RIVER VALLEY LOCAL SCHOOL DISTRICT

NOTES TO FIVE-YEAR FORECAST

MAY 2023

Executive Summary

Beginning with Fiscal Year 2019 the district started to deficit spend. The District asked the taxpayers for an Earned Income Tax and the taxpayers approved the tax on May 7, 2019. Even with the new funding the District will still deficit spend during the fiscal years being forecasted due to increasing expenditures, the Emergency Levy renewal not being passed by voters at the November 8, 2022 election and the taxpayers voting down a Bond+PI levy and the earned income tax renewal at the May 2, 2023 Special Election.

Revenue growth during 2020 through 2023 is due to the income tax levy and the implementation of the Fair School Funding Plan. Without it, the District's revenue would have seen a decrease due to funding reductions implemented at the end of FY2020 and carried into FY2021 due to COVID-19. The District continues to collect above the Ohio Department of Taxation's estimates for its 1% Earned Income Tax Levy.

Expenditures without cuts are projected to continue to increase each year. The District is evaluating cuts beyond those that were already implemented in 2020 due to continued deficit spending in the forecast as our emergency levy falls off partially in FY2024, completely in FY2025, and in FY2026 the income tax levy falling off as well. As of right now, the District is projected to have expenditures that exceed revenues beginning in FY2025 through FY2027.

<u>REVENUES</u>

Revenue Overview

Revenues have growth spikes in fiscal years 2022 through 2024 due to the income tax levy, triennial update in the fall of 2022 resulting in an increase in property tax revenue in FY23-FY24, still receiving Emergency Levy revenue in FY23 and the continued phase-in of the Fair School Funding Plan. State funding reductions had an impact in revenues during 2020 and continued into 2021. Beginning with fiscal year 2022 the forecast was updated to represent the impacts from the implementation of the Fair School Funding Plan. The Fair School Funding Plan was passed into law with the new biennium through HB110. The Fair School Funding Plan has been implemented through a phase-in approach during Fiscal Year 2022 and Fiscal Year 2023. Students are now being funded at the educating district rather than the district of residence. This change in funding has resulted in an overall reduction in revenues for the District as we no longer receive funds for students that open enroll out, attend community schools or are on scholarships. However, these reductions in funding have been offset by the reduction of purchased services expenditures where we typically paid tuition to pay for these students attending another school. In FY2023 a revenue surplus is expected. This means that revenues are expected to exceed expenditures by $790,531. This is a change from the November 2022 forecast and results mostly from the increase in property tax revenue and income tax revenue being collected by the District this year. By the last year of the forecast, FY2027, the district is expected to have a revenue shortfall where expenditures are projected to be greater than revenue by $5,039,771.

Line 1.01 Real Estate

Real Estate revenue represents approximately 32% of our total revenue. River Valley collects real estate taxes in two counties: Marion County and Morrow County. The District is at the 20-mill floor, so increases in tax values result in additional collected tax revenue, which is what happened during the triennial update in the fall of 2022. Class I or residential/agricultural taxes make up approximately 76% of the real estate assessed valuations in our District. The

2022 was a triennial update year for Marion County, collection January 2023. We experienced a $56,801,510 increase in property values from 2021 (collection 2022) to 2022 (collection 2023).

History shows that the District has had slight increases between appraisals, therefore for FY2024 through FY2027 we are projecting slight increases in residential valuations. Increases during these reappraisal periods are usually due to new construction or growth in the local economy.

Real Estate revenue can grow in only two ways, through valuation growth on inside millage at reappraisal or triennial update or through construction of new buildings.

The District has an Emergency Levy that will cease revenue collections after the first collection in Fiscal Year 2024, so there is a reduction in Real Estate revenue in FY2024 and beyond representing no renewal levy. Unfortunately, the voters did not renew this levy in the November 8, 2022 election and did not pass the combination Bond+PI issue placed on the ballot May 2, 2023 either.

Line 1.020 Tangible Personal Property

Public utility taxes have steadily increased over the last several years. Valuations are expected to grow slightly each year. Unlike real property taxes, the District does see full growth in public utility revenue when valuations grow. However, the overall impact on the budget is minimal because public utility taxes only make up approximately 3% of total revenue.

