

Revere Local School District

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<ftp://ftp.ode.state.oh.us/geodoc/5-yrForecast/>

Five-Year Forecast

Fiscal Years 2012 to 2014 Historical Data

Fiscal Years 2015 to 2019 Forecasted Data

Board Approval Date of May 19, 2015

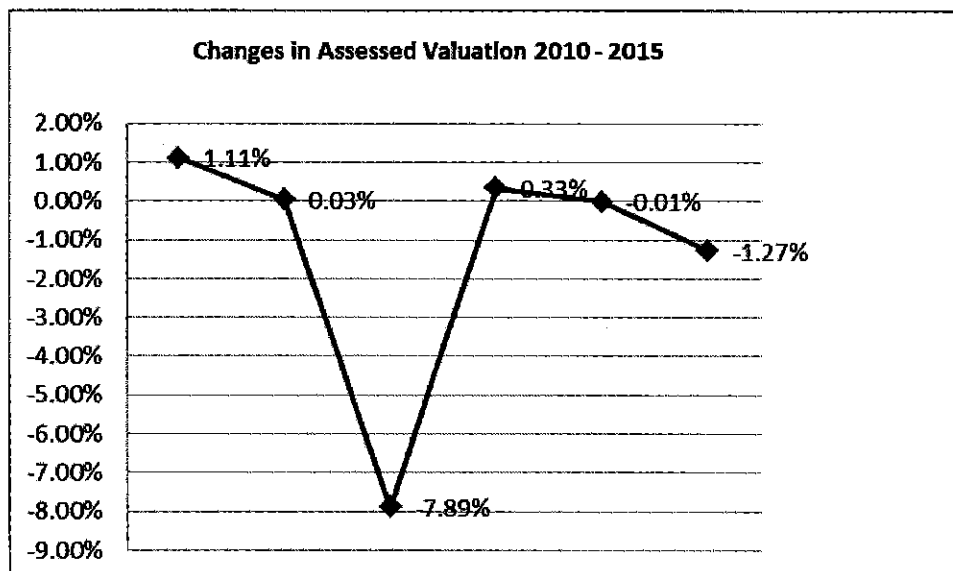
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Executive Summary of Forecast



This Forecast is in large part very similar to the forecast submitted in October of 2015. The justification for no change in assumptions is based upon several significant unknowns. The first unknown relates to the Governors biennium budget which becomes effective July 1, 2015 and is currently undecided. It is not unrealistic to assume there will be a loss in state funding through this new budget plan. In addition, based upon the lack of settlement at this time in regard to the two expiring collective bargaining agreements, one with the teachers union and the other with the classified employees' union, it is impossible to predict benefits and compensation going forward. It is also important for the reader of the forecast to know that through the full county wide re-appraisal, conducted in calendar year 2014, with new taxes payable and collected in calendar year 2015, the districts property values, overall, fell by 1.27%. The trend in the District's tax values, since 2010, has been flat or has fallen as depicted below.



The district remains financially stable through Fiscal Year 2019 and is working very diligently to minimize the spending of reserves. The goal of operating within a balanced budget has been accomplished for four consecutive fiscal years through strategies which contain the escalation of staffing costs; both salaries and health care.

Specifically, the Board of Education has offered a formalized Staffing Reduction Incentive, has taken advantage of staffing changes due to retirement in order to reduce compensation costs, has implemented an incentive driven Wellness Plan and formed a Medical Consortium. In addition, changes to the State Teachers Retirement system will incentivize an estimated combined 20 employees to retire at the end of FY 14 and FY 15 or they will face reduced retirement benefits. This turnover of experienced staff with advanced education degrees provides an opportunity to bring in less experienced teachers at a reduced cost. Please note that this may be a financial advantage but there is a concern on the part of the Board of Education relative to the impact of this change on instruction.

With the likely election of a republican governor it is unclear as to what public policy changes will be forwarded that will impact public education in Ohio. Those possible policy changes are as follows: what will be the State's position relative to school vouchers and will they be expanded, is there a plan to continue the Tangible Property hold harmless reimbursements, will the funding guarantee be continued for high wealth districts like Revere and what will be the final formula for funding schools in Ohio. And, will the funding formula adversely impact high wealth schools like Revere L.S.D in other in ways yet to be determined.

In light of the unanswered issues above, it is important that the reader of this forecast understand that the political environment in Ohio and across the nation is not pro public education. And, as mentioned above, Revere is a high wealth district which justifies in the eyes of many legislators a loss or freeze of public dollars in favor of more local dependency in order to fund instruction. Accordingly, there are many financial unknowns which could both increase expenditures and reduce revenue which would negatively alter this forecast. At this time these unknown factors are not included in the current forecast as assumptions which would result in the loss of revenue.

There are two other significant events in the forecast which should be pointed out to the reader. First, in the fiscal year 2013, \$3.5 M was advanced to the health care fund and was repaid prior to the end of the FY 13 fiscal year. The advance was necessary, as a cash-flow tool, to prevent a deficit balance in the health care fund until premiums were collected. These transactions therefore increased revenues and expenditures by the same amount and will not reoccur in future years. The second event relates to tax revenue and the user of the forecast will see that tax collections fall in FY 17 and FY 18. For accounting treatment purposes, on a renewal levy, the revenue from an expiring levy must come off line 1.01 of the forecast and be added back in, on line 11.02. There is no change to the bottom line of the forecast but in this manner the reader of the forecast can see the impact of a renewal levy. The change in tax revenue for FY 2017 is a half years collection and the expiring levy is a five year emergency levy in the amount of \$4.1M, prior to the rollback and homestead reductions. In FY 18 the remaining 50% collection on the expiring levy is taken from line 1.01 and moved to 11.02. In addition, it appears that the full reappraisal conducted in CY 2014 resulted in a loss of assessed value but the specific district by district tax information has not yet been released.

What is the Five-Year Forecast?

The five-year forecast was created in 1978 through H.B. 412. The purpose of the forecast was three fold:

1. To provide schools with a long range financial planning tool.
2. Create a standard method by which a school's financial condition could be readily assessed by the legislature, the Ohio Department of Education, and the State Auditor's Office.
3. Determine a school district's financial ability to enter into and fulfill contracts with vendors, unions and other parties with whom the school conducts business.

