



## Research Report

# Review of Declining Enrollment and Student Growth Funding and Expenditures

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**Prepared for**  
**THE HOUSE INTERIM COMMITTEE ON EDUCATION**  
**AND THE SENATE INTERIM COMMITTEE ON EDUCATION**



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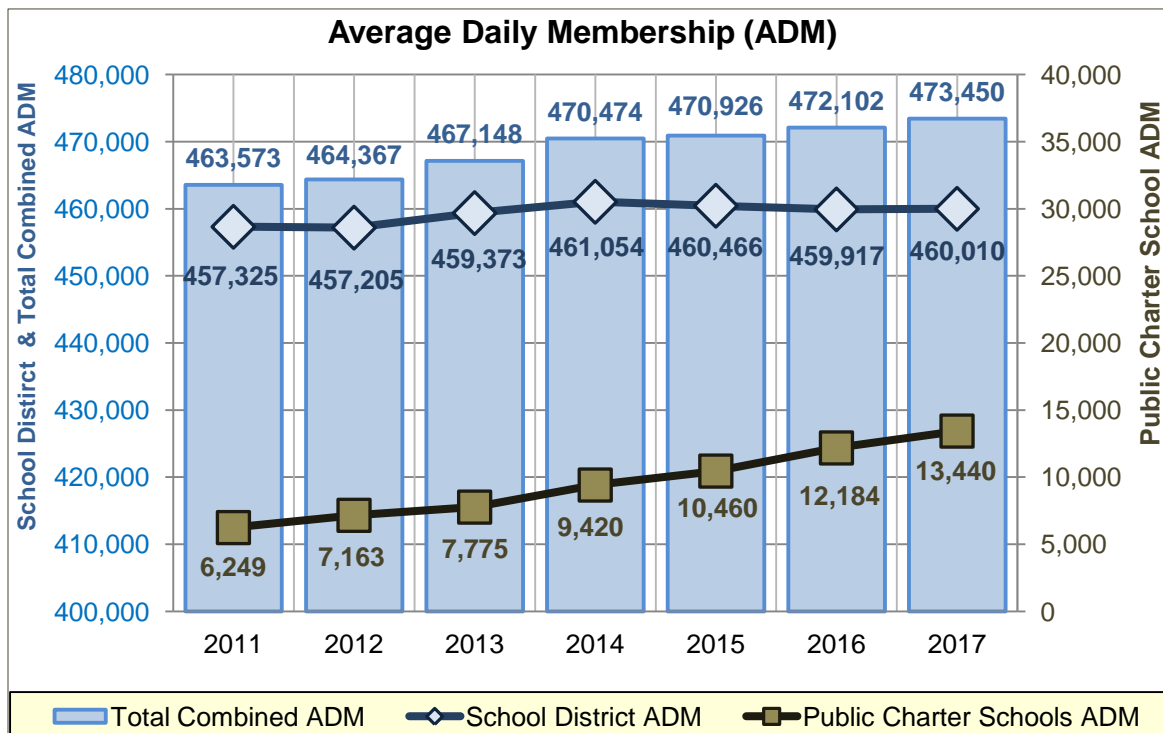
## INTRODUCTION

The Adequacy Study statute (A.C.A. §10-3-2102) requires the Education Committees to evaluate the entire spectrum of public education to determine whether students receive equal opportunity for an adequate education. As part of the effort to accomplish that responsibility, the statute calls for the Education Committees to review expenditures from two types of funding, declining enrollment and student growth funding, which are designed to help districts cope with incremental increases or decreases in their student population. The purpose of this report is to explain how these funding types are distributed and how districts and charters spend the money they receive. The current statute establishing these funding requirements are found in A.C.A. § 6-20-2305(c)(2) and § 6-20-2305(a)(3)(A).

## STATEWIDE CHANGES IN ENROLLMENT

Because this report examines the funding provided to districts based on changes in their student counts, it is important to understand the statewide enrollment patterns. The chart below shows that for all public schools, the total average daily membership (ADM), the calculation representing student count, is increasing slightly—about 2% between 2011 and 2017. However, total ADM in traditional school districts has stagnated since 2014, while the total ADM in open enrollment charter schools continues to increase as more charters open (24 in 2016-17, compared with 17 in 2010-11). Total charter school ADM more than doubled between 2011 and 2017.

CHART 1: STATEWIDE CHANGES IN ADM



Data Source: State Aid Notices 2011-12 through 2017-18. The data above represent the ADM for quarters 1-3 in the year indicated.

The table below shows the districts with the largest percentage increases and decreases in ADM between 2010-11 and 2016-17, not including districts that increased or decreased due to a consolidation or a district split.

TABLE 1: LARGEST PERCENTAGE DECREASES AND INCREASES IN ADM

Largest Percentage Decreases		Largest Percentage Increases	
Helena West Helena	39%	Brookland	44%
Strong-Huttig	31%	Pea Ridge	25%
Dollarway	28%	Lamar	24%
Blytheville	28%	Bentonville	22%
Forrest City	27%	Parkers Chapel	22%

Data Source: State Aid Notices 2011-12 through preliminary 2017-18

## BACKGROUND

As the Adequacy Study Oversight Subcommittee noted in its 2006 adequacy report, “the loss of one (1) or even twenty-five (25) students does not necessarily correlate into the reduction of a teaching position. By the same token, the addition of one (1) or twenty-five (25) students does not necessarily correlate into the addition of a teacher.”<sup>1</sup> Districts receive two types of state funding to help ease the financial burden that comes with incremental increases or decreases in students: student growth funding and declining enrollment funding.

## STUDENT GROWTH FUNDING

For two decades, the state has provided additional funding to growing districts to support increasing enrollments. In 1994, the Governor’s Task Force to Study Arkansas School Funding completed work that was used in the creation of the student growth funding model. According to a 1994 news article<sup>2</sup> as well as letters written to the Task Force, funding for growing districts became one of its top concerns.

Act 917 of 1995 created the new student growth funding program, and it provided a mechanism to determine how growth funding would be distributed to districts and later to open-enrollment charter schools. The act required student growth funding to be determined by comparing first quarter current year ADM to the previous year ADM for the first three quarters. The General Assembly also passed Act 1194 of 1995 to appropriate \$29 million for student growth.

Providing adequate facilities for growing schools was an initial concern in developing student growth funding. In addition to establishing student growth funding, Act 917 of 1995 also established Growth Facilities Funding. Growth Facilities funding was provided to districts that experienced student growth and was designated for school equipment and facilities. Act 1194 of 1995 also appropriated \$9.1 million towards Growth Facilities Funding for the 1995-96 and 1996-97 school years. According to the Adequacy Study Oversight Subcommittee in their 2006 adequacy report, providing adequate facilities for growing populations was the primary struggle of school districts experiencing sustained ADM growth.

