

FOCUSING EDUCATION FUNDS

CLEARING BARRIERS TO SUCCESS

BY REDIRECTING POVERTY FUNDING



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CLEARING BARRIERS TO SUCCESS BY REDIRECTING POVERTY FUNDING

by Eleanor Wheeler, ACF Senior Policy Analyst, and Jerri Derlikowski, Owner, Community Resource Innovations

KEY TAKEAWAYS

- Arkansas sends additional dollars to high-poverty districts to meet the specific needs of children who live below the poverty line. Over time, those funds have become less targeted to boosting low-income students.
- Tutoring, quality pre-K, and extended day and summer school programs are research-proven strategies that should be an essential part of a school funding stream for helping low-income students succeed.
- Very low-income districts tend to spend a smaller percentage of their poverty funding on tutoring, quality pre-K, and extended day and summer school programs. Part of the reason for the low rate of investment in these three proven categories is that there has been a dramatic increase in the number of ways poverty funds can be spent, both through legislation and through state rules.
- In addition to offering incentives for proper future use of poverty funds, it's important to ensure that districts also begin using their current funds wisely. Arkansas should revisit the list of allowable uses and the research supporting each use. The state should limit funds to uses that have the greatest impact on educational achievement for low-income students.

INTRODUCTION

It's no secret that the quality of public-school education is not equal across Arkansas. Similarly, all students do not experience the same types of challenges. This is especially true for students living in poverty. They often face more obstacles to learning and need more resources. Arkansas recognizes this in the way it funds education. As part of a broader strategy to close achievement gaps, the state provides funding to districts specifically to offer extra resources for children in or near poverty.

This poverty funding is commonly known as National School Lunch Act funding, or NSL, because of the way the state measures which districts need the funding and how much. It was established in response to the Arkansas Supreme Court's landmark ruling in the Lake View school funding case. In that 2002 decision, the Court found that the state's public-school funding system was unconstitutional and confirmed that it's the state's responsibility to provide every child an adequate and equitable education.¹ The Court decided that the state must define what an adequate education is and assess, evaluate, and monitor the entire system to ensure that that education is provided. Though the ruling's requirements are still in effect, significant discrepancies between low- and high-income districts remain.

The extra funding for high-poverty schools was established in 2004 and was originally meant to finance three areas: tutoring, afterschool programs, and quality pre-K programs.² All three are proven to help reduce learning barriers for kids who grow up in low-income households. The ways that this money can be spent, however, has multiplied over time to include programs that don't necessarily benefit low-income populations. Although the funds are often spent on valuable investments (such as teacher salary increases), efforts to help low-income students are weakened because the funds are spread too thin.

SCHOOL DISTRICT POVERTY FUNDING IS BASED ON THE FEDERAL SCHOOL LUNCH PROGRAM

The state poverty funding is commonly referred to “NSL funding.”* It’s misleadingly named after the federal National School Lunch Act (NSLA) program. However, **state NSL funding is really school poverty funding, and its source of revenue is not related to federal funding of school meals.**³

We call our poverty funding NSL funding because Arkansas uses district data collected for the federal school lunch program to determine how much extra poverty funding each district gets. There are two ways to collect data for the federal program. The first option is for the district to collect income information from families when students register for school. Another way is to find out which students may be eligible for free or reduced lunch based on whether their family signed up for other federal programs, such as the Supplemental Nutrition Assistance Program (SNAP).

That second, newer option is called Community Eligibility. Districts that have enough families participating in programs like SNAP can use Community



*There is also a federal program, in addition to the state program, that supplements funding for high-poverty schools. The federal program is called Title I and this funding is distributed based on other calculations like Census poverty data and the cost of education in each state.

Eligibility to determine their Federal School Lunch status as a whole (instead of collecting individual family’s income information the old way). They can estimate the poverty level of each district without asking parents or faculty to collect more income information.

Districts use one of these two methods to determine the level of poverty in their districts. It is simply easier to use the data already collected for other school nutrition or income support programs. That’s the connection to the national lunch program; our state school poverty funding formula has nothing to do with actually providing meals.

Don’t Confuse Them.
The **federal NSL** pays for lunch;
the **state NSL** pays for school poverty programs:



The Federal National School Lunch Act helps low-income kids have access to meals during the school day.

