



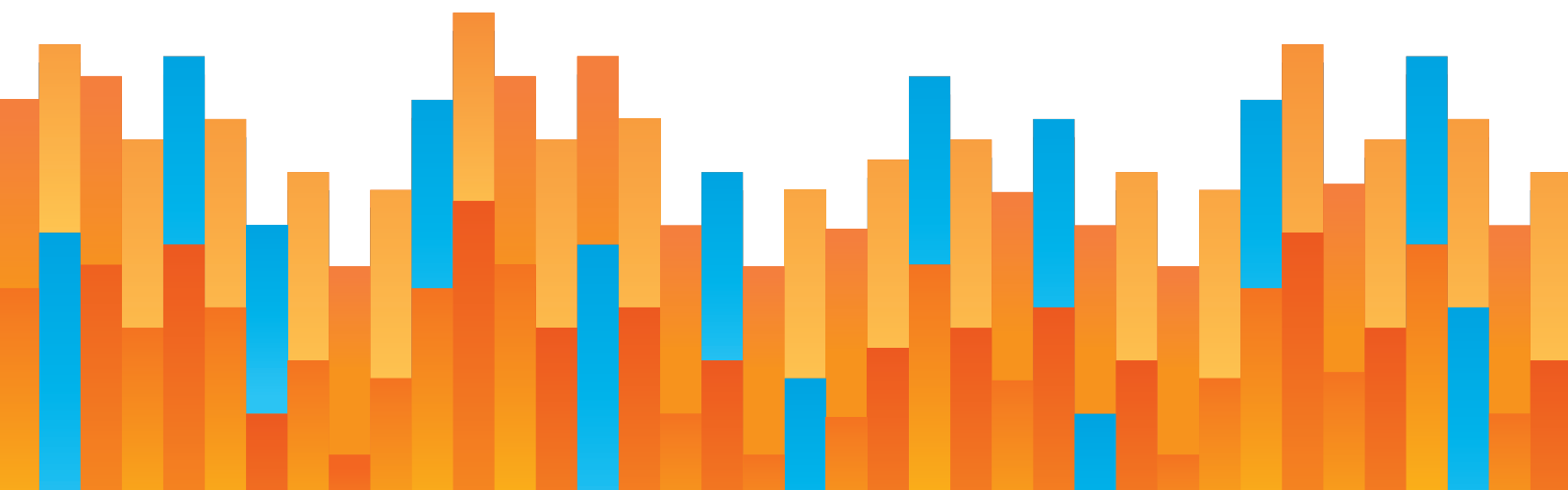
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# A VISION FOR BETTER SCHOOL FUNDING IN ARKANSAS

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by Christian Barnard and Satya Marar

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# EXECUTIVE SUMMARY

Arkansas' school funding apparatus has a number of flaws that, if addressed, would make the system simpler, fairer, and better attuned to individual student needs. The state's main challenges on this front are:

- Several K-12 funding mechanisms that don't properly acknowledge the needs of special education and disadvantaged students;
- Restrictive grants that tie the hands of local leaders; and
- Funding inequities that are based largely on district property wealth.

Fundamentally, Arkansas policymakers need to build on the main formula that they already have. This entails:

- Streamlining their many separate grants into a flexible weighted student formula;
- Adopting formula weights that more accurately account for individual student needs; and
- Equalizing local funding disparities.

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# PART 1

## INTRODUCTION

Over the last three decades, states across the country have made serious efforts to systematically reform their school funding systems. These reforms have come in response to political and legal pressures to ensure that all K-12 children in a state have equal access to a quality education, regardless of their race, income status, or neighborhood wealth. While states have made considerable strides over this period of time, some problems have persisted and new challenges have arisen.<sup>1</sup> Arkansas' school finance system derives largely from a 15-year lawsuit—*Lake View School District No. 25 vs. Huckabee*—which began in 1992 and led to the adoption of its current foundation funding formula in 2003 as well as most of its key state education grants.<sup>2</sup> While some changes have been made since then, this reform improved public school funding equity for Arkansas students residing in districts of

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<sup>1</sup> Christian Barnard, “The COVID-19 Economic Fallout is Going to Hurt Education Budgets. Here’s What States Can Do to Protect Vulnerable Students,” *Reason Foundation*, April 14, 2020. <https://reason.org/commentary/the-covid-19-economic-fallout-is-going-to-hurt-education-budgets-heres-what-states-can-do-to-protect-vulnerable-students/>

<sup>2</sup> Benjamin Hardy, “Lake View mandate on school funding probably still stands despite sovereign immunity ruling, lawmakers told,” *Arkansas Times*, April 24, 2018. <https://arktimes.com/arkansas-blog/2018/04/24/lake-view-mandate-on-school-funding-probably-still-stands-despite-sovereign-immunity-ruling-lawmakers-told>

varying property wealth, and the state now ranks favorably compared to many other states on measures of school funding fairness.<sup>3</sup>

But the system is still far from perfect, and Arkansas faces distinct school finance challenges. The tax revenue losses wrought by the COVID-19 pandemic—coupled with the fact that Arkansas is already one of the poorest and most rural states in America—require a close examination of how the Natural State can allocate funds more fairly, get the most from every education dollar, and better empower local leaders and families. This brief starts with an overview of the state’s school finance system and some summary data analysis, and then turns to a deeper analysis of Arkansas’ main school finance problems and recommendations for reform.



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<sup>3</sup> “Is School Funding Fair? A National Report Card. Seventh Edition,” *Education Law Center*, February, 2018. [https://edlawcenter.org/assets/files/pdfs/publications/Is\\_School\\_Funding\\_Fair\\_7th\\_Edit.pdf](https://edlawcenter.org/assets/files/pdfs/publications/Is_School_Funding_Fair_7th_Edit.pdf)

## PART 2

# SYSTEM OVERVIEW

Like many other states, Arkansas relies mainly on a “foundation formula”—a school funding approach that blends both state and local tax dollars to ensure that all districts receive roughly equal funding per pupil for general operations. In 2018-2019, the state and local dollars in the formula accounted for 63.39% of all state and local K-12 funds. Outside of the foundation formula, the remaining funds come from the following sources:

- Excess local revenues from overrides for district-level debt and operations (14.77%)
- State categorical and restricted grants (10.4%)
- Unrestricted state grants (0.82%)
- Other non-federal sources of funds (6.56%)
- Other local receipts (4.05%)

Let’s briefly examine each of these major components.

## 2.1

### FOUNDATION FORMULA

Arkansas’ foundation formula provides funding for each district’s general operations. It starts with a base per-pupil amount—which was \$6,899 in the 2019-2020 school year. This amount is derived from a model called “the matrix,” which calculates the costs of delivering standard services to a typical student. Based on average staffing salaries, the state estimates the cost of educating a single child in a hypothetical school that has the following structure:

- 500 students
- 1 principal, 1 secretary
- 2.9 special education teachers
- Fixed student-teacher ratios, varying from 20:1 to 25:1 depending on grade range
- 8% of students enrolled in kindergarten
- 23% enrolled in grades 1-3
- 69% enrolled in grades 4-12
- Total: \$6,899 in 2019-20

Note that the matrix doesn't require that foundation dollars be spent on specific resources—it only uses these assumptions to formulate a base funding amount.

Next, the state requires that each district tax local property at a minimum of \$0.25 for every \$100 of taxable property wealth (25 mills). The state presumes each district will collect 98% of its 25-mill levy on local property. Property valuations are assessed by district officials on real, personal, and utility property. If the amount a district raises on 25 mills isn't sufficient to cover the full base amount, the state then fills in the revenue gaps with state aid so the district receives its full foundation entitlement for each enrolled student.

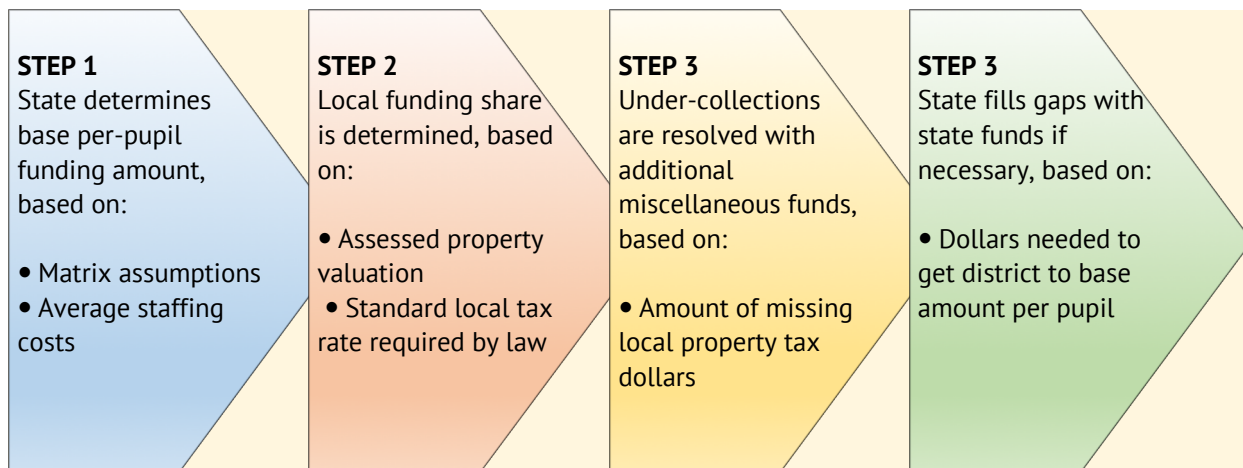
Prior to determining a final state aid amount, there are a few intermediate steps. The state requires districts to offset any under-collections from local property taxes with miscellaneous non-property tax funds the district receives from local, county, and special federal sources (federal grazing rights, federal mineral rights, etc.). Because most districts tend to collect less than the presumed amount, these funds are often used to make up some or all of the difference.<sup>4</sup> Regardless, if the amount raised from both local property and miscellaneous funds is either above or below the presumed 98% collection, state aid is adjusted up or down so that funding is equalized for each district.

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<sup>4</sup> "Preliminary Net Revenues Received for Calendar Year 2019 as reported on the 2019 County Treasurer's Report," Arkansas Division of Elementary and Secondary Education, Fiscal and Administrative Services. [http://dese.ade.arkansas.gov/public/userfiles/Fiscal\\_and\\_Admin\\_Services/Publication%20and%20reports/Miscellaneous/Net\\_URT\\_Revenues\\_-\\_Calendar\\_Year\\_20192.pdf](http://dese.ade.arkansas.gov/public/userfiles/Fiscal_and_Admin_Services/Publication%20and%20reports/Miscellaneous/Net_URT_Revenues_-_Calendar_Year_20192.pdf)



**FIGURE 1: FOUNDATION FORMULA FLOWCHART**



2.2

## EXCESS LOCAL REVENUES FOR DEBT AND OPERATIONS

If a district wants to raise additional local funds above its formula-obligated 25 mills, it must get approval from a majority of district voters in a local election. Districts can impose two kinds of local tax overrides: debt service and maintenance and operations (M&O). Debt service overrides may only be used to pay down bonds and long-term debt, often for facilities and construction projects. M&O overrides can be used to supplement teacher salaries, hire additional administrators, or support any other general operations services. Note that M&O overrides are sometimes “dedicated,” meaning that these dollars can only be spent according to conditions set forth in the ballot that voters evaluate during a local election.<sup>5</sup>

Debt service overrides are more common than M&O overrides. Most districts impose debt service overrides, often ranging between as little as five mills to as high as 20 mills. M&O mills, on the other hand, are only imposed by roughly a quarter of Arkansas districts, generally for an additional one to five mills. Note that the amount of additional funds raised from these overrides depends more on the property wealth of the district imposing them than the actual millage amounts, i.e., districts with higher wealth can raise comparatively more funds at lower tax rates.

