Exhibit E
8/18/2010

Poverty Taskforce Work Group Recommendations

Exhibit E1
8-17-2010

Economic and Community Development

Work Group Recommendations

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Community/Economic Development

Current State Programs

Community and economic development efforts in Arkansas are primarily supported by the Arkansas Economic Development Commission (AEDC) and the Arkansas Development Finance Authority (ADFA). Below is a summary of the programs offered by those two state agencies.

AEDC

AEDC provides support for economic development efforts in the state through three strategies: grants, support for small businesses, and tax incentives. The following is a summary of the programs within each of these three strategies.

- Grants – Grant are provided through the Arkansas Community and Economic Development program, which is funded through the federal Community Development Block Grant (CDBG). Current annual funding for this program is $20,993,576.[i] Eligible applicants are cities and counties that do not receive CDBG funds directly from the federal government. A city can have only one application or active grant in progress at any time. A county can have no more than two at any one time. When a county proposes activities within a city or town, that city or town may submit its own application for different activities.

  All categorical projects must achieve one of the following national objectives: undertake an eligible project which provides benefits to residents, of which 51 percent are low and moderate income; aid in the prevention of slum and blight; or meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community only when other financial resources are not available to meet such needs.

  CDBG funds can be used for a range of different types of projects. Some projects require referrals from other agencies. These include child care, public health, senior citizen centers, rural services, and water and wastewater projects. General assistance and innovative projects grants are made under the following categories: public works, public facilities, and innovative projects. Grants are also made for economic development projects, which include infrastructure and loans to industry projects as well as downtown revitalization projects. [ii]

- Small and Minority Businesses – AEDC has a small and minority business program that provides technical assistance, financing, and product or service development. Business services include business planning and analysis, marketing research, loan proposals, management training programs, business counseling, information on and assistance with completing State of Arkansas bids, and procurement counseling.

AEDC also runs a Small Business Loan Program, partnering with community lenders and providing up to 50 percent of the loan. The state's share can be between $2,500 and $40,000. Eligible businesses include non-farming operations with fewer than 50 full-time employees and less than $1 million in annual gross sales. The loan may be used to purchase machinery and equipment, to stabilize working capital and/or purchase, construct, or renovate commercial real estate. Terms for repayment of the loan allow three to five years for working capital, five to 10 years for equipment and 10 to 20 years for real estate.

The state partners with six lenders throughout the state to provide the loans – the Arkansas Support Network, Central Arkansas Planning and Development District, Enterprise Corporation of the Delta, Financing Ozarks Rural Growth & Economy (FORGE), Southwest Planning and Development District, and White River Planning and Development District.

- <u>Tax Incentives</u> – The bulk of state resources for economic development are spent on tax incentives. Between 2004 and 2008, the state spent an average of $66 million per year. The Governor also has his own discretionary Quick Action Closing Fund, for which he is allocated $50 million per year.[iii] The following is a summary of the incentives offered by the state.

    - <u>Targeted Business Incentives</u> – AEDC offers tax incentives to start-up companies in the following sectors: advanced materials and manufacturing systems; agriculture, food, and environmental sciences; biotechnology, bioengineering, and life sciences; information technology; transportation logistics; and bio-based products.

      To be eligible, the company must be less than five years old; have an annual payroll between $100,000 and $1 million; show proof of an equity investment of at least $250,000; and pay at least 150 percent of the lesser of the state or county average hourly wage where the business is located

      The following tax credits can be offered: refund of sales and use taxes paid on the purchase of building materials and machinery and equipment associated with the approved project; a transferable income tax credit equal to 10 percent of payroll for up to five years; or a transferrable income tax credit equal to 33 percent of eligible research and development expenditures.[iv]

    - <u>Investment and Job Creation Incentives</u> - Arkansas has another set of incentives for job creation. These incentives include sales and use tax refunds (Tax Back), sales and use tax credits (InvestArk), and income tax credits (Advantage Arkansas).

Two discretionary programs used in highly competitive situations include the Create Rebate program and ArkPlus. Create Rebate provides annual cash payments based on a company's annual payroll for new full-time, permanent employee; a minimum of $2 million in payroll is required. ArkPlus is a state income tax credit program that provides 10 percent of the total investment in a new location or expansion project.

All job creation incentives are based on a four-tier system, with the highest incentives going to investments in the poorest counties and the lowest incentives going to the most well-off counties. For example, the ArkPlus incentive requires minimum investment of at least $2 million and a minimum payroll of $800,000 in the poorest counties but a minimum $5 million investment and $2 million in payroll in the richest counties.

Businesses eligible for these incentives include manufacturers, businesses primarily engaged in the design and development of prepackaged software, digital content production and preservation, computer processing, data preparation services or information retrieval services; businesses primarily engaged in motion picture production; distribution centers; office sector businesses; national or regional corporate headquarters; firms primarily engaged in commercial, physical and biological research; and scientific and technical services businesses. The average hourly wage paid by these businesses must exceed 150 percent of the county or state average hourly wage, whichever is less.

- Research and Development Incentives - Eligible businesses that contract with one or more Arkansas colleges or universities in performing research may receive a 33 percent income tax credit. Eligible businesses performing in-house research may receive a 20 percent income tax credit. Targeted businesses may also earn transferable income tax credits equal to 33 percent of approved expenditures for in-house research.[v]

- Nonprofit Incentives - The primary purpose of this program is to encourage the location or expansion of national or regional nonprofit headquarters in Arkansas. Eligible non-profit organizations must create a payroll for new, full-time, permanent employees of at least $500,000 and pay an average wage in excess of 110 percent of the state or county average wage (whichever is less) in the county in which the organization locates or expands. In addition, the nonprofit organization must receive 75 percent of its income from out-of-state sources.

This program provides a payroll rebate equal to four percent of the payroll of the new, full-time, permanent employees for a period of up to five years. In addition to the payroll rebate, this program also provides a sales and use tax refund for eligible projects that invest a minimum of $250,000. The refund is eligible for taxes paid on construction materials, and machinery and equipment associated with the approved project.[vi]

- Tourism Development Incentives - AEDC provides state sales and use tax credits and income tax credits to businesses initiating approved tourism attraction projects. To qualify, the project cost must be $1 million, except in high unemployment counties (Arkansas, Chicot, Clay, Desha, Drew, Jackson, Marion, Mississippi and Woodruff) where it is $500,000.

  The sales tax credits are calculated based upon 15 percent of eligible project costs for projects spending more than $1 million; credits are 25 percent of eligible project costs for the projects in high unemployment counties. The sales tax credit may be applied against the business's increased sales tax liability that results from the project.

  Additionally, eligible businesses may receive a state income tax credit equal to four percent of the annual payroll of each new, full-time, permanent employee. The income tax credits begin in the year in which the new employees are hired. Any unused portion of the credit may be carried forward against corporate income tax for the succeeding nine years.[vii]

- Customized Training - The Existing Workforce Training Program provides financial assistance to Arkansas's businesses and eligible consortia of businesses for upgrading the skills of the existing workforce. Skills upgrade training is instruction conducted in a classroom environment at a work site, an educational institution, or a neutral location, that provides an existing, full-time employee with the new skills necessary to enhance productivity, improve performance and/or retain employment.

  Eligible businesses include manufacturers; computer firms that derive at least 75 percent of their revenue from sales outside of Arkansas and have no retail sales to the general public; or firms primarily engaged in commercial, physical and biological research. The training is for full-time, permanent employees who have been working at the company for at least six months and who are subject to Arkansas personal income tax.

Training reimbursements are calculated according to a set of scoring criteria. For companies that use a state-supported educational institution, the program pays the lesser of the following: 50 percent of the cost of training paid to the school or a fee of between $15 and $60 per instructional hour, depending on the type of trainer used. The maximum funding for any one company site cannot exceed $50,000 per calendar year.[viii]

- Child Care Facility Tax Credit - Arkansas offers a tax incentive for businesses that provide child care for their employees. A business may choose between two state income tax credit options: 1) a credit of 3.9 percent of the total annual payroll of the employees working in the child care facility, or 2) a one-time $5,000 state income tax credit for the first year. The income tax credit may be carried forward for two years or until used entirely, whichever occurs first. In addition to either option, businesses may receive a refund on sales and use taxes on construction materials and furnishings purchased to equip an approved child care facility.[ix]

- Recycling Equipment Tax Credit - Arkansas taxpayers can receive an income tax credit for the purchase of equipment used exclusively for reduction, reuse, or recycling of solid waste material for commercial purposes, whether or not for profit, and the cost of installation of such equipment by outside contractors. Such equipment must be used in the collection, separation, processing, modification, conversion, treatment, or manufacturing of products containing at least 50 percent recovered materials of which at least 10 percent is post-consumer waste.

  The amount of the tax credit is 30 percent of the cost of eligible equipment and installation costs. Credits may be carried over a maximum of three consecutive years following the taxable year in which the credits accrued.[x]

- Public Roads Improvement Credit - This credit provides an income tax credit to any individual, fiduciary, or corporation subject to Arkansas state income tax that contributes to the Public Roads Incentive Fund of the Arkansas Economic Development Commission. The contribution may be made to a general improvement fund or designated for a specific project that is approved by the director.

  The credit cannot exceed 33 percent of the taxpayer's contribution. In any one tax year, the credit cannot exceed 50 percent of the taxpayer's net Arkansas state income tax liability after all other credits and reductions have been calculated. Any amount over 50 percent can be carried forward up to three years.

ADFA

ADFA also has a series of programs designed to assist the state's economic development efforts. The following is a summary of those programs, which are primarily focused on financing, through loans, loan guarantees, or bonds.

- Arkansas Venture Capital Investment Program – This program provides access to venture capital for innovative Arkansas businesses. Established in 2005, the program is expected to result in over $420 million of equity, near equity, and debt capital for Arkansas businesses through its first and second rounds of investment.[xi]

- Arkansas Risk Capital Matching Fund (ARCMF) – ARCMF targets investments in technology-based enterprises that are in the early stages of development and not yet able to attract adequate private sources of traditional financing, venture or investor-backed capital for their growth and development. A portion of this fund is used to validate early stage technology before other investments can be made. ARCMF currently makes available matching funds of up to $100,000 from the Technology Validation Account. ARCMF currently makes available matching funds of up to $750,000 from the Enterprise Development Account to augment investments proposed or made by angel or other institutional investors. Financial assistance from the Technology Validation Account and the Enterprise Development Account may be in the form of equity capital or near equity capital as defined.[xii]

- Beginning Famer Loan Program - This program helps beginning farmers acquire agricultural property (land, buildings, equipment and breeding stock) at lower interest rates. The program enables lending institutions, individuals, partnerships and corporations to receive tax-exempt interest for direct loans or contract sales made to beginning farmers. The maximum principal amount of the loan cannot exceed $250,000. Used depreciable equipment not exceeding $62,500 may be included in this amount. Loans may not be used to acquire property from a related person. Funds to be used for the acquisition or construction of a residence may not exceed three percent of the principal amount of the loan.[xiii]

- Capital Access Program - The Capital Access Program's purpose is to make funds available to borrowers who for various reasons might otherwise have difficulty in obtaining conventional bank loans. Participating lending institutions build a loan loss reserve fund using contributions from the borrower that are matched by ADFA. The loan loss reserve fund is available on a pooled basis to be applied to any of the lenders' Capital Access Program loans.

