



Memorandum

TO : Members of the House and Senate Committees on Education

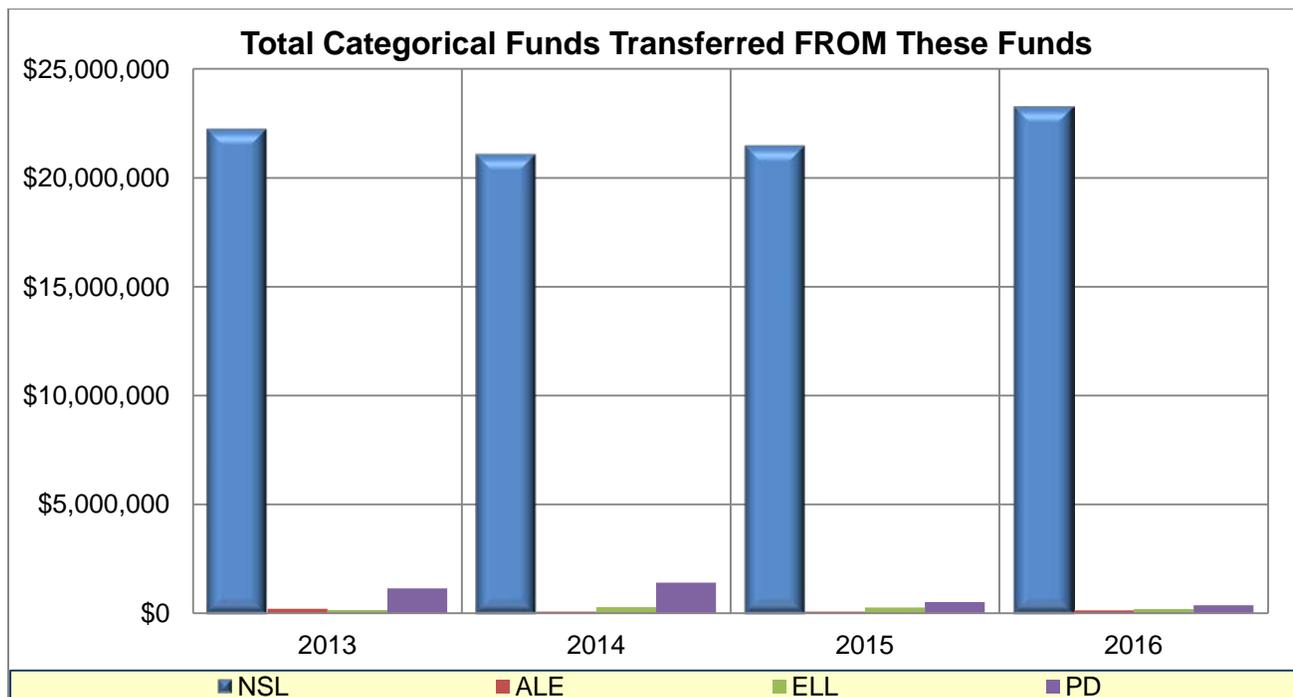
FROM: Policy Analysis and Research Section, Bureau of Legislative Research

DATE : September 19, 2017

SUBJECT : Categorical Funds Transferred 18-001-12

The four state categorical funds—National School Lunch (NSL), professional development (PD), English language learners (ELL) and alternative learning environment (ALE) funding—are considered restricted funds. That means districts and charter schools can use these funds only for specified purposes. However, state law allows districts and charter schools to transfer funding between the categorical funds. This allows a district with more ALE needs, for example, to transfer other categorical funds to that fund to help cover the higher costs.

