



National School Lunch State Categorical Funding

National School Lunch (NSL) funding is state money provided to school districts and open enrollment charter schools to help with the educational challenges associated with having high percentages of low income students. This state categorical funding should not be confused with the federal National School Lunch Act. The state money is called NSL funding only because it uses the federal act's eligibility criteria for free and reduced price lunches (household incomes below 185% of the federal poverty level, or \$44,955 for a family of four for the 2016-17 school year). According to the most recent data, more than 290,000 K-12 public school students in Arkansas were eligible for free or reduced price lunches, or 61% of the total enrolled students.*

*based on data used to calculate NSL funding

Funding Distribution

Districts receive NSL funding based on the percentage of their students who are eligible for free or reduced price lunches. The funding is based on the rates shown in the table below.

% NSL Students	FY17 Funding Rate	Districts
< 70%	\$526	120
70% - 90%	\$1,051	105
90% >	\$1,576	10

Districts receive the funding amount for each student eligible for a free or reduced price lunch. For example, if a 1,000-student district has 800 students who are eligible for free or reduced-price lunches (80%), the district would receive \$1,051 for each of those 800 students, or \$840,800.

In addition to the NSL funding formula, there are two other related provisions that affect the amount of funding districts and charter schools receive:

NSL transitional adjustments: Districts receive NSL transitional adjustments to ease the transition from one funding

level to another. Instead of moving from one funding level to another in a single year, the transitional adjustment provides a district's new funding rate in increments over three years. In 2016-17, 23 districts received a transitional adjustment. Of those, 21 transitioned to a higher rate and two transitioned to a lower rate.

NSL growth funding: Because NSL funding is based on the prior year's enrollment data, the Legislature introduced a provision in 2005 to provide additional NSL funding for growing districts. (This funding is separate from the regular student growth funding, which is another appropriation in the Public School Fund.) Districts that have grown at least one percent each of the last three years qualify for growth funding. A total of about \$357,000 in NSL growth funding was provided to eight districts and four charter schools in 2016-17.

2016-17	Districts and Charters
NSL Funding (with transitional adjustments)	\$224.8 million
NSL Growth	\$0.4 million
Total	\$225.2 million

Funding Uses

Unlike the per-pupil foundation funding, NSL funding is considered restricted, meaning districts can spend those dollars only for certain activities. State law lists a number of approved uses and allows the State Board of Education to establish additional approved uses. Districts may use the funding to pay for classroom teachers (under certain circumstances), instructional facilitators, tutors, counselors, social workers, nurses, summer programs, before- or after-school programs or to extend the school year, among a variety of other types of uses. There are 22 approved uses in statute and another 6 (depending on how one counts them) established by the Board. The following table shows the five allowable uses on which districts collectively spent

the highest percentage of NSL funding in 2015-16 (the most recent year for which finalized data is available).

Use	% of All NSL Exp.
Instructional facilitators	19%
Other approved activities	15%
Transfers to other funds	11%
School improvement plan	11%
Teachers aides	9%

NSL Expenditures

In 2015-16, districts spent \$214.9 million of their NSL funding, including about \$23 million that districts and charters transferred to other categorical funds to be used for other purposes. At the end of 2015-16, districts and charters had a collective NSL fund balance of \$18.47 million. Of the 234 districts and 22 charter schools, 216 districts and 14 charter schools had leftover NSL funding to use the next year, although a majority of districts' balances were under \$50,000.

In an effort to encourage districts to spend their NSL dollars as intended rather than allow them to accumulate, the General Assembly passed a law in 2011 that calls for districts to spend at least 85% of the NSL allocation they receive each year. Districts with NSL fund balances above 15% of their current year allocation may be penalized in the following year. The Arkansas Department of Education (ADE) may withhold a portion of the district's subsequent NSL funding that is equal to its overage. The law also allows ADE to redistribute to other districts any funding it withholds. In 2016-17, ADE withheld a total of nearly \$150,000 from three districts for having excess NSL fund balances.