

OHIO AUDITOR OF STATE
KEITH FABER



Fiscal Distress for Ohio Local Governments

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Fiscal Caution



- Initiated – AOS
- Conditions:
 - ✗ Unauditable financial records
 - ✗ Significant deficiencies, weaknesses or non-compliance
 - ✗ General fund deficit >2% of general fund revenue
 - ✗ General fund carryover balance = or < one month expenditures
 - ✗ Note reconciled for three months and not corrected within one month



Fiscal Caution *(cont'd)*

- Declaration:
 - ✓ AOS letter sent
- Actions:
 - ✓ Submit proposal to correct conditions prompting declaration
 - ✓ LGS monitor
 - ✓ No acceptable proposal may result in fiscal watch or emergency
- Termination:
 - ✓ When AOS determines corrective actions have been or are being implemented and fiscal caution conditions no longer exist

Fiscal Watch



- Initiated:
 - Mayor
 - Presiding officer of council
 - Board of county commissioners
 - Board of township trustees
 - Auditor of State
- Conditions (1/12):
 - Delinquent accounts payable
 - Deficit fund balances
 - Treasury deficiency
 - Forecast

Fiscal Watch *(cont'd)*

- Fiscal analysis and report
- Declaration – AOS:
 - ❖ AOS letter sent
- Actions:
 - ❖ Financial recovery plan within 120-days (with 5-year forecast updated annually)
 - ❖ Local Government Services monitors and provides technical support
 - ❖ No recovery plan may result in fiscal emergency
- Termination – *after at least one year*:
 - ❖ Request to AOS from entity
 - ❖ Fiscal watch conditions eliminated



Fiscal Emergency

- Initiated:
 - Governor
 - County budget commission
 - Mayor
 - Presiding officer of council
 - Board of county commissioners
 - Board of township trustees
 - AOS



Background

Local Governments

Triggers for fiscal emergency:

Reason:

- #1: Fund deficits
- #2: Treasury deficits
- #3: Delinquent accounts payable
- #4: Default on debt
- #5: Failure to make payroll
- #6: Increase in minimum levy

Background

Local Governments *(cont'd)*

By far fund deficits are the leading trigger for a fiscal emergency declaration, with 65 instances since 1980. Treasury deficits are second, with 24 instances, followed by delinquent accounts payable in 21 instances, and default on debt, which occurred 13 times. Failure to make payroll has been a trigger just once in 47 years. In many cases, a government experiences more than one of these triggers

Background

Local Governments *(cont'd)*

Recovery actions when in fiscal emergency:

- State officials form commission;
- Commission enforces:
 - State law
 - Statutes
 - Mandates
 - Deadlines
- Local government officials are subject to oversight and veto by the commission's authority .

Background

Local Governments *(cont'd)*

Local Government Statistics:

