



Ohio

Ohio School Districts in Fiscal Emergency

REPORT TO THE OHIO LEGISLATURE

APRIL 2017

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, three districts are in the fiscal emergency category, and each has made varying degrees of improvement during the past year. Since last April, Mansfield Local School District and East Knox Local School District have been released from fiscal emergency. No new districts have been added, and the Department has not identified any districts with a potential of entering fiscal emergency to acquire solvency assistance in the near future. Usually, the November/May election results approving new or renewal levies and a 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 39 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

Financial Planning and Supervision Commissions Duties and Services 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

Districts in Fiscal Emergency as of April 1, 2017

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Duration</u>
Bellaire Local	Belmont	12/31/09	7 years, 3 months
Brookfield Local	Trumbull	05/14/13	3 years, 10 months
Coventry Local	Summit	12/02/15	1 year, 4 months

Districts Released from Fiscal Emergency since April 1, 2016

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Date Released/Duration</u>
Mansfield City	Richland	12/17/13	12/20/2016 3 years
East Knox Local	Knox	02/05/15	3/07/2017 2 years, 1 month

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. All items on the Accounting Methods Report have been addressed. The district and the commission requested release from fiscal emergency in December 2016, and the Auditor of State is in the process of evaluating the request to grant release.

District demographic information for Bellaire Local School District is:

- FY16 cash balance was **\$4,162,562**, which was **32.5 percent** of its FY16 expenses.
- ADM (student population) has changed by about **4.2 percent** between FY11 and FY16.
- Property values have increased by **88.9 percent** between Tax Year 2011 and Tax Year 2016.
- Tax Year 2015 Class 1 millage rate is **20.00** mills.

Other key activities of the commission include the following:

- 3/31/16 – The superintendent outlined a vision for Bellaire schools going into the future. QZAB bond money will be used to implement a one-to-one computer program for each student in the district to allow students to receive their curriculum via electronic means rather than a traditional textbook. STEM academies will be established in junior high and high school.
- 10/26/16 – The five-year forecast and FY17 permanent appropriations were presented and approved. Fund balances (15.010) for the next five years are all positive.
- 12/14/16 – Superintendent reports 3 mill emergency levy did not pass. Despite this news, the district and the commission determine the financial forecast for the five-year forecast period remains non-adverse and request release from fiscal emergency.
- The Auditor of State is currently evaluating the request for release.

Brookfield Local (Trumbull)

Brookfield Local was declared in fiscal emergency May 14, 2013, by the Auditor of State, because the district was unable to submit an acceptable fiscal watch recovery plan to the Ohio Department of Education. The district voters already had approved a new tax levy, but—due to a projected deficit—the district had to enter fiscal emergency to gain access to the solvency assistance fund. Two advances have been recorded. While the current five-year forecast suggests release will be possible soon, the district continues to struggle with cash flow issues and has outstanding issues on the Accounting Methods Report to be addressed.

District demographic information for Brookfield Local School District is:

- FY16 cash balance was **\$120,831**, which was **1.2 percent** of its FY16 expenses.
- ADM (student population) has decreased by **13.8 percent** between FY11 and FY16.
- Property values have increased by **1.7 percent** between Tax Year 2011 and Tax Year 2016.
- Tax Year 2015 Class 1 millage rate is **27.39** mills.

Other key activities of the commission include the following:

- 5/31/2016 – The Auditor of State’s representative reviewed the five outstanding Accounting Methods Report items that need to be completed for the district to be released from emergency. At the commission meeting, resolutions were passed to approve the five-year forecast and financial recovery plan. New commission chair, David Michel, was appointed;
- 8/24/16 – The commission passed a resolution to enter into a cooperative transportation agreement with Trumbull County Educational Service Center for low incidence and special needs students living in the district but attending outside the district;
- 10/5/16 – The commission passed resolutions for approval of annual appropriations totaling \$11,915,800 (down from previous FY16 of \$12,038,000) and appointed Dale Burdett as the new commission secretary replacing retiree George Donie.
- 11/1/2016 – The commission approved the five-year forecast, which projects favorable balances for all years in the five-year forecast on Line 15.01. Cash flow from month-to-month remains an ongoing concern.
- 1/19/2017 – The commission passed a resolution for a tax anticipation note in the amount of \$300,000 to address cash flow issues and hired Craig Yaniglos effective Feb. 1, 2017, as treasurer.

