

⁵ *Lake View School District No. 25 v. Huckabee*, No. 01-836 (Arkansas Supreme Court, December 15, 2005).

⁶ A Report on Legislative Hearings Responding to the December 15, 2005 Opinion of the Arkansas Supreme Court in *Lake View*, House Interim Committee on Education and Senate Interim Committee on Education, March 16, 2006; amended and adopted by the 85th General Assembly on April 7, 2006. The report may be located on the legislature's website, www.arkleg.state.ar.us, by following the links to Staff Organizations, Bureau of Legislative Research, Research Division, Publications, Education Issues.

⁷ Acts 17-39 of the First Extraordinary Session of 2006.

demographics, school districts with a disproportionate number of students who are economically disadvantaged or have educational disabilities, and other factors as deemed relevant, and recommend any necessary changes;

- 7) Review and continue to evaluate the amount of per student expenditure necessary to provide an equal educational opportunity and the amount of state funds to be provided to school districts, based upon the cost of an adequate education and monitor the expenditures and distribution of state funds and recommend any necessary changes;
- 8) Review and monitor the amount of funding provided by the state for an education system based on need and the amount necessary to provide an adequate educational system and not on the amount of funding available, and make recommendations for funding for each biennium.⁸

The subcommittee reviewed laws and State Board of Education rules relevant to each issue. The subcommittee made diligent efforts to provide copies of all reports, summaries, laws, rules, written testimony, and other information to each member of the General Assembly and the public.⁹

The subcommittee heard extensive and detailed testimony regarding:

Components of the Public Education System

- Arkansas Comprehensive Testing, Assessment, and Accountability Program
- Accreditation Standards and Compliance
- Academic Facilities

Effectiveness of School Programs

- Statewide Programs
- School Uses of Resources
- Arkansas Comprehensive School Improvement Plans (ACSIPs) and Report Cards
- Length of School Day and School Year

Teacher Salaries

- Salary Schedules and Teacher Compensation Issues; Use of Educational Excellence Trust Funds
- Comparison of Salaries in Other States
- Recruitment and Retention Issues, including teacher supply and demand

Costs of an Adequate Education

- Changes Since the 2003 Picus Report
- Costs of Non-instructional Items ("Carry forward")
- "Smoothing" Formula for Poverty Funding
- Programs and Funding for Special Education

⁸ Arkansas Code Annotated § 10-3-1202(a).

⁹ Since 2003 or earlier, the legislative website www.arkleg.state.ar.us provides internet access to electronic versions of reports on education to the members of the General Assembly and the public.

- Alternative Learning Environment Programs
- Categorical Programs and Funding

System of Funding

- ADM Growth Funding
- Vocational Education Programs
- Declining Enrollment
- Isolated School Districts
- State Foundation Aid Funding Based on 98% URT Collection Rate
- Accounting System

Experts, officials of the following state agencies, and members of the General Assembly provided information, data, and other assistance to the subcommittee:

- Department of Education:
 - Dr. Ken James, Commissioner;
 - Dr. Don Stewart, Deputy Commissioner;
 - Ms. Annette Barnes, Coordinator, School Improvement;
 - Mr. Jim Boardman, Assistant Commissioner, Research and Technology;
 - Dr. Rebecca Dalton, Program Support Manager, Learning Services;
 - Dr. Bobbie Davis, Assistant Commissioner, Fiscal and Administrative Services;
 - Mr. Bill Goff, Director, Arkansas Public School Computer Network;
 - Tristan D. Greene, Special Assistant to the Commissioner
 - Ms. Marcia Harding, Associate Director, Special Education Unit;
 - Dr. Diana Julian, Assistant Commissioner, Division of Learning Services;
 - Mr. John Kunkel, Associate Director for Finance;
 - Ms. Lori Lamb, ALE Coordinator;
 - Dr. Gayle Potter, Associate Director, Curriculum, Assessment and Research;
 - Ms. Janine Riggs, Special Assistant to the Commissioner;
 - Dr. Charity Smith, Director, Division of Academic Accountability;
 - Dr. Charles Watson, Liaison to State Board of Education;
 - Ms. Beverly Williams, Assistant Commissioner, Division of Human Resources and Licensure;
- Bureau of Legislative Research:
 - Mr. Kim Arnall, Assistant Director for Fiscal Services;
 - Ms. Lori Bowen, Fiscal Analyst;
 - Mr. Richard Wilson, Assistant Director for Research Services;
 - Ms. Jerri Derlikowski, Administrator, Policy Analysis and Research Division;
 - Dr. Brent Benda, Research Specialist;
 - Ms. Kim Chavis, Chief Counsel; and
 - Ms. Cheryl Reinhart, Staff Attorney;
- Office of the Attorney General, Mr. Tim Gauger, Deputy of the Civil Division;
- Assessment Coordination Department: Ms. Debra Asbury, Director, Mr. Page Kutait, Deputy Director;

- Department of Finance and Administration: Ms. Sharon Dickerson, Executive Director of the Employee Benefits Division, and Dr. John Shelnett, Administrator for Economic Analysis and Tax Research;
- Arkansas Department of Workforce Education: Mr. John Wyvill, Director, Mr. John Davidson, Deputy Director, Mr. Charles Brown, Assistant Director, Finance, and Mr. Lee Griffith, Associate Director, Workforce Training;
- Division of Legislative Audit: Mr. Charles Robinson, Legislative Auditor, Mr. Roger Norman, Staff Attorney, Ms. Mitzi Ferguson, Deputy Legislative Auditor, and Mr. Tim Jones, Field Auditor;
- Arkansas Science and Technology Authority, Dr. John Ahlen, President, and Dr. Gail McClure, Vice President - Research;
- Department of Health and Human Services, Ms. Tonya Russell, Director, Division of Child Care and Early Childhood Education;
- Arkansas Geographic Information Office, Mr. Shelby Johnson, State Geographic Information Coordinator;
- Senator Sue Madison; and
- Arkansas Teacher Retirement System, Mr. David Malone, Director.

The following members of the General Assembly, experts and state agencies provided information, data, and other assistance to the Academic Facilities Oversight Committee:

- Senator Shane Broadway, Co-Chair, Academic Facilities Oversight Committee;
- Representative David Cook, Co-Chair, Academic Facilities Oversight Committee;
- Representative Jodie Mahony, Member, Academic Facilities Oversight Committee;
- Mr. Doug Eaton, Director, Division of Public School Academic Facilities and Transportation;
- Commission for Public School Academic Facilities and Transportation: Dr. Ken James, Commissioner of Education, Chair; Mr. Richard Weiss, Director, Department of Finance and Administration; and Mr. Mac Dodson, President, Arkansas Development Finance Authority;
- Department of Education: Dr. Don Stewart, Deputy Commissioner; Mr. Jeff Altemus, Chairman, Maintenance and Custodial Committee;
- Bureau of Legislative Research: Mr. Kim Arnall, Administrator, Budget and Fiscal Review; Ms. Sara Israel, Administrator, Statutory and Regulatory Review;
- Alma School District, Mr. Charles Dyer, Superintendent;
- Rogers Public Schools Dr. Janie Darr, Superintendent; and

- South Conway County School District, Mr. Douglas S. Adams, Superintendent.

The hearings were open to the public with notice of the hearings provided more than two (2) weeks in advance. Every member of the General Assembly and the public were invited to attend and participate in the hearings. Any person wishing to present testimony at the hearings was afforded the opportunity to be heard. In response to the subcommittee's requests for comments, the following organizations and individuals provided information to the subcommittee:

- Arkansas Advocates for Children and Families, Mr. Paul Kelly, Senior Policy Analyst;
- Arkansas Association of Alternative Educators, Ms. Linda Walker, President;
- Arkansas Association of Educational Administrators, Dr. Tom Kimbrell, Executive Director;
- Arkansas Education Association, Mr. Dan Marzoni, President, Mr. Rich Nagel, Executive Director;
- The Arkansas Leadership Academy, Dr. Beverly Elliott;
- Arkansas School Boards Association, Mr. Dan Farley, Executive Director;
- Bryant School District, Mr. Richard Abernathy, Superintendent;
- Craighead County Schools Superintendents;
- Fort Smith Public Schools, Dr. Benny Gooden, Superintendent;
- Hot Springs School District, Mr. Roy Rowe, Superintendent;
- The Learning Institute; Mr. Joel Rush, Director;
- Dr. Ben Mays, member, State Board of Education;
- Ms. Paula Medlin, Teacher, Strong, Arkansas;
- Western Arkansas Education Service Cooperative; Mr. Harvie Nichols, Distance Learning Coordinator;
- Ad Hoc School Administrators Legislative Action Committee, Mr. Harvie Nichols;
- Dr. Cynthia Scheiser, President, Educational Division, ACT;
- Ms. Ann Smith, Consultant to the Pygmalion Commission on Nontraditional Education;
- Mr. Mark McBryde, Executive Vice President, Stephens, Inc.;
- Rogers Public Schools, Dr. Janie Darr, Superintendent;
- Monticello School District, Mr. Norman Hill, Superintendent;
- Karen Haley, Teacher, Calico Rock;

- Jennifer Diggs, Little Rock School District;
- Amy Hallum, Teacher, Little Rock School District;
- Lafayette County School District, Dr. Winston Simpson;

On August 30, 2006, the subcommittee received the final report, *Recalibrating the Arkansas School Funding Structure* (the "2006 Picus Report"). The subcommittee and the House Interim Committee on Education and Senate Interim Committee on Education considered the evidence and recommendations of the 2006 Picus Report, the research provided by the Bureau of Legislative Research, and other testimony and evidence presented to them. The subcommittee and the committees strongly support the recommendations contained in this report and urge the 86th General Assembly to adopt the recommendations contained herein.

V. DISCUSSION OF THE ACT 57 REVIEW

*Assess, evaluate, and monitor the entire spectrum of public education across the state to determine whether equal educational opportunity for an adequate education is being substantially afforded to Arkansas' school children and recommend any necessary changes.*¹⁰

A. *Evaluating Arkansas Public Education*

1. History and Constitutionality

To fully understand the focused activities of the House Interim Committee on Education, Senate Interim Committee on Education, and General Assembly related to assessing, evaluating, and monitoring the entire spectrum of public education in Arkansas, it is important to understand the recent history of *Lake View v. Huckabee*¹¹ and the efforts of the committees and the General Assembly to define and fund an adequate educational opportunity for each public school student in Arkansas.

In the 2001 regular legislative session, the General Assembly began re-examining the constitutionality of public school finance in Arkansas due to the ongoing litigation in the *Lake View* case, which was then

¹⁰ Arkansas Code Annotated § 10-3-2102(a)(1).

¹¹ *Lake View School District No. 25 v. Huckabee*, No. 01-836 (Arkansas Supreme Court, December 15, 2005).

pending before Judge Collins Kilgore in Pulaski County Circuit Court. The plaintiff school districts had challenged the constitutionality of the Arkansas school funding system. The 2001 regular legislative session adjourned on May 14, 2001, and on May 25, 2001, Judge Kilgore issued an order finding that the Arkansas school funding system was unconstitutional.¹² The state appealed the ruling to the Arkansas Supreme Court.

On November 21, 2002, the Arkansas Supreme Court upheld Judge Kilgore's ruling and declared the school funding system of Arkansas to be both inequitable and inadequate. The court found that the state was not meeting its constitutional commitment to “maintain a general, suitable and efficient system of free public schools.”¹³ The court held that as part of the remedy, the state must conduct a school finance adequacy study, pointing out that such a study had been requested in the court's rulings beginning in 1994 and again by Judge Kilgore in his 2001 ruling in the case.¹⁴

2. Legislative Action

During the 2003 regular legislative session, the General Assembly created the Joint Committee on Educational Adequacy for the purpose of conducting an adequacy study as suggested by the Arkansas Supreme Court.¹⁵ The Joint Committee on Educational Adequacy sought the advice and expertise of school funding experts Lawrence O. Picus and Associates (Picus) and contracted with Picus to help the joint committee carry out its charge to conduct the adequacy study. The Joint Committee on Educational Adequacy, working with Picus, devoted four (4) months to the study and review of Arkansas school finance and adequacy issues to determine the definition and cost of an adequate education in Arkansas. The result of that work was presented in a September 1, 2003, report entitled *An Evidence-Based Approach to School Finance Adequacy in Arkansas*¹⁶, which was filed with the General Assembly and the Governor.

¹² *Lake View School District No. 25 v. Huckabee*, No. 92-5318 (Pulaski County Chancery Court, May 25, 2001).

¹³ *Lake View School District No. 25 v. Huckabee*, 351 Ark. 31, 91 S.W.3d 472 (2002) (*Lake View III*), *cert den. sub. nom. Wilson, J.L., et al. v. Huckabee, Gov. of Ark., et al.*, 538 U.S. __ (2003) (Order of May 19 at 5).

¹⁴ *Lake View School District No. 25 v. Huckabee*, No. 92-5318 (Pulaski County Chancery Court, September 18, 2001).

¹⁵ *Lake View III*, 351 Ark. at 56, 91 S.W.3d at 486.

¹⁶ *An Evidence-Based Approach to School Finance Adequacy in Arkansas*, by Allan Odden, Lawrence O. Picus, and Mark Fermanich of Lawrence O. Picus and Associates (2003 Picus Report).

During the legislative sessions in 2003, 2004, 2005, and 2006, the General Assembly solidified the state's dedication to education by providing new funding for schools and a new method for distributing the funds. Furthermore, the General Assembly, as the constitutional policymaker for the state, accepted the responsibility for improving the education system in the state by examining each issue raised in the *Lake View* opinions, as well as additional issues raised by the Governor, Attorney General, Department of Education, Department of Workforce Education, school districts, and other interested parties and individuals. As a result of the legislative examination to determine how to provide an adequate education to the children of Arkansas and to otherwise improve the educational system, the General Assembly and the Department of Education implemented the following reform measures:

- Increased minimum teacher salaries;
- Made average teacher salaries more equitable across the state;
- Developed and funded the first statewide plan to improve academic facilities;
- Standardized and improved curriculum requirements;
- Implemented school accountability measures;
- Improved the state standards for education; and
- Increased the state funding to school districts.

3. School Funding Reform

During the Second Extraordinary Session of 2003, the General Assembly adopted Act 108¹⁷, which established a fund in the State Treasury known as the “Educational Adequacy Fund” and defined the revenues to be credited to the fund. In order to provide sufficient funding for educational adequacy, the General Assembly made the unprecedented decision to create a mechanism that triggers a reduction in the general revenue allocated by the Revenue Stabilization Law¹⁸ to all other state agencies and programs receiving general revenue. Stated another way, the “doomsday” provisions of Act 108 are only effective if the Department of Education lacks sufficient revenues to fully fund what the General Assembly has determined to be the amount necessary for an adequate education. Triggers for the “doomsday” provision include occurrences such as an unexpected economic downturn that changes the forecast of general revenues upon which the General Assembly relied during the fall budget hearings and the legislative session or other unanticipated factors that could give rise to a need for additional funding to ensure an adequate K-12 educational system.

¹⁷ Codified at Arkansas Code Annotated § 19-5-1227.

¹⁸ Arkansas Code Annotated § 19-5-101, et seq.

4. Legislative Action Taken in Response to the December 15, 2005 *Lake View* Opinion

Beginning in February 2006, the House Interim Committee on Education and the Senate Interim Committee on Education (hereafter “the committees”) jointly held a series of public hearings to gather information and data regarding issues raised in the most recent proceedings before the Arkansas Supreme Court in the *Lake View* case that resulted in the Arkansas Supreme Court’s December 15, 2005, opinion. The result of the public hearings and finding of the committees was presented in a report entitled *A Report Responding to the December 15, 2005, Opinion of the Arkansas Supreme Court in Lake View* filed with the General Assembly. The findings in the report prompted the calling of a special session of the 85th General Assembly during which the General Assembly enacted legislation to:

- Increase foundation funding for the 2005-2006 and 2006-2007 school years;
- Provide a two-year "cushion" to address budgetary issues related to declining enrollment;
- Strengthen the Department of Education's leadership role in professional development;
- Provide professional assistance and advice to determine how to upgrade financial reporting systems;
- Increase the teacher minimum salary schedule and the amount of funding available for teacher salaries;
- Require parity in benefits and employer contributions for health insurance among school employees; and
- Provide additional funding for school facilities.

5. 2006 Interim Study on Educational Adequacy (Act 57)

In the fall of 2005, even before the December 15, 2005, *Lake View* opinion, the subcommittee began establishing a plan to conduct a 2006 interim study on educational adequacy pursuant to Act 57 of the Second Extraordinary Session of 2003. The subcommittee conducted a national search for experts in the field of education funding and selected Lawrence O. Picus and Associates to assist the subcommittee in making recommendations for recalibrating the funding level for Arkansas schools beginning with the 2007-2008 school year. In addition to assisting with the recalibration of funding, Picus assisted the subcommittee and Bureau of Legislative Research staff with the following three (3) additional studies:

1. Surveys of districts on a number of specific items related to how dollars are spent on education in the state;
2. On site visits to identify how 105 randomly selected schools use resources by educational strategy; and
3. Analysis of broad spending patterns and any significant changes in overall spending

patterns over the past three school years.

The results of these additional studies are incorporated into three reports:

- The 2006 Picus Report,
- A report dated July 28, 2006, *State of Arkansas School Funding Analysis: Comparing 2003-04 and 2004-05 Revenue and Expenditure in Arkansas Schools* (to be referred to as the "Revenue and Expenditure Report") coauthored by Gary Ritter and Joshua Barnett, of the University of Arkansas, and Picus; and
- A report coauthored by Picus and Michelle Turner Mangan, on *Level and Use of Resources in Arkansas: Are Use Patterns Consistent With Doubling Student Performance*, presented on June 15, 2006, in testimony before the subcommittee.¹⁹

The Revenue and Expenditure Report examined the level of changes in and uses of revenues and expenditures per pupil prior to the implementation of Act 59 (2003) and the 2004-2005 school year (the last available audited data). The authors reported the following results:

... Arkansas has substantially increased school revenues, has been successful in equalizing base spending across district property wealth per pupil, and has been successful in targeting additional funds to districts with high needs as indicated by student poverty (students eligible for the National School Lunch program), minority status and scores on the state test.²⁰

As noted in the Revenue and Expenditure Report, a question remains as to whether the state funds distributed to school districts are being used to "equalize access to effective teachers and instructional quality, and therefore, the opportunity for higher student achievement."²¹

To study that question and to form a basis for comparison of the site visits conducted by Picus and the Bureau of Legislative Research, Picus, working with the Department of Education, conducted a web-based survey of all school districts in the state. The survey included questions about the following expenditures for each district:

¹⁹ See also *Arkansas Adequacy District Implementation Survey: Initial Results*, from testimony of Picus before the committees and the subcommittee on March 16, 2006.

²⁰ Revenue and Expenditure Report, slide 2.

²¹ Id.

- resource reallocation choices;
- additional time strategies;
- participation in district health insurance programs;
- daily substitute pay;
- sick days;
- staffing patterns;
- average teacher's salary;
- maximum teacher's salary;
- teacher's contract length; and
- instructional facilitators, certified teacher tutors, and instructional aides.

These Picus studies revealed that total revenues for public schools in Arkansas increased by 42% from 2003-2004 school year to the 2004-2005 school year, while school district expenditures increased only 20%.²² The studies further revealed that, although the foundation funding was targeted to providing assistance to students with special needs and students who needed instructional assistance, school district spending patterns remained about the same.²³

6. Recent Progress in Student Achievement

The state's public education system has produced good academic progress in recent years. According to Dr. Ken James, the Commissioner of Education, Arkansas is a leader in education reform. His recent article explains this in more detail:

I'll be honest. There are times in this job as Commissioner of Education when I have to pinch myself. Like the other week when a national officer of ACT told us that the college placement exam scores of Arkansas graduating seniors improved at a pace greater than those of any other state testing at least 50 percent of its graduating classes. Or, a few days later, when an official from the College Board's SAT told us that, in direct opposition to the national trend, Arkansas scores improved for those taking that college placement exam overall as well as in every racial subgroup.

These two bits of light follow a year that has revealed positive indicator after positive indicator for the state of education in Arkansas.

Like many of you, I was born in this state and spent many of my formative years in Arkansas. I followed my parents' footsteps into a career as an educator, and I have served

²² Revenue and Expenditure Report, slide 3. Picus noted that the General Assembly did not restrict the use of state foundation funding aid received by school districts during those school years.

²³ See Allan Odden, Michelle Turner Mangan, and Lawrence Picus, *Level and Use of Resources in Arkansas: Are Use Patterns Consistent With Doubling Student Performance*, presented to the Adequacy Study Oversight Subcommittee on June 15, 2006.

as superintendent at three Arkansas school districts before being appointed commissioner in 2004. All this is to say I am well aware of the “bottom-of-the-rankings” position Arkansas has traditionally held in education measures—and the negative self-image we have developed because of it.

I am here to tell you that we no longer need to hang our heads.

Never in this state have we been able to boast the academic progress we’ve experienced in the last few years. To be able to do so in such a short time is nothing short of amazing.

What’s driving these successes? I am certain it is because the state has put the systems in place to ensure that every child in Arkansas has the opportunity to succeed academically and, by extension, in life after school.

In 2003, the Arkansas Supreme Court charged the state with the responsibility of providing every child in Arkansas access to an adequate education. Gov. Mike Huckabee and the state Legislature responded to that challenge with a series of sweeping reforms enacted during the Second Extraordinary Session of the 84th General Assembly.

I can report that the reforms enacted during the special session have only made it easier for the Department to achieve its mission.

Arkansas is recognized as a national leader in requiring high school students to pursue a rigorous curriculum. That’s because our state mandates that all high schools in the state teach—not just offer, but actually teach—a core set of 38 courses. Therefore, if you move from Mena to Osceola, you are assured your child will have access to the same basic set of courses.

In addition, this year’s ninth graders make up the first class taking Smart Core as a default curriculum. Smart Core requires four years of grade-level English as well as four years of math, including a sequence of Algebra I, Geometry, Algebra II and another higher level math course. Arkansas and Texas were the first to do this, but more and more states are following our lead.

Likewise, the Education Commission of the States recently singled Arkansas out as a model for other states to replicate in terms of Advanced Placement policies and practices. AP is a nationalized set of rigorous high school courses. Arkansas law mandates that by the 2008-2009 school year, each high school in the state will offer an AP class in English, science, social studies and mathematics. Many schools have already put these courses in place, and, of course, most of our larger high schools offer many more. In 2005, with a 108 percent jump in the number of students enrolling in AP classes, Arkansas experienced the largest increase in AP class participation of any state in the 50-year history of AP classes. Since 2002, our participation rate has climbed an impressive 241 percent.

Increasingly, our students attend classes taught by highly qualified teachers—professionals who have shown mastery of the subjects they teach. Arkansas teachers also

engage in at least 60 hours of additional professional development each year. Thankfully, we now pay our teachers as well as or even better than surrounding states, according to a recent survey by the Southern Regional Education Board.

Funding for schools has grown dramatically, with districts receiving “foundation funding” on a per student basis to cover basic expenses of a school district with additional funding allocated to schools for special categories of children—those in poverty, those who have limited English skills and those needing to be educated in alternative environments.

Obviously, these reform measures required school districts to institute changes, which hasn’t always been easy or without resistance. But the efforts have been far from fruitless. We—you, me, all educators and students in the state—have ample reason to celebrate:

The number of students scoring proficient or above on Arkansas Benchmark test scores increased this year across all racial groups in all grade levels in both subjects with one exception—6th grade literacy for Hispanics. That test showed 1 percentage point fewer Hispanic students scoring proficient than in 2005.

For the first time ever, Arkansas students scored at or very near the national average on The Nation’s Report Card—the National Assessment of Educational Progress (NAEP). Arkansas and Massachusetts were the only two states recognized for making substantial growth on all four tests (fourth and eighth grade literacy and math exams) over the past decade.

Scores on the Iowa Test of Basic skills were well above the 50th percentile in most cases. That means that our students, on average, scored better than over half of the children in the national comparison group.

As mentioned earlier, scores on college placement exams—the ACT and SAT—have started to climb after remaining flat for years.

Any of these alone could be considered a fluke, but together, they are sure signs that we are moving in the right direction. In fact, every educational indicator presented this year demonstrates the academic improvement of Arkansas students. If we maintain the course, we may soon be bragging that our students are setting the national standards.

But it’s not the ability to brag that is our goal here. Rather, it’s knowing that we—as educators, as parents and as responsible citizens—have prepared our children to be the best that they can be, to lead successful, productive lives and to have the choice to do whatever they want to do in this global economy into which we will be sending them.²⁴

²⁴ *Arkansas Democrat-Gazette*, Dr. Kenneth James, editorial, September 9, 2006.

Since the publication of this editorial by the Commissioner, the Department of Education has obtained the following approvals from the U. S. Department of Education:

- Approval of its highly qualified teacher plan. This ensures that the state will place teachers with subject-area or grade-level expertise in 100 percent of "core" classes within three academic years. Currently, the state has more than eighty-five percent (85%) of its core classes taught by highly qualified teachers.
- Approval of the state's academic assessment system - the Arkansas Comprehensive Testing and Accountability Program, or benchmark tests.
- Approval of the state's academic growth model under a pilot program of the U.S. Department of Education. The program allows states to design systems that allow schools to receive credit for the individual academic growth of students when calculations for adequate yearly progress under the federal No Child Left Behind Act are made. Arkansas is one of only five (5) states to receive federal approval of its model.

Arkansas ranked twenty-ninth (29th) in the nation in the Achievement Index developed for the 2007 edition of Quality Counts, which is published annually by the Washington-based Education Week.²⁵ This measure looks at student performances using the following indicators: fourth and eighth grade reading and math scores on the National Assessment of Education Progress, the achievement gap between non-National School Lunch Act students and National School Lunch Act students, graduation rates, advancement placement scores, and changes on all those measures over time. When looking solely at recent achievement gains, Arkansas ranked second only behind Texas in terms of recent improvement.²⁶

Overall the state has made great improvements in national rankings. In the 2002 *Lake View* opinion, the court was concerned about "Arkansas' abysmal rankings in certain key areas respecting education."²⁷ The court listed a compendium of the trial court findings regarding state ranking in various educational measures. The table below provides a comparison of the court's findings and current achievement levels for Arkansas students:

2001	2006
Arkansas ranked fiftieth among the states in per capita state and local government expenditures for elementary and secondary education.	The Digest of Education Statistics: 2005 reports that Arkansas ranks 44th among states and the District of Columbia in per pupil expenditures.

²⁵ Quality Counts 2007, Arkansas -- State Highlights 2007, Education Week.

²⁶ Id., pp. 4-5; See Exhibit 16.

²⁷ Lake View III, 351 Ark. at 60, 91 S.W.3d at 488.

2001	2006
<p>Arkansas students scored several tenths below the national average in a standardized test (ACT) between 1990 and 1999.</p>	<p>The mean Arkansas ACT score increased .3 percentage points, which was more than any state in the nation testing at least 50 percent of its graduating class from 2005 to 2006 and the state's highest mean score ever – 20.6. The national average of 21.1 in 2006 also showed an increase over the previous year's score. Arkansas' performance on the SAT math and reading tests increased this year as well and remained well above the national average. Nationally, the mean SAT scores decreased in both math and reading.</p>
<p>Arkansas ranked lower than the national average for the percentage of adults twenty-five years and older who have graduated from high school.</p>	<p>Arkansas' graduation rate was three (3) percentage points higher than the rate in the nation and seven (7) percentage points higher than the SREB average. Arkansas' graduation rate for black males is above the national average, and the gap between graduation rates between blacks and whites is smaller than in most states.</p>
<p>Arkansas ranked forty-ninth in the country for the percentage of the population age twenty-five or older with a Bachelors degree or higher, and was tied for fiftieth in the country in percentage of adults with graduate degrees</p>	<p>Arkansas has made some movement in these rankings - it now ranks forty-eighth in the country for the percentage of the population age twenty-five or older with a Bachelors degree or higher, and forty-ninth in the country in percentage of adults with graduate degrees. However, public school educational reforms may take several years to yield improved rankings in higher education categories.</p>
<p>Arkansas' fourth- and eighth-grade students were below the national average for proficiency in math, reading, science and writing.</p>	<p>For the first time ever, Arkansas' fourth graders scored at the national average on NAEP in both reading and math. Arkansas' eighth graders scored just below the national average. Arkansas was recognized as one of two states (Massachusetts was the other) to make significant improvements on the National Assessment of Education Progress math and reading exam at these grade levels over the past decade or so.</p> <p>In Arkansas, 63% of fourth-grade students scored at or above the NAEP Basic level in reading in 2005 — a three (3) percentage-point increase since 2003. In 2005, 30% of fourth-grade students scored at or above the NAEP Proficient level — a two (2) percentage-point increase since 2003.</p> <p>In Arkansas, 64% of eighth-graders scored at or above the NAEP Basic level in mathematics in 2005, up from 58% in 2003. Twenty-two percent scored at or above the NAEP Proficient level in math in 2005, up from 19% in 2003.</p> <p>Arkansas urban students scored above the national average on NAEP; Arkansas rural students scored below the national average.</p>

2001	2006
<p>On the first ACTAAP test, only forty-four percent of the fourth-grade students tested were proficient in reading and only thirty-four percent of those tested were proficient in math.</p>	<p>Arkansas reported in 2006 that 61% of fourth grade students were proficient or better in literacy and that 60% of fourth grade students were proficient or better in math. In fact, in 2006 all subgroups of students –white, black and Hispanic – experienced increases in the percentage scoring proficient on both the math and literacy exams with one exception – 6th grade Hispanics had 1 percentage point fewer scoring proficient on the literacy exam.</p>
<p>Arkansas ranked between forty-eighth and fiftieth among the states in teacher pay.</p>	<p>Arkansas ranks:</p> <ul style="list-style-type: none"> • first among its surrounding states in teacher pay using the most current Department of Education figure for average teacher salaries, and second among surrounding states using NEA estimated data; • eighth among the SREB states using the most current Department of Education figures, and ninth using SREB figures; • thirty-seventh among all states; and • when adjusted for the Comparable Wage Index, first among the surrounding states, second among SREB states, and twentieth among all states.²⁸
<p>Results of the state's own Benchmark testing for eighth-grade students in April 2000 showed that only sixteen percent (16%) were proficient or above in math statewide, and in the Little Rock School District only nine percent were proficient or above.</p>	<p>Arkansas reported in 2006 that 44% of eighth-grade students met state standards for proficient or advanced in math, and 18% tested at basic. There has been a dramatic increase to 24% in 2006 in the number of Little Rock School District students who test proficient in math.</p> <p>In 2005, 64% of Arkansas students who were tested scored at or above the NAEP Basic level and 22% scored at or above the NAEP Proficient level.</p> <p>The percentage meeting state standards increased by twelve (12) percentage points since 2003, while the percentage scoring at or above NAEP Basic increased by six (6) percentage points. Arkansas' standards for eighth-grade students in mathematics appear to have been higher than the NAEP Basic level in 2003 and 2005.</p>
<p>Arkansas had no funding for the remediation of individual students and no funding to train teachers for remediation after ACTAPP evaluations.</p>	<p>For the fiscal year 2005-2006, the state's foundation funding formula (based on a 500 student school) provided funding for:</p> <ul style="list-style-type: none"> • 2.5 instructional facilitators; • 2.5 staff persons for pupil support; and • professional development for certified personnel.

