Ohio | Department of Education

John Kasich, Governor
Richard Ross, Superintendent of Public Instruction

REPORT TO THE OHIO LEGISLATURE

April 1, 2013

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 121st 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 123rd 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]

Currently, there are six districts in the fiscal emergency category, and each has made varying degrees of improvement over the past year. No districts have been released since last April, and only one district was added. Each of these districts is discussed in greater detail later in this report. Also, we are monitoring several other districts that may need the declaration of fiscal emergency in order to acquire solvency assistance. Usually, the election results and/or their ability to make enough reductions determine whether or not a district is declared.

The legislation creating fiscal emergency was approved in 1996, and since that time a total of thirty-eight districts have been declared in fiscal emergency. Thirty-two of those districts have since been released. This fact is mentioned to note the effectiveness of our system of procedures currently in place that give confidence to districts as they enter fiscal emergency. The average length of time in emergency is less than four years, and is dependent on the cooperation and the districts' ability to amend their financial practices in regaining the fiscal solvency necessary for release.

DISTRICTS IN FISCAL EMERGENCY – APRIL 1, 2013

District	County	Date Declared	Duration
Bellaire Local	Belmont	12/31/09	3 year, 3 months
Little Miami Local	Warren	7/11/10	2 years, 8 months
Ledgemont Local	Geauga	11/9/10	2 years, 4 months
Liberty Local	Trumbull	7/11/11	1 years, 8 months
Cloverleaf Local	Medina	1/24/12	1 years, 2 months
Monroe Local	Butler	5/10/12	0 years, 10 months

DISTRICTS RELEASED FROM FISCAL EMERGENCY SINCE APRIL 1, 2012

District	County	Date Declared	Date Released
none			

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)

Bellaire Local (Belmont)

The Bellaire Local School District was placed in fiscal emergency on December 9, 2009, and during fiscal years 2010 through the present much work has been devoted to the reduction of expenditures in an effort to right the district's over-spending pattern. During these years, three advances from the solvency assistance fund (SAF) were requested by the district. Two advances will have been completely repaid at the close of fiscal year 2013. The third and final advance will be completely repaid at the end of fiscal year 2014. The district's progress has resulted in a new five-year forecast which AOS concurs will show a small positive balance for the close of fiscal year 2013 and ongoing.

Key operational areas have been addressed each year during the district's fiscal emergency status. Food service over-spending was a large cost, along with escalating insurance expenses. Both of these areas have been successfully harnessed and are now functioning well within appropriate ranges. Currently, the district is developing its corrective process for the transportation department's maintenance costs which were at impractical levels due to the district's failure to replace worn vehicles appropriately and not implementing an effective preventive maintenance plan for the fleet. Scheduled maintenance and repair of the current fleet along with a plan for new bus purchases are the goal.

Despite financial woes beleaguering the district, the Bellaire Local School District received a district-wide excellent rating this year with the middle school receiving an excellent with distinction rating. Strong academics combined with exceptional athletic programs in a small school setting continue to keep Bellaire in the forefront in their region of the state.

Other key activities of the commission include the following:

- 8/22/12 – The district completed negotiations with the employee unions; results include insurance plan cost reductions for the district which will result in a projected savings of over $600,000 annually and the elimination of the pick-up-on-pick-up for all new employees.
- 10/26/12 – The superintendent announced an increase of 25 students for FY12
- 11/6/12 - An 8.7 mill emergency operating levy failed;
- 12/13/12 – The district announced that its transportation program was in transition with a new transportation supervisor. Cost savings and efficiency measures were being developed which will include a schedule for replacement of buses/vehicles and preventive maintenance timelines for the fleet. Projected transportation costs have been substantially under actual expenses for several years and it is the goal to reduce the transportation department's costs while improving services.
- 1/30/13 – The Commission approved the local BOE's request for another levy in May, 2013. This will be the sixth attempt since May 2010.

- 3/13/ 2013 – The Auditor of State (AOS) reported that their examination of the district's forecast for FY 13 would show a small positive balance and will not require an additional SAF request. This ends three years of solvency assistance requests by the district and is the first time in five years they will end the fiscal year with a positive balance in their General Revenue Fund.