The forecast is required to be updated two times per year which takes place in October and then in May of each year. However, there is no restriction as to the number of times or required time intervals under which updated forecasts can be submitted by a district. The five-year forecast consists of a two page financial statement that provides revenue and expenditure data to the user

of the report. The financial report presents three years of historical data and five years of projected data which includes the current year of operation. Enrollment data is also part of the two page financial statement. Finally, written assumptions, in the form of a narrative, must also be included in the forecast to help the reader understand how the financial data was arrived at.

General Approach to Preparation of Forecast And Related Assumptions

The forecast is developed through a comprehensive process involving the district's management team. They assess instructional needs, facility issues, incorporate identified goals, revisit the strategic plan which is in place and focus on staffing related impacts over this forecasted five year period. Underlying assumptions are also made relative to financial markets, national and state wide economic trends, as well as current and pending legislation. The financial assumptions relied upon in this forecast regarding market conditions were influenced in part, by information from the Federal Reserve Bank, Economic and Market Commentary from the United States Banking System and Economic Strategists such as the Stifel Alpha Advisor. Additional external sources are heavily relied upon in developing the forecast which would include data from the Ohio Department of Taxation, the Ohio Department of Education, the Federal Reserve Bank of Cleveland, trade associations such as the Ohio School Board Association, Summit County Fiscal Officer, investment publications such as the Wall Street Journal and peer review protocols. Critical to this process is the recognition of the fact that every decision made by the District has an impact not only in the current school year but also those years which follow. It is prudent in developing the forecast, that the management team and Board of Education not be risk takers but be diligent in focusing on probable outcomes with both the revenues and expenditures.

Accounting Protocols

The five-year forecast is prepared on a cash basis and not on an accrual basis for both revenue and expenditures. Cash basis accounting recognizes revenue when received not earned and recognizes expenditures as paid rather than incurred. During the active fiscal year, all public schools operate on a cash basis but are required to provide accrual based financial statements for fiscal year end.

All budgets are developed under governmental accounting standards which rely upon the identification of function and object. Function is a term that pertains to the responsibilities for which a department is charged such as instruction of students or maintenance of facilities, to contrast two different areas of responsibility. The object further defines the purpose of the budget underneath the function. For example, salaries and supplies are two distinct objects under the function of pupil transportation. Budgets are developed at the department level so that the unique operating requirements of each area can be better managed and controlled. Finally, the District isolates various activities for reporting purposes by using fund accounting. The five-year forecast reflects only activity for the "general" fund of the District which is the primary operating account. There are many other types of funds under the responsibility of the Board of Education. A representative list would include a health care fund, a debt retirement fund, a food service fund, athletics, Federal funds and student activity funds such as student council.

Overview of the District

The Revere Local School District has four primary instructional buildings consisting of a high school, middle school, 4th -5th grade elementary building and a kindergarten through 3rd grade elementary building. In addition to the instructional buildings, the district operates a State required pre-school program housed at the 4th/5th grade elementary building, an athletic field house, bus garage and administrative building. Geographically, the district serves a 51 square mile area consisting primarily of residential neighborhoods of a more rural setting without a consistent network of sidewalks. District boundaries fall within Richfield Township, Richfield Village, Bath Township, and small parts of Copley Township and the City of Akron.

Governance of the Revere Local School District is overseen by an elected five member Board of Education and is a separate & distinct unit of government apart from the municipalities which make-up the District. Public schools in Ohio, as is the case with other forms of government, have the power to act as a taxing authority subject to voter approval with the exception of inside millage and an un-voted debt limit of 1/10th of 1% of the District's tax valuation.

The District employs on a contracted basis approximately 321 staff members. The majority of the staff is made up of licensed, instructionally based employees but this number also includes secretaries, administrative personnel, cooks, custodians, drivers and other support staff. The majority of these employees are represented by one of two local unions; the Ohio Education Association or The Ohio Association of Public School Employees.

School Funding

Schools in Ohio had been funded on a similar formula from the mid 1970's until July of 2009 at which time then Governor Strickland introduced a new funding model. This model was never fully perfected nor was it fully implemented. School funding is subject to the biennium budget that is approved every two years as submitted by the current governor and then approved by the legislature. Accordingly, the funding model is a political formula that is dependent upon posturing and compromise and is not fully predictable.

The Ohio school funding model remains and has always been linked to property values. Within that formula there was a penalty calculation called the Charge Off. Under the Charge Off calculation the Revere LSD lost all funding with the exception of a floor (guarantee) that preserved a minimal payment to the District. There was a proposal that the floor be eliminated as part of Governor Strickland's funding proposal and since that time has been a subject of concern in that it would represent a significant loss of revenue to public schools including Revere.

Under Governor Kasich, Governor Strickland's model was abandoned and a new model is being developed. Accordingly, for all practical purposes, there is no predictable funding model currently in place that can be utilized in predicting future state revenues under this forecast.

A brief history of Ohio's school funding formula, expanding on the above information, is covered below.

Ohio's School Funding Formula

(Prior to the Adoption of HB 1 Which Became Effective 7/1/09)

Property taxes are a root component of the school funding formula in Ohio. The Revere Local School District has historically been defined as a "Guarantee" district and is a "Zero" state share district. These descriptors are given to the District since the local property values, when compared to other schools, are well above the state average and categorize the system as a high wealth district.

The reader of this forecast should understand that a key component of the State's funding formula is tied directly to wealth.

Consequently, the Revere Local School District as a zero share, guarantee district is impacted in the following ways in relation to funding from the State of Ohio:

1. The District's State Funding was capped and has been placed on a guarantee which means that the funding received from the State of Ohio is frozen, with some minor exceptions.
2. Funding paid to the Revere Schools is not tied to enrollment. The District does not receive the per pupil funding amount as provided for by the State's funding formula and consequently when a student moves into the District no additional funding is received from the State for that pupil
3. The majority of the supplemental programs in the State's funding formula, such as those for special needs students, are tied to the state share percentage. As a zero state share district we do not receive the supplemental funding so badly needed by those students. The programs are still funded by the District but through local tax dollars

The end result is that based upon the wealth of the district as defined by property value we are almost entirely reliant on local property taxes to fund the school system.

