Minutes

Board of Education of the Rocky River City School District

The Board of Education of the Rocky River City School District, Cuyahoga County, Ohio, met in a Finance Committee session on October 12, 2010 at 4:35 p.m. in the Curriculum Library at the Board of Education Offices.

CALL TO ORDER - 4:35 p.m. by Mr. Swartz, Chair

PRESENT: Mr. Swartz, Ms. Goepfert, Mrs. Rounds, Dr. Fancher

Mr. Markus reviewed and discussed the following items with the committee and other members present:

Financial Summary – September 2010

In September, we received our second half real and public utility tangible property tax from the County. As I reported to you a few weeks ago, when the yet-to-be-received homestead and rollback is taken into account (I'm anticipating to see that in November), we are running about $200,000 below estimates. I suspected this was due to a rise in our delinquent tax amount, so I requested a current delinquent listing from the County, which I've attached for your review. Based on this report, we are currently running a delinquent balance of approximately $680,000 as of September 28 (compared to approximately $255,000 back in April). Although we would expect some of this to be collected soon and possibly included in our special advance in November, we will definitely have to watch this development as it could negatively affect our overall fiscal year collection level.

Regarding other revenue sources, the All Other Operating Revenue line (line 1.060) was below estimates for the month and is running $47,769 below estimates for the fiscal YTD. This is partly a function of timing, but it also is a function of continued lower investment yields even lower than last year at this time since we at least had a few investments locked in at relatively attractive yields, whereas now most of those investments have matured and we are weighted very heavy in overnight investments. This trend should reverse somewhat once we start to invest some of the tax exempt bond proceeds since these earnings will be credited to the General Fund.

In looking at expenditures, we are running slightly below estimates overall on a fiscal YTD basis. The salary and wage line is running ever so slightly above estimates while the employee benefits line is running slightly below estimates on a fiscal YTD basis. Purchased service expenditures were moderately below estimates based mainly on timing while supplies and materials were above estimates for the same reason. Capital outlay and Other Objects areas were very close to estimates.

As I reported to you last month, our new health insurance rates from the SHC will take effect 10/1/10. The net increase to us for our medical/drug plan was 11.69% (this includes the constant "buy-in" cost of $53.66 per employee capped at the number of employees that were enrolled in our plan as of 7/1/10 of 279 employees). Our current appropriations for this area should be adequate unless we have a significant number of new enrollees into our plan, which I do not foresee at this time. We are also expecting to be realistically around $500,000 based on what we were told back in May for our final contingent premium based on our prior 85%/125% arrangement with Medical Mutual, which should be billed to us in December with payment due in January. Also, our new dental insurance arrangement was accepted by the two bargaining units and went into effect as of 10/1/10.

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We could see a total savings of approximately $24,000 over two years ($18,000 board cost share) since we have a two-year rate guarantee, with $8.000 of this savings projected for the current fiscal year.

Please reference the SM-2 Comparison Report for how our FY 11 revenue and expenditure data compare to FY 10 amounts. Total fiscal YTD revenues (excluding other financing sources) came in *below* the fiscal 2010 amount by 2.34% while fiscal YTD expenditures (excluding other financing sources) came in 0.48% *below* the fiscal 2010 amount.

The reason our revenues are down year over year is due to the decrease in property tax advances received for the second half settlement as explained above. The main reasons our overall expenditures were down in total was due to the fact that we did not need to pay our Lakewood career tech billing in July this year since we paid this back in January (as reflected in the contracted services line #3.030) as well as a reduction in capital spending due to a significant computer purchase being financed through a lease/purchase arrangement instead of through a cash outlay from the General Fund. We did see an increase in the salaries and benefits lines which was expected due to salary schedule increases. Also, the supplies/materials area is now running more than what was spent last year mainly due to timing of textbook purchases.

Our ending cash balance ended moderately above last year's level ($6,486,190 vs. $6,228,135) due to the larger beginning balance that we ended up starting the year with in spite of the decrease in property tax revenue received year-over-year. Encumbrances ended below last year's amount mainly due to timing at this point in the year.

Board of Revisions/Board of Tax Appeals Update

The BOR/BTA reports of outstanding cases as prepared by Dan McIntyre as of September 30, 2010 were provided previously to all present and were reviewed.

Five-Year Forecast

All Board Members had received a discussion draft version of the five-year forecast with detailed assumptions prior to the finance committee meeting today. Mr. Markus summarized the overall view that the five-year forecast is projecting, which is an overall declining revenue base over the next several years based on a bleak outlook for property tax revenue due to the recent decline in residential properties as a whole that went into effect on 1/1/2010 as well as an uptick in the District's delinquent tax trend. He then explained in more detail each revenue source, where those sources are derived from, and some particular points that are considered in the assumptions. As part of the revenue assumptions, Mr. Markus explained that four full calendar years worth of federal subsidies from Qualified School Construction Bonds and Build America Bonds were included in revenue for fiscal years 2011 – 2015 (with FY 2011 and FY 2015 containing only one semi-annual payment each year) in order to be able to extend the current levy cycle by one year. This was a policy decision discussed at length with the Board and ultimately agreed upon by all Board Members as part of the bond issue plan of finance.

Mr. Markus then went on to explain each expenditure line item in some detail, with much of the explanation focusing on salaries and benefits since combined, they comprise over 84% of the District's budgeted expenditures. It was noted that salary levels are set for

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fiscal year 2011 by contract (for bargaining unit members) or other Board action (non-bargaining unit members), but fiscal 2012 and beyond are subject to negotiations. The assumptions used do not call for a base increase in fiscal 2012 and beyond, but do include increases based on current step/experience schedules. Health insurance expenditures are assumed to be increasing between 15% - 20% over the length of the forecast. Contracted services, supplies and materials and other object expenditures show moderate increases throughout much of this forecast while the capital outlay line decreases moderately, then flatlines through the end of the forecast. Mr. Markus summarized the discussion by explaining that a new operating levy will be needed in FY 13 (May 2012) based on the current forecast, but that more study needs to be done over the next six months – year to determine how actual revenues perform (heavily dependent on state biennial budget, delinquent property taxes, etc.) so the Administration and the Board can calculate how much funding will be needed.

Bond Issue Update

We closed out the bond sale through RBC Capital Markets with bond proceeds transferred to the District's STAR Ohio building fund account on September 28. I have since shifted dollars to various overnight accounts to spread our risk around to various banks as well as to maximize our overnight yields on these funds until they can be invested elsewhere. I am currently working with Productive Portfolios to develop and implement an investment ladder for part of the bond proceeds that fits within our estimated overall draw schedule. As we receive the modified draw schedules for each type of bond issue from PCS in the November/December timeframe, we will be better able to invest the rest of the dollars.

ADJOURNMENT - 5:40 p.m. by Mr. Swartz, CHAIR

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President

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Treasurer