General Revenue Fund Cash Balances – Management, Guidance, and Best Practices

OASBO Whitepaper

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OASBO Members:

The Ohio Association of School Business Officials (OASBO) first published the whitepaper titled "General Revenue Fund Cash Balances" in 2018. The 2018 publication was drafted by members of the OASBO Education Finance/Ohio Department of Education (ODE) Advisory Committee to address questions related to school district cash balances. Likewise, members of the committee drafted and contributed to the updated 2022 version.

This whitepaper provides guidance for school business officials as they navigate the budgeting, cash flow management, and end-of-year cash balance reserve process. It is intended to assist in establishing a common vocabulary and understanding of cash balances across the state.

Since the fiscal circumstances vary widely among districts in Ohio, the cash balance reserve policy and practices will also vary from district to district. The whitepaper is intended to provide information for consideration when evaluating the fiscal responsibilities and obligations of a district as it relates to a district's cash balance practices. At the very least, we hope the information provided will spark conversation and dialogue among practitioners and stakeholders. This includes:

- Overview of the cause and necessity of cash balances;
- Guidance in navigating the budgeting, cash flow management, and end-of-year cash balance reserve process;
- Best practices & guiding principles – cash management;
- Budget reserve policy;
- Establishment of special funds – Ohio Revised Code Section 5705.13;
- Resources and tools;
- Appendix A: School District Budget Process Terminology & Sample Calendar;
- Appendix B: Sample School Board Cash Balance Policies;
- Appendix C: Fund Balance Guidelines for the General Fund – GFOA ;
- Appendix D: Ohio Revised Code Section 5705.13; and
- Appendix E: Rating Agencies Analysis and General Fund Cash Balance.

This whitepaper is also available digitally for all members in *collaborate*. The committee hopes the whitepaper helps with the understanding of cash balances across the state and is a helpful tool for members. Thank you to the committee members who worked on this year's update!

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General Revenue Fund Cash Balances – Management, Guidance, and Best Practices

2018, updated 2022

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School District Cash Balances

Ohio's system of funding for K-12 education calls for a shared responsibility between the state and each local community. This results in school districts relying on two primary sources of revenue to operate: a local share that is most commonly raised by local property taxes; and a state share that is determined by the state's school funding formula. Under the school funding formula, a district's capacity is a function of its enrollment, property wealth, and income of the community. This means that a district's state share is unique, resulting in a wide variation in state funding levels among the 600+ school districts across the state.

In addition to the variation in state funding, there is a wide variation in the amount of local tax revenue generated district by a district. Tax levies are determined by local taxpayers and local funding levels are often driven by community expectations. Some districts only generate the required minimum for the local share of the funding formula calculation while others go well above and beyond.

Local tax revenues are also impacted by state law and Ohio's Constitution. In general, tax revenue for school districts does not increase when property values go up due to House Bill (HB) 920. Aimed at protecting property owners from tax increases due to inflation, this factor often means school districts must pass levies just to maintain current programs. This state policy requires significant attention to effective cash flow management and long-term planning. In many cases, end-of-year cash balances become part of the cash management and planning process.

Section I. General Revenue Fund Cash Balances Whitepaper - Purpose and Scope

The Ohio Association of School Business Officials (OASBO) first published the *whitepaper titled* ***General Revenue Fund Cash Balances*** in 2018. The 2018 publication was drafted by members of the OASBO Education Finance/ODE Advisory Committee to address questions related to school district cash balances. Likewise, members of the OASBO Education Finance/ODE Advisory Committee drafted and contributed to this updated version.

This whitepaper is meant to serve as guidance for school business officials as they navigate the budgeting, cash flow management, and end-of-year cash balance reserve process. It is intended to provide guidance to traditional public school districts – city, local, exempted village, and joint vocational school districts. It does not specifically address cash fund balances for educational service centers or community schools, which operate under different Ohio Revised Code (ORC) sections than do traditional school districts.

Since the fiscal circumstances vary widely among districts in Ohio, the cash balance reserve policy and practices will also vary from district to district. This Whitepaper is intended to provide information for consideration when evaluating the fiscal responsibilities and obligations of a district as it relates to a district's cash balance practices. At the very least, we hope the information provided herein will spark conversation and dialogue among practitioners and stakeholders.

An overview of the statutory requirements applicable to school business officials and the budgeting process is provided in **Appendix A** for readers who are not familiar with the process and/or would like a "refresher" on the topic. **Appendix A** includes a summary of the county budget commission process, definitions of budgeting terms, and sample calendar to assist treasurer/CFOs in planning and working with their boards of education and other stakeholders.

The remaining content of this whitepaper provides a summary of the reasons why a district might carry a relatively high cash balance at the end of the fiscal year. Again, the fiscal responsibility and circumstances vary widely among districts, so the need for cash balance reserves also varies from district to district. The Whitepaper then concludes with a discussion of the best practices and guiding principles for cash balance reserve policies.

Section II. The Cause and Necessity of Cash Balances in Ohio

School officials must plan and monitor district cash flow as they practice responsible stewardship of the public tax dollars with which they are entrusted. Included in the district's five-year forecast is an informed prediction for how long the revenue/expense cycle will maintain a healthy cash balance.

Line 6.01 of the district's five-year forecast, Sources over (under) Expenditures and Other Financing uses, provides a picture of the district's changing financial obligations over time, pointing to the need for a fund balance in preparation for future expenses.

Below please find a summary of reasons why a district may carry a relatively high cash balance at the end of the fiscal year.

- **Levy Cycles; House Bill (HB) 920.** By design, cyclical high fund balances are a tool for long-term planning and fiscal solvency in many school districts. In Ohio, many school districts do not receive revenue growth from the reappraisal of property due to HB 920. This law dictates that millage rates are rolled back for districts that are levying millage rates higher than the 20-mill floor when property values rise due to reappraisal. This rollback is equal to the average reappraisal increase, thereby being revenue neutral. This results in new construction being the only source of new revenue (in the year of the new construction), which for many school districts does not provide for inflationary increases.

  Because levies are limited to a fixed dollar amount (or no significant financial growth), tax revenues may not keep up with increases in operating costs. Particularly when expenditures typically increase 3-5 percent annually. Therefore, school leaders are often forced to implement levy cycle strategies aimed at keeping up with the increase in operating expenditures.

Essentially the only option for local school districts to raise additional revenue becomes a new levy, which requires voter approval. This system of school funding is one reason that school districts often carry a cash balance, particularly after a successful levy issue. Commonly referred to as the "levy cycle", the result is higher cash balances for a period of time, that are then spent down due to increasing expenditures and inflation, and the inability to benefit from inflationary increases in property values (i.e., H.B. 920), which then results in a need for another levy to replenish the funds.