<sup>1</sup> A Report on Legislative Hearings for the 2006 Interim Study on Educational Adequacy (Act 57 of the Second Extraordinary Session of 2003), Final Report and Recommendations of the Adequacy Study Oversight Subcommittee to the House Interim Committee on Education and the Senate Interim Committee on Education, Jan. 22, 2007

<sup>2</sup> Reynolds, C., *Arkansas Democrat-Gazette*, Ideas to Pad School Funds Flood Panel New Money Vital, State Leaders Agree, June 28, 1994

## DECLINING ENROLLMENT FUNDING

The costs associated with declining enrollment surfaced as an issue many years after the creation of student growth funding. In 2005, the Special Masters, appointed by the Arkansas Supreme Court to examine the issues raised in the Lake View lawsuit, expressed concern about the financial impact a district's loss of students can have. The Special Masters noted that "a loss of students does not necessarily translate into a reduction in the district's financial need, e.g., fewer students may not mean fewer teachers are needed."

The following February and March, the Adequacy Study Oversight Subcommittee held hearings on issues related to declining enrollment, and in April of that year, the General Assembly passed Acts 20 and 21 of the First Extraordinary Session of 2006, creating the declining enrollment funding program and appropriating \$10 million for that purpose.

The money was intended to be a temporary measure until the funding's effectiveness could be studied further.<sup>3</sup> The Adequacy Study Oversight Subcommittee continued studying the issue in August of 2006 by reviewing the districts that qualified for funding, general population trends in Arkansas counties and other states' funding programs for districts with declining enrollment.

Then, in its final 2006 Adequacy Report, published in January 2007, the Adequacy Study Oversight Subcommittee recognized that districts with declining enrollments (and therefore declining revenues) may not have commensurate decreases in costs. However, the Subcommittee also noted that because districts' foundation funding is based on the prior year's ADM, the formula already provides a built-in "cushion" for loss of students from one year to the next. In other words, if a district has fewer students this year than it had last year and it's being paid this year based on last year's higher student count, the district is receiving funding for more students than it is actually responsible for educating. The Subcommittee recommended continuing to pay declining enrollment funding and additional study.

Since then, declining enrollment funding has been reviewed at least twice, but no changes have been made. In their respective final reports of the 2016 Adequacy Study, the House and Senate Education Committees recommended declining enrollment funding be reviewed in another study. This document is provided in fulfillment of that recommendation.

## STUDENT GROWTH FUNDING

### STUDENT GROWTH CALCULATION

The Arkansas Department of Education is required to calculate the amount of student growth funding based on the quarterly ADM data entered in the Arkansas Public School Computer Network (APSCN). The ADM is determined by adding the total number of school days attended to the total number of days absent during the first three quarters of each school year. The sum of those two numbers is divided by the number of school days taught. This is illustrated below.

$$\frac{\text{Total Number of Schools Days Attended} + \text{Total Number of Days Absent}}{\text{Number of School Days Taught}} = \text{Average Daily Membership (Rounded Up to Nearest Hundredth)}$$

To determine the amount of growth in a district or charter school, ADE compares the ADM for each quarter in the current year to the prior year's 3 Quarter ADM. If there is an increase, ADE multiplies the amount of growth from each quarter by .25, and this equals the quarterly growth

<sup>3</sup> A Report on Legislative Hearings for the 2006 Interim Study on Educational Adequacy, Jan. 22, 2007, page 93

rate. However, if a district or charter has student growth in one quarter but declining enrollment in the remaining three, that district or charter will still be eligible for student growth based on the one quarter. The quarterly growth rate for each quarter in which there was an increase is summed to get the total growth rate. Finally, the total growth rate is multiplied by the foundation funding rate, and this equals the amount of total growth funding.

Ultimately **this formula provides districts and charters the full rate of foundation funding for approximately each student added.**

**Example Calculation:**

FY17	Qtr ADM FY17	3 Qtr ADM FY16	Growth	*	Quarterly Growth Rate
1st Qtr - FY17	899.77	875.50	24.27	.25	6.0675
2nd Qtr - FY17	885.55	875.50	10.05	.25	2.5125
3rd Qtr - FY17	888.60	875.50	13.1	.25	3.275
4th Qtr - FY17*	867.58	875.50	<b>-7.92</b>	.25	<b>0</b>
<b>Total Growth Rate</b>					<b>11.855</b>

\*Beginning in the 2017-18 school year, the formula will use the prior year's 4<sup>th</sup> quarter ADM, rather than the current year's 4<sup>th</sup> quarter ADM, and the 3 Quarter ADM from two years prior.

<b>Total Growth Rate</b>		<b>Foundation Funding Rate</b>		<b>Total Student Growth Funding</b>
11.855	X	\$6,646	=	\$78,788.33

**TABLE 2: STUDENT GROWTH SCENARIO**

Since foundation funding is based on the prior year's ADM, when a district gains students, its foundation funding is not accounting for the new students. Student growth funding is used to provide foundation funding for the new students. Table 2 shows a scenario in which a school district is gaining students. In 2013, this district had 940 students so it receives foundation funding in 2014 based on the 940 students, even though the district now had 960 students. Student growth funding provides the district with the additional foundation funding to accommodate for the new 20 students.

	Current Year Students	Foundation-Paid Students (Based on Previous Year's students)	Difference Between Funded Students and Students District Is Actually Educating	Students Funded By Student Growth	Total Funded Students Above Current Year Students
2013	940				
2014	960	940	-20	+20	0
2015	980	960	-20	+20	0
2016	1,000	980	-20	+20	0
2017	1,020	1,000	-20	+20	0

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



## CHANGES TO STUDENT GROWTH CALCULATION

Since Act 917, the formula for calculating student growth funding has changed multiple times to address concerns regarding the time period used to calculate increases in enrollment. Since 2007, student growth funding has been determined by using the ADM for all four quarters for the current year and the 3 quarter ADM (the first three quarters) from the previous year. The calculation also uses the foundation funding rate so student growth funding is connected to the foundation funding districts and charters receive.

Beginning in 2017-18, the student growth formula will change due to Act 741 of 2017. Instead of using the ADM for all four quarters of the current school year and the 3 quarter ADM from the previous year, student growth funding will be determined by the ADM for the first three quarters of the current school year, the ADM for the fourth quarter from the previous year and the 3 quarter ADM from two years ago. Although the exact impact of this change is difficult to predict, if this method had applied in 2016-17, the overall student growth funding for districts would have decreased by about \$2 million. This change allows ADE to more quickly determine the correct amount of student growth funding for a fiscal year instead of waiting until the 4<sup>th</sup> quarter ADM of the current year.

Additionally, Act 741 reduces the amount of student growth funding that some districts can receive. The affected districts are those that generate enough revenue through their Uniform Rate of Tax (URT), the 25 mills all districts are required to levy, that they do not receive state foundation funding aid. (These districts collect more than enough revenue through their URT to fully fund the foundation funding rate—\$6,713 per student in 2017-18—without requiring additional state foundation funding aid.) There were eight such districts in 2016-17. Going forward, if any of these districts are eligible for student growth funding, Act 741 calls for their student growth funding amount to be reduced by the amount of revenue they generate through their URT and other related funding that exceeds the foundation funding amount. In other words, if a district generates \$75,000 in URT above what is needed to fully fund the per-student foundation funding amount and is eligible for \$100,000 in student growth funding, the district would receive only \$25,000 in student growth. If the district received \$125,000 in URT above what is needed for foundation funding and is eligible for \$100,000 in student growth funding, the district would receive \$0 in student growth funding. In 2016-17, five of these high URT districts received student growth funding.

