

UNDERSTANDING ARKANSAS' EDUCATION FUNDING FORMULA

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Over the last two years, Arkansas' education funding system has undergone a variety of changes. Despite the news coverage and public attention over education funding, there remains general confusion around the state about school spending. We have produced periodic briefs to help explain the changes; however, we believe that a straightforward question and answer style brief could be helpful in sifting through the various documents about education spending in Arkansas. Four specific questions seem to be discussed consistently regarding education funding:

- How much money has been allocated for education in Arkansas?
- How has education funding changed over the last 5 years?
- How is education funding spent in schools?
- What is Arkansas' school funding formula?

HOW MUCH MONEY HAS BEEN ALLOCATED FOR EDUCATION IN ARKANSAS?

For the 2004-05 school year (the most recent year available for financial data), the total per pupil revenue was \$8,902 (see Table 1). With approximately 450,000 students in Arkansas' public school system, the amount of money in Arkansas' education system exceeded \$4 billion in 2004-05. The state foundation formula provided \$3,834 per pupil (43%). The state mandated 25 mills assessed to property values increased the state contribution by \$1,591 per pupil (18%), to a total of 61 percent of education funding. State categorical revenues added an additional \$422 per pupil (5%), and "other" state revenues provide an additional \$440 per pupil (5%). Including the required 25 mill property tax rate, total state revenues provided 81 percent of all education revenues in Arkansas. Local revenues, above the required 25 mills, added \$845 per pupil (9%). The federal government contributed \$1,049 per pupil (12%), and miscellaneous revenue accounted for \$684 (8%).

Table 1: Revenue Sources for Arkansas School Districts, 2004-05

Revenue Source	2004-05 Amount Per Pupil	Percent of Total Per Pupil Revenue
State Revenue – Foundation	\$3,834	43%
State Revenue – Categorical	\$422	5%
State Revenue – Capital	\$39	0%
State Revenue – Other	\$440	5%
Uniform Rate of Taxation – 25 mills	\$1,591	18%
Local Revenue (beyond 25 mills)	\$845	9%
Federal Revenue	\$1,049	12%
Other Revenue	\$684	8%
Total Revenue	\$8,902	100%

HOW HAS EDUCATION FUNDING CHANGED OVER THE LAST 5 YEARS?

For the last two years, the term "\$5,400" has been publicly discussed around the state. The \$5,400 figure refers explicitly to the 2004-05 foundation

formula expenditure per pupil amount; however, this amount is not the total per pupil dollar amount dedicated for education in Arkansas. To be clear, the \$5,400 is the minimum amount of local and state money to be spent on each student; however,

students in Arkansas had \$8,902 provided for them in 2004-05. Recall also that the most recent available financial data is for 2004-05, but we do know that more money was put into the education system in 2005-06, which would raise the \$8,902 figure by several hundred dollars per student.

We can also confidently say that the amount of money has increased in 2005-06 because the amount of funding for students has increased dramatically in each of the last five years. Table 1 provides a straightforward comparison of the change in foundation funding (local revenues plus state foundation), current expenditures per pupil (expenditures excluding capital), and total revenue (the total amount of money provided to school districts) over the last five years.

Arkansas school districts have, in fact, received increased amounts of money per year. Each year, the foundation amount has increased by an average of \$172 per pupil, while expenditures have increased an average amount of \$350 per pupil and revenues increased an average of \$530 per pupil.

Recall, the foundation amount was the minimum amount that must be spent on all regular education students and current expenditures were the actual amounts spent on each student, while total revenues were the amount allocated for each student. We see that the largest increase was between 2003-04 and 2004-05, when the Public School Funding Act of 2003 revised the school funding formula. Notice that between 2003-04 and 2004-05, the foundation amount increased by \$672, or more than triple the amount of the average yearly increase over the last five years. Similarly, between 2003-04 and 2004-05, current expenditures increased by \$817, more than double the average increase over the last five years, and total revenues increased by \$1,792, more than triple the average increase over the last five years. Table 2 also shows that total revenues have increased by 42.4 percent since 2000-01, while the average spending of districts has increased by 30.5 percent, which means districts have been receiving money faster than they are spending money.

