



Department  
of Education

Deborah Delisle, Superintendent of Public Instruction

## **REPORT TO THE OHIO LEGISLATURE**

**April 1, 2011**

### **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. S.B. 345 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]

All districts currently in fiscal emergency have made some level of improvement over the past year. One district has been released from fiscal emergency since April 1, 2010 (see notes below), and three districts are in the process of release within the next six months. Additionally, two new districts were declared in fiscal emergency within the past year. Those two districts are going through the usual and anticipated changes as directed by the Financial Planning and Supervision Commission, specifically the necessary financial reductions and equally tough policy decisions each local Board of Education is required to make.

Based on ODE’s review of districts’ forecasts and/or financial analysis, it is anticipated that two to four 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 the fiscal emergency process in an average of four years or less. Without their cooperation, a prolonged and difficult experience can result.

## DISTRICTS IN FISCAL EMERGENCY – APRIL 1, 2011

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Duration</u>
East Cleveland	Cuyahoga	3/12/03	8 years, 0 months
Springfield Local	Summit	5/16/07	3 years, 10 months
Federal Hocking Local	Athens	5/21/07	3 years, 10 months
Jefferson Township Local	Montgomery	8/11/08	2 years, 7 months
McDonald Local	Trumbull	10/15/09	1 year, 6 months
Bellaire Local	Belmont	12/31/09	1 year, 3 months
Beaver Local	Columbiana	2/11/10	1 year, 2 months
Little Miami Local	Warren	7/11/10	0 years, 8 months
Ledgemont Local	Geauga	11/9/10	0 years, 4 months

## DISTRICTS RELEASED FROM FISCAL EMERGENCY SINCE APRIL 1, 2010

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Date Released</u>
Youngstown City	Mahoning	11/16/06	3/29/11

### *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 potential 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 addresses, but is not limited to the following:
  - Solvency Assistance Fund advancements
  - Staff reductions
  - Establishment of procedures for monitoring annual appropriation funds through a monthly cash flow analysis by the district administration and BOE
  - Establishment of procedures for encumbering funds as purchase orders are issued whereas the district administration and treasurer work jointly
  - Adoption by the local BOE of an appropriation measure consistent with the Five Year Forecast and the Financial Recovery Plan

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

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

District officials with the East Cleveland City School District continue to be excellent stewards of the district's finances. The incomplete audits from years past are in the final stages of being posted and the Auditor of State's Accounting Methods Report is complete. With the release of the FY 10 audit, which is projected to be in May, we anticipate the AOS to release the district from fiscal emergency. Commission meetings are planned for May 3 and May 24 to review the district's progress and monitor their continued compliance with all regulations, and we anticipate the May 24 meeting to be the last meeting of the Commission. This may change depending on the AOS verification process, but should not hold up the eventual release for long.

Other key activities of the commission include the following:

- 5/27/10 - Auditor of State released the annual certification of the district's five year forecast projecting a carryover surplus for FY10 of \$33,321,000
- 9/21/10 – Commission approved a resolution regarding the “cost of the negotiated agreement” between the district BOE and teachers association; and approved the permanent appropriations for FY11
- 10/19/10 – Approval was given for the district's five year forecast by the Commission
- 11/23/10 - District BOE and Commission approved resolutions accepting and appropriating the Ed Jobs Grant, totaling \$1,403,825
- 12/21/10 – AOS released the district's financial audits for fiscal years 2004, 2005, and 2006; and it is anticipated that the audits for fiscal years 2007, 2008, and 2009 will be released by the end of March or early April, 2011
- 1/25/11 – Commission approved a resolution formally requesting the AOS to determine whether the district has met all requirements and thus should be released from fiscal emergency
- 5/3/11 – Commission to hear the final forecast review from the AOS and approve the district's May five year forecast
- 5/24/11 – Anticipated date for release from fiscal emergency

### **Youngstown City (Mahoning)**

During the past year the Youngstown City School District continued to seek ways to operate more efficiently. Although the overall number of employees continues to be reduced, the Academic Recovery plan (the district was placed in Academic Emergency in January, 2010) as approved required additional investment of staff to reduce class size in the primary grades. The district has completed a comprehensive response to the Auditor of State's Accounting Methods Report and has established a solid financial foundation, allowing for release from fiscal

emergency. Upon release of the Financial Planning and Supervision Commission, the Academic Distress Commission will continue to have ongoing authority regarding district finances. Therefore, the district financial status may still be monitored to assure continued fiscal solvency.