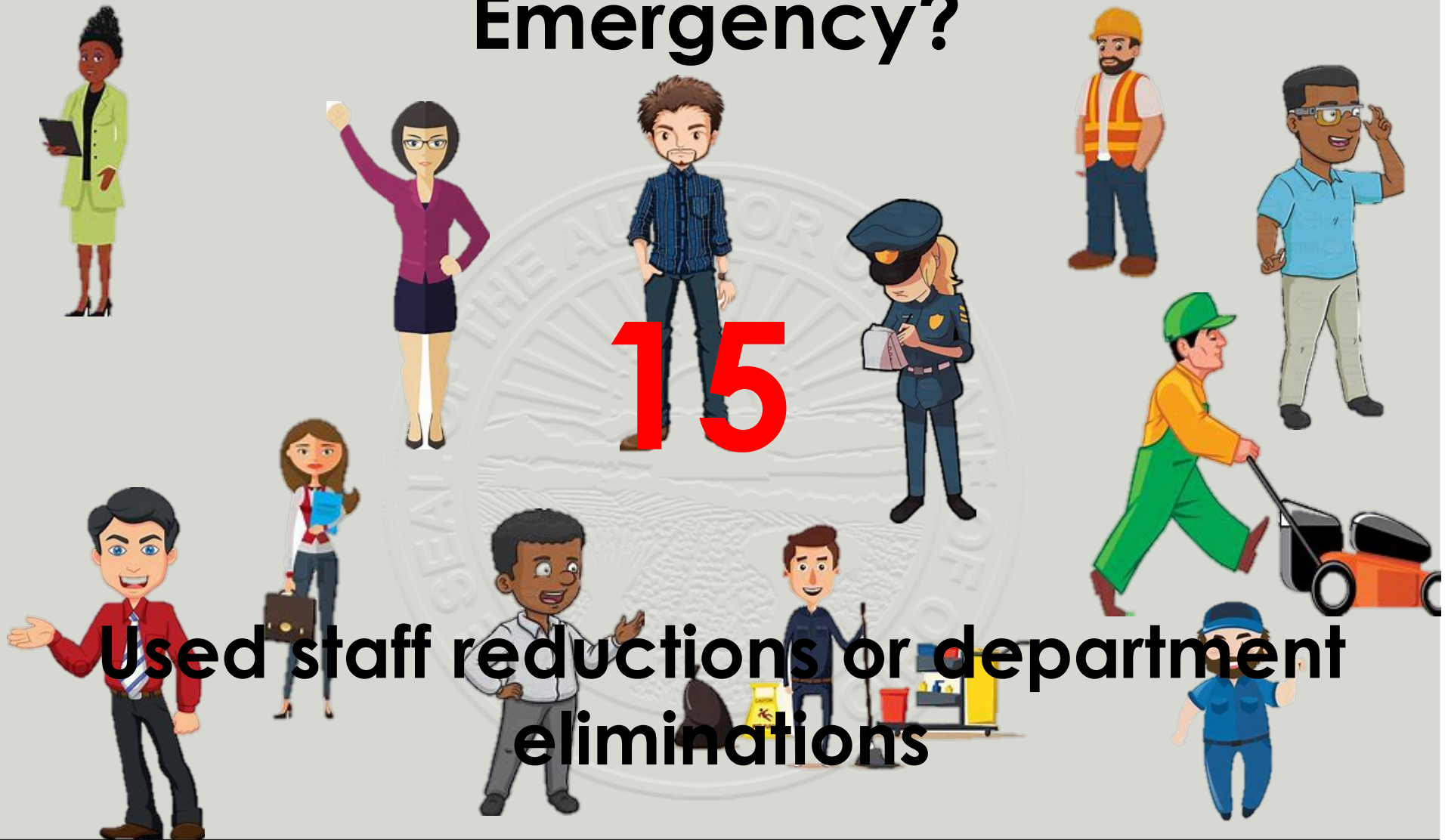
- Since 1980:
 - 80 townships, villages, cities and county declared in fiscal emergency;
 - 13 in recovery process
 - Median duration in fiscal emergency 4.6 years
 - Manchester Township in fiscal emergency for 16.5 years
 - City of East Cleveland declared in fiscal emergency twice since 1988

Local Government Fiscal Emergency Statistics

Of the local governments (not including school districts) that currently are in fiscal emergency 8 are villages, four are cities and one is townships.

Of the local governments (not including school districts) released from fiscal emergency since 1980, 41 are villages, 22 are cities, three is a township and one county.

How Did They Get Out of Fiscal Emergency?



Used staff reductions or department eliminations

How Did They Get Out of Fiscal Emergency?

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REDUCED EXPENSES



Supplies, contracted services and utilities

How Did They Get Out of Fiscal Emergency?



Fees to better reflect the cost of service

10

**RAISED
UTILITIES**

How Did They Get Out of Fiscal Emergency?

