



Auditor of State
Betty Montgomery

SHELBY CITY SCHOOL DISTRICT PERFORMANCE AUDIT

MARCH 9, 2006



**Auditor of State
Betty Montgomery**

To the Residents, Financial Planning and Supervision Commission, and Board of Education of the Shelby City School District:

On October 8, 2004, Shelby City School District (Shelby CSD) was placed in fiscal caution because of the possibility of ending the 2005 fiscal year in a deficit, as well as the potential for deficits in future years. At the request of Shelby CSD, my office subsequently examined the District's financial forecast for the General Fund as required under ORC § 3316.03. This examination resulted in the District being placed in fiscal emergency on April 7, 2005, based on an anticipated deficit of \$3,253,000, which amounted to 21 percent of the District's General Fund revenues from the prior year. Pursuant to ORC § 3316.031 and ORC § 3316.042, a performance audit was initiated in Shelby CSD. The four functional areas assessed in the performance audit were financial systems, human resources, facilities and transportation. These areas were selected because they are important components of District operations which support its mission of educating children, and because improvements in these areas can assist in eliminating the conditions which brought about the fiscal emergency declaration.

The performance audit contains recommendations which identify the potential for cost savings and efficiency improvements. The performance audit also provides a framework for the District's financial recovery plan. While the recommendations contained in the audit report are resources intended to assist in developing and refining the financial recovery plan, the District is also encouraged to assess overall operations and develop alternatives independent of the performance audit. During the course of the performance audit, Shelby CSD decreased expenditures in several areas, which are noted in the report.

An executive summary has been prepared which includes the project history; a discussion of the fiscal emergency designation; an overview of the District; the scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations, and financial implications. This report has been provided to Shelby CSD, and its contents discussed with the appropriate officials and District administrators. The District has been encouraged to use the results of the performance audit as a resource in further improving its overall operations, service delivery, and financial stability.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this performance audit can be accessed online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 9, 2006

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

Executive Summary

Project History

Pursuant to Ohio Revised Code (ORC) § 3316.031(A), the Ohio Superintendent of Public Instruction, in consultation with the Auditor of State (AOS), has developed guidelines for identifying fiscal practices and budgetary conditions that, if uncorrected, could result in a future declaration of fiscal watch or fiscal emergency within a school district. ORC § 3316.031(B)(1) further stipulates that the State superintendent may declare a school district in fiscal caution based upon a review of a school district's five-year forecast. According to ORC § 3316.042, AOS may conduct a performance audit of any school district in a state of fiscal caution, fiscal watch or fiscal emergency, and review any programs or areas of operation in which AOS believes that greater operational efficiency, effectiveness and accountability of services can be achieved.

On October 8, 2004, the Ohio Department of Education (ODE) placed Shelby City School District (Shelby CSD or the District) in fiscal caution due to the possibility of ending FY 2004-05 with a deficit as well as the potential for deficits in future years. However, at the request of Shelby CSD, the Auditor of State examined the District's financial forecast for the General Fund as required under ORC § 3316.03. This examination resulted in AOS placing the District in fiscal emergency on April 7, 2005, based on an anticipated deficit of \$3,253,000, which amounted to 21 percent of the District's General Fund revenues from the prior year. The District also met the conditions for fiscal emergency because it had not passed a levy sufficient to eliminate the deficit in the current and succeeding years.

Pursuant to ORC § 3316.031 and ORC § 3316.042, AOS initiated a performance audit of Shelby CSD. Based on a review of the District's information and discussions with the Superintendent and the Treasurer, the following four functional areas were included in the performance audit:

- Financial Systems;
- Human Resources;
- Facilities; and
- Transportation.

District Overview

The District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the District. Shelby CSD operates within the City of Shelby, OH (Richland County) and receives approximately 48 percent of its revenues from the State of Ohio, 43 percent from local property taxes and nine percent from federal grants and other sources. According to the United States Census Bureau's 2000 Census, the District's population of 9,821 residents includes 2,668 family households with an average family size of 2.97 persons. The percentage of the District's population that was school aged was 21.3 percent (19 years old and under), while an additional 6.9 percent was less than 5 years old. In addition, 81.9 percent of the population had a high school diploma or higher, and 9.4 percent had bachelor's degrees or greater.

During FY 2004-05, Shelby CSD operated six school buildings including one high school, one middle school and four elementary schools. The District had a total of approximately 299 full-time equivalent (FTE) employees consisting of 14 administrator FTEs, 160 certificated teaching FTEs, and 125 classified and other support staff FTEs. These employees were responsible for providing educational services and support to an average daily membership (ADM) of 2,283 students. Students with physical and learning disabilities comprise 14.7 percent of the student population. The regular education student-to-teacher ratio for FY 2005-06 is 20.5 to 1. In FY 2004-05, the District met 19 of 23 academic performance indicators established by ODE and was categorized as an effective district.

In FY 2003-04, the District's total General Fund expenditure per student of \$8,161 was approximately 13 percent higher than the peer average of \$7,215. In addition, the District spent \$961 per student on discretionary items in FY 2003-04 while the peer average was only \$740. The high expenditure levels are due to high historical staffing levels, generous employee fringe benefits and weak financial management practices that were fostered in the past. When the District recognized the severity of its financial condition at the conclusion of FY 2003-04, the administration took action to limit all discretionary spending. As a result, the District was able to reduce the discretionary cost per student to \$646 in FY 2004-05. However, despite the reduction in discretionary spending, the District's total General Fund expenditure per student increased to \$8,579 in FY 2004-05 due to normal wage increases, a large health care premium increase and the repayment of several transfers and advances that occurred in prior years.

The District has experienced a declining ending unencumbered General Fund balance in recent years, ranging from a surplus of nearly \$1.5 million in FY 2001-02, to a deficit of approximately \$1.2 million in FY 2003-04. In FY 2004-05, the Auditor of State certified a projected operating deficit of approximately \$3.3 million, which resulted in the District being placed in fiscal emergency. To help resolve the current financial difficulties, the residents of the District passed a continuing one percent income tax levy on May 3, 2005. However, due to phase-in procedures,

it is estimated that the first full-year of income tax collections will not occur until FY 2007-08, when the District is projected to collect approximately \$2.4 million.

As a result of being placed in fiscal emergency, the District adopted a financial recovery plan that identifies approximately \$2.4 million in cost reductions for FY 2005-06 and FY 2006-07. These reductions include approximately \$433,000 in salary concessions, \$1.8 million in personnel reductions, \$72,000 from closing an elementary school building, and \$52,000 from eliminating various supplemental contracts.

Table 2-17 presents the AOS financial recovery plan for the District and incorporates the additional proceeds from the new income tax levy, the \$2.4 million in budget reductions adopted by the District and approximately \$916,000 in savings identified in this performance audit. **Table 2-17** shows that the combination of the additional revenues and expenditure reductions will allow the District to eliminate the projected deficits and achieve financial recovery. However, it will be necessary for the District to make difficult management decisions. For example, the recovery plan assumes that the District will negotiate to eliminate the pick-up on pick-up pension benefit for all employees, increase employee healthcare contributions, reduce healthcare benefits for the bus drivers and negotiate reduced COLA's during the forecast period. If the District is unsuccessful in implementing some of these recommendations, it will likely have to implement additional staffing and cost reductions in order to achieve financial recovery.

Objectives and Methodology

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. Audit work was conducted between June and November, 2005. The goal of the performance audit process is to assist Shelby CSD management in identifying cost saving opportunities, with the primary objective of eliminating the conditions which brought about the declaration of fiscal emergency. The ensuing recommendations comprise options that Shelby CSD can consider in its continuing efforts to improve and stabilize its financial condition. This performance audit assessed the key operations of Shelby CSD in the areas of financial systems, human resources, facilities, and transportation. Major assessments included the following:

- The District's July 2005 five-year financial forecast, its underlying financial data, and accompanying notes and assumptions were assessed for reasonableness.
- District-wide staffing levels, collective bargaining agreements and benefit costs were core areas assessed in the human resources section.
- Building capacity and utilization, and custodial and maintenance operations were examined in the facilities section.
- Key transportation operational statistics, such as staffing, average costs per bus, and average costs per student, were reviewed to identify potential efficiency improvements and cost savings for the District's transportation operations.

To complete this report, auditors gathered and assessed data from various sources pertaining to key operations, conducted interviews with Shelby CSD personnel, and assessed requested information from the comparison (peer) districts. Throughout this report, comparisons are made to three similarly sized school districts. These districts include Bellevue City School District (Bellevue CSD) in Huron County; Dover City School District (Dover CSD) in Tuscarawas County; and Triway Local School District (Triway LSD) in Wayne County. These districts were selected as peers based on their identification as comparable districts by the Ohio Department of Education, reviews of various demographic information, and input from Shelby CSD personnel. Criteria included in ODE's comparable district listings include geographic size, average daily membership, socioeconomic demographics, population density, and real property valuation. Best practice information from ODE, the State Employment Relations Board (SERB), American Schools and Universities (AS&U), and related service industries was also used as a basis for comparison.

The performance audit process involved significant information sharing with Shelby CSD, including preliminary drafts of findings about identified audit areas and proposed recommendations. Furthermore, periodic status meetings were held throughout the engagement to inform the District of key issues impacting selected areas, and to share proposed recommendations to improve or enhance operational efficiency or effectiveness. Throughout the audit process, input from Shelby CSD was solicited and considered when assessing the selected areas and framing recommendations. Finally, the District was given an opportunity to provide written comments in response to the various recommendations for inclusion in the final report.

The Auditor of State and staff express their appreciation to the Shelby CSD and the peer school districts for their cooperation and assistance throughout this audit.

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The following are key noteworthy accomplishments that were identified during the course of the performance audit.

Financial Systems

- In FY 2003-04, the District spent \$961 per student on discretionary items, which was significantly higher than the peer average of \$740. However, in response to the current financial difficulties, the District took action to limit all discretionary spending and reduced the FY 2004-05 discretionary expenditures per student to \$646. This indicates that the District recognized its financial difficulties and took action to limit the expenditures that were within its direct control.

Human Resources

- As part of the financial recovery plan the District reduced 47.2 FTE classified positions, and 15.1 FTE certificated positions prior to the start of FY 2005-06. Although there are still areas where the District can make additional reductions, the overall staffing levels are now lower than the peers. Prior to these reductions, the District's overall staffing levels were higher than all the peers (see **Table 3-2**).
- In response to the current financial difficulties, the District negotiated to establish employee healthcare contributions during FY 2004-05. The contribution rates were established at 10 percent for certificated employees and five percent for the classified staff. The District was also able to negotiate a zero percent cost of living adjustment (COLA) for FY 2005-06.

Facilities

- The District's utility expenditures are significantly lower than the peer average and the AS&U median for school districts of similar size. This is due to the District adopting energy management policies, joining consortia, and implementing software and other building improvements. In addition, the City of Shelby provides the District with electricity at discounted rates.
- By negotiating to give head custodians annual stipends for weekend building checks instead of overtime, the District has been able to limit the use of overtime to only those situations where critical repair work is needed. Additionally, the Director of Buildings and Grounds indicated that he requires overtime to be requested and approved prior to the work taking place, and that he completes most of the overtime-related duties. These practices contribute to the minimal use of overtime at Shelby CSD. More specifically, overtime costs represent less than one percent of the total custodial and maintenance salaries at Shelby CSD, which is much lower than all three peers and the peer average (3.4 percent).

Transportation

- In FY 2003-04, the District transported 91 students per active bus using a two run system, or approximately 46 students per run. As these ratios were lower than the peer averages, the District was not optimizing bus capacity. Furthermore, the District operates buses that have an average capacity of 67 seats per bus. This indicates that the District was developing its routes to only use approximately 69 percent of the capacity per bus run. However, during the course of this audit, the District took action to reduce three active

buses (2 regular needs buses and 1 special needs bus) and three bus drivers. As a result, the District is now transporting 113 students per bus, or 57 per run, which is higher than two of the peers and improves the District's bus capacity utilization to approximately 85 percent.

- Shelby CSD's percentage of bus inspections resulting in violations has decreased by 13 percent from 2002 to 2004. Furthermore, the percentage of Shelby CSD's inspections resulting in violations was significantly lower than each peer in FY 2003-04.

Key Recommendations

The performance audit contains several recommendations pertaining to Shelby CSD. The following are the key recommendations from the report:

Financial Systems

- Shelby CSD should analyze and use the proposed financial forecast outlined in **Table 2-17** to evaluate the recommendations presented within this performance audit and to determine the impact of the related cost savings on its financial condition. The District should also consider implementing the recommendations in this performance audit to improve its current and future financial situation.
- The District should take steps toward eliminating its financial problems by effectively budgeting resources and periodically monitoring its financial performance. The District should not adopt the budget unless it contains realistic revenue and expenditure estimates, and the proposed appropriations for all funds fall within the current year's available revenues. Additionally, the District should develop policies to ensure that the annual appropriation measure and a certificate of estimated resources are filed with the County Auditor on a timely basis as required by the Ohio Revised Code. After the budget has been adopted, the Treasurer should provide detailed reviews of the District's actual performance against the budget to the Superintendent and Board on a monthly basis. Lastly, if a proposed expenditure is going to exceed the available appropriation, the purchase should be postponed until the Superintendent and Board identify reductions in other areas of the budget that can be used to cover the proposed expenditure.
- Shelby CSD's five-year forecast and the accompanying assumptions and notes should be expanded to consistently present more detailed historic and projected information and explanatory comments. In addition, the Treasurer should ensure that the assumptions stated in the notes adequately reflect the figures presented in the forecast. Lastly, the Treasurer should correct past coding problems and ensure that all transactions are

accounted for within the appropriate line items, as defined in the Uniform School Accounting System (USAS).

- The District should adequately plan its yearly textbook and instructional material purchases to comply with the spending requirements in ORC § 3315.17. Not only will this ensure that students are provided with updated instructional materials on a yearly basis, but it will also prevent the District from accruing a large liability that will place unnecessary burdens on future budgets.

Human Resources

- Shelby CSD should continually monitor student-to-teacher ratios and ESP staffing ratios, and regularly evaluate the impact staffing changes have on the District, both financially and educationally. If the District does not implement the performance audit recommendations and other strategies to reduce costs, and/or does not achieve the projections in the forecast (see **Table 2-17** in financial systems), it should consider reducing regular education and ESP staffing levels. Based on the current staffing levels, the District could reduce up to 12.0 regular education teachers and 5.0 ESP personnel while still meeting the state minimum requirements. However, the District should weigh decisions to reduce teacher and ESP staffing levels against the impact the reductions may have on the District's education levels. Staffing levels for teachers should remain a function of District goals, enrollment, and financial condition as well as the State's requirements for minimum class sizes.
- Shelby CSD should consider reducing 1.0 librarian FTE by using its library aides to help operate the libraries and meet the needs of its students. Shelby CSD should also consider reducing 5.0 teaching aide FTEs to make its staffing levels more comparable to the peers. Lastly, the District should contact the City of Shelby in an effort to have the police department take over the process of ensuring student safety at busy intersections. In addition to the cost savings associated with reducing 3.2 crossing guard FTE's, this would shift the potential liability for student safety to the police department, which is better suited for carrying out this function.
- During future contract negotiations, Shelby CSD should negotiate to require all full-time employees, and all employees receiving full benefits, to pay at least 12 percent of their monthly health care premium. In addition, Shelby CSD should consider implementing at least a six percent employee contribution towards the monthly dental premiums and negotiating to reduce the maximum annual dental benefit and the lifetime maximum for orthodontic services to be more in line with the peers.

- Shelby CSD should negotiate to increase the minimum work hour requirement for bus drivers to receive full medical coverage, such as increasing it to a minimum of 30 hours per week in order to be consistent with the rest of the classified and certificated staff, and the peers. If the District is unable to establish a minimum work hour requirement, it could also achieve substantial savings by negotiating to require employee contributions based on the hours worked per week, similar to the teaching staff, Bellevue CSD and Dover CSD.
- Shelby CSD should periodically review salaries to determine the appropriateness of the current salary schedules and make any necessary adjustments. Additionally, in order to achieve the financial recovery plan modeled in **Table 2-17**, the District should attempt to negotiate cost-of-living adjustments (COLA) of no more than two percent annually during the next contract period. Limiting the COLAs to two percent would temper the rate of compensation increases, generate cost avoidances, and keep the District's salary schedules comparable to the peers.
- The District should negotiate to cease paying the employees' retirement benefit for all staff. This will help the District restore financial stability as well as bring the total employee compensation package in-line with the peers.

Facilities

- The District should consider reducing custodial staffing by 2.5 FTEs and increasing maintenance staffing by 1.0 FTE. This would more evenly distribute the workload among the District's custodial and maintenance employees and help achieve staffing levels that are comparable to the peers and AS&U standards. In addition, increasing maintenance staffing by 1.0 FTE will help the District in formalizing the preventative maintenance program.
- Shelby CSD should continually monitor its building capacity and use rates, and develop and formally adopt a forecast methodology for projecting student enrollment. Doing so would help the District identify the current and future feasibility of closing a building, which would be critical if the District does not achieve the projections in the forecast (see **Table 2-17** in financial systems). In identifying possible building closures, the District should carefully review the educational, operational and financial impact of various scenarios, including the space requirements for its special education population and appropriate space reconfigurations. Taking such measures would help ensure that building use rates do not exceed operating capacity as a result of possible building closures.

Transportation

- Shelby CSD should establish formal policies and procedures to ensure accurate T-reports are prepared, reviewed, and reconciled before submission to ODE. In developing these policies, the District should consider requiring the Treasurer's office to complete a final review of the T-Reports. For example, the Treasurer's office should be responsible for reconciling the expenditures reported on the T-2 report to the 4502 financial statements, reviewing variances from prior year reports and signing off on the document before it is submitted to ODE. This would help ensure that the District receives the appropriate State reimbursements for its transportation services.
- If the District continues to encounter financial difficulties, it should review the transportation policy to determine if cost savings can be achieved by adopting standards that are closer to the state minimum requirements. However, prior to making any changes, the District should work with ODE to determine any potential reductions in state reimbursement that may occur as a result of the change.
- The District should consider revising the current purchasing policy so that more items are purchased in a competitive environment, such as adopting a policy that requires all purchases costing more than \$500 to have a minimum of two price quotations regardless of the location of the vendor. In addition, prior to making purchases, the Director of Transportation should review pricing of supplies from the Metropolitan Educational Council (MEC) purchasing consortium. Taking these actions will provide the District with some assurance that it is receiving a favorable price for fuel and maintenance parts.

Additional Recommendations

The remainder of this executive summary highlights additional recommendations from the audit report.

Financial Systems

- The Treasurer should review the methodology used for projecting real estate property tax collections and state funding. Because these are significant sources of revenue to the District, the Treasurer should incorporate all known factors impacting these revenues into the forecast. These factors should include the potential impact of reappraisals, the yearly decline in property tax collections due to stagnant property values and instability from local businesses, and historical trends such as a declining enrollment.

- The Treasurer should review the methodology used for projecting income tax collections. Since this is a new levy and there is no history to use in making assumptions, the Treasurer should consider basing the income tax projections on the information provided and recommended by the Ohio Department of Taxation without adjusting the formulas.
- In developing future forecasts, the Treasurer should include estimates for COLA increases based on past history. Although the current COLA assumptions were used because the District would not be able to certify bargaining agreements due to deficit balances, forecasting COLAs would provide a more reasonable projection of the District's financial situation.
- In developing future forecasts, the Treasurer should analyze the health insurance program separately from the other expenditures that comprise the fringe benefits line-item. This is due to the fact that health insurance costs represent more than 50 percent of the District's total fringe benefit expenditures and are independent of salary increases. In addition, the Treasurer should also ensure that the fringe benefit projections are consistent with historical trends and any deviations are fully explained in the notes.
- The Treasurer should review the methodology used for projecting other revenues and ensure that the significant revenue sources within this line-item are considered and forecasted separately from the overall line-item, namely open enrollment revenues. Additionally, the Treasurer should include only existing debt obligations and Board-approved debt issues in order to accurately portray the District's debt obligations.
- Shelby CSD should closely examine the spending patterns indicated in **Table 2-15** and the cost reductions recommended in the human resources, facilities and transportation sections of this report. The District should consider reallocating the monies it is currently receiving toward those programs and priorities which have the greatest impact on improving students' education and proficiency test results. Furthermore, the District should analyze the spending patterns and recommendations to aid in efforts to regain financial stability.

Human Resources

- Shelby CSD should develop policies and procedures to ensure that accurate reports are prepared and reconciled prior to being submitted to ODE and EMIS. For example, the District could adopt a policy that requires someone to conduct periodic audits of EMIS and other information (T-reports for transportation) before data is reported to ODE. This person should be independent of the data gathering and reporting process and should use sampling techniques to gain some assurance that the information is materially accurate and that the adopted policies and procedures for gathering information are followed.

- The District should continually monitor the food service operations and adjust as necessary to avoid potential operating deficits. If the District encounters recurring deficits in the Food Service Fund in the future, it should perform a cost/benefit analysis to determine the feasibility of implementing a central kitchen concept without negatively impacting the number of students who are buying their lunches. Based on comparisons to the peers, the District could potentially reduce 6.5 FTEs by implementing a central kitchen concept.
- Shelby CSD should negotiate to eliminate the provision in the collective bargaining agreement that provides all retirees with a \$10,000 life insurance policy. Shelby CSD should also negotiate to reduce the cost of the certificated retirement incentive program and decrease the number of vacation days provided to classified employees. Implementing these recommendations would make the District's bargaining agreements more comparable to the peers.

Facilities

- Using the OSFC facilities master plan as a starting point, the District should work with a cross-section of school personnel, parents, students and community members to update the plan to reflect current building configurations and needs. In conjunction with updating its facilities master plan, Shelby CSD should also develop and formally adopt a 5 to 10 year forecast methodology for projecting student enrollment. The District should then review and update enrollment projections on a yearly basis, and compare them with building capacities to address potential capacity issues and if necessary, determine possible building additions, closures and/or reconfigurations.
- The District should develop a formal five-year capital improvement plan that is updated on an annual basis to ensure that critical repair work or equipment replacement is completed. The capital improvement plan should include financing options, and a project categorization and prioritization system that provides management with a breakdown between maintenance tasks and capital projects, ensures work is completed in a timely manner, and minimizes both safety hazards and facility deterioration.
- Shelby CSD should purchase a work order software package. The software would allow the District to begin tracking and monitoring the amount of supplies and materials used on a project, the cost of labor (including staffing levels and overtime usage), and the productivity and performance of assigned personnel. In conjunction with the purchase of an electronic work order system, the District should also formalize its preventive maintenance program.

Transportation

- Shelby CSD should draft, approve, and update a bus replacement plan that describes its strategy for bus procurement in future years. This plan should include the number of buses to be replaced each fiscal year, along with the age, mileage, maintenance costs, and estimated cost at the time of replacement. All bus and equipment replacement should be based upon economic modeling that allows for replacement at the most economically advantageous point in the equipment's life cycle.
- Shelby CSD should consider selling three of the oldest spare buses and not replacing them. This would reduce the District's ratio of spare buses to total fleet to be more consistent with the ODE benchmark and the peers. In addition, the District should seek to lower the fleet insurance costs by increasing the deductibles and attempting to limit the number of claims that are submitted to the insurance company for payment.
- In an effort to reduce the high cost of special needs transportation, the District should consider promoting parent/guardian contracts. While parents cannot be required to provide transportation, Shelby CSD can promote the use of these contracts with the goal of decreasing the total number of special needs students that receive bus transportation from the District. In addition, the District should consider including transportation personnel in the IEP process. This would ensure that all costs and constraints associated with providing transportation to students with special needs are considered before any commitments are made through an IEP.

Summary of Financial Implications

The following tables summarize the performance audit recommendations which contain financial implications. These recommendations provide a series of ideas or suggestions which Shelby City School District should consider. Detailed information concerning the financial implications is contained within the individual sections of the performance audit.

Summary of Performance Audit Recommendations

	Estimated Annual Cost Savings
<i>Financial Systems: Revised Assumptions</i>¹	
R2.1 Revise real estate and property tax allocation	(\$191,957)
Revised Tangible Personal Property Tax Projections (see Pg. 2-6)	(\$1,232,768)
R2.2 Revise state funding	\$1,072,466
R2.3 Revise income tax	\$59,991
R2.4 Revise other revenues	\$14,755
R2.5 Revise salaries	(\$656,797)
R2.6 Revise benefits	(\$158,846)
R2.7 Revise supplies & capital outlay	(\$322,651)
R2.8 Revise debt service	\$154,555
Total Impact of Revised Assumptions	(\$1,261,252)
Total Recommendations Not Subject to Negotiation	
R3.2 Reduce 1.0 librarian position	\$38,900
R3.4 Reduce 5.0 teaching aide positions	\$81,400
R3.6 Reduce 3.2 crossing guard positions	\$12,804
R4.2 Reduce 2.5 custodian positions	\$58,003
R5.5 Insurance savings from selling 3 buses	\$3,700
R5.6 Reduce maintenance expenditures through revised purchasing policies	\$8,100
R5.7 Increase insurance deductibles	\$440
Total Recommendations Not Subject to Negotiation	\$203,347
Recommendations Subject to Negotiation	
R3.7 Implement 12% health care contributions for all employees	\$88,600
R3.8 Increase minimum work hour requirements for health benefits	\$35,000
R3.9 Reduce dental benefit coverage levels	\$29,200
R3.11 Negotiate a reduced retirement incentive	\$15,000
R3.14 Eliminate pick-up on pick-up pension benefit	\$545,000
Total Recommendations Subject to Negotiation	\$712,800
Recommendations With Financial Implications	
R4.2 Hire one maintenance FTE	(\$42,002)
R4.6 Purchase work order software	(\$2,000)
Total Recommendations With Implementation Costs	(\$44,002)
Total Net Financial Implications (Excludes Revised Assumptions)	\$872,145

Source: AOS Recommendations

¹ Reflects annual average change of revised assumptions over the forecasted period.

The financial implications summarized above are presented on an individual basis. The magnitude of cost savings associated with some recommendations could be affected or offset by the implementation of other interrelated recommendations. Therefore, the actual cost savings, when compared to estimated cost savings, could vary depending on the implementation of the various recommendations.

Financial Systems

Background

This section focuses on the financial systems within the Shelby City School District (Shelby CSD or the District). The objective is to analyze the current financial condition of Shelby CSD and develop recommendations for improvements and efficiencies. Comparisons are made throughout the report to the following peer districts: Bellevue City School District (Bellevue CSD), Dover City School District (Dover CSD) and Triway Local School District (Triway LSD).

The Auditor of State (AOS) recommended the establishment of fiscal caution, fiscal watch and fiscal emergency laws for school districts to create predetermined monitoring mechanisms and criteria for fiscal responsibility, and technical assistance to help school administrators restore fiscal stability. Ohio Revised Code (ORC) ORC § 3316 establishes fiscal caution, watch and emergency laws for Ohio school districts. The difference between fiscal caution, watch and emergency is the severity of the school district's financial condition.

On October 8, 2004, the Ohio Department of Education (ODE) placed Shelby CSD in fiscal caution due to the possibility of ending FY 2004-05 with a deficit as well as the potential for deficits in future years. However, at the request of Shelby CSD, the Auditor of State examined the District's financial forecast for the General Fund as required under ORC § 3316.03. This examination resulted in AOS placing the District in fiscal emergency on April 7, 2005, based on an anticipated deficit of \$3,253,000, amounting to 21 percent of the District's General Fund revenues from the prior year. The District also met the conditions for fiscal emergency because it had not passed a levy sufficient to eliminate the deficit in the current and succeeding years.

As a result of the District being placed in fiscal emergency, a Financial Planning and Supervision Commission (Commission) was convened for Shelby CSD in accordance with ORC § 3316.05. The Commission consists of the following five voting members:

- The Superintendent of Public Instruction, or designee;
- The Director of the Office of Budget and Management, or designee;
- A parent of a child attending Shelby CSD appointed by the Superintendent of Public Instruction;
- A business person appointed by the Mayor of Shelby; and
- A business person appointed by the Governor.

ORC § 3316.07 gives the Commission the responsibility to re-establish the fiscal integrity of Shelby CSD, and eliminate the conditions that created the declaration of fiscal emergency. Since its inception, the Commission has regularly held public meetings to discuss important issues related to the operations of the District and the development of a statutorily required financial recovery plan. Pursuant to ORC § 3316.06, the financial recovery plan will serve as a broad outline for the management decisions the Commission must make to restore Shelby CSD to financial solvency. The plan establishes a strategy and timeline for bringing the District's expenditures in line with the revenues. The District's financial recovery plan was adopted by the Commission on June 9, 2005, and identifies approximately \$2.4 million in cost reductions for FY 2005-06 and FY 2006-07. The reductions consist of the following:

- Administrative employees making salary concessions (\$433,000);
- Reducing 47.2 FTE classified positions and 15.1 FTE certificated positions through lay-offs and retirements (\$1.5 million);
- Closing one elementary building (\$72,000 in operating costs);
- Eliminating 23 supplemental contracts (\$52,000); and
- Reducing an additional 5.4 FTE certificated positions prior to the start of FY 2006-07 (\$358,000).

In addition to the cost reductions noted above, the District also passed a one percent continuing income tax levy on May 3, 2005. However, due to phase-in procedures, the District estimated that the first full-year of income tax collections will not occur until FY 2007-08, when the District is projected to collect approximately \$2.4 million.

Financial Forecast

Table 2-1 presents the District's five-year financial forecast that was submitted to ODE by the Treasurer on July 7, 2005. AOS reviewed the assumptions that have a significant impact on the forecast, such as tax revenue, state funding, salaries and benefits. Where appropriate, changes were made to the Treasurer's assumptions and/or methodology to present more reliable projections of future revenues and expenditures (see **Table 2-17**). The projections, which incorporate the combined general and disadvantaged pupil impact aid (DPIA) funds, and that portion of the debt service fund relating to general fund obligations, are accompanied by three years of comparative historical information, general assumptions and explanatory comments.