<sup>5</sup> AR Code § 26-80-110 (2019), <https://law.justia.com/codes/arkansas/2019/title-26/subtitle-6/chapter-80/subchapter-1/section-26-80-110/>

## 2.3

## STATE CATEGORICAL AND RESTRICTED GRANTS

State categorical and restricted grants are different from foundation formula funding in two key ways. First, they come with restrictions on their use. For instance, Enhanced Student Achievement funding (formerly called National School Lunch funding) is intended for low-income students and can only be spent on approved services such as after-school programs or early intervention services intended to support at-risk students.<sup>6</sup> Other restricted grants that aren't considered categorical can also only be spent in certain ways, such as school food service funds. The second key difference is that categorical and restricted funds are delivered to districts as flat grants, meaning they are only state dollars that don't account for existing local resources.

**TABLE 1: RESTRICTED STATE GRANTS (STATE CATEGORICAL AND RESTRICTED GRANTS)**

Grant Name	2018-2019 Funding Amount	% of State & Local K-12 Revenues
Adult Education	\$4,984,074.78	0.10%
Professional Development	\$12,604,959.00	0.25%
Other Regular Education	\$14,577,433.27	0.29%
Gifted and Talented	\$863,774.37	0.02%
Alternate Learning Environment	\$28,004,448.88	0.56%
English Language Learning	\$12,648,974.00	0.25%
National School Lunch Funding (now called "Enhanced Student Achievement" funding)	\$222,873,419.00	4.45%
Other Special Education	\$39,211,930.00	0.78%
Career Education	\$16,509,300.73	0.33%
School Food Service	\$2,929,404.00	0.06%
Early Childhood Programs	\$53,010,100.63	1.06%
Other Non-Instructional Program Aid	\$112,776,766.00	2.25%
<b>Total Restricted Revenue from State Sources</b>	<b>\$520,994,585.00</b>	<b>10.40%</b>

Source: Arkansas Division of Elementary and Secondary Education 2018-2019 Annual Statistical Report

<sup>6</sup> AR Code § 6-20-2305 (2019) <https://law.justia.com/codes/arkansas/2019/title-6/subtitle-2/chapter-20/subchapter-23/section-6-20-2305/>

The allocation rules for some of these grants are discussed in more detail in later sections. In addition to these restricted/categorical grants, Arkansas has several other small unrestricted grants outside of its formula. While these grants are classified as unrestricted in the *Annual Statistical Report*, they aren't necessarily totally free of stipulations on their use.

**TABLE 2: UNRESTRICTED STATE GRANTS (NON-FORMULA UNRESTRICTED FUNDING)**

Grant Name	2018-2019 Funding Amount	% of State & Local K-12 Revenues
Student Growth Funding	\$20,644,366.00	0.41%
Declining Enrollment Funding	\$11,775,339.00	0.24%
Isolated Funding	\$5,708,115.00	0.11%
Enhanced Transportation Funding	\$3,000,000.00	0.06%
Other Unrestricted State Funding	\$92,551.33	0.00%
<b>Total Non-Formula Unrestricted Funding:</b>	<b>\$41,220,371.33</b>	<b>0.82%</b>

Source: Arkansas Division of Elementary and Secondary Education 2018-2019 Annual Statistical Report

## 2.4

### OTHER LOCAL RECEIPTS AND OTHER NON-FEDERAL FUNDING SOURCES

Other local receipts are local revenues collected through means other than property taxes. These include revenue in lieu of taxes, interest on investments, rental income, donations, miscellaneous local revenue, and revenue from the county.<sup>7</sup> Miscellaneous funds from other sources (non-local sources) include federal forest reserves, federal grazing rights, federal mineral rights, federal impact aid, federal flood control, and wildlife refuge funds. Recall that miscellaneous funds are counted toward a district's local revenue contribution in its foundation formula, meaning that these dollars are equalized by state aid if they exceed or don't fully get districts to their presumed 98% collection of 25 mills on local property. However, not all local receipts—such as donations and food service revenues—fall under

<sup>7</sup> "Annual Statistical Report of the Public School of Arkansas and Education Service Cooperatives," Arkansas Division of Elementary and Secondary Education, Fiscal and Administrative Services, [Dese.ade.arkansas.gov](http://dese.ade.arkansas.gov). January 9, 2020. [http://dese.ade.arkansas.gov/public/userfiles/Fiscal\\_and\\_Admin\\_Services/Publication%20and%20reports/ASR/2019%20Annual%20Statistics%20ReportRV.pdf](http://dese.ade.arkansas.gov/public/userfiles/Fiscal_and_Admin_Services/Publication%20and%20reports/ASR/2019%20Annual%20Statistics%20ReportRV.pdf)

Arkansas' legal definition of "miscellaneous," and are therefore not included in their local contribution to the foundation formula.

Other non-federal funding sources are mainly financing sources including sale/loss of fixed assets and indirect cost reimbursements. Generally, these funds can't be used for school operations. For the sake of clarity, these non-formula receipts and non-federal financing sources have been excluded from the following analyses.

## 2.5

### FEDERAL GRANTS

While this brief is focused on state and local education dollars only, Arkansas receives a number of core federal grants to support low-income students, students with disabilities, school improvement grants, and a variety of other supplementary services.<sup>8</sup> These grants are all restricted, and they totaled nearly \$600 million in 2018-2019, and accounted for about 10% of *all* K-12 revenues in Arkansas.

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<sup>8</sup> Arkansas Division of Elementary and Secondary Education, Fiscal and Administrative Services, Federal Grant Management Procedures, *Dese.ade.arkansas.gov*. <http://dese.ade.arkansas.gov/divisions/fiscal-and-administrative-services/lea-federal-funding/federal-grant-management-procedures>

## PART 3

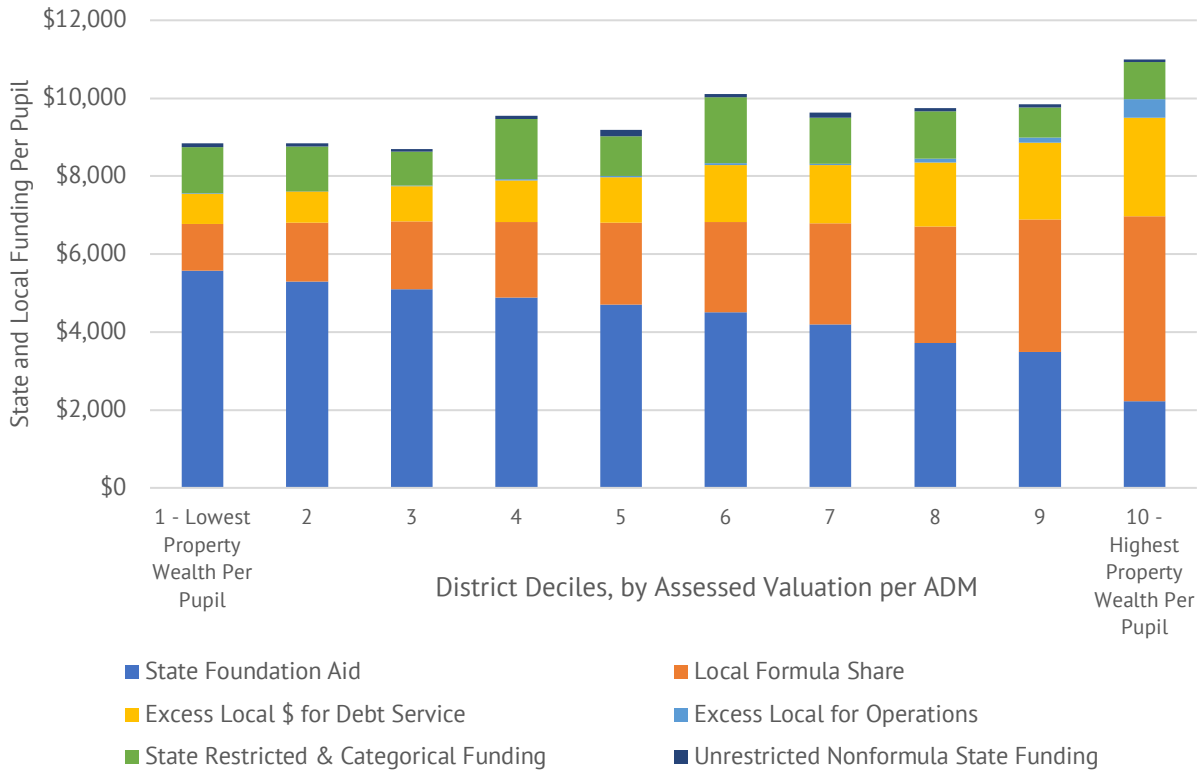
# DATA OVERVIEW

To get a closer look at how Arkansas' school funding system divvies up dollars between districts, it's helpful to take a look at how both formula and non-formula funding streams are allocated to districts in per-pupil terms. This analysis focuses just on state and local dollars, since federal funds are outside of the purview of state and local policymakers. Using data from the Arkansas Division of Elementary and Secondary Education (DESE) *2018-2019 Annual Statistical Report*, we first observe how various major grant categories are disbursed to districts of varying property wealth.<sup>9</sup>

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<sup>9</sup> A few notes: Each district's data are weighted based on size to ensure that all students are counted equally. Also, other local receipts and other non-federal funding sources are excluded, as discussed earlier.

**FIGURE 2: STATE AND LOCAL FUNDING, BASED ON DISTRICT PROPERTY WEALTH (WEIGHTED FOR DISTRICT SIZE)**



First, notice how state and local formula dollars are equalized across districts of varying property wealth. As property wealth increases, local formula share increases and less state equalization aid is necessary. However, also notice a general trend whereby wealthier districts generally enjoy higher levels of funding per pupil. The major culprits are debt service revenues and—for the wealthiest districts—excess operations revenues raised from voter-approved overrides. Also, state restricted and categorical grants tend to layer flatly on top of any existing inequities because these grants aren’t included in the foundation formula but instead delivered as flat grants.

