



Department  
of Education

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## **REPORT TO THE OHIO LEGISLATURE**

**April 1, 2010**

### **Ohio School Districts in Fiscal Emergency**

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## **LEGISLATIVE BACKGROUND**

### **Title XXXIII (33) 3316.01 to 3316.19 (O.R.C.)**

#### **School Districts in Fiscal Caution, Watch, and Emergency**

With the passage of Am. Sub. S.B. 310, the 121<sup>st</sup> General Assembly created procedures for evaluating school district financial reports and placing districts exhibiting potential insolvency under the oversight of the Auditor of State through the declaration of Fiscal Watch or Fiscal Emergency. Am. Sub. 345 S.B. of the 123<sup>rd</sup> General Assembly expanded the scope of fiscal designations by creating the category of Fiscal Caution which places districts declared to be in Fiscal Caution under the oversight of the Ohio Department of Education (ODE). As stated in ORC §3316.02, the intent of the statute “is to enact procedures, provide powers, and impose restrictions to assure fiscal integrity of school districts”. For any district that receives a fiscal designation, ODE provides technical assistance and monitors district finances to encourage and support strong fiscal management practices. The scope and level of support from each of the agencies increases as a district moves from caution to watch to emergency.

In the final stage, Fiscal Emergency, a Financial Planning and Supervision Commission (Commission) is created with the primary purpose “To review or to assume responsibility for the development of all tax budgets, tax levy and bond and note resolutions, appropriation measures, and certificates of estimated resources of the school district.” [ORC §3316.07] With the creation of these statutes, the General Assembly also required the submission of an annual report by April 1 of each year “concerning progress of the school district to eliminate Fiscal Emergency conditions, failures of the school district to comply with this chapter, and recommendations for further actions to attain the objectives of this chapter, including any legislative action needed to make provisions of law more effective for their purposes, or to enhance revenue raising or financing capabilities of school districts.” [ORC §3316.07]

This past year offered both successes and challenges for districts in fiscal emergency. Most of the long standing emergency districts are making progress toward release, but since April 1, 2009, only one district was able to complete all requirements for release. In addition, three districts were added to the fiscal emergency list. Of those three districts, two proceeded through the usual fiscal oversight route while the third district entered after the Auditor of State identified under reported debt during the course of the district’s regularly scheduled audit.

Through ODE’s review of districts’ forecasts and/or financial analysis, it is anticipated that four to six additional districts may require declaration of fiscal emergency in the coming year. The status of these districts will depend on levy approvals and/or the district’s ability to make additional budget reductions. Once a district is in fiscal emergency, the Commissions strive to work cooperatively with the local boards of education (BOE) and district administration on all financial matters. When the cooperative spirit is realized, most districts progress through fiscal emergency in an average of three years or less. Without the cooperation, a prolonged and difficult experience can result.

## **DISTRICTS IN FISCAL EMERGENCY – APRIL 1, 2010**

<b>District</b>	<b>County</b>	<b>Date Declared</b>	<b>Duration</b>
Beaver Local	Columbiana	2/11/10	0yr 2mon
Bellaire Local	Belmont	12/31/09	0yr-3mon
East Cleveland City	Cuyahoga	3/12/03	7yr 0mon
Federal Hocking Local	Athens	5/21/07	2yr 10mon
Jefferson Township Local	Montgomery	8/11/08	1yr 7mon
McDonald Local	Trumbull	10/15/09	0yr-6mon
Springfield Local	Summit	5/16/07	2yr 10mon
Youngstown City	Mahoning	11/16/06	3yr 4mon

## **DISTRICTS RELEASED FROM FISCAL EMERGENCY SINCE APRIL 1, 2009**

<b>District</b>	<b>County</b>	<b>Date Declared</b>	<b>Date Released</b>
Southern Local	Meigs	11/08/99	4/22/09

### *Duties and Services Provided By the Financial Planning and Supervision Committees for Districts in Fiscal Emergency*

- Five-member commission meets monthly or as needed
- Monitors district operations with financial implications
- Re-establishes the fiscal integrity of the district
- Commission may grant itself the same authorities as the Board of Education that it needs to accomplish the task of fiscal solvency, including but not limited to:
  - Purchasing
  - Employment contracts
  - Issuance of debt
  - Cost reductions
  - Staffing levels
- Within 120 days, the Commission adopts a Financial Recovery Plan which will address, but not be limited to the following issues:
  - Solvency Assistance Fund advancements
  - Staff reductions
  - District administration and BOE to establish procedures for monitoring annual appropriation funds through a monthly cash flow analysis
  - Administration and treasurer will establish procedures for encumbering funds as purchase orders are issued
  - Board of Education will adopt an appropriation measure consistent with the Five Year Forecast and the Financial Recovery Plan

