



Mike DeWine, Governor
Jon Husted, Lt. Governor

**Office of Budget
and Management**

Kimberly Murnieks, Director

April 1, 2020

The Honorable Larry Householder, Speaker
Ohio House of Representatives
77 S. High St., 14th Floor
Columbus, Ohio 43215

Dear Speaker Householder:

Division (E) of section 118.07 of the Revised Code requires the Financial Planning and Supervision Commission to report annually to the Speaker of the House and the President of the Senate on the progress made by municipal corporations, counties, or townships to eliminate fiscal emergency conditions, and the failures of municipal corporations, counties, or townships to comply with Chapter 118.

Under division (D) of section 118.05 of the Revised Code, the Director of Budget and Management or my designee serves as chairperson of each Financial Planning and Supervision Commission. As chairperson, and on behalf of all commissions in operation during the period April 2019 through March 2020, I submit the following report.

Very respectfully yours,

A handwritten signature in blue ink that reads "Kimberly Murnieks".

Kimberly Murnieks
Director

c: The Honorable Emilia Sykes, House Minority Leader



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Jon Husted, Lt. Governor

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The Honorable Larry Obhof, President
Ohio Senate
Statehouse, 1 Capitol Square, 2nd Floor
Columbus, Ohio 43215

Dear President Obhof:

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Kimberly Murnieks
Director

c: The Honorable Kenny Yuko, Senate Minority Leader



FINANCIAL PLANNING AND SUPERVISION COMMISSION ANNUAL REPORT

APRIL 1, 2020



Mike DeWine, Governor • Kimberly Murnieks, Director
Office of Budget and Management

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Overview of Financial Planning and Supervision Commissions and Statutory Reporting Requirements

This report provides information on all local government Financial Planning and Supervision Commissions which operated at some time during the period of the report. The role of the commission is to provide support and review of the financial activities and practices of certain local government units declared in fiscal emergency by the Ohio Auditor of State. The Auditor assigns a fiscal supervisor to each entity in fiscal emergency and the supervisor provides the commission with an independent assessment of the entity's financial health and adherence to the fiscal recovery plan at each meeting of the commission. In addition, the fiscal supervisor prepares a Report on Accounting Methods which identifies fiscal processes in place which do not adhere to legislative requirements or financial best practices. During commission meetings, the fiscal supervisor provides updates on the progress of the local government entity to address the issues identified in the accounting practice report and the steps taken to correct those processes.

Section 118.07(E) of the Ohio Revised Code requires the Financial Planning and Supervision Commissions to provide an annual report to the Speaker of the House and the President of the Senate on the progress made in eliminating fiscal emergency conditions for local governments that are in a state of fiscal emergency.

Overview of Local Governments in Fiscal Emergency during the Period April 1, 2019 through March 31, 2020

OBM chaired financial planning and supervision commissions for eight local governments in fiscal emergency at some point during the period April 1, 2019 through March 31, 2020 under divisions (A) through (K) of section 118.05 of the Revised Code. There are three commissions with a release requested pending Auditor of State termination analysis or scheduled meeting.

In September 2011, the General Assembly amended section 118.05 of the Revised Code to create a new form of oversight for those local political jurisdictions with populations under 1,000 that meet any of the six conditions for fiscal emergency¹. Six local governments in fiscal emergency were not required to have a financial planning and supervision commission. In these cases, the powers and duties previously assumed by a commission are delegated to a financial supervisor who is employed by the Auditor of State. These local governments are not discussed in this report.

¹ The six conditions for fiscal emergency can be found in the appendix to this report.

**Financial Planning and Supervision Commissions by Report Year
(April 1 through March 31)**

	2015	2016	2017	2018	2019
Total Financial Planning Commissions	18	16	17	12	9
§118.05 Emergencies Declared	4	0	3	1	1
Release Requested	3	3	7	4	3
Released by AOS	5	2	2	4	0

Note: Total Financial Planning Commissions and Release requested are as of March 31. ORC Section 118.05 Emergencies Declared and Released by AOS are the totals for the report year. Local governments in fiscal emergency that are overseen by a financial supervisor instead of a commission (i.e., those local governments with populations under 1,000 that were placed into fiscal emergency post September 2011) are not reflected in this table.

The average length of time that the local governments in this report have been in fiscal emergency is six years and eight months. The most recent declaration was made on December 4, 2018 for the Village of Bridgeport in Belmont County.

Financial Planning and Supervision Commissions Terminated Since April 1, 2019

Manchester Township in Adams County was originally scheduled to be released at the Commission meeting on March 19th. Due to the current health emergency, the meeting has been rescheduled by the Auditor of State's Office to another date that has yet to be determined.