Table 2: Foundation Amounts, Current Expenditures, and Total Revenues from 2000-01 to 2004-05

Year	Foundation Amount Per Pupil*	Current Expenditures Per Pupil	Total Revenues Per Pupil
2000-01	\$4,562	\$5,738	\$6,253
2001-02	\$4,596	\$6,077	\$6,679
2002-03	\$4,781	\$6,372	\$6,948
2003-04	\$4,752	\$6,672	\$7,110
2004-05	\$5,424	\$7,489	\$8,902
Average dollar increase per year, 2000-01 to 2004-05	\$172	\$350	\$530
Percent increase from 2000-01 to 2004-05	18.9%	30.5%	42.4%

HOW IS EDUCATION FUNDING SPENT IN ARKANSAS' SCHOOLS?

Again, using 2004-05 data, we found that \$4,604, or 61 percent of the total expenditures, were spent on instruction, which includes teacher salaries (see Table 3). The second largest expense for school districts was maintenance and operations at 9

percent, which includes expenditures for operating the school buildings, vehicles, and maintaining order and safety on school grounds. The remaining expenses include food and other services (7%), school level administration (6%), instructional support services (5%), district level administration (4%), pupil support services (4%), and transportation (4%).

Table 3: Expenditures for Arkansas School Districts, 2004-05

Expenditure Type	2004-05 Amount Per Pupil	Percent of Total Per Pupil Expenditure
Instruction	\$4,604	61%
Maintenance & Operations	\$676	9%
Food & Other	\$499	7%
Site Administration	\$413	6%
Instructional Support	\$395	5%
Pupil Support	\$325	4%
Central Administration	\$304	4%
Transportation	\$271	4%
Total Expenditures	\$7,489	100%

WHAT IS ARKANSAS' SCHOOL FUNDING FORMULA?

Arkansas, like many other states, uses a foundation formula for education funding. This foundation formula is based on the minimum allowable expenditure per student in the state of Arkansas; however, this figure should not be confused with the *actual* amount of money provided for educating each student in Arkansas. In 2004-05 and 2005-06, the state foundation amount per student was set at \$5,400. In a special legislative session in March 2006, the legislature increased the 2005-06 school foundation amount from \$5,400 to \$5,486 and scheduled the 2006-07 amount to increase from \$5,497 to \$5,620.

In Arkansas, the foundation amount is comprised of two parts – the local contribution and the state equalization amount. Citizens pay an amount based on their property assessment each year, this amount is used to create the per pupil local contribution. Then, the state subtracts the per pupil local contribution from the foundation amount and pays the remaining amount to the districts. For example, in 2004-05, the formula was:

$$\text{local revenue} + \text{state revenue} = \$5,400$$

For example, in 2004-05, the Fayetteville amount of local revenue per pupil was \$2,660, which means the amount of state revenue for Fayetteville students was \$2,740 (\$2,660 + \$2,740 = \$5,400).

CONCLUSION

Over the last five years, education spending in Arkansas has increased dramatically. Since 2000, the per pupil foundation amount has increased nearly 20 percent, and the per pupil total revenue has increased over 42 percent!

Notwithstanding these increases, the discussion over whether the foundation amount is enough continues. Arkansans, however, must realize that dramatic improvements have been made to their education funding formula, which has produced more resources for high needs students and all students. In late August 2006, the second adequacy report was released by Picus and Associates. This report provides further insights into how money is being spent in districts and makes recommendations for changes to the funding formula.

In early 2007, the Arkansas General Assembly will reconvene and consider making further changes to the education system, specifically examining the recommendations of the most recent Picus report. Regardless of what changes are made, the state's efforts will be closely monitored by school officials across the state, who will be comparing the states' actions to the court requirements.