Table 2-1: Shelby CSD Financial History and Forecast (in 000's)

	Actual 2002-03	Actual 2003-04	Actual 2004-05	Forecast 2005-06	Forecast 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10
Real Estate Property Tax	\$4,189	\$4,524	\$3,977	\$4,309	\$4,396	\$4,483	\$4,573	\$4,254
Tangible Personal Property Tax	3,020	2,521	2,436	2,033	1,931	1,834	1,743	1,656
Income Taxes	0	0	0	122	1,571	2,464	2,457	2,122
Unrestricted Grants-in-Aid	6,421	6,433	7,125	7,562	7,612	7,841	8,076	8,318
Restricted Grants-in-Aid	360	501	102	85	85	85	85	85
Property Tax Allocation	584	857	600	579	590	603	615	627
Other Revenues	104	202	669	678	678	678	678	678
Total Operating Revenues	\$14,678	\$15,038	\$14,909	\$15,368	\$16,863	\$17,988	\$18,227	\$17,740
Salaries & Wages	\$10,028	\$10,291	\$10,248	\$9,287	\$9,026	\$9,122	\$9,259	\$9,398
Fringe Benefits	3,325	3,844	4,415	4,486	4,759	5,099	5,481	5,892
Purchased Services	931	1,185	1,127	1,310	1,336	1,363	1,390	1,418
Supplies, Materials & Textbooks	600	590	420	230	235	240	245	249
Capital Outlay	224	479	151	0	0	0	0	0
Debt Service	169	159	2,179	1,775	1,998	386	588	575
Other Expenditures	425	265	287	309	316	321	328	335
Total Operating Expenditures	\$15,702	\$16,813	\$18,827	\$17,397	\$17,670	\$16,531	\$17,291	\$17,867
Net Transfers/ Advances	77	1,011	(644)	341	0	0	0	0
Note Proceeds	0	0	1,992	1,000	0	950	0	0
State Emergency Loan	0	0	3,253	0	0	0	0	0
Other Financing Sources	18	1	11	0	0	0	0	0
Net Financing	\$95	\$1,012	\$4,612	\$1,341	\$0	\$950	\$0	\$0
Result of Operations (Net)	(\$929)	(\$763)	\$694	(\$688)	(\$807)	\$2,407	\$936	(\$127)
Beginning Cash Balance	\$2,102	\$1,173	\$410	\$1,104	\$416	(\$391)	\$2,016	\$2,952
Ending Cash Balance	\$1,173	\$410	\$1,104	\$416	(\$391)	\$2,016	\$2,952	\$2,825
Encumbrances	1,953	619	483	483	483	483	483	483
Ending Fund Balance	(\$780)	(\$209)	\$621	(\$67)	(\$874)	\$1,533	\$2,469	\$2,342

Source: Shelby CSD Treasurer's Office

The projections in **Table 2-1** present the expected revenues, expenditures and fund balances in the General Fund for each of the fiscal years from June 30, 2006 through June 30, 2010, with historical information presented for the fiscal years ended June 30, 2003, 2004 and 2005. The forecast shows that the District had deficit balances in the General Fund in FY 2002-03 and FY 2003-04, and would have had a deficit in FY 2004-05 without the state emergency loan proceeds. However, through a combination of the new income tax levy and cost reductions adopted through the financial recovery plan, the District's forecast projects that the deficits will be eliminated by FY 2007-08 and positive cash balances will be maintained through the remainder of the forecast.

One of the primary objectives of this performance audit is to test the reasonableness of the District's methodology and assumptions in order to develop a reliable financial recovery plan. Accordingly, the District's methodology and the major assumptions used in preparing the financial forecast are presented below. The Auditor of State's conclusions as to the reasonableness of the assumptions and methodology are also presented.

Revenues

Real Estate Property Taxes

The real estate property tax revenue estimates include residential real estate tax, public utility property tax and manufactured home tax revenues. Real estate property tax collections represented approximately 27 percent of the District's FY 2004-05 revenues. The District's real estate property tax collections have fluctuated significantly during the last three years due to the use of tax advances to cover cash flow shortages and account coding errors in which real estate property taxes were coded as property tax allocation receipts and vice versa. In an effort to mitigate the yearly fluctuations and account coding issues, AOS analyzed the real estate property taxes and property tax allocations combined for the last six years. Based on this analysis, the District experienced an average annual decline of 1.2 percent during non-reappraisal years and a 3.0 percent increase during the update and reappraisal years.

The District's assumptions for projecting real estate tax revenues are based on the following:

- The projections for FY 2005-06 are based on information provided by the Richland County Auditor's Office.
- The real estate property taxes are projected to increase two percent annually during the remainder of the forecast based on historical data.
- The next triennial property revaluation for Richland County will occur in calendar year 2005 and will impact FY 2005-06. The next sexennial property reappraisal will occur in calendar year 2008 and will impact FY 2008-09.

The projections for FY 2005-06 look reasonable based on the information provided by the County Auditor's Office. The projections for FY 2006-07 and FY 2007-08 appear overstated based on the six-year historical averages for non-reappraisal years. The projection for FY 2008-09 appears understated because it does not account for the scheduled property reappraisal. The projection for FY 2009-10 also appears understated due to the Treasurer mistakenly projecting the real estate property tax collections to decline seven percent. (See **R2.1**)

Tangible Personal Property Taxes

Tangible personal property taxes are paid by businesses based on the assessed value of the furniture and fixtures, machines, equipment, supplies and inventory used in conducting the business. Until the signing of House Bill 66 (HB 66) on June 30, 2005, ORC § 5711.22 slowly phased out the tangible property tax by reducing the assessed property valuation rates by one percent in tax years 2002 through 2004. The phase-out then increased to two percent annually beginning in tax year 2005 and is scheduled to continue at that rate until the tax is eliminated. However, HB 66 accelerates the phase-out period. Under the new legislation, the tangible tax on general business and railroad property will be eliminated by tax year 2009, and the tax on telephone and telecommunication property will be eliminated by tax year 2011. At the same time, the legislation replaces the revenue lost due to the impact of the accelerated phase-out. In the first five years, school districts and local governments are reimbursed fully for lost revenue (accounted for as state funding); in the following seven years, the reimbursements are phased out. The tangible personal property taxes represented approximately 16 percent of the District's FY 2004-05 revenues. The District's assumptions for projecting the tangible property tax receipts are based on the following:

- The projections for FY 2005-06 are based on the County Auditor's certificate of estimated resources. The significant decline in the tangible property tax estimate for FY 2005-06 is due to Copperweld Tubing Products Corporation's (the largest business in Shelby) property valuation being reduced by approximately \$13 million as a result of a successful tax appeal.
- The tangible personal property tax collections are projected to decline five percent annually from FY 2006-07 through FY 2008-09. This is based on the legislation phasing-out the tangible tax (ORC § 5711.22).

Although the assumptions and methodology used to project FY 2005-06 through FY 2009-10 look reasonable based on the certificate of estimated resources and past history, the projections do not account for the impact of the new legislation (HB 66). However, this is a timing issue as the Treasurer's forecast was prepared before the new legislation was adopted.

Table 2-2 shows the revised projections for tangible property tax collections based on the estimated impact of the new legislation (HB 66). Although the AOS recovery plan (**Table 2-17**) shows the tangible property taxes declining significantly due to the accelerated phase-out period

of HB 66, the projections for state funding have been increased by a similar amount to reflect the hold harmless portion of the legislation. As a result, there will be no impact on total revenues during the forecast period from this adjustment since it is an account classification change. See **Table 2-6** in **R2.6** for the corresponding impact on State funding.

Table 2-2: Impact on Forecast Adjustment for Tangible Property Taxes (in 000's)

	Forecast 2005-06	Forecast 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10
Shelby CSD Projections	\$2,033	\$1,931	\$1,834	\$1,743	\$1,656
AOS Revised Projections	\$1,618	\$926	\$250	\$139	\$100
Net Impact on Forecast	(\$415)	(\$1,005)	(\$1,584)	(\$1,604)	(\$1,556)

Source: Shelby CSD forecast and Ohio Department of Taxation Tax Law Rate Changes

Income Taxes

On May 3, 2005, the voters of the Shelby City School District authorized a one percent continuing income tax that becomes effective January 1, 2006. In projecting revenues from this source, the Treasurer's notes state the projections are based on the State of Ohio Tax Commissioner's certifications for tax year 2006 (\$2,040,000) and the Ohio Department of Taxation's *Timeline for Receiving School District Income Tax Payments dated 12/19/98* (Timeline Report). However, the Treasurer modified the formulas in the Timeline Report to include additional two percent inflationary increases for FY 2006-07 through FY 2008-09. As a result, the projections for income tax collections may be overstated during these years since the Timeline Report was based on actual collection trends from 1989 through 1997 and would have already accounted for inflationary increases. In addition, the Treasurer's formula for projecting the fifth year of income tax collections (Timeline Report no longer applicable) results in an unexplained decline of approximately 14 percent in FY 2009-10. (See **R2.3**)

State Funding (Unrestricted & Restricted Grants-in-Aid)

State funding represents restricted and unrestricted revenues received from the State of Ohio through the state foundation program. The funding levels are established by the state legislature and the program is administered by ODE. For Shelby CSD, state funding represented approximately 48 percent of FY 2004-05 revenues. Some of the past fluctuations in the restricted grants-in-aid category are due to changes at the State level in terms of which funding items should be classified as unrestricted versus restricted. The District's assumptions for projecting state funding are based on the following:

- The unrestricted grants-in aid estimates for FY 2005-06 and FY 2006-07 are based on state funding simulations prepared by ODE. A three percent increase is projected for each of the remaining years based on historical data.

- The restricted grants-in is \$85,000 in FY 2005-06 based on ODE state funding simulations. No increase is projected for each of the remaining years.

Since the Treasurer's forecast was prepared before HB 66 was adopted, the projections for state funding do not account for the HB 66 changes related to the phasing out of the cost of doing business factor (CODBF) and the hold harmless clauses concerning the tangible property tax phase-out. In addition, the per pupil state funding amount is scheduled to increase 2.2 percent in FY 2005-06 and 2.3 percent in FY 2006-07. As a result, the Treasurer's projections of a three percent annual increase indirectly assume that the per pupil state funding amount will increase and enrollment will remain fixed, or the per pupil state funding amount will remain fixed and enrollment will increase (or a combination of these two scenarios) throughout the forecast period. This is not consistent with recent trends as the District's enrollment has been steadily declining during the last seven years. (See **R2.2**)

Property Tax Allocation

The property tax allocation line-item represents reimbursements received from the State of Ohio for various real estate property tax credits granted to citizens of Ohio. Because of this relationship, the growth in property tax allocations usually parallels the growth in real estate property taxes. For Shelby CSD, property tax allocations represented approximately four percent of the District's FY 2004-05 revenues. In preparing the forecast, the Treasurer projected the FY 2005-06 property tax allocation based on information provided by the Richland County Auditor's Office. During the remaining years, the Treasurer projects the property tax allocations to increase two percent annually, which is consistent with the projections for real estate property taxes.

The projections for FY 2005-06 look reasonable based on the information provided by the County Auditor's Office. However, because of the revisions that were made to the real estate property taxes in the AOS recovery plan (see discussion on real estate property taxes above), the property tax allocations will also be adjusted in order to maintain the parallel relationship that exists between these two line-items. (See **R2.1**)

Other Revenues

The other revenue line-item represented approximately four percent of the District's FY 2004-05 total revenues and consists of open enrollment, tuition, extracurricular transportation, property tax abatements, interest, student class fees, refund of prior year's expenditures, and other miscellaneous items. Historically, the District has experienced large fluctuations in other revenues. In addition, due to accounting changes implemented in FY 2004-05, other revenues for FY 1999-00 through FY 2003-04 are not indicative of what Shelby CSD should anticipate in future years. Specifically, the large increase in the FY 2004-05 other revenues is due to an accounting change mandated by ODE that requires the District to record all open enrollment

receipts for students entering Shelby CSD as other revenue and the payments for students leaving the District as a purchased service. Prior to this, the District netted its open enrollment receipts against its payments and recorded the net gain or loss. Open enrollment and tuition equaled approximately \$272,000 in FY 2004-05. Another factor impacting the FY 2004-05 other revenues is the treasurer's correction of past coding issues and receipting property tax abatements (\$161,504) into the other revenue category. Prior to this, the District accounted for the tax abatements within the Permanent Improvement Fund.

In preparing the forecast, the Treasurer projected other revenues to increase approximately one percent in FY 2005-06 due to the implementation of an activity fee. This fee will be charged to students participating in activities that require travel and will be \$25 per person, per activity, with a maximum of \$50 per person, per year. The Treasurer projected the other revenues to remain fixed at the FY 2005-06 levels in all remaining years of the forecast.

By holding the other revenues fixed from FY 2006-07 through FY 2009-10, the Treasurer indirectly assumes that open enrollment will remain fixed, which is not consistent with the state funding assumptions. Since open enrollment represents direct payments received from ODE as part of the state funding system, the revenues from open enrollment should increase at a rate similar to the per pupil amount in the state funding program (2.2 percent), assuming no change in the number of open enrollment students. (See **R2.4**)

Expenditures

Salaries & Wages

Employee salaries and wages represented approximately 54 percent of the District's FY 2004-05 expenditures and consist of employee wages, substitute costs, supplemental contracts and overtime. The District's assumptions for projecting salaries and wages are based on the following:

- The wages are projected to decline by approximately \$962,000 in FY 2005-06 due to the District reducing 47.2 FTE classified and 15.1 FTE certificated positions as part of the financial recovery plan.
- The FY 2006-07 wages are projected to decline approximately \$260,000 due to the known retirement of 5.4 FTEs.
- The projections for FY 2005-06 are based on no COLA increases due to an addendum negotiated with the certificated and classified staff. Although the certificated and classified agreements expire in FY 2005-06, the projections for FY 2006-07 through FY 2009-10 assume no COLA increases for any employee. The increases in total wages each year are due to step increases, which are estimated to equal 1.5 percent annually.

The projections for FY 2005-06 look reasonable based on the year-to-date expenditures. Based on an analysis of the certificated and classified step schedules, the Treasurer's assumption that step increases will increase total salaries by 1.5 percent annually also appear reasonable. However, the projections for FY 2006-07 through FY 2009-10 are likely to be understated because they assume no COLA increases. (See **R2.5**)

Fringe Benefits

Employee fringe benefits represented approximately 23 percent of the of the District's FY 2004-05 expenditures and consist of employee health insurance, pension costs, Medicare benefits, workers' compensation insurance and unemployment insurance. The District's assumptions for projecting employee fringe benefits are based on the following:

- The projection for FY 2005-06 includes \$200,000 for unemployment costs due to the number of employees that were laid-off prior to the start of the school year.
- The benefits line-item is projected to increase 7.5 percent from FY 2006-07 through FY 2009-10.
- The District will explore all options in an effort to reduce insurance costs

Although not stated in the assumptions, the large increase in fringe benefit costs in FY 2005-06 is also due to the District increasing the health insurance premiums by 18 percent for single coverage and 28 percent for family coverage in an effort to cover deficit balances in the Health Insurance Fund.

The Treasurer's projections for FY 2005-06 look reasonable based on the year-to-date expenditures. The Treasurer's projections for FY 2006-07 through FY 2009-10 are not consistent with past history or industry trends. (See **R2.6**)

Purchased Services

Purchased services represented approximately six percent of the District's FY 2004-05 expenditures, consisting of utilities, legal fees, open enrollment deductions, building and vehicle insurance, and various other items. In preparing the forecast, the Treasurer based the projections for FY 2005-06 on the adopted budget. The Treasurer projected the purchased services to increase two percent annually from FY 2006-07 through FY 2009-10 based on inflation.

The Treasurer's projections for FY 2005-06 look reasonable based on year-to-date expenditures. The large increase in the proposed expenditures for FY 2005-06 are due to the District having to contract for additional services to assist the special need students (occupational and physical therapy, psychological, speech pathology, etc). However, the District has been able to offset the

increase in the cost of the special needs contracts by reducing other areas within the purchased services line-item. For example, the District's year-to-date purchased services expenditures are on pace to equal \$1,118,904 by the end of FY 2005-06, which is approximately 17 percent lower than the budget and would be slightly lower than the FY 2004-05 expenditures. Based on this and the District limiting discretionary spending (see **Noteworthy Accomplishments**), the Treasurer's projections for FY 2006-07 through FY 2009-10 also look reasonable. In addition, the District closed its least efficient elementary school building prior to the start of FY 2005-06. This should help the District control the utility costs during the forecast period as well as allow for reductions in the property services and professional and technical service expenditures.

Supplies, Materials, Textbooks & Capital Outlay

Supplies, materials and textbooks represented approximately two percent of the District's FY 2004-05 expenditures while capital outlay represented approximately one percent. ORC § 3315.17 requires school districts to maintain a minimum level of spending for instructional materials and capital improvements. This statute establishes the minimum spending threshold for instructional materials and capital improvements at three percent of the preceding year's state funding formula amount. The District's assumptions for projecting the supplies, materials, textbooks and capital outlays are based on the following:

- The supply and material projections for FY 2005-06 are based on the budget approved by the Board. The large reduction in the projection for FY 2005-06 is due to the closing of Russell Elementary. The remaining years are projected to increase two percent annually.
- No expenditures are projected from the capital outlay line-item during the forecast period. The District intends to use the permanent improvement fund for all capital expenditures. The District has a two mill permanent improvement levy which generates approximately \$312,000 annually.

In FY 2004-05, the District met the capital improvement spending requirement by using the permanent improvement levy proceeds. In addition, the District met the instructional materials spending requirement by spending approximately \$154,000 from the supplies and materials line-item, \$150,000 from the capital outlay line-item and \$20,000 from the DPIA Fund for instructional equipment. While the District can continue to use the permanent improvement levy proceeds to meet the capital improvement spending requirement during the forecast period, the District has not projected enough expenditures within supply and material and capital outlay line-items to allow for compliance with the instructional materials spending requirements. (See **R2.7**)

Debt Service

Debt service expenditures represented approximately 12 percent of the District's FY 2004-05 expenditures. The District based its debt projections on actual general fund debt obligations outstanding in June 2005. Based on a review of the debt service schedules, the Treasurer's projection of the District's current debt obligations appears accurate. However, in an effort to show an earlier financial recovery, the Treasurer projected the District issuing a \$950,000 tax anticipation note in FY 2007-08 based on the assumed renewal of a 4.1 mill emergency levy. The Treasurer projects that this debt will be repaid over a five-year period at an interest rate of 4.0 percent. (See **R2.8**)

Other Expenditures

Other expenditures represented approximately one percent of the District's FY 2004-05 expenditures. Historically, the District has used the other expenditure line item to account for the cost of financial audit fees, county auditor tax collection fees, liability insurance and various other miscellaneous items. The past fluctuations within this line-item are due to inconsistent coding and a variety of timing issues that occurred under the prior Treasurer. The other expenditure projections for FY 2005-06 are based on the budget approved by the Board. The remaining years are projected to increase two percent annually. Given the past fluctuations within this line-item, the Treasurer's assumption of a two percent annual increase appears reasonable.

Assessments Not Yielding Recommendations

The District's forecast methodology and assumptions in the following categories appeared reasonable and did not result in any recommendations: tangible personal property taxes, purchased services, and other expenditures.

Noteworthy Accomplishments

In FY 2003-04, the District spent \$961 per student on discretionary items, which was significantly higher than the peer average of \$740. However, in response to the current financial difficulties, the District took action to limit all discretionary spending and reduced the FY 2004-05 discretionary expenditures per student to \$646. Therefore, the District recognized its financial difficulties and took action to limit the expenditures that are within its direct control.

Recommendations

Financial Forecast & Planning

R2.1 The Treasurer should review the methodology used for projecting real estate property tax collections. Because it is a significant source of revenue to the District, comprising 27 percent of total revenues, the Treasurer should incorporate all known factors impacting this revenue source into the forecast. These factors should include the potential impact of reappraisals as well as the yearly decline in property tax collections due to stagnant property values and instability from local businesses. In addition, the Treasurer should correct past coding problems and ensure that all transactions are accounted for within the appropriate line items, as defined in the Uniform School Accounting System (USAS).

The notes to the forecast state that the Treasurer projected real estate property tax collections to increase two percent annually from FY 2006-07 through FY 2009-10. As **Table 2-1** shows, the District's reported historical property tax collections have experienced significant fluctuations during the last six years. However, due to past accounting practices and inconsistent account coding, the historical figures presented in **Table 2-1** may not be reliable indicators of the District's future property tax collections. Specifically, the following inconsistencies were noted:

- In FY 2003-04, approximately \$462,000 of General Fund real estate taxes were mistakenly receipted into the Permanent Improvement Fund. In FY 2004-05, the error was corrected and adjusting entries were made to transfer the monies from the Permanent Improvement Fund back to the General Fund.
- The Treasurer acknowledged that the District has had some past coding issues in which real estate tax receipts have been coded as property tax allocations and vice versa.
- Due to the cash flow issues brought on by weak financial management practices (see **R2.10**), the District received a \$1.0 million tax advance in FY 2003-04.

As a result of these inconsistencies, it is difficult to determine a reliable trend for real estate property tax collections. Therefore, in an effort to mitigate the yearly fluctuations and the account coding issues, the historical information was analyzed based on combining real estate property tax and property tax allocation revenues, as presented in **Table 2-3**.

Table 2-3: Real Estate Property Taxes & Property Tax Allocations

	FY2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
General Property Tax	\$4,736,016	\$4,294,708	\$4,273,509	\$4,188,656	\$4,523,875	\$3,976,789
Property Tax Allocations	\$255,062	\$576,586	\$578,926	\$583,883	\$857,481	\$600,317
Total Property Tax	\$4,991,078	\$4,871,294	\$4,852,435	\$4,772,539	\$5,381,356	\$4,577,106
Percentage Change	7.6%	-2.4%	-0.4%	-1.7%	12.8%	-15.0%

Source: Shelby City Schools 2005-2006 Temporary Appropriations Report and actual figures presented in prior forecasts

Table 2-3 shows that the District has averaged a 3.0 percent increase in property tax collections during update and reappraisal years (FY 2000 and FY 2003), and a 1.2 percent decline in tax revenues in non-reappraisal years (FY 2001, FY 2002, FY 2004, and FY 2005). However, if FY 2003-04 and FY 2004-05 were adjusted to eliminate the tax advance for \$1.0 million and the \$462,000 in misclassified real estate taxes, the estimated figures for these years would be approximately \$4.9 million and \$5.1 million, respectively. This indicates that the District's real estate tax collections should have increased the last two years. Additionally, by using these adjusted figures, collections in non-reappraisal years would have increased an average of 1.1 percent annually. However, the figures for FY 2000-01 through FY 2002-03 are considered to be more reliable since they reflect the property tax collections before the District began receiving tax advances and having accounting errors. In addition, the District's property tax estimate from the County Auditor's Office for FY 2005-06 is for approximately \$4.9 million, which is similar to FY 2000-01 and FY 2001-02, and lower than the \$5.1 million that should have been collected in FY 2004-05. The Treasurer attributed the general decline in the property tax revenues to stagnant real property values and the current instability of several local businesses.

Based on the above, the Treasurer's assumption of a two percent annual increase in the real estate property tax collections appears overstated. In addition, despite stating that the projections were assumed to increase two percent annually, the Treasurer mistakenly projected the real estate tax collections to decline seven percent in FY 2009-10 (see **R2.9** for ensuring that assumptions stated in the notes reflect the figures presented in the forecast). Furthermore, without having reliable accounting records available to use in developing the forecast, making strategic management decisions and monitoring its financial performance, the District will have difficulty restoring and maintaining financial stability.

Table 2-4 presents the AOS revised projections for real estate property taxes and property tax allocations, and compares them to the projections prepared by Shelby CSD. AOS Technical Bulletin 98-015 states that "Property tax revenue estimates are usually based on historical growth patterns, including scheduled updates and reappraisals..." Therefore, the revised real estate property tax estimates allow for a 1.2 percent decline in

real estate property tax collections and property tax allocations in non-reappraisal years and a 3.0 percent increase in FY 2008-09 based on the scheduled reappraisal.

Table 2-4: Forecast Adjustment for Property Taxes

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Shelby CSD Projections					
Real Property Tax Projection	\$4,309,372	\$4,395,559	\$4,008,471	\$3,623,140	\$3,303,821
Property Tax Allocation Projection	\$579,000	\$590,580	\$602,392	\$614,439	\$626,728
Emergency Levy Renewal Impact			\$475,000	\$950,000	\$950,000
Total Real Property Taxes	\$4,888,372	\$4,986,139	\$5,085,863	\$5,187,579	\$4,880,549
AOS Projections					
Revised Projection	\$4,309,372	\$4,257,660	\$4,206,568	\$4,332,765	\$4,280,771
Revised Property Tax Allocation	\$579,000	\$572,052	\$565,187	\$582,143	\$575,157
Total Real Property Tax	\$4,888,372	\$4,829,712	\$4,771,755¹	\$4,914,908¹	\$4,855,929¹
Net Impact on Forecast	\$0	(\$156,427)	(\$314,108)	(\$272,671)	(\$24,620)

¹ Includes the effect of renewing the emergency levy.

R2.2 The Treasurer should review the methodology used for projecting State funding. In preparing future forecasts, the Treasurer should ensure that the projections are consistent with historical trends and have considered all major factors such as a declining student enrollment.

House Bill 66 (HB66) was passed June 30, 2005 and includes several changes to the way schools are funded in Ohio. The most significant changes impacting Shelby CSD's state funding are the phasing out of the cost of doing business factor (CODBF) and the accelerated phase-out for the tangible property taxes. Under the new legislation, the CODBF will be phased out from the state funding formula over a two year-period beginning in FY 2005-06. In addition, the legislation replaces the revenue lost due to the accelerated phase out of the tangible tax. In the first five years, school districts and local governments are reimbursed fully for lost revenue; in the following seven years, the reimbursements are phased out. According to ODE, the HB 66 hold harmless reimbursements will be made as direct payments to the District until the property appraisal takes place in FY 2005-06. Beginning with FY 2007-08, ODE anticipates that the declining property values from HB 66 will result in higher state funding levels as the charge-off portion of the funding formula will decline. As a result, the reimbursements will be made as a combination of increased SF-3 aid and direct payments to the District from FY 2007-08 through FY 2009-10.

Because the Treasurer used ODE simulations to project state funding in FY 2005-06 and FY 2006-07, the forecast adequately captured the impact of the CODBF phase-out in these years. The Treasurer projected state funding to increase three percent annually from FY 2007-08 through FY 2009-10. However, this does not reflect the declining growth rates that are likely to occur in state funding due to the continued phase-out of the

COBDF. Additionally, the Treasurer's projections for tangible taxes and state funding from FY 2005-06 through FY 2009-10 do not include any adjustments for the impact of the accelerated tangible property tax phase-out associated with H.B. 66. However, this is a timing issue as the Treasurer prepared the forecast prior to the legislative changes. Furthermore, the per pupil state funding amount is scheduled to increase by 2.2 percent in FY 2005-06 and 2.3 percent in FY 2006-07. As a result, the Treasurer's projections of a three percent annual increase indirectly assume that the per pupil state funding amount will increase and enrollment will remain fixed, or the per pupil state funding amount will remain fixed and enrollment will increase (or a combination of these two scenarios) throughout the forecast period. This is not consistent with recent trends as enrollment has been steadily declining during the last seven years. **Table 2-5** represents the District's enrollment count from FY 1998-99 through FY 2004-05.

Table 2-5: Historical Analysis of ADM Counts

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	1999-2005 Change
Formula ADM	2,237	2,165	2,015	2,100	2,085	2,056	2,033	-1.52%

Source: District SF-3 reports

Table 2-5 shows that enrollment only increased one year (FY 2002) and declined by an annual average of 1.5 percent.

Table 2-6 presents the AOS revised projections for state funding and compares them to the projections prepared by Shelby CSD. The revised state funding estimates allow for a 1.5 percent decline in annual enrollment, the phase-out of the COBDF and hold harmless reimbursements associated with the tangible property tax phase-outs. In addition, **Table 2-6** assumes that the per pupil funding amount will increase 2.2 percent annually and items funded outside of the basic per student formula will increase at historical levels.

Table 2-6: Forecast Adjustment for State Funding

	FY2006	FY2007	FY2008	FY2009	FY2010
Shelby CSD Projections					
Unrestricted Grants in-aid	\$7,562,113	\$7,612,371	\$7,840,742	\$8,075,964	8,318,243
Restricted Grants in aid	\$85,000	\$85,000	\$85,000	\$85,000	\$85,000
Total State Foundation Funding	\$7,647,113	\$7,697,371	\$7,925,742	\$8,160,964	\$8,403,243
AOS Projections					
Unrestricted Grants in-aid	\$7,588,700	\$7,629,369	\$7,698,375	\$7,682,092	\$7,834,308
Restricted Grants in aid	\$69,236	\$73,152	\$77,289	\$81,661	\$86,279
Total State Foundation Funding	\$7,657,936	\$7,702,521	\$7,775,664	\$7,763,752	\$7,920,587
HB 66 Reimbursements	\$414,611	\$1,005,371	\$1,599,957	\$1,665,053	\$1,691,309
Total Revised State Funding	\$8,072,547	\$8,707,892	\$9,375,621	\$9,428,805	\$9,611,896
Net Impact on Forecast	\$425,434	\$1,010,521	\$1,449,879	\$1,267,841	\$1,208,653

R2.3 The Treasurer should review the methodology used for projecting income tax collections. Since this is a new levy and there is no history to use in making assumptions, the Treasurer should consider basing the income tax projections on the information provided and recommended by the Ohio Department of Taxation without adjusting the formulas. Based on the timeframes outlined by the Ohio Department of Taxation, the District will begin receiving the full income tax collections in FY 2007-08. Introducing inflationary increases and other adjustments may be more effective after FY 2007-08 when the District will have several years of trend information available.

On May 3, 2005, the voters of the Shelby City School District authorized a one percent continuing income tax that becomes effective January 1, 2006. In projecting income tax revenues, the Treasurer's notes state the projections are based on the State of Ohio Tax Commissioner's certifications for tax year 2006 (\$2,040,000) and the Ohio Department of Taxation's *Timeline for Receiving School District Income Tax Payments dated 12/19/98* (Timeline Report). The Timeline Report shows the likely collection cycle for the first four years of a new school district income tax levy and is based on historical data from other districts in Ohio that passed income tax levies between 1989 and 1997. According to the Timeline Report, the formula for projecting the annual income tax collections for the first four years involves taking the collection percentages for each year identified in the Timeline Report and applying them to the Tax Commissioner's 2006 certification (\$2,040,000) of estimated income tax collections. For example, the Timeline Report indicates that the FY 2007-08 income tax collections should equal 118.4 percent of the Tax Commissioner's 2006 certification (\$2,040,000), or \$2,415,360.

Although the stated assumptions indicate that the projections for income tax collections are based on the Timeline Report, the Treasurer modified the formulas in the Timeline Report to include additional two percent inflationary increases from FY 2006-07 through FY 2008-09. As a result, the projections are overstated because the percentages identified in the Timeline Report were based on actual collection trends from 1989 through 1997, and already account for inflationary increases. In addition, since the four-year time period identified in the Timeline Report expires in FY 2008-09, the Treasurer estimated the FY 2009-10 (the fifth year of forecast) income tax collections by multiplying the Tax Commissioner's 2006 certified amount (\$2,040,000) times two percent and then compounding that by multiplying by another two percent. This methodology results in an unexplained decline of approximately 14 percent in FY 2009-10.

Table 2-7 presents the AOS revised projections for income taxes, and compares them to the projections prepared by Shelby CSD. The revised projections eliminate the Treasurer's two percent inflationary increases from FY 2005-06 through FY 2008-09 in

order to be consistent with the Timeline Report. The income tax collections are projected to increase three percent in FY 2009-10 to account for inflation.

Table 2-7: Forecast Adjustment for Income Taxes

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Shelby CSD Forecast	\$122,400	\$1,571,004	\$2,463,667	\$2,457,425	\$2,122,416
AOS Forecast	\$122,400	\$1,548,360	\$2,415,360	\$2,409,240	\$2,481,517
Net Impact on Forecast	\$0	(\$22,644)	(\$48,307)	(\$48,185)	\$359,101

R2.4 The Treasurer should review the methodology used for projecting other revenues and ensure that the significant revenue sources within this line-item are considered and forecasted separately from the overall line-item, namely open enrollment revenues.