Next, merging U.S. Census Bureau Small Area Income and Poverty Estimates (SAIPE) with the DESE annual statistical report data, we can also observe allocation patterns based on district poverty rates. SAIPE data are used because they are generally a more reliable and consistent metric for poverty than free and reduced-price lunch data.<sup>10</sup>

<sup>10</sup> Again, each district is weighted based on size, and the same minor funding streams that were excluded in Figure 2 are also excluded in Figure 3.

**FIGURE 3: STATE AND LOCAL FUNDING, DIVIDING DISTRICTS BY CENSUS CHILD POVERTY RATES (WEIGHTED BY DISTRICT SIZE)**

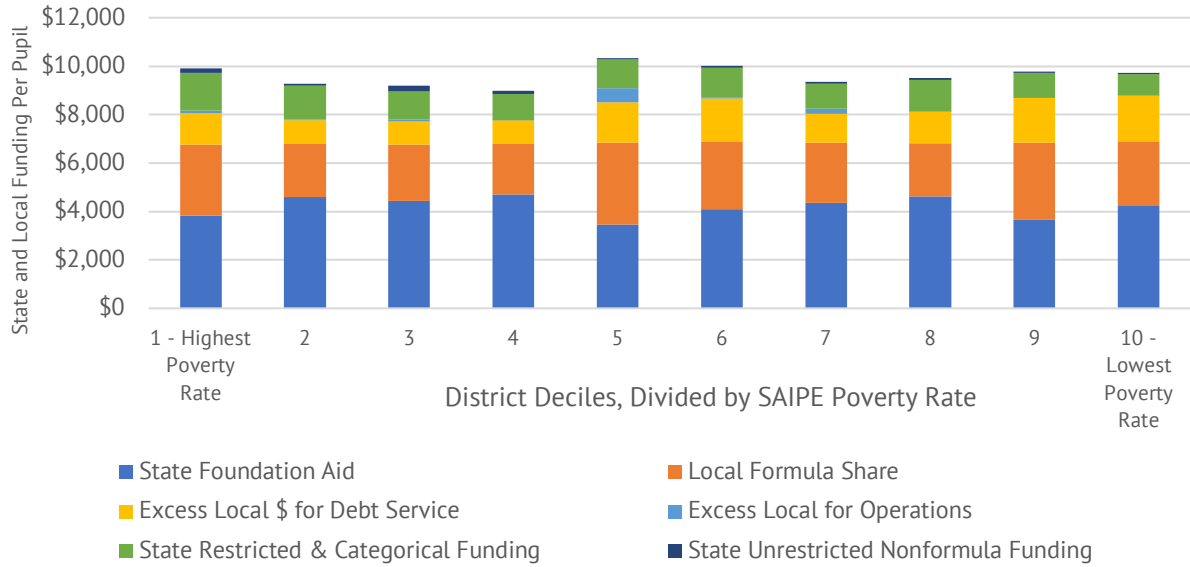
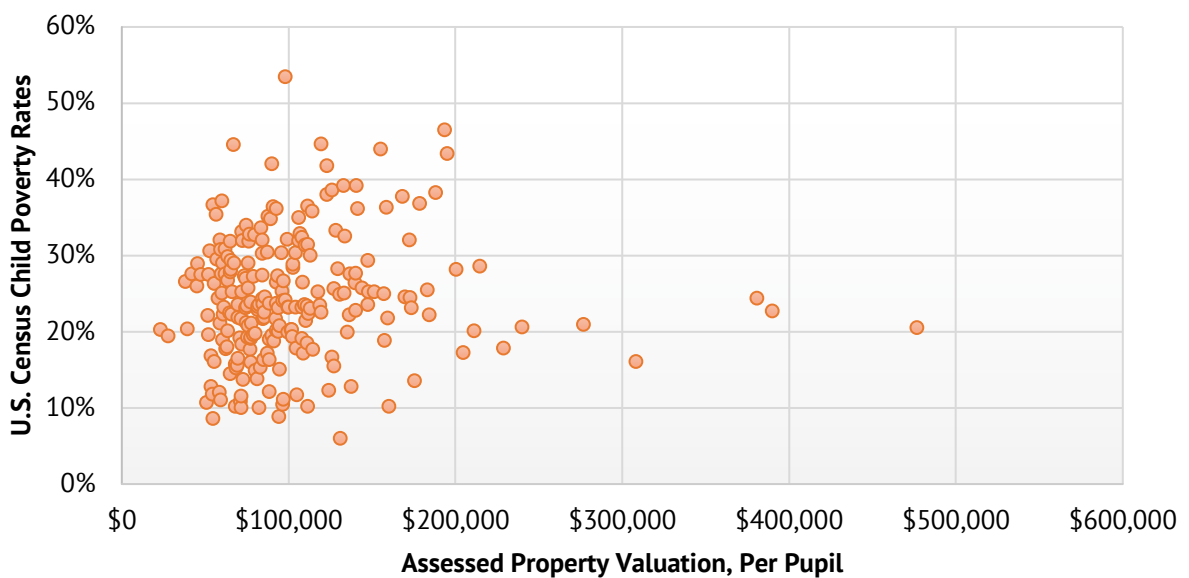


Figure 3 provides a key additional insight for Arkansas: property wealth and poverty rates aren't very closely correlated. While Figure 2 yielded a clearer picture of how property wealth has real implications for overall funding levels per pupil, Figure 3 illustrates how poverty rates are less predictive of funding amounts per pupil. Let's take a look at one more chart to get a clearer picture of how property wealth and poverty are related.

**FIGURE 4: ARKANSAS POVERTY RATE VS. PROPERTY WEALTH PER PUPIL**



Notice from Figure 4 that most Arkansas districts are clustered in a range between \$50,000 and \$120,000 of assessed property wealth per pupil, and that poverty rates within that range vary substantially.

While these data provide a helpful starting point for understanding Arkansas' overall finance system, a few key problems in the state funding system stand out and aren't easily captured by summary data.



## PART 4

# KEY PROBLEMS

### 4.1

## SPECIAL EDUCATION FUNDING

As the foundation formula's base funding amount per student already assumes 2.9 special education teachers for every 500 students, there is no special education supplemental/weighted funding except for in exceptional cases.<sup>11</sup> This is special education high-cost occurrences (formerly known as catastrophic) funding, which is provided when the cost of special education and related services for an individual child are unduly expensive, extraordinary, or beyond the routine and normal costs associated with special education. This type of funding is only available if the eligible costs for that child exceed \$10,000 in a year. Otherwise, Arkansas students have access to some other resources. These include Special Education Services funding for special summer programs for disabled students aged 3-21, Medicaid preschool programs, and residential care and juvenile facilities.<sup>12</sup>

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<sup>11</sup> Arkansas Division of Education, Division of Fiscal and Administrative Services, *2019-2020 High-Cost Occurrences Funding*, (Little Rock, AR: Arkansas Division of Education, March 9, 2020).

<sup>12</sup> ADE's *Program Descriptions Manual*.



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However, not having any kind of formula weight or grant program in its school funding system puts Arkansas in the company of only three other states that don't provide any supplementary funding for all students classified as needing special education. This is a major problem—and one that many other states are struggling to fully address. In 2019, almost 64,000 students out of the 477,611 who attended traditional and charter public schools in Arkansas were diagnosed with a disability—amounting to 13.4% of the total student populace.<sup>13</sup> All of these categories, except for that of students with multiple disabilities, have recorded significant increases since 2013 and much of this can be attributed to increased awareness and better diagnosis.<sup>14</sup> For example, the number of students diagnosed with autism has increased by 53% since 2014.<sup>15</sup>

The increasing diagnosis of disability, coupled with the sheer range and variance of both disability diagnoses and intensity of services called upon by special needs students in Arkansas, demands that there be better calibrated and targeted SPED funding for Arkansas schools to ensure equitable resource distribution.

To illustrate this problem, consider a case study of several Arkansas districts in Table 3:

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<sup>13</sup> “Spending for special education increased,” *Pea Ridge Times*, January 20, 2020.  
<https://tnebc.nwaonline.com/news/2020/jan/15/spending-for-special-education-increase/>

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

**TABLE 3: STATE SPECIAL EDUCATION FUNDING PROBLEMS, CASE STUDY #1 DISTRICTS ENROLLMENT**

District	Enrollment	% Special Ed	Estimated Total SPED Formula \$	Formula \$ Per Actual SPED Student
Crossett	1659	10.79%	\$635,397	\$3,550
Stuttgart	1549	14.98%	\$593,267	\$2,557
Alpena	494	18.22%	\$189,202	\$2,102

Source: Arkansas School Finance Manual, AR DESE Special Education District Profiles 2019-2020

As Table 3 shows, Crossett, Stuttgart, and Alpena school districts have varying proportions of special education students. And yet—because the state formula assumes that special education population rates are the same—districts like Alpena end up getting lower funding per special education child. Moreover, these districts also have different kinds of special education students who require varying degrees of additional supports. This is shown by Table 4:

**TABLE 4: DISABILITY RATES BY DIAGNOSIS, EXPRESSED AS PERCENTAGE OF DISTRICT SPECIAL EDUCATION POPULATION**

District	Intellectual Disability	Speech/ Language Impairment	Specific Learning Disability	Autism	Emotional Disturbance	Other Health Impairment	Other
Crossett	1.68%	12.29%	24.02%	3.35%	0.56%	7.82%	0.56%
Stuttgart	15.51%	22.41%	25.43%	9.48%	0.43%	24.13%	2.59%
Alpena	56.66%	44.44%	24.44%	14.44%	1.11%	48.89%	8.89%

Source: Arkansas School Finance Manual, AR DESE Special Education District Profiles 2019-2020

### 4.1.1 Special Education Funding Recommendations

In remedying Arkansas' problems with special education (SPED) funding, there is no solution that can perfectly account for the unique needs of every child, balance concerns of both resource scarcity with equity, and be administratively feasible. To get a sense for the different ways that states fund special education—and the pros and cons of each approach—see the table in the Appendix.



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*For Arkansas, a key first step is to identify a greater range of categories for SPED students to recognize the significant variation in needs between students in this group. Each category should be assigned a weight, and then that weight should be rolled into a main weighted student formula.*

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For Arkansas, a key first step is to identify a greater range of categories for SPED students to recognize the significant variation in needs between students in this group. Each category should be assigned a weight, and then that weight should be rolled into a main weighted student formula. Although states like Arizona address this issue by mandating categories based on the diagnosis of the child, it is advisable to instead benchmark categories and classes by service intensity due to the variance of SPED students' needs, even when they have the same disability diagnosis. This is especially the case with relatively mild and common diagnoses like autism or dyslexia. Weightings can then be attached to the per-pupil funding amount allocated for a student based on the magnitude of additional services the student requires. This is the model employed in Florida, where SPED students are individually counted for funding purposes and placed into five categories of varying need intensity.

