



# PAYCHECK and POLITICS

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## How Are Public Schools Funded?

by James Metzger and Richard Huddleston

### INTRODUCTION:

#### LAKE VIEW SCHOOL DISTRICT

In May, Pulaski County Chancellor Collins Kilgore issued a long-anticipated decision in the Lake View School funding case. As expected, Judge Kilgore's decision held that the state's current school funding formula is unfair to poorer school districts and provides inadequate funding for the education of the state's children. The case will not only shape the future of the state's public education system, but also could have far-reaching implications for the state tax system and funding for all state government programs, including those that provide funding for services that support the state's low-income families.

According to some finance experts who testified during the case, an additional \$450-\$900 million annually in new education funding will be needed to meet the obligations under the court's ruling. To generate this level of funding, major tax increases and/or budget cuts in other state-funded programs may have to occur. The state has indicated it will appeal Kilgore's decision to the Arkansas Supreme Court, a process that could take up to a year.

With the handing down of the Lake View decision, now is an ideal time to review how the state's education system is funded. Rather than use the technical jargon often used by education finance experts, this report is an effort to describe in layman's terms how the system is funded.

This report is the first in a series of reports from the Arkansas State Fiscal Analysis Initiative (SFAI) that will examine education funding issues. Future reports will examine the Lake View decision and its potential impacts on the Arkansas budget and tax system.

The money to build and operate Arkansas public schools comes from local, state and federal governments. Forty years ago, most of the money for a school came from within the school's community. Today, communities pay only 32 percent of the cost of public schools; the state pays more than 60 percent.

#### Communities Pay For Their Schools With Property Taxes \$770 million in 2000

Arkansas communities help pay for their local schools through property taxes. For the 2000 school year, \$770 million was paid in property taxes. Voters in each school district decide on how much local tax they will pay on real estate, personal belongings and business property. The amount of money collected depends partly on this tax rate. It also depends on the amount and worth of property in the district.

#### How Do Property Taxes Work?

First, property is assessed. That is, county officials check the amount for which property could be sold, or its market value. Then, they find its value for tax purposes, or its assessed value. In Arkansas, most property is supposed to be assessed

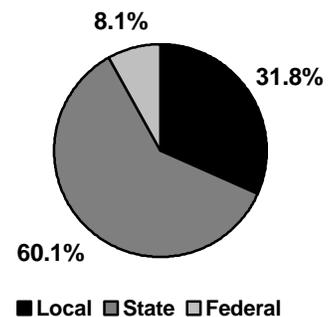
at 20 percent of its market value. So, for example, a house worth \$60,000 would have an assessed property value of \$12,000.

Then, the tax rate is applied. Property tax rates are also known as millage rates because taxes are set in mills. A mill is one-thousandth of a dollar (or 0.001). Suppose the tax rate were 1 mill. The property tax owed on that \$60,000 home would be \$12.

Market value of home = \$60,000  
Assessed value of home = 20% x  
\$60,000 = \$12,000  
Property tax of 1 mill = \$12,000 x  
0.001 = \$12

School boards can propose millages (on which citizens vote) for three purposes:

#### Sources of Public School Funds, 2000-01





## WHAT CAN PARENTS DO?

Parents and other voters can be involved in many ways that contribute to good educational programs.

Because property taxes are reset by a vote, citizens have the perfect opportunity to make their wishes known. During the campaign before the millage election, voters can:

- ✓ speak to members of the local board of education
- ✓ make statements at open sessions of the board
- ✓ give information to news media.

Parent-teacher groups often get involved in these elections. Or parents can form their own groups.

1. **Maintenance and operations.** Paying the normal costs of schools, such as teachers pay and upkeep on buildings.
2. **Dedicated Maintenance and Operation.** Buying items, such as computers and office machines, or repairing facilities.
3. **Debt service.** Paying for long-term costs, such as building new schools.

Added together, the millage set for each of these purposes equals the amount of property tax that goes to the school district. In 2000, all property taxes in Arkansas raised about \$1.016 billion. About 76 percent of that money went to public schools. The rest went to the county, city, library and other projects.

### How Is The State Involved In Property Taxes?

State government has a huge effect on local property taxes, directly and indirectly. Directly, the state's Assessment Coordination Department supports county assessors. It also reviews the value of property in each county. State law says property must be assessed at 20 percent of its market value. Sometimes assessed value in a county rises above 22 percent or falls below 18 percent of market value. Then the Assessment Coordination Department can force the county to reappraise, or reset the value of, all property.

Indirectly, the state affects local taxes through

- ✓ the amount of aid it gives the schools, and
- ✓ the method it uses to decide how much money to give each school district.

Each district must raise a certain amount of revenue using a mini-

imum tax rate of 25 mills. The more money the district raises through property tax assessments, the less it must depend on the state for assistance. State aid is used to help most districts increase their revenue to a standard amount per student across the state.

### Do We Pay Enough Property Taxes For Schools?

Although all states have property taxes, they rely differently on them in comparison to other revenue sources; so it is hard to know how Arkansas really stacks up. Texas, for example, taxes its oil wealth and can rely on that money to help fund public schools.

It is also hard to compare counties within Arkansas. A wealthy school district may set a low tax rate. But because it has a lot of valuable property, the amount of money spent per student may still be high. A poor school district may vote a higher tax rate. But because it has little valuable property, the amount of money per student may be below average.

For example, Mississippi County's average tax rate is 28.5 mills. Union County's is 40 mills. But Mississippi County raises five times as much money as Union County because its total property value is so much greater.