The Treasurer projected other revenues to remain fixed at the FY 2005-06 levels from FY 2006-07 through FY 2009-10. Within the other revenue line-item, open enrollment tuition represented approximately 41 percent of the total in FY 2004-05. By holding the other revenues fixed from FY 2006-07 through FY 2009-10, the Treasurer indirectly assumes that open enrollment revenues will also remain fixed.

According to the Superintendent, the District uses open enrollment to help offset declining enrollment within the District. However, the Superintendent also indicated that the District will only accept open enrollment students up to the point that existing staff and capacity levels can accommodate the student enrollment. For example, the District will not hire teachers because of open enrollment. As a result, the District's projection that the number of open enrollment students will remain steady over the next five years appears reasonable, especially considering that it will be difficult to increase the number of open enrollment students given the recent reductions in teaching staff. However, by holding the other revenues constant and not showing any funding increase for these students, the Treasurer's projections for open enrollment for FY 2005-06 through FY 2009-10 are not consistent with the state funding assumptions. For example, the Treasurer projected state funding to increase three percent annually. Since open enrollment represents direct payments received from ODE as part of the state funding system, the revenues from open enrollment should increase at a similar rate as the per pupil amount in the state funding program, assuming no change in the number of open enrollment students.

Table 2-8 presents the AOS revised projections for other revenues, and compares them to the projections prepared by Shelby CSD. The revised projections include a two percent increase on the open enrollment portion based on the per pupil increase in state funding for FY 2005-06 and FY 2006-07.

Table 2-8: Forecast Adjustment for Other Revenues

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Shelby CSD Forecast	\$678,000	\$678,000	\$678,000	\$678,000	\$678,000
AOS Forecast	\$680,252	\$686,368	\$692,618	\$699,005	\$705,534
Net Impact on Forecast	\$2,252	\$8,368	\$14,618	\$21,005	\$27,534

R2.5 In developing future forecasts, the Treasurer should include estimates for COLA increases based on past history. Although the current COLA assumptions were used because the District would not be able to certify bargaining agreements due to deficit balances, forecasting COLAs would provide a more reasonable projection of the District's financial situation.

In projecting salaries and wages from FY 2005-06 through FY 2009-10, the Treasurer increases salaries from the prior year by 1.5 percent annually to account for step increases. However, the 1.5 percent increase in salaries is offset by staffing reductions in FY 2005-06, and known retirements in FY 2006-07 and FY 2007-08. Based on an analysis of the certificated and classified step schedules, the Treasurer's assumption that step increases will increase total salaries by 1.5 percent annually appears reasonable.

The Treasurer's assumption of no COLA increases from FY 2006-07 through FY 2009-10 is not supported by past history. The Superintendent indicated that historically, the District has typically granted three percent COLA's on an annual basis. Furthermore, the current contract shows that the certified staff was scheduled to receive the following increases:

- 2.75 percent in FY 2003-04;
- 3.25 percent in FY 2004-05; and
- 3.75 percent in FY 2005-06.

The classified staff also received similar COLAs during the same time period. However, in response to the current financial difficulties, the District was able to negotiate an addendum to the current union agreements that eliminated the COLA increase for the certificated and classified staff in FY 2005-06. The Superintendent indicated that the District's relationship with the unions has become increasingly strained during the last year due to the magnitude of concessions, and he anticipates that future contracts will include some type of COLA increases.

Table 2-9 presents the AOS revised projections for salaries and wages, and compares them to the projections prepared by Shelby CSD. The revised projections include a two percent COLA for all employees from FY 2006-07 through FY 2009-10. While this is less than the historical COLAs due to the District's current and future financial condition (see **Table 2-17**), this provides a more realistic projection for salaries and wages.

Table 2-9: Forecast Adjustment for Salaries & Wages

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Shelby CSD Forecast	\$9,286,520	\$9,026,319	\$9,122,345	\$9,259,180	\$9,398,068
AOS Forecast	\$9,286,520	\$9,355,548	\$9,682,992	\$10,021,897	\$10,372,664
Net Impact on Forecast	\$0	(\$329,229)	(\$560,647)	(\$762,717)	(\$974,596)

R2.6 In developing future forecasts, the Treasurer should analyze the health insurance program separately from the other expenditures that comprise the fringe benefits line-item. This is due to the fact that health insurance costs represent more than 50 percent of the District's total fringe benefit expenditures and are independent of salary increases. In addition, the Treasurer should also ensure that the fringe benefit projections are consistent with historical trends and any deviations are fully explained in the notes.

The Treasurer projected fringe benefits to increase 7.5 percent annually from FY 2006-07 through FY 2009-10. Although not stated in the assumptions, the large increase in fringe benefit costs in FY 2005-06 is due to the District increasing the health insurance premiums by 18 percent for single coverage and 28 percent for family coverage in an effort to cover deficit balances in the Health Insurance Fund. Additionally, the 7.5 percent projected increase in the fringe benefits is partially offset in FY 2006-07 and FY 2007-08 by known retirements.

The Treasurer's projections for FY 2005-06 look reasonable based on the year-to-date expenditures. However, the projections for FY 2006-07 through FY 2009-10 are not consistent with past history. More specifically, the average annual increase in fringe benefits was approximately 11 percent during the last seven years. Furthermore, the District has experienced deficits in the Health Insurance Fund during the last few years, with the deficit peaking at approximately \$1.0 million at the conclusion of FY 2003-04. Since Shelby CSD is self-insured for health-care purposes (can set own premiums), a large deficit indicates that the District did not set past premiums at the appropriate levels and the 11 percent average annual increase during the past seven years should have been higher. In addition, the Treasurer's methodology for projecting fringe benefits does not separate health insurance from the other fringe benefit items. However, health care is unlike the other fringe benefit items (retirement, workers' compensation, Medicare) because it is not directly tied to salaries. Furthermore, health insurance costs represent more than 50 percent of the District's total fringe benefit expenditures.

To address the deficits in the health insurance fund, the District changed its third-party administrator in January 2005. In addition, the District negotiated to begin receiving employee contributions towards the monthly healthcare premium costs. These contributions took effect in January 2005 and range from five percent for classified employees to ten percent for certificated employees. The District also implemented

significant increases in the monthly health care premiums for FY 2004-05 and FY 2005-06. Although these changes allowed the District to reduce the deficit to approximately \$30,000 at the conclusion of FY 2004-05, it still does not have a reserve balance in the Health Insurance Fund to cover against an unexpected increase in claim costs.

Table 2-10 shows the District's General Fund health insurance expenditures during the last three years as reported in statement P of the 4502 financial reports.

Table 2-10: General Fund Health Insurance Costs

	FY 2003	FY 2004	FY 2005
Health Insurance Expenditures	\$1,458,445	\$1,801,855	\$2,020,282

Source: Statement P, 4502 reports

Table 2-10 shows that the General Fund health insurance expenditures increased approximately 24 percent in FY 2003-04 and 12 percent in FY 2004-05. In addition, SERB reports that the weighted average annual increase in health insurance single and family premiums statewide was approximately 15 percent in 2004. The lower increase in FY 2004-05 is due to the District requiring employee contributions, thereby offsetting the increases in premium costs. As the employee contributions took effect during the middle of FY 2004-05, the District will realize the full effect of employee contributions in FY 2005-06. This should result in total health care costs increasing at a lower rate than District's historical trends. Since FY 2005-06 will include the full effect of employee contributions, the District should expect its health care costs to appreciate at a rate consistent with industry trends unless it implements other changes that minimize its health care costs. Based on this, the deficit in the Health Insurance Fund, the District's historical cost of insurance and the SERB report, the Treasurer's assumption of a 7.5 percent increase in total fringe benefit costs will not be sufficient to cover the health insurance portion of the fringe benefit line-item.

Table 2-11 presents the AOS revised projections for fringe benefits, and compares them to the projections prepared by Shelby CSD. The revised projections include a 15 percent annual increase in the health insurance costs, which is consistent with the SERB average and the increase the District experienced in FY 2004-05. In addition, the District's retirement benefits, workers compensation, Medicare and unemployment insurance estimates are also adjusted to reflect the two percent COLA that AOS is projecting for salaries and wages (see **R2.5**).

Table 2-11: Forecast Adjustment for Fringe Benefits

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Shelby CSD Forecast	\$4,486,132	\$4,758,578	\$5,098,625	\$5,481,022	\$5,892,099
AOS Forecast	\$4,486,132	\$4,760,618	\$5,193,155	\$5,680,719	\$6,231,217
Net Impact on Forecast	\$0	(\$2,040)	(\$94,530)	(\$199,697)	(\$339,118)

R2.7 The District should adequately plan its yearly textbook and instructional material purchases to comply with the spending requirements in ORC § 3315.17. Not only will this ensure that students are provided with updated instructional materials on a yearly basis, but it will also prevent the District from accruing a large liability that will place unnecessary burdens on future budgets. In addition, the Treasurer should ensure that the forecast accurately reflects the results of the planning process noted above.

To ensure adequate funding for capital improvements and instructional materials, ORC § 3315.17 requires school districts to spend a minimum of three percent of the preceding years' state funding formula amount in these areas. The legislation also indicates that if a District spends less than is required in one year, the shortfall is carried forward and must be spent in subsequent years. The District did not meet the capital improvement or the instructional material spending requirements in FY 2001-02 or FY 2002-03. As a result, the District had accrued liabilities of approximately \$234,000 for capital improvements and approximately \$326,000 for instructional materials which were carried forward to FY 2003-04. However, in FY 2003-04, the District had enough qualifying expenditures and revenue offsets (permanent improvement levy) to meet the annual spending requirements as well as eliminate the accrued liabilities in both categories.

In FY 2004-05, the District was required to spend approximately \$314,000 on capital improvements and \$314,000 on instructional materials. The District complied with the capital improvement spending requirement since the permanent improvement levy proceeds of \$312,000 nearly offset the entire requirement without considering any General Fund expenditures. Additionally, the District met the instructional materials spending requirement by spending approximately \$324,000 on qualifying items. Of the \$324,000, approximately \$154,000 came from the supplies and materials line-item, \$150,000 was spent from the capital outlay line-item on instructional equipment and \$20,000 came from the DPIA Fund.

In developing the forecast, the Treasurer projected the District's supplies and materials expenditures to decline significantly in FY 2005-06 due to the closing of Russell Elementary. The supplies and materials are projected to increase two percent annually during the remainder of the forecast. No expenditures are projected from the capital outlay line-item during the forecast period. The Treasurer indicated in the notes to the forecast that District intends to use the permanent improvement fund for all capital expenditures.

The Treasurer's projections for the supplies and materials, and capital outlay line-items are not consistent with recent history and do not appear to comply with the instructional materials spending requirement (ORC §3315.17). In FY 2004-05, the District spent a total of approximately \$420,000 from the supplies and materials line-item. Of this total,

only \$154,000 qualified to meet the instructional materials spending requirements. As a result, approximately \$266,000 of general supplies and materials supported the operations of the District's six school buildings in FY 2004-05, amounting to an average of \$44,333 per school. In FY 2005-06, the District reduced the supplies and materials budget to approximately \$230,000 due to the closing of Russell Elementary. Assuming that approximately \$154,000 of this will again be needed to meet the instructional material spending requirements in FY 2005-06, only \$76,000, or \$15,200 per school, will be remaining to support the operations of the District's five school buildings. This indicates that the District probably is not projecting enough in the supplies and materials line-item to meet the general needs of the school buildings while also complying with the instructional materials spending requirements.

In addition, the District spent approximately \$150,000 from the General Fund capital outlay line-item to meet the instructional materials spending requirement in FY 2004-05. However, the District is not projecting any expenditure from the General Fund capital outlay line-item during the forecast period. The Treasurer's assumptions indicate that the District intends to use the Permanent Improvement Fund for all capital expenditures. Since the entire permanent improvement levy is needed to meet the capital improvement spending requirement, the District will not be able to use the Permanent Improvement Fund to meet the instructional materials spending requirement.

Table 2-12 presents the AOS revised projections for supplies and materials, and capital outlays, and compares them to the projections prepared by Shelby CSD. The revised projections for FY 2005-06 include additional expenditures of approximately \$157,000 and \$153,000 for the supplies and materials and capital outlay line-items, respectively. Future years are appreciated based on the Treasurer's rate of two percent annually. These figures are consistent with the qualifying expenditures in FY 2004-05, should ensure future compliance, and provide a similar level of supplies and materials per building as in FY 2004-05. (See the **facilities** section for an assessment of the District's spending level in supplies and materials.) Additionally, because of the statutory requirement to either spend the full amount on instructional materials in the current year or reserve enough cash to cover the shortfall in subsequent years, there is no financial advantage to the District from not spending the full amount each year.

Table 2-12: Forecast Adjustment for Supplies & Materials and Capital Outlays

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Shelby CSD Projections					
Supplies & Materials	\$230,478	\$235,088	\$239,789	\$244,585	\$249,477
Capital Outlay	\$0	\$0	\$0	\$0	\$0
Total	\$230,478	\$235,088	\$239,789	\$244,585	\$249,477
AOS revised Projections:					
Supplies & Materials	\$387,478	\$395,228	\$403,132	\$411,195	\$419,419
Capital Outlay	\$153,000	\$156,060	\$159,181	\$162,365	\$165,612
Total	\$540,478	\$551,288	\$562,313	\$573,560	\$585,031
Net Impact on Forecast	(\$310,000)	(\$316,200)	(\$322,524)	(\$328,975)	(\$335,554)

R2.8 In developing future forecasts, the Treasurer should include only existing debt obligations and Board-approved debt issues in order to accurately portray the District's debt obligations.

A summary of the District's general fund debt obligations are as follows:

- **H.B. 264 Notes** – Shelby CSD issued \$1.6 million in debt during 1998 in order to install energy efficient lighting, new boilers and new automatic flush toilets to prevent running water. In addition, one building had plexiglass window panels installed to conserve energy. The \$1.6 million is being repaid over a 15 year period at an interest rate of 5.10 percent. The last payment on this debt is scheduled for 2013.
- **State Emergency Loan** – As a result of the current financial difficulties, the District borrowed approximately \$3.3 million from the State Solvency Assistance Fund. The \$3.3 million is being repaid over a two-year period. The last payment on this debt is scheduled for July 2007.
- **Tax Anticipation Note #1** – The District issued a \$1.0 million tax anticipation note (TAN) in FY 2005-06. The tax anticipation note will be repaid over a five-year period at an interest rate of 4.0 percent.
- **Tax Anticipation Note #2** – In an effort to show an earlier financial recovery, the Treasurer projects the District issuing a \$950,000 tax anticipation note in FY 2007-08 based on the assumed renewal of a 4.1 mill emergency levy. The Treasurer projects that this debt will be repaid over a five-year period at an interest rate of 4.0 percent.

Based on a review of the debt service schedules, the Treasurer's projection of the District's debt service costs appears accurate. However, by including revenues and debt service costs for proposed debt issues that are more than a year away (TAN #2), the forecast can be somewhat misleading and difficult to understand. Furthermore, although assuming issuance of TAN #2 would show an earlier recovery, it would increase the District's interest costs.

Table 2-13 presents the AOS revised projections for debt service expenditures, and compares them to the projections prepared by Shelby CSD. The revised projections eliminate the revenues and debt service expenditures associated with TAN #2.

Table 2-13: Forecast Adjustment for Debt Service

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Shelby CSD Forecast	\$1,774,340	\$1,998,485	\$385,510	\$587,645	\$574,880
AOS Forecast	\$1,774,340	\$1,998,485	\$366,445	\$363,445	\$354,480
Net Impact on Forecast	\$0	\$0	\$19,065	\$224,200	\$220,400

R2.9 Shelby CSD's five-year forecast and the accompanying assumptions and notes should be expanded to consistently present more detailed historic and projected information and explanatory comments. In addition, the Treasurer should ensure that the assumptions stated in the notes adequately reflect the figures presented in the forecast. By providing more detail in the forecast and its supporting notes, the District would enable the Board and public to better understand its financial condition.

The notes to the forecast generally do not provide adequate disclosure concerning issues that have a significant impact on the District or do not fully explain the methodology and assumptions. For example, the notes lack any kind of disclosure concerning the following:

- Inflation rates – historic and projected;
- Enrollment and Average Daily Membership (ADM) – historic and projected;
- Historic and projected number of open enrollment students and funding levels;
- Information regarding facility utilization and building needs;
- Staffing by position – historic and projected;
- Historic and projected cost of living adjustments;
- Projected needs for meeting the annual instructional material and capital improvement spending requirements; and
- Explanations when projected amounts deviate from historical trends (i.e. property taxes and health insurance).

In addition to the above, there were also several instances where the assumptions disclosed in the notes did not reflect the figures presented in the forecast. For example, the notes indicate that the income tax estimates were projected based on the Timeline Report prepared by the Ohio Department of Taxation. However, the figures presented in the forecast reflect a modified formula in which the Timeline Report was adjusted to include two percent inflationary increases. The modified formula was not disclosed in the notes to the forecast. In addition, despite stating that the projections were assumed to increase two percent annually, the Treasurer mistakenly projected the real estate tax collections to decrease seven percent in FY 2009-10.

Revenue & Expenditure Analysis

R2.10 The District should take steps toward eliminating its financial problems by effectively budgeting resources and periodically monitoring its financial performance. The District should not adopt the budget unless it contains realistic revenue and expenditure estimates, and the proposed appropriations for all funds fall within the current year's available revenues. Additionally, the District should develop policies to ensure that the annual appropriation measure and a certificate of estimated resources are filed with the County Auditor on a timely basis as required by the Ohio Revised Code.

After the budget has been adopted, the Treasurer should provide detailed reviews of the District's actual performance against the budget to the Superintendent and Board on a monthly basis. If during the year it becomes apparent that the actual revenues will not meet the original estimates, the Treasurer should obtain a reduced certificate of estimated resources from the County and then work with the Superintendent and Board to identify the necessary appropriation reductions. If a proposed expenditure is going to exceed the available appropriation, the purchase should be postponed until the Superintendent and Board identify reductions in other areas of the budget that can be used to cover the proposed expenditure. Lastly, the District should obtain the necessary approvals before making transfers and advances. By operating within the framework and parameters established in the annual budget, and proactively monitoring its finances during the year, the District will be better able to regain financial stability.

Table 2-14 compares Shelby CSD's General Fund revenues by source and expenditures by object to those of the peer districts for FY 2003-04. The data is presented on a per student basis to account for differences in student population size. Additionally, revenue and expenditure data for Shelby CSD is presented for FY 2004-05 in order to present the most current actual revenue and expenditure information.

Table 2-14: Revenues and Expenditures per Student

	Shelby CSD FY 2004	Shelby CSD FY 2005	Bellevue CSD FY 2004	Dover CSD FY 2004	Triway LSD FY 2004	Peer Average
Property & Income Tax	\$3,427	\$2,427	\$3,544	\$3,994	\$2,518	\$3,352
Intergovernmental Revenues	\$3,772	\$3,492	\$3,754	\$2,718	\$4,401	\$3,624
Other Revenues	\$678	\$2,916	\$333	\$233	\$235	\$267
Total Revenue	\$7,877	\$8,834	\$7,631	\$6,945	\$7,153	\$7,243
Wages	\$4,986	\$5,049	\$4,606	\$4,304	\$4,455	\$4,455
Fringe Benefits	\$1,865	\$2,170	\$1,407	\$1,579	\$1,520	\$1,502
Purchased Service	\$577	\$554	\$857	\$590	\$774	\$740
Supplies & Textbooks	\$285	\$196	\$224	\$183	\$331	\$246
Capital Outlays	\$226	\$74	\$91	\$13	\$68	\$57
Debt Service	\$0	\$0	\$0	\$0	\$0	\$0
Miscellaneous	\$136	\$141	\$118	\$142	\$115	\$125
Other Financing Uses	\$87	\$395	\$194	\$41	\$35	\$90
Total Expenditures	\$8,161	\$8,579	\$7,496	\$6,852	\$7,297	\$7,215

Source: Shelby CSD and peer district 4502 and SF-3 reports

Table 2-14 shows that Shelby CSD's total General Fund revenues in FY 2003-04 exceeded the peer average by 8.8 percent. In FY 2004-05, the District's property taxes and intergovernmental revenues declined while other revenues increased significantly. The decline in property taxes can be attributed to the District receiving approximately \$1.0 million in property tax advances in FY 2003-04 that were subsequently deducted from the FY 2004-05 receipts. The Treasurer attributed the decline in intergovernmental revenues to a general decline in state funding and account coding issues in FY 2003-04. In FY 2004-05, the District's other revenues increased significantly due to the sale of tax anticipation notes (\$1,992,000) and borrowing through the State Solvency Assistance Fund (\$3,253,000). On May 3, 2005, the voters of Shelby CSD authorized a one percent continuing income tax that becomes effective January 1, 2006 and is estimated to generate approximately \$122,000 in FY 2005-06; \$1.6 million in FY 2006-07 and approximately \$2.4 million annually thereafter. The income tax collections are not reflected in **Table 2-14**.

In FY 2003-04, Shelby CSD exceeded the peer average in all expense categories except purchased services and other financing uses. In FY 2004-05, the District attempted to limit all discretionary spending and reduced the expenditures for purchased services, supplies and textbooks, and capital outlay. Nevertheless, the total expenditures per student increased by \$418, or approximately five percent, in FY 2004-05. Explanations for the expenditure categories that are higher than the peers include the following:

- **Wages** – The District spent \$531 more per student on employee wages than the peer average in FY 2003-04, which is attributed to a combination of the District’s historical staffing and salary levels. However, in FY 2005-06, the District reduced 47.2 FTE classified staff and 15.1 FTE certified staff through a combination of lay-offs and retirements, as part of the financial recovery plan. Despite the recent layoffs, the **human resources** section shows some opportunities for more staffing reductions. Additionally, the **human resources** section notes that Shelby CSD’s salaries are higher than the peer averages for certain employee classifications. See the **human resources** section of this report for further discussion on staffing and salaries.
- **Benefits** – The District spent \$363 more per student on fringe benefits than the peer average in FY 2003-04. The higher expenditures for fringe benefits are due to the District providing the pick-up on pick-up pension benefit for its employees. In addition, the higher benefit expenditures can be attributed to the District requiring the transportation personnel to work only four hours per day for full health care benefits, providing generous dental and life insurance benefits, and not implementing employee health care contributions until the middle of FY 2004-05. The significant increase in the District’s fringe benefit costs from FY 2003-04 (\$1,865 per student) to FY 2004-05 (\$2,170 per student) can be attributed to the implementation of large premium increases in FY 2004-05. These increases were needed to cover a \$1.0 million deficit that had carried over from the prior year in the Health Insurance Fund. See the **human resources** section of this report for further discussion on benefits.
- **Supplies and Textbooks** – The District spent \$39 more per student on supplies and textbooks in FY 2003-04. This is partially due to it spending the carry-forward from FY 2002-03 in FY 2003-04, in addition to meeting the spending requirements for FY 2003-04, as stipulated in ORC § 3315.17. Further, the District completes most maintenance and construction projects in-house, which contributes to higher supply expenditures. See the **facilities** section of this report for further discussion on supplies.
- **Capital Outlay** – Although the District spent more than the peers on capital outlay in FY 2003-04, the District significantly reduced the expenditures in FY 2004-05. **Table 2-14** shows that Shelby CSD’s FY 2004-05 capital outlay expenditures exceeded the peer average by \$17 per student. However, this is due to Dover CSD skewing the peer average. If Dover CSD were removed from consideration, the revised peer average for capital outlay expenditures would be \$80 per student, which is comparable to Shelby CSD.
- **Miscellaneous** – The District spent \$11 more per student on miscellaneous expenditures than the peers in FY 2003-04. The higher miscellaneous expenditures can be attributed to higher dues and fees costs.

- Other financing uses – The District’s expenditures for other financing uses are indicative of the District transferring monies to cover shortfalls in other funds and repay advances that were received in the prior year (see **other revenues** for FY 2003-04).

The Superintendent indicated that the District’s current financial problems are due in part to inadequate communication between the Superintendent and the prior Treasurer, as well as weak financial management practices that existed in the past. The Superintendent also indicated that the prior Treasurer’s forecast had always showed surplus balances and gave no warning as to the impending financial difficulties. The financial audit completed for FY 2003-04 revealed that inappropriate transfers and advances were made to cover deficits in the General Fund, which were not approved by the Board beforehand.

The District received a qualified opinion on the financial audit for fiscal year ended June 30, 2004 because the auditors were unable to fully confirm the accuracy of the budget information presented in the Statement of Revenues, Expenditures and Changes in Fund Balance. Additionally, the audit identified significant deficiencies in the design or operation of the internal controls over compliance, which adversely affect the District’s ability to administer a major federal program in accordance with the requirements of the contracts and grants. Other citations noted in the FY 2003-04 financial audit included the following:

- The District ended FY 2003-04 with negative cash balances in the DPIA, Title I, Bond Retirement and Employee Health Liability (self-insurance fund) Funds.
- The District did not file a certificate of estimated resources with the County Auditor as required by the Ohio Revised Code section 5705.31. In addition, the District did not file for any amended certificates of estimated resources during the year based on new revenues and deficit fund balances.
- The District did not file the annual appropriation measure with the County Auditor in FY 2003-04. As a result, the appropriation measure was not in effect and expenditures were not legally made. In addition, the appropriation measure passed by the Board included several funds where the appropriations exceeded the available resources.
- The District’s expenditures exceeded the appropriations in eight different funds.
- Numerous transfers and advances were made without the necessary approvals beforehand.

These citations represent practices that will need to be corrected if the District is going to reverse the recent trends and regain financial stability. Furthermore, according to *Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting* (1998) published by the Government Finance Officers Association, a government should evaluate its financial performance relative to the adopted budget. Regular monitoring of budgetary performance will identify early signs of potential problems, give decision makers time to develop actions to resolve problems, and demonstrate accountability.

During the course of this audit, the Treasurer has taken action to address some of the weak financial management practices that existed under the prior Treasurer. For example, the Treasurer is now providing the Board with detailed reviews of the District's performance against the budget, posting monthly financial reports on the web site and seeking Board permission to make transfers beforehand.

R2.11 Shelby CSD should closely examine the spending patterns indicated in Table 2-15 and the cost reductions recommended in the human resources, facilities and transportation sections of this report. The District should consider reallocating the monies it is currently receiving toward those programs and priorities which have the greatest impact on improving the students' education and proficiency test results. Furthermore, the District should analyze the spending patterns and recommendations to aid in efforts to regain financial stability.

Table 2-15 shows the amount and percent of expenditures posted to the various Uniform School Accounting System (USAS) function codes for Shelby CSD and the peer districts, for all funds that are classified as governmental fund types in FY 2003-04. Function codes report expenditures by nature and purpose. **Table 2-15** also shows FY 2004-05 expenditures for Shelby CSD.

Table 2-15: Governmental Funds Operational Expenditures by Function

USAS Function Classification	FY 2004 Shelby		FY 2005 Shelby		FY 2004 Bellevue		FY 2004 Dover		FY 2004 Triway		FY 2004 Peer Average	
	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp
Instructional	\$5,168	56.6%	\$5,394	59.0%	\$4,484	56.5%	\$4,394	58.8%	\$4,755	60.0%	\$4,613	58.4%
Regular Instruction	\$4,008	43.9%	\$4,249	46.5%	\$3,087	38.9%	\$3,421	45.8%	\$3,741	47.2%	\$3,416	43.9%
Special Instruction	\$853	9.3%	\$912	10.0%	\$1,048	13.2%	\$786	10.5%	\$724	9.1%	\$853	11.0%
Vocational Education	\$262	2.9%	\$202	2.2%	\$212	2.7%	\$0	0.0%	\$186	2.3%	\$199	1.6%
Adult/Continuing Ed.	\$0	0.0%	\$0	0.0%	\$3	0.0%	\$0	0.0%	\$0	0.0%	\$3	0.0%
Other Instruction	\$45	0.5%	\$30	0.3%	\$134	1.7%	\$187	2.5%	\$105	1.3%	\$142	1.9%
Support Service	\$3,612	39.6%	\$3,401	37.2%	\$3,099	39.0%	\$2,709	36.3%	\$2,731	34.4%	\$2,888	36.6%
Pupil Support Services	\$483	5.3%	\$406	4.4%	\$490	6.2%	\$418	5.6%	\$220	2.8%	\$376	4.9%
Instructional Support Services	\$881	9.7%	\$770	8.4%	\$440	5.5%	\$432	5.8%	\$370	4.7%	\$414	5.4%
Board of Education	\$6	0.1%	\$10	0.1%	\$5	0.1%	\$49	0.7%	\$28	0.3%	\$27	0.4%
Administration	\$658	7.2%	\$647	7.1%	\$643	8.1%	\$604	8.1%	\$614	7.7%	\$620	8.0%
Fiscal Services	\$240	2.6%	\$268	2.9%	\$229	2.9%	\$203	2.7%	\$156	2.0%	\$196	2.5%
Business Services	\$0	0.0%	\$8	0.1%	\$6	0.1%	\$0	0.0%	\$26	0.3%	\$16	0.1%
Plant Operation & Maintenance	\$867	9.5%	\$840	9.2%	\$775	9.8%	\$755	10.1%	\$590	7.4%	\$707	9.2%
Pupil Transportation	\$437	4.8%	\$411	4.5%	\$507	6.4%	\$248	3.3%	\$516	6.5%	\$424	5.3%
Central Support Svcs	\$40	0.4%	\$40	0.4%	\$4	0.1%	\$0	0.0%	\$213	2.7%	\$109	0.9%
Non-Instructional Services Expenditures	\$71	0.8%	\$70	0.8%	\$69	0.9%	\$47	0.6%	\$99	1.2%	\$72	0.9%
Extracurricular Activities Expenditures	\$276	3.0%	\$281	3.1%	\$289	3.6%	\$321	4.3%	\$347	4.4%	\$319	4.1%
Total Expenditures	\$9,127	100%	\$9,146	100%	\$7,941	100%	\$7,471	100%	\$7,932	100%	\$7,818	100%

Source: Shelby and Peer 4502 reports

As shown in **Table 2-15**, Shelby CSD's total Governmental Fund expenditures per pupil in FY 2003-04 exceeded the peer average by 17.5 percent. However, in FY 2004-05, the District's total governmental fund expenditures per pupil increased less than one percent, primarily due to the District limiting discretionary spending. In addition, the District's percentage of expenditures allocated to instruction increased to 59 percent in FY 2004-05, which is in-line with the peer average. Explanations for areas where Shelby CSD's expenditures per student were higher than the peers include the following:

- *Regular and Special Instruction:* The District spent approximately \$592 more per student than the peer average on regular instruction in FY 2003-04, while the special instruction expenditures per pupil were significantly higher than two of the peers. In addition, the regular instruction costs per pupil increased approximately six percent in FY 2004-05 and the special instruction costs per pupil increased nearly seven percent. The **human resources** section shows that these higher expenditures are attributed to

the District providing the pick-up on pick-up pension benefit for its employees and not implementing employee healthcare contributions until the middle of FY 2004-05. The increase in FY 2004-05 is due to the District implementing a significant premium increase to cover deficits in the health insurance fund. See the analysis in the **human resource** section of this report.

