Rocky River City School District
IRN 044701
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October 2013 Five-Year Forecast Update

Approved at the October 17, 2013 Regular Board Meeting of the Rocky River Board of Education, Res. #185.5-13.

General Background/Assumptions:

Local Property Tax Revenue:

Since the District receives approximately 90% 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 has begun the first full fiscal year of what has typically been a three-year levy cycle thanks to the passage of a 4.9 mill continuing operating levy in November of 2012. This followed a narrow defeat of a 5.9 mill operating levy in March of 2012. The Board of Education made a calculated decision to extend the prior 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.

- Cuyahoga County finalized the reappraisal of all real property within the County as of December 2012. 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 2012 tax (calendar) year that became the taxable values used to calculate real estate tax bills starting in January 2013. 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 update is scheduled to be completed and certified by December 2015 for a January 2016 effective date. The following table summarizes the assessed values produced from the most recent appraisal as compared to prior year assessed values:

Type of Property	Assessed Valuation TY2011/CY2012	Assessed Valuation TY2012/CY2013	$ Change	% Change	% of Total Assessed Valuation
Agricultural/Residential	$579,911,210	$580,182,360	$271,150	0.05%	82%
Commercial/Industrial	119,918,730	117,102,550	(2,816,180)	-2.35%	17%
Public Utility Tangible	7,105,100	7,785,190	680,090	9.57%	1%
Totals	$706,935,040	$705,070,100	($1,864,940)	-0.26%	100%
New Construction (included in totals above)	$3,334,710	$2,824,280	($510,430)	-15.31%	

- 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 42.95 effective mills in its General Fund for *residential* real estate vs. 83.07 voted and inside mills. The District currently collects on 58.09 effective mills in its General Fund for *commercial* real estate vs. the same 83.07 voted and inside mills.

- The District is planning to move one half of one mill (0.5) of inside, operating millage to the Permanent Improvement fund starting January 1, 2014 presuming approval of the Cuyahoga County Budget Commission. This is being considered in order for the District to establish a legally separate funding source for permanent improvement per Ohio law (e.g. building and grounds improvement, textbooks and equipment with a useful life of at least five years). This amounts to approximately $345K annually based on current valuation and collection percentage. This forecast has assumed that half of the amount will be moved for FY 14, then a full year of this funding will commence for FY 15. An equal amount of expenditures have been removed from this forecast since they will now be covered through the Permanent Improvement Fund.

- Tangible personal property tax revenue has now completely phased 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 is now completely eliminated as of the start of 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 versus previous estimates).*

- Since the District does not receive state share (i.e. "per-pupil formula") funding, we had been receiving these "hold harmless" reimbursements as direct payments from the state through fiscal 2012. These replacement payments are reflected on line 1.050 of this forecast through fiscal 2012.

- The exempt personal property tax reimbursement that was formerly received from the State of Ohio was phased out as of the beginning of fiscal 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 *were no longer being 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 has phased 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 $821,748 for fiscal year 2012 and an *additional* $445,684 in fiscal year 2013. The total reduction of revenue for the four-year period of fiscal 12 – fiscal 15 will be $3,491,956 over what was expected to be received based on previous law. In FY 16, an additional $512,718 is being lost and for fiscal 2017, the loss is $386,937. All told, this loss amounts to a grand total of $4,652,768 through the original phase-out year of FY 18.**

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). It also included a small additional amount of revenue for “high performing districts”. This amounted to just over $44K for fiscal 2012 and continued through the state biennium ending at the end of fiscal 2013. 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 transportation and preschool unit funding that the District is expected to receive over the current 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 2012, this line included $29,022 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 2010-2011 biennium, 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 2009. 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, our prior forecast assumed that this revenue source would remain at the reduced FY 2010 levels for FY 2013 only, but the actual amount received for FY 2013 actually increased from FY 2012. Starting in FY 2014, this revenue source is expected to increase based on the amount allocated to this area under the new state biennial budget contained in HB 59 (see below for a more detailed discussion of HB 59)

- 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 were used entirely in fiscal year 2011 or over two fiscal years (2011 and 2012) was 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 District utilized these funds in FY 2012 to fund a significant portion of a gifted education coordinator since the District did not have the subsidy for this position funded through the Cuyahoga County Educational Service Center due to funding cuts that took effect in FY 2012.

