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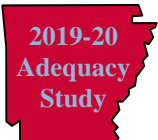


Research Report

Enhanced Student Achievement Funding and Expenditures (previously known as National School Lunch State Categorical Funding)

November 5, 2019

Prepared for
**THE HOUSE INTERIM COMMITTEE ON EDUCATION
AND THE SENATE INTERIM COMMITTEE ON EDUCATION**



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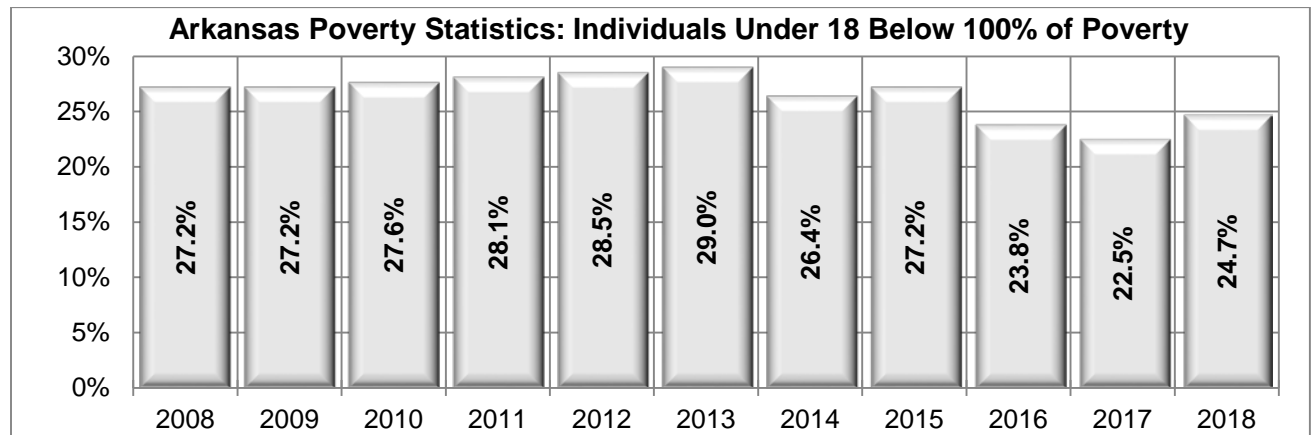
Introduction

Arkansas Code § 10-3-2102 requires the House and Senate Committees on Education to biennially evaluate the entire spectrum of public education to determine whether students receive equal opportunity for an adequate education. As one part of that responsibility, the law requires the Committees to review the expenditures from National School Lunch (NSL) state categorical funding. **NSL funding is state money distributed to school districts based on the concentrations of poverty** in their student populations. The funding is intended to provide schools with more resources to address the additional educational challenges commonly faced by students in poverty. This report provides information on the NSL funding provided to school districts and open-enrollment charter schools,¹ their use of this funding, the percentage of low-income students in Arkansas, and the performance of these students on state and national tests.

Poverty and the Impact on Educational Achievement

Years of academic research have documented the gap in the achievement of students based on family income. The National Assessment of Education Progress, a national assessment of K-12 student learning, has documented achievement gaps between low-income students and their more affluent counterparts since the test's 1990 creation.² "Research supports that poverty affects many aspects of children's lives that potentially affect and impede their educational attainment," notes one recent literature review on the influences of poverty on educational achievement.³ Poverty can affect children's health and ability to learn by influencing nearly every aspect of children's environment and experience: the safety of their neighborhoods, their access to nutritious food, their family resources for educational opportunities, their parent's educational background, their exposure to adult role models and the quality of their schools. These factors can affect educational achievement and lead to differences in student outcomes between low-income students and more affluent students. "The achievement gap between lower and higher income children is present at school entry and is stable and persistent as children progress through school."⁴

In Arkansas, 24.7% of children live in poverty, compared with the national average of 18%, according to U.S. Census estimates. The state has the fourth highest child poverty rate in the nation. Poverty rates (100% of the federal poverty level) in Arkansas have dipped slightly in recent years, but increased a bit in 2018.



Data Source: U.S. Census, S1702 Poverty Status in the Past 12 Months of Families, S1701 Poverty Status in the Past 12 Months, American Community Survey 1-Year Estimates

¹ For simplicity, open enrollment charter schools are referred to as charter schools throughout this report. References to charter schools in this report do not include conversion charter schools, which are schools within traditional school districts.

² Olszewski-Kubilius, P., and Corwith, S., Gifted Child Quarterly, Poverty, Academic Achievement and Giftedness: A Literature Review, Volume 62(1) 37-35, 2018.

³ Olszewski-Kubilius, P., and Corwith, S., Gifted Child Quarterly, Poverty, Academic Achievement and Giftedness: A Literature Review, Volume 62(1) 37-35, 2018.

⁴ Olszewski-Kubilius, P., and Corwith, S., Gifted Child Quarterly, Poverty, Academic Achievement and Giftedness: A Literature Review, Volume 62(1) 37-35, 2018.

The education funding the state provides to help high poverty school districts is distributed based on each district's students who are eligible for a free- or reduced-price lunch (FRL)—students whose household income is 185% of the federal poverty level or less. **Historically, about 60% of students enrolled in the state's school districts and open-enrollment charter schools have been eligible for free or reduced-price lunch.**

NSL/ESA State Categorical Funding

NSL state categorical funding is distributed to school districts and charter schools based on the number and percentage of students eligible for free or reduced-price lunch (FRL) under the federal National School Lunch Act program, which subsidizes school meals. According to the federal program rules, children from families with incomes below 130% of the federal poverty level are eligible for free meals, and those with incomes between 130% and 185% of the poverty level are eligible for reduced-price meals. For a family of four in 2019, 130% of the federal poverty level is \$33,475, and 185% is \$47,638.⁵

The state funding program was named NSL funding because it relies on students' eligibility for a free or reduced-price lunch—under the National School Lunch Program—as the basis for distributing the funds. However, in 2019, the General Assembly passed Act 1083, which changed the name of this funding to **Enhanced Student Achievement (ESA) Funding** to avoid confusing this state funding with the federal meal program. Because of the name change, appropriations for 2018-19 and earlier were called NSL funding, while appropriations going forward are called ESA funding. For simplicity's sake, this report refers to this funding using its new name, regardless of whether it's describing past funding (and related funding types) or future funds.

The Arkansas General Assembly introduced ESA state categorical funding during the Second Extraordinary Session of 2003, with the first appropriation for the 2004-05 school year. The new funding was based on recommendations made by Lawrence O. Picus and Associates, the education finance consulting firm the General Assembly hired in 2003 to help devise a new funding formula for the state's education system. The consultants made recommendations in 2003⁶ and again in 2006,⁷ when the state rehired them to recalibrate the funding formula.

Picus and Associates argued that districts with **high concentrations of poverty need additional resources**, and, in both 2003 and 2006, they recommended the state provide additional funding for two purposes: teacher tutors and pupil support personnel (guidance counselors, nurses, social workers, family outreach workers, etc.). In 2003, Picus and Associates noted that, for struggling students, "the most powerful and effective strategy is individual one-to-one tutoring provided by licensed teachers" (p. 25). The consultants recommended that Arkansas fund one fully licensed teacher tutor for every 100 FRL students, with a minimum of one for every school. They also suggested the state fund extended-day and summer-school programs as secondary measures if the state found its tutoring strategy was not fully sufficient.

Picus and Associates also noted that schools need a strategy for student support services and family outreach, and that strategy should be based on each district's level of poverty. The general standard, they said, is one licensed professional for every 20-25% of the student body that is low income. In total, the consultants recommended two full-time employee (FTE) positions for every 100 FRL students—one teacher tutor and one pupil support services FTE.

The Legislature then enacted Act 59 of the Second Extraordinary Session of 2003, which turned the staffing level into a dollar amount for each FRL student. The levels essentially funded 1 FTE position for districts with FRL concentrations below 70%, two for districts with FRL concentrations between 70% and less than 90% and three positions for districts with FRL concentrations at 90%

⁵ <https://aspe.hhs.gov/poverty-guidelines>

⁶ Lawrence O. Picus and Associates, An Evidenced-Based Approach to School Finance Adequacy in Arkansas, Final Report, September 1, 2003.

⁷ Lawrence O. Picus and Associates, Recalibrating the Arkansas School Funding Structure, Final Report, August 30, 2006.

and above. In the 16 funding years since then, the General Assembly has increased the three per-student rates five times (2008, 2012, 2013, 2016 and 2017).

Under the state ESA categorical funding program, districts receive one of the three funding rates for each student eligible for a free or reduced-price lunch. The funding rates for 2014 through 2021 are provided in the table below. Each district's funding rate is based on its percentage of students eligible for the free or reduced-price lunch program in the previous year. For example, if a 1,000-student district had 800 students eligible for free or reduced-price lunches (80%) in 2019, the district would receive \$1,051 for each of those 800 students in 2020, or \$840,800.

| % FRL Students | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 |
|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| < 70% | \$517 | \$517 | \$522 | \$526 | \$526 | \$526 | \$526 | \$526 |
| 70% - < 90% | \$1,033 | \$1,033 | \$1,042 | \$1,051 | \$1,051 | \$1,051 | \$1,051 | \$1,051 |
| 90% > | \$1,549 | \$1,549 | \$1,562 | \$1,576 | \$1,576 | \$1,576 | \$1,576 | \$1,576 |
| % Annual Change | 0% | 0% | 1% | 1% | 0% | 0% | 0% | 0% |

While the General Assembly has not increased the ESA funding rates since FY17, the Legislature has supplemented the existing ESA funds with **additional funding for a separate matching grant program** to be used to help districts provide **tutoring services, pre-kindergarten programs and before- and after-school programs**. The General Assembly provided \$4.3 million for FY18 and for FY19 and up to \$5.3 million in FY20. The 2018 Final Adequacy Report recommended providing another \$5.3 million in FY21, which will be determined in the 2020 Fiscal Session.

Changes In FRL Eligibility Affecting the Accuracy of FRL Data

The ESA state categorical funding program uses the number and percentage of students who are eligible for free or reduced-price lunch (FRL) as its measure of poverty in a school district. Historically, this measure has relied on individual students providing information about their family income by completing paper applications for the National School Lunch Program. Generally, only students who filled out an application and qualified could participate in the National School Lunch Act program, and only those individual students who qualified for a free or reduced-price lunch were considered FRL students for other purposes, including the reporting of student test scores and the distribution of ESA state categorical funding.

However, in an effort to ensure more students have access to healthy meals and to reduce the paperwork burden of collecting applications, the federal government has developed programs that automatically qualify all students in participating schools or districts. These programs essentially waive a school's or district's responsibility to collect FRL applications in exchange for the school's or district's agreement to feed meals to ALL students at no charge. In schools or districts that agree to participate in the programs, ALL students are considered "free lunch" students, regardless of their family's income level. **As more schools and districts participate in these programs, an increasing number of students' individual eligibility statuses may become less accurate.**

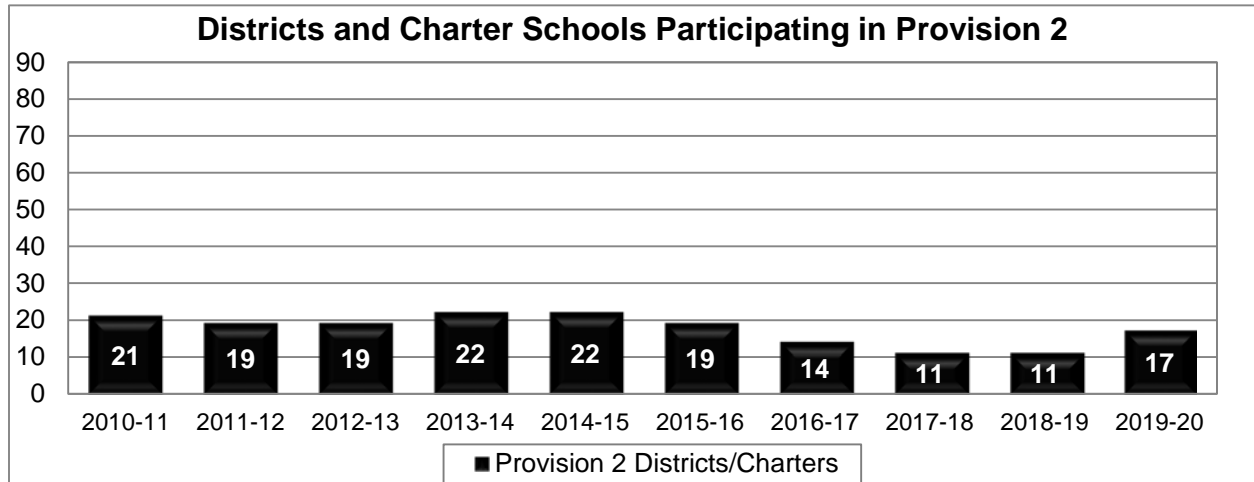
The two federal National School Lunch programs used by Arkansas districts are:

- Provision 2 and
- Community Eligibility Provision

Provision 2

For many years, a small number of school districts have participated in a National School Lunch Program, known as Provision 2. Under this program, school districts are allowed to collect applications only every four years, instead of annually, if they agree to provide meals to all students at no charge for all four years of the cycle. All students in these schools/districts are considered free lunch students. The federal government reimburses participating districts for meals at the free lunch rate (highest federal reimbursement rate), the reduced-price lunch rate and the student-paid lunch

rate (lowest federal reimbursement rate), depending on the percentages of students in each category in the first year of the four-year cycle.

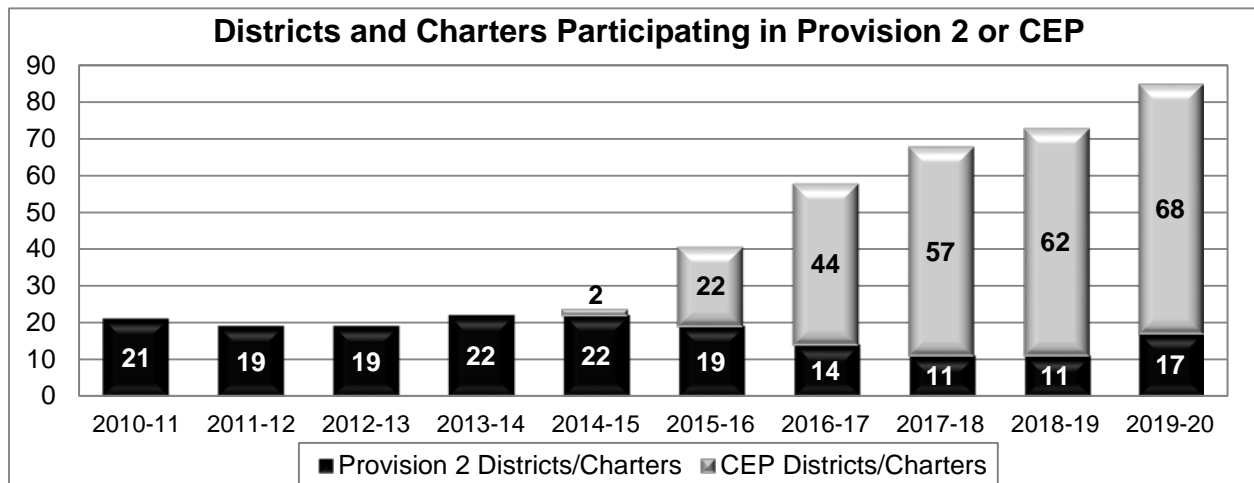


Note: Chart represents districts where the entire district participated in Provision 2 or where some schools within the districts participated in the programs.

Data Source: Davidson, S., Division of Elementary and Secondary Education, December 2, 2015 email, August 7, 2017 email, and October 15, 2019 email.

Community Eligibility Provision

The Community Eligibility Provision (CEP) started in Arkansas in the 2014-15 school year. Under this program, any school or district is eligible to participate if at least 40% of students are already certified eligible for free lunches based on their family’s participation in other means-tested government programs, such as the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps). Under CEP, participating schools and districts are required to provide breakfast and lunch to all students at no cost to the students. This program may be more appealing than Provision 2 to schools and districts due to its more generous federal meal reimbursement structure for some districts. For the current school year, 2019-20, 68 districts and charter schools had at least one school participating in the CEP program. In all but four of those districts, the entire district is participating in CEP. With the CEP and Provision 2 programs taken together, **nearly a third of all districts and charter schools in Arkansas are participating in these programs.**



Note: Chart represents districts where the entire district participated in the programs or where some schools within the districts participated in the programs. The chart does not include the Arkansas School for the Blind.

Data Source: Davidson, S., Division of Elementary and Secondary Education, December 2, 2015 email, August 7, 2017 email, and October 15, 2019 email.

When a district participates in Provision 2 or CEP, all of its students are considered eligible for free lunch, regardless of their families' actual income.⁸ That theoretically could lead to increases in ESA state categorical funding, if participating districts were considered 100% for FRL-eligible and therefore qualified for the highest per-student reimbursement rate. However, Arkansas Department of Education Division of Elementary and Secondary Education (**DESE**) **rules have been drafted to ensure that districts' DO NOT automatically qualify for large increases in their ESA funding simply because they begin participating in Provision 2 or CEP.** Instead, for districts participating in Provision 2 and CEP, ESA state categorical funding is calculated based on historical FRL percentages. A district that was at 75% FRL before CEP/Provision 2 participation will continue receiving ESA funding at the 75% rate, not the 100% rate. Provision 2 and CEP districts and schools stay at their pre-participation rate for at least four years, and CEP schools and districts can remain there indefinitely if there are no significant changes in their percentages of directly certified students (students who are on SNAP or other means-tested government programs).

While the rules for distributing ESA funding for CEP and Provision 2 districts have been adjusted, these programs may still have an impact on the amount of state categorical funding districts and charter schools receive. According to DESE, districts teetering above and below the 70% FRL mark from one year to the next may be using the CEP or Provision 2 program to **essentially lock in the higher rate** in a year when their percentages make it over the 70% mark. This allows them to receive the higher ESA funding rate for a number of years even if their actual percentage drops below the 70% mark.⁹

Additionally, all districts—even districts not participating in CEP—have directly certified free lunch students (those on SNAP or other means-tested government programs) automatically identified for them. This may have led to the **identification of free lunch-eligible students who had never completed a National School Lunch Act program application.**

The Provision 2 and CEP programs affect other areas of education as well. A student's meal status is linked to each individual student, and it can then be used to analyze trends among the student subgroup (e.g., free and reduced price lunch students) in test scores, course selection, access to experienced teachers, etc. **As more districts participate in these federal school lunch programs—particularly CEP—and more students are artificially labeled free lunch students, measuring other areas of education by students' FRL status becomes increasingly less precise.**

The following table shows how this plays out in five school districts that participate in the CEP program. Because they participate in this program, all or virtually all of the districts' students are considered free lunch students when they take state assessments, such as the ACT Aspire. However, the FRL percentage used to calculate ESA funding—the percentage that's based on historical percentages—indicates the districts have between 59% and 70% of their students eligible for free or reduced-price lunch. Without income information on each individual student, both percentages are artificial to some extent.

| | Program | FRL % Among 2018 Test Takers | 2017-18 FRL Used for 2018-19 ESA Funding |
|------------------------|----------------|-------------------------------------|---|
| South Side (Van Buren) | CEP | 99.7% | 58.67% |
| Stuttgart | CEP | 100.0% | 64.22% |
| Hackett | CEP | 100.0% | 69.72% |
| Clinton | CEP | 99.9% | 70.00% |
| Cotter | CEP | 100.0% | 70.15% |

⁸ Some districts have a mix of individual schools participating and not participating in Provision 2 or CEP. In those cases, the participating schools are considered 100% FRL, while non-participating schools' FRL percentage is based on the results of traditional student applications.

⁹ Division of Elementary and Secondary Education, phone call with Cindy Hollowell, Sept. 1, 2017

This issue is important to consider when examining the impact of state funding and policies on the achievement of free and reduced price eligible students and closing the achievement gap. For example, examining the achievement of the FRL students in South Side (Van Buren) means analyzing the test scores of all students in the district, despite the fact that perhaps 41% of those students are from more affluent families.