The funding model used in Ohio was changed in July of 2009 but these changes are being phased in and contingent upon both the economic outcomes of the State as well as the ever changing political landscape. Accordingly, the reader of these notes should understand some of the funding concepts are under further analysis and in flux.

Ohio's School Funding Formula – Under Governor Strickland

Referred to as the Evidence Based Model

(HB 1, Effective 7/1/09 to 7/1/11)

HB 1 would have negatively impacted the Revere LSD with a projected reduction of School Foundation funding estimated, when fully phased in over multiple biennium budgets, in the amount of \$1,266,900.

The previous and new funding models have a multiplier that is used to re-distribute the finite State resources to poorer school districts which at the same time penalizes districts such as

Revere. That multiplier in this model was called the Educational Challenge Factor which was comprised of economic data pertaining to property value, the community's federally adjusted income, the number of residents with higher education degrees and the level of poverty in the community.

Of critical importance under the prior funding model, a guarantee existed under which schools like Revere LSD where protected from a further erosion of State support. That guarantee was eliminated under this funding bill.

The reader of this report must understand that the Board of Education, Superintendent and CFO/Treasurer recognize the importance of providing equal resources to schools that are disadvantaged. Our concern is not the State's effort to direct more resources to the poorest schools in Ohio but the shifting or reduction of the current minimal State support received by the Revere LSD to the poorer school systems (Robin Hood Effect). Our district has consistently achieved Academic Excellence with Distinction. We accept the fact that additional resources are not available but strongly disagree with a funding approach in which the economic resources of successful schools that are leaders in public education are eroded.

The programming aspect of HB1 also contained a number of unfunded mandates which would have had a significant negative impact on the Revere Schools. This includes programs such as mandatory, without tuition all-day kindergarten and a Family/Civic Engagement staff.

Ohio's School Funding Formula – Under Governor Kasich

Governor Kasich reversed the funding philosophy forwarded under former Governor Strickland. Under his initial biennium budget proposal, there is now significantly greater local dependency on property taxes to fund k-12 education. By transferring the burden to fund schools to the local level, there is a greater dependency on local property taxes which has been declared unconstitutional three times by the Ohio Supreme Court.

Under Governor Kasich's plan the Revere LSD lost almost \$2,000,000 annually in State support when fully implemented. His budget proposals are as follows:

1. Eliminate hold harmless payments for Public Utility tax losses - \$461,437
2. Eliminate hold harmless payments for Tangible Personal Property tax losses - \$1,176,000
3. Reduce school funding payments - \$103,000 (minimum)
4. Not replace Federal Stimulus money previously used to fund public schools - \$158,850
5. Autism and Peterson Scholarships (school choice) funded by local tax dollars - \$100,000

Also contained with the governor's budget bill and HB 136 was significant legislation focusing on and modifying an expanded State voucher program. Instead of funding these proposals out of the State's budget the dollars supporting the school choice voucher program are coming out of local school tax dollars. The voucher program for regular education students has been postponed but is still under active discussion and is not in this forecast. With a possible second term this

will be a closely watched issue.

Summary of Funding Proposals

It is clear that a high achieving school district, like the Revere LSD, will become more and more dependent on local funding. The constituents of the Revere L.S.D. must decide what they want their schools to look like and the services to be provided. From that decision, the school system would either have to increase its dependence on the community through increased tax levy support over the long term or eliminate programming. The other essential component which is already in place and continually being evaluated, is the ongoing process of identifying ways to reduce and contain costs i.e. doing more with less. The Board of Education and administration take this responsibility very seriously.

General Economic Trends

Economic Summary (Based on Federal Reserve Monetary Policy Report of July 15, 2014)

The labor market continued to improve in 2014 in regard to job creation and the unemployment rate continued to fall. Wage growth has remained weak although other employment indicators have been positive. The prospect for longer term inflation remains stable and but short term rates have increased over 2013. GDP declined in the first quarter of the year but is expected to rebound based on the favorable indicators surrounding employment. The pace of economic growth abroad appears to have improved in the 2nd quarter which would support export growth helping our domestic economy.

However, the one economic indicator that is of concern is the housing sector. This sector has improved dramatically compared to earlier downturns but has leveled off. Housing growth has been muted by increased rates seen last year. Overall the markets tendency to take on risk is somewhat subdued although valuation measures have increased. Consumer confidence has recovered but remains low, changing little over the past year. Also impacting real estate growth has been lackluster business investment with the exception of drilling and mining. This correlates to the weak demand for non-residential buildings.

Summit County's full reappraisal of property values which occurs every 6 years is anticipated will result in a loss of assessed value. The Five Year Forecast contains a projected loss in real estate tax collections based upon inside millage and the prospect for new construction which results in new, additional tax revenue is subdued.

⊛ Please note that the above economic summary establishes the background under which the assumptions in this forecast were made in reference to real estate taxes which is the District's primary source of revenue. Of particular concern is the housing market, resulting property values & growth, the State's deficit spending, the State's weakened revenue streams and the tax payer's propensity to assume additional taxes which are contained in this five year forecast.

Any economic forecast must consider the recent global events in the Middle East, Europe and Japan which represent significant threats to future growth in the United States and the world markets. The FOMC points out that recent economic indicators, although improved, do not indicate we have reached a point of durable, self-sustaining expansion.

The Public Policy Impact of HB 66, SB 3 and 287

HB 66, implemented in 2005 created sweeping reform in the tax structure of the State. These changes had a direct impact on both the economy of the State and on public school funding. The Educational Tax Policy Institute projected that these structural tax changes would result in a loss of revenue to the State by fiscal year 2009/2010 of \$3.5B.