If the rollback were only partial and provided for inflationary increases in revenue, and/or school districts had more latitude in controlling their own revenues, certainly this levy cycle would be much longer in duration and cash balances would not need to be as high. Quite simply, one of the main reasons that school districts need to have cash balances is the school funding system itself.

- **More Conservative Spending; Prudent Cash Reserve Policies**. The 2008 financial crisis highlighted the importance of managing disruptions, resulting in school districts becoming much more conservative in their spending. This resulted in districts creating cash reserve policies following best practices outlined by the Government Finance Officers Association (GFOA), Moody's, S&P and others.

  The need for school districts to be conservative in their spending and to build cash reserves has been further reinforced by the lack of a funding formula in Ohio. The uncertainty of future funding resulted in school districts building their cash reserves to help ensure the continuation of educational programming for students. With the implementation of the new school funding formula (commonly known as the "Fair School Funding Plan" or "FSFP"), districts hope to have more predictability moving forward; however, at the time of this update the FSFP is only in the second year of the six-year phase-in to fully fund the formula at the state level.

- **Pipelines**. The valuations of the Nexus and Rover pipelines have come on the tax duplicate in phases since 2018, adding significantly to some districts' cash balances. These districts are also setting aside large portions of their cash reserves due to pending tax valuation complaints. In some cases, these complaints will reduce the public utility growth associated with pipelines by half. Further, a number of the districts have established capital projects funds pursuant to ORC 5705.13 for use of these funds in construction and facilities projects.

- **Receipt of One-time Funds - COVID-19 Funding and Other Rebates.** Federal stimulus funds related to the coronavirus pandemic are not included in a district's forecasted revenues; however, the funds reduce a district's expenses. Therefore, this causes a distortion in a district's forecasted expenses since the expenses are greatly reduced in early

  years (immediately after the receipt of federal funds) and much higher in later years (once those federal funds are exhausted). Due to this, districts may decide to carry a higher cash balance to avoid a "fiscal cliff" when these federal funds are no longer available in order to limit the impact on district programming and personnel.

Similar to the one-time federal stimulus dollars, there are one-time payments from Bureau Workers' Compensation rebates that may contribute to a higher cash balance for a period of time. As noted above, due to the unpredictability of the school funding in Ohio, school districts may take a conservative approach to spending these one-time payments.

- **Student Wellness and Success Funds (SWSF).** Under the direction of Governor Mike DeWine, Ohio allocated $675 million in student wellness and success funds. For the biennium starting in 2019, most public k-12 districts had forecasted an increase in state-aid in the biennium budget based on past precedent. However, in lieu of increasing state-aid, student success and wellness funds were provided as restricted funds (not general operating funds) in its place. This caused distortion in forecasting and the reporting of cash balances.

  The student success and wellness funds are restricted funds that are ***not*** reflected as a revenue source in the forecast. Instead, the student success and wellness funds were shown in the forecast as a decrease in expenditures. The decrease in expenditures caused the last two years of reported cash balances to increase, possibly creating artificially high cash balances for 2019 and 2020.

- **Changes in State Law**. State law changes can affect districts' decisions about cash balance carryovers. Examples include:

  - planning for the phase-out of Tangible Personal Property tax replacement payments may require a larger cash fund balance to help the district withstand the loss over time;

  - planning for the change in law in 2013 that eliminated rollback and homestead for new levies;

  - negotiating lower than average annual salary increases for bargaining units due to Senate Bill 5 in 2011; and

  - changes to the state retirement systems have resulted in a significant number of retirements, most replaced with less experienced, lower income earners.

- **Lower Costs for Medical Expense**. Trends on medical expenses for districts have been lower than historical averages due to decreased medical insurance coverage with high out-of-pocket expenses and deductibles shifted to plan participants (i.e., in the past, averaged 10 percent of costs and now averaging closer to 6-8 percent).

- **Timing of Receipts & Expenses**. A district's cash balance can fluctuate throughout the year due to the timing of real estate or income tax collection and distribution cycles. For example, in a district that is highly reliant on property taxes, the timing of its semiannual property tax settlements and advances are important in managing the operations of the district, including its payroll cycle. It is possible for a district to receive very little additional revenue between its tax collection cycles (September - December and March - June). This means that the district will have to manage its cash flow carefully to ensure sufficient money is available for operational expenses, such as payroll twice a month as well as routine accounts payable check runs.

Section III. Best Practices – Cash Management

It is important for district leaders to keep the community informed as to the importance of a cash balance. Many of the factors listed in Section II above represent an event, cost savings, or influx of funds that were not expected and are not likely to be repeated in the future. By developing a cash management plan or policy for its cash balance, a district may extend the life of a current levy, delay the need for a proposed new levy, or possibly decrease the size of a future levy.

For districts issuing bonds, cash balances are an important consideration for rating agencies with regard to measuring the financial health of a school district. The higher the bond rating, the lower the interest rate the district will carry on its borrowing, which ultimately saves taxpayers money. See **Appendix E** for additional details related to the methodology applied by the rating agencies.

A cash management plan can help guide a district in planning for and managing its funds, as well as assist in communicating with stakeholders. Even if a district does not have a substantial cash balance, a cash management plan or policy can be beneficial. The plan must recognize future needs and realistic trends for revenues and expenditures, consistent with the district's strategic plan or other planning tools that a treasurer/CFO references when developing the five-year forecast.

This section outlines some best practices and other tools available to school districts to assist in developing a cash management plan to meet the needs of your school district and the community it serves.

A. Budget Reserve Policy

The fiscal responsibility and circumstances vary widely among districts, so the need for cash balance reserves also varies from district to district. When developing a budget reserve policy for a school district, it is essential to establish a set of clear/concise budget policies and principles on the level of unrestricted fund balance. These policies and principles should be developed collaboratively by a group of stakeholders and ultimately approved by the board of education. The establishment of sound policies/principles is essential to ensuring the fund balance reserve achieves its intent of mitigating future risk. When specifically identifying key items for consideration, a policy for fund balance reserves should include language that defines the following:

- Minimum level of fund balance to maintain annually
- Appropriate uses of fund balance reserve
- Individuals authorized to use fund balance reserve
- Guidance on how to replenish minimum level balance

While policy creation is crucial to the establishment of a successful fund balance reserve, budgeting principles driving policy decisions are equally important. In the policy development process, districts should also ensure the following:

- Decisions are driven by trend data (both student and financial)
- Spending patterns are critically examined
- Stakeholder transparency is a priority
- Long-term perspective is utilized
- Current economic environment is considered

The adequacy of a district's budget reserve balance must take into account the unique circumstances of the district and the community it serves. Having a policy in place makes it easier to explain the rationale for a fund balance to stakeholders that is necessary to protect taxpayers and employees from unexpected changes in the financial condition of the school district. Please see **Appendix B** for sample policies and other resources. Some factors to consider when establishing a budget reserve policy:

- Revenue predictability
    - Is your district predominantly funded by local levies or the state? If primarily local, is it income tax based or property tax based? If state funded, what does a 1 percent change in state funding mean to your district? Does your community largely support tax levies (renewal, replacement, and/or new)?
    - Do you collect your property taxes at a fairly consistent and high rate? How did your collections fare during the last recession, did you see a big drop-in collection rate?

