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C-TEC at critical financial juncture

Passage of 1-mill levy may mean solvency for 7-10 years

BY SETH ROY • ADVOCATE REPORTER • OCTOBER 25, 2009

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NEWARK -- Retiring Superintendent Ron Cassidy looks out a window in his office toward the school that has been a huge part of his life for the past 30 years.

"I don't want to be part of ripping it apart," the Career and Technology Education Centers of Licking County superintendent said. "I would hope the community realizes the value of this place."

On Nov. 3, C-TEC is asking voters to approve a 1-mill levy that would cost homeowners about \$35 per year for a \$100,000 home and would raise about \$3.7 million per year. This will be the school's third try for the operating levy, which failed by 1,000 votes in May.

This time, the stakes are more clear: Major cuts loom in the spring if the levy doesn't pass. If it's approved, the school could be OK for seven to 10 years depending on outside factors such as state revenue and the outcome of a lawsuit currently awaiting judgment.

"Probably this spring we'll have to start laying off some people (if the levy fails)," said Cassidy, who is retiring effective Jan. 1. "That would mean no new growth, no new programming."

To balance C-TEC's \$13 million budget, the school might need to lay off as many as 20 or 25 people and make up to \$2.5 million in cuts to remain stable.

C-TEC is at this critical crossroads for a variety of reasons, said former treasurer Cory Thompson, who resigned in August to take the same position with his hometown Lorain County Joint Vocational Center.

"The nature of the business is starting to change," he said.

State and local revenues have been falling for the past five years, and C-TEC is waiting for the judgment from a lawsuit dealing with the construction on the new building.

The district also is facing the reality of paying back a \$3.3 million loan, taken to repair some items in its new building, as well as to help pay legal fees.

'WE NEEDED FUNDING SHORT-TERM'

During the middle of C-TEC's building project in 2006, the board removed general contractor Claggett & Sons from construction based on a series of delays and problems with the new building.

Later that summer, as the project was being completed, the building fund was dwindling and the school was facing many building repairs, as well as legal fees from a lawsuit Claggett filed in April for wrongful termination.

"There were still some issues with leaks in the roof and with the enclosure," Thompson said. "The only option we had was to generate revenue."

The board approved a resolution to borrow \$3.3 million in bond anticipation notes during an Aug. 22, 2006, board meeting.

"It was the best single way," board member Bob Handelman said. "We needed funding short-term. It's not what you're normally looking to do."

C-TEC was able to postpone using any of that money for most of the next year, and was able to actually invest some of it.

Since then, the loan funds have been depleted to pay for some items in the building that C-TEC says Claggett would have been responsible to repair: Leaky windows that cost \$100,000 by themselves, the installation of

ceiling tiles, damaged roofing and more. In all, more than \$1 million was used for those types of items, Thompson said.

The school still has many more items to repair, from leaning flag poles to sidewalks, but it doesn't have the money for them.

The rest of the loan has paid for C-TEC's \$1.8 million in legal fees, as well as liquidated damages to some sub-contractors.

Each August since 2006, the school has borrowed another \$3.3 million to pay off the previous year's loan, and borrowed \$3.4 million this year. C-TEC can do this two more times before needing to make a decision on how to pay it off.

"Maybe the lawsuit will pay it, or we'll have to bond it out," Cassidy said.

The board would have the option of paying the loan back during an up to 20-year period, or paying it off in one lump sum, should the school win its up-to-\$10 million claim against Claggett.

"If they have to bond it out, the board's going to have to budget it in the general fund," Thompson said.

In a worst-case scenario for C-TEC, the school would need to pay off the loan in 20 years and, if it loses the lawsuit, would be obligated to pay as much as \$4 million to Claggett at a currently unknown time.

Regardless of the lawsuit's outcome, it will likely be appealed, a process Cassidy said could take as long as 18 to 22 months. Based on that rough timeline, the board might know the final outcome of the lawsuit before making a decision on how to pay back the loan.