This may affect perceptions of the academic performance of economically disadvantaged students as part of school accountability under the federal Every Student Succeeds Act (ESSA). ESSA requires states to identify schools with low performing subgroups of students, including the economically disadvantaged student subgroup.¹⁰ The U.S. Department of Education allows states to decide how they will identify low-income students in CEP schools, and the **Division of Elementary and Secondary Education has opted to consider all students in CEP schools as free lunch students for the purpose of accountability.**¹¹

The following table shows the impact on student test scores. Districts were placed into two groups: 1.) districts that did not participate in Provision 2 or CEP in 2016 but began participating in CEP in 2018 and 2.) districts that did not participate in Provision 2 or CEP at any time between 2016 and 2018. The group that never participated in CEP or Provision 2 had a slight decrease in the percentage of FRL students who took the ACT Aspire and the percentage of FRL students who scored “ready” or “exceeding” increased three percentage points. In the group of districts that began participating in CEP, students’ FRL status changed, causing the percentage of FRL students to increase from 75.3% of test takers considered low income in 2016 to nearly all—94.3%—considered low income in 2018, likely including some students who were not actually not low income. The test scores of students considered FRL in these districts increased by seven percentage points between 2016 and 2018, more than doubling the improvement of the districts that never participated in CEP or Provision 2.

| | Districts that were not P2 or CEP in 2015-16 but were in 2017-18 | | Districts that were never P2 or CEP | |
|--|--|--------------------------|-------------------------------------|-----------------------------|
| | 2015-16 No Participation | 2017-18 Participation | 2015-16 No Participation | 2017-18 No Participation |
| % FRL Among Test Takers | 75.3% | 94.3% | 58.2% | 56.9% |
| % FRL Scoring Ready or Exceeding | 27.5% | 34.6% | 37.0% | 40.3% |
| Percentage Point Change in % FRL Students Scoring Ready or Exceeding | | 7.1 | | 3.3 |
| % All Student Scoring Ready or Exceeding | 33.3% | 35.4% | 46.3% | 50.6% |
| Percentage Point Change in % All Students Scoring Ready or Exceeding | | 2.1 | | 4.3 |

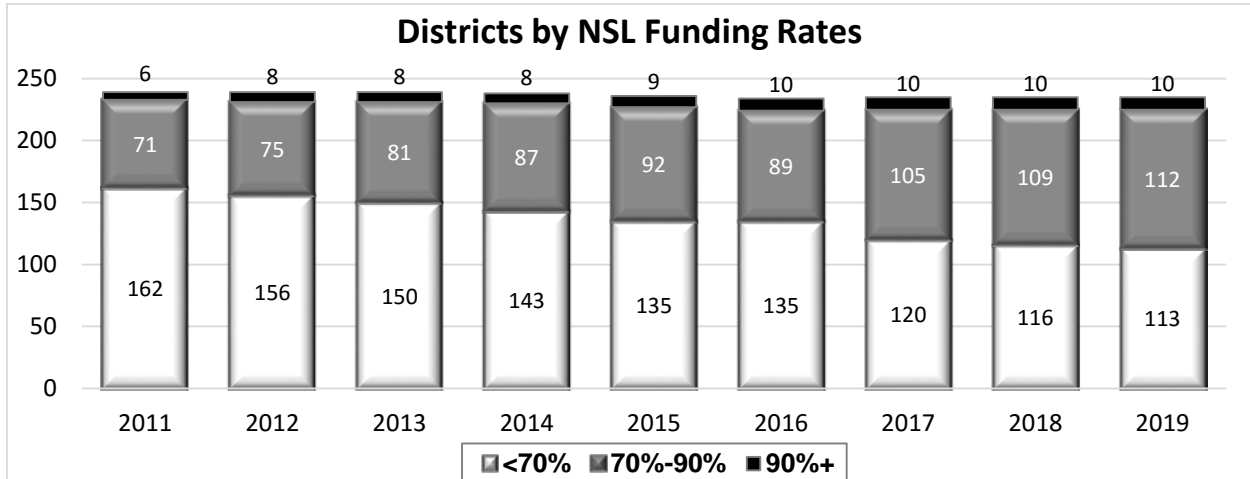
These larger gains call into question the significance of the improvement. Is it a true reflection of positive educational change among low-income students, or is the improvement simply a reflection of more affluent students and their higher test scores being counted in the low-income student group? These questions are important to keep in mind when assessing differences among districts and their FRL student outcomes. As more schools and districts participate in CEP, with all of their students being considered free lunch students, it becomes harder to tell if improved test scores among the economically disadvantaged students statewide and within CEP districts are due to real gains or if they are due to the addition of students who are not actually from low-income families.

¹⁰ U.S. Department of Education, Summary: Proposed Regulation on Accountability, State Plans, and Data Reporting under ESSA, May 17, 2016, <https://www2.ed.gov/policy/elsec/leg/essa/essaaccountabilitynprmsummary52016.pdf>

¹¹ Coffman, D., Division of Elementary and Secondary Education, August 21, 2017 email.

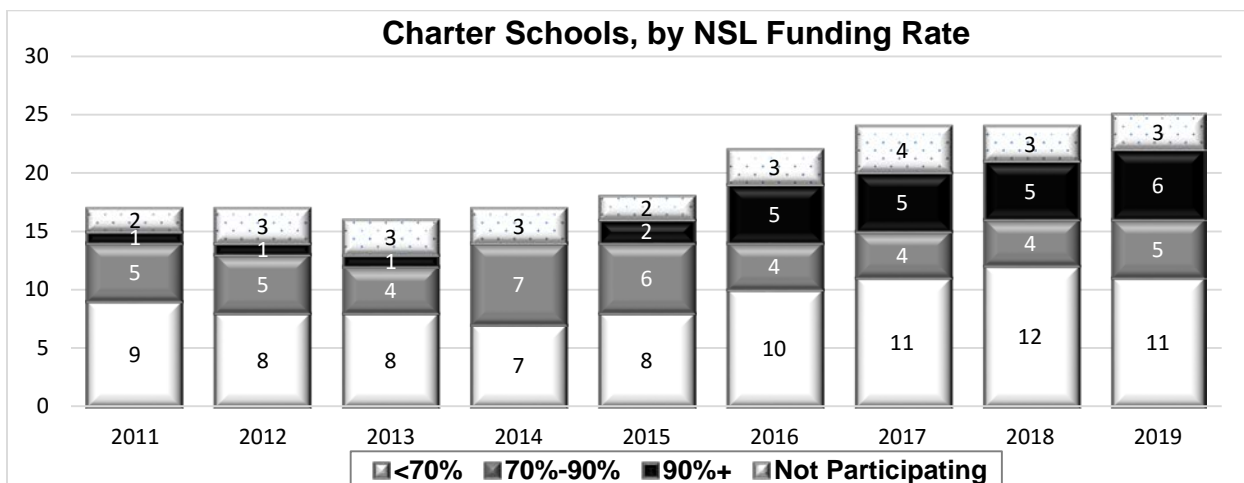
ESA Funding Trends

In 2018-19, about 48% of the districts fell into the lowest ESA funding rate (<70%), and 48% were in the middle rate (70%-<90%). Ten districts (4%) were in the highest funding rate (90%+). The number and percentage of districts in the lowest funding rate (lowest poverty) has decreased in recent years from 162 districts in 2011 (or 68% of all districts) to 113 districts in 2019 (48% of districts). A greater number of districts are qualifying for the middle and high funding rates, particularly in 2016-17, when the number of middle-level districts increased more than in any other year.



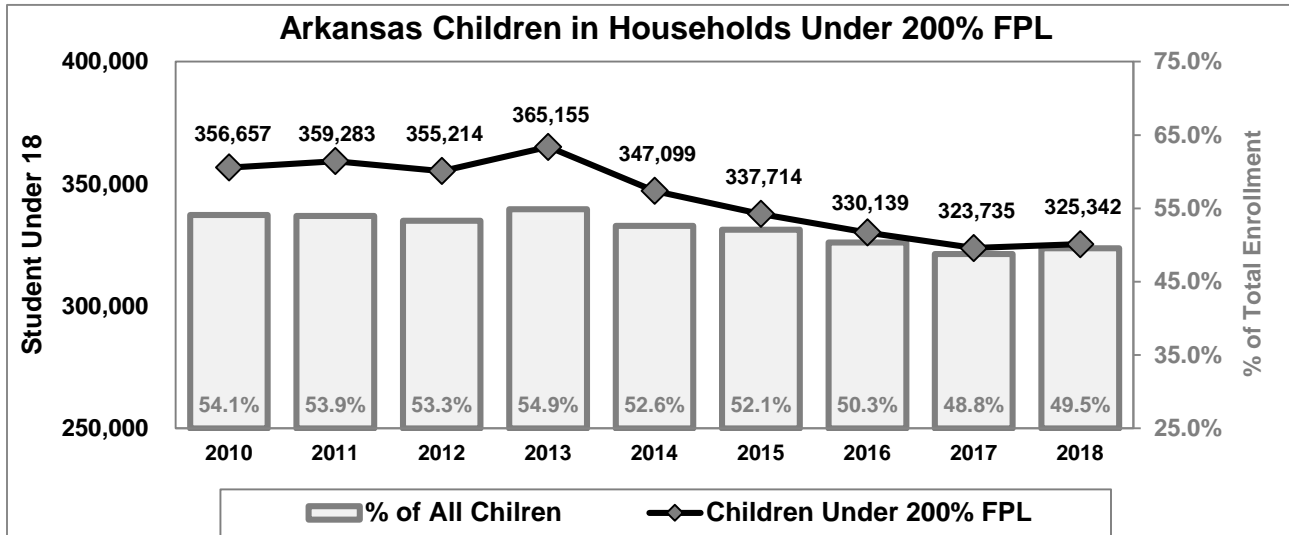
Data Source: Division of Elementary and Secondary Education, State Aid Notice. The data represent the funding rates that districts received each year based on prior year enrollment counts. For example, 2019 represents the enrollment data collected in Oct. 2017 of the 2017-18 school year and used to calculate ESA funding distribution for the 2018-19 school year.

ESA funding rates for open enrollment charter schools have followed a slightly different pattern. In 2018-19, 11 of the charter schools (44%) fell into the lowest ESA funding rate (<70%), while five (20%) were in the middle rate (70%-<90%) and six (24%) were in the highest funding rate (90%+). DESE rules call for charter schools to be eligible for ESA state categorical funds only if they participate in the National School Lunch Program—the federal meal program. Every year, some charter schools choose not to participate in the federal school lunch program (e.g., charter schools that operate as virtual schools) and therefore do not receive any state categorical funding.



Data Source: Division of Elementary and Secondary Education, State Aid Notice. The data represent the funding rates that charter schools received each year based on the relevant enrollment counts. Generally, 2019 represents the enrollment data collected in Oct. 2017 of the 2017-18 school year and used to calculate ESA funding distribution for the 2018-19 school year. For charter schools transitioning to a new ESA funding rate (i.e., 69% to 70%), the funding rate the charter was transitioning to is represented above.

Based on the increasing numbers of school districts and charter schools qualifying for higher funding levels, it would appear that student populations in school districts are consistently becoming poorer as more districts qualify each year as higher poverty districts. However, this trend doesn't seem to match similar measures of student income levels over time. The following chart shows the number and percentages of children in Arkansas under age 18 who live with their parents with a household income under 200% FPL. (For reference, free or reduced-price lunch eligibility, on which ESA funding is based, is 185% FPL or less.)



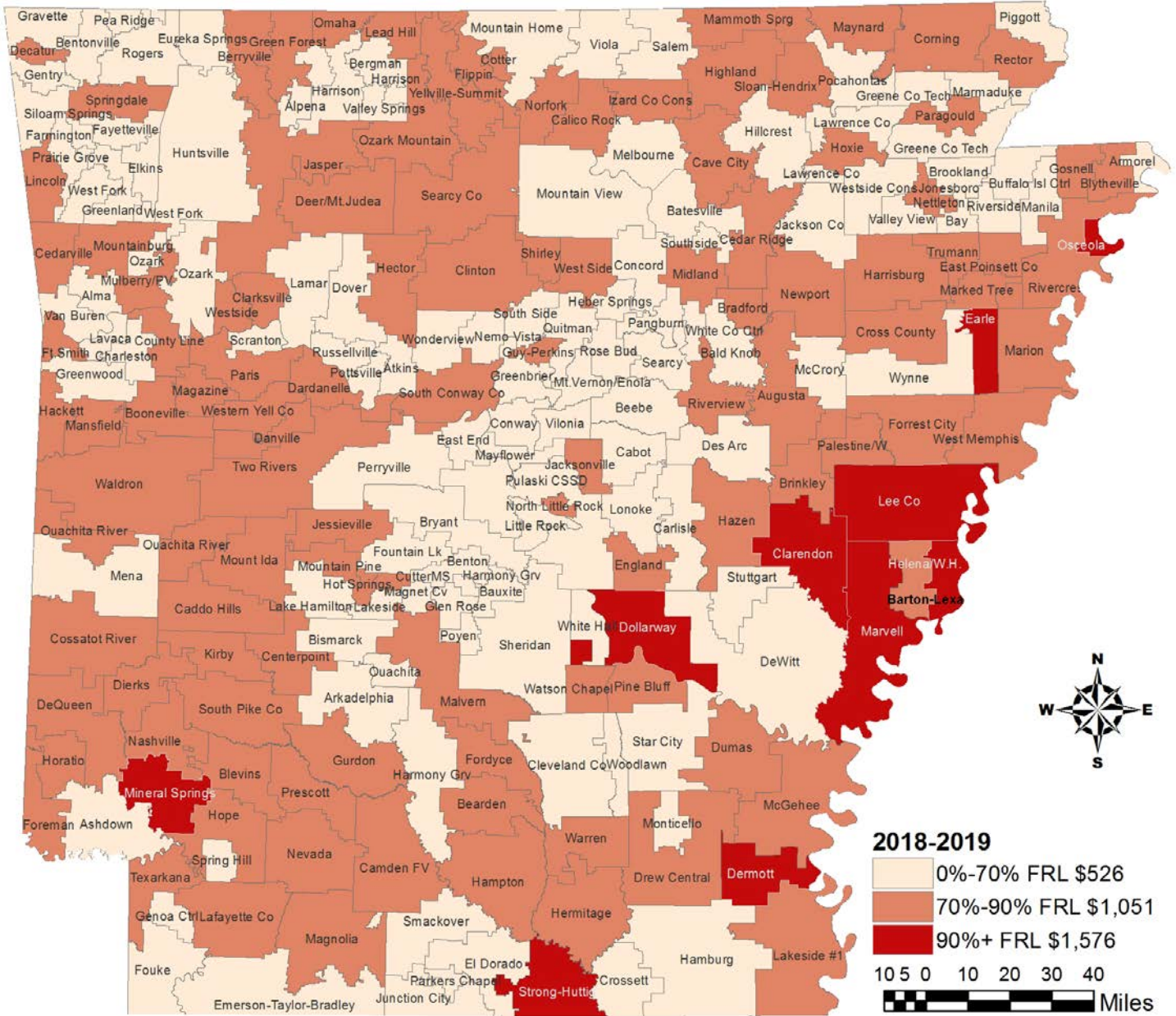
Data Source: U.S. Census, American Community Survey, Table B05010, 1-year estimates. Chart includes only children under age 18 who live in households with their parents. Census data for children under 200% of FPL that include children in other living arrangements were not available.

There are several reasons districts are increasingly qualifying for higher ESA funding rates—even at a time when the state’s overall poverty and unemployment rates have been decreasing. As mentioned earlier, the CEP and Provision 2 programs may still have an impact on the amount of state categorical funding districts and charter schools receive. Districts that have inched over the 70% or 90% FRL mark—the point at which they qualify for a higher funding rate—may use the CEP or Provision 2 program to **essentially lock in the higher rate**. This allows them to receive the higher ESA funding rate for at least four years even if their actual percentage drops below the 70% mark.¹²

Another reason districts may be increasingly qualifying for higher ESA funding rates is due to the fact that through the CEP program, all districts receive information about students who are directly certified for free or reduced-price lunch by virtue of the fact that their family participates in the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps). In this way, the CEP program may be **identifying free lunch eligible students who were previously missed** because they did not fill out a federal school lunch program application.

Geographically, the districts with the highest concentrations of FRL students are primarily located along the eastern edge of the state, as indicated by the following map. Districts with mid-level concentrations of poverty are scattered across the state. The districts in the population centers of the state tend to be low ESA funding rate districts.

¹² Division of Elementary and Secondary Education, phone call with Cindy Hollowell, Sept. 1, 2017



Map prepared by the Bureau of Legislative Research, Policy Analysis & Research Section
 School District and County Boundaries, from the GIS Office integrated the Arkansas Spatial Data Infrastructure (ASDI)

Other Types of ESA Funding and Funding Adjustments

In addition to the regular ESA funding, there are three other related state funding programs: ESA transitional adjustments, ESA growth funding, and ESA matching grants.

ESA Transitional Adjustments

Districts with FRL percentages that are close to the funding rate break points (for example, 69%-70% and 89%-90%) can easily shift between rates from one year to the next, resulting in significant gains or losses in funding. To ease the transition from one rate to another, Act 811 of 2007 created a provision that allows districts moving from a higher or lower funding rate to receive adjustments over a three-year period. This ensures that districts shift to a higher or lower rate gradually, rather than all at once.

| Shifting to a Higher Rate | | | | |
|---------------------------|---------|--------------------------------|--------------------------------|--------------------------------|
| From | To | Year One | Year Two | Year Three |
| 69% | 71% | $\$1,051 - (2 \times \$175) =$ | $\$1,051 - (1 \times \$175) =$ | $\$1,051 - (0 \times \$175) =$ |
| \$526 | \$1,051 | \$701 | \$876 | \$1,051 |

| Shifting to a Lower Rate | | | | |
|--------------------------|-------|------------------------------|------------------------------|------------------------------|
| From | To | Year One | Year Two | Year Three |
| 71% | 69% | $\$526 + (2 \times \$175) =$ | $\$526 + (1 \times \$175) =$ | $\$526 + (0 \times \$175) =$ |
| \$1,051 | \$526 | \$876 | \$701 | \$526 |

In 2018-19, 17 districts received a transitional adjustment. Of those, four (Hillcrest, Des Arc, Little Rock and White County Central) shifted to a lower rate (lower poverty, less funding), while 13 shifted to a higher rate (higher poverty, more funding). None of the open-enrollment charter schools received transitional adjustments in 2018-19. (These numbers do not include districts or charters in their third year of transition when the transitional adjustment is zero.)

| | Districts Transitioned to Higher Rate | Districts Transitioned to Lower Rate | Districts Stayed at Same Rate | Total Districts |
|---------|---------------------------------------|--------------------------------------|-------------------------------|-----------------|
| 2012-13 | 18 | 3 | 218 | 239 |
| 2013-14 | 17 | 1 | 220 | 238 |
| 2014-15 | 21 | 1 | 214 | 236 |
| 2015-16 | 13 | 3 | 218 | 234 |
| 2016-17 | 21 | 2 | 212 | 235 |
| 2017-18 | 19 | 1 | 215 | 235 |
| 2018-19 | 13 | 4 | 218 | 235 |

ESA Growth Funding

Because ESA funding is based on the prior year's enrollment data, growing districts receive ESA funding for a smaller number of students than they are responsible for educating. To adjust for this issue, Act 2283 of 2005 created a provision that provides additional ESA funding for growing districts. (This funding is separate from and in addition to the regular student growth funding districts/charters receive, which is another appropriation in the Public School Fund.) Districts that have grown at least one percent in enrollment (total enrollment, not free and reduced price lunch students) each of the last three years qualify for ESA growth funding.