²⁸ See section V.F., *infra*, p. 80.

2001	2006																				
	<p>In addition, the state provided poverty funding (in the NSL category) for one (1) full time equivalent pupil support staff position for districts with an NSL student concentration of less than 70%, two (2) positions for concentration of 70-90% and three (3) positions for a concentration of more than 90%.</p> <p>In addition, the subcommittee is recommending that a pilot program in approximately one-half of school districts for statewide use of formative assessments, which provide feedback during the school year to teachers about how the students are learning.</p>																				
<p>With respect to Arkansas high school students entering state universities, fifty-eight percent needed remediation in either English or math. For the Rogers High School students entering a university (including some students with 3.0 grade averages), forty-four percent needed remediation in either English or math.</p>	<p>The following information from the Arkansas Department of Higher Education, which is different than the information cited in the <i>Lake View</i> decision, shows that over the past fifteen (15) years, the remediation rates have declined significantly:</p> <table data-bbox="771 716 1421 905"> <thead> <tr> <th></th> <th><u>1990</u></th> <th><u>2001</u></th> <th><u>2005</u></th> </tr> </thead> <tbody> <tr> <td>Math remediation</td> <td>52%</td> <td>44%</td> <td>37%</td> </tr> <tr> <td>English remediation</td> <td>32%</td> <td>25%</td> <td>23%</td> </tr> <tr> <td>Reading remediation</td> <td>34%</td> <td>23%</td> <td>22%</td> </tr> <tr> <td>Any remediation</td> <td>60%</td> <td>49%</td> <td>44%</td> </tr> </tbody> </table> <p>The ninth graders of the 2006-2007 school year will be the first to pursue the default Smart Core college-preparatory curriculum, so education leaders expect ACT scores to continue to rise.</p>		<u>1990</u>	<u>2001</u>	<u>2005</u>	Math remediation	52%	44%	37%	English remediation	32%	25%	23%	Reading remediation	34%	23%	22%	Any remediation	60%	49%	44%
	<u>1990</u>	<u>2001</u>	<u>2005</u>																		
Math remediation	52%	44%	37%																		
English remediation	32%	25%	23%																		
Reading remediation	34%	23%	22%																		
Any remediation	60%	49%	44%																		

The state's education reform efforts appear to have had a positive impact on student performance. Although it may be too early to specifically quantify the impact of many of the new programs and policies that have been adopted thus far, the subcommittee recommends that the state move forward with the reform measures put in place following the 2003 adequacy study and subsequent legislative sessions with minor adjustments as stated in more detail in the following sections of this report.

*Review and continue to evaluate what constitutes an adequate education in Arkansas and recommend any necessary changes.*²⁹

B. Defining Educational Adequacy

The definition of educational adequacy is a dynamic, not a static, concept. Recognizing this, the subcommittee has used the following working definition of "educational adequacy" to serve as a basis for identifying the resources required for adequate funding:

1. The standards included in the state's curriculum frameworks, which define what all Arkansas students are to be taught, including specific grade level curriculum and a mandatory thirty-eight (38) Carnegie units defined by the Arkansas Standards of Accreditation to be taught at the high school level³⁰;
2. The standards included in the state's testing system. The goal is to have all, or all but the most severely disabled, students perform at or above proficiency on these tests; and
3. Sufficient funding to provide adequate resources as identified by the General Assembly.³¹

This definition served as a basis for identifying the funding required for adequate resources in the 2003 Picus Report and is consistent with the statutory language quoted by the Arkansas Supreme Court in the *Lake View* case.³² The subcommittee did not receive any evidence to support a change in the definition of adequacy for the purposes of this report. No change to the definition is recommended.

²⁹ Arkansas Code Annotated § 10-3-2102(a)(2).

³⁰ For additional requirements regarding advanced placement courses, see section V.D.1, *infra*, p. 48.

³¹ 2003 Picus Report, p. 3.

³² See *Lake View*, 351 Ark 31 at 57-58 (quoting Arkansas Code Annotated § 6-15-1003). See also Acts 1108 and 1307 of 1997. Arkansas Code Annotated § 6-15-1003 has since been amended to update the language for new technology, testing, and reporting under the Arkansas Comprehensive Testing and Accountability Program.

*Review and continue to evaluate the state's method of providing equality of educational opportunity and recommend any necessary changes.*³³

C. *Providing Equality of Educational Opportunity*

The state's method of providing equality of educational opportunity is focused on the following criteria, as stated by the Arkansas Supreme Court: "Equality of educational opportunity must include as basic components substantially equal curricula, substantially equal facilities, and substantially equal equipment for obtaining an adequate education."³⁴ These essential components are mandated by the Quality Education Act of 2003,³⁵ the Standards for Accreditation of Arkansas Public Schools,³⁶ and standards for public school academic facilities, maintenance, and equipment.³⁷ School districts that do not comply with these standards may be cited by the Department of Education, placed on probationary status, and placed in academic or facilities distress. If the probationary status is not cleared after two (2) years, the Department of Education may take action to enforce the state's education standards including, but not limited to, reorganization, annexation, consolidation, or reconstitution of leadership. In addition, the state has adopted a sufficient level of per student foundation funding with additional funding for struggling students, professional development for teachers, academic facilities, and various other programs.

*...[E]valuate the effectiveness of any program implemented by a school, a school district, an education service cooperative, the Department of Education, or the State Board of Education and recommend necessary changes,*³⁸

D. *Basic Components of the Public Education System*

The following discussion of the basic components of the definition of educational adequacy outlines in more detail the state's method of providing a substantially equal opportunity for an adequate education.

³³ Arkansas Code Annotated § 10-3-2102(a)(3).

³⁴ *Lake View III*, 351 Ark. at 79, 91 S.W.3d at 500.

³⁵ Act 1467 of 2003; Arkansas Code Annotated § 6-15-201, et seq.

³⁶ Department of Education Rules Governing the Standards of Accreditation for Arkansas Public Schools and School Districts, January 2005.

³⁷ Arkansas School Facility Manual, Arkansas Division of Public School Academic Facilities and Transportation.

³⁸ Arkansas Code Annotated § 10-3-2102(4).

1. Educational Adequacy Definition Part 1: Curriculum Frameworks

The Arkansas Department of Education Rules Governing the Standards of Accreditation for Arkansas Public Schools require public schools to teach annually thirty-eight (38) units in the following curriculum areas: language arts (4 units), science (5 units), mathematics (6 units), foreign language (2 units), fine arts (3 1/2 units), computer applications (1 unit), social studies (4 units), health and safety and physical education (1 1/2 units), and career and technical education (9 units). In addition, Act 102 of the Second Extraordinary Session of 2003 required all public schools in the state to offer one (1) College Board advanced placement course in each of the four (4) core areas of math, English, science, and social studies; a total of four (4) courses must be offered by the 2008-2009 school year.³⁹ Although funding is often the area of adequacy that is most analyzed, discussed, and challenged, the state's curriculum frameworks for those core subjects, which articulate what schools are teaching and how, might very well be the most important factor in ensuring an opportunity for an adequate education.

Academic content standards are designed to define what a student should know and be able to do in the basic academic core. The Department of Education delineates Arkansas' academic content standards in curriculum framework documents for each of the core subjects required by the Standards for Accreditation of Arkansas Public Schools. The curriculum frameworks contain a detailed breakdown of the knowledge or skill that each child should master for each core curriculum area at each grade level.

Vocational education courses are not required for graduation from high school, but nine (9) units must be taught annually for accreditation.⁴⁰ Vocational education subjects also have curriculum frameworks developed with the cooperation of the Arkansas Department of Workforce Education.

2. Educational Adequacy Definition Part 2: Assessment and Accountability Programs

The Quality Education Act of 2003⁴¹, also referred to as the Omnibus Quality Education Act, and Act 35 of 2003, known as the Arkansas Student Assessment and Accountability Act of 2004, incorporate the Arkansas Comprehensive Testing, Assessment, and Accountability Program (ACTAAP), the Arkansas

³⁹ Arkansas Code Annotated § 6-16-1204. Schools have been phasing in the requirement for advanced placement courses since 2005-2006 school year by adding at least one (1) advanced placement course per school year.

⁴⁰ Arkansas Department of Education Rules Governing the Standards of Accreditation for Arkansas Public Schools and School Districts, Rule 9.03.4.9.

⁴¹ Act 1467 of 2003.

Comprehensive School Improvement Plan, and the Arkansas Fiscal Accountability Program to comprise Arkansas' current system of accountability programs used by Arkansas schools and districts to comply with state and federal education legislation. In the 2006 hearings, the subcommittee considered the benefits of adding formative assessments to the state's system of accountability and assessment. Formative assessments were endorsed by the Arkansas Association of Educational Administrators, the Arkansas School Boards Association, and the Arkansas Education Association as a successful method of addressing student performance deficiencies during the school year.

(a) The Arkansas Comprehensive Testing, Assessment, and Accountability Program

ACTAAP is composed of five essential components that are crucial to a successful accountability system: (1) Content and Student Achievement Standards, (2) Student Assessment, (3) Professional Development, (4) Accountability Reporting, and (5) Rewards, Sanctions and Targeted Assistance. Together these components, support the ultimate goal of accountability -- increased student achievement. The following discussion describes these programs and how they are utilized in the state's public education system.

(1) Content and Student Achievement Standards

The first and foundational component of ACTAAP, includes clear, specific, and challenging requirements for academic content and student achievement. Content standards define concisely what students must know and be able to do in each content area. These standards are periodically reviewed and revisions are made to ensure that the Arkansas academic content standards are rigorous and equip students to compete in the global workforce. At the direction of the State Board of Education, these standards are externally reviewed by nationally recognized content experts in the discipline or area under consideration.

Student achievement standards identify clearly the levels at which students and schools are expected to perform. The state board has established four (4) performance levels for each criterion-referenced assessment administered as a part of ACTAAP: advanced, proficient, basic, and below basic.

(2) Student Assessment

Student assessment, the second component of ACTAAP, includes both criterion-referenced and norm-referenced tests in the academic core. Criterion-referenced tests, commonly referred to as the state's "benchmark exams," are customized around the academic content standards in the Arkansas curriculum frameworks and may be used to compare students, schools, and districts in the state. The statewide assessment system includes:

- Developmentally appropriate assessments for grades kindergarten through two (K-2) in reading and mathematics;
- Criterion-referenced tests for grades three through eight (3-8) in reading and writing literacy and mathematics;
- Criterion-referenced exams in grades five (5) and seven (7) in mathematics and science;
- End-of-course exams in high school in geometry and Algebra I;
- An eleventh grade literacy exam; and
- An end-of-course exam in high school in Biology I beginning in the 2007-2008 school year.

for a quality statewide data system tracking student achievement; Arkansas' system has all of those elements.

Norm-referenced tests compare the performance of Arkansas students against a national norming group. The norm-referenced tests are administered to Arkansas students in kindergarten through grade nine (K-9). Additional assessments will be developed as funds are available and approved by the State Board of Education.

In fall 2005, the State Board of Education directed the Department of Education to explore an "augmented assessment," which would be a test utilizing the full battery of criterion-referenced questions supplemented by norm-referenced questions. The earliest this test could be administered would be the 2007-2008 school year.

(3) Professional Development

Professional development, the third component of ACTAAP, is designed to provide a coordinated set of planned, research-based, best practice learning activities for teachers and administrators that are standards based and continuous. Professional development is based on needs identified in school performance data and is tied to school improvement planning and to licensure requirements. Currently, sixty (60) approved professional development hours are required annually for each certified employee in a school district.⁴² Administrators are required to take three (3) additional hours of professional development to enhance their understanding of effective parental involvement and the importance of administrative leadership. Schools are required to have a school improvement plan and to establish a professional development plan linked to identified teacher needs and student performance needs as established by the assessment system and reviewed annually.

Professional development offerings may include approved conferences, workshops, institutes, individual learning, mentoring, peer-coaching, study groups, National Board for Professional Teaching Standards certification, distance learning, internships, and college or university course work.

Act 2318 of 2005⁴³ created the Arkansas Online Professional Development Initiative. Under the initiative, the Commissioner of Education has identified teacher professional development needs in the state and prioritized the needs based on the areas of professional development most needed to improve academic and teaching knowledge and the skills of certified personnel. Based on the needs and priorities identified in the assessment, the Department of Education developed a statewide online professional development program that includes quality professional development courses that:

⁴² Act 2095 of 2005 limited the professional development requirement related to Arkansas history to those actually teaching Arkansas history.

⁴³ Amended by Act 36 of the First Extraordinary Session of 2006; Arkansas Code Annotated § 6-17-707.

- Are aligned with the required focus areas identified in the State Board of Education rules governing professional development and ACTAAP;
- Are aligned with the clear, specific, and challenging academic content areas as established by the Department of Education under Arkansas Code Annotated § 6-15-404;
- Are aligned with the state curriculum frameworks established by the Department of Education for each class level or subject area included in the respective professional development programs;
- Are research-based and available from sources with expertise in technology-delivered professional development courses;
- Are consistent with the Southern Regional Education Board Multi-State Online Professional Development Standards in existence on January 1, 2005;
- Focus on improving student academic achievement by improving a teacher's academic and teaching knowledge and skills; and
- Include an assessment at the end of the program designed to measure each certified person's level of understanding and ability to implement or apply the information presented in the program.

As part of this initiative, in September 2006 the Department of Education, in conjunction with Arkansas Educational Television Network and PBS TeacherLine, launched IDEAS, Internet-Delivered Education for Arkansas Schools. IDEAS is a web portal which allows teachers to access without charge seventy (70) PBS TeacherLine courses that will help fulfill the state required sixty (60) hours of professional development per year. Other courses available to teachers through IDEAS include digital literacy and how to integrate technology into the curriculum. One of the important features of IDEAS is that teachers can access high quality, relevant professional development wherever they live. The Southern Regional Education Board recently applauded IDEAS as one of the best new professional development programs among the SREB states. The system has built-in accountability components for identifying the teacher's progress through a course. There are currently 4,000 course enrollments being offered, each of which typically lasts six weeks.

Teachers can also access professional development programs through the AETN Scholar Channel (a statewide television channel) and complete an assessment through IDEAS to obtain credit. It is

anticipated that in the future teachers will be able to access lesson plans in their subject matter from teachers in other states through the IDEAS portal.

The Southern Regional Education Board also provides online learning for teachers through TheTeacherCenter.Org, which provides professional development courses, new teacher development, teaching resource and materials, testing services and resources, and specialized resources for experienced teachers through a web portal connecting the teaching professional to educational agencies, colleges and universities in the sixteen (16) SREB member states.

Smart Start is a professional development program specifically designed to target reading and mathematics for students in kindergarten through grade four (K-4). Smart Step is a program similarly targeted for grades five through eight (5-8). Next Step, likewise, is targeted to teachers of grades nine through twelve (9-12). Specific activities are provided for teachers of students who have limited English proficiency and special education students, as well school principals.

The foundation of the Smart Start, Smart Step, and Next Step programs is to assist teachers in providing a balanced approach to reading and writing instruction. The programs require a two- or three-year commitment from school districts, principals, and participating teachers. According to information provided by the Department of Education, some of the strategies included in these programs are:

- Integration of instruction in the areas of reading, writing, speaking, listening, observing and thinking across the curriculum with literature being the focus of the language arts;
- Beginning reading instruction that includes explicit instruction in phonemic awareness and phonics with guidance in examining and applying letter/sound patterns in meaningful texts that children read and write;
- Instruction in the reading and writing processes that provides a balance between explicit instruction of skills and strategies and application of this instruction in real reading and writing experiences;
- Instruction which provides reading to, with, and by children through reading aloud, shared reading, guided reading, literature study and independent reading;
- Instruction which provides writing for, with, and by children through modeled writing, interactive writing, shared writing, language experience approach and

independent writing;

- Instruction which emphasizes that reading and writing are both meaning-making processes and students learn to read and write better when instruction connects the two;
- Continuous opportunities for students to read to become fluent readers--readers capable of identifying words automatically;
- Assistance to students in applying strategies learned during reading and writing instruction to other content areas such as mathematics, science and social studies; and
- Continuous and ongoing assessment which provides teachers with information useful in promoting students' academic growth in literacy.

The state funds professional development through categorical funding, which is discussed in section V.H.2(a).⁴⁴

Professional development is part of the broader goal of having highly qualified teachers for all core subjects, as required by the No Child Left Behind Act (NCLB).⁴⁵ Arkansas' plan for achieving this goal was recently approved by the United States Department of Education. Under the plan, Arkansas teachers must demonstrate mastery of their subject areas by meeting one of the following criteria:

- Have passed the appropriate Praxis exam for subject content they teach;
- Hold National Board Certification for the subject area in which they teach;
- Have majored in or have a majority of college credit hours in the subject in which they teach; and
- Meet the qualifications of AR HOUSS, which takes into consideration years of experience, professional development, college/university courses taken as well as professional leadership roles – all of which must be in the content area.⁴⁶

⁴⁴ *Infra*, p. 97.

⁴⁵ No Child Left Behind Act of 2001, Pub. L. 107-110, 115 Stat. 1425.

⁴⁶ See Exhibit 58, Department of Education News Release, December 15, 2006.

According to the Arkansas Department of Education "eighty-five percent (85%) of classes requiring a highly qualified teacher met those criteria, with a fairly equal distribution between poor and high minority schools." Teachers who do not have highly qualified status must meet the criteria within a specified period of time.

(4) Accountability Reporting and Rating

This component includes student, school, and district accountability. Schools are held accountable for the annual learning gains of each student toward achieving the academic content standards appropriate for the student's grade level at the state and federal level through longitudinal tracking and analysis of student gains against a national cohort to inform parents of the educational progress. For transparency and for parental and public notification, every school in the state has an annual school performance report commonly referred to as the Arkansas School Report Card that is mailed to every parent by the Office of Public School Academic Accountability and provided to the public on the school district's website. Accountability data is available on the Arkansas Department of Education website, www.ArkansasEd.org. The Department of Education reports annually on the progress of ACTAAP to the committees.

Student performance trend data is disaggregated by subgroups -- students with disabilities, English language learners, economically disadvantaged students, Caucasian, African American, and Hispanic students. Schools use the performance trend data to develop objectives of the school improvement plan and to evaluate instructional and administrative personnel, staff assignments, allocation of resources, acquisition of instructional materials and technology, performance-based budgeting, and assignment of students into the school's educational programs.

Consistent with NCLB, each school must make adequate yearly progress, based primarily on the administration of the criterion-referenced assessments.⁴⁷ A school must meet adequate yearly progress criteria overall and for each subgroup listed above that meets the minimum group size as determined by the Arkansas Department of Education and approved by the U.S. Department of Education. The State Board of Education has established annual performance levels for

⁴⁷ The Department of Education determines adequate yearly progress separately for mathematics and literacy using appropriate statistical measures.

determining that “adequate yearly progress” is made so that all students reach proficiency by school year 2013-2014 in compliance with NCLB.

Remediation plans are developed individually for any student failing to achieve at the proficient level. The remediation plan includes research-based supplemental or remedial strategies aligned with the student's deficiencies. The plans also assist the student in achieving the expected standard and will describe the parent’s role and responsibilities as well as the consequences for the student’s failure to participate in the plan. Beginning with the 2005-2006 school year, a student who is not proficient on the end-of-course tests or on the high school literacy test, will participate in a remediation program to receive credit for the applicable course. It is important to note that all students performing proficiently on state mandated testing is a goal not a measuring rod for adequacy. The state recognizes that improving student performance is a moving target and as student performance increases, the target should be moved higher and higher.

Under the Arkansas Student Assessment and Educational Accountability Program Act of 2004⁴⁸, the Department of Education has established an Annual Performance Rating System, which provides a performance level and an improvement level for each public school in the state. The improvement level will be assigned in the 2007-2008 school year and the performance level will be assigned no later than the 2009-2010 school year.

The first category, annual performance, is based on the performance from the prior year on the criterion-referenced test and end-of-course exams. The second category, academic growth, will be based on the school's improvement gains tracked longitudinally and using value-added calculations on the criterion-referenced assessment.

The Department of Education will publish an annual report that identifies schools as being in one (1) of the following annual performance category levels, based on the criterion-referenced benchmark exams, as defined in Arkansas Code Annotated § 6-15-404(g)(1), and defined according to rules of the State Board of Education:

- (1) “Level 5”, schools of excellence;
- (2) “Level 4”, schools exceeding the standards;

⁴⁸ Arkansas Code Annotated § 6-15-2101, et seq.

- (3) "Level 3", schools meeting the standards;
- (4) "Level 2", schools on alert; or
- (5) "Level 1", schools in need of immediate improvement.

The second category, academic growth, available in 2007-2008, is based on the school's improvement gains tracked longitudinally and using value-added calculations on the criterion-referenced assessment. The annual improvement category will also classify a school as being in one (1) of the following category levels based on the criterion-referenced Benchmark exams as follows:

- (1) "Level 5", schools of excellence for improvement;
- (2) "Level 4", schools exceeding improvement standards;
- (3) "Level 3", schools meeting improvement standards;
- (4) "Level 2", schools on alert; or
- (5) "Level 1", schools in need of immediate improvement.

Sanctions are applied for the purpose of improving teaching and learning not for punishing schools or school staff. Schools and school districts that fail to meet expected performance standards as established by the State Board of Education will be subject to sanctions as specified in school improvement or academic distress.

(b) Arkansas Comprehensive School Improvement Plan.

Every school is required to engage in developing and implementing a comprehensive school improvement plan based on priorities indicated by student assessment and other pertinent data. Under NCLB, an individual school or school district that fails to make adequate yearly progress will be identified as being in school improvement. Schools in school improvement are subject to varying levels of sanctions over the course of four (4) years. The sanctions may include revising the school's Arkansas Comprehensive School Improvement Plan, offering students school choice options for attending other schools in the district, offering supplemental services to eligible students, and developing plans with corrective actions. If a school is in school improvement for five (5) years, the Department of Education may require the school to be restructured. Schools identified in school improvement years three, four, or five in 2006 are now taking part in "America's Choice", a turn-around model that applies comprehensive strategies for improving academic achievement. Under The Quality Education Act of 2003, a school district will be

identified as being in academic distress if 75% or more of its students score "below basic" performance level collectively across all grade levels for which criterion-referenced assessments are administered and across all schools in the district. School districts that are in academic distress for two (2) consecutive years will be consolidated, annexed, or reconstituted prior to July 1 of the next school year.

(c) Arkansas Fiscal Distress Assessment and Accountability Program

School districts are required to spend the amount set by the General Assembly as the foundation amount needed for providing an adequate education to all public school children. It is in the state's best interest to require that each public school district implements sound fiscal management policies so that the school district is able to meet that obligation. In 2003, the General Assembly established the Arkansas Fiscal Distress Assessment and Accountability Program.⁴⁹ The purpose of the program is to provide the State Board of Education with the tools to assess the fiscal integrity of a school district and take action to bring the school district into compliance with responsible fiscal management policies. The Department of Education may identify a school district as being in fiscal distress if the district's fiscal condition has a detrimental impact on the continuation of educational services the school district provides, or for any of the following events that jeopardizes the fiscal integrity of a school district:

- materially fails to properly maintain school facilities, including violations of fire, health, or safety or construction codes;
- fails to provide financial reports as required by law or has state or federal audit exceptions or violations;
- materially fails to maintain sufficient funds to cover financial obligations (such as payroll, minimum teacher salary requirements, employment benefits, and legal tax obligations), or defaults on school district debt obligations;
- materially fails to comply with state law purchasing or bid requirements;
- has material discrepancies between budgeted and actual school district expenditures; or
- materially fails to comply with any provision of the Arkansas Code that specifically places a school district in fiscal distress based on noncompliance.

⁴⁹ Act 1467 of 2003, § 18.

A school district identified as being in fiscal distress must publish a notice that it has been placed in fiscal distress and adopt a plan for remedying the areas that are the cause of the fiscal distress. A school district in fiscal distress may not incur any debt without the written approval of the Department of Education. If the district does not properly address its fiscal problems the Department of Education may (1) require the superintendent to relinquish his or her authority, (2) temporarily suspend the school district board of directors, or (3) take action to annex or consolidate the school district.

(d) Formative Assessments.

The subcommittee received testimony regarding the benefits of formative assessment, also referred to as "chunk testing", that is currently being used in school districts serving twenty percent (20%) of the students in the state. The purpose of formative assessment is to determine a student's understanding and ability to apply concepts in the curriculum frameworks and use that information to immediately address any deficiencies during the school year. The Arkansas Association of Educational Administrators endorsed formative assessment as the missing piece in the state's assessment and accountability program. The Arkansas School Boards Association and Arkansas Education Association expressed similar views and supported the use of formative assessments as part of the state's program. Picus reviewed the current use of formative assessments by some school districts in the state and provided information about companies participating in early attempts to perfect a national solution.

(e) Arkansas Educational Financial Accounting and Reporting System

It is the state's responsibility to monitor the expenditures of the funds distributed to school districts to ensure that each public school child in Arkansas is provided with an adequate education. Act 61 of the Second Extraordinary Session of 2003) provided for a uniform system of accounting for and reporting school district expenditures to allow the state to monitor expenditures.⁵⁰ According to Department of Education information provided to the committees, the system works through the Arkansas Public School Network (APSCN) as follows:

Schools and school districts use APSCN to manage their student and financial recordkeeping by entering required information into the APSCN software

⁵⁰ Arkansas Code Annotated § 6-20-2201, et seq.

acquired from SunGard Pentamation. Both systems are comprehensive as they accommodate the varying needs from the smallest to the largest district.

The Student System consists of the following modules: Attendance, Demographics, Discipline, Medical, Report Cards, Scheduling, Transcripts and State Reporting. The Financial System contains the following modules: Fund Accounting, Purchasing, Human Resources, Budget Preparation, Fixed Assets, Personnel Budgeting, Vendor Bidding, and Warehouse Inventory.

APSCN has also purchased a reporting system through Cognos that will allow the districts to pull up ready-made templates for reports or to do ad-hoc reporting on any of their data. Seven times a year the districts submit data through APSCN to fulfill state reporting requirements.

Act 61 also provided that school district personnel responsible for financial reporting must receive training. The Department of Education, in conjunction with the Arkansas Association of School Business Officials, has conducted 84 training sessions around the state to train over 3,300 school district personnel in current school laws, expenditure requirements, financial accountability and reporting, and ethics. In addition, APSCN supports school district financial reporting to the state by the following methods:

- APSCN provides level 1 and 2 help desk technicians for districts to use by calling or emailing for help when encountering trouble using either system.
- APSCN has 11 student and 11 financial field support positions that are housed in various educational coops across the state to provide on-site help and training at the educational coop.
- APSCN management personnel provide presentations to various educational organizations in order to provide new information, answer questions, and highlight problem areas with data collection.
- Through the Department of Information Services, APSCN provides eight local area network support specialists to assist districts with networking problems.
- APSCN has several trainers that provide training to staff (train the trainer) and to districts.
- APSCN provides Interactive video training to help districts with their state reporting cycles or to provide information on software changes or updates.
- APSCN maintains a website with a wealth of information: tips, helps, procedural outlines, software manuals, documentation, training guides, computer-based training for Cognos, etc.

- APSCN is providing a Teacher Access System and a Home Access System in the 2007/2008 school year so teachers can enter grades and other information through the system without having to scan them in. The Home Access System will allow parents (with proper security limits) access to the system to view information on how their children are doing in their classes, view attendance, grades, homework assigned, etc.
- APSCN is also piloting a School Interoperability Framework project that will allow greater compatibility with 3rd party software used by districts.
- APSCN also provides and supports a financial and student listserv which is used to post notices about information or changes, updates, useful tips, warnings of system downtimes, etc. The districts also use the listserv to ask other districts questions on procedures or to give out shortcuts or tips they have discovered.
- APSCN management personnel attend data conferences sponsored by the National Center for Education Statistics in order to stay informed regarding national data collection and reporting standards.

The capacity for fiscal responsibility, accountability, and reporting functions from ACSIP and APSCN is continually expanding to meet the needs of the public school system, the Department of Education, and the General Assembly for ensuring that all of Arkansas' public school children have the full benefit of the state-provided education funding.

3. Educational Adequacy Definition Part 3: Funding to Provide Resources for an Adequate Education

The 2003 Picus Report recommended an evidence-based approach for school funding that is designed to ensure that “the state’s school finance system provides sufficient funding for each school in the state to deploy powerful enough educational strategies so that all students can meet the state's student performance goals in the next 10-15 years.”⁵¹ The evidence-based approach recommended by Picus:

... identifies a set of ingredients that are required to deliver a comprehensive set of elements of a high quality instructional program, and then determines an adequate expenditure level by placing a price (an appropriate salary level) on each ingredient and aggregating to a total cost. This approach is more explicitly based on research and extant models of comprehensive school designs (e.g., Stringfield, Ross & Smith, 1996) rather

⁵¹ 2003 Picus Report, p. 1.

than just the professional judgment of educators on the level of resources needed to meet a pre-determined performance goal (e.g., Odden, 2002a).⁵²

The 84th General Assembly adopted this approach in large part combined with the goal of having all students performing at or above the proficiency level on the state's student testing system. However, it should be noted that the General Assembly did not mandate how school districts would spend state funding to achieve those goals.

According to Picus, the General Assembly's method of defining school finance adequacy was "a complex and substantive definition ... far beyond what was expected of 'minimum' foundation programs in the past [and requiring] a more direct link between the funding base and the educational strategies that have [the] potential to allow Arkansas' students to meet or exceed the state's established proficiency levels." The General Assembly has revised the 2003 foundation funding formula in regular and extraordinary legislative sessions since 2003.

The 2006 Picus Report discusses Picus' recommendations for recalibrating the current foundation funding formula. The subcommittee, continuing the evidence-based approach, considered additional evidence and research presented to the subcommittee as well as the recommendations of the 2006 Picus Report before reaching its findings and recommendations for the next biennium's foundation funding formula, as discussed more fully later in this report.

