



4-1-1998

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Recommended Citation

Hughes, Mary F. (1998) "Arkansas School Finance," *Educational Considerations*: Vol. 25: No. 2.
<https://doi.org/10.4148/0146-9282.1372>

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From 1985 to 1996, current expenditure per ADA increased . . . 83 percent.

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Introduction

In 1836, Arkansas was the 25th state to be admitted to the Union. Article XIV of the Arkansas Constitution of 1836 required the state to provide a general, suitable, and efficient system of free public schools. In 1843, the first school law was enacted creating a system of common schools. The law stipulated that financial support was to be obtained from tuition, contributions, and the interest on funds derived from the sale of the sixteenth section lands. The law also created a school commissioner in every township having five families and fifteen children.¹ The Constitution of 1868 provided for support of common schools by taxes (not to exceed two mills per year on property) and by annual per capita tax of one dollar on males over the age of 21. In 1996–97, the state provides over 60 percent of total public school funding through a two level guaranteed minimum funding program per student.

An integral part of the current method of funding public schools is the Arkansas Constitution. Arkansas has had five constitutions: 1836, 1861, 1864, 1868, and 1874. From 1874 to 1991 (118 years), 169 amendments were proposed to the 1874 Constitution with 81 adopted. Eight related to education.² Two recent amendments have a considerable effect on public school funding: Amendment 59 (1980), that provided for a statewide property reappraisal and millage rollback; and Amendment 74 (November 1996) that provided for a uniform 25-mill levy on assessed property in each school district for the funding of maintenance and operations.

Local School District Tax Revenue

Property Tax

Amendment 59 (adopted in 1980) requires taxing units to roll back millage rates when the aggregate value of taxable real and personal property results in an increase of 10 percent or more over the previous year following a reappraisal report. In a study by the Winthrop Rockefeller Foundation (1990), *Arkansas 10 Years After Amendment 59: School Funding Under Stress*, the problem of Amendment 59 for local school district funding was explained:

Following approval of Amendment 59, the legislature passed Act 848, which implemented the provisions of the amendment. Beginning in the year in which the property in a county was reappraised (the base year), no increases in that county's total personal property taxes are permitted. According to Act 848, as the value of assessed personal property increases annually, the millage rate is adjusted downward in the same proportion that the assessment base increases. When the personal property millage rate equals the rate applied to real prop-

erty, no further adjustment will be necessary, and both real and personal property (not including utility property) will subsequently be taxed at the same rate.

Assessed Valuation

The total assessed valuation of the school district equals the assessed valuation of Real Property, Personal Property, and Utilities and Carriers Property. Property is to be assessed between 18 and 22 percent of market value. In 1993, the average assessment rate was 18.18 percent; 20.25 percent in 1995; and 18.6 percent in 1997. In 1997, the assessment rate among the counties ranged from 14.56 percent to 20.22 percent of market value.

Amendment 74 provided for a uniform 25 mill rate on assessed property at a 98 percent collection rate, effective July 1, 1996, for maintenance and operation costs. If voters in a district fail to pass proposals that would meet the minimum requirement, taxpayers in the district will be required to pay a 10 percent state income tax surcharge. The surcharge would begin with the 1996 taxes, due in May 1997. Also, those districts would be prohibited from starting any new school construction projects.

Litigation

In 1983, the Arkansas State Supreme Court ruled the school finance system under Act 1100 of 1979, the Minimum Foundation Program, unconstitutional in *Dupree v. Alma School District No. 30*.³

During 1994, Arkansas's system of school finance suffered two court challenges. The first case, *Lakeside School District v. Arkansas State Board of Education*, quickly determined that the state was not correctly following its own formula and adjustments to state contributions to many districts were mandated.⁴

Arkansas's revised school-finance system was struck down again in *Lake View School District v. Tucker*. Judge Annabelle Clinton Imber ruled that "although money is not the only measure of equity, there is a correlation between the money spent and the quality of education received." Judge Imber ruled Arkansas's school funding system unconstitutional because the system based distribution of funds on maintaining local control—not a legitimate governmental reason to uphold the system. The decision passed down on November 9, 1994, allowed the state two years to provide appropriate legislation to repair the problem. The legislature passed Act 917, The Equitable School Finance System Act of 1995, during the next session to correct the funding problem.⁵

Current Funding Formula

Equitable School Finance Act of 1995 (Act 917 of 1995) Amended by Act 1307 of 1997

School Funding

In general terms, there are two levels of state equalization of student funding. The first level equalizes local school district revenue per student in average daily membership to a minimum level (about \$3,759 per student in 1996–97). In the second level of equalization, specific funding categories are added to the first level of equalized student funds and if the total is less than the Federal Range Ratio (\$3,904 per student in 1996–97) the state adds additional funds. Following is an informal and formal overview of the first level of equalization of student funds.