Student growth funding will also be impacted by Act 933 of 2017, beginning 2017-18. Prior to Act 933, charter schools that were newly opened or added new grades received foundation funding based on current year ADM instead of prior year ADM to accommodate for the additional new students. In these cases, the charter did not receive student growth funding since the current foundation funding amount provided for the new students. With Act 933, the triggers for basing funding on current year ADM were expanded to include charter schools operating under a new license (issued when a charter opens a new campus in another school district) and the first year of adding a new campus. For example, in 2017-18 eSTEM added a new high school campus, so it will receive foundation funding based on students in the 2017-18 school year instead of 2016-17, and the charter school will not receive any separate student growth funding. Haas Hall Academy (Fayetteville) also added two new high school campuses (and two new licenses) starting in 2017-18, so the school will receive foundation funding based on current year ADM and no separate student growth funding.

**HISTORICAL STUDENT GROWTH FUNDING**

Table 3 shows the numbers of districts and charters that received student growth funding as well as the total amounts received in each of the past six years.

**TABLE 3: DISTRICTS AND CHARTERS RECEIVING STUDENT GROWTH FUNDING**

Year	Districts That Received Student Growth Funding	Total Student Growth Funding: Districts	Charters That Received Student Growth Funding	Total Student Growth Funding: Charters	Total Student Growth Funding
2012	94	\$24,390,665	6	\$1,897,328	\$26,287,993
2013	104	\$35,476,686	6	\$1,414,698	\$36,891,384
2014	113	\$29,210,065	9	\$4,882,668	\$34,092,733
2015	97	\$26,015,945	7	\$2,686,505	\$28,702,450
2016	101	\$19,028,284	6	\$1,826,664	\$20,854,948
2017	101	\$28,562,548	9	\$5,335,592	\$33,898,140

In 2017, 101 school districts received a total of \$28,562,548 in student growth funding. Table 3 shows the amount of student growth funding received by school districts fell more than \$10 million between 2014 and 2016. However, that amount has since increased from \$19 million in 2015-16 to \$28.6 million in 2016-17, despite having the same amount of districts receiving student growth funding. In 2015-16, school districts, overall, received lower student growth payments than in previous years. In 2017, student growth payments to public school districts ranged from \$449 (Mammoth Springs School District) to \$3,323,665 (Bentonville School District). The average student growth payment for districts in 2017 was \$121,543, including all of the districts that did not receive any student growth funding.

In 2017, nine charters received a total of \$5,335,592 in student growth funding. This is an increase of \$3.5 million from 2016. This increase is mostly the result of LISA Academy's expansion. LISA Academy's enrollment cap was expanded from 1,500 to 2,100 students as they opened a new K-6 campus in West Little Rock. This expansion resulted in a student growth payment of \$3,353,455. In 2017, student growth payments to charter schools ranged from \$133 (Haas Hall) to \$3,353,455 (LISA Academy). The average student growth payment for charters in 2017 was \$222,316, including the charters that did not receive any student growth funding.

**TABLE 4: HIGHEST STUDENT GROWTH PAYMENTS**

Table 4 shows the districts and charters that received that highest student growth payment for the 2016-17 school year.

Districts		Charters	
Bentonville	\$3,323,665	LISA Academy	\$3,353,455
Rogers	\$2,154,168	Academics Plus	\$1,661,068
Springdale	\$1,976,753	Haas Hall (Bentonville)	\$91,549
Cabot	\$1,392,835	Imboden Area	\$79,038
Conway	\$1,223,130	KIPP Delta	\$66,460

Due to their expansion, LISA Academy received the highest student growth payment in 2016-17 among all districts and charters, \$3.35 million. Bentonville was close with the second highest student growth payment of \$3.32 million.

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## STUDENT GROWTH EXPENDITURES

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

### **Regular Instructional Programs**

Includes expenditures for regular instruction for preschool through high school instruction as well as athletics and extracurricular activities.

### **Other Instructional Programs**

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

### **Student Support Services**

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

### **Instructional Support Services**

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

### **General Administration and Central Services**

Includes expenditures for the school board, superintendent's office, principal's office, fiscal services (e.g., accounting services) and administrative technology services.

### **Operations and Maintenance**

Includes expenditures for the operation and maintenance of buildings, vehicles, and equipment and security services.

### **Student Transportation Services**

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

### **Non-Instructional Services**

Includes food services and community services operations.

### **Facilities Construction**

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

### **LEA Indebtedness**

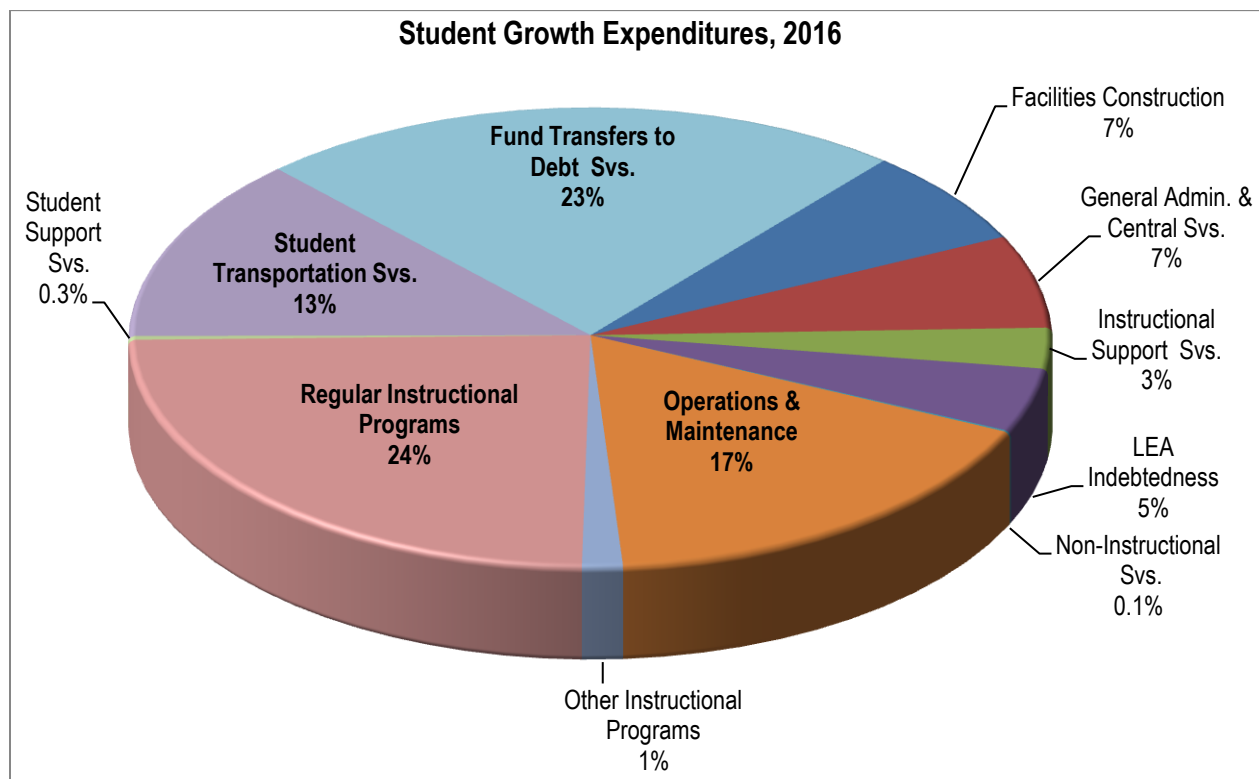
Includes bonded indebtedness and other forms of debt service payments