Line 1.030 Income Tax

The taxpayers of River Valley Local School District passed an Earned Income Tax Levy on May 7, 2019. Collections began on January 1, 2020.

The district is maintaining one income tax levy in FY2023. The district is projecting income tax revenues through FY2025, with a reduction in collections in FY2026 and ceasing completely in FY2027. Over 72% of income tax collections are done so through payroll withholdings. Income tax revenue accounts for approximately 14% of total district revenue. This year's delinquencies were up compared to last year, therefore increasing our overall collections in FY2023.

The Earned Income Tax is collected by the Ohio Department of Taxation and remitted to the District on a quarterly basis.

Line 1.035 Unrestricted Grants-in-Aide

This represents our State Foundation and Casino revenue. Beginning in FY2022 Ohio adopted the Fair School Funding Plan (FSFP). Funding is driven by a base cost methodology that incorporates four components identified as necessary to the education process. The base cost was calculated for two years using a statewide average from historical actual data from fiscal year 2018.

The Fair School Funding Plan relies upon a calculation of base cost to educate a student that is unique to each district. The calculation uses enrollment and student demographics to determine cost for teachers, other staff, supplies, etc. Once the base cost is calculated a local per pupil share is calculated based upon the district's capacity to pay. A state share percentage of the base cost is then determined based upon the remaining portion of total base cost.

For River Valley, the calculated base cost per pupil for FY2023 is $7,256. The state's share of the calculated base cost total is $3,440 per pupil or 47.41%. This percentage shifted from the beginning of the year to the May forecast due to impacts from the triennial update and significant increase in property values.

Line 1.040 & 1.045 Restricted Grants-in-Aid

Restricted aid is the portion of state per pupil funding that must be classified as restricted use. Restricted funds represent approximately 2% of total revenue. This funding has implications on general fund expenditures in that certain spending now occurring in a fund external to the general fund had to shift to the general fund. The expenditures in this forecast are adjusted to reflect this change this year, similar as it was last year.

Line 1.050 Property Tax Allocations

Property tax allocation primarily consists of reimbursements from the state of Ohio for local taxpayer credits or reductions. The state reduces the local taxpayer's tax bill with a 10% rollback credit, and 2.5% owner-occupied rollback credit, plus a homestead credit for qualifying taxpayers.

Line 1.060 All Other Revenues

Other revenue includes tuition received by the district for non-resident students educated by the district. It also includes interest income, payments in lieu of taxes, and miscellaneous revenue. The Fair School Funding Plan includes per pupil funding for any open enrollment in students the district is educating. This revenue, if any, was recorded in other revenue prior to FY2022. Fiscal year 2022 and beyond does not include any open enrollment in revenue. The District has a rehabilitation facility that resides in-district and therefore files reimbursement from the resident districts twice per year through the SF14 PD process, as well as files catastrophic and excess costs with the state each year for qualifying resident and open enrolled special education students.

Line 2.060 All Other Financing Sources

Other sources include revenue that is generally classified as non-operating. Return advances-in are the most common revenue source. The district also receives other financing sources such as refund of prior year expenditures in this category. This represents less than 1% of total revenue for the District.

EXPENDITURES

Expenditure Overview

District expenditures are expected to continue to rise, especially in personnel and benefits, purchased services and supplies.

Purchased services costs are increasing for the District as we lose our classroom facilities maintenance (.5 mill) levy attached to our bond levy in FY2024. The costs currently coming from this fund will begin coming from the general fund in FY2024 and beyond unless the District is able to pass another bond/PI levy in the future. The District is also experiencing an overall increase in these costs due to increasing needs of contracted education and aging buildings requiring services from outside companies.

We anticipate an increase in supplies and equipment as well due to inflation. The cost of a school bus alone has increased over $30,000 from where it was a year or two ago. Custodial and maintenance supply costs continue to increase as well.

Line 3.01 Personal Services

Personal Services is the District's payroll. Salaries make up approximately 53% of all general fund expenditures.