- What is the makeup of large employers (property or income) and how does their existence impact revenues?
- Do you have an income tax levy? If so, what are the financial demographics of your community and how do employers, high wealth individuals, the economy, and tax filings impact revenues? Are there volatile trends with this revenue that may be unique?
- Is there a utility making up significant portion of your public utility personal property valuation? How would a tax appeal effect current and future revenues?
- Do you have a permanent improvement levy?

- Expenditure volatility
    - Are your union agreements long-term?
    - What is your exposure to employee health costs? Are you exposed for high claimants? Are there any caps on future increases under your union agreements?
    - Do you have a large special education or targeted sub-group population? How does the rising costs of special education services for students and those who are educated at facilities outside of the district impact cashflow? How many one-on-one aides do you employ?
    - Are your utility costs locked in as part of a consortium or are you exposed to the market?
    - Does your district have a plan for changes in bus fuel costs? How many square miles does your district cover? What is the age of your bus fleet?
    - How many students participate in the College Credit Plus (CCP) program or other choice programs?

- Exposure to significant one-time outlays
    - Does your district have a permanent improvement (PI) levy? If so, does it provide sufficient funding or is the general fund still exposed? If your district does not have a PI levy, how does your district plan to address ongoing capital needs?
    - Do you have any lingering building issues that might necessitate a bond issue, and if that does not pass what is the plan?
    - How old are your buildings? What is the age of heating and cooling systems?
    - Lingering technology issues or needs? Do you offer one-to-one devices for students?
    - Do you have enrollment growth and if so, are you exposed to capacity issues and modular costs?
- Potential drain upon general fund resources from other funds, as well as the availability of resources in other funds.
    - Is your district self-funded for employee medical or workers comp? If so, do you have adequate reserves?
    - If your district has funded the hire of personnel out of ESSER funds, are they adequately accounted for in the forecast? Along the same lines, if you have a significant amount of personnel funded out of Title or IDEA, are you sure you will continue to receive funding? If the district is not planning to cut these services upon the expiration of these federal funds, these expenditures will expose the general fund.
    - Is the district's food service program subsidized by the general fund?
- School district's bond rating if issuing debt and the corresponding increase in borrowing costs (see **Appendix E** for additional information)
- Exposure to other commitments and assignments such the unfunded pension liability and what is our exposure if the state increases the employer share for state retirement systems?

- What is your ability to provide for safety and security? Is there a need for resource officers and security equipment?

- Possible uncontrollable situations such as future pandemics.

The factors outlined above are intended to guide school districts in a discussion to determine the appropriate reserve balance fund for the circumstances of the district and community. It is important to note that GFOA recommends school districts maintain an unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. This recommendation is a ***minimum*** balance to be maintained regardless of the size of the school district. See **Appendix C** for a copy of the GFOA Fund Balance Guidelines.

Most districts have lived through times of no raises, salary freezes, healthcare cuts, program cuts, and employee reductions and do not want to relive these challenges by allowing overspending. However, a school district may determine a balance in excess of this recommended threshold is necessary based on its evaluation of circumstances and the factors highlighted above.

B. Establishment of Special Funds - Ohio Revised Code Section 5705.13

The Ohio Revised Code (ORC) Section 5705.13 provides for the establishment of certain special funds for specific purposes, such as costs related to employee health care or capital projects, which would otherwise be drawn from the general fund and are often cost-drivers in a district's strategic plan. Establishing one of these special funds can help provide an accurate picture of the cash flow pertaining to a particular activity when the funds are in a separate account. In addition, the fund balances necessary to run those activities are also set aside properly. A copy of Ohio Revised Code Section 5705.13 is included in **Appendix D** for your reference.

For example, the medical insurance premium payments are placed in Fund 024 - Employee Benefits Self-insurance Fund as the employees and the district each pay their respective and agreed upon portions. Fund 024 is best operated when a fund balance reserve exists that provides some cushion for the future expenditures so they can maintain some consistency. In many of these types of activities, the volatility of the nature of the expenditures could be offset by proper reserve balances over a three- to five-year period. These types of best practice financial analytics in reserves and cash flow practices are necessary to keep the district's finances stable.

Ohio Auditor of State (AOS) Uniform School Accounting System (USAS) user manual includes the following funds related to ORC Section 5705.13:

- Liability Self-Insurance – Fund 023;
- Employee benefits self-insurance – Fund 024;
- Workers' Compensation Self-Insurance – Fund 027;
- Termination Benefits – Fund 035; and
- Capital Projects Fund – Fund 070.

These funds must be established by board resolution. The resolution establishing these funds designates the purpose for which the funds will be used, among other provisions required by the statute, so the balances are not considered to be available for other purposes. ***Please note that there are limits placed on these special funds. Districts should consult legal counsel and/or other experts for more information on implementation and compliance as appropriate***.

The following is a summary from the 2022 Ohio Compliance Supplement from the Ohio AOS related to the special funds established under ORC Section 5705.13.

- **ORC Section 5705.13(A) - Reserve balance accounts and funds**. ORC Section 5705.13(A) allows a taxing authority of a subdivision to establish, by resolution, a reserve balance account[1] for each of the three following purposes:
    - Budget stabilization fund may be created in the general fund or in any special fund used for operating purposes. The amount reserved in the account in any fiscal year must not exceed 5 percent of the fund's revenue for the preceding fiscal year. The reserve balance is excluded from the unencumbered balance when certifying available balances at year-end. The reserve for budget stabilization may be reduced or eliminated at any time by the taxing authority.

