


A CITIZEN'S GUIDE TO ARKANSAS PUBLIC SCHOOL FINANCING

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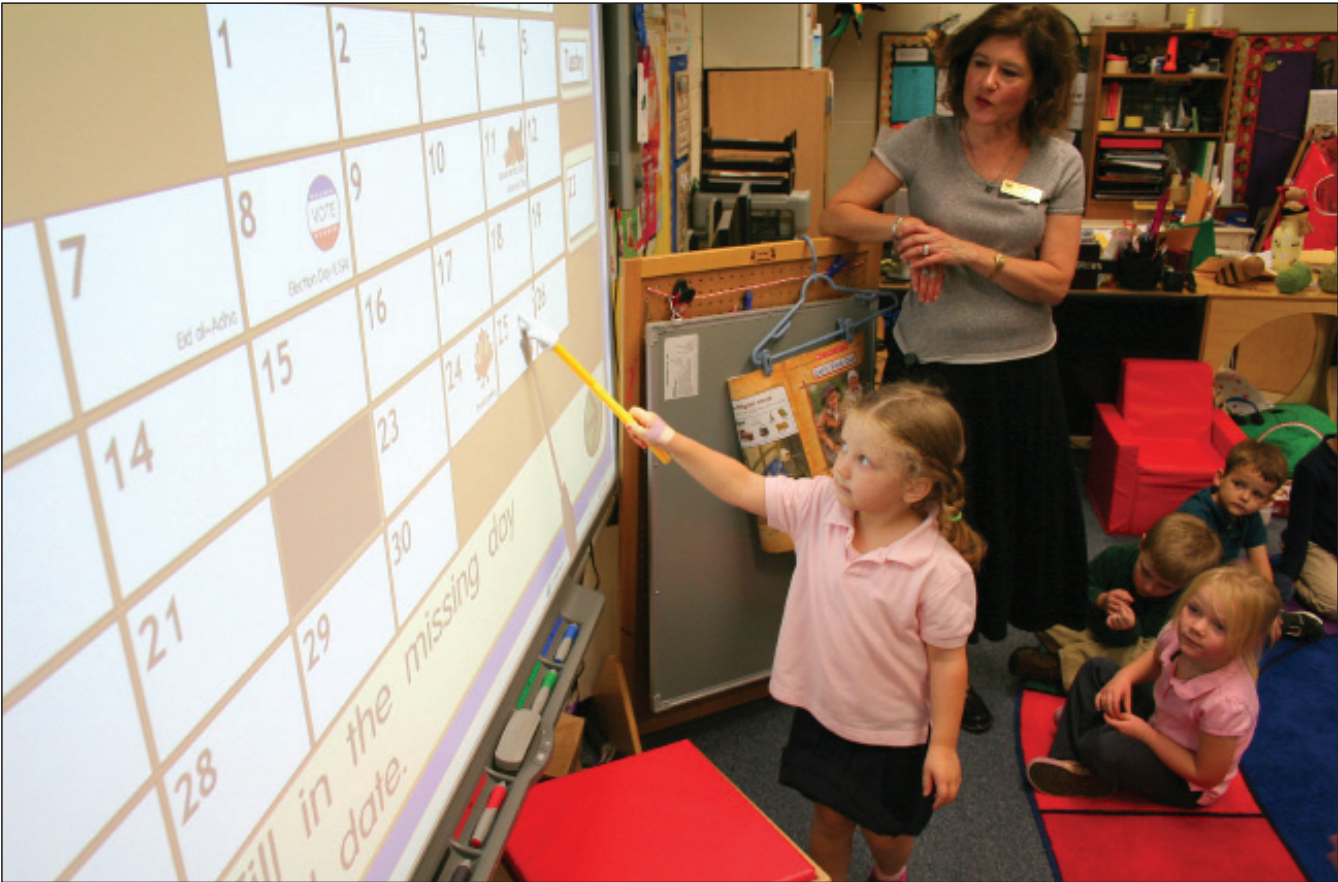
A Citizen’s Guide to Arkansas Public School Financing

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How are Public Schools Funded?

A quality K-12 education is critical to the future well-being of Arkansas’s children. The benefits of a high-quality education, or the negative impacts brought about by the opposite, will affect almost every aspect of a child’s life well into adulthood. A quality K-12 education makes it more likely that a student will graduate from high school. They’re also more likely to attend and graduate from college or a post-secondary program, and earn higher income as an adult.