Free lunch: Students qualify for free lunches if their families make less than 130 percent of the poverty line. Families also qualify for other programs like SNAP if they are under 130 percent of the poverty line. That’s \$27,014 for a family of three. Students can qualify automatically for free lunches if they are homeless, in the SNAP program, runaways, migrants, or foster children.

Reduced-price lunch: Kids in families with incomes up to 185 percent of the poverty line can have access to reduced-price lunches. That’s \$38,443 for a family of three.



State NSL funding: This is supplemental state funding meant to be targeted for educational services to improve outcomes for low-income students. The state uses the number of children who qualify for free and reduced-price lunch to determine how much poverty funding is necessary. But the funding itself comes from state sales tax revenue.

FUNDING AMOUNT IS DETERMINED BY DISTRICT POVERTY RATES

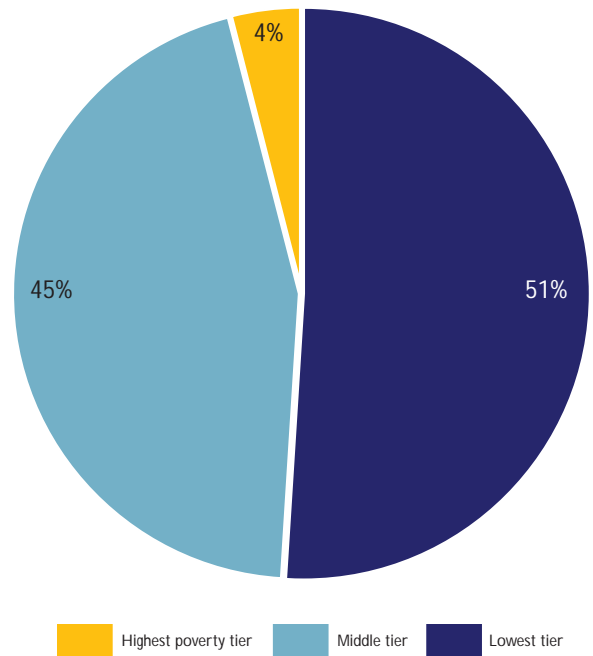
District poverty rates tell us how much state NSL funds go to each district, based on a tiered system that recognizes that higher-poverty districts have more challenges and should receive more per-student funding. Because some schools have nearly all students qualifying for free or reduced lunch, and some schools have almost none, the amount of NSL poverty funding per district can vary significantly.

The lowest tier of funding is for districts that have less than 70 percent of students living in poverty. Those districts get \$526 per eligible student. The middle tier includes districts that have 70-90 percent of students living in poverty. These schools receive \$1,051 per eligible student. The highest tier is for districts with over 90 percent of their students living in poverty. They receive the most, at \$1,576 per student. Very few districts (around 4 percent) fall into the highest NSL poverty funding category.

For example, let’s look at two hypothetical districts that each have 500 students. The first district has very few students qualifying for free or reduced lunch (just 10 out of 500). That district would receive \$526 for each of those 10 students—or \$5,260 total per year. The second district has a high poverty rate. Ninety percent of its 500 students receive free or reduced lunch, so it qualifies for the highest rate of NSL funding. That district would get \$1,576 for each of those 450 students—or \$709,200 total per year.**

It’s important to focus more funding on districts with higher poverty rates. But this staggered “three-tier” approach can be problematic. Districts that have a reduction in student poverty rates (a good thing) could see a sudden and dramatic decrease in funding for those

FEW DISTRICTS ARE IN THE HIGHEST POVERTY TIER FOR NSL FUNDING



Source: 2016-17 School year BLR analysis

students (a bad thing). Similarly, a small increase in poverty rates could cause districts to have big funding increases that don’t necessarily match their increased need.

Act 811 of 2007⁴ helps districts adjust to a new funding tier, either up or down. It spreads the funding change over a period of three years. This helps with the initial shock of the funding shift for some districts. However, districts are still subject to the dramatic loss in funding from this structure. Adding more tiers, or “smoothing out” the funding formula itself would help, but any change to the formula without increasing overall funding would lead to some districts losing money. This is understandably opposed by leaders of those districts.

$$\text{TOTAL SCHOOL NSL FUNDING} = \left(\text{\# OF STUDENTS WHO GET FREE OR REDUCED LUNCH} \right) \times \left(\text{THE POVERTY FUNDING LEVEL} \right)$$

**This is the general way that NSL funds are calculated. There are exceptions to this format, such as for schools who are growing and districts who participate in Community Eligibility school lunch programs.