[1] ORC Section 5705.13 refers to these accounts as "reserve" accounts. However, for the GASB Statement No. 54 financial reporting that AOS Bulletin 2011-004 describes, the criterion for using the budget stabilization is not specific enough to meet the committed criteria and it does not meet the restricted criteria as the budget stabilization is not mandated by State statute. Therefore, a budget stabilization/reserve account should be reported as unassigned in the general fund. While statute also gives the authority to have stabilization reserve accounts in other operating funds, the fund balance is reported as restricted, committed, or assigned and the reserve account does not change the fund balance classification. Entity wide statements should report these as part of unrestricted net assets. Note: Bulletin 2020-008 simplified the reporting of fund balance classifications in the AOS regulatory cash basis financial statements and footnotes beginning with the Dec. 31, 2020 FYE reporting.

- Self-insurance program may be created in the general fund or in the internal service fund established to account for the operation of the program. The amount to be reserved must be based on actuarial principles and the taxing authority may rescind the reserve balance account at any time.

- Retrospective Ratings Plan for Workers' Compensation[2] may be created in the general fund or in the internal service fund established to account for the program. The amount to be reserved must be based on actuarial principles and the taxing authority may rescind the reserve balance account at any time.

- **ORC Section 5705.13(B) - Termination Benefits**. ORC Section 5705.13(B) allows a taxing authority to establish a special revenue fund to accumulate cash to pay accumulated leave, or for paying salaries when the number of pay periods exceeds the usual and customary number for a year. This leave includes payments for accumulated sick leave and vacation leave, or for payments in lieu of taking compensatory time off, upon the termination of employment or retirement. Money may be transferred to this fund from any fund from which the termination or salary payments could lawfully be made. The reserve must be established by resolution or ordinance and the taxing authority may rescind the fund at any time with the accumulated resources being returned to the fund from which they came. Amounts accumulated in this fund should be reasonable based on the taxing authority's estimated liability for benefits.

- **ORC Section 5705.13(C) - Capital Projects Fund**. ORC Section 5705.13(C) provides that a taxing authority may create, by resolution, one or more capital projects funds[3] to accumulate resources for the acquisition, construction, or improvement of fixed assets, including motor vehicles. Each fund must be created by ordinance or resolution. The resolution or ordinance must identify the asset(s) to be acquired, the amount needed to

[2] Various plans to provide for the payment of claims, assessments, and deductibles are allowed. Plans allowed are: payments under a self-insurance program, individual retrospective ratings plan, group rating plan, group retrospective rating plan, medical only program, deductible plan, or large deductible plan for workers' compensation.

[3] GAAP/OCBOA governments should report these amounts as committed, assigned, or restricted fund balance as appropriate under the circumstances described in GASB Statement No. 54 in governmental fund statements. Entity wide statements should report this equity as part of unrestricted net assets, because the restrictions are not externally imposed. Note: Bulletin 2020-008 simplified the reporting of fund balance classifications in the AOS regulatory cash basis financial statements and footnotes beginning with the Dec. 31, 2020 FYE reporting.

be accumulated, the period over which the amount will be accumulated (with a limit of ten years from the date of the resolution or ordinance), and the source of the resources. Despite ORC Section 5705.14 through .16, money may be transferred to the capital projects fund from any other fund that could acquire, construct or improve the fixed assets. If a contract for the fixed asset(s) has not been entered into before the ten-year period expires, the money is returned to the fund from which it was transferred or that was originally intended to receive it. The taxing authority may rescind a capital projects fund at any time with the accumulated resources being returned to the fund from which they came.

Section IV. Communicating Your District's Cash Management Plan

It is important for district leaders to keep the community informed as to the importance of a cash balance. Implementing a cash management plan or policy can help guide a district in planning for and managing its funds. Similarly, the ORC Section 5705.13 special funds are a "tool" to assist in planning for and managing the districts funds. Even if a district does not have a substantial cash balance, the tools outlined in this whitepaper can be helpful in facilitating discussion regarding future needs and realistic trends for revenues and expenditures for your school district, as well as assist in communicating that information to your community and other stakeholders.

Appendix A
School District Budget Process Terminology & Sample Calendar

A. School District Budget Process Terminology

Following are some definitions of terms commonly used by treasurer/CFOs in the course of the appropriation and budgeting process.

Tax Budget

A school district's tax budget includes the period from July 1 to June 30. The budget must be adopted by the board of education on or before Jan. 15 and filed with the county auditor by Jan. 20.

Official Certificate of Estimated Resources

The county budget commission must certify to each school district, on or before March 1, the total estimated resources from each fund that are available for appropriation in the fiscal year, other than funds to be created by transfer. Along with this certification, the budget commission is required to supply a statement of the amount of the total tax duplicate of the school district that is to be used in the collection of taxes for the following calendar year. (ORC 5705.35)

Certificate of Available Balances or Amended Certificate of Available Balances

On or around July 1, the treasurer/CFO of the school district shall certify to the county auditor the total amount of all sources available for expenditures from each fund set up in the tax budget. The amount certified must include any unencumbered balances that existed at the end of the preceding year. The total appropriations made during the fiscal year, from any fund, shall not exceed the amount indicated as available for expenditure from each fund in the official certificate of estimated resources or any following amendment that is certified prior to the making of the appropriations or supplemental appropriation measure. (ORC 5705.36)

Amounts and Rates Certificate

When the budget commission has completed its work with respect to a tax budget or other information required to be provided under ORC Section 5705.281 of the Revised Code, it shall certify its action to the school district (taxing authority), together with an estimate by the county auditor of the rate of each tax necessary to be levied by the taxing authority within its subdivision and what part thereof is in excess of, and what part within, the ten-mill tax limitation.

The certification shall also indicate the date on which each tax levied by the school district (taxing authority) will expire. If a school district (taxing authority) levies a tax for a fixed sum of money or to pay debt charges for the tax year for which the tax budget is prepared, and a payment on account of that tax is payable to the taxing authority for the tax year under ORC

Sections 5709.92 or 5709.93,the county auditor, when estimating the rate at which the tax shall be levied in the current year, shall estimate the rate necessary to raise the required sum less the estimated amount of any such payments made for the tax year to a taxing unit for fixed-sum levies under those sections. The estimated rate shall be the rate of the levy that the budget commission certifies with its action under this section. The school district (taxing authority), by resolution, shall authorize the necessary tax levies and certify them to the county auditor before April 1 or at such later date as is approved by the commissioner.

Amended Official Certificate of Estimated Resources

The first amended certificate is generally issued after the year-end balances are certified. Official Certificates may be amended, as needed and required by law throughout the fiscal year. It is the responsibility of the treasurer/CFO to monitor the estimates and request any amendments. The following are reasons to request an Amended Official Certificate:

1. Upon a determination by the treasurer/CFO of a district that the revenue to be collected by the subdivision will be greater than the amount included in an official certificate and the board of education intends to appropriate and expend the excess revenue, the treasurer/CFO shall certify the amount of the excess to the commission, and if the commission determines that certification is reasonable, the commission shall certify an amended official certificate reflecting the excess
(ORC 5705.36).