Little Miami Local (Warren)

Passing by only 70 votes out of 13,000 cast and on the tenth try for a levy, the 13.95 mill operating levy was approved and has helped the district significantly in regaining its fiscal solvency. The district Board of Education (BOE) and Commission held several joint meetings in an effort to resolve all outstanding issues and to develop the best strategies for the district. There was minimal conflict with differing of opinions, but most issues have been resolved. The Accounting Methods Report as posted by the Auditor of State (AOS) listed 19 comments regarding items that needed to be addressed by the district in order to bring the district financial practices, policies, and procedures up to the AOS standards. The final four items are currently in progress and under review by the Commission and AOS, so a final release date of May 22, 2013 has been set.

Other key activities of the commission include the following:

- 5/15/12 – AOS released the Accounting Methods Report listing 19 comments whereas the district should make attempts to amend their policies or practices and bring them up to the AOS standards.
- 7/24/12 – Commission was apprised of the two buildings to open in time for the new school year. Additional staff, equipment, and renovations were required. The Commission reluctantly approved re-opening of the buildings.
- 8/28/12 – Superintendent reported approximately 250 new and returning students to the district; a contract was ratified with the teaching staff and approved by the Commission; a sub-committee for the district's Capital Improvement Plan began meeting.
- 9/26/12 – It was noted that the State Board of Education ruled that the Miami Bluffs property could be allowed to transfer to Kings Local, and the district's attorney filed a 'stay' in common pleas court. District stands to lose $1.1 M in tax revenue and 84 current students.
- 12/5/12 – The district curriculum specialist reported progress on the district's intent to replace the Language Arts and Math curricula for next school year and would be presenting a request for payment at the next meeting. The AOS representative discussed the Accounting Methods Report and progress on the 19 items identified to be addressed.
- 1/23/13 – The superintendent discussed the staffing needs for FY 14, specifically with the ADM possibly back to 4,000 students, large classes in grades 5 – 6, ninth grade English students to receive remediation, and pilot programs for the new Language Arts program in grades K-5 was underway.
- 3/20/13 – The main item of business was the Accounting Methods Report and the district addressing the remaining four items. Release is still on track for May 22, 2013, depending on all items being positively addressed. Administrators were approved for next year, new buses were approved to purchase, and the district finance report showed

additional funds due to fewer open enrollment students leaving the district. Commission members were still concerned with the lack of an overall restoration/capital improvement plan, busing plan, and future health care costs. Still, release from fiscal emergency is anticipated at the May meeting.

Ledgemont Local (Geauga)

Ledgemont is a small rural district in northeast Ohio and is unique in the fact that an earned income tax levy had already been approved by the district voters prior to being declared in fiscal emergency. Unfortunately, a full collection of that tax was not available until twenty-three months after passage which caused the district to fall into a large financial deficit from which they are still trying to escape. In November, 2012 Ledgemont voters rejected the district's request for an additional 3.4 mills by 110 votes. On December 3, 2012, the Controlling Board approved a third advance from the State Solvency Assistance Fund. During the past year Ledgemont has eliminated all electives at the school and offers only on-line electives now. In spite of these significant reductions in expenditures, the district continues to project structural deficits, based partially on the repayment of solvency assistance advances which consume the entirety of the district's State foundation payments. The Commission has directed the district to investigate partnerships with other districts, including merger. The district is showing effort to identify such partnerships as well as requesting a 14.7 mill operating levy in order to keep the district intact.

Other key activities of the commission include the following:

- 3/23/12 Commission approves a reduction in force of 8.5 certified positions and 1.0 classified position, with estimated annual savings of $530,000.
- 5/25/12 Commission receives report from Treasurer demonstrating that other health insurance options are less desirable than current plan; Commission approves amended five year forecast, which shows a structural deficit of ($322,254) at the end of FY12.
- 6/22/12 Commission approves a revised recovery plan that still projects structural deficits.
- 7/31/12 Commission recognizes Board request for an alternative repayment schedule under Ohio Administrative Code, section 126-5-01, postponing repayment of second solvency assistance advance for one year, and spreading payments over the subsequent four years (FY14 through FY17). It also authorizes a $350,000/five year emergency levy to be placed on the November 6, 2012 ballot.
- 9/25/2012 AOS certifies FY13 deficit at $1,114,000; a third solvency assistance advance was requested and approved by the Controlling Board on 12/3/12.
- 10/23/12 Commission approves five year forecast, which shows a structural deficit of ($224,000) at end of FY13.
- 12/17/12 Commission directs Board to pursue cooperative agreements with neighboring school districts; including consideration of closing one or more buildings and/or merging with another district. The Commission also directs the local BOE to determine the millage

required for the District to provide adequate educational services and maintain a positive fund balance through fiscal year 2017 (reflecting any savings achieved by cooperative agreements with neighboring districts) and repay all money received through the State Solvency Assistance Program.