### **Fund Transfers to Debt Service**

Includes transfers of student growth funding to debt service

**CHART 2: STUDENT GROWTH EXPENDITURES, 2016**

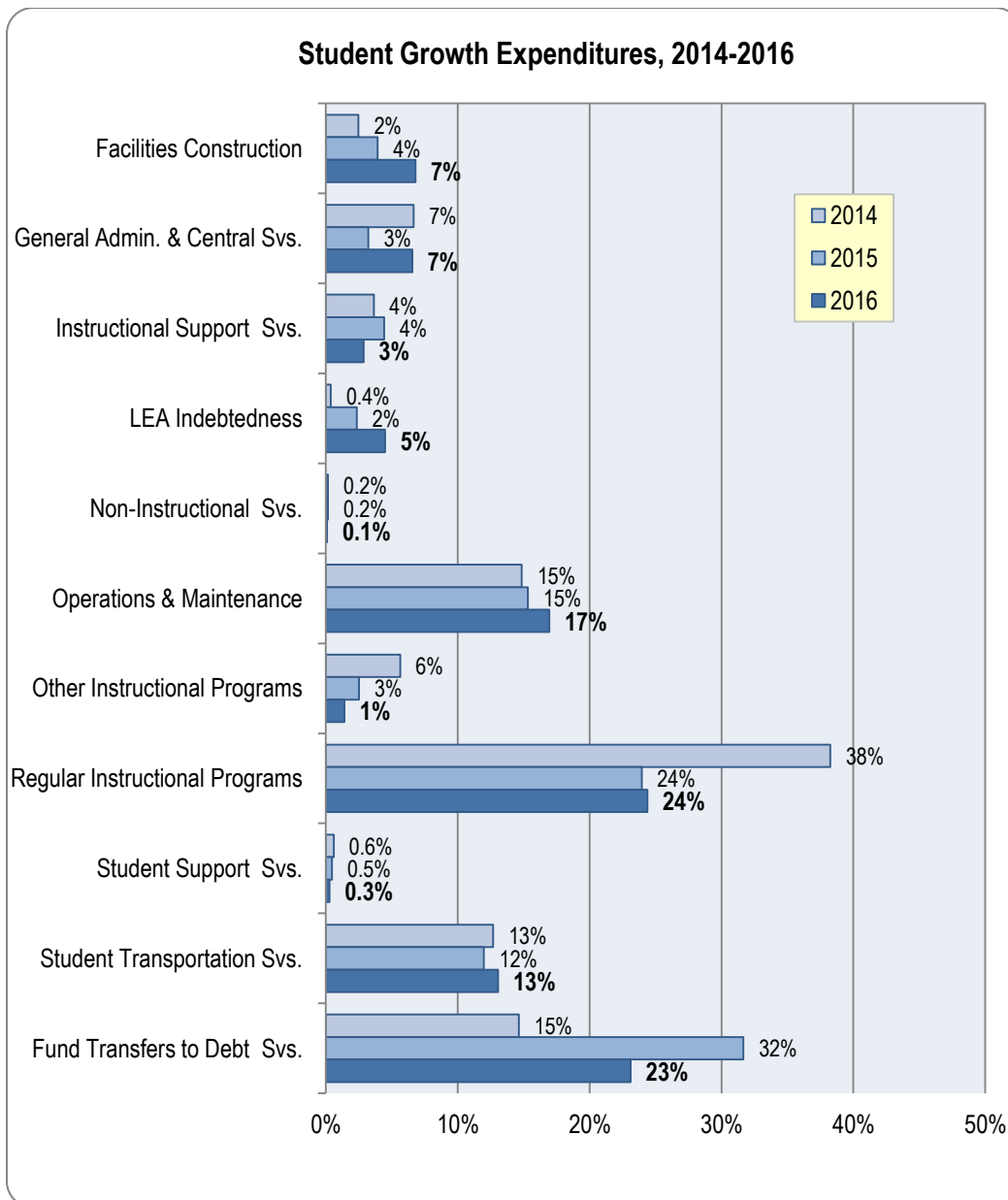
Chart 2 shows how districts and charters spent their student growth funding in the 2015-16 school year. The expenditures for 2016-17 are not included since they have not been finalized in time for inclusion in this report.



In 2016, nearly half of student growth expenditures were spent on regular instructional programs and fund transfers to debt service. Almost a third of student growth expenditures went towards operation and maintenance and student transportation. The remaining uses of student growth funding included support services, instructional staff support, general administration and central services, LEA indebtedness, non-instructional services, and other supporting services.

**CHART 3 STUDENT GROWTH EXPENDITURES, 2014-16**

Chart 3 shows how districts and charters have used their student growth funding between 2014 and 2016. This chart shows the percentage of all student growth expenditures spent in each category each year.



Over the past three years, regular instructional programs have been one of the primary ways student growth funding was spent in districts and charters. However, districts and charter schools have also been spending less on these programs. The student growth funding presented in the 2016 Adequacy Study noted that from 2011 to 2014, districts reduced, by almost half, the amount of student growth funding spent on regular instructional programs. Chart 3 shows that trend continues as 24.38% was spent on regular instructional programs in 2016 compared to 38.25% in 2014. In 2016, the second most common form of student growth funding spending was on fund transfers to debt service with student transportation and operations and maintenance close behind.

As seen in Chart 3 above, as student growth funding spent on regular instructional programs has been decreasing, the amount of student growth spent on transfers to debt service have been increasing. There was a spike in 2015 when the percentage of student growth expenditures for transfers to debt service increased from almost 14.63% in 2014 to 31.66% in 2015. This was due to more districts spending their student growth funding on debt service. In 2014, 8 districts transferred student growth funding to be used for debt service payments whereas 12 districts did so in 2015. The amount of districts transferring student growth funding to debt service dropped to 7 in 2016.

**TABLE 5: STUDENT GROWTH FUNDING AND EXPENDITURES – DISTRICTS**

Table 5 shows student growth funding provided to the school districts compared with the districts' total student growth expenditures over the past three school years. The expenditures for 2016-17 are not included since the expenditures for 2016-17 were not finalized in time for inclusion in this report. (These figures do not include charter schools. See Student Growth Funding and Expenditures – Open Enrollment Charter Schools.)

Year	Student Growth Funding	Expenditures
2012	\$24,390,665	\$20,990,377
2013	\$35,476,686	\$28,352,624
2014	\$29,210,065	\$22,632,058
2015	\$26,015,945	\$27,789,677
2016	\$19,028,284	\$21,949,785

In 2016, public school districts' funding was \$19 million, and their expenditures totaled almost \$22 million. As seen in Table 3, the amount of expenditures exceeded the amount of student growth funding in both the 2014-15 and 2015-16 school years. This indicates that some districts were spending from their balance carried over from previous year(s) in addition to any student growth funding they may have received in the current school year. This results in smaller ending fund balances being carried over at the end of the school year.

