



Ohio

Ohio School Districts in Fiscal Emergency

REPORT TO THE OHIO LEGISLATURE

MAY 2016

LEGISLATIVE BACKGROUND

School Districts in Fiscal Caution, Watch and Emergency

The 121st 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.¹ 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.² 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.”³

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, which 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.

¹ Am. Sub. S.B. 310

² Am. Sub. S.B. 345

³ ORC §3316.07

DISTRICTS IN FISCAL EMERGENCY AS OF APRIL 1, 2016

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Duration</u>
Bellaire Local	Belmont	12/31/09	6 years, 3 months
Brookfield Local	Trumbull	05/14 /13	2 years, 10 months
Mansfield City	Richland	12/17/13	2 years, 3 months
East Knox Local	Knox	02/05/15	1 year, 2 months
Coventry Local	Summit	12/02/15	0 years, 4 months

DISTRICTS RELEASED FROM FISCAL EMERGENCY SINCE APRIL 1, 2015

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Date Released</u>
Ledgemont Local	Geauga	11/09/10	06/30/15 (Merged with Berkshire Local)

DUTIES AND SERVICES PROVIDED BY THE FINANCIAL PLANNING AND SUPERVISION COMMISSIONS 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.
- May grant itself the same authorities as the board of education 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, the commission 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 since that time, has been working steadily toward fiscal solvency. Only a few items on the Accounting Methods Report released by the Auditor of State remain to be completed, and the district's financial status has improved to the point that release should be requested by the end of the calendar year. The commission, now meeting only every other month, is waiting for the district to complete negotiations for a new collective bargaining agreement before making the request for release.

District demographic information for Bellaire Local School District is:

- FY15 cash balance was **\$3,027,068**, which was **26.0 percent** of its FY15 expenses.
- ADM (student population) has changed by about **-7.9 percent** since FY09.
- Property values have changed by about **8.4 percent** since FY09.
- Tax year 2014 Class 1 millage rate is **20.01** mills.

Other key activities of the commission include the following:

- 4/9/15 – Superintendent reported the district had missed 12 days due to weather and noted the plan for make-up of those days; a newsletter was developed and sent to district residents; the five-year forecast was presented in draft form for commission review.
- 8/12/15 – Additional revenue was reported from the biennial budget and foundation funds (\$150,000 in FY16 and \$100,000 in FY17); the superintendent is retiring, and the current treasurer will assume those duties with a new treasurer being employed.
- 10/28/15 – The five-year forecast was presented and approved; the district is working diligently on a Permanent Improvement levy up for renewal; permanent appropriations for the fiscal year were approved.
- 12/1/15 – The superintendent reported the Permanent Improvement levy renewal was approved by voters, representing \$235,000 per year;
- 2/2/16 – The district ADM seems to have stabilized at 1293 students; a QZAB Bond grant has been completed with bonds sold and the district now intends to implement a STEM curriculum in the middle school, based on projections that 65 percent of the students will enter a job market (by 2020) of jobs not yet created.

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 had approved a new tax levy but due to a projected deficit, had to enter fiscal emergency to gain access to the solvency assistance fund. Two advances have been recorded, and the district is currently on the verge of requesting release from fiscal emergency. Only a few items are left to address on the Accounting Methods Report, and it is projected that the Auditor of State will begin its final five-year forecast review after the new fiscal year begins.

District demographic information for Brookfield Local School District is:

- FY15 cash balance was **-\$283,889**, which was **-2.5 percent** of its FY15 expenses.
- ADM (student population) has changed by about **-13.4 percent** since FY09.
- Property values have changed by about **-5.3 percent** since FY09.
- Tax year 2014 Class 1 millage rate is **27.36** mills.