Level I—Informal View: State Equalization of Local Revenue to a Minimum Level per Student

1. From aggregate available revenue determine the state minimum funding per student.
2. Determine the local school district revenue per student.

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3. With state funds, increase the local school district revenue per student to the level of the state minimum funding per student.

The following is the formal explanation of Level I Equalization:

Base (or minimum) Local Revenue Per Student

- (1) The total available state aid for State Equalization Funding per student;
- (2) Ninety-eight percent (98%) of the uniform rate of tax* times the total state assessed valuation; and
- (3) Seventy-five percent (75%) of the average Miscellaneous Funds** collected in the previous five years or previous year, whichever is less; and
- (4) By dividing the sum by the total state average daily membership (ADM) for the previous year.

[(Assessed Valuation X 25 Mills X 98%) + (75% of the average previous five years Miscellaneous Revenue or the previous year, whichever is less)] divided by previous year ADM.

*Uniform rate of tax means a uniform rate of ad valorem property tax of twenty-five (25) mills to be levied on the assessed value of all taxable real, personal, and utility property in the state to be used solely for maintenance and operation of the schools. In calculating the uniform rate of tax the following categories of millage may be utilized to meet the minimum base millage requirement:

- (A) The local school district's maintenance and operation millage;
- (B) The dedicated maintenance and operation millage;
- (C) Excess debt service millage; and
- (D) The millage derived from the ratio of the debt service funding supplements divided by the total assessment.

**Miscellaneous Funds: Those funds received by a local school district from federal forest reserves, federal grazing rights, federal mineral rights, federal impact aid, federal flood control, wildlife refuge funds, severance taxes, funds received by the district in lieu of taxes, and local sales and use tax dedicated to education.

State Equalization Funding per Student: The amount of state financial aid per average daily membership (ADM for the previous year) provided to each Local School District, calculated by subtracting the Local Revenue Per Student from the Base Local Revenue Per Student.

$$\text{Base Local Revenue/ADM} - \text{Local Revenue per ADM} = \text{Equalization Funding per ADM}$$

Level II Equalization

The following is the formal explanation of Level II Equalization.

Total State and Local Revenue per average daily membership means in each local school district, the amount calculated by taking the sum of:

- (A) The local school district's uniform rate of tax time ninety-eight percent (98%) of the district's assessed valuation; and
- (B) The local school district's additional mills for maintenance and operation times ninety-eight percent (98%) of the district's assessed valuation; and

- (C) The local school district's miscellaneous funds; and
- (D) State equalization funding
 - Student classroom teacher funding
 - Student unit funding
 - Vocational funding
 - General facilities funding and
 - Student growth funding
- (E) The sum of A through D divided by the average daily membership of the local school district.

Minimum State and Local Revenue Per Average Daily Membership

An amount no less than eighty percent (80%) of the total state and local revenue per average daily membership of the local school district at the ninety-fifth (95th) percentile*. [Federal Range Ratio]

Minimum State and Local Revenue/ADM (95th %tile School District) Less Local School District State and Local Revenue/ADM = Additional State Funding/ADM for Local School District

After determining the amount of Total State and Local Revenue per ADM the Department of Education shall provide any additional base funding necessary to ensure that the Total State and Local Revenue per ADM of each Local School District is no less than the Minimum State and Local Revenue per ADM.

* Local school district at the ninety-fifth percentile means when ranking districts in descending order by the total state and local revenue per average daily membership, the district which falls at the ninety-fifth percentile of the total number of pupils in attendance in the schools of this state.

Beginning with the 1996-97 school year, the Department of Education shall provide from available funds, the following school funding categories, in the priority listed, to local school districts:

- (A) Category 1. State Equalization Funding Per Student;
- (B) Category 2. Student Classroom Teacher Funding;
- (C) Category 3. Student Unit Funding; and
- (D) Category 4. Student Needs Funding.

No subsequent category of funding shall receive any funding until each prior category is fully funded. If any category of funding, excluding category 1, is only partially funded, each local school district shall receive a pro rata share. However, if the General Assembly determines that any element of categories 3 or 4 needs to be funded before full funding of any preceding category is achieved, then that subset of either category 3 or category 4 shall be funded exclusive of the previously-listed categories.

Category 2. Student Classroom Teacher Funding

The state financial aid provided to each local school district, calculated as an amount equal to one hundred twelve percent (112%), times one thousand six hundred and thirty-three dollars (\$1,633) per average daily membership. [Some items have received line item funding.]

Category 3. Student Unit Funding

The state financial aid provided to each local school district calculated as follows: by dividing the total funds available for textbook aid, alternative education, including gifted and talented education programs, restructuring, and staff development by the total state average daily membership for the previous year and multiplying

by such local school district's average daily membership for the previous year. [Some of the items have received line item funding.]

