



# Ohio

## Ohio School Districts in Fiscal Emergency

REPORT TO THE OHIO LEGISLATURE

APRIL 1, 2015

## LEGISLATIVE BACKGROUND

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

The 121<sup>st</sup> Ohio 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.<sup>1</sup> 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.<sup>2</sup> As stated in Ohio law, 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, the Ohio Department of Education 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 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.” 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.”<sup>3</sup>

Currently, five districts are in the fiscal emergency category, and each has made varying degrees of improvement over the past year. Since last April, three districts have been released, one fiscal emergency district merged with a neighboring district and only one new district has been added. Each of these districts is discussed in greater detail in this report. Also, the department is currently monitoring three districts that may need the declaration of fiscal emergency in order to acquire solvency assistance. Usually, the November/May election results approving new or renewal levies and the district’s ability to make enough expenditure reductions will determine whether the district maintains fiscal solvency or is placed in fiscal emergency.

The legislation creating fiscal emergency was approved in 1996. Since then, 42 districts have been declared in fiscal emergency, with 37 of those districts having since been released. This fact is mentioned to note the effectiveness of the system currently in place that gives confidence to districts as they enter fiscal emergency. The average length of time in emergency is approximately three and one-fourth years. This is dependent on a district’s cooperation and compliance with the commission’s requests and the district’s ability to amend its respective financial practices in order to regain the fiscal solvency necessary for release.

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<sup>1</sup> Am. Sub. S.B. 310

<sup>2</sup> Am. Sub. S.B. 345

<sup>3</sup> ORC §3316.07

## DISTRICTS IN FISCAL EMERGENCY – APRIL 1, 2015

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Duration</u>
Bellaire Local	Belmont	12/31/09	5 year, 3 months
Ledgemont Local	Geauga	11/09/10	4 years, 4 months
Brookfield Local	Trumbull	05/14 /13	1 year, 10 months
Mansfield City	Richland	12/17 /13	1 year, 3 months
East Knox Local	Knox	02/05/15	0 years, 2 months

## DISTRICTS RELEASED FROM FISCAL EMERGENCY SINCE APRIL 1, 2013

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Date Released</u>
Bettsville Local	Seneca	02/06/14	06/30/14 (Merged)
Monroe Local	Butler	05/10/12	09/25/14
Liberty Local	Trumbull	07/11/11	12/01/14
Cloverleaf Local	Medina	01/24/12	01/27/15

## DUTIES AND SERVICES PROVIDED BY THE FINANCIAL PLANNING AND SUPERVISION COMMISSIONS FOR DISTRICTS IN FISCAL EMERGENCY

A five-member commission meets monthly or as needed. The commission's duties include:

- Monitoring district operations with potential financial implications.
- Re-establishing the fiscal integrity of the district.
- 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; and
  - Staffing levels.
- Within 120 days, adopts a financial recovery plan that addresses, but is not limited to, the following:
  - Solvency assistance fund advancements;
  - Staff reductions and shared services;
  - Establishment of procedures for monitoring annual appropriation funds through a monthly cash flow analysis by the district administration and the board of education;
  - Establishment of procedures for encumbering funds as purchase orders are issued whereas the district administration and treasurer work jointly; and
  - Adoption by the local board of education 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 Dec. 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 overspending pattern. During these years, three advances from the solvency assistance fund were requested by the district. At the conclusion of FY14, the district completed repayment of all three advances. The Auditor of State recently released the financial forecast, which projects a positive balance for FY15 of \$2,059,000. Mirroring the Auditor of State's forecast, the district forecast projects positive balances in each of the five years going forward, although there is evidence of overspending in the last two years of the forecast.

The Auditor of State released the Accounting Methods Report, which lists any financial policy, practice or procedure in need of updating to the Auditor of State's standards. Currently, the district has addressed the majority of the issues identified. All issues will need to be addressed prior to release from fiscal emergency. Issues that have been corrected over the past five years include food service over expenditures, escalating health insurance costs (whereas \$350,000 has been saved without reducing benefits) and maintenance costs within the transportation department. For example, one individual was employed to supervise both the food service and transportation departments, and other such shared service arrangements have been adopted to reduce costs. The district is currently focusing on updating its capital assets management plan as part of the Accounting Methods Report.