Due to the current financial difficulties, the District reduced three certificated positions through attrition in FY 2004-05 and reduced 15.1 FTEs through layoff procedures prior to the start of FY 2005-06. The reduction of 15.1 FTEs are not reflected **Table 2-15**.

- *Vocational Instruction:* The District spent approximately \$63 more per student than the peer average on vocation instruction in FY 2003-04. However, in FY 2004-05, the District implemented several cost cutting measures, which resulted in cost savings of nearly \$127,000 and reduced the cost per student to approximately \$202, which is more comparable to the peer average. According to the Treasurer, the higher vocational education expenditures are due to the District operating an intensive agricultural vocation program. As part of Shelby CSD's financial recovery plan, the District took action to shift the home economics, business, and industrial arts programs to the local joint vocational school (JVS) prior to the start of FY 2005-06. As these actions are not reflected in **Table 2-15**, the District's vocation expenditure per pupil should further decrease in FY 2005-06.
- *Pupil Support Services:* The District spent \$29 per student more than the peer average (\$454 per student) of Bellevue CSD and Dover CSD in FY 2003-04. Additionally, through staff reductions and limiting of discretionary spending, the District reduced the pupil support cost per student to \$406 in FY 2004-05, which is lower than Bellevue CSD and Dover CSD.
- *Instructional Support Services:* The District spent \$467 more per student than the peer average on instructional support services in FY 2003-04. Although the District reduced the instructional support service cost per student to \$770 in FY 2004-05, this still exceeds the peer average by \$354. Based on an analysis in the **human resources section** of this report, the higher instructional support services costs can be attributed to a combination of the generous fringe benefits noted above and higher staffing levels within the teaching aides/monitors/attendants, and librarian positions.
- *Administration:* The District spent \$38 more per student than the peer average on administration in FY 2003-04. Although the District reduced the administration costs per student to \$647 in FY 2004-05, this still exceeds the peer average by \$27. Similar to the regular and special instruction, and instructional support services line-items, the higher costs in the administration line-item are primarily due to generous fringe

- benefits. However, as part of the financial recovery plan, the District went through a re-organization prior to FY 2005-06, which resulted in the reduction of three principals. As these reductions are not reflected in **Table 2-15**, the District's administration expenditure per pupil should further decrease in FY 2005-06.
- *Fiscal Services:* The District spent \$43 more per student than the peer average in FY 2003-04. In FY 2004-05, the fiscal services expenditures increased 11.7 percent. However, the District eliminated the Assistant Treasurer's position prior to the start of FY 2005-06 as part of the financial recovery plan, which is not reflected in **Table 2-15**.
 - *Plant Operation and Maintenance:* The District spent \$160 more per student than the peer average in FY 2003-04 on plant operation and maintenance. Although the District reduced the plant operation and maintenance cost per student to \$840 in FY 2004-05, this still exceeds the peer average by \$133. Based on an analysis in the **human resources** section of this report, the higher plant and operation maintenance costs can be attributed to a combination of the generous fringe benefits noted above and employee years of experience within the crafts/trades and groundskeeping positions. In addition, the higher costs can be attributed to the District constructing a new field house. The construction costs are being funded through donations by the local boosters club and through tax revenues from the District's Permanent Improvement Fund.
 - *Central support services:* Although the District spent less than the peer average, the District spent more than Bellevue CSD and Dover CSD. However, the District's higher central support services costs are due to coding issues between Shelby CSD and the peers. More specifically, the **human resources** section notes that Shelby CSD accounts for the cost of the EMIS coordinator and one technology employee within this line-item, while the peers have coded these positions in different classifications (i.e. administration, instructional support, etc.).

Table 2-16 compares Shelby CSD's academic performance indicators to those of its peers as a way to link performance standards to the District's spending patterns.

Table 2-16: ODE Performance Standards Comparison

District	Designation	Standards Met (out of 23) FY2004-05	Performance Index Score 2004-05	Performance Index Score 2003-04	Performance Index Score 2002-03
Bellevue	Effective	20	95.6	92.3	87.6
Dover	Effective	21	98.6	93.5	94.7
Triway Local	Effective	16	94.1	93.2	85.3
Peer Average	Effective	19	96.1	93.0	89.2
Shelby	Effective	19	96.3	95.7	85.1

Source: District report cards

Table 2-16 shows that Shelby CSD met 19 performance standards, achieved a performance index score of 96.3, and received a rating as “Effective” from ODE in FY 2004-05, which were comparable to the peer averages. However, the District spent approximately \$1,300 more per student than the peer average in FY 2003-04. This suggests that there may be an opportunity for Shelby CSD to reduce operating expenditures without negatively impacting the academic achievement of its students.

R2.12 Shelby CSD should analyze and use the proposed financial forecast outlined in Table 2-17 to evaluate the recommendations presented within this performance audit and to determine the impact of the related cost savings on its financial condition. The District should also consider implementing the recommendations in this performance audit to improve its current and future financial situation.

Table 2-17 demonstrates the impact of the revised assumptions and recommendations discussed in this report. The financial savings and implementation costs associated with the performance audit recommendations have been included within a line-item titled “Cumulative Impact of AOS Recommendations.” **Table 2-18** summarizes the financial implications associated with the recommendations contained within this report. Some of the recommendations can be implemented immediately, while others will require further management action to realize the proposed savings.

During the course of this audit, the District took action to reduce one bus and driver at the conclusion of FY 2004-05 and two buses and drivers at the start of FY 2005-06. The Treasurer’s forecast (see **Table 2-1**) incorporates the savings from the reductions that occurred in FY 2004-05. The Treasurer’s forecast does not include the FY 2005-06 reductions as these occurred after the forecast was prepared. As a result, **Table 2-17** includes an adjustment to reflect the District’s transportation reductions within a line-item titled “District Reductions Implemented During the Audit.”

Table 2-17 shows that the District can achieve financial recovery in FY 2007-08 by implementing the recommendations contained in this performance audit. This timeframe is consistent with the Treasurer’s original projections contained in **Table 2-1**. However,

the Treasurer's original forecast projected the District achieving a positive unencumbered fund balance of approximately \$1.5 million in FY 2007-08, while the AOS recovery plan is only projecting a positive balance of \$309,000. The difference between the two balances is due to **Table 2-17** reflecting the AOS recommendations as well as the revised assumptions identified in **R2.1** through **R2.8**. The collective impact of forecast adjustments for FY 2007-08 is a negative \$1.4 million (see **Table 2-18**), which represents approximately eight percent of the District's projected revenues.

For Shelby CSD to achieve and maintain financial stability, it will be necessary to make difficult management decisions. For example, the recovery plan shown in **Table 2-17** assumes that the District will negotiate to eliminate the pick-up on pick-up pension benefit for all employees, increase employee healthcare contributions, reduce healthcare benefits for the bus drivers and negotiate reduced COLA's during the forecast period. If the District is unsuccessful in implementing some of these recommendations, it will likely have to implement additional staffing and cost reductions in order to achieve financial recovery, including possible reductions in regular and ESP staffing levels (see **human resources**).

The ideas and recommendations included in this report should be considered for implementation by the District. However, the audit is not all inclusive, and other cost savings and revenue enhancements should be explored and incorporated into the financial recovery plan.

Table 2-17: Shelby CSD Financial Recovery Plan (in 000's)

	Actual 2002-03	Actual 2003-04	Actual 2004-05	Forecast 2005-06	Forecast 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10
Real Estate Property Tax	\$4,189	\$4,524	\$3,977	\$4,309	\$4,258	\$4,207	\$4,333	\$4,281
Tangible Personal Property Tax	3,020	2,521	2,436	1,618	926	250	139	100
Income Taxes	0	0	0	122	1,548	2,415	2,409	2,482
Unrestricted Grants-in-Aid	6,421	6,433	7,125	8,003	8,635	9,298	9,347	9,526
Restricted Grants-in-Aid	360	501	102	69	73	77	82	86
Property Tax Allocation	584	857	600	579	571	565	582	575
Other Revenues	104	202	669	680	686	693	699	706
Total Operating Revenues	\$14,678	\$15,038	\$14,909	\$15,380	\$16,697	\$17,505	\$17,591	\$17,756
Salaries & Wages	\$10,028	\$10,291	\$10,248	\$9,287	\$9,356	\$9,683	\$10,022	\$10,373
Fringe Benefits	3,325	3,844	4,415	4,486	4,761	5,193	5,681	6,231
Purchased Services	931	1,185	1,127	1,310	1,336	1,363	1,390	1,418
Supplies, Materials & Textbooks	600	590	420	387	395	403	411	419
Capital Outlay	224	479	151	153	156	159	162	166
Debt Service	169	159	2,179	1,775	1,998	367	363	354
Other Expenditures	425	265	287	309	315	322	329	335
Total Operating Expenditures	\$15,702	\$16,813	\$18,827	\$17,707	\$18,317	\$17,490	\$18,358	\$19,296
Net Transfers/ Advances	77	1,011	(644)	341	0	0	0	0
Note Proceeds	0	0	1,992	1,000	0	0	0	0
State Emergency Loan	0	0	3,253	0	0	0	0	0
Other Financing Sources	18	1	11	0	0	0	0	0
Net Financing	\$95	\$1,012	\$4,612	\$1,341	\$0	\$0	\$0	\$0
Result of Operations (Net)	(\$929)	(\$763)	\$694	(\$986)	(\$1,620)	\$15	(\$767)	(\$1,540)
Beginning Cash Balance	\$2,102	\$1,173	\$410	\$1,104	\$118	(\$1,502)	(\$1,487)	(\$2,254)
Ending Cash Balance	\$1,173	\$410	\$1,104	\$118	(\$1,502)	(1,487)	(\$2,254)	(\$3,794)
Encumbrances	1,953	619	483	483	483	483	483	483
Ending Fund Balance	(\$780)	(\$209)	\$621	(\$365)	(\$1,985)	(\$1,970)	(\$2,737)	(\$4,277)
Cumulative Impact of AOS Recommendations	0	0	0	0	965	1,990	3,080	4,239
District Reductions Implemented During Audit	0	0	0	94	190	289	389	491
Revised Ending Fund Balance	(\$780)	(\$209)	\$621	(\$271)	(\$830)	\$309	\$732	\$453

Table 2-18 details those performance audit recommendations that are included in the financial recovery plan presented in **Table 2-17**. The recommendations are separated by those that require contract renegotiation and those that do not.

Table 2-18: Summary of Performance Audit Recommendations

Recommendation	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Impact of AOS Forecast Adjustments						
R2.1 Revise Real Estate and Property Tax Allocation	\$0	\$0	(\$156,427)	(\$314,108)	(\$272,671)	(\$24,620)
Revised Tangible Personal Property Tax Projections (see Pg. 2-6)	\$0	(\$414,611)	(\$1,005,370)	(\$1,584,307)	(\$1,603,962)	(\$1,555,588)
R2.2 Revise State Funding	\$0	\$425,434	\$1,010,521	\$1,449,879	\$1,267,841	\$1,208,653
R2.3 Revise Income Tax	\$0	\$0	(\$22,644)	(\$48,307)	(\$48,185)	\$359,101
R2.4 Revise Other Revenues		\$2,252	\$8,368	\$14,618	\$21,005	\$27,534
R2.5 Revise Salaries	\$0	\$0	(\$329,229)	(\$560,647)	(\$762,717)	(\$974,596)
R2.6 Revise Benefits	\$0	\$0	(\$2,040)	(\$94,530)	(\$199,697)	(\$339,118)
R2.7 Revise Supplies and Capital Outlay	\$0	(\$310,000)	(\$316,200)	(\$322,524)	(\$328,975)	(\$335,554)
R2.8 Revise Debt Service	\$0	\$0	\$0	\$19,065	\$224,200	\$220,400
Total Impact of AOS Forecast Adjustments	\$0	(\$296,925)	(\$813,021)	(\$1,440,861)	(\$1,703,161)	(\$1,413,788)
Recommendations Not Subject to Negotiation						
R3.2 Reduce 1 librarian position	38,900	41,674	43,474	45,774	48,272	50,991
R3.4 Reduce 5 teaching aide positions	81,400	84,223	87,171	90,222	93,379	96,648
R3.6 Reduce 3.15 crossing guard positions	12,804	13,253	7,090	10,082	13,274	15,208
R4.2 Reduce 2.5 custodians	58,003	60,033	62,134	64,309	66,560	68,890
R5.5 Insurance savings from selling 3 spare buses	3,700	3,774	3,849	3,926	4,005	4,085
R5.6 Reduce maintenance expenditures through revised purchasing policies	8,100	8,262	8,427	8,596	8,768	8,943
R5.7 Increase insurance deductibles	440	449	458	467	476	486
Total Recommendations						

Not Subject to Negotiation	\$203,347	\$211,668	\$212,603	\$223,376	\$234,734	\$245,251
Recommendations Subject to Negotiation						
Recommendation	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
R3.7 Implement 12% health care contribution for all employees	88,600	101,890	117,174	134,750	154,962	178,206
R3.8 Increase minimum work hour requirements for health benefits	35,000	40,250	46,288	53,231	61,215	70,398
R3.9 Reduce dental benefit coverage levels	29,200	33,580	38,617	44,410	51,071	58,732
R3.11 Negotiate a reduced retirement incentive	15,000	15,300	15,606	15,918	16,236	16,561
R3.14 Eliminate pick-up on pick-up pension benefit	545,000	564,075	583,818	604,251	625,400	647,289
Total Recommendations Subject to Negotiation	\$712,800	\$755,095	\$801,503	\$852,560	\$908,884	\$971,186
Recommendations with Implementation Costs						
R4.2 Hire one maintenance FTE	42,002	44,885	46,797	49,214	51,831	54,675
R4.6 Purchase work order software	0	0	2,000	2,040	2,081	2,122
Total Recommendations With Implementation Costs	\$42,002	\$44,885	\$48,797	\$51,254	\$53,912	\$56,797
Net Result of Recommendations Included in Forecast (Excluding Forecast Adjustments)	\$0	\$0	\$965,308	\$1,024,682	\$1,089,706	\$1,159,640

Source: AOS Financial Implications for Performance Audit Recommendations

Note: Recommendations are appreciated according to the corresponding assumption made by the District in its five-year forecast or as revised by AOS, which may differ from section savings.

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Human Resources

Background

This section of the performance audit focuses on the Shelby City School District's (Shelby CSD or the District) human resources operations. The objective is to analyze human resource operations and develop recommendations for improvements and reductions in District expenditures. Data from the Ohio Department of Education (ODE), the State Employment Relations Board (SERB), and peer school districts are used for comparisons throughout this section of the report. The peer districts include Bellevue City School District (Bellevue CSD), Dover City School District (Dover CSD), and Triway Local School District (Triway LSD).

Organizational Structure and Function

Shelby CSD does not have a separate department dedicated to human resource functions. The primary human resource responsibilities are completed by the Superintendent, Assistant Superintendent, Treasurer, school principals, and department heads.

Staffing

Table 3-1 illustrates the actual staffing levels at Shelby CSD and the peer districts during FY 2004-05, as reported in the Educational Management Information System (EMIS). Adjustments were made to the corresponding EMIS reports based on interviews with appropriate district personnel to ensure comparability and consistency in reporting. In addition, the District's projected staffing levels are presented for FY 2005-06 based on the reductions that were implemented as part of the financial recovery plan. All positions are shown as full-time equivalents (FTEs).

Table 3-1: Shelby CSD Staffing Levels for FY 2004-05

Category	Shelby CSD FY 2004-05	Shelby CSD FY2005-06	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Administrators: Subtotal	14.0¹	9.0	19.0	15.0	11.0	15.0
Central Based Administrators	7.0	3.4	8.0	4.0	3.0	5.0
Site Based Administrators	7.0	5.6	8.0	7.0	6.0	7.0
Other Administrators	0.0	0.0	3.0	4.0	2.0	3.0

Professional Education: Subtotal	160.2	141.9	169.9	180.6	142.5	164.3
Counseling	5.0	4.0	5.0	5.0	4.0	4.7
Librarian / Media	2.0	2.0	2.0	1.0	1.0	1.3
Remedial Specialists	6.5	4.9	6.0	8.0	0.0	7.0
Regular Education Teachers	104.8	95.3	102.2	127.0	89.5	106.2
Special Education Teachers	3.3	3.0	27.0	25.6	13.0	21.9
Vocational Education Teachers	5.0	2.0	5.9	0.0	5.0	5.4
Educational Service Personnel	10.0	9.0	9.0	9.0	15.5	11.2
Supplemental Service Teacher (Spec. Ed)	21.7	20.7	0.0	1.0	0.0	0.5
Other Professional	2.0	1.0	12.8	4.0	14.5	10.4
Professional – Other	3.1	2.1	7.6	7.5	2.0	5.7
Registered Nurse	1.0	0.0	1.6	3.0	1.0	1.9
Speech and Language Therapist	1.5	1.5	3.0	3.5	1.0	2.5
Occupational Therapist	0.7	0.7	0.2	0.0	0.0	0.2
Other Professional	0.0	0.0	2.9	1.0	0.0	1.9
Technical: Subtotal	7.0	6.0	16.7	5.0	8.5	10.1
Library Aide	5.0	4.0	2.8	4.0	4.9	3.9
Other Technical	2.0	2.0	13.9	1.0	3.7	6.2
Office / Clerical: Subtotal	53.4	37.1	26.5	30.0	26.3	27.6
Bookkeeping	3.0	2.0	2.0	0.0	2.0	2.0
Clerical	12.3	12.3	16.4	15.0	11.5	14.3
Teaching Aide	38.1	22.8	6.2	13.0	12.8	10.7
Other Clerical	0.0	0.0	1.9	2.0	0.0	1.9
Crafts / Trades²	2.8	2.8	5.1	7.0	4.7	5.6
General Maintenance ²	1.8	1.8	3.1	3.0	3.7	3.3
Mechanic ³	1.0	1.0	1.0	1.0	1.0	1.0
Other Crafts / Trades	0.0	0.0	1.0	3.0	0.0	2.0
Transportation³	15.0	13.6	19.4	13.0	21.0	17.8
Custodial²	14.4	13.0	13.4	13.2	10.0	12.2
Food Service	24.0	22.5	15.5	20.0	13.5	16.3
Guard/ Watchman	3.2	3.2	0.0	0.0	0.0	0.0
Grounds keeping¹	1.9	1.9	1.1	1.2	1.1	1.1
Other Service Worker/Laborer	0.0	0.0	5.7	11.0	0.6	5.8
DISTRICT TOTALS	299.0	253.2	299.9	303.5	241.2	281.5

Source: FY 2004-05 EMIS Staff Summary Report and interviews from Shelby CSD and the peer districts

Note 1: Totals may vary slightly from actual due to rounding.

Note 2: Supplemental contracts are excluded as are all 800s for extracurricular/intracurricular activities.

¹The District mistakenly reported two Treasurers in the FY 2005 EMIS reports. The total administrators should have been 13 rather than the 14 that was reported through EMIS.

²Crafts/Trades, Custodian, and Grounds keeping employees for Shelby and Peers were provided by the facilities section.

³Operative employees for Shelby CSD and the Peers were provided by the transportation section.

Table 3-2 illustrates the actual staffing levels at Shelby CSD and the peers on a per 1,000 ADM basis.

Table 3-2: Shelby CSD FTE Staffing Levels for FY 2004-05 per 1,000 ADM

Category	Shelby CSD FY 2004-05	Shelby CSD FY2005-06	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
ADM	2,283	2,283	2,369	2,649	2,081	2,366
Administrators: Subtotal	6.2	3.9	8.0	5.7	5.3	6.3
Central Administrators Subtotal	3.1	1.5	3.4	1.5	1.4	2.1
Site-Based Administrators	3.1	2.5	3.4	2.6	2.9	2.9
Other Administrators	0.0	0.0	1.3	1.5	1.0	1.3
Professional Education: Subtotal	70.2	62.2	71.7	68.2	68.5	69.5
Counseling	2.2	1.8	2.1	1.9	1.9	2.0
Librarian / Media	0.9	0.9	0.8	0.4	0.5	0.6
Remedial Specialist	2.8	2.2	2.5	3.0	0.0	2.8
Regular Teaching	45.9	41.7	43.2	47.9	43.0	44.7
Special Education Teaching	1.4	1.3	11.4	9.7	6.3	9.1
Vocational Education Teaching	2.2	0.9	2.5	0.0	2.4	2.4
Educational Service Personnel	4.4	3.9	3.8	3.4	7.5	4.9
Suppl Service Teacher (Spec. Ed.)	9.5	9.1	0.0	0.4	0.0	0.2
Other Professional Education	0.9	0.4	5.4	1.5	7.0	4.6
Professional - Other Subtotal	1.4	0.9	3.2	2.8	1.0	2.3
Registered Nursing	0.4	0.0	0.7	1.1	0.5	0.8
Speech and Language Therapist	0.6	0.6	1.3	1.3	0.5	1.0
Occupational Therapist	0.3	0.3	0.1	0.0	0.0	0.1
Other Professional	0.0	0.0	1.2	0.4	0.0	0.8
Technical Subtotal	3.1	2.6	7.1	1.9	4.1	4.4
Library Aide	2.2	1.8	1.2	1.5	2.3	1.7
Other Technical	0.9	0.9	5.9	0.4	1.8	2.7
Office / Clerical Subtotal	23.4	16.3	11.2	11.3	12.7	11.7
Bookkeeping	1.3	0.9	0.8	0.0	1.0	0.9
Clerical	5.4	5.4	6.9	5.7	5.5	6.1
Teaching Aide	16.7	10.0	2.6	4.9	6.2	4.6
Other Clerical	0.0	0.0	0.8	0.8	0.0	0.8
Crafts / Trades¹	1.2	1.2	2.2	2.6	2.3	2.4
General Maintenance ¹	0.8	0.8	1.3	1.1	1.8	1.4
Mechanic ²	0.4	0.4	0.4	0.4	0.5	0.4

Other Crafts / Trades	0.0	0.0	0.4	1.1	0.0	0.8
Transportation ²	5.4	4.8	8.5	4.5	10.1	7.7
Custodial ¹	6.3	5.7	5.7	4.9	4.8	5.2
Food Service	10.5	9.9	6.6	7.6	6.5	6.9
Guard/ Watchman	1.4	1.4	0.0	0.0	0.0	0.0
Grounds Keeping ¹	0.8	0.8	0.5	0.5	0.5	0.5
Other Service Worker / Laborer	0.0	0.0	2.4	4.2	0.3	2.4
DISTRICT GRAND TOTALS	129.9	109.8	126.9	114.2	115.9	119.1

Source: FY 2004-05 EMIS Staff Summary Report and School Enrollment from Shelby CSD and the peer districts

Note: Totals may vary slightly from actual due to rounding.

Note: Supplemental contracts are excluded as are all 800s for extracurricular/intracurricular activities.

¹Crafts/Trades, Custodian, and Grounds keeping employees for Shelby and Peers were provided by the facilities section.

²Operative employees for Shelby CSD and the Peers were provided by the transportation section.

As illustrated in **Table 3-2**, after adjusting for the staffing reductions the District implemented prior to the start of FY 2005-06, Shelby CSD has a higher FTE staffing level per 1,000 ADM when compared to the peers in the following classifications:

- Librarian/Media & Library Aides:** Shelby CSD’s staffing levels within the librarian/media and the library aide classifications are higher than the peer averages. Shelby CSD currently employs a total of 2.0 full-time librarians and 4.0 library aides. The District assigns one librarian to the 5-6 grade school building and one librarian to the high school, and uses the library aides for the remaining buildings. In contrast, Dover CSD and Triway LSD only employ one full-time librarian who is assigned to the high school and use library aides for the remaining buildings. (See **R3.2** for additional analysis).
- Regular Education:** Although the District’s regular education staffing levels are lower than the peer average, the District employs more staffing than required by State minimum standards. (See **R3.1** for additional analysis).
- Supplemental Service:** Although the District’s staffing in the supplemental service classification appears higher than the peer average, these employees are responsible for completing duties related to special education instruction. However, even when the District’s supplemental service teachers are combined with the special education teacher staffing levels, the District’s revised staffing level per 1,000 ADM of 10.9 FTEs is still higher than the peer average of 9.3. (See **R3.3** for additional analysis).
- Occupational Therapist:** Shelby CSD has 0.20 more FTEs (one employee) per 1,000 ADM in the classification of occupational therapist when compared to the peer average. This is due to the peers outsourcing of this function. Shelby CSD has considered outsourcing this service in the past, but found it less expensive to hire a part-time occupational therapist.

- **Teaching Aide:** Although Shelby CSD reduced 21 teaching aide positions (16.3 FTEs) prior to the start of FY 2005-06, the District’s staffing levels are still significantly higher than the peer average on a per 1,000 ADM basis. (See **R3.4** for additional analysis).
- **Custodial & Groundskeeping:** See the **facilities** section for additional analysis.
- **Food Service:** Shelby CSD’s food service staffing level (9.9 FTEs) is higher than all the peers and the peer average (6.9 FTEs) on a per 1,000 ADM basis. This is due to the operation of a full-kitchen and breakfast program at each school building. The peers use a central kitchen concept for their food service programs. (See **R3.5** for additional analysis).
- **Guard/Watchman:** Shelby CSD employs 3.15 crossing guard FTEs. In contrast, the peers rely on their respective city and village police departments to provide this service and do not employ any crossing guards. (See **R3.6** for additional analysis).

Collective Bargaining Agreements

The collective bargaining agreement between the Shelby Education Association (certificated staff) and the Shelby City School District covers the period from July 1, 2003 through June 30, 2006. Classified employees are organized under a labor agreement between the Shelby CSD Board and the Shelby Association of School Support Personnel. Since contractual and employment issues directly affect the operating budget, they have been assessed and compared to the peer districts to show their financial implications for Shelby CSD.

Table 3-3 and **Table 3-4** illustrate key contractual issues in the certificated and classified employees’ negotiated agreements for Shelby CSD and the peer school districts.

Table 3-3: Shelby CSD Certificated Contractual Agreement Comparisons

	Shelby CSD	Bellevue CSD	Dover CSD	Triway CSD
Length of work day	K-12: 7 hours, 30 minutes	K-12: 7 hours, 30 minutes	K-12: 7 hours, 30 minutes	K-12: 7 hours, 30 minutes
Planning Time	<p>Elementary: 200 minutes planning / week</p> <p>Middle School: one full period per day (42 minutes per day or 210 minutes/week).</p> <p>High School: 250 minutes planning / week, which is the equivalent of one period per day based on block scheduling</p>	<p>Elementary: 200 minutes planning / week</p> <p>Secondary: daily planning period equivalent to one teaching period</p>	<p>State minimum standards: 200 minutes planning / week</p>	<p>Elementary: 200 minutes planning / week</p> <p>High School & Junior High: daily planning period equivalent to one teaching period</p>

Maximum class size	<p>Kindergarten: 21 students 1-3: 25 students 4-6: 27 students 7-12: 30 students</p> <p>Not to exceed by more than two pupils over average class size.</p>	<p>K-2: 27 students 3-6: 30 students 7-12: 30 students</p>	Not to exceed 30 students district wide;	40 classroom teachers per 1,000 ADM
Number of Contract Days	184 days	184 days	186 days	184 days
Instructional Days	178 days	180 days	180 days	180 days
In-Service	4 days	4 days	6 days	2 days
Other	2 days	0	0	2 days (the extra days are for make up days that will be built into the calendar)
Incentives:				
Sick Leave	N/A	Any part of sick leave earned and not used during the school year may be converted to cash based on a percentage of the hourly salary for employees with 15 or more years of experience.	N/A	N/A
Personal Leave	Cash-in at the substitute rate per unused days; Roll over days into accumulated sick leave; Roll over one day into personal leave for the following school year, or any combination thereof up to a total of 3 days per year.	Unused personal leave shall be transferred to sick leave for each employee at the end of each school year.	N/A	Unused personal leave shall be transferred to sick leave for each employee at the end of each school year.
Maximum number of sick days accrued	280 days	235 days	195 days	280 days
Sick Leave Accrual Rate	1 ¼ days per month	1 ¼ days per month	1 ¼ days per month	1 ¼ days per month
Maximum sick leave pay out at retirement	25% of sick leave up to a maximum of 65 days after 10 years of service	33 1/3% of all accumulated sick leave after 10 years of service (maximum of 78 days)	25% of sick leave up to a maximum of 48 days	25% of sick leave up to a maximum of 70 days

Number of personal days	3	3 (Less than 20 years experience) 4 (20 year experience or more)	1 (and 1 emergency day)	3
Notice required	1 week	5 working days	24 hour	3 working days
Association business leave	2 days per delegate	A total 15 days to be split among the delegates	3 days per delegate	1 day per delegate (not to exceed 4 delegates)
Sabbatical leave	1 or 2 semesters paid at the difference between the employee's base salary and the substitute salary	1 full semester or 1 one full year for employees whose service exceeds 5 years or more. Sabbatical leave pay shall not exceed the difference, if any, between the teacher's regular contract salary and the replacement teacher's salary	One full year with 5 years experience	N/A
Payment of the employee's STRS contribution by district	The Board pays 5%, of the employees STRS contributions This amounts to half of the employees required contribution of 10%.	No	No	The Board pays 1% of the employees STRS contributions. This amounts to 1/10 (10%) of the employees required contribution of 10%.
Retirement Incentive	2 days of severance pay for each year of service, not to exceed 45 days for employees who have worked at least 10 years and first become eligible. At the employee's option, the employee may also qualify for the incentive the year he/she is at least 55 and has at least 25 years of service.	One-time cash payment of \$6,000 in addition to any severance pay to employees who elect to retire during the summer immediately following their first year of eligibility.	\$200 cash bonus when written notice is given prior to January 1 st of the intended year of retirement.	Two equal lump sum payments which will equal 50% of all accumulated sick leave. These payments will be made in lieu of the severance allowance and notice must be given in first year of eligibility.
Cost of living increases each year of the contract	FY 2003-04: 2.75% FY 2004-05: 3.25% FY 2005-06: 3.75%	FY 2002-03: 3.5% FY 2003-04: 4.5%	FY 2003-04: 1%	FY 2003-04: 1.75%

Source: Certificated negotiated agreements from Shelby CSD and the peer districts

Table 3-4: Shelby CSD Agreement with Classified Employees

	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD
Minimum call-in hours paid to employees for emergencies	N/A	2 hours at 1-1/2 times their regular rate of pay	N/A	N/A
Vacation time to accumulate	<p>Full-time 1-6 years = 10 days 7-12 years = 15 days 13 years + = 20 days</p> <p>12 month employees who worked for a minimum of six (6) months in a work year shall receive vacation time on a prorated basis.</p>	<p>Employees working more than 235 days per school year only: 1-5 years = 10 days 6 years = 11 days 7 years = 12 days 8 years = 13 days 9 years = 14 days 10-11 years = 15 days 12-13 years = 16 days 14-15 years = 17 days 16-17 years = 18 days 18-19 years = 19 days 20 years = 20 days</p>	<p>Employees working 11 and 12 months with one or more years of continuous service will be eligible for vacation: 1 – 9 years = 10 days 10 -19 years = 15 days 20 + years = 20 days For each 4 years over 20 years one additional day of vacation is granted.</p>	<p>6 – 12 months: 5 days 1-10 years: 10 days 11-20 years: 15 days 21 years + : 20 days</p> <p>Employees are eligible for vacation after the first full year of employment. Vacation is not accumulative year to year.</p>
Sick Leave Incentive	N/A	Employees may convert all sick leave earned and not used during the current year into cash based on the current year’s base pay rate, at up to 50%.	N/A	N/A
Personal leave incentive	Unused personal leave will be converted to sick leave at the end of each fiscal year up to the total allowed.	Unused personal leave will be converted to sick leave at the end of the school year (June 30).	N/A	Unused personal leave will be converted to sick leave at the end of the school year (June 30).
Maximum number of sick days accrued	280 days	235 days	Not specified	280 days
Maximum number of sick days paid at retirement (percentage payout)	<p>¼ of the first 160 days 1/3 over 160 days to the maximum 248 days max in FY 2003-04 253 days max in FY 2004-05 260 days max in FY 2005-06 (allows for a maximum of 73 days)</p> <p>Must have worked for the district no less than 10 years.</p>	<p>¼ of the first 120 days 33 1/3% in excess of 120 days up to 180 days provided the employee has been employed by the Bellevue Board of Education for at least 10 years 50% exceeding 180 days and had worked at the Bellevue District for at least 15 years. (77.3 total days allowed)</p>	¼ of sick leave up to a maximum of 50 days, or the maximum number of severance days in the teacher agreement, whichever is greater. (50 days maximum allowed)	¼ of accrued unused sick leave and must have not less than 10 years of service for the Triway LSD. (70 days maximum allowed)

Retirement incentive	N/A	An employee that retires with an effective date at the end of a contract year, shall receive a one-time salary adjustment: 25 years experience 2.5% 26 years 3% 27 years 3.5% 28 years 4% 29 years 4.5% 30 + years 5%	N/A	No
Number of years required for severance pay	SERS requirements 10 or more years of service	10 years of service in the district	Not specified	10 years of service in the district
Number of personal days	3 days	Up to 20 years of experience = 3 days 20 years or more = 4 days	2 days	3 days
Notice required	One week in advance	3 working days	Not specified	24 hours
Number of holidays paid for 12-month employees	11 holidays	10 holidays	12 holidays	11 holidays
Number of holidays paid for less than 12 month employees	6 holidays	9 holidays	Not specified	6 holidays
Number of days to file a grievance	Within 15 days of the time the grievant knew or should have known of the violation	Within 10 working days after the claimed violation occurred.	Level one: 5 days Level two: 15 working days after the event to put the grievance in writing.	N/A
Payment of the employee SERS portion by District	The Board pays 5% of the employees SERS contributions. This amounts to half of the employees required contribution of 10%.	No	No	No

<p>Cost of living increases each year of the contract</p>	<p>FY 2003-04 – 2.25% in addition to the salary increase, \$350 signing bonus paid with the first check after July 1, 2003 FY 2004-05 – 3.5% FY 2005-06 – 3.75%</p>	<p>FY 2002-03 – \$0.32 in addition to a one-time sum of \$300 for excellent performance FY 2003-04- 3.5% FY 2004-05 – 4.5% FY 2005-06 – 0%</p>	<p>FY 2004-05: 3% FY 2005-06: 3% FY 2006-07: 4%</p>	<p>FY 2005-06 - 0%</p>
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Source: Shelby Classified Employee Agreement and peer contracts.