Category 4. Student Needs Funding

The amount of state financial aid provided to each local school district from available special education funding, vocational education funding, at-risk funding, isolated funding, and transportation aid and any other categories of student needs funding which may be subsequently identified pursuant to rules and regulations promulgated by the State Board of Education. [Some line item funding, otherwise, must come from Category I funding.]

Line Item Appropriations

Beginning with the 1996-97 school year, the following areas shall be provided to local school districts from available funds in a line item appropriation within the Public School Fund:

- General facilities funding
- Growth facilities funding
- Isolated funding
- Student growth
- Debt service funding supplement
- Students with Limited English Proficiency
- Catastrophic loss funding
- High cost special education students and
- At-risk students

Comparison of the Previous School Aid Formula and the Current

The previous school aid formula, the Minimum Foundation Program Aid was based upon weighted average daily membership. Special education, vocational aid, gifted and talented, alternative programs, summer school, limited English proficient students, and compensatory education had student weightings. Transportation aid was based on the number of students transported, routes, and density.

The current school aid formula combines all the current aid provisions detailed above into one item of aid-per-student in average daily membership (ADM). The concept of varying needs based upon the composition of the student population, the program of instruction provided, the geographic terrain, or other factors is not considered under the new formula.⁶

Cost Shifting—Employee Retirement and Insurance

Beginning in 1996-97, local school districts will be responsible for paying 12 percent of covered salaries to the public school retirement program and the entire responsibility for funding the portion of employee insurance formerly paid by the state, about \$1,260 per employee. For many years, the state retirement contribution was deposited through direct payments to the Arkansas Teacher Retirement System as a result of a line item appropriation for this purpose.⁷

The author of the study, *Arkansas School Funding Plan*, noted that when a listing of state aid for each district is published for 1996-97 and a comparison is made to total state aid distributed to local districts during 1995-96, a large increase will be evident. However, he stated, in order to determine the real difference, it is necessary to compute the payments which become the responsibility of local school districts during 1996-97 in areas which were paid directly during 1995-96. For example, total state aid distributed to the Fort Smith School District during 1995-96 was \$22,270,039. Anticipated state aid during 1996-97 should approximate \$29,207,326. At a cursory glance, the difference in this revenue is almost \$7 million. However, he pointed out, it is important to note that more than \$6.7 million in teacher retirement state matching and employee health insurance payments which were previously paid direct by the state become the responsibility of the School District during 1996-97. The real change in net state revenue to the Fort Smith School District may be no more than \$200,000.⁸

Other Expenditure Requirements

In addition to specific expenditure requirements that are earmarked in Act 917 of 1995, school districts must provide funding for other programs such as: textbooks and instructional materials, summer school (grades 1-5), compensatory education, educational programs for students with limited English proficiency, professional development programs for teachers and administrators, salaries and social security matching for all non-teaching staff members.⁹

Overview of School Funding in Arkansas

From 1985 to 1996, current expenditure per average daily attendance (ADA) increased from \$1,980 to \$3,620, an increase of \$1,640 per student or 83 percent. Average daily attendance increased 12 percent (44,531) in the ten year period and the number of K-12 teachers increased 19 percent (4,683). Average K-12 teacher salaries increased 57 percent

Table 1
Arkansas School Finance—Fifty Years
1945-46 to 1995-96

Year (School Districts)	Current Exp/ ADA	ADA	Teachers K-12 Avg. Salary	Teachers K-12 Number
1995-96 (312)	\$3,620	420,901	\$29,964	29,344
1994-95 (312)	\$3,488	418,087	\$29,354	28,877
Range 94-95	\$7,008-\$2,797	21,324-82	\$33,904-\$20,232	1,729-12.8
1993-94 (315)	\$3,315	414,065	\$28,508	28,550
1985-86 (361)	\$1,980	376,370	\$19,097	24,661
1975-76 (385)	\$700	423,648	\$8,489	20,974
1965-66 (412)	\$275	404,874	\$4,143	17,364
1955-56 (423)	\$130	363,580	\$2,332	14,016
1945-46 (2,345)	\$54	315,742	\$937	12,770

Source: Arkansas Department of Education, *Statistical Summary for the Public Schools of Arkansas, 1988-90; Rankings of Arkansas School Districts 1984-85 & 1983-84; Annual Statistical Report, 1993-94 Actual, 1994-95 Actual, & 1995-96 Actual*

(\$10,867) during the same period. In summary, current expenditure per ADA increased 83 percent; ADA, 12 percent; the number of K-12 teachers, 19 percent; and K-12 average teacher salaries, 57 percent (see Table 1).

Over a 50 year period (1945-46 to 1995-96), current expenditure per ADA increased 6,604 percent; the number of students in ADA increased 34 percent; the number of K-12 teachers, 130 percent; and K-12 teacher salaries increased 3,098 percent. During this 50 year period, the percentage increase in expenditure per pupil was twice the percentage increase in teacher salaries and the percentage increase in the number of teachers was almost four times greater than the percentage increase in the number of students.