While the district is becoming financially solvent, there are a few items (policies, procedures and practices) that need to be tested by the Auditor of State's office, with that testing currently in process. All district policies have been updated. The district did receive an overpayment in transportation funding during FY14, all of which was required to be repaid to the state. This caused great concern as it changed the five-year forecast and recovery plan, but the situation has been resolved with all repayments made during the current fiscal year and appropriate adjustments to the forecast and recovery plan. The district is still projecting surpluses on the forecast in future years. After the Auditor of State can certify a positive five-year forecast and assure that all Accounting Method Report issues have been successfully addressed, a request for release from fiscal emergency will be forthcoming.

District Demographic Information for Bellaire Local School District is:

- FY214 cash balance was **\$1,979,068**, which was **16.4 percent** of its FY14 expenses.
- ADM (student population) has changed by about **-1.8 percent** since FY09.
- Property values have changed by about **8.4 percent** since FY09.
- Projected valuation per pupil is about **\$86,476** in FY16.
- Valuation per pupil, ranked high to low, is **539** of **610** districts.
- Median income is **\$26,768** and is **-\$6,284** from the state median.
- Median income, ranked high to low, is **548** out of **610** districts.
- Tax year 2014 Class 1 millage rate is **20.01** mills.

Other key activities of the commission include the following:

- 5/20/14 – The district superintendent reported that the most recent levy request failed, and the local newspaper had a citizen complaint of the district requesting new levies eight times. The superintendent also said it has been 29 years since a new levy was approved by voters. A new treasurer was approved and will start in June.

- 6/30/14 – It was reported that all third grade students passed the third grade reading guarantee. Negotiations have started. The Auditor of State reported that the Accounting Methods Report was being addressed.
- 8/21/14 – A new school year began with associated activities. Ten new staff members have been employed to replace retiring members. The new treasurer is getting accustomed to the district.
- 10/6/15 – An amended financial recovery plan was adopted by the commission. A spokesperson for the teacher’s professional association presented a list of questions regarding the commission’s role and other finance questions. Permanent appropriations for FY15 were approved.
- 12/16/14 – More discussion by the teacher’s association concerning negotiations. The superintendent reported that ADM was down approximately 60 students. The Auditor of State was starting the annual forecast certification. A Bellaire school was designated by the Ohio Department of Education as a School of Promise. Orders for two new buses were approved at more than \$81,000 each.
- 1/28/15 – The superintendent reported that district ADM was now below 1200 students with the decline of students continuing. The cafeteria is now solvent and self-supporting (prior to fiscal emergency, the food service was being subsidized by the general fund by more than \$100,000 per year). When asked about a new tax levy request for the May ballot, the superintendent responded by saying the people have spoken on this issue by rejecting the past eight levy requests, and the district would provide the best education it could with the funding available.
- 3/11/15 – The district treasurer reported on an overpayment of transportation funding in FY14 that would need to be repaid by withholding funds from the foundation payments, all in FY15. Staffing may need to be reduced next year due to declining enrollment. The Auditor of State finalized the forecast certification showing a surplus of \$2,059,000 for FY15. No further progress was reported on the Accounting Methods Report issues that must be addressed prior to release.

## Brookfield Local (Trumbull)

Brookfield Local was declared in fiscal emergency May 14, 2013, by the Auditor of State due to the district being unable to submit to the Ohio Department of Education an acceptable fiscal watch recovery plan. The district voters already approved a new tax levy that generates approximately \$606,000 per year, but even by borrowing against that levy, the district was unable to complete the fiscal year and meet all of its financial obligations. Therefore, fiscal emergency had to be declared and a solvency assistance advance was necessary. As collections from this tax levy are now in full force, the district’s five-year forecast shows great improvement. The Auditor of State has been assisting the district in completing the Accounting Methods Report and, once finished, release from fiscal emergency will be in order, possibly by the end of the calendar year.

District Demographic Information for Brookfield Local School District is:

- FY14 cash balance was **-\$66,691**, which was **-0.6 percent** of its FY2014 expenses.
- ADM (student population) has changed by about **-14.7 percent** since FY09.
- Property values have changed by about **-5.3 percent** since FY09.
- Projected valuation per pupil is about **\$116,664** in FY16.
- Valuation per pupil, ranked high to low, is **411** of **610** districts.
- Median income is **\$28,227** and is **-\$4,775** from the state median.
- Median income, ranked high to low, is **508** out of **610** districts.
- Tax year 2014 Class 1 millage rate is **27.36** mills.

