

ARKANSAS

I. GENERAL BACKGROUND

State

In 1995, the Arkansas General Assembly approved the Equitable School Finance Plan (Acts 917, 916, and 1194) which was extensively amended in 1997. Act 917 created Equalization Funding. Within Equalization Funding, 100% of the state funds are equalized. This is a major change in Arkansas school finance as it represents a shift from an expenditure based system to a revenue based system. Act 917 also adjusted the partnership between the state and local school districts. Prior to Act 917, the state had determined the level of spending for certain programs, such as teacher retirement and health insurance. Now local school districts control those programs by combining most of previously categorical programs into the base amount. The trend has been that the legislature has added sizeable amounts to the school fund in both 1995 and 1997.

Local

There are 310 school districts. Local funds are derived from the property tax and miscellaneous income.

Funding Summary 1998–1999

Total State School Aid (All Programs)		\$ 1,569.4 million
Grants in aid	1,569.4 million	
Teacher Retirement Contributions	0 million	
FICA	0 million	
Total Local School Revenue		\$ 649.7 million
Property Tax	649.7 million	
Other local source tax revenue	0 million	
Local source non-tax revenue	0 million	
Total Combined State and Local School Revenue		\$ 2,219.1 million
State Financed Property Tax Credits		
Attributable to School Taxes		0

II. LOCAL SCHOOL REVENUE

Local revenue is almost entirely based on the property tax with the addition of 75% of miscellaneous income which includes severance taxes, payments in lieu of taxation, Federal Forest reserve and other federal funds. The property tax is levied on all real and personal property such as automobiles, boats and houses. All property is assessed at 20% of its use value. The tax rate is expressed in mills.

Income and Sales Taxes

No local school funds are received from the income or sales tax.

Tax Credits and Exemptions

There is a homestead exemption which consists of a sliding scale for persons over 65 earning between 8 and 15 thousand dollars. The amount of exemption decreases as the income rises. This is not a large amount of money.

A state law permits a community to build buildings, sell bonds and forgive taxes, including school taxes for 5 years to attract industry.

III. TAX AND SPENDING LIMITS

Every school district must tax itself 25 mills for Maintenance and Operation. Districts with a higher millage for such expenditures can receive only half of the income produced by the added rate. The state captures the other half.

Deficit spending is outlawed by the state constitution. There are no limits to fund balance accumulation.

IV. STATE EARMARKED TAX REVENUE

One cent of the state sales tax is earmarked for the Teacher Salary Trust Fund. Payments from the fund are included in the total state aid.

Some \$28 million dollars is taken from the general fund. This is used as a payment to the Pulaski County (Little Rock) school districts as a result of the “Pulaski County School Desegregation Agreement.”

V. BASIC SUPPORT PROGRAM

Funding in 1998–1999: \$1,416.2 million.

Percentage of Total State Aid: 90%.

Nature of the Program: Foundation program.

Allocation Units: ADM.

Local Fiscal Capacity: Assessed property value (assessed at 20% of appraised value of real, personal and utility property).

How the Funding Formula Operates: State Equalization Funding per Student (SEFPS) is used to mediate the disparities of property wealth among local school districts up to the 25 mill minimum. The important steps in the computation of SEFPS:

1. Base Local Revenue per Student (BLRPS) is calculated by multiplying 98% of the statewide assessment times 25 mills, and adding this result 75% of statewide miscellaneous funds and the amount approved by the State Board of Education to be paid from the Public School Fund for State Equalization Aid. This result is

then divided by the statewide ADM. Local Revenue per Student (LRPS) is calculated the same as the BLRPS except on the district level.

2. State Equalization Funding per Student (SEFPS) for each district is calculated by subtracting each district's LRPS from the BLRPS.

3. Excellence in Education Trust Funds are designated as part of a district's State Equalization Funding. Districts are required to spend the Trust Fund proceeds on teacher salaries. The calculation for Trust Funds designation is to multiply the ratio of Trust Funds to total (statewide) State Equalization Funding times the district's State Equalization funding.

4. The State Wealth Index is calculated as one minus the ratio of LRPS to SEFPS.

Student Growth Funding is provided to school districts that have had an increase in the number of students from the previous year to the average of the first two quarters of the current year. In 1998–99 the Student Growth Funding was \$11.4 million.

Local M & O Revenue is generated at the local level that the state will consider for Additional Base Funding (ABF) and equity statistics purposes. This calculation, in general terms, is equal to the millage rate available for maintenance and operation times the assessment times 98% plus all Miscellaneous Revenues.

Additional Base Funding (ABF) is established to guarantee that the state meets one of three court tests of equity. It combines certain revenue sources on an ADM basis and then brings all school districts up to a minimum level of revenue per ADM.

The revenues included in the calculation of ABF are: Total Local M&O Revenue Available, State Equalization Funding, General Facilities Funding, Student Growth Funding, and Revenue Loss Funding. These revenue sources are totaled and divided by the ADM of the district.