Assessments Not Yielding Recommendations

In addition to the analyses in this report, assessments were conducted on areas within the human resources section which did not warrant changes and did not yield recommendations. These areas include the following:

- Staffing Analysis:** As shown in **Table 3-2**, staffing assessments not yielding recommendations include the following categories: administrators, vocational education, remedial specialists, occupational therapist, registered nursing, clerical, and bookkeeping.
- Vision Coverage:** Shelby CSD’s vision insurance premiums are lower than the peers that offer vision insurance. In addition, Shelby CSD requires its employees to pay a greater share of the premium costs.
- Sick Leave:** Shelby CSD’s teacher attendance rates are comparable to the peers and ODE’s state average for FY 2003-04. Furthermore, the District is estimated to average 54 sick leave hours per FTE for FY 2004-05, which is in-line with the Ohio Department of Administrative Services reported average. This is based on projecting the two remaining months based on the District’s actual sick leave use from July 1 through April 29, 2005.
- Supplemental Salaries:** Shelby CSD’s extracurricular expenditures per student in FY 2003-04 were lower than all three peers (see **financial systems**). In addition, Shelby CSD’s extracurricular expenditures per student should decline in FY 2005-06 due to the elimination of 23 supplemental contracts (estimated to save \$52,000) as part of the District’s financial recovery plan.

Noteworthy Accomplishments

The following are noteworthy accomplishments identified during the course of the performance audit for the District's human resource operations:

- **Staffing:** As part of the financial recovery plan the District reduced 47.2 FTE classified positions, and 15.1 FTE certificated positions prior to the start of FY 2005-06. Although there are still areas where the District can make additional reductions, the overall staffing levels are now lower than the peers. Prior to these reductions, the District's overall staffing levels were higher than all the peers (see **Table 3-2**).
- **Employee Negotiations:** In response to the current financial difficulties, the District negotiated to establish employee healthcare contributions during FY 2004-05. The contribution rates were established at 10 percent for certificated employees and 5 percent for the classified staff. The District was also able to negotiate zero percent cost of living adjustments (COLA) for FY 2005-06.

Recommendations

Staffing

R3.1 Shelby CSD should continually monitor student-to-teacher ratios and ESP staffing ratios, and regularly evaluate the impact staffing changes have on the District, both financially and educationally. If the District does not implement the performance audit recommendations and other strategies to reduce costs, and/or does not achieve the projections in the forecast (see Table 2-17 in financial systems), it should consider reducing regular education and ESP staffing levels. Based on the current staffing levels, the District could reduce up to 12 regular education teachers and 5 ESP personnel while still meeting the state minimum requirements. However, the District should weigh decisions to reduce teacher and ESP staffing levels against the impact the reductions may have on the District's education levels. Staffing levels for teachers should remain a function of District goals, enrollment, and financial condition as well as the State's requirements for minimum class sizes.

In terms of regular education staffing levels, Shelby CSD is required by ORC §3301.35 to maintain a minimum of one teacher for every 25 regular education students on a district-wide basis. In addition, the District's certificated bargaining agreement stipulates that the District must maintain individual class sizes under the following limits:

- **Kindergarten:** 21 students to one teacher
- **Grades 1-3:** 25 students to one teacher
- **Grades 4-6:** 27 students to one teacher
- **Grades 7-12:** 30 students to one teacher

Table 3-5 illustrates the teacher staffing levels for Shelby CSD and the peers on a regular and per 1,000 ADM basis.

Table 3-5: Shelby CSD Teacher FTE and ADM Peer Comparison FY 2004-05

	Shelby CSD FY 2004-05	Shelby CSD FY 2005-06 ¹	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Regular Teaching FTEs	104.8	95.3	102.2	127.0	89.5	106.2
Regular Teaching FTEs per 1,000 ADM	45.9	41.7	43.2	47.9	43.0	44.9

Source: Shelby CSD and peer FY 2004-05 EMIS Staff Summary Reports

¹ Shelby CSD reduced 9.5 regular education teaching staff for FY 2005-06.

Table 3-5 shows that Shelby CSD employed the second highest number of regular education teachers per 1,000 ADM when compared to the peers for FY 2004-05. However, during the course of this audit, the District adopted a financial recovery plan

which resulted in the reduction of 9.5 FTE regular education teaching positions prior to the start of FY 2005-06. When **Table 3-5** is adjusted to reflect the staffing reductions, the District's revised regular teaching staffing levels are 41.7 FTEs per 1,000 ADM, which is lower than all the peers. **Table 3-6** illustrates the regular education student-to-teacher ratios for Shelby CSD and the peers based on the FY 2004-05 EMIS regular student enrollment.

Table 3-6: Student to Teacher Ratio Peer Comparison FY 2004-05

	Shelby CSD FY 2004-05	Shelby CSD FY 2005-06	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Regular Teachers FTE	104.8	95.3	102.2	127.0	89.5	106.2
Regular Student Enrollment	1,949	1,949	1,948	2,304	1,806	2019
Student to Teacher Ratio	18.6	20.5	19.1	18.1	20.2	19.1

Source: Shelby CSD and peer ODE enrollment and FTE count.

¹ Shelby CSD reduced 9.5 regular education teachers for FY 2005-06.

As illustrated in **Table 3-6**, Shelby CSD's student-to-teacher ratio during FY 2004-05 was 18.6, which was lower than the peer average by approximately three percent. Additionally, Shelby CSD's student-to-teacher ratio was lower than the state minimum requirements (OAC §3301.35) as well as the minimums stipulated in the certificated bargaining agreement. However, when **Table 3-6** is adjusted to reflect the reductions for FY 2005-06, the student-to-teacher ratios increase from 18.6 to 20.5, which is greater than the peer average of 19.1, but still lower than the minimum requirements identified in OAC §3301.35 and the certificated bargaining agreement. Based on the revised staffing levels, the District could reduce up to 12 additional regular education teachers and still comply with state minimum requirements and the certificated bargaining agreement.

Table 3-7 compares Shelby CSD's ESP staffing levels to the peers.

Table 3-7: FY 2004-05 Comparison of ESP Staffing FTEs

Classification	Shelby CSD FY 2004-05	Shelby CSD FY 2005-06	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
ESP Teachers ¹	10.0	9.0	9.0	9.0	15.5	11.2
Counselors	5.0	4.0	5.0	5.0	4.0	4.7
Librarian Media Specialists	2.0	2.0	2.0	1.0	1.0	1.3
Registered Nurse	1.0	0.0	1.6	3.0	1.0	1.9
Social Worker	0.0	0.0	0.0	0.0	0.0	0.0
Totals	18.0	15.0	17.6	18.0	21.5	19.1
Total ADM	2,283	2,283	2,369	2,649	2,081	2,366
FTEs per 1,000 ADM	7.9	6.6	7.4	6.8	10.3	8.1

Source: Interviews and EMIS reports from Shelby CSD and peers.

¹ Includes those individuals who teach art, music or physical education at the elementary level.

As illustrated in **Table 3-7**, Shelby CSD had 18.0 FTEs in the ESP category in FY 2004-05, which was slightly lower than the peer average of 19.1. However, as part of the District's financial recovery plan, implemented prior to the start of FY 2005-06, the District reduced the ESP staffing levels by three FTEs (one teacher, one counselor and one registered nurse). As a result, the revised ESP staffing level of 15.0 FTEs is approximately 21 percent lower than the peer average. Furthermore, with these reductions, the District employs the lowest number of ESP FTEs per total 1,000 ADM when compared to the peers. However, the District employs more librarian media specialists than the peers (see **R3.2**).

Ohio Administrative Code (OAC) §3301-35-05(A)(4) requires school districts to employ a minimum of five education service personnel (ESP) for every 1,000 students in the regular student population. The statute goes on to indicate that ESP positions include art, music and physical education teachers, counselors, registered nurses, social workers, and library/media specialists. **Table 3-8** compares the ESP staffing levels for Shelby CSD to the peers on a per 1,000 regular student basis.

Table 3-8: FY 2004-05 ESP Staffing FTEs per 1,000 Regular Students

ADM	Shelby CSD FY 2004-05	Shelby CSD FY 2005-06	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Regular Students	1,949	1,949	1,948	2,304	1,806	2,019
ESP Teachers¹	5.1	4.6	4.6	3.9	8.6	5.7
Counselors	2.6	2.1	2.6	2.2	2.2	2.3
Librarian Media Specialists	1.0	1.0	1.0	0.4	0.6	0.7
Registered Nurse	0.5	0.0	0.8	1.3	0.6	0.9
Social Worker	0.0	0.0	0.0	0.0	0.0	0.0
Totals	9.2	7.7	9.0	7.8	11.9	9.6

Source: Interviews and EMIS reports from Shelby CSD and peers.

¹ Includes those individuals who teach art, music or physical education at the elementary level.

As illustrated in **Table 3-8**, Shelby CSD employed 9.2 ESP staff per 1,000 regular students in FY 2004-05, which was lower than the peer average of 9.6. However, with the staffing reductions that took place prior to the start of FY 2005-06, the District's revised ESP staffing levels per 1,000 regular students declined to 7.7 FTEs per 1,000 ADM, which is lower than all the peers. Based on the OAC requirements and the District's FY 2004-05 regular student enrollment (1,949), the District is required to employ a minimum of 9.75 ESP employees. The District currently employs approximately five more ESP FTEs than required by OAC.

Table 3-9 shows the number of standards that Shelby CSD and the peers met for FY 2004-05, as well as the performance index scores for the last three years.

Table 3-9: Academic Indicators

District	Designation	Standards Met (out of 23) FY2004-05	Performance Index Score 2004-05	Performance Index Score 2003-04	Performance Index Score 2002-03
Bellevue	Effective	20	95.6	92.3	87.6
Dover	Effective	21	98.6	93.5	94.7
Triway Local	Effective	16	94.1	93.2	85.3
Peer Average	Effective	19	96.1	93.0	89.2
Shelby	Effective	19	96.3	95.7	85.1

Source: District report cards

Table 3-9 shows that Shelby CSD met 19 performance standards, achieved a performance index score of 96.3, and received a rating as "Effective" from ODE in FY 2004-05, which were comparable to the peer averages. Additionally, and consistent with the peers (excluding Dover in FY 2003-04), the District's performance index score improved each year.

As shown in **Table 2-17** in the **financial systems** section, the Auditor of State's revised forecast is projecting financial recovery for the District without including any additional teaching reductions beyond those already adopted by the District. However, considering that the majority of the recommendations are subject to negotiation, the District may need to consider additional cost reductions, including regular and ESP staffing, to achieve financial solvency.

R3.2 Shelby CSD should consider reducing 1.0 librarian FTE by using its library aides to help operate the libraries and meet the needs of its students.

Table 3-10 illustrates the FY 2004-05 librarian staffing levels on a per 1,000 ADM basis at Shelby CSD and the peers.

Table 3-10: Shelby CSD Staffing Levels for FY 2004-05

Category	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Librarian / Media	2.0	2.0	1.0	1.0	1.3
ADM	2,283	2,369	2,649	2,081	2,366
Librarian / Media per 1,000 ADM	0.9	0.8	0.4	0.5	0.6

Source: FY 2004-05 EMIS Staff Summary Report and interviews from Shelby CSD and the peer districts

Note: Totals may vary slightly from actual due to rounding.

As illustrated in **Table 3-10**, Shelby CSD's librarian staffing level is higher than all the peers on a per 1,000 ADM basis. Shelby CSD currently employs two full-time librarians, or 0.88 FTEs per 1,000 ADM. The District assigns one librarian to the 5th and 6th grade school building and the other to the high school library. In contrast, Dover CSD and Triway LSD each employ only one librarian, who is assigned to the high school. Those districts supplement the librarian position by using library aides to meet the needs of the student population. Therefore, to ensure comparability, **Table 3-11** compares Shelby CSD's combined librarian/media and library aide staffing levels to the peers, based on ADM and the number of school buildings.

Table 3-11: Shelby CSD Combined Library Staffing Levels for FY 2004-05

Category	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Librarian / Media	2.00	2.00	1.00	1.00	1.33
Library Aides	4.00	2.82	4.00	4.86	3.89
ADM	2,283	2,369	2,649	2,081	2,366
Librarian / Media and Aides per 1,000 ADM	2.63	2.03	1.89	2.82	2.21
Number of School Buildings	5	7	5	5	5.7
Librarian / Media and Aides per Building	1.2	0.7	1.0	1.2	0.9

Source: FY 2004-05 EMIS Staff Summary Report and interviews from Shelby CSD and the peer districts

Note: In FY 2004-05, the District had 5.0 library aide FTEs and 6 buildings. However, prior to start of FY 2005-06, the District reduced one position due to the closing of Russell Elementary. **Table 3-11** reflects the revised staffing levels.

Table 3-11 shows that even with the librarian/media and library aides combined, Shelby CSD's staffing levels are higher than the peers. By reducing 1.0 librarian FTE, the District would have 2.2 and 1.0 total library FTEs per 1,000 ADM and per building, respectively, which are both similar to the peer averages.

Financial Implication: Assuming a starting salary of \$27,398 (based on 1st step of teacher salary schedule) and benefits at 42 percent of salary (based on FY 2004-05), reducing 1.0 librarian FTE would result in an annual savings of approximately \$38,900.

R3.3 Shelby CSD should develop policies and procedures to ensure that accurate reports are prepared and reconciled prior to being submitted to ODE and EMIS. For example, the District could adopt a policy that requires someone to conduct periodic audits of EMIS and other information (T-reports for transportation) before data is reported to ODE. This person should be independent of the data gathering and reporting process and should use sampling techniques to gain some assurance that the information is materially accurate and that the adopted policies and procedures for gathering information were followed.

Shelby CSD should also review its special education teacher staffing level to ensure it complies with the requirements stated in the Ohio Administrative Code (OAC) Section 3301-51-09. If Shelby CSD is operating with special education teacher staffing levels below OAC requirements, the District should obtain the necessary waivers from the Ohio Department of Education (ODE).

Table 3-12 illustrates the District's special education staffing levels for FY 2004-05 and FY 2005-06, as presented in EMIS and subsequently provided by the District during the course of this performance audit.

Table 3-12: Shelby CSD Special Education Staffing FTEs

Category	Per EMIS		Per District – Actual	
	Shelby CSD FY 2004-05	Shelby CSD FY 2005-06	Shelby CSD FY 2004-05	Shelby CSD FY 2005-06
Special Education Teaching	3.25	3.00 ¹	1.00	0.75 ¹
Supplemental – Special Education	21.67	20.67 ²	16.22	15.22 ²
Total	24.93	23.67	17.22	15.97

Source: Shelby CSD EMIS Staff Summary Reports and District officials

¹ Shelby CSD reduced 0.25 FTEs from FY 2004-05 to FY 2005-06.

² Shelby CSD reduced 1 FTE from FY 2004-05 to FY 2005-06.

As illustrated in **Table 3-12**, Shelby CSD reported 3.25 special education teachers and 21.67 supplemental service teacher FTEs through EMIS in FY 2004-05. In FY 2005-06, the actual combined staffing levels declined by 1.25 FTEs due to reductions made as part of the financial recovery plan. However, the Assistant Superintendent indicated that the EMIS figures shown in **Table 3-12** were inaccurate due to various coding issues. As a result, the Assistant Superintendent, the Special Education Coordinator and the EMIS Coordinator met to resolve the EMIS reporting issues and to provide more reliable special education staffing figures. Based on the information provided by the District, Shelby CSD actually employed 17.22 special education FTEs in FY 2004-05 and 15.97 FTEs in FY 2005-06, which is significantly lower than the staffing levels reported through EMIS. In addition, the Assistant Superintendent indicated that the 17 custodian/sweepers were mistakenly reported in the service other category rather than the custodial classification. The District does not have formal policies for EMIS reporting, which could be contributing to the reporting errors. By reporting inaccurate data in EMIS, the District is misrepresenting its staffing levels and potentially using unreliable data to manage District operations.

The Ohio Administrative Code (OAC) has established minimum special education staffing requirements based on the disability type of the students enrolled at a school district. **Table 3-13** presents the District's FY 2004-05 special education student enrollment and the maximum student-to-teacher ratios by disability type as determined by the OAC. This information is used to determine the minimum number of special education staffing levels required to comply with OAC.

Table 3-13: Special Education Staffing Analysis

Category	Shelby CSD Total Students	Maximum Teaching Ratios	Required Teaching FTEs
Cognitive Disabilities	69		
Elementary, Middle, Junior High Level	41	1:16	2.6
Senior High School Level	28	1:24	1.2
Specific Learning Disability	148		
Elementary, Middle, Junior High Level	98	1:16	6.1
Senior High School Level	50	1:24	2.1
Hearing, visual, orthopedic and/or other health impairments	63	1:10	6.3
Emotional Disturbances	11	1:12	0.9
Multiple Disabilities	35	1:08	4.4
Autism, deaf-blindness, and/or traumatic brain injury	7	1:06	1.2
Preschoolers	24	1:16	1.5
Total	357		26.0
Staffing Levels FY 2004-05			17.2
Difference between required and FY 2004-05 levels			8.8

Source: Shelby CSD special education enrollment and interviews

As shown in **Table 3-13**, the OAC standards indicate that the District should employ approximately 26.0 special needs teacher FTEs. Based on the figures provided by the Assistant Superintendent, the Special Education Coordinator and the EMIS Coordinator for FY 2004-05, the District only maintained a special education staffing level of 17.2 FTEs, resulting in a shortfall of 8.8 FTEs. This staffing shortfall increases to 10.0 FTEs in FY 2005-06 due to the staffing reductions implemented by the District. The lower special education staffing figures could be a result of the District's commitment to the inclusion model. The inclusion model is a result of OAC 3301-51-09 (A), which requires that a school district establish the least restrictive environment for children with special needs. Therefore, special needs children should be included within regular classes to the extent that their disabilities allow or as guided by the child's IEP. However, according to ODE's Office of Exceptional Children, if a district's special education student-to-teacher ratio does not meet the OAC requirements, the district must submit a request for a waiver. Should the district fail to do so, ODE could issue a citation and require corrective action. The District did not obtain a waiver in FY 2004-05.

During the course of this audit, the Superintendent indicated that both sets of staffing figures shown in **Table 2-12** are inaccurate and that the District currently employs 18 special education teachers and 22 special education aides. The District would be in compliance with the OAC standards if these staffing levels are correct.

R3.4 Shelby CSD should consider reducing 5.0 teaching aide FTEs to make its staffing level more comparable to the peers.

Table 3-14 illustrates the actual teaching aide staffing levels at Shelby CSD and the peer districts during FY 2004-05. In addition, projected staffing levels are presented for FY 2005-06 based on 21 teaching aide positions (16.3 FTE's) the District eliminated prior to the start of the school year as part of the financial recovery plan.

Table 3-14: Teaching Aide Staffing Levels for FY 2004-05

Category	Shelby CSD FY 2004-05	Shelby CSD FY2005-06	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Teaching Aide	38.1	22.8	6.2	13.0	12.8	10.7
ADM	2,283	2,283	2,369	2,649	2,081	2,366
Teaching Aide per 1,000 ADM	16.7	10.0	2.6	4.9	6.2	4.6

Source: FY 2004-05 EMIS Staff Summary Report and interviews from Shelby CSD and the peer districts

Note: Totals may vary slightly from actual due to rounding.

As illustrated in **Table 3-14**, after adjusting for the FY 2005-06 staffing reductions, Shelby CSD's teacher aide staffing levels are still higher than all of the peers. However, the District's higher staffing levels may be due to EMIS coding issues as the peers do not classify all of their teaching aides under one code. Specifically, Bellevue CSD and Triway LSD classify the teaching aides under the teaching aide and the instructional paraprofessional codes. Therefore, to ensure comparability, **Table 3-15** shows Shelby CSD's combined staffing levels for the teaching aides and instructional paraprofessionals in comparison to the peers.

Table 3-15: Combined Staffing Levels For Teaching Aides for FY 2004-05

Category	Shelby CSD FY 2004-05	Shelby CSD FY2005-06	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Teaching Aide	38.1	22.8	6.2	13.0	12.8	10.7
Instructional Paraprofessional	N/A	N/A	12.9	N/A	3.7	8.3
Total FTEs	38.1	22.8	19.1	13.0	16.5	16.2
ADM	2,283	2,283	2,369	2,649	2,081	2,366
Teacher Aides per 1,000 ADM	16.7	10.0	8.0	4.9	7.9	6.9

Source: FY 2004-05 EMIS Staff Summary Report and interviews from Shelby CSD and the peer districts

Note: Totals may vary slightly from actual due to rounding.

Table 3-15 shows that even when including instructional paraprofessionals, Shelby CSD's teaching aide staffing levels are higher than all of the peers. By reducing 5.0 teaching aide FTEs, Shelby CSD would employ a number of FTEs similar to Bellevue CSD and Triway CSD.

Financial Implication: Based on the FY 2004-05 average salary of \$13,384 and benefits at 21.6 percent of salary (based on part-time employees), reducing 5.0 FTE teaching aide positions would result in annual savings of approximately \$81,400.

R3.5 The District should continually monitor the food service operations and adjust as necessary to avoid potential operating deficits. If the District encounters recurring deficits in the Food Service Fund in the future, it should perform a cost/benefit analysis to determine the feasibility of implementing a central kitchen concept without negatively impacting the number of students who are buying their lunches. Based on comparisons to the peers, the District could potentially reduce 6.5 FTEs by implementing a central kitchen concept.

Table 3-16 shows Shelby CSD's food service staffing levels in comparison to the peers on a per 1,000 ADM and building basis.

Table 3-16: Shelby CSD Food Service Staffing Levels Comparison FY 2004-05

Category	Shelby CSD FY 2004-05	Shelby CSD FY2005-06	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Food Service FTEs	24.0	22.5	15.5	20.0	13.5	16.3
ADM	2,283	2,283	2,369	2,649	2,081	2,366
FTEs per 1,000 ADM	10.5	9.9	6.6	7.6	6.5	6.9
Number of Buildings	6	5	7	5	5	5.7
FTEs per Building	4.0	4.5	2.2	4.0	2.7	2.9

Source: EMIS and district information

Table 3-16 shows that the District's food service staffing levels are higher than all the peers. The high staffing levels are due to the District operating a full kitchen and breakfast program at each building. In contrast, the peers' food service operations are more centralized than Shelby CSD. Food is prepared at a central location(s) and then transported to the other school buildings before the respective lunch periods. According to the Superintendent, Shelby CSD used to operate with a central kitchen concept. However, he indicated that the quality of food suffered and the lunch counts declined as a result.

The District made transfers from the General Fund to the Food Service Fund in order to eliminate deficits in FY 2002-03 and FY 2003-04. However, the District reversed the trend in FY 2004-05 and finished with a \$30,000 surplus balance. The Assistant Superintendent indicated that the District made several changes prior to the start of FY

2005-06 in an effort to ensure that the Food Service Fund remains self-sufficient. These changes include reducing the staffing level by 1.5 FTEs, implementing price increases for students and staff, and changing food supply vendors in order to receive discounted prices. In addition, the Superintendent noted that the District recently implemented a point of sale program that allows students on free and reduced lunch programs to remain anonymous, which has resulted in an increase in lunch counts.

- R3.6 The District should contact the City of Shelby in an effort to have the police department take over the process of ensuring student safety at busy intersections. Since this action may involve the City having to assume additional costs, the District may want to propose a phased-in approach whereby some of the costs of the program are paid by the District for a defined period of time. For example, the District might want to propose to pay 50 percent of the cost of the crossing guards in year 1, 30 percent in year 2, 10 percent in year 3 and nothing thereafter. In addition to the cost savings, implementing this recommendation will benefit the District by shifting the potential liability for student safety to the police department, which is better suited for carrying out the safety function.**

Table 3-17 illustrates the FY 2004-05 guard/watchman staffing levels on a per 1,000 ADM basis for Shelby CSD and the peers.

Table 3-17: Shelby CSD Staffing Levels for FY 2004-05

Category	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Guard/ Watchman	3.2	0.0	0.0	0.0	0.0
ADM	2,283	2,369	2,649	2,081	2,366
Guard/ Watchman per 1,000 ADM	1.4	0.0	0.0	0.0	0.0

Source: FY 2004-05 EMIS Staff Summary Report and interviews from Shelby CSD and the peer districts

Note: Totals may vary slightly from actual due to rounding.

As illustrated in **Table 3-17**, Shelby CSD employs 3.2 FTEs under the guard/watchman classification. The District's guard/watchman EMIS classification consists of crossing guards that work before and after school to direct traffic and help students walk safely across busy intersections. In contrast, none of the peers employ crossing guards because the responsibility is assumed by the city and village police departments for each of the respective districts. The Ohio Revised Code (ORC) § 737.11 indicates that it is a municipal police department's general responsibility to preserve the peace and to protect all persons and property within the municipal corporation.

Financial Implication: Based on the FY 2004-05 average salaries of \$3,343 and part-time benefits at 21.6 percent of salary, reducing the 3.2 FTE positions would result in an annual savings of approximately \$12,800. If the District implemented a phase-in approach similar to the example noted in the recommendation, the financial savings

would be reduced to approximately \$6,400 in year 1, \$9,100 in year 2, and \$12,000 in year 3.

Benefit Administration

R3.7 During future contract negotiations, Shelby CSD should negotiate to require all full-time employees, and all employees receiving full benefits, to pay at least 12 percent of their monthly health care premium. This would not only help the District to eliminate the current deficit in the health insurance fund, but it may also allow for the accrual of a reserve balance that can be used to cover unexpected increases in claims costs.

Shelby CSD is self-insured for health care purposes and therefore, has the ability to set its own premiums. The District has experienced deficits within the Health Insurance Fund during the last few years with the deficit peaking at approximately \$1.0 million at the conclusion of FY 2004-05. According to the Assistant Superintendent, the large deficit is due to a combination of the District not implementing the premium rate increases that were recommended by the third-party administrator and high claims costs in recent years.

To address the deficits in the Health Insurance Fund, the District changed its third-party administrator in January 2005. In addition, the District negotiated to require monthly employee contributions towards the healthcare premium costs. These contributions took effect in January 2005 and range from five percent for classified employees to ten percent for certificated employees. The District also implemented significant increases in the monthly health care premiums for FY 2004-05 and FY 2005-06. Although these changes allowed the District to reduce the deficit in the Health Insurance Fund to approximately \$30,000 at the conclusion of FY 2004-05, the District still does not have a reserve balance in the Health Insurance Fund to cover against unexpected increases in claims costs.

Table 3-18 compares Shelby CSD's monthly premium costs and employee contribution levels to the peers and the State Employment Relations Board (SERB Report) averages for comparable school districts.

Table 3-18: Healthcare Insurance Premium Comparison for FY 2004-05

School District	Provider(s)	Monthly Premium for Single Plan	Full-time Employee Share	Monthly Premium for Family Plan	Full-time Employee Share
Shelby CSD	Super Med Plus PPO	\$363.63	\$36.36 (Certificated) \$18.18 (Classified)	\$835.13	\$83.52 (Certificated) \$41.76 (Classified)
Bellevue CSD	Medical Mutual	\$330.62	\$70.31	\$923.09	\$178.54
Dover CSD	East Ohio School Consortium	\$314.45	\$14.00	\$805.69	\$34.00
Triway LSD	Medical Mutual PPO Super Med Plus	\$345.47	\$27.64	\$860.47	60.00
Peer Average		\$330.18	\$37.32	\$863.08	\$90.85
2004 SERB		\$349.22	\$41.30	\$913.18	\$112.43
SERB Regional Average Columbus		\$366.76	\$34.34	\$963.16	\$115.73

Source: Shelby CSD, peers, and SERB

As illustrated in **Table 3-18**, Shelby CSD's health insurance premium for the single plan is the highest when compared to the peers and overall SERB average, although it is in-line with the SERB regional average. However, its health insurance plan for family is the lowest when compared to the peers and SERB averages, with the exception of Dover CSD. **Table 3-18** also shows that Shelby CSD's contribution rates are inequitable in that classified employees contribute five percent towards the monthly premiums while the certificated employees contribute 10 percent.