Changes to the tax structure are as follows:

1. Elimination of tangible taxes paid by businesses (forecast line 1.020)
2. Phase out of the Corporate Franchise Tax over 5 years
3. Replacement of the temporary 1 cent sales tax with a permanent $\frac{1}{2}$ cent tax increase
4. Enact an untested Commercial Activity Tax (CAT Tax) on gross business receipts

SB 3 and 287 enacted by the 123rd General Assembly reduced the assessment rates for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. For electric utilities, including rural electric utilities, all property except transmission and distribution property will have its assessment rate reduced to 25 percent. All natural gas personal property goes to 25 percent from 88 percent. The two changes combined have been estimated to reduce property taxes by about \$300 million on a state wide basis. The actual impact to the Revere LSD was a total loss in assessed value of \$32 M.

HB 66 did include a hold-harmless clause which was intended to insulate schools from the tax revenue losses incurred by the elimination of the tangible tax value and public utility value. Under Governor Strickland's budget bill the hold harmless payments were largely eliminated. See additional notes above under HB 153.

Enrollment

Three of the primary communities that populate the school system, Bath Township, Richfield Township and Richfield Village, have comprehensive land use plans in place which control the growth of residential development. Consequently, the District is not experiencing significant growth in student enrollment. However, because of the high quality of life in our community, which includes the school system's academic achievement, our district is a desirable location and will continue to experience a modest growth in enrollment over time. The one exception to this conservative growth pattern is the southern-most region of the district along Route 18. This area is growing rapidly and allows for high density residential developments. This forecast does include growth in new enrollment in FY 2017 and all subsequent years. These projections include both the revenue from new construction as well as the expense of additional teachers.

At the current time the district is approaching capacity in two of our four academic buildings. The District's current strategic plan includes a component for facilities and is an issue in the forefront of short and long term planning. From a historical perspective, the community's support of a building initiative is divided. The forecast does contain enrollment data on line 20.010 and 20.015. This data shows an overall decline in historical enrollment. In FY 13 and

FY 14 the trend is beginning to reverse. All day kindergarten has had a positive impact on enrollment.

Facilities

The District continues to focus on an ongoing facilities maintenance program and those costs are partially reflected in both the purchase service and supply budgetary categories. There is a clear recognition by the Board of Education and the administration of the age of our buildings. And as mentioned under enrollment above there is an actively managed strategic plan in place that is examining this critical issue of facilities to the future of the District. This forecast does not reference specific building initiatives in that building projects are typically funded by the permanent improvement fund or bond initiatives and not the general fund. A facilities committee was established by the Board of Education in late fall of 2007 to develop a comprehensive master plan for land use and facilities. To assist in facility evaluation process, the architectural and engineering firm of GPD has been hired by the Board to work in an advisory capacity.

Starting in the fall of 2011, discussions had begun relating to the need for an updated strategic plan which would include facilities. To that end, the Board employed a firm by the name of People Advantage who helped the District with community support to develop a strategic plan. That plan was adopted in 2012.

The District's facilities are old and incorporated into this forecast are line-item expenditures for maintenance supplies and purchase services. This increasing investment is necessary in order to insure a safe and productive instructional environment for staff and students. For these improvements the District is also reliant upon a Permanent Improvement levy with an annual collection of \$1.2 M.

Finally a major step forward has occurred in the area of facilities. The District applied for and was awarded an energy improvement project under HB 264 through the Ohio School Facilities Program. This \$3.2 million dollar initiative was funded through un-voted bonds at a 0% interest rate subsidized through a Federal stimulus program. In addition, the debt service payment is funded by the energy savings generated from the "green" facility improvements.

The Board of Education recently acted to support a standing Properties and Grounds Committee designed to seek input from the community and put strategies and planning in place relative to our facilities. In addition, we are hiring an architectural firm to do a site analysis of our property to determine whether or not our facility and field needs can be met with the land owned by the district.

Expanded Fiscal Overview

Since proclaiming a budget deficit of \$8 B at the start of his term, the Governor's proposed biennial budget slashed funding for K-12 education across the State. The loss realized by the Revere School District was \$1.6 M in hold harmless payments for Public Utility and Tangible Property taxes. In addition, the District lost an additional projected \$200,000 under the State Funding Formula in FY 14. Through re-appraisal in CY 11 and the resulting loss in taxable value the District lost \$440,000 in property taxes.

The above losses in revenue exclude two other key areas in which there is significant discussion by the Governor and legislators. Those two areas are first, school choice/voucher programs and second, further mid-biennium budget cuts. The school choice voucher proposal for regular education is not incorporated into this forecast but remains a very serious concern because these voucher plans are funded out of local tax dollars. There are currently two existing voucher programs benefiting special education students, the Peterson and Autism Scholarship programs, are in this forecast. The projected loss in local revenue for these two programs in FY 14 is \$190,000 per year.

The District continually needs to remind our constituents that the financial challenges facing us not only relate to inflationary expenditure growth which compounds over time but of much more significance is the loss of revenue facing the district from legislative and tax law changes, because these items are outside of our control.

The District was on the ballot three times for new operating money, with the 3rd attempt on May 3, 2011 passing. This levy was an Emergency Levy for a 10 year term collecting \$4.7 M when fully phased in. The community also supported the renewal of an existing emergency operating levy in February of 2011. The Board of Education, the administration and our students feel very fortunate to have received this level of support from our community. In this forecast there is no anticipated need for new, additional operating revenue but there is a renewal levy (no new taxes) which will be on the ballot in CY 15 or CY 16.

The OAPSE bargaining unit agreed to salary concessions for fiscal years 2011 and 2012 and accepted a salary freeze in fiscal year 2013. The REA bargaining unit agreed to a salary concession for fiscal year 2011 and accepted a freeze in fiscal year 2012. Note that the next paragraph goes into more detail relating to the teacher's contract. In addition, stipends were negotiated with both unions which negates the compounding impact of base increases. These significant concessions are incorporated into the forecast and directly contribute to the financial stability of the district as well as the extended levy cycle.

Through an agreed upon settlement, a 3 year bargaining agreement with the REA was put in place effective with fiscal year 2013 and ending in fiscal year 2015. This 3 year agreement was incorporated into the forecast and helped to contain overall costs. This agreement upheld the salaries which were frozen in FY 12, provided for an increase in medical premium payments by the staff in FY 13, FY 14 & FY 15, adopts a wellness program designed to contain medical costs, and provided increases in compensation through a stipend in FY 13 which does not become part of the base salary. The OAPSE contract was also settled and is effect for FY 13, FY 14, and FY 15. This agreement calls for an increase in premium contributions, adopts a wellness program designed to contain medical costs, and utilizes stipends to eliminate the compounding effect of salary increases.