Other key activities of the commission include the following:

- 4/8/14 – The commission approved a resolution supporting the district’s request for a solvency assistance advance, which was approved by the Controlling Board in the amount of \$514,000.
- 7/30/14 – Final appropriations for FY14 and temporary appropriations for FY15 were commission approved. Additional supplemental and athletic personnel were approved for employment.
- 9/30/14 – The superintendent reported that several buses failed inspection and new buses were needed, but funding is insufficient for the purchase/replacement of new buses. Therefore, a new Permanent Improvement levy may be necessary.
- 10/21/14 – The commission discussed the district’s five-year forecast and the fact that it was projecting deficits in later years with a very small surplus each year until the deficit; therefore, the commission requested an additional \$150,000 of reductions. District personnel responded that they would put together a proposal addressing this request. The five-year forecast was then approved.
- 12/2/14 – A revised five-year forecast was reviewed and approved showing the additional expenditure reductions requested at the commission’s last meeting.
- 1/20/15 – Rather than purchase one new bus at \$80,000, the district and commission approved a lease/purchase agreement for three buses at \$50,000 per year for five years.
- 2/24/15 – Auditor of State representatives presented a draft of their forecast for FY15, noting that it would maintain a surplus at year’s end, but a deficit was projected for the following year. The district already has made the reductions requested by the commission, which will offset that deficit. The commission chair also suggested that the district may be eligible for release from fiscal emergency as soon as the Accounting Methods Report issues are all addressed, possibly by the coming summer.

### East Knox Local (Knox)

East Knox Local is the newest district to be declared in fiscal emergency by the Auditor of State. The district was unable to submit an acceptable fiscal watch recovery plan to the department of education, which would have effectively eliminated its future deficits. District voters have rejected nine levies since the district was placed in fiscal caution during FY10. Also, since that time, the district has cumulatively reduced expenditures by approximately \$3 million. The reductions include the closure of an elementary building, switching health insurance providers and eliminating administrative and staff positions. The district has tried several different levy approaches: combining various levels of income tax, earned income tax and real estate tax. This approach was deemed necessary by the local board with the recent increase of Current Agriculture Use Value (CAUV) by 13 percent and the district having approximately 26 percent of its land categorized as agriculture. This change in CAUV does have a positive note, however, with the district collecting an additional \$186,000 in taxes during FY15 as a result.

The commission has only met on two occasions thus far and is currently working on a recovery plan. That plan is expected to be approved by the commission at its June meeting. No levy is offered for the May election, but the district will be directed to place one on the November ballot after the Auditor of State offers guidance to the commission on a specific amount.

District Demographic Information for East Knox Local School District is:

- FY14 cash balance was **\$1,160,002**, which was **12.0 percent** of its FY14 expenses.
- ADM (student population) has changed by about **-12.2 percent** since FY09.
- Property values have changed by about **14.7 percent** since FY09.
- Projected valuation per pupil is about **\$197,804** in FY16.

- Valuation per pupil, ranked high to low, is **89** of **610** districts.
- Median income is **\$34,424** and is **\$1,372** from the state median.
- Median income, ranked high to low, is **236** out of **610** districts.
- Tax year 2014 Class 1 millage rate is **20.00** mills.

Other key activities of the commission include the following:

- 2/19/15 – The commission held its initial meeting with three members answering roll call; members to be appointed by the Governor’s Office and a parent appointed by the state superintendent are still in process. The commission by-laws were approved.
- 3/19/15 – The district superintendent reported that the district is short several bus drivers, so routes have been combined. The high school principal retired, so the assistant principal has taken over, and the superintendent has agreed to assist with discipline at the high school. The treasurer reported that an increase in CAUV rates/values provided additional revenue for the district but could be a factor in a new levy being approved by the agricultural constituents of the district.

### Ledgemont Local (Geauga)

After years of financial struggle and many attempts of trying to approve new levies, the district is trying something new — merging with a neighboring district. Reductions to staff, class offerings for students, extracurricular/supplemental positions, etc., have resulted in approximately one-third of the student population leaving the district through open enrollment or to community schools. Currently, the district is educating fewer than 400 students. Constituents of the district also are divided on how best to provide the educational opportunities for the remaining students.