The fund is maintained on deposit with the lender, in ADFA's name and invested at ADFA's direction. As of March 2009, ADFA had enrolled 405 loans into the Capital Access Loan Program, totaling over $17 million. Five lenders participate in the program.[xiv]

- Disadvantaged Business Enterprise (DBE) Program - This program provides working capital loan guarantees to minority contractors who cannot otherwise finance their working capital needs. The targeted businesses for the DBE program are those owned by African-Americans, Native Americans, Hispanic Americans, Asian Pacific Americans, subcontinent Asian Americans, handicapped persons, or women who are certified DBE contractors by either the Arkansas State Highway and Transportation Department or 8(a) contractors by the Small Business Administration.[xv]

- Industrial Development Bond Guaranty Program – Through the bond guarantee program, manufacturing companies can obtain long-term, below market fixed interest rate loans.

- Port Facilities Revolving Loan Program – This program supports investment in port facilities for Arkansas's navigable waterways.

- Recovery Zone Bond Authority - Two new types of bonds were created through the federal stimulus bill that can be issued by state and local governments for areas designated as Recovery Zones. Generally, Recovery Zones are areas that have significant poverty, unemployment, rates of home foreclosures, or general distress.

- Speculative Building Loan Program – The program provides a source of financing to industrial development corporations interested in building speculative industrial facilities.

- Tourism Development Loan Program – Loans are provided for new business start up or expansion in the tourism industry

- Waste Water Revolving Loan Fund – This program provides low interest rate financing to municipalities wishing to improve their waste water treatment facilities. [xvi]

Biggest Barriers to Success/Gaps in Services, Programs, and Populations

- Relatively little emphasis is placed on small business development and the needs of small businesses.

Much of the emphasis of state economic development policy continues to focus on getting the big plant to locate in Arkansas. This policy ignores the fact that small businesses drive the state's economy - 97 percent of the state's employers are small businesses, and nearly half of all private sector jobs are in small businesses. And over the past 10 years, 64 percent of all new jobs in Arkansas were created by businesses with one to four employees.

Because many of these entrepreneurs often lack the collateral needed to attract working capital from traditional banks, they are unable to expand and grow, thus making it more difficult to have a real impact on their community through job growth and development. And with the current national financial crisis, what lending opportunities were available have become practically nonexistent.

Most small businesses are not aware of AEDC's Small and Minority Business office and Small Business Loan program, as well as ADFA's Capital Access program. And the Capital Access program is underutilized by financial institutions, with only five participating banks.

- The majority of jobs created as a result of tax incentives go to the wealthiest counties.

As described above, some tax incentives are enhanced if the business is located in poorer parts of the state. For the investment and job creation incentives, the state is divided into four tiers where counties are ranked based on poverty rate, population growth, per capita income, and unemployment rate.[xvii] The following table is based on the tiers for the year August 1, 2009 through July 31, 2010 and the tax incentive deals that were made in 2008.

Almost half of the deals supported businesses that were located in the wealthiest tier of counties, and almost two-thirds of the jobs created were located in those counties. The other three tiers saw a similar number of deals, with the poorest tier gaining almost a quarter of the jobs created.

2008 Tax Incentive Deals Broken Down by Tier				
Tier	Total Deals	Percentage of Deals	Total Jobs	Percentage of Jobs
1	46	48%	4409	63%
2	16	17%	451	6%
3	15	16%	433	6%
4	18	19%	1700	24%
Total	95	100%	6993	100%

Source: Arkansas Economic Development Commission and http://arkansasedc.com/media/268476/tiermap2009%20revised%209-9-09.pdf

- Tax incentives are limited to certain industries when some communities just need basic infrastructure.

While tax incentive can make the final difference in the decision of a company to locate in a particular area, most businesses would acknowledge that there are certain prerequisites for locating in a community. These include a trained workforce, basic infrastructure, and a good quality of life. The lack of these amenities is probably one of the reasons that the poorest counties benefit from the fewest tax incentive deals, as described above. Many of these communities lack basic infrastructure and quality of life amenities such as grocery stores, gas stations, dry cleaners, and doctors' offices.

- Some tax incentives require investments that may be too large for low-income, rural areas.

While the investment and job creation incentives do allow for smaller investments in lower-income counties ($2 million and minimum payroll of $800,000) compared to what is required in higher-income counties ($5 million investment and $2 million in payroll), such levels may still be too high for low-income, rural communities.

Best Practices

Support for Small Business Development Organizations – In 2004, Tennessee created the Small and Minority-Owned Business Assistance program within the state's Treasury Department. The purpose of the program is to support outreach to new, expanding, and existing businesses that do not have reasonable access to capital markets and traditional commercial lending facilities. The program consists of two components – loans and program services.

Loans can be used for acquisition of machinery and equipment, working capital, supplies and materials, and inventory. The maximum loan amount is $125,000. Interest rates range between two percent below the "Prime Rate" as published in the Wall Street Journal to two percent above the "Prime Rate" and may be fixed or variable.

Program services include technical assistance, education, and consulting services to qualifying businesses that may or may not be making application for loans under the program. Services include financial counseling, assistance with the packaging of loan proposals, developing strategies for improved cash flow management, implementing internal financial management systems, strategic planning, conducting training workshops and seminars, and certifying businesses with the Governor's Office of Diversity Business Enterprise and identifying procurement opportunities with state, federal, and local governments. [xviii]

Low Profit Limited Liability Corporations- Low-profit, limited liability corporations (L^3Cs) have been created in several states around the country as a way to encourage more program-related investments (PRIs) by foundations. PRIs are IRS-sanctioned investments made by foundations, often into for-profit business ventures, to support charitable activities, which may involve the potential return of capital within an established period of time. Foundations may buy ownership shares, make loans to, or otherwise financially interact with the L^3C, using all or part of that portion of its assets, which would normally be given out annually as grants.[xix] L^3Cs allow layering of investments such that the foundation usually takes first risk position thereby taking much of the risk out of the venture for other investors.

A for-profit entity does not need to organize as an L^3C to utilize PRIs for charitable purposes. However, PRIs are underutilized by foundations because of the perceived need to seek prior approval from the IRS to ensure compliance with PRI requirements. Upon request and for a fee, the IRS will issue a private letter ruling that states whether a proposed investment will qualify as a PRI. The L^3C is structured to help address this barrier and thus facilitate PRIs by requiring the operating agreement among an L^3C's members to include language that sets forth the federal legal requirements for PRIs. This is intended to provide assurance to foundations that their investments in L^3Cs comply with federal tax requirements and thus qualify as PRIs without the added expense and time needed to obtain private letter rulings.

To date, five states and two Native American tribes have enacted some form of L^3C legislation. Vermont took the lead, signing L^3C legislation into law in April 2008. Michigan, Wyoming, Utah, Illinois, the Crow Tribe in Montana, and the Oglala Sioux Tribe on the Pine Ridge reservation in South Dakota followed suit in 2009. [xx]

North Carolina passed legislation in 2010.[xxi] In that state, the new legislation is being considered to revive the flagging furniture industry and provide much-needed jobs. Many of the furniture manufacturers in the state have moved production overseas, leaving behind struggling communities. Parties in North Carolina are exploring the development of an L^3C capitalized by foundations and for-profit investors that would buy the closed manufacturing plants, rehabilitate and re-equip them, and then rent them at low rates to local, start-up furniture manufacturers. The proposed L^3C would provide up-and-coming furniture companies in North Carolina with affordable access to manufacturing capacity.[xxii]

Recommendations

- Alter Tax Incentive Programs to Better Meet the Needs of Low-Income Communities – As described above, the state's tax incentive programs disproportionately benefit the highest income counties. The lowest income counties, which need the jobs the most, benefit the least. Current tax incentives could be amended to make room for smaller investments and for investments in basic quality of life businesses such as grocery stores, doctors' offices, and other everyday needs.

- Enact L^3C Legislation in Arkansas –Such legislation would cost the state relatively little – just the expense for the Secretary of State's office to develop the regulations and paperwork for entities to apply for the designation. The new law would provide an incentive for foundations to invest in social enterprises, which may be good options for business development in lower income parts of the state.

- Invest More in Programs for Developing Small Businesses – Arkansas should create a Rural and Minority-Owned Business Assistance program that would provide both working capital loans of up to $50,000 and technical assistance to rural and minority small business entrepreneurs. The state should contract with an organization or network of organizations, that is/are accessible to local businesses, to provide the services around the state.

Benchmarks for Success

For each of the proposed recommendations, the state will need to monitor efforts to see if the desired impact is indeed occurring. The following are a few ideas on how to do so.

- Tax Incentives – Several years ago, a law was passed to make more details about tax incentive deals available to the public. This information was used to create the table earlier in this report. Success can be defined by a shift to the lowest income counties in terms of the deals made and the jobs created.

- L^3C Legislation – Since L^3Cs must register with the Secretary of State, the number of such entities can be tracked relatively easily. And data on foundation grants and investments can be found on their 990 tax returns. Success can be defined by the number of businesses started and the number of jobs created.

- Small Business Program – Success for this effort can be defined by the amount of loans made and paid back to the state as well as by the number of businesses expanded and jobs created.

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[i]http://portal.hud.gov/portal/page/portal/HUD/states/arkansas/news/HUDNo.2010-07-14

[ii] http://arkansasedc.com/grants/acedp-guidelines.aspx
[iii] Arkansas Economic Development Commission.
[iv] http://arkansasedc.com/business-development/incentives/targeted-business-incentives.aspx
[v] http://arkansasedc.com/business-development/incentives/research-and-development-incentives.aspx
[vi] http://arkansasedc.com/business-development/incentives/non-profit-incentives.aspx
[vii] http://arkansasedc.com/business-development/incentives/tourism-development.aspx
[viii] http://arkansasedc.com/business-development/incentives/customized-training.aspx
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[xi] http://arkansasinstitutionalfund.com/
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[xvii] http://arkansasedc.com/media/268476/tiermap2009%20revised%209-9-09.pdf
[xviii] http://treasury.tn.gov/smob/Documents/SMOB.pdf
[xix] http://www.americansforcommunitydevelopment.org/concept.php
[xx] Woodrow, Sue and Steve Davis, "The L3C: A New Business Model for Socially Responsible Investing," Bridges, Federal Reserve Bank of St. Louis, Winter 2009-2010.
[xxi] http://www.americansforcommunitydevelopment.org/concept.php
[xxii] Woodrow.