The funding for public schools in Arkansas currently comes primarily from five (5) sources including:

- (1) State General Revenue;
- (2) The Educational Excellence Trust Fund;
- (3) The Educational Adequacy Fund;
- (4) The Uniform Rate of Tax⁵³; and
- (5) Federal Funds.

⁵² 2003 Picus Report, p. 14.

⁵³ The uniform rate of tax is additional state general revenue under Ark. Const. art. 14, § 3, as amended by Const. Amend. 11, Const. Amend. 40, amended, and Const. Amend. 74; Arkansas Code Annotated § 26-80-101. The school tax provision of this article was amended by Amendment 74 adopted by general election on November 5, 1996.

Beginning in fiscal year 2004, the General Assembly provided significant increases in state funding for reform initiatives. From fiscal year 2003 to fiscal year 2007, the General Assembly increased school funding authorizations by a cumulative \$1.771 billion in three (3) funds:

- \$368 million to the Public School Fund Account⁵⁴;
- \$3.4 million in increased general revenue funding for the Department of Education Fund Account of the Education Fund;⁵⁵ and
- \$1.4 billion for the Public School Fund Account through the Educational Adequacy Fund.⁵⁶

In addition to state general revenue and the Educational Adequacy Fund, public schools have also received a cumulative increase of \$78.5 million through the Educational Excellence Trust Fund over the fiscal year 2003 funding levels.

Foundation Funding:

School districts are required by law to spend at least \$5,662 per pupil based on the district's third quarter average daily membership for the previous school year as foundation funding for educational adequacy for the 2006-2007 school year.⁵⁷ To meet that foundation funding requirement, a uniform rate of tax of 25 mills is levied on taxpayer property for the maintenance and operation of schools.⁵⁸ School districts may also levy an additional ad valorem tax⁵⁹, incur bonded debt, receive grants from the Department of Education, and accept private funds.

State Foundation Funding Aid

The state provides assistance to school districts, "state foundation funding aid", for meeting the foundation funding requirement. The state foundation funding aid supplements the general revenue obtained through collections of the uniform rate of tax through the following formula:

$$\text{Foundation Funding Amount} - (98\% \text{ of the uniform rate of tax assessment} + 75\% \text{ of school district miscellaneous funds}) = \text{State Foundation Funding Aid for the school year}$$

⁵⁴ Arkansas Code Annotated § 19-5-305(a)(1).

⁵⁵ Arkansas Code Annotated § 19-5-304(1).

⁵⁶ Arkansas Code Annotated § 19-5-1227.

⁵⁷ Arkansas Code Annotated § 6-20-2305.

⁵⁸ Arkansas Code Annotated § 26-80-101; Ark. Const. art. 14, § 3, as amended by Const. Amend. 11, Const. Amend. 40, amended, and Const. Amend. 74. The school tax provision of this article was amended by Amendment 74 adopted by general election on November 5, 1996.

⁵⁹ Ark. Const. art. 14, § 3, cl. (c).

The following table shows a cumulative increase of \$148.6 million in the amount of statewide uniform rate of tax used in the state foundation funding aid formula for the fiscal years 2003-2007.

Actual and Estimated Statewide Uniform Rate of Tax (URT) Collection Amounts Used in the Foundation Funding Formula		
Fiscal Year	Statewide URT Collection Amount (25 Mills X 98%)	Increase in URT Collection Amount from Prior FY
2003	\$619,212,474	
2004	\$645,483,860	\$26,271,386
2005	\$679,512,680	\$34,028,820
2006 estimated	\$716,036,162	\$36,523,482
2007 estimated	\$767,853,344	\$51,817,182
Total Increase		\$148,640,870
<u>Source: Arkansas Department of Education and Assessment Coordination Department.</u>		

Academic Facilities Funding:

The General Assembly has also made increased funding available for public school facilities. The Table below illustrates that a cumulative total of \$156.4 million has been authorized for construction project costs which must be approved by the Commission for Public School Academic Facilities and Transportation and an additional cumulative \$4 million for the Division of Public School Academic Facilities and Transportation's administrative operating costs.

Funding for Public School Academic Facilities and Transportation			
Fiscal Year	Construction Project Funds	Division Administrative Operating Funds	Total
2005	20,000,000	439,774	20,439,774
2006	102,442,524	1,772,458	104,214,982
2007	33,960,424	1,804,576	35,765,000
Total	\$156,402,948	\$4,016,034	\$160,419,756

Property Tax Collection Rates

The formula to determine the amount of state foundation funding aid assumes a ninety-eight percent (98%) collection rate as a method to provide a stable accounting mechanism for school funding. The subcommittee requested assistance from the Division of Legislative Audit and the Assessment Coordination Department to review the assessment and collection of local taxes for the benefit of school districts. The Division of Legislative Audit and the Assessment Coordination Department were unable to provide accurate collection rate data to the subcommittee because there was no statewide standardized reporting for the property tax delinquency rate. The Division of Legislative Audit and the Assessment Coordination Department determined that there are several conflicting items of the county tax settlements between counties and school districts that should be considered when comparing the amount of funds school districts receive with the assessment rates.

The Division of Legislative Audit identified the following factors, the interpretation of which could have a significant impact on the criteria used in the calculation to distribute state foundation aid:

“Property assessment,” as used in the school funding formula, is not defined in Arkansas Code § 6-20-2305.

- (1) The abstract of property assessment, submitted by the respective counties to the Department of Education by March 15 of each year and used in the calculation to distribute state foundation aid, should equal the total original property assessment on the county tax records. Actual tax collections are not based on the original property assessment but are based on an assessment adjusted for errors, additions, and other various tax credits occurring throughout the tax year.
- (2) The abstract of property assessment should equal the total original property assessment, which includes prior year delinquent real estate. As a result of our preliminary work, we have observed that the original assessment on the county tax records, utilized in preparation of the abstract of property assessment, may or may not include prior year delinquent real estate assessments. Specific instructions should be issued so as to ensure that prior year delinquent real estate assessments are included on the abstract of property assessment submitted to the Department of Education.

Tax collections as a result of “property assessment” can be recognized at various stages in the collection process.

- (1) Before-collection expenses;
- (2) After-collection expenses;
- (3) Before-collection expenses including delinquent taxes;
- (4) After-collection expenses including delinquent taxes; or

- (5) Pre- or post-property tax relief.⁶⁰

The Assessment Coordination Department identified the following as conflicting items:

- (1) Final tax settlement issues –
 - (a) Original charge might not match the Department of Education assessment rate, which is one of the drivers in the school funding formula;
 - (b) Open for collection March 1 after the assessment year;
 - (c) December 1 list of delinquent property delivered to collector; and
 - (d) Collections of delinquent taxes, penalties, and interest can continue from previous year collection into current year.

- (2) Commissions (Prorations) not included in the county collector's original charge –
 - (a) Collector's commission, Arkansas Code §§ 14-86-904 and 14-317-116 up to 2%;
 - (b) Clerk's commission, Arkansas Code § 14-86-902 up to 2%; and
 - (c) Treasurer's commission, Arkansas Code § 6-20-221 up to 4%.

- (3) Exemptions not included in the collector's original charge but are assessed –
 - (a) Disabled Veterans; and
 - (b) Non producing minerals < \$2.40.

- (4) Adjustments not included in the original charge or the assessed value of the funding formula –
 - (a) Added real and personal assessments;
 - (b) Errors and credits;
 - (c) Redeemed property;
 - (d) Delinquents - current, not received;
 - (e) Delinquents - previous year received in current year; and
 - (f) Late payments penalties.

- (5) Fees extracted after the original charge or the assessed value of the funding formula–
 - (a) Assessor's salary and expenses. This amount varies from county to county depending on in-house or contracted reappraisal;
 - (b) Assessor's cost for real and personal collections on delinquents (advertising) are fifty cents (50¢) on each delinquent parcel; and
 - (c) County Equalization Board salaries vary by county. Several variables might have an effect on this amount.

- (6) Other things to be considered in the original charge and assessed value of the funding formula –
 - (a) Many times the October 10 delinquents are considerably different from the December 31 collection rate;

⁶⁰ Prepared testimony of Tim Jones, Field Auditor, Division of Legislative Audit, February 22, 2006.

- (b) Proration percentages of original charge vary from county to county. Large counties generally have smaller proration percentages of their original charge; and
- (c) County tax collection is based on a calendar year, and the school funds received are based on a fiscal year.

The Assessment Coordination Department has adopted rules providing a template for the purpose of uniformly reporting county property tax assessment, collection, and settlement information statewide. The rules are designed to implement Act 27 of the First Extraordinary Session of 2006.⁶¹

*Evaluate the effectiveness of any program implemented by a school, a school district, an education service cooperative, the Department of Education, or the State Board of Education and recommend any necessary changes.*⁶²

E. Evaluating the Effectiveness of School Programs

Each year, the state funds a substantial number of programs to assist schools. These programs serve the diverse needs of schools and school districts and are implemented at varying levels by school districts and education service cooperatives around the state. As some of these programs are relatively new, and because school funding has increased during the past several years, it is not feasible to accurately evaluate the effectiveness of the programs at this time. The subcommittee did, however, consider alternative learning environments and supplemental student services as programs that may require more immediate attention.

1. Alternative Learning Environments

An alternative learning environment is a student intervention program that seeks to eliminate traditional barriers to learning for students. Every school district must establish an alternative learning environment that affords its students an environment conducive to learning. The alternative learning environment may

⁶¹ Exhibit 23.

⁶² Arkansas Code Annotated § 10-3-2102(a)(5).

be established by more than one (1) school district or may be operated by a public school educational cooperative. An alternative class or school should provide for:

- Student assessment either before or upon entry into the class or school; and
- Intervention services, which means activities within or outside a school that will eliminate traditional barriers to learning and that are designed to address the specific educational needs of individual students.

A student assigned to an alternative class or school for behavioral reasons must receive intervention services designed to address the student's behavioral problems. Such intervention services shall may not be punitive in nature but must be designed for long term improvement of the student's ability to control his or her behavior. No less than one (1) time every three (3) years, the Department of Education monitors each school district or cooperative to ensure that alternative learning environments have been established, are conducive to learning, and are providing intervention services designed to address the individual needs of students.

At the subcommittee's direction, the Bureau of Legislative Research conducted a study of existing alternative learning environment programs in Arkansas and of alternative education in other states generally. The research report provided the following information for the subcommittee's consideration:

Most research on alternative learning programs focuses on characteristics of students and programs, especially on what are referred to as "best practices." ... First, ... that small, highly-structured classes, comprised of systematic behavioral management and individualized instruction, are the hallmark of alternative education environments. Second, parents and mentors also need to be actively involved in children's learning and discipline by assisting and supporting teachers in the classroom and at home. Finally, because of the diversity and multiplicity of problems presented by students in alternative learning programs, the literature and Arkansas administrators indicate that teachers need concentrated specialized knowledge and skills that are not presently offered as concentrations in Arkansas universities.

The Bureau of Legislative Research study also indicated that administrators of Arkansas alternative learning environments recommended that the state provide additional funding and support personnel at the Department of Education. The subcommittee received testimony from the Department of Education that only one person coordinates the alternative learning environment programs for the state.

2. Supplemental Student Services

Supplemental student services are generally short-term extended-day services designed to improve academic achievement and include tutoring (one-to-one or small group), after school programs, and other services provided outside of the regular school day or in summer school. These services are typically tailored to helping a student improve reading, language arts, and math deficiencies that have been identified during the school year. Under the No Child Left Behind Act, schools must provide free supplemental student services to eligible students when the school has not made adequate yearly progress for two (2) consecutive school years.

In the 2006 Picus Report, Picus stated that "[t]he most powerful and effective strategy to help struggling students meet state standards is individual one-to-one tutoring provided by licensed teachers (Shanahan, 1998; Shanahan & Barr, 1995; Wasik & Slavin, 1993)."⁶³ The goals of providing supplemental student services are to close the achievement gap and help students meet rigorous academic standards. Formative assessments have been used successfully by some Arkansas school districts during the school year (as opposed to benchmark exams given at the end of the school year) to identify the specific area in the curriculum that a student is having trouble learning. By using the formative assessment, a teacher can determine exactly which part of the curriculum needs reinforcement or identify that a different teaching strategy is needed.

Supplemental student services may be provided by teacher tutors or by commercial organizations offering the services for a fee. The Department of Education has compiled a list of possible commercial providers, and has published its 2006-2007 Request for Proposal for Supplemental Educational Service Providers. As noted by the Office for Education Policy of the University of Arkansas,⁶⁴ it is not clear from the list exactly what services are available, or how, when, or for what fee each provider will offer services. At present, there is no method of evaluating the effectiveness of the programs offered by schools or the services offered by the commercial providers. Unless a school requires it by contract with a service provider, there is no accountability for academic improvement of the students served by a commercial provider.

⁶³ 2006 Picus Report, p. 49.

⁶⁴ Policy Brief: Supplemental Education Services in Arkansas, Policy Brief 4, May 2006, Office for Education Policy, University of Arkansas.

According to the research cited by Picus, the following mechanisms were found to have the greatest effect:

- Professional teachers as tutors;
- Tutoring initially provided to students on a one-to-one basis;
- Tutors trained in specific tutoring strategies;
- Tutoring tightly aligned to the regular curriculum and to the specific learning challenges, with appropriate content specific scaffolding and modeling;
- Sufficient time provided for the tutoring;
- Highly structured programming, both substantively and organizationally.⁶⁵

Additional study is needed to determine the best strategies for Arkansas public school students and how the state can best support those strategies, who should provide the services, and how the success of the services should be evaluated.

3. Review of 2004-2005 Funding for Programs

According to the most recent available information in reports prepared by the Division of Legislative Audit, the Department of Education paid \$2,229,863,796 in state funds to school districts for the fiscal year June 30, 2005 for thirty-six (36) programs. School districts received an additional \$379,295,695 from the Department of Education in federal education grants to provide for twenty-five (25) additional programs at various school districts. A summary of the state funded programs for 2004-2005 is as follows:⁶⁶

ACADEMIC IMPROVEMENT TRAINING

Funds of \$52,500 were distributed for the purpose of providing research based materials and professional development to Arkansas teachers and administrators in their efforts to develop, initiate and evaluate student academic improvement plans. These funds focused on providing teachers with reading and writing strategies for struggling students and developing a comprehensive literacy model. In addition, teachers and administrators were provided training on curriculum alignment and lesson planning.

⁶⁵ 2006 Picus Report, p. 49.

⁶⁶ Division of Legislative Audit, for the year ended June 30, 2006.

ADVANCED PLACEMENT INCENTIVE

The advanced placement incentive program was appropriated at \$575,000 for 2004–2005 school year, of which \$5,700 was paid to Arkansas School for Math and Science. This program provided support to establish advanced placement courses that are easily accessible and would prepare students for admission to, and success in, a postsecondary educational environment. Advanced placement courses and exams provided high school students the opportunity to earn college credit at most colleges and universities. There were five aspects to the program: (1) payments of \$45 toward the cost of advanced placement exam fees for students of economic need, (2) payments of \$50 for each advanced placement exam over two for students not of economic need, (3) payments of \$50 to schools for each score of 3 or better on advanced placement exams, (4) awards of \$1,000 for equipment and materials for advanced placement courses, and (5) support for professional development for AP teachers.

ALTERNATIVE LEARNING

All school districts were required to provide an alternative learning environment (ALE) for students who demonstrated an inability to function in the standard learning environment. The ALE provided educational programs to eligible students in other classrooms, as well as additional services to meet the needs of this group of at-risk students. The Department of Education calculated a funding factor of \$3,250, which was equal to the amount of budgeted funds for ALEs divided by the current year full time equivalent students. Funds distributed were equal to the school district's full time equivalent of ALE students times the funding factor.

ARKANSAS EASTER SEALS

This program funded the cost of educational services provided by the Easter Seal Society to children ages three (3) to twenty-one (21) who have orthopedic or communicative disorders. This funding reduced the amount that local school districts have to pay for these educational services and also qualifies the facility as "state supported" so that federal funds are available to further reduce the cost to local school districts. Easter Seals of Arkansas program was appropriated \$193,113 for the 2004–2005 school year and the total amount was paid in a lump sum.

ARKANSAS LEADERSHIP ACADEMY

Created by the General Assembly in 1991, the Arkansas Leadership Academy was formed in order to provide leadership for education reform in Arkansas. These leadership functions are outlined in various legislative acts and directives from the State Board of Education. The academy brings together partners from business, higher education, professional associations, educational cooperatives, governmental agencies, and private foundations in week-long residential training programs. The issues include those related to telecommunication and various educational technologies. The Arkansas Leadership Academy program was appropriated \$500,000 for the 2004–2005 school year. This grant amount was distributed to the University of Arkansas for the master school principal program.

ARKANSAS TEACHER HOUSING DEVELOPMENT FOUNDATION

The purpose of the Arkansas Teacher Housing Development Foundation was to develop or facilitate the development of affordable housing for high-performing teachers in high-priority school districts and provide housing incentives to encourage high-performing teachers to move to high-priority school districts. A high-priority district is one having at least 80% free lunches, and 1,000 or fewer students. Arkansas Teacher Housing Development Foundation was appropriated \$100,000 for 2004–2005 school year and this amount was directly paid to Arkansas Teacher Housing Development Foundation.

ASSESSMENT AND END OF LEVEL TESTING

This program provided for standards based testing at the primary, intermediate, and middle levels, which was administered at grades 3–8. It also required end-of-course testing for algebra, geometry, and literacy in eleventh grade. In the 2004–2005 school year, \$110,000 was paid to Arch Ford Education Services Cooperative to purchase Home School tests and scoring services. Also, \$350,000 was paid to Dawson Educational Service Cooperative for development and delivery of the annual School Performance Report for the 2004–2005 school year.

AT RISK

"At risk" refers to students who are at risk of failing or are not performing at their academic or grade level or developmental age level. Factors for being at risk can include socio-economic factors, disciplinary concerns, low academic performance, high absenteeism, and Limited English Proficiency. Local school districts, education service cooperatives, and other service providers, as identified by the Department of Education, are eligible to receive funding through a grant process to address academic achievement of students at risk. The total amount of funds distributed was determined by the State Board of Education. For the 2004–2005 school year, \$995,941 was paid to various local school districts, education service cooperatives, and institutions of higher education. These funds were for the College Preparatory Enrichment Program which was a summer college preparatory enrichment program for students who scored less than the minimum score set by the State Board of Higher Education of 19 on the ACT test.

BETTER CHANCE GRANTS

Arkansas Better Chance Grants were administered by the Division of Child Care and Early Childhood Education of the Department of Health and Human Services for the purpose of serving educationally deprived children birth through five (5) years old, excluding kindergarten. This program funds innovative and developmentally appropriate early childhood programs for educationally deprived children ages three (3) to five (5). The distribution of funds was based on \$4,400 per child for the 2004–2005 school year.

CONSOLIDATION ASSISTANCE

These funds were paid to each school district that are administratively consolidated or annexed by the State Board of Education under Arkansas Code Annotated § 6-13-1603 by July 1, 2005 or has an average daily membership of at least 350 and no more than 500 for each of the two (2) school years preceding the school year in which the administrative consolidation or annexation petition was filed, and voluntarily petitions, and received approval from the State Board to administratively consolidate or annex prior to July 1, 2004.

COOPERATIVE EDUCATION TECHNICAL CENTERS OPERATIONS

Technology coordinators in the education service cooperatives assist local school districts by providing technology training, advising school districts in software and hardware purchases, and overseeing technology laboratories. The maximum amount of funds to be distributed to the state's fifteen (15) education service cooperatives is set annually by the State Board. For the 2004–2005 school year, the maximum amount was \$50,000.

COURT ORDERED DESEGREGATION

Funds were disbursed by the Department of Education for desegregation expenses under the "Pulaski County School Desegregation Settlement Agreement." The amount appropriated for the 2004–2005 school year was \$56,800,000. The disbursements were based on a series of formulas. Payments for the 2004-2005 school year were \$29,895,016 to Little Rock School District, \$6,101,378 to the North Little Rock School District, \$17,331,154 to the Pulaski County Special School District, and \$709,666 to the Camden-Fairview School District.

DEBT SERVICE FUNDING SUPPLEMENT

This aid was provided to school districts in order to offset some of the existing debt burdens that the district had incurred and increase the amount of local revenue available for the maintenance and operation of schools. Those districts that qualified for Debt Service Funding Supplements received funding based upon the amount of required debt payment, number of students, and wealth. Debt Service Supplement Funds were to be used solely for the payment of bonded debt.

A school district's debt service funding supplement was calculated by multiplying the district's eligible debt service millage required times an amount established annually by the State Board of Education, but no less than \$12 per average daily membership times the state wealth index; in the 2004-2005 school year, the funding rate was \$18.03. State wealth index was the result of one (1) minus the ratio of local revenue for a school year divided by the amount of state funds allocated to the school district from the Public School Fund for unrestricted general support of the school district.

DEPARTMENT OF CORRECTION SCHOOL DISTRICT

Arkansas Code Annotated § 12-29-304 provided that the cost of running the Department of Correction School District be borne by the Department of Correction and the Department of Education. Act 51 of the First Extraordinary Session of 2003 appropriated \$4,037,222 for the Arkansas Department of Correction School District and \$4,027,675 was disbursed during the 2004-2005 school year.

DISTANCE LEARNING

Distance learning is the technology and the educational process used to provide instruction when the student and primary instructor are not physically present at the same time or place. Grants were provided for acquiring and leasing equipment and telecommunications services as well as expanding distance learning opportunities to school districts needing advanced level courses or courses for which a district could not justify a full time teacher for the number of students in the course. The strategic plan for the Department of Education included making all 38 academic units required available through distance learning.

Funds were distributed in the 2004-2005 school year as follows: schools submitted grant applications through the education service cooperatives and requested funds as needed; funds were paid to the Department of Information Services for line charges billed to the Department of Education; and individual service providers received \$500 per child served (i.e. Arkansas School for Math and Sciences).

DISTRESSED SCHOOL DISTRICT SUPPORT

The Arkansas Academic Distress Program was legislated by Act 915 of 1995. The purpose of this act was to improve the capacity of local school districts whose students were not achieving at academically desired levels by school through targeted assistance coordinated by the Department of Education.

In the 2004-2005 school year, payments were made to independent contractors based on professional service contract rates. Other payments processed by the Department of Education to various payees were made on a reimbursement basis (i.e. travel expenses).

EARLY CHILDHOOD SPECIAL EDUCATION

This program provided special education services through fifteen (15) school districts, two (2) school district consortia, and the fifteen (15) education service cooperatives for an estimated 10,000 three to five year old preschool children with disabilities. This program also served as state Medicaid match for physical, occupational, and speech therapy services. A portion of the appropriation was used to provide for partial reimbursement of 16 Early Childhood Coordinators and certain other program coordination costs. Funds were distributed to sub-recipients in the 2004-2005 school year based on headcount at \$643 per child.

ECONOMIC EDUCATION

The objective of this program was to integrate economics into the K-12 curriculum by training teachers and administrators in economic principles. The appropriation of \$300,000 was distributed in the 2004-2005 school year in one (1) grant to the Arkansas Council on Economic Education to provide training to teachers and administrators.

EDUCATION SERVICE COOPERATIVES

The fifteen (15) educational cooperatives around the state facilitated the sharing of resources and services between local school districts. Each cooperative received four (4) quarterly payments in the 2004-2005 school year of \$82,154.50. In addition, a one time bonus of \$2,500 was paid to each full time equivalent certified teacher employed by an educational cooperative that was providing direct teaching services to special education children ages three (3) to five (5) years old or employed as a math or literacy specialist on October 1, 2004.

GENERAL FACILITIES FUNDING

General Facilities funding was a formula driven program to provide supplemental funding to school districts to purchase school buses, furniture, equipment, computer software or for the renovation or repairs to existing facilities. Arkansas Code Annotated § 6-20-303 (12).

A school district's general facilities funding was calculated by multiplying the school district's average daily membership for the previous school year by the state wealth index times a rate established annually by the State Board of Education. In the 2004-2005 school year, the rate was \$31.30. State wealth index was the result of one (1) minus the ratio of local revenue for a school year divided by the amount of state funds allocated to the school district from the Public School Fund for unrestricted general support of the school district.

GIFTED AND TALENTED

This program provided funding for AGATE (Arkansans for Gifted and Talented Education), salary support for fifteen (15) gifted and talented supervisors in the education service cooperatives, and the Governor's School. The appropriation of \$1,292,896 was distributed in the 2004-2005 school year as follows: Cooperatives applied for supervisor positions and received \$40,000 per full time position (pro-rated if part-time position); \$749,462 paid to Hendrix College for the Governor's School, and \$3,000 paid to the winner of the Outstanding Gifted and Talented Award.

GRANTS TO SCHOOL DISTRICTS

This payment was made for educating students in North Arkansas who could not get to their assigned district because Bull Shoals Lake separates them from their district, and it would require a round trip of more than 35 miles. Act 51 of the First Extraordinary Session of 2003 appropriated \$47,000 to be paid in the 2004-2005 school year to the Ozark Mountain School District, formerly the Bruno-Pyatt School District.

HIGH PRIORITY DISTRICT TEACHER RECRUITMENT AND RETENTION

This was a program that provided teacher bonuses as incentives for recruitment and retention in high-priority districts. A high-priority district was one having at least 80% free lunches, and 1,000 or fewer students.

For new teachers, a one time signing bonus to work in any high-priority district was paid as follows: \$4,000 at the time for a teacher currently employed by the district was signed a new contract to teach in a high-priority district and \$3,000 at the beginning of each of the next two (2) subsequent years if the teacher continued teaching in the same high-priority district. For all teachers not newly signed to work in the district, a \$2,000 retention bonus was paid at the beginning of each of the next two (2) subsequent years if the teacher continued to work in a high-priority district.

HOME SCHOOL TESTING

This program paid for the administration of norm-referenced achievement tests for home school students as required by Arkansas Code Annotated 6-15-504. The appropriation of \$50,000 was distributed in the 2004-2005 school year in one (1) grant to the Arch Ford Education Services Cooperative who administered the testing for the state.

HUMAN DEVELOPMENT CENTER EDUCATION AID

This program provided funding for educational services to the children in the state's Human Development Centers. Act 51 of the First Extraordinary Session of 2003 appropriated \$663,000 and \$526,150 was disbursed to the Department of Health and Human Services in fiscal year 2004-2005.

INTENSIVE SCHOOL SUPPORT

These funds were for the purpose of providing intensive school support for schools designated to be in school improvement, as required by No Child Left Behind. Intensive school support included activities such as reviewing school improvement plans, data analysis, aligning of curriculum and involvement of practitioners with expertise in specific areas of need. The funds were distributed in the 2004-2005 school year at \$1,000 per school in school improvement through the education service cooperatives or directly to the Little Rock, North Little Rock, and Pulaski County Special School Districts.

INTERVENTION BLOCK GRANTS

Local school districts, education service cooperatives, institutions of higher education, and other organizations were eligible to apply for an intervention block grant. These grants were used to encourage parent involvement through the following four (4) student competitions: Arkansas Governor's Quiz Bowl Association, Creativity in Arkansas, State History Day Competition, and Arkansas Destination Imagination. For the 2004-2005 school year, \$132,000 was expended.

ISOLATED FUNDING

Because of location or geographic barriers, some districts were not able to share resources with other districts or may have unusual transportation needs. These districts under 350 average daily membership were termed "isolated" and received additional funding through a formula. (Arkansas Code Annotated § 6-20-303 (14)). The funding was distributed in the 2004-2005 school year based upon the number of prior year three (3) quarter average daily membership multiplied by the per student isolated funding amounts. The per student isolated funding amounts were specified per district in Act 65 of the Second Extraordinary Session.

LIMITED ENGLISH PROFICIENCY

This aid was provided to school districts with large numbers of students with limited English proficiency to assist with securing specially-trained staff, instructional materials, or training. The program served school districts with students assessed as limited in English proficiency. Most of these were at the beginning stage of acquiring English. School districts received grants in the 2004-2005 school year based on the district's limited English proficiency headcount at \$195 per limited English proficiency student.

NATIONAL BOARD OF PROFESSIONAL TEACHING STANDARDS

This program encouraged teachers to seek certification by the National Board for Professional Teaching Standards and paid the \$2,300 application fee, a \$4,000 starting bonus given during the school year in which the individual first obtained the National Board certification and a yearly bonus of \$4,000 to certified teachers in each of years two (2) through ten (10) of the 10-year life of the certificate, and up to three (3) days of substitute teacher pay for those teachers who completed the certification process. \$5,000 was also distributed to designated "support sites" at various school districts or education service cooperatives to assist candidates with the National Board certification process.

NATIONAL SCHOOL LUNCH STUDENT FUNDING

This program was funding for those students from low socio-economic backgrounds as indicated by the eligibility for free or reduced priced meals under the National School Lunch Act as calculated on October 1 of each year and submitted to the Department of Education.

NON-TRADITIONAL LICENSURE GRANTS

Non-traditional licensure is an intensive, professional development program for new teachers. The non-traditional licensure provided specialized training and support of a trained mentor to assist with the guidance and professional growth of new teachers during their first years of teaching employment. For the 2004-2005 school year each mentor received a payment of \$400 to \$500.

PROFESSIONAL DEVELOPMENT FUNDING

This program provided a coordinated set of planned learning activities for teachers and administrators that were standards based. These programs should have resulted in individual, school wide, and system wide improvements designed to ensure that all students demonstrate proficiency in the state academic standards. For the 2004-2005 school year, the professional development funding amount is fifty dollars (\$50) times the district's average daily membership for the previous year.

PUBLIC SCHOOL EMPLOYEES INSURANCE

This program paid the health insurance contribution rate established by the State Board of Education for employees of the education service cooperatives, vocational centers, the Model Vocational-Technical Resource Center, Arkansas Easter Seals, and the school operated by the Department of Correction. For the 2004-2005 school year this rate was \$131 per month for each employee.

PYGMALION COMMISSION

This \$40,000 grant to the Fort Smith School District was to be used to develop alternative learning environments and provide changes in curriculum, instructional approaches, school climate, and organization to improve educational outcomes for at-risk students.

RESIDENTIAL CENTERS AND JUVENILE DETENTION

This was a special education program to provide reimbursements to school districts for educational costs associated with students in approved residential treatment facilities or juvenile detention centers.

By State Board regulation, community residential facilities were reimbursed through local school districts at a standard daily rate based on a multiplier of 2.10 times the Base Local Revenue Per Student. Detention facility reimbursement is based on a calculation of educational costs times the number of placed juveniles.