THE NUMBER OF KIDS WHO QUALIFY FOR NSL CONTINUES TO RISE

Child poverty rates in Arkansas stabilized and have even gone down since the recession, but the number of kids eligible for federal free or reduced lunch continues to grow. Analysis from the Arkansas Bureau of Legislative Research shows that NSL funds (currently totaling over \$224 million a year) have increased more than 40 percent since 2009. What could account for the discrepancy between the change in kids who are eligible for free lunch, and the actual number of low-income families?

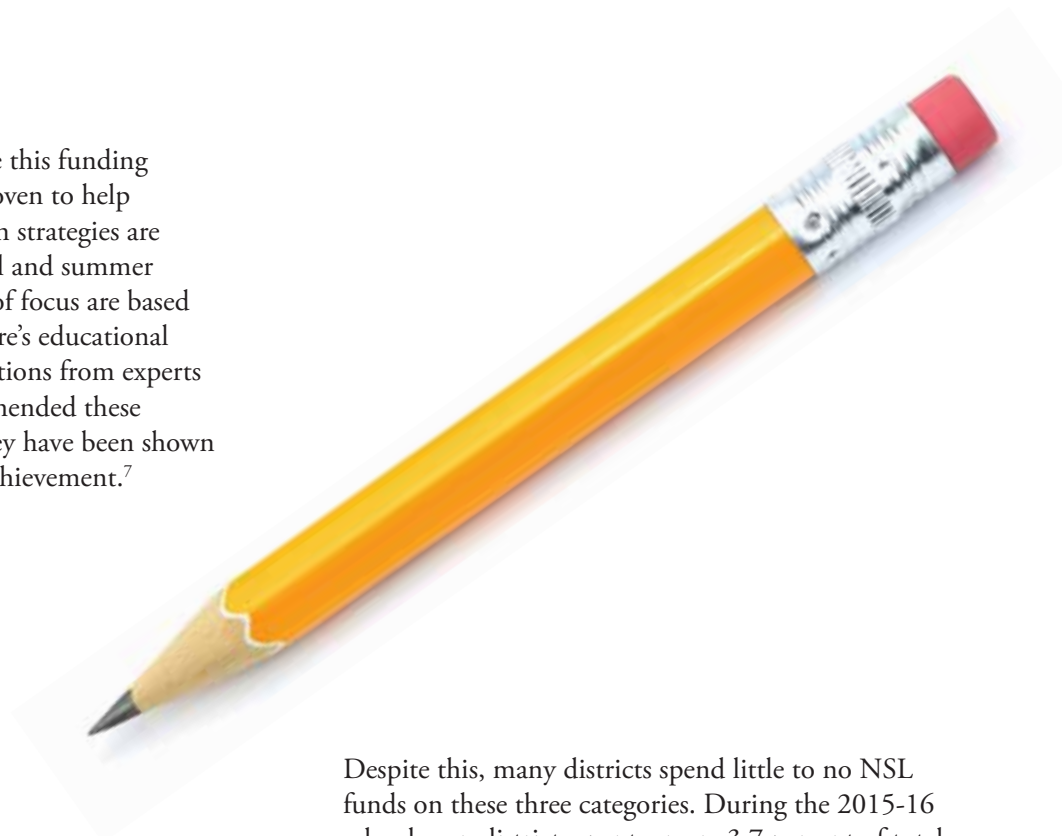
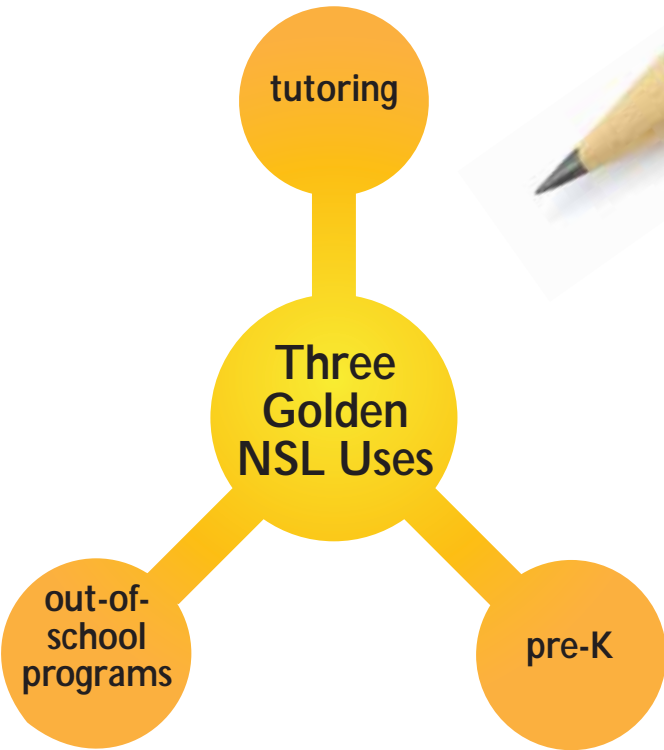
The persistent rise in NSL eligibility despite better overall poverty numbers is partly due to changes in the way that districts collect their federal data. Previously, schools asked families to turn in income information to apply for free lunches. For a variety of reasons, some parents or kids were reluctant to provide this information. Some kids never technically qualified for free lunch, despite being low-income. Now, self-reported income verification methods are less common.