Exhibit E2
7-13-2010

Individual Economic Support/Security/Aging Work Group Recommendations

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Individual Income and Supports Sub-committee Recommendations
July 2010

TANF

Recommend extending the time limit for TEA cash benefits to 36 months if the individual is in school.

Recommend increasing TANF benefits. These benefits have not been raised for many years and they are extremely low.

Improve case management services for young mothers seeking assistance through Temporary Family Assistance to better place them in career paths and to help them link with resources.

Early Care and Child Care

Recommend utilizing the ability to transfer up to 30% of eligible TANF funds to early care to provide more child care assistance to low-income families. Arkansas is one of the lowest ranking states in the nation at utilizing this option. While transferring all of the amount may not be possible we do recommend a percent equal to most states that is automatically transferred.

Supplemental Nutrition Assistance Program

Expand outreach and access to federal food assistance benefits under the Supplemental Nutrition Assistance Program (SNAP)

Housing

Fund the Housing Trust Fund that was established in the 2009 legislative session.

Coordination and access to benefits

Coordinate outreach across relevant state agencies and establish data sharing policies to increase access to work supports and public benefits.

Child Support

Examine the effect of child support enforcement policies for reporting and garnishment on a single parent’s income and access to benefits.

Exhibit E3

Education

Work Group Recommendations

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**Recommendations of the Education Working Group of the
Legislative Task Force on Reducing Poverty and Increasing Economic Opportunity**

July 12, 2010

Recommendation 1: Expand access to quality early childhood education

1.1 Expand access to quality pre-school education for all 3- and 4-year olds. Due to limited resources, at-risk children in lower income families should be targeted initially. Eligibility for the Arkansas Better Chance Program (the state funded pre-k program) should be expanded from 200% to 300% of the federal poverty line. Funding for the ABC program should also be expanded to increase access to rural and underserved geographic areas. A new funding model may need to be developed to serve rural or geographically isolated areas that can't meet minimum classroom sizes to qualify for the ABC program.

1.2 Expand access to quality early childhood education programs for infants and toddlers up to age 3, especially at-risk children in low-income families. This may involve 1 or more of the following strategies: (1) expand funding for the original ABC program to serve infants and toddlers*; (2) expand access to Early Head Start using state funds; and (3) allocate state funding to subsidize the voucher reimbursement rate for infant and toddler programs that meet the high quality, level III standards of the Better Beginnings program (Better Beginnings is the state's new QRIS, or Quality Ratings Improvement System for child care).

1.3 Increase parent education and involvement in their children's education. Possible strategies here might include (1) expand funding under the ABC program to allow ABC centers/classrooms to partner with the home visiting programs such as HIPPY to provide parental education and involvement; (2) provide state funding to support the consumer education of the Better Beginning, the new state QRIS system for childcare.

*Note: The ABC program is actually 2 different programs. The original ABC program is funded at $10 million annually and has a broader range of non-income based eligibility criteria that allow infants and toddlers to be served. The Arkansas Better Chance for School Success program is funded at $100 million annual and serves 3 and 4 –year olds below 200% of the poverty line.

Recommendation 2: Expand access to quality before/after school programs and summer programs.

1.1 Expand access to quality before/after school programs.

1.2 Expand access to summer programs, especially those that are educationally focused.

1.3 Increase the use of the federal summer lunch program for students in areas with 70 or higher percent of free and reduced price lunch. Colorado is an example of one state that is increasing its use of the federal school lunch program provided through the U.S. Department of Agriculture. Summer lunches, especially for low-income kids, have been part of the federal school lunch program for 35 years. Colorado has made a push to improve the state's poor summer-meal track record and get more food to more children who need it. In 2009, the state fed 6.9 out of every 100 low-income children who get lunches free or at low cost during the school year, according to the Washington-based Food Research and Action Center. The lunches have to be provided in a district where at least half the students qualify for reduced-price meals during the school year. But income verification is not required for the summer program. Transportation for children to the sites where meals are available is a concern during the summer.

Recommendation 3: Strengthen the Arkansas Remediation System

1.1 Create a streamlined remediation system, similar to that in Tennessee, where students have flexibility in remediation – being remediated in relation to their specific skill needs and pace rather than being required to retake entire courses in semester format.

1.2 Develop and fund a large-scale demonstration project to test new approaches to delivering remediation.

1.3 Adopt an evidence-based, proven program to increase ACT scores, or the SAT equivalent scores, of underperforming students prior to entering higher education such that they have opportunity to prevent taking remedial courses.

1.4 Adopt the use of the Summer Incentive Program (SIP) in other higher education institutions.

SIP is a program at the University of Arkansas at Monticello (UAM). A student who must have Introduction to Algebra or Intermediate Algebra can enroll in a section of the course dedicated to first-timers (not repeaters) in the Summer II, 2010 session. UAM is providing textbooks for each student. The student must pay tuition and fees for the course; however, if the student is successful (grade of C or better in the course), enrolls in the fall semester at UAM and maintains a 2.00 GPA for the fall semester, his/her tuition for that SIP course will be credited to his/her account in the spring, 2011 semester.

1.5 Encourage a partnership between high schools and higher education institutions that allows students needing remediation to be identified and remediated prior to leaving high school. Consider the Arkadelphia College Preparatory Academy as a model for such partnerships.

The Arkadelphia School District and Henderson State University (Educational Renewal Zone Office) opened the original Arkadelphia College Preparatory Academy in 2009 for 39 ninth graders based on EXPLORE and PLAN scores. Partners in the venture include Arkadelphia High School, Henderson University, the Southwest Arkansas Education Renewal Zone, Southern Bancorp, the Ross Foundation.

Before entering high school, Arkadelphia eighth graders took the Explore Test to determine whether or not they are college bound. The Explore is a test similar to the ACT, given to assess students' skills in English, math and reading. Of the 140 students who took the exams, 78 indicated they intended to attend a four-year university; but 31 of those did not meet target scores in the three fields on which they were tested.

The Academy has four "modules": math, English, reading and study skills/career exploration. Each class is co-taught by a licensed or public school teacher and a university professor. In order to be accepted, there are signed statements of commitment from the student, a parent and the academy. Students in the academy are also required to be on time and wear uniforms.

Each student is also given a handbook, which outlines rules on attendance, tardiness, unacceptable behavior, dress and identification. Each student is fed lunch and has the incentives like access to university plays, movies, athletic events, lectures and other resources on Henderson's campus.

1.6 Encourage clear exit standards for all remedial courses taken at Arkansas colleges and universities.

1.7 Reduce the number of students needing to take remedial courses in college by requiring school districts to offer and students to take college preparatory classes. School districts should lower the remediation rate by requiring all high schools to:

- Offer college preparatory classes - Advanced Placement, International Baccalaureate, Honors or other college preparatory courses;
- Require all entering students to receive college prep course orientation, assessment and placement support;
- Require that all college preparatory courses to be highly structured with clearly specified goals and objectives and offer students the study skills and research training necessary to succeed in college;
- Increase the number of counselors and support staff available to students.

Background: There are currently large gaps in the remediation system in Arkansas. The Arkansas Department of Higher Education (ADHE) reports that in Fall 2009, over half (54.6%) of all students attending 2-year or 4-year institutions in the state required remediation in at least one subject. When universities are removed from that statistic, more than three quarters (75.8%) of Arkansas college students required remediation. Arkansas's remediation system needs strengthening. By looking at other states, there are models that Arkansas can use to improve remediation outcomes in the state.

In particular, Tennessee's remediation system uses technology to focus attention on the skills students need for college-level courses and lets students move at their own pace instead of being required to move at the speed of all classmates. Tennessee's remediation system is reaping positive results. After seeing remediation redesign show dramatic improvement at a number of community colleges in the state, the Tennessee Board of Regents made the decision to expand its redesigns for developmental courses such that by 2013 all community colleges in Tennessee will be required to have in place programs that have technology as an integral part and that focus on helping students master the subjects at their own pace (See, http://www.highereducation.org/crosstalk/ct0510/news0510-tenn.shtml.)

In order to make progress in reducing remediation rates and increasing academic performance in developmental courses, Arkansas needs to overcome barriers such as: students entering higher education institutions with deficient skills, inflexible remediation programs, inconsistency in remediation requirements, lack of funding for remediation programs, and lack of coordination between secondary and postsecondary systems in remediation for college preparedness.

Recommendation 4: Better sue of NSLA funding.

1.1 Require a minimum percentage of the state K-12 education categorical funding known as NSLA, for students who are eligible for a free or reduced priced lunch, to be used for remediation programs in schools/districts with a history of 2 or more years on Adequate Yearly Progress (AYP) status for a subpopulation other than special education.

Currently districts are spending only 9% statewide of their NSLA categorical funding for tutoring, summer and extended day educational programs. For districts in the 2 year or beyond of AYP status a minimum investment in these educational programs should be required. Districts should be required to increase the amount by 10% each year over the prior years expenditures for tutoring, summer and extended day educational programs.

1.2 Reduce the amount of "poverty" funding that school districts can carryover year to year or transfer to another categorical funding program. Each year, school districts receive extra funding for low-income students (students who qualify for support under the National School Lunch Act [NSLA]) that is to be spent for programming to improve the educational achievement of those students, including early childhood education, afterschool and summer school, and for employing additional teachers, curriculum specialists, tutors, aides and other support staff. But every year many school districts carryover that funding and fail to spend thousands of dollars on programs that are proven to improve achievement for low-income students. Other districts shift a portion of their NSLA funds to other "categorical fund" programs, such as the English Language Learner (ELL) or Alternative Learning Environment (ALE) programs without prior approval by the Arkansas Department of Education. School districts should be required to spend the majority of their NSLA funding each year on programs proven to close the achievement gap among minority and low or middle-income students and higher-income students, including: early childhood education, after- & summer school, in-school health, reduced class size, improved teacher development, increased parent involvement and replicating successful programs in other public or charter schools (e.g. KIPP schools).

Recommendation 5: Increase Retention and Graduation Rates at 2-Year and 4-Year Higher Education Institutions in the State. Develop and Encourage Public Policy and Funding Streams that do the following:

2.1 Encourage each college or university to improve student success with expanded student services, such as learning communities/cohorts, tutoring, mental health services, mentoring, flexible schedule options, and access to technology.

2.2 Expand Career Pathways to serve more students in the state.

2.3 Require each college and university to develop and implement a retention and graduation plan, including benchmarked goals and programs for high risk students, including nontraditional and marginalized students.

