


OHIO AUDITOR OF STATE

KEITH FABER



## Fiscal Distress 101

From Declaration to Termination  
and Everything In-Between

January 2024

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Topics to be discussed

Ohio Revised Code 118

Fiscal Emergency Case Study

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Ohio Revised Code 118

- Guidelines for when counties, cities, villages and townships are in fiscal distress
- Addresses:
  - Fiscal Caution
  - Fiscal Watch and
  - Fiscal Emergency



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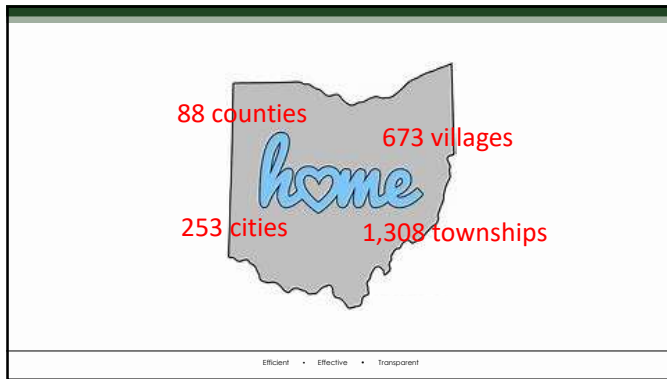
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### ORC 118 – Fiscal Caution



- 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
  - ✗ Not reconciled for three months and not corrected within one month written notification

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### ORC 118 – Fiscal Caution

- Declaration:
  - ✓ AOS letter sent
- Actions:
  - ✓ Submit financial recovery plan to correct conditions prompting declaration within 60 days
  - ✓ AOS monitors
  - ✓ No acceptable financial recovery plan 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

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### ORC 118 – Fiscal Watch

- Initiated:
  - Mayor
  - Presiding officer of Council
  - Board of County Commissioners
  - Board of Township Trustees
  - Auditor of State
- Conditions (1/12):
  - Delinquent Accounts Payables
  - Deficit Fund Balances
  - Treasury Deficiency
  - Forecast



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7

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### ORC 118 – Fiscal Watch



- Fiscal Analysis and Report
  - Analysis done at year end
- Declaration – Auditor of State
- Actions
  - Financial Recovery Plan within 120 days  
*If no plan – may result in fiscal emergency*
  - AOS monitors and provides technical support
- Termination
  - Requested by the local government
  - Fiscal watch conditions have been eliminated
  - Non-adverse three-year forecast

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### ORC 118 – Fiscal Emergency

- Initiated:
  - Governor
  - County Budget Commission
  - Mayor
  - Presiding Officer of Council
  - Board of County Commissioners
  - Board of Township Trustees
  - Auditor of State



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9

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## ORC 118 – Fiscal Emergency

- Conditions:
  - Default on Debt for more than 30 days
  - Failure to make Payroll for more than 30 days
  - Increase in Minimum Levy
  - Delinquent Accounts Payables (exceeds 1/6 of fund's budget)
  - Deficit Fund Balances (exceeds 1/6 of fund's budget)
  - Treasury Deficiency (exceeds 1/6 of fund's budget)
- Fiscal Analysis and Report
  - Analysis done at year end
- Declaration – Auditor of State



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## ORC 118 – Fiscal Emergency

- Actions:
  - Financial Planning and Supervision Commission is formed (population over 1,000)
  - AOS is Financial Supervisor
  - Financial Recovery Plan

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## ORC 118 – Fiscal Emergency

- Financial Planning & Supervision Commission (FPSC) – 7 members
  - Director of state office of Budget and Management (or designee) – Commission Chair
  - Treasurer of State (or designee)
  - Local Government
    - County
      - President of the Board of County Commissioners (or designee)
      - County Auditor (or designee)
    - Municipality/Village
      - Mayor
      - President of Council (or designee)
    - Township
      - Member of the Board of Trustees
      - County Auditor (or designee)

*4 ex officio members*

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### ORC 118 – Fiscal Emergency

- FPSC appointed members
  - County
    - Governor appointment
    - 2 - Board of County Commissioners appointments
  - Municipality/Village
    - Governor appointment
    - Mayor appointment with Council confirmation
    - County Auditor/Fiscal Officer appointment
  - Township
    - Governor appointment
    - 2 - Board of Township Trustees appointments

3 appointed members

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13

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### ORC 118 – Fiscal Emergency

- FPSC appointed members
  - Knowledge and experience of financial matters/management or business operations
  - Residency, office or principal place of professional/business activity within the county, municipality or township
  - Shall not become a candidate for elected public office while serving on the Commission

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14

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### ORC 118 – Fiscal Emergency