Instead, there is a shift toward other methods of identifying low-income students. One such method is to see who already qualifies for other income-based programs, like SNAP. If a family qualifies for SNAP, there's no need to ask for income information. We already know that they would meet the requirements to receive free lunch. Because of changes like this, districts are seeing a larger, but also more accurate, representation of the number of kids who should qualify for free lunch.



BEST USES FOR NSL FUNDS

It's important for school districts to use this funding wisely and in targeted ways that are proven to help students succeed. Three research-proven strategies are tutoring, quality pre-K, and afterschool and summer (out-of-school) programs. These areas of focus are based on the original findings of the legislature's educational adequacy study as well as recommendations from experts hired by the legislature.^{5,6} They recommended these "Golden Three" focus areas because they have been shown to have a positive impact on student achievement.⁷



Despite this, many districts spend little to no NSL funds on these three categories. During the 2015-16 school year, districts spent a mere 3.7 percent of total NSL funding on pre-K. Only 2.2 percent was spent on out-of-school programs, and only 1.9 percent was spent on tutors. Overall, one-third of districts spent no NSL funding dollars on any of these three areas in the 2015-16 school year. In fact, the percentage of districts spending no NSL funding on the Golden Three is growing.

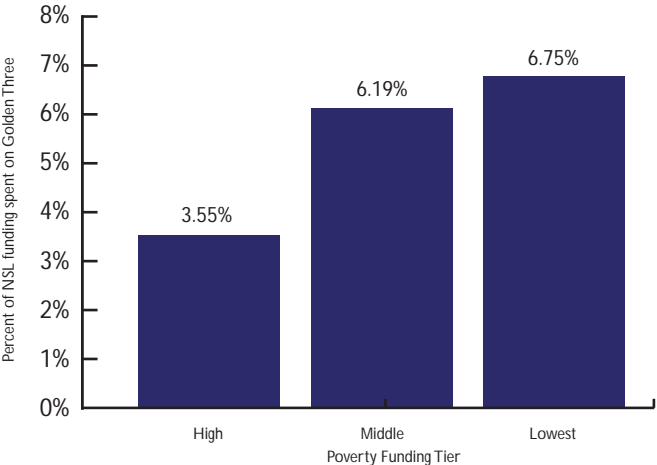
During the 2016-17 school year, just eight out of 255 school districts spent more than a third of their NSL funds on the Golden Three. The top 10 districts that spent the greatest percentage of their NSL funds on tutoring, pre-K, and out-of-school programs for the 2016-17 school year were:

| School District | Golden Three Spending % | Free/Reduced Lunch % |
|--|-------------------------|----------------------|
| Kipp Delta Public Schools | 89.93% | 89.57% |
| South Side School District (Van Buren) | 83.29% | 58.27% |
| Marmaduke School District | 63.75% | 64.32% |
| Wonderview School District | 62.99% | 64.62% |
| Imboden Charter School District | 61.16% | 83.93% |
| Greene County Tech School District | 52.77% | 50.72% |
| Nemo Vista School District | 47.83% | 66.59% |
| Mulberry/Pleasant View Bi-County Schools | 34.86% | 75.21% |
| Dardanelle School District | 29.75% | 71.53% |
| Concord School District | 25.49% | 68.37% |