Once the total state and local revenue per ADM is calculated, all of the school districts are ranked from most revenue per ADM to the least revenue per ADM. The revenue per ADM for the school district at the 95th percentile is multiplied by 80% to arrive at the Minimum State and Local Revenue per ADM (MSLR). Any school district whose revenue per ADM is less than the MSLR receives ABF in the amount per ADM equal to the difference between the district's revenue per ADM and MSLR. Funding for ABF in 1998–99 was \$4.7 million.

Incentive Funding. To qualify for Incentive Funding, a school district must either vote M&O millage above the Uniform Rate of tax or have miscellaneous funds. Only those districts that have a State and Local Revenue per ADM amount less than the Total State and Local Revenue per ADM of the school district at the 95th percentile may receive these funds. Funding in 1998–99 was \$9.3 million.

Isolated School Funding. Districts designated as isolated may receive two levels of funding. All “isolated” districts having an ADM of less than 350 and an ADM density of less than 5 students per square mile receive Category I funding. Category II funding (additional funding equal to 50% of Category I funding) is only for those districts that have an ADM density of less than 1.2 students per square mile. Funding in 1998–99 was \$5.1 million.

Final Adjustments. To all of the above are added fiscal crisis relief funds if received, transportation aid if eligible, and workman’s compensation, aid if received.

All of the above state aid categories are added together. To this must be added the local contribution to determine the funds available to the school district.

Local Share and State Share in Funding: The state contributes approximately 70% and local districts 30%.

Weighting Procedures: Weighted on the basis of ADM based over the first three quarters of the school year.

Adjustments for Special Factors: As part of the basic program, funds are provided for catastrophic occurrences. These can exist due to large pupil loss or fire or windstorm not covered by insurance. In 1998–99, 73 districts participated in the program; 36 were provided funds for pupil loss. In 1998–99 the Catastrophic Loss Funding was \$1.7 million

Aid Distribution Schedule: State Aid is distributed to districts in eleven monthly payments. No aid is distributed in July.

Districts off Formula: Two of the 310 districts have sufficient local resources not to qualify for state aid.

VI. TRANSPORTATION

Funding in 1998–99: \$8.2 million.

Percentage of Total State Aid: less than 1%.

Description: The sum of \$8.2 million was appropriated for transportation and safety education. To calculate state aid, each district's expenses for transportation are calculated and then divided by the district ADM. In 1998–99, districts with a cost of \$117 per ADM or above received state aid. The rest of the cost of the approximately \$55 to \$60 million for transportation is made up by districts from their total state aid per ADM.

The legislature created a high cost transportation funding system for those districts which incurred high costs transporting students for various geographic reasons. The bulk of transportation funding is based on two elements—student aid and the depreciation allowance. Student aid is calculated as the average number of children transported times a density rate. The depreciation allowance is the sum of the individual allowance for each approved bus in the fleet.

Extent of Participation: Not Reported.

VII. SPECIAL EDUCATION

Funding in 1998–99: \$1 million.

Percentage of Total State Aid: less than 1%.

Description: The legislature appropriated \$1 million for Special Education Catastrophic occurrences. These are individually determined. The rest of the multi-million-dollar cost of Special Education is made up by using funds generated by the state aid per ADM. Arkansas is the only state which does not provide additional funds for special education above the base aid.

Extent of Participation: Not Reported.

VIII. COMPENSATORY EDUCATION

Funding in 1998–99: \$3.5 million.

Percentage of Total State Aid: less than 1%.

Description: The appropriation for this program amounted to \$3.5 million in 1998–99. The funds are used to provide K–3 summer school, college preparatory enrichment programs and K–3 programs during the regular school year. One-half million dollars may be spent on Professional/Consultant services to monitor and assess various programs under the purview of the State Department of Education. Any additional cost must be made from the weighted flat grant per ADM.

Extent of Participation: Not Reported.

IX. GIFTED AND TALENTED EDUCATION

Funding in 1998–99: \$1.9 million.

Percentage of Total State Aid: less than 1%.

Description: Some \$1,942,896 was appropriated for Gifted and Talented in 1998–99. Districts are allowed to identify 5% of their student body as gifted and talented. The appropriation only covers a fraction of the total cost. Hence districts must calculate part of the grants per ADM.

Extent of Participation: Not Reported.

X. BILINGUAL EDUCATION

Funding in 1998–99: \$2.1 million.

Percentage of Total State Aid: less than 1%.

Description: The sum of \$2.1 million was appropriated for students with limited English speaking proficiency. Bilingual Education does not exist and the funds are used to supplement English training. Any additional cost to a district must be drawn from their base funding per ADM.

Extent of Participation: Not Reported.

XI. EARLY CHILDHOOD EDUCATION

Funding in 1998–99: \$ 6.0 million.

Percentage of Total State Aid: less than 1%.

Description: There are two programs in Early Childhood Education. The first is for Early Childhood Special Education. This is funded at the level of \$4,997,400 and the program for ages 4–5 is evident from the title. Second is a million dollars for early childhood curriculum specialists. Once again, additional funds, if needed, must be taken from the basic grant.

