

**Rocky River City School District**  
**IRN 044701**  
**Greg R. Markus, CPA, Treasurer/CFO**  
**October 2011**

**Approved at the October 20, 2011 Regular Board Meeting of the Rocky River Board of Education, Res. #189.6-11**

*General Background/Assumptions:*

***Local Property Tax Revenue:***

Since the District receives approximately 91% of its revenue for the General Operating Fund from local property taxes and related state subsidies, the key assumptions for revenue rest with property tax revenue.

- The District is now in the fourth year of what has historically been a three-year levy cycle. The Board of Education made a calculated decision to extend this levy cycle to four years due to the negative condition of the economy and instructed the administration to ensure that this could be done with only moderate cuts to the current educational program. The voters approved a continuous operating levy of 5.9 mills in March 2008 to be used for continuing operations of the District. This levy was estimated to generate approximately \$4.3M (now \$4.16M after the property value reduction described below) for a full year of collection and is included in the revenue estimates contained in this forecast. FY 10 represented the first full fiscal year collection on the new levy since property taxes are assessed and collected on a calendar year (January – December) basis versus a school district's fiscal year of July - June.
- Cuyahoga County finalized its most recent reappraisal of all real property within the County as of December 2006. This process is required to be performed every six years per Ohio Revised Code Section 5715.33. The new values for Cuyahoga County are for the 2006 tax (calendar) year that became the taxable values used to calculate real estate tax bills starting in January 2007. In between required appraisals, Counties are required to perform an update of those values based on factors relevant to real property values at the time of the update (e.g. actual sales). The most recent update was recently completed and certified in December 2009 and became effective in January 2010. The next reappraisal is scheduled to be completed by December 2012 for a January 2013 effective date.
- Because House Bill 920 effectively freezes revenue for the vast majority of the real property tax millage that is collected by a School District to the

amount that was calculated at the time the millage was approved by the voters, The Rocky River Schools will not see an increase in real property tax revenue from any increase in taxable value for most of the millage that we collect. The only increases in revenue from an increase in existing property tax values would be from the statutory inside millage that the District collects, which is minimal as compared to the outside (i.e. voted) millage. Conversely, since House Bill 920 rules do not apply to inside millage, if property values experience an overall decrease the District would experience a decrease in revenue. The District currently collects on 37.82 effective mills in its General Fund for *residential* real estate vs. 73.6 voted mills. The District currently collects on 51.27 effective mills in its General Fund for *commercial* real estate vs. the same 73.6 voted mills.

- Tangible personal property tax revenue has continued to phase out per Ohio H.B. 66 signed into law by the Governor effective 7/1/05. Only telephone personal property remained taxable through fiscal year 2011 (12/31/10), after which time no tangible personal property is taxable per current law.
- H.B. 66 included a "hold harmless" provision for school districts to receive full reimbursement of "base year" valuation (i.e. tax year 2004) losses attributed to the elimination of this tax revenue source through fiscal year 2010. H.B. 1 signed into law by the Governor as of July 1, 2009 included a provision to extend the full (100%) reimbursement of "base year" valuation losses through fiscal year 2013. *However, the revenue guarantee through fiscal 2013 was eliminated upon the adoption of Amended Substitute H.B. 153 that was signed into law on June 30, 2011. These "hold harmless" payments phase out over two years beginning in fiscal 2012 and will be completely eliminated by fiscal 2013. This represents a loss to the District of \$1.069M based on previously forecasted amounts (\$623K immediate loss in fiscal 2012 with the additional \$446K taking effect in fiscal 2013).*
- Since the District does not receive state share (i.e. "per-pupil formula") funding, we have been receiving these "hold harmless" reimbursements as direct payments from the state and will continue to do so through fiscal 2012. These replacement payments have been reflected on line 1.050 of this forecast.
- The exempt personal property tax reimbursement that was formerly received from the State of Ohio was phased out as of FY 2010. During FY 2009, the amount of this subsidy was down to \$31,567.
- In addition, Per H.B. 153, public utility deregulation reimbursements that were being received from the State of Ohio as of fiscal 2011 as a result of Senate Bills 3 & 287 that commenced in Feb. 2002 *will no longer be received starting in fiscal 2012. These reimbursements were in the form of direct payments amounting to \$192,755 per year.*