2. Upon a determination by the treasurer/CFO of a district that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the chief financial officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency (ORC 5705.36).

Budgetary Compliance/Limitation

The total appropriations made during the fiscal year from any fund shall not exceed the amount set forth as available for expenditure from such fund in the official certificate of estimated resources, or any amendment thereof, certified prior to the making of the appropriation or supplemental appropriation (ORC 5705.36).

Appropriation Resolution (Temporary and Permanent)

The appropriation resolution is the final step by the treasurer in the budget process. In Ohio, the board of education must annually approve the amounts for each appropriation fund, which the board is responsible for, on or before Oct. 1. This approval must occur before any money may be expended from that fund.

If the board wishes to delay the adoption of its annual appropriation measure, it may adopt a temporary appropriation measure until Oct. 1. The temporary measure may provide for meeting the ordinary expenses of the district and the amounts appropriated are chargeable to the final appropriation measure when adopted. The total amount appropriated by the board of education for each fund cannot exceed the latest total amount certified by the budget commission as available for each fund. Only the board of education has authority to appropriate funds and only the board can change or modify appropriation amounts. (ORC 5705.38) Any time changes are made to the approved appropriations, similar changes should be made to the associated item in the five-year forecast.

Five-Year Forecast

A five-year forecast is required of all city, local, exempted village, joint vocational school districts and community schools. The forecast requires three years of historical data, five years of projections, and a summary of key assumptions. The forecast must be approved by the local board of education. It must include the general fund and those funds that may impact the general fund balance.

Districts must electronically submit both projections and assumptions to the Ohio Department of Education (ODE) by Nov. 30 as well as an update during the time frame from April 1st and May 31st. ODE must examine the five-year forecasts and determine if a district has the potential to incur a deficit during the first three forecast years.

B. School District Budget Process Calendar

The sample calendar included below is provided as a planning tool to assist treasurer/CFOs in working with their boards of education and other stakeholders. Some of the items listed are "best practices," while others are required pursuant to the Ohio Revised Code (ORC). Statutory references are included where applicable.

January	– On or before Jan.15 – Tax budget for following fiscal year is approved by board of education. (ORC 5705.28) – On or before Jan. 20 - The board-adopted tax budget is filed with the county budget commission for review and approval. (ORC 5705.30) – ***Note***: If your county budget commission has waived the submission of the tax budget, you will still need to provide information to your county auditor to perform his/her duties under law, including dividing the rates of each of the subdivision's or taxing unit's tax levies. Both the submission of the tax budget and the submission of the information required by the budget commission in lieu of the tax budget require an open line of communication between the school district treasurer/CFO and the county auditor.
February	– ***Suggested best practice***: February prior to fiscal year – Allocations for each building and department are submitted to the administrators to allocate among their funds based on department/building budget planning meetings.
March – April	– By March 1 - The county budget commission provides the certificate of tax rates and amounts to each school district (ORC 5705.35) – ***Suggested best practice***: On or Before April 15 – Building and department administrators submit proposed building/department budgets to treasurer and superintendent. – Continue routine budget monitoring and reporting out of the financial status for the current year; amend certificates of appropriations or certificates of estimated resources as needed and have them board approved and submitted to the county auditor.

May	– On or before May 30 – Board of education adopts updated five-year forecast general operating fund forecast for the fiscal year that started the previous July. (ORC 5705.391) – You may need to amend your certificates again if the forecast has significant enough changes in revenues or expenditures.
June	– By June 30 - Finalize permanent appropriation resolution and submit to county auditor. (ORC 3313.62; ORC 5705.38) – By June 30 - Finalize certificate of estimated resources for June 30 balances and submit to county auditor. (ORC 5705.39) – On or before July 1 – Adopt temporary appropriations measure for next fiscal year, which includes Certificate of Estimated Resources for the new fiscal year (July 1 through June 30 balances for the new fiscal year) and a new certificate of appropriations due to the new budget year. You can adopt a temporary budget not greater than 25 percent of the anticipated permanent budget. If a temporary budget is put in place, the permanent budget must be approved by Sept. 30.
July	– On or about July 1 - Certify beginning fund balances to county auditor (ORC 5705.36) – Adopt appropriation resolution, which may be temporary until Oct. 1 or later (ORC 5705.36; ORC 5705.38; ORC 5705.39) – Request for an amended official certificate of estimated resources (if necessary) (ORC 3319.02)
August	– Routine monitoring of your budget, also if you have a temporary budget, be completing the final budget and getting it board approved during July - September.
September	– On or Before Sept. 30 – All budgets must be finalized for the fiscal year. Final appropriations must be board approved (for the fiscal year that started July 1) and submitted to the county auditor in the certificates of appropriation. (ORC 5705.38; ORC 5705.36)

October	–	Continue routine budget monitoring and reporting out of financial status for the current year; amend appropriation~~s~~ resolution as needed (which may include an amended certificate of estimated resources) and have it board approved and submitted to the county auditor.
November	–	On or Before Nov. 30 – Board of education adopts five-year general operating fund forecast for the fiscal year that started July 1. (ORC 5705.391)
December	– –	Continue routine budget monitoring and reporting out of financial status for the current year; amend certificates of appropriations or certificates of estimated resources as needed and have them board approved and submitted to the county auditor. Continue to work with your budget managers on their next fiscal year's budget.

Appendix B
Sample School Board Cash Balance Policies

Sample #1: 6200 - GENERAL FUND CASH BALANCE RESERVE

The Board of Education supports good stewardship of taxpayer dollars and as such, believes that maintaining a cash reserve balance of 10 percent of operating expenses is necessary in the interest of sound fiscal management.

Operating the District with fiscally sound management practices is integral to the ongoing well-being of the School District. Responsible management of operations costs while maintaining a high level of educational excellence within the District is the primary focus of the Board of Education, administrators, teachers and other school personnel when making budgetary decisions.

The Board affirms that tax levies may be pursued, and/or the District's finances otherwise managed, to ensure a General Fund cash balance equivalent to at least 10 percent of operating expenses.

Upon receiving any indication that such a cash balance may not be achieved at any point within the rolling five (5) -year financial forecast period, the Treasurer shall report such a finding to the Board. Upon such notification by the Treasurer, the Superintendent and Treasurer will propose options that the Board may consider to forestall such an eventuality.