## **SPECIFIC ACTIONS FOR EACH DISTRICT (IN THE PAST YEAR)**

### **Beaver Local (Columbiana)**

Beaver Local is the newest district in fiscal emergency having been declared by the Auditor of State on February 11, 2010. The district was unable, after several attempts, to submit an acceptable recovery plan for fiscal watch. Their most recent plan called for adjustments to health insurance premium payments by the staff members and the retirement of several staff members, yet none of the health insurance adjustments had been ratified by the impacted unions and the retirement letters were not submitted nor approved by the Board of Education. A Commission was established and has thus far had two meetings. A recovery plan is being developed that will eliminate a projected FY2011 deficit but the district will require approximately \$800,000 in a Solvency Assistance advance this fiscal year. The district has been very cooperative with the Commission.

Other key activities of the commission include the following:

- 2/11/10 District declared in fiscal emergency due to failure to submit an acceptable fiscal watch recovery plan
- 2/23/10 Commission held their first meeting with a full commission intact
- 3/15/10 Commission met and discussed the recovery plan outline as presented to the BOE and Superintendent, approved permanent by-laws and certain actions of fiscal management and control of district finances

### **Bellaire Local (Belmont)**

Bellaire Local School District has had financial difficulties for the past several years which required advances of local tax revenue from the County Auditor or delaying payments to vendors at the end of the fiscal year. These practices caused the district to be placed in fiscal caution in fiscal year 2009. The district did not respond with the necessary adjustments to staffing levels for their declining enrollment allowing the deficit to increase whereby the deficits could no longer be covered and an acceptable recovery plan could not be submitted. The district required a solvency assistance advance for fiscal year 2010; therefore, fiscal emergency was necessary and was declared by the Auditor of State on December 31, 2009. The district has been very cooperative with the Commission.

Other key activities of the commission include the following:

- 12/15/09 District and AOS notified that the fiscal watch recovery plan submitted to ODE was unacceptable and that fiscal emergency was being requested
- 12/15/09 District requested an additional payment of their Foundation money in order to meet first payroll in January; ODE approved an early payment and recalculated the remaining Foundation payments
- 12/31/09 Fiscal Emergency declared by the Auditor of State
- 1/13/10 First Commission meeting held in district BOE Conference Room

- 3/8/10 Controlling Board approved a \$3,667,000 advance from the Solvency Assistance Fund, with re-payment to start in August, 2010
- 5/13/10 The Financial Recovery Plan due to be adopted by the Commission

### **East Cleveland City (Cuyahoga)**

Finances for East Cleveland continue to be the district's strong point. Audits for fiscal years 2004, 2005, and 2006 have now been released with the final three years expected to be released within the next several months. At that point, the district will only have several matters regarding the AOS Accounting Methods Report to be addressed before release from fiscal emergency can be considered. A positive general fund balance of over \$42,000,000 (without encumbrances) is shown on the most recent financial monitoring report. It should also be noted that the district receives a large number of federal grants and guarantees due to their high density of students/families living in poverty.

Last year, the district BOE and Commission were in disagreement over the treasurer's contract which was resolved when the Commission and board agreed to a new one year contract for the treasurer. Recently, the BOE and treasurer agreed to an additional two year contract which the Commission will be asked to approve at their next meeting.

The Commission was advised by the ODE Office of Exceptional Children that the district could be subject to the loss of federal funds for special education services unless appropriate progress was made on implementing an improvement plan in the district. The Commission encouraged the district to continue to work with the Office of Exceptional Children and continues to monitor the situation to ensure there is no loss of federal funds.

Other key activities of the commission include the following:

- 4/28/09 Commission directed the BOE to take definitive action "by memorializing such re-employment of the treasurer for a term of one year"
- 5/26/09 Revised five year forecast approved; superintendent reported 180 summer jobs approved for students
- 6/23/09 Treasurer reported a cash balance of \$34,000,000 for the end of the fiscal year; superintendent reported 800 students enrolled in summer school
- 10/27/09 Superintendent reported 7 students confirmed with the H1N1 virus, and the district was taking multiple strategies to protect students and staff; the district was working on appropriate measures to spend stimulus funds
- 2/23/10 Negotiations were progressing with the professional and classified associations; district was cooperating w/ODE on a Special Education action plan; a door-to-door campaign for the OGT was under way

### **Federal Hocking Local (Athens)**

The district appears to be progressing financially and they are in the process of updating their policy manual as a result of the AOS Accounting Methods Report. However, there remains consternation and/or conflict at times between the superintendent and BOE or superintendent and

Commission. The superintendent's office was moved to an elementary building over the summer and the superintendent was asked to supervise the staff (11 full time staff) and students (approximately 270). He objected to this move and filed a lawsuit against the BOE stating his contract disallowed these additional duties. This lawsuit was dismissed in February with the superintendent remaining at the elementary building until the end of the year when a new principal will be employed.