- **In summary, Amended Substitute H.B. 153 as adopted into law will phase out the District's personal property tax reimbursement and the utility deregulation/SB3/KwH tax reimbursement revenue sources by fiscal year 2013. The impact on the District's revenues is a reduction of over \$815,236 for fiscal year 2012 and an *additional* \$445,684 in fiscal year 2013. The total reduction of revenue over the remaining four years of this forecast is \$3,465,908 over what was estimated based on previous law.**

*State of Ohio and Federal Stimulus Revenue:*

- The district realized a reduction of 1% in its "guaranteed" revenue from the state of Ohio (called foundation revenue, as reported on line 1.035, and included the state fiscal stabilization funding from line 1.045 as well) from FY 2009 levels in FY 2010. For FY 11, this line came in just slightly below the FY 10 level per House Bill 1 as part of the Ohio Evidenced Based Model (OEBM) that was being used to provide state support to schools through FY 2011. H.B. 153 contained provisions that would have reduced this funding source by 20% for fiscal year 2012 and then flat lined the revenue for fiscal year 2013, but the Senate version of this bill was changed and all Districts were guaranteed funding equal to that received in FY 11 from the foundation formula (including guarantees). The final version of H.B. 153 as approved by the House/Senate Conference Committee accepted this provision in the final version of the bill ultimately approved by the Governor.
- Because Rocky River is considered to have a strong and relatively wealthy tax base, the state of Ohio provides minimal funding per student and some additional funding for special education, preschool education and pupil transportation. None of this state support covers any substantive amount of these program costs. The majority of the costs are paid by the citizens of the community through their property tax support. H.B. 153 as passed into law did not reduce the small amount of special education, preschool and transportation funding that the District is expected to receive over the next biennium.
- Line 1.040 includes funding received from the State of Ohio that is restricted to be used for the programs for which the money is earmarked. For FY 2011, this line included \$95,683 from the State's catastrophic aide reimbursement appropriation for certain special education expenditures above specific thresholds. Although the eligibility requirements remained the same for this funding source for the most recently completed biennium (2010 & 2011), the state-wide appropriation for this funding was cut in half, therefore causing the District to realize about half of the funding in FY's 10 and 11 that we received for these purposes in FY 09. Further, the reimbursement is allocated proportionately based on the total dollar amount submitted by all Districts

throughout the State. Since H.B. 153 as adopted did not alter this funding source, this forecast assumes that this revenue source will remain at the reduced FY 2010 levels.

- Line 1.045 includes amounts received through the State from the State Fiscal Stabilization Fund as authorized by the American Recovery and Reinvestment Act (ARRA), aka the “federal stimulus bill”. This funding was scheduled to be received only in FY’s 10 and 11 per the applicable federal legislation and was not reauthorized for FY 12 and beyond.
- The District did receive an allocation from the federal Education Jobs Fund that is required to be included in a school district’s five-year financial forecast. The fund is included with the general fund because the grant resources are used only for compensation and benefits and other expenses such as support services necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services, which are typically paid from the general fund. Whether the grant resources are used entirely in fiscal year 2011 or over two fiscal years (2011 and 2012) is a decision of the Board of Education. Once the grant resources are expended, the employees’ compensation and benefits may revert to the general fund or the positions may be terminated. The current plan is to use these funds in FY 2012 to fund a significant portion of a gifted education coordinator since the District is not expecting to have the subsidy for this position funded through the Cuyahoga County Educational Service Center due to funding cuts that will take effect in FY 2012.

***Other Local Revenue:***

- Local revenue makes up approximately 1.3% of total revenue. This local revenue is primarily investment revenue, rentals, student and other fees.

***Other Financing Sources***

- Other financing sources make up approximately 3.7% of total revenue and are mostly comprised of federal subsidies from interest rebates on Qualified School Construction Bonds (QSCBs) and Build America Bonds (BABs) that the District has earmarked for the General Fund (see a more detailed explanation of these rebates below).