The overall amount of NSL funding spent on tutoring, pre-K, and out-of-school programs has also declined in recent years. From 2010 to 2016, the percent of total NSL money spent on the Golden Three has dropped from just over 8 percent to less than 7 percent. Even at the high end of this timeline, the funding used for proven, research-based projects was far too low.

HIGH POVERTY DISTRICTS SPEND LESS NSL FUNDS ON TUTORING, PRE-K AND OUT-OF-SCHOOL PROGRAMS



Districts with the most poverty, the ones that tend to have the biggest challenges to overcome, typically spend a smaller percent of their NSL funds on the Golden Three. These districts, which qualify for the highest poverty funding per student, spend an average of 3.55 percent of their NSL funds on tutoring, pre-K, and out-of-school programs. Other districts in the middle- and lowest-poverty tiers spend almost two times that amount of their NSL funds on these programs.

Even though high-poverty districts spend a smaller share of their NSL funds on these targeted programs, they still spend the most per-student, on average. This is because they receive much more NSL funding overall. Schools with low poverty rates have the least NSL funding and tend to spend the least per student (about \$21 on average) on these three programs. The highest poverty districts get much more NSL funding, and they spend about 2.5 times as much per student on the Golden Three. In other words, well-off districts don't get a lot of NSL funding, but they use a bigger share of the funds they do get on proven programs. Higher concentrations of poverty need more intensive investment in solutions. So, it is a good thing that high poverty districts maintain a relatively high per-student spending level on tutoring, out-of-school programs, and pre-K. Regardless, the per-student spending on these programs is well below where it should be for most districts.



All districts should be aiming for more targeted NSL spending.

HIGH POVERTY DISTRICTS SPEND MORE NSL FUNDS PER STUDENT ON THE GOLDEN THREE

| District Poverty Tier level | Average District Size | Average NSL Funds Spent on Golden Three (per student) |
|-----------------------------|-----------------------|---|
| High poverty tier | 581 | \$55.26 |
| Middle tier | 1,671 | \$52.75 |
| Lowest poverty tier | 2,149 | \$20.89 |

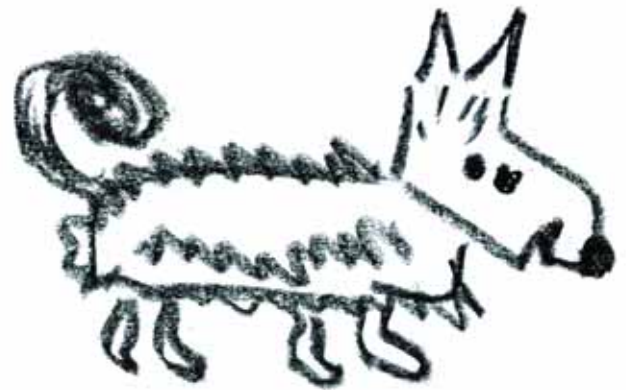


NEW NSL SPENDING OPTIONS HURT PRIORITY PROGRAMS

Part of the reason for the low rate of investment in the Golden Three is that there has been a dramatic increase in the number of ways NSL funds can be spent, both through legislation and state rules. Unlike some other forms of school funding, NSL funds must be used for approved purposes. The rules for how to use these funds can and do change. The State Board of Education makes the rules, and the number of options for how to use this type of funding has grown over time.

Expanding the options for NSL spending opens loopholes. It essentially allows districts to take funds that were supposed to be restricted and use them for almost anything. Most of a district's funding is based on an amount that the Legislature decides is necessary for every average student. That part of adequacy funding is unrestricted. It can and should be used for any of a

district's needs. Districts prefer to keep as much of this unrestricted money available as possible. The increase in new NSL spending categories makes it easier for districts to use this money to pay for things aren't directly targeted to improving outcomes for low-income students. For example, NSL funds are commonly used to boost teacher salaries (something that would otherwise come from unrestricted funds). This shift allows schools to open up more unrestricted funding for other purposes (usually unrelated to the Golden Three NSL objectives). Districts tend to prefer this "no strings attached" money to funds that carry spending requirements, even if those requirements are very broad.



