Stephens Public Finance

How Stephens helps to navigate millage rollback complexities

By Kevin Faught, a Senior Vice President with the Public Finance team at Stephens

Northwest Arkansas is thriving. Year after year, it remains one of the country's fastest-growing regions, drawing new residents with its strong job market, appealing quality of life, and low taxes. In fact, the Milken Institute ranked Northwest Arkansas at number 7 on its list of the nation's Best-Performing Cities in 2024.

But as the area sees robust economic and population growth, our infrastructure must keep pace with the region's continued success. Nowhere is this more imperative than in education.

While most readers of Report Card would be aware of the reliance on property taxes for public school funding in Arkansas, it is worth digging a little deeper into the millage system, in particular, millage rollbacks – a complex financial calculation that is becoming increasingly important in the state's rapidly growing areas.

Put simply, a mill represents one-tenth of a cent, meaning that for every $1,000 of assessed property value, one mill generates $1 in tax revenue. To ensure adequate education funding, every school district in the state must levy at least 25 mills for maintenance and operations.

However, a unique challenge arises in rapidly expanding areas during a countywide reappraisal or reassessment, when a school district's property assessments increase by more than 10% in a single year,(taking into consideration newly discovered real property and new construction and improvements to real property), as Arkansas law requires a millage rollback. This means the tax rate is reduced. While this might seem like a tax break for homeowners, it may significantly impact school budgets.

Growth brings rollbacks into focus

The challenge of millage rollbacks is particularly acute in places like Northwest Arkansas, where rapid economic and population growth pushes property values higher. In fact, according to the Northwest Arkansas Council, Northwest Arkansas has witnessed 31% population growth since 2010 – which equates to about 36 people moving to the area daily.

This growth does create challenges. For example, the Gentry School District is facing a rollback that will lower its revenues by approximately $450,000 if the District's millage rate is reduced. That is nearly half a million dollars that will not be available for teacher salaries, educational programs, or much-needed infrastructure improvements. The Farmington School District finds itself in a similar predicament. Like many others across the state, both districts must evaluate their options in light of the rollback.

At Stephens Public Finance, we work closely with local districts to get a complete picture of current revenue streams, debt capacities, and future financial needs. We can help communities determine how and when to issue debt for projects and the most advantageous way of structuring these financings.

We understand the pressure points our districts face because most of us have lived in these local areas all our lives. For example, I have been at Stephens for more than two decades and previously worked in the Springdale Mayor's Office in 1994 as the Director of Administration and Finance.

Ensuring schools receive the funding they need is more than just a job to me. My mother was a teacher in Fort Smith for longer than I can remember, while my children are in the Fayetteville School District, and my nephew is in the Farmington School District.

Impact of interest rate fluctuations

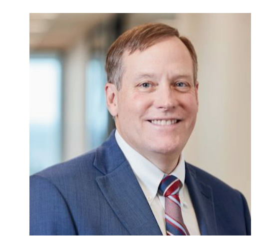
While rollbacks and millage elections are challenges facing some school districts this year, every area of the country is having to deal with the complexity of the current economic climate. During the COVID-19 pandemic, historically low interest rates made it easier and more affordable for districts to finance new projects. But today, with rates hovering around 4% or higher, securing long-term funding has become more expensive.

When borrowing millions of dollars, even small fluctuations in interest rates can have a significant impact on payments. This is where we work with our partners to develop robust long-term financial plans, which take into account population trends, and economic projections. We are also realistic in terms of providing funding scenarios, as it is crucial to ensure districts are not faced with any negative surprises.

If we look out over 2025 and beyond, the importance of sound financial management for school districts will only increase as Arkansas continues to attract people from all corners of the country. The growth of Northwest Arkansas, in particular, is unlikely to subside as our major employers, which include three Fortune 500 companies in Walmart, Tyson, and J.B. Hunt, continue to prosper.

This growth will bring both opportunities and challenges for schools in the region. Currently, our schools are a source of pride for us here in Northwest Arkansas, with eight of our high schools ranking among the top 10% in the nation, according to U.S. News & World Report.

But while a growing population can mean more students and potentially more funding, it also necessitates new schools, expanded facilities, and improved infrastructure. As Arkansas evolves, we at Stephens will remain working side by side with districts to navigate the complexities of funding solutions, ensuring our part of the country can continue to provide quality education for generations to come.



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