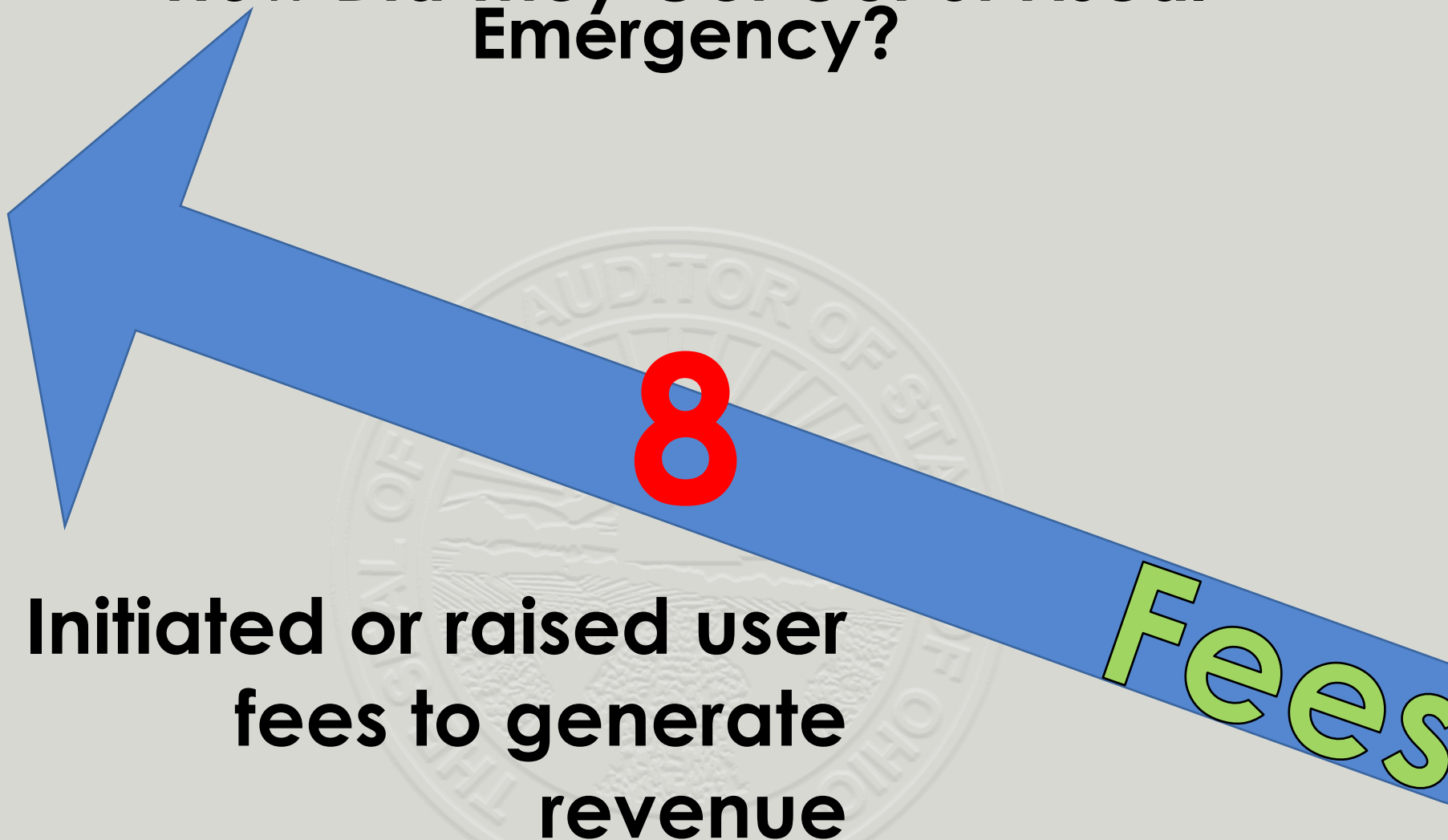
13



income tax levies or reduced
income tax credits



How Did They Get Out of Fiscal Emergency?



**Initiated or raised user
fees to generate
revenue**

How Did They Get Out of Fiscal Emergency?



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Benefit changes, include pay, furlough/vacation, health insurance and workers' compensation

How Did They Get Out of Fiscal Emergency?

8



Initiated or raised property tax levies to improve the balance sheet

How Did They Get Out of Fiscal Emergency?