SERB completes an annual report for the cost of health insurance in Ohio's Public Sector. SERB's 2004 Report on healthcare costs found that the Ohio public employees' portion of the premium cost for medical coverage averaged \$41.30 for single coverage and \$112.43 for family coverage. These rates amount to 11.8 percent of the average monthly premium cost for single coverage and 12.3 percent of the monthly premium cost for family coverage, and are higher than Shelby CSD's contribution rates for certificated and classified staff. In addition, Bellevue CSD is requiring employee contributions of approximately 21 percent for single coverage and 19 percent for family coverage.

Table 3-19 compares Shelby CSD's General Fund expenditures for employee fringe benefits to the peer school districts for FY 2003-04. The data is presented on a per student basis to account for differences in student population size.

Table 3-19: Employee Fringe Benefit Expenditures

	Shelby CSD FY 2003-04	Shelby CSD FY 2004-05	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Fringe Benefits	1,865	2,170	1,407	1,579	1,520	1,502

Source: Shelby CSD and the peers

As illustrated in **Table 3-19**, Shelby CSD spent more on employee fringe benefits than all three peers, and approximately \$363 more per student than the peer average in FY 2003-04. In addition, Shelby CSD's benefit cost per student increased by \$305 in FY 2004-05, or approximately 16 percent. The higher benefit costs per student are due to the following:

- Paying half (5 percent out of 10 percent required contribution) of the employee's pension contributions (see **R3.14**);
- Maintaining higher staffing levels than the peers in FY 2003-04 and FY 2004-05 (see **Table 3-2**);
- Not implementing employee premium contributions for healthcare until January 2005;
- Implementing employee contributions for classified staff that are lower than two of the peers;
- Offering dental benefits which are more generous than the peers (see **R3.9**);
- Offering life insurance benefits which are more generous than the peers (see **R3.10**); and
- Allowing transportation personnel to receive full insurance benefits while only working 4 hours per day (see **R3.8**).

By having different employee contributions for health care, the District is not treating its employees in an equitable and uniform fashion. Furthermore, requiring employee contributions that are lower than the overall SERB average prevents the District from further minimizing healthcare costs.

Financial Implication: Shelby CSD's current enrollment for medical coverage as of February 1, 2005 consists of 37 single plans and 207 family plans. If the District negotiated a 12 percent employee contribution for all employees, the potential annual cost savings would be approximately \$88,600.

R3.8 Shelby CSD should negotiate to increase the minimum work hour requirement for bus drivers to receive full medical coverage, such as increasing it to a minimum of 30 hours per week in order to be consistent with the rest of the classified and certificated staff, and the peers. If the District is unable to establish a minimum work hour requirement, it could also achieve substantial savings by negotiating to

require employee contributions based on the hours worked per week, similar to the teaching staff, Bellevue CSD and Dover CSD.

Shelby CSD’s certificated, classified, and administrative employees are covered under a Medical Mutual PPO plan. **Table 3-20** compares the key medical insurance benefits at Shelby CSD and the peer districts for FY 2004-05.

Table 3-20: Key Medical Plan Benefits

	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD
Health Plan	Medical Mutual PPO ¹ SuperMed Plus	Medical Mutual ¹	The East Ohio Schools Employees Insurance Consortium Health Benefit Plan	Medical Mutual PPO ¹ SuperMed Plus
Hours Worked for Eligibility	<p>Classified Staff: Employees who work more than 6 hours per day are eligible for benefits, except bus drivers who are defined as working 4 hours per day. There is no part time provision for partial paid medical insurance.</p> <p>Certificated Staff: Minimum of 6 hours per day for full benefits. 45% coverage is provided to teachers working between 3 and 6 hours per day.</p>	<p>Local #612- Classified – per negotiated agreement: <u># of Paid Hours Per Day</u> 6.5 – 8 hours – 100% 5.5 – 6.5 hours – 85% 4.5 – 5.5 hours – 75% 3.5 – 4.5 hours – 25% Less than 3.5 hours no benefits</p> <p>Part-time employees may share in the insurance program by requesting a salary deduction of an amount equal to the difference between the premium cost and the Board of Education obligation. The Board obligation shall be equal to the percentage of full-time duty shown on the teacher’s contract.</p>	<p>Local #392- Minimum of 12 hours per week</p> <p>All classified employees are eligible for benefits according to hours worked in a week as follows: 0-12 25% Board Paid Premium 13-24 50% 25-32 75% 32+ 100%</p>	<p>Minimum of 20 hours per week; and minimum of various hours per week dependent upon position</p>
Office Visits	\$10.00 copay, then 100%	\$10 deductible per visit 100% after deductible	90% after deductible	100%
Prescription Plan	Yes	Yes (AFSCME plan)	Yes	Yes

	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD
Cost	Generic copayment \$5 – 30 day supply Brand name copayment \$10 – 30 day supply	Board pays 100 % of maximum premiums for all employees under monetary cap	90% after deductible	Generic - \$10 Formulary-\$15 Non-formulary -\$20
Mail Order	Generic copayment \$10 – 90 day supply Brand name copayment \$20 – 90 day supply	Employee pays 90% of the amount of covered expense. \$500 maximum amount per insured person per calendar year	N/A	Generic - \$20 Formulary - \$30 Non-formulary - \$40
Employee Annual Deductible	\$150 S/ \$300 F	\$100 S/ \$200 F	\$100 S/ \$200 F	None
Employee Out of Pocket Maximum	\$600 S / \$800 F	\$600 S / \$800 F	\$200 S/ \$400 F	None
Maternity	90% after deductible	100%	90 % after deductible	100%
Well Child Care	0-9 Years: \$10.00 copay then 100%	\$10.00 per visit	\$1,000/\$250 annual maximum 0-1 Years: \$500 maximum benefit payable 1-9 Years: \$150 maximum benefit payable	100 %
Inpatient Hospital Care	90% after deductible	90% after deductible	90% after deductible	100%
Maximum Lifetime Benefit Amount	\$1,000,000	\$1,000,000	\$1,000,000 (Certificated/Administrative) and Classified)	\$2,500,000

Source: Healthcare booklets and collective bargaining agreements for Shelby CSD and peers

¹Medical Mutual plan information only includes network benefits.

As indicated in **Table 3-20**, with the exception of providing full benefits to the transportation employees, Shelby CSD’s benefit provisions are comparable to the peers. As noted in Shelby CSD’s classified contract, an eligible employee is one who works six hours or more per day for all staff except for bus drivers, who are required to work only four hours per day to qualify for full benefits. In contrast, Dover CSD and Bellevue CSD both require employees to work 32 hours per week to receive full health care benefits, regardless of the position. Under Dover CSD’s benefit plan, a transportation employee who works 20 hours per week would receive 50 percent coverage while the same employee would only receive 25 percent coverage under Bellevue CSD’s plan.

The provision that provides full health care benefits to transportation employees who work four hours per day can be expensive. Currently, the transportation department employs seven bus drivers who receive full benefits but are only working approximately four hours per day.

Financial Implication: Assuming the District adopts Dover CSD's benefits eligibility schedule, the District's bus drivers would be responsible for paying half of the medical premiums. Currently, all seven bus drivers are receiving full family benefits at the cost of \$835.13 for each plan. Therefore, increasing the bus drivers' share to 50 percent of the total premium cost would result in an annual cost savings of \$35,000.

R3.9 Shelby CSD should consider negotiating to reduce the maximum annual dental benefit and the lifetime maximum for orthodontic services to be more in line with the peers. Furthermore, the District should consider implementing at least a six percent employee contribution towards the monthly dental premiums. In addition to bringing the District's dental benefits in line with the peers, this would help the District reduce the total cost of employee benefits and help build a reserve balance in the Health Insurance Fund (see R3.7).

Table 3-21 illustrates the FY 2004-05 dental premiums for Shelby CSD and the peers.

Table 3-21: Dental Premiums

School District	Monthly Premium for Single Plan	Full-time Employee Share	Monthly Premium for Family Plan	Full-time Employee Share
Shelby CSD	\$63.86	N/A	\$63.86	N/A
Bellevue CSD	\$57.30	\$3.65 (Certificated only, none for Classified)	\$57.30	\$3.65 (Certificated only, none for Classified)
Dover CSD	\$26.32	N/A	\$65.81	N/A
Triway LSD	\$19.27	\$1.54	\$64.28	\$5.14
Peer Average	\$34.30	N/A	\$62.46	N/A
2004 SERB Average	\$34.87	N/A	\$66.11	N/A

Source: Shelby CSD and Peer Treasurer Offices and SERB

Table 3-21 shows that Shelby CSD has the same monthly premiums for the single and family dental plans, similar to Bellevue CSD. The District's monthly dental insurance premium is much higher than each of the peer districts and the SERB 2004 benchmark for single plans, but comparable to the peer and SERB averages for family plans. However, when averaging the single and family peer and SERB premiums to provide a more relevant comparison to Shelby CSD, the District's premiums are much higher than each peer and SERB. Additionally, Shelby CSD employees are not required to contribute towards the dental health care premiums. By comparison, Triway LSD requires

employee contributions from all employees while Bellevue CSD requires contributions from its certificated staff.

Table 3-22 illustrates the dental benefits established at Shelby CSD and the peer districts.

Table 3-22: Dental Benefit Comparisons

Description	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD
Maximum Benefit each calendar year for class 1,2, and 3 per person	\$2,000	\$1,000	\$1,500	\$1,500
Lifetime Maximum for Orthodontic services per person	\$2,000	\$1,500 (Class IV)	\$750	\$2,000
Annual Deductible	\$25S/\$50F	\$25S/\$50F (Class II, III only)	\$25 (waived for Class I, and IV)	\$25S/\$75F
Percentages for Dental Procedures				
Class 1- Preventative and Diagnostic	100%	100%	100%	100%
Class 2-Basic Restoration	80%	80%	80%	80%
Class 3- Major Restoration	60%	60%	60%	50%
Class 4- Orthodontia	60%	60%	60%	50%

Source: Shelby CSD benefits summary and Peer negotiated contracts.

As illustrated in **Table 3-22**, the percentages the District pays for dental procedures are comparable to the peers. However, Shelby CSD's maximum annual benefit is \$1,000 higher than Bellevue CSD and \$500 higher than Dover CSD and Triway LSD. In addition, Shelby CSD's lifetime maximum orthodontic benefit is \$500 higher than Bellevue CSD and \$1,250 higher than Dover CSD. These generous benefits contribute to the District's higher dental premiums in Table 3-22. Coupled with the lack of employee contributions, the District's dental plan appears to be expensive.

Financial Implication: Shelby CSD's current enrollment for dental coverage as of May 1, 2005 consists of 37 single plans and 207 family plans. Assuming that the District could achieve Bellevue CSD's premiums by reducing the maximum annual dental benefit from \$2,000 to \$1,000 and the lifetime maximum for orthodontic services from \$2,000 to \$1,500, the potential annual cost savings would be approximately \$19,200. In addition, if the District negotiated a six percent employee contribution to the reduced premium of \$57.30, similar to Bellevue CSD but lower than Triway LSD, it could realize additional cost savings of approximately \$10,000 annually.

R3.10 Shelby CSD should attempt to renegotiate the provision in the collective bargaining agreements that provides all retirees with a \$10,000 life insurance policy. In addition to bringing the District's life insurance benefits in line with the peers, this

would help the District reduce the total cost of employee benefits as well as help build a reserve balance in the Health Insurance Fund (see R3.7).

Shelby CSD provides its employees with the first \$40,000 of life insurance coverage. In addition, the District provides its employees the option to purchase additional life insurance coverage at their own expense. **Table 3-23** illustrates the life insurance coverage provided by Shelby CSD and the peer districts.

Table 3-23: Shelby CSD Life Insurance Benefits Comparison FY 2004-05

Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD
\$0.19 per \$1,000 of coverage (\$40,000 per certificated and classified staff member)	Based on salary as of September 1, Cost \$0.115 per thousand per month	N/A	\$0.10 per \$1,000 of coverage (\$43,000 per certificated classified staff member)

Source: Shelby CSD and peers

Note: Dover CSD does not provide life insurance benefits for their employees.

Table 3-23 indicates that the cost of Shelby CSD's life insurance policy (\$0.19 per \$1,000) is higher than the peers. According to the Superintendent, the District used competitive bidding in FY 2004-05 to reduce the life insurance costs from \$0.315 per \$1,000 to the current rate of \$0.19 per \$1,000. However, provisions in the bargaining agreements state that the District will provide all eligible employees who retire from Shelby CSD with a \$10,000 life insurance policy. Considering that the peers do not provide their retirees with life insurance coverage, this provision contributes to the District's higher life insurance costs.

Financial Implication: If Shelby CSD eliminated the additional life insurance benefits for retirees and achieved premium costs similar to the peers, the District would realize an annual cost savings of \$8,400 annually. This is based on the number of employees receiving life insurance as of May 1, 2005. However, since this provision is included as part of the collective bargaining agreements, the savings from eliminating the provision can only be achieved with future retirees.

Collective Bargaining Agreements

R3.11 Shelby CSD should negotiate to reduce the cost of the retirement incentive. In addition, the District should attempt to make the retirement incentive a fixed amount similar to Bellevue CSD and Dover CSD. In addition to helping to reduce the incentive costs, this would avoid significant variability in potential payouts.

As a retirement incentive, Shelby CSD provides two additional days of severance pay for each year of service for employees that retire in the first year of eligibility. The retirement incentive is limited to employees with 10 years of service at Shelby CSD and allows for a maximum payout of 45 days. By comparison, Bellevue CSD offers its employees a one-time retirement incentive of \$6,000 while Dover CSD only offers \$200.

Based on the years of service for the certificated staff, the District will have at least six teachers who are eligible for the retirement incentive in FY 2005-06. Assuming all six retire with at least 23 years of service with Shelby CSD and using the salary from step 25 of the bachelor's salary schedule (\$48,948), this equates to the District potentially having a minimum liability of approximately \$51,000 for retirement incentives in FY 2005-06. In contrast, the minimum liability would only be \$36,000 under Bellevue CSD's plan and \$1,200 under Dover CSD's plan. In addition to a relatively expensive payout, the District's retirement incentive liability can vary substantially based on years of service and the education levels of the retiring individuals. For instance, the District's liability for retirement incentives could significantly exceed \$51,000 if the retiring teachers have obtained higher education levels.

Financial Implication: Assuming the District has six teachers eligible for retirement every year, the District could save a minimum of \$15,000 annually by adopting a retirement incentive program similar to Bellevue CSD.

R3.12 Shelby CSD should negotiate to decrease the number of vacation days provided to classified employees. For example, it could negotiate to decrease vacation days for employees with 7 to 10 years of service from 15 days to 10 days annually, and for employees with 13 to 20 years of service from 20 days to 15 days annually. This would potentially increase productivity while helping to minimize the need for substitutes and/or overtime.

Currently, Shelby CSD provides 15 days of vacation to employees with 7 to 12 years of service and 20 days of vacation to employees with 13 or more years of service. In contrast, the peer districts begin providing 15 days of vacation to employees with 10 years or more of service and 20 days for over 20 years of service. The District's vacation accumulation rate is also higher than the minimum established by ORC § 3319.084, which states that employees are entitled to the following numbers of days based on the established years of services:

- 1 year -10 years: two calendar weeks (10 days).
- 10 years – 20 years: three calendar weeks (15 days)
- 20 or more years: four calendar weeks (20 days)

Providing full-time employees with more vacation days than the peers can reduce productivity since there are fewer work days devoted to District operations. In addition, providing employees with more days off can potentially increase operating costs if substitutes and/or overtime are needed to cover the absence.

Salaries

R3.13 Shelby CSD should periodically review salaries to determine the appropriateness of the current salary schedules and make any necessary adjustments. Additionally, in order to achieve the financial recovery plan modeled in Table 2-17, the District should attempt to negotiate cost-of-living adjustments (COLA) of no more than two percent annually during the next contract period. Limiting the COLAs to two percent would temper the rate of compensation increases, generate cost avoidances, and keep the District’s salary schedules comparable to the peers.

Table 3-24 compares Shelby CSD’s average salaries reported through EMIS to the peers.

Table 3-24: Adjusted Average Salaries for Shelby CSD and Peers

	Shelby CSD		Bellevue CSD		Dover CSD		Triway CSD		Peer Average	
	# FTEs	Avg. Salary	# FTEs	Avg. Salary	# FTEs	Avg. Salary	# FTEs	Avg. Salary	# FTEs	Avg. Salary
Administration	17.0 ¹	\$63,536 ¹	19.01	\$63,491	15.0	\$63,317	11.0	\$61,942	15.0	\$63,055
Prof. Education	160.17	\$44,651	169.87	\$43,666	180.6	\$43,223	142.5	\$46,987	164.32	\$44,464
Prof. Other	3.12	\$50,802	7.60	\$42,991	7.5	\$38,852	2.0	\$42,425	5.7	\$41,109
Technical	7.00	\$20,263	16.72	\$17,053	5.0	\$17,566	8.53	\$13,059	10.08	\$16,011
Office/Clerical	53.43	\$16,964	26.45	\$24,440	30.0	\$19,477	26.33	\$18,558	27.59	\$20,771
Crafts/Trades	2.0	\$40,688	5.0	\$36,163	5.0	\$33,040	2.78	\$28,962	4.26	\$33,375
Transportation	12.43	\$22,315	20.17	\$15,949	12.0	\$15,002	21.0	\$11,292	17.72	\$13,896
Custodians	21.0 ²	\$18,972 ²	11.88	\$29,790	13.0	\$31,156	14.0	\$27,475	12.96	\$29,413
Food Service	23.03	\$11,543	15.54	\$12,750	20.	\$9,334	13.46	\$16,366	16.33	\$12,349
Service Other	3.15	\$3,342	5.67	\$18,138	11.0	\$4,576	0.62	\$12,452	5.76	\$9,306
Totals	304.33	\$34,621	297.91	\$37,059	299.10	\$35,796	242.22	\$37,124	279.74	\$36,628

Source: EMIS

¹ Adjusted to include Shelby CSD’s transportation, food service and maintenance supervisors as they assumed duties previously performed by the business manager and essentially function in a director-capacity.

² Adjusted to include 17 sweeper FTEs because they perform custodian functions.

Explanations for the employee classifications where Shelby CSD is higher than the peer average include the following:

- **Professional Other** – The District’s average salaries for professional other are approximately 24 percent higher than the peer average. The higher average salaries are due to a combination of employee years of service and the peers outsourcing some of these functions. Furthermore, the District’s salary schedule for the certificated staff is generally lower in comparison to the peers.
- **Technical** – The District’s average salaries for technical are approximately 27 percent higher than the peer average. This can be attributed to EMIS coding differences between Shelby CSD and the peers. For example, Shelby CSD includes the EMIS coordinator and a technology staff member within the technical classification whereas the peers have coded these positions elsewhere. In addition, years of service also contribute to the higher salaries as the District’s EMIS coordinator is scheduled to retire at the conclusion of FY 2005-06.
- **Crafts/Trades and Transportation** – The District’s average salaries for crafts/trades and transportation are approximately 22 percent and 61 percent higher than the peer averages, respectively. The higher average salaries are due to employee years of service because the District’s salary schedules for the crafts/trades and transportation employees are comparable to the peers. Additionally, the District operates a half day kindergarten program, which results in the District’s bus drivers working more hours in comparison to the peers.

The collective bargaining agreements for the certificated and classified staff both expire on June 30, 2006. The certificated staff received a 2.75 percent COLAs in FY 2003-04, 3.25 percent in FY 2004-05 and 0 percent in FY 2005-06, while the classified staff received 2.25 percent in FY 2003-04, 3.5 percent in FY 2004-05 and 0 percent in FY 2005-06. Given that Shelby CSD is in fiscal emergency, the District will have difficulty restoring and maintaining financial stability if it negotiates large COLA increases. In addition, if the District negotiates large COLA’s during the next contract, the District’s average salaries and salary schedules will exceed the peers in future years. This is due to Bellevue CSD and Triway LSD negotiating wage freezes for FY 2005-06 in response to their current financial difficulties. The financial recovery plan modeled in **Table 2-17** shows the District achieving financial recovery. However, the forecast assumes that the District will negotiate COLAs of no more than two percent during the forecast period. Negotiating higher COLAs may require the District to implement other cost reductions, such as regular teacher and ESP staffing levels (see **R3.1**). Lastly, **Table 3-24** does not include the effect of the District paying a portion of the employee’s retirement contribution (see **R3.14**).

Retirement Benefit

R3.14 The District should negotiate to cease paying the employees' retirement benefit for all staff. This will help the District restore financial stability as well as bring the total employee compensation package in-line with the peers. However, if the District is unsuccessful in negotiating to eliminate the payment of the retirement benefit, it should seek to reduce the level of COLAs negotiated in future contracts (see R3.13).

According to Shelby CSD's certificated and classified bargaining agreements, the Board has agreed to pay half (5 percent out of 10 percent) of all bargaining unit employees' contributions to STRS and SERS. In addition to this retirement benefit, the Board has agreed to pay an additional 0.5 percent after 15 years of service to the certificated employees as a cash stipend while the employee continues to contribute their original five percent. Furthermore, the Board pays the entire contribution for the administrative staff. In contrast, with the exception of Triway LSD, the peers do not offer this benefit to staff. Triway LSD offers a one percent payment only to certificated employees. Given that the District's salaries are comparable to the peers (see **Table 3-24**), the pension benefit causes the District's total compensation package to be more costly.

Financial Implication: In FY 2004-05, the District's additional benefit expense for the payment of the employees' retirement contribution was approximately \$545,000.

Financial Implications Summary

The following tables are summaries of estimated annual cost savings. The financial implications are divided into two groups: those that are, and those that are not subject to negotiation. Implementation of those recommendations subject to negotiation would require agreement from the affected bargaining units.

Recommendations Not Subject to Negotiation

Recommendations	Estimated Annual Cost Savings
R3.2 Reduce a librarian position by 1.0 FTE	\$38,900
R3.4 Reduce teaching aide positions by 5.0 FTEs	\$81,400
R3.6 Transfer crossing-guard duties to police	\$6,400
Total	\$126,700

Recommendations Subject to Negotiation

Recommendations	Estimated Annual Cost Savings
R3.7 Negotiate to require all full-time employees, and all employees receiving full benefits, to pay 12 percent of the monthly health care premiums	\$88,600
R3.8 Negotiate to increase the minimum work hour requirement for transportation employees to receive full medical coverage	\$35,000
R3.9 Negotiate to reduce the maximum annual dental benefit and the lifetime maximum for orthodontic services and to increase employee contributions	\$29,200
R3.11 Negotiate a reduced retirement incentive	\$15,000
R3.14 Eliminate the payment of the employees' retirement contribution	\$545,000
Total	\$712,800

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Facilities

Background

This section of the performance audit focuses on Shelby City School District's (Shelby CSD) custodial, maintenance and building operations. The objective is to analyze these areas and develop recommendations for operational improvements and expenditure reductions. The District's operations are evaluated against best practice and operational standards from the American School and University (AS&U) *Maintenance & Operations Cost Study*, the National Center for Educational Statistics (NCES), and other peer districts. The peer districts include Bellevue City School District (Bellevue CSD), Dover City School District (Dover CSD), and Triway Local School District (Triway LSD).

Organizational Structure and Function

During FY 2004-05, Shelby CSD consisted of six school buildings: four elementary schools, one middle school, and one high school. However, the District closed Russell Elementary School prior to the start of FY 2005-06 in response to the current financial difficulties. The District also operates a Board and technical building separate from the other facilities, a bus garage, and several sports facilities. Additionally, the District is currently in the process of constructing a new field house which is expected to be completed during FY 2005-06. The field house construction costs are being funded through donations by the local boosters club and through tax revenues from the District's permanent improvement fund. The Director of Buildings and Grounds is responsible for the oversight of all custodial and maintenance employees servicing these facilities.

Staffing

The goal of the custodial, maintenance and groundskeeping staff is to provide the students with a safe, attractive and clean place in which to learn, play and develop. The custodial and cleaning staff are responsible for opening, closing and cleaning the buildings. During days when school is in session and it is not possible to enter classrooms to clean, the day custodians and cleaning staff maintain common areas. The building principals are responsible for daily supervision of the custodial staff assigned to their buildings.

The maintenance staff helps support the goals of the District by maintaining the heating, ventilating, air conditioning and plumbing systems within the various buildings. The maintenance staff also performs painting, carpentry and electrical work for the District. The groundskeeping staff is responsible for providing a safe, attractive and clean exterior

environment by performing lawn maintenance duties on the athletic fields throughout the District and assisting with other duties (snow removal, painting, etc.) during the winter months. **Table 4-1** illustrates the custodial, maintenance and groundskeeping staffing levels, and the number of FTEs responsible for maintaining Shelby CSD's facilities.

Table 4-1: Number of Positions and FTEs in FY 2004-05

Classification	Total Number of Positions	Number of Full-Time Equivalents
Administrative	2.0	1.1
• Director of Building and Grounds	1.0	0.5 ¹
• Secretary	1.0	0.6
Custodial	18.0	14.4
• Head Custodian	6.0	6.0
• Sweeper	12.0	8.4
Maintenance and Grounds	4.0	3.7
• Maintenance	2.0	1.8 ¹
• Grounds	2.0	1.9
Total	24.0	19.2

Source: Shelby CSD and EMIS.

Note: Due to differences in reporting methodology, staffing figures may not match EMIS data.

¹The Director of Buildings and Grounds spends approximately half of his time maintaining the District's buildings.

Key Statistics

Key statistics related to the facility maintenance and operations (M&O) of Shelby CSD are presented in **Table 4-2**. In addition, results from the 34th Annual American School and University (AS&U) Maintenance and Operations Cost Study, which was released in April 2005, are also included in **Table 4-2** and throughout this section of the report. AS&U conducted a detailed survey of chief business officials at public school districts across the nation to gather information regarding staffing levels, expenditures, and salaries for maintenance and custodial workers. This year's report provides the median number for each category on a national level and by district enrollment.

According to the 34th annual AS&U study, school districts are continuing to attempt to make up budget shortfalls by cutting maintenance and operations expenditures. However, since this has been a common practice for decades, the AS&U study noted that continued reliance on maintenance and operation spending reductions can be equated to "trying to get blood from a stone – there is little left to cut without causing additional harm, and some districts have reduced spending so much that learning environments are being impacted significantly."

Table 4-2: Key Statistics and Indicators

Number of School Buildings	16
• Elementary Schools	4
• Middle School	1
• High School	1
• Other ¹	10
Total Square Feet Maintained¹	369,698
• Elementary Schools	136,861
• Middle School	72,000
• High School	111,250
• Other	49,587
Square Feet Per FTE Custodial Staff Member (14.4 FTEs)¹	22,679
• Elementary Schools (11.8 FTEs) ¹	18,439
• Middle School (6.0 FTEs)	26,667
• High School (8.6 FTEs)	27,813
• Other (2.3)	32,000
AS&U 34th Annual Cost Survey (<3,500) Students Median	29,805
AS&U 34th Annual Cost Survey National Median	25,444
<i>Peer District Average</i>	28,027
Square Feet Per FTE Maintenance Staff Member (1.8 FTEs)	205,388
AS&U 34th Annual Cost Survey (<3,500) Students Median	100,000
AS&U 34th Annual Cost Survey National Median	87,931
<i>Peer District Average</i>	103,776
Acres per Groundskeeper FTE (1.9 FTEs)	48
AS&U 34th Annual Cost Survey (<3,500) Students Median	48
AS&U 34th Annual Cost Survey National Median	41
<i>Peer District Average</i>	57
FY 2003-04 Maintenance and Operations Expenditures Per Square Foot – All Funds	\$4.82
FY 2003-04 Maintenance and Operations Expenditures per Square Foot Excluding Capital Outlay	\$4.14
<i>Peer District Average</i>	\$4.53
<i>Peer District Average Excluding Capital Outlay</i>	\$4.26
AS&U 34th Annual Cost Survey (<3,500) Students Median	\$3.94
AS&U 34th Annual Cost Survey National Median	\$3.84

Source: Shelby CSD and peer districts; AS&U 34th Annual Maintenance and Operations Cost Survey

¹ Includes three modular units. The area maintained by the maintenance staff differs from the area cleaned by custodial staff, due to the inclusion of other buildings and facilities which are not cleaned by custodians.

As illustrated in **Table 4-2**, Shelby CSD's square footage per custodial FTE is lower than the peer average and both AS&U standards. In contrast, the District's square footage per maintenance FTE is significantly higher than the peer average and both AS&U standards (see **R4.2**). Additionally, while Shelby CSD's acres maintained per groundskeeper are lower than the

peer average, the District is comparable to the AS&U median for school districts of similar size and higher than the AS&U national median. Although the District's total facility related expenditures per square foot are higher than both AS&U standards, the District is spending less than the peers when capital outlay is excluded. Furthermore, the new field house inflates the District's capital outlay expenditures.

Financial Data

Table 4-3 presents a three-year summary of actual expenditures for all funds reported in the 2700 function code of the Uniform School Accounting System (USAS). The 2700 function code contains maintenance and operating costs for the various buildings within the school district.

Table 4-3: Maintenance and Operations Expenditures

	FY 2002-03	FY 2003-04	Percentage Change	FY 2004-05	Percentage Change
Salaries/Wages	\$609,522	\$669,713	9.9%	\$643,793	(3.9%)
Benefits	\$237,087	\$269,597	13.7%	\$350,012	29.8%
Purchased Services	\$83,009	\$111,459	34.3%	\$95,076	(14.7%)
Utilities	\$284,702	\$316,487	11.2%	\$331,035	4.6%
Supplies/ Materials	\$177,427	\$163,065	(8.1%)	\$144,486	(11.4%)
Capital Outlay	\$219,122	\$251,229	14.7%	\$141,481	(43.7%)
Other	\$1,685	\$0	(100.0%)	\$2,534	NA
Total	\$1,612,554	\$1,781,549	10.5%	\$1,708,417	(4.1%)

Source: Shelby CSD and Peers

Table 4-3 shows that the total expenditures have fluctuated during the last three years based on the financial condition of the District. For example, after realizing the severity of its financial condition at the conclusion of FY 2003-04, the District reduced the FY 2004-05 expenditures by approximately four percent through a combination of part-time staffing reductions and limiting all discretionary spending (purchased services, supplies & materials and capital outlay). Explanations for significant variances include the following:

- **Salaries** – Salaries declined nearly four percent in FY 2004-05 due to reductions in overtime costs and the number of part-time summer employees that were hired. The Director of Buildings and Grounds attributed the decline in overtime costs to a reduction in emergency snow plowing during the last winter. The reduction of 20 part-time summer employees was attributed to the District implementing a team cleaning approach during the summer months.

