

MINUTES

JOINT ADEQUACY EVALUATION OVERSIGHT SUBCOMMITTEE

10:00 A.M.

Tuesday, April 6, 2010
Room 171, State Capitol
Little Rock, Arkansas

Senator Jimmy Jeffress, the Senate Vice-Chair of the Joint Adequacy Evaluation Oversight Subcommittee, called the meeting to order at 10:00 a.m.

MEMBERS OF THE JOINT ADEQUACY EVALUATION OVERSIGHT

SUBCOMMITTEE IN ATTENDANCE: Representative Bill Abernathy, House Co-Chair; Senator Jimmy Jeffress, Senate Vice-Chair; Representative Eddie Cheatham, House Vice-Chair; Senator Joyce Elliott; Senator Kim Hendren; Senator Gene Jeffress; Senator Johnny Key; Senator Mary Anne Salmon; Representative Toni Bradford; Representative Les Carnine; Representative David Rainey; Representative R.D. Saunders; and Representative Charolette Wagner.

OTHER MEMBERS OF THE GENERAL ASSEMBLY IN ATTENDANCE:

Senator Steve Faris; Senator Jim Luker; Representative Tommy Lee Baker; Representative Jonathan Barnett; Representative Nancy Blount; Representative John Burris; Representative Richard Carroll; Representative Eddie Cooper; Representative Monty Davenport; Representative Jody Dickinson; Representative Jane English; Representative Curren Everett; Representative Billy Gaskill; Representative Rick Green; Representative Eddie Hawkins; Representative Debra Hobbs; Representative Jim House; Representative Donna Hutchinson; Representative Barry Hyde; Representative Keith Ingram; Representative Ray Kidd; Representative Bryan King; Representative Andrea Lea; Representative Uvalde Lindsey; Representative Buddy Lovell; Representative John Lowery; Representative Mark Martin; Representative Walls McCrary; Representative Robert Moore; Representative Barbara Nix; Representative Michael Patterson; Representative Mark Perry; Representative Bobby Pierce; Representative R. Gregg Reep; Representative Mary Slinkard; Representative Tim Summers; Representative Linda Tyler; Representative Kathy Webb; and Representative Jon Woods.

Without objection, the minutes of March 10, 2010, were approved as written.

Senator Jeffress announced that there would be a deviation from the published agenda so the Subcommittee could receive an update on the Adequacy process.

Mr. Richard Wilson, Assistant Director, Research Services, Bureau of Legislative Research, was recognized. Mr. Wilson said that following the end of the 2009 Regular Session, the research team began the task of preparing a long series of reports to meet the requirements of Adequacy. He said that today's report is the first of a series of thirteen (13) that will be presented to the Subcommittee over the next ten meetings. Its topic is expenditure analysis presented in a format utilizing Geographic Information System (GIS) technology.

Senator Jeffress thanked Mr. Wilson and said the Subcommittee would return to Item C on the agenda.

Discussion of Expenditure Analysis of Arkansas's Public Education System

Mr. Paul Atkins, Senior Research Specialist, Bureau of Legislative Research, was recognized. Mr. Atkins presented a report, "Analysis of Arkansas School District Financial, Student, and Achievement Data for the 2009 School Year," using a PowerPoint presentation. He commented that today's report is a broad overview that focuses primarily on financial data. The amount of the revenue and expenditures discussed is in excess of \$4 billion. The geographic maps summarize much of the data; and the schedules at the end of the report give information for specific school districts. The grouping methodology used is to divide all of the state's 245 school districts into five (5) groups, known as "quintiles," which works out to a total of 49 school districts. The scope of the report does not include charter school districts.

Mr. Atkins explained that most of the data was taken from of the Arkansas Public School Computer Network (APSCN) warehouse, and has not been audited. When the numbers are turned into a per pupil calculation, the three quarter Average Daily Membership (ADM) for the current year has been used. The expenditures in this report include magnet funding in Pulaski County; and the ADM statistics incorporate magnet and M-to-M received pupils. In the expenditures, two major categories have been excluded: debt service and facilities acquisition and construction. The report is a focus on K-12 expenditures; adult education and pre-school have been excluded from the numbers. There are no consolidations that enter into the data for 2009, except for the statistics on Map 6 – "2009 Five Year Three-Quarter Average ADM Change," which include a number of consolidations.