The commission’s most recent recovery plan requested the district to consider advertising ‘requests for proposals’ for the administrative services of the district and for the educational possibilities for the special needs population currently being educated through the Geauga County Educational Service Center. It also directed the district to review and expand its digital class offerings to the high school students, eliminate all athletic and supplemental positions, review all Medicaid and catastrophic costs requests for maximum reimbursement, and, finally, seek another new levy. None of these commission requests were put into place by the district, rather it opted to forego its local control of the district and merge with the Berkshire Local School District. That merger is in full process and expected to be completed on June 30, 2015. This will mark the second district that has merged for financial reasons in the past year. Both mergers have been highly incentivized by the General Assembly approving the forgiving of the solvency assistance advances previously forwarded to the district(s). In Ledgemont’s specific case, that amounts to approximately \$2.9 million. During the past year, the district even tried to move inside millage to the general fund in order to repay the solvency assistance advances, but that plan was overruled by the county auditor, who prohibited the inside millage move.

Further, the district approved a resolution to join three other contiguous districts in the county to partner with Kent State University to provide a shared high school venture. This process is still under review with final decisions to be made in the coming year. The proposed new school building would actually be located in the current Ledgemont Local School District as part of the Kent State University campus. The merge with Berkshire would not change this proposed shared high school service in any manner.

District Demographic Information for Ledgemont Local School District is:

- FY14 cash balance was **\$83,485**, which was **1.4 percent** of its FY14 expenses.
- ADM (student population) has changed by about **-24.5 percent** since FY09.

- Property values have changed by about **2.9 percent** since FY09.
- Projected valuation per pupil is about **\$213,220** in FY16.
- Valuation per pupil, ranked high to low, is **60** of **610** districts.
- Median income is **\$38,446** and is **\$5,394** from the state median.
- Median income, ranked high to low, is **120** out of **610** districts.
- Tax year 2014 Class 1 millage rate is **20.00** mills.

Other key activities of the commission include the following:

- 5/18/14 – The Ledgesmont Board approved a resolution to move all K-12 students into one facility.
- 7/18/14 – A new medical benefits package was approved with the Lake County Schools Council, saving Ledgesmont approximately \$50,000 in FY15. An agreement was approved with the Geauga County Public Library for the operation of a public library station located within the Ledgesmont school building. The commission had concerns about the district requesting another levy request without yet knowing the outcome on moving the inside millage to cover certain expenditures.
- 9/25/14 – The superintendent gave reports on the two levy issues on November’s ballot; discussions were proposed to merge with a neighboring district; and the district was involved with a Straight A grant through Geauga County. The treasurer added discussion on the five-year forecast, stating it would be ready by next month’s meeting. Additional staff members and permanent appropriations were approved.
- 10/17/14 – The superintendent reported that negotiations with a neighboring school district were in process and a decision on whether to merge with this district would come after the November levy results were known. The district’s five-year forecast was approved projecting no deficit for the current year; however, a cash flow issue was noted whereas the district might need assistance in meeting payroll in December.
- 11/4/14 – Of the two levies on the ballot, a renewal of the district’s income tax was approved by voters while an additional new tax was defeated.
- 12/19/14 – Discussions at the commission meeting revolved around seeking additional shared service agreements, meeting payroll, requiring an SM-1/SM-2, territory transfer, tax collection rates and moving the vision/dental insurance to a different provider to save money.
- 1/16/15 – The superintendent discussed issues with special education and transportation about trying to save money in each area. The Auditor of State provided four scenarios for levy amounts that the commission had previously requested. The treasurer noted she had completed the district’s tax budget; a revised recovery plan was approved that requested the district to advertise for a RFP for administrative and special education contracts; further review on digitalizing the high school; and continuing to seek additional revenue or complete a proposed merger.
- 3/20/15 – The Auditor of State certified a deficit for the current fiscal year at \$978,000, which includes payments for all staff, health insurance and severance for district employees prior to the merger in June. Items regarding the merger were discussed, making sure all aspects are covered.

As noted above, both the Ledgesmont and Berkshire boards of education approved resolutions in January 2015, requesting the Geauga County Educational Service Center to proceed with a merger (total territory transfer) proposal of the two districts. The educational service center approved its intent resolution to merge the districts, then met on Feb. 27, 2015, and approved a second resolution officially merging the districts on or before June 30, 2015. There was no official opposition from the public within the 30-day period between educational service center meetings, and the proposed

merger is currently in process. Similar to a recent merge of districts, there are issues to be overcome such as: transportation (changing the deeds of buses, licensure, re-certifying drivers, new routes, etc.); switching healthcare coverage for employees; CCIP (Federal Grants and Title funds); switching banks; and reconciling funds. However, both administrations are working to resolve these issues, and no permanent barriers are anticipated.