Included in this forecast is a 1% base salary increase with no step for FY2024 and only step increases for FY2025 through FY2027. The step increases are holding points at this point due to being in negotiations currently and given our financial position with having levies fail in both November and May of FY2023 the ability to increase wages for our employees is limited without increasing our need for potential cuts in the coming years unless we have another levy(ies) pass. Our negotiated agreements were rolled forward from July 1, 2021 through June 30, 2023, so FY2024-FY2027 are subject to change as we continue to negotiate the next contract set to begin July 1, 2023.

The District is currently offsetting salaries for three separate employees from ARP ESSER funds, so beginning in FY2025 we will be paying these salaries out of the general fund due to the period of allowable expenditures for ARP ESSER ending at the conclusion of FY2024.

Line 3.02 Employees' Retirement/Insurance Benefits

Benefits represent approximately 24% of FY2022's total expenditures from the General Fund. Benefits include retirement, unemployment, workers compensation, Medicare, health, dental, vision and life insurance premiums paid by the Board. Any increases or decreases in payroll will cause a similar increase or decrease in benefits due to majority of these benefits being a percentage of gross income. The District is part of the Stark Council of Governments (COG) Consortium for health insurance effective July 1, 2021. We were previously with the Jefferson Health Plan Consortium and had experienced an average 8-9% increase each year. In FY2021 the District absorbed the entire increase, exceeding its previously agreed upon 7% cap. Beginning in FY2024, the forecast represents an expected annual increase of 8% each year and no premium holidays, as those holidays are not guaranteed.

In FY2023, the district had one medical insurance premium holiday. The premium holiday was in December this year, therefore resulting in no employee or board portion of medical insurance needing to be paid.

Line 3.03 Purchased Services

Purchased service costs are the third largest expenditure totaling 11% of general fund expenses in FY2023. This line includes utilities, liability and property insurance and personnel services. We anticipate seeing this line item increase as our needs for contracted education and contracted services continue to increase.

The Fair School Funding Plan funds only district educated enrollment thereby reducing tuition costs for open enrollment out, community schools, STEM and scholarships.

Line 3.04 Supplies and Materials

This line represents instructional supplies, office supplies, maintenance supplies, bus fuel, bus tires and parts and any other supplies purchased by the District. We are anticipating this line item to increase gradually until the district's .5mill PI ceases to collect revenue when our bond levy is paid off, therefore resulting in those expenditures being transitioned back to coming from the general fund. We are cutting supply budgets at the building level by 5% next year, however we still anticipate seeing the expenses in this category grow to inflation on items that we cannot cut from supply budgets and growing needs related to our aging buildings.

Line 3.05 Capital Outlay

The main expenditure out of this line item is the purchase of technology, new vehicles and new maintenance equipment. In FY2023 we purchased two new buses and we anticipate needing to purchase a handicap bus in FY2024. We also purchased new bus cameras and new phones district-wide this year. We anticipate the need to purchase maintenance equipment in FY2024. We have started a rotation schedule with purchasing new equipment to help build our capital plan and ensure we are trying to space out how often we purchase new equipment dependent on their useful life.

The District underwent a project connecting the Middle School and High School building to address safety concerns for students and staff that have classes in both buildings.

Line 3.060-4.060 Intergovernmental & Debt

The intergovernmental/debt expenditure category details general fund debt issued by the District.

The District borrowed $328,796 in FY2009 to complete HB264 Energy Conservation project from Classroom Maintenance Fund (Fund 034). Repayment was completed this fiscal year (FY2023).

Line 4.30 Other Objects

Other objects include auditor and treasurer fees paid to the counties for tax collections, which grow at the same rate as property tax collections, election expenses, liability insurance, audit expenses and the required per pupil amount paid to the North Central Ohio Educational Service Center.

Line 5.040 Total Other Financing Uses

Other Financing Sources is primarily made up of transfers to other funds to support the programs and advances that get repaid to the general fund in the next fiscal year. Advances vary year to year depending on what is needed to offset receivables in other funds. This fund makes up less than 1% of total expenditures.