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Arkansas School Finance 2005: Finding Funds for Facilities

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BACKGROUND

For the past half century, Arkansas has spent less per pupil than most other states. However, spurred in part by the State Supreme Court's 2002 ruling that the state's school system is "inequitable and inadequate," the state is now strengthening its commitment to fund better educational opportunities for all students. During 2003, experts have estimated that the state will require nearly \$850 million in additional funding to deliver an "adequate education" to all students in the state—a 48% increase in the state's spending for public schools. In addition, lawmakers spent most of the past year focused on ways to finance the improvement of school facilities for students throughout the state.

Thus, in 2003-04, Arkansas increased the total state appropriation for elementary and secondary education by approximately \$400 million to \$1.84 billion—a 24 percent increase over the previous year. However, such a large increase was not appealing to the state's lawmakers.

The state's current school funding plan is a "foundation" program, with a foundation level of \$5,400 per student (2004-05). That level still places Arkansas at 37th out of 49 states for average per-pupil expenditures. However, 45 percent of Arkansas students attend a school where the per-pupil spending is equal to or higher than the national average. Arkansas' expenditures are also in the same range as those of most neighboring states and are likely to increase in future years given recent court decisions and legislative responses.

Arkansas also remains among the lowest spenders in the nation with respect to average teacher salaries, with a base salary of \$27,500 for a bachelor's degree and no experience and \$31,625 for a master's degree and no experience. However,

this situation is also likely to improve due to the recent spending increases.

EQUITY

In terms of equity, *Education Week's* 2005 "Quality Counts" report gave Arkansas a grade of C+ on the equity of its school finance system, based on the relationship between district wealth and education revenue and the funding disparities across districts.¹ According to the report, Arkansas ranks 28th of the 50 states on the wealth-neutrality score, which means that on average, districts with high property values have more revenue than poor districts do. However, Arkansas does perform comparatively better on the McLoone Index and the coefficient of variation, which are other measures of the disparity between district spending.

REVENUE

To generate the additional \$400 million described above, the state raised the sales taxes in March 2004 from a rate of 5.125% to 6.0% and extended the tax to many previously-exempt services. The state also increased the corporate franchise tax and created the Educational Adequacy Trust Fund, which is expected to generate more than \$370 million in new educational resources each year. The funding increase provided schools with 25 percent more in 2004-2005 than the 2003-2005 biennial budget provided when it was originally adopted. However, in November 2004, Arkansas voters rejected the legislature's proposal to increase the minimum rate at which districts tax property. The rate would have risen by 3 mills—or 3 cents for every \$100 in value.

¹ However, a recent study by the Office for Education Policy found that the distribution of funding to districts throughout the state is relatively equitable. See "Placing Arkansas School Funding Data in the National Context": http://www.uark.edu/ua/oep/Working_Papers/Arkansas_Funding.pdf.

SCHOOL FACILITIES

Continuing to address some of the state Supreme Court's concerns, the Arkansas Legislature established the Joint Committee on Educational Facilities, which commissioned a task force to complete a comprehensive survey of the state's educational facilities, equipment, and technology. In the final report issued in November 2004, the task force claimed that Arkansas' public school buildings need almost \$2.3 billion in repairs and improvements, including \$86.7 million in immediate needs for repairs critical to health and safety. The addition of more classroom space in crowded schools, together with future repairs, bring the total estimated cost to \$4.5 billion over the next five years. According to the task force, it would likely require an implementation schedule of ten or more years to address all of the needs identified in the study.

2005 LEGISLATIVE SESSION

Several proposals to address these needs were filed in the Legislature this spring, with the goal of raising \$100 million for "one time expenditures" including providing partial funding for immediately needed facilities repairs (\$20 million), debt relief for local districts (\$20 million), and new construction occurring between January 1, 2005 and June 30, 2006 (\$60 million). An additional \$50 million in revenues would be needed to fund continuing expenses including the state share of ongoing construction or improvement expenses.

Last week, the Arkansas House of Representatives overwhelmingly passed a bill (House Bill 2508) which would distribute money for new facilities over the next two years, based on a wealth index of districts' property values and enrollment. Districts with the lower amount per student will receive the most state aid, while those with higher amounts will receive less. A great deal of controversy was raised, however, by a portion of the bill which would phase out "power equalization" payments to some districts over the next decade.

Both chambers of the Arkansas Legislature also voted last week to approve a budget which would allocate \$3.4 billion to the Public School Fund over the next two years. Under the bill, the public school fund would be set at \$1.68 billion the first year (a

4.5 percent increase over the current fiscal year) and \$1.72 billion the second year (a 1.9 percent increase over the previous year). The public school fund would receive \$172 million in new revenue next year, including \$40 million for additional pre-kindergarten programs, \$20 million for additional students statewide, and an additional \$35 million a year for teachers' insurance. Also, about \$134 million would be used to fund court-ordered school building improvements in the next two years.

In April, the Senate also passed a bill to update the current funding formula for school operations. It includes no increase in the state's per-pupil funding to school districts in fiscal 2006. In 2007, the per-pupil funding increases to \$5,497 a student, which will cost about \$45 million a year. An attorney from the Rogers School District is already preparing to ask the Supreme Court to reopen the landmark school-funding case over the lack of extra per-student dollars.

CONCLUSION

Arkansas' 2005 legislative session is scheduled to end in mid-April, yet much work on the state's school finance system and facilities (among other educational issues) remains to be done. In the meantime, stakeholders—from legislators to administrators to parents—are optimistic that these reforms are actually making a difference for students across the state, but it will undoubtedly take many more years for the evidence to emerge.

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