In 2010, 94 percent of Arkansas students in grades K-12 were enrolled in public schools, making the success of public education vitally important. Adequate funding is essential to the ability of public schools to provide students with the education they need and deserve. Schools need a lot of financial support and funding comes from multiple sources. During the 2009-2010 school year, state and local governments, as well as the federal government, invested more than \$5 billion dollars in Arkansas to ensure that children receive a good education.



About 15 percent of Arkansas school support comes from the federal government.

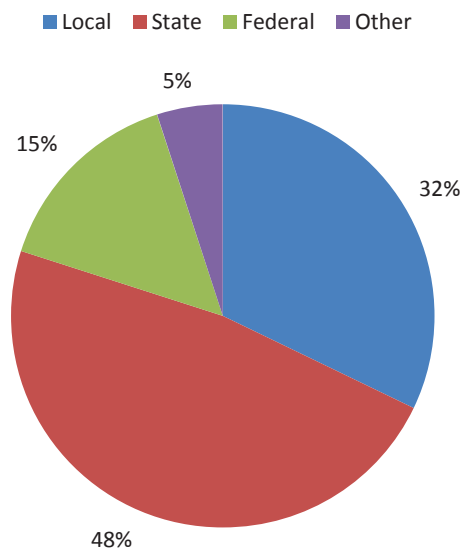
Arkansas is required by law to provide an adequate and equitable education for all children enrolled in public schools. Under Article 14 of the Arkansas Constitution, the state must “maintain a general, suitable and efficient system of free public schools and...adopt all suitable means to secure to the people the advantages and opportunities of education.” Also, Article 2 clearly states that no citizen or group of citizens can be given privileges over any other citizen, meaning all Arkansas children should receive the same educational opportunities. In 2002, the Arkansas Supreme Court ruled that the state was not meeting that requirement. The Lake View case led to an overhaul of state public education funding in Arkansas aimed at providing the same educational opportunities to every student, regardless of geographic location, economic status, or race.

Educational Funding Sources

Public schools in Arkansas are supported by a mix of local, state and federal money. During the 2009-2010 school year, these entities invested more than \$5 billion dollars in the Arkansas public school system. The state provided almost half of the total amount spent on K-12 education—representing almost 17 percent of the state budget. An additional 32 percent of total education spending came from local sources such as property taxes. The federal government provided 15 percent of Arkansas public school dollars.

All states fund public schools with multiple revenue sources. Some attribute a high percentage of their school funding to property taxes, others a low percentage. Arkansas has comparatively low property taxes. As a result, the percentage of school funding that comes from property taxes is also comparatively low. Conversely, the percentage of school funding that comes from Arkansas state tax revenues is comparatively high. This is a policy decision made state-by-state, but one advantage created by Arkansas’s low reliance on property taxes for school funding is that a substantial amount of state dollars are available to level the disparities created by varying property wealth in the state’s school districts.

Arkansas Public School Education Revenue Sources (2009-2010 School Year)



Source: Arkansas Department of Education, Annual Statistical Report 2009-2010

Local Property Taxes

Each Arkansas school district receives income from local property taxes to provide public education. During the 2011 school year, a little over \$1.5 billion in property tax revenue was distributed statewide. Property tax rates vary from community to community and are voted on by citizens within the school district boundaries.

How Do Property Taxes Work?

Property tax collection is a multi-step process that begins when a property is valued and assessed. This process assigns a “market value” to a property, which is the amount it would sell for today. Real property that is assessed includes residential/business buildings and land, agricultural/timber land, minerals, vehicles, aircraft and livestock. Though agricultural and timber lands are subject to property tax, they are assessed in a different way than a typical home or property. These types of property are assigned a “use” value based on the productivity of the soil.

Using the market value, an “assessed value” can be determined. In Arkansas, property is assessed at 20 percent of its market value. For example, a \$100,000 house would have an assessed value of \$20,000. The tax rate is then applied to the assessed value. Property tax rates are known as millage rates because the taxes are set in “mills.” A mill is one one-thousandth (0.001) of a dollar. If the millage rate for a school district is 1 mill then the tax bill on a \$100,000 home (with an assessed value of \$20,000) would be \$20.