The reader of the forecast will see that the District will be able to operate without additional revenue for fiscal years 2015 through 2019. The goal of the Board of Education is to make budgetary decisions over the upcoming years that will enable the district to live within our current resources through fiscal year 2020 (eight years) which is very possible when projecting one year past the current forecast.

The students, faculty and parents of the Revere L.S.D. have distinguished themselves with extremely high and consistent academic achievement. We believe that the parents and

community recognize the need to maintain and build upon our academic success which resulted in the approval of new money in May of 2011. There is also a direct link between strong schools, property values and strong communities which we believe also played a significant role in the May approval of new money.

Overview of the significant assumptions and facts in this forecast are as follows:

Expenditures:

1. Both of the District's bargaining units contracts expire at the end of the current fiscal year. It is assumed in the forecast, after a two year pay freeze in FY 12 and FY 13, that pay increases will be negotiated. Adjustments to health care will also be on the table and the Board will be focused on the continuation of shared costs. Bargaining platforms for future negotiations with both unions have been re-evaluated which represents a significant savings on personnel costs when compared to historical bargaining settlements. This change is reflected in years 2016 through 2019.
2. With retirement system changes for licensed staff going into effect in July of 2015, additional retirements will be submitted. This impacts both replacement salary costs and severance costs starting in FY 16. Incorporated into the forecast for FY 14 and FY 15 are 20 certified retirements with the assumption that all staff members will be replaced at significantly reduced salaries
3. From a budget/cost perspective, the District will continue to implement cost savings measures and re-examine the purchase and delivery of services in containing costs.
4. All Day Kindergarten on a tuition basis is reflected in the forecast (both expenditures and revenues). In FY 15 all-day kindergarten class was added so that there are currently 6 sections.
5. Proposed voucher costs are not included in this forecast beyond the voucher programs for special needs students which are the Autism and John Peterson scholarships.
6. New instructional staff members are added effective in FY 2017 based upon the housing development along Rt. 18 in the southern portion of the District. The adds to staff continue in each of the following fiscal years.
7. In developing the annual budget, the District utilizes a planning tool that incorporates a line item by line item comparison showing historical and requested expenditures. When finalized the budget booklet provides detail behind each budget line item and those detailed expenditures tie into category totals for the current fiscal year with a comparison to 4 prior years. This is a public document distributed to key stake holders in order to provide transparency to the budget process and current year planned expenditures.

Revenue

1. The recent Summit County reappraisal which took place in CY 14 which resulted in a loss of assessed value and a loss in revenue. This is a repeat of what occurred in the CY 11 Triennial update. The loss of revenue was in the amount of \$440,000 over FY 12 and FY 13. Since the District's primary source of revenue comes from property taxes there will be no significant increase in tax collections projected.
2. Ohio does not have a finalized school funding formula and there is discussion in the forecast about the potential negative impact of future funding changes..
3. Public Utility hold harmless payments stopped in FY 2012 representing an annual loss of \$461,437.

4. Tangible Personal Property Tax hold harmless payments will be phased out over two years FY 12 and FY 13 resulting in an annual loss of \$1,177,000 with a remaining loss in reimbursements of \$300,000 still in question.
5. The District's 5 year emergency levy will be up for renewal in CY 15 or CY 16 and based on the accounting protocols for renewal levies those collection dollars are moved from line 1.01 to line 11.02.
6. Revenue from casino operations was received for the first time in FY 2013 in the amount of \$55,520 which is estimated to continue in future years at a similar rate.
7. The new housing developments along Rt. 18 will result in new revenue which is included in the forecast.

Other Considerations & Comments

1. The forecast is a fluid document and decisions impacting future years on the expenditure side will undergo further discussion and consensus building on the part of the Board before being finalized.
2. The Board of Education does utilize a Finance and Audit Committee to discuss the forecast and related assumptions. The forecast is representative of the input from a broad range of individuals and is not the "Treasurer's" forecast.
3. The reader should note that for FY 11, FY12 and FY13 and FY 14, the District operated in the black and the forecast shows the District will also be very close to doing so in FY 15. This was only accomplished with the support of additional revenue from the new levy which offset the revenue losses identified in this forecast.
4. The District's ability to avoid spending into reserves is a significant factor which will lengthen the length of the levy cycle.
5. When reviewing the difference between revenues and expenditures for FY 12 and FY13, it is important that the reader factor in the revenue from the new operating levy which represents \$2.35 M in additional resources in each of those years. Without that new revenue source, the district would be in a position of significant deficit spending.
6. Note expenditures and revenues were both increased by \$3.5 M based on the need for an internal fund adjustment in FY13 which was an anomaly and does not occur in FY 14 forward.

INCOME ASSUMPTIONS

Forecast Line 1.010

General Property Taxes (Real Estate)

Forecast Line 1.020

Tangible Personal Property Taxes

Property taxes are levied and collected on a calendar year (CY) basis in contrast to a school district's fiscal year which runs from July 1st to June 30th of each year. Compounding the complexity of forecasting tax collection revenues both the effective millage rate and the total assessed valuation change from one year to the next. Consequently, property tax revenues received by a school district are the combination of two different tax years' assessments and valuations. Changes to value and assessment rates occur primarily as a result of new construction, reappraisal, tax appeals received by the county and levies newly approved by voters. The State of Ohio requires that residential and commercial property be appraised once every three years. For Summit County, CY 2011 was a triennial update and CY 2014

will be a full re-appraisal, after which this rotation between full and triennial updates will continue every three years.

Of critical importance is that the reader of the forecast understand that as noted above the CY 2011 re-appraisal did occur and the valuation of the District dropped by 7.61% for a loss in value of \$77,682,720. This represents a loss of tax collections in the amount of \$440,000. This is the first time in the recent history of the District where a loss in value has occurred.