TIMELINE: NSL FUNDING USE OPTIONS HAVE INCREASED SINCE 2003²

2003:

- State NSL categorical funding was introduced during the Second Extraordinary Session.
- Approved uses for NSL funding include: Counselors, social workers, nurses, summer programs, early intervention programs, materials and supplies for approved purposes, and parent education.

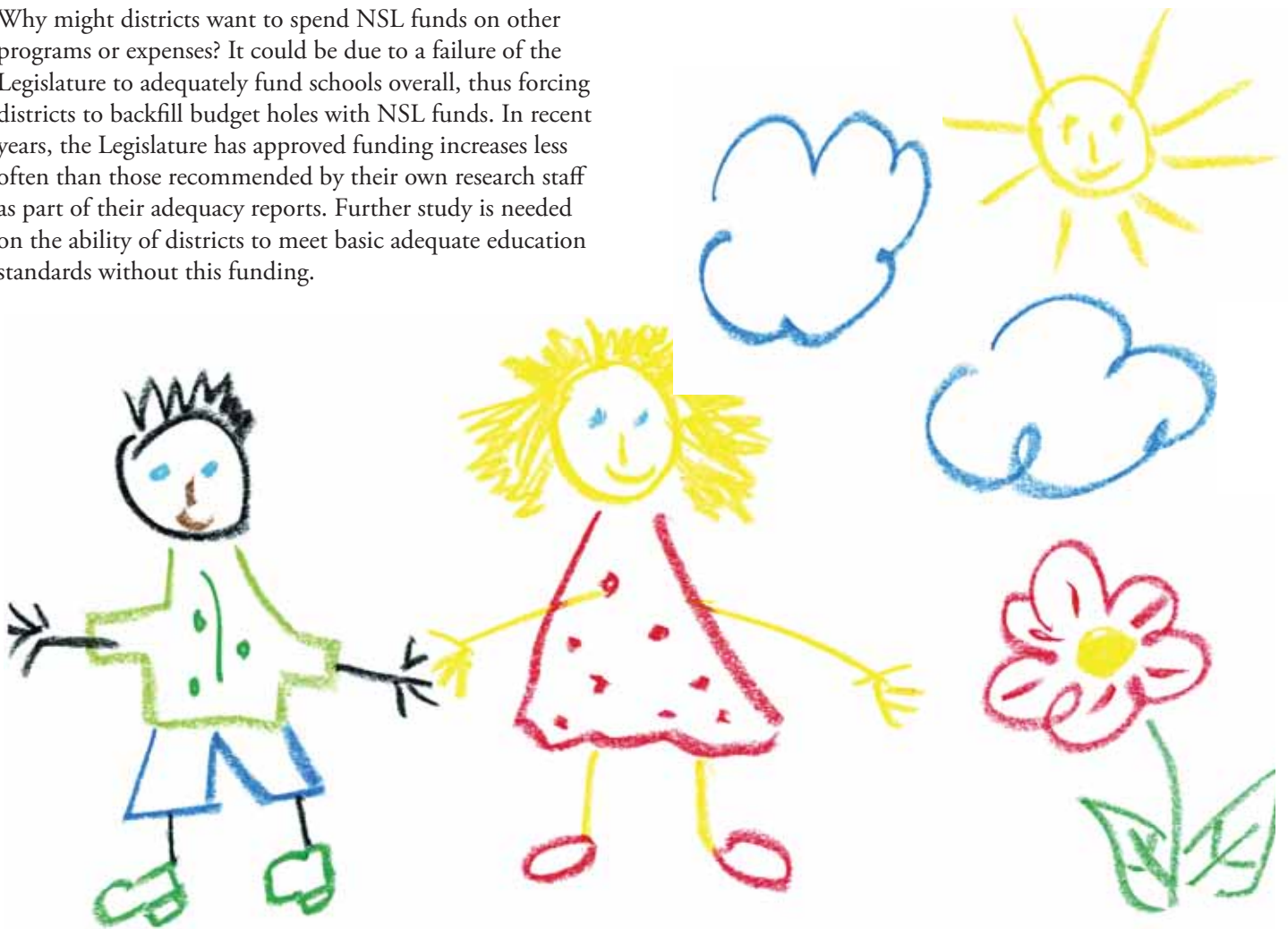
2007 expanded uses:

- Supplemental teacher salaries, free ACT assessments for students.