## **Expenditures:**

As is typical for school districts throughout the state, salaries and benefits comprise just under 84% of the District's operating expenditures. Key assumptions regarding salaries and fringe benefits are as follows:

### ***Salaries:***

- In March 2011, the District and both bargaining units agreed to a two-year contract for FY's 2012 and 2013 that does not include any base salary increases (only step increases). These agreements also called for significant concessions in health care that are explained in detail under the "Fringe Benefits" section that follows. These provisions also apply to all non-bargaining employees of the District.
- Overall staffing levels during the life of this forecast are assumed to be static overall, but may need to move up or down based upon enrollment, class sizes, special needs and additional fiscal restrictions. Attrition and only selected replacement due to retirements and resignations will be managed to keep salary levels in line with projections and allow for additional staffing needs in specific areas as appropriate. Additionally, targeted reductions in instructional and non-instructional personnel have already been executed for fiscal year 2012 as explained below. The all-day-kindergarten mandate that was a part of state law earlier this year has been repealed by recent legislation and the District does not plan to institute this program due to fiscal constraints.

### ***Fringe Benefits:***

- Fringe benefits are primarily composed of retirement system payments and health insurance benefits, but also include payments to the State Workers Compensation Fund and other employee-related items.
- Retirement Payments - Retirement payments are required by state law to be paid. The employer pays 14% of the employees' earnings to one of two state retirement systems. Retirement costs are projected to increase or decrease consistent with salary costs.
- Health Insurance - Employee health insurance costs are expected to increase moderately to significantly during the life of this forecast based on actual claim activity, but will be mitigated significantly as compared to prior years based on the plan design change negotiated as part of the 2008 and 2011 bargaining unit agreements. The 2008 plan design changes affected the cost structure of the health insurance plan offered by the District that called for premium contributions from all employees of 3% in fiscal year 2011 (more for part-time employees based on their percentage of time worked) and a co-

insurance amount of 10% of eligible claim charges with maximum out-of-pocket limits along with increased co-pays for prescription drugs. The latest provisions agreed to in March of 2011 (effective July 1, 2011) will require employees to pay 11% of the premium cost of health insurance; require working and retired spouses who are eligible for health care through their employer or retirement plan and meet minimum work-related requirements to become primarily covered under those plans; and increase prescription co-pay levels significantly. These health insurance changes is expected to reduce the District's projected expenditures over the two-year agreement term by approximately \$1.6M.

- Starting in fiscal year 2011 the District is funding employee health care through the Suburban Health Consortium. The Suburban Health Consortium (the "Consortium") is a legally separate entity organized under Ohio Revised Code Section 9.833. The Consortium was established on October 1, 2001, formed by the Boards of Education of several school districts in northeast Ohio, for the purposes of maximizing benefits and/or reducing costs of group health, life, dental and/or other insurance coverage for their employees and the eligible dependents and designated beneficiaries of such employees. It is the District's expectation that this funding arrangement will help smooth out and even contain the expected increases in this area going forward based upon the Consortium's history, despite having to fund an equity reserve "buy-in" over the initial five years of our membership.

***Other Expenditure areas:***

The remaining 16% of expenditures consist of Purchased Services, Supplies and Textbooks, Equipment (Capital Outlay), Other Objects and Transfers.

- Purchased Services - increases were incurred in 2009 as compared to the 2008 amount. Large sustained increases in electricity, natural gas and water utilities could potentially drive this expenditure area higher than expected, although as of May 2009 these expenditure areas appear to have stabilized somewhat. These obligations include virtually all utilities and student contracted services (i.e. vocational/career technical education and special education tuition to other districts) required by statute or need. In addition, capital lease expenditures for the upgrading of the District's technology that occurred in FY 09 are included in this area and are expected to continue through the end of this forecast.