## Mansfield City (Richland)

Mansfield City School District is now in its second year of fiscal emergency, and much progress has been noted. Prior to declaration of fiscal emergency, the district was in fiscal watch since FY06. During that time, a \$4 million renewal levy request was defeated by district voters, causing the funds generated from that levy to disappear. A new levy was recently approved to make up for the \$4 million lost, but the district lost approximately two years of collections in the meantime. Despite the approval of the new levy, the district projected a deficit in FY14, making it necessary to enter fiscal emergency and access the solvency assistance fund. With the expenditure reductions now in place, the district is projecting positive numbers on the five-year forecast, though it will take time to see if the additional revenue and expenditure reductions are sufficient to restore the fiscal integrity of the district. New items of business for the district and commission pertain to the Accounting Methods Report and a district personnel issue.

District Demographic Information for Mansfield City School District is:

- FY14 cash balance was **\$2,520,700**, which was **4.4 percent** of its FY14 expenses.
- ADM (student population) has changed by about **-1.8 percent** since FY09.
- Property values have changed by about **-14.1 percent** since FY09.
- Projected valuation per pupil is about **\$76,289** in FY16.
- Valuation per pupil, ranked high to low, is **569** of **610** districts.
- Median income is **\$22,158** and is **-\$10,894** from the state median.
- Median income, ranked high to low, is **601** out of **610** districts.
- Tax year 2014 Class 1 millage rate is **24.16** mills.

Other key activities of the commission include the following:

- 4/22/14 – The commission adopted an initial financial recovery plan that called for annual spending reductions of approximately \$6 million, including administrators, professional and classified staff personnel. In all, 148 full- or part-time employees, (approximately 25 percent of the total staff) were eliminated in the reduction plan. The district also planned to close an elementary building and a community school it operated.
- 5/28/14 – The commission adopted a revised recovery plan, which made no significant changes to the initial plan. The district's reduction plan that was previously approved by the board of education, as noted above, was approved by the commission.
- 6/24/14 – The superintendent discussed the variety of learning opportunities available to students over the summer months. The commission reacted to a multitude of resignations and appointments of staff members.
- 7/22/14 – In public comments, the commission heard from several parents thanking them for restoring the Spanish immersion program in second grade. The superintendent reported that the district is partnering with The Ohio State University for a math camp (170 students attending) and has a kindergarten camp scheduled in August.
- 9/23/14 – It was noted by the superintendent that the district ADM was now at 3,572 students, a decline from previous years.
- 10/28/14 – The president of the teacher's professional association addressed the commission and offered to give back a sizable amount of money in order to restore four teaching positions.

The district's five-year forecast was discussed in length, since it projected a sizable reduction in real estate taxes as compared with the May forecast and prevented the board of education or commission from restoring any teaching positions previously reduced. A review of the forecast by the fiscal monitor was requested by the commission and a special meeting was called to review this again.

- 11/12/14 – At a special meeting, a revised five-year forecast was approved by the commission.
- 12/17/14 – The superintendent shared information on the success of the literacy collaborative with Ashland University, citing specific examples of student success. The Auditor of State noted it was about to begin the forecast certification for the district. A resolution was approved by the commission giving specific directives to the district treasurer regarding the forecast accuracy, attendance at commission meetings and providing timely answers for the commission.
- 1/22/15 – The superintendent reported that Mansfield City School District was recognized as a top district in the nation for math literacy. The commission chair noted that the district treasurer was not in attendance. The tax budget for FY16 was approved.
- 2/23/15 – The commission noted that the Ohio Attorney General's Office sent a letter to the district treasurer requesting her attendance and total cooperation with the commission. The superintendent shared information regarding certain student activities that have been well received. The Auditor of State performance audit was being reviewed, specifically in regards to a staffing plan/analysis.

## Summary

In summary, these five districts are in varying stages of fiscal recovery and each has made some recognizable progress over the past year. The Finance Program Services section at the Ohio Department of Education continues to monitor all districts within the state, assisting them when needed with financial or staffing analysis — all with the goal of preventing fiscal emergency. Due to a variety of circumstances, however, generally two or three districts each year meet the qualifications of fiscal emergency and require assistance either from the department or from the Controlling Board (solvency assistance). The department of education is genuinely appreciative of the partnerships and working relationships it has developed with the Attorney General's Office, the Office of Budget and Management and the Auditor of State's Office. This collaboration allows the department to better serve districts in fiscal emergency and help restore fiscal integrity.