



FISCAL DISTRESS

Fiscal Distress is the state program used to identify and correct school districts that are struggling to maintain fiscal stability.

History

Fiscal distress was originally established in statute by Act 915 of 1995. Act 1467 of 2003 modified the program.

During a given year, school districts are able to move into and out of the fiscal distress classification. Following Act 1467 of 2003, 59 districts have been classified in fiscal distress.

Process

Early Warning

Act 798 of 2009 created fiscal distress early warning. Early warning requires the Division of Elementary and Secondary Education (DESE) to monitor districts for signs of fiscal problems and notify districts with two or more nonmaterial violations in one year. Under DESE rules, a nonmaterial violation is something that does not directly jeopardize the fiscal integrity of a school district but has the potential to put the school district in fiscal distress.

As of December 2019, four districts are currently in early warning: Cleveland County, Clinton, Huntsville, and Pangburn.

Identification and Classification

Arkansas Code § 6-20-1904 lists the indicators of fiscal distress. DESE may identify a district in distress if the district has any of the indicators. Indicators include declining balance determined to jeopardize the fiscal integrity of the district or an act or

violation determined to jeopardize the fiscal integrity of the district.

Once DESE has identified a district in distress, DESE is required to notify the district in writing. Once the district receives the notification from DESE, the district has thirty days to appeal to the SBOE. SBOE must hear the appeal within sixty days after receiving the appeal from the district. If the district chooses not to appeal, the State Board of Education (SBOE) must still vote to classify the district in distress. While DESE *identifies* districts in distress, SBOE must vote to *classify* the district in distress.

Districts Currently in Fiscal Distress

As of December 2019, five districts were in fiscal distress: Dollarway, Earle, Lee County, Marvell-Elaine, and Pine Bluff.

Possible Sanctions and Corrective Actions

A district that has been classified in fiscal distress has certain responsibilities, including filing an improvement plan with DESE, allowing on-site technical evaluations and other assistance from DESE, adhering to recommendations from DESE, and obtaining written permission from DESE before incurring additional debt.

Once a district is classified in fiscal distress, DESE and the State Board may take actions in the district, including removing and replacing the superintendent, suspending or removing the local school board, requiring fiscal training for the district staff or local board,

monitoring the fiscal operations and accounts of the district, imposing additional reporting requirements on the district, and taking any other action allowed by law that is deemed necessary to assist a school district in removing the fiscal distress classification.

For all districts classified after Act 1467 of 2003, the average time in fiscal distress was 20.2 months.

Removal

To be removed from fiscal distress, a school district must demonstrate that all causes of fiscal distress have been corrected. SBOE must vote to remove a district from distress.

If a school district is not removed from fiscal distress within five years, the SBOE is required to annex, consolidate, or reconstitute the district. If the district is unable to be removed from fiscal distress due to conditions beyond its control, the law allows the SBOE to grant additional time. No district currently in fiscal distress is close to the five-year deadline.

Act 929 of 2019

Act 929 of 2019 broadened the focus of the program to improve public school districts' finances through reviewing financial practices of all districts and providing support to districts in any stage of fiscal distress.

Act 929 of 2019 also makes changes to each part of the fiscal distress process, including adding acts or violations for identifying or classifying a district in fiscal distress and adding available sanctions and corrective actions.