2009 expanded uses:

- Scholastic audits, setting academic targets, defining professional development needs, developing assessments to monitor student progress, examining school scheduling, designing plan for increased parental involvement and impact evaluations.

Why might districts want to spend NSL funds on other programs or expenses? It could be due to a failure of the Legislature to adequately fund schools overall, thus forcing districts to backfill budget holes with NSL funds. In recent years, the Legislature has approved funding increases less often than those recommended by their own research staff as part of their adequacy reports. Further study is needed on the ability of districts to meet basic adequate education standards without this funding.



2011 expanded uses:

- School meals (community eligibility), extending the school day or year, Teach For America professional development, Arkansas Advanced Institute for Math and Science, college and career coaches, other categorical funds and partnering with higher education institutions.

2013 expanded uses:

- Arts curriculum, professional development in literacy, mathematics, or science, School Resource Officers, field trips, school health coordinators, assessments of student progress, and other research-based activities.

2017 NSL incentive grant:

- ACT 1044 of 2017 provided a grant for \$4.3 million that provides incentives for schools to spend more of their NSL money on tutoring, pre-K and out-of-school programs.

RECENT NSL CHANGES AND RECOMMENDATIONS FOR THE FUTURE

In an effort to redirect NSL funds back to programs proven to benefit low-income kids, the Arkansas Legislature included an incentive grant as part of the school funding act (Act 1044 of 2017). The incentive provides a \$4.3 million grant that rewards districts that spend more of their NSL money on tutoring, pre-K, and out-of-school programs, by offering matching dollars. This legislation recognizes that it is difficult to roll back funding that is already being used for otherwise worthy purposes (such as teacher salaries). So, legislation like Act 1044 aims to ensure that districts spend any new NSL money in the most effective way possible.

The Legislature should continue expanding the incentive grants with other matches. For instance, the next cost of living adjustment for NSL funds should be added to the grant language as a matching incentive, as in Act 1044.

However, not all districts receive part of the incentive funding. Low-income kids in those schools shouldn't be shut out. So, in addition to providing incentives for proper future use of NSL funds, it is important to ensure that districts also begin using their current NSL funding wisely.

Arkansas should revisit the list of allowable uses of NSL and the research supporting each use. The state should limit NSL funds to uses that are proven to have the greatest impact on educational achievement for low-income students.

Furthermore, misspending of NSL dollars could be a symptom of a broader funding problem. Arkansas should study the extent to which districts are using their NSL dollars to backfill needs that are not being met by existing foundation funding or other funding streams. Depending on these results, it could entail making changes in other funding streams.

TOTAL AMOUNT OF NSL FUNDS SPENT ON GOLDEN THREE

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Percent Change Since 2010 |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------------------------|
| Tutors | 2,978,360 | 4,466,717 | 3,993,969 | 3,750,846 | 3,713,180 | 4,131,007 | 3,757,472 | 26% |
| Pre-K | 6,715,992 | 6,211,691 | 7,900,266 | 8,512,938 | 8,984,841 | 7,960,762 | 6,912,656 | 3% |
| Out-of-School Programs | 4,249,915 | 5,302,935 | 4,308,061 | 3,654,589 | 3,794,670 | 4,705,969 | 4,260,633 | 0% |