2.4 Encourage colleges and universities to offer more flexible scheduling and online courses leading to a degree in order to assist nontraditional students including working parents.

Background: While Arkansas has had improved success with getting students to attend institutions of higher education, the state still lags far behind when it comes to degree completion. In Arkansas, only 26% of adults aged 25-34 have a college degree, costing the state an estimated $1.6 million loss in state and local tax revenues (2010 Alliance for Excellent Education report: *The Economic Benefits of Reducing the Drop-Out Rate: Little Rock, Arkansas Metropolitan Area*). There are positive models of how to improve graduation and retention rates in the state already. For example, *Achieving the Dream: Community Colleges Count* is national initiative that is working with community colleges in the state, including Pulaski Technical College, National Park Community College, Ouachita Technical College, and Phillips Community College, to improve the retention and graduation rates of students by promoting data-driven decision making and developing student success programs.

In addition, the Career Pathways model uses intrusive student support services to improve student success; data shows that this model has yielded a student retention rate of 88%. (ADHE, 2006, cited in the *Access to Success: Increasing Arkansas's College Graduates Promotes Economic Development* Report 8/08). In order to make significant progress in retention and graduation rates, Arkansas needs to overcome barriers such as: present funding formula models based on 11th day enrollment versus course and degree completion based funding, inconsistent credit transfer practices between 2-year and 4- year institutions, and lack of degree programs for non-traditional students, including online and accelerated options.

Other Recommendations

1.1 More official state emphasis on school board training, mentoring, and cross-fertilizing.

1.2 More emphasis on health issues, especially obesity. (e.g., BMI indexing and recording).

1.3 Develop policies that foster interest and interaction among interest groups such as civic groups, PTA's, economic development committees, etc. (The 'social capital" represented by school boards, administrators, PTA's, athletic/band/arts groups, and other civic groups could become a powerful constituency for change.)

1.4 Form a study group to accrete and evaluate "best practices" of non-public educational institutions.

Exhibit E3

Education Work Group Recommendations 3

Recommendation 3: Strengthen the Arkansas Remediation System

REMEDIATION BACKGROUND

4-Year Public Institutions

Total first time entering freshmen fall 2008=13,587
Total first time entering freshmen fall 2008 tested =13,383
Total first time entering freshmen fall 2008 requiring remediation=5,233

The first time entering freshmen cohort of 2008 at 4 year public institutions that were tested had an average remediation rate of 39.1% for a total of 5,233 students.

Individual 4 year public institutions' remediation rates for the 2008 entering freshmen cohort that were tested ranged from a low of 11.3% to a high of 93.1%.

Overall of the 5,233 students that were in remedial courses 2196 or 42.0% were in only 1 course while the remaining 3,037 or 58.0% were in 2 or more courses.

For individual 4 year public institutions the percent number of remedial students taking only 1 remedial course ranged from a low of 13.2% to a high of 75.2%.

For individual 4 year public institutions the percent of remedial students taking 2 or more remedial courses ranged from a low of 24.8% to a high of 86.8%.

2-Year Public Institutions

Total first time entering freshmen fall 2008=9,453
Total first time entering freshmen fall 2008 tested =7,085
Total first time entering freshmen fall 2008 requiring remediation=5,257

The first time entering freshmen cohort of 2008 at 2 year public institutions that were tested had an average remediation rate of 74.2% for a total of 5,257 students.

Individual 2 year public institutions' remediation rates for the 2008 entering freshmen cohort that were tested ranged from a low of 58.6% to a high of 91.5%.

Overall of the 5,257 students that were in remedial courses 1,875 or 35.7% were in only 1 course while the remaining 3,382 or 64.3% were in 2 or more courses.

For individual 2 year public institutions the percent number of remedial students taking only 1 remedial course ranged from a low of 18.2% to a high of 59.6%%.

Education Work Group Recommendations 3

For individual 2 year public institutions the percent of remedial students taking 2 or more remedial courses ranged from a low of 40.4% to a high of 81.8%.

Total Public Institutions

Total first time entering freshmen fall 2008=23,040
Total first time entering freshmen fall 2008 tested =20,468
Total first time entering freshmen fall 2008 requiring remediation=10,490

The first time entering freshmen cohort of 2008 at public institutions that were tested had an average remediation rate of 51.3% for a total of 10,490 students.

Overall of the 10,490 students that were in remedial courses 4,071 or 38.8% were in only 1 course while the remaining 6,419 or 61.2% were in 2 or more courses.

Objectives

3.1 Create a streamlined remediation system, similar to that in Tennessee, where students have flexibility in remediation – being remediated in relation to their specific skill needs and pace rather than being required to retake entire courses in semester format.

Tennessee Developmental Studies Redesign is a program that has a variety of approaches that allow for personalized remediation based on focused diagnostics to determine a concentrated plan of attack to meet student needs to lead to success. One approach includes allowing students in Career and Technical Education Programs to take only those modules needed to meet their career goals and needs.

Another approach is the use of technology labs that have course materials available online that allow students to move at their own pace to complete modules related to the curriculum. This resulted in increases in student course completion, retention, and attainment of a postsecondary credential. By making use of the technology labs with onsite instructional specialists/tutors the postsecondary institutions saved money by reduced costs related to paying adjunct instructors to teach remedial classes.

"Getting Past Go": Using Policy to Improve Developmental Education and Increase College Success

www.gettingpastgo.org

Project Overview

Exhibit E3

Education Work Group Recommendations 3

The Education Commission of the States (ECS), in collaboration with the Project on Education Policy, Access and Remedial Education (PREPARE), seeks to leverage developmental education at postsecondary institutions as a critical component of state efforts to increase college attainment rates through Getting Past Go. The national initiative will help education policy leaders align state and system policy to increase the college success of the large percentage of students enrolled in postsecondary education who require remedial and developmental education.

To be recognized as a viable component of state strategies to increase college attainment, developmental studies programs must be able to address a variety of challenges:

- An increasingly diverse population of students to include adults, low-skilled workers and low-income students
- The overrepresentation of students of color, particularly African American and Latino students
- An increasing the number of students who complete their developmental studies courses, immediately enroll in college-level coursework and persist to a degree or credential
- State P-20 efforts that often view developmental studies programs as a symptom of system failure and not an integral strategy for increasing college attainment
- Completing all of the above in a more cost-effective manner.

To meet these challenges, postsecondary institutions need to examine institutional practice and its relationship to state policy to determine the most viable approaches states can take to ensure all of their residents receive the support they need to access and succeed in higher education.
Project Objectives

Getting Past Go will have a significant impact on the formation of state and system policy related to developmental studies through the following set of objectives, outcomes, activities and products:

- Create a network of state, postsecondary system and institutional leaders committed to improving developmental studies policy and practice to increase college attainment rates in their states.
- Develop model policies and practices that states can consider and adopt that are consistent with their goals and philosophy for increasing college attainment rates for developmental studies students.
- Collect and analyze state and system policies and data on developmental studies to provide a clearer picture of state and system approaches to developmental studies.
- Integrate developmental studies policies and practices into state P-20 efforts to better align college preparation standards with high school reform efforts.

Education Work Group Recommendations 3

- Partner with state leaders to promote innovative policies and practices for developmental studies.

Read a full summary of Getting Past Go (PDF, 54K).

Standardization of the approach used for remediation is also important so as to ensure equal access to all institutions within the state.

3.2 Develop and fund a large-scale demonstration project to test new approaches to delivering remediation.

The information references above addresses this as well. This will require the development of an RFP that outlines the goals of the program and requires evaluation by both an internal and external evaluator to prevent bias and protect those involved.

University of Central Arkansas uses the University College model to reduce remediation and help students.

Provides conditional enrollment to students that normally would not receive full admission to the university.

Mainly focused on non-traditional students either returning or first-time as well as students that are required to complete two or more remedial classes.

After students complete all remedial courses and 12 hours of non-remedial courses they are allowed full admission to UCA.

Faculty that are specially trained in working with students with developmental needs.

Facilities house the university tutoring center to assist students.

Students can complete an Associate of Arts Degree while working on their Bachelor degree.

Southeast Arkansas College Fast Track for Allied Health Developmental Education Program

Southeast Arkansas College in Pine Bluff has developed and implemented a Fast Track Allied Health Developmental Education program. The Fast Track curriculum provides instruction in the basic skills of math, reading and writing in at least one-half the standard delivery time.

Education Work Group Recommendations 3

Students in the program complete in one semester what typically takes two (2) and most times three (3) semesters with traditional developmental education. Fast Track completion rates are 95%, compared to 50%-60% for traditional developmental education.

WAGE Bridge Program (Workforce for Growth in the Economy)

Designed to serve those students who need lower levels of basic academic skills remediation before entering college credit programs.

The curricula that make up this program are intended to do two things:

1. Bring students' basic academic skills up to the Tests of Adult Basic Education (TABE) level required for entry and success in specific Certificate of Proficiency college credit programs, which are the college entry point—meaning students are actually enrolled in college credit courses—for all six career pathways.

2. Impart job-specific competencies, including various soft skills that often are overlooked by academic programs.

Additionally, these curricula are being used to provide lower levels of remediation for select groups of students who will move on to a special developmental education program to continue their remedial instruction through the Fast Track Developmental Education program.

Fast Track Developmental Education Program

The second curriculum innovation that is part of Career Pathways is the Fast Track Developmental Education program. This curriculum targets students interested in various one-year and two-year allied health certificate and degree programs who need significant remedial or developmental education instruction before qualifying to enter these advanced college credit programs.

The curriculum is intense and intended to take students from a 9th grade TABE level to college ready, meaning ready to enter advanced college credit programs, in one semester. This amount of remedial instruction usually takes two semesters.

The curriculum, which covers reading, writing, and math, is contextualized to allied health careers, and is co-taught by SEARK developmental education
faculty and allied health program faculty in a learning community format similar in concept to UCA's University College program.

Exhibit E3

Education Work Group Recommendations 3

Earning an Arkansas Career Readiness Certificate

The KeyTrain® instruction may be taken at any of the 32 Arkansas Department of Workforce Services local offices or Arkansas Workforce Centers. The WorkKeys® assessments may be taken at any of the 22 two-year colleges throughout the state.

To earn an Arkansas Career Readiness Certificate, individuals are assessed through the WorkKeys® employability skills assessment system in:

Reading for Information–the ability to understand information in common workplace documents such as letters, memos, procedures and instructions,

Applied Mathematics–the ability to use mathematics in solving common workplace problems,

and Locating Information–the ability to understand and extract information from graphics such as charts and tables

As a result of the assessments, individuals earn a career readiness certificate or identify areas in which they need further instruction or remediation.

