



Department  
of Education

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## **REPORT TO THE OHIO LEGISLATURE**

**April 1, 2009**

### **Ohio School Districts in Fiscal Emergency**

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## **LEGISLATIVE BACKGROUND**

### **Title XXXIII (33) 3316.01 to 3316.19 (O.R.C.)**

#### **School Districts in Fiscal Caution, Watch, and Emergency**

With the passage of Am. Sub. S.B. 310, the 146<sup>th</sup> 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. Am. Sub. 345 of the 148<sup>th</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 (ODE). As stated in ORC §3316.02, 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, ODE provides technical assistance and monitors district finances to encourage and support strong fiscal management practices. The scope and level of support increases from the various agencies 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.” [ORC §3316.07] 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.” [ORC §3316.07]

Overall, the districts in Fiscal Emergency have continued to progress towards fiscal solvency since April 1, 2008. Three districts have been released from Fiscal Emergency and another district will be released in the near future. Only one district has been moved into Fiscal Emergency since last year; this will lead to the lowest number of districts in Fiscal Emergency at the end of the fiscal year since 2004. The Commissions strive to work cooperatively with the local boards of education and district administration while developing and implementing the Recovery Plan and/or any other issues that impact the financial status of the district. When the cooperative spirit is realized, most districts progress through emergency in an average of three years or less. Without the cooperation, a prolonged and difficult experience can result.

## **DISTRICTS IN FISCAL EMERGENCY – APRIL 1, 2009**

<b>District</b>	<b>County</b>	<b>Date Declared</b>	<b>Duration</b>
East Cleveland City	Cuyahoga	3/12/03	6yr 0mon
Federal Hocking Local	Athens	5/21/07	1yr 10mon
Jefferson Township Local	Montgomery	8/11/08	0yr 7mon
Southern Local	Meigs	11/08/99	9yr 4mon
Springfield Local	Summit	5/16/07	1yr 10mon
Youngstown City	Mahoning	11/16/06	2yr 4mon

## **DISTRICTS RELEASED FROM FISCAL EMERGENCY SINCE APRIL 1, 2008**

<b>District</b>	<b>County</b>	<b>Date Declared</b>	<b>Date Released</b>
East Liverpool City	Columbiana	12/18/03	3/24/09
Springfield City	Clarke	2/28/05	3/18/09
Shelby City	Richland	4/7/05	4/30/08

### ***Duties and Services Provided By the Financial Planning and Supervision Committees for Districts in Fiscal Emergency***

- Five-member commission meets monthly or as needed
- Monitors district operations with financial implications
- Re-establishes the fiscal integrity of the district
- Commission may grant itself the same authorities as the Board of Education that it needs to accomplish the task of fiscal solvency, including but not limited too:
  - Purchasing
  - Employment contracts
  - Issuance of debt
  - Cost reductions
  - Staffing levels
- Within 120 days, the commission adopts a Financial Recovery Plan which will address, but not be limited too the following issues:
  - Solvency Assistance Fund advancements
  - Staff reductions
  - District administration and BOE to establish procedures for monitoring annual appropriation funds through a monthly cash flow analysis
  - Administration and treasurer will establish procedures for encumbering funds as purchase orders are issued
  - Board of education will adopt an appropriation measure consistent with the Five Year Forecast and the Financial Recovery Plan

## **SPECIFIC ACTIONS FOR EACH DISTRICT (IN THE PAST YEAR)**

### **East Cleveland City (Cuyahoga)**

The most recent audit for East Cleveland City was released on February 3, 2009, and covered fiscal year 2008. The audit delays are related to the inability of the district to reconcile bank statements and provide other financial records to the auditors. If not for the inability to complete audits, the district could be released from Fiscal Emergency since the district has a positive fund balance of \$24.8 million and is projecting positive balances throughout the forecast period. It should be noted that East Cleveland continues to experience declining enrollment and in May 2008, the Commission approved a reduction in force for fiscal year 2009.

As the commission prepares for fiscal year 2010, the local board of education voted to not renew the treasurer's contract. The commission, believing the treasurer has made significant progress in improving the accounting procedures and documents, did not approve this personnel action of the local board.

Other key activities of the commission include the following:

- 4/08 - Approval of the district's reduction in force proposal for fiscal year 2009
- 8/08 - A revised recovery plan was approved by the Superintendent of Public Instruction
- 10/08 - Approval of a non-adverse five-year forecast
- 3/09 - the local board of education voted to not renew the Treasurer's contract and the Commission voted to not affirm that resolution. The status of the treasurer's contract is now unknown.

### **Federal Hocking Local (Athens)**

Federal Hocking Local School District has presented a number of challenges for the commission. The district has created barriers to the work of the commission and has, at times, been unwilling to provide the information necessary for the commission to complete its work. During the past year, the commission sought the guidance of the attorney general's office for strategies in dealing with the district which lead to more cooperation from the district. The commission continues its work to solidify the cooperation of all district officials.