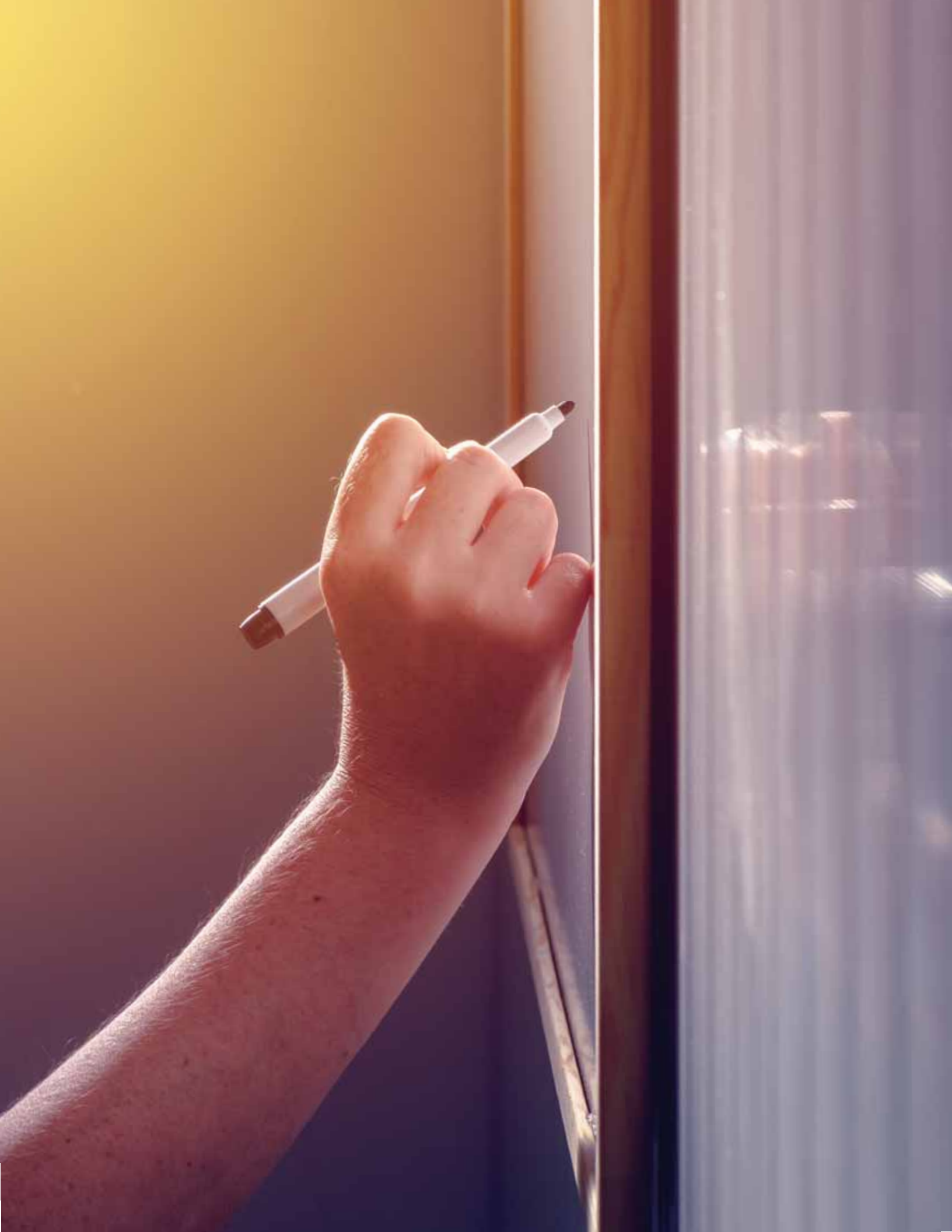




ENDNOTES

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- 2 “National School Lunch State Categorical Funding and Expenditures,” Arkansas Bureau of Legislative Research, September 19, 2017. <http://www.arkleg.state.ar.us/assembly/2017/Meeting%20Attachments/410/I15932/NSL%20State%20Categorical%20Funding%20and%20Expenditures%20Report.pdf>
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- 5 “An Evidenced-Based Approach to School Finance Adequacy in Arkansas” by Allan Odden, Lawrence O. Picus, and Mark Fermanich, September 1, 2003. http://picusodden.com/wp-content/uploads/2013/09/AR_2003_EB_Report.pdf
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- 7 “Education in the Post-Lake View Era: What is Arkansas Doing to Close the Achievement Gap?” by Jay Barth, Ph.D., and Keith A. Nitta, Ph.D., February 2008. <http://www.aradvocates.org/wp-content/uploads/2008EducationAchievementGap.pdf>





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