

**A REPORT ON LEGISLATIVE HEARINGS
FOR THE 2008 INTERIM STUDY ON EDUCATIONAL ADEQUACY
(ACT 57 OF THE SECOND EXTRAORDINARY SESSION OF 2003
AND ACT 1204 OF 2007)**

VOLUME I

**FINDINGS AND RECOMMENDATIONS
OF THE
HOUSE INTERIM COMMITTEE ON EDUCATION
AND THE
SENATE INTERIM COMMITTEE ON EDUCATION**

As Amended December 29, 2008

keeping functions. Also included were utilities and facilities insurance. By keeping the amount at 9 percent, or no less than \$581, the legislature will ensure that adequate funding is available for school districts to maintain a safe and adequate school building environment in which public school students can receive an equitable opportunity for an adequate education.

9. **Recommendation:** Adjust categorical funding by 1.6 percent to 2.8 percent, if necessary, upon evidence that schools need an increase or evidence that may come from current categorical fund balance reports.

Rationale: Unlike foundation funding, categorical funding was not intended to be distributed for the benefit of all students. Three of the four categorical funds are intended for student populations with higher needs than the majority of students. These special needs groups include students in poverty, students who are not proficient in the English language, and students who need the additional assistance of an alternative learning environment. The fourth categorical fund type benefits students through the provision of professional development training for teachers.

The lack of data regarding programmatic structure and its impact on student achievement makes any systematic evaluation of the categorical programs problematic. The evidence presented was insufficient for the Adequacy Subcommittee to determine that the current level of funding for these additional categories prevents schools from providing an equitable opportunity for an adequate education for special needs students, or from providing the level of teacher professional development needed for adequacy. However, because the majority of the categorical costs are for personnel, it is recommended that the cost-of-living adjustment recommended for the teacher salary component of the funding matrix be applied to categorical funding.

10. **Recommendation:** Continue to supplement as necessary the actual collection rate for the uniform rate of tax that falls below 98 percent.

Rationale: The process of calculating state foundation funding aid based on 98 percent of the actual collections of the uniform rate of tax provides a mechanism for ensuring that each school district will have available to it the full amount of foundation funding established by the legislature as the amount needed for adequacy. It is therefore recommended that the legislature continue to supplement the URT collection associated with school districts that are below a 98 percent collection rate.

11. **Recommendation:** It is recommended that the Education Committees study the amount of funding needed for public school employee health insurance. The Education Committees recommend the amount of \$63,000,000 in General Revenue funding be provided in the upcoming biennium to the Arkansas Department of Education's (ADE) Public School Employee Health Insurance appropriation in accordance with Scenario 1B of the Milliman Recommendations to the Employee Benefits Division of the Department of Finance and Administration as presented to the Education Committees on September 22, 2008. The ADE will use the appropriation to make payments directly to the Employee Benefits Division of the Department of Finance and Administration for public school employee health insurance premiums.

Rationale: There was no evidence presented to the Adequacy Subcommittee that the cost of health insurance premiums for public school employees will prevent Arkansas public schools from teaching the required curriculum or prevent Arkansas public school students from achieving proficiency. Therefore, the Adequacy Subcommittee finds that the issue of public school employee health insurance is a matter for the full Education Committees to consider.

The Education Committees determined that the employee health insurance cost is one factor that impacts teacher recruitment and retention in Arkansas, but there has been no clear evidence that health insurance costs, alone, deprive the public school system of the teachers needed for providing a substantially equal opportunity for an adequate education. The recommendation of the Education Committees is not a determination that this amount is needed to provide educational adequacy. However, the increase in funding will help stabilize the premium costs for public school employees and begin the process of equalizing premium costs between public school employees and state employees, which will require two additional bienna to complete.

Milliman's Scenario 1B would fund the employer contributions to public school health insurance premiums at 75% of the employee cost and 50% of the dependent cost by fiscal year 2015, and recommended that, in addition to the \$131 per ADM in the foundation funding matrix, the state fund \$15,865,934 in fiscal year 2010 and \$47,047,788 in fiscal year 2011, for a total of \$62,913,722 for the biennium.

Additional Considerations:

Many factors influence the recommendations made by the Education Committees in addition to those detailed in this section. These include fund balances, other sources of funding available to schools, and the flexibility of districts to shift the funding received between the various matrix components to meet individual needs within each district.

In FY 2006-07, matrix per-student funding was \$5,662. The net legal fund balance for all districts equals \$1,227 per student, or 22% of unspent operations resources available to schools. The net legal fund balance ranges from \$31.05 or 0.55% per student to \$5,817.6 or 102.75% per student. The district with 102.75% had a year's worth of foundation funding unspent. Additionally, some districts had large balances for other funds including a building fund balance of \$35.8 million and a large categorical fund balance of \$2.7 million.

The Education Committees must consider additional funding from state sources above foundation funding that is available for staffing and operations needs. These additional sources of state funds include categorical funding, growth funding, isolated funding, special needs isolated funding, declining enrollment funding, distance learning funding, and others. In addition to state funding many districts raise significant amounts of additional funding through their investments. Districts also use federal funding from a variety of programs to support instructional programs.

Finally, the matrix is not mandated. The components have been established to ensure that the proper level of support to meet adequacy is maintained. However, districts have the flexibility to shift funding to meet the needs of an individual district.