Payment of the preliminary billing for the District's 2006-2007 school year vocational education participation was deferred until FY 08 to help ensure a positive ending General Fund balance for FY 07 to comply with state law. Deferral of all of the FY 08 payment(s) for such services was necessary again in FY 09 based on projections. This actual amount paid under this line

reflected a one-time “catch-up” payment in FY 10 so that the majority of this annual expenditure will be paid in the year the services was incurred.

Starting in FY 11, this area was assumed to increase slightly for utility costs and general inflation in this area (less adjustment downward from FY 10 to account for the one-time vocational education catch-up payment mentioned previously).

Community school payments are also included in this line and have averaged approximately \$120K per year and are assumed to continue near this level throughout this forecast. If school choice options are expanded as is currently being proposed through H.B. 136, there is a possibility that these types of payments (whether to charter and/or non-public schools and potentially individual accounts) may increase moderately to substantially during this forecast period. At this time, the actual financial impact to the District is unknown since this bill has not become law, but it is projected that the District could lose its entire basic state foundation funding of approximately \$1.1M. More information will be made available as the House and Senate deliberate further on this bill.

- Supplies - These supplies are primarily student textbooks, computer software, supplemental materials, supplies for buildings and buses and library materials. This category increased substantially for FY 09 to allow for continued program needs and textbook replacements and to replace funds that have been cut from building/departmental budgets since FY 06 due to the District’s fiscal situation. For FY 2011, this area decreased from the FY 2010 level, but is expected to increase by 12.8% for FY 12 and will then assume an increase of 5% per year through the end of this forecast to account for inflation and additional textbook and other instructional supply needs from year to year.
- Capital Outlay - Primarily equipment for classrooms (computers, audio-visual) and replacement of district maintenance and transportation equipment. This category increased from prior levels starting in FY 08 and continued through fiscal year 2010. For FY’s 2008 - 2010, the District covered a large portion of its capital expenditures out of the construction settlement funds contained in the District’s Permanent Improvement Fund as well as additional funding available in that fund. Since the carryover balance from the construction settlement is now depleted, capital spending has shifted back to the General Fund to some degree for maintenance of the District’s educational program and operations. We saw a slight decrease in FY 11, after which the amount is expected to incur an increase in FY 2012 due to the continued replacement of student and staff computer technology. It is projected that this line will increase again starting in FY 13 and will continue forward near the FY 13 level due to the planned implementation of Google Chromebooks for grades 6 – 12. This forecast also assumes that much of the major capital purchasing needs of the District (i.e. building and infrastructure

improvements) will come from the proceeds of a bond issue that was passed at the May 4, 2010 primary election.

- Other - The largest portion of this amount is collection fees paid to the Cuyahoga County Auditor and Treasurer for collection of property taxes and to the State of Ohio for the District's required annual financial and compliance audit. These fees are set by state law and/or administrative code. The property tax collection fees are in proportion to property tax collections. They also include election expenses that every governmental entity is statutorily required to pay as well as fees related to the County land bank and tax anticipation note programs. A 10% annual increase is assumed starting in FY 12.
- Debt Repayment - In fiscal 2004 the district borrowed \$385,000 from the unobligated portion of its Bond Retirement Fund for stadium improvements. The bonds are to be repaid over a ten year period from the General Operating Fund. Scheduled principal and interest payments for the forecast are as shown.
- Estimated Encumbrances (line 8.010) - The amounts contained on this line represent contractual and other purchase commitments that existed or are anticipated to exist at June 30 of each year. This amount cannot be more than the ending cash balance as contained on line 7.020 in order to be in compliance with state law governing public entity expenditures. In most instances, these amounts will be expended in the subsequent year. This amount was significantly lower than the District's historical average at the end of FY 08 in order to be in compliance with state budgetary law. This amount increased moderately in FY 09 vs. FY 08 to account for additional commitments carried over from FY 08 and then continue closer to historical averages throughout the remainder of this forecast. The District routinely reviews any purchasing commitments in June of each year and will cancel any that are no longer needed or applicable. Additionally, the District will have to plan to cancel any outstanding commitments to be in compliance with Ohio law governing public entity expenditures, if necessary.

