



## Fiscal Distress

**Fiscal Distress** is the designation used to identify and correct school districts that are struggling to maintain fiscal stability. Of the state's three distress classifications, fiscal distress is the most frequently used. (The other distress programs are academic and facilities distress.) Under state statute, the Arkansas Department of Education (ADE) is responsible for identifying districts in fiscal distress. The State Board of Education has the authority to approve or deny the designation as well as authorize ADE to take corrective actions or sanctions against the school district.

### Designation

Although ADE has administered a fiscal distress program since the mid-1990s, it was established in statute by Act 1467 of 2003. The law allows ADE to identify districts in fiscal distress if they demonstrate any of three factors: (1) A declining balance; (2) An act or violation that jeopardizes the district's fiscal integrity, including:

- **Material failure** to maintain school facilities, provide timely and accurate financial reports to specific state agencies, meet minimum teacher salaries, comply with state purchasing or bid agreements, audit requirements, or any provision of Arkansas Code;
- **Material violation** of local, state, or federal health, safety, or construction codes;
- **Material default** on any unpaid debt;
- **Material discrepancy** between budgeted and actual expenditures; or
- **Insufficient funds** to cover payroll, salary, employment benefits, or legal tax obligations;

(3) Any other fiscal condition of a school district that can have a detrimental impact on the district's ability to provide educational services.

In 2009, the General Assembly passed Act 798, which required ADE to observe

districts for earlier signs of fiscal problems and notify districts with two or more nonmaterial violations in one year. According to ADE 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. According to ADE, the most common nonmaterial violations are audit exceptions and declining balances. However, other violations include:

- Failing to adjust staffing levels when facing declining enrollment;
- Filing late tax reports, which result in penalties and interest payments; and
- Failing to provide accurate and timely financial reports.

Nine school districts are currently in fiscal distress:

- Alpena School District
- Brinkley School District
- Hartford School District
- Helena-West Helena School District
- Hermitage School District
- Mineral Springs School District
- Pulaski County Special School District
- Western Yell County School District
- Hughes School District

Of the nine districts, seven have been in fiscal distress status more than once (Hartford, Helena-West Helena, Hermitage, Mineral Springs, Pulaski County Special, Western Yell County, and Hughes), and two have been taken over by the state (Pulaski County Special and Helena West Helena).

### Corrective Actions and Sanctions

A district that has been designated as being in fiscal distress must:

- File an improvement plan with ADE that includes specific ways to correct fiscal deficiencies;
- Allow on-site technical evaluations and other assistance;

- Adhere to recommendations from ADE to improve staffing and fiscal policy practices; and
- Report the reason for the fiscal distress to the newspaper.

Districts in fiscal distress are also prohibited from incurring any additional debt without written permission from ADE.

State statute requires ADE to monitor and provide a written report every six months on the status of each school district in fiscal distress. State law also gives ADE authority to take additional measures against the school district, including:

- Removing and replacing the superintendent;
- Suspending or removing the local school board;
- Requiring fiscal training for the district staff or local board;
- Petitioning to the State Board of Education to annex, consolidate, or reconstitute the district; and
- Imposing additional reporting requirements on the district.

### Removal

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

In 2013, the General Assembly passed Act 600, which extended the time districts can remain in fiscal distress from two consecutive years to five. If a school district is not removed from fiscal distress within five years, the State Board of Education 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 State Board to grant additional time.