

# Ohio School Districts in Fiscal Emergency



REPORT TO THE OHIO LEGISLATURE

## 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. 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;
  - Cost reductions; and
  - Staffing levels.
- Within 120 days, the commission adopts a financial recovery plan (FRP) that addresses, but is not limited to, the following:

<sup>1</sup> Am. Sub. S.B. 310

<sup>2</sup> Am. Sub. S.B. 345

<sup>3</sup> ORC §3316.07

- 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 board of education;
- Establishment of procedures for encumbering funds as purchase orders wherein 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, 2020

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

### Districts Released from Fiscal Emergency since April 1, 2019

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Date Released/Duration</u>
None			

### Coventry Local (Summit)

Coventry Local School District is now in its fourth 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 it 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 subsequently was 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 four years, the district's FY20 five-year financial projections are not sufficient for release from fiscal emergency and additional efforts are needed to

eliminate future deficit spending sufficient for the Auditor of State to render an opinion that the financial forecast is considered to be non-adverse. On March 31, 2020, the commission approved a FRP addendum that directs the district to develop plans to address outstanding solvency issues regardless of the outcome of the district's property tax renewal on the March 17, 2020, extended election ballot, which remains open as mail-in only until April 28, 2020, due to the COVID-19 pandemic. At the time of this report, the addendum has been submitted to the superintendent of public instruction for evaluation and approval.

District demographic information for Coventry Local School District is:

- FY19 cash balance was **\$2,757,730**, which was **13.2 percent** of its FY19 expenses.
- ADM (student population) has declined by **-5.63 percent** between FY14 and FY19.
- Property values have increased by **7.3 percent** between Tax Year 2013 and Tax Year 2018.
- Tax Year 2018 Class 1 millage rate is **36.82** mills.

Other key activities of the commission include the following:

- **July 28, 2019** – The district and commission approved a resolution to place a 1 percent earned income tax levy, intended to replace a property tax renewal levy, on the November 2019 ballot to generate an estimated \$2,500,000 annually.
- **Nov. 4, 2019** – The director of the Office of Budget and Management appointed Jack Pierson as her designee to the commission to replace Barbara Mattei-Smith.
- **Nov. 5, 2019** – The one percent earned income tax levy failed.
- **Nov. 20, 2019** – The district and commission approved a resolution to place a property tax renewal levy that generates \$1,985,175 annually on the March 2020 ballot.
- **Jan. 2, 2020** – The superintendent of public instruction appointed Bob Foss as his designee and chairperson to the commission to replace David Michel.
- **March 17, 2020** – State officials closed the polls on March 17 fearing increasing spread of the coronavirus.
- **March 27, 2020** – Governor DeWine signed House Bill 197 into law, enacting emergency measures to address the coronavirus, including extending the March 17, 2020, election as mail-in only until April 28, 2020.
- **March 31, 2020** – The commission approved addendum #3 to the financial recovery plan.

## Niles City (Trumbull)

Niles City School District is commencing its second year of fiscal emergency. Fiscal emergency was declared on Feb. 26, 2019, after the Department of Education notified the Auditor of State 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.

Shortly after the first commission meeting was held, the district approved a new insurance contract and two bargaining unit agreements, which subsequently were approved by the commission. Collectively, the district projected the contracts would achieve substantial savings sufficient to eliminate the January 2019 (\$578,207) deficit that largely caused the declaration of fiscal emergency. The Auditor of State reviewed the district's FY19 forecast, which included the projected insurance savings, and certified a positive FY19 year-end fund balance of \$81,000 — a \$659,000 improvement.

Ultimately, the district reported a FY19 year-end actual fund balance of \$365,000. While the collaborative efforts of the district and bargaining units have resulted in substantial savings, the district still has solvency issues to address as it continues to forecast deficit spending over the five-year forecast period. Additionally, significant turnover in both the treasurer's position and treasurer's staff and the findings in the district's FY18 single audit (released October 2019) indicate the district has accounting methods and accuracy challenges to

overcome to restore fiscal integrity and fiscal stability. In January 2020, the district hired an experienced school treasurer.

District demographic information for Niles City School District is:

- FY19 cash balance was **\$365,000**, which was **1.4 percent** of its FY19 expenses.
- ADM (student population) has decreased by **-8.23 percent** between FY14 and FY19.
- Property values have decreased by **-3.9 percent** between Tax Year 2013 and Tax Year 2018.
- Tax Year 2018 Class 1 millage rate is **34.31** mills.