Rather than assuming uniform distribution of SPED students as Arkansas does, Florida funds SPED students in the three lowest intensity categories (1, 2, and 3)—generally students with milder disabilities—through a per-student block grant.<sup>16</sup> Additionally, Florida provides higher individual funding weights for students in the two highest service intensity categories (4,5). In 2018-2019, weights of 3.619 and 5.642 were multiplied by Florida's state foundation amount for students in these categories.<sup>17</sup> For comparison's sake, a similar weighted funding methodology is applied in Maryland on the basis of a 2016 adequacy

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<sup>16</sup> Funding for Florida School Districts, Florida Department of Education, *Fldoe.org*. 2019, <http://www.fldoe.org/core/fileparse.php/7507/urlt/Fefpdist.pdf>

<sup>17</sup> Ibid.

study that was based on diagnosis.<sup>18</sup> That study found appropriate weights for disability categories ranging from 1.82 (mild disability), 2.35 (moderate), and 4.62 (severe). The per-pupil spending amounts for the typical student who falls into these categories were between \$6,000 and \$7,400 for mild, between \$11,000 and \$14,500 for moderate disabilities, and between \$36,000 and \$43,500 for severe disabilities respectively.

This mix of targeted weights for higher-need SPED students and more-uniform weights for milder disabilities is meant to balance competing concerns of administrative burden, potential over-identification of some disabilities, and funding equity. Another important feature is to avoid “locked-in” or non-discretionary funding for SPED students’ education needs. This provides educators, schools, and districts with greater flexibility in the services they offer and makes it easier to adapt to unique SPED populations that may not be perfectly accounted for by the state funding weights.

It’s also worth re-evaluating the existing high-cost occurrences funding amount so that more students fall under standard formula weights, while simultaneously ensuring that outstanding or especially expensive needs in excess of \$45,000 (or whatever the ceiling is for the highest weighted category of disability service intensity) can be reimbursed by the state for these excess costs. Also, for the sake of predictability and clarity, students who fall into this high-cost need category for over two years could be funded by a non-discretionary allowance based on the prior year’s expense for subsequent years, with a requirement that any unused funds in this (non-discretionary) spending category at the end of that school year be returned to the state.

Here’s an important caveat: one of the potential reasons why Florida’s model for SPED is uniquely suited to Florida is the relatively large size of its school districts, which often encompass entire counties with neighborhoods of varying economic and social makeup.<sup>19</sup> This smooths out statewide variations in the SPED population in Florida. By contrast, because Arkansas tends to have smaller districts, the state likely requires special education weights that are more sensitive to these local variations. Moreover, Arkansas would ideally have SPED funding included in a weighted student formula rather than a block grant system—similar to the model employed in Colorado, Georgia, and other states (see Appendix for more details).

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<sup>18</sup> P. Augenblick, “Final report of the study of adequacy of funding for education in Maryland,” Denver, CO: Author, 2016. See especially page 18.

<sup>19</sup> M. M. Chingos and K. Blagg, *Do poor kids get their fair share of school funding?* Washington, D.C.: Urban Institute, 2017. [https://www.urban.org/sites/default/files/publication/90586/school\\_funding\\_brief.pdf](https://www.urban.org/sites/default/files/publication/90586/school_funding_brief.pdf)

While there is no perfect model for SPED funding, adopting reforms similar to those described above would certainly improve current problems in Arkansas’ special education funding.

4.2

## RESTRICTED/CATEGORICAL AND NON-FORMULA FUNDING

This section focuses on Arkansas’ largest funding streams outside of its main foundation formula—such as its categorical grants for low-income students and non-instructional programs, and local override funds. There are two main problems with Arkansas’ non-formula grants: (1) they layer on top of (or exacerbate) existing inequities, and (2) they limit local flexibility. Recall that restricted and categorical funds account for over 10% of all state and local funding—nearly \$521 million in 2018-2019.

### *Problem #1: Equity*

Starting with the first problem, consider another case study of three Arkansas districts:

TABLE 5: CASE STUDY #2 DISTRICTS			
District	Census Child Poverty Rate	SPED %	Prop. Wealth Per Pupil
Little Rock School District	24.5%	14.6%	\$172,836
Fort Smith School District	23.4%	14.2%	\$110,939
Blevins School District	25.8%	14.3%	\$75,736

Source: U.S. Census SAIPE Reports, AR DESE Special Education Population Profiles

Observe that these districts are very similar in terms of poverty rates and overall special education rates but vary by property wealth per pupil. Now, observe their per-pupil funding levels by major source. Like the figures in the summary data section, Figure 5 again excludes minor funding streams of “other local receipts” and alternative funding sources.

**FIGURE 5: INEQUITY CASE STUDY**

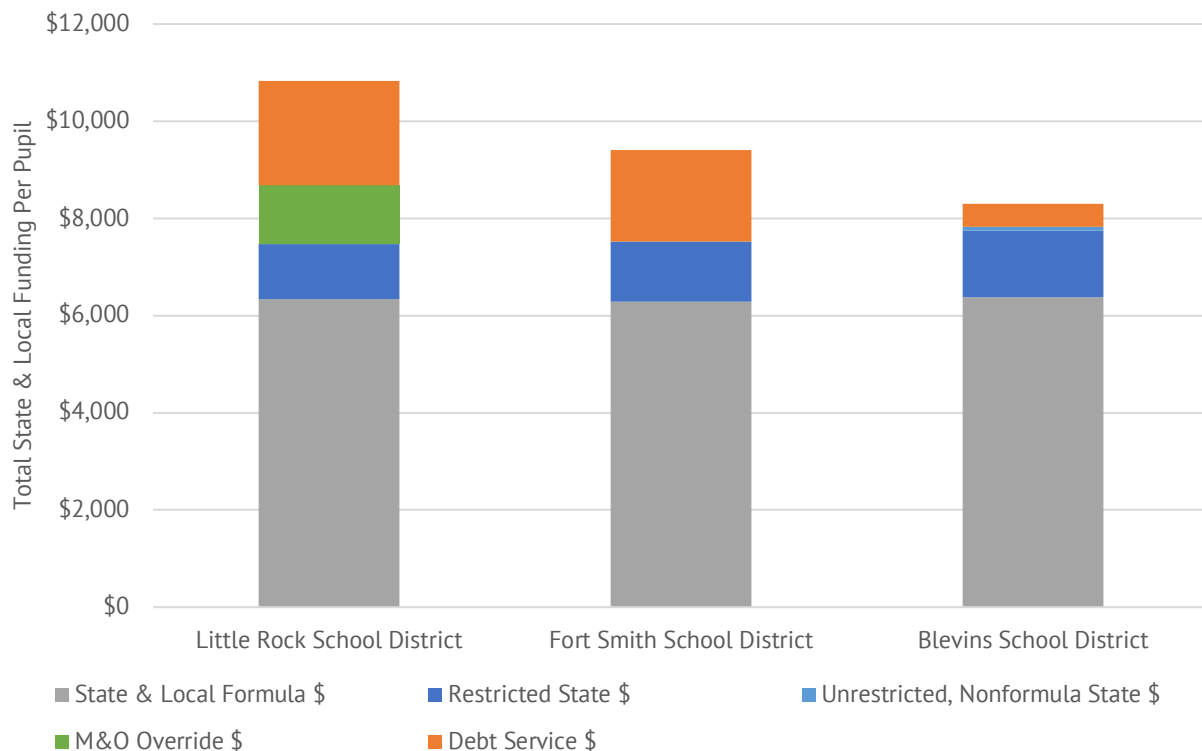


Figure 5 clearly illustrates how these three case study districts—although serving similar low-income and SPED populations—have large disparities in per-pupil funding. The primary drivers are debt service override dollars, as well as maintenance and operations dollars in Little Rock’s case. When referring back to the property wealth differences in Table 5, these disparities shouldn’t be surprising. Further, notice how restricted state funding does little to mitigate against these disparities. This is because these funds aren’t included in the state formula, but are instead disbursed as block grants that don’t account for existing resources.

Another important point is that, because these grants aren’t part of the main formula, increases or cuts to their amounts are often out of sync with changes to foundation funding amounts, making it difficult for districts to rely on these funding streams and plan accordingly.<sup>20</sup>

<sup>20</sup> “State Categorical Funding Review: Alternative Learning Environments (ALE),” Arkansas Bureau of Legislative Research. Arkansas State Legislature, *Arkleg.state.ar.us*. April 8, 2020. [https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2020-04-08&filename=EX+E1+Categorical+ALE+Funding+Report%2C+BLR%2C+\(11\)](https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2020-04-08&filename=EX+E1+Categorical+ALE+Funding+Report%2C+BLR%2C+(11))

**Problem #2: Flexibility**

Now let's address the second problem of limited flexibility, which pertains mainly to state categorical grants. The largest of these grants is the National School Lunch (now known as the Enhanced Student Achievement, or ESA) categorical funding—intended to serve the educational needs of low-income students—which accounts for about half of all state restricted/categorical funding alone. Since this grant was introduced in 2003, the range of allowable uses has expanded somewhat (see Appendix for more details).<sup>21</sup>

In an annual report from the Arkansas Bureau of Legislative Research, researchers bring out some useful insights around how limited flexibility is for the ESA categorical grant.<sup>22</sup> Requests for ESA grants that require state education department special approval are relatively rare for two reasons. First, districts must specify how their use aligns with ESA funding's intent, and second, they must show that the funds aren't being used to meet minimum class size or salary requirements. Moreover, legislative bureau staff also analyze ESA program expenditure patterns based on district performance and find that "data show few discernible patterns in terms of [ESA] spending among the districts with different levels of student achievement among low-income students." These constraints demonstrate that, even though legislators are trying to ensure that these funds are spent effectively and on evidence-based programs, there is no particular way of using these funds that guarantees success or failure on better serving low-income students. Likely, the administrative burden of demonstrating how funds are being used effectively prevents some districts from using dollars in ways that might fit their student needs best. Studies of several high-performing school districts in other states also find that no single spending strategy explains why some districts deliver better outcomes than others.<sup>23</sup>

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<sup>21</sup> "Enhanced Student Achievement Funding and Expenditures (previously known as National School Lunch State Categorical Funding)," Arkansas Bureau of Legislative Research, Arkansas State Legislature, *Arkleg.state.ar.us*. November 5, 2019.  
[https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2019-11-05&filename=Handout+C2\\_ESA-Report\\_02](https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2019-11-05&filename=Handout+C2_ESA-Report_02)

<sup>22</sup> Ibid.