With the reduction in value of 1.27%, from the Summit County full re-appraisal conducted in CY 22014, the District lost \$11 M in assessed value. This reduction in value will result in a loss of tax collections in the amount of \$65,000 per year. Although this is not a significant loss of revenue it is important based upon the trend which it represents. See also notes in the Executive Summary section on page 3.

Based upon information released in local papers, we understand that property values will drop again with the 6 year full reappraisal. In the forecast we are estimating a reduction of 4% of value which translates to an annual loss of revenue of \$207,000. Again, the actual numbers are unknown and not yet released by the County.

In FY 2014 it is projected that 100 new homes will come on-line and hit the tax duplicate for full value of \$250,000 per residence. This will result in new tax revenue of \$280,000 annually.

Also impacting tax revenue is the high volume of tax appeal cases both residential and commercial which were submitted at unprecedented levels. For these cases in which the property owner seeks a reduction in the tax value, there is no formal process through which the county or the Department of Taxation communicates the outcome of the appeal.

The forecast assumes there will be minimal new construction growth at a rate of .5% per year impacting future tax collections.

The increase in property tax value which results from higher appraised values does not generate new revenue because of HB 920 which was passed in the 70's. There are some exceptions to this rule, but HB 920 in simple terms requires by law that when property values increase through re-appraisal that the millage is reduced so that the revenue received by a school district from the community as a whole remains flat. Individual tax payers may however have a different experience, so that some tax bills may go down and others go up at different rates, but as a community the collection is flat.

Tax value growth from new construction or new value does provide new revenue as it is recognized by the county and added to the tax rolls. Based upon overall economic conditions it is predicted that historical trends in new property growth will not occur in the near term as has been the case historically in the communities comprising the District.

One of the exceptions to HB 920 occurs when the original voted millage is rolled back, over time, and falls to what is called the 20 mill floor. When that happens new taxes are levied on the increased valuation through re-appraisal and there is no roll back of millage as previously occurred under re-appraisal. Stated differently, increased tax values through re-appraisal do provide a school district with new revenue when the 20 mill floor is reached in the absence of

the effect of HB 920. The other exception is inside millage which does provide new revenue on reappraisal growth.

Summary

Based on the general economic outlook and two successive reappraisals resulting in a loss of assessed value, our primary revenue source which is property taxes are declining with the exception of new construction as mentioned.

Tax revenues are directly determined by the levies in place. The District was fortunate to receive support for a new operating levy as well as a renewal in calendar year 2011. Reflected in this forecast is the new operating levy on which a 50% collection will be received in FY 2012 and then the remaining portion of the collection will be received in FY 2013 at which time it will collect at 100%. That new levy was a 10 year emergency operating levy in the amount of \$4,763,000. Note also that the accounting treatment, in the forecast for the approved emergency levy moves that collection from the lower portion of the forecast to the top of the forecast on line # 1.010.

Forecast Line 1.035 Unrestricted Grants-in-Aid

This forecast line represents revenue received from the State of Ohio for the education of our resident students. The District was previously protected from a loss of revenue from the State by what was referred to as the funding guarantee. However, the elimination of the guarantee continues to be a discussion in Ohio in relationship to school funding. It is significant to note that under two consecutive governors the district would have lost more than \$1M in state funding and one governor was a democrat and the other a republican.

Without the guarantee in place it is predictable that the District will again lose more funding in FY 2013 and the following years. This loss in funding is driven by the District's above average property values and the deduction/penalty received under the funding mechanisms. It is a misnomer that the District receives a per pupil funding amount typically referenced in the various funding proposals. As of the submission of this forecast funding for future fiscal years is unknown and still an issue being debated by the legislature.

The current funding amount from the State is based upon information on the Ohio Department of Education's web site.

Forecast Line 1.040 Restricted Grants-in-Aid

The District applies for targeted funding for specific programs and purposes. This revenue source fluctuates from year to year and represents a very small percentage of total operating revenue received.

Forecast Line 1.045 Restricted Federal Grants-In-Aid SFSF (All 3200's)

This revenue line item was created to show the revenue received under the American Recovery and Reinvestment Act. The State of Ohio elected to use these federal funds to

prop-up k-12 public education funding in light of the State's economic challenges. These stimulus payments were received for just fiscal 2010 and fiscal 2011. At the end of fiscal 2011 this funding source was eliminated. The monies were to be used to support the general operational costs of the district. The annual allocation for FY 11 was \$147,808 excluding funds directed toward special education. There is no current revenue on this line item.

Forecast Line 1.050 Property Tax Allocation

For all residential home owners the State of Ohio forgives or rolls back 10% of the tax bill and this amount is paid by the State to the public entity that levied the tax. This also holds true for the 2.5% homestead exemption on residential owner-occupied properties. These amounts are semi-annually aggregated and paid as a reimbursement by the State to the schools in Ohio. This payment is one of the primary components of line 1.050. The homestead/rollback payment mirrors for the most part changes in value that take place in residential property. This figure will possibly increase as it will be impacted by the elimination of the income restriction on a secondary form of the homestead exemption. Changes to the rollback and homestead exemption amounts will mirror changes to property tax values and the collection under the newly adopted May of 2011 levy.

With the elimination of tangible and public utility taxes, which were replaced by the CAT tax, Commercial Activity Taxes, schools were to be held harmless from revenue losses attributable to the changed tax structure. These hold harmless provisions remain under evaluation for possible total elimination by the Governor and legislators. The concept of hold harmless payments has been a legislative topic of debate for four years. Under Governor Kasich, the Public Utility payment was fully eliminated in fiscal year 2012 resulting in a loss of \$461,437 and Tangible Personal Property Tax (TPT) will be phased out with a total loss of revenue in the amount of \$1,177,000. At stake is an additional \$300,000 loss in TPT which is not reflected in the forecast as an assumption.

With a loss in assessed value this revenue category is not anticipated to increase and at best will flat line or see minor reductions.

