



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 poor 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 \$43,567.50 for a family of four). According to the most recent data (school year 2012-13), 279,853 K-12 public school students in Arkansas (not including students in charter schools) were eligible for free or reduced price lunches, or 60.4% of the total 463,374 enrolled students.

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	FY13 Funding Rate	Districts
< 70%	\$517	150
70% - 90%	\$1,033	81
90% >	\$1,549	8

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 \$1,033 for each of those 800 students, or \$826,400. In 2012-13, districts collectively received a total of nearly \$200 million in NSL funding.

In addition to the regular NSL funding, there are two other related state funding programs:

NSL growth funding: Because NSL funding is based on the prior year's

enrollment data, a provision was made to provide additional NSL funding for growing districts. (This funding is separate from the regular 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 \$512,943 in growth funding was provided to 11 districts in FY2012-13.

NSL transitional adjustments: Districts receive NSL transitional adjustments to help them move from one funding level to another. Using a transitional formula, NSL funding provides a "smoothing" mechanism to ease the funding changes between established break points in the levels of eligibility for the funding. Adjustments can be either positive or negative. In 2012-13, 21 districts received a transitional adjustment. Of those, 3 received additional funding, and 18 lost funding. Transitional adjustments totaled a negative \$7.5 million.

FY2013	Districts
NSL Funding	\$199,936,831
NSL Transitional	(7,472,024)
NSL Growth	\$512,943
Total	\$192,977,750

Funding Uses

Unlike the per-pupil foundation funds, NSL funding is considered restricted, meaning districts can spend NSL 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 17 approved uses in statute and another 8 or so (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.

Use	% of All NSL Exp.
Instructional facilitators	21.15%
Other approved activities	13.49%
ACSIP, Sch. Audit, etc.	12.56%
Transfers to other funds	11.27%
Teachers aides	8.54%

NSL Expenditures

In 2012-13, districts spent \$196,927,711 of their NSL funding—about \$3.9 million more than they received that year. The overspending is likely the result of districts' attempts to spend down their **NSL fund balances**. At the end of 2012-13, districts had collectively reduced the total NSL fund balance from \$26.65 million at the end of 2010-11 to \$18.36 million. Of the 239 districts, 222 had fund balances.

Districts' efforts to reduce fund balances is likely the result of Act 1220 of the 2011 Regular Session (A.C.A. §6-20-2305). That measure 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 are required to reduce their balances by at least 10% each year. If a district fails to comply, the Education Department may withhold a portion of the district's NSL funding in the following year. The law also allows ADE to redistribute to other districts any funding it withholds. The law was applied for the first time to NSL fund balances as of June 30, 2012, requiring 53 districts to reduce their NSL fund balances in the 2012-13 school year.