**TABLE 6: STUDENT GROWTH FUNDING AND EXPENDITURES – CHARTERS**

Table 6 shows student growth funding provided to charters and their expenditures for those funds over the past three years.

Year	Student Growth Funding	Expenditures
2012	\$1,897,328	\$1,738,442
2013	\$1,414,698	\$1,006,704
2014	\$4,882,668	\$4,498,903
2015	\$2,686,505	\$2,932,826
2016	\$1,826,664	\$1,929,759

In 2016, charter schools received \$1,826,664 in student growth funding and spent \$1,929,759. Table 6 shows charter schools' expenditures exceeded their student growth funding amount in the 2014-15 and 2015-16 school years. This indicates that some schools are spending from their student growth balance held from previous year(s) in addition to any funding they may have received in the current school year. This resulted in a smaller balance being carried over into the next school year.

## STUDENT GROWTH FUND BALANCES

Districts and charter schools are allowed to carry over student growth funding from one year to the next. As a result, more districts and charters may have ending fund balances that include funding received from the previous year(s). Districts and charters receive student growth funds in two parts: once in January and again in April. These payments are based on ADM estimates and the exact amounts are not finalized until July 31 when actual ADM counts are available. Therefore, districts and charters do not know their true funding until the end of the school year. Since districts and charters do not have a complete picture of their growth funding until July 31<sup>st</sup>, some districts and charters may not spend the current year's funding until the following year. Because of this budgeting practice, it is not uncommon for districts and charters to carry fund balances. Ending fund balances from 2016-17 are not included here as the expenditures were not finalized in time for inclusion in this report.

TABLE 7: STUDENT GROWTH FUND BALANCES

Table 7 shows the total student growth ending fund balance for districts and charters and the number of each with ending fund balances from 2012 to 2016.

Year	Ending Fund Balance: Districts	Districts with Ending Fund Balances	Ending Fund Balance: Charters	Charters with Ending Fund Balances
2012	\$25,509,641	126	\$1,120,473	6
2013	\$32,601,079	141	\$1,135,361	6
2014	\$39,119,630	144	\$1,549,925	6
2015	\$37,513,880	141	\$1,699,540	7
2016	\$34,568,549	144	\$1,562,815	7

In 2016, 144 districts had a total ending fund balance of \$34.6 million. This shows an increase of three districts in the number of public school districts having an ending fund balance since 2014-15. Despite the increase in the number of districts receiving student growth funding, the total ending balance fell by almost \$3 million. This reflects the pattern of school districts spending from their student growth balance from previous years.

In 2016, there were 7 open-enrollment charter schools with a total ending fund balance of \$1,562,815. The total ending fund balance decreased since the 2014-15 school year. This reflects the pattern of schools spending from their student growth balance from previous years.

## DECLINING ENROLLMENT FUNDING

A.C.A. §6-20-2305(a)(3)(A)(i) provides additional funding for school districts that have experienced a decrease in their student population. The funding is designed to provide extra money to help these districts deal with a decrease in foundation funding resulting from the loss of students.

As a district loses students, some costs, such as instructional materials and textbooks, can be easily reduced while others costs remain. Additionally some costs are more difficult to reduce than others. For example, a district may be able to reduce its teaching staff with the loss of 25

students, but may not be able to eliminate the expense of a principal or the operating expenses of a school building until the district loses several hundred students.<sup>4</sup>

Arkansas is not the only state that provides funding or other provisions to help shrinking districts transition to smaller student populations. Some states have established a “hold harmless” provision, guaranteeing school districts at least level funding from one year to the next to protect them from the financial challenges of losing students. Other states address districts’ declining enrollment by basing their per-student funding on prior year student counts, as Arkansas does, or on average student counts of the previous two or three years. This provides declining enrollment districts with funding based on higher student counts than they actually have. At least one other state provides supplemental funding, like Arkansas, offering additional funding for a portion of a district’s decrease in students.<sup>5</sup>

## DECLINING ENROLLMENT CALCULATION

To calculate declining enrollment funding in Arkansas, a district’s ADM for the previous year is subtracted from the average ADM for the previous two years. That amount is multiplied by the per-student foundation funding amount. **The calculation results in providing the foundation funding rate for about half of the students the district lost in a given year.**

### Example Calculation:

FY15 3-Qtr. ADM	FY16 3-Qtr. ADM	FY15 and FY16 Average ADM	FY17 Foundation Funding Amount
2,000	1,800	1,900	\$6,646

<b>Prior 2 Year Avg. ADM</b>		<b>Prior Year ADM</b>		<b>Difference</b>
1,900	-	1,800	=	100
<b>ADM Difference</b>		<b>Foundation Funding Rate</b>		<b>Declining Enrollment Funding</b>
100	X	\$6,646	=	\$664,600

The calculation for declining enrollment funding differs from the student growth funding calculation in three important ways:

- 1.) Student growth funding is based on a district’s growth in the current year, while declining enrollment is based on the loss of students a year ago.
- 2.) Student growth funding is based on increases in students each quarter, while declining enrollment funding is based on the overall decrease for the year.
- 3.) Student growth funding pays districts the foundation funding rate for each student added, while declining enrollment funding pays districts the foundation funding rate for half of the students lost.

As noted earlier, a district with a decreasing student population receives foundation funding for more students than it is actually educating because its foundation funding is based on the ADM

<sup>4</sup> Hartman, W. and Schoch, R., Final Report of the Study of Increasing and Declining Enrollment in Maryland Public Schools, Nov. 16, 2015, <http://www.marylandpublicschools.org/Documents/adequacystudy/MDEnrollmentReport-Rev111615.pdf>

<sup>5</sup> Atherton, M.J. and Rubado, M.E., Center on Regional Politics, Temple University, Hold Harmless Education Finance Policies in the U.S., December 2014, <http://www.cla.temple.edu/corp/corp-publishes-policy-brief-on-hold-harmless-education-finance-policies-in-the-u-s/>



of the previous year when the district had more students. That means declining enrollment funding plays a different role for decreasing districts than student growth funding plays for growing districts.

**TABLE 8: DECLINING ENROLLMENT SCENARIO**

Because foundation funding pays growing districts for fewer students than they are actually educating, the money essentially makes up for these unfunded students. Conceptually, student growth funding ensures districts receive funding for all students they are responsible for educating. Declining enrollment funding, however, pays for students the district does not have. The fictitious example in the table below illustrates that consistently declining districts receive foundation funding and declining enrollment to support one and a half times the number of students they lost. For example, a district that loses 20 students each year, receives funding to pay for 30 more students than they are actually educating.

Year	Current Year Students	Foundation-Paid Students (Based on Previous Year's students)	Difference Between Funded Students and Students District Is Actually Educating	Students Funded By Declining Enrollment	Total Funded Students Above Current Year Students
2013	1,020				
2014	1,000	1,020	+20		
2015	980	1,000	+20	+10	+30
2016	960	980	+20	+10	+30
2017	940	960	+20	+10	+30

### HISTORICAL DECLINING ENROLLMENT FUNDING

Declining enrollment funding typically provides districts and charter schools with an additional \$8 million to \$14 million each year. In 2016-17, 83 school districts and one open enrollment charter school received more than \$11.3 million in declining enrollment funding. After a steady decline in the total declining enrollment funding provided to districts between 2012 and 2015, the total funding increased sharply in 2016. This may result from an overall decrease in ADM in districts statewide between 2014 and 2015.