For those districts that qualify for funding, the amount of ESA growth funding provided is calculated by multiplying the three-year average growth in a district's enrollment by its previous year's FRL percentage. That amount is then multiplied by the district's per-student ESA funding rate. An example of the ESA growth calculation is provided below.

| EXAMPLE CALCULATION | | | | | |
|---------------------|------------|------------|---------------------|------------------------------------|-------|
| Year | Enrollment | % Increase | Enrollment Increase | 3-Year Average Enrollment Increase | FRL % |
| 2013-14 | 1,000 | | | 12 | |
| 2014-15 | 1,010 | 1% | 10 | | |
| 2015-16 | 1,025 | 1.49% | 15 | | |
| 2016-17 | 1,036 | 1.07% | 11 | | 75% |

| | | | | | | | |
|--|---|-----|--------------|---------|-------------------------|---------|-------------------------------------|
| 3-Year Average Increase in Enrollment | | | FRL % | | ESA Funding Rate | | 2018-19 Total Growth Funding |
| 12 | X | 75% | X | \$1,051 | = | \$9,459 | |

A total of \$314,835 in ESA growth funding was provided to 14 districts and two charter schools in 2018-19.

| | Districts and Charters Receiving ESA Growth Funding | | Total ESA Growth Funding | | |
|---------|---|----------|--------------------------|-----------|-------------|
| | Districts | Charters | Districts | Charters | Total |
| 2012-13 | 11 | 4 | \$512,943 | \$58,367 | \$571,310 |
| 2013-14 | 14 | 5 | \$722,463 | \$312,276 | \$1,034,739 |
| 2014-15 | 15 | 3 | \$707,259 | \$277,081 | \$984,340 |
| 2015-16 | 17 | 2 | \$752,204 | \$247,811 | \$1,000,015 |
| 2016-17 | 8 | 4 | \$140,414 | \$216,592 | \$357,006 |
| 2017-18 | 11 | 2 | \$203,407 | \$76,453 | \$279,860 |
| 2018-19 | 14 | 2 | \$246,549 | \$68,286 | \$314,835 |

ESA Matching Grant

In FY18, the General Assembly began providing a new type of ESA funding, ESA Matching Grants. Instead of increasing the per-student funding rate, the General Assembly provided \$4.3 million in matching grants to districts that, in the previous year, spent their ESA funding on three types of programs: **tutoring services, pre-K programs and before- and after-school programs**. The General Assembly provided \$4.3 million for FY18 and for FY19 and authorized up to \$5.3 million for FY20. The 2018 Final Adequacy Report recommended providing another \$5.3 million in FY21, which will be determined in the 2020 Fiscal Session.

DESE distributes the funding each year according to expenditures of ESA funding in the prior year, with matching grants provided to districts according to their expenditures in the three programs. If the prior year's total expenditures in the three programs exceed the amount of matching funds available, the funding is distributed to districts on a pro rata basis. In all three years the matching grants have been provided, the funding has been distributed on a pro rata basis, with a 29% match in FY18, 26% in FY19 and 33% in FY20. The first year of funding, FY18, was based on districts' expenditures in the 2016-17 school year, before districts knew their expenditures for the three programs would be matched. More than 150 districts and charters received matching grant funds that year. The next year, when districts knew the expenditures would be matched, 166 districts and charters qualified for matching grant funds. That number grew to 191 in FY20.

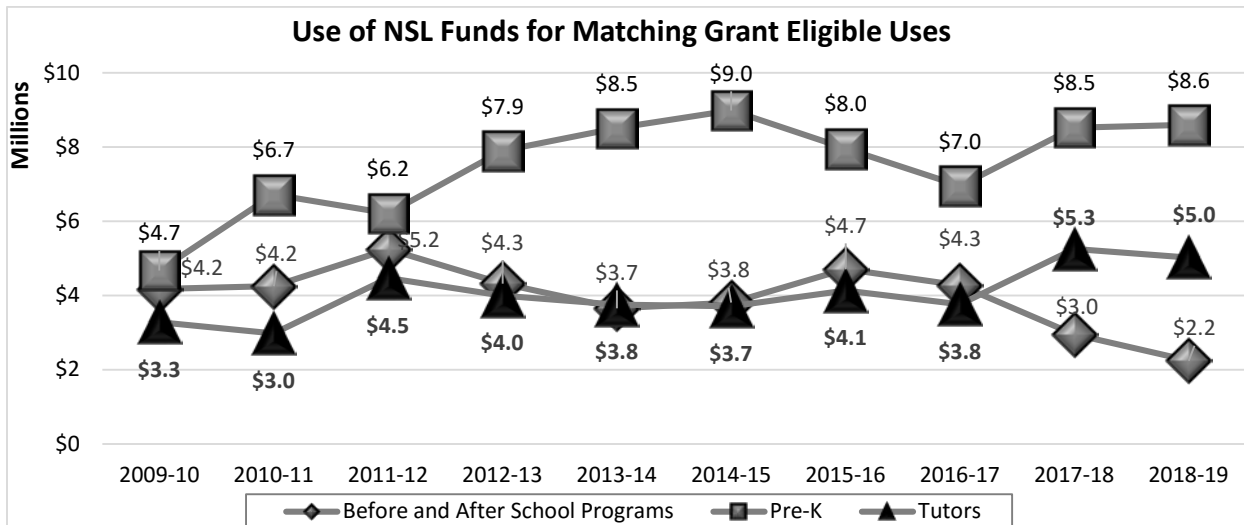
| FY18 | FY19 | FY20 |
|----------------------------|----------------------------|----------------------------|
| 158 districts and charters | 166 districts and charters | 191 districts and charters |

The following table shows the total matching grant funding provided to districts and charters based on their prior year expenditures in each of the three allowable areas.

| | FY18 Funding Based on 2016-17 Expenditures | FY19 Funding Based on 2017-18 Expenditures | FY20 Funding* Based on 2018-19 Expenditures |
|---|---|---|--|
| Before and After School Academic Programs | \$1,225,403 | \$758,903 | \$749,404 |
| Pre-K | \$1,995,921 | \$2,191,256 | \$2,872,308 |
| Tutoring | \$1,078,676 | \$1,349,841 | \$1,678,288 |
| Total ESA Matching Grant Funding | \$4,300,000 | \$4,300,000 | \$5,300,000 |

*FY20 Funding is preliminary.

The following chart shows districts' and charter schools' total ESA spending on the three programs since 2009-10. After the matching grant program was established during the 2017 legislative session, spending on two of the three programs—pre-K and tutoring—increased. The matching grant appears to have **effectively incentivized spending of ESA dollars on pre-K and tutoring, while total ESA spending on before- and after-school programs decreased**. The majority of the decrease in before- and after-school ESA spending between 2016-17 and 2017-18 was due to one charter school with about \$1.7 million of ESA expenditures coded as before- and after-school expenditures in 2016-17 and only about \$540,000 the next year. The change was due to a miscoding in 2016-17, which led to inflated before- and after-school program spending numbers by nearly \$1 million (and resulted in the charter school receiving an inflated portion of the ESA match dollars).¹³ Another district that decreased its ESA spending for before- and after-school programs indicated the district's elementary schools have shifted away from before- and after-school programs, where student attendance had been a problem, toward summer school programs.¹⁴ Still another district said it shifted its spending on before- and after-school program to providing dyslexia intervention services during the school day.¹⁵



¹³ Hallman, C., KIPP Delta Charter School, Oct. 24, 2019, phone call. Ms. Hallman indicated the expenditures were coded correctly with one type of expenditure code (function code), but an incorrect program code. ESA matching grant funding is awarded based on districts' program codes.

¹⁴ Walters, K., Bryant School District, Oct. 24, 2019, email.

¹⁵ Brubaker, D., Fort Smith School District, Oct. 28, 2019, email.

The following table lists the districts receiving the most matching grant funding in 2018-19 and 2019-20, the most recent years of the grant funding.

| District | 2018-19 Matching Grant Amount | District | 2019-20 Matching Grant Amount |
|---------------------------|-------------------------------|-------------|-------------------------------|
| Little Rock | \$1,062,493 | Little Rock | \$684,406 |
| Jonesboro | \$263,595 | Jonesboro | \$438,658 |
| Springdale | \$240,169 | Springdale | \$338,953 |
| Pine Bluff | \$150,784 | Pine Bluff | \$204,494 |
| KIPP Delta Charter School | \$138,833 | Harrison | \$160,021 |

ESA MATCHING GRANT EXPENDITURES

Districts receive ESA matching grants based on their expenditures of regular ESA funding on tutors, pre-K and before- and after-school programs, but DESE also restricts the use of the grant funding itself to those same three programs.¹⁶ The table below provides information on how the districts that received matching grant funding spent those dollars.

| | 2017-18 | 2018-19 |
|---|--------------------|--------------------|
| Total ESA Match Funding Districts Received | \$4,300,000 | \$4,300,000 |
| Before and After School Academic Programs | \$497,409 | \$514,100 |
| Pre-K | \$1,099,637 | \$1,254,041 |
| Tutoring | \$470,939 | \$1,391,883 |
| Other* | \$3,517 | |
| Total ESA Match Funding Districts Spent | \$2,071,502 | \$3,160,024 |

*Although districts and charters are required to spend ESA Match funding on one of the three allowable programs, one district coded—or miscoded—a small amount of expenditures to a different type of program.

Total ESA Funding

When all types of ESA funding are added together, the ESA funding that districts and charter schools received in 2018-19 totaled more than \$233 million.

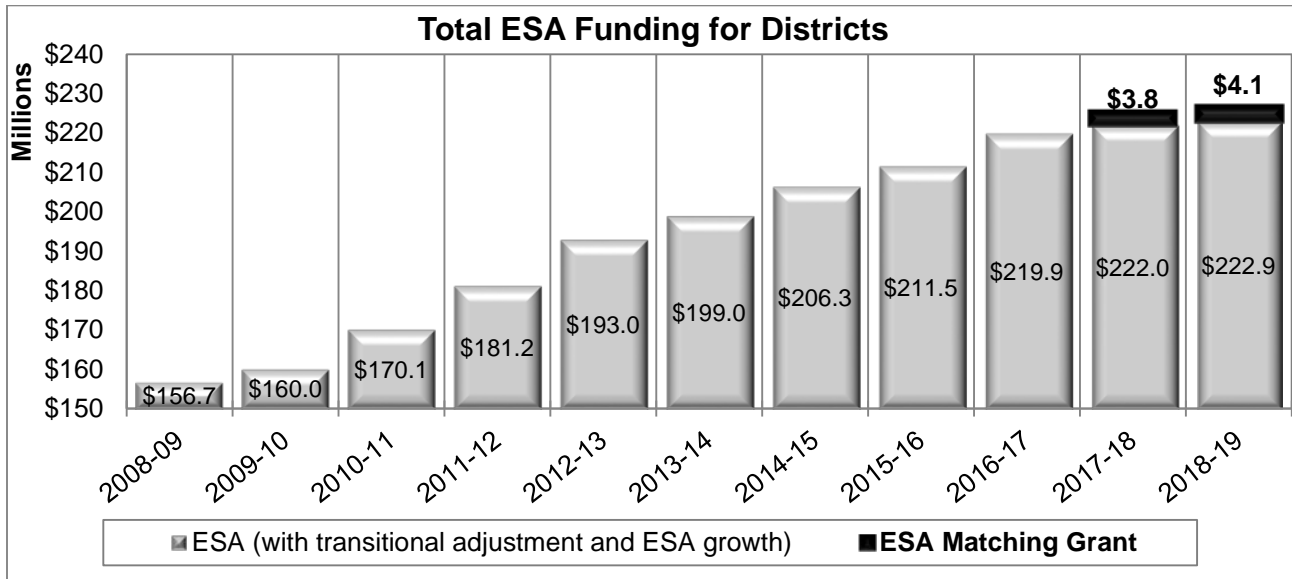
| | 2017-18 | | | 2018-19 | | |
|---|----------------------|--------------------|----------------------|----------------------|--------------------|----------------------|
| | Districts | Charters | Total | Districts | Charters | Total |
| ESA funding (with ESA Transitional Adjustments) | \$221,759,412 | \$5,677,460 | \$227,436,872 | \$222,626,870 | \$6,488,243 | \$229,115,113 |
| ESA Growth | \$203,407 | \$76,453 | \$279,860 | \$246,549 | \$68,286 | \$314,835 |
| ESA Matching Grant | \$3,781,242 | \$518,758 | \$4,300,000 | \$4,146,227 | \$153,773 | \$4,300,000 |
| Total | \$225,744,061 | \$6,272,671 | \$232,016,732 | \$227,019,646 | \$6,710,302 | \$233,729,948 |

Note: The funding above does not include ESA funding withheld from districts under Act 1220 of 2011.

The following chart shows the growth in the amount of ESA funding (including transitional adjustments, ESA growth and ESA matching funds) provided to districts from 2009 through 2019. Total ESA funding for districts **increased 42% between 2009 and 2019**. For comparison, the total amount of foundation funding provided to districts increased 17% for the same time period. Although ESA per-student funding rates increased in some years (a total of 6% from the 2009 rates), **the increase is largely the result of the increasing number of districts moving from a low ESA rate** (less than 70% FRL students for \$526 per FRL student) **to a higher ESA rate** (70%-89% FRL students for \$1,051 per FRL student). Still, year-over-year growth in total ESA funding for districts slowed in 2018-19. Between 2010 and 2013, total funding increased more than 6% each

¹⁶ DESE Commissioner's Memo, FIN-20-019

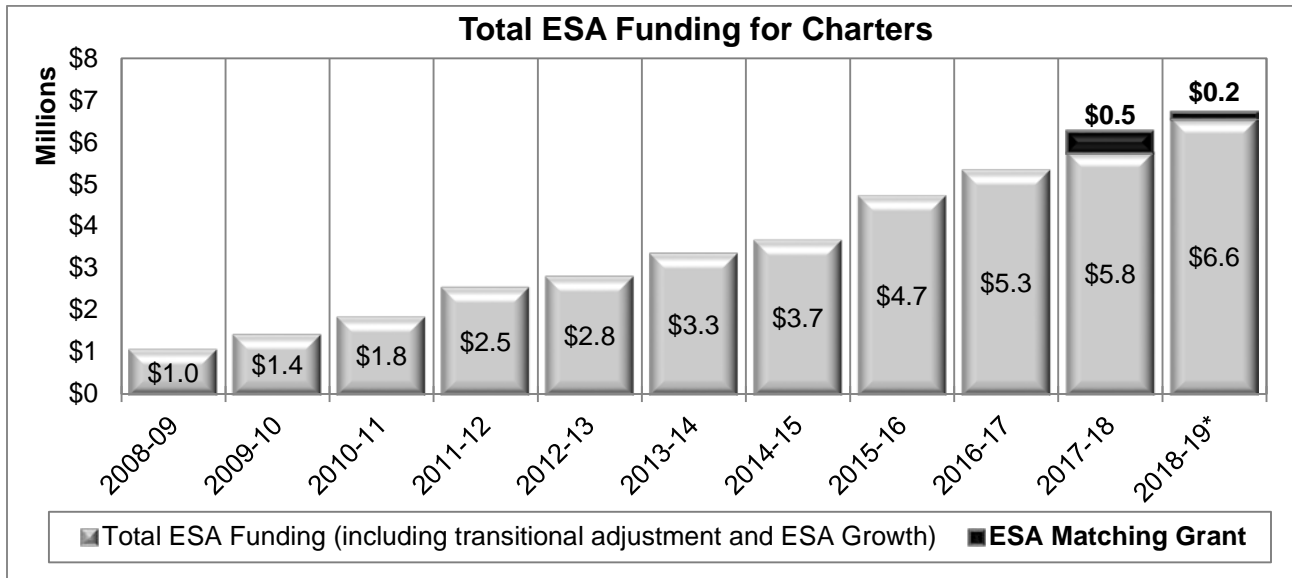
year. Between 2014 and 2018, total spending grew between 2.5% and 4% each year, but in 2019, total spending grew only about a half percent.



Data Source: Division of Elementary and Secondary Education, State Aid Notices.

Note: The amounts in the chart above do not include reductions resulting from excessive fund balances under Act 1220 of 2011.

Total ESA funding has increased substantially for open enrollment charter schools as well. In 2008-09, only 12 of the 17 charter schools operating at the time received ESA funding. The 12 schools received a total of a little over \$1 million. In 2018-19, 22 of the 25 open-enrollment charter schools in operation received ESA funding.¹⁷ These schools received a total of more than \$6.7 million, nearly six and a half times the funding provided to charter schools in 2009.



Data Source: Division of Elementary and Secondary Education: Annual Statistical Reports 2009-2016, and July 5, 2017 Preliminary State Aid Notice

Note: The amounts in the chart above do not include reductions resulting from excessive fund balances under Act 1220 of 2011.

¹⁷ These numbers count Friendship Aspire and Covenant Keepers charter schools as one charter school. Friendship Aspire-LR began managing Covenant Keepers when the State Board of Education revoked the latter's charter in the middle of the school year.

Poverty Funding In Other States

Like Arkansas, many states provide additional funding to school districts based on low-income student populations. However, the way the funding is distributed and the restrictions on its use varies by state. **Forty-two states and Washington D.C. provide additional funding to districts based on the number of or high concentrations of low-income students enrolled.**¹⁸ Twenty-two of those states and Washington D.C. provide additional funding through a multiplier applied to their base per-pupil funding. For example, a multiplier of 1.25 would result in districts receiving 100% of the base per-student funding amount, plus an additional 25% for each low-income student. So if a state's funding formula provides \$7,000 for each student, with a 1.25 multiplier for low-income students, districts in that state would receive \$8,750 for each low-income student (\$7,000, plus an additional 25% of \$7,000). **The multipliers states use range from 1.0048 to 1.97, with the majority of states using multipliers between 1.1 and 1.4.** For reference, if Arkansas's 2019-20 ESA funding rates were expressed as multipliers, they would be about 1.08 (\$526), 1.15 (\$1,051), and 1.23 (\$1,576). Another seven states, including Arkansas, provide the funding for low-income students through a flat per-student amount, ranging from \$863 per low-income student in one state to \$1,800 in another state. Like Arkansas, **23 states provide increased funding to districts as their concentrations of poverty increase.**¹⁹

States also vary in the type of student on which they base the additional funding. Including Arkansas, **32 states use students' National School Lunch eligibility** as the basis or part of the basis for distributing their poverty funding. However, six states fund districts based on their free lunch students only, not their reduced price lunch students, while others use FRL eligibility in conjunction with other criteria. For example, New Mexico uses a measure that considers a district's federal Title I students (see the next section for information about Title I funding), their English language learners and a measure of student mobility (students moving in or out of a district). **Other states include students with unsatisfactory academic performance, students who are in foster care or are homeless, or students who are eligible for other government programs,** such as Supplemental Nutrition Assistance Program, Medicaid or Temporary Assistance for Needy Families. Some states use income estimates provided by the U.S. Census.

It appears that only a handful of states restrict the use of the poverty funding they provide districts. However, the sources that track information on state education funding formulas may not comprehensively capture whether the states limit the use of poverty funding or not. For example, one resource for information about education funding formulas, EdBuild, does not mention that ESA funding in Arkansas is considered restricted.

ESA Allowable Uses and Expenditures

Unlike the per-pupil foundation funds, ESA funding is considered restricted, meaning districts and charters can spend ESA dollars only for certain activities. Arkansas Code § 6-20-2305(b)(4)(C) requires the State Board of Education to establish by rule a list of approved uses of ESA funds, but the statute provides a list of allowable uses that must be included in the State Board's list. The uses on which districts were allowed to spend their ESA funding through the 2018-19 school year are listed in the table starting on page 16.

Additionally, DESE rules specify that ESA funds may not be used to "meet or satisfy the Arkansas Standards for Accreditation of Arkansas Public Schools and School Districts."²⁰ The Accreditation Standards specify basic requirements with which districts and schools must comply—such as maximum class sizes, courses schools are required to teach and credits students must earn to graduate from high school—to remain accredited by the state. The ESA restriction means, for

¹⁸ EdBuild, <http://funded.edbuild.org/reports/issue/poverty/in-depth>; Education Commission of the States, <https://c0arw235.caspio.com/dp/b7f93000802671b651f94ed487ad>, August 2019; West Virginia Code, 18-9A-21; Delaware Governor's office, <https://news.delaware.gov/2019/01/15/opportunity-funding/>

¹⁹ EdBuild, <http://funded.edbuild.org/reports/issue/concentrated-poverty/in-depth>

²⁰ Division of Elementary and Secondary Education, Rules Governing the Distribution of Student Special Needs Funding and the Determination of Allowable Expenditures of Those Funds, May 2016, 6.06

example, a district cannot use ESA funding to hire a guidance counselor to meet the accreditation requirement of one counselor for every 450 students, but the district could use ESA funds to pay for an additional counselor or part of an additional counselor above that level. Additionally, DESE rules prohibit the use of ESA funding to meet the minimum teacher salaries required by law.²¹

DESE rules also specify that ESA funding must be used for programs and purposes that are “research-based and aligned to the Arkansas Content Standards for improving instruction and increasing achievement of students at risk of not meeting challenging academic standards.”²²

The following chart lists the allowable uses specified in statute and the year in which the allowable use was adopted by the Legislature. It also lists the allowable uses spelled out in DESE’s Rules Governing the Distribution of Student Special Needs Funding.