- On June 30, 2013, Governor Kasich signed H.B. 59 into law for the State's new biennium starting July 1, 2013. A significant piece of this legislation is the new funding model for public education.

- The most significant piece of the new funding model is the Core Opportunity Aid (formerly known as basic aid). Rather than using the old method of computing the state/local shares of the school funding formula (there is no longer a charge-off), the new funding system will calculate the first and main component using a per-pupil amount times the number of students (ADM) in the district. The per-pupil amounts are $5745 in FY 2014 and $5800 in FY 2015. This pot of money represents the district's Core Opportunity Aid (COA). The total COA is then multiplied by the new State Share Index to arrive at the state/local totals for this component of the formula.

- The new State Share Index (SSI) is a big part of what drives funding for districts. It is determined by using a school district's 3-year average valuation per pupil compared to the statewide 3-year average valuation per pupil. Median income can also be a factor for some districts. The 3-year average valuation per pupil is based on tax years 2010, 2011, and 2012. The ADM figure used for this calculation will be based on FY 2014 ADM (this means that a final SSI will not be determined until the FY 2014 ADM counts are finalized). The calculation for the SSI is made one time according to the bill language and applied to both years of the biennium. This means a district's SSI will be the same regardless of whether or not there are changes in valuation or ADM over the period. Changes to update this calculation in future budget cycles will need to be addressed legislatively. Rocky River's current SSI is estimated at 5.7%, which puts us in the second-lowest sub-group within the state. For perspective, there are only 18 District's out of 612 within the state that are considered wealthier based on the SSI formula.

- The other areas of funding within the new formula are:
  - Targeted Assistance**
  - Special Education**
  - LEP**
  - Gifted Education
  - Disadvantaged Pupils
  - K-3 Literacy
    - * Tier 1**
    - * Tier 2 (all districts receive the same per-pupil amount for this tier, regardless of wealth)
  - Career Tech**
  - Transportation**
  - Supplemental Transportation

  **Denotes components adjusted by the SSI.

- There are two tiers in the Targeted Assistance component calculation. Targeted assistance is meant to supplement districts that do not have the capacity to raise funds locally for programs above a basic education (as produced through the Core Opportunity Aid).

- HB 59 holds districts harmless (Transitional Aid Guarantee) from losing state funding based on what was received in FY 2013 for both years of the biennium. Also, in FY 2014, districts cannot receive increases over FY 2013 in excess of 6.25%, or 10.5% in FY 2015 (Gain Caps).

  However, while the overall funding a district receives will be driven by these triggers, some components within the formula will not be adjusted proportionally. Special Education and Career Tech funding will be considered to be fully funded (the state portion) and not adjusted because of the Gain Caps (or affected by the Transitional Aid Guarantee). Since there are federal requirements for these categories of funding, it will be assumed that districts are receiving the full amount of state funding as produced by the formula for each.

Other Local Revenue:

- Local revenue makes up approximately 1.7% of total revenue. This local revenue is primarily investment revenue, rentals, student and other fees and property tax case settlements handled outside of the County Fiscal Officer.

Other Financing Sources

- Other financing sources make up approximately 3.6% 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 approximately 79% 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 did 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.

- The Board of Education agreed to a one-year contract extension with both bargaining units on 10/4/12 (effective 7/1/13) that again called for no base salary increases and an additional 1% in health insurance premium contributions from employees. These provisions have been applied to all non-bargaining employees as well.

- Overall teaching staffing levels during the life of this forecast are assumed to increase by 1.0 FTE each year starting in FY 14 and one additional tutor in FY 14, but may increase or decrease from there based upon enrollment, class sizes, special needs and additional fiscal restrictions. Attrition and 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 were executed for fiscal year's 2011 and 2012 and additional reductions have been implemented for fiscal

2013 as explained below. The all-day-kindergarten mandate that was a part of state law in 2011 has been repealed by 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 provisions agreed to in March of 2011 (became effective July 1, 2011) require employees to pay 11% of the funding 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 were estimated to reduce the District’s projected expenditures over the two-year agreement term by approximately $1.6M.

- Since fiscal year 2011 the District has funded 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.