<sup>23</sup> M. Roza and G. Heyward, "Highly productive rural districts: What is the secret sauce?" 2015.  
[https://edunomicslab.org/wp-content/uploads/2015/09/ROCI\\_SuperProductiveRuralDistricts\\_Final.pdf](https://edunomicslab.org/wp-content/uploads/2015/09/ROCI_SuperProductiveRuralDistricts_Final.pdf)





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*Likely, the administrative burden of demonstrating how funds are being used effectively prevents some districts from using dollars in ways that might fit their student needs best.*

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Legislative Bureau reports for other restricted funds, such as the professional development (PD) and alternative learning environment (ALE) grants, similarly reveal a long history of legislative tweaks and new guidelines that, while intended to respond to district needs, illustrate a tendency to hamstring local leaders' ability to use these dollars effectively.<sup>24</sup> For instance, regulations on student-teacher ratios for ALE programs and acceptable services have often been out of sync with ALE funding amounts, forcing schools that provide such programs to pull from other funds to adhere to these requirements. Similarly, the range of PD programs districts have been able to offer with their restricted PD funds often receive poor marks from teachers in surveys. Some programs—particularly those featuring the statewide online PD “Internet Delivered Education for Arkansas Schools”—were reported as “not very useful” or only “somewhat useful” by nearly half of the surveyed staff. These findings are consistent with a nationwide survey on teachers' professional development programs, in which only 41.25% of teachers reported them to be a good use of their time.<sup>25</sup> Also concerning is a longstanding state rule preventing the use of ELL funding for bilingual programs—instead requiring that all of these programs be English-only—despite noted evidence from the state Bureau of Legislative Research that multilingual programs can be as effective or more effective than English-only programs.<sup>26</sup>

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<sup>24</sup> “State Categorical Funding Review: Alternative Learning Environments (ALE).” Arkansas Bureau of Legislative Research. 2020; “Professional Development and Educator Evaluations,” Arkansas Bureau of Legislative Research, Arkansas State Legislature, *Arkleg.state.ar.us*. May 19, 2020. [https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2020-05-19&filename=EX+E3\\_Professional+Development+and+Educator+Evaluations+Report%2C+BLR%2C+\(06\)](https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2020-05-19&filename=EX+E3_Professional+Development+and+Educator+Evaluations+Report%2C+BLR%2C+(06))

<sup>25</sup> A. Jacob and K. McGovern, “The Mirage: Confronting the Hard Truth about Our Quest for Teacher Development,” *TNTP*, 2015. <https://files.eric.ed.gov/fulltext/ED558206.pdf>

<sup>26</sup> “English Language Learners (ELL) State Categorical Funding Review,” Arkansas Bureau of Legislative Research, Arkansas State Legislature, *Arkleg.state.ar.us*, September 10, 2019. [https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2019-09-10&filename=Handout-D2\\_CategoricalELLFundingReport-08](https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2019-09-10&filename=Handout-D2_CategoricalELLFundingReport-08)

For a more complete summary of the restrictions and potential flexibility issues surrounding Arkansas' categorical grants, see the Appendix, which details rules for these grants as laid out by the Arkansas Division of Elementary and Secondary Education.<sup>27</sup> It's not exactly clear which of these rules impose the heaviest administrative burdens on districts, which itself highlights that such considerations may not weigh heavily in the rulemaking process. Moreover, state rules and regulations on curriculum and school operations outside of these grants further restrict district autonomy. One strong indication of how eager schools are to get relief from state control in general is the high number of waivers they request and the growing number of waiver pathways the legislature has introduced. In a 2020 report, the state Bureau of Legislative Research states that "more than 1,000 public schools in Arkansas operate under more than 10,000 waivers from the state's laws and rules."<sup>28</sup> The same report also discerns no clear causal relationship between various classes of waivers used by districts and their academic performance, suggesting that many of these state rules may not be necessary in the first place.



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<sup>27</sup> "Rules Governing Student Special Needs Funding, Effective July 2, 2020," Arkansas Division of Elementary and Secondary Education, [http://dese.ade.arkansas.gov/public/userfiles/Legal/Legal-Current%20Rules/2020/dese\\_268\\_StudentSpecialNeedsFunding2020.pdf](http://dese.ade.arkansas.gov/public/userfiles/Legal/Legal-Current%20Rules/2020/dese_268_StudentSpecialNeedsFunding2020.pdf)

<sup>28</sup> "Waivers from Arkansas Education Laws," Arkansas Bureau of Legislative Research, Arkansas State Legislature, *Arkleg.state.ar.us*. February 11, 2020. [https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2020-02-11&filename=Handout+D2\\_WaiversFromArkEducationLaws-Report\\_BLR\\_15](https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2020-02-11&filename=Handout+D2_WaiversFromArkEducationLaws-Report_BLR_15)

### 4.2.1 Restricted and Non-Formula Funding Recommendations

To address equity and flexibility concerns, the best reform is to collapse or absorb these restricted funds into a weighted student formula. First of all, this would help ensure that these grants are equalized and don't layer on top of existing inequities highlighted by Figure 5, since these dollars would be included in each district's local contribution. Students requiring additional services would receive an additional weight in the formula, rather than a block grant amount only covered by state dollars.

Secondly, while supplementary services for low-income, other disadvantaged students, and services to enhance teacher competencies are all laudable objectives, a good principle is to allow each district more flexibility to implement programs that fit its context best. For instance, while districts already have the discretion to opt into different PD programs or their own custom PD curricula, the state still imposes requirements on the number of PD instructional days districts must deliver and some of the topics they must cover, and specifies that these programs must be "research or standards-based." Further relaxing some of these restrictions can ensure that districts believing these funds could be better used elsewhere have the discretion to do so.

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*Districts that want to prioritize having generally higher teacher salaries to improve retention or to shift around dollars for school-wide programs that aren't specifically targeted to low-income students (but nonetheless benefit them) don't always have the latitude to do so.*

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Similarly, the ways ESA funding for low-income students is used are too often left in the hands of the state education department, not district leaders. Districts that want to prioritize having generally higher teacher salaries to improve retention or to shift around dollars for school-wide programs that aren't specifically targeted to low-income students (but nonetheless benefit them) don't always have the latitude to do so. Districts with high shares of disadvantaged students often have problems with teacher retention, so they could benefit from having flexibility over staffing and compensation so they can reduce

turnover. If there is no clear-cut spending strategy that always attains superior results, as the Legislative Bureau and other research observes, such accountability mechanisms are likely doing more harm than good.

Lastly, having funds intended for certain high-need student populations included in the formula would ensure that these funding streams are more reliable, since any changes to the main formula would be commensurate with changes to these funds intended for certain student groups. Placing funds for high-need students in the reliable main formula enables districts to plan better and hire more full-time staff to provide additional services if they need.

## 4.3

### ESA FUNDING STRUCTURE

While the previous section mainly covered restrictions on ESA funding and how this grant factors into overall equity patterns, this section will delve more into the mechanisms of the ESA grant itself and how districts of varying poverty rates receive these dollars. The mechanics of Arkansas' ESA grant has two closely related but distinct problems. The first is how the funds are disbursed and staggered based on three separate tiers of poverty concentration. Second is that ESA dollars are allocated based on federal free and reduced-price lunch counts, which have become increasingly inaccurate poverty metrics over the last decade.

#### ***Problem #1: Funding for Poverty Concentration***

The practice of funding for poverty concentration is supported by evidence that students in learning environments with high shares of low-income students face additional challenges that students in lower concentrations of poverty do not. In other words, evidence suggests that poverty's effects are not just isolated to an individual student's socioeconomic status when many of their classroom peers are disadvantaged.<sup>29</sup> Table 6 summarizes how Arkansas districts are divided into three tiers, based on the proportion of their student population that qualifies for free or reduced-price lunch (FRPL). Importantly, note that for districts in each tier, they receive their respective per-pupil amount for every low-income student, not just each disadvantaged student above their tier's poverty threshold. I.e., for a

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<sup>29</sup> Satya Marar, "Examining How States and School Districts Allocate Funding for Poverty Concentration," *Reason Foundation*, May 28, 2020. <https://reason.org/commentary/examing-how-states-and-school-districts-allocate-funding-for-poverty-concentration/>

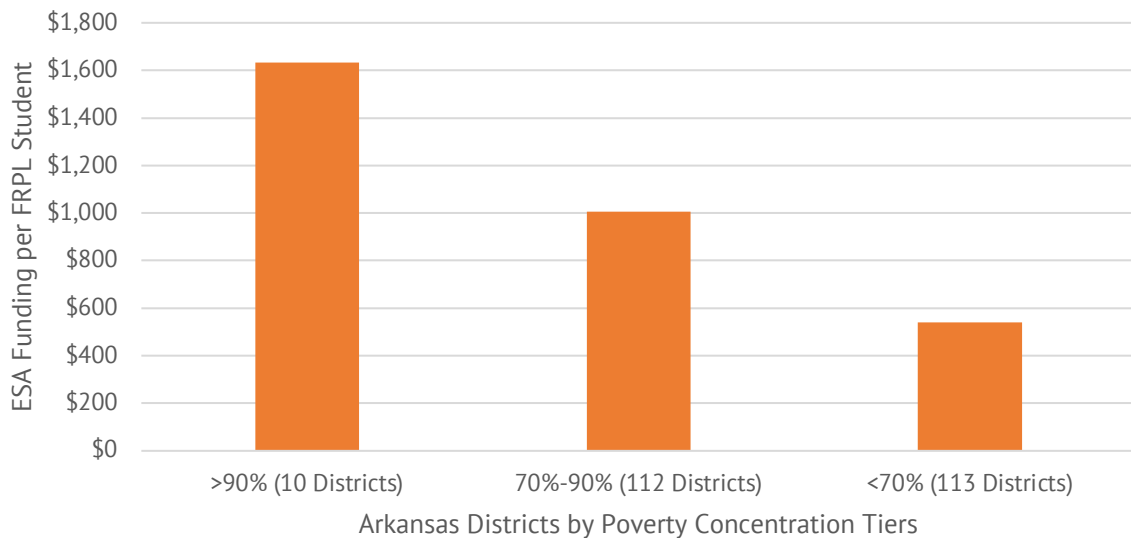
district with 75% FRPL students, all of the FRPL students qualify for the \$1,051 ESA funding amount, not just the 5% of FRPL students above the 70% threshold.

**TABLE 6: ESA FUNDING LAW AMOUNTS, 2018**

FRPL %	Statutory ESA Funding Amount per FRPL Student
>90%	\$1,576
70%-90%	\$1,051
<70%	\$526

Next, Figure 6 illustrates how much ESA funding is actually disbursed for each (FRPL) student, according to Arkansas’ *Annual Statistical Report*.<sup>30</sup> Note that these amounts slightly differ from the statutory amounts mainly because districts at the cusp of each tier can have their new funding amount phased in over time or their old amounts locked in. Additionally, FRPL counts may lag *behind Annual Statistical Report* ESA funding amounts, and some districts are using historical counts if they’re participating in the federal Community Eligibility Program for national school lunch funds.

