



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: [Am. H.B. 216 of the 130th G.A.](#) **Date:** October 31, 2013
Status: As Reported by House Education **Sponsor:** Rep. Patterson

Local Impact Statement Procedure Required: No

Contents: Forgives a school district's indebtedness to the Solvency Assistance Fund upon its consolidation with another district under certain specified conditions

State Fiscal Highlights

- If any districts take advantage of the bill's provision, the Solvency Assistance Fund (Fund 5H30) will experience a decrease in revenue. The Director of Budget and Management may transfer cash from the GRF to offset this decrease.

Local Fiscal Highlights

- If certain conditions are met, a school district that acquires another school district that has received, but not completely repaid, a solvency assistance advance will not absorb the net amount owed by the transferring district. As a result, this district's expenditures will be lower under the bill than otherwise.

Detailed Fiscal Analysis

Background

Through the Solvency Assistance Fund (Fund 5H30) shared resources account, the Ohio Department of Education (ODE) provides interest-free advances to school districts in fiscal emergency to enable them to remain solvent and to pay unforeseen expenses of a temporary or emergency nature that the districts otherwise cannot pay from existing resources. Advances made to districts from the shared resource account must be repaid, generally, no later than the end of the second year following the fiscal year in which the advance was made.¹ Typically, the advances are repaid through deductions from the district's state aid payments that are spread out evenly over the repayment period. Fund 5H30 was originally funded in FY 1998 with \$30.0 million from the GRF. Now, repayments of prior advances fund new advances. If needed, transfers from the GRF or other funds used by ODE may be made.

The bill

The bill provides that the net amount of solvency assistance owed by a school district that transfers its entire territory to another district is cancelled, as long as certain specified conditions are satisfied. These conditions include the following: (1) the transferring district has been in fiscal emergency during the previous two fiscal years, (2) the acquiring district has voluntarily accepted the transfer and is located in the same county or in a county contiguous to the county in which the transferring district is located, and (3) the amount owed by the transferring district is at least 33% of the transferring school district's operating budget for the current fiscal year, but does not exceed \$10 million.

If these conditions are met, Fund 5H30 will experience a loss in revenue because the solvency assistance advance made to the transferring district from the fund will not be repaid. The bill authorizes the Director of Budget and Management to transfer cash that has been appropriated for operating payments to schools from the GRF to Fund 5H30 to replace the amounts owed by a transferring district. If the Director transfers this cash, the revenue loss incurred by Fund 5H30 would be offset by a transfer from the GRF and the GRF would experience an increase in transfers out.

Under the bill, expenditures for the acquiring district will be lower than otherwise. However, the acquiring district will absorb, under continuing law, the obligations of all other liens, encumbrances, and debts of the transferring district. In addition, the bill requires that the acquiring district submit to ODE a written five-year fiscal projection that takes into account the fiscal effects of absorbing the transferring district. As a district is currently required to adopt a five-year financial plan, this

¹ If needed, ODE and OBM may approve lengthening the repayment period to up to ten years.

requirement is likely to result in only minimal additional costs, if any, for the acquiring district.

This type of school district transfer has been rare for many years. In fact, the last time two school districts in Ohio consolidated was in FY 1993.² The bill does, however, provide an incentive for consolidation, and transfers may occur in the future. The number of districts in fiscal emergency varies from year to year; and most districts in fiscal emergency remain on it for at least two years. At the end of fiscal year 2013, six districts were on fiscal emergency.³ The amount of solvency assistance advances also varies from year to year. In fiscal years 2012 and 2013, advances totaled, respectively, \$14.2 million for six districts and \$2.6 million for three districts.

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² Self, Tucker L. "Evaluation of a Single School District Consolidation in Ohio." *American Secondary Education* 30.1 (2001): 71. *MasterFILE Premier*. Web. 1 October 2013.

³ A current list of districts on fiscal emergency can be found on the website of the Auditor of State.