Other key activities of the commission include the following:

- 4/29/15 – The Auditor of State reported a positive balance of \$132,000 to conclude FY15; however, the end-of-year balance was actually negative due to underestimating the open enrollment calculations throughout the year. Contracts for placement of special needs students at the educational service center and with the Auditor of State for GAAP Reporting were approved.
- 6/9/15 – The Office of Civil Rights cited several incidents where the football stadium is not in compliance with the American Disabilities Act; cost of repairs/updates were projected at \$750,000. A resolution to address this concern was approved. Also approved were a long list of employee employments for the ensuing fiscal year and a revised five-year forecast.
- 8/27/15 – The commission requested the district to find \$300,000 in expenditure reductions to bring expenses in line with revenue. Additional employee contracts were approved for the current fiscal year.
- 9/29/15 – A draft five-year forecast was presented that projected a negative balance for the current fiscal year and of those to follow. Immediate attention to this item was directed to the administration. FY16 appropriations were approved.
- 10/28/15 – With an increase in Capacity Aid of more than \$480,000 the district was able to post a five-year forecast with a positive balance. The board of education decided to make further reductions, and March 2016 was the estimated date for review.
- 1/12/16 – At a special meeting, the commission approved the district's request for a short-term tax anticipation note to cover current expenses.
- 1/26/16 – Due to retirement, a new commission chair was appointed. A resolution approving the recent contract negotiations was asked to be temporarily postponed until further review of the financial specifics of the agreement could be completed by the monitor and Auditor of State due to the district's recent fiscal concerns. However, the three local members pushed to not allow the postponement and moved to approve the contract without the added financial review. Another extensive list of personnel, mainly supplemental contracts, was approved.
- 3/29/16 – The Auditor of State presented the FY16 Forecast Report, which shows solvency assistance paid off by year end and positive year-end operating and cash balances.

Coventry Local (Summit)

Coventry Local School District is the newest district to enter fiscal emergency. The district had been in fiscal watch for 18 years, and while some progress had been temporarily seen, the district was not able to overcome its fiscal distress most notably due to multiple outstanding loans the district acquired during the previous 20 years. Thus, fiscal emergency was declared by the Auditor of State on Dec. 4, 2015. The commission held its initial meeting Jan. 13, 2016, with a full slate of commission members present and being sworn in by the State Board of Education member. The clock started clicking at that meeting for the recovery plan to be approved within 120 days.

District demographic information for Coventry Local School District is:

- FY15 cash balance was **-\$1,581,701**, which was **-6.6 percent** of its FY15 expenses.
- ADM (student population) has changed by about **-7.4 percent** since FY09.
- Property values have changed by about **-10.3 percent** since FY09.
- Tax year 2014 Class 1 millage rate is **22.22** mills.

Other key activities of the commission include the following:

- 1/13/16 – The commission approved its By-Laws and Engagement Letter with the Auditor of State, a request for solvency assistance pending Auditor of State certification of the FY16 deficit, and a variety of expenditures in excess of \$5,000.

- 2/19/16 – The commission chair discussed the scope and authority of the commission as presented in code; the superintendent reported the district was reviewing all areas, starting with administrative positions for possible reductions; the treasurer explained the appropriations process and how over \$51 million was appropriated for all funds yet only \$21 million was appropriated for the general fund; the Auditor of State reported the ‘certification of deficit’ would soon be complete with the district forecast to be revised to mirror the Auditor of State’s report; Ohio Department of Education personnel gave a presentation on how the foundation payment works for districts in Ohio and a brief description of the Cupp Report; a question regarding if the ‘land bank’ as established in Summit County was working for the district (report on this at a later meeting); and much discussion was held on the matter of bidding contracts and appropriate procedures for such within the district. During the month, discussions took place regarding the various outstanding loans the district has acquired and how the repayment of these was affecting district finances.
- 3/28/16 – The Ohio Attorney General representatives presented the necessary ethics training and review of the Sunshine Laws; the treasurer spoke on the ‘Land Bank’ procedures (follow-up from the last meeting); the Auditor of State was ready to present the certified deficit, but the district was questioning its ability to include payoff of some additional outstanding loans; detailed discussions were held on each purchase order to be approved (note: the commission approves all purchase orders for more than \$5,000); a lengthy discussion ensued on a specific contract, whether the district sought the appropriate bids for such, and if the district could move further on the implementation of the contract; further review of this was deemed necessary and would surely include legal review.

East Knox Local (Knox)

East Knox Local was declared in fiscal emergency by the Auditor of State on Feb. 5, 2015, due to the district’s inability to submit an acceptable fiscal watch recovery plan. 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. The combined levy approach was used due to 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 as the district collected an additional \$186,000 in taxes during FY15 and anticipates approximately \$480,000 in FY16. These additional dollars are allowing the district to maintain positive end of year balances.

