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## When Districts are Taken Over by the State

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## **WHEN DISTRICTS ARE TAKEN OVER BY THE STATE**

### **SUMMARY POINTS**

- School districts are susceptible to state takeovers if they fail to meet academic and fiscal standards.
- When 75% of a district's students score at the Below Basic level on the Arkansas Benchmark exam, the district is placed on academic distress.
- The bar is set too low for Academic Distress Classification. As a result it is not a meaningful accountability measure.
- Of the 63 districts placed on the fiscal distress list, most are removed from the list within two years.

*Two types of state takeovers have been in the news this summer. The news extensively covered the state takeover of Helena-West Helena School District and Pulaski County Special School District due to fiscal issues. At their August meeting, State Board of Education members discussed amending the Academic Distress Rules in a manner that would more easily enable state takeovers on the basis of academic distress. This policy brief discusses the various classifications that might lead to a state takeover and the subsequent implications of such classifications.*

According to Arkansas law, namely The Omnibus Quality of Education Act of 2003, schools can be taken over by the state after being on one of two lists: a **fiscal distress list** or an **academic distress list**.<sup>1</sup> In both instances, state takeover will usually only happen after the district follows two years of protocol and procedures recently established by the Arkansas State Board of Education.

### **STATE TAKEOVER: FISCAL DISTRESS**

The procedures regarding fiscal distress are relatively new. In fact, the first regulations governing school districts in fiscal distress were enacted in 1997. The original procedures have been repealed and modified twice resulting in the current procedures approved in 2009. In 1997, the State Board developed a protocol that placed schools on a three-tiered system when they encountered fiscal distress.<sup>2</sup> Finding that system too cumbersome and the classification too long-standing, the State Board developed a more streamlined system. Under the current procedures, districts are notified within 30 days of their fiscal status and given two years to improve that status after the state reviews the districts' annual financial reports.<sup>3</sup>

Schools are typically classified as fiscally distressed, due to either a decline in revenues or increase in expenditures, and possibly both. Declining revenues typically result from a decrease in student enrollment. Since schools are funded on a per-pupil basis, declining enrollment causes a direct decrease in funds. Yet many districts fail to respond to this decrease with appropriate measures such as a downsize in staff. On the other hand, increased expenditures can also cause fiscal challenges or exacerbate a declining revenue problem. Common sources of increased expenditures include:

- Construction projects that can attract unforeseen inflation of the projected costs
- Misappropriations of funds, budget discrepancies, and failure to comply with numerous codes and requirements deemed necessary for the safety and productivity of students by State Board regulations.

Schools have up to two years to regain financial integrity and petition for removal once placed on the fiscal distress list. During these two probationary years, schools will receive assistance and services from the Department of Education (ADE) at the expense of the distressed district. Accordingly, the ADE



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<sup>1</sup> <http://www.arkleg.state.ar.us/assembly/2003/R/Acts/Act1467.pdf>

<sup>2</sup> See Appendix II for chart outlining the Academic Distress process

<sup>3</sup> [http://arkansased.org/about/pdf/current/ade\\_158\\_fiscal\\_assessment\\_1009\\_current.pdf](http://arkansased.org/about/pdf/current/ade_158_fiscal_assessment_1009_current.pdf)

may facilitate a downsizing of district employees. In addition, the ADE may help the schools put a standard system of checks and balances into place. This assistance is intended to empower district personnel to remedy the fiscal situation without further punitive action.<sup>4</sup>

However, there are some cases in which the state will bypass this lengthy procedure to promote the safety and productivity of students in these districts. Additionally, concerns that a district may not be able to pay its faculty and staff might warrant more abrupt or severe intervention.

### Recent Takeovers due to Fiscal Distress

Although the Pulaski County Special School District has had a questionable fiscal history, the district was not actually classified as fiscally distressed by the State Board until May of 2011. Shortly thereafter, in June of 2011, the Board took control of the district due to a large number of financial discrepancies resulting primarily from a weak or nonexistent system of checks and balances. These shortcomings are especially consequential for a district with such a large budget. The most concerning discrepancy found in the 2010 state audit of the Pulaski County Special School District was the inability to approve and document the funding source of its employees' payroll.<sup>4</sup>

The Helena-West Helena School District was placed on the fiscal distress list for the second time in recent history last fall. However, the district had not made the progress necessary to stabilize the financial situation. The state cited concerns regarding the educational needs of the students and the inadequate response of the existing leadership to the fiscal and academic requirements of the district. According to Dr. Kimbrell at a briefing before the House Education Committee, the district had 'over-hired' by nearly 100 teachers. The state took over Helena-West Helena in June 2011.

The Little Rock Urban Collegiate Public Charter School for Young Men was closed by the State Board before it had the chance to complete its first academic year due to extreme negative balances that stemmed from fiscal mismanagement and lower than expected enrollment. Reportedly, the school had over \$179,000 in debt. The school did not respond to extreme under-enrollment with requisite cuts in expenditures.<sup>5</sup>

A complete list of school districts currently on the fiscal distress listed can be found in the Appendix.