The following agencies and institutions are collaborating to implement the KeyTrain® instruction, WorkKeys® assessments, and Arkansas Career Readiness Certificate:

Arkansas Department of Workforce Services will provide the KeyTrain® instruction

Arkansas Workforce Investment Board and Arkansas' 10 Local Workforce Investment Areas will provide KeyTrain® instruction

22 two-year colleges will provide KeyTrain® and WorkKeys®

Arkansas Department of Workforce Education's 52 Adult Education Centers and Career and Technical Education Programs will provide developmental skills and KeyTrain® instruction

Arkansas Economic Development Commission will recruit new business and industry

Arkansas Department of Higher Education will provide the KeyTrain® instruction to the clients and participants in the Career Pathways Program

Arkansas Department of Education

3.3 Adopt an evidence-based, proven program to increase ACT scores, or the SAT equivalent scores, of underperforming students prior to entering higher education such that they have opportunity to prevent taking remedial courses.

Education Work Group Recommendations 3

This objective ties in with the discussion listed in 1.5 by making use of the PLAN and EXPLORE in Middle School/Junior High grades schools are able to determine the areas of remediation required for a student early on in the process so as to maximize the benefits of remediation for a student.

PLAN and EXPLORE are not the only assessments that are able to assess the level at which a student is performing a much less expensive approach is making use of the TABE test which stands for the Test of Adult Basic Education. The TABE has traditionally been used as a placement test for GED programs to determine baseline knowledge of students as well as in many Secondary Career and Technical Education programs that have enrollment prerequisites.

Alternatively since the ACT is designed to predict success in postsecondary coursework the establishment of a curriculum crosswalk team that would make sure that the materials covered at the secondary level are properly aligned with the corresponding postsecondary curriculum would assist in ensuring that the needed content to be successful at the postsecondary level

3.4 Adopt the use of the Summer Incentive Program (SIP) in other higher education institutions.

SIP is a program at the University of Arkansas at Monticello (UAM). A student who must have Introduction to Algebra or Intermediate Algebra can enroll in a section of the course dedicated to first-timers (not repeaters) in the Summer II, 2010 session. UAM is providing textbooks for each student. The student must pay tuition and fees for the course; however, if the student is successful (grade of C or better in the course), enrolls in the fall semester at UAM and maintains a 2.00 GPA for the fall semester, his/her tuition for that SIP course will be credited to his/her account in the spring, 2011 semester.

3.5 Encourage a partnership between high schools and higher education institutions that allows students needing remediation to be identified and remediated prior to leaving high school. Consider the Arkadelphia College Preparatory Academy as a model for such partnerships.

The Arkadelphia School District and Henderson State University (Educational Renewal Zone Office) opened the original Arkadelphia College Preparatory Academy in 2009 for 39 ninth graders based on EXPLORE and PLAN scores. Partners in the venture include Arkadelphia High School, Henderson University, the Southwest Arkansas Education Renewal Zone, Southern Bancorp, the Ross Foundation.

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Education Work Group Recommendations 3

Before entering high school, Arkadelphia eighth graders took the Explore Test to determine whether or not they are college bound. The Explore is a test similar to the ACT, given to assess students' skills in English, math and reading. Of the 140 students who took the exams, 78 indicated they intended to attend a four-year university; but 31 of those did not meet target scores in the three fields on which they were tested.

The Academy has four "modules": math, English, reading and study skills/career exploration. Each class is co-taught by a licensed or public school teacher and a university professor. In order to be accepted, there are signed statements of commitment from the student, a parent and the academy. Students in the academy are also required to be on time and wear uniforms.

Each student is also given a handbook, which outlines rules on attendance, tardiness, unacceptable behavior, dress and identification. Each student is fed lunch and has the incentives like access to university plays, movies, athletic events, lectures and other resources on Henderson's campus.

3.6 Encourage clear exit standards for all remedial courses taken at Arkansas colleges and universities.

In April 2009, the Arkansas Legislature passed Act 971, which requires the state to establish common exit standards for all developmental education courses at public colleges and universities. The Act stipulates that the state must work with public institutions to develop standards that are comparable to the equivalent ACT or SAT score indicating college readiness in English composition, reading, and mathematics by the fall semester of 2010. Act 971 is a critical step in Arkansas's student success policy agenda. It builds on previous legislation requiring that students be assessed for college readiness using a common test and placed in developmental education should they fail to meet a common statewide cut score indicating academic proficiency. Act 971 also requires the state to collaborate with two- and four-year institutions to develop alternative methods of delivering developmental education, and to provide professional opportunities so that faculty can improve their pedagogical skills in this area. Learn more about Act 971

3.7 Reduce the number of students needing to take remedial courses in college by requiring school districts to offer and students to take college preparatory classes. School districts should lower the remediation rate by requiring all high schools to:

- Offer college preparatory classes - Advanced Placement, International Baccalaureate, Honors or other college preparatory courses;
- Require all entering students to receive college prep course orientation, assessment and placement support;

Education Work Group Recommendations 3

- Require that all college preparatory courses to be highly structured with clearly specified goals and objectives and offer students the study skills and research training necessary to succeed in college;
- Increase the number of counselors and support staff available to students.

Additional Background: There are currently large gaps in the remediation system in Arkansas. The Arkansas Department of Higher Education (ADHE) reports that in Fall 2009, over half (54.6%) of all students attending 2-year or 4-year institutions in the state required remediation in at least one subject. When universities are removed from that statistic, more than three quarters (75.8%) of Arkansas college students required remediation. Arkansas's remediation system needs strengthening. By looking at other states, there are models that Arkansas can use to improve remediation outcomes in the state.

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In order to make progress in reducing remediation rates and increasing academic performance in developmental courses, Arkansas needs to overcome barriers such as: students entering higher education institutions with deficient skills, inflexible remediation programs, inconsistency in remediation requirements, lack of funding for remediation programs, and lack of coordination between secondary and postsecondary systems in remediation for college preparedness.

Exhibit E3

Education Work Group Recommendations 5

Recommendation 5: Increase Retention and Graduation Rates at 2-Year and 4-Year Higher Education Institutions in the State. Develop and Encourage Public Policy and Funding Streams that do the following:

RETENTION BACKGROUND

4-Year Public Institutions

The first time entering freshmen cohort of 2008 at 4 year public institutions had an average retention rate (reenrolled in 2009) of 69.6%.

Individual 4 year public institutions' retention rates for the 2008 entering freshmen cohort ranged from a low of 46.4% to a high of 82.8%.

Overall retention rates for the 4 year public institutions averaged 77.7% in 2009.

Individual 4 year public institutions' overall retention rates for 2009 ranged from a low of 56.9% to a high of 87.7%.

4-Year Private Institutions

The first time entering freshmen cohort of 2008 at 4 year private institutions had an average retention rate (reenrolled in 2009) of 72.8%.

Individual 4 year private institutions' retention rates for the 2008 entering freshmen cohort ranged from a low of 43.5% to a high of 87.8%.

Overall retention rates for the 4 year private institutions averaged 79.0% in 2009.

Individual 4 year private institutions' overall retention rates for 2009 ranged from a low of 62.9% to a high of 89.8%.

2-Year Public Institutions

The first time entering freshmen cohort of 2008 at 2 year public institutions had an average retention rate (reenrolled in 2009) of 51.1%.

Individual 2 year public institutions' retention rates for the 2008 entering freshmen cohort ranged from a low of 37.7% to a high of 57.6%.

Overall retention rates for the 2 year public institutions averaged 55.2% in 2009.

Individual 2 year public institutions' overall retention rates for 2009 ranged from a low of 41.2% to a high of 62.4%.

Exhibit E3

Education Work Group Recommendations 5

GRADUATION BACKGROUND

4-Year Public Institutions

In 2009, the average 6-year cumulative graduation rate for the first time entering freshmen cohort of 2003 at 4 year public institutions was 45.7%.

In 2009, individual 4 year public institutions' 6-year cumulative graduation rates for the 2003 first time entering freshmen cohort ranged from a low of 23.2% to a high of 61.2%.

4-Year Private Institutions

In 2009, the average 6-year cumulative graduation rate for the first time entering freshmen cohort of 2003 at 4 year private institutions was 59.8%.

In 2009, individual 4 year private institutions' 6-year cumulative graduation rates for the 2003 first time entering freshmen cohort ranged from a low of 38.8% to a high of 68.2%.

2-Year Public Institutions

In 2009, the average 3-year cumulative graduation rate for the first time entering freshmen cohort of 2006 at 2 year public institutions was 22.4%.

In 2009, individual 2 year public institutions' 3-year cumulative graduation rates for the 2006 first time entering freshmen cohort ranged from a low of 6.4% to a high of 48.2%.

Objectives

5.1 Encourage each college or university to improve student success with expanded student services, such as learning communities/cohorts, tutoring, mental health services, mentoring, flexible schedule options, and access to technology.

5.2 Expand Career Pathways to serve more students in the state.

5.3 Require each college and university to develop and implement a retention and graduation plan, including benchmarked goals and programs for high risk students, including nontraditional and marginalized students.

5.4 Encourage colleges and universities to offer more flexible scheduling and online courses leading to a degree in order to assist nontraditional students including working parents.

Education Work Group Recommendations 5

Additional Background: While Arkansas has had improved success with getting students to attend institutions of higher education, the state still lags far behind when it comes to degree completion. In Arkansas, only 26% of adults aged 25-34 have a college degree, costing the state an estimated $1.6 million loss in state and local tax revenues (2010 Alliance for Excellent Education report: *The Economic Benefits of Reducing the Drop-Out Rate: Little Rock, Arkansas Metropolitan Area*). There are positive models of how to improve graduation and retention rates in the state already. For example, *Achieving the Dream: Community Colleges Count* is national initiative that is working with community colleges in the state, including Pulaski Technical College, National Park Community College, Ouachita Technical College, and Phillips Community College, to improve the retention and graduation rates of students by promoting data-driven decision making and developing student success programs.

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Education Work Group Recommendations 5

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Education Work Group Recommendations 5

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Education Work Group Recommendations 5

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Exhibit E4
8-18-2010

Tax Policy

Work Group Recommendations

Work Group Members:

Rich Huddleston
Steve Copley
Gloria Smith (G)

Report of the Poverty Taskforce Tax Policy Work Group
August 18, 2010

A complete analysis and discussion of the Arkansas state and local tax system is beyond the scope of both this report and the recommendations of this taskforce. With regard to reducing poverty and promoting economic opportunity for low income families, there are two basic issues. First, the current system places a disproportionate share of the tax burden on low income families, thus hurting their ability to meet the basic needs of their families. Second, the Arkansas tax system does not currently have the capacity to generate the revenues to adequately support critical programs for low income families that help meet basic needs and that would give them the tools to move out of poverty and up the economic ladder towards economic self-sufficiency.