Market value of the house	\$100,000
Assessed value of the house	20% x \$100,000 = \$20,000
Property tax rate of 1 mill	\$20,000 x 0.001 = \$20

The Purpose of Millages

School boards can propose millages for citizens to vote on for three reasons:

- Maintenance and Operations: paying for normal costs of schools, such as teachers’ pay and upkeep on buildings.
- Dedicated Maintenance and Operations: buying items, such as computers and office machines, or repairing facilities.
- Debt Service: paying for long-term costs such as building a new school.

Arkansas has a constitutionally mandated minimum millage rate (or property tax rate) that school districts must levy. This rate is set 25 mills and is called the Uniform Rate of Tax (URT).⁶ This revenue is used for the maintenance and operation of schools.

During the 2009-2010 school year, the state average of different millages could be broken down as follows:

Uniform Rate of Tax Mills	25.00
Maintenance and Operations Mills above URT	0.67
Total Maintenance and Operations Mills	25.67
Dedicated Maintenance and Operations Mills	0.08
Debt Service Mills	11.06
Total Mills	36.81

The state constitution says Arkansas must “maintain a general, suitable and efficient system of free public schools and...adopt all suitable means to secure to the people the advantages and opportunities of education.”

State Involvement in Property Taxes

The state government is both directly and indirectly involved in local property taxes. The Assessment Coordination Department, the state agency that oversees the collection of local property tax, directly supports county assessors who assign a market value to property within a school district. The state also reviews the value of property in each county to ensure that the assessed value of property meets the 20 percent requirement. Occasionally assessed value will be slightly above or below the market value. The Assessment Coordination Department steps in when the total value assessed fails to meet the standards set by the state. When this happens, the department can force the county to reassess all property and update the assessed value.

Before the recession, school districts were able to depend on a 3 percent to 4 percent increase in revenue each year. But as property values have decreased, that revenue hasn't been as stable.

The state also indirectly impacts local property taxes in two ways:

- The amount of aid given to a school.
- The method used by the state to decide how much money to give to each school district.

Every district must have a certain amount of money for every student in the district. The more money a district can raise through property tax collection, the less it has to depend on the state. State aid is used to help most districts increase their revenue in order to fulfill a legislatively-mandated base funding level per student.

How Do Our Property Taxes Measure Up?

All states have property taxes but different states rely on property tax revenue in different ways. Because property taxes are not used in the same way nationwide, it is nearly impossible to compare this revenue and its effectiveness across states.

It's also difficult to compare property tax revenue across counties because even school districts with the same property tax rate will earn different amounts of money because of the amount and value of property in their community.

State Education Funding Formula

The Arkansas Legislature decides how much state money school districts receive using a complicated funding formula that begins with something called foundation funding. Each school district receives the same base amount per student attending their schools. The local property tax revenue that school districts receive from the 25 mill taxation rate is used to meet this foundation funding level per student. The state will then provide the necessary dollars to meet the level set by the legislature. As a rule, school districts have been able to depend on a three to four percent increase in revenue from the 25 mills required by law. But that has not been the case recently as property values have gone down.

The state has had to make up this difference in order to meet the adequacy requirement in the Arkansas Constitution. The 25 mill minimum is used specifically for regular maintenance and operations (M&O) of a school district. There are a few school districts that have an M&O millage rate that is above 25 (for example, Hampton School District

Districts are eligible for extra state aid to help students who are learning English, live in poverty and other situations.

has a M&O rate of 30.) The revenues from these excess mills are used in the district where they are collected. School districts can also propose voter-approved mills for dedicated maintenance and operation or for debt service.

School districts may then receive additional per-student categorical funding based on specific types of students they serve (this



fulfills the equitable requirement for the State of Arkansas). Categorical funding has limited purposes and can only be used for certain activities. For example, National School Lunch Act (NSLA) dollars must be used on programs that provide additional resources and improve educational opportunities for low-income students.

Categorical Funding Categories in Arkansas

Categorical Funding	Definition of Categorical Fund
Alternative Learning Environment	An alternative learning environment (ALE) is an intervention program that aims to remove traditional barriers that students encounter in school.
Secondary Vocational	This categorical funding is used for career and technical education programs provided either at a high school or an area secondary vocational center.
English Language Learners	Categorical funding for English Language Learners (ELL) is used for additional programs to help students who have been identified as being less than proficient in English.
National School Lunch Act (NSLA)	This categorical funding is designed to help school districts with high levels of poverty. The amount each district receives is based on the percent of students eligible for free and reduced lunch programs.