**TABLE 9: DISTRICTS AND CHARTERS RECEIVING DECLINING ENROLLMENT FUNDING**

Year	Districts Received Funding	Total Districts Funding	Charters Received Funding	Total Charters Funding	Total Declining Enrollment Funding
2012	99	\$12,766,209	3	\$40,489	\$12,806,698
2013	89	\$10,233,450	1	\$23,313	\$10,256,763
2014	78	\$9,773,009	2	\$192,877	\$9,965,886
2015	85	\$8,619,162	1	\$145,320	\$8,764,482
2016	99	\$13,448,877	4	\$262,339	\$13,711,216
2017	83	\$11,267,662	1	\$58,850	\$11,326,512

**TABLE 10: HIGHEST DECLINING ENROLLMENT PAYMENTS**

Table 10 shows the districts and charters that received the highest declining enrollment payment for the 2016-17 school year.

Districts	
Jacksonville North Pulaski	\$927,549
Pine Bluff	\$803,900
Forrest City	\$552,582
Wynne	\$434,682
Helena-West Helena	\$415,840

The Jacksonville North Pulaski School District, in its first year separated from the Pulaski County Special School District (PCSSD), received the highest amount of declining enrollment funding, based on the previous ADM of the Jacksonville schools. Dr. Bryan Duffie, the new Jacksonville superintendent, said Jacksonville has been a declining enrollment area for PCSSD for some time, particularly as military families moving in opted to settle in Cabot. He’s hoping the district’s separation from PCSSD will help stabilize Jacksonville’s student enrollment.

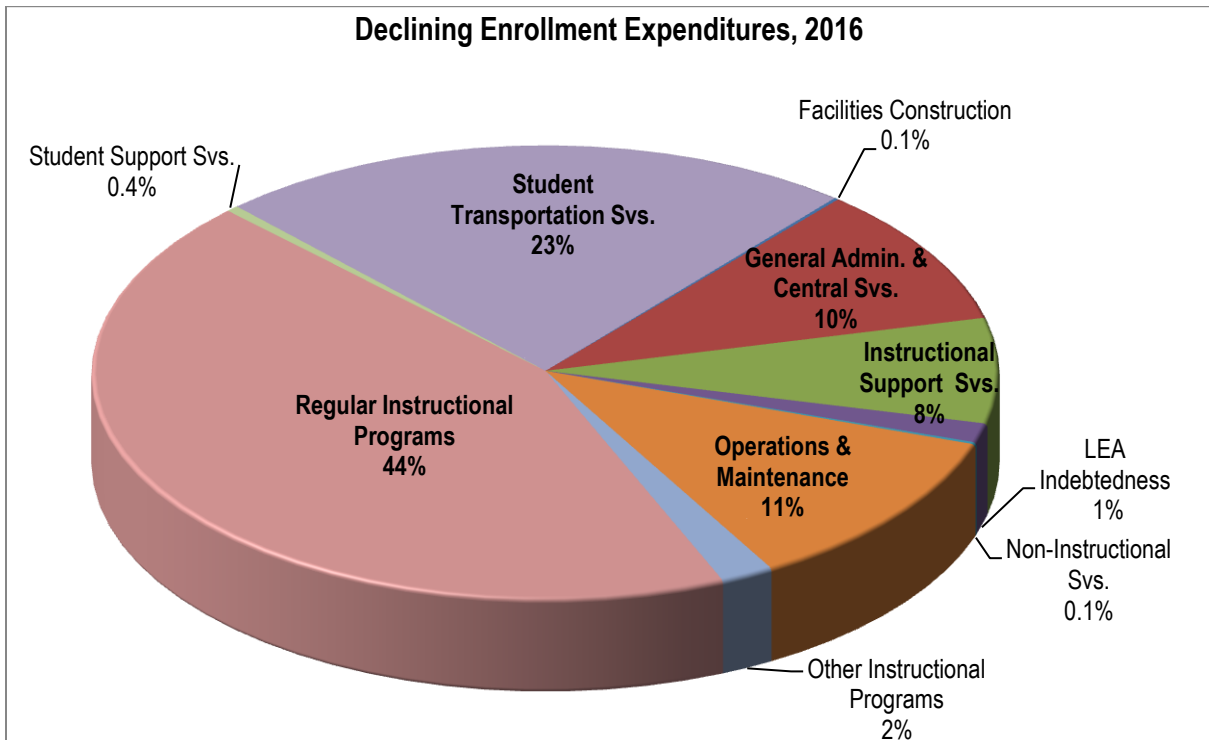
As noted above, just one open enrollment charter school—Premier High School of Little Rock—received declining enrollment funding in 2016-17.

**DECLINING ENROLLMENT EXPENDITURES**

Like growth funding, declining enrollment expenditures are also considered unrestricted, allowing districts to use it however best fits their needs. To examine how districts spent their declining enrollment funds, this report categorizes expenditures by service type. See page 7 for a description of each category shown in the chart.