*Update/review of fiscal years 2008 - 2010 and key detailed assumptions used in preparing the District's Five-Year Forecast through FY 2016.*

#### **Review of FY's 2008 - 2010:**

- The District had estimated that it would end FY 08 with a deficit of approximately \$1M (when taking into account the deferral of the District's vocational technical district billing from the Lakewood City Schools to FY 09) unless corrective action was taken. This situation would have placed

the District in non-compliance with State budgetary law and could put the District at risk of fiscal oversight (fiscal caution or watch) by the State of Ohio.

- In order to avoid this situation and to ensure that the District would be able to fund the final payroll of the fiscal year on June 27, 2008, the District was forced to take the following actions:
  - 1) Continued to defer payment of the Vocational Technical District billing from Lakewood to FY 09 (approx. \$400K)
  - 2) Obtained approval from Medical Mutual to defer the June insurance premium billing to July of 2008 (approx. \$230K)
  - 3) Eliminated/delayed encumbrances for any supplies and services wherever possible that would otherwise be outstanding as of 6/30/08 and encumber and pay any of these obligations that are critically needed into FY 09, therefore effectively increasing the District's General Fund appropriation for FY 09 (mainly out-of-district tuition of approximately \$200K - \$300K)
  - 4) Shifted eligible capital expenditures from the General Fund to the District's Permanent Improvement (PI) fund, effectively reducing the amount available in the PI fund for future capital and building needs (approximately \$30K)

**The District's administration, with clear communication with and approval from the Board of Education, planned for the events outlined above and planned to be in compliance with state budgetary law. This plan played out as planned producing a very minimal ending actual unencumbered balance for FY 08.**

- FY 09 saw the District recover somewhat from the fiscal issues that have been prevalent starting back in FY 05.
- By 6/30/09, the only expenditures/liabilities that were deferred to FY 10 was a billing of approximately \$320K for the Vocational Technical District billing from Lakewood as well as \$181K for a contingent premium originally due to the District's health insurer in FY 09 that was above the amount budgeted for such purposes. These items amount to a total of \$501K.
- No other significant expenditure items were deferred into FY 10 or beyond and the District had budgeted for the complete payoff of these carryover liabilities to be paid during FY 10 and had in fact paid off those liabilities by 6/30/10.

## **FY's 12 – 16:**

### *Revenue:*

- Property tax revenue (and related property tax allocation) increased in FY 10 due to full-year collection of the 5.9 mill continuing operating levy passed in May 2008. The original estimated full-year collection for this levy was \$4.3M, but based on the triennial update of property values that occurred in December 2009 as certified by the Cuyahoga County Auditor, residential values within Rocky River were *reduced* by 5%. This is anticipated to cause an annual decrease of \$181K to this estimate. Further, the 5% reduction in residential property values caused an additional loss of revenue from the inside millage portion of our tax rate of \$140K annually. The initial annual total loss of \$321K was realized by the District over two fiscal years (FY's 10 and 11) since the reduced property values did not take effect until 1/1/2010. As a point of reference, the District had originally estimated no change (flat) in residential and commercial values based on information that was available from the County Auditor back in October of 2008.
- The District's property tax revenue is also subjected to reductions based on delinquent taxes as well as challenges to reduce the County Auditor's value of property, which further contributed to a loss of property tax revenue in fiscal year 2011 as compared to fiscal year 2010. Based on these trends and what was estimated by the County Budget Commission as of February 28, 2011, a further reduction is assumed for fiscal year 2012 of \$181K.
- Thereafter, very modest increases are estimated based on new construction, net of Board of Revision losses and collection of delinquent taxes. These estimates are subject to revision by the County Budget Commission each year based on an updated fiscal year Schedule A. Further, we are expecting to see the continued impact of the economic downturn that has affected the nation through reduced new construction activity in the near-term.
- As stated previously, a decrease in revenue from the real property triennial update started affecting property tax revenue collections negatively as of 1/1/2010.
- Beginning in FY 2016, the District is expected to begin recapturing lost revenue as a result of the seven-year Westgate property tax abatement. Because the abatement was phased-in starting in tax year 2007 (2008 collection year) with most occurring in tax year 2008 and some in 2009, we will not see any significant revenue until our FY 2016. Westgate is still the District's single largest taxpayer when all parcels of the Westgate property are taken into account. This property is mainly located within the City of

Fairview Park but within the District boundaries. This forecast assumes an increase of \$150,000 in property tax revenue in FY 2016.