<sup>4</sup> [http://www.swtimes.com/state\\_news/article\\_3d1279e8-9c16-11e0-8902-001cc4c002e0.html](http://www.swtimes.com/state_news/article_3d1279e8-9c16-11e0-8902-001cc4c002e0.html)

<sup>5</sup> <http://www.todaysthv.com/news/article/148581/2/Little-Rock-Urban-Collegiate-Charter-School-for-Young-Men-shut-down>

## STATE TAKEOVER: ACADEMIC DISTRESS

The state may also takeover a school district that has received academic distress classification from the State Board. Academic Distress status is determined once 75 percent or more of students in a district perform at the "below basic" achievement level on the Arkansas Benchmark Exam. This 75% threshold applies to the general population of a school district. Unlike AYP status, it does not take into account the performance of various sub-populations or individuals schools.

The Academic Distress threshold was discussed at the State Board Meeting in August, and presented by the Department as being too lax. In fact, the bar is so low that no district in the state has received the Academic Distress Classification. However, 19 schools have been identified as "persistently low achieving schools" by federal guidelines. This classification has enabled the Department to assign a state officer to these schools and seven have been awarded School Improvement Grants to assist them in bringing up student performance. As Tom Kimbrell implied at the state board meeting, it seems as if at least these schools should be considered academically distressed.

*Table 1. Arkansas Persistently Lowest-Achieving Schools (2007-09)*

District Name	School Name
Helena/West Helena	Central High
Little Rock	Cloverdale Middle*
Dermott	Dermott High
Dollarway	Dollarway High
Dollarway	Dollarway Middle
Earl	Earl High
Hughes	Hughes High
North Little Rock	Lynch Drive Elementary
Marvell	Marvell High
Osceola	Osceola High*
Osceola	Osceola Middle*
North Little Rock	Rose City Middle*
Fort Smith	Trusty Elementary*
Turrell	Turrell High
Little Rock	Hall High*
Little Rock	J.A. Fair High*
Pulaski County Special	Jacksonville High
Palestine-Wheatley	Palestine-Wheatley High
Pine Bluff	Pine Bluff High

\*Received school improvement grant

Should a district ever be placed on the Academic Distressed list in Arkansas, the State Board and ADE will assist the district in developing a comprehensive school improvement plan to target weak areas. By law the district has up to two consecutive academic years to remove itself from the academic distress list. After that, and--under certain criteria before that time--the State Board has the right to annex, consolidate, or reconstitute the district.<sup>6</sup>

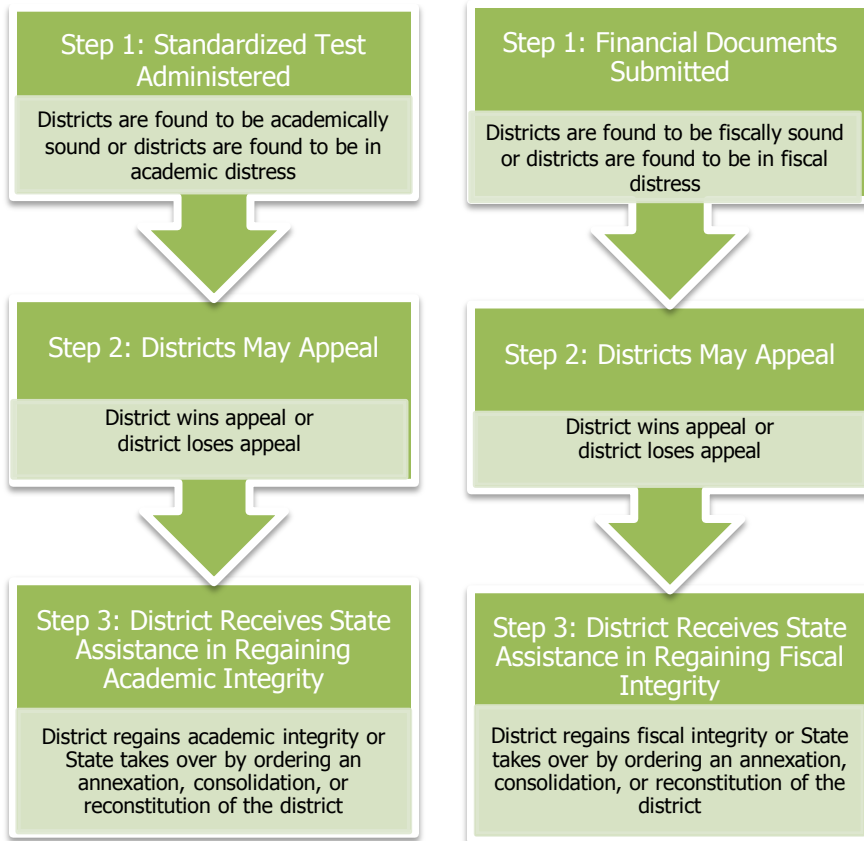
<sup>6</sup>

[http://arkansased.org/about/pdf/current/ade\\_247\\_actaap\\_071\\_0\\_current.pdf](http://arkansased.org/about/pdf/current/ade_247_actaap_071_0_current.pdf)

## STAGES OF FISCAL AND ACADEMIC DISTRESS

The processes for districts being placed on fiscal and academic distress are illustrated below. As you will see, both processes are similar in that the state evaluates each district and determines whether they should be classified in distress. The districts then have the option to appeal the state's "distress" classification. If the district then loses the appeal, the state will assist the district until the classification can be removed.

