

Ohio School Districts in Fiscal Emergency



REPORT TO THE OHIO LEGISLATURE

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 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 that addresses, but is not limited to, the following:

¹ Am. Sub. S.B. 310

² Am. Sub. S.B. 345

³ 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, 2021

<u>District</u>	<u>County</u>	<u>Date Declared</u>	<u>Duration</u>
Coventry Local	Summit	12/02/15	5 years, 4 months
Niles City	Trumbull	02/26/19	2 years, 1 month

Districts Released from Fiscal Emergency since April 1, 2020

<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 sixth 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 fiscal watch recovery plan sufficient to cover an initial projected deficit of approximately \$4.4 million, or 19 percent of the district's total revenue, and the district was declared to be in a state of fiscal emergency by the Auditor of State on Dec. 4, 2015. The Auditor of State certified the district's official deficit for FY16 as \$4,838,000 and the Controlling Board authorized an advance from the state's solvency assistance fund for the same amount. Payment of the solvency assistance advance was deducted from the district's state foundation payments throughout FY17 and FY18, and the advance was fully repaid at the end of FY18.

In FY17, the financial situation of the Coventry Local School District improved significantly, primarily due to cost reductions of \$880,614 implemented in compliance with the initial financial recovery plan. In FY18, the Auditor of State's office issued the required report on accounting methods; 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. With work to restore fiscal solvency under way, the district commenced work on the fiscal integrity issues identified in the Report on Accounting Methods, and in the spring of FY19, the Auditor of State's office indicated all findings in the report have been resolved.

FY20 was a historic year due to the COVID-19 pandemic. At the March 17, 2020, election (which, due to COVID-19 was completed with mail-in-only polls closing on April 28, 2020), district voters approved a 6.27 mill property tax renewal. Subsequently, in response to financial recovery plan directives, the district implemented \$300,157 in reductions which, when combined with the approved renewal revenues, resulted in five years of positive fund balances on the district's five-year forecast update. Again, in November 2020, the district's fall

five-year forecast, after consideration of revenue generated by any future renewal levies, projected no deficit spending and positive fund balances in all five forecast years. If sustained solvency and fund balances continue to be projected release from fiscal emergency may be possible prior to the next report to the general assembly.

District demographic information for Coventry Local School District:

- FY20 cash balance was **\$3,280,580**, which was **15.7 percent** of its FY20 expenses.
- ADM (student population) has decreased by **-7.72 percent** between FY15 and FY20.
- Property values have increased by **10.0 percent** between Tax Year 2014 and Tax Year 2019.
- Tax Year 2019 Class 1 millage rate is **36.49** mills.

Other key activities of the commission included the following:

- **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.
- **April 29, 2020** – Coventry voters approved the district's 6.27 mill property tax renewal levy, which generates \$1,985,175 annually.
- **May 5, 2020** – The Governor's executive order reduced Coventry Local School District's state foundation aid in FY20 by \$340,555 over the last three payments of the fiscal year and another \$340,555 for FY21.
- **Aug. 4, 2020** – The district initiated a refunding of its Series 2013 Bonds for estimated savings of \$8,462,902 to directly benefit district homeowners in lower taxes.
- **Nov. 23, 2020** – The district's five-year forecast showed no deficit spending and positive fund balances in all five forecast years after consideration of any proposed renewal levy revenue.
- **Dec. 1, 2020** – Moody's increased district credit rating from Ba2 upward two notches to Baa3 with a positive outlook. Actual savings from the refunding are \$9.6 million for taxpayers.
- **Jan. 22, 2021** – The Governor formalized FY21 budget reductions, returning \$186,773 funds to district.
- **Mar. 10, 2021** – The commission tabled approval of the Coventry Education Association contract until an updated five-year forecast reflecting the costs of the contract is approved by the board of education and the commission.
- **March 31, 2021** – The Commission approved a five-year forecast update reflecting a two-year agreement with the Coventry Education Association and approved the two-year agreement, which provides a lump-sum payment to members of 1.25% in FY21 and a base salary increase of 1.25% in FY22.

