



Fiscal Distress

Fiscal Distress is the state classification 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 915 created the fiscal distress program. Act 1467 of 2003 modified the fiscal distress program.

In 2013, the General Assembly passed Act 600, which extended the time districts can remain in fiscal distress from two consecutive years to five consecutive years.

During a given year, school districts are able to move into, and out of, the fiscal distress classification. Since 1996, there have been a total of 76 school districts classified in fiscal distress.

Districts Currently in Fiscal Distress

As of May 2018, there were two districts in fiscal distress, Dollarway and Earle.

Classifying Districts in Fiscal Distress

Arkansas Code § 6-20-1904 lists the indicators of fiscal distress:

- Declining balance determined to jeopardize the fiscal integrity of the district
- An act or violation determined to jeopardize the fiscal integrity of the district
- Any other fiscal condition of a school district deemed to have a detrimental negative impact on the continuation of educational services by the district

Once ADE has identified a district in distress, ADE is required to notify the district in writing. Once the

district receives the notification from ADE, 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, SBOE must still vote to classify the district in distress. While ADE *identifies* districts in distress, SBOE must vote to *classify* the district in distress.

Declining Balances

Act 741 of 2007 specifies that capital outlay expenditures for academic facilities—which result in a declining balance—cannot be used alone to place a district in fiscal distress.

In 2017, the General Assembly passed Act 1105. The act requires that once a district’s net legal balance exceeds a certain threshold, the district must reduce the balance below a certain threshold within five years. Net legal balance is the total of fund balances of teacher salary fund, operating fund, and debt service fund minus categorical fund balances and escrow balance of federal qualified bonds.

Possible Sanctions/Corrective Actions

A district that has been classified in fiscal distress must:

- File an improvement plan with ADE
- Allow on-site technical evaluations and other assistance from ADE
- Adhere to recommendations from ADE to improve staffing and fiscal policy practices
- Obtain written permission from ADE before incurring additional debt

State law also gives ADE and the Commissioner of Education authority to take additional measures against the school district, including:

- Removing and replacing the superintendent
- Suspending or removing the local school board
- Appointing a community advisory board (with approval of SBOE)
- Requiring fiscal training for the district staff or local board
- Petitioning to the SBOE to annex, consolidate, or reconstitute the district
- Imposing additional reporting requirements on the district

Early Warning

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.

Districts currently in early warning are Bauxite, Cleveland County, Clinton, Huntsville, Lee County, Marvell-Elaine, and Pine Bluff.

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.