Sample #2: 6218 - CASH BALANCE RESERVE POLICY

The Board believes that maintaining a cash reserve unencumbered unreserved balance of ninety (90) days of operating expenditures is necessary in the interest of sound fiscal management. The Board affirms that tax levies shall be pursued, and/or the District's finances otherwise managed, to ensure a General Operating Fund unencumbered unreserved cash balance equivalent to at least ninety (90) days of operating expenditures.

Promptly upon receiving any indication that such cash balance may not be achieved within any year of the five (5) year forecast, the treasurer/CFO shall report such a finding to the Board. Upon such notification by the treasurer/CFO, the Superintendent and treasurer/CFO will prepare and propose options that the Board may consider to forestall such an eventuality.

Further, the Board believes the financial goals of the District should be in alignment with the District's strategic plan and instructional goals. When a General Operating Fund cash balance exceeds 150 days the Superintendent may prepare a plan for the expenditure of the excess General Operating cash balance on one or more of the deliverables of the strategic plan. This plan must be approved by the Board of Education and cannot result in the General Operating Fund cash balance falling below ninety (90) days in any year of the rolling five (5) year forecast.

Sample #3: 6220.01 - CASH RESERVE BALANCE

The Board of Education believes that maintaining a cash reserve balance of 20 percent of operating expenses is necessary in the interest of sound fiscal management.

The Board affirms that tax levies shall be pursued, and/or the District's finances otherwise managed, to ensure an operating fund cash balance equivalent to 20 percent of operating expenditures.

Upon receiving any indication that such a cash balance may not be achieved within the first three (3) years of the rolling five-year financial forecast period, the Treasurer shall report such a finding to the Board. Upon such notification by the Treasurer, the Superintendent and Treasurer will propose options that the Board may consider.

Sample #4: 6215 - CASH RESERVE BALANCE

Operating the District with fiscally sound management practices is integral to the ongoing well-being of the school district. Responsible management of operational costs while maintaining a high level of educational excellence within the District is the primary focus of the Board of Education, administrators, teachers, and other school personnel when making budgetary decisions.

The District maintains that, to preserve financial effectiveness, a yearly cash balance equal to One Hundred Five (105) True Days operating cash, as defined as the prior year's General Fund expenditures, including transfers and advances, divided by 365, times One Hundred Five (105), is to be the minimum operational benchmark for determining ending cash needs for the General Fund. The benchmark will be calculated at the end of each fiscal year and will be used as the benchmark for the upcoming year.

The minimum benchmark should be reflected on the five-year forecast in the current year and the next three (3) projected years of the five-year forecast. Upon receiving any indication that an ending cash balance equal to One Hundred Five (105) True Days operating cash may not be achieved, the Treasurer shall report such finding to the Board and Superintendent.

Upon receiving such notification from the Treasurer, a plan will be developed by the Board, Superintendent and the Treasurer prior to the next five-year forecast adoption as to how the District will work toward attaining a One Hundred Five (105) True Days operating cash ending balance for the General Fund over the next four (4) forecasted years which includes the current year.

Sample #5: 6215 - CASH RESERVE BALANCE

Introduction. It is important to maintain sufficient cash reserves in the operating funds (General and Emergency Levy funds) to meet the goals and mission of our District. A cash reserve helps to ensure the District can provide consistent, uninterrupted services in the event of a disruption. The District's revenue streams are generally not aligned to their scheduled expenditures. This creates the need of using cash balances to cover financial obligations and avoid shortages. This policy establishes the amounts the District will strive to maintain in the operating fund reserves, how the reserves will be funded and the conditions under which the reserve may be spent.

Amounts Held in Reserve. The District will strive to hold no less than sixty (60) days or two (2) months of annual operating expenditures in the operating reserve throughout the five-year forecasting period. The plan will be presented to the Board for consideration.

Funding Reserve Targets. Funding of the operating reserves will come from local and state funding sources.

Use of Operating Reserves. It is the intent of the District to limit the use of the operating fund reserves to address unanticipated, non-recurring needs or known and planned future obligations. Reserves shall not normally be applied to recurring annual operating expenditures. The reserves may, however, be used to allow time for the District to restructure its operations in a deliberate manner (such as might be required in the case of change in economic or political conditions that negatively impact the District's revenues). Such use will only take place in context of a Board approved long-term plan to reach a sustainable structure.

Replenishment of Reserves. In the event the District authorizes the use of the operating reserves, the Treasurer and Superintendent shall propose a plan for the replenishment of reserves to the Board. The District will strive to replenish the reserves within one (1) year of use, but must replenish within five (5) years of use.

Sample #6: DA - Fiscal Management Goals

The quantity and quality of learning programs are related to the funding provided and the effective, efficient management of those funds. It follows that the District's purposes can best be achieved through prudent fiscal management.

Due to resource limitations, there is sometimes a temptation to operate so that fiscal concerns overshadow the educational program. Recognizing this, it is essential that the Board take specific action to make certain that education remains central, and that fiscal management contributes to the educational program. This concept is incorporated into Board operations and into all aspects of District management and operation.

As trustees of the community's investment in the facilities, materials and operational funds, the Board has a fiduciary responsibility to ensure that the investment is protected and used wisely. Competent personnel and efficient procedures are essential for sound management of fiscal affairs.

The Board expects that the Superintendent and the Treasurer keep it informed through both oral and written reports on the fiscal management of the District.

With the cooperation of the Treasurer and assistance from other designated personnel, the Superintendent is expected to develop an efficient and effective procedure for fiscal accounting, purchasing and the protection of plant, grounds, materials and equipment through prudent and economical operation, maintenance and insurance.

The Board seeks to achieve the following goals to:

1. Engage in thorough advance planning, with staff and community involvement, in order to develop budgets and to guide expenditures to achieve the greatest educational returns for the dollars expended;

2. Establish levels of funding that provide high quality education for the District's students;

3. Use the best available techniques for budget development and management;

4. Provide timely and appropriate information to all staff with fiscal management responsibilities;

5. Establish effective procedures for accounting, reporting, business, purchasing and delivery, payroll, payment of vendors and contractors and all other areas of fiscal management and

6. Maintain a cash reserve balance of 90 days of expenditures.

Appendix C
Fund Balance Guidelines for the General Fund – GFOA

Type: Best Practice Background:

In the context of financial reporting, the term fund balance is used to describe the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis. While in both cases fund balance is intended to serve as a measure of the financial resources available in a governmental fund; it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated.