- As part of the bargaining unit contract extension agreed to on 10/4/12, all employees of the District will be required to pay 12% towards the funding premium cost of medical and prescription drug insurance effective 7/1/13.

Other Expenditure areas:

The remaining 21% of expenditures consist of Purchased Services, Supplies and Textbooks, Equipment (Capital Outlay), Other Objects and Transfers.

- Purchased Services - Large sustained increases in electricity, natural gas and water/sewer utilities could potentially drive this expenditure area higher than expected, although these areas have leveled off over the past two years as natural gas prices have gone down while electricity rates have been stabilized in large part to a group purchasing contract through the Power4Schools program described in more detail below. The obligations accounted for in this line 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 are included in this line and are expected to continue through the end of this forecast based on a sustained student and staff technology replacement plan. However, some of these capital lease expenditures will be accounted for through the District's Permanent Improvement Fund starting in January 2014 based on the dedication of one half of one mill (0.5) of inside property tax millage explained earlier under the property tax revenue assumptions.

  Community/Charter School payments are also included in this line and have averaged approximately $120K per year, but have recently crept up to $179K in 2013 and are assumed to increase slightly above this level throughout this forecast. If school choice options (specifically vouchers to attend private schools) are expanded as is currently being discussed at the state level, 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 there is not imminent legislation that is being considered, but this issue could be brought back up for serious consideration in the near future.

- 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 and then decreased very slightly in FY 12. A larger increase was realized for fiscal 2013 due to the anticipated need for textbooks and other curriculum materials in excess of recent levels. An increase in this line is assumed for fiscal 2014, then a flat-lining of expenditures for FY 15 followed by moderate increases over the remainder of the forecast for usual and customary curricular and operating supplies. A small portion of expenditures for textbooks that have normally come out of this line will be moved to the District's Permanent Improvement Fund based on the dedication of one half of one mill (0.5) of inside property tax millage explained earlier under the property tax revenue assumptions.

- 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 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 increased significantly in fiscal 2012 due to the continued replacement of student and staff computer technology on a cash basis. Based on the levy passage in November of 2012, the District invested in new music and fitness equipment needed for the educational co-curricular program. 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. Additionally, some capital spending will be shifted back to the Permanent Improvement Fund based on the dedication of one half of one mill (0.5) of inside property tax millage explained earlier under the property tax revenue assumptions.

- 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 17% increase was incurred in FY 12 mainly due to increased county fiscal fees increasing on account of a significant increase in delinquent tax collections. This line is expected to stabilize for FY

13 and 14, then assumed to increase by 10% starting in FY 15 based mainly on increased county fiscal fees and liability/property insurance premiums.

- 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 through fiscal 2014. Replacement of the top layer of the artificial turf surface at the stadium is anticipated through a similar borrowing arrangement with debt payments reflected starting in fiscal 2015. Depending on the length of the borrowing, this amount may need to increase or come from a capital funding source as well due to internal borrowing limitations.

- 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. 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.

- Budget Reserve (line 9.030) – The amounts contained on this line represent a policy initiative by the Board of Education to reserve and restrict a minimum level of operating cash in order to mitigate the risk of a funding shortfall and to comply with best practices as established by the Government Finance Officers Association and other reputable sources as they related to sound fiscal management of an organization. The current intent is to reserve a minimum of $175K per year until an amount equal to 2 mills of property valuation is reached (currently approximately $1.4 million). The Board and Administration will also look at opportunities to increase this reserve amount based on significant and unexpected one-time revenue sources or significant unanticipated savings from various budget areas. Further, the Board intends to require a majority vote to release any reserved funds upon recommendation of the Superintendent.

Key detailed assumptions used in preparing the District's Five-Year Forecast through FY 2017.

<u>FY's 13 – 17:</u>

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 <u>annual decrease of $181K</u> to this estimate. Further, the 5% reduction in residential property values caused an <u>additional loss of revenue from the inside millage portion of our tax rate of $140K annually</u>. The initial annual <u>total loss of $321K</u> 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 was assumed at that time for fiscal year 2012 of $181K.