SAFETY TRAINING

The safety training component paid \$70 for each school bus driver and \$350 for each bus mechanic to attend annual workshops, \$70 plus mileage for in-service bus driver training, and \$150 for local instructor programs.

SCHOOL FOOD SERVICES

This program, combined with the surplus commodities program, provided the state match for the total school food program in local schools. These grants were paid to school districts based on the number of lunches served. The rate was established by dividing the state appropriation of \$1,650,000 by the total number of lunches served during the 2003-2004 school year.

SECONDARY AREA VOCATIONAL CENTER

This program provided funding for students in secondary vocational area centers. These centers are a public secondary vocational institution organized for the specific purpose of educating high school students in specific occupational or vocational areas. A center will generally serve students within a twenty-five (25) mile radius or thirty-minute driving time of the center.

For the 2004-2005 school year, the minimum training fee was set at \$3,250 multiplied times the number of students enrolled in a secondary vocational area center during the 2003-2004 school year.

SERIOUS OFFENDER PROGRAM

The Department of Education has established the Serious Offender Program through a Memorandum of Understanding with the Department of Health and Human Services (DHHS). The current program has been in effect since 1996 for the purpose of generating education funds for the DHHS serious offender programs. School districts were provided state funds based on the number of participants in their districts. The amount per student for 2004-2005 was \$4,883.76. The school districts in turn paid the serious offender program providers in their districts.

SMART START AND SMART STEP ASSESSMENT

The Smart Start program focused on improving the academic achievement of kindergarten through fourth grade students in the areas of reading and mathematics. The Smart Step program covered grades five (5) through eight (8). These programs were administered through a network of literacy and mathematics specialists who assisted the schools with professional development through statewide conferences, regional workshops, and satellite delivered meetings. The schools also were provided a variety of resources including professional books and videos.

For the 2004-2005 school year, school districts received \$279,160 to provide professional development training in their districts, education service cooperatives received \$3,846,764 to provide professional development training in the region they cover, and institutions of higher education received \$1,483,166 to provide statewide professional development.

SPECIAL EDUCATION - CATASTROPHIC OCCURRENCES

This program assisted districts with special education students who required extraordinary support services such as full time registered nurses or elaborate assistance technology. The special education and related services required by these individual students were unduly expensive, extraordinary, or beyond the routine costs associated with special education. Reimbursements from this program could only be sought after eligible costs for the child equaled or exceeded \$30,000, and only after Medicaid and other third party funding was obtained.

SPECIAL EDUCATION SERVICES

This program provided funding to support the provision of extended school year services to eligible students with disabilities in need of such services, provided special education services to children with disabilities who were wards of the state placed by the Department of Health and Health and Human Services in out of state therapeutic treatment programs, and provided funds to support the payment of salaries to special education supervisors.

For the 2004-2005 school year \$3,616,158 was paid to school districts and education service cooperatives for special education supervisors' salaries; a maximum amount of \$32,750 per position was paid. Also \$440,215 was paid to school districts and education service cooperatives for extended school year services, at a rate of \$30 a day per student.

STATE FOUNDATION FUNDING AID

This was the amount of state financial aid provided to each school district for the 2004-2005 school year in addition to 98% of the district's uniform rate of tax assessment. It was computed as the difference between the foundation funding amount established by the General Assembly (\$5,400 times the school districts average daily membership and the sum of ninety-eight percent (98%) of the uniform rate of tax, times the property assessment of the school district, plus seventy-five percent (75%) of miscellaneous funds of the school district.

STUDENT ADM GROWTH

This program provided supplemental funding to school districts that had a growth in ADM over the previous school year. This program must be fully funded or not funded at all.

ADM growth was calculated as \$5,400 multiplied by the increase, if any, in the school district's two-quarter average of the average daily membership of the current school year over the local school district's two-quarter average of the average daily membership for the previous school year, excluding any increase resulting solely from consolidation or annexation with another school district.

SUPPLEMENTAL MILLAGE INCENTIVE FUNDING

Funding was paid to school districts who levied ad valorem taxes in excess of the twenty-five (25) mills required by Amendment 74 to the Arkansas Constitution.

The funding was equal to the result of multiplying the lesser of the number 10 or the number of mills, if any, by which the total millage rate exceeded the twenty-five 25 mills required by Amendment 74 to the Arkansas Constitution by the school district's supplemental millage incentive funding base multiplied by the school district's average daily membership times a funding factor to be determined by the Department of Education (.933 for the 2004-2005 school year).

SURPLUS COMMODITIES

The Department of Health and Human Services (DHHS) administered the Surplus Commodities Program for the 2004-2005 school year. Under an agreement with DHHS, the Arkansas Department of Education reimbursed transportation cost of \$630,000 for the delivery of the surplus commodities to the school districts.

TEACHER LICENSURE AND MENTORING

This program funded the Arkansas Induction Program which provided Pathwise mentoring for support, retention, and professional growth of new teachers. Under the Pathwise system, first-year teachers are given trained mentors, who help them through their first one (1) to three (3) years of teaching, traditionally the most difficult years.

For the 2004-2005 school year each school districts received \$2,000 for each new teacher participating in the program. The school districts then distributed \$1,200 to the mentor and \$800 to the new teacher to be used for supplies or professional training. Payments totaling \$351,766 were paid to institutions of higher education and coops to provide training to mentors. In addition to these payments, \$186,000 was paid to Teach for America to recruit new out of state teachers to Arkansas.

TEACHER RETIREMENT MATCHING

These payments were the employer matching for the education service cooperatives, vocational centers, the Model Vocational-Technical Resource Center, Arkansas Easter Seals and the school operated by the Department of Correction.

For the 2004-2005 school year the matching percentages were 14% of salaries for all employees except those who elected to T-DROP before September 1, 2003. The T-DROP employee's matching was 1%.

TECHNOLOGY GRANTS

This program made technology grants to school districts for programs like the EAST Initiative and Explor-Net. The EAST Initiative project gave students the experience of using technology to solve real-life school or community problems. A National Training Center has been established in Little Rock for training facilitators from other states as well as Arkansas teachers and students. Explor-Net taught students computer repair in a hands-on environment.

For the 2004-2005 school year grants totaling \$1,012,500 were paid to Environmental and Spatial Technology, Inc. for training and support of the EAST Initiative in the 150 participating schools. There were also grants of \$187,575 paid to Explor-Net for training and support of the Explor-Net program. In addition to these funds, grant payments totaling \$402,000 were paid to school districts and education service cooperatives for setting up the required labs.

YOUTH SHELTERS

This program partially reimbursed school districts for the additional costs of providing educational services to students who were placed in youth shelters by juvenile courts.

For the 2004-2005 school year the amount of reimbursement was calculated by dividing the total number of available beds in youth shelters into the appropriation amount of \$165,000 to get the per student reimbursement rate of \$639. This rate was multiplied by the number of available beds in a youth shelter to get the amount reimbursed to school districts.

*Review the average teacher salary in the state in comparison to average teacher salaries in surrounding states and member states of the Southern Regional Education Board and make recommendations for any necessary changes to Arkansas teacher salaries established by law.*⁶⁷

F. Teacher Salaries

1. Comparison of Salaries in Other States

The average teacher salary in Arkansas is the second highest average salary among the six (6) surrounding states.⁶⁸ Arkansas' average teacher salary ranks ninth among the sixteen (16) states represented by the Southern Regional Education Board (SREB).⁶⁹ Arkansas is first among the surrounding states and second among SREB states when using the Comparable Wage Index developed by the National Center for Education Statistics (NCES). These rankings are an improvement from the SREB comparison showing that teacher salaries in Arkansas ranked thirteenth among the SREB states in 2002-2003 and fourteenth⁷⁰ in 2001-2002.

The Bureau of Legislative Research reported the following information to the subcommittee:

(Table on following page.)

⁶⁷ Arkansas Code Annotated § 10-3-2102(a)(6).

⁶⁸ The six (6) surrounding states are Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas.

⁶⁹ States participating in the Southern Regional Education Board (SREB) include Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

⁷⁰ SREB comparison figures only involve states that participate in SREB.

Average Teachers Salary Using NEA Data⁷¹

SURROUNDING STATES		
Tennessee		42,537
Arkansas	*	42,093 ⁷²
Texas		41,744
Louisiana	*	40,253
Missouri		39,922
Oklahoma		38,772
Mississippi	*	37,924

SREB STATES		
Maryland	*	54,486
Delaware		54,264
Georgia		48,300
North Carolina		43,922
Virginia	*	43,823
Florida		43,302
South Carolina	*	43,242
Tennessee		42,537
Arkansas	*	42,093 ⁷³
Kentucky	*	41,903
Texas		41,744
Alabama		40,347
Louisiana	*	40,253
Oklahoma		38,772
West Virginia		38,284
Mississippi	*	37,924

*=Estimated by NEA

Arkansas ranks second among surrounding states and ninth among SREB states using NEA data exclusively.

Arkansas moves up to first and eighth respectively as reported in the Adequacy Study using the more accurate Arkansas Department of Education number. This number has been adjusted to remove extra-duty pay. This number may be adjusted by the Department of Education on Feb.15 of 2007.

⁷¹ Teacher Salary Source: NEA Report 2006

⁷² The NEA estimated average teacher salary for Arkansas is \$42,093. This figure is slightly lower than the initial estimate of \$42,931 provided by the Department of Education in the summer of 2006. The department's estimate included extra duty pay, which inflated the result by approximately .5% according to department personnel. After adjusting for extra duty pay, the department's estimate was \$42,734. The variance in the department's adjusted figure and the NEA estimate is \$641. The department will not have its final calculation of the Arkansas average teacher salary until February 15, 2007.

⁷³ See footnote 71 above.

The Annual Statistical Report (ASR) prepared by the Department of Education includes teacher salary information reported by Arkansas schools. The ASR provides the following information about actual teacher salaries for the 2004-2005 school year:

- The highest average teacher salary in a school district was \$53,491; and
- The lowest average teacher salary for a school district was \$30,092.

The Bureau of Legislative Research staff provided the following information pertaining to how the cost-of-living in Arkansas and other states affects the value of Arkansas teacher salaries:

**Comparable Wage Index⁷⁴ Data from SREB Contiguous States
Based on NEA 2006 Report**

State	CWI 2004	FY05-06 Avg Teacher Salary	Comparative Salary
Delaware	1.247	\$54,264	\$43,516
Arkansas	1.0107	\$42,093	\$41,647
Maryland	1.3164	\$54,486	\$41,390
Georgia	1.2172	\$48,300	\$39,681
South Carolina	1.1077	\$43,242	\$39,038
Florida	1.1212	\$43,302	\$38,621
Kentucky	1.0893	\$41,903	\$38,468
Louisiana	1.0727	\$40,253	\$37,525
North Carolina	1.1705	\$43,922	\$37,524
Tennessee	1.1348	\$42,537	\$37,484
Alabama	1.0802	\$40,347	\$37,351
Oklahoma	1.0391	\$38,772	\$37,313
Mississippi	1.0192	\$37,924	\$37,210
West Virginia	1.045	\$38,284	\$36,635
Missouri*	1.1069	\$39,922	\$36,066
Texas	1.2253	\$41,744	\$34,068
Virginia	1.3103	\$43,823	\$33,445

* Missouri is not an SREB state but is contiguous.

⁷⁴ CWI Source: Taylor, L.L., and Fowler, W.J., Jr. (2006). "A Comparable Wage Approach to Geographic Cost Adjustment (NCES 2006-321). U.S. Department of Education. Washington, D.C.: National Center for Education Statistics.

**Comparable Wage Index Data for All States
Based on NEA 2006 Report**

Ranking	State	CWI_2004	Avg. Sal.	CWI Avg. Sal
1	Michigan	1.1953	\$ 58,482	\$ 48,927
2	Pennsylvania	1.1661	54,027	46,331
3	Alaska	1.1611	53,553	46,123
4	Illinois	1.2539	57,819	46,111
5	Vermont	1.0376	46,622	44,933
6	Hawaii	1.1663	51,599	44,242
7	Rhode Island	1.24	54,730	44,137
8	Connecticut	1.3494	59,499	44,093
9	California	1.3549	59,345	43,800
10	Montana	0.9107	39,832	43,738
11	Idaho	0.9922	43,390	43,731
12	Wyoming	0.9905	43,255	43,670
13	Oregon	1.1229	48,981	43,620
14	Delaware	1.247	54,264	43,516
15	Indiana	1.091	47,255	43,313
16	Ohio	1.179	50,314	42,675
17	Massachusetts	1.3304	56,587	42,534
18	New York	1.372	57,354	41,803
19	New Jersey	1.3807	57,707	41,795
20	Arkansas	1.0107	42,093	41,647
21	Maryland	1.3164	54,486	41,390
22	District of Columbia	1.4823	61,195	41,284
23	Minnesota	1.1916	48,489	40,692
24	Iowa	1.0255	40,877	39,861
25	Wisconsin	1.1661	46,390	39,782
26	Nebraska	1.0315	41,026	39,773
27	New Hampshire	1.1392	45,263	39,732
28	Arizona	1.1244	44,672	39,730
29	Maine	1.0266	40,737	39,681
30	Georgia	1.2172	48,300	39,681
31	Kansas	1.0498	41,369	39,407
32	South Carolina	1.1077	43,242	39,038
33	Florida	1.1212	43,302	38,621
34	Colorado	1.1855	45,616	38,478
35	Kentucky	1.0893	41,903	38,468
36	North Dakota	0.9833	37,773	38,415
37	New Mexico	1.0843	41,637	38,400
38	Louisiana	1.0727	40,253	37,525
39	North Carolina	1.1705	43,922	37,524
40	Tennessee	1.1348	42,537	37,484
41	Alabama	1.0802	40,347	37,351
42	Oklahoma	1.0391	38,772	37,313
43	Mississippi	1.0192	37,924	37,210
44	South Dakota	0.937	34,709	37,043
45	West Virginia	1.045	38,284	36,635
46	Washington	1.2663	46,326	36,584
47	Nevada	1.2288	44,426	36,154
48	Missouri	1.1069	39,922	36,066
49	Utah	1.1221	40,316	35,929
50	Texas	1.2253	41,744	34,068
51	Virginia	1.3103	43,823	33,445

2. Salary Schedules

The Teacher Compensation Program of 2003⁷⁵, adopted by the General Assembly in the Second Extraordinary Session of 2003, required the minimum starting salary for the 2004-2005 school year for a teacher with a bachelor's degree to be \$27,500. This figure represents a twenty-six percent (26%) increase in the minimum starting salary requirements which resulted in a increase of \$5,640 from the minimum starting salary. The minimum salary for each year of a teacher's experience translates into an increase from the minimum starting salary, based on the teacher's education and experience. In its pursuit of improving the teacher salaries in Arkansas and improving Arkansas' rankings in the meaningful comparisons with surrounding states and SREB-participating states -- the Arkansas Supreme Court's measure of adequacy -- the General Assembly has increased the minimum teacher salary schedule in legislative sessions in 2005 and 2006.

Mr. Tim Gauger, Deputy of the Civil Division of the Office of the Attorney General, advised the subcommittee on the constitutionality of allowing school districts to set teacher salary schedules that meet or exceed the state-mandated minimum teacher salary schedule. Mr. Gauger advised the subcommittee that the Arkansas Constitution does not require that all teacher salaries are to be equal statewide or that all teachers of equivalent skill, qualifications, and experience must receive the same compensation. The legal precedent of the Arkansas Supreme Court relating to educational equity and adequacy should not be construed to mean that any disparity in teacher salaries across the state is per se unconstitutional. The disparity in teacher salaries raises a constitutional concern only when the disparity prevents other districts from attracting and retaining properly qualified teachers.

Mr. Gauger provided the following specific conclusions:

Such an interpretation of *Lake View* 2002 is bolstered both by the Court's subsequent statements about teacher salaries and the Court's clarification of what "substantial equality" means. As noted, in *Lake View* 2004, the Court clarified what it meant by "substantial equality" by noting that it "does not mean that if certain school districts provide more than an adequate education, all school districts must provide more than an adequate education with identical curricula, facilities, and equipment."

"Amendment 74 to the Arkansas Constitution allows for variances in school district revenues above the base millage rate of 25 mills, which may lead to enhanced curricula,

⁷⁵ Act 59 of the Second Extraordinary Session of 2003; Arkansas Code Annotated § 6-17-2401, et seq.

facilities, and equipment which are superior to what is deemed to be adequate by the State.” It follows from this interpretation of Amendment 74 and [the] definition of “substantial equality” that if school districts choose to use “local” revenue (i.e. revenue not derived from the Uniform Rate of Tax or other state funding sources) to enhance teacher salaries, any resulting “disparity” between those enhanced salaries and salaries paid by other districts is not of constitutional significance so long as the other districts are still able to hire and retain teachers that can provide an “adequate” education as defined by the State.

Indeed, specifically addressing teacher salaries, the Court in *Lake View* 2004 noted the Masters’ concern that the gap in teacher pay between poorer and wealthier school districts can ever be completely closed due to Amendment 74 and nonetheless concluded: “The General Assembly has addressed this issue in a meaningful way. Though counsel for *Lake View* advocated a uniform salary scale for teachers, while the Adequacy Study advocated an increase, we cannot say that the General Assembly has failed to address this issue.”

Thus, while the Court’s *Lake View* opinions cannot be read as mandating “uniformity” in teacher salaries, they can be interpreted as imposing a duty upon the General Assembly to implement programs designed to ensure that all children receive instruction from teachers who can provide the type of instruction the State defines as “adequate.” Should the State discover that some districts are unable to attract and retain such instructional staff, it is for the General Assembly to determine, as a matter of policy, what steps can or should be taken to address the issue. Efforts to promote or require greater “equality” of teacher pay between districts may be but one of many ways in which to address such a problem, if it exists, but it is not the sole constitutionally acceptable way.⁷⁶

The following table shows the increases in the minimum salary schedules for certified school district employees since the General Assembly enacted the Teacher Compensation Program of 2003⁷⁷:

⁷⁶ Exhibit 26, Memorandum on the Discussion of Arkansas Supreme Court Opinions in the *Lake View* matter regarding teacher salaries and school district’s use of local funds to support higher teacher salaries (prepared by Tim Gauger of the Attorney General’s Office).

⁷⁷ Act 59 of the Second Extraordinary Session of 2003; Arkansas Code Annotated § 6-17-2401, et seq.

Minimum Teacher Salary Schedule Increases

Years of Experience	BA Degree Salary			Years of Experience	MA Degree Salary		
	2004-2005	2005-2006	2006-2007		2004-2005	2005-2006	2006-2007
0	\$27,500	\$27,940	\$28,611	0	\$31,625	\$32,131	\$32,902
1	27,950	28,390	29,061	1	32,125	32,631	33,402
2	28,400	28,840	29,511	2	32,625	33,131	33,902
3	28,850	29,290	29,961	3	33,125	33,631	34,402
4	29,300	29,740	30,411	4	33,625	34,131	34,902
5	29,750	30,190	30,861	5	34,125	34,631	35,402
6	30,200	30,640	31,311	6	34,625	35,131	35,902
7	30,650	31,090	31,761	7	35,125	35,631	36,402
8	31,100	31,540	32,211	8	35,625	36,131	36,902
9	31,550	31,990	32,661	9	36,125	36,631	37,402
10	32,000	32,440	33,111	10	36,625	37,131	37,902
11	32,450	32,890	33,561	11	37,125	37,631	38,402
12	32,900	33,340	34,011	12	37,625	38,131	38,902
13	33,350	33,790	34,461	13	38,125	38,631	39,402
14	33,800	34,240	34,911	14	38,625	39,131	39,902
15	34,250	34,690	35,361	15	39,125	39,631	40,402

3. Availability of High-Quality Teachers

In addition to raising the state-mandated minimum teacher salary, the General Assembly has created additional programs to ensure and to improve the availability of high-quality educators throughout the state. First, Act 101 of 2003 created a high-priority district teacher incentive program to begin in the 2004-2005 school year.⁷⁸ This program provides up to a \$10,000 retention incentive bonus per teacher at the rate of \$2,000 to \$4,000 annually. It is designed to specifically target the retention bonuses in school districts that have traditionally had difficulties recruiting and retaining teachers because of low teacher salaries and other factors.⁷⁹

According to the sworn testimony of superintendents in some of the high-priority school districts,⁸⁰ the targeted needs-based funding provided through the high-priority district teacher incentive program has enabled those schools to more effectively recruit and retain higher quality classroom teachers by providing the district with a method to provide competitive teacher salaries. This reduces the disparity in the quality of teachers throughout the state.

⁷⁸ See Exhibit 19.

⁷⁹ See Exhibit 40.

⁸⁰ See Exhibit 46.

Other programs enacted and funded by the General Assembly to ensure and to improve the availability of high-quality teachers include:

- The Arkansas Leadership Academy School Support Program, created by Act 1229 of 2005, provides support to schools in school improvement status for the purpose of moving the schools and districts out of school improvement status;
- The Teacher Opportunity Program and the Dual Certification Incentive Program, created by Act 2196 of 2005, provide scholarships to teachers returning to college to receive an additional certification;
- The National Board of Professional Teaching Standards provides grants to allow payments of costs associated with obtaining the National Board of Professional Teaching Standards certification and a \$5,000 bonus each year for up to ten (10) years;
- The Master School Principals Program, created by Act 44 of the Second Extraordinary Session of 2003, provides advanced training for school principals and salary bonuses upon completion with increased bonuses to principals committed to working in school districts with the greatest need;
- The Arkansas Teacher Housing Development Act, created by Act 39 of the Second Extraordinary Session of 2003, provides low interest loans and rental housing programs for teachers in high-priority areas;
- The State Teacher Assistance Resource Program, created by Act 1804 of 2003, provides loan forgiveness to students going into the teaching field and committing to teach in critical subject matter and geographical shortage areas;
- The University Assisted Teacher Recruitment and Retention Grant Program within the Department of Higher Education, created by Act 1550 of 2001 provides scholarships to persons working toward a Master of Education degree to attract qualified teachers to the Delta and those geographical areas of the state where there exists a critical shortage of teachers;
- The Teacher Opportunity Program, created by Act 2196 of 2005 provides scholarships to encourage classroom teachers to obtain a dual certification;
- The Arkansas Geographical Critical Needs Minority Teacher Scholarship Program, created by Act 1731 of 2001 provides scholarships to attract qualified minority teachers to the Delta and critical teacher shortage areas;
- Additional programs that:
 - Allow the payment of interviewing expenses for job applicants in particular regions;
 - Allow the payment of moving expenses for new employees in particular regions; and
 - Establish the Department of Education's Office of Teacher Recruitment for ensuring that the children of our state are taught by highly qualified professionals.

4. Use of Educational Excellence Trust Funds

Act 10 of 1991 created the Educational Excellence Trust Fund and provided that the portion to be distributed to school districts "shall be utilized by school districts to provide salary increases for current certified personnel positions and for no other purposes except that required social security matching on such salary increases required to be paid by the districts may be paid from such funds." The current statutory provision governing the use of the Educational Excellence Trust Fund found in Arkansas Code § 6-5-307 provides that:

(a) Any increase in Educational Excellence Trust Fund funds allocated for teacher salaries shall be used by school districts to provide salary increases for current certified personnel positions and for no other purpose, except that required social security and teacher retirement matching required to be paid by the school districts for certified personnel may be paid from the funds.

(b) Educational Excellence Trust Fund funds allocated for teacher salaries shall be disbursed by the Department of Education to school districts pursuant to the state foundation funding formula under § 6-20-2305.

(c) In determining whether a school district has had an increase in Educational Excellence Trust Fund funds allocated for teacher salaries, any annual increase in such trust funds must exceed the level of the highest year since 1991 to be classified as an increase.

(d) "Salary increase," as used in this section, shall not include increments for experience or advanced hours or degrees.

According to the Department of Education, in compliance with Act 10 of 1991, districts adjusted their salary schedules to increase salaries commensurate with the amount of funding received from the Educational Excellence Trust Fund. Subsequent allocations of Educational Excellence Trust Fund funding have continued to support the district salary schedule expenses. Increases in Educational Excellence Trust Fund funding have been specifically allocated to further increase the school districts' salary schedules.

In the February 7, 2006, testimony filed by Rogers Public Schools, the district contended that:

Teacher Excellence Trust Fund rules impede reaching equality of teacher salaries. The current year illustrates this point. While the \$5,400 foundation funding per student remained the same, the trust funds increased for growing districts simply as a function of

new students. These growing districts were forced to increase their salary schedules, adding to the disparity between districts.

Arkansas Code § 6-5-307(d) effectively prohibits the use of Educational Excellence Trust Fund funding for staff salary adjustments based on years of experience or completion of advanced hours or degrees. Therefore, perhaps a district whose salary schedule is above the state average salary levels should be allowed to use the Educational Excellence Trust Fund funding for salary increases based on the experience of, or advanced hours or degrees completed by, certified staff in a particular district rather than continuing to increase the districts' salary schedules.

It is important to note, however, that while a district's salary schedule would not be increased under this alternative, the actual average salary for the district could still be increased. This then could also be interpreted as contributing to salary disparity. It might be necessary to consider a second alternative of using the increased funding for something other than salary expenses for those districts whose salary schedules exceed state average salary levels.

5. Recruitment and Retention

The subcommittee also considered teacher recruitment and retention issues for the state. The Bureau of Legislative Research reported the following results of its research:

- The two largest segments of the attrition population are retirees and young teachers who are within the first five (5) years of their teaching debut.
- The attrition of young teachers is even higher among math and science teachers, subject areas where there are dire shortages, in part due to the lack of interest in teaching among college students in the top quartile of abilities
- Salary is a major factor, especially for men, in attrition and in mobility across school districts.
- A significant percentage of teachers do leave the teaching profession for higher salaries in alternative occupations and this attrition is higher for math and science teachers than their counterparts.
- Teachers leave the profession and transfer to other districts because of: limited autonomy; dissatisfaction with induction, mentoring, professional development, and administrative support; and disgruntlement with general working conditions.

- A prominent factor in teachers leaving ... districts [with high concentrations of poverty and minority students] appears to be income; however, it is unlikely that this is the only reason. . . . More studies are needed that examine the reasons teachers avoid or leave teaching assignments in districts with high concentrations of poverty and minority groups.

The subcommittee requested that the Bureau of Legislative Research to follow up this research with a survey in an effort to more precisely identify reasons Arkansas teachers are leaving the profession.

6. Teacher Supply and Demand

The Bureau of Legislative Research reported to the subcommittee that the primary issue in teacher supply and demand is recruitment and retention. Salary and economic development in the state were also cited in testimony before the subcommittee as factors in teacher supply and demand. In recent years, Arkansas has increased the minimum salary schedule and, correspondingly the average teacher salary in the state. Picus testified before the subcommittee in 2006 as follows:

Overall, the average beginning salary in the state improved from \$27,380 in 2003-2004 to \$30,070 in 2004-05. This represents an increase of nearly 10 percent. With respect to average salary for the teaching staff, the figure increased from \$39,409 in 2003-2004 to \$41,489 in 2004-05, an increase of more than 5 percent. In the state's smallest school districts, average salaries increased by approximately 10 percent; in the poorest districts, average salaries increased by roughly 7 percent. In each case, these gains outpaced those of the statewide average. (Odden, Picus, Ritter & Barnett, 2006).

In the First Extraordinary Session of 2006, the General Assembly increased the per student foundation funding amount from \$5,400 for the 2004-2005 school year to \$5,528 for 2005-2006 and \$5,662 in 2006-2007. The General Assembly increased the minimum teacher salary schedule by 1.6% for the 2005-2006 school year and 2.1% for 2006-2007 school year.

*Review and continue to evaluate the costs of an adequate education for all students in Arkansas, taking into account cost of living variances, diseconomies of scale, transportation variability, demographics, school districts with a disproportionate number of students who are economically disadvantaged or have educational disabilities, and other factors as deemed relevant, and recommend any necessary changes.*⁸¹

G. Evaluating School District Demographics

Large numbers of Arkansas school districts are considered rural. Many of these rural districts and some districts in mid-sized cities face the problems of declining enrollment, isolation, and high concentrations of poverty. With respect to varying school district demographics, there is much for the General Assembly to consider in updating strategies for the next biennium.

For the upcoming biennium decisions must be made concerning whether to continue the current funding method for declining enrollment, to discontinue it, or to provide foundation funding on the basis of a rolling average for a period of either two or three years.

Law governing the closing of isolated schools in the state may need to be reevaluated. Law providing the requirements for funding isolated schools may need to be reconsidered. Currently, isolated schools funded prior to 2004-2005 are being funded at levels prescribed by law, and the original qualifications for that funding are no longer considered for that group of schools. The requirements for special needs isolated funding partially include some of the requirements from the original isolated school funding. The designation of "isolated" for purposes of additional funding could be reviewed, and a more streamlined determination of that designation could be developed.

Education policy leaders in the state will need to consider which options will best provide an adequate education for students in districts with declining enrollment, isolated schools, and high-poverty. In the districts facing these issues, challenges ahead include staffing to meet or surpass standards, providing

⁸¹ Arkansas Code Annotated § 10-3-2102(a)(7).

educational leadership, complying with NCLB requirements, transporting students and facilitating student, parent and community involvement within the districts' schools.

1. Gains and Losses In Students

(a) Declining Enrollment

The subcommittee considered issues related to declining enrollment during hearings conducted in February and March 2006. Generally speaking, when there is a significant reduction in the number of students, there should be a corresponding reduction in expenses and resources. However, the 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. Further, a school district with a declining enrollment has the benefit of a "cushion" -- an opportunity for districts to make necessary expenditure adjustments. State foundation funding aid for the 2005-2006 school year was based upon the *previous* year's three-quarter average daily membership. So a school district with fewer students in the current year than the district had in the previous year still received funding based on the *previous* year's three-quarter average daily membership.⁸² Further, for the 2006-2007 school year, districts are allowed to use the previous *two years'* base count, which provides a *two-year* cushion.⁸³

The Special Masters' Report to the Arkansas Supreme Court raised concerns about the impact of the current formula for state foundation funding aid on school districts with declining enrollment. The Special Masters found that when a school district loses students the assessed property valuation per student often increases which results in a corresponding decrease in the amount of state foundation funding aid received by the district.

However, the General Assembly, in the First Extraordinary Session of 2006, found that the amount of the foundation funding received by the district on a per student basis is unchanged by this phenomenon. The problem school districts actually face is that there is no direct correlation between a reduction in students and a school district's ability to reduce expenses; therefore, additional time to transition may benefit school districts facing the budgetary challenges associated with declining enrollment. In research conducted by the Bureau of Legislative Research, the bureau reported that declining enrollment may

⁸² Arkansas Code Annotated § 6-20-2305(a)(2).