Niles City (Trumbull)

Niles City School District is commencing its third year of fiscal emergency. Fiscal emergency was declared on Feb. 26, 2019 (FY19), after the Department notified the Auditor of State the district was not materially complying with the provisions of the district's fiscal watch financial recovery plan to eliminate the district's current-year projected deficit of \$578,207. 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 declaration, the district and commission approved a new insurance contract and two bargaining unit agreements, which resulted in savings sufficient to eliminate the district's current-year deficit. Ultimately, the district ended FY19 reporting an actual fund balance of \$365,000.

With the hiring of an experienced school treasurer, the district continued to prioritize resolution of its financial distress despite the turbulence caused by the COVID-19 pandemic. In July 2020, in response to financial

recovery plan directives, the district implemented expenditure reductions of \$221,772 and updated its five-year forecast to show positive fund balances in all five projection years. In March 2021, the Auditor of State advised the commission all items on the Report on Accounting Methods had been resolved. Provided the district's future forecast(s) continue to avoid deficit spending and project positive fund balances, the district may be poised for the Auditor of State's office to consider releasing the district from fiscal emergency.

District demographic information for Niles City School District:

- FY20 cash balance was **\$2,121,000**, which was **8.3 percent** of its FY20 expenses.
- ADM (student population) has decreased by **-8.93 percent** between FY15 and FY20.
- Property values have increased by **1.3 percent** between Tax Year 2014 and Tax Year 2019.
- Tax Year 2019 Class 1 millage rate is **34.46** mills.

Other key activities of the commission included the following:

- **March 27, 2020** – Governor DeWine signed House Bill 197 into law, enacting emergency measures to address the coronavirus pandemic.
- **May 5, 2020** – The Governor's executive order reduced Niles City School District's state foundation aid in FY20 by \$317,100 over the last three payments of the fiscal year and another \$317,100 for FY21.
- **June 30, 2020** – In response to the financial recovery plan, Niles City School District approved FY21 expenditure reductions of \$221,772 and updated the five-year forecast.
- **July 7, 2020** – The commission approved the district's plan to reduce FY21 expenditures by \$221,772 and a forecast update reflecting the reductions. The forecast projected a FY20 fund balance of \$1,749,000, a FY21 projected fund balance of \$2,603,823 and positive balances through FY2024. The forecast satisfies the solvency requirements of the financial recovery plan.
- **Nov. 6, 2020** – The district received \$325,000 from the Ohio Bureau of Workers' Compensation. The Auditor of State presented the Report on Accounting Methods, which contained nine findings that need to be resolved to be eligible for release from fiscal emergency.
- **Nov. 25, 2020** – The commission approved the district's fall five-year forecast, which projected a FY21 ending fund balance of \$3,776,000 and positive balances through FY25 demonstrating the district continues to meet financial recovery plan requirements.
- **Dec. 22, 2020** – The Auditor of State certified the district's FY21 forecast, confirming the district's projected FY21 yearend balance of \$3,776,000.
- **Dec. 22, 2020** – The Auditor of State released the official Report on Accounting Methods.
- **Jan. 22, 2021** – The Governor formalized FY21 budget reductions, returning \$173,909 funds to the district.
- **March 2, 2021** – The Auditor of State's office advised the commission that all items on the Report on Accounting methods have been resolved.
- **March 15, 2021** – The Commission approved participation in "nationwide waiver of food service management contract duration," which allows the district to extend its current food service contract through the upcoming 2021-2022 school year.

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.

The timeframe covered by this report (April 1, 2020, through March 31, 2021) overlaps with the COVID-19 pandemic. Throughout this historic time, the boards of education, administrators and staff of both Coventry

Local School District and Niles City School District have taken numerous actions and initiatives to continue providing education to their students and maintain the health and safety of their school communities. Although those actions are not detailed herein; they were in no means small or easy tasks to accomplish. In the midst of all the turmoil, both districts maintained their fiscal priorities and have responded to financial recovery plan requirements. The Department acknowledges and commends the districts for their many heroic efforts on behalf of their communities and the State of Ohio.