Each allowable use that does not have a year in the first column (“Year Added to Statute”) was added by rule only, not statute. The far right column, “% of ESA Exp.,” shows the percentage of all ESA expenditures statewide spent on each allowable use during the 2018-19 school year, according to the expenditure codes districts applied. This analysis relies on the program codes districts assigned to each of their ESA expenditures in the Arkansas Public School Computer Network (APSCN). **The program codes are one set of codes districts use to classify expenditures, and they are the codes that most closely align with the list of allowable uses for ESA funding. However, the codes and their definitions do not perfectly align with the allowable uses.** Some allowable uses do not have an assigned program code (for example, school resources officers), and, in some cases, the codes and their descriptions have not kept up with changes made to the statutorily allowable uses.

The funding uses recommended by the state’s original education consultants—tutors and pupil support services—are shaded in the table below. The consultants also recommended before- and after-school programs and summer school if tutoring was insufficient, and those are also shaded in the table. See page 2 for more information about the consultants’ recommendations.)

Collectively, **districts spent the highest amount of ESA dollars on, activities not specifically allowed by law or rule but approved by DESE, curriculum specialists/instructional facilitators and transferring their ESA funds to other categorical programs** (professional development, alternative learning environments, and English language learners) where they can be spent on those purposes.

| Year Added to Statute | Arkansas Code | DESE Rules | % of ESA Exp. in 2018-19 |
|-----------------------|---|---|--------------------------|
| 2003 amend 2005 | Classroom teachers, provided the district meets the minimum salary schedule without using ESA funds | Highly qualified classroom teachers in K-12 to reduce the pupil-to-teacher ratio below those required by the Accreditation Standards | 4.6% |
| 2003 | Curriculum specialists | Curriculum specialists and instructional facilitators or literacy, mathematics, or science specialists/coaches that meet specified requirements. The rules also allow ESA expenditures for data coaches and school improvement specialists. | 16.6% |
| 2003 | Before- and after-school academic programs, including transportation | Research-based before- and after-school academic programs, including transportation | 1.0% |

²¹ Division of Elementary and Secondary Education, Rules Governing the Distribution of Student Special Needs Funding and the Determination of Allowable Expenditures of Those Funds, May 2016, 6.06

²² Division of Elementary and Secondary Education, Rules Governing the Distribution of Student Special Needs Funding and the Determination of Allowable Expenditures of Those Funds, May 2016, 6.07

| Year Added to Statute | Arkansas Code | DESE Rules | % of ESA Exp. in 2018-19 |
|-----------------------|---|---|--------------------------|
| 2003 | Pre-kindergarten programs coordinated by the Department of Human Services | Research-based pre-kindergarten programs that meet the program standards as outlined in the Rules Governing the Arkansas Better Chance program. | 3.7% |
| 2003 | Tutors | Tutors | 2.2% |
| 2003 | Teachers' aides | Teacher's aides | 8.0% |
| 2003 | Counselors, social workers, and nurses | Licensed counselors and nurses above the mandates of the Standards for Accreditation; human service workers, licensed mental health counselors, licensed certified social workers or licensed social workers | 10.3% |
| 2003 | Parent education | Parent education that addresses the whole child | 0.5% |
| 2003 | Summer programs | Summer programs that implement research-based methods and strategies targeted at closing the achievement gap | 1.0% |
| 2003 | Early intervention programs | Early intervention programs | 8.0% |
| 2003 | Materials, supplies, and equipment, including technology, used in approved programs or for approved purposes | Materials, supplies, and equipment, including technology, used in approved instructional programs or for approved purposes | ** |
| 2007 | Supplement all classroom teacher salaries, after minimum teacher salary schedule is met | Bonuses or supplements to salaries above the minimum salary schedule | 1.5% |
| 2007, 2011 | Allow each student in grade 11 to take the ACT Assessment without charge to the student by using district funding (however, statute does not specify ESA funding); Operate and support a postsecondary preparatory program | Paying for students in grade 11 to take the ACT Assessment, pursuant to the Voluntary Universal ACT Assessment Program or operating a postsecondary preparatory program. | 0.04% |
| 2009 | In a chronically underperforming school's comprehensive school improvement plan, DESE shall direct the use of ESA funds for strategies to close gaps in academic achievement, including: <ul style="list-style-type: none"> • Using an Arkansas Scholastic Audit; • Using disaggregated school data to set academic improvement targets in reading, writing, mathematics, and science; • Using improvement targets to define professional development needs related to content, instruction, differentiation, and best practices in educating student subgroups; | A chronically underperforming school's school-level improvement plan shall provide for the use of national school lunch state categorical funding to fund without limitation the following: <ul style="list-style-type: none"> • Use of an Arkansas Scholastic Audit. • Use of disaggregated school data to set academic targets in reading, writing, mathematics, and science. • Use of improvement targets to define professional development needs related to content, instruction, differentiation, and best practices in educating student subgroups as identified in need. • Development of interim building-level assessments to monitor student progress toward proficiency on the state benchmark assessments. • Development of a plan to immediately address gaps in learning. | 9.0%*** |

| Year Added to Statute | Arkansas Code | DESE Rules | % of ESA Exp. in 2018-19 |
|-----------------------|---|--|--|
| | <ul style="list-style-type: none"> Developing interim building-level assessments to monitor student progress toward proficiency on the state benchmark assessments; Developing a plan to immediately address gaps in learning; Examining and realigning, as needed, school scheduling, academic support systems, and assignments of personnel; and Designing a plan for increasing parental knowledge and skill to support academic objectives; and | <ul style="list-style-type: none"> Examination and realignment, as needed, of school scheduling, academic support systems, and assignment of personnel to improve student achievement. Design of a plan for increasing parental knowledge and skill to support academic objectives. Evaluation of the impact of the before-mentioned educational strategies on student achievement. | |
| 2011 | Federal child nutrition program free meals under the Provision 2 program or free meals for reduced-price students | Expenses of federal child nutrition programs to the extent necessary to provide school meals without charge to all students under the Provision 2/CEP programs or students otherwise eligible for reduced-price meals | 1.1% |
| 2011 | Expenses directly related to a longer school day or school year | Expenses directly related to funding a longer school day or school year | 0% |
| 2011, amend 2015 | Partnering with higher education institutions and technical institutes to provide concurrent courses or technical education | Partnering with higher education institutions and technical institutes to provide concurrent courses or technical education | ** |
| 2011 | Teach For America professional development | Teach For America professional development | 0.01% |
| 2011 | The Arkansas Advanced Initiative for Math & Science | Implementing components of the Arkansas Advanced Initiative for Math and Science | 0.0003% |
| 2011 | College and career coaches. | College and career coaches, as defined by the Department of Career Education | .2% |
| 2011 ²³ | Transfers to other categorical funds | After having provided programs designed to meet the needs of students in the respective categorical funding areas, a school district may transfer and expend funds on any of the special needs categories allowed for by rule. | 12.9% (ALE 8.4%; ELL 2.3%; PD 2.0% ESA 0.2%) |
| 2013 | Program using arts-infused curriculum | | ** |
| NA | | Research-based professional development in literacy, mathematics, or science | 1.6% |
| NA | | School Resource Officers whose job duties include research-based methods and strategies tied to improving achievement of students at risk | ** ²⁴ |
| NA | | Experience-based field trips | ** |
| NA | | Coordinated school health coordinator | ** |

²³ Statutory language was added in 2011 (Act 1220 of 2011) that specifically permits districts to transfer funding between categorical funds. However, districts transferred funding between categorical funds prior to the statute's enactment.

²⁴ There is no *program* code districts can use to indicate that they've spent NSL funds on school resource officers (SROs). However, there is an expenditure code for SROs in a separate set of codes known as function codes. The function code for SROs indicates districts spent about \$6.6 million on SROs in 2018-19. The vast majority of these expenditures were coded with a program code designating it as an "other activity approved by DESE."

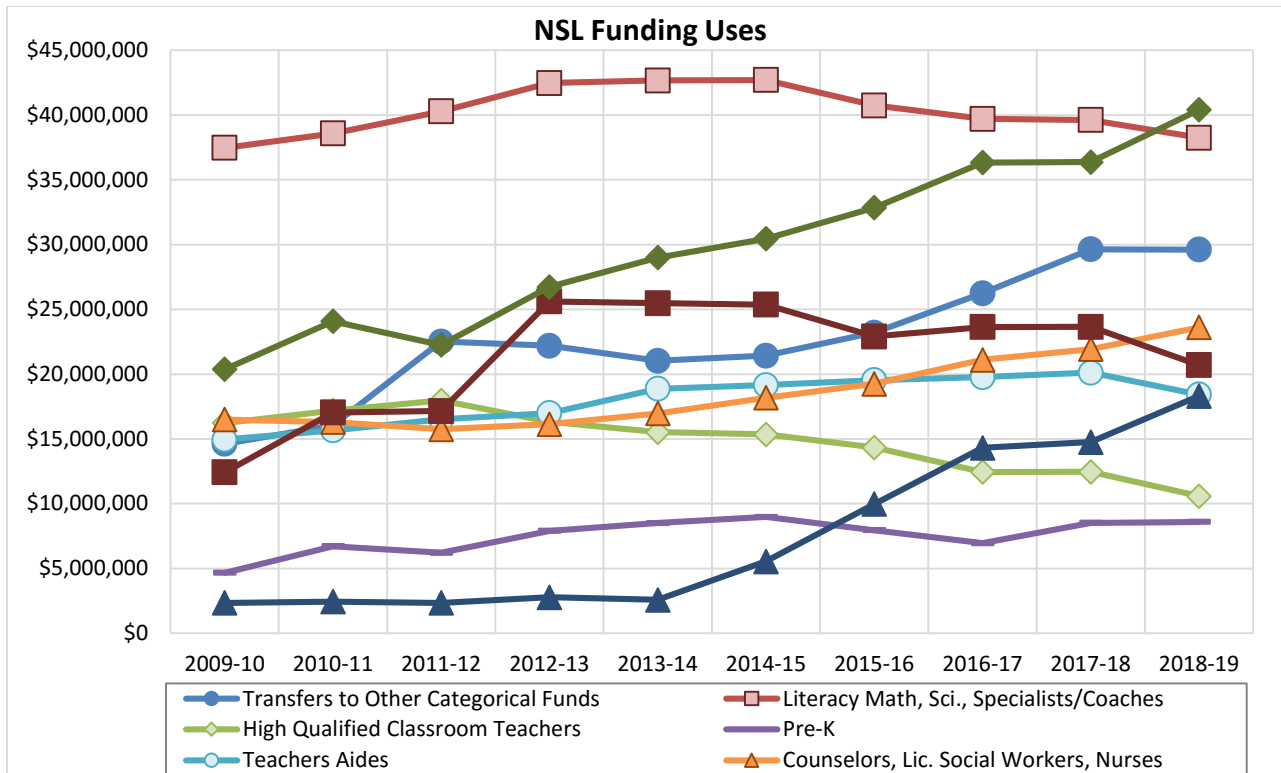
| Year Added to Statute | Arkansas Code | DESE Rules | % of ESA Exp. in 2018-19 |
|-----------------------|---------------|---|--------------------------|
| NA | | Developing and implementing interim building-level assessments to monitor student progress toward proficiency on state assessments. | ** |
| NA | | Other activities approved by the DESE. Such activities include, but are not limited to, research-based activities and activities directed at chronically underperforming schools. | 17.6% |

** These uses do not appear to have a specific expenditure code (program code) for districts to use to record these types of expenditures.

*** These expenditures include those coded as “Scholastic Audit” and “School Improvement Plan.”

In addition to the expenditures listed above, about 0.1% of districts’ collective expenditures were spent on “Remediation activities for college preparation,” according to the description of the expenditure codes in the Arkansas Financial Accounting Handbook. Remediation for high school students was an allowable use in statute until the law was amended by 2015 legislation. Act 994 of 2015 changed the allowable use to “Partnering with state-supported institutions of higher education and technical institutes to provide concurrent courses or technical education options for academic learning” to high school students. However, the expenditure codes districts use to classify their expenditures were not changed to match the new allowable use.

The following chart provides year-over-year trends in the nine allowable uses with the greatest amount of expenditures. The amount of ESA funds districts have spent on early interventions increased from about \$2.6 million in 2013-14 to about \$18.3 million in 2018-19. This increase may be due to guidance, made explicit in DESE rules, that allowed ESA funds to be used for interventions required for students identified with dyslexia.²⁵ Arkansas Code § 6-41-603(c)(2)(A) (originally enacted by Act 1294 of 2013) requires school districts to provide intervention services to any student who, following required screenings, “exhibits characteristics of dyslexia.” Of the \$18.3 million in ESA funding that districts spent on early intervention services, about 44% (\$8.1 million) was spent on dyslexia therapists or dyslexia specialists. Other allowable uses with large year over year expenditure increases were other activities approved by ADE and transfers to other categorical funds.



Note: The ESA expenditures above do not include the expenditures of ESA matching grants.

²⁵ DESE Commissioner’s Memo, LS-16-018, September 9, 2015

Uses Requiring Special Permission

Three of the allowable uses of ESA funding required districts and charter schools to obtain special permission from DESE before spending ESA funding for those purposes.

1.) **Hiring classroom teachers to reduce class sizes.** DESE rules specify that districts that want to use ESA funding to hire additional teachers to reduce class sizes must submit a written detailed plan explaining how they will use the money to pay for only specified teachers and how they will use those teachers in accordance with research-based programs targeting academic deficiencies or district needs.²⁶ A DESE official indicates that the department has not collected approval requests for this purpose in several years.²⁷ In 2018-19, 91 districts and charter schools used ESA funds for this purpose.

2.) **Providing bonuses to teachers (or supplementing a district's salary schedule).** DESE rules specify that districts that want to use ESA funding to pay bonuses to teachers must request permission from DESE and that no more than 20% of a district's current year ESA funding may be used for this purpose. (The latter requirement reflects state law, which has since been amended through Act 532 of 2019. Additional information about that legislation is provided below.) Districts are eligible to use ESA funding for bonuses only if they meet a variety of criteria, including that they are meeting the adequate educational needs of students, prudently managing their resources, and fully complying with the Standards for Accreditation.²⁸ In 2018-19, 17 districts were approved to use ESA funding to provide bonuses or to supplement teacher salaries or both.²⁹ However, APSCN data recorded by districts indicate eight other districts used ESA funding for this purpose, suggesting either that districts are paying for bonuses without obtaining the required permission or that they are miscoding their expenditures in APSCN.

3.) **Other activities not specified by law or rule as approved by DESE.**³⁰ Neither state law nor DESE rules specify a particular process districts are to follow to obtain DESE approval to use ESA funds for a purpose not included among the allowable uses. However, DESE does distribute a form districts can complete to request permission to use ESA funds for activities outside the designated list. Of the 195 school districts and charter schools that reported collectively spending more than \$40 million of their ESA funds for other DESE-approved activities, three submitted the DESE form. Some districts may have coded expenditures as an "other DESE-approved activity" if the purpose *is* specifically allowed by rule or law, but there is no program code in APSCN for this use. For example, districts are allowed to use ESA funds to pay for school resource officers, but there is no program code for this purpose. Using a different set of expenditure codes, it's clear that nearly \$6 million of the expenditures coded as "other DESE-approved activities" were spent on security resource officers.

Of the three districts that submitted DESE's approval request form, the districts sought permission to use the funding for:

- Classroom equipment and furniture for a new elementary school considered to be "in need of comprehensive support" under ESSA; and
- The fringe benefits associated with a state-funded teacher bonus program. Small high poverty districts are eligible for state-funded bonuses for all of their teachers through the High Priority District Incentive Bonus program, but the program does not fund the associated employer taxes and benefits.

²⁶ Division of Elementary and Secondary Education, Rules Governing the Distribution of Student Special Needs Funding and the Determination of Allowable Expenditures of Those Funds, May 2016, 6.06.3

²⁷ Smith, C., Division of Elementary and Secondary Education, April 24, 2019 email.

²⁸ Division of Elementary and Secondary Education, Rules Governing the Distribution of Student Special Needs Funding and the Determination of Allowable Expenditures of Those Funds, May 2016, 6.11

²⁹ Martin, P., Division of Elementary and Secondary Education, Sept. 15, 2017 email

³⁰ Division of Elementary and Secondary Education, Rules Governing the Distribution of Student Special Needs Funding and the Determination of Allowable Expenditures of Those Funds, May 2016, 6.07.32

2019 Legislative Changes to the Allowable Uses

Two acts during the 2019 legislative session made substantial changes to the allowable uses for ESA funding. First, Act 532 of 2019 amended the allowable uses listed in statute, with the most significant changes as follows:

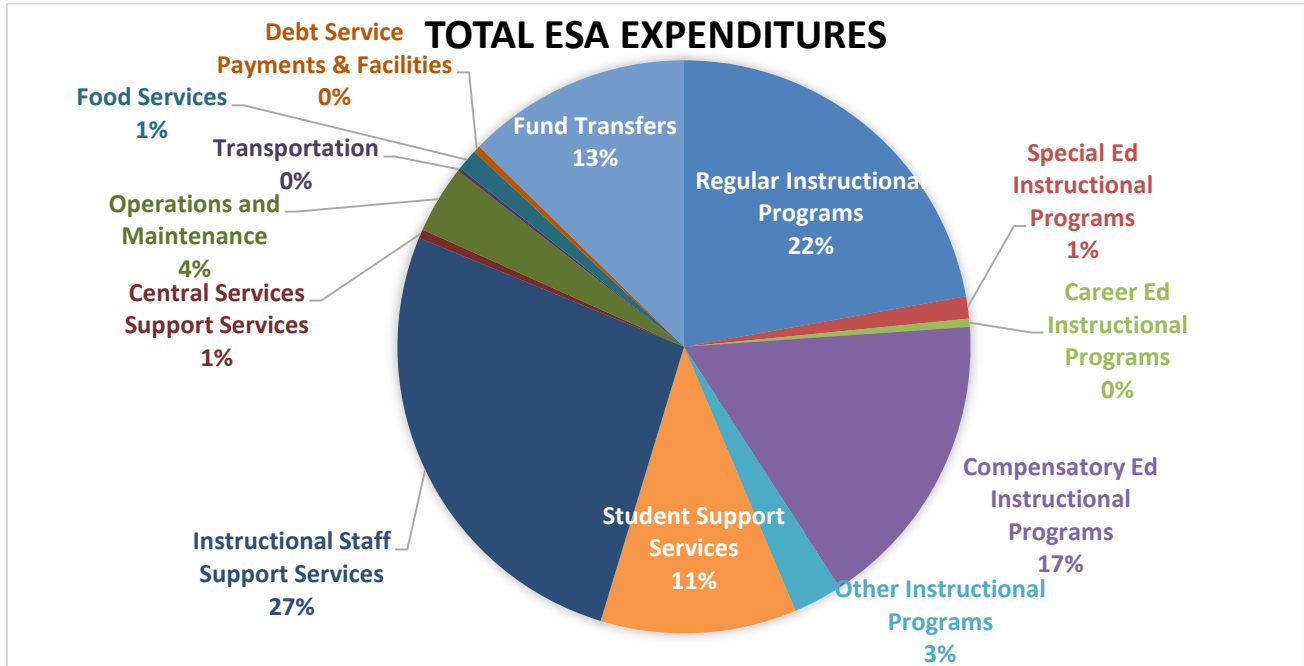
- Amended the allowable use dealing with the Teach for America (TFA) program. Previously districts could use ESA funding for TFA professional development, but Act 532 **broadened it to include any professional development** identified in districts' support plans. A support plan is a district-developed plan that specifies how the district will support its struggling schools, those identified under criteria established by the federal Every Student Succeeds Act. Districts in levels 2 through 5 support are required to submit district support plans to DESE.
- **Added dyslexia programs and interventions** as an allowable use in statute. In 2016, DESE specified these as allowable uses through its rules, but Act 532 added the allowable use in statute.
- **Deleted teacher bonuses (supplementing teacher salaries)** as an allowable use of ESA funds, but added, among the allowable uses, activities to recruit and retain effective teachers, including compensation strategies. Prior to Act 532, the statute allowed districts to pay bonuses using ESA funds, but it included a requirement that districts scale back ESA expenditures for teacher bonuses to no more than 20% of the ESA funds they received for the year. Act 532 eliminated that restriction. The new law allows districts to use ESA funds for teacher recruitment and retention by:
 1. Implementing approaches identified in their district support plan to address “a disproportionate rate of low-income students or minority students being taught by ineffective teachers, teachers who teach out of their licensure content area, or inexperienced teachers.” These approaches could include strategies for teacher reassignment or differentiated pay plans to address teacher shortage areas. The strategies also could include recruitment or retention strategies recommended by DESE, including models for effective use of teacher leaders, cultural responsiveness training, and equity audits. Equity audits assess the equitable distribution of teacher quality, funding, programs and student achievement in a district.³¹
 2. Implementing differentiated pay plans that increase teacher salaries based on a tiered system of licensure established by the State Board of Education. Act 294 of 2017 authorized the State Board of Education to establish rules for a tiered licensure system, and the State Board established the system its Rules Governing Educator Licensure. The licensure system allows teachers to apply for one of four designations for their teaching license to indicate increasing levels of education, experience and leadership qualities. Act 294 of 2017 allows districts to pay higher salaries to those teachers with higher designations.