1. GAAP financial statements report up to five separate categories of fund balance based on the type and source of constraints placed on how resources can be spent (presented in descending order from most constraining to least constraining): nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. The total of the amounts in these last three categories (where the only constraint on spending, if any, is imposed by the government itself) is termed unrestricted fund balance. In contrast, budgetary fund balance, while it is subject to the same constraints on spending as GAAP fund balance, typically represents simply the total amount accumulated from prior years at a point in time.

2. The calculation of GAAP fund balance and budgetary fund balance sometimes is complicated by the use of sub-funds within the general fund. In such cases, GAAP fund balance includes amounts from all of the sub funds, whereas budgetary fund balance typically does not.

3. Often the timing of the recognition of revenues and expenditures is different for purposes of GAAP financial reporting and budgeting. For example, encumbrances arising from purchase orders often are recognized as expenditures for budgetary purposes, but never for the preparation of GAAP financial statements.

The effect of these and other differences on the amounts reported as GAAP fund balance and budgetary fund balance in the general fund should be clarified, understood, and documented.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund.

Recommendation: GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes. Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period. In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.

Appropriate Level. The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances. Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);

2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);

3. The potential drain upon general fund resources from other funds, as well as the availability of resources in other funds;

4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;

5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

Use and Replenishment. The fund balance policy should define conditions warranting its use, and if a fund balance falls below the government's policy level, a solid plan to replenish it. In that context, the fund balance policy should:

1. Define the time period within which and contingencies for which fund balances will be used;

2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;

3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

Generally, governments should seek to replenish their fund balances within one to three years of use. Specifically, factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;

2. Recovering from an extreme event;

3. Political continuity;

4. Financial planning time horizons;

5. Long-term forecasts and economic conditions;

6. External financing expectations.

Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

Unrestricted Fund Balance Above Formal Policy Requirement. In some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed. Additionally, an education or communication strategy, or at a minimum, explanation of large changes in fund balance is encouraged. In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.

Notes:

1. For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.

2. These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

3. Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.

4. See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).

5. In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.

6. In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues and/or expenditures, that decision should be followed consistently from period to period.

This best practice was previously titled Appropriate Level of Unrestricted Fund Balance in the General Fund.

Approved by GFOA's Executive Board: September 2015

Appendix D
Ohio Revised Code Section 5705.13

Section 5705.13 | Reserve balance accounts - special revenue fund - capital projects fund.

(A) A taxing authority of a subdivision, by resolution or ordinance, may establish reserve balance accounts to accumulate currently available resources for the following purposes:

(1) To stabilize subdivision budgets against cyclical changes in revenues and expenditures;

(2) Except as otherwise provided by this section, to provide for the payment of claims and deductibles under an individual or joint self-insurance program for the subdivision, if the subdivision is permitted by law to establish such a program;

(3) To provide for the payment of claims, assessments, and deductibles under a self-insurance program, individual retrospective ratings plan, group rating plan, group retrospective rating plan, medical only program, deductible plan, or large deductible plan for workers' compensation.

The ordinance or resolution establishing a reserve balance account shall state the purpose for which the account is established, the fund in which the account is to be established, and the total amount of money to be reserved in the account.

Not more than one reserve balance account may be established for each of the purposes permitted under divisions (A)(2) and (3) of this section. Money to the credit of a reserve balance account may be expended only for the purpose for which the account was established.

A reserve balance account established for the purpose described in division (A)(1) of this section may be established in the general fund or in one or more special funds for operating purposes of the subdivision. The amount of money to be reserved in such an account in any fiscal year shall not exceed five per cent of the revenue credited in the preceding fiscal year to the fund in which the account is established, or, in the case of a reserve balance account of a county or of a township, the greater of that amount or one-sixth of the expenditures during the preceding fiscal year from the fund in which the account is established. Subject to division (F) of section 5705.29 of the Revised Code, any reserve balance in an account established under division (A)(1) of this section shall not be considered part of the unencumbered balance or revenue of the subdivision under division (A) of section 5705.35 or division (A)(1) of section 5705.36 of the Revised Code.

At any time, a taxing authority of a subdivision, by resolution or ordinance, may reduce or eliminate the reserve balance in a reserve balance account established for the purpose described in division (A)(1) of this section.

A reserve balance account established for the purpose described in division (A)(2) or (3) of this section shall be established in the general fund of the subdivision or by the establishment of a separate internal service fund established to account for the operation of an individual or joint self-insurance program described in division (A)(2) of this section or a workers' compensation program or plan described in division (A)(3) of this section, and shall be based on sound actuarial principles. The total amount of money in a reserve balance account for self-insurance may be expressed in dollars or as the amount determined to represent an adequate reserve according to sound actuarial principles.

A taxing authority of a subdivision, by resolution or ordinance, may rescind a reserve balance account established under this division. If a reserve balance account is rescinded, money that has accumulated in the account shall be transferred to the fund or funds from which the money originally was transferred.

(B) A taxing authority of a subdivision, by resolution or ordinance, may establish a special revenue fund for the purpose of accumulating resources for the payment of accumulated sick leave and vacation leave, and for payments in lieu of taking compensatory time off, upon the termination of employment or the retirement of officers and employees of the subdivision. The special revenue fund may also accumulate resources for payment of salaries during any fiscal year when the number of pay periods exceeds the usual and customary number of pay periods. Notwithstanding sections 5705.14, 5705.15, and 5705.16 of the Revised Code, the taxing authority, by resolution or ordinance, may transfer money to the special revenue fund from any other fund of the subdivision from which such payments may lawfully be made. The taxing authority, by resolution or ordinance, may rescind a special revenue fund established under this division. If a special revenue fund is rescinded, money that has accumulated in the fund shall be transferred to the fund or funds from which the money originally was transferred.

(C) A taxing authority of a subdivision, by resolution or ordinance, may establish a capital projects fund for the purpose of accumulating resources for the acquisition, construction, or improvement of fixed assets of the subdivision. For the purposes of this section, "fixed assets" includes motor vehicles. More than one capital projects fund may be established and may exist at any time. The ordinance or resolution shall identify the source of the money to be used to acquire, construct, or improve the fixed assets identified in the resolution or ordinance, the amount of money to be accumulated for that purpose, the period of time over which that amount is to be accumulated, and the fixed assets that the taxing authority intends to acquire, construct, or improve with the money to be accumulated in the fund.

A taxing authority of a subdivision shall not accumulate money in a capital projects fund for more than ten years after the resolution or ordinance establishing the fund is adopted. If the subdivision has not entered into a contract for the acquisition, construction, or improvement of fixed assets for which money was accumulated in such a fund before the end of that ten-year period, the fiscal officer of the subdivision shall transfer all money in the fund to the fund or funds from which that money originally was transferred or the fund that originally was intended to receive the money.