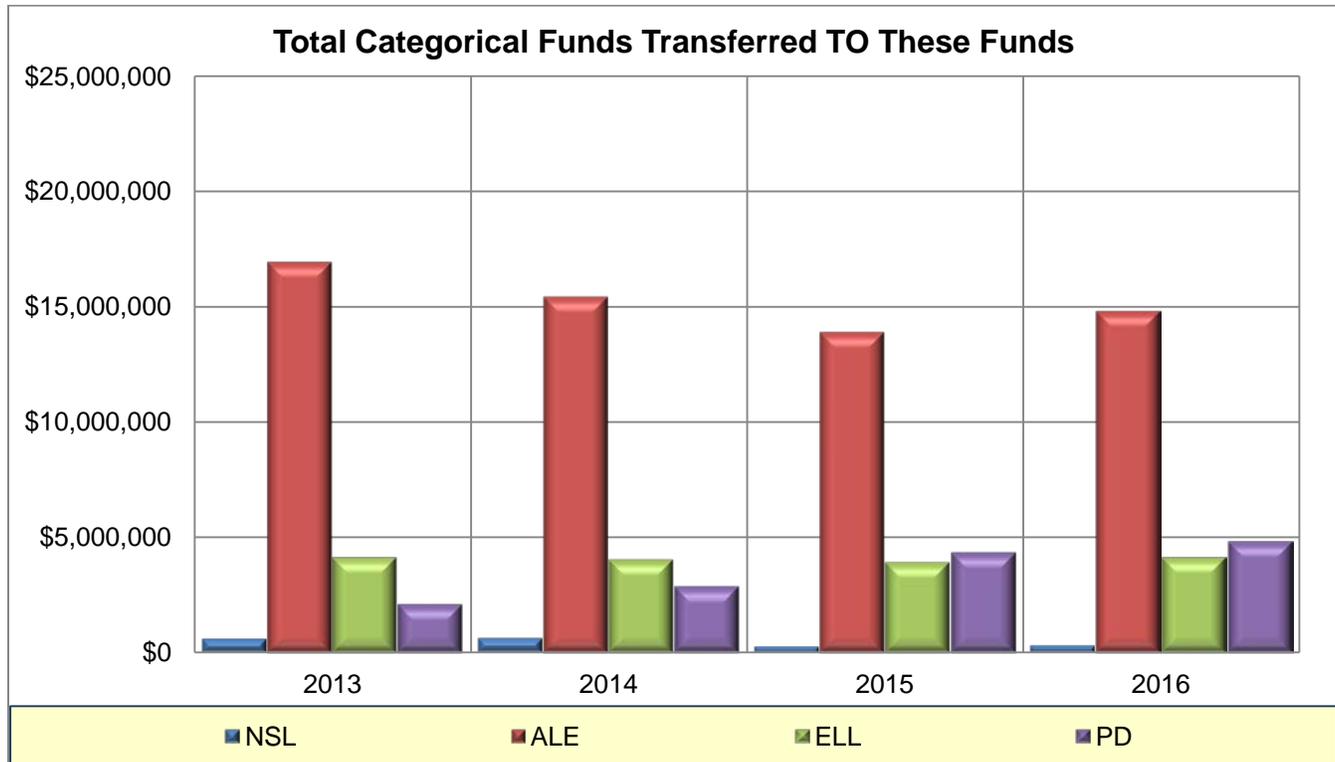
The patterns in transfers among the categorical funds is important in the context of adequacy because it may suggest areas where districts have lower costs than the amount of money they are receiving (where districts transfer funding FROM), or it could suggest areas where districts have greater need than existing funding (where districts transfer funding TO). The charts below show that **districts and charter schools are primarily using NSL dollars to offset the additional costs of ALE programs.**¹



¹ The transfers described in this memo are based on the program codes districts applied to these expenditures and are subject to miscoding.

While districts receive more NSL funding than they receive in any other categorical type, they also transfer proportionately more of their NSL dollars than other types of funds. In 2016, districts collectively transferred about 10.7% of their NSL funding to other categorical funds.

	2016 Annual Funding	% of 2016 Funds Transferred FROM These Funds
NSL	\$216.3 million	10.7%
ALE	\$24.5 million	0.5%
ELL	\$12.8 million	1.4%
PD	\$12.3 million	2.9%



Transfers from other categorical funds increased ALE funding by about 60% in 2015-16. Transfers increased ELL and PD funds by about 32% and 39%, respectively. Transfers to NSL were negligible. Over the last four years, the total amount of money transferred to PD has more than doubled from about \$2.1 million in 2013 to \$4.8 million in 2016. That increase may result from a reduction in the PD funding rate from \$52 per student in 2013 to \$32.40 in 2016.²

	2016 Annual Funding	% of 2016 Funds Added TO These Funds
NSL	\$216.3 million	0.1%
ALE	\$24.5 million	60.2%
ELL	\$12.8 million	32.0%
PD	\$12.3 million	38.6%

² Districts and charter schools do not receive the full PD funding rate. In 2013, districts and charter schools received \$43.39 per student, and in 2016, they received \$26.05 per student. The Arkansas Department of Education used the remaining funding to support a statewide online PD program.

Categorical Fund Balances

Section 4 of Act 1220 of 2011 (A.C.A. § 6-20-2305(e)(2-4)) limits districts' allowable fund balance for all four state categorical funds collectively. Districts and charter schools are required to spend at least 80% of the aggregate categorical funding they receive each year. At the end of the year, districts with aggregate categorical fund balances above 20% of their current year allocation are required to reduce their balance by at least 10% in the following year and each year thereafter until their balance is within 20% of the year's allocation. If a district fails to comply, the Arkansas Department of Education (ADE) 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. ADE imposes this penalty by withholding NSL funds.

The law was applied for the first time to NSL fund balances at the end of 2011-12, with the resulting penalties assessed in 2013-14. In 2015-16 and 2016-17, four districts and one charter school were unable to adequately spend down their aggregate categorical fund balances, and ADE withheld the following amounts from their NSL funding.

District	2015-16 Amount Withheld	2016-17 Amount Withheld
Marvell School District	(\$37,518)	(\$58,994)
Omaha School District		(\$332)
Responsive Ed Premier High School Little Rock (charter)		(\$2,837)
Fordyce School District		(\$48,189)
Emerson-Taylor School District		(\$639)