⁸³ Arkansas Code Annotated § 6-20-2305(a)(3) (added by Act 21 of the First Extraordinary Session of 2006).

impact school districts based on special funding for declining enrollments, funding of "phantom students", and census projections for declining student populations, as described below:

Special Funding for Declining Enrollment. In the First Extraordinary Session of 2006, legislation was passed supporting schools with declining enrollment. This legislation was considered a one time fix until the issue could be further studied. Act 20 of the First Extraordinary Session of 2006 provided \$10 million in funding for the 2006-07 fiscal year. This funding was based on legislation in Act 21 of the First Extraordinary Session of 2006. That legislation provided school districts with additional declining enrollment funding equal to the difference between the average of the two immediately preceding years' average daily membership (ADM) and the average daily membership for the previous school year multiplied by \$5,620 or special needs isolated funding under Arkansas Code Annotated § 6-20-604. A school district may receive both declining enrollment and special needs funding only if sufficient funding is available.

Acts 34 and 35 of the First Extraordinary Session of 2006 were also enacted to assist, among others, districts with declining enrollment in facilities construction. These acts require the Commission for Public School Facilities and Transportation to propose draft rules for the Academic Facilities Extraordinary Circumstances Program to be approved by the General Assembly. This program would provide state financial assistance to eligible school districts that do not have sufficient means to contribute an amount of local resources necessary to qualify for state financial participation under the primary state academic facilities funding programs. It should be noted that districts seeking to participate under the primary state academic facilities funding programs may be refused based on the potential for falling below the minimum district size of 350. State facility expenditures in declining districts which are to be consolidated are considered inadvisable, as are such expenditures for districts in fiscal or academic distress.

Funding of Phantom Students. State funding does not change during the school year in which a district experiences a decline in student population. As a result, some students ("phantom students") are still funded even if they are no longer attending school in the district. State foundation funding aid is currently provided to districts based on the third quarter average daily membership from the previous year. In the 2006-2007 school year, if a district experiences a decline in enrollment, state foundation funding aid may be based on the previous *two* years' average daily membership.

...

Census Projections for Declining Student Populations. Between 1980 and 1998, Benton County, followed by Washington and Faulkner Counties, witnessed the most significant absolute gain of more than 30,000 persons, while Jefferson, Mississippi and Phillips Counties saw the largest loss of over 7,000 persons. (UALR, 2000). Over one-third (26 of 75) of Arkansas counties are projected to decline in school age population, five through nineteen years of age, between 2005 and 2030. Most of the counties identified are in the south and east section of the state.

Table 1 below projects which counties will have declining school age populations over the next twenty-five (25) years. Six (6) of the districts in the counties in Table 1 are below 500 in average daily membership for the 2005-2006 school year.⁸⁴

Table 1 Counties with Declining School age Population.

Arkansas	Cross	Mississippi	Randolph
Ashley	Dallas	Monroe	St. Francis
Calhoun	Desha	Nevada	Searcy
Chicot	Jefferson	Newton	Union
Clay	Lafayette	Ouachita	Woodruff
Columbia	Lee	Phillips	
Conway	Little River	Prairie	

*Review and continue to evaluate the amount of per student expenditure necessary to provide an equal educational opportunity and the amount of state funds to be provided to school districts, based upon the cost of an adequate education and monitor the expenditures and distribution of state funds and recommend any necessary changes.*⁸⁵

H. Recalibrating Per Student Foundation Funding for Adequacy

The primary objective of the 2006 Picus Report was to recalibrate the amount of per student expenditure necessary to provide an equal educational opportunity and the amount of state funds to be provided to school districts based upon the cost of an adequate education. The subcommittee also heard a considerable amount of testimony and evidence from the Department of Education, state agencies, and education professionals.

1. Foundation Funding

The Public School Funding Act of 2003, Arkansas Code §§ 6-20-2301 – 6-20-2306, established the formula for public school funding. A key component of the funding formula adopted in the Second Extraordinary Session of 2003 is the establishment of the foundation funding requirements for school districts. Foundation funding means "an amount of money specified by the General Assembly for each school year to be expended by school districts for the provision of an adequate education for each student."

⁸⁴ Exhibit 42, Educating Rural Arkansas: Issues of Declining Enrollment, Isolated Schools, and High-Poverty Districts, Bureau of Legislative Research, August 22, 2006.

⁸⁵ Arkansas Code Annotated § 10-3-2102(a)(8).

The act also provides a method for providing state foundation funding aid which is the "difference between the foundation funding amount . . . and the sum of ninety-eight percent (98%) of the uniform rate of tax multiplied by the property assessment of the school district plus seventy-five percent (75%) of miscellaneous funds of the school district."

For the 2005-2007 biennium, the Public School Funding Act of 2003, as amended, provides:

Type of Funding	Prior to Special Session FY05-06 (Per FTE*)	Prior to Special Session FY06-07 (Per FTE)	After Special Session FY05-06 (Per FTE)	After Special Session FY06-07 (Per FTE)
Foundation Funding	\$5,400	\$5,497	\$5,528	\$5,662
State Foundation Funding Aid	Varies by District	Varies by District	Varies by District	Varies by District
ALE and Vocational Programs	\$3,250	\$3,250	\$3,250	\$3,250
English language Learners	\$195	\$195	\$195	\$195
NSL (3 levels of funding)				
(1) (90% or more)	\$1,440	\$1,440	\$1,440	\$1,440
(2) (70% to 89%)	\$960	\$960	\$960	\$960
(3) (below 70%)	\$480	\$480	\$480	\$480
Professional Development	\$50	\$50	\$50	\$50
The total maximum state foundation and categorical funding per FTE	\$10,335	\$10,432	\$10,463	\$10,597

*FTE means full time equivalent.

In addition to state foundation and categorical funding, public school districts also receive federal funding. For the 2004-2005 school year, Arkansas public school districts received average federal revenues per student, based on 4th Quarter 2005 ADM, in the amount of \$1,049.04, which when added to the state foundation and categorical funding brings the total of state and federal funding to \$11,384 per student.⁸⁶

⁸⁶ 2004-2005 Annual Statistical Report, Arkansas Department of Education.

In the Public School Funding Act of 2003, the General Assembly made a distinction between "foundation funding" and "state foundation funding aid" based on the Arkansas Supreme Court's ruling in the 2002 *Lake View* opinion, in which the court further stated:

It is clear to this Court that in *DuPree*, we concentrated on expenditures made per pupil and whether that resulted in an equal educational opportunity as the touchstone for constitutionality, not on whether the revenues doled out by the state to the school districts were equal. We were clearly interested in *DuPree*, as we are here today, on what money is actually being spent on the students. (Emphasis added). That is the measuring rod for equality. Both Judge Imber in 1994 and Judge Kilgore in 2001 concluded that that was the case. Equalizing revenues simply does not resolve the problem of gross disparities in per-student spending among the school districts. It provides an educational floor of money made available to the school districts but in no way corrects the inherent disparity between a wealthy school district that can easily raise additional school funds for educational enhancement by passing millage increases far in excess of the 25 mill uniform rate and poorer school districts that are only offering, as we said in *DuPree*, the "barest necessities." 279 Ark. at 347, 651 S.W.2d at 93. We agree that the focus for deciding equality must be on the actual expenditures. We affirm Judge Kilgore on this point.

Looking then to the end result of expenditures actually spent on school children in different school districts, we quickly discern inequality in educational opportunities. The deficiencies in Lake View and Holly Grove have already been noted. In both those districts, the curriculum offered is barebones. Contrast the curriculum in those school districts with the rich curriculum offered in the Fort Smith School District, where advanced courses are offered and where specialty courses such as German, fashion merchandising, and marketing are available. The inequality in educational opportunity is self-evident.

Recognizing that the people, through Article 14, § 3 of the Arkansas Constitution, have provided the first level of school funding through the collection of a uniform rate of ad valorem property taxes, the General Assembly has been given a new tool in the task of correcting the inherent disparity between a property-wealthy school district that can easily raise substantial funds through the uniform rate of tax (URT) and a less property-wealthy school district that can only raise the funds to offer, as said in *DuPree*, the "barest necessities."⁸⁷

Arkansas' funding system directly addresses the issue raised in the court's 2004 *Lake View* opinion. School districts receive foundation funding from two (2) separate and distinct state pools of money -the Uniform Tax Rate Trust Fund and the Public School Fund.⁸⁸ Districts that receive higher amounts of

⁸⁷ *Lake View III*, 351 Ark. at 74, 91 S.W.3d at 497 (citing *Dupree v. Alma School Dist. No. 30*, 279 Ark. 340, 347, 651 S.W.2d 90, 93 (1983)).

⁸⁸ The Uniform Tax Rate Trust Fund is funded solely by the net revenues of the uniform rate of tax. Arkansas Code Annotated § 19-5-995. The Public School Fund is funded from a variety of sources but primarily from state's

funds from the Uniform Tax Rate Trust Fund will need less revenue from the Public School Fund to meet the foundation level set by the General Assembly. As a district receives more funds from the Uniform Tax Rate Trust Fund, less Public School Fund aid is needed for that school district to have sufficient resources to provide an adequate education. Therefore, as assessments based on the uniform rate of tax increase throughout the state, some districts will need less aid from the Public School Fund in order to meet the foundation funding level.

The measure of equity is not whether school districts receive more money from the state or even the same amount of money, but whether every school district has sufficient funds available to provide an adequate education.

2. Categorical Funding

The terms "additional education categories" or "categorical funding" refer to the funds distributed to school districts under specific purpose funding formulas. The four (4) categories are professional development, National School Lunch (NSL) students, English language learners (ELL), and alternative learning environments (ALE).

(a) Professional Development

Under the Public School Funding Act of 2003, categorical funding in the amount of fifty dollars (\$50) per student is provided for professional development. Professional development funding is based on the district's prior year third-quarter average daily membership (ADM). For a discussion of the purpose and design of professional development programs in the Arkansas public education system, see section V.D.2(a)(3).⁸⁹

(b) National School Lunch (NSL) Students

NSL students are those students from low socioeconomic backgrounds as indicated by eligibility for free or reduced price meals under the federal National School Lunch Act (NSLA) as determined on October 1

general revenues, the Educational Excellence Trust Fund, and the Educational Adequacy Fund. Arkansas Code Annotated § 19-5-305.

⁸⁹ Supra, p. 51.

of each previous school year and submitted to the Department of Education, unless the school is a Provision II school.

NSL students receive state categorical funding based on eligibility for the federal free and reduced priced meals program in the previous year. Use of the previous year's count for NSL funding protects districts with declining enrollment from immediate reductions in program funds by providing a one-year "cushion." For school years 2005-2006 and 2006-2007, NSL funding for each identified NSL student was as follows:

- For school districts with ninety percent (90%) or greater NSL students, funding is one thousand four hundred forty dollars (\$1,440) per student;
- For school districts with seventy percent (70%) to ninety percent (90%) NSL students, funding is nine hundred sixty dollars (\$960) per student; and
- For school districts with less than seventy percent (70%) NSL students, funding is four hundred eighty dollars (\$480) per student.⁹⁰

Additional NSL student funding is provided to growing school districts if the school district has experienced a significant growth in enrolled students in the previous three (3) years. Additional funding is based on the school district's expected increase in the number of NSL students.

The State Board of Education establishes by rule a list of approved programs and purposes for which NSL funds may be expended. The Department of Education may direct that a school district expend available funds on specified programs. School districts are allowed to expend NSL funds only on the approved programs or purposes, which include, but are not limited to:

- Classroom teachers, provided that the school district meets the minimum salary schedule in Arkansas Code § 6-17-2403 without using NSL students funds and that those teachers are used in conjunction with approved programs and purposes delineated for NSL students funds;
- Before school academic programs and after school academic programs, including transportation to and from the programs;

⁹⁰ Arkansas Code Annotated § 6-20-2305(b)(4).

- Pre-kindergarten programs coordinated by the Department of Health and Human Services;
- Tutors, teacher's aides, counselors, social workers, nurses, and curriculum specialists;
- Parent education;
- Summer programs;
- Early intervention programs; and
- Materials, supplies, and equipment, including technology used in approved programs or for approved purposes.⁹¹

The practice of using NSL students funding for "across the board" teacher raises was discussed at the hearings. Based on the change in wording concerning the use of NSL students funding in Act 2283 of 2005, NSL funds can be spent on classroom teachers if those teachers are used for the purposes delineated in the law.⁹² The Department of Education agreed that the current rules need to be revised to properly implement this intent. The General Assembly determined that this practice should be allowed to continue for a limited time under limited circumstances while the issue continues to be studied, and therefore enacted Act 30 of the First Extraordinary Session to limit that use through June 30, 2007.

(c) English language Learners (ELL)

"English language learners" are students identified by the State Board of Education as not proficient in the English language based upon approved English proficiency assessments administered annually in the fall of each school year. These assessments measure verbal, reading, and writing proficiency. Approximately 99% of English language learners are NSL students. Therefore, school districts should be utilizing state resources provided through NSL categorical funding for strategies to help these students. In the 2003 Picus Report, research indicated that NSL funding would meet the needs of most English language learner students with the exception of having extra teachers to teach English as a second language. The categorical funding mechanism for English language learners originated under the Public School Funding Act of 2003 to provide categorical funding in addition to NSL funding in the amount of \$195 for each student identified as an English language learner.⁹³

⁹¹ Arkansas Code Annotated § 6-20-2305(b)(4)(C)(i).

⁹² Id.

⁹³ Arkansas Code Annotated § 6-20-2305(b)(3).

The position was asserted by the plaintiffs and incorrectly accepted by the Special Masters in the *Lake View* hearings in 2005 that NSL funds supplement ELL funds, when the reverse is true. From its inception, the purpose of the ELL funding formula was to supplement NSL funding for these students from a separate categorical source. The General Assembly never intended that English language learner funding would be the sole source of funding for English language learner programs. As noted in the 2006 Picus Report, "Thus, because the Arkansas per pupil funding formula resources low-income students independent of counts of ELL students, this element ensures that *more* resources are provided when those at-risk students are ELL, allowing an even fuller array of service to be provided."⁹⁴ (Emphasis in original.)

Another misconception that arose in the *Lake View* hearings in 2005 was that the ELL funding is based on a teacher salary component. Funding for students identified as English language learners is current year per student funding, based on the number of students that the school district claims for the current year in Cycle 2 reporting. While Picus has noted that the \$195 per ELL student approximates the salary for a .4 full time equivalent tutor, the funding is based on expenditures for ELL programs, not on the number of staff positions. In 2005-2006 the General Assembly looked at the large 2004-2005 fund balances in school district NSL accounts. That money was to be used for ELL (and other help for hard to educate students) and supplemented by the ELL categorical fund. The schools were spending virtually all the money in the ELL account and saying they were spending beyond the amount provided for ELL. The legislature explained that the NSL money was primary for ELL, and thought that would resolve the problem. The subcommittee and the committees have now looked at the 2005-2006 fund balances – they are still large and the schools are exhausting their ELL account first and then saying they do not have enough for ELL. The districts are still reversing the order of their expenditures. The legislature's answer is to increase the amount of funding in the ELL categorical fund knowing the school districts will spend it as they should – on students needing ELL services. (See the recommendations in section VI.B.3 of this report.⁹⁵)

The General Assembly has also provided for more monitoring of expenditures and for a process to verify that the districts have executed the plans set out in their Arkansas Comprehensive School Improvement Plans (ACSIP).

⁹⁴ 2006 Picus Report, p. 51.

⁹⁵ *Supra*, p. 131.

The table below shows the total amount of categorical funding per pupil provided to school districts for ELL students:

	NSL for ELL students in poverty	ELL for students with English as a second language	ELL Total
> 90%	\$ 1,488	\$ 293	\$ 1,781
70% - 90%	992	293	1,285
< 70%	496	293	789

(d) Alternative Learning Environments (ALE)

Under the Public School Funding Act of 2003, categorical funding in the amount of \$3,250 is provided for each student in an alternative learning environment. The rules of the State Board of Education specify not only which alternative learning environment programs qualify for funding, but also the characteristics of students who qualify for funding because they have been placed in an alternative learning environment program. Students in alternative learning environments are funded based on the previous year's number of full time equivalent students in the program. A student in an alternative learning environment must be in the alternative learning environment program at least twenty (20) days to be eligible for funding. Current law does not have an adjustment for growth in the number of students in alternative learning environments during a school year.

Review and monitor the amount of funding provided by the state for an education system based on need and the amount necessary to provide an adequate educational system and not on the amount of funding available, and make recommendations for funding for each biennium.⁹⁶

I. Funding Education First

Arkansas places its highest spending priority on public school education. During the Second Extraordinary Session of 2003, the General Assembly adopted Act 108⁹⁷, which established a fund in the

⁹⁶ Arkansas Code Annotated § 10-3-2102(a)(9).

⁹⁷ Arkansas Code Annotated § 19-5-1227.

State Treasury known as the “Educational Adequacy Fund” and defined the revenues to be credited to the fund. Act 108 also established the procedure for guaranteeing sufficient funding for an adequate educational system in the event that all sources of available revenue are not sufficient.

Specifically, Arkansas Code § 19-5-1227(d) provides that if all funding provided for the public school educational system, including the Educational Adequacy Fund, is not sufficient, then transfers will be made from the remaining fund and fund accounts within the Revenue Stabilization Law to the Department of Education Public School Fund Account. Then, each fund or fund account will be reduced proportionately as needed to provide sufficient funding for adequacy needs.

In order to provide sufficient funding for educational adequacy, the General Assembly made the unprecedented decision to create a mechanism that triggers a reduction in the general revenue allocated by the Revenue Stabilization Law to all other state agencies and programs receiving general revenue. Stated another way, the “doomsday” provisions of Act 108 are only effective if the Department of Education lacks sufficient funds to fully fund what the General Assembly has determined to be the amount necessary for an adequate education. Triggers for the “doomsday” provision include occurrences such as an unexpected economic downturn that changes the forecast of general revenues upon which the General Assembly relied during the biennial budget hearings and the legislative session or other unanticipated factors that could give rise to a need for additional funding to ensure an adequate kindergarten through grade twelve (K-12) educational system.

In the course of the *Lake View* litigation, there have been misconceptions about the mechanics of the legal and fiscal operations of “funding education first.” The meaning of “first” as first in time is a misnomer in terms of priority in a legislative session. In fact a later act will prevail over an earlier act, and the earlier act can be amended later in the session.⁹⁸

The following is a step-by-step overview of how current education funding works:

- **Step 1:** The General Assembly determines the funding needs necessary to provide an adequate education.
- **Step 2:** The General Assembly authorizes appropriations from the Department of Education Public School Fund Account based on an amount of funds determined under Step 1. This amount

⁹⁸ Arkansas Code Annotated § 1-2-207(b).

is based on the previous year's student enrollment numbers and other evidence of need as established by the General Assembly and the Department of Education.

- **Step 3:** The General Assembly amends the Revenue Stabilization Law and authorizes allocations of general revenue to the various funds and fund accounts, such as the Department of Education Public School Fund Account.
- **Step 4:** As taxes are collected, the revenues are distributed into the various funds and fund accounts as prescribed by law.
- **Step 5:** The Department of Education distributes funding to school districts as determined by the General Assembly.
- **Step 6:** If there are insufficient funds available to the Department of Education to fully fund the amounts adopted by the General Assembly for educational adequacy, the Chief Fiscal Officer of the state will transfer any necessary additional funds from the Educational Adequacy Fund into the Department of Education Public School Fund Account and the Department of Education Fund Account.
- **Step 7:** If, after consideration of all revenues available to the Department of Education, the Chief Fiscal Officer of the State determines that sufficient funding is not available to provide school districts with the amount of funding needed to provide educational adequacy as provided by law, then the Chief Fiscal Officer of the State shall proportionately reduce the amount of state general revenue funding for all other state agencies until the education budget is fully funded.⁹⁹

VI. THE SUBCOMMITTEE'S AND COMMITTEES' FINDINGS AND RECOMMENDATIONS

The foundation funding amounts set forth in Act 59 of the Second Extraordinary Session of 2003, the Public School Funding Act of 2003, relied on a matrix known as the "Bisbee Matrix". Since 2003, the foundation funding amounts have been modified from the Bisbee Matrix. Pursuant to Act 57 of the Second Extraordinary Session, the subcommittee and the committees hired Lawrence O. Picus and Associates to study and have conducted the additional studies described in this report in order to review the appropriateness of the components of the Bisbee Matrix and to determine what changes should be made to the foundation funding formula to ensure educational adequacy. In light of the Arkansas Supreme Court's statement in *Lake View* that not only must the state determine the funding amounts, but it must also review how that funding is spent,¹⁰⁰ the subcommittee and the committees placed an

⁹⁹ See Exhibit 47.

¹⁰⁰ The court stated, "It is, finally, the State's responsibility to know how state revenues are being spent and whether true equality in opportunity is being achieved." *Lake View III*, 351 Ark. at 79, 91 S.W.3d at 500.

emphasis on reviewing actual expenditures of schools and school districts. From these reference points and based on the evidence they have received during the course of this Act 57 study, the subcommittee and the committees have determined that the foundation funding formula should be recalibrated - that is, restructured and modified to reflect up-to-date information and data on the needs and actual spending patterns of schools and school districts in this state. Therefore, the recalibrated matrix is no longer strictly based on the Bisbee matrix, but reflects current data and information.

The foundation funding portion of the matrix can be broken into three parts. The top is referred to as "School Level Salaries", the middle section is "Per Pupil Resources", and the bottom section, formerly the "Carry Forward", now identifies school district costs for central office, school operations and maintenance, and transportation. While the identified matrix costs in both the top and bottom sections have increased as a result of recalibration the middle section has decreased. This decrease is largely due to the movement of five (5) days of teacher continuing education pay into the top section where it is reflected in the teacher salary calculations. There is also a reduction in the instructional materials line item, which is in accordance with the Picus recommendation. Picus had also recommended funding for formative assessments be combined with instructional materials. That funding is not provided because the Department of Education advised the committees that it is not able to ensure that service can be provided on a statewide basis at this time. The department needs some lead time to do planning and establish guidelines for formative assessments. There is also a reduction in extra duty funds from the Picus recommendation based on a more accurate weighting of extra duty funding.

Additional Expenses Covered in the Matrix

The adequacy study and recalibration of the matrix have resulted in identification of some areas of current funding that may duplicate other state funding. The process also identified some additional school and district costs. Examples of these additional costs that are now either separately delineated in the matrix or have been added to the matrix include:

School Level Salaries --

- Additional principal pay, which is now provided at a rate in excess of the 2% inflation factor provided for other salaries to make a correction identified by Picus in the past calculation of principal salaries;
- Two secretarial positions are now identified and funded separately. Previously they were included in the carry forward.

Operations and Maintenance --

- There is a new per pupil item of \$27 for property insurance included in the recommendation for the operations and maintenance component.
- The operation and maintenance line item is now computed in excess of 9% of the overall foundation funding amount.

Carry Forward --

- The former amount characterized as carry forward has now been broken into three components (central office, operations and maintenance, and transportation) with the costs much more finely delineated. After removing the two secretaries (mentioned above), the total amount of the three components of the former carry forward is increased by 3.1%.

A. *Recalibrating the Foundation Funding Matrix for Instruction and Operations*

1. Prototypical School for Determining a Per Pupil Figure for the Foundation Program

(a) School Size

The school size used for calculating per pupil expenditures within the foundation funding formula is five hundred (500) students. In the 2003 Picus Report, Picus stated, "The research generally shows that school units of roughly 500 students are the most effective and most efficient ...". This approach was used in the Bisbee memo that translated the Picus school-based funding proposal into per pupil funding for a 500-student school. Picus revisited the feasibility of continuing to use the prototypical 500-student school in the 2006 recalibration effort and in the process explored the various school district and school configurations for larger and smaller districts in Arkansas. Picus concluded that the prototypical 500-student school still works well for purposes of foundation funding, but noted that the way Arkansas builds its schools can complicate the analysis.¹⁰¹ The subcommittee recommended that the Academic Facilities Oversight Committee study the Picus suggestion and report to the committees. The committees received a memorandum from the Division of Public School Academic Facilities and Transportation containing the division's findings, which is attached to this report.¹⁰²

¹⁰¹ 2006 Picus Report, p. 21.

¹⁰² See Exhibit 22.

Recommendations:

- (1) Although this issue is complex, the subcommittee concludes that at least for school-based services, the recalibration effort can identify a new expenditure per pupil level using 500 students – the approach used in the Bisbee memo.
- (2) The committees recommend that in the future the state strongly consider constructing schools that are of a sufficient size to maximize efficiencies in building and maintaining buildings, as well as staffing them with teachers and administrators.

(b) Class Size

The 2006 Picus Report included the following chart of class sizes¹⁰³ currently used in the foundation funding formula:

Grade	Funding Formula	Accreditation Standards
K	20:1	20 (up to 22 with a part-time aide)
1-3	23:1	23 (average; and up to 25 in a classroom)
4-6	25:1	25 (average; and up to 28 in a classroom)
7-12	25:1	30 (with max of 150 students per teacher, which averages 25 per class if teachers instruct six periods a day and up to 30 students if teachers instruct for 5 periods a day)

These class sizes are based on Act 59 and the Rules Governing Standards for Accreditation of Arkansas Public Schools and School Districts. At a December 1, 2005 meeting, the subcommittee decided to retain the class size numbers. The numbers were accepted by Picus in the 2006 Picus Report as foundationally appropriate.

Recommendation:

Because the class size figures used in Act 59 reflect or enhance the class size contained in Arkansas standards, and because the subcommittee decided at a December 1, 2005 meeting to

¹⁰³ 2006 Picus Report, p. 24.

retain the class size numbers in Act 59, the new per pupil figure will be calculated on the basis of those class size figures.

(c) Kindergarten

As noted in the 2006 Picus Report, research shows that full day kindergarten has "significant, positive effects" on elementary student learning and achievement, particularly for students from low income families. Arkansas currently requires that each school district provide full day kindergarten. The current foundation funding formula calculates a full day kindergarten class size of twenty (20) students in the per student funding, and the 2006 Picus Report recommends continuing that level of funding.

Recommendation:

The subcommittee recommends continuing to include full day kindergarten in the recalibration, with a class size of twenty (20) students in each class.

2. School Level Salaries

(a) Teacher Salary Component

Since the Public School Funding Act of 2003, the basic component in the foundation funding formula has been based on an estimated average teacher salary figure in Arkansas. This average teacher salary component is used as a multiplier for many of the other items in the foundation funding matrix. In discussing potential increases in this component, the subcommittee and the committees discussed various percentages for multipliers of the component in the foundation funding matrix. Those percentages represent various policies and are in effect a short-hand for policy discussions rather than an overt monetary consideration. The policy considerations are as follows:

- The average teacher salary component in the foundation funding matrix should not be adjusted because the evidence submitted to the subcommittee regarding both actual Arkansas average teacher salaries (as reported by the Department of Education) and estimated average teacher salaries (as reported by the National Education Association) compared to surrounding states and SREB states indicates that the foundation funding formula provides more than sufficient funding for adequate teachers. (0% option).

- The average teacher salary component in the foundation funding matrix should be adjusted for inflation by the same percentage as that proposed for other state employees. (2% option).
- The average teacher salary component in the foundation funding matrix should be adjusted for inflation based on a targeted price deflator for the appropriate time period. (3.35% option).

It is essential to this discussion to keep in mind that teacher salaries are paid by school districts and are not directly driven by the component for average teacher salary in the matrix. The only legislatively mandated teacher salary is the minimum teacher salary schedule.¹⁰⁴ Districts are free to contract with teachers for more or less than the amount listed in the foundation funding matrix as long as they comply with the minimum salary levels and the annual increments. Due to this disconnect between the foundation funding matrix and actual teacher salaries, an inflationary adjustment applied in the foundation funding matrix does not assure any teacher of a raise; likewise, the absence of an inflationary adjustment in the foundation funding matrix does not prohibit any district from providing additional funding for teacher salary increases. The line item dollar figures in the foundation funding matrix have not been mandated to the districts and, as demonstrated by the site visits and surveys conducted by Picus and the Bureau of Legislative Research, school district expenditures have not followed the foundation funding matrix.

The foundation funding matrix is merely a tool for the legislature to calculate the appropriate amount of foundation funding and categorical funding. An average teacher salary plus benefits is used in the foundation funding matrix and for categorical funding as a basis for calculating funding required for certain personnel (including classroom teachers, special education teachers, librarians, counselors, instructional facilitators, and physical education, art, and music teachers) and programs to ensure educational adequacy in Arkansas' public schools.

The committees recommend moving the foundation funding matrix item of \$42 per pupil for personnel retirement benefits paid by employers and including it in the average teacher salary component and other personnel-related line items in the foundation funding matrix. Also, as noted previously in this report¹⁰⁵, a recalibration of the per pupil foundation funding amount for five (5) days of continuing education pay is "rolled" into the average teacher salary component.

¹⁰⁴ Arkansas Code Annotated § 6-17-2403.

¹⁰⁵ *Infra*, p. 97.

The committees find that the figure used by Picus for the average teacher salary component of the foundation funding matrix represents an average teacher salary that is highly comparable to the average teacher salaries of surrounding states and the member states of the Southern Regional Education Board. As discussed in more detail earlier in this report¹⁰⁶, the committees find that Arkansas currently has the second highest average teacher salary among her surrounding states and ranks ninth among SREB states. When the comparison is made using the Comparable Wage Index (adjusting for costs of living within the states), Arkansas ranks first and second, respectively. Irrespective of evidence of the competitiveness of average teacher salaries in Arkansas, the committees recommend that an inflationary adjustment of 2% should be added to the salary calculation methodology recommended by Picus for the average teacher salary component. This is the inflationary adjustment that state employees are expected to receive in fiscal year 2008 and in fiscal year 2009.

The subcommittee agrees with Picus that with the extension of the teacher contract to 190 days, which included ten (10) pupil-free days for professional development, school districts were expected to raise teacher salaries commensurately to compensate for the added days. The subcommittee finds further that the per pupil funding previously allocated for five (5) continuing education days should be rolled into the teacher salary figure used in the recalibrated matrix.

Recommendation:

- (a) The committees recommend that the calculation methodology recommended by Picus for the average teacher salary component of the foundation funding matrix for the 2007-2008 school year be utilized and increased by 2% for an inflationary adjustment to \$53,429 (including benefits), and that the amount for the 2008-2009 school year be increased by 2% to \$54,465 (including benefits).
- (b) The subcommittee recommends that the per pupil funding previously allocated for five (5) professional development days should be rolled into the teacher salary figure used in the recalibrated matrix.