Source: Arkansas Department of Education

Spending by Categorical Funds in Arkansas

	FY 2010-2011	FY 2011-2012	FY 2012-2013
Foundation Funding per student	\$6,023	\$6,144	\$6,267
Categorical Funds			
Alternative Learning Environment	\$4,063	\$4,145	\$4,288
Secondary Vocational	\$3,250	\$3,250	\$3,250
English Language Learners	\$293	\$299	\$305
NSLA			
Per student for schools with 90% or more NSLA Students	\$1,488	\$1,518	\$1,549
Per student for schools with 70 to 89% NSLA students	\$992	\$1,012	\$1,033
Per student for schools with less than 70% NSLA Students	\$496	\$506	\$517

Source: Arkansas Department of Education



School districts can also receive money to build and repair school buildings. More than 200 projects have been approved for fiscal year 2012, totaling nearly \$157 million in funding to improve school buildings statewide. Student growth funding is available to help school districts cope with increasing enrollment during a specified time period.

Federal Dollars for Special Needs

States receive education dollars for special needs from the federal government. In 2010, Arkansas received around \$350 million for specific educational purposes. Federal education dollars are dedicated to certain activities and goals based on a variety of laws and programs. Some examples include Title I and Improving Teacher Quality grants. Title I spending is aimed at activities that improve educational outcomes for low-income children (specifically those attending schools with high poverty rates). Schools can receive Improving Teacher Quality funds for professional development and training for teachers.⁸

Federal Education Spending in Arkansas in 2010

Federal Education Grant Name	Amount
Special Education Title VI-B	\$111,491,018
Special Education Pre-School	\$5,279,320
Title I	\$163,673,825
Title I Neglected and Delinquent	\$405,060
Safe and Drug Free Schools	\$2,165,553
Migrant Education	\$5,664,700
Migrant Coordination	\$76,923
Homeless	\$592,534
Evenstart	\$694,543
21st Century Community Learning Centers	\$11,659,224
Education Technology	\$2,901,268
Rural and Low-Income	\$3,731,898
Math and Science	\$2,137,830
English Language	\$3,331,698
State Assessment	\$5,237,350
Improving Teacher Quality	\$28,407,315
Total	\$347,450,015

Source: Arkansas Department of Education

Currently 15 percent of Arkansas public education funding comes from the federal government. However, federal aid to the states for education and other purposes is constantly under the threat of further cuts. In order to protect the future of our children and our state, Arkansas will need to make the necessary investments to close this gap in funding.

Conclusion

For Arkansas to have a bright tomorrow, we must invest in the public education system that reaches so many children. The skills and opportunities a child receives in public schools will determine the skill level of our workforce, the general health of our residents, and the crime rates in the neighborhoods in which they live. In order to protect a system as vital as public K-12 education, Arkansas must invest the necessary funding in that system and allow our children to grow, thrive, and succeed.

Endnotes

1. “Goals for the Common Good: Exploring the Impact of Education” http://www.measureofamerica.org/file/common_good_forecaster_full_report.pdf
2. AACF analysis of American Community Survey Data, U.S. Bureau, 2010 1-year estimates, Table B14002.
3. “Tax Options for Arkansas: Funding Education after the Lake View Case” http://www.wrfoundation.org/assets/files/pdfs/2003_tax_opt_rpt.pdf
4. Data provided by the Arkansas Department of Education.
5. “Arkansas Assessment Coordination Department: Frequently Asked Questions” <http://www.arkansas.gov/acd/faqs.html>
6. Arkansas Department of Education, Annual Statistical Report, 2009-2010. <http://www.apscn.org/reports/hld/asr/caja/0910/asr0910.pdf>
7. Presentation by Benny L. Godsen, “School District Revenues: SF101A- School Finance – Revenue”, <http://www.theaaea.org/cms/lib/AR07001547/Centricity/Domain/39/School%20District%20Revenue%202010.pdf>
8. “10 Facts about K-12 Education Funding” www2.ed.gov/about/overview/fed/10facts/10facts.pdf



Photos of children at work at Fair Park Early Education Center in Little Rock by AACF.



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