



Department  
of Education

John Kasich, Governor  
Stan Hefner, Superintendent of Public Instruction

## **REPORT TO THE OHIO LEGISLATURE**

**April 1, 2012**

### **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; in fact, **six districts have been released from fiscal emergency since April 1, 2011** (see notes below). Two new districts have been declared in fiscal emergency within the past year which brings a total of five districts in fiscal emergency today. That is the lowest number of districts in fiscal emergency since the beginning of fiscal year 2010. However, based on ODE’s review of districts’ forecasts and/or financial analysis, it is anticipated that four to six additional districts may require declaration of fiscal emergency in the coming year. The status of these districts will depend on levy approvals and/or the district’s ability to make additional budget reductions.

The legislation creating fiscal emergency was approved in 1996, and since that time a total of thirty-seven 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, 2012

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

DISTRICTS RELEASED FROM FISCAL EMERGENCY SINCE APRIL 1, 2010

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Date Released</u>
East Cleveland	Cuyahoga	3/12/03	5/24/11
Springfield Local	Summit	5/16/07	11/22/11
Federal Hocking Local	Athens	5/21/07	3/1/12
Jefferson Township Local	Montgomery	8/11/08	4/22/11
McDonald Local	Trumbull	10/15/09	2/28/12
Beaver Local	Columbiana	2/11/10	2/21/12

*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)**

Progress is still slow-coming for the Bellaire School District. The District BOE has made reductions in force with their administrative, non-teaching, and teaching staffs. Advances from the Solvency Assistance Fund (SAF) have been approved for \$3,667,000 during FY 10, \$1,293,000 for FY 11, and another advance of \$1,775,000 is planned for the current fiscal year. The district has lost approximately 105 students this fiscal year due to families moving out of the area since employment cannot be found. The food service system has been changed and now produces positive numbers, but a pick-up-on-pick-up for all employees (7%), the health insurance premiums paid by the Board, and the inability to get a new revenue stream approved continue to cause shortfalls in the annual budget.

Other key activities of the commission include the following:

- 7/14/11 – Treasurer retires, replaced with an interim; a large number of supplemental contracts approved
- 8/10/11 – District noted that there would be two renewal levies on the November ballot; more supplemental contracts approved
- 10/6/11 – Count week shows 90 fewer students enrolled this year (later expanded to 105 fewer ADM in the district, most due to movement of families out of the district); new treasurer approved and introduced (no experience, ODE needed to provide ongoing training); FY12 five year forecast approved
- 1/11/12 – The AOS reviewing forecast with the loss of ADM to verify accuracy and certify deficit, which is projected to be \$1,775,000 (third year requesting SAF)
- 2/8/12 – Discussion on the need for a new operating levy
- 4/10/12 – The Commission will be discussing and voting to approve an additional \$1,000,000 in expenditure reductions.

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

On the tenth try a levy was approved! Although passing by only 70 votes out of 13,000 cast, the 13.95 mill operating levy will help the district significantly in regaining its fiscal solvency. The district Board of Education (BOE) and Commission have held several joint meetings in an effort to resolve all outstanding issues and to develop the best strategies for the district, with release as the goal. The Auditor of State (AOS) will soon be releasing the Accounting Methods Report (possibly in April) that will detail all the changes that will be required to bring the district financial practices, policies, and procedures up to the AOS standards. Once all of these issues are addressed, the AOS will determine the timeline for release. It is encouraging that we are able to have the discussion regarding release for Little Miami Local.

Other key activities of the commission include the following:

- 4/27/11 – An amended recovery plan was adopted by the Commission, continuing to show the need for additional revenue.
- 5/10/11 – A joint meeting with the local BOE and Commission / public forum was held to discuss the financial situation and decide direction for the district. Many ideas were presented but the gist was that there were not many options for additional reductions and new revenue was a must. The Commission could not dissolve the district, rather any action in that direction would need to come from the district residents.
- 7/11/11 – The State Controlling Board approved a solvency assistance request for FY 12 at \$5,952,000. This was necessary to cover immediate financial obligations.
- 11/6/11 – Voters approved a 13.95 mill operating levy
- 3/23/12 - A joint meeting with the district administration, BOE, and Commission was held to discuss the process necessary to bring back some of the employees and other expenditures that were denied at the last Commission 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. They continue to project a structural deficit (expenditures exceeding revenue) each year, based partially on the repayment of solvency assistance advances. The district will require a solvency assistance advance for the second year in a row. The Commission and district need to resolve this issue before the levy is up for renewal in three years. With the resignation of the local superintendent, an interim superintendent will serve for the completion of the fiscal year while the Commission also transitions to a new chairperson.