The second act affecting the allowable uses of ESA funding was Act 1082 of 2019. Act 1082 calls for the **expiration of the “list of approved programs** established before the passage of this act by the state board” as of June 30, 2022. That means in the absence of further legislation in the 2021 legislative session, all of the allowable uses listed in statute and rules will be eliminated on that date, and ESA funding will be effectively unrestricted.

³¹ http://blogs.edweek.org/edweek/inside-school-research/2015/09/how_does_an_equity_audit_work.html

ESA Expenditures, By Where Purchases Are Made and What Is Purchased

ESA expenditures can also be examined using two other types of expenditure categories that help classify spending in terms of where the funding is being spent (e.g., instructional expenditures or the central office expenditures or operations and maintenance expenditures) or the type of resource that's being purchased (e.g., salaries, supplies or property). The following chart shows the areas of education where the funding is being spent.



Note: The expenditures above include expenditures of ESA funds (including ESA transitional and growth funds) and ESA matching funds.

The expenditure categories in the pie chart above are described below.

Instructional Programs: Expenditures associated with the cost of direct instruction, such as teachers and textbooks. Instructional expenditures can be broken down into the following categories:

- **Regular Instruction:** Regular instruction in elementary, middle and high school. Regular instruction also includes expenditures for pre-K.
- **Special Education:** Special education instruction includes instructional spending for students with disabilities. It does not include services such as speech, physical or occupational therapy, which are included in the Student Support Services category.
- **Career Education:** Instructional expenditures associated with providing career and technical education.
- **Compensatory Education:** Compensatory education is supplementary instruction to help remediate or provide additional instructional supports to struggling learners. Compensatory education includes tutoring, before- and after-school programs, dyslexia interventions, dropout prevention programs, and specialized supplementary reading and math programs. The largest ESA expenditures in this category were for **dyslexia interventionists and specialized reading and math services**.
- **Other Instructional Programs:** Other instructional programs not included in the categories above, such as gifted and talented, English as a second language, and alternative learning environments

Student Support Services: Student Support Services are designed to address the well-being of students beyond the classroom and include expenditures such as guidance counselors, school nurses, speech and occupational therapy, and psychological services. The largest ESA expenditures in this category were for **school nurses**.

Instructional Staff Support Services: Instructional staff support services provide support services to schools' instructional staff, including expenditures for instructional specialists/facilitators, professional development, the costs associated with school libraries, and instruction-related technology and the supervisors for programs including special education, pre-K and gifted and talented. The largest ESA expenditures in this category were for **instruction-related technology, instructional facilitators, and activities associated with the improvement of instruction**, such as curriculum development.

Central Services Support Services: Support services for the central office include expenditures associated with managing the district's central office.

Operations and Maintenance: Operations and maintenance expenditures include expenditures necessary to keep school buildings and grounds maintained and secured, including utilities, custodial staff and maintenance staff. The largest ESA expenditures in this category were for **security services and school resource officers**.

Transportation: This category covers the expenditures associated with school bus transportation, including bus drivers.

Food Services: Food services covers the costs of operating school meal programs.

Debt Service Payments and Facilities: Debt service payments are the regular payments districts make to pay off the debt associated with school construction or bus purchases. Facilities expenditures are those for construction, renovations or other improvements to school buildings or other district property.

Fund Transfers: Fund transfers include ESA funding transferred to other categorical funds to be used for a district's needs in the areas of English as a second language, professional development or alternative education.

ESA expenditures can also be viewed by more general expenditure categories describing what type of resources was purchased, such as whether it was used to pay for employees, contracted services (purchased services) or supplies and materials. The majority of ESA expenditures—about 63% —went toward employee salaries and benefits.

| Expenditure Category | % of Total ESA Expenditures |
|---|-----------------------------|
| Salaries and Benefits | 63.0% |
| Purchased Services | 10.7% |
| Supplies and Materials | 10.5% |
| Property | 1.6% |
| Other Uses (including transfers to other categorical funds) | 14.3% |

Note: The expenditures above include expenditures of ESA funds (including ESA transitional and growth funds) and ESA matching funds

Distribution of ESA Expenditures at the School-Level

In APSCN, districts can record the schools for which the ESA expenditures are being made or if the expenditures are being made for district-level expenses. This data can be useful in determining the extent to which districts are targeting ESA funds toward the highest poverty schools or distributing the funding more evenly across the districts. There is no requirement that districts distribute ESA funding to schools with higher levels of poverty.

According to 2017-18 ESA expenditures, districts and charter schools made the majority of their ESA spending (70.5%) at the school-level. They spent another 12.4% on needs at the district-level, and 4.2% on other areas. (Other areas can include expenditures for multiple schools or for needs that span a district, such as instructional support specialists or particular curricular programs.³²)

| Expenditure Location | Expenditures | % of Total 2018 Expenditures |
|--|---------------|------------------------------|
| District-level expenditures | \$28,547,045 | 12.4% |
| School-level expenditures | \$161,955,987 | 70.5% |
| Expenditures coded to another location | \$9,572,662 | 4.2% |
| ESA funding transferred to another categorical program | \$29,628,273 | 12.9% |

The following table shows how districts are distributing ESA funding to their individual schools. The table is divided by the ESA funding rate on which each district's ESA funding was based in 2017-18: \$526 for the districts with the lowest levels of poverty, \$1,051, for districts with the middle levels of poverty and \$1,576 for the highest poverty districts. The table then provides the average expenditure per FRL student of the schools in each district category. The schools are broken down by the percent of FRL students in each school. For example, among the districts that received ESA funding at the \$526 funding rate, there were 207 schools with student populations of less than 50% FRL students. On average, those districts spent \$484 per FRL student of their ESA funds on those schools.

On a per-student basis, districts in all of the ESA funding levels tend to spend more ESA funds on their lower poverty schools. One school district chief financial officer said the district's highest poverty schools receive federal Title I funding, so ESA funds are, to some extent, allocated to schools that do not receive those funds.³³ Additionally, the district offers pre-K to all students, regardless of income. The state Arkansas Better Chance (ABC) pays for pre-K slots for lower income students, and the district uses ESA funds to pay for pre-K students who don't qualify for ABC slots. This can result in higher ESA spending for schools with higher income pre-K students. Another school district superintendent said his district allocates ESA funds where resources for foundation funding is inadequate to cover district needs, such as for security, nursing, social work, dyslexia, and technology.³⁴

| School-level % FRL | 2017-18 Average School-level Expenditures Per FRL Student | | |
|--------------------|---|---|---|
| | Districts receiving \$526 per FRL Student | Districts Receiving \$1,051 per FRL Student | Districts Receiving \$1,576 per FRL Student |
| 0%-50% | \$484 | \$1,564 | |
| 50%-60% | \$365 | \$736 | |
| 60%-70% | \$362 | \$752 | |
| 70%-80% | \$315 | \$723 | |
| 80%-90% | \$264 | \$706 | \$1,238 |
| 90%-100% | \$310 | \$673 | \$1,023 |

Note: These data were calculated based on FRL student counts used to determine districts' ESA funding. The numbers also include pre-K students because districts are allowed to spend ESA funding on pre-K.

³² Bailey, K., Little Rock School District, Oct. 29, 2019 email.

³³ Bailey, K., Little Rock School District, Oct. 31, 2019 phone call.

³⁴ Brubaker, D., Fort Smith School District, Oct. 30, 2019 email.

Overall ESA Funding and Spending

In 2018-19, districts and charters received about \$233.7 million in ESA funding (including ESA transitional adjustments, ESA growth funding and ESA matching grants). Collectively they spent about \$233 million, including \$29.2 million that they transferred from ESA funds to other categorical funding programs.

| 2018-19 | | |
|--------------|----------------------|----------------------|
| | ESA Funding Received | ESA Expenditures |
| Districts | \$227,019,646 | \$226,339,064 |
| Charters | \$6,710,302 | \$6,684,757 |
| Total | \$233,729,948 | \$233,023,820 |

ESA Fund Balances

Because districts and charter schools are allowed to carry over unspent ESA funds from one year to the next, they frequently end the year with ESA fund balances. Collectively, districts and charter schools had \$19.45 million in ESA fund balances, or about \$68 per FRL student at the end of 2018-19 (based on FRL student figures used to calculate ESA funding for 2018-19). At the end of 2018-19, 218 districts had ESA fund balances (though 33 of those districts had relatively small fund balances under \$10,000). Sixteen of the 25 charter schools operating in 2018-19 had ESA fund balances, with eight of those carrying balances under \$10,000.

| | Total ESA Fund Balance | Districts | Charters |
|---------|------------------------|-----------|----------|
| 2014-15 | \$16.96 million | 220 | 10 |
| 2015-16 | \$18.47 million | 216 | 14 |
| 2016-17 | \$20.23 million | 211 | 16 |
| 2017-18 | \$19.05 million | 216 | 11 |
| 2018-19 | \$19.45 million | 218 | 16* |

*This number counts Covenant Keepers and Friendship Aspire-Little Rock as one charter. Friendship Aspire managed Covenant Keepers after the State Board of Education revoked the latter's charter in the middle of the school year.

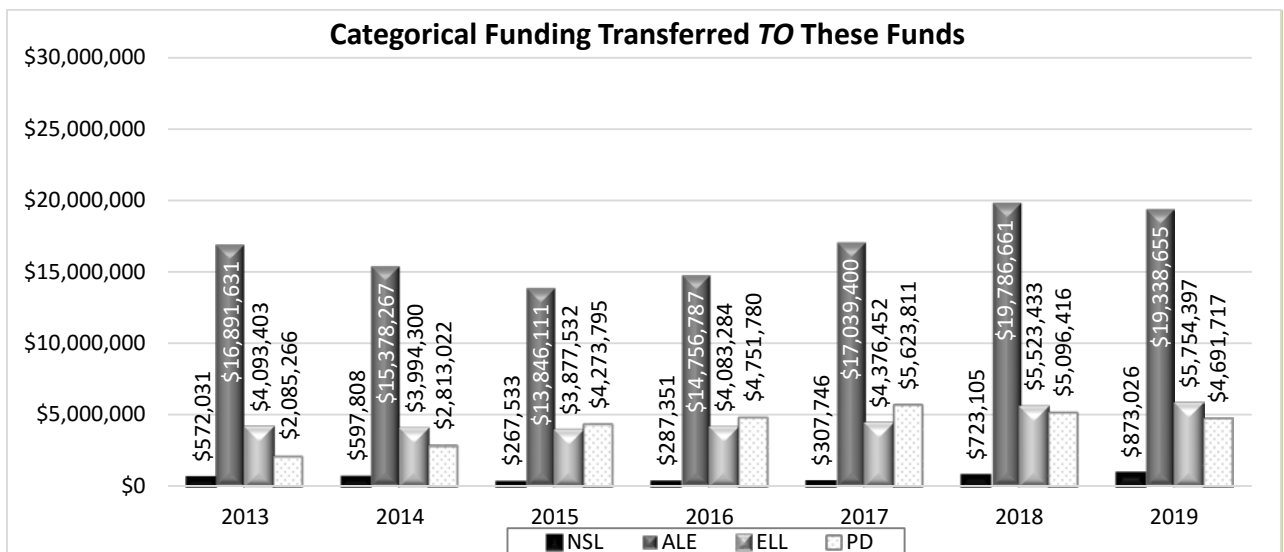
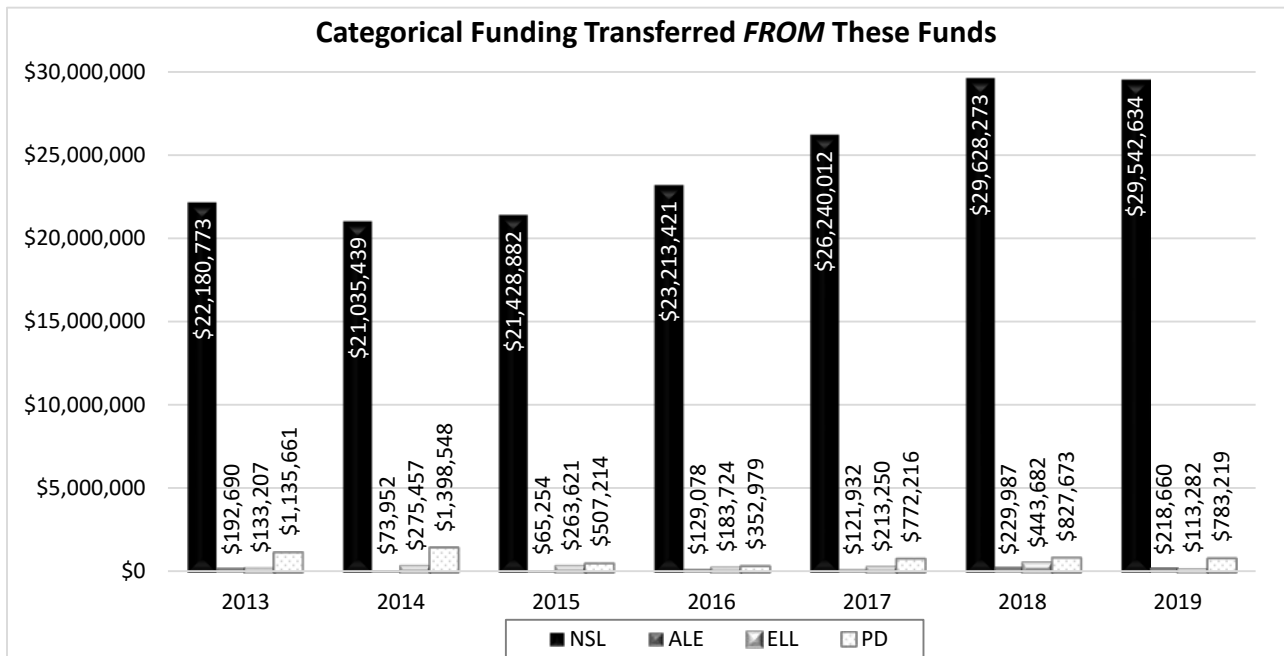
Although districts' total ESA fund balance has remained fairly level over the last few years, it has decreased since 2010-11 when it was as high as \$27.1 million. That reduction may be the result of legislation that requires districts to spend down excessive fund balances or risk losing some future ESA funding. Act 1220 of the 2011 Regular Session (A.C.A. § 6-20-2305(b)(4)(F)) requires districts to spend at least 85% of the total ESA allocation they receive each year. At the end of the year, a district or charter school with an ESA fund balance above 15% of its current year allocation can be penalized. The statute allows DESE to withhold a portion of the district's ESA funding equal to its overage in the following year. The legislation created a special provision for districts with excessive fund balances the first school year after the law took effect. It allowed districts and charter schools with excessive ESA fund balances at the end of the 2011-12 school year to incrementally spend down their balances over 10 years. No districts or charter schools had any ESA funding withheld in the 2018-19 school year.

The same legislation also limited the fund balances that districts could maintain for all four categorical funds collectively—ESA, professional development (PD), alternative learning environment (ALE) and English language learner funding (ELL). Section 4 of Act 1220 of 2011 (A.C.A. § 6-20-2305(e)(2-4)) requires districts and charter schools to spend at least 80% of the aggregate categorical funding they receive each year. At the end of the year, districts with aggregate categorical fund balances above 20% of their current year allocation are required to reduce their balance by at least 10% in the following year and each year thereafter until their balance is within 20% of the year's allocation. If a district fails to comply, DESE may withhold a portion of the district's ESA funding in the following year. The law also allows DESE to redistribute

to other districts any funding it withholds. No districts or charter schools had any ESA funding withheld in the 2018-19 school year.

To some extent districts and charter schools manage these limits by transferring funding between the categorical funds. Transferring categorical funds also allows districts to move funds to support areas where they have greater needs.

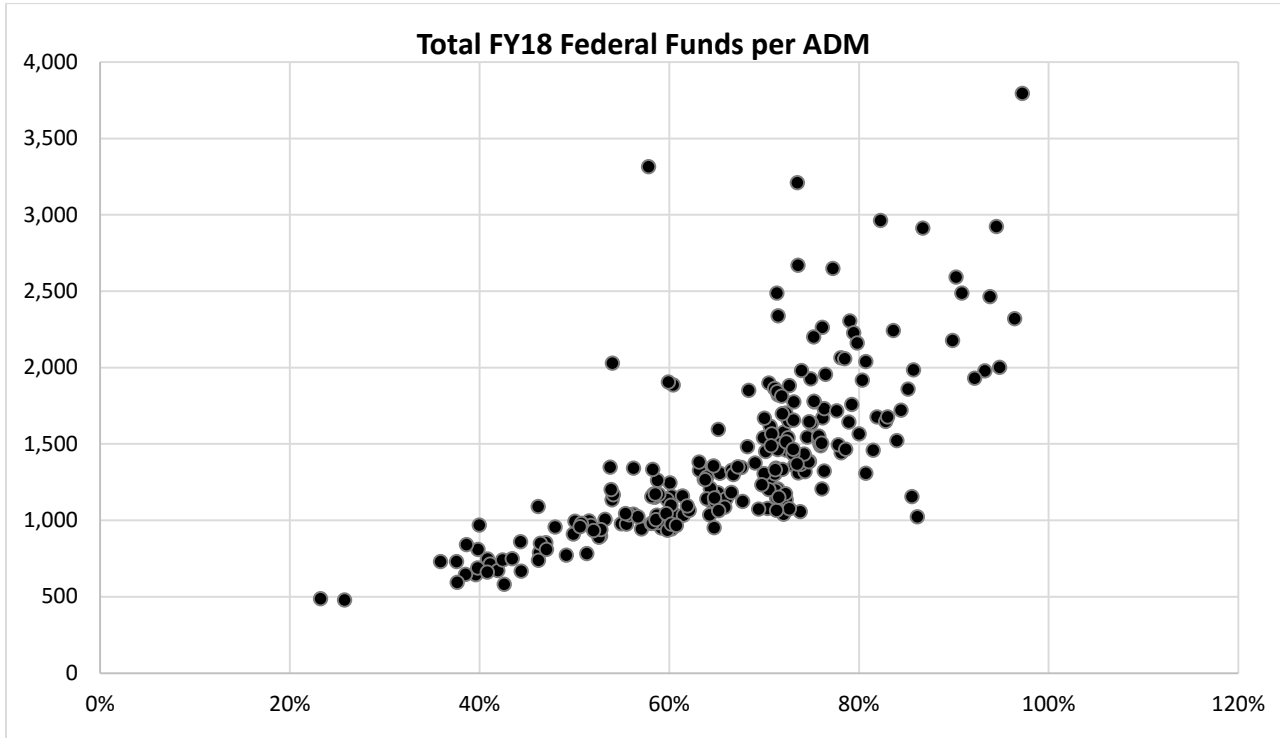
The patterns in transfers among the categorical funds is important in the context of adequacy because it may suggest areas where districts have lower costs than the amount of money they are receiving (where districts transfer funding FROM), or it could suggest areas where districts have greater needs than existing funding supports (where districts transfer funding TO). The charts below show that **districts and charter schools are primarily using ESA dollars to offset the additional expenses of ALE programs.**³⁵ ALE funding and services will be addressed in a report presented later in the 2020 adequacy study.