- 1/31/13 Commission authorizes a 14.7 mill ($1,500,000) five year emergency operating levy to be placed on the May 7, 2013 ballot.

Liberty Local (Trumbull)

Liberty Local was placed in fiscal emergency in fiscal year 2010 and struggled with a variety of issues at the onset of emergency. They were experiencing turmoil with the accounting books not being reconciled for the year, the treasurer's position, health care costs, and issues with two conversion schools. These issues left the district BOE without the basic knowledge of their own solvency/insolvency. The AOS certified a deficit of $1,921,000 the first year in fiscal emergency. Since then, Liberty has made progress in addressing the deficit and will conclude the current fiscal year with a small positive balance. The Commission requested the district review options of joining a health care insurance consortium rather than self-funding their health care insurance. Based on an analysis by their former treasurer the district potentially could save substantial dollars with the move to a consortium. Due to contractual considerations, any change would need to occur at the beginning of the next fiscal year.

Other key activities of the commission include the following:

- 4/30/12 – Superintendent reported that additional reductions were approved at the most recent BOE meeting; corrections to the district's FY 10 General Fund were approved per AOS; a revised recovery plan was approved with the reductions mentioned.
- 5/30/12 – The district five year forecast was approved that was aligned with the recovery plan; a staffing analysis of district personnel was presented to the Commission by ODE staff comparing staff levels to comparable and statewide districts; numerous supplemental contracts were approved.
- 7/18/12 – The district superintendent reported on questions he has heard regarding the 3rd grade reading guarantee; he also noted that open enrollment of students entering the district was up by 40 students; the Commission and BOE signed agreements with AOS for the certification of the district's forecast.
- 10/15/12 – In spite of the fiscal emergency status and many reductions, the district retained it 'excellent' rating per ODE; Commission approved the district's five year forecast.
- 12/17/12 - The Liberty Board of Education and Liberty Financial Planning and Supervision Commission met in a joint session to discuss options for revising the Recovery Plan. A discussion followed concerning the employment of a treasurer sharing the services with an adjoining district, with the BOE and Commission agreeing to this arrangement; discussion followed about the path the district needs to take to be released from fiscal oversight, with health care costs and staffing levels the main concerns.

- 1/23/13 – Commission approved an agreement for sharing a treasurer with another district, although this arrangement did not work out and the person chosen resigned one week later.
- 2/27/13 - Auditor of Stat**e** representative reported on the revenue and expenditures for the current fiscal year and suggested that the district take four months of holiday from funding the insurance account since there is a sufficient balance in the fund. The AOS also projected that the district would have a small balance at the end of the current fiscal year and would not have to seek solvency assistance.

Cloverleaf Local (Medina)

Cloverleaf's request for voter approval of a 6.9 mill levy in November, 2012 was defeated by 624 votes out of 10,262 cast, or about 6 percent. The district has placed a request for approval of a 7.9 mill levy on the ballot for May, 2013. Although the district may not need a second advance from the solvency assistance fund, severe reductions over the past four years (totaling almost $6M) has left the district with few classes at the high school level and crowded situations throughout the other grade levels. However, overall the district did receive the 'excellent with distinction' rating from ODE this past year. It is hopeful that with passage of the new operating levy the district can return some of the reduced areas, especially transportation and curricular additions while addressing future projected deficits and the AOS requirements necessary for release from fiscal emergency within the next fiscal year.

Other key activities of the commission include the following:

- 5/1/12 – A staffing analysis performed by ODE staff was challenged by the local superintendent since it was based on data from October and was outdated; he also reported that a recovery plan consisting of $800,000 in reductions and additional new operating revenue was forthcoming.
- 5/24/12 – As directed by the Commission, the district added $200,000 of reductions to the proposed recovery plan, but the district insurance consortium announced that an insurance premium holiday was possible for fiscal years 2012 and 2013 which would save the district approximately $500,000 and cover the additional reductions; district treasurer announced she was accepting a similar position in another district.
- 6/5/12 – District's forecast was approved; Commission approved the initial recovery plan aligned with the forecast and reductions made by the district.
- 6/28/12 – Superintendent reported that the district had filed papers for the 6.9 mill operating levy request for November and was working with Support Ohio Schools in regard to that levy.
- 8/30/12 – Superintendent reported that the district was set up to share a treasurer with a neighboring district (Medina City), that the district report card scores were the highest level ever, and that the district was pursuing an electronic requisition program that will save money.