The district's forecast shows improvement, but there are still some accounting issues before release can be considered.

Other key activities of the commission include the following:

- 5/27/09 Treasurer reported the district will end the fiscal year with less than expected carryover due to an increase of \$300,000 in health insurance premiums
- 7/31/09 Staff changes announced; Special Education update given; Superintendent reported on meeting with both unions on health insurance proposal
- 8/12/09 Commission directed the superintendent to provide complete staff comparisons for the recent and current school years, and for the treasurer to cost each individual contract out; revised recovery plan approved
- 10/29/09 Commission approved the five year forecast and staffing report that coincides with the recovery plan
- 12/2/09 Superintendent reported impasse with OEA staff; AFSCME waiting to see results
- 1/12/10 AOS gave report of necessary changes and monitoring required prior to considering release; new BOE members take office
- 3/2/10 Lawsuit dismissed; BOE president outlined changes negotiated and impact to recovery plan; Superintendent reported salary increases of 2.5% negotiated with all employees without health insurance concessions; BOE also voted to not close two elementary buildings each with 300 or fewer students

### **Jefferson Township Local (Montgomery)**

The district has been very cooperative with the Commission as they work to restore the fiscal integrity of this school district. The district finances continue to improve with positive balances projected for fiscal years 2010 through 2014 and the AOS Accounting Methods Report is currently being reviewed and addressed point by point.

An area of continuing concern for the district is the cost of special education services provided by the ESC. To address this issue, the district wanted to use a district owned building to restore special education services to the district. This building was previously under contract for purchase by a community school but the community school was not financially able to complete the purchase. The community school claimed the contract to purchase was still valid and challenged the district's decision to reopen the building for district use in court. The district was notified in late December that the community school prevailed and was allowed 90 days to continue their purchase of the building. The district is still waiting for the conclusion of the

purchase agreement. The district is making new plans to renovate another part of their current building in order to make it usable for necessary classroom space.

Other key activities of the commission include the following:

- 4/20/09 Commission received 2008 audit report showing no findings for recovery, but there were several management citations on controls and to put management procedures in place
- 5/18/09 Superintendent reported on a plan to bring the special needs students, currently being educated at the ESC back into the district to save \$500,000 annually; treasurer reviewed the five year forecast which was approved by the Commission
- 7/20/09 Commission discussed the use of a building that was supposedly under contract to a community school; community school could not obtain the necessary financing for purchase but still made repairs to the building
- 10/28/09 Five year forecast is approved that shows five years of positive balances, although part of that is using the plan to bring all special needs students back in the building; forecast also includes repayment of Solvency Assistance and payment for new buses
- 2/17/10 AOS gave a presentation on the Accounting Methods Report which identifies the changes in policy, practices, and procedures that need to take place prior to consideration for release from fiscal emergency

## **McDonald Local (Trumbull)**

An alarming series of events caused the McDonald Local School District to move through the fiscal oversight process extremely fast this past year. ODE was notified in mid September that the district Treasurer had just resigned and that the district was projecting a shortfall of approximately \$250,000 upon completion of the current fiscal year. An ODE fiscal consultant provided a financial analysis of the district and found other significant discrepancies and additional unpaid bills, resulting in immediate placement in fiscal caution. Upon review, the Auditor of State certified the deficit at \$2,001,000 which prompted a declaration of fiscal emergency. A new treasurer was employed and realized district funds were not available to meet October's payroll. ODE advanced an equivalent of one foundation payment which helped ease the immediate burden until Solvency Assistance could be garnered. A Commission was established and assisted the district in developing a recovery plan. The initial plan developed by the district was rejected by the Commission and a second attempt projecting an additional \$370,000 in reductions proved successful.

Other key activities of the commission include the following:

- 9/14/09 ODE notified of the departure of the district Treasurer and concern over financial distress
- 9/21/09 Financial Analysis performed and discovered additional fiscal discrepancies and an immediate deficit, prompting the declaration of fiscal caution and notification to the Auditor of State of the impending deficits

- 10/13/09 ODE approved an advance of the district's foundation payment and recalculated the remaining foundation payments
- 10/15/09 Fiscal Emergency declared by the AOS and certified a deficit in the amount of \$2,001,000.
- 10/19/09 Controlling Board approved a Solvency Assistance advance for the district to be repaid in fiscal years 2011 and 2012
- 10/26/09 First meeting of the Commission
- 11/03/09 A 4.9 mill new operating levy was approved by district voters to generate \$260,000 per year
- 2/18/10 Commission rejected the first recovery plan; directed the district to make further reductions
- 2/22/10 Commission approved a recovery plan totaling reductions of \$147,000 for FY10 and an additional \$875,000 for FY11 and directed the district to consider another levy request; the district superintendent also announced his resignation upon completion of this fiscal year

### **Springfield Local (Summit)**

Springfield Local continued to reduce expenditures in order to restore their fiscal solvency, but still have some issues to overcome. It appears the index on the district salary scale will continue to present problems until it can be negotiated at a lower rate (currently 6% for 15 steps). During the year a proposal to 'rollover' the existing contract with the OEA association was approved by the BOE and association but denied by the Commission, citing the total cost of the rollover to be approximately \$570,000 in additional expenditure to the district. In the end, the rollover was approved after both parties agreed to re-negotiate the existing contract.