Extent of Participation: Not Reported.

XII. OTHER CATEGORICAL PROGRAMS

Consolidation Incentive Funding

Funding in 1998–99: \$0.4 million.

Percentage of Total State School Aid: less than 1%.

Description: Consolidation Incentive Funding is provided to schools created as a result of a voluntary consolidation of existing school districts. The incentive is unrestricted and may be used at the discretion of the local school district. In the event of a consolidation, the resulting school district will receive funds equal to the BLRPS times the ADM of the smaller of the two districts that consolidated, where the minimum ADM applicable is 100 and the maximum ADM applicable is 300.

Extent of Participation: Not Reported.

XIII. TEACHER RETIREMENT AND BENEFITS

Funding in 1998–1999: \$0.

Percentage of Total State Aid: N/A.

Description: The employer's share of teacher retirement, Social Security, and teacher health insurance are all paid for by the districts. They must subtract this from their base grant per ADM.

Extent of Participation: Not Reported.

XIV. TECHNOLOGY

Funding in 1998–1999: \$2.2 million.

Percentage of Total State Aid: less than 1%.

Description: An agency called IMPAC, funded separately from the state school fund, provides computer hardware to school districts. The aid is based upon grant applications and poorer districts are favored.

A growing number of school districts have asked for and received from the voters small millage increases dedicated to technology.

Extent of Participation: 39.

XV. CAPITAL OUTLAY AND DEBT SERVICE

Districts bear the chief responsibility for Capital Outlay and Debt Service. The state has four programs for capital outlay and debt service. Three of these are part of the state aid formula. These are growth facilities funding, general facilities funding, and the debt service funding supplement. The first two are direct funding for facilities. The latter is a method of replacing millage.

General Facilities Funding

Funding in 1998–99: \$10.0 million.

Percentage of Total State Aid: less than 1%.

Description: This category of funding was developed to invest money into the infrastructure of local school district. The amount per district is the ADM times the wealth index times \$37.65. This is added to the State Equalizing amount.

Extent of Participation: Not Reported.

Growth Facilities Funding

Funding in 1998–99: \$5.0 million.

Percentage of Total State Aid: less than 1%.

Description: To qualify for Growth Facilities Funding, the local school district has to experience growth at a rate greater than the state average growth rate. Any school district that qualifies for Growth Facilities Funding received funds equal to the number of students the district grew times the funding factor. This category of funding is being phased out by Act 1549 of 1999.

Extent of Participation: Not Reported.

Debt Service Funding Supplement

Funding in 1998–99: \$20.7 million.

Percentage of Total State Aid: 1.3%.

Description: Debt Service Funding Supplement applies to bonded debt. Bonded debt issues are secured by a millage voted by the patrons of a school district. Bonded debt can be broken down into regular debt and Mandatory Callable Bonds (MCBs).

Debt Service Mills Required (DSMR) are equal to the regular bonded debt payment for the succeeding calendar year divided by the assessment plus MCBs. Once the DSMR is calculated, then the supplement can be computed as the DSMR times the State Wealth Index time the district ADM times a minimum of \$15.

Extent of Participation: Not Reported.

Revolving Loan Fund

Under the revolving loan fund, districts may borrow money at 7% for up to 8 years. The proceeds may be used for remodeling, small additions and buses. The current maximum amount which can be borrowed is \$500,000.

Additional Programs

With voter approval they may receive additional millage to boost themselves up to 27% of their assessed valuation. With permission from the state board of education the percentage may be raised to 30%. Depending on the phraseology of the assessed millage ballot and with permission of the voters, the district may sell

second lien bonds as the original issue is retired. Bonds may be used for buildings or school buses.

XVI. STANDARDS/ACCOUNTABILITY MEASURES

School districts are audited yearly by the Legislative Audit Branch. They may instead hire their own auditors as some 20 districts do.

“Report Cards” are issued for each district annually. They contain test scores and other data about the school district. Newspapers normally pick these up and comparisons are made.

XVII. REWARDS/SANCTIONS

On the fiscal side, the State Department of Education reviews districts final budgets and audits. It has set up a three-phase sanction for those districts in poor fiscal shape. Under phase one, districts are warned and told to improve their management. In phase two, the state will dictate what must be done. Phase three means the state will run the district. As of 1998–99 no district was worse off than phase one.

Poor test scores result in the same type of sanctions. No district is beyond the warning stage.

XVIII. FUNDING FOR NON-TRADITIONAL PUBLIC SCHOOLS

No charter or other non-traditional public schools exist in the state.

XIX. AID TO PRIVATE SCHOOLS

No state aid is given to private schools.

XX. RECENT/PENDING LITIGATION

At present there are two cases which have been filed against the finance system. These are: *Tucker v. Lake View (Lake View I)*, 917 S.W.2d 530 (1996), and *Lake View II*, a follow-up case filed in Chancery Court in February 1999.

XXI. SPECIAL TOPICS

None.