C-TEC has spent more than \$1.8 million on legal fees surrounding the case so far, with some payment deferred until the case is settled. The appeals process would increase that figure.

Without the lawsuit and the loan, C-TEC still would need to ask for money, Cassidy said. Even if C-TEC were awarded a full \$10 million, that wouldn't fix the school's issues.

"It would be a Band-Aid," Cassidy said. "We need a revenue stream that's consistent and continuous."

C-TEC's revenue has been neither consistent nor continuous during the past five years, administrators said.

"We've been losing a million almost every year," Cassidy said. "I don't think we'll see great growth. I don't see us getting more from the state."

'THE ECONOMY HIT THE TANK'

C-TEC has operated on a levy it passed 35 years ago, thanks to rising property values and new home construction, Thompson said.

While the school was at the 2-mill floor, its local revenue would grow by 11 percent to 14 percent every three years during valuation periods.

"That's kind of what kept C-TEC going for all these years," Thompson said.

The school's \$13 million budget is made up of 60 percent local property taxes and 40 percent state funds.

When property values started to slow down -- going up by only 7.5 percent in 2005 -- C-TEC's revenue stream started to lag behind its rising expenses. New home construction also has fallen from 5 percent to 1 percent or 1.5 percent per year.

"That's when C-TEC started to make some changes," Thompson said, adding that the 2007 and 2008 budgets were each cut by \$400,000.

Then, when values were kept flat during the 2008 valuations, the district lost a projected 5 percent increase in

revenue during the course of three years.

"That's when the economy hit the tank," Thompson said. "We had no new money coming in on 60 percent of our revenue."

REVENUE HAS GONE BACKWARD

Income from interest also has fallen dramatically in recent years.

C-TEC receives a \$3.5 million payment from property taxes in each January or February and again in July or August -- for a total of about \$7 million per year.

"You have the opportunity to invest that money," Thompson said. "When you have a bigger cash balance, you can invest more."

A combination of C-TEC's lower bank balances and much lower interest rates have caused the school's interest income to drop from as much as \$500,000 a year to just \$50,000.

"The (interest) revenue for C-TEC has gone backwards," Thompson said.

'THAT TOOK AWAY A COUPLE HUNDRED THOUSAND DOLLARS'

At the same time C-TEC was dealing with lower-than-expected local revenue, it also had to adjust for declining state dollars.

In 2006, House Bill 66 dealt two large blows to the school's revenue: The bill did away with a cost-of-business factor and began to phase out the tangible personal property tax.

The cost-of-business factor provided Licking County schools with 3.8 percent extra per student based on the cost of living compared to a test county.

"That took away a couple hundred thousand dollars," Thompson said.

With the phasing out of tangible personal property tax, the state started to reimburse districts that money -- based on 2006 revenue.

"They kind of went backwards right off the bat," Thompson said, adding that it lowered C-TEC revenue by another \$100,000 dollars per year. "Tangible personal property was growing county-wide."

'WE'RE GOING TO HAVE TO CUT PROGRAMS'

C-TEC -- formerly the Licking County Joint Vocational School -- has seen these revenue issues coming during the past few years.

Cassidy said the school's trimming began in 2007 with \$400,000 in cuts, and has continued through until this year when employees accepted a pay freeze, and all non-teaching employees took an additional 10-day furlough.

"They're making the identical same amount of money they made last year," he said of the staff.

The school has little else it can cut.

Unlike regular school districts, C-TEC has no busing or athletics to cut into. It only has programming.

"Beyond this year, if finances continue to remain the way they are, we'll be going into the red," board member Dean Ramsey said. "We're going to have to cut programs."

C-TEC currently offers its students nearly 40 programs and serves more than 800 students. Additionally, the Adult Education Center serves as many as 5,000 adults at a cost of only \$380,000 to the general fund.

The stakes of the Nov. 3 election for C-TEC are simple and severe, Cassidy said.

"Do (voters) want C-TEC to continue to have the programming that we've had for kids, or not?" he said.