- 10/29/12 – Commission approved the district's five year forecast; superintendent noted that negotiations with professional staff were tentatively approved with no increase in base but offering steps, and that the district official received the 'excellent with distinction' status.
- 11/6/12 – District voters rejected the requested 6.9 mill operating levy, but with more yes votes that previous elections. Busing to be reduced in January.
- 1/24/12 – Superintendent noted that a new levy request would be on the May ballot, increased in size by 0.2 mills to add security in response to the Sandy Hook shooting and to fund a DARE officer per community meetings; Commission approved this strategy.
- 2/28/12 – AOS reported that the district's forecast had been certified at $606,000 positive, so no need for SAF; the Accounting Methods Report would also be released soon; Treasurer noted there was $65,000 less in open enrollment expense; AOS performance audit is finalized, soon to be released to public.

Monroe Local (Butler)

Monroe Local was declared in fiscal emergency on May 9, 2012, due to an unacceptable fiscal watch recovery plan. The district actually had two debts as certified by the AOS; a $2.2M general fund deficit and a $3.2M legacy debt caused by making general revenue expenditures from a bond fund dating back almost six years. The general fund deficit was addressed through the solvency assistance fund while the legacy debt is being repaid over a five year period from the district's general fund, per the AOS. The district has been most diligent in addressing each of these deficits and obtaining new funds through an operating levy approved in November, 2112, and thus may have a short stay in fiscal emergency.

Other key activities of the commission include the following:

- 5/30/12 – Initial meeting of the Commission held; approved by laws, heard a review of the forecast by AOS, and approved a resolution requesting $2,204,000 solvency assistance.
- 7/5/13 – Commission approved a BOE resolution with Sodexho outsourcing custodial and maintenance work (proposed to save $85,000 and $105,000 in the first two years); approved several staff as replacements; treasurer reported on temporary and permanent appropriations.
- 8/2/12 – In a special meeting the Commission approved a resolution requesting the Butler County Auditor to certify the rates and amounts for November's levy request.
- 8/8/12 – Superintendent reported on several contracts (Xerox, Peterman, and Sodexho) and that renegotiating with each for additional savings; 14 district administrators were reduced to 7; younger teachers replacing retirees saved an additional $31,500.
- 9/12/12 – Commission accepted news of the district superintendent resigning, and an interim superintendent was approved; Commission approved the initial recovery plan.
- 11/6/12 - A 7.05 emergency mill operating levy request was approved by district voters.

- 11/20/12 – Five year forecast revised and approved by Commission noting the additional funds from the new levy; AOS to begin deficit certification for FY 13; District formed a 'facility committee' and the Commission requested a member on that committee; Commission questioned district legal expenditures.
- 1/9/13 – Commission tabled the district's tax budget for 2013 until final updates were in place; minor change in the levy millage but amount ($2,508,000) remained constant; issue with district's early childhood education studied.
- 1/29/13 – Commission approved a short term tax anticipation note (TAN) to help the district's cash flow; district is working on a shared service agreement with the city and Career-Technical Center regarding technology; superintendent discussed on-line testing and putting a crisis committee in operation.
- 2/27/13 – Commission approved the shared service agreement for technology services with Monroe City and Butler Tech; heard from the district business manager regarding a facilities Committee proposal; reviewed the district's pay-to-participate plan and overall extra-curricular expenses.
- 3/27/13 – Joint Meeting with the district BOE to review and discuss many current items of mutual interest, including transportation contract, challenges/benchmarks of the district, PSEO, staffing needs, SAF, etc.

As mentioned, each of these six districts has made progress over the past year, due mainly to the diligence of the district administration and BOE with valued assistance from the Attorney General's Office, the Office of Budget and, Management, the Auditor of State's Office, and the Finance Program Services section at ODE. We continue monitoring other districts with our goal to help prevent fiscal emergency, but strive to work cooperatively with districts once they may be declared in fiscal emergency and thus require assistance.