- In March of 2012, the District received its first half 2011 (collection 2012) property tax settlement and delinquent tax advance, which included the proceeds of a tax lien sale. The amount collected was $678K *above estimates* for FY 12 and approximately $500K above actual delinquent collections as compared to first half 2010 (collection 2011) amounts. Based on discussions with the county and a review of this situation by an independent fiscal consultant, it was determined that this is most likely a one-time increase due to improving fiscal conditions generally as well as improved collection efforts by the new County Fiscal Officer and is not expected to continue in subsequent years.

- Thereafter, very modest increases are estimated based on new construction, net of Board of Revision losses and collection of delinquent taxes in addition to the proceeds from the 4.9 operating levy that was passed in November 2012 (collection starting in January 2013). These estimates are subject to revision by the County Budget Commission each year based on an updated fiscal year Schedule A.

- Beginning in FY 16, the District is expected to begin recapturing a portion of 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 $300,000 in property tax revenue in fiscal 2016, another $450,000 in fiscal 2017, and then another $150,000 in fiscal 2018 related to the end of this tax abatement.

- 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 has been completely eliminated as of fiscal year 2013 based on the passage of Amended Substitute H.B. 153 as explained previously.

- State unrestricted grants-in-aid increased slightly from the fiscal 2012 amounts based on Amended Substitute House Bill 153 as explained previously as well as some additional revenue to be received on account of tax revenue generated by the two new Ohio casinos that have been in operation for the past few months. We are then assuming this source will increase moderately in fiscal years 2014 and 2015 based on HB 59 funding discussed previously, and then flat line at fiscal 2016 levels for the length of this forecast. Enrollment is projected to remain relatively stable throughout the forecast.

- This amount is almost exclusively comprised of "catastrophic aid" from the State for certain special education-related expenditures in excess of thresholds and 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 fiscal 2012, we saw a marked drop off in this line percentage-wise. For fiscal 2013 we saw an increase which brought us closer to previous levels. Starting in fiscal 2014, this forecast assumes that this funding source will increase moderately based on HB 59.

- Federal restricted grants-in-aid (line 1.045) continued in FY 2011 through funding received from the State Fiscal Stabilization Fund mentioned previously, but has ended as of the beginning of fiscal 2012. During fiscal 2012, the District received and utilized funding in the amount of $60,812 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) experienced a reduction in fiscal 2013 mainly due to the monetizing of monthly cell tower lease payments that were forecasted through the end of this forecast. The lump sum proceeds received from this sale amounted to $525,933 and were deposited into the District's Permanent Improvement Fund and have been earmarked for costs related to construction and renovation of Rocky River High School. This line is then assumed to increase moderately through fiscal 2018 based on small and consistent increases in investment income due to an anticipated slight uptick in investment yields and investable cash as well as additional revenue anticipated from new 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 (covering 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. This additional revenue source is expected to end with the first of two payments scheduled in FY 15 and revert to the bond retirement fund for debt service payment purposes. Due to current federal budget sequestration provisions that took effect on January 2, 2013, the remaining portion of the rebates received in FY 13 related to Build America Bonds (BAB's) and Qualified School Construction Bonds (QSCB's) issued by the District were reduced by 8.7% . This forecast reflects this reduction along with a 5.1% reduction to the original amount anticipated for the subsequent two fiscal years. There are also one-time rebates/refunds from the Bureau of Worker's Comp and a refund from the School Employees Retirement System included in this line for FY 14.

Expenditures:

- Salary and wages include step increases for education and experience only for fiscal 2014 *based on the recent one-year extension of current contracts with both bargaining units approved by the Board of Education on 10/4/12*. No overall base salary increase was included in actual salary amounts for fiscal years 2012 and 2013 based on the two-year agreements approved in March 2011 which froze base salary for all employees. Anticipated salary increments have been assumed starting in FY 15 through the end of this forecast, but are subject to future personnel changes and future labor negotiations. The next round of employee negotiations is scheduled to occur in the spring of 2014.

- This forecast reflects a reduction in the following full time equivalent positions 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 - .20; 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 reassigned current administrators to various positions within the District saving a total of approximately $50,000 per year.

- Starting in FY 13, personnel and program changes totaling approximately $167K have been reflected in this forecast as follows: Reductions of teaching positions to reflect student enrollment, supplemental contracts, secretarial time, custodian, lunch monitor, substitutes and institute transportation service changes/reductions and substitute scheduling software. Additionally, a decision has been made to employ a part-time food service director for a savings of approximately $18K that will be saved within the Food Service Fund. The total savings expected from these reductions and changes is $185K annually.