**FIGURE 6: ESA FUNDING PER FRPL STUDENT**

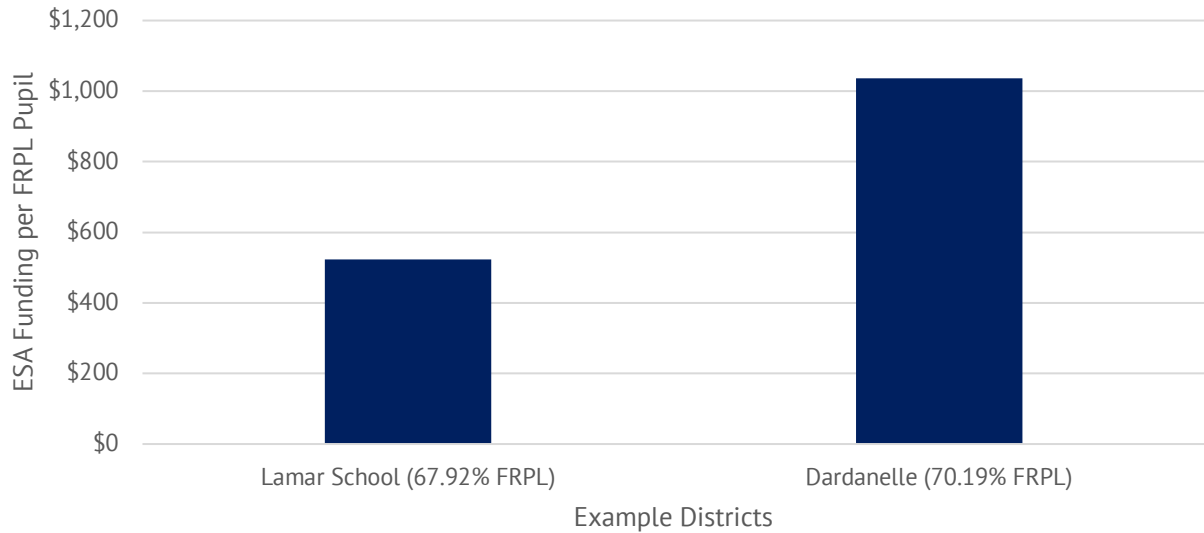


Source: 2018-2019 Annual Statistical Report. Arkansas School Demographic Databases, University of Arkansas

<sup>30</sup> AR Code § 6-20-2305 (2019). <https://law.justia.com/codes/arkansas/2019/title-6/subtitle-2/chapter-20/subchapter-23/section-6-20-2305>

Even with the options to make exceptions, these hard thresholds create scenarios where districts with very similar FRPL rates are getting dramatically different ESA funding per low-income student. To illustrate, let’s briefly consider two districts: Lamar and Dardanelle.

**FIGURE 7: FRPL THRESHOLD PROBLEM**



Notice from Figure 7 that, although Lamar and Dardanelle are less than 3% apart in terms of proportion of FRPL students, Dardanelle receives about twice the amount of Lamar’s ESA funding amount FRPL student in 2018-2019. This shouldn’t be surprising, given that Arkansas funds every FRPL student in a district at their tier’s rate instead of every marginal student at that rate. Nonetheless, it is inequitable.

**Problem #2: Inaccuracy of FRPL Counts**

Beyond the inequities already created by Arkansas’ hard cutoffs for concentrated poverty funding, the state’s use of FRPL counts is also problematic as these counts have become increasingly inaccurate over the last decade. In 2016-17, 61% of Arkansan schoolkids were FRPL-eligible. This represents an increase from 55.8% in 2008-09.<sup>31</sup> Notably, there has been an increase in the number of students identified as low-income under FRPL metrics

<sup>31</sup> “National School Lunch State Categorical Funding and Expenditures,” Arkansas Bureau of Legislative Research, Arkansas Legislature, *Arkleg.state.ar.us*, September 19, 2017.

every year since then, even though federal census estimates indicate that actual child poverty rates have declined over that period.

That the percentage of FRPL students has continued to increase despite decreases in the state's poverty level is likely related to changes in the way that students qualify for the National School Lunch program. Historically, students had to individually fill out paper applications under the National School Lunch Act rules and had to provide information about their family income in order to qualify for the program. However, this was problematic as not all students eligible for the program would fill the forms out, with high school students less likely than their younger peers to do so, and high rates of variability between schools in encouraging their students to complete forms.

In cognizance of these challenges, the federal government developed two programs that allow participating schools to deem *all* their students as FRPL-eligible without an individual application process, as long as the school is willing to provide the lunches for free (backed by federal subsidy).

- **Community Eligibility Program (CEP):** This program is more generous than Provision 2 and has attracted a significantly greater degree of participation from schools and school districts since its inception in Arkansas in 2014-15. To qualify, 40% of students at the school must already be certified as eligible for free lunches through their family's participation in means-tested government programs besides the FRPL program, such as Supplemental Nutrition Assistance Program (SNAP aka food stamps). Schools that participate must provide free lunch and breakfast to *all* students at no cost, and many receive a more generous meal reimbursement than under Provision 2.
- **Provision 2:** A small number of school districts participate in this program, which allows them to reduce their administrative burdens by only having to collect FRPL applications from their students once every four years provided that they commit to providing meals to *all* students at no charge for all four years rather than each year separately. The funding provided by the federal government for participating school districts is commensurate with the free, reduced-price and student-paid lunch rates multiplied by the percentage totals of each category of student in the first year of the four-year cycle.

In 2019-2020, 68 districts and charter schools had at least one school participating in the CEP program, and nearly a third of all districts and charters were participating in either the Provision 2 or CEP programs. In its annual report on ESA funding, the state Bureau of Legislative Research noted that “as more districts participate in these federal school lunch programs—particularly CEP—and more students are artificially labeled free lunch students, measuring other areas of education by students’ FRL status becomes increasingly less precise.”<sup>32</sup>



*In its annual report on ESA funding, the state Bureau of Legislative Research noted that “as more districts participate in these federal school lunch programs—particularly CEP—and more students are artificially labeled free lunch students, measuring other areas of education by students’ FRL status becomes increasingly less precise.”*



To mitigate against inflated poverty metrics, the Arkansas Division of Education altered the rules around eligibility for ESA/concentrated poverty funding by stipulating that districts participating in CEP or Provision 2 would receive concentrated poverty funding on the basis of historical numbers, i.e. the categorical funding rate established on concentrated poverty prior to the school or district signing up for CEP or Provision 2. This means that schools have their concentrated poverty funding “locked in” based on old numbers for at least four years, and can do so perpetually provided that they continue to remain eligible for CEP by having at least 40% of their student populace qualify for SNAP or other programs.

This provision results in districts with reduced poverty or poverty concentrations continuing to receive funding on a basis that no longer applies to them, thereby short-changing

<sup>32</sup> “Enhanced Student Achievement Funding and Expenditures (previously known as National School Lunch State Categorical Funding),” Arkansas Bureau of Legislative Research, Arkansas State Legislature, [Arkleg.state.ar.us](https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2019-11-05&filename=Handout+C2_ESA-Report_02), November 5, 2019.  
[https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2019-11-05&filename=Handout+C2\\_ESA-Report\\_02](https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education/K12/AdequacyReports/2020/2019-11-05&filename=Handout+C2_ESA-Report_02)



students in other schools. Plus, this makes for school and district funding that doesn't recognize Arkansas' recent alleviation of poverty and concentrated poverty.

These factors have helped drive significant growth in the number of students receiving poverty funding and have driven more districts into the middle and upper bands for ESA/concentrated poverty funding. As a result, the growth of this restricted state funding stream has grossly outstripped the growth in foundation funding over which school districts have much greater spending discretion and ability to tailor funding to local priorities. Hence, the Arkansas Bureau of Legislative Research noted the following in 2017:<sup>33</sup>

*Total ESA funding for districts increased 40% between 2009 and 2017. For comparison, the total amount of foundation funding provided to districts increased 15% for the same time period. Although ESA per-student funding rates increased in some years (a total of 6% from the 2009 rates), the increase is largely the result of a growing number of students eligible for free and reduced-price lunch and the increasing number of districts that are moving from a low ESA rate (less than 70% ESA students for \$526 per FRPL student) to a higher ESA rate (70%-89% ESA students for \$1,051 per FRPL student).*

Table 7 provides a summary illustration of this inaccuracy problem.

**TABLE 7: PROBLEMS WITH FRPL COUNTS**

District	FRPL % (used to determine funding)	ESA Funding Per FRPL Student	SAIPE % 2018
Lamar	67.92%	\$524	26.76%
Dardanelle	70.19%	\$1,036	19.59%
Western Yell	87.43%	\$1,051	19.52%
Osceola	90.33%	\$1,651	44.63%

Source: 2018-2019 Annual Statistical Report, Arkansas School Demographic Databases, University of Arkansas

<sup>33</sup> "National School Lunch State Categorical Funding and Expenditures," Arkansas Bureau of Legislative Research, Arkansas Legislature, *Arkleg.state.ar.us*, September 19, 2017. [https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education%2FK12%2FAdequacyReports%2F2018%2F2017-09-19&filename=NSLStateCategoricalFundingAndExpendituresReport\\_BLR2](https://www.arkleg.state.ar.us/Bureau/Document?type=pdf&source=education%2FK12%2FAdequacyReports%2F2018%2F2017-09-19&filename=NSLStateCategoricalFundingAndExpendituresReport_BLR2)

First, notice that census (SAIPE) poverty rates are markedly lower than FRPL rates. This is because the FRPL benchmark for poverty is higher than the census measurement. For the ESA program, being at 130% of the federal poverty line or lower qualifies a student for free lunch and being at 185% or lower qualifies them for reduced-price lunch. Since SAIPE uses the official poverty line, FRPL counts identify more students as low-income. However, also notice that the census measures don't track closely with FRPL counts. Dardanelle and Western Yell, for instance, have very similar SAIPE rates but much wider differences on FRPL counts. Consequently, Lamar gets much less ESA funding per FRPL pupil even though it has a higher SAIPE rate and could very well have a comparable number of students below 180% of the federal poverty line. By contrast, Western Yell and Osceola look similar on FRPL counts, but Osceola actually has a much higher census poverty rate.

To be sure, some of these disparities can be attributed to the fact that each district's low-income population will look different when benchmarks are altered between SAIPE and FRPL. Nonetheless, the combination of using outdated FRPL counts, as well as the increasing inaccuracy of FRPL counts to measure poverty, creates problems in how Arkansas targets funding for low-income students.

### **4.3.1 ESA Funding Recommendations**

Beyond absorbing funding for low-income students into a weighted student formula—as has already been suggested—Arkansas could pursue a number of additional reforms to better target its ESA funding. On the issue of weighting for concentration, policymakers need to first eliminate the threshold problem whereby districts stand to lose or gain significant amounts of ESA funding when they move from one poverty tier to another. This could entail only having the higher weights apply for each student, placing them over that threshold rather than all low-income students in the district, similar to how a progressive income tax system only taxes each dollar over a certain threshold at a higher rate. This can help ensure that disparities highlighted in Figure 7 aren't so pronounced for districts with similar counts of low-income students.