Local Governments Currently in Fiscal Emergency for Which Release has been Requested by Their Commission

Manchester Township, Adams County

Population: 2,723

Date Fiscal Emergency Declared: September 20, 2002

Brief Summary:

When fiscal emergency was declared, Manchester Township had a number of funds with deficit balances, a treasury deficiency, and had used gas tax revenues to support general operations.

Action Steps Taken:

- Improvements to the township's financial picture remain steady. Administrative operations have also strengthened. Past levy results indicate a reluctance to support the township with additional funding. The general fund of approximately \$7,700 in annual expenditures remains in a deficit position of \$3,600.

Outlook:

The auditor's review of financials indicates that the township has slowly but surely reduced expenditures. In March 2020, a revised Financial Recovery Plan was approved, including a five-year forecast indicating the township would end fiscal year with positive balances. These projections held and the Township ended fiscal year 2019 with an overall fund balance of \$420,863. The Township has addressed all items identified in the Accounting Methods Report of the Auditor of State dated January 10, 2003. The commission passed a resolution requesting release from fiscal emergency at the January 21, 2020 meeting.

City of Maple Heights, Cuyahoga County

Population: 23,138

Date Fiscal Emergency Declared: February 13, 2015

Brief Summary:

When Maple Heights was declared in fiscal emergency, it had debt payments that were thirty days past due, and deficit funds totaling almost \$2.8 million. The City ended 2017 with a deficit of \$875,000 (or 7.5% of revenue) a reduction of almost \$1 million from the end of 2016.

Action Steps Taken:

- The city adhered to the financial recovery plan primarily by restraining expenditures and has increased the property tax by 3.2 mills by eliminating uncollected, but voter approved, millage from a levy dating back to 1958.
- The city's economic condition has stabilized through added businesses.

- The commission is monitoring revenue and expenditures to assure annual reduction of the deficit.

Outlook

Fiscal year 2019 ended with all funds at a positive balance. The new fiscal officer effectively addressed the deficiencies in accounting practices identified in the Accounting Methods Report of the Auditor of State dated August 22, 2017. The commission passed a resolution requesting release from fiscal emergency at the January 23, 2020 meeting.

Village of Wellsville, Columbiana County

Population: 3,541

Date Fiscal Emergency Declared: November 15, 2016

Brief Summary:

Deficit funds were identified by the Auditor of State as follows; \$93,021 as of December 31, 2015, and \$28,710 as of May 31, 2016. However, the Village overspent revenue in 2017 causing the negative balance to increase to \$231K (23% of revenue).

Action Steps:

- The Village passed a 0.5% income tax increase in November 2017, with half of the proceeds going to street repairs and half going to support the Village Police Department.
- One-time revenue sources from the sale of land and other assets were transferred to the credit of the general fund.
- The Village failed to present a Financial Recovery Plan that will resolve the deficit existing in the General fund early in 2018. In accordance with ORC 118.12, spending of General funds was limited to 85% starting in February 2018.

Outlook:

The Village of Wellsville adopted a financial recovery plan with a projected positive General fund balance in 2019 and a positive balance in the cemetery fund beginning in 2020. The General Fund has gone from a deficit of \$231,911 in January 2018, to a positive balance of \$52,340.

While a good portion of the success is due to one-time influxes of revenue, it also reflects the positive influences of reduced overtime costs and reduced spending generally. The Village has completed all corrections to accounting methods and ended fiscal year 2019 with a balance of \$237,303 in the general fund, \$5,758.48 in the cemetery fund and an overall fund balance of \$1,198,722. In addition, the Village has addressed all items identified in the Accounting Methods Report of the Auditor of State dated December 12, 2017. The commission passed a resolution requesting release from fiscal emergency at the January 16, 2020 meeting.

Local Governments Currently in Fiscal Emergency with Active Financial Planning and Supervision Commissions

City of East Cleveland, Cuyahoga County

Population: 17,843

Date Fiscal Emergency Declared: October 9, 2012

Brief Summary:

When declared to be in fiscal emergency by the Auditor of State, the City of East Cleveland had deficit fund balances in an amount exceeding \$5.8 million. The city was previously in fiscal emergency from 1988 to 2006. However, many of the problems that plagued the city then continue today.

Despite continued erosion of income tax revenue, East Cleveland has benefited from the collection of revenue from traffic camera fines. However, Ohio Amended Substitute House Bill 62, the transportation budget, reduced local government fund distributions in an amount equal to the revenue collected from traffic camera fines unless those fines are collected in school zones. The City of East Cleveland has moved most of their traffic cameras into school zones in an attempt to mitigate the impact of the law change. However, the local revenue funds collected in the amount equal to traffic camera revenue in school zones must be used for school safety purposes. The City has not received guidance on the expenses that can be properly attributed to school safety creating some uncertainty on the impact of the transportation budget provisions on the local government funds. The City has filed suit against the State challenging the statutory changes implemented regarding traffic cameras and local government disbursements.