- **Benefits** – Benefits increased close to 14 percent in FY 2003-04, which corresponds to the salary increases. Despite a decline in total salaries, the District’s benefits increased nearly 30 percent in FY 2004-05. The Director of Buildings and Grounds attributed this to a significant increase in the District’s health care premiums. The large premium increase was necessary because the District had a deficit of approximately \$1.0 million in the Health Insurance Fund at the conclusion of FY 2003-04 (see the **human resources** section). In addition, the Director of Buildings and Grounds indicated that workers’ compensation was not properly charged to the 2700 function prior to FY 2004-05.
- **Purchased Services** – The District’s purchased services costs decreased nearly 15 percent in FY 2004-05. The Director of Buildings and Grounds indicated that the fluctuations in this line-item are due, in part, to property services and vehicle insurance being misclassified in prior years. In addition, the District could not explain a \$28,000 discrepancy between the 4502 statement Q and the 2700 function financial report prepared by the District for FY 2003-04. As a result, AOS incorporated a \$28,000 adjustment in the purchased services line-item of **Table 4-3** to ensure that the expenditures reconcile to the audited financial statements (4502 report). See the **financial systems** section for a recommendation concerning budgets and internal controls.
- **Supplies/Materials & Capital Outlay** – The District’s expenditures for supplies and materials declined approximately 11 percent while the expenditures for capital outlay declined 44 percent in FY 2004-05. The Director of Buildings and Grounds attributed these declines to the District’s efforts to limit discretionary spending in response to the District’s financial situation.
- **Other** – The District’s other expenditures increased 100 percent in FY 2004-05. The Director of Buildings and Grounds attributed this increase to account coding errors in which dues and fees were not reported in the 2700 function in FY 2003-04.

Table 4-4 compares Shelby CSD’s FY 2003-04 General Fund expenditures per square foot with those of the peers and the AS&U survey.

Table 4-4: Facilities Expenditures per Square Foot in FY 2003-04

Cost Area	Shelby CSD	Bellevue CSD	Dover CSD	Triway CSD	Peer Average	AS&U Median <3,500 Students
District Square Feet	369,698	328,179	380,013	329,939	346,044	NA
Salaries/Benefits Per Square Foot	\$939,310 \$2.54	\$834,701 \$2.54	\$933,247 \$2.46	\$729,430 \$2.21	\$832,459 \$2.41	\$2.05
Purchased Services Per Square Foot	\$111,459 \$0.30	\$404,327 \$1.23	\$201,008 \$0.53	\$123,831 \$0.38	\$243,055 \$0.71	\$0.17
Utilities Per Square Foot	\$316,487 \$0.86	\$362,808 \$1.11	\$431,821 \$1.14	\$277,347 \$0.84	\$357,326 \$1.03	\$1.36
Supplies/ Materials Per Square Foot	\$147,430 \$0.40	\$78,311 \$0.24	\$77,265 \$0.20	\$60,065 \$0.18	\$71,880 \$0.21	\$0.25
Capital Outlay Per Square Foot	\$74,246 \$0.20	\$6,611 \$0.02	\$1,295 \$0.00	\$0 \$0.00	\$3,953 \$0.01	NA
Other Per Square Foot	\$0 \$0.00	\$1,997 \$0.01	\$0 \$0.00	\$0 \$0.00	\$1,997 \$0.01	\$0.11
Total Expenditures Per Square Foot	\$1,588,944 \$4.30	\$1,688,755 \$5.15	\$1,644,636 \$4.33	\$1,190,673 \$3.61	\$1,508,021 \$4.36	\$3.94

Source: Shelby CSD and peers

Table 4-4 shows that although Shelby CSD's ratio of total General Fund expenditures per square foot is lower than two of the peers and the peer average, it is approximately nine percent higher than the AS&U median for school districts with less than 3,500 students. Additionally, the District's expenditures per square foot exceed the peer average and AS&U in salaries/benefits, supplies and materials, and capital outlay.

Based on an analysis in the **human resources** section of this report, the District's higher salary and benefit costs can be attributed to a combination of generous fringe benefits, and the employee years of experience within the crafts/trades and groundskeeping positions. The higher supplies and materials expenditures can be attributed to the District performing most of the maintenance, repair and construction work in-house. As a result, the District's high supply and material costs are offset by low purchased services costs. The high capital outlay costs are due to the District occasionally having to purchase equipment to support the maintenance staff. In FY 2004-05, the District's total General Fund facility expenditures were \$1,542,706, or \$4.17 per square foot, which represents a three percent reduction from the prior year.

Table 4-5 compares Shelby CSD's FY 2003-04 all funds expenditures per square foot with those of the peers and the AS&U survey.

Table 4-5: Facilities Expenditures per Square Foot in FY 2003-04 All Funds

Cost Area	Shelby CSD	Bellevue CSD	Dover CSD	Triway CSD	Peer Average	AS&U Median <3,500 Students
District Square Feet	369,698	328,179	380,013	329,939	346,044	NA
Salaries/Benefits Per Square Foot	\$939,310 \$2.54	\$834,701 \$2.54	\$933,247 \$2.46	\$730,478 \$2.21	\$832,809 \$2.40	\$2.05
Purchased Services Per Square Foot	\$111,459 \$0.30	\$410,686 \$1.25	\$201,008 \$0.53	\$123,831 \$0.38	\$245,175 \$0.72	\$0.17
Utilities Per Square Foot	\$316,487 \$0.86	\$362,808 \$1.11	\$431,821 \$1.14	\$277,347 \$0.84	\$357,326 \$1.03	\$1.36
Supplies/ Materials Per Square Foot	\$163,065 \$0.44	\$78,311 \$0.24	\$77,265 \$0.20	\$60,065 \$0.18	\$71,880 \$0.21	\$0.25
Capital Outlay Per Square Foot	\$251,229 \$0.68	\$6,611 \$0.02	\$186,121 \$0.49	\$0 \$0.00	\$96,366 \$0.25	NA
Other Per Square Foot	\$0 \$0.00	\$1,997 \$0.01	\$0 \$0.00	\$0 \$0.00	\$1,997 \$0.01	\$0.11
Total Expenditures Per Square Foot	\$1,781,549 \$4.82	\$1,695,114 \$5.17	\$1,829,462 \$4.81	\$1,191,721 \$3.61	\$1,572,099 \$4.53	\$3.94

Source: Shelby CSD and peers

Table 4-5 shows that the District's total expenditures per square foot exceed the peer average and the AS&U median for school districts with less than 3,500 students. In addition to the explanations for Table 4-4, the high expenditure levels shown in Table 4-5 can be attributed to the District using its permanent improvement levy proceeds to fund various capital improvement projects. These projects are accounted for within the supplies and materials and capital outlay line-items.

Assessments Not Yielding Recommendations

In addition to the analyses in this report, assessments were conducted on other areas within the facilities section which did not warrant changes and did not yield recommendations. These areas include the following:

- **Groundskeeper Staffing Levels:** Although Shelby CSD's acres per groundskeeper are lower than the peer average, the District is comparable to the AS&U median for school districts of similar size and higher than the AS&U national median. Additionally, within the District's land acreage, the grounds include a creek, gazebos/pavilions at each school, and vegetable and flower gardens.
- **Purchased Services & Supplies and Material Expenditures:** Although the District's supply and material costs are higher than the peers, the District's purchased services costs are significantly lower than the peers. This is due to the District completing most

maintenance and construction projects in-house, rather than contracting for these services through the purchased services line-item. When the costs for purchased services and supplies and materials are combined, the District's total expenditures are lower than the peer average. In addition, the Director of Buildings and Grounds receives price quotes and uses consortiums when purchasing supplies and materials.

Noteworthy Accomplishments

During the course of this performance audit, the following noteworthy accomplishments or best practices were observed.

- **Energy Management:** The District's utility expenditures are significantly lower than the peer average and the AS&U median for school districts of similar size. This is due to the District adopting energy management policies, joining consortiums, and implementing software and other building improvements. In addition, the City of Shelby provides the District with electricity at discounted rates.
- **Overtime Use:** By negotiating to give head custodians annual stipends for weekend building checks instead of overtime, the District has been able to limit the use of overtime to only those situations where critical repair work is needed. Additionally, the Director of Buildings and Grounds indicated that he requires overtime to be requested and approved prior to the work taking place, and that he completes most of the overtime-related duties. These practices contribute to the minimal use of overtime at Shelby CSD. More specifically, overtime costs represent less than one percent of the total custodial and maintenance salaries at Shelby CSD, which is much lower than all three peers and the peer average (3.4 percent).

Recommendations

Building Capacity

R4.1 Shelby CSD should continually monitor its building capacity and use rates, and develop and formally adopt a forecast methodology for projecting student enrollment (see R4.4). Doing so would help the District identify the current and future feasibility of closing a building, which would be critical if the District does not achieve the projections in the forecast (see Table 2-17 in financial systems). In identifying possible building closures, the District should carefully review the educational, operational and financial impact of various scenarios, including the space requirements for its special education population and appropriate space reconfigurations. Taking such measures would help ensure that building use rates do not exceed operating capacity as a result of possible building closures.

Furthermore, the District should review the current capacity and use rates at the high school and take appropriate measures to alleviate potential over-crowding.

The District's last building capacity analysis was performed as part of the Ohio Schools Facilities Commission (OSFC) project in 2002. The capacity analysis was developed to determine the size, needs and settings of the new high school and elementary buildings that were to be constructed. However, the project was cancelled when the levies needed to fund the local portion of the project failed. The building capacity analysis has not been updated since 2002.

In response to the financial difficulties experienced during the last three years, the District closed Russell Elementary School (capacity of 321 regular needs students), along with its modular units prior to the start of FY 2005-06. According to the Director of Building and Grounds, Russell Elementary was chosen because it is the smallest school, and had the highest utility and maintenance costs, an inefficient building layout, and maintenance problems associated with the modular units.

DeJong and Associates has published criteria for determining school capacity. It suggests using 25 students per regular education classroom for all grades and eliminating special use rooms, such as art and music, in the calculation of capacity for elementary schools. In addition, DeJong and Associates suggests applying a utilization factor of 85 percent to the total capacity for the junior high and high schools because bell scheduling, teacher prep work spaces, and other factors limit the use of every space 100 percent of the time. However, the District's certificated bargaining agreement stipulates that the kindergarten student-to-teacher ratios will be no greater than 21 to one. As a result, in the AOS analysis of the District's building capacity, the suggestions from DeJong & Associates are used for determining capacity in all elementary, junior high, and high school classrooms except kindergarten, where the maximum capacity is set at 21 students per classroom.

In addition, two sets of capacity and utilization rates were calculated based on including and excluding special education rooms. In one scenario, the capacity for special education classrooms is set at 10 based on conservative estimates of the special needs staffing requirements dictated by Ohio Administrative Code (OAC) Section 3301-51-09. More specifically, the average number of students per teacher based on the OAC class size requirements for all categories of special education students is 15, and the maximum number of students per teacher equals or exceeds 10 students in seven of the nine categories. Special education rooms are excluded in the other scenario because of the District's commitment to the inclusion model which, per OAC 3301-51-09, requires school districts to include special education children in regular classes to the extent allowed by their disability or guided by the child's IEP. Furthermore, as the capacity of

each classroom is set at 25 students, the second scenario is more in-line with the District’s current ratio of total students per regular education teacher (24).

Using the above criteria, the estimated capacity and use rate for each school building based on floor plans is presented in **Table 4-6**. **Table 4-6** also includes the effect of possible grade reconfigurations on capacity use rates.

Table 4-6: Building Capacity for Shelby School District

School	Grade	Capacity Including Special Ed Rooms	Capacity Excluding Special Ed Rooms	2005-06 Enrollment	Capacity Used Including Special Ed Rooms	Capacity Used Excluding Special Ed Rooms
Current Capacity Use						
Auburn Elementary	K-4	524	484	439	83.8%	90.7%
Dowds Elementary	K-4	404	384	356	88.1%	92.7%
Central Elementary	5-6	445	425	344	77.3%	80.9%
Middle School	7-8	658	616	320	48.6%	51.9%
High School	9-12	752	743	778	103.5%	104.7%
Capacity Use Based on Examples of Possible Grade Reconfigurations						
Example 1 • Combine Central with the Middle School	5-8	633	573	664	104.9%	115.9%
Example 2 • Combine Two Elementary Schools • Include 6 th Grade in Middle School	K-5 6-8	1,003 658	943 616	967 492	96.4% 74.8%	102.5% 79.9%

Source: Shelby CSD

In both scenarios, **Table 4-6** shows that Central Elementary and the Middle School are currently underutilized. However, if the District closed Central Elementary and housed the 5th and 6th grade students at the Middle School, the overall capacity usage at the Middle School would exceed 100 percent. Likewise, closing an elementary school by combining students in grades K to 5 in two elementary schools would result in the elementary schools either coming close to or exceeding capacity. On the other hand, the capacity use rate at the Middle School (grades 6-8) would be under 80 percent. Although a building closure may result in some schools operating near or over capacity, the District could reconfigure space to alleviate possible over-crowding. In addition, the actual use of the special education rooms could impact possible building closures, since combining two elementary schools would not create over-crowding when including the special education rooms in the capacity figure in **Table 4-6**. Furthermore, the District’s enrollment has been declining in recent years (see **Table 4-10**), which could enable the District to operate under full capacity by closing a building in the future.

Table 4-6 also shows that the high school is currently over capacity under both scenarios. However, the Superintendent indicated that the District currently has 135 students who are included in **Table 4-6** but are enrolled at Pioneer Career and Technology Center on a full-time basis and do not attend the high school. If the figures in **Table 4-6** are adjusted by the 135 students, the revised high school capacity usage rate including special education classrooms would be 85.5 percent and the capacity usage rate excluding special education classrooms would be 86.5 percent.

As shown in **Table 2-17** in the **financial systems** section, the Auditor of State's revised forecast projects financial recovery for the District without any additional building closures. However, considering that a majority of the recommendations are subject to negotiation, the District may need to consider additional cost reductions, including possible building closures, to achieve financial solvency.

Staffing

R4.2 The District should consider reducing the custodial staffing level by 2.5 FTEs and increasing the maintenance staffing level by 1.0 FTE. Implementing this recommendation would more evenly distribute the workload among the District's custodial and maintenance employees and help achieve staffing levels that are comparable to the peers and AS&U standards. Increasing the maintenance staffing level by 1.0 FTE will also help the District implement a formal preventative maintenance program (see R4.7). Decisions to hire additional maintenance staff beyond the 1.0 FTE should be made after the District implements strategies to address Russell Elementary and other potentially closed buildings in the future (e.g., selling, leasing, etc.).

Table 4-7 shows the square footage maintained per custodian for Shelby CSD and the peers.

Table 4-7: Total Square Feet Cleaned by Custodial Staff

	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Elementary Schools¹					
• Sq. Ft. Cleaned per FTE ¹	18,439	18,827	19,927	26,039	21,598
Middle School					
• Sq. Ft. Cleaned per FTE	26,667	30,000	27,730	23,454	26,728
High School					
• Sq. Ft. Cleaned per FTE	27,813	28,916	43,108	55,529	42,518
Other²					
• Sq. Ft. Cleaned per FTE	32,000	36,450	32,410	37,500	35,453
Total					
• Sq. Ft. Cleaned per FTE	22,679	24,203	28,525	32,494	28,407

Source: Shelby and peers

¹ Includes modular units

² Includes only buildings cleaned, not maintained.

As shown in **Table 4-7**, Shelby CSD's custodial staff is cleaning fewer total square feet per FTE than all of the peers. Based on the square footage cleaned per FTE by building, the District's elementary, high school, and other buildings appear to be the most overstaffed, while the square footage per FTE at the middle school is similar to the peer average. However, prior to the start of FY 2005-06, the District closed Russell Elementary school and reduced the custodial staffing level by one head custodian and a part time sweeper (1.5 FTE's). If the above ratios were adjusted for this building closure, the revised square footage per custodian is 23,202 (18,500 for the elementary schools), which is still 18 percent lower than the peer average and 22 percent lower than the AS&U median for districts similar in student population (29,805). The District would need to reduce approximately 2.5 custodial FTEs to achieve a square footage per custodian ratio that is comparable to the peer average and AS&U standard.

Table 4-8 compares square footage per maintenance FTE at Shelby CSD to the peers.

Table 4-8: Shelby and Peers Custodial and Maintenance Staffing

	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Sq. Ft. Maintained per Maintenance Staff	205,388	102,396	126,671	89,179	103,776

Source: Shelby and Peers

Note: The area maintained by the maintenance staff differs from the area cleaned by custodial staff, due to the inclusion of other buildings and facilities which are not cleaned by custodians.

In contrast to the custodians, Shelby CSD is maintaining an average of 205,388 square feet per maintenance FTE, which is double the peer average and the AS&U median for school districts with less than 3,500 students (100,000). Shelby CSD's maintenance staff consists of one person dedicated solely to the maintenance function and two people who

split their time between maintenance and other activities. The District would need to increase maintenance staffing by approximately 2.0 FTEs to achieve a square footage per maintenance worker ratio that is comparable to the peer average and AS&U standard for districts with similar student population. However, the maintenance responsibilities at Russell Elementary are likely not as extensive as the other remaining buildings, which would also be the case for other potentially closed buildings in the future. Furthermore, the closed buildings would not require any maintenance from Shelby CSD if the District sold them. As a result, the District may not need 2.0 additional FTEs to maintain the buildings in the future. If the District hired one maintenance FTE, the square footage per maintenance FTE would be 132,035 based on the square footage of all the buildings, including Russell Elementary. This is more comparable to the peers and the AS&U standard.

Financial Implication: Assuming the District reduces part-time custodians to make up the 2.5 custodial FTEs, the estimated savings would be approximately \$58,000. If the District hired one maintenance worker, the implementation cost would be approximately \$42,000, resulting in a net savings of \$16,000.

Facilities Management and Operating Practices

R4.3 Using the OSFC facilities master plan as a starting point, the District should work with a cross-section of school personnel, parents, students and community members to update the plan to reflect current building configurations and needs. By updating its facilities master plan, the District can more effectively communicate its needs and vision, and adequately plan for and address its facilities' needs.

The Ohio Schools Facilities Commission (OSFC) completed a comprehensive facilities master plan in 2000 (updated in 2002 by OSFC) for the District as part of the planning process to construct new school buildings. However, the District did not implement the OSFC project due to the classroom maintenance and debt service levies failing in two consecutive elections during FY 2002-03. These levies are required in order to participate in the OSFC program. As a result of the project cancellation, portions of the facilities master plan prepared by OSFC became irrelevant. Since FY 2002-03, the District has not developed an alternative facilities master plan nor has it updated the OSFC version.

DeJong & Associates, Inc., one of the nation's leading experts in educational facility planning, identifies the following as essential components of a facilities master plan:

- Historical and projected student enrollment figures;
- Demographic profile of the community/school district;
- Facility inventory;

- Facility assessment (condition and educational adequacy of buildings);
- Capacity analysis;
- Educational programs;
- Academic achievement; and
- Financial and tax information.

According to the Neighborhood Capital Budget Group in Chicago, "...a facility master plan's goal is to provide equal educational opportunities for all children by providing healthy, safe, high-performing, world class, educationally appropriate learning environments." A facility master plan increases public confidence and accountability in schools and is guided by principles such as:

- Schools are hubs and anchors of the community;
- Stakeholders participate;
- Capital resources are distributed fairly;
- Planning is coordinated with the community; and
- Creative revenue streams are identified.

By not having an updated comprehensive master plan, the District may have difficulty identifying and addressing the needs of its facilities.

R4.4 In conjunction with updating its facilities master plan, Shelby CSD should develop and formally adopt a 5 to 10 year forecast methodology for projecting student enrollment. The District should then use the adopted methodology to prepare a formal enrollment projection. Subsequently, the District should review and update enrollment projections on a yearly basis, and compare them with building capacities to address potential capacity issues and if necessary, determine possible building additions, closures and/or reconfigurations.

In 2001, DeJong & Associates developed Shelby CSD's most recent enrollment projection as part of the OSFC Facilities Assessment Report. The projections were developed by analyzing live birth data, historical enrollment and housing information. **Table 4-9** presents DeJong & Associates' ten year projections.

Table 4-9: Shelby CSD Enrollment Projection

School Year	Projected Enrollment	Percentage Change from Previous Year
2001-02	2,363	NA
2002-03	2,375	0.5%
2003-04	2,374	0.0%
2004-05	2,376	0.1%
2005-06	2,363	(0.5%)
2006-07	2,352	(0.5%)
2007-08	2,342	(0.4%)
2008-09	2,352	0.4%
2009-2010	2,327	(1.1%)
2010-2011	2,340	0.6%

Source: OSCF, 2000 Facilities Assessment

Table 4-9 shows that enrollment is projected to fluctuate slightly each year, with an overall decline of 23 students by 2010-11. As a way of determining the reasonableness of the enrollment projections, **Table 4-10** compares Shelby CSD's actual head count for the last five years to the enrollment projections developed by DeJong & Associates.

Table 4-10: Actual Student Head Count vs. Projected Enrollment

School Year	Projected Enrollment	Student Head Count	Difference Between Actual and Projected	Percent Difference
2001-02	2,363	2,310	(53)	(2.2%)
2002-03	2,375	2,289	(86)	(3.6%)
2003-04	2,374	2,254	(120)	(5.1%)
2004-05	2,376	2,285	(91)	(3.8%)
2005-06	2,363	2,237	(126)	(5.3%)

Source: OSFC and ODE

Table 4-10 indicates that the DeJong & Associates' enrollment projections were two to five percent higher than the actual enrollment in each of the last five years.

The District has not updated the original projections prepared by DeJong & Associates to include actual enrollment for FY 2000-01 through FY 2004-05 or projected numbers for years beyond FY 2010-11. According to the Superintendent, the District uses a flat

enrollment figure for planning purposes because the economic and housing populations within the District have not varied in recent years. **Table 4-10** shows that the District's enrollment has declined by only three percent since FY 2001-02, indicating that the assumption of flat enrollment appears reasonable for the short-term. However, by failing to consider information like live birth data, changes in population demographics, new housing starts, and other factors, the assumption of a flat enrollment over the long-term could potentially result in the District having to deal with unexpected fluctuations in state funding and building capacity issues.

- R4.5 The District should develop a formal five-year capital improvement plan that is updated on an annual basis to ensure that critical repair work or equipment replacement is completed. The capital improvement plan should include financing options, and a project categorization and prioritization system that provides management with a breakdown between maintenance tasks and capital projects, ensures work is completed in a timely manner, and minimizes both safety hazards and facility deterioration.**

The development of a five-year capital improvement plan will help the District anticipate needed facility and equipment repairs and replacements. By planning ahead, project financing sources can be identified and secured before they are needed, helping to eliminate the effect of unforeseen capital costs on the District's finances. In addition, if the District decides to pursue the OSFC project again, having a comprehensive CIP will assist the District in demonstrating its facility needs to the public.

The District does not have a formal capital improvement plan (CIP) to address maintenance and capital needs. The District does have a listing of projects that are to be completed for FY 2004-05 using the permanent improvement levy proceeds. However, this listing is informal and only includes costs for some projects.

According to the Government Finance Officers Association (GFOA), a government should develop a capital improvement plan that identifies its priorities and time frame for undertaking capital projects, and provides a financing plan for those projects. A process should exist for evaluating proposed capital projects and financing options, and developing a long-range capital improvement plan that integrates projects, time frames, and financing mechanisms. The plan, including both capital and operating costs, should project at least five years into the future and should be fully integrated into the government's overall financial plan.

In developing a formal CIP, the Chicago Public Schools (CPS) used the following process:

- Set up a facilities committee because working alone can isolate the district from the community, thereby isolating a potential funding source for future improvement;
- Evaluate the condition of the school buildings to identify improvements needed;
- Involve the committee when possible;
- Measure how the current school buildings are affecting the learning environment by analyzing heating, cooling, electricity and space to ensure that adequate facilities are provided for a productive learning environment;
- Develop a timeline for completion based on the priority of the repairs; and
- Determine the results of investigations into alternative funding sources, including the development of a capital improvement budget once these sources have been identified.

By failing to develop and use a five-year capital improvement plan, the District could have difficulty anticipating needed facility and equipment repairs and replacements, and may overlook the identification and securing of related financing sources.

Work Order Process

R4.6 Shelby CSD should purchase a work order software package. The software would allow the District to begin tracking and monitoring the amount of supplies and materials used on a project, the cost of labor (including staffing levels and overtime usage), and the productivity and performance of assigned personnel. Having this information available would be helpful in estimating costs and timeframes for projects in the future.

Shelby CSD does not use a formal work order process. Currently, requests for work are e-mailed or telephoned on an informal basis to the transportation/facilities secretary, who then relays the message to the Director of Building and Grounds. According to the Director of Building and Grounds, all requests are addressed within 24 hours with emergencies receiving the highest priority. Since the work orders are addressed in a timely manner, the Director of Buildings and Grounds indicated that he did not feel that a formal work order system was necessary.

According to the National Center for Education Statistics (NCES) in its *Planning Guide for Maintaining School Facilities*, a formal work order system helps school districts register and acknowledge work requests, prioritize tasks, assign personnel, confirm progress, facilitate preventative maintenance, allow feedback from relevant stakeholders, and track the costs of parts and labor. Furthermore, NCES indicates that a well designed work order system includes the following:

- Date received;
- Date approved;
- Tracking number;
- Priority and location;
- Status (e.g., open or closed);
- Name of supervisor;
- Name(s) of assigned personnel;
- Supply and labor hour costs; and
- Date completed.

The lack of a formal/computerized work order system inhibits the District's ability to track and monitor the status of individual work orders and key data, including the amount of supplies and materials used, as well as the productivity and performance of assigned personnel.

Financial Implication: The cost of a computerized work order system ranges from \$1,345 to \$2,800 annually (averaging approximately \$2,000), depending on the features and warranties of the various software programs.

Preventative Maintenance

R4.7 In conjunction with the purchase of an electronic work order system, the District should implement a formal preventive maintenance program that addresses all routine, cyclical and planned building maintenance functions. The implementation of a formal preventive maintenance program will help the District anticipate needed facility and equipment repairs and replacements. This could, in turn, potentially minimize costs in the long-term. In addition, the improved record keeping associated with the electronic work order system will help in formalizing the preventative maintenance program and make future preventive maintenance costs more predictable.

Shelby CSD does not have a formal written preventive maintenance program. The Director of Buildings and Grounds indicated that preventive maintenance is performed on an informal basis based on his knowledge of the District's needs.

According to the National Center for Education Statistics (NCES) in its *Planning Guide for Maintaining School Facilities*, a good maintenance program is built on a foundation of preventive maintenance. Furthermore, the School Facilities Maintenance Task Force (2003) warns that continual emergency repairs will cost more in the long term than a formal preventive maintenance program. A formal preventive maintenance plan will help prevent sudden and unexpected equipment failures, and inhibit the accumulation of

damage and repair tasks. According to the NCES *Planning Guide*, facilities maintenance and effective planning produces savings by:

- Decreasing equipment replacement costs over time;
- Decreasing renovation costs because fewer large-scale repair jobs are needed; and
- Decreasing overhead costs (such as utility bills) because of increased system efficiency.

The absence of a formal preventive maintenance program could prevent the District from effectively maintaining its capital and equipment, and reduce its ability to avoid unexpected equipment failures and significant long-term repair costs.

Financial Implications Summary

The following table summarizes the estimated implementation costs, estimated annual costs and annual cost savings identified in recommendations presented in this section of the report.

Summary of Financial Implications

Recommendation	Estimated Implementation Costs	Estimated Annual Cost	Estimated Annual Cost Savings
R4.2 Reduce 2.5 custodial FTEs Hire one maintenance FTE		\$42,000	\$58,000
R4.6 Purchase work order software	\$2,000		
Total	\$2,000	\$42,000	\$58,000

Transportation

Background

This section of the performance audit analyzes the Shelby City School District's (Shelby CSD or the District) transportation operations. Data from peer school districts is used for comparisons throughout this section of the report. The peer districts include Bellevue City School District (Bellevue CSD), Dover City School District (Dover CSD), and Triway Local School District (Triway LSD).

According to the Ohio Revised Code § 3327-01, school districts must provide transportation services to "... resident school pupils in grades kindergarten through eight that live more than two miles from the school." The legislation goes on to indicate that the board, at its discretion may "...provide transportation for resident school pupils in grades nine through twelve to and from the high school." Shelby CSD's transportation policy exceeds the minimum standards as the District is providing pupil transportation services to students in grades K-12 who reside one or more miles from school. A number of hazards exist, which pursuant to OAC 3301-83-20(I), have contributed, in part, to the District transporting students in excess of State minimum standards. Specifically, these hazards include heavy traffic volume, overpasses, underpasses, and railroad crossings.

Table 5-1 compares regular and special needs riders transported by Shelby CSD and the peers.

Table 5-1: FY 2003-04 Total Regular and Special Needs Riders

	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Public	1,212	1,493	1,139	1,930	1,521
Non-Public	110	104	100	28	77
Community School	0	0	0	0	0
Payment-in-Lieu Riders	8	10	4	79	31
Total Regular Needs Riders	1,330	1,607	1,243	2,037	1,629
Total Special Needs Riders	29	38	13	N/A	26
Total Riders	1,359	1,645	1,256	2,037¹	1,655

Source: District T-1 and T-2 Forms and the Ohio Department of Education

Note: N/A designates information not available

¹ Does not include special needs riders as Triway LSD did not report this on the T-Forms.

Shelby CSD provided Type-I pupil transportation services to 1,330 regular needs and 29 special needs riders in FY 2003-04. Type-I services pertain to those provided on District-owned yellow buses and comprise the majority of transportation-related costs for which school districts are

reimbursed by ODE. While the District exceeds the peer average in special needs riders (and accompanying expenditures), the District's regular needs ridership is approximately 18 percent lower than the peer average.

In FY 2003-04, Shelby CSD spent approximately \$854,000 providing Type-I pupil transportation services. The District spent an additional \$981 for non-Type-I services, offered as payment-in-lieu of transportation. Of the approximately \$854,000 in Type-I expenditures, nearly 48 percent (\$403,716) was reimbursed by the Ohio Department of Education (ODE).

Operational Statistics

The transportation function is overseen by the Director of Transportation. In FY 2003-04, Shelby CSD maintained a fleet of 15 active and 5 spare buses to transport regular and special needs riders, both public and non-public. **Table 5-2** summarizes key FY 2003-04 Type-I operating statistics and ratios for Shelby CSD and the peers.