District demographic information for East Knox Local School District is:

- FY15 cash balance was **\$1,588,679**, which was **16.0 percent** of its FY15 expenses.
- ADM (student population) has changed by about **-11.7 percent** since FY09.
- Property values have changed by about **14.7 percent** since FY09.
- Tax year 2014 Class 1 millage rate is **20.00** mills.

Other key activities of the commission include the following:

- 7/23/15 – A special commission was held to approve a levy request by the board of education. The levy was an earned income tax projected to bring in slightly over \$1 million.
- 7/30/15 – One of two resolutions was removed from the commission’s agenda prior to the meeting. The local board of education voted 3-2 to approve the request for the levy, meaning

its resolution was defeated (four positive votes are required for a new levy) and thus, the commission did not discuss or approve going forward with the levy request.

- 8/20/15 – Day three of the new school year. The superintendent reported that they are still searching for a school psychologist, but all other positions have been filled. The ADM was down slightly after the first few days. One commission member stated how his son hears negative discussion of the district as result of the board of education’s in-fighting.
- 9/29/15 – The superintendent praised the staff for such a good, smooth start to the new year and for the veteran teachers assisting the new staff members. ALICE training to begin soon, and the treasurer reported revenue was up and expenses were down compared to the prior year. One request for a new staff member was removed from the agenda since there was not enough information (hours or costs provided) for it to be approved.
- 10/26/15 – A new five-year forecast was approved, projecting a positive balance at year’s end of approximately \$1.6 million. Snow removal for the year will be outsourced as result of several job positions being eliminated.
- 12/15/15 – All fall athletic supplemental contracts were non-renew as an annual course of action. Each position will be reviewed and posted for employment later in the year.
- 1/26/16 – The superintendent reported a spaghetti dinner was provided to the community free of charge by the district leadership, and that the recent ALICE training that took place was well received but had an injury during such that required surgery. A transportation issue (shared service with a neighboring district) was reviewed and \$9,000 was saved. The Auditor of State reports that the annual forecast certification is complete and the Accounting Methods Report is getting started.
- 3/21/16 – Auditor of State presented FY16 forecast report.

Mansfield City (Richland)

Prior to declaration of fiscal emergency (Dec. 17, 2013), the district was in fiscal watch since FY06. During that time, a \$4 million renewal levy request was defeated by the 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 (approximately 25 percent of total staff), the district is projecting positive numbers on the five-year forecast. It will, however, take time to see if the additional revenue and expenditure reductions are sufficient to restore the fiscal integrity of the district.

District demographic information for Mansfield City School District is:

- FY15 cash balance was **\$7,998,595**, which was **14.9 percent** of its FY15 expenses.
- ADM (student population) has changed by about **-7.4 percent** since FY09.
- Property values have changed by about **-14.1 percent** since FY09.
- Tax year 2014 Class 1 millage rate is **24.16** mills.

Other key activities of the commission include the following:

- 8/4/15 – The Auditor of State reported that most items on the Accounting Methods Report were complete. All items must be addressed prior to requesting release from fiscal emergency. Many contracts and/or purchase orders were approved for the upcoming year.
- 8/25/15 – At the commission meeting, another extensive list of contracts was approved to complete the services necessary for the school year. Included in that list were supplemental (coaches, advisors) for the year. Other vendors for annual services also were approved, as well as an interim treasurer to start Sept. 1.

- 10/27/15 – The district superintendent reported that there were several bomb threats in the district and that the local law enforcement “had been stellar” in their assistance. The commission approved an initial request asking the Auditor of State to consider releasing the district from fiscal emergency.
- 12/16/15 – The superintendent reported that Ohio Department of Education’s Academic Distress Team just completed its review of the district and that the final report would be forthcoming by February 2016. The district superintendent received a new four-year contract. A resolution to authorize the commission secretary to act on behalf of the commission in approving purchase orders up to \$25,000 was approved. This increase represents a first step toward transitioning out of fiscal emergency.
- 1/12/16 – Contracts for extension of the interim treasurer and a full-time permanent treasurer were approved. Due to retirement, a new commission chairperson also was seated.
- 2/23/16 – After discussion with the auditor of state and the new treasurer, the commission voted to rescind a previous resolution requesting release from emergency to allow the new treasurer additional time to become familiar with the district and to review the five-year forecast projections. Next meeting scheduled for April 7.

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 School Finance section of 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 are determined to meet the qualifications of fiscal emergency and typically request solvency assistance from the Controlling Board. 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.