Secondly, Arkansas needs to use a different metric for determining poverty so that counts are accurate and so funds can be effectively targeted. One good option uses direct certification rather than FRPL counts. Direct certification automatically classifies a student as affected by poverty without needing to do paperwork if their families receive means-tested benefits through government programs like the Supplemental Nutrition Assistance Program (formerly known as food stamps), food subsidies for women, infants and children

(WIC) or welfare through the Temporary Assistance for Needy Families (TANF).<sup>34</sup> A few states using direct certification have also participated in Medicaid pilots designed to recover more information on household income in order to identify students who may have formerly qualified for reduced-price lunch but don't participate in SNAP, TANF, or the Food Distribution Program on Indian Reservations.<sup>35</sup> Some states include foster care participation, homelessness, and other programs in their direct certification systems.<sup>36</sup> Programs like WIC provide an especially strong replacement for pre-CEP/Provision 2 FRPL eligibility. For instance, WIC is administered by the same federal agency as the FRPL program, serves many of the same kids and families, has the same household income eligibility, is available to non-citizens, and carries high participation rates among those eligible.<sup>37</sup>



*Arkansas needs to use a different metric for determining poverty so that counts are accurate and so funds can be effectively targeted. One good option uses direct certification rather than FRPL counts.*



Direct certification requires access to the administrative data for the aforementioned programs, and is a method to determine student poverty used in Michigan,<sup>38</sup> and with some variation in states like Massachusetts and Delaware.<sup>39</sup>

<sup>34</sup> K. Michelmore and S. Dynarski, "The gap within the gap: Using longitudinal data to understand income differences in educational outcomes," 2017, *AERA Open*, 3(1), 2332858417692958.

<sup>35</sup> Erica Greenberg, "New Measures of Student Poverty: Replacing Free and Reduced-Price Lunch Status Based on Household Forms with Direct Certification," 2018, *Urban Institute*.

<sup>36</sup> Ibid.

<sup>37</sup> Carole Trippe, Chrystine Tadler, Paul Johnson, Linda Giannarelli, and David Betson, "National- and State-Level Estimates of Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Eligibles and Program Reach in 2015," 2018, U.S. Department of Agriculture, Food and Nutrition Service, Office of Policy Support.

<sup>38</sup> Michelmore and Dynarski, "The gap within the gap."

<sup>39</sup> Greenberg, "New Measures of Student Poverty."

To be sure, this method isn't perfect for counting low-income students. Income thresholds for many of the programs considered through direct certification are lower than the FRPL thresholds.<sup>40</sup> Moreover, state variation in application practices for programs such as SNAP and TANF can create barriers for families. This can lead to undercounting of low-income students from families with low literacy levels or English proficiency, transportation challenges or inflexible work schedules, problems documenting income, or for students who might have otherwise qualified through old ESA program forms and children of immigrant U.S. citizens or non-citizens.<sup>41</sup>

To mitigate against these challenges, consider Massachusetts' transition away from FRPL to a mix of other measures for poverty, including direct certification.<sup>42</sup> For the purpose of funding districts for student poverty, Massachusetts includes directly certified students and those with household members who can be directly certified for the following programs: the Supplemental Nutrition Assistance Program (SNAP), a state-based Medicaid pilot and Temporary Assistance for Needy Families (TANF) program.<sup>43</sup> Students in foster homes are included too.<sup>44</sup>

Even after adopting this wide range of measures, Massachusetts saw a 31.4% decrease in the share of students identified as economically disadvantaged after moving to direct certification from FRPL eligibility.<sup>45</sup> This drop reflects the new system's targeting of students at the greatest degree of economic disadvantage, since the programs included had a lower eligibility threshold than the FRPL program. Because this change had potentially dramatic short-term funding impacts on some districts, Massachusetts instituted an increased multiplier for poverty funding to compensate for the significant reduction in eligible students.<sup>46</sup> However, having a less-inflated count of low-income students allowed Massachusetts to also increase its support for each economically disadvantaged student significantly.

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<sup>40</sup> Michelmore and Dynarski, "The gap within the gap."

<sup>41</sup> Alison Siskin, "Noncitizen Eligibility for Federal Public Assistance: Policy Overview," Washington, DC: Congressional Research Service, 2016.

<sup>42</sup> Greenberg, "New Measures of Student Poverty."

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

<sup>45</sup> MDESE (Massachusetts Department of Elementary and Secondary Education), "A Changing Metric: Low Income versus Economically Disadvantaged," 2015, Malden: MDESE.

<sup>46</sup> Ibid.

In 2019, Massachusetts passed a law that raises the student poverty threshold back to 185% of the Federal Poverty Level, as it was during the days when FRPL-eligibility was used as a metric.<sup>47</sup> However, direct certification can be used to capture students even at the old threshold by broadening the range of included programs. For instance, Massachusetts' state Medicaid pilot, "MassHealth," also has a provision, not currently a part of the state's direct certification test for student poverty, that is applicable to families with incomes up to 185% of the Federal Poverty Line.<sup>48</sup>

Arkansas can improve its low-income student grant system by adopting more-reliable poverty metrics, equalizing funding by collapsing this funding into its formula, and by smoothing over differences between different poverty concentration tiers.

## 4.4

### OTHER PROBLEMS

While the problems covered thus far are likely the most important challenges facing Arkansas' school finance system, other problems remain.

- **Over-reliance on local override revenues:** Some of the largest disparities in per-pupil funding—especially in Arkansas' wealthiest districts—stem from the widespread use of local override funds. These disparities are most pronounced for debt service funding, which is often used to pay down facilities-related bonds. To advance funding equity on this front, the state should re-evaluate the role of excess local dollars in funding education—even when they are earmarked for purposes such as bonds or teacher salaries—so that all students get fair funding.
- **Formula weight for English learners:** In keeping with a core recommendation that Arkansas streamline major separate grants like ESA funding into its formula, the state should also consider doing this for English learner funding, which is also currently a separate state grant.

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<sup>47</sup> Edge Staff, "News Brief: Mass. Senate unanimously passes Student Opportunity Act," *The Berkshire Edge*, 8 October 2019, <https://theberkshireedge.com/news-brief-mass-senate-unanimously-passes-studentopportunity-act/> (Accessed 8 June 2020).

<sup>48</sup> "MassHealth Coverage By Federal Reimbursement Matrix," *Mass.gov*, 2020. <https://www.mass.gov/servicedetails/masshealth-health-care-reform/resources?page=9> (Accessed: 8 June 2020).

- **Smaller non-formula grants:** While this brief has mostly discussed the largest state grants outside of the formula, many other smaller grants can also lead to inequitable/arbitrary distribution of resources. These include grants for career education, gifted and talented education, small and isolated districts, and more. While these education priorities are laudable, state policymakers should evaluate the extent to which these grants unjustifiably favor some districts over others.

## PART 5

# CONCLUSION

The benefits of moving Arkansas' school funding system in a more streamlined, equitable, and flexible direction should be considered in concrete terms. Data released annually by DESE indicate that teacher salary schedules vary substantially across the state, and that there's a correlation whereby districts with higher poverty rates tend to have lower average teacher salaries.<sup>49</sup> Ensuring that districts get equitable funding based on student needs and that they have the latitude to use funds as they see best would help mitigate against these teacher salary disparities. More-challenged districts could more easily prioritize paying and retaining quality teachers so that their students get a quality education.

Consider further what it could look like if restrictions on categorical grants were relaxed. Rather than having to adhere to a long list of state grant regulations—which change quite frequently—districts would be able to direct more energy toward doing the most good with the dollars they have. Consider a hypothetical district that wants to improve how it serves its large Hispanic population. That district could blend professional development and English learner funds to help teachers improve Spanish skills and cultural awareness, without having to worry about getting special permission from the state department. Or imagine if districts could more easily use ALE funds to support keeping students in adverse circumstances in general classrooms, rather than separating these students into different classrooms (as the current program generally does). This list could go on.

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<sup>49</sup> "Teacher Salary Schedule Analysis 2019-2020," Arkansas Division of Elementary and Secondary Education, Fiscal and Administrative Services, *Dese.ade.arkansas.gov*.  
[http://dese.ade.arkansas.gov/public/userfiles/Fiscal\\_and\\_Admin\\_Services/Publication%20and%20reports/Salary%20Reports/AMENDED\\_FY2019\\_20\\_Teacher\\_Salary\\_Analysis.pdf](http://dese.ade.arkansas.gov/public/userfiles/Fiscal_and_Admin_Services/Publication%20and%20reports/Salary%20Reports/AMENDED_FY2019_20_Teacher_Salary_Analysis.pdf)

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*...imagine if districts could more easily use ALE funds to support keeping students in adverse circumstances in general classrooms, rather than separating these students into different classrooms (as the current program generally does).*

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On school finance reform, no state can truly start from scratch—and Arkansas is no exception. The problems and recommendations highlighted in this brief are intended to emphasize the positive aspects of Arkansas’ school finance system and then progress onward. Arkansas should be proud to have a formula that already equalizes some funding fairly well and special funds for disadvantaged students. The state should build on this foundation by streamlining more education dollars into a weighted student formula and ensuring that the formula provides greater resources to students with greater needs. From there, school operational decisions should be left in the hands of local leaders—those who are closest to the kids.



# ABOUT THE AUTHORS

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# APPENDIX

**TABLE A1: DIFFERENT APPROACHES TO SPECIAL EDUCATION FUNDING**

Funding Method	Pros	Cons	States That Use It
<p><b>Multiple Weights:</b> A “weighting” is provided to the base per-student funding amount depending on the category of special need the student falls under, or the intensity of services they require. A funding supplement can also be provided in lieu of weighting.</p>	<ul style="list-style-type: none"> <li>• Provides an accurate matching of allocated costs and actual costs, especially if weightings are based on intensity of services or number of hours required by the student’s IEP (individual education plan) rather than diagnosis type</li> <li>• Doesn’t require detailed reporting of the costs incurred by individual students</li> <li>• Allows for funding in a timely manner compared to reimbursement</li> <li>• Offers flexibility in how funds are actually used</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed reporting of the profile of disabled students in the school district becomes necessary, connoting increased administration costs</li> <li>• May incentivize schools to over-identify students in certain categories to attract funding</li> </ul>	<p><b>15 States</b>                      Arizona                      Colorado                      Georgia                      Indiana                      Iowa                      Kentucky                      Maine                      New Mexico                      Ohio                      Oklahoma                      South Carolina                      Texas                      Florida                      Minnesota                      South Dakota</p>
<p><b>Single Weight:</b> A single “weight” or funding supplement is attached to every student categorized as special needs regardless of disability or actual services required.</p>	<ul style="list-style-type: none"> <li>• Simplicity and ease of funding, which lowers administrative costs and offers funding certainty</li> <li>• Offers flexibility in how funds are actually used</li> </ul>	<ul style="list-style-type: none"> <li>• Results in the overfunding of some SPED students and the underfunding of others</li> <li>• Creates very high incentives to over-identify the number of disabled/SPED students</li> </ul>	<p><b>9 States</b>                      Louisiana                      Maryland                      Missouri                      Nevada                      New Hampshire                      New York                      North Carolina                      Oregon                      Washington</p>