³⁵ The transfers described in this memo are based on the program codes districts applied to these expenditures and are subject to miscoding.

Federal Funding for Low-income Student Populations

In addition to state funding, districts and charter schools also receive federal funding. The following scatter plot shows each school district by its free or reduced-price lunch percentage and its total federal funding per average daily membership (ADM). ADM is a calculation that represents a district's total student count. The pattern demonstrates that **districts with higher poverty levels tend to receive more federal funding per student than lower poverty districts**. In this way, federal funding plays a significant role in supporting districts with higher concentrations of poverty.



Part of the reason higher poverty districts tend to receive more federal funding per student than lower poverty districts is due to one particular type of federal funds known as Title I funds. While there are several types of Title I funding, the basic component is Title I, Part A, which is allocated to districts based on their poverty levels. This funding is awarded to districts based, in part, on the number of families in poverty (family income is 100% or less of the federal poverty level [FPL]) or on Temporary Assistance for Needy Families (TANF), not the number of students who are eligible for free or reduced-price lunch (students whose family income is 185% or less of the FPL). Districts must target the money to their schools with the highest concentrations of poverty, and schools must spend Title I funding on services for students who are failing academically or who are at risk of not meeting state academic standards.³⁶ The funding is to enable districts to provide supplementary services and cannot supplant state and local funds.³⁷

According to the Title I expenditures districts reported in APSCN, all districts and all but two of the charter schools had Title I, Part A expenditures in 2018-19. Collectively districts and charter schools spent about \$155.4 million in Title I, Part A funds, or about \$546 per free or reduced-price lunch student.³⁸ The funding levels ranged from about \$24,500 (Imboden Charter School) to nearly \$9.3 million (Little Rock School District).

³⁶ U.S. Department of Education, Improving Basic Programs Operated by Local Educational Agencies (Title I, Part A). Retrieved at <http://www2.ed.gov/programs/titleiparta/index.html>.

³⁷ U.S. Department of Education, Fact Sheet: Supplement-not-Supplant under Title I of the Every Student Succeeds Act, <https://www.ed.gov/news/press-releases/fact-sheet-supplement-not-supplant-under-title-i-every-student-succeeds-act>

³⁸ This calculation uses 284,811 as the total number of free and reduced price lunch students in 2017-18.

Measuring Student Success

The academic success of students who are eligible for free or reduced-price lunch can be measured in a variety of ways. This report examines their performance on state assessments (ACT Aspire), national assessments (NAEP) and graduation rates.

State Assessments

STUDENT ACHIEVEMENT

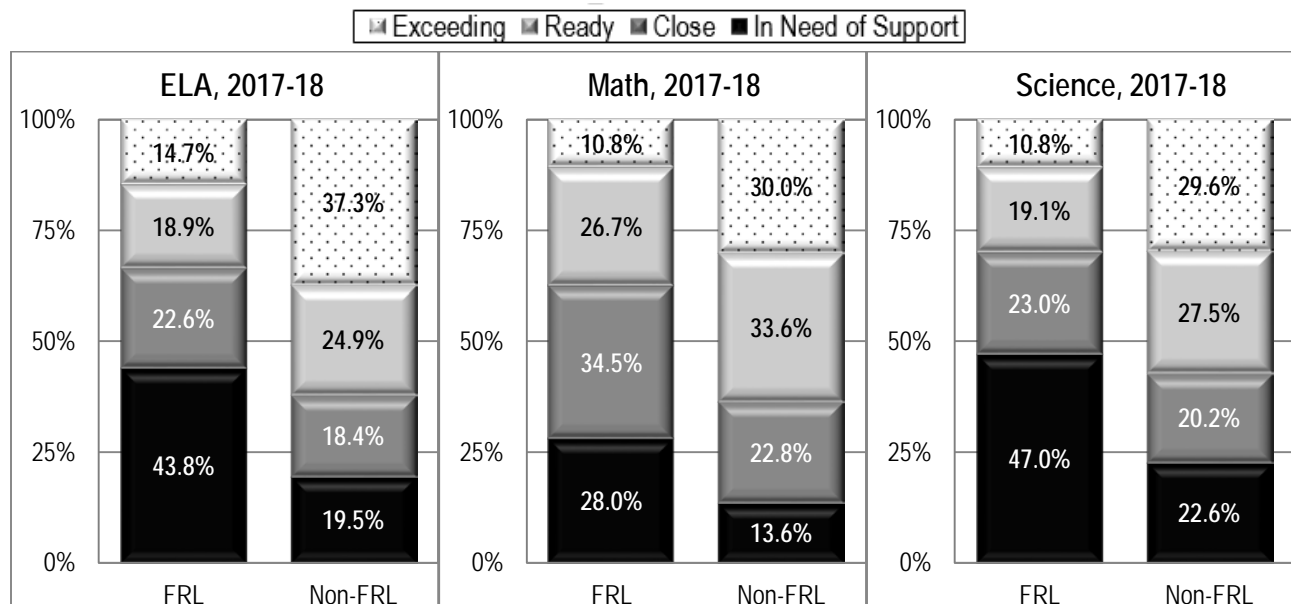
One way to measure student success is by examining the state assessment scores of students who are eligible for free or reduced-price lunch. The following charts show the percentage of students who took an ACT Aspire assessment in 2017-18 and scored in each of the following categories:

- In need of support (lowest score range)
- Close
- Ready
- Exceeding (highest score range)

The following charts compare the proportion of students in each category when grouped by those who are eligible for free or reduced-price lunch (low income) and those who are not eligible (more affluent). The achievement gap between the low-income student population and the non low-income student population is narrowest in math and widest in English language arts (ELA).

| | 2017-18 % Ready or Exceeding | | Percentage Point Gap |
|---------|------------------------------|-------------------------|----------------------|
| | FRL (low income) | Non-FRL (more affluent) | |
| ELA | 33.6% | 62.1% | 28.6 |
| Math | 37.5% | 63.6% | 26.1 |
| Science | 30.0% | 57.2% | 27.2 |

Additionally, very large gaps exist between the two student groups in the highest and lowest scoring levels. For example, less than 15% of low-income students scored in the “exceeding” category on the ELA assessment, while more than 37% of non-low-income students scored “exceeding”, a nearly 23-percentage point difference. On the science assessment, 47% of the low-income students scored in the lowest category “in need of support,” compared with less than 23% of non-low-income students, a 24 percentage point gap.



Data Source: Office of Innovation for Education, August 21, 2019 email.

Changes in the state's test from the Benchmark assessment in 2013-14, to the PARCC (Partnership for Assessment of Readiness for College and Careers) assessment in 2014-15, to the ACT Aspire in the most recent four years makes it challenging to measure long-term changes in the achievement gap. Analysis of the achievement gap prior to the test changes showed an increase in the performance of both groups, but very little narrowing in the gap between them.³⁹

Additionally increased participation by schools and districts in the CEP program (which counts all students in a participating school or district as free lunch students) makes assessing actual improvement—as opposed to improvement due to counting more affluent students' scores in the low-income student subgroup—challenging. That said the achievement gap between students eligible for free or reduced-price lunch and those who are not has changed very little between 2016, when the ACT Aspire began, and 2018, the most recent year for which finalized data were available for analysis for this report. The achievement gap actually increased in math. The performance of both FRL and non-FRL students increased over those years, but the performance of non-FRL students increased more than FRL students' performance (5.3 percentage points for non-FRL students, compared with 3.1 for FRL students)

| | Achievement Gap: Percentage Point Gap | |
|------------------------------|---------------------------------------|-------|
| | 2016 | 2018 |
| ELA | 28.4 | 28.6 |
| Math | 23.9 | 26.1 |
| Science | 27.1 | 27.2 |
| % of Test-Takers who are FRL | 63.3% | 63.9% |

When examined by race, FRL students have lower student achievement than non-FRL students within every racial subgroup. Asian students have the highest student achievement scores among the racial groups, while African-American and Native Hawaiian students have the lowest. Hispanic, African American and Native Hawaiian students have the smallest gaps between low-income students and non-low-income students.

| 2018 Student Achievement | FRL | | Non-FRL | |
|----------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| | ELA % Ready or Exceeding | Math % Ready or Exceeding | ELA % Ready or Exceeding | Math % Ready or Exceeding |
| Hispanic | 34.1% | 40.4% | 50.4% | 51.8% |
| Native American/Alaskan Native | 34.0% | 39.0% | 60.4% | 61.4% |
| Asian | 53.1% | 59.8% | 76.1% | 81.2% |
| African American | 19.7% | 22.0% | 39.3% | 38.3% |
| Native Hawaiian/Pacific Islander | 19.6% | 26.2% | 30.9% | 33.0% |
| White | 40.5% | 44.4% | 64.7% | 66.4% |
| More than one race | 37.6% | 41.0% | 63.9% | 64.4% |

³⁹ Arkansas Bureau of Legislative Research, National School Lunch State Categorical Funding and Expenditures, September 15, 2015, [http://www.arkleg.state.ar.us/education/K12/AdequacyReports/2016/2015-09-15/07-NSL%20State%20Categorical%20Funding%20and%20Expenditures%20Report,%20BLR%20\(25\).pdf](http://www.arkleg.state.ar.us/education/K12/AdequacyReports/2016/2015-09-15/07-NSL%20State%20Categorical%20Funding%20and%20Expenditures%20Report,%20BLR%20(25).pdf)

STUDENT GROWTH

Another student outcome measure that can be used to examine how well low-income students are performing in school is student growth. Student growth is a measure of an individual student's actual score as compared with the student's expected score (based on the student's prior assessment performance). A score of 80 is right on track with a student's expected score based on his or her previous test scores. A score higher than 80 indicates a higher level of academic growth than what would be expected for that student, and a score less than 80 indicates a score lower than what would be expected for that student. **Across the state, free- and reduced-price-lunch-eligible students' average growth score for both ELA and math were below 80, meaning on average FRL students were not meeting expected levels of growth.** Non-FRL students, however, did meet expected growth levels on average.

| | FRL | Non-FRL |
|------|-------|---------|
| ELA | 79.75 | 80.71 |
| Math | 79.31 | 81.25 |

When looking at student growth scores, Asian students, again, have the highest levels of student growth. However, Native Hawaiian/Pacific Islanders FRL students have growth scores just under the levels of Asian students. Hispanic and Native Hawaiian/Pacific Islander FRL students actually had higher student growth scores than non-FRL students in their racial group. African-American students had lower growth scores than all other racial groups.

| 2018 Student Growth Scores | FRL | | | Non-FRL | | |
|----------------------------------|------------|-------------|----------------------------|------------|-------------|----------------------------|
| | ELA Growth | Math Growth | Value Added Content Growth | ELA Growth | Math Growth | Value Added Content Growth |
| Hispanic | 81.6 | 81.6 | 81.8 | 81.4 | 81.7 | 81.5 |
| Native American/Alaskan Native | 80.1 | 80.1 | 79.9 | 81.5 | 81.5 | 81.5 |
| Asian | 83.4 | 83.4 | 83.9 | 82.9 | 85.9 | 84.5 |
| African American | 78.1 | 78.1 | 77.9 | 79.0 | 79.2 | 79.1 |
| Native Hawaiian/Pacific Islander | 82.1 | 82.1 | 83.1 | 80.5 | 81.5 | 81.1 |
| White | 79.8 | 79.8 | 79.5 | 80.7 | 81.3 | 81.0 |
| More than one race | 79.5 | 79.5 | 79.2 | 80.8 | 81.5 | 81.2 |

CONNECTION BETWEEN OF CONCENTRATIONS OF POVERTY AND STUDENT OUTCOMES

Since the 1960s, research has repeatedly found that student achievement in schools and school districts declines as the concentration of poverty in the school or district increases. Researchers have found this to be true when measuring student achievement across the whole student population and when examining student achievement among low income and middle income student subgroups separately.⁴⁰

Higher concentrations of poverty appear to be related to lower achievement and student growth, even when looking at the performance of FRL students only. The table below shows the average student achievement and student growth scores among FRL students in districts with differing concentrations of free and reduced price lunch students. For example, of the 28 districts with FRL percentages under 50%, the average percentage of low-income students who scored ready or exceeding on the English language arts portion of the ACT Aspire was 41%. That's compared with

⁴⁰ Blazer, C. and Romanik, D., The Effect of Poverty on Student Achievement, Information Capsule, Miami-Dade County Public Schools, July 2009.

just 16% of FRL students scoring on grade level in the 10 districts where 90%-100% of the student population is eligible for free or reduced-price lunch.

Districts with low concentrations of free or reduced price students had significantly higher student achievement and student growth among low-income students than districts with the highest concentrations of FRL students. The pattern is statistically significant for all of the measures of student outcomes examined, but the relationship is stronger for student achievement measures (percent of FRL students scoring “ready” or “exceeding”) than for student growth measures. These patterns are not unique to low-income students. Concentrations of poverty appear to have a similar effect on non-low income students as well, with achievement and growth scores among non-low income students declining as district poverty increases.

| District % of FRL Students | Average of % FRL Students “Ready” or “Exceeding” on ELA | Average of % FRL Students “Ready” or “Exceeding” on Math | Average ELA Growth of FRL Students | Average Math Growth of FRL Students | Average Value Added Content Growth of FRL Students |
|----------------------------|---|--|------------------------------------|-------------------------------------|--|
| 0%-50% | 41% | 47% | 80.07 | 79.94 | 80.01 |
| 50%-60% | 38% | 42% | 79.94 | 79.33 | 79.64 |
| 60%-70% | 36% | 40% | 79.31 | 79.04 | 79.18 |
| 70%-80% | 35% | 37% | 79.72 | 78.54 | 79.13 |
| 80%-90% | 32% | 35% | 78.69 | 77.58 | 78.13 |
| 90%-100% | 16% | 18% | 77.76 | 75.76 | 76.76 |

Every Student Succeeds Act

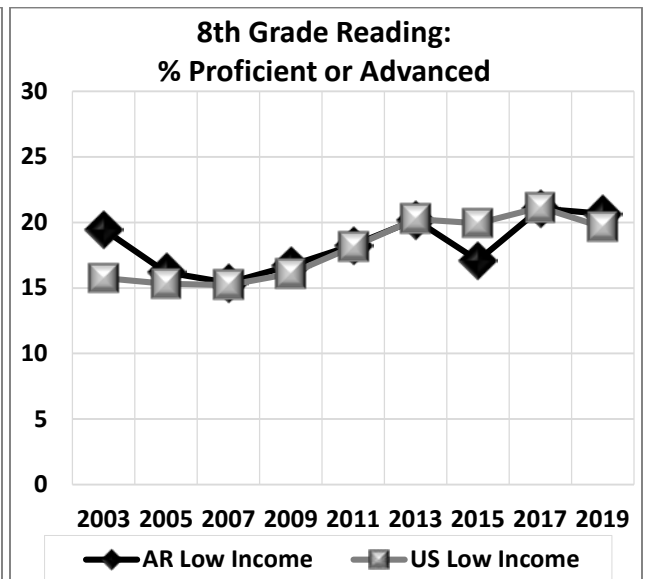
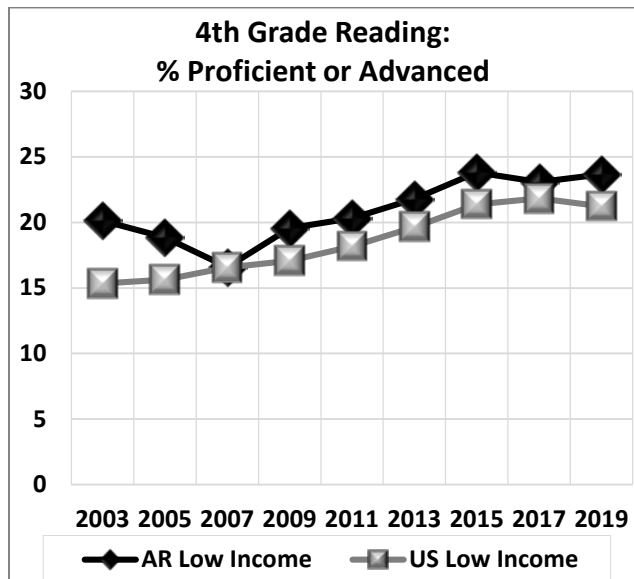
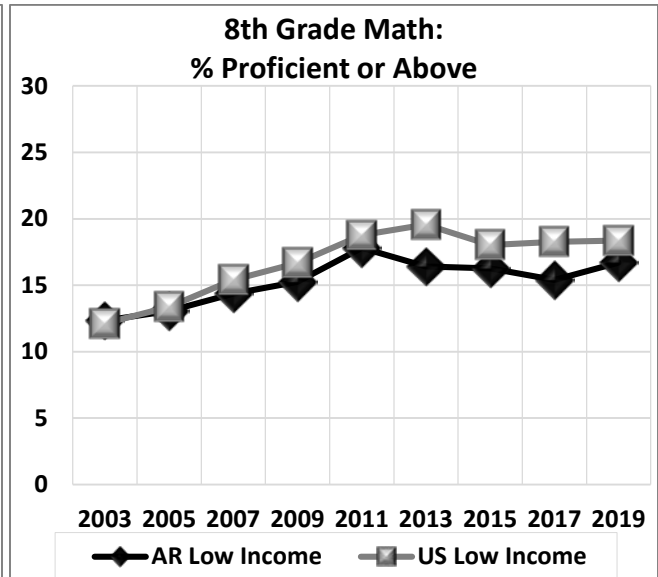
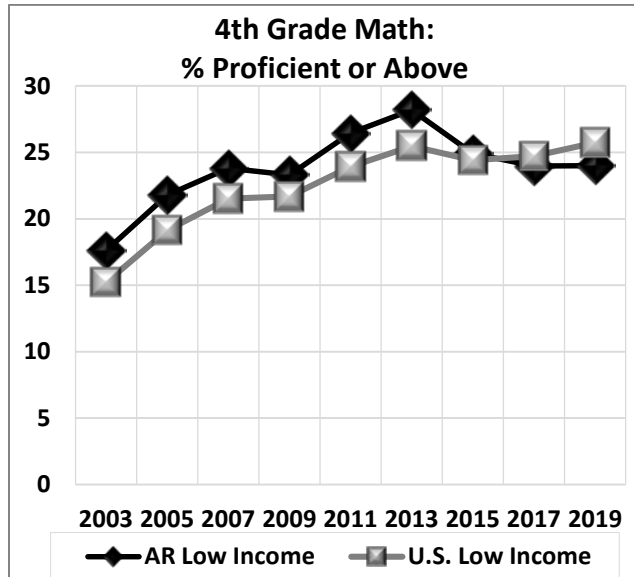
The federal Every Student Succeeds Act (ESSA) requires states to identify schools with any “consistently underperforming” student subgroups, including students who are “economically disadvantaged.” For Arkansas, a student’s free and reduced price lunch eligibility is used to determine whether the student is “economically disadvantaged.” Schools identified with consistently underperforming student subgroups are those with significant achievement gaps between student subgroups for at least two years. These schools are to be designated as needing “Targeted Support and Improvement.”

The state uses the ESSA School Index to identify schools with consistently underperforming subgroups. According to DESE’s ESSA State Plan, the state calculates the ESSA School Index for each student subgroup for each school to identify gaps. A School Index is not calculated for subgroups with fewer than 15 students in a school. In 2018, no schools in traditional school districts or open enrollment charter school systems were designated as needing Targeted Support and Improvement based on the performance of economically disadvantaged students.

