RIVER VALLEY LOCAL SCHOOL DISTRICT

NOTES TO FIVE-YEAR FORECAST

NOVEMBER 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. Due to the Emergency Levy falling off in FY2024 and the 1% Earned Income Tax not being renewed by taxpayers at this point in time, the District is projected to begin deficit spending again by FY2026.

Revenue growth during 2020 through 2024 is due to the income tax levy, implementation of the Fair School Funding Plan accompanied with the increase to FY22 base cost data inputs, and the Marion County triennial update resulting in an increase in real estate tax revenue.

In FY2024 the District made reductions of approximately $500,000 through attrition as staff members resigned/retired, as well as through budget cuts at the building level and no longer offering the Virtual Academy that was offered the last few years. The District has a board approved reduction plan that will begin in FY2025. These reductions are included in the forecast. The District will need to evaluate additional future reductions if it is unable to get a levy passed prior to FY2026 to prevent deficit spending. Income tax collections will slow down beginning in FY2026 and continue to decrease in future forecasted years due to the income tax levy ending December 31, 2024 unless the levy is renewed by voters. As of right now, the District is projected to have expenditures that exceed revenues beginning in FY2026 of the forecast.

<u>REVENUES</u>

Revenue Overview

Revenues have growth spikes in fiscal years 2023 and 2024 due to the income tax levy, an increase in real estate tax revenue and state funding increases due to updating the base cost inputs in the Fair School Funding Plan formula. 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 beginning in FY2022 through FY2025. Students are now being funded at the educating district rather than the district of residence. This change in funding resulted in an overall reduction in revenues for the District because we no longer receive funds for students that open enroll out, attend community schools or are on scholarships. However, these reductions in funding were offset by the reduction of purchased services expenditures where we typically paid tuition to pay for these students attending another school. In FY2024 a revenue surplus is expected. This means that revenues are expected to exceed expenditures by $3,157,791. By the last year of the forecast, FY2028, the district is expected to have a revenue shortfall where expenditures are projected to be greater than revenue by $2,800,028 despite the reductions made in FY2024 and projected to be made in FY2025. This is mostly due to the loss of the income tax levy, which by FY2028 will only have collections due to delinquencies, if any.

Line 1.01 Real Estate

Real Estate revenue represents approximately 30% 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 for residential and agricultural properties, so increases in tax values result in additional collected tax revenue. Class I or residential/agricultural taxes make up approximately 72% of the real estate property tax revenue.

2022 was a triennial update year for Marion County with collections beginning in January 2023. We experienced an increase in Class I Residential and Agricultural valuations of $55,525,290, a slight increase in Class II valuations of $203,080 and an increase in public utility personal property valuations of $1,073,140 due to this update. 2023 is a triennial update year for Morrow County, so we are forecasting another increase in property values due to this update.

Any decrease experienced by the District for agricultural properties was due to legislative changes to the CAUV formula to slow and reduce some of the growth of agricultural properties. Those changes have now been fully phased in. We are anticipating to see a return to just market forces, which we anticipate will result in an increase moving forward. We are using historical property valuation changes to model what we are anticipating between and during appraisal periods moving forward. What we experienced in 2022 and will experience in 2023 triennial update periods are unprecedented and therefore we are projecting increases similar to historical reappraisal periods rather than what we are experiencing in the current environment. The projections reflect an average gross collection rate of 101.1% annually through tax year 2027, fiscal year 2028.

It was originally anticipated that commercial property valuation decreases would occur after COVID, but instead we are seeing that those properties are generally being maintained and repurposed. This is resulting in some appreciation across the Board, despite the slight decrease in valuations in Marion County in 2022. The triennial update period for commercial properties in Marion County is in 2024 and we are anticipating an increase in valuations.

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 August 2023, 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 the District has chosen not to place it back on the ballot for renewal.

Line 1.02 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. In tax year 2022, the property is taxed at the full voted tax rate of 31 mills. The forecast is modeling an average gross collection rate of 99.73%.

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 FY2024. District withholdings are consistently increasing through the first two quarters over the last four years. The district is projecting income tax revenues through FY2025, with a reduction in collections in that same year and resulting in only potential delinquency collections by FY2027 and FY2028. Over 70% of income tax collections are done so through payroll withholdings. Income tax revenue accounts for approximately 13% of total district revenue.

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

Line 1.035 Unrestricted Grants-in-Aid

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. Beginning in FY2024 the base cost data input was updated to FY2022 values from the previously used FY2018 values. The State Biennium Budget also continued the phase-in of the formula at a rate of 50% in FY2024 and 66.67% in FY2025. The five-year forecast projects that the state will continue the Fair School Funding Plan and the respective phase in until it has reached 100%.