A taxing authority of a subdivision, by resolution or ordinance, may rescind a capital projects fund. If a capital projects fund is rescinded, money that has accumulated in the fund shall be transferred to the fund or funds from which the money originally was transferred.

Notwithstanding sections 5705.14, 5705.15, and 5705.16 of the Revised Code, the taxing authority of a subdivision, by resolution or ordinance, may transfer money to the capital projects fund from any other fund of the subdivision that may lawfully be used for the purpose of acquiring, constructing, or improving the fixed assets identified in the resolution or ordinance.

Appendix E
Rating Agencies Analysis and General Fund Cash Balance

Cash balances are an important consideration for rating agencies with regard to measuring the financial health of school districts within the state of Ohio and may ultimately affect a district's debt service costs or its ability to borrow funds.

As part of the public bond issuing process and in order to receive the lowest interest rates, investors rely on rating agencies such as Moody's Investors Service, Standard & Poor's, and Fitch Ratings Inc. to make a determination of the creditworthiness of a financing. These agencies evaluate a school district's ability to pay back its principal and interest in a timely fashion and then applies a rating to their bonds.

The higher the bond rating, the lower the interest rate the district will carry on its borrowing, which ultimately saves taxpayers money.

Moody's Investors Service

Moody's Investors Service examines a school district's fiscal position, specifically its cash balance, to assist in determining its cushion against the unexpected, its ability to meet existing financial obligations, and its flexibility to adjust to new ones. Cash represents the paramount liquid resource of a district without regard to accruals, which may not be recognized until later, or short-term financing measures like notes, which are not accurate measures of a District's long term fiscal situation. Moody's measures a District's net cash balance as a percentage of operating revenues. Net cash is calculated by adding all cash and liquid investments in operating accounts and subtracting short-term debt issued for operating purposes and maturing within a year. This ratio constitutes 10 percent of a school district's total quantitative score. School districts tend to have a more predictable (less flexible, but more stable) revenue composition, mostly consisting of property taxes and state aid, and cost structures than most other types of local governments.

A cash balance over 25 percent of operating revenues will achieve a Aaa-level score under Moody's methodology. A cash balance of between 17.5 percent and 25 percent is scored as Aa. While a ratio between 10 percent and 17.5 percent ranks in the A median. In addition, cash balances are an important component of the available fund balance ratio, which comprises 20 percent of a District's total quantitative score. Available fund balances represent all of the operating resources available to a District, which includes cash balances as well as funding sources such as property tax receipts and state support.

Finally, Moody's reviews management and other characteristics of each credit in a variety of ways that can affect the final rating. While the cash balance is one important part of the overall analysis, numerous other factors come into play that ultimately dictate the final rating outcome.

S&P Global Ratings

S&P Global Ratings examines a school district's balance sheet, focusing on budgetary flexibility, budgetary performance, and liquidity. The budgetary flexibility score is a measure of a district's financial flexibility to meet essential services during periods of financial strain. S&P considers an adequate available fund balance and policies determining fund-balance goals to be credit strengths. The ratio used to evaluate budgetary flexibility is the sum of all funds available for operations, expressed as a percent of operating expenditures.

Budgetary performance measures the fiscal operations of a school district, on both an operating and overall basis. It is an important indication of how a District manages its resources and how assets and liabilities are accounted for. Budgetary performance is measured by comparing the growth (or contraction) in the general fund and the growth (or contraction) in total governmental funds.

A liquidity score measures the availability of cash and cash equivalents to service both debt and other expenditures. S&P includes two ratios in their quantitative analysis: total governmental available cash as a percentage of total governmental funds expenditures and total governmental available cash as a percentage of total governmental funds debt service. According to S&P, total governmental available cash includes total cash, cash equivalents, and equity in pooled cash and investments, when grouped with cash in the audit. Proceeds of borrowings that are otherwise dedicated (such as the proceeds from a bond issue for a new school) and other encumbered cash are deducted. Any other highly liquid securities may be added back in. Liquidity accounts for 10 percent of the issuer's total quantitative score under S&P's methodology.

To achieve a AAA-level score, a District should have total governmental available cash over 15 percent of total governmental funds expenditures and total governmental available cash of over 120 percent of total governmental funds debt service. The weaker the level of liquidity, the more important it becomes in S&P's final determination of the credit rating. S&P also factors in the issuer's projections for the current year, as well as the following year, in their analysis. Additionally, S&P will qualitatively consider a District's cash flow variability and access to external liquidity, such as bank financing or capital markets. A stable and robust history of cash flow generation, as well as a consistent ability to enter capital markets at attractive financing costs are both credit positives.

Finally, S&P reviews management and other characteristics of each credit in a variety of ways that can affect the final rating. While the cash balance is one important part of the overall analysis, numerous other factors come into play that ultimately dictate the final rating outcome.

FitchRatings

FitchRatings measures a school district's reserve safety margin. Unlike Moody's and S&P, who have quantitative, scorecard-like analyses that aid in their ultimate rating decisions, Fitch stresses that there is no standard weighting of its key factors, and that the ultimate rating outcome is the result of consideration of all issuer-specific qualitative and quantitative factors.

Once revenue sensitivity estimates are generated, a scenario analysis indicates the amount of reserves that Fitch would consider a minimum financial cushion for a given financial resilience assessment level – referred to as the reserve safety margin. Fitch uses the unrestricted general fund balance as a starting point in calculating a school district's financial cushion. After completing sensitivity analysis to determine revenue estimates in the event of a downturn, Fitch evaluates the district's inherent budget flexibility to raise revenues and cut spending. The minimum reserve safety margin level for each assessment level is then determined based on the combination of the district's legal ability to raise revenue and the flexibility of its expenditure items, along with its projected revenue declines. The reserve level is stated as a multiple of the anticipated revenue decline.

To maintain the same level of financial flexibility, a district that is more likely to experience a steep drop in revenues in a downturn, or a district with less ability to respond through policy changes, requires more cushion than one with less economically sensitive revenues or more budget control. For example, a school district with minimal inherent budget flexibility would need an unrestricted general fund balance of 16x the estimated revenue decline, while a district with superior inherent budget flexibility would only need a balance of 2x the revenue decline in order to achieve a AAA assessment.

Finally, Fitch reviews management and other characteristics of each credit in a variety of ways that can affect the final rating. While the cash balance is one important part of the overall analysis, numerous other factors come into play that ultimately dictate the final rating outcome.

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