Other key activities of the commission include the following:

- 4/29/11 – Superintendent reports that 3.5 certified and 3.5 classified personnel have been reduced in the last two years and that the staffing appears appropriate for the following fiscal year
- 6/3/11 - Commission approves a revised recovery plan that still projects structural deficits; and requests an additional \$450,000 in reductions
- 9/23/11 – The Commission reviewed a staffing analysis presented by ODE personnel, and continues to press for additional reductions.
- 12/16/11 – The district presents a plan showing \$40,000 to \$50,000 in expenditure reductions for FY 12, and an additional reduction list for FY 13 approximating \$600,000. The superintendent also announces his retirement effective March 30, 2012.
- 1/20/12 – The district found it necessary to acquire a short term Tax Anticipated Note (TAN) for \$750,000 to cover a cash flow shortage while the AOS is certifying the district's deficit.

- 2/24/12 – The AOS certifies the district’s deficit for FY 12 at \$1,677,000; a solvency assistance advance will be requested

### **Liberty Local (Trumbull)**

Liberty Local was placed in fiscal caution in fiscal year 2010 and quickly moved into fiscal watch then emergency since they were unable to craft an acceptable recovery plan for their projected deficits. The district was experiencing turmoil with their accounting books not being reconciled for the year, and issues with two conversion schools. These issues left the district BOE without the basic knowledge of their own solvency/insolvency. After fiscal emergency was declared, the AOS certified a deficit of \$1,921,000. The Commission is still relatively new and trying to work together and with the district to resolve many of the underlying issues.

Other key activities of the commission include the following:

- 7/11/11 – Fiscal emergency declared by the Auditor of State for failure to submit an acceptable fiscal watch recovery plan.
- 7/21/11 – Commission holds initial meeting.
- 9/14/11 – Superintendent reported purchases were only being made for emergency day to day operations and the student/teacher ratio for FY 11 was 18.4 to 1; district also working on a cash settlement with the two disposed conversion schools (LEAD and LEARN)
- 10/11/11 – The AOS presented a draft of the FY 12 deficit at \$1,921,000; district is spending \$800,000 on a contract with the Trumbull Co. ESC for special education instruction and transportation; the Commission approved resolutions requesting the BOE to consider a tax levy, adopting the initial recovery plan, and approving the district’s five year forecast.
- 1/30/11 – A recovery plan addendum was approved for FY13 with a total reduction of \$1,215,973
- 2/28/12 – It was noted that an audit of the Medicaid School Program is underway.

### **Cloverleaf Local (Medina)**

The Cloverleaf Local School District is the newest entry to fiscal emergency, being declared this past January. As such, the Commission and district are both still in the learning process of what it all means and how to best handle the issues. Learning those issues is obviously the first step. The AOS has certified the current year deficit at \$678,000; which is manageable, but the concern is future years’ deficits. A levy for new money will be needed, but reductions in expenditures will be the immediate strategy. The AOS is also in the process of updating its Performance Audit released in FY 2004. This will give the district and Commission guidance on possible actions that may be available to reduce expenditures.

Other key activities of the commission include the following:

- 11/6/11 – Voters rejected a levy for new operating money for the sixth time, causing the district to be unable to submit an acceptable fiscal watch recovery plan.
- 1/24/12 – The AOS declares fiscal emergency; Commission is appointed
- 2/7/12 – Initial Commission meeting is held; overview of fiscal emergency is presented and by-laws are approved.
- 3/12/12 – The AOS submitted a draft of the deficit certification for the current year at \$678,000; the superintendent discussed the AOS Performance Audit that is being updated; he also gave the Commission a brief history of expenditure reductions and stated that the elementary grades have 25.7 student/teacher ratios. A solvency assistance advance will be requested at the April 23 Controlling Board meeting.