Mr. Atkins said that it's very important to look at the methodology on the Arkansas Comprehensive Testing, Assessment and Accountability (ACTAAP) scores. The report looks at achievement for 2009 and also looks at a 3-year change on Achievement on Map 3 -- "2009 Weighted ACTAAP Analysis." The scores of "combined population" were looked at for the purposes of this report; analysis based on specific subgroups was not included. Six tests were chosen to be looked at and a weighted average of those six tests was created. Those six tests were: Fourth Grade Literacy, Fourth Grade Math, Eighth Grade Literacy, Eighth Grade Math, End-Of-Course Algebra, and Eleventh Grade Literacy. The weighted average takes into consideration the relative number of students who scored "proficient" or above. Ultimately, the numbers appearing on page 13, Map 3, take the six tests and turn them into one number, so a simple comparison can be done of that one number between school districts.

A variable for analysis, appearing in bold print, has been selected, such as the ACTAAP performance, the NSLA percent, the percentage white, etc., and then ranked from high to low in the five (5) groups of school districts. When these were organized into a group, the related characteristics of each group of 49 districts were also considered.

Following is the complete summary (pages 5-9) taken from Mr. Atkins's report that details Funding Sources, Expenditure Analysis, Fund Balances, Instruction Percentage, ACTAAP Performance, Regional Trends, and Five Year Three Quarter Average Daily Membership.

FUNDING SOURCES

Major revenue sources for districts include foundation funds (including the first 25 mills of property taxes), property taxes above 25 mills, other state unrestricted funds (such as tax collection rate guarantee, declining enrollment funding, etc.), restricted state funds (such as categorical funds), other restricted state grants for instruction and instruction support and federal funds for instructional support and nutrition programs.

Property tax revenues vary by district based on the valuation of assessed property and the approved millage rates. The chart below divides districts into quintiles based on property taxes per pupil. Property taxes for purposes of the APSCN accounting system are treated as unrestricted revenues, though specific millage rates may be approved at the local level for debt service or other dedicated purposes. The analysis of property taxes indicates that a substantial amount of property taxes related to debt service millage is being used for purposes other than debt service. Property taxes in excess of actual debt service requirements are one of a number of variables affecting the amount of resources that some districts have available for instruction and operations. The majority of exhibits and schedules in this report exclude building acquisition and debt service expenditures. An abbreviated analysis of 2009 property taxes is presented below:

2009 QUINTILE	5	4	3	2	1
2009 PROPERTY TAXES PER PUPIL	\$4,161.30	\$2,667.70	\$2,084.77	\$1,722.52	\$1,335.03
2009 Assessed Value Per Pupil	\$116,621.56	\$75,783.92	\$60,487.62	\$50,085.55	\$39,731.82
Selected 2009 Revenues Per Pupil	\$9,586.48	\$9,390.69	\$8,889.86	\$8,793.72	\$8,568.81
Unrestricted Funds Per Pupil	\$8,220.33	\$7,746.77	\$7,383.05	\$7,301.58	\$7,011.36
State Categorical Funds Per Pupil	\$451.59	\$508.71	\$480.11	\$493.85	\$525.03
Other State Restricted Grants (Excludes Magnet and Academic Facilities Programs)	\$158.02	\$227.24	\$217.60	\$214.92	\$238.74
Federal Grant Fund Revenues (Excludes Nutrition Programs)	\$756.54	\$907.97	\$809.10	\$783.38	\$793.68
Foundation Funds as a Percent of Selected Revenues Included Above	61.97%	63.51%	65.86%	66.96%	67.51%
ACTAAP 2009	69.13%	66.80%	68.70%	69.66%	66.35%
NSLA Percent	55.90%	61.45%	60.16%	60.98%	65.66%
% White	73.51%	74.11%	78.36%	82.11%	76.48%

Map 1 and Schedule 1 of this report show 2009 property taxes by district. Map 1 indicates that the districts in the quintile groups with the highest amount of property taxes per pupil are not always the districts with the lowest NSLA percentages.

Some major revenue sources, however, are directly dependent upon the poverty rate (NSLA) of the district or specific needs of a district. Examples include state restricted categorical funds and Title I federal funds. Selected major 2009 revenue amounts per pupil are summarized below and at Map 2.