Funding Method	Pros	Cons	States That Use It
<p><b>Resource-Based:</b> Funding is tied to the allocation of resources, such as special education staffing positions, rather than provided with discretion over how it's spent</p>	<ul style="list-style-type: none"> <li>• Simplicity and ease of administration</li> <li>• Fewer reporting requirements</li> <li>• Funding tied to services and the costs incurred to provide them, rather than simply to disability type</li> </ul>	<ul style="list-style-type: none"> <li>• Offers no flexibility in how funds are spent</li> <li>• Deters innovation and the tailored provision of services to individual students through top-down allocation</li> </ul>	<p><b>5 States</b> Delaware Hawaii Mississippi Alabama Virginia</p>
<p><b>Census-Based:</b> The state assumes that a certain percentage of students in every district will have special needs or will fall into certain special needs categories, and funds on this basis, rather than based on the actual number in each district.</p>	<ul style="list-style-type: none"> <li>• Simplicity and ease of administration</li> <li>• Fewer reporting requirements</li> <li>• Prevents overidentification of special needs students</li> <li>• Flexibility in how funds are used</li> </ul>	<ul style="list-style-type: none"> <li>• Burdens districts with above average number of special needs students, or with above average levels of students who require a high intensity of SPED services</li> <li>• Encourages districts to under-identify students as having special needs or requiring services at a particular intensity as districts must provide for this from their general funding unless accounted for by percentages of students assumed to fall into these categories</li> </ul>	<p><b>11 States</b> Alabama Alaska Idaho California Massachusetts Montana New Jersey North Dakota South Dakota Pennsylvania Illinois</p>
<p><b>Reimbursement:</b> Schools or districts are obliged to maintain receipts of expenses required for SPED education. The state then provides full or partial reimbursement for these after the fact.</p>	<ul style="list-style-type: none"> <li>• The most precise way to correlate funding with actual costs</li> <li>• No risk of overidentification of any disability or category of special need</li> <li>• Flexibility in how funds are used</li> </ul>	<ul style="list-style-type: none"> <li>• High administrative costs for schools and districts</li> <li>• Funding not provided in a timely manner, debt or funding shortfalls in the short-term are possible</li> <li>• Depending on the guidelines for reimbursement, it could encourage unnecessary expenses or fail to reimburse necessary expenses that fall short of the guidelines</li> </ul>	<p><b>8 States</b> Kansas Michigan Nebraska Wyoming Wisconsin Vermont Minnesota Illinois</p>
<p><b>Block Grant:</b> A grant is provided to districts that meet a certain threshold of special needs students or based on the funding provided in prior years.</p>	<p>Easy and cheap to administer and predictable flexibility in how funds are used</p>	<p>Not tailored to student needs, can lead to underfunding of some students and districts, especially where special needs students or those who need a large service volume are overrepresented</p>	<p><b>4 states</b> Utah Florida Pennsylvania Vermont</p>
<p><b>Separate Funding for High-Cost/Atypical Needs Students</b></p>	<p>Ensures that districts and schools don't suffer a severe depletion of funds due to one or more students with especially high needs</p>	<p>Creates an incentive to overidentify students as meeting this threshold, especially where little to no funding is provided for special needs that fail to meet the threshold.</p>	<p><b>22 States</b> <b>Arkansas</b> Alaska Massachusetts Montana New Jersey North Dakota Colorado Georgia Iowa Maine Ohio Oklahoma Louisiana Missouri</p>

Funding Method	Pros	Cons	States That Use It
			Nevada New York Oregon Washington Connecticut Rhode Island West Virginia Idaho (severe emotional disturbance only)
<b>No Separate Funding for Special Needs Students Outside of High-Cost/Atypical Needs Students</b>	<ul style="list-style-type: none"> <li>• Incentivizes cost control in how funds are spent to address special needs</li> <li>• Consistent, predictable, easy to administer</li> <li>• Especially severe cases can be addressed</li> </ul>	Leads to funding shortfalls for schools with above average special needs	<b>4 States</b> <b>Arkansas</b> Rhode Island West Virginia Connecticut

Source: “Improving How Connecticut Funds Special Education: An Analysis Of Special Education Finance Systems Across The Country, And Recommendations For Implementing Best Practices,” *Connecticut School Finance Project*, 2016. [http://www.ct.gov/opm/lib/opm/secretary/specialed/improving\\_how\\_connecticut\\_funds\\_special\\_education.pdf](http://www.ct.gov/opm/lib/opm/secretary/specialed/improving_how_connecticut_funds_special_education.pdf) (Accessed 28 September 2020).

**TABLE A2: ARKANSAS SPECIAL NEEDS CATEGORICAL GRANTS**

Categorical Grant:	Alternative Learning Environment
Purpose:	Provide additional resources for dropout prevention and customized instruction for students in adverse circumstances, such as homelessness, persistent academic struggles, or behavioral issues. Aimed at helping students graduate and/or reintegrate into regular classrooms.
Summary of Allowable Expenditures:	<ul style="list-style-type: none"> <li>• Provide both academic intervention services and/or counseling services based on student needs in a non-punitive environment</li> <li>• Use properly licensed personnel for instruction or other support services and provide them with proper professional development</li> <li>• Uphold student-teacher and student-paraprofessional ratios, varying by grade level and type of staff (all are lower ratios compared to general classroom requirements)</li> <li>• Implement academic programs that are comprehensive and comparable to those offered in regular classrooms and in compliance with Arkansas Academic Standards</li> <li>• Computer instruction must supplement teacher instruction and comprise no more than 49% of total instruction time.</li> </ul>
Reporting/Compliance Requirements:	<ul style="list-style-type: none"> <li>• Administer academic assessments to all students entering program</li> <li>• Develop parent-signed Student Action Plan for all students, detailing all services student requires</li> </ul>

	<ul style="list-style-type: none"> <li>• Submit program description and legal compliance report to AR Division of Elementary and Secondary Education every three years</li> <li>• Before an ALE program qualifies for funding, state conducts annual review of each program to evaluate compliance with rules, best practices, and its overall effectiveness</li> </ul>
Potential Flexibility Challenges:	<ul style="list-style-type: none"> <li>• Heavy state control and monitoring over ALE programs likely imposes significant administrative burden</li> <li>• Staffing ratios restrict program’s hiring decisions in accordance with perceived student needs and necessitate that non-ALE funds be diverted to program</li> <li>• Curriculum flexibility outside of state academic standards is only available to students 16 or older, with parental consent, and if student lacks sufficient academic credits to graduate on time</li> </ul>

<b>Categorical Grant:</b>	<b>English Language Learner (ELL) Funding</b>
Purpose:	Provide additional resources to help non-proficient students obtain English proficiency and receive academic services comparable to those of their English proficient counterparts
Summary of Allowable Expenditures:	<ul style="list-style-type: none"> <li>• Other state funds can’t be supplanted by ELL funds</li> <li>• State prohibits bilingual or dual language programs, i.e. all ELL programs are English only</li> <li>• Salaries and professional training for ELL-specific instructional services and support services</li> <li>• ELL-appropriate curriculum and enrichment materials</li> <li>• Language progress and academic proficiency assessments</li> </ul>
Reporting/Compliance Requirements:	<ul style="list-style-type: none"> <li>• Adherence with existing federal laws and rules regarding civil rights law</li> <li>• District administration of Home Language Usage survey upon student’s initial enrollment in district</li> <li>• Annual document submission to state of district’s ELL program, including its chosen English Development Model and its Access to Core Program model</li> </ul>
Potential Flexibility Challenges:	<ul style="list-style-type: none"> <li>• Requirements around state-approved ELL assessments and approved ELL instruction models may not be as effective as other curriculum identified by district and classroom leaders</li> <li>• Restrictions against supplanting other funds may limit the range of uses for ELL funds</li> <li>• Prohibition of multi-lingual instruction may prevent districts from adopting more culturally responsive or academically effective programs</li> <li>• Most restrictions come from federal level</li> </ul>

<b>Categorical Grant:</b>	<b>Enhanced Student Achievement (ESA, previously known as National School Lunch) Funding</b>
Purpose:	Provide additional resources for academic supports and other services for low-income students and districts with high concentrations of low-income students

Summary of Allowable Expenditures:	<ul style="list-style-type: none"> <li>• Other state funds can't be supplanted by ESA funds</li> <li>• Pay salaries to implement class size reductions to serve low-income students</li> <li>• Pay salaries for instructional coaches/assistants, only as allowed under state licensure and mandated experience levels and professional training</li> <li>• Pay counselors, social workers, curriculum specialists, or teacher aides</li> <li>• Evidence-based professional development, after-school programs, early intervention, and teacher recruitment</li> <li>• Class size reductions, teacher salary schedule supplements, and bonuses—as well as all other uses not specified in Division rules—require special state approval</li> </ul>
Reporting/Compliance Requirements:	<ul style="list-style-type: none"> <li>• Districts must demonstrate that they have not supplanted other state funds in administering any ESA programs, such as using funds to meet minimum salary or staff ratio requirements</li> <li>• Establish a differentiated salary schedule according to State Board of Education compensation tiers</li> <li>• Districts must submit detailed annual support plans explaining their use of ESA program funds and how they fulfill the program's purpose. The state division may, at any time, review these reports and other required data and require the district to use these funds differently</li> </ul>
Potential Flexibility Challenges:	<ul style="list-style-type: none"> <li>• Heavy state oversight and restrictions against supplanting other funds may limit range of uses for these funds</li> <li>• State ability to require districts to allocate ESA funds for different purposes or to reject proposed uses may undermine district prerogatives or locally perceived needs</li> </ul>

<b>Categorical Grant</b>	<b>Professional Development (PD)</b>
Purpose:	Provide knowledge and skill development to teachers and paraprofessionals on best practices and methods to improve student achievement
Summary of Allowable Expenditures:	<ul style="list-style-type: none"> <li>• Provide no less than six professional development days in instructor contracts</li> <li>• Instruct on certain topics each year on a rotating basis (including topics like child maltreatment and Arkansas history)</li> <li>• A variety of other state-approved programs such as conferences, peer-coaching, or micro-credentialing</li> </ul>
Reporting/Compliance Requirements:	<ul style="list-style-type: none"> <li>• Include plans for use of PD funds in district support plan</li> <li>• Conduct annual evaluations of PD programs to ensure the programs are intended to boost student achievement</li> <li>• Gather and use evaluation data of PD programs to improve future PD courses</li> </ul>
Potential Flexibility Challenges:	<ul style="list-style-type: none"> <li>• Requirements around minimum number of PD days and mandated curriculum restrict district ability to maintain their own schedule or implement more customized PD programs</li> </ul>

Source: “Rules Governing Student Special Needs Funding, Effective July 2, 2020,” Arkansas Division of Elementary and Secondary Education, [http://dese.ade.arkansas.gov/public/userfiles/Legal/Legal-Current%20Rules/2020/dese\\_268\\_StudentSpecialNeedsFunding2020.pdf](http://dese.ade.arkansas.gov/public/userfiles/Legal/Legal-Current%20Rules/2020/dese_268_StudentSpecialNeedsFunding2020.pdf)