¹⁰⁶ *Infra*, p. 80.

(1) Classroom Teachers

Recommendation:

The subcommittee recommends continuing funding for classroom teachers at 20.79 full time equivalents for the 500-student school. Based on the recommendation for the teacher salary component, the per pupil amount for classroom teachers would be \$2,221.60 for 2007-2008 and \$2,264.70 for 2008-2009.

(2) Specialist Teachers: Physical Education, Art, Music, etc.

Specialist teachers teach non-core academic subjects such as art, music, and physical education, and help to provide teachers of core academic subjects time for professional development, planning and preparation. Specialist teachers are currently funded at the rate of twenty percent (20%) of core teachers -- a rate accepted in the 2006 Picus Report. Based on the Standards for Accreditation, approximately 20.79 teachers would be required for the prototypical 500-student school (consisting of 8% kindergarten students, 23% grades 1-3, and 69% grades 4-12). Therefore, 20% of those core teachers would be 4.15 teachers in the foundation funding matrix.

Recommendation:

The subcommittee recommends continuing funding for specialist teachers at the rate of twenty percent (20%) of core teachers, or 4.2 specialist teachers.

(3) Instructional Facilitators

Instructional facilitators, also called instructional coaches, are an important resource for identifying areas of classroom instruction for needed focus or improvement. As reported by Picus, they help coordinate a school's instructional program and provide teachers with the ability to change or improve instruction to

meet the learning needs of students during the school year.¹⁰⁷ Further, instructional facilitators may assist teachers with the use of technology in their curriculum and instructional practices.

The site visits conducted by Picus and the Bureau of Legislative Research during 2006 revealed that there are some misconceptions among schools and school districts in the state regarding the function, qualifications, and use of instructional facilitators. The Rules Governing Standards of Accreditation for Arkansas Public Schools and School Districts do not specifically require the use of instructional facilitators, but require that a school of 500 students must have one (1) principal and one (1) half-time assistant principal, "instructional supervisor, or curriculum specialist". The foundation funding formula currently provides for 2.5 full time instructional facilitators for a prototypical 500-student school. The subcommittee considered whether the funding formula should provide school districts some flexibility in staffing the instructional facilitator positions in compliance with the standards, and allow up to .5 of the 2.5 positions to be an assistant principal (who functions as an instructional facilitator), with any remaining funds to be used for an instructional facilitator. The subcommittee recommends referring the issue for further study by the General Assembly.

Picus recommended that the funding for instructional facilitators be moved out of the foundation funding formula and funded at the categorical level, with restrictions on the use of the funds. Because the results of site visits conducted by Picus and the Bureau of Legislative Research in 2006 indicated that few schools and school districts have actually spent foundation funding for instructional facilitators. The use of the funds allocated in the foundation funding formula are not mandated, and the subcommittee recognizes that schools should maintain flexibility in the use of the funds. Therefore, the subcommittee requested that the Department of Education:

- (1) Define "instructional facilitator";
- (2) Create job descriptions and standards for instructional facilitators to ensure that people placed in these positions have the requisite knowledge and skills to do the job well; and
- (3) Require that a description of the school's plan for using instructional facilitators be included in the school improvement plan.

¹⁰⁷ 2006 Picus Report, pp. 25-26.

The department presented that report to the committees on December 19, 2006.¹⁰⁸ At that time, the committees also heard testimony that, currently, the use of instructional facilitators may be included in a school improvement plan, but the Department of Education does not have the resources to monitor how, or even if, a school district has fulfilled that requirement. This monitoring function is essential to meeting the state's educational achievement objectives. Therefore, the committees find that use of instructional facilitators should become part of school improvement plans, either by law or by rule.

Recommendations:

- (a) The subcommittee recommends the continued funding of instructional facilitators, or instructional coaches, at the ratio of 2.5 full time positions for every 500 students, or more simply, of one instructional facilitator position for every 200 students, to cover coaching for content areas as well as using technology in the curriculum.
- (b) The committees recommend that the House Interim Committee on Education and the Senate Interim Committee on Education study the following and provide a report to the committees by May 1, 2008:
 - (1) That the state consider "pulling out" the resources from the foundation expenditure per pupil level and allocating the resources on a categorical basis;
 - (2) That resources for instructional facilitators be left in foundation funding, but that the legislature mandate that school districts use the number of facilitators in the foundation funding matrix; and
 - (3) The General Assembly might initially mandate that districts have a minimum of one (1) instructional facilitator for every 250 pupils and give districts the freedom to use the other 0.5 position either for an instructional facilitator or other position, such as assistant principal and that any funds remaining after use for an assistant principal must be used as funding for instructional facilitators.

¹⁰⁸See Exhibit 3.

(4) Special Education

Arkansas provides resources to schools for students with disabilities on two levels: (1) equal resources for all high-incident, low-cost special education students, and (2) funding for most or all of a school district's expenditures for lower incidence, higher-cost students with disabilities. The 2003 adequacy study recommended continuing this approach and specifically recommended providing 2.9 special education staff for each of the 500 student prototypical school. The per-pupil figure of \$5,400 in Act 59 includes these 2.9 positions.

Ms. Marcia Harding, Associate Director, Special Education, Department of Education provided the subcommittee with the following information regarding The Arkansas Catastrophic Occurrences Program for special education:

The recommended funding system for special education adequacy includes the following: *"...that the threshold expenditure for students with higher costs special education needs to be the foundation level plus Federal Title VI-B per pupil funds, rather than the current \$20,000 figure"* [note: the current threshold is actually \$15,000].

We disagree with the [Picus] report that the major "catch" in providing resources for higher-cost children is the expenditure threshold. In Arkansas, the major issue is not the establishment of a full funding threshold, but rather the determination of what constitutes a true school district Catastrophic Occurrence.

Our recent experience, particularly in FY 2005-06, is that school districts have difficulty self-identifying students who qualify for the state's program. State statute defines a Catastrophic Occurrence as an individual case in which special education and related services are unduly expensive, extraordinary, or beyond the routine and normal costs associated with special education and related services (Arkansas Code Annotated 6-20-2303). Arkansas school districts do not necessarily see this definition as applicable only to students with severe and/or multiple disabilities.

To address differences of definition and interpretation, the Arkansas Department of Education (ADE) Special Education Unit will undertake a statewide training program in September 2006 to clarify that full Catastrophic Occurrences funding is available to school districts only when:

- *The student meets a disability threshold of a severe and/or multiply disability*
- *The district institutes and maintains an Individualized Education Program (IEP) that is appropriate for the student given his or her disability*
- *IEP service providers are fully qualified to implement the educational and related services goals of the student's IEP*

- *Costs associated with the student are appropriate in the context of the IEP and the student's disability*

The ADE will follow-up the training on all of these points with individual districts to assist in their identification of Catastrophic Occurrences students. The ADE's hope is that this effort will result in better programming for Catastrophic Occurrences students and more certainty for school districts as to the likely reimbursement levels.

In terms of the specific Consultant proposal of an expenditure threshold consisting of the foundation level plus Federal Title VI-B per pupil funds, some clarification is needed. They propose Catastrophic program funding of foundation level plus Federal Title VI-B per pupil funds. Since the average cost associated with Catastrophic reimbursement request for FY 2005-06 was \$23,000, the effect on school district funding would be essentially the same. Foundation aid in FY 2005-06 of \$5,528 plus the FY 2005-06 Title VI-B statewide average per pupil of \$1,500 equals \$7,028. The average cost of \$23,000 minus \$7,028 results in a reimbursement threshold of \$15,972.

The Arkansas program does not take into account the application of foundation funding prior to Catastrophic Occurrences reimbursement. The \$15,000 threshold is available as full funding after the application of non-state offsets, including district Title VI-B (which can vary widely from one district to another), Medicaid recoveries, and other third party payments. Further, districts can qualify for up to \$100,000 per Occurrence on the same basis.

Based on Ms. Harding's testimony, the subcommittee finds that no change to the system of funding special education is recommended.

Recommendations:

- (a) The subcommittee recommends that the funding system continue to include the 2.9 staff for census resourcing for all high-incidence, lower-cost students with disabilities.
- (b) The subcommittee recommends that the state continue funding special education by the method currently being used by the Department of Education.

(5) Library Media Specialists

The Department of Education Rules Governing Standards for Accreditation of Arkansas Public Schools and School Districts require schools with fewer than three hundred (300) students enrolled to employ a half-time licensed library media specialist, schools with three hundred (300) through one thousand four hundred ninety-nine (1,499) students to employ one (1) full time licensed library media specialist, and

schools with one thousand five hundred (1,500) or more students to employ two (2) full time licensed library media specialists.¹⁰⁹

Based on the state accreditation standards, the subcommittee determined that the number of full time equivalent library media specialists to be provided in the foundation funding matrix should be the average full time equivalent required per school required by the accreditation standards and based upon the most recent enrollment statistics (2005-2006) for each school in Arkansas. As illustrated by the table below, the result is an average .825 full time equivalent per school.¹¹⁰

Enrollment Category	# of Schools	# of FTEs Required
Less than 300	407	204
300-1,499	689	689
1,500 and over	<u>10</u>	<u>20</u>
Total	1,106	913
Average Per School FTE Required*		0.825
* Calculation - (Total FTEs/Total Number of Schools)		

Recommendation:

The subcommittee recommends that the foundation funding matrix provide for a 0.825 library media specialist position per school based on the Standards for Accreditation, an increase from the current 0.7 position, beginning with the 2007-2008 school year.

(6) **Pupil Support Staff**

The current foundation funding formula provides for 2.5 pupil support staff, of which 0.67 position must be a school nurse, as required by Arkansas Code § 6-18-706. Picus recommended an additional one (1) position for every 100 NSL students in the prototypical 500-student school. However, the subcommittee

¹⁰⁹ Rule 16.02.3.

¹¹⁰ This calculation is not based on a prototypical 500-student school, but on the actual number of full time equivalent library media specialists required in the state for 2005-2006.

finds that the funds received by school districts through state foundation funding aid and categorical funding for NSL students is adequate, when school districts spend those funds efficiently.

Recommendation:

The subcommittee recommends that beginning with the 2007-2008 school year there be 2.5 positions for counselors, nurses, social workers, psychologists, family outreach, etc. in the foundation funding formula. Pursuant to the Picus recommendation and Arkansas Code § 6-18-706, 0.67 of the 2.5 positions must be a school nurse.

(b) Principal

(1) Principal Salary Component

The subcommittee agrees with the recommendation in the 2006 Picus Report that each school unit should have one (1) principal and that providing for one (1) principal for each prototypical 500-student school adequately funds one (1) principal per school unit.

The committees find that the figure used for principal salary in the foundation funding formula was miscalculated from 2004 through 2006. There was no inflation adjustment during those years. Based on evidence presented to the subcommittee and the committees¹¹¹, the committees find that the salary figure, including employee benefits, used in the foundation funding matrix for principals should be increased by 12.88% for 2007-2008 school year and adjusted for inflation for 2008-2009.

Recommendations:

- (a) The committees recommend the prototypical school of 500 students be allocated one (1) principal in the foundation funding formula.

- (b) The committees recommend that the salary figure for principals used in the foundation funding formula be recalibrated for the 2007-2008 school year by increasing the salary

¹¹¹ 2006 Picus Report, p. 75.

figure by 12.88% to \$86,168 including employee benefits. For 2008-2009, the committees recommend \$87,860, which includes a 2.0% inflationary adjustment. The figures represent \$172.30 and \$175.70 per pupil, respectively.

(2) Leadership Training

The 2006 Picus Report discussed the importance to student achievement -- the ultimate goal of the public school system -- of effective leadership by principals. The report states:

One of the most important aspects of principal instructional leadership is creating a professional community within schools (Halverson, 2003). Professional community has been shown to increase the intellectual quality of instruction as well as the overall level and distribution of student achievement by strengthening the instructional capacity and focus of schools (Louis & Marks, 1998; Newmann & Wehlage, 1995).¹¹²

Recommendation:

The subcommittee strongly recommends that the committees, with the assistance of the Department of Education and Department of Higher Education, study the requirements of an exemplary statewide leadership program, including the components of the existing leadership training program, and recommend further that the Department of Education prepare a plan for an exemplary statewide leadership program and specify the funding needs for the program for presentation to the 86th General Assembly by March 1, 2007.

(c) **School Secretaries**

Currently, school secretaries are included in the carry forward portion of the foundation funding matrix, which originally included some of the operational costs of schools. The subcommittee and the committees recommend that the school secretaries be taken out of the carry forward and moved to a separate line item in the foundation funding matrix.

¹¹² 2006 Picus Report, p. 22.

The 2006 Picus Report further recommends that two (2) secretaries be allocated in the foundation funding formula for the prototypical 500-student school. After a reexamination of the needs of school-based services and in line with the Picus recommendation, the committees recommend that the foundation funding formula be recalibrated to provide for two (2) school level secretaries.

Recommendations:

- (1) Rather than include school secretaries in the carry forward, the subcommittee and the committees recommend that school secretaries be moved to a separate line item in the foundation funding matrix, beginning with the 2007-2008 school year.
- (2) The committees recommend that the foundation funding matrix include two (2) secretaries for the prototypical 500-student school.
- (3) The committees recommend that the foundation funding amount, including employee benefits, for two (2) secretaries is \$34,751 for the 2007-2008 school year and \$35,415 for 2008-2009, which represents \$139 and \$141.70 per pupil, respectively.

3. Per Pupil Resources

(a) Computers and Software

The 2006-2007 foundation funding formula amount for technology is \$185 per pupil in the prototypical 500-student school. Picus acknowledges that the price of computers is dropping, but recommends that advanced and additional equipment, which might be considered "bells and whistles," be purchased rather than adjusting the amount to maintain current levels of adequacy. The subcommittee finds that \$185 per pupil accurately reflects current technology costs, based on evidence presented to the subcommittee concerning technology price deflators.¹¹³ Despite finding that technology costs and technology inflation indexes are declining, the subcommittee recommends that technology funding should be increased by nineteen percent (19%) for the 2007-2008 school year, and adjusted downward in 2008-2009 based on a declining inflationary index for computers and software.

¹¹³ See Exhibit 34.

Recommendation:

The committees recommend that, beginning with the 2007-2008 school year, the per pupil figure for computers and related technologies be increased from the existing \$185 per pupil to \$220 for the 2007-2008 school year and \$201 for the 2008-2009 school year.

(b) Instructional Materials and Supplies

The recommendation of the 2006 Picus Report, after recalculating the per pupil costs of textbooks, supplies, and other instructional materials, was that the 2006-2007 foundation funding amount be recalibrated to \$160 per pupil for instructional materials and supplies, and \$25 per pupil for access to formative assessments. The subcommittee's findings and recommendations concerning formative assessments are provided in section VI.E.¹¹⁴

Recommendation:

The committees recommend the recalibrated funding model include \$160 per pupil for instructional materials, books, supplies, including library resources, beginning with the 2007-2008 school year, and increased to \$163.20 in 2008-2009 with an inflationary adjustment.

(c) Extra Duty Funds

Extra duty funds include stipends for teachers who are involved in extra-curricular activities with students. These extra-curricular activities include not only athletics, but also a variety of academic competitions, clubs, bands, and after school programs. The recommendation of the 2006 Picus Report is \$98.35 per pupil. Picus cited the following as a basis for the recommendation:

The [Annual Statistical Report of the Department of Education] files show that Arkansas districts actually spent \$215 per pupil for student activities in the 2004-05 school year, with \$191 per pupil being spent on athletics.¹¹⁵

¹¹⁴ *Infra*, p. 142; See also the discussion at section V.D.2(d), *supra*, p. 59.

¹¹⁵ 2006 Picus Report, p. 45.

However, the subcommittee determined that based on other evidence presented to it, a miscalculation had been made in the Picus figure. When the Picus recommendation of \$98.35 per pupil is properly weighted to include elementary students the recalibrated number for extra duty funds should be \$48.84 per pupil with an inflationary adjustment to \$50. The subcommittee further noted that based on the Annual Statistical Report numbers reported by Picus, only about eleven percent (11%) of extra duty funds were spent on teacher stipends for extra duty involving academic activities and eighty-nine percent (89%) on athletic stipends.

The subcommittee received testimony that in the original Picus calculation of the average teacher's salary number used for calculating the basic foundation funding formula, Picus included extra duty funds in that salary figure.¹¹⁶ If that is accurate, then funding extra duty pay separately in the foundation funding formula presents a duplication of funding. This needs further investigation.

Recommendation:

- (a) The committees recommend that, beginning with the 2007-2008 school year, the level of per pupil funding for extra duty funds be \$50 per pupil based on a weighted average of the costs for extra-duty funds among schools of various grade levels (elementary, middle school, and high schools), and \$51 for 2008-2009 with an inflationary adjustment.
- (b) It is further recommended that the committees refer to the Department of Education for study the issue of whether the average teacher salary used in the funding model covers the extra duty funds paid to certified personnel; if so, the funding would be duplicated.

(d) Supervisory Aides

The current foundation funding formula provides \$37 per pupil for one (1) supervisory aide. Supervisory aides, which may be certified teachers, principals, assistant principals, or other classified personnel, provide assistance to schools by supervising students during non-instructional times, such as getting on and off school buses, and during lunch and recess.

¹¹⁶ See Department of Education Report on Extra Duty Funds Paid Teachers, November 9, 2006.

The 2006 Picus Report recommends that the foundation funding formula provide for two (2) supervisory aides for the prototypical 500-student school, at a cost of \$98.70 per pupil. The subcommittee requested the Department of Education to provide information on actual school expenditures for supervisory aides. The testimony submitted by the Department of Education in response to that request indicates that a 500-student school would expend funds, including teacher salaries, for supervisory duties for 8.71 hours per day. Schools are limited to using certified teachers as supervisory aides for no more than 60 minutes per week. That sixty (60) minutes translates into 6.28 hours per day out of 8.71 hours for a prototypical 500-student school, leaving 2.43 hours that must be filled by a non-teacher ¹¹⁷ Therefore, based on the evidence, the committees find that one (1) supervisory aide is sufficient and recommend that the foundation funding formula continue to provide for one (1) supervisory aide. However, based on the Department of Education's report, the committees further recommend that the foundation funding amount for supervisory aides should be increased by thirty-three percent (33%).

Recommendations:

- (a) The evidence before the subcommittee indicates that one (1) supervisory aide is sufficient.
- (b) The subcommittee finds that based on the evidence, the foundation funding formula amount should be increased by 33% to \$49.35 per pupil for the 2007-2008 school year, and with an inflationary adjustment to \$50.35 for 2008-2009.

(e) Substitutes

The 2006-2007 foundation funding formula provides \$63 per pupil for substitute teacher resources to cover ten (10) days for the number of teachers required in the 500-student prototypical school. That figure is based on a \$100 per day salary plus 22% for benefits for those substitutes. The 2006 Picus Report notes that evidence from the site visits and web survey revealed that \$100 per day salary was higher than actual amounts paid. When adjusted to a salary figure supported by the evidence obtained by Picus, the foundation funding amount would be \$59 per pupil, based on compensation per day of \$75, plus employee benefits.

¹¹⁷ See Exhibit 14, Department of Education Report on Supervisory Aide Cost, November 9, 2006.

Picus also noted that the salary being paid to substitutes presents two possibilities: (1) that the salary is too low to provide qualified teacher substitutes; or (2) that there are not enough qualified teacher substitutes available, thus creating a lower market wage. The subcommittee finds that further study is needed to determine whether enough qualified teacher substitutes are available to serve as substitute teachers.

Recommendations:

- (a) The subcommittee recommends that beginning with the 2007-2008 school year, the amount provided for substitute teachers be continued at \$59 per pupil based on compensation per day of \$75, plus employee benefits, which reflects actual practices.
- (b) The subcommittee recommends that the House Interim Committee on Education and the Senate Interim Committee on Education conduct a study to determine if there are sufficient numbers of certified teachers available in the job market to meet school district needs for substitute teachers. The results of the study should be reported to the committees by May 1, 2008.

4. Operations

(a) Former "Carry Forward"

Foundation funding for operations and maintenance, central office, and transportation are part of the "carry forward" item in the existing foundation funding formula. The committees find that the total carry forward funding should be increased by thirty-one percent (31%) after removing two secretary positions and relocating them in the school level salaries. Further, as part of the recalibration of the matrix, the subcommittee finds that the "carry forward" should be eliminated and replaced with separate line items for these important school operations categories.

Recommendations:

The subcommittee recommends eliminating the "carry forward" as a foundation funding matrix item and allocating the carry forward funds into three separate funds: (1) operations and maintenance; (2) central office; and (3) transportation.

(b) Operations and Maintenance

Operations and maintenance includes cleaning, heating, cooling, and minor maintenance of academic facilities and grounds. In recalibrating the funding for operations and maintenance, Picus used figures based on higher-priced geographical areas of the country, and not on Arkansas statistics, and on more duties than are required in Arkansas. The subcommittee referred the issue to the full House Interim Committee on Education and the Senate Interim Committee on Education and recommended that comparable districts in Arkansas be examined for purposes of adjustment.

The Academic Facilities Oversight Committee reported to the committees that based on the Oversight Committee's Maintenance and Operations study, operations and maintenance should be funded in the foundation funding formula as nine percent (9%) of the overall foundation funding amount in order to ensure that school districts have funds available to make the necessary repairs and maintenance to school buildings.¹¹⁸ Based on the testimony of Mr. Bill Goff, Director, Arkansas Public School Computer Network, the subcommittee determined that the school district cost for insurance is \$27 per pupil. As some school districts are not insured or are underinsured, the subcommittee discussed requiring that \$27 of the foundation funding for operations and maintenance be spent on property insurance. Therefore, the subcommittee recommends that the foundation funding amount for operations and maintenance be recalibrated to an amount equal to 9% of foundation funding (excluding the funding for operations and maintenance), and that the foundation funding formula for operations and maintenance include an additional \$27 for the cost of property insurance, with the restriction that the \$27 may only be spent for property insurance.

¹¹⁸Arkansas School Facility Manual, Arkansas Division of Public School Academic Facilities and Transportation.

Recommendations:

- (a) The committees recommend that, beginning with the 2007-2008 school year, operations and maintenance be moved from the carry forward into a separate line item.
- (b) The committees recommend that, beginning with the 2007-2008 school year, foundation funding for operations be recalibrated to nine percent (9%) of the overall Picus recommendation foundation funding (excluding the foundation funding amount for the operations and maintenance line item), or \$554.
- (c) The committees recommend that, beginning with the 2007-2008 school year, \$27 be added to the foundation funding amount for operations and maintenance for the cost of property insurance, with the requirement that school districts may only spend the \$27 for property insurance. This would bring the total foundation funding amount for operations and maintenance to \$581 per pupil.

(c) **Central Office**

The central office item in the foundation funding formula generally encompasses the office of the superintendent, school district board, legal services, and the business and personnel offices. Currently, the central office item is part of the carry forward. The subcommittee recommends that central office funding be moved into a separate line item of the foundation funding matrix.

The subcommittee finds that, like the amounts for operations and maintenance, the figures Picus used in the 2006 Picus Report for central office functions are inflated because of being computed on higher-priced geographical areas and on more duties than are required in Arkansas and referred the issue to the full House Interim Committee on Education and the Senate Interim Committee on Education with a recommendation that comparable districts in Arkansas be examined for purposes of adjustment. The committees subsequently received testimony from the Division of Legislative Audit and the Department of Education that based on actual evidence of school district expenditures, the costs of central office personnel of Arkansas school districts, less \$19 for the Director of Maintenance and a secretary (which are included in operations and maintenance funding) is \$376 per average daily membership.

Recommendations:

- (a) The committees recommend that the allocation within the carry forward for central office funding be moved to a separate line item.
- (b) Based on a study by the Department of Education of the comparable districts, the committees recommend that, beginning with the 2007-2008 school year, the foundation funding per pupil amount for central office, after removing two (2) secretaries, should be \$376 per pupil (which reflects \$395 less \$191 for the costs of the Director of Maintenance and Operation and a secretary, which are included in the operations and maintenance line item), and that \$383.50 be included for 2008-2009 (reflecting a 2% inflationary adjustment).

(d) Transportation

Foundation funding for transportation costs is currently funded through the carry forward. The subcommittee recommends that transportation funding be moved to a separate line item in the foundation funding matrix.

Transportation costs generally include bus purchase, replacement, and maintenance, fuel, special equipment (to accommodate disabilities), personnel (including drivers, administrators and office support, and mechanics), related buildings, and insurance. Other factors influencing costs are transportation service type, geography, distances traveled, number of students transported and frequency of transportation, safety, weather, legal and regulatory issues. Due to the complex nature of calculating transportation costs, the subcommittee finds that further study of the costs for Arkansas school districts is needed, and refers the issue to the Academic Facilities Oversight Committee to develop a formula for providing funding based on fair and accurate costs for all school districts. The subcommittee requested that the Oversight Committee work together with the following persons: one (1) person chosen by the Arkansas School Boards Association, two (2) persons chosen by the Arkansas Association of School Administrators, and one (1) person chosen by the Arkansas Education Association who can be a school bus driver. The Oversight Committee should report its findings and recommendations to the House Committee on Education and the Senate Committee on Education by February 1, 2007.

The foundation funding amount for transportation in 2006-2007 is \$286 per pupil. The subcommittee recommends that pending the development of a new transportation funding formula by the Academic Facilities Oversight Committee, the foundation funding amount for transportation should remain at \$286 per pupil for 2007-2008. Due to the decline in energy prices from 2005 to 2006, the subcommittee recommends that the per pupil amount for 2008-2009 continue at \$286.

Recommendations:

- (a) The subcommittee recommends that foundation funding for transportation costs be taken out of the carry forward and moved to a separate line item in the foundation funding matrix.
- (b) The subcommittee recommends that foundation funding be provided for transportation at actual school district costs of \$286 per pupil for 2007-2008 and 2008-2009, awaiting the development of a formula for providing funding based on fair and accurate costs for all school districts. (See also Recommendation 3 of the Academic Facilities Oversight Committee).
- (c) The subcommittee recommends that the Academic Facilities Oversight Committee should conduct a study to develop a formula for transportation funding that is based on actual costs and will be fair to all districts. The following persons are requested to assist the Academic Facilities Oversight Committee in the study: one person chosen by the Arkansas School Boards Association, two persons chosen by the Arkansas Association of School Administrators, and one person chosen by the Arkansas Education Association who can be a school bus driver. The Oversight Committee should report its findings and recommendations by February 1, 2007, for consideration by the 86th General Assembly.

5. Other Adjustments

- (e) **Adjustments for Teacher Retirement Contribution Rate**

Recommendation:

In accepting the Picus methodology for calculating the average teacher salary component of the foundation funding matrix, the committees recommend that legislation be drafted to incorporate the \$42 per pupil for personnel retirement benefits paid by employers into the average teacher salary component and other personnel-related line items in the foundation funding matrix.

(f) State Uniform Rate of Tax

The Arkansas Supreme Court in *Lake View* expressed a concern that a school district collecting less than 98% of the school district's assessment for the uniform rate of tax may receive less state foundation funding aid than a district collecting at a rate of 98% or more.¹¹⁹ To address that concern and resolve the issue of an equal amount of funding being provided to all school districts, the subcommittee recommends that state foundation funding aid should be based on the actual property taxes collected for the uniform rate of tax.

Recommendation:

The subcommittee recommends that legislation be adopted by which the foundation funding amount is determined on the actual property taxes collected based on the uniform rate of tax.

B. Recalibration of Categorical Funding

1. Professional Development

Professional development is a critical area for improving student performance and ensuring highly-qualified teachers in the classroom. However, the quality of the professional development in the state needs continued, focused attention and improvement. Based on the Picus recommendation in the 2006 Picus Report that state-designed professional development be funded separately, the 85th General Assembly, in the First Extraordinary Session of 2006, funded two new positions within the Department of Education to enhance the quality and availability of professional development in the state. The

¹¹⁹ Lake View, December 15, 2005.

Department of Education has since hired an Associate Director of Professional Development and a Public School Program Advisor to fill those positions.

Picus' recommendation in the 2006 Picus Report is to maintain the \$50 per pupil amount in categorical funding. The subcommittee found that the \$50 per pupil amount should be continued, with approximately \$8.89 per pupil committed to the statewide online professional development program (see section V.D.2(a)(3) of this report).¹²⁰ Picus also recommended that school districts align the state and federal funds they receive for professional development so that the school districts' overall strategies for professional development are successful.

Further, the subcommittee received testimony that school district fund balances for the professional development category are higher for the 2005-2006 school year than for 2004-2005, indicating that sufficient funds for professional development are available. Testimony was also received that teachers obtained 60 hours of professional development without difficulty.

Recommendations:

- (a) The subcommittee recommends that the per pupil funding previously allocated for five (5) professional development days should be rolled into the average teacher salary figure component of foundation funding. This means that the teacher salary figure used by Picus to estimate the recalibrated per pupil figure will include sufficient funds for the additional five (5) days.
- (b) The subcommittee recommends that the state retain the current funding level for professional development, which provides \$50 per pupil, with approximately \$8.89 per pupil committed to the statewide online professional development program.
- (c) The subcommittee recommends that all districts align use of the federal Title II funds, which are also for professional development, with the districts' and schools' overall professional development strategies. This alignment should be included in ACSIP beginning with the 2007-2008 school year and monitored.

¹²⁰ Supra, p. 51.

2. NSL Students

As discussed in the 2006 Picus Report, NSL funding is provided to assist schools with services, primarily tutoring, for at-risk students. The funding is based on a student-teacher ratio using a school district's count for students qualifying for the National School Lunch Act program. The state currently provides NSL categorical funding for one (1) full time equivalent (or \$480 per pupil) for school districts with an NSL student population of less than 70%, two (2) full time equivalents (or \$960 per pupil) for a school district with between 70% and 90% NSL student population, and three (3) full time equivalents (or \$1,440 per pupil) for a school district with an NSL student population greater than 90%.

The committees recommend that the funding be increased by 3.28%. During the committee hearings, the committees received testimony that school districts at the two extreme ends of the spectrum for NSL funding might be adversely affected by a sudden change in funding when the district's NSL count either drops below the 70% to 90% level or rises above the 70% to 90% level. Therefore, beginning with the 2007-2008 school year, the committees recommend that a change in funding level should be phased out in equal amounts over a three-year period for school districts that drop below the 70% to 90% thresholds and be phased in with equal amounts over a period of three (3) years for school districts that exceed the 70% to 90% threshold.

