



Hudson City School District

Five Year Forecast FY 2014-2018

Submitted for Approval at the Board of Education Meeting October 14, 2013

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Hudson City School District

Five Year Forecast FY 2014-2018

Purpose of the Report

The five year forecast was created by the 122nd General Assembly in 1997-98 via Am. Sub. H.B. 412. It serves three primary purposes:

- To provide a standardized tool for long range planning at the local level.
- To serve as a basis for determining a district's ability to sign "412" certificates.
- To provide a method for the Ohio Department of Education and the Auditor of State to identify districts headed toward financial difficulties.

Statutorily, the district is required to update this model bi-annually. The first filing shall be on or before October 31st and the second filing shall be between April 1st and May 31st of each fiscal year. The May 31st filing is an update of the forecast filed October 31st.

Fiscal Projections - 2014 through 2018

This financial projection presents the expected revenues, expenditures and fund balances of the "General Fund" of Hudson City School District for each of the fiscal years including July 1, 2013 through June 30, 2018, with historical information presented for fiscal years ended June 30 2011, 2012, and 2013 that are based upon the school district's fiscal year-end annual cash reports filed with the Auditor of State.

Basic Philosophy

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The five year forecast requires district management to evaluate potential long-term outcomes when making current decisions relative to new initiatives and fund existing programs and services over multiple years. In doing so, the multi-year budgeting process lends itself to meeting both short and long term goals while maintaining financial solvency.

This forecast represents a series of assumptions or estimates of future economic, legislative, and market conditions. It is a "snap shot" of variables known or assumed at a particular point in time. Because circumstances and conditions assumed in projections frequently do not occur as expected and are based on information existing at the time projections are prepared, there will usually be differences between projected and actual results.

Executive Summary

It is my privilege to present to the Board of Education and the community the Hudson City School financial report. The forecast contains a series of assumptions in order to arrive at the individual revenue and expense amounts presented. The assumptions are based upon information known at the time the projections were developed and will lose some of their validity as projected into the future. It is a “snap shot” of variables known or assumed at a particular point in time. Extra caution is urged when analyzing the future years of the fiscal projection.

Revenue assumptions:

- ✓ The Hudson City School District tax rates will remain consistent through the forecast. The rates are certified by the Summit County Auditor and Board of Education approved on April 8, 2013.
- ✓ Collection on Real Estate taxes will continue at 98.5% collection rate.
- ✓ There are no assumptions of further federal stimulus dollars.
- ✓ The phase out of Tangible Personal Property tax and Public Utility tax are being held at this year's current collection rate per Ohio Department of Education ODE's website.
- ✓ The State Foundation money is funded under the new state budget for FY 2014 and FY 2015. Hudson City Schools is on the guarantee and is expected to receive the same amount as in FY 2013. The future years are assumed at a slight reduction.

More information on the new state funding is available at:

<http://education.ohio.gov/Topics/Finance-and-Funding/Finance-Related-Data/Budgetary-Information/FY14-FY15-Budget-Information>

Expenditure assumptions:

