Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **H.B. 269** DATE: **May 1, 1997**

STATUS: **As Introduced** SPONSOR: **Rep. Wise**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Requires the control of a municipal school district that is released from a court order requiring state supervision to be assumed by a new board of education consisting of nine members appointed by the mayor of the municipality**

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	$2,100,000	$2,100,000	Minimal expenditures

- The state would appropriate $2.1 million in each of fiscal years 1998 and 1999 to defray the costs of transition and implementation from an appointed school board to a new school board appointed by the mayor. Current state oversight costs would be reduced.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1998	FY 1999	FUTURE YEARS
Municipalities			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	$260,000	$250,000	$250,000
School districts			
Revenues	$2,100,000	$2,100,000	- 0 -
Expenditures	$1,400,000 to $3,400,000	$1,400,000 to $3,700,000	$1,150,000 to $1,500,000

- The municipality would incur the cost of an education liaison office and staff.

- The school district would incur additional FY 1998 and FY 1999 costs for the school board selection process, the school board operations, the referendum, the recruitment of a chief executive officer, the development of the school performance evaluation plan, and the publication of an annual report. It would then incur additional annual costs for the school board's operations, the chief executive officer's additional salary, the cost of the ombudsman, the continued operation of the school performance evaluation plan, and the continued publication of the annual report.

- The Cleveland City School District would expect to incur additional FY 1998 and FY 1999 costs for a due-diligence audit of its financial, personnel, enrollment and facilities situations, a transition staff, legal

services and a re-design of the district's budget process. It would then expect to incur additional annual costs for continued legal services and a continuation of the budget process.

Detailed Fiscal Analysis

The bill would affect those municipal school districts that have been released from federal court orders that require supervision and management by the state superintendent. At present the only district this applies to is the Cleveland City School District. The bill's main provisions are as follows:

- The bill would require that the control and management of a municipal district, upon release from such a court order, be assumed by a new nine-member school board whose members would be appointed by the mayor of the municipality containing the majority of the school district's territory. In the case of Cleveland CSD, this would be the mayor of Cleveland. The bill specifies the backgrounds of the members to be chosen and their terms of office. The mayor would also appoint the district's chief executive officer, who would appoint other officers and administrators.

- The bill provides for a referendum after the nine-member board has served four years; the question to be voted would be whether or not the mayor should continue to appoint the school board. Were the question to be approved, the mayor would appoint a new board; if disapproved, a new seven-member board would be elected at the next regular election.

- The bill would require the chief executive officer to develop and implement a plan to measure student academic performance and to take corrective action where needed. The chief executive officer would also issue an annual report on student performance, as well as on the district's financial condition.

- The bill would permit the state Superintendent of Public Instruction to exempt the district from certain state administrative rules and to permit the district to apply its state operating funds to debt service payments.

- The bill would appropriate $4.2 million over the FY 1998 – FY 1999 biennium to defray the costs associated with the transition and implementation from an appointed school board to a new board appointed by the mayor.

- The bill would permit a fiscal emergency supervisory committee to approve the issuance of securities as part of an effort to restructure the district's debt.

- The bill would appropriate, from the state's General Revenue Fund, $2.1 million in each of the fiscal years 1998 and 1999 to defray the costs associated with the transition and implementation from an appointed school board to a new board appointed by the mayor. The funds would be appropriated in a new line item, 200-434, Transition and Implementation.

State fiscal effects

The bill's major effect on the state would be the expenditure of up to $2.1 million in each of the fiscal years 1998 and 1999. The types and amounts of school-district costs that these funds would be intended to defray are not specified in the bill. However, reasonable estimates can be made of the expenditures that might be expected. Further, the Cleveland City School District has estimated certain expenditures, which are indicated in the section on school district fiscal effects.

Additional expenses of the state Board of Education and the Superintendent of Public Instruction in overseeing and participating in the transition would be expected to be minimal. However, the proposal also removes the state from its current oversight role and fairly significant costs in terms of diverted staff resources.

Municipal fiscal effects

The procedure by which the mayor would select new school board members after receiving the nominating committee's slate of at least eighteen candidates would be administrative, with costs probably less than $10,000.

The mayor's municipal administration might require expansion to include an education liaison person, his office and staff. The budget for such a position, staff and office, depending on size, could range up to $250,000 or more.

School district fiscal effects

As indicated above, the only municipal school district that currently would meet the bill's definition is the Cleveland City School District. Because of this fact, and because the Cleveland CSD has considered the fiscal effects of the bill, the district's estimates for the relevant items are included here. As each school district's situation would be unique, the estimates for Cleveland, with an ADM of approximately 73,000, would most likely not apply elsewhere; but they provide a view of the possible types and amounts of expenditures.