In addition to the revenue challenges facing the city, there are a number of legal cases against the city currently in appeal. These cases present the potential for significant liability that could impair the city's financial integrity.

Action Steps Taken:

- East Cleveland has increased garbage fees, leased a cell tower, sold property, combined some job positions, and instituted a city-wide layoff and salary freeze.
- It has also transferred cash from inactive funds via the general fund to reduce and/or eliminate deficit balances in all funds.
- East Cleveland is exploring starting its own impound lot rather than contracting out for this service.

Outlook:

The financial recovery plan for the City of East Cleveland was approved by the commission at the January 15, 2020 meeting; the plan was more than six months late as the city failed to meet the initial deadline and was later granted an extended filing deadline. The first plan submitted for approval was rejected because it failed to include negotiated wage increases, an appropriate

estimate of changes to the local government fund, and an acknowledgement of potential liability from outstanding legal cases. While the city ended fiscal year 2019 with a positive general fund balance of \$1,346,738, the continued financial health of the district is dependent on the resolution of the city's challenge to changes in Local Government Fund disbursements and outstanding lawsuits against the city. In addition, accounting processes still require additional work to bring them in line with best practices. It is not anticipated the city will be released from fiscal emergency in the near future.

City of Fostoria, Seneca County

Population: 13,441

Date Fiscal Emergency Declared: May 26, 2016

Brief Summary:

The fiscal emergency declaration indicated that as of February 29, 2016, the Auditor of State determined the deficit fund balances of the City of Fostoria to be \$505,330. By the end of 2017, the General fund deficit has grown to just under \$1 million (14% of revenue).

Action Steps Taken:

- The city rescinded 50% of income tax reciprocity in 2017, and the remaining 50% was eliminated in 2018, which provided the city about \$500K additional revenue.
- Voters approved a 6-mil levy which increased revenues by \$850K in 2018.

Outlook:

The General fund had a positive balance at the end of fiscal year 2019 and the financial recovery plan has been updated based on the most recent forecast and fund balances. The city has made significant progress in addressing the issues identified in the Accounting Methods Report. It is anticipated the city will be able to request release from fiscal emergency in 2020.

Village of Mount Sterling, Madison County

Population: 1,782

Date Fiscal Emergency Declared: June 22, 2017

Brief Summary:

The Village of Mount Sterling had deficit fund balances of \$269,000 as of April 30, 2017, as noted when the Auditor of State declared the fiscal emergency. The village is also recovering from illegal financial actions of former village employees.

Action Steps Taken:

- At the December 2019 commission meeting, the General fund cash balance was projected to end the fiscal year with a positive balance.

- Income tax revenues are healthy, in part due to more aggressive collection efforts by the village.
- Village council increased water rates effective January 1, 2019, in order to pay-off debt to the Ohio Water Development Authority that was incurred by the renovation of the water treatment plant.

Outlook:

The village's mayor and village council president pro tempore are intent on getting the Village of Mount Sterling returned to financial order. However, in February 2019 three of six village council members abruptly resigned, temporarily leaving the village unable to convene a quorum of council. Work is progressing to re-build financial records and establish spending accounts to reflect services provided.

City of Norwood, Hamilton County

Population: 19,207

Date Fiscal Emergency Declared: October 6, 2016

Brief Summary:

The City of Norwood was declared in fiscal emergency due to deficit general fund balances (\$38,000 as of December 2015 and \$260,000 as of June 2016). Norwood had previously been in fiscal watch from October 2004 until October 2016. In the early 1980s, Norwood was also in fiscal emergency, being declared in May 1980 and terminated in October 1982.

Action Steps Taken:

- In addition to budget deficits, Norwood also had unpaid bills, some dating back years. Reconciliation has taken much work by the Auditor of State's office.
- At the end of 2018, the city's ending balance in the general fund was \$1.6 million on general fund expenditures of \$23.6 million.
- The Report on Accounting Methods was released in December 2018, indicating 32 comments that need to be addressed by the city.

Outlook:

Norwood revenues from a 2% city income tax and property tax collections have been stable. Operating expenditures continue to need restraint, particularly in the largest spending area of public safety. Labor contract negotiations have finally resulted in signed contracts with the city's four unions in March 2020. Prior to this, the unions were operating under the terms of the expired contracts under an "evergreen clause." This resulted in actual costs that were inconsistent with the costs that were used as the assumptions for the approved Financial Recovery Plan, including an anticipated employee contribution toward health care costs. The finances of the city were helped with the identification of deposits incorrectly credited to the Sewer fund which had negatively impacted the Water fund; the transfer from the Sewer fund to the Water fund eliminated the need for a transfer from the General fund to the Water fund. A new mayor took office in January 2020 and is being assisted with understanding the limitations imposed by the financial recovery plan. Norwood City Council approved the plan on March 24, 2020, and the Commission is scheduled to discuss the plan at its March 31st meeting.