Other key activities of the commission include the following:

- 4/22/10 - The Commission approved an amendment to the district's recovery plan with projected annual savings of \$1,729,527
- 8/12/10 - The Academic Distress Commission's Recovery Plan was endorsed by the Financial Commission while approving all associated costs of the academic recovery plan
- 10/14/10 – The Commission approved negotiated agreements between the district BOE and its Crafts' Union and AFSCME
- 11/4/10 – The Commission approved a negotiated agreement between the district BOE and the Youngstown Teachers Association
- 3/29/11 – AOS announced the release of the district from fiscal emergency

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

Springfield Local continued to work diligently to reduce its day to day expenditures and has demonstrated a renewed trust within the community during this past year. The district's five year forecast projects a solid financial picture, and once the state's biennial budget for funding districts becomes clear, the Commission will consider a request for release from fiscal emergency. However, 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).

A positive venture worth noting is the continued shared service agreement with an adjacent district for the services of the district treasurer. This arrangement appears to be working well for both districts with each district realizing about \$30,000 in reduced costs. The success is a result of the treasurer, members staffing the treasurers' offices and agreement by both Boards of Education.

Other key activities of the commission include the following:

- 5/4/10 – District voters approved a construction ballot issue to consolidate the district's 7-12 population in a new building
- 7/2/10 – The Commission approved a revised recovery plan that included reductions of an additional 12.37 FTE staff resulting in an estimated annual savings of \$1,073,736
- 11/2/10 – District voters approved two renewal levies: a five year PI levy and a five year emergency operating levy
- 11/23/10 – The Commission approved a new negotiated agreement between the district and teachers association that provided a structural change in the healthcare coverage
- 1/6/11 – The district's five year forecast projects nearly \$3,000,000 carry over surplus for the current fiscal year

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

This district is anticipating release from fiscal emergency in early FY 12, and is currently addressing the few items left to complete for the Accounting Methods Report as provided by the Auditor of State. Their forecast is solid and non adverse for five years. FHLSD plans to employ their High School/Middle School Principal as the new superintendent, effective August 1, 2011. As a current employee of the district, Dr. Wood will be able to maintain the positive momentum which should result in release from fiscal emergency in October or November, 2011.

Also within the past year, agreements were reached with both the certified staff (FHTA) and the classified staff (AFSME).

Other key activities of the commission include the following:

- 4/13/10 – The district Superintendent announced his retirement upon completion of his contract in July, 2011
- 9/2/10 – Superintendent reported on the final staff assignments for the new school year, and that the teachers association and local BOE was at impasse in negotiations; Treasurer had a concern with five year forecast projections; irregularities in operations within the treasurer's office result in a sudden retirement and resignation of two office employees
- 10/21/10 – Commission approves BOE list of personnel resignations, additions for the school year
- 12/22/10 – An amended Recovery Plan was adopted that called for \$100,000 of additional reductions in Spring of 2011
- 2/14/11 – Auditor of State's office presented a review of the district five year forecast with projections of four years of positive balances and year five still in the negative

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

The newly elected Board of Education and district administration (specifically superintendent and treasurer) have done a remarkable job of making appropriate changes within the Jefferson Township Local School District culture that will result in release of the district from fiscal emergency. The district's release is anticipated to be in April, 2011. Continued cooperation between the district and the Commission has resulted in additional staff reductions, renovations of district facilities, and changes in building administrators which add to the improved culture of the district. In essence, the district will be much more successful in their management of daily operations after they are released providing they continue to follow the practices and procedures that have been put into place since fiscal emergency was declared two and a half years ago.

An area of concern mentioned in last year's report was trying to find a way to bring the special needs students educated at the Montgomery County ESC back into the district. That concern is being eliminated through renovation of the district buildings. A second concern regarded an empty dilapidated building the district still owns that is creating an eyesore within the

community and a potential liability for the district. At the current time, the district has not acquired the necessary funding to dismantle the building.