18

Other methods:

- Obtaining grants
- Selling timber
- Gas royalties
- Sale of equipment
- Shared Services
- Receipt of delinquent income taxes
- Amnesty program for income taxes
- RITA reporting
- Sale of land
- Renegotiating payment plan for debt
- Annexing Property

How Did They Get Out of Fiscal Emergency?

BORROW

2

Borrowed against future allocations from the state's Local Government Fund



**Local
Government
Fund**

How Did They Do It?

Bellaire Local School District (Belmont County)

December 2009 – April 2007 | 7.5 years

- Eliminated 60 staff positions
- Ended 7% retirement pickup for new certified staff
- Switched health insurance to replace two previous carriers
- Increased employee share of health insurance premium
- Reduced spending on supplies, contracted services and utilities

How Did They Do It?

Village of Edgerton (Williams County)

December 2013 – July 2017 | 3.6 years

- Raised income tax rate to 1.75% from 1%
- Contracted tax collection to the Regional Income Tax Agency (RITA)
- Imposed a two-year salary freeze
- Increased water and sewer rates to pre-empt projected deficits

How Did They Do It?

City of Girard (Trumbull County)

August 2001 – June 2012 | 10.8 years

- Eliminated 11 staff positions
- Contracted tax collection to the RITA
- Passed 3 tax levies
- Sold timber and gas royalties

How Did They Do It?

Hamilton Township (Warren County)

April 2014 – October 2015 | 1.5 years

- Closed medical fund and transferred \$2.2 million to General Fund
- Used the money to eliminate deficits in other funds

How Did They Do It?

Village of Lakemore (Summit County)

August 2010 – November 2016 | 6.3 years

- Reduced income tax credit by half (restored after release from fiscal emergency)
- Passed a 4.25 mill fire and EMS levy
- Did away with police department and contracted with township for police service (village police department later restored at a lower level)

How Did They Do It?

Liberty Local School District (Trumbull County)

July 2011 to December 2014 | 3.4 years

- Eliminated 36 positions
- Joined an insurance consortium and required employee health-premium contributions
- Reduced salaries of four positions
- Joined shared service agreement for transfer and assistant treasurer
- Eliminated several supplemental programs

How Did They Do It?

City of Mansfield (Richland County)

August 2010 – July 2014 | 3.9 years

- Raised money by selling unused buildings
- Harvested timber from city-owned property
- Increased EMS transport fees to peer-city levels
- Reduced staff through attrition
- Mandated furlough days for non-union staff
- Passed a .25% income tax increase

How Did They Do It?

City of Massillon (Stark County)

October 2013 – April 2017 | 3.5 years

- Reduced income tax credit by 25% to eliminated general fund deficit
- Passed a .2% income tax to generate money for street fund
- Required city employees to pay 15% of their health care premiums

How Did They Do It?

Village of Newcomerstown (Tuscarawas County)

October 2012 – June 2016 | 3.7 years

- Covered cemetery fund deficit with transfer from general fund
- Eliminated cemetery staff
- Combined management of cemetery and street departments
- South donations and grants to cover parks and capital needs
- Hired full-time fiscal officer to generate fiscal data needed for decision-making and spending reduction

How Did They Do It?

Village of Portage (Wood County)

April 2009 – October 2017 | 8.5 years

- Disbanded police department and mayor's court
- Reduced salaries for employees and village council members
- Enacted a 1% income tax
- Contracted with RITA to collect taxes

How Did They Do It?

Scioto County

August 2009 to June 2014 | 4.8 years

- Closed juvenile detention center
- For two years, filled only essential positions and hired new employees at lower pay
- Allowed county departments to use furlough days and reduce staff
- Increased revenue by housing more jail inmates from outside the county
- Eliminated rent payments by buying courthouse annex

How Did They Do It?

Village of Waynesville (Warren County)

April 2008 – April 2014 | 6 years

- Passed five-year, 1% income tax
- Increased police levy to 7 mills from 5.5 mills
- Eliminated one full-time police officer position

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