Chalkboard

By
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I wrote you, a column or so ago, that the district has been identified by the Arkansas Department of Education as being in fiscal distress. This week I will appear before the State Board of Education on the district's behalf to appeal this designation. I thought this week I would share with you the appeal letter that was sent.

"By a majority vote of the members present, at its regular March meeting held March 10, 2008, the Gentry Board of Education resolved that I send this letter as an appeal, from the Gentry Public School District to the Arkansas State Board of Education, regarding the district having been identified by the Arkansas Department of Education as being in fiscal distress. This letter also requests that all previous correspondence between the district and the Department be included in the record of this appeal.

The appeal is offered under Section 6.02 of the Department's *Rules Identifying and Governing The Arkansas Fiscal Assessment and Accountability Program,* hereafter referenced as the "rules". For its appeal, the district also relies on the provisions of Arkansas Code Annotated 6-20-1901 et seq.

The district received a letter from the Department by certified mail on Monday, March 3, 2008. The Department provided the following reasons for the district to be identified by the Department as being: 1- District utilized a $1,000,000 cash flow loan for FY04. 2-District utilized a $1,250,000 cash flow loan for FY07. 3- District anticipates a $1,000,000 cash flow loan for FY09. 4- Projected negative ending balance in the operating fund June 30, 008 of ($254,225).

The district's interpretation of the indicators of fiscal distress found in Section 4.00 of the rules leads the district to conclude that the Department has identified the district as being in fiscal distress, for the first three bulleted items regarding cash flow loans, under Section 4.01.3 which states, *"Any other fiscal condition of a school district deemed to have a detrimental negative impact on the continuation of educational services by that school district."* The fourth bulleted item clearly relates to Section 4.01.1, *"A declining balance determined to jeopardize the fiscal integrity of a school district"*. The district draws these conclusions because there is no evidence that the Gentry Public Schools has had any violations as would be revealed by the Division of Legislative Audit or by any compliance monitoring report of the Arkansas Department of Education.

The district maintains that it was incorrectly identified as being in fiscal distress. The district's rational for believing such follows and will follow in the same order as given by the Department.

The district did obtain a short-term, cash flow loan in FY 04 under the provisions of Arkansas Code Annotated A.C.A. 6-13-620 *Powers and Duties*- "*Nothing herein shall prevent any school board of directors from borrowing money from banks, from individuals, or from next year's revenue in order to provide funds in such amount that the maximum nonbonded indebtedness of its school district so incurred shall not be greater than the maximum nonbonded indebtedness of the school district was at any time during the preceding fiscal year."* The district ended FY 04 with a balance of $37,276.84 after the loan proceeds were deducted. Restated, the loan was not required for the district to end the fiscal year with a positive balance. The loan was paid back before the end of the loan term. The length of the time that the district utilized the loan was May 3, 2004 to October 1, 2004, a period of roughly fourth months.

In a similar manner the district did obtain a short-term, cash flow loan in FY 07 under the same provisions of A.C.A. 6-13-620. Again, the district ended the fiscal year with a positive balance after the loan proceeds were deducted. Again, the loan was paid back prior to the end of the term.

The district, prior to receiving notice from the Department, has originated a similar loan for FY 08 and anticipates an early payback in FY 09. In none of these three short-term loans does the district feel that such action be *deemed to have a detrimental negative impact on the continuation of educational services by that school district.* The district believes that the Department itself, by virtue of offering "Revolving Loans" and allowing Post-Dated Warrants, both with payback contingent upon future revenues, recognizes that there are legitimate circumstances in which a school district may need to utilize a loan.

The district attests that it had valid circumstances for securing the above short-term loans. The district further notes that in earlier correspondence to the Department, the Department was notified that the district felt it should be exempted from identification under the provisions of (1)(B) of Act 741 of 2007 which states, *" However, capital outlay expenditures for academic facilities from a school district balance shall not be used to put the school district in fiscal distress".* The district maintains that the placement and wording of this statement in Act 741 of 2007 indicates that such expenditures negates (1)(A*) "A declining balance determined to jeopardize the fiscal integrity of a school district"* for the purpose of identification of a district as being classified in fiscal distress. The district further notes that it notified the Department that its rules adopted in 2003 had not been updated been updated to include the previous mentioned (1)(B) amendment from Act 741 of 2007.

At the time of that notification, the district provided the Department documentation and the following synopsis of the capital outlay expenditures. In FY 07, the district was in the process of completing an addition to the K-2 Primary School and a playground for that school. This capital project was funded by Transitional, Partnership, General Facilities, Immediate Repairs monies and local revenue, with local funding being a combination of bond proceeds issued in prior fiscal years, interest earned from the investment of those bond proceeds and carried forward into FY 07 as part of ending year balances, and other local funds generated by tax local levy and unrestricted state foundation funding.

The academic campus this capital outlay was allocated to replacing was listed as number 22 out of 1129 schools in need for replacement as shown of the *Division of Public Academic Facilities and Transportation's* "Arkansas Facility Condition Index Ranking. Had the district not replaced this facility the district would have been subject to being classified as in "Facilities Distress".

In summary of this explanation of the district's FY 07 ending balance, the district maintains it well met the test of Arkansas Code Annotated 6-20-1904's (1)(B*) However, capital outlay expenditures for academic facilities from a school district balance shall not be used to put the school district in fiscal distress*. Totaling the expenditures from the Building fund, Immediate Repairs fund, Transitional fund, General Facilities fund, and Partnership fund, all of which by definition are capital outlay projects, yields a total of approximately 2.9 million dollars with the local share from operational funds approaching $900,000. The district maintains that had it not engaged in the extensive building and renovation project and incurred the capital outlay expenditures that it did, the ending balance would have been sufficient for the district not to project a third year decline in ending balance.

In regard to the last indicator provided in the Department's letter, the district has projected a positive ending balance on June 30, 2008, after the proceeds of the cash flow loan is deducted. The district does not deny the expertise of Department officials but it maintains that the district's projection is as viable as the Department's.

As noted in earlier correspondence to the Department, the district does not deny that the cycle of obtaining cash flow loans and repaying them is a poor fiscal practice. The district maintains that the school board has implemented two practices to alleviate the continuance of such practice in the future.

First, as also provided earlier to the Department, the school board has tied the superintendent's continued employment to a continued increase in the district's ending balance until such time as the district ends with, and maintains from year to year, a five percent (5%) carryover of operational funds."

Second, at the regular school board election in September of 2007 the board posed to the district's voters an increase in millage to help defray future expenses of the district. The voters approved an additional 3 mills for Dedicated Maintenance and Operation. The revenue generated from these mills will free up operational monies to offset future needs to obtain cash flow loans."