Other key activities of the commission include the following:

- 5/08 - Staffing changes for fiscal year 2009 approved by Commission and the district completed a transportation study at Commission's request
- 8/08 - Final transportation plan approved and implemented (saves two routes)
- 9/08 - Collective Bargaining Agreement approved – all items within the Recovery Plan; adoption of updated Recovery Plan
- 10/08 - Commission adopted resolution giving a directive to the local superintendent to perform certain duties
- 3/09 - Updates to the Recovery Plan; negotiations with certified and classified staff to begin in April; enrollment down 24 students from fiscal year 2008 per February count

## **Jefferson Township Local (Montgomery)**

In July 2008, ODE learned the district had defaulted on a loan at the end of fiscal year 2008 resulting in an inability of the district to receive additional cash flow borrowing necessary to maintain solvency in fiscal year 2009. The local board of education approved a resolution requesting the auditor of state to review the five year forecast which resulted in the certification of a deficit for fiscal year 2009 and a declaration of Fiscal Emergency. At the first meeting of the commission, the commission passed a resolution requesting solvency assistance funds in the amount of \$1.5 million in order to meet payroll costs in September and October.

Other key activities of the commission include the following:

- 8/08 - Commission appointed and held its first meeting; auditor of state certified fiscal year 2009 deficit at \$1,795,000; Commission approved the district's request for a new operating levy on the November ballot; disapproved district request for bond levy for facility project
- 9/08 - AOS presented an overview of the Performance Audit providing the Commission of various reduction possibilities; ODE provided a staffing analysis showing possible reductions
- 10/08 - Commission approved district's five year forecast; approved termination of interim treasurer's contract
- 11/08 - New treasurer introduced; Recovery Plan approved with \$450,000 in reductions for fiscal year 2009 and additional \$400,000 for fiscal year 2010; new levy for additional operating revenue was approved by voters in November election
- 12/08 - Per the adopted Recovery Plan, several positions were to be abolished at semester break in January
- 2/09 - Commission approved a resolution for a tax abatement compensation agreement with Moraine City

## **Southern Local (Meigs)**

Upon the Commission's approval of Southern Local's five year forecast and a resolution requesting release from Fiscal Emergency in November, the auditor of state is completing the final stages of the Accounting Methods Report in preparation for release of the district from Fiscal Emergency in April or May. A new power plant is scheduled to break ground this calendar year and the company will work with the district to provide local funding for a new high school in conjunction with the Ohio School Facilities Commission.

Other key activities of the commission include the following:

- 5/08 - AOS released final projections for fiscal year 2008 showing a positive balance and the final requirements necessary prior to release from Fiscal Emergency; district enrollment up 25-30 students from previous year;
- 8/08 - Commission approved financial impact of classified collective bargaining agreement and a district resolution to put renewal issue on November ballot. The Ohio School Facilities Commission reported \$1.3 million of construction errors during previous project which now require repairs.

## **Springfield Local (Summit)**

Springfield Local is moving toward fiscal solvency having taken a number of steps in July to reduce expenditures. These steps include the controversial closing of an elementary school, reductions in certified staff based on the auditor of state's performance audit and a staffing analysis by the department of education.

Other key activities of the commission include the following:

- 9/08 - Commission directs administration to work on AOS Accounting Methods Report; additional reductions in force were approved
- 10/08 - The auditor of state presented a five year forecast projecting a fiscal year 09 deficit of \$143,000 with greater deficits in future years indicating the need for new levies or more reductions
- 12/08 - Commission approved issuance of short term Tax Anticipation Notes not to exceed \$2,000,000 to be repaid by end of fiscal year
- 1/09 - District pursuing Ohio School Facilities Exceptional Needs program and interviewing architects.

## **Youngstown City (Mahoning)**

Youngstown City continues its recovery with the July approval of significant reductions in expenditures by eliminating ten bus routes, the shifting of curriculum specialists to state and federal grants, and reducing payroll through the elimination of 168 teaching positions, 55 custodial positions, and 32 clerical positions. Further relief was provided with the passage of a levy in November. However, even with the expenditure reductions, levy passage, and issuance of \$5.29 million in tax anticipation notes, the district may require solvency assistance advances totaling \$3.7 million during this fiscal year.

Other key activities of the commission include the following:

- 4/08 - Auditor of state presented detailed report on fiscal year 2008 and the commission approved a request for Solvency Assistance Funds for \$10,380,000 (granted in June 2008);
- 6/08 - The district treasurer reported over \$27,000,000 in total reductions and an annual amount of \$26,000,000 transferred to community schools;
- 11/08 - The district negotiated \$1.7 million in utility rate reduction;
- 12/08 - AOS presented certificate of deficit for fiscal year 2009 at \$8,979,000; Commission directed district to pursue TAN financing on passage of recent levy for \$5,291,000 and will seek additional SAF for \$3,688,000;
- 2/09 - District announced plans to reduce an additional \$5 million through staff reduction and other cost saving measures for next fiscal year; Commission to update Recovery Plan to include those reductions.