- This forecast included the addition of a full-time gifted coordinator in FY 12 in the additional amount of $98K to replace the position that was previously 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 covered approximately $60K of this cost in FY 12, but is not authorized to continue thereafter. This forecast also included the addition of one additional full-time high school mathematics teacher and one full-time special education teacher in FY 12 each due to state core curriculum and IEP requirements. In order to defray a significant portion of the cost of the special education teacher, a special education tutor position was eliminated.

- For FY 11, this forecast reflects the use of the second 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 were picked back up by the General Fund starting in FY 12 and are anticipated to continue for FY's 14 – 18. This forecast also reflects the two teaching positions that were paid from these funds in FY 11 being picked up by the corresponding federal grant in FY 12.

The District implemented a medicaid-eligible tracking service in the last half of fiscal 2012 which is expected to yield a reimbursement of various medicaid-related costs. However, the yield from the program was determined not to be enough to justify the tracking and administrative time involved, so the District is no longer participating in this program as of July 1, 2013.

- The federal budget sequestration mentioned previously has negatively affected federal IDEA-B and Title I grant funding that the District currently receives by approximately of $60,000 based on fiscal 2014 funding allocated for these particular grants. The District uses the majority of these grant dollars to cover personnel costs related to special education and learning-disadvantaged students, so the loss of funding would need to be assumed within the general operating fund of the District or staffing equal to this amount would need to be reduced. As opposed to the bond interest subsidies, this loss of funding is not reflected in this forecast, but is an area of concern that we will need to monitor closely.

- This forecast reflects 18 certificated staff member retirements (including one administrator) during FY 11. Severance pay and retirement credit purchase cost estimates that were 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. Additional retirements of 10 employees eligible for severance payments (including three administrators) are reflected in salary estimates starting in FY 14. Most administrative staff eligible to retire have done so as of the end of FY 13, so only minimal additional costs for possible administrative retirements have been assumed towards the end of this forecast outside of current salary costs and no net savings have been assumed. Further, the current teacher bargaining agreement no longer contains a retirement credit purchase option and state law now prohibits these types of plans from being adopted.

- Starting with the 2013-14 school year, the District has outsourced its substitute teacher staffing to the North Coast Shared Service Alliance through the Cuyahoga County Educational Services Center. Those costs were previously included in the salaries and wages line (3.010) and employee retirement/insurance benefits line (3.020), but are now classified in the purchased services line (3.030).

- Employees' Retirement/Insurance Benefits are expected to increase generally based on salary increases and health insurance increases. Employee health insurance funding rates have been set for FY 13 causing the District to incur a slight overall rate increase of 9.15% as of October 1, 2013 based on funding rates set on its current health insurance arrangement through the Suburban Health Consortium. This followed a rate recalibration process that was undertaken by the Suburban Health Consortium in 2012 that saved the District approximately $300K for FY 13 as well as the use of excess reserves used by the Consortium management to offset (and actually exceed) the remaining experience increase. This forecast assumes a 12% increase in the District's current funding rates for fiscal years 2015 and forward based on current enrollment numbers, current claims trending and preliminary expectations of increased insurance costs based on the requirements of the Affordable Care Act legislation affecting most insurance plans. Mitigating the insurance cost component of this line was the provision for all employees to pay an additional 1% (now 12% total for all full-time equivalent employees) of the health insurance funding premiums starting in FY 14 based on the contract extensions referred to previously.

For fiscal years 2016 - 2018, savings will be realized due to the termination of the Consortium's equity reserve "buy-in. If additional savings can be achieved through additional cost containment and cost sharing measures in the next round of negotiations (e.g. increased employee cost sharing, plan design modifications, impact of wellness initiatives, etc.), these increases could be mitigated somewhat. The District is hopeful that as a continuing member of the Suburban Health Consortium, we continue to 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 $180K annually through fiscal 2015.

- Additionally, costs associated with the retirement incentive program for certificated staff will be completely eliminated starting with FY 15.