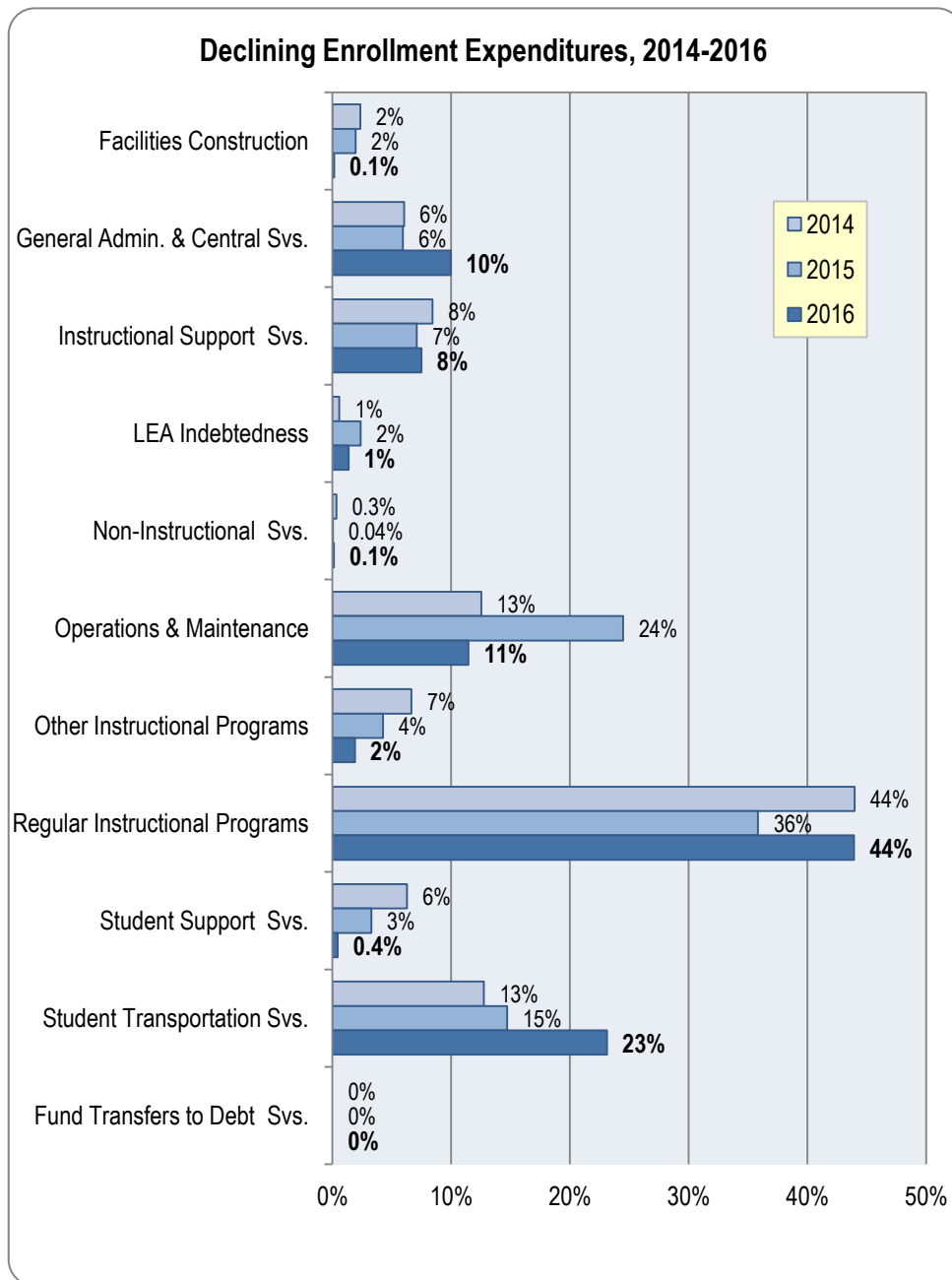
**CHART 4: DECLINING ENROLLMENT EXPENDITURES, 2016**

Districts and charters collectively spent the largest portions of their declining enrollment funding on regular instructional programs, transportation and operations & maintenance.



The following chart shows districts' and charter schools' spending patterns with declining enrollment funding over the last three years. The chart shows the percentage of all declining enrollment expenditures spent in each category each year. Over the last three years, districts and charter schools have spent a greater percentage on transportation and administrative costs. They've also spent a decreasing percentage on student support services (e.g., social work services, guidance counseling, physical and mental health services) and instructional services outside the core academics (e.g., English as a second language, gifted and talented, music).

CHART 5: DECLINING ENROLLMENT EXPENDITURES, 2014-16



**TABLE 11: DECLINING ENROLLMENT FUNDING AND EXPENDITURES – DISTRICTS**

The following table shows the funding provided to districts and charter schools compared with the total expenditures of declining enrollment funding over the past five years. Because districts' declining enrollment funding is dependent on whether they are also eligible for student growth funding (see "Interaction Between Student Growth and Declining Funding" section), some districts may be reluctant to spend the money until they know exactly what they'll receive when the funding has been finalized at the end of the year. Many districts may choose to reserve the money they receive in one year and spend it the following year.

Year	Funding	Expenditures
2012	\$12,766,209	\$10,380,527
2013	\$10,233,450	\$8,355,116
2014	\$9,773,009	\$9,654,965
2015	\$8,619,162	\$10,559,728
2016	\$13,448,877	\$7,627,448

**TABLE 12: DECLINING ENROLLMENT FUNDING AND EXPENDITURES – CHARTERS**

Year	Funding	Expenditures
2012	\$40,489	\$26,470
2013	\$23,313	\$4,712
2014	\$192,877	\$213,905
2015	\$145,320	\$161,604
2016	\$262,339	\$100,268

Declining enrollment funding was designed to ease districts' transition to a smaller student population, not prevent necessary staffing reductions. To examine whether districts that have received declining enrollment are actually reducing their overall operating expenditures and full-time employees (FTEs), the following table provides information on the expenditures and FTEs of the 21 districts that have received declining enrollment every year for each of the last five years. The table shows the average operating expenditures (including and excluding federal expenditures) and the average non-federal FTEs each year for these 21 districts. On average, there has been a consistent decrease in both expenditures and FTEs, suggesting that, in the most consistently declining enrollment districts, the districts appear to be downsizing their staff and spending as their student population diminishes.

**TABLE 13: DECLINING ENROLLMENT EXPENDITURES AND NON-FEDERAL FTES**

Declining Enrollment Districts	2011-12	2012-13	2013-14	2014-15	2015-16
Average Non-Federal Operating Expenditures	\$13.4 million	\$13.4 million	\$13.3 million	\$12.8 million	\$12.9 million
Average Net Current Expenditures (includes federal)	\$16.6 million	\$16.1 million	\$16.0 million	\$15.7 million	\$15.5 million
Average Non-Federal FTEs	237.26	233.68	225.34	219.00	211.42

Note: Average non-federal operating expenditures include expenditures from salary and operating funds, but exclude facilities and construction services and LEA indebtedness (debt service payments). Average non-federal FTEs represent total FTEs, less federal FTEs. Data Source: APSCN, Page 36/37 Report and Annual Statistical Report

## DECLINING ENROLLMENT FUND BALANCES

In 2016, 117 districts and three charter schools collectively had a fund balance of declining enrollment funding of more than \$19 million, a significant increase over previous years. The large increase is likely related to the significant increase in declining enrollment funding that districts received in 2016.

TABLE 14: DECLINING ENROLLMENT FUND BALANCES

	Total Declining Enrollment Fund Balance: Districts	Districts with Ending Fund Balances	Total Declining Enrollment Fund Balance: Charters	Charters with Ending Fund Balances
2011-12	\$12,992,972	101	\$24,927	4
2012-13	\$14,876,011	100	\$42,373	3
2013-14	\$14,994,098	106	\$21,345	2
2014-15	\$13,034,056	109	\$5,061	1
2015-16	\$18,849,826	117	\$167,132	3

Unlike student growth funding, declining enrollment funding has been distributed to districts in a single January payment. However, because districts' declining enrollment funding is dependent on whether they are also eligible for student growth funding (see next section), some districts may be reluctant to spend the money until the student growth funding calculations have been finalized at the end of the year. Districts that opt to wait and spend their declining enrollment funding the year after they receive it will carry a large year-end fund balance.

## INTERACTION BETWEEN STUDENT GROWTH AND DECLINING FUNDING

**Because districts can qualify for growth or declining enrollment funding even when they have small increases or decreases in ADM, some districts may receive student growth funding one year due to a slight increase in students and declining enrollment the next year.** The Cabot School District is one example of a district moving back and forth between these funding programs. In 2013 and 2014, Cabot received student growth funding. The district received neither funding source in 2015, but qualified for declining funding in 2016, followed by a large increase in student growth funding in 2017. This example is provided in the table below.