2009 QUINTILE	5	4	3	2	1
Selected Revenues Per Pupil	\$10,753.30	\$9,397.29	\$8,810.57	\$8,359.82	\$7,908.57
Unrestricted Funds Per Pupil	\$8,342.65	\$7,719.15	\$7,458.73	\$7,184.41	\$6,958.15
State Categorical Funds Per Pupil	\$774.72	\$567.27	\$430.98	\$375.41	\$310.91
Other State Restricted Grants (Excludes Magnet Programs and Academic Facilities)	\$372.99	\$225.95	\$168.67	\$159.91	\$128.99
Federal Grant Fund Revenues	\$1,262.94	\$884.92	\$752.19	\$640.09	\$510.52
Foundation Funds as a Percent of Selected Revenues Included Above	56.77%	62.06%	66.21%	68.86%	71.89%
2009 Property Taxes Per Pupil	\$3,095.11	\$2,597.69	\$2,437.03	\$2,101.59	\$1,739.91
ACTAAP 2009	58.32%	66.81%	69.67%	71.86%	73.99%
NSLA Percent	74.62%	65.51%	59.99%	55.33%	48.70%
% White	57.99%	71.82%	81.27%	83.25%	90.25%
% Non-White	42.01%	28.18%	18.73%	16.75%	9.75%

The analysis above indicates that revenues are higher for the quintile group having the highest NSLA rate and lowest for the quintile group for the lowest NSLA rate. Foundation funding is a larger percentage of available major revenues for the groups having the least amount of total revenues.

District specific data for the selected major revenue types summarized above are at Schedule 2 of this report.

EXPENDITURE ANALYSIS

Maps 3, 4, and 5 show summaries of expenditures by ACTAAP performance, NSLA and percent white respectively. The general pattern apparent in this analysis is that expenditure levels are greatest among districts having higher NSLA and non-white rates. ACTAAP performance is usually higher among districts with the lower NSLA and the higher percentages of white students. As an illustration of these relationships, a summary of the analysis of expenditures by NSLA percentage is presented below:

2009 QUINTILE	5	4	3	2	1
NSLA PERCENT	84.82%	67.90%	59.47%	52.31%	39.66%
2009 3 QTR AVG ADM	1,234.94	1,942.64	1,839.97	1,858.21	2,486.75
% White	47.59%	77.90%	82.71%	85.72%	90.65%
% Non-White	52.41%	22.10%	17.29%	14.28%	9.35%
ACTAAP 2009 Proficient and Above Percentage	55.68%	66.31%	70.33%	72.40%	75.90%
ACTAAP 2009 Compared to 2007	11.23%	10.44%	10.93%	10.83%	10.50%
2009 Total K-12 Expenditures Less Facilities and Debt Service - Per Pupil	\$10,136.16	\$8,910.90	\$8,233.03	\$8,486.79	\$7,875.37
2009 K-12 Instruction Expenditures Per Pupil	\$5,639.11	\$5,047.80	\$4,894.78	\$4,919.26	\$4,661.02
Instruction % of 2009 Total K-12 Expenditures Less Facilities and Debt Service	55.70%	56.78%	59.46%	58.03%	59.24%

FUND BALANCES

Three types of fund balances were analyzed for purposes of this report: Legal Balances, Unrestricted Fund Balances and Categorical Fund Balances. The latter two fund balances are part of the Legal Balance, which represents the balances of the Teacher Salary Fund, the Operating Fund and the Debt Service Fund. The most significant component of Unrestricted Funds is Foundation Funding. The overall balances for all districts for the 2009 school year are summarized below:

	Legal Balances	Unrestricted Fund Balances	Categorical Fund Balances
Beginning Balance July 1, 2008	\$613,481,193.51	\$490,482,528.33	\$34,781,359.65
Ending Balance June 30, 2009	\$638,338,723.19	\$511,697,710.27	\$32,463,657.04
Change in Fund Balances	\$24,857,529.68	\$21,215,181.94	-\$2,317,702.61

District specific fund balances are presented at Schedule 4. Additionally, a calculation has been made of the ratio of the Unrestricted Fund Balance to the selected revenues presented at Maps 2 and Schedule 2. The range of this calculated ratio is significant -- from 91.08% to .01%. The relative ratio of Unrestricted Fund Balances to the revenues referenced above is summarized as follows for five groups of school districts (49 districts in each group) ranked in order of the relative magnitude of the district's Unrestricted Fund Balance:

2009 QUINTILE	5	4	3	2	1
Unrestricted Fund Balance as a Percent of Selected 2009 Revenue	49.53%	25.19%	17.14%	11.22%	5.17%
2009 3 QTR AVG ADM	1,026.36	1,284.18	1,443.74	2,335.51	3,272.70
5 Year 3 QTR AVG ADM Change	-4.86%	-4.64%	-4.26%	1.81%	2.07%
% Non-White	52.41%	22.10%	17.29%	14.28%	9.35%
ACTAAP 2009 Proficient and Above Percentage	64.69%	67.98%	68.35%	69.23%	70.40%
Total Mills	34.78	36.54	36.20	36.93	36.95
Property Taxes Per Pupil	\$2,571.04	\$2,176.43	\$2,452.80	\$2,206.22	\$2,546.84

The statewide average ratio of Unrestricted Fund Balance to the 2009 selected revenue amounts is 21.65%. The summary above indicates that a number of smaller districts and/or districts with declining enrollment, lower ACTAAP performance and higher percentages of non-white students are significantly represented in the groups above with the higher fund balance percentages.