- Purchased services are expected to increase moderately – significantly mainly because of assumed increases in special education tuition costs and certain utility rates/usage through FY 17. FY 12 saw this line increase 8% due to higher special education tuition costs and the addition of a School Resource Officer in the high school. FY 13 experienced a larger increase in this area since the District proceeded with a new lease-purchase financing agreement for educational technology. Also, starting with the 2013-14 school year, the District has outsourced its substitute teacher staffing to the North Coast Shared Service Alliance through the Cuyahoga County Educational Services Center. Those costs were previously included in the salaries and wages line (3.010) and the employee retirement/benefits line (3.020), but are now classified here.

  The increases expected in this area have been mitigated by the fact that the District entered into a 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 fiscal years 2011 - 2013, but it is not assumed that these low levels with continue.

Also, as mentioned earlier in these assumptions, Community School payments have averaged close to $120K over the past several years, but have recently increased and are assumed to increase slightly to moderately throughout the rest of this forecast. However, these types of payments could increase significantly if school choice options are expanded through state legislation.

- Supplies and materials are projected to incur a large percentage increase in FY 13 and 14 based on additional curricular needs (e.g. math and social studies textbook adoptions) and then come back to more of a normal trend of 3% starting in FY 15 to keep pace with inflation and provide for needed instructional and building/plant operating materials through the end of the forecast. As mentioned prior, some textbook expenditures will be moved to the Permanent Improvement Fund.

- Capital Outlay (Equipment/Building) is assumed to decrease slightly in FY 14 since significant purchases of musical instruments and fitness equipment for physical education and extra-curricular programs were completed in FY 13. This line is then expected to decrease moderately in FY 15 going forward since much of the District's continued capital needs will be funded from the Permanent Improvement Fund. The District has funded 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). The District's Permanent Improvement Fund has serviced internal (manuscript) debt for the purchase of new school buses, including five new buses purchased at the start of FY 14. This practice is assumed to continue at least through FY 17 (see the Debt Repayment section for additional discussion of bus note debt service).

- The Other Objects (line 4.300) spiked in FY 12 due to higher than normal county fiscal fees related to increased delinquent tax collections. This line is assumed to level out in FY 13 and 14 and then increase by 10% annually for FY 15 and beyond, mainly due to county and state property tax and related collection fees and general inflation for other items such as liability insurance.

- 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 through FY 14. At such time that the District needs to replace the top layer of the artificial turf field that was a major component of the 2004 stadium improvements, it may be advantageous to issue new manuscript debt to fund that venture. This is anticipated to be needed in FY 14 with repayment of borrowing beginning in FY 15, so $20K per year is assumed to be the debt service payable per year through the end of the forecast period. Depending on ultimate cost and length of finance term that the District is able to obtain, this line may need to increase and/or funds may need to be moved from another area of the forecast. If a lease/purchase financing arrangement is determined as a more favorable option, amounts due would be shifted to line 3.030.

For FY 18, it is assumed that the District will need to shift a portion of the payback of school bus notes from the Permanent Improvement Fund to the General Fund due to a possible loss of lease revenue from the old Wooster School building at that time. Depending on other needs that need to be funded from the Permanent Improvement fund at that time, that fund may be able continue to service the bus note debt.

- This forecast assumes $60K for the remainder of the forecast to subsidize the student activity funds of the District. Based on individual negative beginning balances within the Student Activity/Athletic funds (USAS Fund 300), it may be necessary to increase this transfer amount in a given year. Also, the District transferred $200K to the Permanent Improvement Fund in FY 14 to reserve funds to pay down school bus notes for buses purchased in prior years.

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 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 has continued to face challenging times financially. The recent uptick in the economy (e.g. improved tax collections), is a sign that conditions might be stabilizing.

With the defeat of the 5.9 mill levy request in March of 2012, the District undertook an extensive internal review of costs in all areas, hired an outside school fiscal consultant to review financial projections and needs, held a series of public meetings and offered other means of communication in order to obtain public input on the District's programs and funding. Based on this, the Board and Administration came up with a plan to further reduce expenditures for FY 13 and return to the voters in November of 2012 for a reduced operating levy request of 4.9 mills. **The November 2012 levy request was ultimately successful and is expected to stabilize the finances of the District for 3 – 4 years.**

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 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.