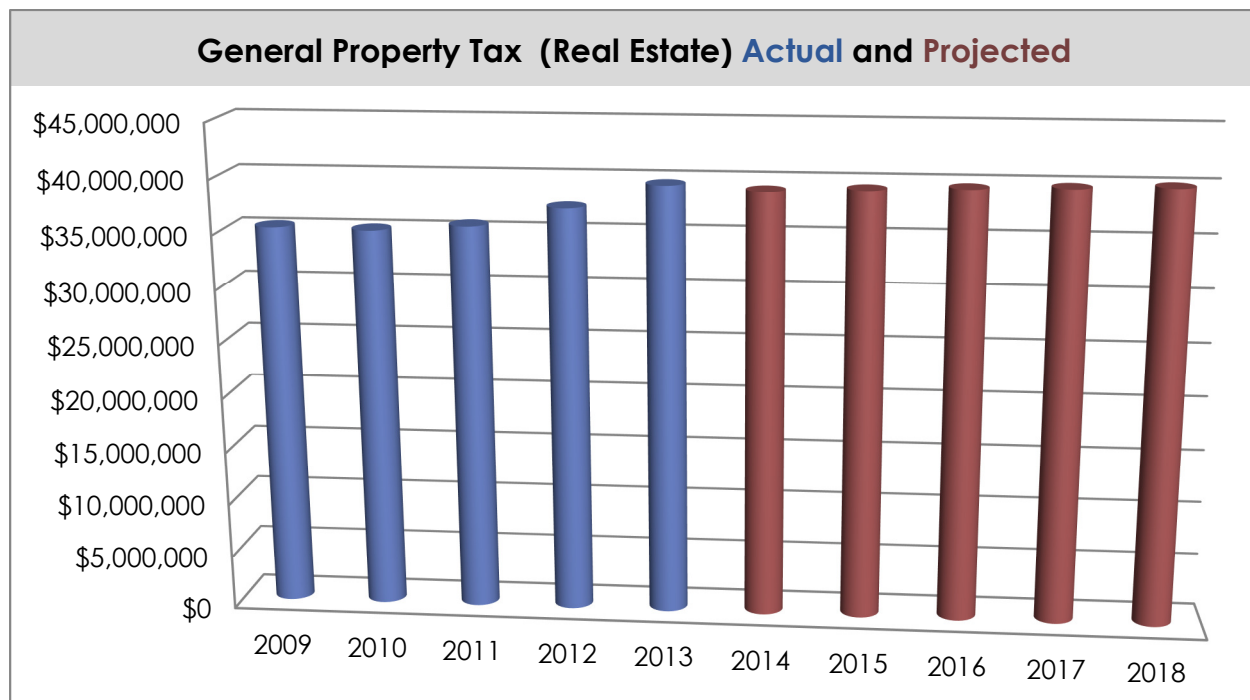
- ✓ Due to decreasing enrollment we will reduce staff through attrition when possible.
- ✓ All employees pay 15% contribution to their health care premiums.
- ✓ Fees for sports and activities will continue.
- ✓ Field trips will continue to be cost neutral to the district.
- ✓ A 0% base increase has been projected for FY 2015 through FY 2018.
- ✓ Purchased services and supplies over the next four years (utilities, tuition, building repairs, etc.) are expected to increase by 2.15%.
- ✓ Supplies (paper, books, cleaning supplies, gas, etc.) over the next five years are expected to increase by 2.15% each fiscal year.
- ✓ Some capital expenditures are paid for by operating money; however, most of these expenditures are paid by the Permanent Improvement Levy. Capital expenditures (items with a useful life of 5 years or more) are expected to increase by 2.15% each fiscal year.

Forecast Summary

Revenues

Real Estate Taxes - Property taxes are levied and assessed on a calendar year basis against real property. Assessed values for real property taxes are established by state law at 35% of the appraised/market value. All real property is required to be revalued every six years and updated midway through the six-year period. Summit County's last reappraisal was in 2008 and the last update was in 2011 where Hudson saw an extreme decline in some neighborhoods; approximately 19.4% decline in property values. In an update year, values are based on home sales. Tax rates are certified by the Summit County Auditor's office and Board of Education approved. This year's rates were Board approved April 8, 2013.

Real Estate taxes comprise 66% of the district's revenue. Tax rates are modeled to be consistent throughout the forecast.