- As mentioned previously, the tangible personal and some former public utility revenue sources are being phased out completely after FY 11. Only certain *tangible public utility* property is set in current law to remain taxable in FY 12 and beyond. The state subsidy used to replace this revenue source is being completely eliminated by fiscal year 2013 based on the passage of Amended Substitute H.B. 153 as explained previously.
- State unrestricted grants-in-aid are expected to remain consistent with FY 2011 amount starting in FY 2012 based on Amended Substitute House Bill 153 as explained previously. We are assuming this source will continue to flat line in FY 2013 and continue for the length of this forecast. However, depending on what comes out of the current study and discussion at the state level regarding a new school funding formula, this could change as early as fiscal 2013.
- State restricted grants-in-aid reflected a reduction of 57% for FY 10 vs. FY 09 based on the fact that the State has reduced their appropriation for catastrophic aid reimbursement by approximately this same percentage. This amount is also capped by a statewide appropriation level since the State has historically received a significantly larger amount of claims from school districts than they have appropriations from which to fund these reimbursements. For FY 12 it is assumed that the FY 10 amount will be received. Starting in FY 13, this forecast assumes that this funding source will not be continued in its current form as a separate and distinct revenue source.
- Federal restricted grants-in-aid (line 1.045) continued in FY 2011 through funding received from the State Fiscal Stabilization Fund mentioned previously, but will end starting in FY 2012. During FY 2012, the District is expecting funding in the amount of \$59,222 from the federal Education Jobs legislation, but is not expecting additional funding from the program after fiscal year 2012 since it has not been reauthorized.
- Other Revenue (line 1.060) is expected to increase modestly through FY 15 based on small and consistent increases in investment income due to an anticipated slight uptick in investment yields, additional revenue from tax exempt bond proceeds available to invest over FY's 2011 - 2013 as well as additional revenue anticipated from new and existing cell phone tower leases and other miscellaneous revenue sources. If investment returns recover to pre-2009 levels, this line could show significant growth on a percentage basis.
- All Other Financing Sources (line 2.060) consists mainly of interest rebates from the federal government from interest that the District will be paying on Qualified School Construction Bonds (QSCBs) and Build America Bonds

(BABs) that the Board of Education has earmarked for receipt to the General Fund as allowable by current federal regulations for four full calendar years (over five fiscal years) in order to sustain the District's operations and allow for the delay of the next request for new operating money for one year.

*Expenditures:*

- Salary and wages include step increases for education and experience only starting in FY 2012. No overall base salary increase are included in these estimates starting in fiscal year 2012 based on the two-year agreements just approved in March 2011. In addition, no overall base salary increases are assumed for fiscal years 2014 – 2016.
- For FY 10, this forecast reflected a reduction of non-instructional aides in the amount of 1.96 full-time-equivalent (FTE) positions as a cost-saving measure that will not negatively impact the District's educational program in a significant manner. This forecast also reflects a reduction in the following FTE's for FY 11: Interpreters/Tutors – 1.90, High School Media Specialists - 1.0 High School Special Education Coordinator – 1.0. The duties previously performed by these employees were reassigned to existing staff members. For FY 12, the personnel FTE reductions are as follows: Social Worker - .75, Print Shop Employee - .25; Secretarial Position – 1.0; Special Education Tutor - .94; Facilities/Custodial Positions – .47; Educational Aide - .84. An internal administrative reassignment plan was also put in place that replaced an Asst. High School Principal position with an administrative intern from the teacher ranks and reassign current administrators to various positions within the District saving a total of approximately \$50,000 per year.
- Additional reductions of various supplemental personnel contracts and duties are assumed in this forecast as well as certain non-personnel spending reductions that, when combined with the above reductions in positions, are expected to yield approximately \$325K in total spending reductions in each year of the forecast as compared to previous estimates.
- This forecast anticipates the addition of a full-time gifted coordinator in FY 12 in the additional amount of \$103K to replace the position that is currently being provided through a contract with the Educational Services Center of Cuyahoga County. The reason for adding this position to the District's payroll is that current funding for this position that subsidizes some of this cost will not be available any longer starting in FY 12 and the District's current student and staff population calls for a need for additional time from this position. The federal Education Jobs funding mentioned previously covers approximately \$59K of this cost in FY 12, but is not authorized to continue thereafter. This forecast also assumes the addition of one additional