TABLE 15: FUNDING RECEIVED IN EXAMPLE SCHOOL DISTRICT

	ADM	Funding Received
2012-13	10,115	\$318,129 Student Growth
2013-14	10,177	\$327,178 Student Growth
2014-15	10,091	\$0
2015-16	10,063	\$283,375 Declining Enrollment
2016-17	10,282	\$1,392,835 Student Growth

During the five school years between 2013 and 2017, 120 districts received both types of funding in different years.

Districts may also be eligible for both student growth funding and declining enrollment funding in the same year. That's because the calculations for two types of funding are based on ADM changes in different years. For example, the 2017 declining enrollment funding was based on the change in ADM between 2015 and 2016, while the 2017 student growth funding was based on the ADM change between 2016 and 2017. As a result, **it's possible for a school district to qualify for both declining enrollment and student growth funding in the same year.** A

district whose ADM decreased between 2015 and 2016, but increased in 2017 would qualify for both types of funding. However, **state statute prohibits districts from actually receiving both funding types in a single year**. When a district qualifies for both, the Arkansas Department of Education issues the funding type that would result in the most money for the district.

The following chart shows the number of districts that were *eligible* to receive both student growth and declining enrollment funding in the same year (although none actually *received* both types of funding).

TABLE 16: DISTRICTS ELIGIBLE FOR GROWTH AND DECLINING ENROLLMENT FUNDING

	Districts <u>Eligible</u> for Growth and Declining Enrollment Funding
2012	58
2013	64
2014	64
2015	50
2016	73
2017	55

While districts can't receive student growth funding and declining enrollment in the same year, a **single year of demographic changes can result in a district receiving student growth funding one year and declining enrollment funding the next**. That's because districts' student growth funding is based on quarterly increases, allowing a district to receive student growth funding if it has an increase in ADM in a single quarter and decreases in the other three quarters. That means a district can receive student growth funding even if its overall ADM for the year decreases. In fact, in 2015-16, seven districts that received student growth funding for increases in one or more quarters in that year, had an ADM decrease for the year overall (represented by the three-quarter ADM). Those annual ADM decreases then make them eligible for declining enrollment the next year.

Table 17 shows an example of how this scenario can happen. In 2015-16, the Clarksville School District received \$10,748 in student growth funding based on growth in ADM in a single quarter that year. The district had declines in ADM the other three quarters that year, resulting in an overall decrease in ADM for the year. That resulted in the district receiving \$98,128 in declining enrollment the next year based on the demographic changes for which it had already been paid student growth funding.

TABLE 17: GROWTH AND DECLINING FOR SAME YEAR OF DEMOGRAPHIC CHANGES

	Q1	Q2	Q3	Q4	3Qtr	Funding
2014-15					2,674.38	
2015-16	2,680.91	2,654.98	2,601.52	2,621.23	2,644.85	
2015-16 Student Growth	2,680.91 -2,674.38	2,654.98 -2,674.38	2,601.52 -2,674.38	2,621.23 -2,674.38		
	6.53	-19.4	-72.86	-53.15	6.53*.25*\$6,584	\$10,748
2016-17 Declining Enrollment	Avg. of 2,644.38 and 2,674.85	2,644.85 -2,659.61				
	2,659.61	-14.765			14.765*\$6,646	\$98,128

## INTERACTION BETWEEN DECLINING AND SPECIAL NEEDS ISOLATED FUNDING

State statute also prohibits school districts from receiving both declining enrollment funding and another type of state funding, special needs isolated funding. (Special needs isolated funding will be addressed in a separate report later in the adequacy study process.) When a district qualifies for both funding types, ADE issues the funding type that results in the most money for the district. In nearly all instances, districts that are eligible for both declining enrollment and special needs isolated funding actually receive the special needs isolated funding amount. The following chart shows the number of districts that were *eligible* for both declining enrollment funding and special needs isolated funding over the past six years (although none of the districts actually *received* both types of funding).

TABLE 18: DISTRICTS ELIGIBLE FOR DECLINING ENROLLMENT AND SPECIAL NEEDS ISOLATED FUNDING

	Districts Eligible for Declining Enrollment and Special Needs Isolated Funding
2012	16
2013	17
2014	20
2015	17
2016	17
2017	11

Districts are allowed to receive student growth funding and special needs isolated funding, and in 2016-17 12 districts received both funding types.

## CONCLUSION

The state of Arkansas provides student growth funding to traditional public school districts and open enrollment charter schools to help them manage increases to their enrollment. Student growth funding was designed to provide additional resources to districts and charters to serve the needs of new students.

To determine the amount of **student growth funding**, the quarterly ADM totals of the current year are compared to the 3 quarter ADM of the previous year. **Essentially, student growth funding provides charters and districts with the full foundation funding rate for roughly each student added.** In 2017, 101 districts received a total of \$28.5 million in growth funding. In that same year, 9 charter schools received \$5.3 million. Act 741 of 2017 changed the way student growth funding amounts will be calculated effective 2017-18. The current year 4<sup>th</sup> quarter ADM will be replaced in the calculation by the previous year's 4<sup>th</sup> quarter ADM.

Since student growth funding is unrestricted, districts and charters have flexibility in where and how growth funding can be used. In 2016, public school districts spent \$21.9 million and charters spent \$1.9 million of their student growth funding. **Student growth funding was most used for regular instructional programs and transfers to the debt service fund.** The amount of student growth funding spent on regular instructional programs has been decreasing over the last few years.

In addition to being unrestricted, student growth funds may be carried over from one year to the next. As a result, districts and charters may have ending fund balances that include funding from the previous year. Thus, it is not uncommon to see districts or charters with an ending fund balance. In 2016, 144 districts had a total ending fund balance of \$34.5 million which reflects an increase in both the number of districts with ending fund balances and the total amount of the

ending fund balance. In 2016, seven open enrollment charter schools had an ending fund balance totaling \$1.5 million.

Districts may also receive declining enrollment funding to ease the financial issues that accompany the loss of students. Districts receive **declining enrollment funding calculated at the foundation funding rate for about half of the students the district lost**. In 2017, 83 districts and one open enrollment charter school received about \$11.3 million in declining enrollment funding. Over the last three years, **districts spent the greatest amount of declining enrollment funds on regular K-12 instruction**. Districts also spent a significant amount of their declining enrollment funds on **student transportation and operations & maintenance**. Total district fund balances for declining enrollment funding have generally increased over the last five years (with a decrease in 2014-15). At the end of school year 2015-16, ending declining enrollment fund balances for 117 districts and three charter schools totaled just over \$19.0 million.

While student growth funding is calculated based on a district's current year ADM growth, declining enrollment funding is based on the loss of students incurred in the prior year. Because the funding is based on change in ADM in different years, **it's possible to qualify for both funding types in the same year**. In 2017, 55 districts qualified for both student growth and declining enrollment funding (though these districts did not actually *receive* both types). Additionally, **it's possible for districts to receive declining enrollment funding one year and student growth funding the next** because the funding calculations are based on changes in student numbers from one year to the next, rather than on a sustained level of increase or decrease.

The fact that districts' declining enrollment and student growth funding amounts are based on different years and different measures—quarterly and annual changes in ADM—and are dependent on the calculations of three different funding programs results in funding streams with **a high degree of unpredictability** for the majority of districts that are neither consistently growing, declining or isolated.