Forecast Line 1.060 All Other Revenue

This line item is made up of revenue from investment income, excess cost reimbursement, tuition, all day kindergarten tuition, contracted services revenue and other miscellaneous fees. The changes reflected are representative of the loss of investment income due to declining cash balances and falling investment rates. Under fund accounting, the District does invest other monies in addition to general fund balances but those earnings are not all allocated to the general fund and reflected in the five year forecast. Also, in this line item are tuition receipts from our partner schools that we team with for special education services. This consortium helps reduce or contain costs in meeting the needs of our special needs students as well as those of the member districts. This revenue category is anticipated to remain flat with the exception of addition kindergarten tuition from the one added class of all-day kindergarten.

Forecast Line 2.040
Forecast Line 2.050

Operational Transfers In
Advances In

The District routinely advances cash to other funds which have not received the full cash allocation approved by the funding source. This typically occurs with Federal or State funds during the course of the fiscal year. The amount advanced is then repaid in the following fiscal year when the full funding is received from the governing agency. For the purpose of this forecast, historical advance amounts were utilized for the projected revenues. Said differently, transfers and advances represent tools used in no-profit accounting to manage cash flow related issues.

EXPENSE ASSUMPTIONS

General Assumptions for All Expense Related Projections

- Based upon the enrollment projections listed in the forecast overall enrollment changes are very small. However, not all class sizes are the same and as students move from grade to grade we need to track the enrollment impact.
- The funding formulas do not technically provide revenue on a per pupil basis so that enrollment does not have a direct impact on revenue. This is not to say that future funding methods may change in this regard.
- Percentage increases were developed after evaluating historical trends, the economic environment, and key expenditure areas where specific inflationary trends were identified such as health care.
- A detailed general fund Revenue and Expenditure Plan is developed each year for the upcoming school year and for adoption by the Board. This report is prepared through a building and department based budgetary process and contains a line item budget for all general fund expenditures. It is from this report that the expenditures for the current school year are developed (FY2014-15) and this information also is heavily relied upon in developing this five year forecast.

Forecast Line 3.010

Personnel Services

Personnel service expenditures represent compensation paid to all staff members including substitutes, part-time employees, board members and all full time employees. The majority of the staff is represented by one of two labor unions. The licensed staff, except administrators, is represented by the Revere Education Association which is part of the National Education Association and the classified staff is represented by the Ohio Association of Public School Employees (OAPSE).

The REA contract and the OAPSE contracts expire on June 30, 2015. Previously, both bargaining units' agreed to salary concessions with the Board through a one year extension. Subsequent to the contract extensions the Board of Education has negotiated 3 year agreements with both unions. The details of those collective bargaining agreements are noted above under the Expanded Fiscal Overview section of the Forecast and represent savings to the District based on new health care agreements and the application of stipends.

Based upon the above information, it is clear that some form of salary increase will be negotiated. The built-in cost of the step is approximately 2% but changes based upon the staff composition. It is also assumed a base increase will be negotiated by both unions.

Also incorporated into staffing expenditures is the cost of the Employee Severance Plan which was expensed over four years. The cost for the plan was \$234,000 in FY 11, \$365,000 in FY 12 & FY 13, and \$131,000 in FY 14. Without this severance program the District would have had to lay off entry level teachers in double the numbers instead of a voluntary program which targets the highest compensated teachers. The funding of the incentive plan and the phase out will cause a fluctuation in total salaries as seen in the forecast. In total there was a reduction of 18 employees attributable to the Employee Incentive Plan.

In FY 2013, the district implemented all-day kindergarten on a tuition basis which is permissible under State law. Accordingly, the staffing in FY 2013 reflects an increase of 1 and ½ certified staff members; a full time reading interventionist and a ½ time teacher. These expenses and other related costs were fully covered by the tuition. In FY 14 one additional kindergarten teacher was added.

Over FY 14 and FY 15, 20 retirements are anticipated, based on changes to the state retirement system. Of those 20 retirements all open positions will be filled with lower cost employees at an estimated savings of \$25,000 per staff member.

The forecast also includes an increase in salaries attributable to staff advancing in educational degrees and or block credits. This cost is estimated to be on average of \$40,000 per year.

There are also increases in staff of 3 teachers starting in FY 17 and 2 teachers in each of the subsequent years based upon the development on Rt. 18.

Forecast Line 3.020

Employee Retirement/Insurance Benefits

Expenditures within this category include all medical premiums, payments to the SERS and STRS retirement systems, Medicare, workers compensation and unemployment insurance. Retirement contributions and workers compensation are true payroll taxes and change as wages are modified at a similar percentage.

The District has joined a health care consortium to help contain health care related costs. Starting with the renewal effective July 1, 2008. Beginning with the health care renewal effective July 1, 2010, the District, through the consortium combined claims with the other member districts. We pooled claims to level swings in our health care renewal rates which have a direct impact on this segment of the budget. The overall renewal rate as of July 1, 2014 was 5% for Revere as a subcomponent of the consortium.

With the most recent full negotiations completed with both unions and the agreed upon 3 year contracts there were very important health care savings generated through plan design utilizing wellness. However, it is most significant that wellness provisions that were agreed to will provide a long term cost containment strategy in health care costs through reduced utilization and improved employee health.

With the severance program noted above, staff numbers have dropped which has directly impacted health care costs. The reduction in staff also has a direct impact on our retirement contributions which are down over the prior year's cost. The reduction in health care costs associated with one employee is approximately \$12,500 per employee.

This forecast assumes no premium holidays in fiscal year 2015 forward. The determination of a holiday is based upon plan funding at the mid-year point. There was a premium holiday in FY 14. Also factored into the forecast is the additional revenue generated by increased premium contributions by the staff under the negotiated agreements effective July 1, 2013. Under both collective bargaining agreements premium contributions are moving to 10% for licensed staff and to 6% for non-licensed staff over a 3 year period.

Also within this expense category are payroll takes i.e. retirement, workers compensation, Medicare and Social Security, as applicable.

Therefore the projected increases in costs are tied directly to compensation, changes in staff numbers and medical cost inflation.

Health care inflation is assumed to be at 5% over the term of the forecast. This inflationary rate is significantly below national industry standards and reflects the success of our medical consortium and plan design which includes wellness.