INSTRUCTION PERCENTAGE

The percentage of K-12 expenditures for instruction has declined in each of the past five school years as indicated below:

2009	2008	2007	2006	2005
57.87%	57.97%	58.58%	59.82%	60.46%

The K-12 instruction percentage calculated above includes all funding sources and all K-12 expenditures except for Building Acquisition and Debt Service. Routine capital items coded to instruction, instruction support and operational support are included in the calculated percentages above. **The calculated percentage expended from any particular funding source, such as Foundation Funds, would likely differ from the percentages shown above.**

ACTAAP PERFORMANCE

A high level analysis of 2009 school year ACTAAP performance by districts was performed for combined population - proficient and above scores. No analysis is included in this report of the various subgroups within the combined population. A weighted average of proficient and above scores was calculated for each district on the basis of six tests - 4th grade literacy and mathematics, 8th grade literacy and mathematics, end of course algebra and 11th grade literacy. The same calculations were made for each district in the 2008 and 2007 school years for comparative purposes. A map showing the results of these calculations is shown below and on Map 3. Additionally, district specific results are found in Schedule 2 of this report.

2009 QUINTILE	5	4	3	2	1
ACTAAP 2009 PROFICIENT AND ABOVE PERCENT	80.58%	74.43%	69.77%	64.94%	50.92%
NSLA Percent	48.14%	56.34%	58.30%	61.89%	79.48%
% White	89.35%	86.88%	85.89%	77.59%	44.86%
% Non-White	10.65%	13.12%	14.11%	22.41%	55.14%
2009 3 QTR AVG ADM	2812.90	1419.82	1210.68	1974.80	1944.30
ACTAAP 2009 Compared to 2007	11.68%	11.43%	11.38%	9.88%	9.24%
2009 K-12 Instruction Percent	59.59%	58.31%	57.51%	57.84%	55.96%
2009 K-12 Instruction Expenditures per Pupil	\$4,778.73	\$4,866.48	\$4,946.20	\$4,963.37	\$5,607.31

The analysis above indicates the significant relationship between ACTAAP performance with the NSLA and white/non-white percentages.

The summary above represents the simple averages of 49 school districts ranked according to each district's performance on the six tests, calculated as described above, for the 2009 school year. District specific calculations are shown in Schedule 2 of this report. In particular, the relative level of change from 2007 to 2009 may differ from the group average as calculated above for any given district.

REGIONAL TRENDS

A summary of the variables discussed in this report by region is shown at Map 7.

FIVE YEAR THREE QUARTER AVERAGE DAILY MEMBERSHIP CHANGE

Map 6 shows the calculated five year change in the three quarter average daily membership (ADM). Unlike other maps in this report based upon five quintile groups of 49 districts, Map 6 is divided into six groups. The six ranges represented on the map include increases and decreases of zero to ten percent, ten to twenty percent, and more than twenty percent. It is noteworthy that there are 55 districts that have a calculated five year decline greater than ten percent.

REVENUES AND EXPENDITURES 2009, 2008, AND 2007

	2009	2008	2007
REVENUES			
UNRESTRICTED REVENUES:			
*URT Property Taxes	\$873,797,275.36	\$853,855,377.22	\$751,522,861.66
Foundation Funds Other Than *URT	<u>\$1,766,137,468.0</u> 0	<u>\$1,791,794,738.8</u> 7	<u>\$1,810,604,160.0</u> 0
TOTAL FOUNDATION FUNDS	\$2,639,934,743.3 6	\$2,645,650,116.0 9	\$2,562,127,021.6 6
Property Taxes In Excess Of *URT	\$443,727,927.37	\$386,001,702.84	\$372,318,648.08
Other Unrestricted State Funds	\$122,840,576.52	\$115,279,325.04	\$90,708,268.63

