



Jim Kelly

## *Bill Analysis*

Legislative Service Commission

### **H.B. 192**

123rd General Assembly  
(As Introduced)

**Rep. Gardner**

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#### **BILL SUMMARY**

- Permits school districts to use excess money deposited in their reserve balance ("rainy day") accounts to offset the amounts they are required to deposit in future years.
- Specifies that the maximum amount school districts must deposit in their reserve balance accounts in any year is 1% of the prior fiscal year's operating revenue.

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#### **CONTENT AND OPERATION**

##### **Current law: school district "rainy day" accounts**

Beginning in fiscal year 1999, a law enacted by Am. Sub. H.B. 412 of the 122nd General Assembly requires school districts to begin accumulating a reserve balance, or "rainy day," account that eventually equals 5% of the district's previous year's revenues for current expenses. The stated purpose of the account is to "stabilize the school district's budget against cyclical changes in revenues and expenditures." Districts may appropriate money from the account only with a two-thirds vote of the district board of education and under circumstances specified in rules adopted by the state Superintendent of Public Instruction and the Auditor of State.<sup>1</sup> Districts that appropriate money from the account must receive the state Superintendent's approval of a schedule for replenishing it. (Sec. 5705.29(H)(1).)

Each year in which a district's revenue for current expenses grows by 3% or more over the previous year, the district must credit an amount equal to at least 1% of the previous year's revenue to the reserve balance account, unless exempted by

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<sup>1</sup> See Ohio Administrative Code § 3301-92-03.

rules adopted by the Auditor of State.<sup>2</sup> This must continue each year until the account reaches the required 5% amount. (Sec. 5705.29(H)(2).)

But another law subsequently enacted by the 122nd General Assembly required any school district that received a Workers' Compensation refund in calendar year 1998 to use that money first to establish the *full 5%* reserve balance, if it had not already done so. This meant that if a district's Workers' Compensation refund was equal to or less than the 5% balance, it all had to be credited to the budget reserve fund, even though the law otherwise would only have required the FY 1999 fund balance to be 1% of its FY 1998 revenue for current expenses. (Section 39 of Am. Sub. H.B. 770 of the 122nd General Assembly.)

### **The bill**

#### **Offsetting future deposits with prior years' excess deposits**

(sec. 5705.29(H)(2)(a))

The bill intends to permit school districts to use excess deposits they place in their reserve balance account (that is, deposits above the required incremental 1%) to offset amounts they must deposit in ensuing years. It directs that the annual deposit be an amount that, when added to the account balance, is not less than the sum of:

(1) 1% of the revenues received for current expenses for the prior fiscal year; plus

(2) The sum of the amounts credited to the account under the statute mandating the reserve balance account (sec. 5705.29 only; not the subsequently enacted requirement that Workers' Compensation refunds be deposited) for all fiscal years that amounts were required to be credited under that statute.

**Example.** For example, assume a hypothetical school district's minimum deposit for FY 1999 was \$100,000 (1% of \$10 million in FY 1998 operating revenues), but the district received a Workers' Compensation refund and instead had to deposit \$300,000 in its rainy day account. The following table illustrates the difference between the deposits required for the next five years under current

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<sup>2</sup> *The Auditor of State's rules exempts a school district from having to make a deposit into its reserve balance account in any year in which its average daily membership (approximate enrollment) grows at a greater percentage than did its operating revenue for the preceding year. (O.A.C. § 117-2-24.)*

law versus under the bill. It assumes the district will withdraw no money during that time due to fiscal emergencies.

**Hypothetical School District**

Fiscal Year	Prior Year's Revenue <sup>3</sup>	Current Law		The Bill	
		Deposit	Account Balance	Deposit	Account Balance
FY 1999	\$10,000,000	\$300,000	\$300,000	\$300,000	\$300,000
FY 2000	\$10,300,000	\$103,000	\$403,000	-0-	\$300,000
FY 2001	\$10,610,000	\$106,100	\$509,100	\$9,100	\$309,100
FY 2002	\$10,930,000	\$37,400	\$546,500	\$109,300	\$418,400
FY 2003	\$11,260,000	\$16,500	\$563,000	\$112,600	\$531,000
FY 2004	\$11,600,000	\$17,000	\$580,000	\$49,000	\$580,000

Under current law, the district must deposit 1% of its prior year's revenue in both FY 2000 and FY 2001, despite the excess deposit made in FY 1999. But its projected deposits for FY 2002 through FY 2004 are much lower because the district is close to reaching its maximum 5% balance.

Under the bill, the district may use its excess FY 1999 deposits to offset its deposits for the next two fiscal years. But it must return to depositing the full 1% in FY 2002 and FY 2003 because its decision to use the excess FY 1999 deposit to offset its deposits for two years delayed its reaching the 5% level, which it does not attain until FY 2004.

**The bill specifies 1% as the maximum deposit for any year**

(sec. 5705.29(H)(2)(b))

The bill also specifies that in no year must a district deposit more than 1% of its prior year's operating revenues. This means that if a district withdraws

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<sup>3</sup> This column represents revenue for current expenses. It assumes 3% annual revenue growth because that is the minimum level of growth that triggers the deposit requirement. If a district's operating revenue grows at less than 3% for any year, no deposit is required that year. (Sec. 5705.29(H)(2).)

money from the account in an emergency, it is not obligated to deposit more than that 1% annually in the years in which it is replenishing the account.

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## **HISTORY**

<b>ACTION</b>	<b>DATE</b>	<b>JOURNAL ENTRY</b>
Introduced	02-17-99	p. 214

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