The subcommittee received testimony that for the 2005-2006 school year, there were significant fund balances for state categorical NSL funds provided to districts.¹²¹ In addition, based on the evidence obtained in site visits conducted by Picus and the Bureau of Legislative Research, the subcommittee finds that many school districts use categorical NSL funds to raise teacher salaries, instead of providing focused instructional strategies for these at-risk students. Therefore, the subcommittee further finds that more study of actual practices is needed, but until those studies can be conducted, an inflationary adjustment should be applied to the current funding level. Picus recommends in the 2006 Picus Report that Arkansas further restrict the use of NSL categorical funds to pay for tutors - only - and that the tutors be certified teachers licensed as tutors.

¹²¹ See Exhibit 9.

Although the subcommittee agrees with Picus that the use of tutors is one of the best methods of improving academic performance for struggling students, it finds that additional restriction on NSL funds would remove the flexibility that school districts need to implement their programs for struggling students. In fact, there are additional programs that the Department of Education may need to consider adding to the list of eligible programs, such as the Jump Start Bridge Program. Also, the subcommittee finds that it is premature to create a licensure category for tutors, as additional monitoring through APSCN and ACSIP needs to be conducted by the Department of Education. The subcommittee also recommends that the Department of Education study the strategies being used with NSL categorical funds, both currently and prospectively, and report its findings to the committees by May 1, 2008.

Recommendations:

- (a) In order to compensate for the costs of inflation, the subcommittee recommends that beginning with the 2007-2008 school year, the NSL funding should be increased by 3.28%.
- (b) The subcommittee also recommends that beginning with the 2007-2008 school year, the change in the amount of NSL funding for school districts that drop below the 70% to 90% thresholds be phased-out in equal amounts over a period of three (3) years and that for school districts that exceed the 70% to 90% threshold, a phase-in of equal amounts over a three-year period is recommended.
- (c) That the Department of Education and Bureau of Legislative Research continue to monitor use of funds and implementation of strategies to determine future need, and report to the committees by May 1, 2008.
- (d) The subcommittee requests that the Department of Education, through APSCN, determine how much of restricted categorical funding has been used by districts for across the board salary increases, and report its findings to the House Committee on Education and Senate Committee on Education by February 1, 2007.
- (e) The subcommittee finds that it is premature to establish a licensure category for teacher tutors. The Department of Education is requested to report by May 1, 2008, on the status of strategies for NSL categorical funds being used by school districts and its recommendations for standards and licensure of tutors. Continued monitoring through APSCN and ACSIP is recommended.

- (f) The subcommittee requests the Department of Education to consider allowing NSL funds to be used for research-based programs such as Jump Start Bridge Program to help secondary students prepare for Smart Core and other rigorous curricula.

3. ELL Students

As discussed more fully in section V.H.2(c),¹²² English language learners are often students from low-income families, but need resources in addition to NSL funds. Upon an examination of district fund balances for ELL students, it is evident that there is a need for additional funding to support ELL programs. It is the intent of the committees that the recommended NSL funding be spent on ELL students first and then supplemented with the recommended ELL categorical funding.

The table below shows the total amount of categorical funding per pupil provided to school districts for ELL students:

	NSL for ELL students in poverty	ELL for students with English as a second language	ELL Total
> 90%	\$ 1,488	\$ 293	\$ 1,781
70% - 90%	992	293	1,285
< 70%	496	293	789

Recommendation:

The subcommittee recommends that legislation be enacted to adjust the student-teacher ratio requirement in order to effectively increase funding by fifty percent (50%) per 100 students, beginning with the 2007-2008 school year. This is in addition to NSL categorical funding.

4. Tutoring; Extended Day; Summer School

The state recognizes that under the appropriate circumstances tutoring, extended day programs and summer schools have proven to be effective methods for improving student performance under certain

¹²² Supra, p. 99.

conditions. School districts are encouraged to continue providing such programs if they have proven to be successful for struggling students in that district.

Picus recommends that Arkansas focus on one-to-one tutoring in light of the limited successes of after school and summer school programs in Arkansas. Picus has asserted that one-to-one tutoring is perhaps the "most powerful and effective strategy to help struggling students meet state standards and the 2006 Picus Report discusses extensively why Picus recommends that NSL funds be restricted for hiring tutors.¹²³ The subcommittee finds that additional studies are needed regarding the effectiveness of after school, summer school, and other tutoring programs before restricting the use of NSL funds to one program. Further, recognizing that schools and school districts will have a growing need for these supplemental services as required by the No Child Left Behind Act, the committees recommend that the Department of Education identify the best practices for such programs identified by the research, and provide additional information on the use of revenues for after school programs, summer school, tutoring, and other strategies, and on including these supplemental services in ACSIP with monitoring by the department to confirm results.

Recommendation:

The subcommittee recommends that the House Interim Committee on Education and the Senate Interim Committee on Education conduct additional studies to determine the best practices for such programs prior to limiting the use of NSL funding to one particular method, and report to the committees by May 1, 2008.

5. ALE Programs

Arkansas has changed the method of counting students in alternative learning environments for purposes of categorical funding. Students in these programs are now counted by full time equivalents, instead of the former method of counting students by head count, to encourage a school to place a student in an alternative learning environment for the period of time that is based on the student's needs. However, under this method of enrollment calculation, the state categorical funding appears to be less.

¹²³ 2006 Picus Report, p. 47.

Nevertheless, the subcommittee finds that based on recommendations from the Department of Education, the categorical funding should be calculated on one (1) teacher per twelve (12) students, instead of the current student teacher ratio of 15:1, which is an effective funding increase of twenty-five percent (25%).

Based on the report prepared by the Bureau of Legislative Research, a wide disparity exists in the instructional strategies used by alternative learning environments across the state. Some alternative learning environments in Arkansas have been more successful than others due to their use of some of the "best practices" cited in the report.¹²⁴ The subcommittee finds that a study should be conducted of effective strategies and best practices for alternative learning environments in Arkansas, and refers this issue to the House Interim Committee on Education and the Senate Interim Committee on Education for further study.

The subcommittee also received testimony from the Department of Education concerning the need for additional personnel to administer the department's alternative learning environment program. The department reported that the one (1) Program Advisor and her secretary were the only personnel available to monitor alternative learning environments statewide, and to provide needed resources to those programs. Due to the level of support these programs need from the Department of Education, the importance of the alternative learning environments to the learning needs of the students in those programs, and the need to provide guidance for using best practices statewide, the subcommittee recommends that four (4) positions be authorized for the Department of Education's alternative learning environment program.

The subcommittee requested the Department of Education to follow up by December 12, 2006 with a report on the utilization of the program personnel and the future needs for the program. The department's report presented to the committees indicates that it has hired three (3) new consultants to work until the beginning of the 2007-2008 school year. The department's proposal for 2007-2009 requests that four (4) new positions be created, which will provide one (1) regional education consultant for each of four regions covering the entire state.¹²⁵ The department's proposal for the cost of these four (4) positions is \$400,000 for 2007-2008 school year, and \$384,000 for the 2008-2009 school year, the difference

¹²⁴ Exhibit 38, Alternative Learning Environment Report, Bureau of Legislative Research, August 23, 2006.

¹²⁵ See Exhibit 3.

consisting of additional costs in the first year for one time administrative costs. The committees recommend that those positions be created and funded as proposed by the department.

Recommendations:

- (a) The subcommittee recommends that beginning with the 2007-2008 school year, one (1) teacher position for every twelve (12) alternative learning environment students and that funding continue to be based on full time equivalent students in the alternative learning environments.
- (b) The subcommittee recommends that the House Interim Committee on Education and the Senate Interim Committee on Education, in cooperation with the Department of Education, conduct a study to determine the best alternative learning environment practices in the state as a follow up to the Bureau of Legislative Research Report on alternative learning environments, and report the results of the study by May 1, 2008.
- (c) The committees recommend that the four (4) positions proposed by the Department of Education be added immediately to the Department of Education to adequately assess, monitor, and evaluate the effectiveness of ALE programs.
- (d) The committees recommend that the four (4) positions proposed by the Department of Education be funded at \$400,000 for 2007-2008 and \$384,000 for 2008-2009.

C. Non-Foundation Funding Issues

1. ACSIP Monitoring

As discussed in section VI.A.(2)(a)(3),¹²⁶ the committees find that the Department of Education does not have the resources to monitor how, or even if, a school district has used instructional facilitators as indicated in its school improvement plan. The department's report to the committees on December 19, 2006¹²⁷ identified the need for \$242,000 for each year of the biennium to cover the cost of enhancing ACSIP monitoring for instructional facilitators. Because this monitoring function is essential to meeting

¹²⁶ Supra, p. 110.

¹²⁷ See Exhibits 11 and 12.

the state's educational achievement objectives, the committees find that the enhanced monitoring function should be funded as stated in the department's report.

The results of site visits and surveys conducted by Picus and the Bureau of Legislative Research also revealed that state resources for struggling students provided through categorical funding are often not used to implement the educational strategies for which the General Assembly intended them. As a result, the subcommittee and committees discussed whether or not to mandate parts of the categorical funding. The committees requested that the Department of Education provide information regarding expanded monitoring of fund balances and the accounting system using ACSIP, to aid the committees in future decision-making regarding whether to mandate the use of parts of categorical funding. The department proposed the following:

Each school or district annual ACSIP shall have a written review completed within six months of the end of the school year by ADE staff. The review shall include assessments of the following:

- Expenditures are made in accordance with those outlined in the ACSIP.
- Vendors providing supplemental services are approved through evaluation by the contractor for ADE.
- Vendors for other services and products selected to meet school improvement needs are approved by ADE based on scientifically-based research on effectiveness that is documented in the detail and format used by refereed professional journals.
- "Interventions" and "actions" used by school districts are assessed with methodologies developed in collaboration with the Bureau of Legislative Research (Bureau) to meet the standards of outcome evaluations. Reports on effectiveness of interventions are to be made by ADE using the format developed in collaboration with the Bureau.
- Process evaluation should include data on integrity of program implementation; training and qualifications of staff; linkages between services; clarity and measurability of goals and objectives; availability and adequacy of resources; quality and integrity of intervention; clear specification of outcomes and impacts; reliability and validity of measures of program processes, outcomes, and impact; program quality and intensity; and sufficiency to meet needs. Outcomes refer to changes in individuals (e.g., math scores), whereas impact refers to aggregates (e.g., changes in percentages of students who are proficient).

Recommendations:

- (a) The committees recommend that funding be provided to the Department of Education for the 2007-2008 school year to monitor or to assure that the school districts have done what their school improvement plans call for as described in the Department of Education report presented to the committees on December 19, 2006.
- (b) The committees recommend that the Department of Education use ACSIP to expand monitoring of the accounting system and of school district fund balances as outlined by the department to assist the committees in determining whether to mandate the use of parts of categorical funding.
- (c) The committees recommend that legislation be drafted by February 1, 2007, requiring that ACSIP will include monitoring of the use of instructional facilitators (as defined in the Department of Education report) in school improvement plans.

2. Declining Enrollment

The subcommittee finds that additional study of the effectiveness of funding a school with declining enrollment is needed, but that pending the completion of that study, funding for declining enrollment should be continued for the biennium.

Recommendation:

The subcommittee recommends that the funding for declining enrollment as provided under Arkansas Code Annotated § 6-20-2305, which provides a two-year "cushion" to address budgetary issues related to declining enrollment, be continued for the 2007-2008 and 2008-2009 school year to allow the General Assembly to assess the effectiveness of funding a school with a declining enrollment.

3. Isolated Schools

Recommendation:

The subcommittee recommends that the state continue to fund isolated schools and special needs isolated funding, and that the funding mechanisms under Arkansas Code Annotated §§ 6-20-603 and 6-20-604 be rewritten.

4. ADM Growth Funding

The committees made no recommendation to increase funding for school district growth in average daily membership, which will therefore continue at \$5,400 per student, for two reasons: (1) Districts in the economic areas of the state that experience attendance growth have generally achieved a high degree of efficiency in the operation of their schools; and (2) Students counted for calculating attendance growth funding often do not remain in the school for the entire school year.

School District Efficiency. A reliable measure of efficiency is a high pupil teacher ratio. Based on data for the 2004-2005 school year provided by the Department of Education, schools with more ADM growth correlate significantly (a .31 correlation) with schools having high pupil teacher ratios. Therefore, as a school district becomes more efficient and increases its pupil teacher ratio, it can pay its teachers more. The data presented to the subcommittee and the committees at the request of Senator Dave Bisbee shows that the most significant variable in teacher salary disparity was the pupil teacher ratio which accounted for thirty-eight percent (38%) of the variance in teacher salaries in 2004-2005.

The other significant predictor of whether a school district will pay a higher teacher salary was third quarter average daily membership, which accounted for an additional twenty-one percent (21%) of the variance. It would, therefore, appear that more efficient schools (i.e., those that have a higher pupil teacher ratio, and pay a higher teacher salary) are able to maintain higher percentages of full classrooms within the limits of state accreditation standards. Overall, these more efficient schools should have a lower cost per student than other districts.

Sustained ADM Growth. The full level of per-pupil operations and maintenance cost may not be needed when students are not in attendance for the complete year. Data provided by the Department of Education showing the calculations used to compute funding for ADM growth shows that although 137 districts receive ADM growth funding only 56 districts actually have sustained ADM growth through the third quarter. Of these 56, only one district had an ADM growth of more than 10 students in the third quarter above the second quarter average daily membership for the same year. While these districts do have to accommodate the students that are present on the first day of school, the costs are primarily related to teachers which account for about \$3,600 of the matrix and that much funding is provided within the \$5,400.

ADM growth funding is calculated as five thousand four hundred dollars (\$5,400) multiplied by the increase, if any, in the school district's second-quarter average of the average daily membership of the current school year over the local school district's second-quarter average of the average daily membership for the previous school year.¹²⁸ In contrast, foundation funding is based on the third quarter average daily membership. The data shows that only three (3) districts in the state sustained ADM growth of more than ten percent (10%) of their third quarter average daily membership, which is a significant increase. However, as discussed above, these schools tend to be more efficient, so the existing \$5,400 should be adequate to meet those needs.

The primary struggle of school districts experiencing sustained ADM growth is in providing adequate facilities for the growing population. The Division of Public School Academic Facilities and Transportation is continuing to evaluate whether a need for an additional funding program specifically designed to assist high ADM growth districts is needed, or whether the Partnership Program can meet the projected needs.¹²⁹

The SREB reports that most states have some type of attendance growth funding. However, states that do have attendance growth funding make some type of adjustment to the full foundation funding to account for efficiency. A few states fund based on the current year, which also may be adjusted for efficiencies.

¹²⁸ Arkansas Code Annotated § 6-20-2303(19). Under Arkansas Code Annotated § 6-20-2305, a school district experiencing growth may also receive additional NSL student categorical funding for the expected increase in NSL students.

¹²⁹ See the Report of the Academic Facilities Oversight Committee, section VII, *infra* p. 147.

The SREB also reports that some states provide attendance growth funding only to districts whose attendance growth is above a prescribed level.

Based on the data and information provided to the subcommittee discussed above, the committees find that further study of the impact of ADM growth on public school funding is needed.

Recommendation:

- (a) The committees recommend that the method of funding school district ADM growth previously established by the General Assembly in Arkansas Code Annotated § 6-20-2303(19) be continued.
- (b) The committees recommend that a study be conducted in the upcoming biennium to recommend the actual per student funding amount needed to meet ADM growth needs. The study should:
 - determine the amount of funding change, if any, in the operations and maintenance component of the matrix to account for efficiency;
 - identify whether and to what degree other components of the foundation funding matrix may need to be changed;
 - assess student mobility from district to district within the state; and
 - review what level of ADM growth may necessitate a need for additional funding.

D. Issues Referred for Additional Study

1. Teacher Support System

The subcommittee received testimony that one of the major factors in teacher retention is the need for improved support for teachers in the areas of instructional strategies and curriculum development for teachers. The subcommittee agrees with the recommendation in the 2006 Picus Report for the development of a Teacher Support System including a center for "professional development, formative assessments, teacher compensation, higher education teacher preparation programs, school and district leadership development, and the instructional facilitators or coaches and mentoring recommendations under one umbrella."¹³⁰

¹³⁰ 2006 Picus Report, p. 72.

Recommendations:

The subcommittee recommends, beginning with the 2007-2008 school year, including in the recalibrated funding system the establishment of a Teacher Support System. Conceptually, the center would combine the recommended functions related to instructional quality under one umbrella. This Teacher Support System would provide support to teachers as they develop more knowledge and skills in use of data and instructional strategies and would focus the training resources of the higher education system toward development of the same needed skills for teachers.

2. Fund Balances

The subcommittee recommends that the Department of Education's accounting committee develop more detailed, uniform reporting requirements for fund balances.

3. Accounting

The subcommittee recommends that the Department of Education continue to consider how to upgrade financial reporting systems so that school districts can provide crucial information to the General Assembly more promptly and to enable school district leadership to improve management. The Bureau of Legislative Research has entered into a consultant contract with InfoSentry to review the APSCN system and make recommendations. The Department of Education is required to cooperate fully with InfoSentry.

4. Educational Excellence Trust Fund

The subcommittee recommends that the 86th General Assembly continue to review issues associated with changes in the allowable uses of the Educational Excellence Trust Fund.

5. Uniform Superintendent Contracts

The subcommittee recommends that additional study be given to the proposal to require a uniform superintendent contract statewide with the contract containing provisions to allow terminations for cause.

6. Stipends and Supplemental Pay

The subcommittee refers to the House Interim Committee on Education and the Senate Interim Committee on Education for additional study the proposal to require parity in stipends and supplemental pay among certified school employees, and recommends that the committees report on their findings and recommendations by May 1, 2008.

7. Health Insurance

The subcommittee refers to the House Interim Committee on Education and the Senate Interim Committee on Education for additional study the impact of removing from foundation funding the amount that funds the employer contributions for school employee health insurance and transferring that obligation to the state, and recommends that the committees report on their findings and recommendations by May 1, 2008.

8. Employee Benefits Equal

The subcommittee recommends that the 86th General Assembly review the impact of Acts 24 and 25 of the First Extraordinary Session of the 85th General Assembly and revise the law as needed.

9. Study Increases to Retirement

The committees refer to the 86th General Assembly for further study the proposal that any future increases to the teacher retirement contribution rate or grants of additional authority to the system should not be considered by the Arkansas Teacher Retirement System without further review.

10. Teacher Retirement Benefits Protection

The committees refer to the 86th General Assembly for further study the proposal to limit the authority of the Arkansas Teacher Retirement System to reduce employee benefits.

E. Recommendations in Addition to Adequacy

The subcommittee heard evidence regarding formative assessments from The Learning Institute and the Department of Education. As discussed in Section V.D.2(d) of this report,¹³¹ formative assessments are the missing link between the state's assessment and accountability programs because they align the assessment of a student's learning with teaching strategies during the school year. An effective statewide formative assessment program would take more than a year to be developed, and the desire of a school district to participate will impact the effectiveness of a formative assessment program in a district. For these reasons, the subcommittee recommends that the Department of Education develop a two-year pilot for a state-supported formative assessment program with funding available to school districts participating in the pilot program. After completion of the pilot program, the General Assembly should determine the effectiveness of formative assessments in providing an opportunity for an adequate education and consider providing statewide funding for mandated formative assessments. Since the program is a pilot it should be funded outside the existing adequacy structure which consists of foundation and categorical aid.

Recommendations:

- (a) The subcommittee recommends that, beginning with the 2007-2008 school year, the amount of \$25 per participant be allocated to the Department of Education for the purpose of implementing a pilot program using formative assessments to identify the specific areas of instructional support that teachers and students need.
- (b) The Department of Education is requested to work in conjunction with the professional associations to provide a plan for the statewide rollout of formative assessments and the teacher support system to begin in the 2007-2008 school year with an understanding that in the first year participation is by choice, thus giving the Department time to fully

¹³¹ Supra, p. 59.

develop the program. The Department of Education is further requested to provide a plan for the teacher support system to begin with the 2007-2008 school year.

- (c) The Department of Education is requested to report to the House Interim Committee on Education and the Senate Interim Committee on Education by February 15, 2007, on its proposal for the rollout of a pilot for formative assessments and the teacher support system.

VII. REPORT OF THE ACADEMIC FACILITIES OVERSIGHT COMMITTEE

A. Introduction

Under the Continuing Adequacy Evaluation Act of 2004,¹³² the General Assembly committed to make biennial assessments of the concept of "adequacy" as it pertains to public school education. The facilities in which a public school education is delivered are a part of that concept. During February 2006, the Academic Facilities Oversight Committee conducted a series of public hearings in conjunction with the Senate Interim Committee on Education and the House Interim Committee on Education to assess the state's system of public education and to determine whether equal educational opportunity for an adequate education is being substantially afforded to public school students in the state. These hearings resulted in the following recommendations from the Academic Facilities Oversight Committee for legislative action, which were considered and adopted during the First Extraordinary Session of 2006:

1. Academic Facilities Funding Sources

The committees found that the Public School Academic Facilities Program and related funding sources are an integral part of the concept of "adequacy"; however, the committee discovered that the Educational Facilities Partnership Fund Account was not protected under the "doomsday" clause. The committees recommended that the General Assembly adopt legislation to clarify that the Public School Academic Facilities Program and related funding sources are part of the concept of adequacy and to protect the Educational Facilities Partnership Fund Account from a reduction if revenues are not available in sufficient amounts to fund an adequate education system.

¹³² Arkansas Code Annotated § 10-3-2101 et seq.

ACTION TAKEN: Section 10 of Act 20 of the First Extraordinary Session of 2006 amended Arkansas Code 19-5-1227(d) to exempt the Educational Facilities Partnership Fund Account from receiving a proportionate reduction if the Chief Fiscal Officer of the State determines that sufficient revenue is not available to fund an adequate educational system. The act became effective on April 11, 2006.

2. Academic Facilities Appropriations

The committees found that there should be a mechanism to transfer unobligated balances in the General Improvement Fund to the Educational Facilities Partnership Fund Account for the Academic Facilities Partnership Program and for cost overruns in the Academic Facilities Immediate Repair Program and Transitional Academic Facilities Program. The committees recommended that the General Assembly adopt legislation to provide the financial flexibility described for the remainder of the 2005 biennium.

ACTION TAKEN: Section 11 of Act 20 of the First Extraordinary Session of 2006 authorized the Chief Fiscal Officer of the State to set aside \$50 million of unobligated balances in the General Improvement Fund for transfer to the Educational Facilities Partnership Fund Account when fund balances in the Educational Facilities Partnership Fund Account fall below \$21,280,590. The specific amount to be transferred must be certified by the Director of the Division of Public School Academic Facilities and Transportation, recommended by the Commission for Arkansas Public School Academic Facilities and Transportation, and approved by the Chief Fiscal Officer of the State, upon prior approval by the Legislative Council or Joint Budget Committee. The act became effective on April 11, 2006. The transfer authority ends on Jun 30, 2006 with the close of the biennium.

3. Nine percent (9%) Dedicated to Facilities Upkeep

The committees found that school districts should be able to use the nine percent (9%) of foundation funding currently dedicated to the upkeep of academic facilities for all public school facilities, including nonacademic facilities.

ACTION TAKEN: Sections 4, 5, 6, and 7 of Act 19, the Educational Adequacy Act of 2006¹³³, clarified the scope of the requirement that school districts dedicate nine percent (9%) of foundation funding to utilities and costs of maintenance, repair, and renovation activities so that the school districts can use the dedicated nine percent (9%) for all public school facilities, academic and nonacademic. The act became effective on April 11, 2006.

4. Facilities Funding for ADM Growth

The committees found that the statutory cap on a school district's bonding capability should be eliminated if further communication with key bond rating agencies indicated that the state's bond rating would not be affected by the change.

ACTION TAKEN: Bond rating agencies provided written testimony that the state's bond rating would not be negatively affected if the statutory cap on a school district's bonding capability was eliminated. Acts 22 and 23 of the First Extraordinary Session of 2006, which are identical, repealed the statutory limitation on the amount of bonded indebtedness a school district may incur. The acts became effective on April 11, 2006.

5. Facilities Program Administration

The committees found that the Commission for Arkansas Public School Academic Facilities and Transportation should continue to operate beyond its current sunset date of July 1, 2007, and that the Division of Public School Academic Facilities and Transportation should be immediately transferred to the Department of Education to facilitate administrative efficiencies.

ACTION TAKEN: Acts 32 and 33 of the First Extraordinary Session of 2006, which are identical, place the Division of Public School Academic Facilities and Transportation under the Department of Education and provide for the continued existence of the Commission for Arkansas Public School Academic Facilities and Transportation. The acts specify that the division is under the direction, supervision, and control of the commission. The acts became effective on April 11, 2006.

¹³³ Act 19 of the First Extraordinary Session of 2006.

B. Legislative Actions During the 2005 Biennium

At the conclusion of the First Extraordinary Session, the General Assembly adopted the report of the House Interim Committee on Education and Senate Interim Committee on Education.¹³⁴ In the report, the General Assembly made the following findings with regard to academic facilities:

1. Academic Facilities Funding

Academic facilities funding needs should continue to be reviewed and evaluated as the Division of Public School Academic Facilities and Transportation implements the Academic Facilities Master Plan Program and the Academic Facilities Partnership Program.

2. Impact of Academic Facilities Wealth Index Formula

Further study should be conducted of the possible parameters of a program to provide additional state facilities funding to school districts in extraordinary circumstances as defined by the General Assembly. The study should review and evaluate the impact of the academic facilities wealth index on all districts with a special emphasis on those with declining enrollment, those with rapid ADM growth, and those above the ninety-fifth percentile on the academic facilities wealth index. The study should consider various proposals to address the potential needs of school districts that might face extraordinary circumstances.

3. Transportation

Further review should be conducted of the use of statewide transportation fuel contracts as a cost saving measure.

4. Bonded Debt Assistance

The program of bonded debt assistance restructured in 2005 should continue to be monitored and evaluated in light of newly available state financial assistance to school districts for academic facilities.

¹³⁴A Report on Legislative Hearings Responding to the December 15, 2005 Opinion of the Arkansas Supreme Court in *Lake View*, House Interim Committee on Education and Senate Interim Committee on Education, March 16, 2006; amended and adopted by the 85th General Assembly on April 7, 2006.

Each of these matters was referred to the Academic Facilities Oversight Committee for further consideration during the remainder of the 2005 biennium. The committee met on May 3, 2006, and conducted two (2) public hearings during August 2006 to review and evaluate the issues referred by the 85th General Assembly.

Every member of the General Assembly was invited to attend and participate in the hearings. The hearings were open to the public, and notice of the hearings was provided more than two (2) weeks in advance and published on the General Assembly's website. Interested persons were given an opportunity to provide written and oral testimony about issues of concern. Written testimony and related exhibits were made available to committee members and interested parties prior to each hearing. Additional copies were made available at the hearings. This report summarizes the general contents of each hearing, makes recommendations with regard to issues in need of continued monitoring or further study, and proposes legislation to address issues ripe for resolution.

C. Discussion - Public School Academic Facilities

1. Funding for Academic Facilities

The General Assembly enacted multiple pieces of legislation during the 2005 Regular Session that together established a comprehensive system to address the needs of public school academic facilities. These legislative enactments are found primarily in the Arkansas Public School Academic Facilities Program Act,¹³⁵ and the Arkansas Public School Academic Facilities Funding Act.¹³⁶ The Statewide Educational Facilities Assessment Report and Addendum served as a guide in the development of these acts and in the implementation of related regulations. The assessment has served and will continue to serve as a valuable resource to the state and to school districts in developing a coordinated and systematic approach to the repair, renovation, and replacement of school buildings across the state.

In order to respond to the unknown demands of a new set of statewide building programs, the General Assembly provided financial flexibility to the entity responsible for overseeing the new programs, the Commission for Arkansas Public School Academic Facilities and Transportation, by granting the

¹³⁵ Arkansas Code Annotated § 6-21-801 et seq.

¹³⁶ Arkansas Code Annotated § 6-20-2501 et seq.

commission the authority to transfer among the separate appropriations for the various facilities programs. It also provided carry forward authority to the commission so that facilities appropriations unspent at the end of the first year of the biennium were available for use during the second year of the biennium. This flexibility gives the commission the ability to access and distribute state funds to school districts as needed.

Act 20 of the First Extraordinary Session of 2006 provided further financial flexibility and additional funding to enhance state support of public school academic facilities. Almost \$3 million in new funding was made eligible for transfer from the Public School Facilities Fund and the General Improvement Fund to the Educational Facilities Partnership Fund Account. Also, Arkansas Code Annotated § 19-5-1227, commonly known as the "doomsday" clause, was amended to include the Educational Facilities Partnership Fund Account in its provisions.

Experience in other states has shown that state spending for new school facilities programs is less wasteful and more effective after comprehensive planning at the state and local levels. However, the General Assembly recognized the need in Arkansas for immediate improvements in the short-term *and* long term comprehensive planning. As a result, it established two (2) programs to provide one time state financial assistance for eligible facilities projects in advance of full implementation of the statewide planning process under the Academic Facilities Master Plan Program. These one time programs are the Immediate Repair Program and the Transitional Academic Facilities Program.

The initial appropriation level of state financial participation for the Academic Facilities Immediate Repair Program was established at \$20 million for the 2005-2006 fiscal year. After applications were received and projects approved, the commission needed approximately \$34 million in state participation funds to finance all projects approved under the Immediate Repair Program. School districts were called upon to provide approximately \$33 million in local matching contributions. In order to satisfy the state's obligation, Legislative Council approved and the commission received a transfer to the Immediate Repair Program of \$15 million in appropriations originally designated for the Transitional Academic Facilities Program. This transfer took place in January 2006 and enabled the state to provide financial assistance for *all* approved projects under the Immediate Repair Program. As of May 3, 2006, the commission had paid out \$10.3 of \$33.7 million approved for state financial participation in the Immediate Repair Program, and 98 of 353 projects had been funded. As of August 31, 2006, the Commission has paid out

\$20.3 of \$33.7 million approved for state financial participation in the Immediate Repair Program, and 178 projects had been funded.

The General Assembly and the Division of Public School Academic Facilities and Transportation initially estimated that the Immediate Repair Program would conclude in 2006. However, it has taken much longer than expected for school districts to engage contractors, coordinate repair projects around student schedules, complete projects, and expend funds. At this point, all Academic Facilities Immediate Repair Program projects are expected to be complete sometime during the 2007 calendar year.