Before discussing these issues, a quick overview of the Arkansas state tax system is in order. The Arkansas state budget is funded by various sources, including state general revenue, federal revenue, cash funds, trust and other revenue, and special revenue. State general revenue, which typically makes up 31 percent of the state budget, comes from a variety of sources and is used to fund most public services, such as education and prisons. The state legislature has a great deal of discretion over the taxes that comprise state general revenue and how to spend this revenue, so it is typically the focus of most policy discussion at the state level. The primary sources of state general revenue include: (1) personal income taxes, (2) sales and uses taxes (or gross receipts), (3) corporate income taxes, and (4) other states taxes and fees.

1. Personal Income Taxes (PIT): Arkansas's primary source of general revenue (49 percent) comes from the state's personal income tax, which is withheld from our paychecks each month. All families making over $17,716 per year have to pay PIT—even low-income families between 100-200 percent of the federal poverty line. In theory, our personal income tax system is considered progressive: as income rises, its six levels of taxation are **graduated** from 1 percent of income up to 7 percent, with the average taxpayer paying 4.4 percent. But in practice, it really isn't that progressive. For example, the original top tax bracket was set in 1929 at $25,000 (nearly $300,000 in today's dollars), and has only increased to $31,000. Therefore, those earning $31,000 today still pay the same top rate (7 percent) as those with incomes over a million. Arkansas also allows a tax exemption for 30 percent of any **capital gains** earned (income from the sale of assets, such as stocks, bonds, or real estate)—most of which goes to the wealthiest one percent of taxpayers.

2. Sales and Use Taxes (or "Gross Receipts"): Taxes from sales and use of tangible goods make up over a third (38 percent) of all state general tax revenue (the use tax is the same as a sales tax except that it's paid on goods purchased out of- state for use in-state). Most of this sales tax revenue comes from the 6 percent general sales tax on tangible goods, like clothes—ranking Arkansas as having one of the highest sales tax rates in the country.

Other sales tax revenue comes from "selective sales taxes," or excise taxes, on specific products, such as tobacco, alcohol, or soda. Taxes on alcohol and tobacco, for example, comprise at least 4 percent of state general revenue. These taxes referred to as "sin taxes" or "luxury taxes." Sales and selective sales taxes are considered highly regressive, because the poorest Arkansans spend more of their income on these goods than do wealthier ones because such purchases on such item eat up a greater share of their incomes. Of course, not everything we buy is taxed, due to the many tax exemptions passed by the legislature each session—mostly benefiting corporations. In fact, Arkansas's **tax base** (the range of things that are taxed) is relatively narrow. Most services (such as attorney fees) are excluded from the sales tax, which again, tends to benefit larger corporations and those with higher incomes. The sales tax burden on low income families is made worse by the fact that local sales taxes are often a major source of revenue for local governments, which typically piggyback onto the sales taxes charged at the state level.

3. Corporate Income Taxes (CIT): This progressive tax is based on a percentage of a corporation's net income. CIT mostly affects residents of other states, who are the owners and shareholders of large corporations in Arkansas that are being taxed. In Arkansas, the top **marginal tax rate** (what your tax bracket indicates you must pay) for corporations is 6.5 percent of annual profits. However, their **effective rate** (what companies actually pay) is usually much lower, due to the many loopholes in our state's tax system that benefit large corporations. For that reason, CIT revenue has shrunk considerably over the past 30 years as a share of all state income tax revenue, from 31 percent in 1978 to six percent in 2008—causing the state to rely more on taxes from individuals and families to pay for public services.

4. Other State Taxes and Fees: The final sliver of the state's general revenue (about 6 percent) is made up of taxes on "miscellaneous" things like gambling, severance taxes on the extraction of natural resources (e.g., oil, coal, and natural gas), taxes on life insurance premiums, real estate transfer taxes, corporate franchise taxes, and user fees, such as a fee to camp out at a state park. Arkansas received about $10.8 million in revenue from horse and dog racing and electronic "games of skill" in FY 2008, making up less than 1 percent of the state's budget. The state's new lottery is expected to generate at least $___ million in additional revenue for college scholarships as soon. Unfortunately, research shows that state lotteries are generally regressive and disproportionately place more of the burden on families who can least afford it.

The Special Case of Local Property Taxes. Although local property taxes are not used to fund the state budget, they are the third major stool of the state and local finance system (sales and income taxes being the others). In terms of who bears their burden, local property taxes are generally considered to be less regressive than sales and excise taxes but not as progressive as personal or corporate income taxes. Amendments 59 and 79 of the Arkansas constitution limit how much additional local funding for education and other services can be raised by local property taxes, even among relatively wealthy communities and individuals. These limits cap the amount of property tax increases that must be paid each year and exempt retirees from future increases, regardless of their income level. In addition, Amendment 79 provides an annual "homestead tax credit," now set at $350 per household (again, regardless of the ability to pay). These caps mean that Arkansas local property taxes are typically among the lowest in the country as a percentage of the incomes of its residents (Arkansas usually ranks among the 5 lowest states in its property tax effort according to state and local finance data compiled by the US Census Bureau).

As a result of these caps, growth in assessed values in many counties has now become restricted to values that are well below the normally-recorded amounts. In 2006, for example, approved assessments for real property were about $22.9 billion.10 That amount is $3.2 billion below the amount originally certified to the county boards—a nearly 14 percent drop in property wealth available to local taxing units in just four years. As a result, even wealthy counties often cannot raise enough money to cover rising education costs due to factors such as a rapid influx of students. They must therefore rely on the state's general revenue to meet the minimum amount of per pupil expenditures required under state law ($____ get this figure from new adequacy report on education).

These caps have created a system in which extra income and sales tax revenue from all parts of the state–rich and poor, fast-growing and slow-to no growth areas–must be used to support fast-growing, wealthier areas restricted from using rapidly increasing property values in their own jurisdictions. Having low- and middle-income taxpayers subsidize schools in wealthier areas, at a time when they are struggling to support schools in their own communities, is good for neither educational equity nor long-term fiscal policy. More importantly, these caps on local property taxes require the state to raise more funding for education through other means that disproportionately hurt low- and middle-income families, such as the 7/8-cent sales tax increase of 2004. They also limit the state's ability to pay for other critical needs using state level revenue sources.

Ensuring Adequate Revenue for Critical Programs for Low Income Families

State taxes play a major role in funding programs that support low income families, such as education, health care, child welfare, etc. Even when the economy is relatively strong or the state is lucky enough to have a surplus, Arkansas struggles to raise adequate funds to pay for many crucial services. Arkansas is plagued by what is known as a "structural deficit," defined as "the chronic inability of state revenues to grow in tandem with economic growth and the cost of government." In other words, revenues in Arkansas do not keep pace with the need to fund current programs and services. This fundamental structural problem not only makes it difficult to provide essential services or meet new and emerging needs, but it also limits the state's ability to create a tax system that is fair to all of its citizens, especially low- and middle-income families who bear a disproportionate share of the tax burden. The solution, however, is not simply to cut the budget and curtail vital services in bad times or to not establish programs that have the potential to help low income families move out of poverty. Nor is it to increase taxes that take the greatest toll on low-income families, such as what happened in the 2004 when Arkansas increased sales taxes to pay for education reform or recently when the state adopted a lottery to pay for higher education scholarships.

Arkansas's constitution requires that the state balance its budget each year, which keeps us from spending beyond our means. The flip side of this equation is that: 1) the cost of providing government services like health care often rises faster than inflation; 2) the state's changing demographics mean that more and more people will need services each year; and 3) natural, cyclical fluctuations in the economy make it hard to predict whether we will have enough revenue to meet this demand. The state legislature often responds to these challenges by being too conservative in its budgeting and not doing enough to help low income families when times are good, raising regressive taxes to meet critical needs or to cover shortfalls in bad times, or cutting taxes too much in good times. The result is an unpredictable and volatile climate for dozens of programs that help children and families.

The state's economic growth over the past most of the past 15 years has hidden our underlying structural budget deficit, and the Arkansas Department of Finance and Administration's forecasts have provided a cushion against unexpected revenue shortages during recent years. However, Arkansas is now facing an economic slowdown in state tax revenues that has limited our ability to meet the basic needs of our poorest citizens or to take bold steps that would help them move out of poverty. Beyond the usual rise and fall of tax revenue coming into the state, Arkansas suffers from a bigger problem: the very structure of its tax system is outdated and incapable of adjusting to the 21st century economy. In the past ten years, at least three national reports have warned that Arkansas is one of the top states at high risk for a structural budget deficit. For example, a 2005 report by the Center on Budget and Policy Priorities (CBPP) showed that Arkansas relies too heavily on sales taxes and has lost a substantial amount of revenue through corporate tax loopholes. Arkansas also requires a supermajority" (three-quarters) vote of the legislature to raise most taxes (such as income taxes), which makes tax reform more difficult to achieve.

A 2008 report by Arkansas Advocates for Children identified several cracks in the state fiscal foundation that are limiting (and will continue to limit) the state's ability to generate adequate revenue and meet the real needs of low income families. These included:

- *A sales tax base that is too narrow*. It relies too much on taxing goods (which hit low income families the hardest) and exempts many services, such as advertising and legal services, which tend to be purchased by wealthier individuals and companies and comprise the fastest growing part of the sales tax base;

- *Inadequate taxing of internet sales*. Although state residents are supposed to pay sales taxes on any items they purchase over the internet, federal law limits the ability of states to require remote sellers to collect the taxes on behalf of the state unless the remote seller is considered to have "nexus," or some type of physical presence in the state. This erodes the ability of states to fully tax internet sales to their residents. In 2005, the Center on Budget and Policy Priorities estimated that Arkansas loses $230 to $360 million annually in lost tax revenue due to e-commerce.

- *Caps on local property taxes* that limit how much can funding for education can be raised by local property taxes, even among relatively wealthy communities and individuals, and require that greater use of state funding (which is funded disproportionately by sales taxes that hurt low income families) to meet local education needs;

- *Corporate tax loopholes* that allow large corporations to avoid paying Arkansas state income taxes, through strategies that allow them to shift part of their Arkansas income to out of state subsidies located in no or low tax states, thus costing reducing revenue from the corporate income tax by 10 to 25 percent, or $38 to $95 million annually;

- *Inequities in the personal income tax*; Compared to sales taxes, only the personal income tax has the potential to grow as quickly as increases in personal income. A structurally sound state tax system requires an income tax that is progressive in nature and applies to as much income as possible. However, the top Arkansas personal income tax rate of 7 percent kicks in at just over $30,000 in taxable income, meaning that a family paying earning just over $31,000 in income pays the same tax rate as someone earning $1 million. It also gives more favorable treatment to other types of income that are more likely to be earned by wealthier taxpayers, such as capital gains income earned from the profit of the sale of an asset, such as stocks or real estate. Arkansas has one of the most generous exemptions in the country and currently exempts 30 percent of all capital gains income.