Some counties have a great deal of valuable farmland or timberland. Arkansas does **not** assess this land by its market value. Instead the land is assessed at a lower use value. This means taxes are lower on these lands, so less money goes to the school district.

### The State Evens Things Out *\$1.7 billion in 2000*

Because property taxes are based partly on local wealth, the money raised per pupil for schools is not equal in all school districts. Lake



## PER PUPIL EXPENDITURES: THE \$900 DIFFERENCE

States spent an average of \$6,251 per student (including federal money) during school year 1998-99. Arkansas spends only \$5,351 per student. With the difference \$900 Arkansas schools could:

- ✓ add more staff, so class sizes could be smaller;
- ✓ give teachers more training;
- ✓ hire teachers with better qualifications;
- ✓ buy new textbooks and teaching materials;
- ✓ buy better computers and software;
- ✓ have more access to the Internet; or
- ✓ improve early childhood education programs.

Where would the money come from? The state could cut money from other programs, such as upkeep of roads, health care, or tax breaks for businesses.

Or the state could raise taxes.

Which would you choose?

View School District in Phillips County, which has no big cities or large industries to be taxed, raised only \$827 per student in 2000. School districts in Little Rock and Russellville, which have more property, raised about \$3,200 per student.

To be fair to students in poor counties, the amount of money spent on schools must be evened out. So Arkansas has a program that uses money from state sales and income taxes to help local schools. This program is called a minimum foundation program.

### Who Decides How Much To Spend?

Using a complicated formula, the Arkansas Legislature decides how state money will be spent on local school districts. The formula is based on the average amount that should be raised per student statewide (not including federal money). For 2000-01, the Legislature set that minimum amount at \$4,492.

Most school districts cannot raise \$4,492 per student through property taxes. Only school districts with large industries can raise more money than they need.

The Arkansas Department of Education finds the difference between \$4,492 per student and the amount each school district can raise. It then gives each district enough money to make up the difference.

### State Aid Changed in the 90s

In 1991, Arkansas reached a milestone for school funding. Then-Governor Bill Clinton convinced educators and legislators to back the Educational Excellence Trust Fund. Money from a half-cent sales tax increase was put into the special fund.

Teachers salaries in Arkansas

were far behind those of the rest of the country, so most of the special fund has been spent on teachers pay. Our teachers salaries are still among the lowest, but in an effort to catch up, they have gone up more than 62 percent in the past 15 years. In fact, during their 2001 session, the Arkansas Legislature raised teacher salaries by \$3,000.

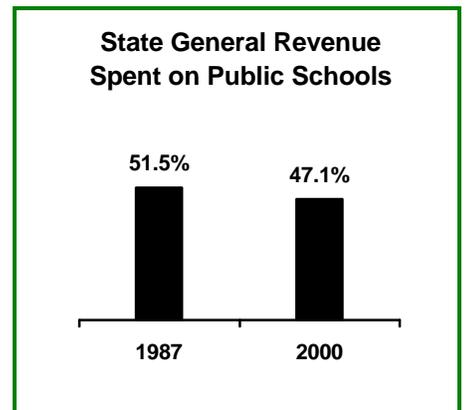
The special fund has been successful. But in other areas, money for schools has gone down. Net general revenues are all state money not set aside for a special purpose. The Legislature decides how this money will be spent. Over the past 10 years, the share of this money spent on public schools has kept decreasing.

In 1987, 51.5 percent of general revenues went to public schools. By 2000, only 47.1 percent went to schools. That year, if the share had been 51 percent, \$124 million more would have gone to public schools.

### The Federal Government Meets Special Needs

*\$153.1 million in 2000*

Each year, the U.S. government gives the states money they can use for education. For most states, this amount is a small part of the total public school budget. During the 1999-2000 school year, only 5.8 percent of Arkansas education money came from the federal government. While a small amount, that money was important to the schools.





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Most federal education money is aimed at helping people who are poor or have special needs. Most federal money comes from Title I, a program to help disadvantaged students. Some of the federal money Arkansas receives may only be used for one purpose. This is true of programs such as School Lunch and School Breakfast. While this money is important to education, it is often not counted as part of the budget for schools (the state and school districts report this money separately).

The Top 5 sources of federal funding for education-related programs in Arkansas during the 1999-2000 school year included:

1. **Title I** \$85 million
2. **School Breakfast and School Lunch programs** \$81 million
3. **Special education (students with disabilities)** \$46 million
4. **Head Start preschool programs** \$40 million.
5. **Vocational education** \$13 million

### **Does Arkansas Measure Up?**

In state and federal money per student, Arkansas is about average among all states. However, in local money per student, Arkansas ranks near the bottom 43<sup>rd</sup>. Overall, Arkansas is 46<sup>th</sup> in total education dollars per student.

Considering Arkansas's low income, its school-funding efforts look a little better. In school dollars per income dollars, Arkansas ranks 33<sup>rd</sup>. In local dollars raised per income dollars, Arkansas ranks 39<sup>th</sup>.

We could do better. In June 2001, an Arkansas court agreed. In a case brought against the state by the Lake View School District, one Arkansas judge ruled that funding for the state's public edu-

cation was inadequate, or too low, to provide a quality education for the state's students. If the judge's ruling is upheld by the Arkansas Supreme Court, the state may be required to dramatically increase its future spending on K-12 education.

Arkansas is not alone on this issue. Parents in other states, such as Kentucky and Texas, have said their public schools don't have enough money to give children a high-quality education. Some courts have agreed. Recent research in Kentucky seems to support this view. Kentucky overhauled how it raises money for schools. New taxes increased money for schools by 42 percent from 1990 to 1994. During that time, reading scores doubled.

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### **For More Information**

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