full-time high school mathematics teacher and one full-time special education teacher in FY 12 in the amount of approximately \$67K each due to state core curriculum and IEP requirements.

- For FY 11, this forecast assumed the use of half of the one-time federal stimulus funding being made available to the District through the federal IDEA-B grant program to supplant mainly purchased services expenditures related to the special education area such as out-of-district tuition. A portion of these expenditures are assumed to be picked back up by the General Fund for FY's 12 – 16. It is anticipated that the two teaching positions that were paid from these funds in FY 11 will be picked up by a corresponding federal grant in FY 12. The District is currently in the process of implementing a medicaid-eligible tracking service which is expected to yield a reimbursement of various medicaid-related costs. It is too soon to determine how much reimbursement will be garnered by this system, so no additional revenue/net reductions of costs have been assumed in this forecast.
- This forecast reflects 18 certificated staff member retirements (including one administrator) during FY 11. Severance pay and retirement credit purchase cost estimates that are payable starting in FY 12 have been included in this forecast for such retirements as well as the related savings that will be realized by hiring replacement personnel at lower salary levels. Very few retirements are expected over the remaining years of this forecast, so no additional cost or savings have been assumed outside of current salary costs. Further, the new teacher bargaining agreement no longer contains a retirement credit purchase option.
- Employees' Retirement/Insurance Benefits are expected to increase based on salary increases and health insurance increases. Rates have been set for FY 12 causing the District to incur a 12% rate increase in health premiums as of October 1, 2011, based on funding rates set on its current health insurance arrangement through the Suburban Health Consortium. This forecast assumes a 15% increase in the District's current funding rates for the remaining years of this forecast based on current trending and preliminary expectations of increased insurance costs based on the requirements of the recently passed federal legislation affecting most insurance plans. The District is hopeful that now as a member of the Consortium we will experience an "evening-out" of medical insurance increases over the next several years to stay within or below these estimates. This would be in spite of having to fund the equity reserve "buy-in" over five years mentioned previously at \$14,971 per month.
- Purchased services are expected to increase slightly – moderately mainly because of assumed increases in certain utility rates/usage through FY 16. The increases expected in this area have been mitigated by the fact that the District entered recently entered into another cooperative electricity purchasing agreement starting in June 2011 at a fixed price through May 2014

through the Power4Schools program administered by the Ohio School Council, Ohio Association of School Business Officials and Ohio School Boards Association that continues the reduction of electricity generation costs by over 20% as well as receiving an additional discount on the distribution portion of our electric billing based on the outcome of the recent PUCO FirstEnergy rate case. Further, natural gas rates have actually decreased over prior levels which helped control costs during FY 11, but it is not assumed that these levels will continue.

Also, as mentioned earlier in these assumptions, Community School payments have averaged close to \$120K over the past several years and are assumed to continue near this level throughout this forecast. However, these types of payments could increase if school choice options are expanded through the state legislature as contained in H.B. 136.