In order to bridge the financial gap between state financial assistance provided for bonded debt and state financial assistance provided under the Academic Facilities Partnership Program (a third new program), the General Assembly designed the Transitional Academic Facilities Program. State financial assistance for bonded debt has been and is directed at supporting school district expenditures for facilities prior to January 1, 2005. The new Partnership Program is designed to provide state financial assistance for facilities built or significantly improved after July 1, 2006. It was recognized that school districts funding or building new facilities in the window of time between January 1, 2005, and July 1, 2006, were caught on either end of the new facilities funding continuum and would not be eligible for any state facilities funding programs. Therefore, the General Assembly developed the Transitional Academic Facilities Program to close this funding gap. It was anticipated that school districts likely to qualify under the Transitional Academic Facilities Program would have been involved in the planning or construction process prior to the effective date of new facilities funding opportunities and would likely have made arrangements to fund the full amount of the project being undertaken. The opportunity for these districts to receive unanticipated state assistance was considered a positive enhancement to the facilities program.

The initial appropriation level for state financial participation under the Transitional Academic Facilities Program was established at \$50 million for the 2005-2006 fiscal year. After applications were received and approved, the commission needed approximately \$87 million in state participation funds to finance all projects approved under the Transitional Academic Facilities Program. School districts were called upon to provide approximately \$212 million in local matching contributions. The amount of state funds committed to projects approved under the Transitional Academic Facilities Program exceeded the amount appropriated for the program. A transfer took place in May 2006 and enabled the state to provide financial assistance for *all* approved projects under the program. In addition, school district spending on

these projects, which was slower than expected, had not yet reached the point that the additional funds are needed. As of May 3, 2006, the commission had paid out \$9.7 of \$86.9 million approved for state financial participation in the Transitional Academic Facilities Program, and 77 of 213 projects had been completed. As of August 31, 2006, the commission had paid out \$26.6 of \$86.9 million approved for state financial participation in the Transitional Academic Facilities Program, and 106 of 213 projects have been completed.

The General Assembly and the Division of Public School Academic Facilities and Transportation initially estimated that the Transitional Academic Facilities Program would conclude in 2006. However, it has taken much longer than expected for school districts to engage contractors, coordinate repair projects around student schedules, complete projects, and expend the funds. The division expects that all approved Transitional Academic Facilities Program projects will be completed during the 2008 calendar year.

As indicated by the percentage of funds approved but not distributed under the Academic Facilities Immediate Repair Program and Transitional Academic Facilities Program and the number of projects outstanding, there is a limit to the amount of funds that school districts can reasonably spend on facilities projects. During testimony at the May 3, 2006 meeting of the Academic Facilities Oversight committee, the Director of the Division of Public School Academic Facilities and Transportation reported a shortage of contractors to perform work for school districts. Numerous school districts are experiencing this problem. The extension of the Immediate Repair Program into 2007 is largely because many contractors were not available to school districts during the summer of 2006 due to previously existing commitments to other projects. School districts have also had a significant learning curve related to management of this new financial resource.

The primary long term vehicle for state financial participation in support of local academic facilities is through the Academic Facilities Partnership Program. As with all other facilities programs except bonded debt assistance, state financial support under the Academic Facilities Partnership Program is based on a wealth index to equalize spending throughout the state so that poorer districts will receive more state funding than wealthier districts. The Partnership Program works in tandem with the Academic Facilities Master Plan Program, which requires each school district to develop a ten-year facilities master plan in which a district must detail its strategy for maintaining and improving its academic facilities over a ten-

year period. The division is charged with reviewing and approving local master plans, which will then be used as the foundation for a comprehensive statewide master plan designed to manage local facilities projects statewide.

The deadline for school districts to submit master plans to the division and requests for state financial participation under the Partnership Program for the 2007, 2008, and 2009 fiscal years was February 1, 2006. By May 1, 2006, the division had approved local master plans pertaining to fiscal year 2006-2007; and by July 1, 2006, the division had approved requests for state financial participation in eligible Partnership Program projects for the same fiscal year. The division will have amended local master plans pertaining to the 2007-2009 biennium by March 1, 2007.

Initial appropriation levels for state financial participation under the Partnership Program was established at \$50 million for the 2006-2007 fiscal year. An additional \$25 million was appropriated during the 2006 special session. The division has reported that approximately \$277.2 million in state participation funds will be needed to completely finance all Partnership Program projects to begin in 2006-2007. School districts will need to contribute local matching funds of approximately \$304.7 million. It may seem incongruous that the amount appropriated for the Partnership Program is less than the total amount of funds needed to provide state financial participation for all Partnership Program projects approved for 2006-2007. However, based on spending patterns under the Immediate Repair Program and Transitional Academic Facilities Programs the amount of funds that school districts can reasonably be expected to spend during the 2006-2007 fiscal year is less than the total state financial participation. If spending exceeds expectations, the financial flexibility built into the academic facilities programs provides a mechanism to shift state funds as needed to support local spending.

The economic impact of the state and local funds invested in public school academic facilities projects has been tremendous. Not only are school districts benefiting from improved facilities, local contractors have more earning and hiring capability. Almost \$950 million of facilities projects have been approved since the 2005 Regular Session. In the future, the financial health of many school districts will improve because of state participation in facilities funding, which will reduce the amount of debt obligation a school district needs to incur to support facilities improvement and construction. Under the new facilities programs, a significant portion of the financial investment in academic facilities is occurring through cash

provided before construction or renovation is complete; therefore, school districts will not be forced to borrow against their future.

Further, the committee encourages the division to continue its investigation into the use of an automated statewide maintenance management system. The division is required to maintain an ongoing data base of information regarding the current condition of all public school academic facilities in Arkansas. An automated system has the potential to improve communications between the division and individual districts with regard to the status of deficiencies in facility conditions, correction of deficiencies, and improvements to facilities. It would also enhance school districts' ability to manage and monitor preventive maintenance activities and the division's oversight capacity. Further, an automated management system could provide the state with a means to make more accurate and timely decisions about facilities funding needs.

As with previous hearings conducted by the committee in February 2006, there was no factual evidence presented to the committee or appearing in the committee record to support a conclusion that state funding for facilities is less than adequate. Despite the opportunity to do so, no school district reported to the committee that it had a facility with an existing condition that would present a hazard to the health and safety of students or teachers; and no school district complained that it did not receive sufficient state funds for facilities under the Academic Facilities Immediate Repair Program, the Transitional Academic Facilities Program, or the Academic Facilities Partnership Program.

As noted above, the committee has also addressed several other issues regarding academic facilities funding during the 2005 biennium. The committee found that the Public School Academic Facilities Program and related funding sources are an integral part of the concept of "adequacy"; however, the committee discovered that the Educational Facilities Partnership Fund Account was not protected under "doomsday" and recommended that the General Assembly take corrective legislative action. The General Assembly responded by enacting Section 10 of Act 20 of the First Extraordinary Session of 2006, which amended Arkansas Code Annotated 19-5-1227(d) to include the Educational Facilities Partnership Fund Account under its provisions and thereby preventing the facilities program from receiving a proportionate reduction under the "doomsday" clause if the Chief Fiscal Officer of the State determines that sufficient revenue is not available to fund an adequate educational system. The committee also found that there should be a mechanism to transfer unobligated balances in the General Improvement Fund to the

Educational Facilities Partnership Fund Account for the Academic Facilities Partnership Program and for cost overruns in the Immediate Repair Program and the Transitional Academic Facilities Program. Section 11 of Act 20 of the First Extraordinary Session of 2006 authorized the Chief Fiscal Officer of the State to set aside \$50 million of unobligated balances in the General Improvement Fund for transfer to the Educational Facilities Partnership Fund Account when fund balances in the Educational Facilities Partnership Fund Account fall below \$21,280,590. In order to effectuate a transfer, the Director of the Division of Public School Academic Facilities and Transportation must certify the amount needed to the Commission on Public School Academic Facilities and Transportation. The commission considers the request and if the request is approved, makes a recommendation to the Chief Fiscal Officer of the State. If the Chief Fiscal Officer of the State approves the commission's recommendation, the Legislative Council or Joint Budget Committee are consulted for approval prior to any transfer.

On the recommendation of the committee, the General Assembly clarified the scope of the requirement that a school district dedicate nine percent (9%) of foundation funding to utilities and costs of maintenance, repair, and renovation activities so that school districts can use the dedicated nine percent (9%) for all public school facilities. It also eliminated the statutory cap on a school district's bonding capability since key bond rating agencies testified that the state's bond rating would not be affected by the change. Finally, in order to facilitate administrative efficiencies, the Commission for Arkansas Public School Academic Facilities and Transportation was authorized to operate beyond its former sunset date of July 1, 2007, and the Division of Public School Academic Facilities and Transportation was transferred to the Department of Education.

2. Impact of the Academic Facilities Wealth Index and Development of the Extraordinary Circumstances Program.

The Arkansas Supreme Court has identified the concept that disparities in property wealth among school districts lead to inequities in resources available to students but has ruled that a certain amount of disparity in resources above the level required for adequacy is constitutionally acceptable. However, in an attempt to reduce the impact of these types of disparities in academic facilities, the General Assembly enacted an academic facilities wealth index to equalize spending for all facilities funding programs throughout the state. Poorer districts will receive more state funding assistance per student than wealthier districts. This approach maintains an incentive for local responsibility and local control, which have long

been critical components of Arkansas' public school system. Relevant written testimony submitted to the Senate Interim Committee on Education and the House Interim Committee on Education in conjunction with the ongoing adequacy study was shared with the Academic Facilities Oversight Committee. In that testimony, various interested parties continued to espouse the need for local control of school districts in a variety of areas related to facilities. In addition, it has been claimed that the wealth index does not consider the specific "needs" of a district and that this omission is problematic. To the contrary, the wealth index was not designed to consider need, which is more appropriately accounted for in the master planning process. Also, the Director of the Division of Public School Academic Facilities and Transportation commented in written testimony provided to the committee, "[The wealth index used in Arkansas] is similar to funding equalization formulas used in a number of education departments throughout the United States. It appears to be the most reasonable way to equitably distribute funds".

Concern has been raised that some school districts might not receive state financial participation in facilities projects because they might not have sufficient resources to raise their local share. However, there has been no evidence before the committee that this concern is or was supported by anything other than speculation. No school district has come forward to testify that it will be unable to fix or construct a school building because it cannot raise its required local contribution. On the other hand, the committee recommended the consideration of various options to address the potential needs of school districts that might face extraordinary circumstances.

To further the development of this concept, the General Assembly adopted Acts 34 and 35 of the First Extraordinary Session of 2006. These identical acts require the Commission for Arkansas Public School Academic Facilities and Transportation to develop by rule the Academic Facilities Extraordinary Circumstances Program under which the Division of Public School Academic Facilities and Transportation will provide state financial assistance to eligible school districts that do not have sufficient means to contribute local resources necessary to qualify for state financial participation under other state academic facilities funding programs. The division is evaluating the impact of the academic facilities wealth index on all districts with a special emphasis on those with declining enrollment, those with rapid ADM growth, those with insufficient bonding capacity, those with low assessed property values, and those above the ninety-fifth percentile on the academic facilities wealth index. The acts became effective on April 11, 2006. The division is required to report to the General Assembly by January 15, 2007, on

the development of the program and must obtain formal legislative approval before implementing the program.

Also, the removal of the statutory cap on bonding capability was implemented. It was intended to assist high ADM growth districts to adequately respond to the building needs of steadily increasing student populations. Removing the cap on bonding capability provides a funding source to support new building in high ADM growth districts, a funding source previously unavailable due to the cap.

Specifically with regard to high ADM growth districts, the division reported in written testimony that it was premature to consider whether there was a need for an additional funding program specifically designed to assist high ADM growth districts. The division stated that they needed to better understand the impact of the Academic Facilities Partnership Program in meeting projected needs. The division will continue to assess the situation and report to the committee as more information becomes available.

3. Transportation Costs.

The 2006 Picus Report states that transportation costs average \$286 per average daily membership, but the variance is wide; it ranges from \$63 per average daily membership to \$658. The division submitted written testimony that it was reviewing options for support of local transportation needs. One of the options under consideration is the introduction of a series of statewide contracts for fuel. This concept would assist school districts by stabilizing the fluctuating costs of fuel. The division has not made a final determination about this possibility because it is still collecting data necessary to determine the scope, cost and feasibility of such a program. Another option under consideration involves the routing of school buses. Currently, this activity is handled entirely at the local level, and for most school districts, it is a labor-intensive undertaking. Automated routing systems are available but only used by a small number of districts. The division is investigating the possibility of implementing a statewide automated bus routing system. Further, the co-chair of the committee, Senator Shane Broadway, has filed an Interim Study Proposal with the Joint Energy Committee to consider the use of biofuels in public school transportation. The Joint Energy Committee has not met since ISP 2005-158 was filed so the study has not yet been adopted or considered. As information on this study becomes available, the Academic Facilities Oversight committee will update the committees.

4. Bonded Debt Assistance

Debt service funding or bonded debt assistance is often referred to as "debt service funding supplement", and the confusion over the name parallels confusion over how the program operates. During the 2005 Regular Session, the General Assembly established a new program of state assistance with local bonded debt. As with similar programs in the past, this new program provides school districts with cash payments designed to help districts retire bonded indebtedness. School districts may use the state assistance to make or supplement payments on bonded debt obligations, but they are not required to do so. While the amount of state assistance is based on the amount of a school district's outstanding bonded debt in existence on January 1, 2005, no state funds are pledged as security for debt. State assistance under this program is available via three (3) separate funding streams, which should be viewed as one (1) primary funding stream and two (2) supplemental funding streams. The supplemental funding streams were designed to enhance the primary source of assistance with bonded debt under this new program in order to make sure that no school district suffered as a result of the change in distribution of state assistance related to local bonded debt. The following discussion describes the overall funding scheme for assistance under this new program.

Primary Funding: Bonded Debt Assistance (formerly known as debt service funding supplement).

School districts will continue to receive state financial assistance on an annual basis to help retire outstanding bonded indebtedness, most of which was incurred to fund the construction of school buildings. The amount of financial assistance will be based on a school district's outstanding indebtedness as of January 1, 2005, the principal and interest payment schedule in effect on January 1, 2005, and a multistep calculation. In making the calculation, the amount of a school district's annual debt payment is reduced by ten percent (10%) unless the school district can demonstrate that the ten percent (10%) is attributable to academic facilities. *It must be emphasized that assistance under this primary funding stream will be phased out over the life of the bond, not over a ten-year period.*

Supplemental Funding No. 1: General Facilities Funding Phase-Out.

One form of supplemental assistance related to bonded debt will be provided in an amount equal to the amount of general facilities funding that a school district received under Act 69 of the Second Extraordinary Session of 2003. Under Act 69, general facilities funding was provided as an addition to the debt service funding supplement. School districts that did not elect to receive debt service funding supplement, but instead elected to receive supplemental millage incentive funding, did not receive general

facilities funding. *This supplemental funding stream will be phased out over ten (10) years.* As the amount of this stream of supplemental assistance is reduced annually, an amount equal to the total amount of the reduction will be placed into the Educational Facilities Partnership Fund Account for general facilities use.

Supplemental Funding No. 2: Supplement Millage Incentive Funding Phase-Out.

The other form of supplemental assistance related to bonded debt will be available in an amount equal to the portion of a school district's supplemental millage incentive funding that exceeded what the school district would have received under the debt service funding supplement formula if the school district had not elected to receive supplemental millage incentive funding under Act 69. Act 69 provided school districts with an alternative to debt service funding supplement in order to raise the value of a mill at the local level. This alternative was called "supplemental millage incentive funding". If a school district elected to receive supplemental millage incentive funding, then it did not receive debt service funding supplement and general facilities funding. *This supplemental funding stream will be phased out over ten (10) years.* As the amount is reduced annually, an amount equal to the total amount of the reduction will be placed into the Educational Facilities Partnership Fund Account for general facilities use. It should be noted that school districts received supplemental millage incentive funding for only one (1) year.

With regard to the ten percent (10%) reduction in the primary funding stream, one hundred twelve (112) school districts submitted written appeals to have the ten percent (10%) reduction reversed. Two (2) school districts submitted appeals after the deadline, and those appeals were not heard due to lack of timeliness. One hundred seven (107) school districts had all or a portion of the ten percent (10%) reduction reversed.

It is anticipated that approximately \$55,000,000 will be distributed to school districts during the 2005-2006 fiscal year under these three (3) funding streams.

Because of the connection between state financial assistance to school districts for obligations associated with bonded debt and state financial assistance for public school academic facilities under programs established during the 2005 Regular Session, the distribution of funds for bonded debt assistance must be evaluated in light of the distribution of funds under the new programs. \$71.9 million has been distributed under the Immediate Repair Program and Transitional Academic Facilities Program with \$49.9 million

more tagged for distribution before these programs conclude sometime during 2008. State financial participation for fiscal year 2007 under the Partnership Program became available July 1, 2006. Therefore, it is premature to evaluate the impact of the 2005 change in the state's distribution of bonded debt assistance. Further, in the First Extraordinary Session of 2006, the General Assembly repealed the limitation on a school district's bonded debt as requested during the February 2006 hearings. It is likewise too soon to determine the impact of this change.

D. Findings and Recommendations of the Academic Facilities Oversight Committee

The Academic Facilities Oversight Committee finds that to ensure continued adequacy in public schools the General Assembly should continue to regularly review and update the needs of Arkansas schools and make changes that are necessary to achieve the state goals of proficiency on statewide assessments.

1. Academic Facilities Funding

The Academic Facilities Oversight Committee finds that academic facilities funding needs should continue to be examined as the Division of Public School Academic Facilities and Transportation implements the Academic Facilities Master Plan Program and the Academic Facilities Partnership Program. In addition, the committee finds that the division has developed the state academic facilities master plan for the 2007 biennium, which will include a list of committed projects for public school academic facilities for the 2008 and 2009 fiscal years categorized by program and method of state financial participation, the total estimated cost of each committed project and the estimated amount of state financial participation, and a four-year forecast of planned new construction projects related to public school academic facilities.

Recommendations:

- (a) The committee should continue to assess, evaluate, and monitor academic facilities funding needs as the Public School Academic Facilities Program develops.
- (b) The committee recommends that the Legislative Council review and consider during the interim and the Joint Budget Committee and the General Assembly review and consider during the 2007 Regular Session the budget request of the division for funds needed to provide state financial support for school districts for projects approved under the Academic Facilities Partnership Program.

2. Impact of Academic Facilities Wealth Index and the Extraordinary Circumstances Program

The Academic Facilities Oversight Committee finds that under Acts 34 and 35 of the First Extraordinary Session of 2006, the Division of Public School Academic Facilities and Transportation is developing rules for the implementation of a program to provide state financial assistance to eligible school districts that do not have sufficient means to contribute an amount of local resources necessary to qualify for state financial participation under the primary state academic facilities funding programs.

Recommendation:

The committee recommends that the General Assembly review the proposal that will be submitted by the division in January 2007 and consider whether the proposal adequately addresses the concerns of the General Assembly and warrants official legislative approval.

3. Transportation

The committee finds that the division is analyzing scope, cost and feasibility of entering into multiple statewide fuel contracts to stabilize local fuel costs and implementing a statewide automated bus routing system to support local transportation needs.

Recommendation:

The committee recommends further study of the feasibility of using statewide fuel contracts and a statewide automated bus routing system and will report the results of its study to the committees by February 1, 2007.

4. Bonded Debt Assistance

The committee finds that it is premature to evaluate the impact of the 2005 change in distribution of bonded debt assistance and that the 2005 program of bonded debt assistance should continue to be monitored in relation to the distribution of state financial assistance for academic facilities.

Recommendations:

The committee should assess, evaluate, and monitor the 2005 program of bonded debt assistance in relation to the continued distribution of state financial assistance for public school academic facilities.

5. General Considerations

The committee finds that several issues with regard to this report need further study.

Recommendations:

- (a) The committee recommends that the division work with staff of the Bureau of Legislative Research to identify areas in the current law governing the Arkansas Academic Facilities Program that may be in need of revision or amendment considering possible improvements to the success of the program discovered during the implementation process.
- (b) The committee recommends that this report be amended prior to the beginning of the 2007 Regular Session to address pertinent information that becomes available to the committee for consideration and to review proposed legislation concerning public school academic facilities.

VIII. RECOMMENDED LEGISLATION

1. AN ACT TO AMEND THE PUBLIC SCHOOL FUNDING ACT OF 2003 TO INCREASE THE AMOUNT OF PER STUDENT FOUNDATION FUNDING AND CATEGORICAL FUNDING; TO ENSURE THAT EVERY PUBLIC SCHOOL DISTRICT IN THE STATE RECEIVES THE FULL AMOUNT OF FOUNDATION FUNDING; AND FOR OTHER PURPOSES.
2. INTERIM STUDY PROPOSAL 2007-___ REQUESTING THAT THE HOUSE AND SENATE INTERIM COMMITTEES ON EDUCATION CONDUCT A STUDY TO DETERMINE WHETHER FUNDING FOR INSTRUCTIONAL FACILITATORS SHOULD BE PULLED FROM FOUNDATION FUNDING AND MANDATE THE USE OF INSTRUCTIONAL FACILITATORS THROUGH CATEGORICAL FUNDING.
3. AN ACT TO REQUIRE SCHOOL NURSES AS PROVIDED UNDER THE RECALIBRATION OF THE PER STUDENT FOUNDATION FUNDING BEGINNING WITH THE 2007-2008 SCHOOL YEAR; AND FOR OTHER PURPOSES.

4. INTERIM STUDY PROPOSAL 2007-____ REQUESTING THAT THE HOUSE AND SENATE INTERIM COMMITTEES ON EDUCATION CONDUCT A STUDY TO IDENTIFY BEST PRACTICES AMONG ALTERNATIVE LEARNING ENVIRONMENTS IN ARKANSAS AND TO MAKE RECOMMENDATIONS FOR IMPLEMENTING THOSE BEST PRACTICES STATEWIDE.
5. INTERIM STUDY PROPOSAL 2007-____ REQUESTING THAT THE HOUSE AND SENATE INTERIM COMMITTEES ON EDUCATION CONDUCT A STUDY TO DETERMINE IF THERE ARE SUFFICIENT NUMBERS OF CERTIFIED TEACHERS AVAILABLE IN THE JOB MARKET TO MEET SCHOOL DISTRICT NEEDS FOR SUBSTITUTE TEACHERS.
6. AN ACT TO EXPAND MONITORING BY THE DEPARTMENT OF EDUCATION OF SCHOOL DISTRICT IMPLEMENTATION OF SCHOOL IMPROVEMENT PLANS; AND FOR OTHER PURPOSES.
7. INTERIM STUDY PROPOSAL 2007-____ REQUESTING THAT THE HOUSE AND SENATE INTERIM COMMITTEES ON EDUCATION CONDUCT A STUDY TO DETERMINE THE EXTENT OF THE NEED FOR STATE FOUNDATION FUNDING FOR A SCHOOL DISTRICT'S GROWTH IN AVERAGE DAILY MEMBERSHIP, WHAT LEVEL OF FUNDING MAY BE NEEDED, AND ON WHAT BASIS THE STATE SHOULD PROVIDE THE FUNDING.
8. AN ACT TO REQUEST THAT THE DEPARTMENT OF EDUCATION PREPARE A PLAN FOR AN EXEMPLARY STATEWIDE TEACHER SUPPORT SYSTEM; AND FOR OTHER PURPOSES.
9. AN ACT TO EXPAND THE STUDY OF IMPROVED REPORTING SYSTEMS FOR SCHOOL DISTRICTS TO INCLUDE THE DEVELOPMENT OF MORE DETAILED UNIFORM REPORTING REQUIREMENTS FOR FUND BALANCES; AND FOR OTHER PURPOSES.
10. INTERIM STUDY PROPOSAL 2007-____ REQUESTING THAT THE HOUSE AND SENATE INTERIM COMMITTEES ON EDUCATION REVIEW ISSUES ASSOCIATED WITH THE POSSIBLE CHANGES IN THE ALLOWABLE USES OF EDUCATIONAL EXCELLENCE TRUST FUND PROCEEDS.
11. AN ACT CONCERNING UNIFORM SUPERINTENDENT CONTRACTS; AND FOR OTHER PURPOSES.
12. INTERIM STUDY PROPOSAL 2007-____ REQUESTING THAT THE HOUSE AND SENATE INTERIM COMMITTEES ON EDUCATION CONDUCT A STUDY ON REQUIRING PARITY IN STIPENDS AND SUPPLEMENTAL PAY AMONG CERTIFIED SCHOOL EMPLOYEES.
13. INTERIM STUDY PROPOSAL 2007-____ REQUESTING THAT THE HOUSE AND SENATE INTERIM COMMITTEES ON EDUCATION STUDY THE IMPACT OF REMOVING PUBLIC SCHOOL EMPLOYEE HEALTH INSURANCE FUNDING FROM FOUNDATION FUNDING AND TRANSFERRING THAT OBLIGATION TO THE STATE OF ARKANSAS.

14. AN INTERIM STUDY PROPOSAL 2007-_____ REQUESTING THAT THE JOINT INTERIM COMMITTEE ON PUBLIC RETIREMENT AND SOCIAL SECURITY SYSTEMS STUDY THE POSSIBILITY OF REQUIRING FURTHER REVIEW BY THE GENERAL ASSEMBLY BEFORE ANY FUTURE INCREASES TO THE EMPLOYER CONTRIBUTION RATE OR GRANTS OF ADDITIONAL AUTHORITY TO THE ARKANSAS TEACHER RETIREMENT SYSTEM.
15. AN ACT TO REQUEST THE DEPARTMENT OF EDUCATION TO IMPLEMENT A TWO-YEAR PILOT PROGRAM USING FORMATIVE ASSESSMENTS STATEWIDE; TO PROVIDE FUNDING FOR THE PILOT PROGRAM; AND FOR OTHER PURPOSES.

IX. EXHIBITS

No.

1	Department of Education	Review of the Accounting Needs of School Districts and the ADE
2	Department of Education	APSCN Status and Future Directions
3	Department of Education	ALE Recommendations: 2008 Long Range Development Plan (ALE) Alternative Learning Education; Regional Supervisor/Consultant Alternative Learning Education Positions Recommendation ALE Operating Report
4	Department of Education	Foundation funding memo, Tristan Greene
5	Department of Education	Categorical funding memo, Tristan Greene
6	Department of Education	Salary Schedule Analysis and Recap
7	Department of Education	Consolidations and Annexations
8	Department of Education	Educational Excellence Trust Fund Final Allocation
9	Department of Education	Categorical Fund Reports (ALE, ELL, NSL, PD, and Combined)
10	Department of Education	Estimated Average Teacher Salary for 2005-2006
11	Department of Education	Instructional Facilitator - definition and qualifications
12	Department of Education	ACSIP review
13	Department of Education	Extra Duty Funds

14	Department of Education	Supervisory Aides
15	Department of Education	Summary of Administration Salaries and Benefits
16	Department of Education	Quality Counts report pages
17	Department of Education	Training Summary
18	Department of Education	Advanced Placement and Concurrent Enrollment Statistics
19	Department of Education	High Priority District Teacher Incentive
20	Division of Public School Academic Facilities and Transportation	Academic Facilities Master Plan Program
21	Division of Public School Academic Facilities and Transportation	<ul style="list-style-type: none"> - Rules Governing the Transitional Academic Facilities Program - Question and Answer Testimony for Academic Facilities Oversight Committee - Wealth Index Charts - by county and by district - Testimony of Douglas C. Eaton (updated August 2006) - Bonded Debt Assistance Appeals - Projected Bonded Debt Assistance Reversal - Participation of High Growth Districts in State Funded Programs for Academic Facilities - Summary of Legislation, First Extraordinary Session of 2006
22	Division of Public School Academic Facilities and Transportation	Recommendations dealing with standard school size
23	Assessment Coordination Division	Rules / proposed legislation / spreadsheet
24	Assessment Coordination Division	Implementation of Act 27 (98% collection rate)
25	Act 102 Panel	Recommendations for the Offering of Concurrent Credit Courses and AP Courses
26	Office of the Attorney General	Tim Gauger Memo - teacher salaries
27	Office of the Attorney General	Tim Gauger Memo - funding phantom students
28	Joint Interim Committee on Public Retirement and Social Security Programs	Letter

29	Arkansas Teacher Retirement System	ATRS Employer Contribution Rate - Summary of Sense of the ATRS Board
30	Bureau of Legislative Research	Inflationary Adjustment memo
31	Bureau of Legislative Research	2% recommendation and matrix
32	Bureau of Legislative Research	Teacher salary calculation; Component detail
33	Bureau of Legislative Research	Librarian requirements
34	Bureau of Legislative Research	Global Insight - technology
35	Bureau of Legislative Research	Memo re: Poverty funding
36	Bureau of Legislative Research	Facilities funding
37	Bureau of Legislative Research	Teacher Salaries report
38	Bureau of Legislative Research	ALE report
39	Bureau of Legislative Research	Teacher Supply and Demand report
40	Bureau of Legislative Research	Teacher Recruitment and Retention report
41	Bureau of Legislative Research	Knowledge and Skill-Based Pay Systems report
42	Bureau of Legislative Research	Educating Rural Arkansas: Declining Enrollment/Isolated/High-Poverty
43	Bureau of Legislative Research	After-school and Summer School Programs memo
44	Bureau of Legislative Research	Categorical Funding Programs Cost Comparison
45	Bureau of Legislative Research	InfoSentry Contract for Services (draft)
46	Bureau of Legislative Research	Summary of Lake View (2004) Testimony - Equality of Teacher Salaries
47	Department of Finance and Administration	Act 108 Funding Mechanism
48	Division of Legislative Audit	Arkansas Public School Districts: Summary of Costs FYE 6/30/205 Special Report
49	Division of Legislative Audit	Special Report: Administrative Expenditures; Arkansas Public Schools, October 14, 2005

50	Division of Legislative Audit	Special Report: Arkansas Public Schools; Analysis of Ad Valorem Taxes Collected for School Districts in Selected Counties, May 12, 2006
51	Division of Legislative Audit	Special Report: Arkansas Public Schools; Disclosure of Annuities and Life Insurance Policies, July 14, 2006
52	Education Service Cooperatives Subcommittee	Education Service Cooperatives Study Subcommittee Report
53	Lawrence O. Picus and Assoc.	Recalibrating the Arkansas School Funding Structure - Final Report
54	Lawrence O. Picus and Assoc.	Level and Use of Resources in Arkansas
55	Lawrence O. Picus and Assoc.	School Funding Analysis
56	Lawrence O. Picus and Assoc.	Pupil Transportation (draft)
57	Department of Workforce Education	Review of State Programs / Funding Levels
58	Department of Education	Press Release, December 15, 2006, regarding federal approval of Arkansas' plan for highly qualified teachers
59	Lawrence O. Picus and Assoc.	Arkansas Adequacy District Implementation Survey: Initial Results, March 16, 2006