



# Ohio

## Ohio School Districts in Fiscal Emergency

REPORT TO THE OHIO LEGISLATURE

APRIL 2019

## 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.”

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.”<sup>3</sup>

Currently, two districts are in fiscal emergency: Coventry Local School District and Niles City School District. Since last April, Brookfield Local School District was released from fiscal emergency and Niles City school district has been placed in fiscal emergency. Usually, the November/May election results approving new or renewal levies and a district’s ability to make enough expenditure reductions will determine whether a district maintains fiscal solvency or is placed in fiscal emergency.

The legislation creating fiscal emergency was approved in 1996. Since then, 43 districts have been declared in fiscal emergency, with 41 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 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;
  - Employment contracts;
  - Issuance of debt;

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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

- 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, 2019

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Duration</u>
Coventry Local	Summit	12/02/15	3 years, 4 months
Niles City	Trumbull	02/26/19	0 years, 1 month

### Districts Released from Fiscal Emergency since April 1, 2018

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Date Released/Duration</u>
Brookfield Local	Trumbull	05/14/13	4/13/18, 4 years, 11 months

### 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 Ohio Revised Code 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 was deducted from state foundation payments in FY17 and FY18 and was 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 five-year forecast reported 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. In FY19, the district continued to work on the fiscal integrity issues identified by the auditor of state in the Report on Accounting Methods issued in September 2017. As of March 20, 2019, all items from the report have been addressed and are being reviewed by the Auditor of State. Although Coventry has made significant progress over the past two years, additional efforts are needed to eliminate future deficit spending, offset decreases in open enrollment and assure continued fiscal integrity. 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:

- FY18 cash balance was **\$1,915,463**, which was **8.4 percent** of its FY18 expenses.
- ADM (student population) has declined by **9.02 percent** between FY13 and FY18.
- Property values have increased by **7 percent** between Tax Year 2012 and Tax Year 2017.
- Tax Year 2017 Class 1 millage rate is **40.35** mills.

Other key activities of the commission include the following:

- **April 26, 2018** – The district treasurer resigned effective May 18, 2018. The district named Jennifer Rucker interim treasurer on May 12, 2018.
- **May 30, 2018** – The district submitted an updated five-year forecast reflecting the elimination of two administrative positions and seven teaching positions, resulting in a projected unreserved fund balance of \$1,988,754 in FY22.
- **June 30, 2018** – The district completed repayment of the \$4,838,000 solvency assistance and finished FY18 with an unreserved fund balance that was \$811,000 greater than projected by the October FY18 forecast (projected: \$687,456 vs. actual: \$1,498,477). The favorable difference was largely due to higher than anticipated property tax revenue and lower than anticipated insurance costs due to an extra month of premium ‘holiday.’
- **July 24, 2018** – The district and Ohio Facilities Construction Commission closed out the building fund, returning \$561,851.17 to the state and retaining \$985,098.33 for the district to use for building maintenance purposes.
- **Aug. 1, 2018** – The district hired a new treasurer, Sherry Tyson, previously serving Youngstown City Schools in the same capacity.
- **Aug. 27, 2018** – The superintendent of public instruction appointed David Michel as his designee and chairman to replace John (Jack) Pierson.
- **March 4, 2019** – The director of the Office of Budget and Management appointed Barbara Mattei-Smith as his designee to replace Quentin Potter.
- **March 20, 2019** – Two parcels of land were sold, bringing in \$198,300 in one-time revenue. The district addressed all 18 issues identified in the September 2017 Report on Accounting Methods and the responses and solutions implemented are being reviewed by the Auditor of State for sufficiency.

## Niles City (Trumbull)

The Auditor of State placed Niles City School District in fiscal emergency on Feb. 26, 2019, after the Department notified the Auditor the district was not materially complying with the provisions of the district’s financial recovery plan established in accordance with the statutes governing fiscal watch. The superintendent of public instruction recommended the District be placed in fiscal emergency to prevent further fiscal decline, and the Auditor of State found the request to be reasonable.

Other key activities of the commission include the following:

- **March 26, 2019** – The first regular meeting of the Financial Planning and Supervision commission for Niles City School District will take place. A financial recovery plan must be adopted within 120 days of this first meeting.

District demographic information for Niles City School District is:

- FY18 cash balance was - **\$171,372**, which was **-0.6 percent** of its FY18 expenses.
- ADM (student population) has decreased by **9.02 percent** between FY13 and FY18.
- Property values have decreased by **6.4 percent** between Tax Year 2012 and Tax Year 2017.
- Tax Year 2017 Class 1 millage rate is **37.02** mills.

## Closing Statement

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, Auditor of State's Office, and Office of Budget and Management. This collaboration allows commissions to better serve districts in fiscal emergency and help restore fiscal integrity.