Table 5-2: FY 2003-04 Basic Operating Statistics

	Shelby CSD	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
STUDENTS TRANSPORTED					
Regular Needs	1,330	1,607	1,243	2,037	1,629
Special Needs	29	38	13	N/A	26
Total Students Transported	1,359	1,645	1,256	2,037³	1,646
District Square Miles	72	137	36	95	89
ANNUAL MILES TRAVELED					
Regular Needs ¹	187,560	235,260	130,680	347,220	237,720
Special Needs ¹	9,360	70,020	19,440	N/A	44,730
Non-Routine	30,826	35,874	47,099	25,695	36,222
Total	227,746	341,154	197,219	372,915³	318,672
SITES & BUS TYPES					
Public Sites	6	8	7	6	7
Non-Public Sites	4	5	3	1	3
Active Buses	15	19	11	21	17
Spare Buses	5	7	6	4	6
TYPE-1 SERVICE EXPENDITURES					
Total Regular Needs	\$707,152	\$734,927	\$586,718	\$841,978	\$721,208
Total Special Needs	\$146,428	\$116,006	\$28,874	\$112,822	\$85,901
Total	\$853,580	\$850,933	\$615,592	\$954,800	\$807,109
STATE REIMBURSEMENTS					
Regular Needs	\$358,297	\$430,643	\$337,235	\$558,428	\$442,102
Special Needs	\$45,419	\$39,799	\$7,392	\$28,885	\$25,359
Total State Reimbursements	\$403,716	\$470,442	\$344,627	\$587,313	\$467,461
As a Percentage of Type-1 Expenditures Regular Needs	50.6%	58.6%	57.5%	66.3%	60.8%
As a Percentage of Type-1 Expenditures Special Needs	31.0%	34.3%	25.6%	25.6%	29.0%
TYPE-1 OPERATING RATIOS					
Regular Needs					
Cost per Mile	\$3.77	\$3.12	\$4.49	\$2.42	\$3.34
Cost per Bus ²	\$47,143	\$38,680	\$53,338	\$40,094	\$44,037
Cost per Student	\$532	\$457	\$472	\$413	\$447
Students per Active Needs Bus ⁴	91	85	113	97 ³	98
Bus Runs	2	2	2	2	2
Students per bus per run	46	43	57	49 ³	49
Special Needs					
Cost per Student	\$5,049	\$3,053	\$2,221	N/A	\$2,786
Cost per Mile	\$15.64	\$1.66	\$1.48	N/A	\$1.62

Source: SCSD and the peers, as well as the Ohio Department of Education

Note: Rounded to the nearest \$1

¹ Calculated by multiplying reported daily miles by 180 school days.

² Does not include spare buses

³ Does not include special needs students or mileage as the district did not report this information on T-forms.

⁴ Includes regular and special needs students on active regular buses.

Table 5-2 shows that the District's cost per mile, cost per bus, cost per student, cost per special needs student, and cost per special needs mile are all significantly higher than the peer averages. The high cost ratios are due in part to the following:

- The District pays a portion of the employees' retirement contribution for all employees, including transportation. None of the peers' classified staff receive this benefit (see **R3.14** in the **human resources** section).
- The District only requires transportation employees to work four hours per day to receive full health care benefits. Conversely, the peers provide graduated benefits based on the hours worked per week. For example, under Dover CSD's benefit plan, a transportation employee who works 20 hours per week receives 50 percent coverage (see **R3.8** in the **human resources** section).
- The average transportation salaries are significantly higher than the peers. This is primarily due to employee years of service because the transportation salary schedules are comparable to the peers. Additionally, the District operates a half-day kindergarten program, which results in the District's bus drivers working more hours in comparison to the peers (see **R3.13** in the **human resources** section).

In addition, **Table 5-2** shows that the District transported approximately seven and six percent fewer riders per bus and run, respectively, than the peer averages, which also contributes to the high cost ratios. This is due to the District not designing its routes in FY 2003-04 to use the full capacity of the buses, which it has subsequently addressed during the course of this performance audit (see **Noteworthy Accomplishments**). Furthermore, the absence of transportation personnel involvement in the IEP process and the absence of parent/guardian contracts could contribute to the high costs per special needs student and mile (see **R5.7**). Lastly, the District's high maintenance and bus insurance costs also contribute to the higher cost ratios, albeit minimally (see **R5.5** and **R5.6**), while the lack of a bus replacement plan could impact costs in the long-run (see **R5.3**).

Assessments Not Yielding Recommendations

In addition to the analyses in this report, assessments were conducted on areas within the transportation section which did not warrant changes and did not yield recommendations. These areas include the following:

- **Staffing:** Based on the number of FTEs reported in EMIS, Shelby CSD's transportation employees are responsible for approximately 15 percent more riders per FTE than the peer average. In addition, the District employs one supervisor, one clerical, and one mechanic position, which is similar to the peers. Furthermore, according to the Superintendent, the clerical employee should only be counted as a 0.5 FTE for

transportation purposes since she also has some responsibilities within the maintenance department.

- **Contractual:** With the exception of paying a portion of the employees' retirement contribution and providing full healthcare benefits to transportation employees, the District's bargaining agreement with the transportation employees is comparable to the peers. The payment of a portion of the employees' retirement contribution and the healthcare benefit are assessed in the **human resources** section of this report.

Noteworthy Accomplishments

The following are noteworthy accomplishments identified during the course of the performance audit for the District's transportation operations:

- **Routing:** In FY 2003-04, the District transported 91 students per active bus using a two run system, or approximately 46 students per run. As these ratios were lower than the peer averages, the District was not optimizing bus capacity. Furthermore, the District operates buses that have an average capacity of 67 seats per bus. This indicates that the District was developing its routes to only use approximately 69 percent of the capacity per bus run. However, during the course of this audit, the District took action to reduce three active buses (2 regular needs buses and 1 special needs bus) and three bus drivers. As a result, the District is now transporting 113 students per bus, or 57 per run, which is higher than two of the peers and improves the District's bus capacity utilization to approximately 85 percent.
- **Bus Inspections:** Shelby CSD's percentage of bus inspections resulting in violations has decreased by 13 percent from 2002 to 2004. Furthermore, the percentage of Shelby CSD's inspections resulting in violations was significantly lower than each peer in FY 2003-04.

Recommendations

Policies & Procedures

R5.1 Shelby CSD should establish formal policies and procedures to ensure accurate T-reports are prepared, reviewed, and reconciled before submission to ODE. In developing these policies, the District should consider requiring the Treasurer's office to complete a final review of the T-Reports prior to submission to ODE. For example, the Treasurer's office should be responsible for reconciling the expenditures reported on the T-2 report to the 4502 financial statements, reviewing variances from prior year reports and signing off on the document before it is submitted to ODE.

Establishing formal policies and procedures would ensure that the assigned employees are familiar with and knowledgeable about the reporting process. Along with improving the review process, this should ensure reports are completed in a timely manner, reconciled, and accurate prior to submission. This would subsequently ensure that the District receives the appropriate amount of State reimbursements for its transportation services.

The Director of Transportation is responsible for completing the T-reports and submitting them to ODE. The Director of Transportation receives ridership information from the bus drivers based on reports that are completed during the morning bus runs. The prior Treasurer provided the Director of Transportation with the expenditure information needed to complete the T-reports. The Director of Transportation then completes the rest of the T-report based on his knowledge of the District's transportation activities. The Director of Transportation submits the T-reports to the Superintendent for final review prior to submitting them to ODE.

The District's FY 2003-04 T-2 report does not reconcile to the transportation expenditures reported in the FY 2003-04, 4502 statement "Q" report. For example, the District's T-2 report claimed \$853,580 in transportation expenditures while the 4502 report shows total transportation expenditures of \$898,191. The Director of Transportation indicated that the variance may be due to the District purchasing a new bus using state subsidies and/or the inclusion of non-routine expenditures. Both of these transactions would be reported as expenditures in the 4502, but not reimbursed by the State. However, the District has not routinely reconciled the 4502 report to the T-2 reports in the past and does not have formal policies or procedures for completing T-reports. In addition, on the T-2 report, the District only reported bus insurance costs totaling \$5,850 while the peer average was \$24,271. According to the Director of Transportation, this figure was misreported on the T-2 report and should have been

\$24,682. The Director of Transportation also indicated that any problems with past transportation reporting were due to the prior treasurer's unfamiliarity with the reporting requirements.

Furthermore, **Table 5-2** shows that the District's reimbursement rate for regular needs transportation was 50.6 percent in FY 2003-04, which is much lower than the peer average of 60.8 percent. This is further indication that there may have been errors in the T-reports filed with ODE in the past.

Since the information reported in the T-reports is the primary data used in determining a school districts state funding for transportation purposes, it is important that the information be accurate. The lack of formal policies and procedures for reporting could result in inaccurate data being submitted to ODE, including misreporting expenditures, which could affect the level of State reimbursements provided to the District.

- R5.2 If the District continues to encounter financial difficulties, it should review the transportation policy to determine if cost savings can be achieved by adopting standards that are closer to the state minimum requirements. For example, the District could eliminate all high school transportation. This would provide some cost savings while allowing the District to continue transporting elementary and middle school students living more than one mile from the school. However, prior to making any changes in the transportation policy, the District should work with ODE to determine any potential reductions in state reimbursement.**

According to the Ohio Department of Education (ODE), pupil transportation services must be provided to students in grades K-8 who live more than two miles from their school. Shelby CSD's policy manual states that "*the board of education will furnish bus transportation to all elementary and secondary school students to the extent determined by the administration and approved by the Board.*" According to the Director of Transportation, transportation is provided to all students who live more than one mile from their school building.

The Director of Transportation indicated that a number of hazards exist within the District, which pursuant to OAC 3301-83-20(I), have resulted in the District transporting more students than required by the District's transportation policy (i.e., transporting student under one mile) and the State minimum standards. Specifically, these hazards include heavy traffic volume, lack of sidewalks, overpasses, underpasses, and railroad crossings. Based on the FY 2003-04 T-1 report, the District transported 1,212 students out of a total enrollment of 2,285, or more than 50 percent of its student population. Of the 1,212 students that were transported, 1,095 lived more than one mile from their schools.

Because the District has not automated the process of tracking student transportation information, it is difficult to determine how many students live between one and two miles from their respective school buildings. If this figure were known, it would be combined with the students living within one mile (117) to determine how many students the District is transporting in excess of state minimum standards. At a minimum, the District is transporting 117 more students than required by state minimum standards. **Table 5-2** shows that the District's cost to transport a student was \$532 in FY 2003-04. When this figure is revised to reflect the reduction of three buses that occurred during this audit, the revised cost per student is estimated to be \$425. Based on this, it is costing the District approximately \$50,000 more per year to transport students in excess of State minimum standards.

Transportation Planning

R5.3 Shelby CSD should draft, approve, and update a bus replacement plan that describes its strategy for bus procurement in future years. This plan should include the number of buses to be replaced each fiscal year, along with the age, mileage, maintenance costs, and estimated cost at the time of replacement. All bus and equipment replacement should be based upon economic modeling that allows for replacement at the most economically advantageous point in the equipment's life cycle. The District should maintain and periodically review important bus information, such as mileage and maintenance records to determine the cost/benefit for maintaining or replacing each bus. By reviewing and updating the plan annually, Shelby CSD will be able to plan for future costs while effectively maintaining its fleet.

Shelby CSD's bus replacement plan is informal and is subject to the availability of financial resources. According to the Director of Transportation, the District typically tries to purchase one bus each year. However, the Treasurer's financial forecast (see **Table 2-1**) does not show the District purchasing any buses during the forecast period.

According to the International City/County Management Association (ICMA), a formal vehicle replacement plan should stipulate those criteria to be considered when making a replacement decision (e.g., minimum age and mileage requirements). The American Public Works Association (APWA) recommends that equipment be replaced at the most economical point in its life-cycle, referring to the length of time over which the average total unit cost is lowest. According to the APWA, numerous criteria should be considered in order to have the most economical replacement policy, such as the total cost of maintenance and depreciation, the environment in which the equipment operates, fuel costs, condition, suitability, safety, downtime and new technology.

Although there are no state minimum standards for the replacement of school buses, the National Association of State Directors of Pupil Transportation Services (NASDPTS) indicates that diesel buses are usually replaced after 12-15 years of service or after 250,000 miles. Regardless of age and engine type (e.g., diesel or gasoline), school districts can continue to use buses that pass state inspections and do not chronically inflate maintenance and repair costs.

In FY 2003-04, Shelby CSD's fleet traveled a total of 227,746 miles using 15 active buses. However, during the course of this audit, the District took action to reduce the active buses from 15 to 12. Assuming the 12 active buses will be responsible for traveling 227,746 total miles again in FY 2005-06, the average annual mileage per bus will equal approximately 19,000. **Table 5-3** shows the current age and mileage for the District's buses as of July, 2005.

Table 5-3: Shelby CSD Bus Replacement Age & Mileage

Bus #	Make	Year	Capacity	Age	Mileage
5	Chevrolet-spare	1987	65	18	169,070
18	International-spare	1992	48	13	209,686
10	Ford- spare	1996	71	9	115,674
11	Thomas- spare	1996	71	9	109,763
12	Thomas- inactive in FY 2006	2004	72	1	32,625
3	Thomas- inactive in FY 2006	1997	71	8	97,574
1	Thomas- spare	1998	71	7	103,235
2	Amtran Fe	1998	72	7	79,809
14	Amtran Fe	1998	72	7	92,277
4	Amtran Fe	2000	72	5	85,675
19	International	2000	28	5	96,441
20	Blue Bird	2000	72	5	74,357
21	Blue Bird	2000	72	5	92,768
17	Blue Bird	2001	72	4	8,747
6	Blue Bird	2001	72	4	71,342
7	Blue Bird	2001	72	4	56,856
8	Blue Bird	2004	72	1	25,690
9	Ford- spare	1994	65	11	128,328
15	Blue Bird	2005	72		20,055
16	Blue Bird	2006	65		2,192
Average			67.4	6.8	83,608

Source: Shelby CSD

Table 5-3 shows that the District has a relatively new fleet, based on the average age of less than seven years and mileage of 83,608. In addition, based on NASDPTS standards and assuming that each active bus will average 19,000 miles per year, the District will not

need to replace an active bus for another eight years, when bus #2, bus #14, bus #19 and bus #21 will be close to the age and mileage thresholds.

ORC § 3317.07 stipulates that school districts are entitled to receive a State subsidy for the purchase of school buses. The amount of this subsidy is determined in accordance with Ohio Administrative Code (OAC) 3301-85-01. **Table 5-4** summarizes the bus replacement subsidies received by Shelby CSD and the peers from ODE since FY 2001-02.

Table 5-4: Shelby CSD Actual Bus Replacement Subsidies FY 2002-04

	FY 2001-02	FY 2002-03	FY 2003-04	Average Annual Change
Statewide Total	\$27,551,459	\$24,839,989	\$12,383,972	(27.5%)
Shelby CSD	\$26,408	\$24,011	\$11,141	(31.5%)
Peers				
Bellevue LSD	\$39,740	\$32,505	\$18,254	(31.0%)
Dover LSD	\$27,398	\$24,406	\$13,100	(28.5%)
Triway CSD	\$52,524	\$45,487	\$25,824	(28.0%)
Peer Average	\$39,887	\$34,133	\$19,059	(29.0%)

Source: Ohio Department of Education

Note: Figures are rounded to the nearest \$1.

Statewide, ODE bus replacement subsidies have declined significantly since FY 2001-02. This has negatively impacted the amount of subsidies that school districts receive annually. For example, **Table 5-4** shows that Shelby CSD experienced an average annual decline in its bus purchase subsidy of 31.5 percent from FY 2001-02 through FY 2003-04. In addition, **Table 5-4** shows that Shelby CSD is receiving less in bus purchase subsidies than the peers. According to ODE, it typically costs about \$60,000 to purchase a new school bus. As a result, if the declining bus purchase subsidies continue, the District will most likely have to use General Fund resources to cover an increasing portion of the cost of future bus replacement purchases. Given that the District is in fiscal emergency and has limited resources for discretionary spending, the need for formal bus replacement planning is significant.

R5.4 Shelby CSD should consider selling three of the oldest spare buses and not replacing them. This would reduce the District's ratio of spare buses to total fleet to be more consistent with the ODE benchmark and the peers. In addition, this would help the District reduce its vehicle insurance and maintenance costs.

Table 5-5 compares Shelby CSD's fleet size and ratios to that of the peers.

Table 5-5: Bus Fleet Peer Comparison FY 2003-04

	Shelby CSD FY 2003-04	Shelby CSD FY 2005-06	Bellevue CSD	Dover CSD	Triway LSD	Peer Average
Buses	20	20	26	17	25	23
• Active	15	12	19	11	21	17
• Spare	5	8	7	6	4	6
Spare Buses as a Percentage of fleet size in FY 2004-05	25%	40%	27%	35%	16%	26%

Source: Ohio Department of Education

¹ Does not include special needs students, as information was not provided by Triway.

Table 5-5 shows that the District's spare buses represented 25 percent of the total fleet in FY 2003-04, which was similar to the peer average. However, during the course of this audit, the District reduced its active fleet to 12 buses by placing three buses into the spare fleet. After these changes, the District's spare buses now represent 40 percent of the total fleet, which is higher than all the peers. According to ODE, spare buses typically comprise 25 percent of the fleet. Based on comparisons to the ODE benchmark and the peer average, the District only needs five spare buses for a total fleet size of 17 buses.

Financial Implication: Although AOS cannot quantify the impact of selling three spare buses, the District will have an insurance cost savings that is estimated to be approximately \$3,700 annually (see **R5.6**). Although not readily quantifiable, the District should also experience some cost avoidance associated with the maintenance and repair of spare buses.

Operating Costs

R5.5 The District should consider revising the current purchasing policy so that more items are purchased in a competitive environment. For example, if the District adopted a policy that required all purchases costing more than \$500 to have a minimum of two price quotations regardless of the location of the vendor, the District would have some assurance that it is receiving the best price for routine items like motor fuel and maintenance supplies. The policy should state whether the vendor quotes are to be written or verbal and should require that the quotes be attached (noted on the p.o. if verbal) to the purchase order prior to submitting them to the Treasurer's office for processing. In addition, prior to making purchases, the Director of Transportation should review pricing of supplies from the Metropolitan Educational Council (MEC) purchasing consortium. Taking these actions will provide the District with some assurance that it is receiving a favorable price for fuel and maintenance parts.

Table 5-6 shows Shelby CSD's vehicle maintenance and repair expenditures in comparison to those of the peers.

Table 5-6: Maintenance and Repair Expenditure Comparison

	Shelby	Bellevue	Dover	Triway	Peer Average
Buses ¹	20	26	17	25	23
Routine Miles	227,746	341,154	197,219	372,915 ³	303,763
Maintenance Expenditures ²	\$24,125	\$14,733	\$9,794	\$31,522	\$18,683
Per Bus	\$1,206	\$567	\$576	\$1,261	\$801
Per Routine Mile	\$.11	\$.04	\$.05	\$.08	\$.06

Source: Ohio Department of Education

¹ Includes spare buses because these contribute to overall operating expenditures.

² Includes maintenance, repairs, maintenance supplies, tires, and tubes.

³ This does not include special needs miles as this information was not provided.

Table 5-6 shows that Shelby CSD's maintenance and repair costs per bus and per mile are 50 percent and 83 percent higher than the peer averages, respectively. The Director of Transportation indicated that all work is performed in-house except for transmission and electronic work. Shelby CSD depends on the dealer closest to the District to complete transmission or electronic work. This is an indication that the District may be purchasing maintenance parts and services based on convenience of location rather than the price. **Table 5-7** compares Shelby CSD's fuel expenditure ratios to the peers.

Table 5-7: Fuel Cost Comparison

	Shelby	Bellevue	Dover	Triway	Peer Average
Buses ¹	20	26	17	25	23
Routine Miles	227,746	341,154	197,219	372,915 ²	303,763
Fuel Expenditures	\$31,230	\$76,356	\$43,279	\$77,578	\$65,738
Per Bus	\$1,562	\$2,937	\$2,546	\$3,103	\$2,858
Per Routine Mile	\$.14	\$.22	\$.22	\$.21	\$.22

Source: Ohio Department of Education T-1 reports

¹ Includes spare buses because these contribute to overall operating expenditures.

² This does not include special needs miles as this information was not provided.

Table 5-7 shows that the Shelby CSD's fuel costs per bus and per mile are significantly lower than the peers. The lower fuel costs can be attributed to the District maintaining a centralized fuel tank (10,000 gallons) onsite and purchasing fuel in bulk. The Director of Transportation indicated that although the District belongs to the Metropolitan Educational Council (MEC) purchasing consortium, the District purchases all fuel from a local vendor because MEC cannot guarantee fuel prices for long periods of time. The Director of Transportation also indicated that the District does not competitively bid the purchase of fuel or receive price quotes from other vendors.

Table 5-8 shows a sample of the prices the District received from the local vendor for a gallon of fuel in comparison to the prices offered through the Ohio Department of Administrative Services (DAS). The DAS price has been adjusted to include the \$.26 state fuel tax and a \$.02 fuel delivery charge in order to provide a reliable comparison to Shelby CSD.

Table 5-8: Fuel Comparison

Date	Number of Gallons	Shelby (Cost per gallon)	DAS (Cost per gallon)	Difference
January 4, 2005	9,937	\$1.59	\$1.55	\$.04
March 8, 2005	12,188	\$1.89	\$1.86	\$.03
May 9, 2005	4,655	\$1.81	\$1.86	(\$0.05)
Average	8,927	\$1.76	\$1.76	\$.02

Source: Shelby CSD and DAS

As illustrated in **Table 5-8**, the average price the District received through the local vendor was approximately equal to the DAS price for the selected sample dates. However, by not using competitive bidding or receiving price quotes from multiple vendors, it will be difficult for the District to ensure that it continues to receive favorable prices for motor fuel. The District's current purchasing policy is broad and does not require price quotations on items costing less than \$7,500, unless the item is to be purchased from a non-local vendor. The District's purchasing policies consist of the following:

- Any building construction, demolition or repair in which the cost exceeds \$25,000 must be competitively bid;
- Three price quotations are required for purchases ranging from \$7,500 to \$25,000; and
- Employees must receive price quotes from local vendors for items costing more than \$500 prior to contracting with an out of town vendor.

The broad nature of this policy encourages employees to make purchases from local vendors without regard to price for items costing less than \$7,500.

Financial Implication: In FY 2003-04, the District spent \$24,125 on maintenance supplies. If the District were able to achieve the peer average maintenance expenditure per bus (\$801) by revising its purchasing procedures and reviewing pricing in the MEC consortium, it could save approximately \$8,100 annually.

R5.6 The District should seek to lower the fleet insurance costs by increasing the deductibles and attempting to limit the number of claims that are submitted to the insurance company for payment. Increasing deductibles can naturally help the District limit claims.

Pursuant to ORC § 3327.09 and 3313.201, boards of education are required to obtain motor vehicle liability insurance for the benefit of board employees who operate a school bus, motor van, or other vehicle used in the transportation of school children. The liability insurance must insure against injuries to person and property, and be in an amount not less than \$100,000 per person, \$300,000 per occurrence, \$50,000 to cover property damage, and \$3,000 to cover medical payments. However, the board may, at its discretion, supplement such liability insurance with policies of insurance for collision, comprehensive, and uninsured motorist coverage.

The District has established its insurance coverage at \$1.0 million for personal injury per person per occurrence, and \$1.0 million for bodily injury and property damage per occurrence. **Table 5-9** compares Shelby CSD's bus insurance expenditures with those of the peers.

Table 5-9: FY 2003-04 Bus Insurance Expenditure Comparison

	Shelby	Bellevue	Dover	Triway	Peer Average
Buses ¹	20	26	17	25	23
Bus Insurance	\$24,682	\$24,078	\$21,557	\$27,177	\$24,271
Per Bus	\$1,234	\$926	\$1,268	\$1,087	\$1,055

Source: Ohio Department of Education and interviews.

¹ Includes spare buses because these contribute to overall operating costs

Although Shelby CSD bids for its bus insurance carrier annually, its costs per bus are higher than the peer average, as shown in **Table 5-9**. Bellevue CSD's insurance cost per bus is only \$926, which is significantly lower than Shelby CSD. The only significant difference between the insurance plans at Bellevue CSD and the District are the deductibles. Bellevue CSD has established its deductibles at \$1,000 for comprehensive coverage and \$1,000 for collision coverage while the District's deductibles are currently \$250 and \$500, respectively. However, it appears that the savings from changing deductibles by themselves will be minimal as the District's insurance carrier indicated that another school district (Centerburg City School District) has the same deductibles as Bellevue CSD and is paying \$11 per bus for comprehensive coverage and \$58 per bus for collision coverage. By comparison, Shelby CSD's current comprehensive and collision premiums are \$16 and \$75 per bus, respectively.

The District's insurance carrier indicated that the deductibles are only one factor that is considered when establishing the annual premiums. For example, the premiums also reflect the cost of bus, age, class, safety features, and the number of claims filed historically. However, the District's insurance carrier also noted that school districts that maintain lower deductibles typically have higher claims costs (easier to submit claims) and therefore, higher premiums.

Financial Implication: By raising the deductible to \$1,000 for both comprehensive and collision insurance, the District could reduce the cost of insurance premiums by a minimum of \$440 annually. However, the District may be able to increase the savings substantially if its claims history also improves as a result of the change.

- R5.7 In an effort to reduce the high cost of special needs transportation, the District should consider promoting parent/guardian contracts. While parents cannot be required to provide transportation, Shelby CSD can promote the use of these contracts with the goal of decreasing the total number of special needs students that receive bus transportation from the District. In addition, the District should consider including transportation personnel in the IEP process. This would ensure that the all the costs and constraints associated with providing transportation to students with special needs are considered before any commitments are made through an IEP.**

According to the Ohio Department of Education (ODE), providing pupil transportation and meeting the specific needs of students with special needs has become increasingly complex. Of the 1.3 million students transported at public expense, more than 48,000 are students with disabilities receiving transportation services. Because there is an increased number of special needs students participating in programs, the subsequent need to provide more programs and facilities has been addressed by increasing the availability of such programs within the students' home school area. An immediate impact is the necessity to provide transportation services to a new client base that previously had not been receiving them.

Table 5-10 compares Shelby CSD's total special needs transportation expenditures to the peer averages, and includes both Type-I and non-Type-I services.

**Table 5-10: FY 2003-04 Special Needs
Transportation Expenditure Comparison**

	Shelby CSD	Peer Average
Special Needs Expenditures	\$146,428	\$72,440 ¹
Special Needs Students	29	26 ¹
Special Needs Expenditures per Student	\$5,049	\$2,786

Source: Ohio Department of Education

¹ Does not include Triway who could not produce the number of special needs students they have

As shown in **Table 5-10**, Shelby CSD's special needs transportation expenditures per student for FY 2003-04 were significantly higher than the peer average. While some of the high costs can be attributed to the generous fringe benefits given to the bus drivers (see the **human resources** section), the District's policy of not involving transportation personnel in the IEP process and the lack of parent/guardian contracts may also contribute to the high cost ratio. The Director of Transportation indicated that the high

costs may also be due to the District operating two special needs buses with aides on each bus in FY 2003-04. During the course of this audit, the District eliminated one special needs bus and reduced one bus aide, which should help reduce the special needs costs in the future. These savings are reflected in the District's forecast (see **Table 2-1**).

Shelby CSD does not establish parent/guardian contracts with the parents of special needs students to provide transportation. School districts can negotiate parent/guardian contracts for special needs students by following guidelines set forth in OAC § 3301-83-21. Based upon case history from the Office of Civil Rights (OCR), ODE advises basing the rate of reimbursement on the common market rate for like services available in the area. According to ODE, most parent/guardian contracts are established on a per mile basis. The District agrees to set a price per mile and then pays the parent/guardian based on the miles traveled to drop-off and pick-up the student.

As stipulated within Ohio Administrative Code (OAC) 3301-51-07(A), "each school district shall adopt and implement written procedures...that ensure an individualized education program (IEP) is developed and implemented for each child with a disability." Furthermore, as stipulated in OAC 3301-51-07(E), when forming an IEP team, districts should include the following as IEP team members:

- The child's parents;
- The child, if appropriate;
- At least one regular education teacher of the child;
- At least one special education teacher of the child;
- A representative of the school district who is qualified to provide or supervise the provision of specially designed instruction;
- An individual who can interpret the instructional implications of evaluation results; and
- Other individuals who have knowledge or special expertise regarding the child, including *related services personnel*, as appropriate.

In addition, Ohio Administrative Code (OAC) 3301-51-10 states that school district transportation personnel shall be consulted in the preparation of the IEP when transportation services are required as a *related service* and when the child's needs are such that information to ensure the safe transportation and well-being of the child is necessary to provide such transportation. Furthermore, according to ODE's operating standards for Ohio's Schools Serving Children with Disabilities, Individualized Education Program, participants in the IEP process should include district representatives that are aware of the resources of the educational entity.

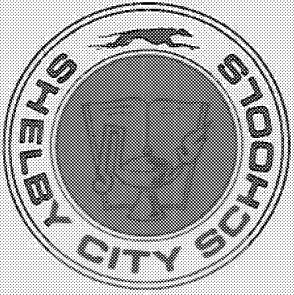
Contrary to the statutes above, the Director of Transportation indicated that the transportation department is not consistently involved in IEP conferences. As a result, the transportation department lacks some control over processes and costs related to special needs transportation. In addition, by not including transportation personnel in the IEP meetings, the most efficient transportation methods may not be considered, such as outsourcing or establishing parent/guardian agreements. As a result, the District has limited assurance that it is using the most efficient method for transporting these students.

Financial Implications Summary

The following table summarizes the estimated annual cost savings identified in this section of the report.

Summary of Financial Implications for Transportation

Recommendation	Estimated Annual Cost Savings
R5.4 Reduce insurance costs by selling 3 spare buses	\$3,700
R5.5 Reduce maintenance expenditures through revised purchasing procedures	\$8,100
R5.6 Increase insurance deductibles	\$440
Total	\$12,240



25 High School Avenue, P.O. Box 31, Shelby, Ohio 44875-0031

(419) 342-3520
Fax (419) 347-3586

February 13, 2006

Auditor of State
Betty D. Montgomery
Lausche Building
615 Superior Ave., NW, Twelfth Floor
Cleveland, OH 44113-1801

Dear Auditor Montgomery:

- The Shelby City Board of Education and the district administrative team received the final draft of the performance audit on February 9, 2006, in a post-audit conference. Prior to the audit, the Shelby City Schools had been placed in fiscal emergency. Since that time the district has made substantial reductions as part of our fiscal recovery plan, in addition we received financial support from our community by the passage of a permanent 1% school district income tax.

This document will provide the Shelby City Schools Board of Education and the district administrative leadership team with additional comparison information which will be necessary to continue the fiscal recovery that is underway and assure strong financial controls of the districts operations into the future.

William Rouse, Senior Audit Manager, served as the lead on the team. His organization and management of the process are to be commended. Other audit team members also should be complimented on their contributions to the audit report. Shelby City Schools had a very beneficial experience and final result.

The recommendations will be thoughtfully considered and used as we continue to update our fiscal recovery plan and lay the groundwork for future financial stability. We will use the recommendations in our upcoming negotiations and in making decisions that affect any of the district operations. The auditor's office has provided a service that we could not have done without. The feedback and information contained within the performance audit can only enhance the district's efforts. Thank you for this very useful process and we look forward to the release of the final document.

Sincerely,

A handwritten signature in cursive script, appearing to read "Charles A. Speelman".

Charles A. Speelman, Superintendent
Shelby City Schools



**Auditor of State
Betty Montgomery**

Office of the Auditor of State of Ohio
Betty Montgomery, Auditor of State
88 E. Broad Street
Columbus, Ohio 43216-1140
(800) 282-0370
www.auditor.state.oh.us