FPSC Duties

- Ensure development and adherence to the financial recovery plan
- Review all budgetary documents
- Approve all new debt obligations
- Ensure the local government's accounting systems are following compliance requirements
- Safeguard that the local government's books are reconciled
- Consult and make recommendation for cost reductions and/or revenue increases
- Annually report to the State's Legislature on the progress of the local government

AOS has all the FPSC duties for entities with a population less than 1,000

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15

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## ORC 118 – Fiscal Emergency

### AOS Financial Supervisor Duties

- Assist in the development of the Financial Recovery Plan
- Provide an independent analysis of numbers
- Prepare documents requested by the FPSC
- Ensure the local government is reconciling and balancing books monthly/timely
- Ensure the local government's accounting practices follow State statutes
- Assist with budgetary documentation
- Prepare the Report on Accounting Methods

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16

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## ORC 118 – Fiscal Emergency

### Financial Recovery Plan

- Due within 120 days after the first meeting of the FPSC
- Submitted by the local government
  - Mayor, Board of County Commissioners or Board of Township Trustees with an approved ordinance or resolution of the legislative authority
- Reviewed by the FPSC
  - Approve
  - Reject
    - Inform the local government the reason for the rejection
    - Local government has 30 days to re-submit
- Updated annually



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17

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## ORC 118 – Fiscal Emergency

### Financial Recovery Plan

- Includes:
  - Revenue generating actions
  - Expenditure reduction actions
  - Other actions
  - Shared Services
  - Five-year forecast
- Plan should:
  - Eliminate all fiscal emergency conditions
  - Satisfy any judgments and past due accounts payables
  - Eliminate current deficits and avoids future deficits
  - Balance budget
  - Shows the local government's operations are financially supported

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## ORC 118 – Fiscal Emergency

Financial Recovery Plan – **NO** Plan

- Commission may:
  - Limit expenditures to 85% for that month in the preceding calendar year
  - Authorize a higher percentage
  - Notify the Office of Budget and Management
    - All State funding is held

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19

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## ORC 118 – Fiscal Emergency

How does a local government get released from fiscal emergency

- Correct fiscal emergency conditions
- No new fiscal emergency conditions
- Implement corrections identified in the Report on Accounting Methods
- Met objectives in the Financial Recovery Plan
- Examined and issued a non-adverse five-year forecast

AOS compiles a termination report

- Completed as of year end

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## How Did They Get Out of Fiscal Emergency?



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### How Did They Get Out of Fiscal Emergency?



Benefit changes, including pay, furlough days, health insurance and workers' compensation

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### How Did They Get Out of Fiscal Emergency?

Supplies, contracted services and utilities

REDUCED  
EXPENSES



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23

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### How Did They Get Out of Fiscal Emergency?



Fees to better reflect the cost of service

RAISED  
UTILITIES

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### How Did They Get Out of Fiscal Emergency?

**TAX INCREASE**

*Passed property or income tax levies*

**Reduced income tax credits**

**TAX CREDITS**

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### How Did They Get Out of Fiscal Emergency?

*Other*

- Grants
- Raised Fees
- Gas Royalties
- Sale of Equipment, Land, Timber
- Annexing Property
- Shared Services
- Delinquent Income Taxes
  - Pursuing delinquencies
  - Amnesty program for delinquencies
  - RITA
- Renegotiating debt payments
- Borrowed against future allocations from the State's Local Government Fund

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### ORC 118 Fiscal Distress

- Fiscal Caution
  - 2 townships
  - 2 villages
- Fiscal Watch
  - 1 cities
  - 1 township
- Fiscal Emergency
  - 3 cities
  - 7 villages
  - 3 township

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27

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# History of Fiscal Emergency

Local Governments Terminated from Fiscal Emergency												
Entity Name	County	Population	Initiated By	Deficit on Date	Principal	Accounts Payable	Deficit Funds	Treasury Deficit	Date Declared	Date Terminated	Duration (in Years)	
1 City of Niles	Township	23,008	Auditor	\$0	\$0	\$0	\$1,002,340	\$0	01/03/80	05/23/93	13	
2 City of Cleveland	Cuyahoga	373,822	Auditor	15,000,000	-	-	-	-	01/06/80	06/23/87	7.4	
3 City of Norwood	Hamilton	26,342	Auditor	-	-	-	1,000,000	-	05/07/80	10/01/82	2.4	
4 Village of Plymouth	Richland	1,939	Request	56,382	-	-	97,332	-	05/06/80	10/26/82	2.4	
5 City of Ashland	Ashland	23,689	Auditor	-	-	-	628,316	-	09/13/80	03/28/85	4.5	
6 Village of Prospect	Harrison	325	Request	-	-	6,888	-	-	10/03/80	05/13/85	4.6	

- The first declarations of fiscal emergency occurred in 1980.
- 6 entities were declared:
  - 4 Cities
  - 2 Villages
- The average duration of these 6 entities was 4.1 years.

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28

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29

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