- Supplies and materials are projected to increase by 12.8% 5% each year starting in FY 13 to keep pace with inflation and provide for needed instructional materials.
- Capital Outlay (Equipment/Building) is budgeted to increase in FY 12 due to the continued replacement of student and staff computer technology. Starting in FY 13, it is assumed that this expenditure area will again increase due to the implementation of Google Chromebooks for grades 6 – 12 and will then flat line through the end of the forecast. Also, the District will be funding major building and infrastructure improvements along with purchasing much needed equipment with bond issue funds as previously mentioned as well as utilizing various lease/purchase transactions to purchase educational technology for which the outlay is reflected in line 3.030.
- Debt Repayment (lines 4.055 and 4.060) is budgeted per the payback schedule for manuscript bonds issued in fiscal 2004 when the District borrowed \$385,000 from the unobligated portion of its Bond Retirement Fund for stadium improvements. The bonds were to be repaid over a ten year period from the General Operating Fund. Scheduled principal and interest payments for the forecast are as shown. Should the District need to replace the artificial turf field that was a major component of the 2004 stadium improvements, it may be advantageous to issue new manuscript debt that would be added to this forecast at a later time.
- The Other Objects (line 4.300) are assumed to increase by 10% annually for FY 12 and beyond, mainly due to county and state property tax and related collection fees and general inflation for other items such as liability insurance.
- Transfers of \$213,118 were made in FY 10 to mainly cover a deficit in the District's Adult and Community Education program in the amount of \$124,926 that had developed over several years as well as a deficit in the

District's student activity funds of approximately \$86,000. The District administration had reviewed the Adult and Community Education program as of June 2008 and decided to recommend the discontinuation of this program due to financial reasons. The Board of Education approved this recommendation, so this program no longer existed starting in FY 09. In FY 11 a transfer in the amount of \$37,791 was necessary. This forecast assumes \$30K per year starting in FY 12 to subsidize the student activity funds.

## **IN SUMMARY:**

During the past several years, the Rocky River City School District's finances have been through as tough a time as they have ever experienced in recent memory. With the passage of a 5.9 continuing operating levy and continuing cost containment and reduction efforts, the District regained some financial stability in the second half of FY 09 and into the beginning of FY 10. However, due to the local and national economic situation that has affected property tax collections in the form of higher levels of delinquencies, a reduced residential property tax base and corresponding loss of revenue, tax abatement on commercial property beyond the District's control, significant increases in health insurance premiums and the recent erosion of state funding support, the District is now again facing another challenging time financially.

In addition, the revenue projections in this forecast are also vulnerable to downward fluctuations due to actual collection of property taxes less than expected as well as the following possibilities: the loss of revenue due to unfavorable findings by the County Board or Revision or State Board of Tax Appeals against the district; not meeting revenue growth estimates; and unfavorable changes to the State of Ohio's school funding system. Further, any negative deviations from this forecast that are even somewhat significant (e.g. 1% less in actual revenue as compared to estimates and 1% more in expenditures over budgeted amounts) could force the District to implement additional cuts in educational programs and/or support areas above and beyond what has already been put into place during prior fiscal years.

*The Board and Administration are currently finalizing the details of a future operating levy request due to the projected deficits that are forecasted starting in fiscal year 2013 in order to avoid substantial and wholesale cuts to the District's educational program. A typical three-year levy cycle that the District has been on over the last decade plus would have put a new operating levy on the ballot in May 2011 (for collection starting in January 2012); however, the Board and Administration have worked to delay an operating levy request until May 2012 (for collection starting in January 2013) through the permitted use of the federal QSCB and BAB subsidies mentioned previously for general fund expenditures, plus the continued targeted reductions of operating expenditures that do not significantly affect the District's educational programming. However, this delay of an operating levy did not take into account the significant reduction of state funds in the compressed timeframe that recently became law through Amended Substitute H.B. 153. The Board plans to communicate with the community on*

*its financial issues and formulate a plan that takes the feedback that the community provides into account before a final decision is made on a levy request by December 2011.*

The District completed a strategic planning process in June 2009 and also finalized a master facility planning initiative and passed a corresponding \$43 million bond issue since then whose ultimate goals are to provide a renewed vision and action plan to take an already excellent school district and improve opportunities for all students into the future. These endeavors should continue to help the District in its fiscal planning process by providing a framework to find alternative sources of revenue, achieve cost-containments/reductions and provide for the District's facility needs over the next decade or more that will allow the District to regain financial stability.