



Ohio

Ohio School Districts in Fiscal Emergency

REPORT TO THE OHIO LEGISLATURE

APRIL 2018

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.”

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 “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, two districts are in the fiscal emergency category, and each has made significant financial improvement during the past year. Since last April, Bellaire Local School District has 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 40 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.

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;

¹ Am. Sub. S.B. 310

² Am. Sub. S.B. 345

³ ORC §3316.07

- 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, 2018

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Duration</u>
Brookfield Local	Trumbull	05/14/13	4 years, 10 months
Coventry Local	Summit	12/02/15	2 years, 4 months

Districts Released from Fiscal Emergency since April 1, 2017

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Date Released/Duration</u>
Bellaire Local	Belmont	12/31/09	4/17/17, 8 years, 3 months

Brookfield Local (Trumbull)

Brookfield Local was declared in fiscal emergency by the Auditor of State on May 14, 2013, 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; however, due to a projected deficit, the district had to enter fiscal emergency to gain access to the solvency assistance fund. The district required two advances that it has since repaid. With the employment of a new treasurer in February 2017, renewed emphasis was brought to expenditure reductions now being realized and the district's current five-year forecast projects favorable balances in all five forecasted fiscal years. In December 2017, the Auditor of State advised the commission that all findings on the Accounting Methods Report have been addressed. In February 2018, the commission requested release from fiscal emergency, and the Auditor of State is in the process of evaluating the request to grant release.

District demographic information for Brookfield Local School District is:

- FY17 cash balance was **\$311,656**, which was **2.9 percent** of its FY17 expenses.
- ADM (student population) has decreased by **14.9 percent** between FY11 and FY17.
- Property values have increased by **1.5 percent** between Tax Year 2011 and Tax Year 2016.
- Tax Year 2016 Class 1 millage rate is **27.40** mills.

Other key activities of the commission include the following:

- **May 15, 2017** – The superintendent of public instruction approved the annual financial recovery plan update, specifically Addendum #2.
- **May 31, 2017** – District submitted an updated May 2017 (FY17) five-year forecast and approved expenditure reductions that should yield \$86,000 in savings in FY18 and \$105,000 in subsequent years.
- **Aug. 4, 2017** – District approved debt refunding of school facilities improvement bonds with anticipated savings of \$2,000,000 over the remaining life of the bonds.
- **Oct. 13, 2017** – District submitted October 2017 (FY18) five-year forecast reflecting positive balances in all five forecast years.
- **Nov. 8, 2017** – Treasurer reported actual savings of \$2,015,000 to the bond retirement fund due to the bond refunding.
- **Dec. 22, 2017** – Auditor of state advises commission chairperson that the district addressed all 26 accounting method report comments thereby restoring fiscal integrity, and the district may be eligible to be considered for release from fiscal emergency.
- **Jan. 3, 2018** – In response to the favorable five-year forecast and restoration of fiscal integrity, the commission updated the financial recovery plan, Addendum #3, to transfer specific decision-making authority back to the district.
- **Jan. 15, 2018** – The superintendent of public instruction approved the financial recovery plan update, specifically Addendum #3.
- **Feb. 7, 2018** – The commission passed a resolution requesting release from fiscal emergency, and the Auditor of State currently is evaluating the request for release.
- **April 13, 2018** – The Auditor of State is scheduled to present the results of his evaluation.

Coventry Local (Summit)

Coventry Local School District is now in its third 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 3316.03(B)(2).

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 and will be fully repaid at the end of FY18.

In FY17 the financial situation of the Coventry Local School District improved significantly, largely due to cost reductions implemented in FY17, as established by the initial financial recovery plan. In FY18, district voters approved a renewal levy that generates \$2.9 million per year and, as a result, the district's current five-year forecast is reporting favorable balances in four of the five forecast years. In recognition of the district's improved financial situation, the commission updated the financial recovery plan to modify certain constraints and allow greater flexibility. To request release from fiscal emergency, the district must report favorable balances in all five forecast years and resolve all accounting method report findings.

District demographic information for Coventry Local School District is:

- FY17 cash balance was **\$2,079,124**, which was **9.5 percent** of its FY17 expenses.
- ADM (student population) has declined by **6.2 percent** between FY11 and FY17.
- Property values have increased by **1 percent** between Tax Year 2011 and Tax Year 2016.
- Tax Year 2016 Class 1 millage rate is **39.35** mills.

Other key activities of the commission include the following:

- **May 15, 2017** – The superintendent of public instruction approved the annual financial recovery plan update, specifically Addendum #1.
- **May 23, 2017** – District submitted an updated May 2017 (FY17) five-year forecast.
- **June 30, 2017** – The district finished FY17 with an unreserved fund balance that was more than \$1 million greater than projected by the October FY17 forecast (projected: \$1,002,913 vs. actual: \$2,038,363). Contributing to the favorable balance was savings due to an extra insurance premium holiday received by the district and a lower than expected wage expense. Due to the savings achieved during the year, the district increased its unreserved fund balance by more than \$500,000 in FY17, even after repaying \$2,419,000 of solvency assistance.
- **July 25, 2017** – The commission directed the district to set FY18 appropriations and forecasted amounts for FY18 personnel expense (line 3.010) equal to FY17 actual amounts.
- **Sept. 11, 2017** – The Coventry Educators Association filed an unfair labor practice against the district board of education and the commission.
- **Sept. 26, 2017** – The Auditor of State's *Report on Accounting Methods* was issued and 18 comments were noted.
- **Oct. 26, 2017** – The State Employee Relations Board dismissed the unfair labor practice complaint.
- **Oct. 28, 2017** – The district submitted an updated October 2017 forecast.
- **Nov. 7, 2017** – District voters approved a renewal levy, which generates \$2.9 million per year.
- **Dec. 21, 2017**– In recognition of the district's improved financial situation, the commission updated the financial recovery plan to modify certain constraints and allow greater flexibility and approved an updated five-year forecast, which included the renewal levy revenue and resulted in favorable balances in four of the five forecast years.
- **Jan. 11, 2018** – The superintendent of public instruction approved the financial recovery plan update, specifically Addendum #2.

Summary

In summary, both districts currently in fiscal emergency made significant 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 appreciates the partnerships and working relationships it has developed with the Attorney General's Office, the Auditor of State's Office, and the Office of Budget and Management. This collaboration allows the Department to better serve districts in fiscal emergency and help restore fiscal integrity.