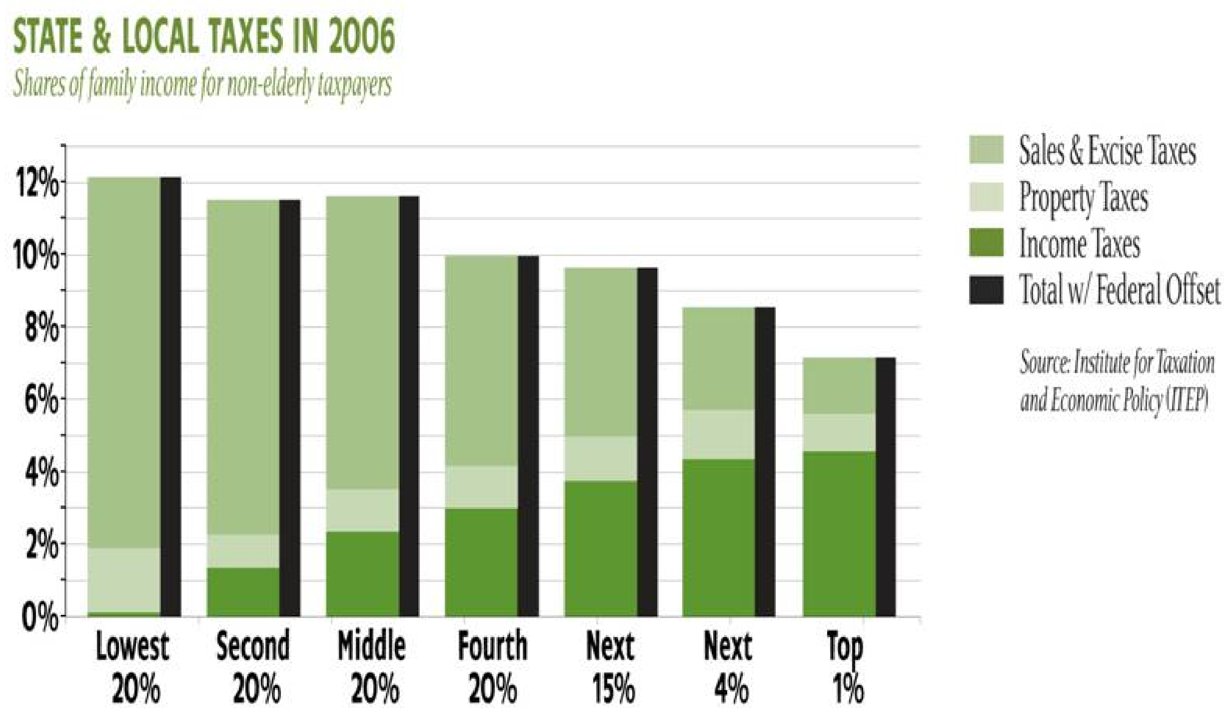
- *State failure to de-couple from federal estate tax changes adopted in 2001-03*. Arkansas suffers a major revenue loss by failing to de-couple its estate tax from federal tax law, and thus loses major revenue by failing to have its own estate tax. Depending on the year, The Center on Budget and Policy Estimates that this results in $25 million in lost revenue annually.

Unless steps are taken, the existing structural budget deficit will make it increasingly difficult to meet the critical needs of Arkansas's children and families in the future. Consider the case of K-12 education. Arkansas has taken historic steps to reform its education system as a result of a State Supreme Court decision in the *Lake View* school funding case. While the state should be applauded for this effort, much more work needs to be done. To keep the system at an "adequate" level and stay out of court, the state will have to regularly increase K-12 education spending. In fact, Act 108 of 2004, known as the "Doomsday" legislation, requires that spending for K-12 education must be kept at an "adequate" level at the expense of other spending needs, even if spending in other areas needs to be reduced or programs inadequately funded to meet the state's balanced budget requirement.

Arkansas revenue needs will only grow in the future. The need to adequately fund education, meet new revenue needs under national health care reform, and meet the other needs of low income families means that Arkansas must have a state fiscal system that can grow with its current and future needs.

Using State Tax Policy to Economically Support Low Income Families
As stated earlier, Arkansas overall state and local tax system is heavily regressive. This is due to a number of factors, including: a heavy reliance on state and local sales and selective sales taxes (alcohol and tobacco taxes); a personal income tax lacking in real progressivity due to a top rate that kicks in at just $30,000; a generous exemption of capital gains income that is earned mostly by higher income earners; the lack of a state estate tax; a corporate income tax that fails to adequately capture potential revenue due to loopholes; and caps on the revenue raised from local property tax.

As a result, Arkansas low and middle income tax payers (those with incomes below $40,000) pay 12 cents in state and local taxes on every dollar they earn compared to just 6 cents on every dollar earned by top 1 percent to upper income taxpayers (those with incomes over $326,000).



Other states attempt to offset regressive taxes through tax relief policies that disproportionately benefit low income taxpayers. Major examples of such policies include: (1) exemption of food from state and local sales taxes; (2) exempting all families with incomes below the poverty line from state personal income taxes; (3) and establishing a refundable state earned income tax credit that puts money directly back into the hands of working, low income families.

Arkansas had made some progress in this area. Since 2007, it has cut the grocery tax in half from 6 percent to 3 percent and it has virtually eliminated personal income taxes for most families (with the exception of single parent families with 2 or more children) with incomes below the poverty line and cut taxes for families with incomes just above the poverty line. It has yet to create a state earned income tax credit, which would be the most targeted, cost effective way to economically support low income families through the state tax code.

Recommendations

The Tax Policy Work Group has two types of recommendations: (1) recommendations designed to provide tax relief and economically support low income families and (2) recommendations to raise new revenue in ways that don't place such a heavy burden on low and middle income taxpayers.

The tax code is potentially a major economic support for low income families struggling to get out of poverty Recommendations that would economically support low income families include:

1. **Fix the low-income tax threshold problem and provide comparable relief for single parents with two or more children**. A 2007 law designed to substantially exempt families with children at incomes below the poverty line from state income taxes (and to cut taxes for those with incomes slightly above the poverty line) contained a technical flaw and did not provide comparable benefits to taxpayers filing as heads of households with two or more children (most heads of households are single parents). This law should be changed so that single parents with 2 or more children receive comparable treatment under the law. During the 2009 session, HB 1378 was passed by the House but failed to get out of the Senate Revenue and Tax Committee the last week of the session. Making this change would impact 50,000 low income families with children (mostly single moms) and have a state revenue impact of $3.6 million.

2. **Create a refundable State Earned Income Tax Credit (EITC) to economically support low and lower-middle income working families**. The federal EITC is widely regarded as one of the nation's most successful anti-poverty programs. State EITCs, which have been adopted in 24 of 42 states with state income taxes, are set at some percentage of the federal EITC received by a family, typically at a rate of 5% to 40%. Unlike other tax credits, a refundable credit is one in which taxpayers receive a cash refund if their credit is greater than the amount of taxes owed (which is typically the case for low income families). At the federal level, the maximum EITC for a family with two children would be $5,028, so a 10% state level EITC would have a maximum benefit of about $500. A state EITC equal to 10% of the federal EITC would have a revenue impact of at least $60 million. Roughly 25% of all Arkansas taxpayers claim the federal EITC.

3. **Continue efforts to cut the state sales tax on groceries**. Because expenditures on food consume a larger proportion of the income of low income families, state sales on food impose a disproportionately higher tax burden on low and middle income families. In actions taken

during the 2007 and 2009 legislative session, the state sales tax on groceries has been cut in half from 6% to 3%. Arkansas should gradually continue its efforts to mostly eliminate the remaining 3% state sales tax on groceries (the 1/8th cent sales conservation tax required under Amendment 75 cannot be eliminated). Cutting the state sales tax on groceries by one cent has a state general revenue impact of over $30million.

The workgroup also developed recommendations to raise new revenue in ways place less of the burden on low and middle income families include and that would help address the state's long-term structural budget deficit. Due to the constitutional changes that would be required to change current property tax limits, we did not include changes to the local property tax among our recommendations because it would require amending the Arkansas Constitution, a herculean task under any circumstances. We also did not include other changes, such as re-establishing the Arkansas estate tax or a major expansion of the sales tax base to include services, because such changes would be among the most difficult to adopt politically.

1. **Close corporate income tax loopholes by adopting a combined reporting law for state corporate income taxes.** Under loopholes in the current Arkansas law, some corporations are allowed to reduce the income they report as earning in Arkansas (and thus avoid Arkansas taxes) by shifting this income to another state where they pay little or no taxes. For example, a number of corporations operating in multiple states avoid state taxes by shifting revenues they earn in Arkansas to a holding company in a state that does not tax corporate income. In effect, the companies "pay" an amount equivalent to what they have earned in Arkansas to the holding company, covering questionable expenses such as fees for patents and trademarks. They can then "deduct" the "payment" to eliminate or minimize their taxable income. Under combined reporting, a parent company and most of its subsidiaries in other states are one entity for tax purposes and allows the state to tax a share of that combined income that is actually earned in Arkansas. While the revenue impact is unclear, most studies find it would increase state corporate income tax revenue by 10 to 20%, or about $45-90 million in Arkansas (note: more precise estimates should be available in the coming weeks).

2. **Reduce or eliminate the 30 percent exemption current allowed for capital gains under Arkansas income taxes.** A capital gain is the increase in value realized at the time of sale of an asset, such as stocks or some other investment. Under Arkansas law, which is one of the most generous in the country, taxpayers are allowed to exempt 30% of their capital gains income for tax purposes. This exemption heavily and disproportionately favors upper income taxpayers. Eliminating this exemption could generate about $33 million in new state general revenue.

3. **Adopt the "Amazon Law" for collecting state taxes owed on internet purchases**. This law, which recently adopted in New York and Rhode Island, requires many internet retailers operating "affiliate programs" in the state to charge sales tax on the retailers' sales to state residents. These affiliates – which can be local bloggers, newspapers, and other types of businesses – post links on their websites to online retailers and receive a commission when purchases are made through their connections. The New York law requires retailers making more than $10,000 in annual sales in the state through affiliates to charge New York sales tax on all sales in the state, not just those resulting from the affiliate program. This change would not only generate much needed revenue but (1) would reduce the competitive disadvantage faced by local retailers and those internet retailers already collecting sales taxes and (2) reduce the

disproportionate impact of sales taxes on low income persons who are not as able to buy online and thus avoid sales taxes. It is unclear how much new revenue this change might generate.