Village of Bridgeport, Belmont County

Population: 1,831

Date Fiscal Emergency Declared: December 4, 2018

Brief Summary:

The Village of Bridgeport failed to make semi-annual payments on loans from the Ohio Water Development Authority and the Ohio Public Works Commission. Missed payments totaled \$90,636. In addition, village financial records are in disarray.

Action Steps:

- The first commission meeting was February 13, 2019.
- Review of prior year fiscal records are still in process. The fiscal supervisor continues to work with the Village to build appropriate financial records for fiscal year 2019.

Outlook:

The Village of Bridgeport's financial recovery plan was presented and approved by the commission on June 19, 2019. During the first week in February 2020, the Mayor of Bridgeport was indicted on two, third-degree felonies and two, first-degree misdemeanors surrounding misconduct in office, including possible theft of Village funds. The investigation and prosecution are being conducted by the Auditor of State. The Mayor voluntarily stepped down and the President of Council, Mr. Marvin Husarik is temporarily serving as Mayor. The Mayor would be ineligible to continue participation in the Commission per R.C. 3.16.

APPENDIX

Conditions for Declaration and Termination of Fiscal Emergency

Section 118.03 of the Revised Code details the six conditions under which a municipal corporation, county, or township may be declared in fiscal emergency and placed under the oversight of a financial planning and supervision commission. These conditions are:

1. The existence of a default on any debt obligation of more than thirty days;
2. The failure for lack of cash in the funds to make payment of all payroll to employees in the amounts and at the times required by law, ordinances, resolutions, or agreements for more than thirty days after such time for payment or beyond a period of extension, or beyond the expiration of ninety days from the original time for payment, whichever occurs first;
3. An increase, by action of the county budget commission pursuant to division (D) of section 5705.31 of the Revised Code, in the minimum levy of the municipal corporation, county, or township for the current or next fiscal year which results in a reduction in the minimum levies for one or more other divisions or taxing districts;
4. The existence of past due accounts payable from the general fund that were due and payable for at least thirty days at the end of the preceding fiscal year, or to which a penalty has been added for failure to pay at the end of the fiscal year. Such past due accounts payable must exceed one-sixth of the general fund budget for that year.

OR

The existence of past due accounts payable from all funds that were due and payable for at least thirty days at the end of the preceding fiscal year, or to which a penalty has been added for failure to pay at the end of the fiscal year. Such past due accounts payable must exceed one-sixth of available revenues during the preceding year, excluding nonrecurring receipts.

5. The existence of a condition in which the aggregate of deficit amounts of all deficit funds at the end of the preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred to meet such deficit, exceeded one-sixth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than from transfers from the general fund.
6. The existence of a condition in which, at the end of the preceding fiscal year, moneys and marketable investments in or held for the unsegregated treasury of the municipal corporation, county or township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive balances of the general fund and those special funds the purposes of which the unsegregated treasury is held to meet, and such deficiency exceeded one-sixth of the total amount received into the unsegregated treasury during the preceding fiscal year.

Termination of the financial planning and supervision commission formed as a result of the declaration of fiscal emergency by the Auditor of State thereby releases the municipal corporation, county, or township from fiscal emergency. Under section 118.27 of the Revised Code, the municipal corporation, county, or township must do all of the following if the commission is to be terminated and release from fiscal emergency is to occur:

1. Plan and is in the process of a good faith implementation of an effective financial accounting and reporting system, and it is reasonably expected that

- such implementation will be completed within two years;
2. Corrected and eliminated or has planned and is in the process of good faith implementation of correcting and eliminating, all of the fiscal emergency condition and no new fiscal emergency conditions have occurred.
 3. Met the objectives of the financial recovery plan described in section 118.06 of the Revised Code.
 4. Prepare a financial forecast for a five-year period in accordance with the standards issued by the Auditor of State. The Auditor of State must render an opinion that the financial forecast is considered to be non-adverse.

The first condition for termination is met by addressing the comments made on the Report on Accounting Methods issued by the Auditor of State's office. This report focuses on the development or lack of written policies, the need for adequate cash controls, and the use of spending restraints among other items. By addressing these comments, the municipal corporation, county, or township often addresses the reasons why it found itself in fiscal emergency, thereby precluding a repeat of this declaration.