



BureauBrief

Memorandum

TO : House and Senate Interim Committees on Education

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

DATE : April 15, 2014

SUBJECT : Categorical Fund Balances

PROJECT # 14-001-28e

Act 1220 of the 2011 Regular Session requires school districts with large categorical fund balances to begin reducing them. It requires each district with an aggregate categorical fund balance in excess of 20% of the district's total annual state categorical fund allocations to reduce the total balance by 10%. The reductions are to occur each year until the district's total fund balance is 20% or less of its annual categorical fund allocation. If a district fails to comply, the law allows ADE to withhold a portion of the district's categorical funding in the next school year. The law was applied for the first time to categorical fund balances as of June 30, 2012, requiring any resulting fund balance reductions to apply in the 2012-13 school year.

At the end of 2011-12, 45 districts (and four charter schools) had ending aggregate categorical fund balances that exceeded 20% of their categorical funding allocations that year. That meant those districts had to spend all of their categorical fund allocations for 2012-13 *and* spend down their categorical fund balance by 10%. At the end of 2012-13, eight districts (and two charter schools, Haas Hall and SIA Tech) failed to adequately spend down their aggregate categorical fund balance. As a result ADE is authorized to withhold from these districts the following amounts:

Cutter-Morning Star	\$15
Fayetteville	\$9,212
Fordyce	\$28,666
Gravette	\$2,024
Helena-West Helena	\$818,780
Highland	\$14,198
Mineral Springs	\$40,640
Paragould	\$54,368

The Arkansas Department of Education will withhold the penalties from each district's 2013-14 National School Lunch state categorical distribution.

Act 1220 also had a separate requirement for reducing NSL state categorical fund balances specifically. (The Act called for the reduction of district's NSL fund balance and their fund balance for all four categoricals added together.) When this provision was discussed during the January 2014 adequacy meeting, it was noted that four of the districts listed above (Cutter-Morning Star, Helena-West Helena, Highland and Mineral Springs) were incurring a penalty for excessive NSL fund balances. For these districts the penalty incurred for having excessive NSL balances will also cover any penalty calculated for having excessive aggregate categorical fund balances. For example, Helena-West Helena incurred a penalty of \$926,998 for having an excessive NSL fund balance. Paying this penalty will also bring down the district's aggregate fund balance for all four categoricals, so the district will not be charged an additional \$818,780 penalty. For more on the NSL fund balance issue, see page 12 of this document: <http://www.arkleg.state.ar.us/education/K12/AdequacyReports/2014/2014-01-07/04-NSL%20Categorical%20Funding%20Memo,%20BLR.pdf>