National Assessment of Educational Progress (NAEP)

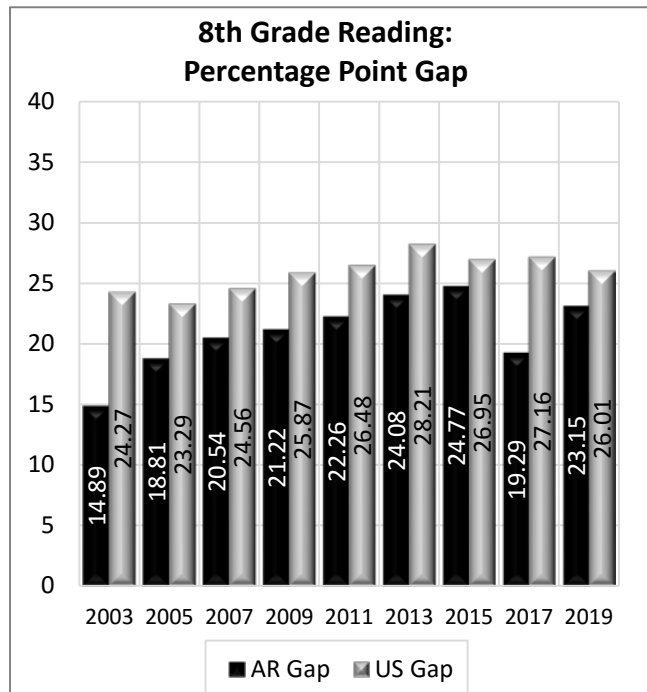
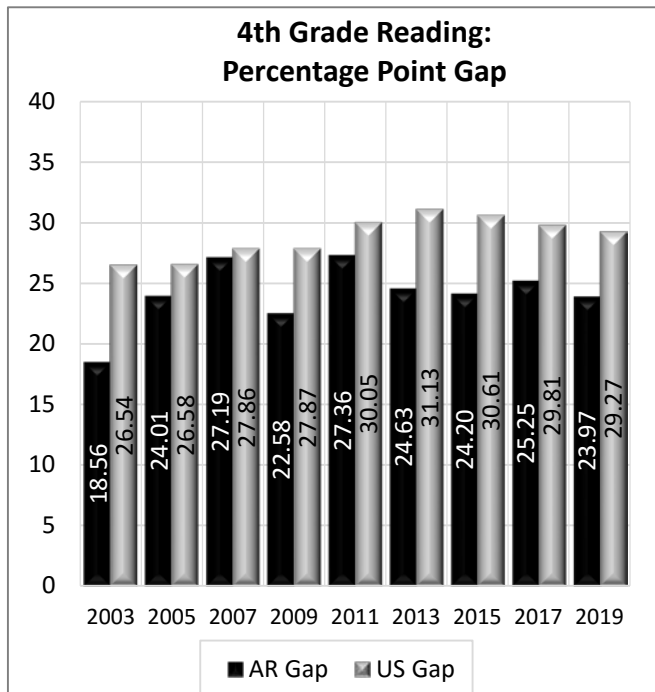
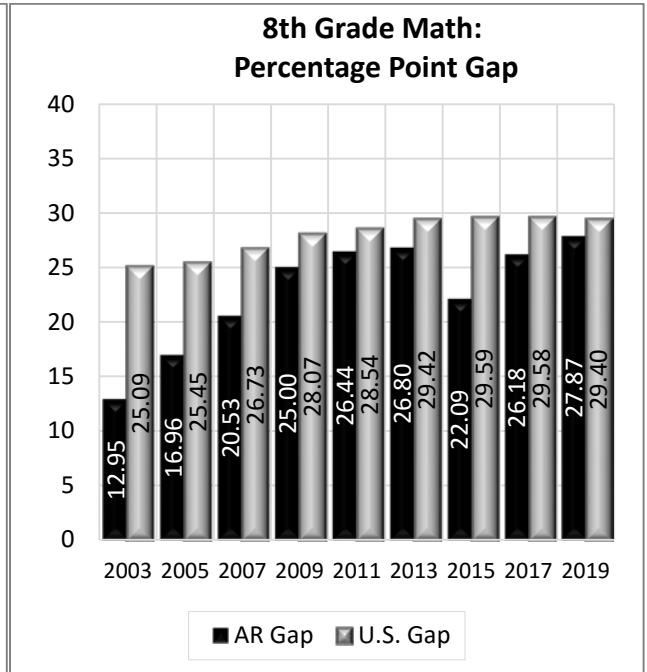
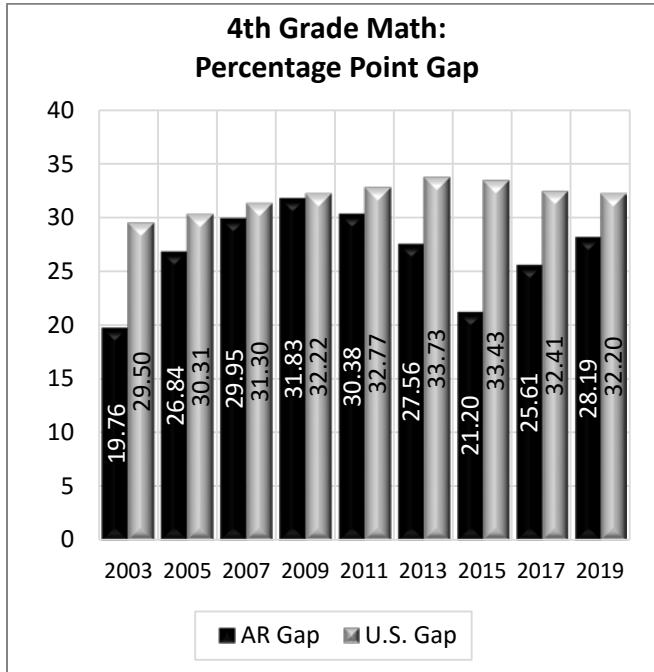
Because each state assesses students using its own test (ACT Aspire in Arkansas), the best way to compare the student achievement of low-income students in Arkansas with those in other states is with the National Assessment of Educational Progress (NAEP) scale scores.

NAEP scores are based on a random sample of 4th and 8th grade students in each state — not the entire state population of students. The following charts show how the performance of Arkansas’s low-income students (those eligible for free or reduced-price lunch) compares with the performance of low-income students nationally. **Arkansas’s low-income 4th grade students typically outperform the national average for low-income students, although the state’s math scores have dipped in recent years. Arkansas’s low-income 8th grade students typically perform below the national average, although in 2019, Arkansas’s low income 8th graders surpassed the national average in reading.**

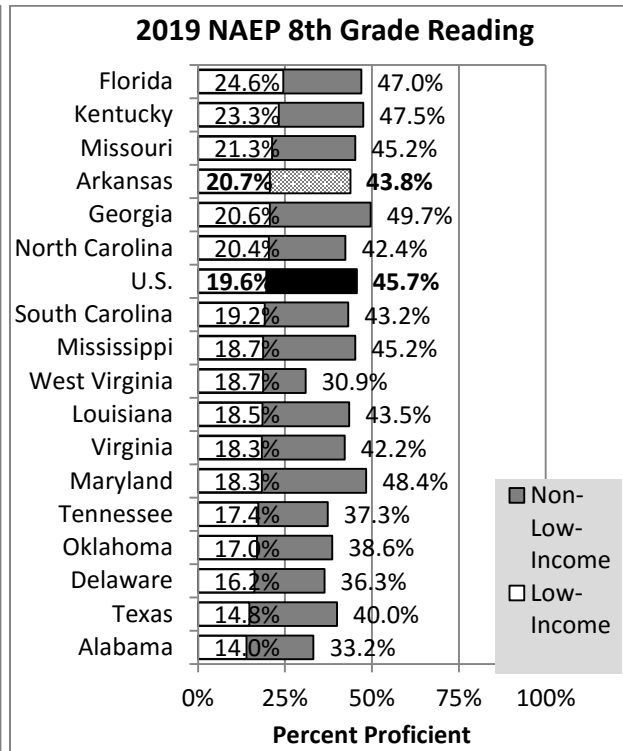
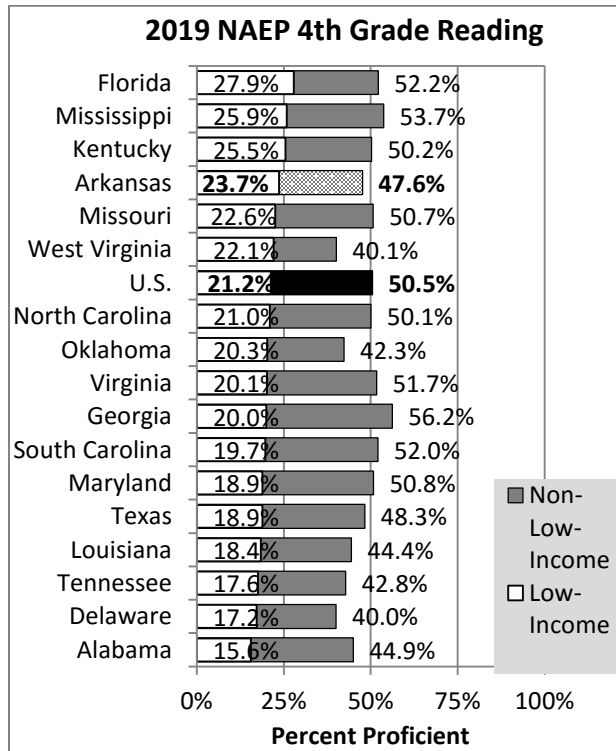
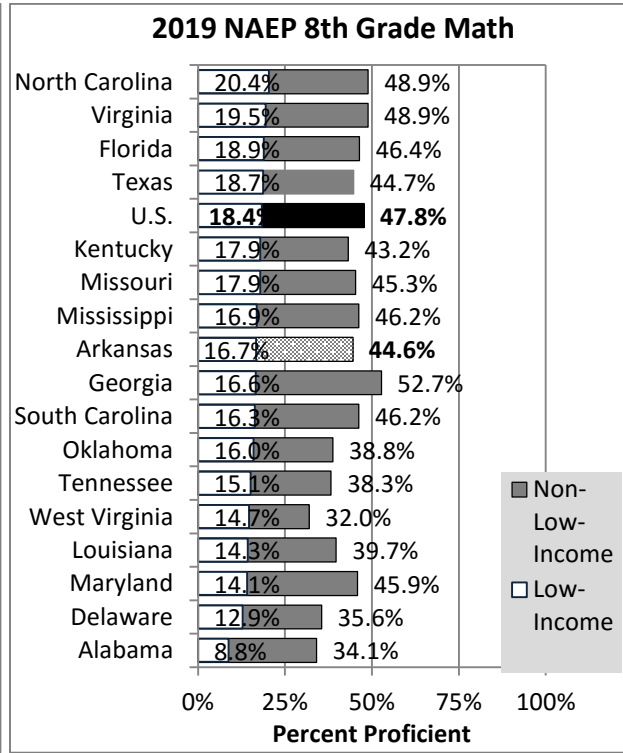
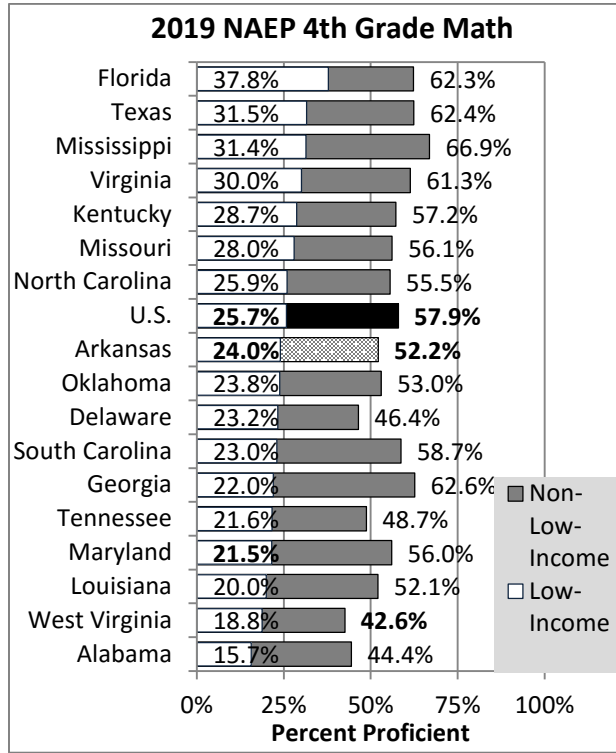


Additionally, both Arkansas and the U.S. have pronounced achievement gaps between low-income and non-low-income students. The achievement gap is the percentage point difference between the percent of low-income students who score proficient or above and the percent of non-low-income students who score proficient or above.

The **Arkansas gap is narrower than the U.S. gap in all four assessments** listed in the charts below. The Arkansas gap in both 4th and 8th grade math decreased in 2015 but has increased in the last two testing years. The Arkansas achievement gap in 4th grade reading has remained about the same in recent years, while the gap in 8th grade reading increased each year through 2015, dipped in 2017 and increased again in 2019.

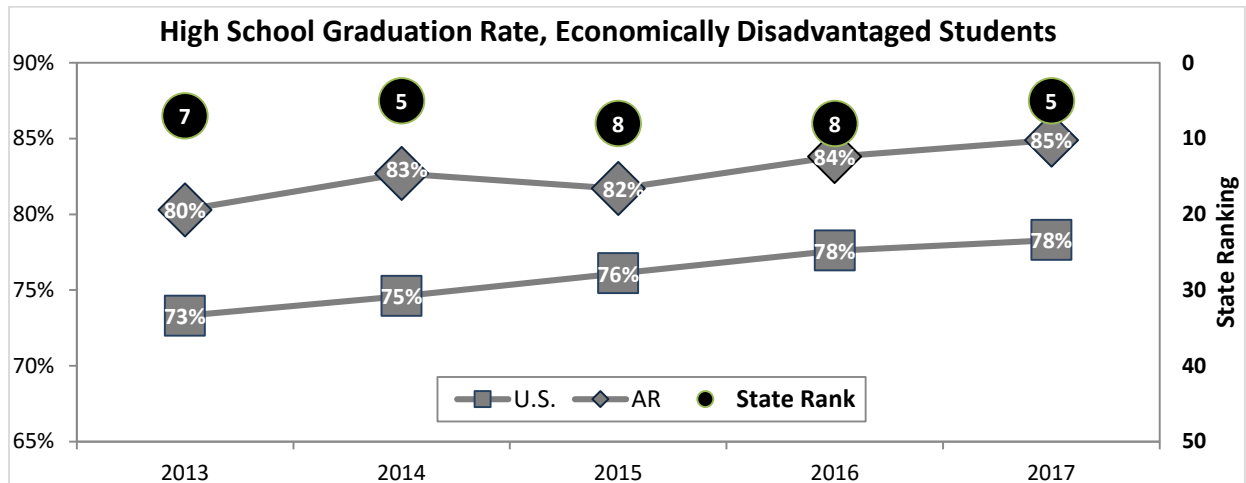
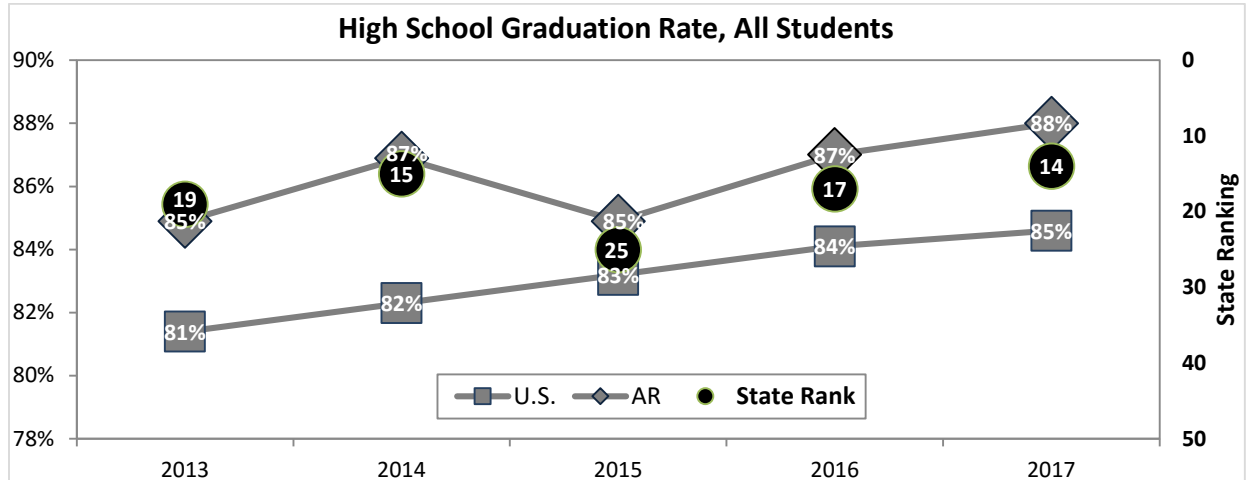


The following tables show how Arkansas's low-income students performed compared with those of low-income students in the 16 Southern Regional Education Board member states and in the six states surrounding Arkansas. Arkansas's low income student perform about in the middle of the selected states on the math assessments, while the state ranks among the top five in reading.



Graduation Rate

Arkansas's graduation rate among economically disadvantaged students is a statistic on which Arkansas out-performs most other states. In 2017, nearly 85% of economically disadvantaged high school students graduated high school within four years, compared with the national average of 78.3%. The state had the 5th highest graduation rate among economically disadvantaged students, behind only West Virginia, Kentucky, Texas and South Carolina. Arkansas's graduation rate among economically disadvantaged students (85%) is still lower than its graduation rate for all students (88%), but the gap is narrower than in most other states.

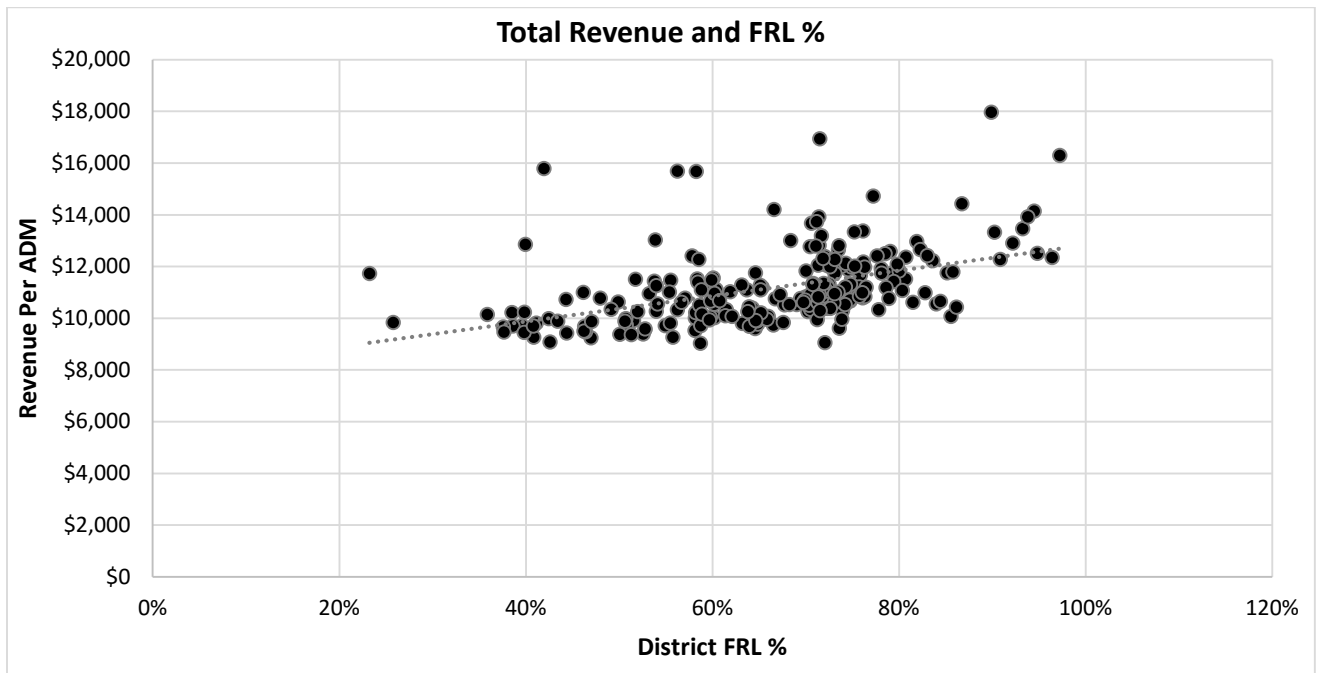


District Spending and Student Outcomes

When examining districts' spending patterns of ESA funds and the impact on student outcomes, it is first important to understand the relationships between a district's poverty level and its overall revenues and expenditures. While this report examines ESA spending patterns in isolation, districts allocate ESA funds as one part of a complex budgetary picture. While the \$232 million in ESA funding is a significant resource for schools, it accounts for only about 4% of districts' total revenue and resources available to help students with additional educational challenges. Furthermore, ESA funding is only one small factor influencing the academic performance of low-income students. Student achievement is affected by all facets of students' lives, both in school and out of school.

