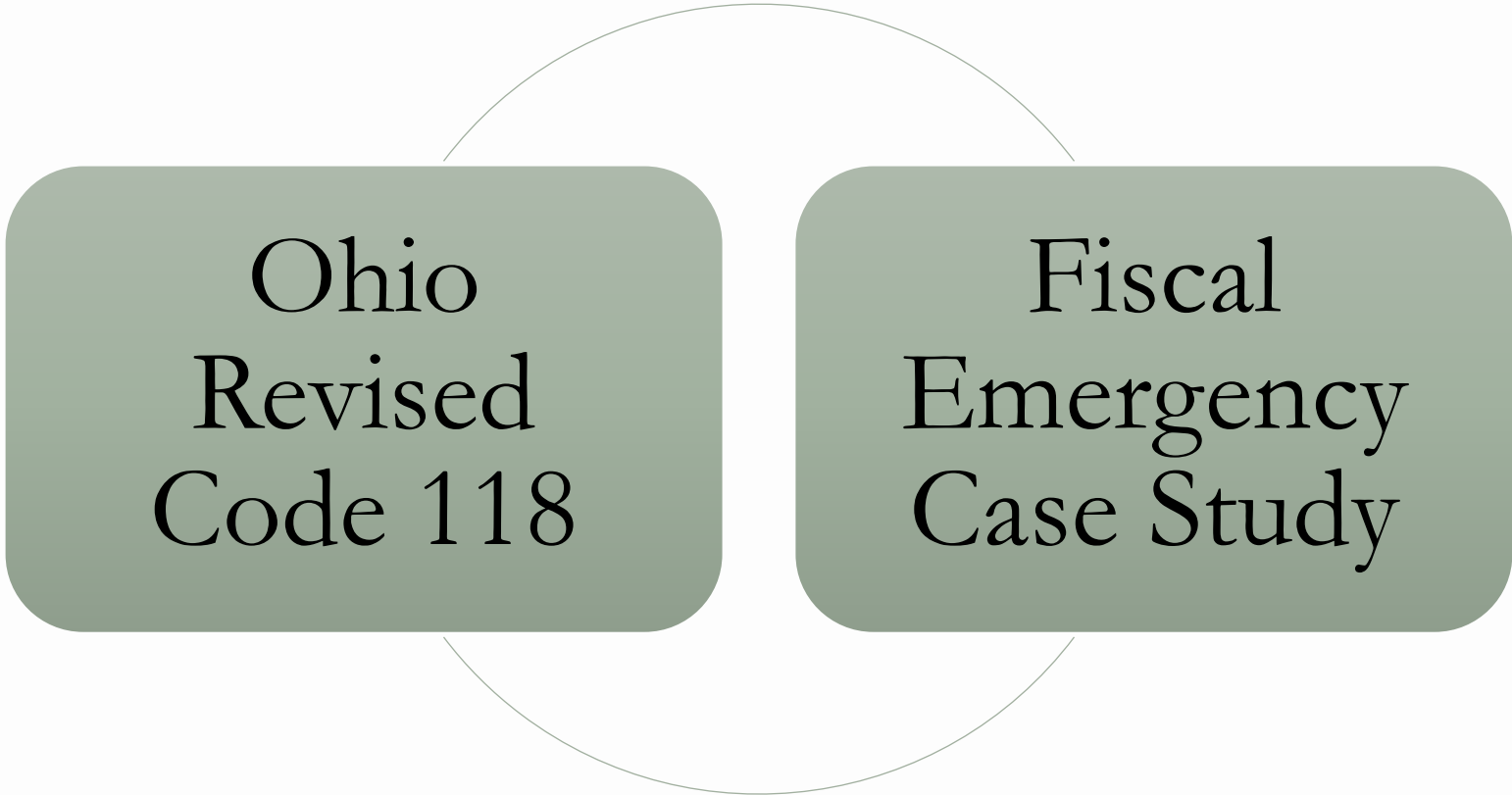


# Fiscal Distress 101

From Declaration to Termination  
*and Everything In-Between*

# Topics to be discussed



Ohio  
Revised  
Code 118

Fiscal  
Emergency  
Case Study

# Ohio Revised Code 118

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



88 counties

673 villages

home

253 cities

1,308 townships

# ORC 118 – Fiscal Caution



- Initiated – AOS
- Conditions:
  - ✗ Unauditable financial records
  - ✗ Significant deficiencies, weaknesses, non-compliance or management letter comments with a significant effect on the financials
  - ✗ 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



# 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

# 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



# ORC 118 – Fiscal Watch



- Fiscal Analysis and Report
  - Analysis done at year end
- Declaration – Auditor of State
- Actions
  - Financial Recovery Plan within 90 days
    - If no plan – may result in fiscal emergency*
    - The filing days of the plan may be extended for good cause shown.*
  - AOS monitors and provides technical support
- Termination
  - Requested by the local government
  - Fiscal watch conditions have been eliminated
  - Non-adverse three-year forecast



# 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



# 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



# ORC 118 – Fiscal Emergency

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

# ORC 118 – Fiscal Emergency

- Financial Planning & Supervision Commission (FPSC) – 7 members
  - Director of the 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*

# 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*

# 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



# 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

# 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



# 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



# 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

# 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

# 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

# How Did They Get Out of Fiscal Emergency?



Used staff reductions or department eliminations

# How Did They Get Out of Fiscal Emergency?



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

# How Did They Get Out of Fiscal Emergency?

Supplies, contracted services and utilities

REDUCED  
EXPENSES



# How Did They Get Out of Fiscal Emergency?



**Fees to better reflect the cost of service**

**RAISED  
UTILITIES**



# How Did They Get Out of Fiscal Emergency?

**TAX  
INCREASE**

*Passed property or income tax levies*



TAX FORM



*Reduced income tax credits*



# 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

# ORC 118 Fiscal Distress

- Fiscal Caution
  - 2 townships
  - 2 villages
  - 1 city
- Fiscal Watch
  - 1 cities
  - 1 township
  - 1 school
- Fiscal Emergency
  - 3 cities
  - 8 villages
  - 2 township
  - 2 schools



# History of Fiscal Emergency

## Local Governments Terminated from Fiscal Emergency

Entity Name	County	Population	Initiated By	Default on Debt	Payroll	Accounts Payable	Deficit Funds	Treasury Deficit	Date Declared	Date Terminated	Duration (in Years)
1 City of Niles	Trumbull	23,088	Auditor	\$0	\$0	\$0	\$1,002,340	\$0	01/03/80	05/25/83	3.3
2 City of Cleveland	Cuyahoga	573,822	Auditor	15,000,000	-	-	-	-	01/04/80	06/25/87	7.4
3 City of Norwood	Hamilton	26,342	Auditor	-	-	-	1,800,000	-	05/07/80	10/01/82	2.4
4 Village of Plymouth	Richland	1,939	Request	56,382	-	-	97,532	-	05/30/80	10/29/82	2.4
5 City of Ashtabula	Ashtabula	23,449	Auditor	-	-	-	628,516	-	09/15/80	03/28/85	4.5
6 Village of Freeport	Harrison	525	Request	-	-	6,048	-	-	10/03/80	05/15/85	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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