Other key activities of the commission include the following:

- 3/27/10 – The district high school boys basketball team won the Division IV state basketball championship, bringing the community together and instilling much pride into the school system
- 6/15/10 – The district closed on the sale of the Radcliffe Elementary school building to the Chappie James Community School for \$125,000
- 6/23/10 – With approval by the Commission the district reduced certified staff by four members resulting in a savings to the district of approximately \$230,000 annually
- 7/20/10 – Two principals were replaced in an attempt to improve district wide academic performance; replacement costs of the administrators was actually slightly lower
- 8/25/10 – The Middle School/High School renovations were completed in time for the opening of school, including classrooms and restrooms with handicapped accessibility which allowed the district to bring special needs students back into the district from the Montgomery County ESC (Note: this action significantly helps to eliminate one of the conditions that caused the declaration of fiscal emergency and is a huge factor contributing to the district's release from emergency)
- 3/9/11 – District completed the review and revisions of their entire policy manual providing strength and direction to the administrative functions of the district; monthly policy review committee meetings have been established to maintain district policies up to date with current law
- 4/14/11 – District is projected to be released from fiscal emergency by the Auditor of State

## **McDonald Local (Trumbull)**

The McDonald Local School District has been working hard to control its day-to-day costs and to establish policies and procedures to better govern its financial operations. The district has already made significant reductions in its expenditures, and further reductions may have a negative impact on its educational quality as well as its longstanding ability to attract and hold an open enrollment population that it has enjoyed for many years. The district has a 'revenue problem' as opposed to a 'spending problem'. The passage of an additional operating issue is essential to the district becoming solvent and avoiding the consequences of reducing to or below the state operating standards.

Other key activities of the commission include the following:

- 5/24/10 - The Commission approved closure of the district's swimming pool to save an additional \$53,000 annually

- 7/21/10 - The Commission approved the employment of a new, part time superintendent and a fifty cent increase in lunchroom prices to address the negative food service balance;
- 7/21/2- The Commission rejected a Board of Education initiative to place a 13+ mill real estate operating levy on the November ballot
- 8/16/10 – The Commission approved a negotiated agreement between the Board of Education and the district’s teachers association that provided Health Insurance cost concessions
- 1/13/11 – Placement of a 10.75 mill emergency operating levy for the May ballot was approved by the Commission

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

Progress has been slow-coming for the Bellaire School District, but still some progress can be reported. The District BOE has made reductions in force with their administrative, non-teaching, and teaching staffs. An advance from the Solvency Assistance Fund (SAF) was approved for \$3,667,000 during FY 10, and a second SAF advance will most likely be necessary for the current year. Changes to the food service system have shown positive results whereas the district no longer is required to subsidize its food service department at \$100,000 per year. The realities of fiscal emergency have set in and the district administration continues to work cooperatively with the Commission, and the culture of the district appears to be changing and inching toward fiscal recovery.

Other key activities of the commission include the following:

- 5/19/10 – A reduction in force was announced by the district BOE in which 15 teaching positions and 6 classified positions were eliminated, and two retirements were not replaced; a temporary recovery plan was adopted by the Commission along with a mandate that the district find an additional \$1,000,000 in reductions for the following fiscal year
- 9/1/10 – District Superintendent announced that the district had received an ‘excellent’ rating on their Local Report Card
- 9/29/10 – An amended recovery plan including the additional mandated reductions was approved by the Commission
- 10/28/10 – District Superintendent announced that the Bellaire Middle School was recently named a ‘School of Promise’ by the ODE
- 11/2/10 – District voters rejected a new 12.8 mill operating levy request
- 12/16/10 – The Commission directed the district Superintendent to prepare a contingency plan for additional reductions in case the May levy request (1% income tax) is not approved or if there is a substantial reduction in state revenue to the district (district currently receives a State Share Percentage of 79.33%)

## **Beaver Local (Columbiana)**

Beaver Local Schools have made progress in their first year of fiscal emergency. Many of the issues prevalent prior to that declaration have decreased in intensity, and the Commission and local BOE are working cooperatively and on the same goals. The superintendent has announced her retirement for the end of July and a search is being conducted for her replacement. The district is expected to complete the current fiscal year with a positive general fund balance, albeit a small balance (projected to be \$156,000 or 0.9%). They are repaying their solvency assistance advance from FY10 and will continue repayment until payment is made in full in June, 2012.