Forecast Line 3.030 Purchased Services

Purchase services includes expenditures for utilities, tuition paid to other districts, repairs and maintenance, contracted professional and technical services, open enrollment costs to other districts, post-secondary fees and excess costs for special education.

As mentioned above, utilities are a significant purchase service expense. To reduce our energy costs the district applied for and was approved for an energy reduction program under state law called HB 264.

Not included in this forecast are the costs associated with the various voucher proposals and existing school choice programs which are under review. This includes the School Choice Voucher program which was proposed under House Budget Bill 136. This bill depending on the specifics of its implementation and how it is phased in will have a major impact on the forecast especially if you evaluate the impact of the voucher payments over a period of time such as five years. In analyzing the bill it is also important to know that the dollars to fund the proposed vouchers do not come out of the State budget in Columbus but come out of local revenue i.e. our constituent's property taxes. Further, the total cost of the vouchers may be in excess of four times the amount we receive per pupil from the State. Vouchers for special education students under the Peterson Scholarship and Autism Scholarship are in this forecast.

It is projected, based upon historical costs, that purchase services will increase at 6% annually.

Forecast Line 3.040 Supplies and Materials

This category of expenditures includes instructional supplies, text books, library books including periodicals, office supplies, software, building maintenance supplies and vehicle supplies.

The primary factors impacting variances in this category over prior year actual would be diesel fuel, bus repair parts/supplies the planned textbook adoption cycle and other instructional supplies.

In the FY 2015 budget is an increase of \$500,000 in the area of instruction for a new curriculum adoption as directed by the State. Potential curriculum cycles are listed below and account for budgetary fluctuations from year to year.

- FY 15 Replacement Books \$100,000 and Math \$350,000
- FY 16 World Language \$250,000 and Replacement Books \$100,000
- FY 17 Science \$300,000 and Replacement Books \$100,000

Transportation supply costs are estimated to increase over the term of the forecast to cover the increased cost of fuel, tires and repairs at a rate of 4% along with the other supply categories. Finally, there is no decision relative to the costs associated with on-line testing and whether or not the estimated fee of \$30 per student will be passed along to individual schools. The community should be aware of this new category of expenditure potentially charged to local schools but it is not in the forecast.

Forecast Line 3.050

Capital Outlay New and Replacement Equipment

Under the equipment forecast line funds are allocated to purchase everything from desks, to microscopes, to computer technology to buses. The defining parameter is that the equipment being purchased must have a usable lifespan of five years. The District has a pre-defined replacement cycle for technology which must be upheld in order for these items to not become obsolete.

The district has a fleet of over 40 buses and historically we have replaced two per year utilizing the permanent improvement fund which saves resources within the general fund. In FY 15 we purchased 4 buses, two of which were charged to the General Fund. Additional bus replacements are built into this category in future years based upon the age of our fleet.

Throughout the forecast there is a planned replacement cycle for classroom technology. This includes computers, smart boards, and LCD projectors. The district is fortunate to have smart boards in every classroom and has over 1,000 desktop computers including laptops in that number. Using those numbers that is a replacement cycle of 6.25 years. This burden is shared between the permanent improvement fund and the general fund.

The District has migrated to virtual servers as a cost savings initiative. The District previously had 15 servers which had to be replaced and these servers are spread out throughout the district. Based on advances in server technology the current servers were replaced using virtualization working through the NEONET computer consortium. This eliminated the reoccurring replacement cost of \$105,000 for 15 servers on a 5 year cycle

As mentioned above the new servers will also give the district the capability of moving into the virtualization of desktop computers. Through virtualization the district is not replacing each individual desktop computer when they are no longer functional but is purchasing what is called a thin client and VM software which is then run from the blade servers. The students utilizing a virtualized computer station would only visibly see a monitor and keyboard that function as a dummy terminal. The infrastructure needed to implement virtualization (made possible through the new servers) is estimated to be the \$175,000 and will enable us to generate significant savings relative to the replacement of desktop computers. A virtualized computer work station also has a life of 10 ears. The savings through virtualization, if current desktops are repurposed, would be \$87,000 per year per 100 computers replaced. With the new server technology, the district would also now be capable of moving forward with wireless technology.

The District is also looking closely at implementing BYOD (Bring Your Own Device) for our students. This accomplishment, when in place, will be a significant enhancement to our educational processes and would reduce costs associated with replacement technology. In FY 2012, the District took the first step in this process by implementing a wireless network. The estimated completion date is estimated to be summer of 2014. In FY 15 we are also looking at funding a pilot program for teachers which would cost \$105,000 but represent a huge step forward in moving to digital resources and integrating instruction into technology.

Also being continually evaluated in this forecast is the acquisition and implementation of desktops to accommodate the requirement of on-line testing for all students. This is a new initiative and unfunded mandate that schools in Ohio must prepare for.

Finally increases in this budget area include equipment for the facilities department i.e. trailer, utility vehicle and new van.

Forecast Line 4.300

All Other Objects

This category includes liability insurance, performance bonds, Summit County Auditor and Treasurer Tax Collection charges, banking fees, audit fees and the Summit County Educational Service Center deduction. The greatest single expenditure in this category is the county Auditor and Treasurer fees which were \$514,000 for FY 2012 and have increased to \$832,000 in FY 14. This fee represents the costs associated with tax collection and are passed along to the public entity levying the tax. In election years when the District is on the ballot these fees increase to cover the cost of the polling locations. Also, a newly budget item in this category is the debt payment associated with the HB 264 project in the amount of \$215,000 which is offset from utility savings.

Forecast Line 5.010 Forecast Line 5.020

Operational Transfers Out Advances Out

Within these categories the transfer and advance of funds from the general fund to other local, state, and federal grants are budgeted. Transfers are funds that are moved out of the general fund and into other funds without expectation of repayment. The primary example for the Revere LSD would be athletics. The general fund supplements the athletic fund each

year. Typically up to \$50,000 is needed to balance the athletic budget which relies on primarily ticket sales to fund its programs. Advances are timing dependent and are temporary movements of cash from the general fund to another fund with an expectation of repayment. A prime example of an advance would be a Federal grant wherein the funding agency delays disbursement of the full grant amount.

Questions about the Five Year Forecast

Questions should be directed to:

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