In 1945-46, Arkansas had 2,345 school districts. In 1995-96, the number had decreased to 312. There are 75 counties in the state with several school districts located within each county. School district boundaries can cross county lines.

Even though the state school funding formula incorporates average daily membership (ADM), the reports by the State Department of Education incorporate average daily attendance (ADA). Dividing current expenditure by ADM vs. ADA would result in a lower amount per student than displayed in Table 1.

Table 2
Arkansas
Percentage of Expenditure Source
Federal, State, and Local

	Federal	State	Local
1965-66	20%	43%	37%
1975-76	16%	51%	32%
1985-86	10%	61%	29%
1991-92	9%	62%	29%

Source: Arkansas State Department of Education, *Statistical Summary For the Public Schools of Arkansas, 1990-92*.

State, Local, and Federal Funding

In 1965-66, 20 percent of total public school revenue was from the Federal government. The state provided 43 percent of total funds and the local school district, 37 percent. In the

Table 3
Selected and Total Appropriations—Arkansas Public School Fund
1995-96—1998-99

	1995-96	1996-97	1997-98	1998-99
State Equalization Funding	\$1,029,047,124 Min. Foundation	\$1,228,000,000	\$1,349,390,985	\$1,396,195,199
Student Growth Funding	0	\$29,000,000	\$23,500,000	\$25,000,000
General Facilities Funding	\$9,500,000	\$10,000,000	\$10,000,000	\$10,000,000
Growth Facilities Funding	\$4,100,000	\$5,000,000	\$5,000,000	\$5,000,000
Debt Service Funding Supplement	0	\$20,000,000	\$23,000,000	\$24,500,000
Additional Base Funding	0	\$20,000,000	\$20,000,000	\$20,000,000
Student Classroom Teacher Funding	0	\$530,000,000	0	0
Student Unit Funding	0	\$30,000,000	0	0
Student Needs Funding	0	\$250,000,000	0	0
Isolated Funding	0	\$2,500,000	\$4,652,568	\$4,931,722
Incentive Funding I	0	0	\$18,000,000	\$18,000,000
Teacher Retirement Matching	\$130,000,000	\$1,600,000	\$2,843,833	\$2,995,928
Public School Employee Insur.	\$42,815,000	\$480,500	\$736,530	\$774,722
Transportation Aid	\$50,000,000	0	\$8,200,000	\$8,200,000
Special Educ.	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Early Childhood Special Educ.	\$4,197,400	\$4,591,140	\$4,997,400	\$4,997,400
Gifted & Talented	\$1,942,896	\$1,942,896	\$1,942,896	\$1,942,896
Aid to Isolated Dists.	\$175,000	0	0	0
At-Risk Grants & Training	\$30,005,000	0	\$3,500,000	\$3,500,000
Total State Appropriation *	\$1,331,011,563	\$1,456,697,089	\$1,517,199,521	\$1,569,444,351
80% of 95th %tile School Dist.		\$3,904		

Source: *School Laws of Arkansas: Acts of 1997*, Appropriations, General Education Division, 1995-97 & 1997-99 Biennium, Little Rock: Arkansas Association of Educational Administrators.

* Total State Appropriation: Column totals will not equal total state appropriations due to selected categories.

1990s, over 60 percent of total funding is provided by the state and the federal share has reduced to under 9 percent (see Table 2).

Arrayed in Table 3 are selected appropriations to the Arkansas Public School Fund for 1995–96 through 1998–99.

Endnotes

1. T.M. Stinnett & Clara B. Kennan, *All This and Tomorrow Too: A History of the Arkansas Education Association* (Little Rock: Arkansas Education Association, Pioneer Press, 1969), p. 18.
2. Kay Collett Goss, *The Arkansas State Constitution: A Reference Guide* (Westport, CO: Greenwood Press, 1993), p. 14.
3. *Dupree v. Alma School District No. 30 of Crawford County*, 279 Ark. 340, 651 S.W.2d 90.

4. Lawrence Santi & James Metzger, *Educating Arkansas: Public School Funding in the 1990s* (Little Rock: The Winthrop Rockefeller Foundation, January 1997), p. 6.
5. *Ibid*
6. Benny L. Gooden, *Arkansas School Funding Plan: An Analysis and Opinion* (Fort Smith, Arkansas: Fort Smith Public Schools, June 1996), p. 9.
7. *Ibid*, p. 15.
8. *Ibid*, p. 35.
9. Kellar Noggle, "Public School Finance Formula: Act 917 of 1995; Public School Appropriations, Act 1194 of 1995" (Little Rock: Arkansas Association of Educational Administrators, June 25, 1996).