Exhibit E5
8-17-2010

Health

Work Group Recommendations

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Introduction

The group recognized a number of factors that have major implications for any recommendations around health, especially related to Arkansans in poverty. To ignore the social determinants of health would be counter-productive to achieving the full task force goal of reducing poverty and promoting economic opportunity. Thus, information and recommendations below attempt to get at the following known intersections between health and other social factors:

- Physical and financial health are linked. Access to health care and financial stability are interrelated: the majority of all bankruptcies in the U.S. are due to medical debt.
- Health outcomes are directly linked to educational outcomes and economic prosperity.
- Place matters. Where a person works and lives makes a difference in their overall health.

Current programs, policies, and activities that currently help to mitigate poverty and promote economic activity

Note: efforts below are listed predominantly by the age of the person served, starting with the youngest. The list is by no means exhaustive. (will reorder after all information filled in)

ARKids First (DHS) provides free or low-cost health care to children under age 19 in families with low to moderate income (up to 200% of the federal poverty line. ARKids First A, or traditional Medicaid for children, supports children under 100% of the federal poverty line (children under 6 are eligible up to 133% of the FPL). ARKids First B is available for children between 100 -200% of the FPL who are not already eligible for ARKids First A (between 133- 200% for children under age 6). The federal government pays for more than three-forths the cost of the program. For more information, see www.arkidsfirst.com

Medicaid (DHS) provides free or low cost health care to for needy and low-income persons. It uses state and federal government money. NOTE: Medicaid and Medicare are different programs. Medicare is federal health insurance for persons over 65 for aged and disabled persons. For more information, see https://www.medicaid.state.ar.us

ARKids First and Medicaid

State (SFY 2009):

Federal contribution:

Source: *Arkansas Medicaid Program Overview*, SFY 2009, available at https://www.medicaid.state.ar.us/Download/general/MOB-SFY09.pdf

Southeast **T**argeted **A**rea **R**esources **(STARHealth)** is a joint pilot initiative of the Arkansas Department of Health and the Arkansas Minority Health Commission in Southeast Arkansas (Chicot, Desha, and Lincoln counties) to show a new way for delivering local public health programs and services in local communities. In this pilot project, the ADH recruits and trains Community Health Workers (CHW) from and for three counties with very high minority population ratios. All lie in Southeast Arkansas where there are also low levels of traditional health providers/resources.

Coordinated School Health (ADH/ADE) and School Wellness Centers related school health initiatives (e.g. CWIP, healthteacher.com, school wellness center pilots)

HIV INititive/Outreach grants (AMHC/ADH) ($600,000)

Mobile dental units/sealants (Children's Hospital, ADH) $890,000 per unit per year

Community Health Centers and Free Health Clinics $2 million (state)

UAMS Area Health Education Centers

Variety of **Home Visiting** programs (Children's Trust, HIPPY/ABC, etc)

Community Mental Health Centers and other mental health providers

Growing Healthy Communities – Arkansas Coalition for Obesity Prevention ($55K)

ACH Injury Prevention Center and Outreach (Baby safety showers, ATV and roadway safety, etc)

Children's Behavioral Health Care Commission (DHS) initiatives (e.g. new "wraparound" funding, System of Care, etc)

Arkansas Minority Health Commission

Cash and Counseling and other Home-and Commnuity-based initiatives for seniors (DHS)

Arkansas Aging Initiative (UAMS)

Arkansas Area Agencies on Aging (AAAs)

Gaps, Barriers and Obstacles of Current Health-related efforts

- Low rates of <u>*health literacy*</u>, or the degree to which individuals have the capacity to obtain, process and understand basic health information needed to make appropriate health decisions and services needed to prevent or treat illness. Low health literacy is more prevalent among older adults, minority populations, those who have low socioeconomic status, medically underserved people. Patients with low health literacy may have difficulty locating providers and services, filling out complex health forms, sharing their medical history with providers, seeking preventive health care, knowing the connection between risky behaviors and health, managing chronic health conditions, understanding directions on medicine. (HHS HRSA, www.hrsa.gov) . Cultural and linguistic barriers place additional barriers in front of non-English speaking populations.

- *Outreach and care coordination*: Lack of sufficient support to help consumers navigate the health care system – outreach and coordination of care. This includes accessing available insurance and other programs (enrollment/re-enrollment), making the most appropriate use of the health care system, knowing what questions to ask and who can answer them, etc. Logistical challenges also complicate this (e.g. transportation, appointment reminders, etc).

- Uninsured Arkansans = 17% (477,000)
    - **Adults** - Few or no health insurance options for poor, non-disabled adults.
        - AR uninsured rate for adults 19 - 65 = 19.2%
        - AR uninsured rate for nonelderly adults with dependents = 21%
    - **Kids**: Majority of uninsured children (43,000 of 65,000 total) in Arkansas are already eligible for ARKids First but not enrolled or not staying enrolled because of enrollment and re-enrollment barriers. AR uninsured rate for children under 19 = 9%

- Severe lack of evidence-based substance abuse and mental health treatment for Arkansans. $5 million investment passed in 2009 to cover substance abuse services for pregnant women and teenagers under Medicaid on hold.

- Severe *workforce shortages*, especially in primary care, dental care and multiple sub-specialties.

- *Limited capacity* within state government and other AR partners to implement programs (e.g. health reform, new grant programs, etc).

- *Community environments that do not promote healthy living* (e.g. food deserts, lack of parks or other outdoor areas, limited fresh produce, etc in many communities).

- Immigrants – both legal and undocumented—have few, if any, options for accessing health care outside the safety net providers or emergency rooms.

- In Northwest Arkansas, the growing Marshallese population is particularly challenged accessing health care as they can be in the U.S. legally under the Compact of Free Association, but do not have official “legal” immigrant status, which keeps them ineligible for health care and coverage like ARKids and Medicaid.

Recommendations for Action in Health

Recommendations presented in the table below attempt to meet critical service needs while also laying important groundwork for health care reform. They do not address every challenge or gap the state has with regard to ensuring adequate healthcare. Underlying issues that the group hopes will be addressed that are implicit but interconnected with the recommendations include:

- Addressing the critical gap in trained medical professionals adequate to serve existing as well as newly insured Arkansans.
- Increasing federal and/or state support for safety net providers, including, but not limited to community health centers (CHCs), UAMS Area Health Education Centers (AHECs), community mental health centers and other mental health and substance abuse providers.
- Taking maximum advantage of the new health care law, including taking advantage of new funding opportunities for new structures and demonstration projects, maximizing federal Medicaid match as soon as possible, etc.

Benchmarks for success on all recommendations (within 2-5 years of recommendation adoption):

- Increased no/percentage of Arkansans, especially low-income Arkansans, with access to health coverage
- Increased no/percentage of Arkansans, especially low-income Arkansans, with access to preventive health care, check-ups
- Increased no/percentage of Arkansans, especially low-income Arkansans, with access to mental health and substance abuse services who need it
- New venues for Arkansans to access health and wellness promotion, and primary care services in communities (e.g. schools)
- Increased health literacy levels among Arkansans, especially low-income Arkansans

Recommendation	Rationale	Timeframe	Cost
Top "SERVICES" recommendations			
1. **Implement ARKids expansion to 250% FPL**, as passed during 2009 session, intended to be funded with tobacco tax revenues, but not yet in effect.	Based on experience in other states, when children and higher income levels are made eligible for ARKids First, up to three-forths of new	Immediately, to lay groundwork for 2014 when even more	(at full implementation) $11 million in state

• Remove red tape from enrollment and renewal processes to ensure those eligible for the program enroll and stay enrolled on ARKids First through automatic or online renewal systems, accelerated enrollment processes using other programs (e.g. free- and reduced-lunch eligibility). For more information on these recommendations, see *Crossing the Finish Line 2010: Moving Toward Covering all Kids* at www.aradvocates.org	enrollees are those who are already eligible for the program ("welcome mat" effect). Currently, two-thirds of the state's uninsured children (43,000 of 65,000) already meet the income guidelines to enroll.	Arkansans will have access to insurance. We can cover this population today and already begin to make progress	funds annually (note: $9 million of this estimate would cover children who are already eligible today) Would bring in approximately $30 million in federal matching dollars into Arkansas
2. **Expand school wellness centers/Coordinated School Health Initiatives** by building on the work of the new nine wellness centers supported through the new tobacco tax. Wellness centers may be supported in additional communities, and more schools can be supported in their efforts to promote health by ensuring sufficient resources for school nurses, school social workers, school health coordinators, or other staff that can create local partnership to improve student health. Schools should also be encouraged to use their NSLA/poverty dollars (state dollars dedicated for schools with high percentages of low-income students) on school health initiatives as part of their strategy to close the persistent	Provide preventative well child services through the school-based or school-linked services. This can reduce direct costs for long-term chronic illness or/urgent care by improving access to well-child and preventive care services (e.g. EPSDT screens required for all Medicaid-eligible children)	2011-12 school year at earliest	TBD

achievement gap.			
3. **Expand funding for substance abuse and mental health treatment** by: • Implementing substance abuse treatment under Medicaid for pregnant women and teens, passed during 2009 legislative session, intended to be funded by new tobacco tax revenues • Finding new resources to support community mental health services and other providers who can expand access to mental health services	Severe lack of substance abuse treatment availability in AR, major lack of mental health treatment availability, especially for adults	immediately	$5 million annually – substance abuse TBD – funds for community health centers and other mental health treatment providers
Top "SYSTEMS" recommendations			
1. **Conduct <u>Health Impact Assessments</u> on all proposed policies/initiatives at the state level.** This aims to look at the social determinants of poor health, and take stock of the ways proposed policy or regulatory changes may impact the health the community or communities it affects. We recommend the initial scope of these assessments remain small.	Ensure the health and wellness of citizens and community members is appropriately considered before policy decisions are made.	Starting with 2012 fiscal session	TBD but Minimal—with initial small scope, would require legislative and possibly agency staff time consider health impacts of proposed legislation or regulatory changes.
			TBD depending on resources available

2. **Fund organizations/staff to help consumers navigate the healthcare system** -- community-based outreach, support with applications, care coordination. • **Take advantage of funds available** from new healthcare law ($29 million available to states this year) to create consumer assistance or that will "assist consumers with filing complaints and appeals, assist consumers with enrollment into health coverage, and educate consumers on their rights and responsibilities with respect to group health plan and health insurance coverage" (see Consumer Assistance Program Regulations and Grant Announcement for more information). The Arkansas Department of Insurance is applying for these funds	To help families better comprehend health care reform, access available benefits and navigate through appropriate services and programs	Immediately	through new federal consumer assistance grants
3. Establish a Center for Health Literacy, to coordinate and fund Activities that Improve Health Literacy of Arkansans. Could include, but not limited to: developing educational materials, coordinating public education and outreach efforts, reaching out to underserved populations	An increase in health literacy skills leads to an improvement in health care which allows low income individuals to work more readily because they are able to manage their illness.	2011, to ensure maximum coordination of education and outreach efforts as health care law is implemented.	TBD?