The one-time costs incurred by the eleven-person nominating panel, which would nominate at least eighteen candidates for the mayor's consideration, would be chiefly administrative, such as per person, travel and meeting expenditures, which should be less than $10,000.

Because the appointed school board would have nine members instead of the existing board's seven, the cost of the new board's operations would be somewhat greater than that of the existing board. This board's FY 1996 budget was approximately $130,000; it currently operates with a one-person staff. The new board's annual expenditures would normally be expected to be below $200,000 (say, $100,000 for FY 1999, assuming a release from state control during that year). However, if the board were to add support staff and undertake considerable travel and consultations for the purpose of increasing its expertise and acquiring knowledge germane to its district's specific problems, its budget could rise to upwards of $500,000 annually, at least in the early years.

The cost to the district of the referendum election would most likely be minimal. Since the ballot would be held during a regular election, the only significant expenditure would be that

for the publication of the announcement of the ballot issue. Previous experience by the Cleveland City School District in announcing tax levy ballots indicates an advertising cost of some $1,500. In any case, since the election would take place only after four years, there would be no effect during the FY 1998 – FY 1999 biennium.

Concerning the employment of a chief executive officer, the cost of filling the position, including recruitment costs, has been estimated by the Cleveland district to be up to $250,000. The terms of the employment contract might have to be costly to the district in order to obtain a well-qualified candidate; the salary might approach $200,000 before benefits of, say, 28%, for a total package of approximately $250,000. This would constitute an increase of approximately $100,000 over the current expense. In addition, there might be one-time relocation costs of up to approximately $25,000.

The costs of hiring and maintaining an ombudsman, assuming that this office does not currently exist in the district, would constitute an additional expenditure to the district. Salary, benefits and office expenses could total $150,000 or more per year. The Cleveland CSD estimate, including a deputy, support staff, training and overhead, is $300,000 annually.

The development, implementation, evaluation and updating of the required plan to measure and correct student performance could incur significant costs. The development could require the use of both internal and external expertises, which could necessitate the use of substitute teachers and outside consultants and counsel. The related assessment processes in the schools could also incur costs, such as the use of substitute teachers to enable faculty to administer any necessary tests. Finally, the performance measures could indicate the need for major corrective actions and reforms, such as curriculum and personnel changes, reductions in class size and special reading classes, at those schools whose students are not achieving at acceptable levels. The size and cost of this effort would certainly vary from one district to another; the Cleveland district estimates an additional cost of roughly $1.1 million on a project that has already begun. However, if safety and other concerns, as well as financial incentives, were to be included, the estimate could range upward to $15 million. For purposes of this note, the lower amount will be taken and estimated at $2.0 million for an entire project over the biennium and at 25% of that amount, or $500,000, annually thereafter.

The public reporting of the district's educational and financial situations is estimated by the Cleveland district to require a publications staff at a cost of approximately $200,000 per year, including printing expenses.

The issuance of securities would most likely take place as needed, with or without the bill. The Cleveland City district anticipates that the costs and interest rates associated with the issues would be the same in either case; for it, therefore, these factors would not be unique to the bill and are not included as a fiscal effect.

The fiscal effects of any exemptions of the district from certain sections of Title XXXIII of the Revised Code would depend on the particular rules in a given case in a given district.

The total estimated costs for the above items are as follows:

- FY 1998: $1,386,500
- FY 1999: $1,400,000 to $1,700,000
- Annually thereafter: $1,150,000 to $1,600,000

Besides the above types of expenditures that could be expected, the Cleveland district provided estimates of costs of additional activities that might be necessary to meet the requirements of the bill: (a) a due-diligence one-time audit of the district's financial, internal control, personnel, enrollment and facilities situations would cost an estimated $1.5 million over the biennium; (b) a transition staff of three persons would incur a one-time cost of $400,000 over the biennium; (c) legal services from outside counsel, to assist in the implementation of the bill's provisions, including the interaction of the municipality's and school district's legal functions, would cost approximately $1.2 million over the biennium and, perhaps, $250,000 per year thereafter; and (d) a re-design of the district's budget process, to change to an "education-driven" budget, would require approximately $1.0 million over the biennium and a fraction of that amount, say $100,000 per year, thereafter. The totals for these items are as follows:

- FY 1998: $2,050,000
- FY 1999: $2,050,000
- Annually thereafter: $350,000

The costs to another district for these activities would depend, of course, upon its own need for such personnel and activities.

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