Coventry Local (Summit)

Coventry Local School District is now in its second year of fiscal emergency. Prior to placement in fiscal emergency, the district was placed in fiscal watch by the Auditor of State during FY97. While in

fiscal watch, the district was unable to improve its financial situation to a level that would warrant release from fiscal watch, yet maintained a level of solvency that prevented it from meeting the statutory requirements for fiscal emergency. In FY16, the district was not able to submit a recovery plan sufficient to cover an initial projected deficit of approximately \$4.4 million, or 19 percent of the district's total revenue. Due to the failure to provide an acceptable recovery plan, the district was declared to be in a state of fiscal emergency by the Auditor of State on Dec. 4, 2015, in accordance with ORC 3316.04(C).

On April 14, 2016, the Auditor of State certified the official deficit for FY16 as \$4,838,000. In response to this certification, an advance of that same amount was requested from the state's solvency assistance fund and was subsequently approved by the Controlling Board on May 2, 2016. The solvency assistance advance is being deducted from state foundation payments during FY17 and FY18. Since being placed in fiscal emergency, the financial situation of the Coventry Local School District has improved significantly, largely due to cost reductions implemented in FY17 as established by the initial financial recovery plan. A recent financial forecast generated by the Auditor of State projects Coventry Local to finish FY17 with a surplus of approximately \$1.1 million. This will be used to repay solvency assistance in FY18. The current five-year forecast does not suggest a need for additional solvency assistance at this time.

District demographic information for Coventry Local School District is:

- FY16 cash balance was **\$1,827,382**, which was **7.5 percent** of its FY16 expenses.
- ADM (student population) has declined by **4.6 percent** between FY11 and FY16.
- Property values have increased by **1.3 percent** between Tax Year 2011 and Tax Year 2016.
- Tax Year 2015 Class 1 millage rate is **22.25** mills.

Other key activities of the commission include the following:

- April 2016 – In accordance with ORC 3316.06(A), the commission held multiple work sessions to obtain community and district input into the formulation of the financial recovery plan.
- 4/14/2016 – the Auditor of State certified the official deficit as \$4,838,000 for FY16.
- 5/2/2016 – The Controlling Board approved a \$4,838,000 advance from the solvency assistance fund to be deducted from state foundation payments to the district during FY17 and FY18.
- 5/9/16 – The Commission adopted the initial financial recovery plan that directed the district to develop revenue enhancements or implement expenditure reductions totaling \$700,000 to \$1,200,000 in FY17. The plan also directed the district to establish committees to review competitive bidding, facilities usage, personnel costs, transportation and open enrollment costs to determine if they are being managed efficiently or if changes can be implemented to bring about cost savings. Additionally, the Commission directed the board to consider the viability of a tax levy to enhance revenues.
- 5/23/2016 – The superintendent of public instruction approved the financial recovery plan.
- 6/21/16 – The Coventry Board of Education notified the Commission that it did not recommend pursuing a new tax levy at this time.
- 6/23/16 – The Commission approved a reduction in force based on a "Savings and Reduction Plan" provided by the district that identified \$880,614 of reductions. The commission also accepted the board's recommendation not to pursue a new levy.
- 7/19/2016 – The Auditor of State released a performance audit of Coventry Local that estimated that Coventry could save more than \$1.5 million if open enrollment was reduced to an optimized level and if the student/teacher ratio was reduced.
- 9/28/2016 – The Commission approved FY17 permanent appropriations and corresponding monthly expenditure levels.

- 10/25/2016 – The Commission approved the current five-year forecast, which forecasts a small deficit for FY18 and positive balances in FY19, FY20 and FY21.
- 1/19/17 – The Commission approved the board’s recommendation to pursue inclusion of a renewal levy to collect \$2,880,700 annually for five years in the upcoming May 2, 2017, election. The healthy balances of the current forecast rely heavily on this important levy renewal that, if not renewed prior to the end of 2018, will result in a loss of approximately 13 percent of the district’s annual operating revenue and would result in another round of significant reductions and/or revenue enhancements. This will lead to the potential need for solvency assistance.
- 2/16/17 – The Commission received the financial forecast for FY17 from the Auditor of State, projecting a positive balance for FY17 of \$1,105,000; thus, an additional request for funds from the state solvency assistance fund is not forecasted at this time. In addition, the district’s open enrollment committee report was presented to the Commission. The district report concludes that Coventry Local School District currently receives a financial gain of more than \$2.8 million by maintaining the number of open enrollment students currently accepted in the district. The report also recommended establishment of open enrollment limits based on building capacities.

Summary

In summary, these three districts are in varying stages of fiscal recovery, and each has made 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 as needed with the goal of preventing fiscal caution, watch and emergency. The Department 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.