Other Local Funds	\$237,629,959.35	\$253,590,108.06	\$258,619,030.03
Unrestricted Federal Funds	\$11,168,178.81	\$12,593,438.20	\$15,056,394.28
SUBTOTAL UNRESTRICTED REVENUES	\$3,455,301,385.4 1	\$3,413,114,690.2 3	\$3,298,829,362.6 8
RESTRICTED REVENUES:			
State Categorical Grants	\$203,970,766.00	\$200,332,198.00	\$186,486,706.00
Other State Grants	\$83,843,316.78	\$83,633,552.41	\$91,923,162.85
Desegregation Funding	\$67,451,985.75	\$57,373,420.36	\$63,832,552.43
Restricted State Funds - Non-Instructional (Academic Facilities, Etc.)	\$131,100,704.79	\$112,489,960.10	\$73,663,733.34
Federal Funds - Federal Grant Fund	\$342,073,748.28	\$308,154,718.38	\$317,561,644.20
Federal Funds - Food Service Fund	\$154,308,047.49	\$139,510,411.68	\$121,505,168.53
SUBTOTAL RESTRICTED REVENUES	\$982,748,569.09	\$901,494,260.93	\$854,972,967.35
TOTAL REVENUES	\$4,438,049,954.5 0	\$4,314,608,951.1 6	\$4,153,802,330.0 3
EXPENDITURES:			
Instruction	\$2,299,724,452.9 2	\$2,274,981,627.7 8	\$2,241,444,342.5 9
Support Services – Students	\$190,712,518.82	\$184,694,606.34	\$170,556,484.85
Support Services - Instructional Staff	\$291,918,909.13	\$279,847,427.10	\$254,869,619.97
School Administration	\$211,998,925.47	\$210,939,641.48	\$207,123,587.07
Central Administration And Support	\$184,800,991.72	\$188,154,345.03	\$195,328,015.80
Operations And Maintenance	\$392,349,132.14	\$376,559,513.84	\$380,796,133.90
Student Transportation	\$163,360,963.57	\$176,714,261.10	\$167,829,949.99
Food Service Operations	\$221,953,001.39	\$214,483,146.73	\$194,497,498.66
Other Non-Instructional	\$16,988,351.40	\$17,740,628.65	\$14,156,950.29
EXPENDITURES (Excluding Facilities and Debt Service)	\$3,973,807,246.5 6	\$3,924,115,198.0 5	\$3,826,602,583.1 2
Facilities Acquisition And Construction	\$400,251,581.71	\$435,356,825.33	\$426,575,899.15
Debt Service	\$234,418,795.51	\$208,990,962.83	\$199,816,177.72
TOTAL EXPENDITURES	\$4,608,477,623.7 8	\$4,568,462,986.2 1	\$4,452,994,659.9 9

**Uniform Rate of Taxation*

The report concludes with Revenues and Expenditures 2009, 2008, and 2007 (page 10), Maps 1-7 (pages 11-17), Schedules 1-4 (pages 18-45), and Expenditure Function Descriptions (page 46).

A question and answer session followed Mr. Atkins' presentation. Among the issues discussed were:

- Clarification of changes in quintile groupings from map to map
- Detection of patterns of similarities and/or differences
- Conclusions to be drawn from the report about the effect of property taxes and other major revenue sources, the percentage amount spent on instruction, the effect of poverty, and the effect of shifts in population
- Ability for a person making educational policy to draw conclusions from the report
- The report as a snapshot in time or a trend analysis
- Connection between education and economic development that is apparent in report, and that should be shared with the Arkansas Economic Development Commission (AEDC)
- Need for additional in-depth analysis to show more detail in the various relationships
- Factoring districts that have consolidated or merged into the average ADM change
- The pressures of fixed costs, *i.e.*, transportation, utilities, etc., on district budgets accelerate the loss in instructional dollars and put instructional programs at risk and don't show through in the numbers
- Helping to raise the standard of achievement statewide
- Property taxes and the wealth index; unrestricted funds per pupil; annual recalculation of the wealth index

Senator Jeffress thanked Mr. Atkins for his presentation.

Senator Jeffress announced that the next meeting of the Joint Adequacy Evaluation Oversight Subcommittee will be at 10:00 a.m. on April 27, 2010, in Room 171 of the State Capitol. The next meeting of the Joint Subcommittee on Grade Inflation of the House and Senate Education Committees will be at 1:30 p.m. on April 27, 2010, in Room 171 of the State Capitol.

There being no further business, the meeting adjourned at 11:16 a.m.