When the district treasurer retired in December, the district tried a new approach by sharing the services of a treasurer from an adjacent district. This arrangement appears to be working well for both districts with each district realizing about \$30,000 in reduced costs. The key to this being successful is having not only the right person as treasurer, but also those members staffing the treasurers' offices. So far, this arrangement appears to be working.

The district BOE also voted to put a bond levy on the May 2010 ballot. There was much discussion on this venture since the district is still showing general fund structural deficits and the Commission is concerned about adding to the district's debt service on top of those deficits.

Other key activities of the commission include the following:

- 4/28/09 Tax Anticipation Note for FY 09 paid in full
- 6/23/09 Treasurer reported that the district would end the fiscal year with a small positive balance, albeit with a Worker's Comp payment being temporarily held
- 8/25/09 Superintendent reported that the district received a rating of "Excellent" per the Local Report Card, that student enrollment had increased slightly due to open enrollment, and that the district had three renewal levies on the November ballot (all three subsequently were approved)

- 12/15/09 Treasurer announced retirement at end of month; AOS gave financial forecast projecting a negative balance of \$329,000 at the conclusion of the current fiscal year
- 2/8/10 New treasurer approved, sharing services with adjacent district as a cost saving venture for both districts; bond levy request approved to build new 7-12 building through the OSFC

## **Youngstown City (Mahoning)**

Youngstown City School District has made considerable progress, will not need a Solvency Assistance Advance this year, and has repaid all but \$1.5 million of the \$28,000,000 advanced. The current forecast is projecting five years of positive balances. The district is also working to address all the issues identified in the AOS Accounting Methods Report. Once those are completed, release might be considered.

However, the preceding year did see a few setbacks. The Commission and BOE were at odds over a transportation contract Request for Proposal and the district was declared in academic emergency. Youngstown is the first district ever declared in fiscal emergency (1997), the first to be in fiscal emergency for a second time (2007), and the first district declared in academic emergency.

Other key activities of the commission include the following:

- 5/14/09 District requested \$3,000,000 in a Solvency Assistance advance;
- 6/12/09 BOE President spoke to the Commission on the transportation RFP and noted it was not the BOE committee's intention to enter into an agreement without involving the Commission; Commission Chair suggested better communications between the two entities and asked the BOE to share any RFP's and reports that have been made to date
- 7/9/09 Treasurer reported on a Worker's Comp Hearing and noted that this would "penalize" the district \$500,000; YCSD official noted the transportation RFP was progressing (by the BOE) and that actions taken by the district transportation department had already realized \$180,000 in savings
- 10/22/09 Commission requested exact number of employees in each category and how it compared to the recovery plan; it was noted that kindergarten enrollment is up 40 students this year
- 11/18/09 YCSD official reported that staff reductions and/or retirements that were implemented for the current school year amount to \$5,228,807.20 in savings to the district
- 12/18/09 Commission approved resolution directing the district to complete the analysis of the cost and capability of the district to provide its own special education transportation; to update its bus routing, building, and bus maintenance software; and to train staff members in its utilization by July 1, 2010; BOE President was in attendance to voice opposition to this resolution
- 1/14/10 Superintendent reported that the State Superintendent was in the district to declare the district in academic emergency and that the district's application for Race to

the Top was not approved because it did not have all the required signatures; BOE attorney spoke in opposition to the previously approved resolution expanding the Commission's authority over RFPs; Commission approved a revised recovery plan and submitted it to State Superintendent for approval

- 2/11/10 Commission agenda revised to remove transportation service contract; BOE President expressed his gratitude for the removal and noted a meeting in Columbus involving Commission members and district officials which resolved the issue; District is working to resolve issues reported in the AOS Accounting Methods Report; FY08 annual audit report showed two minor recommendations and no citations
- 3/10/10 District announced reductions of \$1,536,612 for FY11; Commission questioned why no trade personnel were included and listed reasons, particularly that these were non-teaching employees and the reductions included 14 teachers; Commission requested more information on the reductions at the next meeting, especially now that the Academic Commission is also in place; Treasurer noted that he has developed a financial information page on the district web site and he is addressing the issues on the Accounting Methods Report