Other key activities of the commission include the following:

- **April 1, 2019** – The commission held its first meeting. Representatives from the Ohio Attorney General's office presented ethics training, a review of sunshine laws and a review of Ohio Revised Code 3316. The commission approved its bylaws, an engagement letter for the Auditor of State to serve as financial supervisor, and Part I of the district's financial recovery plan, which establishes the initial management controls the commission will exercise during fiscal emergency.
- **April 4, 2019** – The state superintendent of public instruction approved Part 1 of the FRP.
- **April 10, 2019** – The Niles Board of Education approved a new insurance agreement.
- **April 17, 2019** – The Niles City School District Board of Education approved a three-year negotiated agreement with the Niles Education Association and a three-year negotiated agreement with the Ohio Association of Public School Employees, adopting changes necessary to implement the new insurance agreement.
- **April 18, 2019** – The commission held a special meeting for the Auditor of State to present the draft FY19 certified forecast reflecting savings from a proposed new insurance agreement that is projected to result in a positive year-end fund balance of \$81,000 — an improvement of \$659,000 from the district's January 2019 forecast. The commission approved the district's revised five-year forecast, updated to reflect the Auditor of State's FY19 forecast but tabled the new insurance agreement requesting the district quantify the costs and savings of the insurance agreement and the two pending bargaining unit agreements together as all three must be approved for the projected insurance savings to be realized.
- **April 29, 2019** – The commission held a special meeting and approved the new insurance agreement to prevent rollover of the existing insurance agreement and associated higher costs.
- **May 6, 2019** – The commission approved Part 2 of the FRP, directing the district to develop revenue enhancements or expenditure reductions to eliminate projected deficits on line 12.010 of (\$253,050) and (\$1,601,820) in FY22 and FY23, respectively.
- **May 7, 2019** – A 5.6 mill (approximately \$1.3 million) renewal levy was defeated by voters.
- **May 21, 2019** – The state superintendent of public instruction approved Part 2 of the FRP.
- **May 22, 2019** – The commission accepted the district's proposed FRP reduction plan and approved the district's updated five-year forecast reflecting the FRP reduction plan and costs and savings from the new insurance agreement and the two negotiated bargaining unit agreements.
- **May 22, 2019** – The commission approved negotiated agreements with the Niles Education Association and the Ohio Association of Public School Employees, adopting changes in health insurance provisions to accommodate the new insurance agreement and achieve the projected savings.
- **July 2, 2019** – The commission approved a district-initiated unrequested leave of absence for the district treasurer and approved an agreement with the Trumbull County ESC to provide interim treasurer services.
- **Oct. 10, 2019** – The Auditor of State released the district's Single Audit for the year that ended June 30, 2018 (FY18), noting eight findings to be resolved by the treasurer's office.
- **Oct. 22, 2019** – The Trumbull County ESC notified the commission interim treasurer services would cease on Nov. 15, 2019.

- **Oct. 24, 2019** – The commission directed the board of education to ensure treasurer services are provided on an uninterrupted basis and preauthorized the district to obtain services on a daily basis as needed.
- **Nov. 5, 2019** – 5.7 mill (approximately \$1.3 million) renewal levy approved by voters.
- **Nov. 14, 2019** – The board of education entered into a shared services agreement with Brookfield Local School District for treasurer services commencing Nov. 18, 2019.
- **Dec. 5, 2019** – The commission formally approved the district's shared services agreement with Brookfield Local Schools to provide interim treasurer services through July 31, 2020. Shortly thereafter, the shared treasurer accepted a treasurer position in another district and advised his interim services to Niles would end on Jan. 31, 2020.
- **Dec. 5, 2019** – The commission approved the district's November 2019 (FY20) forecast, which projected positive fund balances through FY24 and continued deficit spending in FY23 and FY24.
- **Jan. 22, 2020** – The Auditor of State reported an actual fund balance of \$365,000 at June 30, 2019, and certified a projected FY20 fund balance of \$1,727,000 at June 30, 2020.
- **Jan. 23, 2020** – The commission held a special meeting and approved the hire of a new, experienced treasurer.
- **March 23, 2020** – The commission's March 26 regular meeting was canceled due to COVID-19 social distancing restrictions.

## Closing Statement

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.