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 total for FY2024 is $15,185,046. The state's share of the calculated base cost total is $7,473,181 or $4,106 per pupil.

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 3% of total revenue. Starting in FY2022, the district's student wellness and success funding is considered restricted, the state's share of this funding is recorded as restricted is $308,029.63. This funding had implications on general fund expenditures in that certain spending that previously occurred in a fund external to the general fund shifted to the general fund. The expenditures in this forecast are adjusted to reflect this change both historically and moving forward. Other restricted funding areas include: gifted, ELL, economically disadvantaged, and career technical education (CTE). These funding categories are audited annually to hold the District accountable as to whether they are using the funds within the guidelines provided by the Ohio Department of Education.

Line 1.05 State Share of Local Property Taxes

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. In FY2024, approximately 11.5% local residential property taxes will be reimbursed by the state in the form of rollback credits and approximately 2.4% will be reimbursed in the form of qualifying homestead exemption credits.

Line 1.06 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 posted revenue code 1227 open enrollment in revenue of $2,723,331 in FY2021. Earnings on investments are projected to increase in FY2024 due to increased interest rates and a healthy cash balance, however a decrease is anticipated in this category throughout the forecast due to projected lower interest rates and a declining cash balance. Tuition is anticipated to stay relatively constant despite an increase in the tuition rate due to being awarded an Early Childhood Education grant through ODE for our preschool classrooms for the first time in FY2024.

Line 2.070 Total 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 are drastically lower than in previous years due to the implementation of the Fair School Funding Plan. Now that the district will no longer pay tuition for students attending other schools, we are estimated to see a reduction of over two million dollars in purchased services compared to years prior to FY2022.

Other areas have been forecasted to be somewhat constant although the District can expect to continue seeing funds allocated toward maintaining and updating our buildings as they get older, which will be reflected in our supplies and materials costs and capital outlay costs increasing after our .5mill PI attached to our bond levy ceases revenue collections and results in expenditures previously spent out of our classroom maintenance fund, fund 034, will be brought back in and spent out of the general fund.

Line 3.01 Personal Services

Personal Services is the District's payroll. Salaries make up approximately 54% of all general fund expenditures.

Included in this forecast is a 1% base salary increase for FY2024 and no base increase in FY2025 through FY2028, as well as 4% step increases in each year of the forecast. We negotiated with both unions this past spring/summer for contracts with a July 1, 2023 begin date. During negotiations, only FY2024 wages were agreed upon with wage reopeners in spring 2024 dependent on levy(ies) passage in the November 2023 election.

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.

The Board approved reduction plan included the reduction of several staffing positions, including certified, classified, administrative, substitute, and supplemental positions. These reductions are forecasted to begin in FY2025, however the District did have some reductions take place in FY2024 through attrition. The attrition reductions are also included in FY2024 in the forecast.

Personal services are projected to grow at an annual average rate of 2.33% through FY2028.

Line 3.02 Employees' Retirement/Insurance Benefits

Benefits represent approximately 23% of FY2023's projected 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 with a 7% board cap and no premium holidays, as those holidays are not guaranteed.

In FY2024, the district will have one medical insurance premium holiday, which is already factored into the forecast. The premium holiday will be 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 13% of general fund expenses in FY2024. This line includes utilities, liability and property insurance and personnel services. We saw an increase in our property and liability insurance premiums in FY2024 due to a significant number of claims in FY2023. We have also received information from our electric and gas consortiums informing us that we will be experiencing increases in these utilities in the coming months.

The Fair School Funding Plan funds only district educated enrollment thereby reducing tuition costs for open enrollment out, community schools, STEM and scholarships. In FY2021, these costs totaled $2,144,220.

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 as the District's Classroom Facilities Maintenance fund ceases to collect revenue when due to the bond levy being paid off and collections ending in FY2024 for the Classroom Facilities Maintenance Fund. This will result in those expenditures being spent from the general fund moving forward. This category of expenditure is projected to grow at an annual average rate of 14.29% through FY2028.

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 FY2024 we originally anticipated needing to purchase a handicap school bus, but we were able to use school bus purchase program and ARP IDEA funds to offset the cost, therefore reducing the overall amount spent from the general fund on this purchase. The District's capital improvement plan includes a bus purchase rotation of two buses one year and one bus the following year. This cycle is reflected in the capital outlay line of the forecast. 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 is currently undergoing a project connecting the Middle School and High School building to address safety concerns for students and staff that have classes in both buildings, which is estimated to be completed in January 2023.

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 the Classroom Maintenance Fund (Fund 034). Repayment was completed in 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 student 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. The forecast reflects a decrease in transfers out in FY2025 through FY2028 due to reductions in the Board approved reduction plan. This fund makes up less than 1% of total expenditures.