Other key activities of the commission include the following:

- 5/25/10 – Superintendent reports that several staff are retiring and positions will not be filled; Treasurer reports that tax collections are up more than \$200,000; Commission directs BOE to establish policy on use of attorneys for all legal matters
- 6/27/10 – Commission adopts recovery plan showing total reductions of over \$840,000
- 9/28/10 – Superintendent reports that ADM is down 86 students; Treasurer states that five new buses are needed to bring the fleet up to standard and that no new buses have been purchased in fifteen years
- 10/19/10 – Commission approved the five year forecast, projecting a positive balance for FY11; Treasurer states that tax collections are almost complete and above projections
- 1/13/11 – One additional resignation was approved with the position not being filled; executive session to discuss a legal matter
- 2/16/11 – An Auditor of State representative presented to the Commission their version of the five year forecast, also projecting a positive balance for FY11 and no need for a SAF advance

## **Little Miami Local (Warren)**

Little Miami Local is a high achieving school district meriting the academic level of Excellent on the most recent local report card. Unfortunately, the district residents appear to be quite fractionalized and have not approved a new operating levy in the past seven attempts. Their revenue per pupil and expenditure per pupil are both in the lowest ten percent of all school districts in the state. Another attempt for levy approval is in process for the upcoming election in May, and passage or failure of that ballot issue may determine if the district can survive a dissolution initiative that has already been introduced and is being widely discussed.

Other key activities of the commission include the following:

- 7/11/10 – District is declared in fiscal emergency by the Auditor of State after the district cannot provide an acceptable recovery plan as required for fiscal watch
- 7/20/10 – First meeting of the Commission

- 10/19/10 – AOS certified a forecast that projected a deficit for the fiscal year ending June 30, 2011 of \$5,071,000; a Solvency Assistance Fund (SAF) advance for this amount was requested of and approved by the Controlling Board with repayment to start in August, 2011
- 12/16/10 – Commission approved resolutions directing the local BOE to place a 13.95\* mill operating levy on the May ballot and to make necessary reductions to the minimum operating standard level  
(\*The 13.95 mill levy was considered based on projections by the Auditor of State as the necessary amount to restore fiscal solvency to the district)
- 1/20/11 – Commission had to take action to place the 13.95 mill operating levy on the May ballot since the local BOE could not come to agreement; Commission approved all necessary resolutions in order to submit to the Board of Elections

### **Ledgemont Local (Geauga)**

This is the third school district in the state of Ohio that is experiencing fiscal emergency for the second time. The district was previously declared in emergency after the law addressing fiscal emergency was implemented in FY98, with the district previously being released in FY02. Ledgemont is a small rural district in northeast Ohio and is unique in the fact that for a district in fiscal emergency, an earned income tax levy has already been approved by the district voters. Unfortunately, full collections of that tax will not be available until twenty-three months after passage, and with an immediate deficit as well as deficits projected for the next two years, a solvency assistance advance was required. Therefore, a declaration of fiscal emergency by the AOS was required.

Other key activities of the commission include the following:

- 5/2/10 – District voters approved a 1.25% earned income tax levy
- 11/9/10 – Auditor of State declares the district to be in fiscal emergency due to projected deficits which could not be addressed without solvency assistance
- 11/19/11 – Commission held its first meeting; resolution to request an advance from the Solvency Assistance Fund in the amount of \$2,170,000 approved
- 1/14/11 – Resignation of district treasurer was accepted, interim treasurer employed from the Geauga County ESC
- 2/28/11 – Tentative agreements with the certified and classified staffs approved (agreements increase the amount of deductible and co-pays for employees); Financial Recovery Plan adopted by Commission noting that a second (smaller) SAF for FY 12 may be necessary due to the slow pace of income tax collections