*Figure 1. Academic Distress Process*      *Figure 2. Fiscal Distress Process*



### SUMMARY

Overall, the regulations concerning fiscal distress seem to improve the financial integrity of school districts placed on the list. Upon receiving the assistance that accompanies this classification, most districts are removed from the distressed list within two years. The few that do not resolve their fiscal issues, are generally annexed or consolidated into a district better able to manage the financial burdens of a school district.

On the other hand, the regulations regarding academic distress seem to be irrelevant due to the extremely low threshold required for districts. Perhaps, these standards should be amended to include basic and below basic students or apply to schools and districts. After all, if a school is persistently low-achieving, the school is not providing the education its students deserve, and thus requires a takeover of some kind.

## OEP Summer Reading

To remind you of some of the work we were doing at the end of the last school year and through the summer, we are linking to some past Policy Briefs here for your perusal. We hope you find the information contained here helpful as you prepare for the 2011-2012 school year!!

**2011 Arkansas Benchmark Test Results** - This policy brief presents district-level performance on the Spring 2011 administration of the Arkansas Benchmark Exam and includes a link to the **OEP District-Level Benchmark Data, 2010-2011** which includes benchmark performance for every district, geographic region, and the state.

We have also released a similar **OEP Database for 2010-2011 EOC Exam Scores**. This OEP database is an Excel spreadsheet which presents EOC Scores organized by district for the 2010-2011 academic year.

Finally, over the summer, we released our **Spotlights on Success: Traits and Strategies of Five High-Growth Schools in Arkansas** report which highlights five schools across Arkansas that are "beating the odds" and outlines the strategies, traits, leadership, and teaching contributing to each school's success. In June, the OEP was invited to present the results of this report at the University of Central Arkansas Summer Leadership Institute held in Conway. You can access the presentation by **clicking here**.

**Appendix I. School Districts on Fiscal Distress, 1996-2011**

DISTRICT	CLASSIFICATION YEARS	# YRS
Alzheimer Unified	1996-2001; 2005-2006#	6
Armored	2010-Present	1
Augusta	2002-2005	3
Bald Knob	2007-2009 <b>STO*</b>	2
Bismark	2007-2009	2
Bright Star	2002-2004#	2
Clinton	2007-2009	2
Concord	2008-2010	2
Cotton Plant	1996-1999#	3
Crawfordsville	2001-2004#	3
Cross County	1999-2001; 2006-2007	3
Crossett	2003-2005	2
Decatur	2008-2010 <b>STO*</b>	2
Delaplaine	1996-1997#	1
Dermott	2011-Present	1
Dierks	2005-2007	2
Dollarway	2005-2007	2
Earle	2011-Present	1
Eudora	2005-2006#	1
Flippin	2005-2007	2
Forrest City	2009-Present	1
Gentry	2008-2010	2
Gould	1996-1999#	3
Greenland	2003-2005;2008-2010 <b>STO*</b>	4
Hartford	2008-2010	2
Heber Springs	1996-1997; 2002-2005	4
Helena-West Helena	2005 <b>STO*</b> -2008; 2010-Present <b>STO*</b>	4
Hermitage	2008-2010	2
Hughes	2006-2008	2
Humnoke	1998-1999	1
Jasper	2004-2005	1
Lake View	1996-2004#	8

DISTRICT	CLASSIFICATION YEARS	# YRS
Lakeside	2002-2005	3
Lead Hill	2005-2007	2
Magnet Cove	2000-2002	2
Mammoth Spring	2009-2010	2
Mansfield	2009-2010	1
Marked Tree	2001-2003 <b>STO*</b>	2
McGehee	2010-2011	1
Midland	2005-2008	3
Mineral Springs	2008-2010	2
Murfreesboro (South Pike Country)	2008-2010#	2
North Little Rock	2011-Present	1
Oark	2003-2004#	1
Omaha	2006-2008	2
Osceola	2002-2004; 2009-2010	3
Paragould	1996-1998	2
Parkin	2005-2006#	1
Pine Bluff	1998-2000	2
Pulaski County Special	2005-2007; 2011-Present <b>STO*</b>	2
Quitman	2003-2004	1
Saint Joe	2003-2004#	1
Shirley	1996-1998	2
So Mississippi County	2002-2003	1
Strong-Hutting	2011-Present	1
Turrell	1999-2000; 2006-2008#	3
Waldo	2005-2006#	1
West Side	2011-Present	1
Western Yell Co.	2005-2007	2
Westside Cons.	2008-2010	2
Winslow	1998-2001#	3
Witts Springs	2002-2004	4
Yellville-Summit	2009-Present	3

\*State Take Over

#District no longer exists. Consolidated under Act 60 due to low enrollment.

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