Overview of District Funding and Spending Patterns By FRL Percentage

It is important to keep in mind that district *spending* patterns are, of course, affected by the amount of funding districts receive. And, overall, high-poverty districts receive more total funding per student. That's because some types of funding are distributed on the basis of districts' high poverty status, including ESA funding and federal Title I funding. This pattern is evident in the following scatter plot, showing each district's total revenue per student (ADM) and its percentage of free and reduced price lunch students.⁴¹



Data source: Arkansas Department of Education, 2017-18 Annual Statistical Report, districts only. Revenues exclude non-instructional aid and "other sources of funds," including state financing sources for school construction.

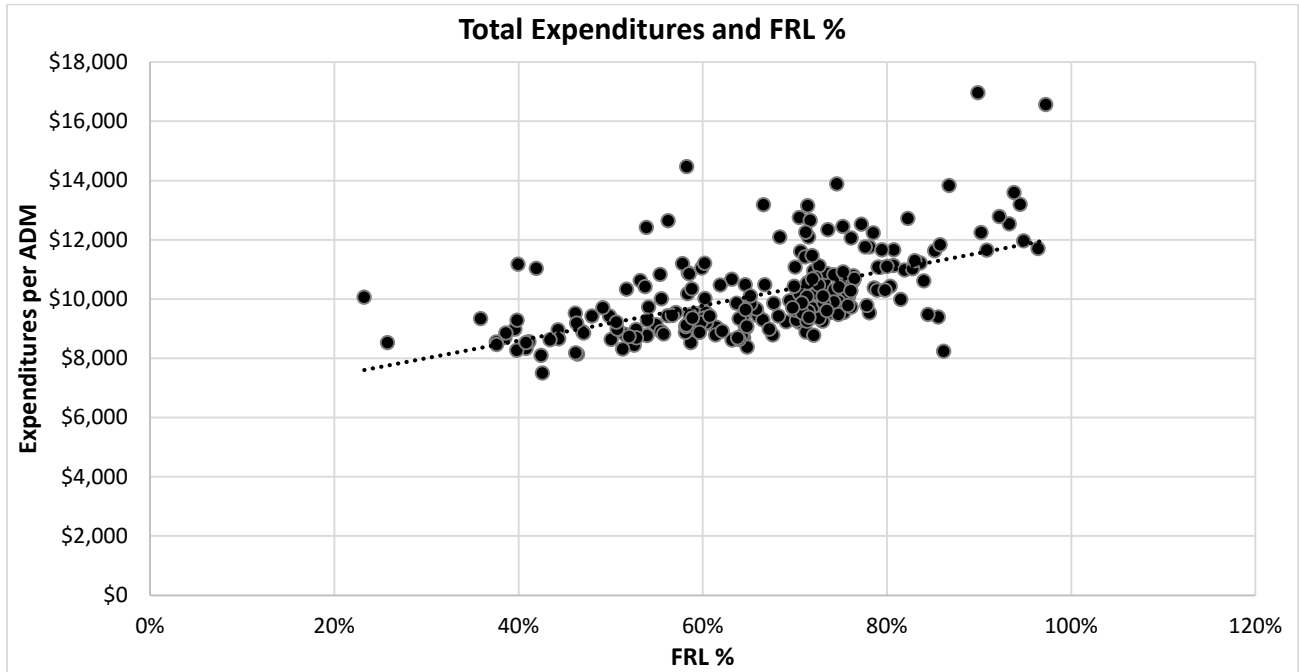
The table below shows that higher poverty districts tend to receive unrestricted state and local revenue at a roughly similar level as low poverty districts. This unrestricted revenue includes local property tax revenues and state foundation funding. However, **high poverty districts receive far more restricted state revenue per student, which includes ESA funding, and far more federal revenues (including Title I funding) per student.**

⁴¹ Revenue per ADM excludes district financing sources (for example, for school construction) and non-instructional aid, which includes Partnership Program funding.

| District FRL % | Average 2016-17 ADM | Average Per-Student Revenues | | |
|----------------|---------------------|--------------------------------------|--------------------------|----------------------------|
| | | Unrestricted State and Local Revenue | Restricted State Revenue | Restricted Federal Revenue |
| 0%-50% | 3,494 | \$9,041 | \$450 | \$745 |
| 50%-60% | 2,511 | \$8,988 | \$622 | \$1,126 |
| 60%-70% | 1,406 | \$8,697 | \$691 | \$1,221 |
| 70%-80% | 1,814 | \$8,707 | \$1,195 | \$1,598 |
| 80%-90% | 1,179 | \$8,422 | \$1,446 | \$1,824 |
| 90%-100% | 687 | \$9,165 | \$2,285 | \$2,467 |

Note: Unrestricted state and local revenues exclude non-instructional aid.

Because high poverty districts tend to receive higher revenues per student, they also tend to have higher expenditures per student, as shown in the following chart.



Note: Expenditures include current expenditures only and do not include expenditures for facilities construction or debt service.

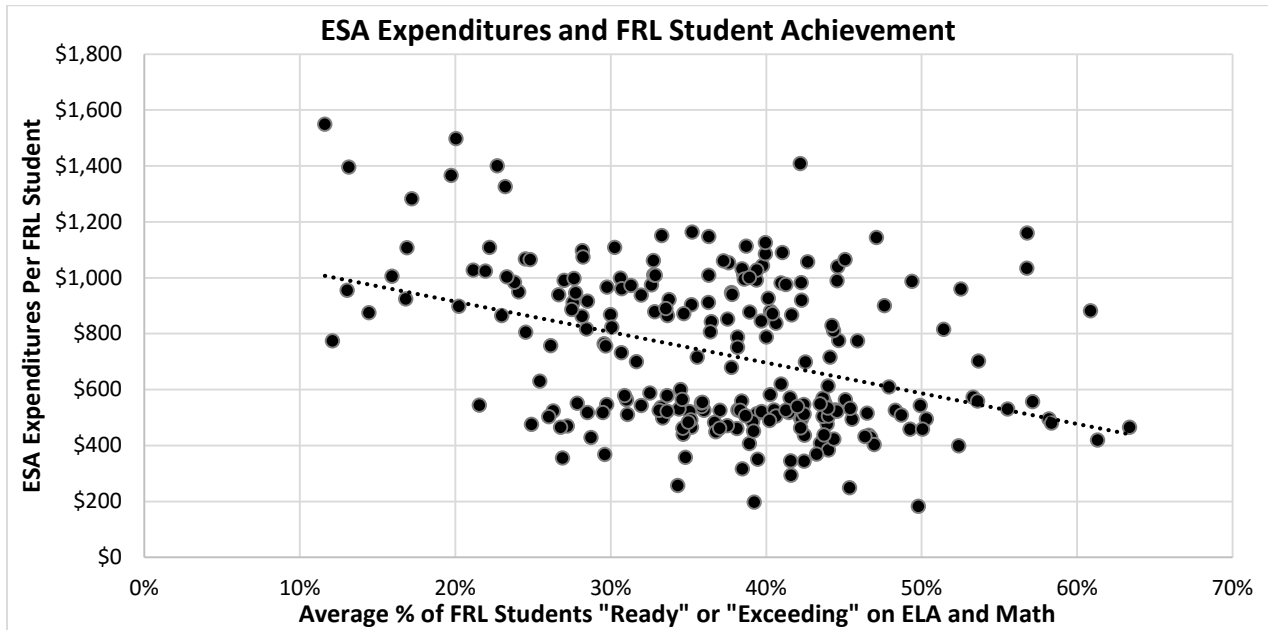
High-poverty districts spent more per student in every basic area of education (described below), compared with low poverty districts. Some of the higher per-student expenditures in the highest poverty districts may have as much to do with the small size of those districts.

- **Instructional Services:** Includes expenditures for teachers and instructional materials, before- and after-school programs, English as a second language services, alternative education, and tutoring, among other programs
- **District Support Services:** Includes expenditures for student transportation, maintenance and operations and central office services
- **School Support Services:** Includes expenditures for school nurses, guidance counselors, speech therapy, and school administrative staff
- **Non-Instructional Services:** Includes expenditures for food services and other non-instructional services

| Average Expenditures Per Student | | | | | |
|----------------------------------|------------------------|---------------------------|-------------------------|----------------------------|----------------------------|
| District FRL % | Instructional Services | District Support Services | School Support Services | Non-Instructional Services | Total Current Expenditures |
| 0%-50% | \$5,309 | \$1,828 | \$1,497 | \$472 | \$8,945 |
| 50%-60% | \$5,548 | \$2,081 | \$1,622 | \$632 | \$9,720 |
| 60%-70% | \$5,502 | \$2,088 | \$1,524 | \$643 | \$9,603 |
| 70%-80% | \$5,801 | \$2,357 | \$1,807 | \$711 | \$10,473 |
| 80%-90% | \$6,018 | \$2,463 | \$1,884 | \$744 | \$10,939 |
| 90%-100% | \$6,799 | \$3,314 | \$2,534 | \$856 | \$13,321 |

ESA Spending and Student Outcomes

The following chart shows the relationship between districts' ESA expenditures and their student achievement among FRL students. (The expenditures per student exclude ESA fund transfers as these are not expenditures for resources, but a movement of funding to other district accounts.) Districts with higher ESA expenditures per FRL student tend to have lower student achievement among their FRL students.

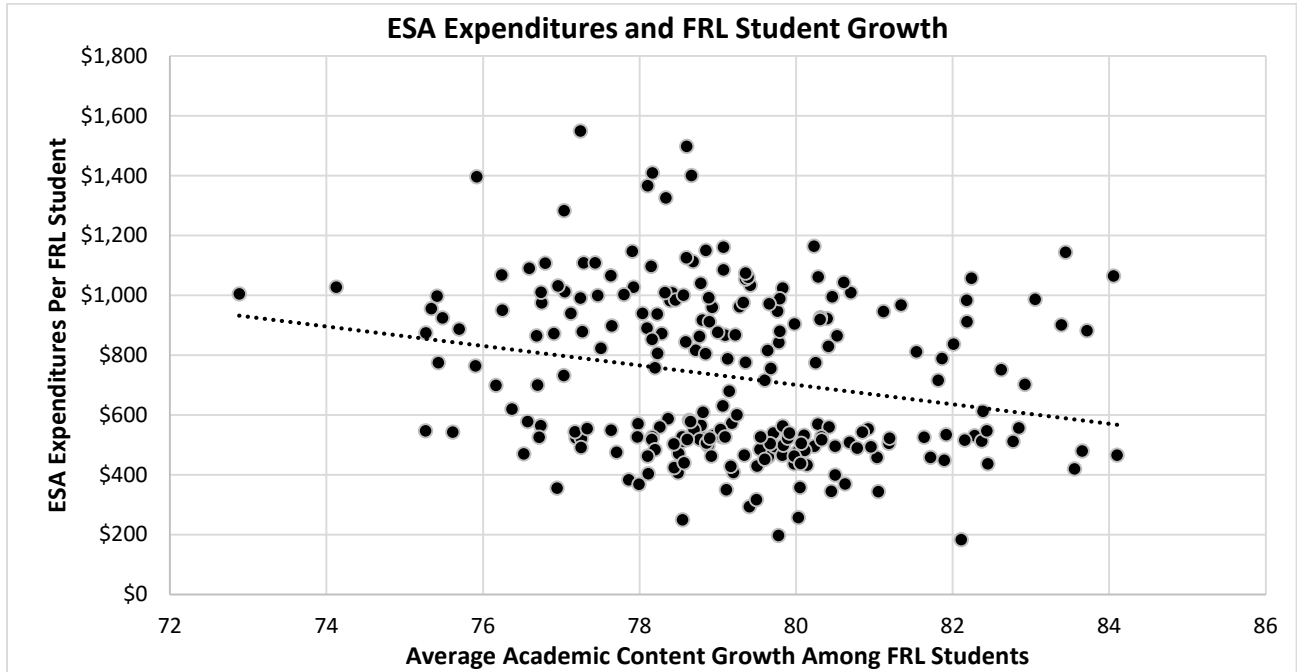


Note: Data in chart includes districts only. Expenditures include those made using ESA matching grant funds and excludes transfers made to other categorical funds.

However, higher expenditures appear to be a function of the amount of ESA funding districts receive. When districts are grouped by their ESA per-student funding rates (\$526, \$1,051, and \$1,576), the relationship between student achievement among low income students and ESA expenditures per student become statistically insignificant.

| District % of FRL Students Scoring "Ready" or Exceeding | All Districts | Districts Receiving \$526 | Districts Receiving \$1,051 | Districts Receiving \$1,576 |
|---|---------------|---------------------------|-----------------------------|-----------------------------|
| 0%-30% | \$883 | \$482 | \$932 | \$1,255 |
| 30%-40% | \$729 | \$489 | \$938 | |
| 40%-50% | \$634 | \$489 | \$935 | |
| 50%+ | \$646 | \$494 | \$926 | |

A similar pattern appears when examining the relationship between ESA spending per student and measures of student growth. Higher ESA spending per FRL student correlates with lower student growth scores among FRL students. However, the correlations between ESA expenditures and student growth, while statistically significant, are not as strong as the correlations between ESA expenditures and student achievement.



Note: Data in chart includes districts only. Expenditures include those made using ESA matching grant funds and excludes transfers made to other categorical funds.

However, the correlations between district ESA spending and student growth scores again appear to be a function of the ESA funding districts receive. **When grouped by ESA funding rates (\$526, \$1,051, and \$1,576), the correlations between ESA expenditures per student and student growth scores become statistically insignificant for the two lower poverty groups of districts. For the 10 highest poverty districts (those receiving \$1,576 per low income student), student growth measures actually increase as the ESA expenditures per student increase.**

| District % of Average Student Growth Score Among FRL Students | All Districts | Districts Receiving \$526 | Districts Receiving \$1,051 | Districts Receiving \$1,576 |
|---|---------------|---------------------------|-----------------------------|-----------------------------|
| 72-78 | \$826 | \$505 | \$943 | \$1,160 |
| 78-80 | \$728 | \$490 | \$940 | \$1,397 |
| 80-82 | \$626 | \$480 | \$904 | |
| 82+ | \$695 | \$481 | \$929 | |

ESA Funding Uses and Student Outcomes

Given this larger financial context, we can then begin to examine impact of ESA funding by the way districts spend it. Policymakers have frequently asked what types of programs are most helpful in raising student achievement among targeted students. The tables on the following pages show the spending patterns of districts as associated with the **student achievement** of low-income students and their **growth** on state assessments.

- **FRL student achievement:** Districts were divided into quartiles based on their percentage of low-income students who scored “Ready” or “Exceeding” on state assessments. In this analysis, districts were compared based solely on the performance of their free and reduced price lunch students, comparing the performance of one district’s FRL students against another district’s FRL students. A proficiency percentage was calculated based on each district’s performance among FRL students on the English language arts (ELA) and math sections of the ACT Aspire exam. An average of the two proficiency percentages was then calculated. Districts were ranked based on this average and placed in four groups. Each group’s ESA spending patterns were compared. The groups were compared based on **the percentage of districts’ ESA funding spent on each allowable use**. (This is a different calculation than used on pages 16-18, which calculated the percentage of total ESA *expenditures* spent on each allowable use.)
- **FRL student growth:** The districts were also grouped based on their average academic content growth among FRL students, with one group having the highest FRL growth, another having the lowest and two groups in between. The districts’ spending patterns of the four groups were compared just as they were for the FRL performance level.

The spending patterns of the district groups—expressed as a percentage of each district’s 2018 ESA funding—were compared, as shown on page 41. The data show few discernible patterns in terms of ESA spending among the districts with different levels of student achievement or growth among low-income students. None of the spending patterns correlated meaningfully with either student performance levels or student growth of FRL students.

The lack of a pattern may be related to the fact that many districts appear to use the funding to fill gaps in their budgets, rather than as a focused program aimed at reducing achievement gaps. Additionally, ESA funding is a restricted source of funds, while districts’ unrestricted funds, such as foundation funding, offer more spending flexibility. Districts may choose to pay for certain routine necessary resources, such as school nurses or instructional facilitators, using ESA funding, rather than foundation funding, so they can spend the flexible unrestricted dollars elsewhere.

| Allowable Use | Lowest Achieving FRL | | | Highest Achieving FRL | Lowest Growth FRL | | | Highest Growth FRL |
|--|----------------------|-------|-------|-----------------------|-------------------|-------|-------|--------------------|
| Classroom teachers , provided the district meets the minimum salary schedule without using ESA funds | 6.6% | 6.3% | 6.8% | 9.2% | 7.9% | 6.6% | 6.6% | 7.8% |
| Curriculum specialists , coaches & instructional facilitators | 16.0% | 16.0% | 17.6% | 17.2% | 14.0% | 18.5% | 16.8% | 17.7% |
| Before- and after-school academic programs , including transportation to and from the programs | 1.6% | 1.1% | 1.1% | 1.4% | 1.5% | 0.9% | 1.3% | 1.5% |
| Pre-kindergarten programs | 1.9% | 4.5% | 2.6% | 3.5% | 3.2% | 2.0% | 4.6% | 2.8% |
| Tutors | 2.0% | 4.2% | 3.0% | 3.4% | 3.5% | 3.0% | 2.1% | 3.9% |
| Teachers' aides | 8.3% | 9.6% | 10.4% | 11.0% | 10.5% | 8.6% | 12.1% | 8.1% |
| Counselors, social workers, and nurses | 8.9% | 10.4% | 10.2% | 10.6% | 9.0% | 9.6% | 10.9% | 10.5% |
| Parent education | 0.3% | 0.3% | 0.2% | 0.4% | 0.3% | 0.3% | 0.4% | 0.3% |
| Summer programs | 1.3% | 0.6% | 0.4% | 0.9% | 0.9% | 1.0% | 0.6% | 0.7% |
| Early intervention programs | 5.6% | 5.2% | 6.6% | 5.4% | 5.8% | 5.9% | 5.0% | 6.2% |
| Supplement all classroom teacher salaries , after minimum teacher salary schedule is met | 2.4% | 1.4% | 0.8% | 1.1% | 2.4% | 1.0% | 1.3% | 1.0% |
| Federal child nutrition program free meals under the Provision 2 program or free meals for reduced-price students | 1.0% | 1.2% | 1.6% | 0.8% | 1.5% | 1.5% | 1.0% | 0.6% |
| Expenses directly related to a longer school day or school year | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Remediation programs , partnering with higher education institutions | 0.0% | 0.3% | 0.1% | 0.0% | 0.1% | 0.0% | 0.2% | 0.1% |
| Teach For America professional development | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| The Arkansas Advanced Initiative for Math and Science | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| College and career coaches. | 0.4% | 0.3% | 0.2% | 0.3% | 0.2% | 0.6% | 0.1% | 0.3% |
| Transfers to Other Categorical Funds | 12.0% | 6.4% | 8.8% | 9.3% | 8.9% | 7.2% | 10.5% | 9.7% |
| Research-based professional development | 1.5% | 1.4% | 1.0% | 1.5% | 1.3% | 1.6% | 0.7% | 1.8% |
| School improvement plan and scholastic audit | 12.9% | 8.3% | 8.8% | 9.2% | 7.8% | 11.8% | 10.3% | 9.3% |
| Paying for students in grade eleven (11) to take the ACT | 0.0% | 0.1% | 0.1% | 0.0% | 0.0% | 0.1% | 0.1% | 0.0% |
| Other activities approved by the DESE. | 16.4% | 20.6% | 19.6% | 15.0% | 20.1% | 20.0% | 14.1% | 17.3% |

Note: This analysis examines the expenditures of traditional school districts only. It does not include open enrollment charter school