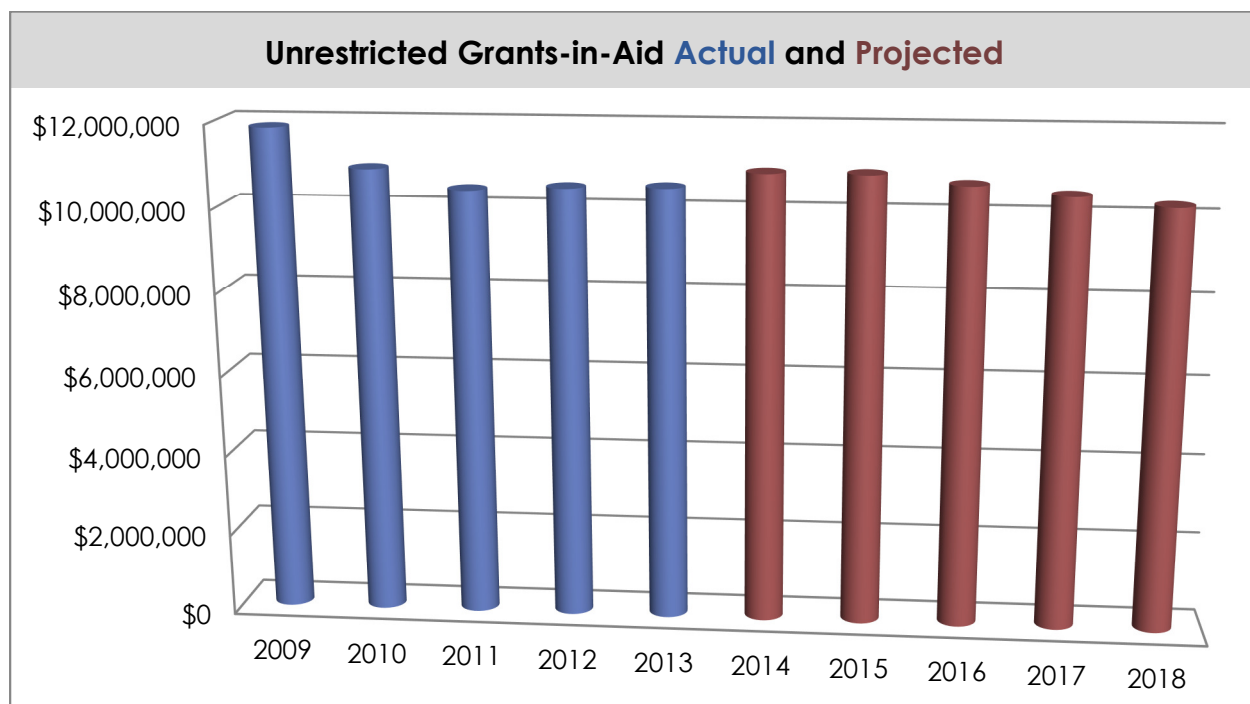
Personal Tangible – Public Utility Tangible tax collections are the only component of revenue now reflected in this category’s estimates. For several years, the state has been reimbursing public school districts for local tax losses resulting from deregulation of the public utility industry in 2001 that culminated in the lowering of the assessment rates of some public utility tangible properties from 88% to 25%. Am. Sub H.B. 153 introduced major changes in the process of identifying reimbursement eligible school districts and their reimbursement calculation. The formula and calculation can be found on the ODE website under “District Public Utility Deregulation Reimbursement; FY 2012 and Thereafter”. Hudson is currently projected to receive \$498,000 each year of the forecast. In FY 2013 we have received past delinquent taxes.



Unrestricted Grants-in-Aid - Ohio Per Pupil Funding (Foundation) - The State Foundation funding comprises 17.6% of the district's revenue. The state's new budget was approved for the next two years and the district is currently on the state's funding guarantee. The payment guarantees that in FY 2014 and FY 2015 Hudson School District will receive an adjusted total funding amount that is at least equal to the funding received in FY 2013. It is assumed in this Five Year Forecast that the state will discontinue the guarantee in future funding. It is projected during the last three years of the forecast, the state will only fund the foundation program at 98% of the current funding.

Casino revenue is now mandated to be reported in this line. Last year casino revenue was reported on line 1.06, we received \$115,374. Casino distribution is expected to be \$50.00 per student in FY14. We are being conservative with the casino revenue growth because in the future casino funds could quite possibly be offset by reductions in other state sources, the same as lottery funds are being combined with other funds.

We will continue to closely follow events concerning school funding with the understanding that our state funding remains at risk.



Restricted Grants-In-Aid - The loss of Education Jobs funds have left only Career-Technical funds in this category. The forecast has projected these funds to stay consistent.

Property Tax Allocation – Real Estate Property Rollback and Homestead Exemptions are forms of property tax relief. The 10% rollback applies to non-business property defined by state law to include all uses of property except farming; leasing property for farming occupying or holding property improved with single-family, two family, or a three family dwelling; or vacant land that the county auditor determines will be used for farming or to develop single-family, two family, or three family dwellings.

The county auditor's office also administers the 2 ½% Property Tax Reduction Law for residential and agricultural parcels on which there is a home site occupied by the owner.

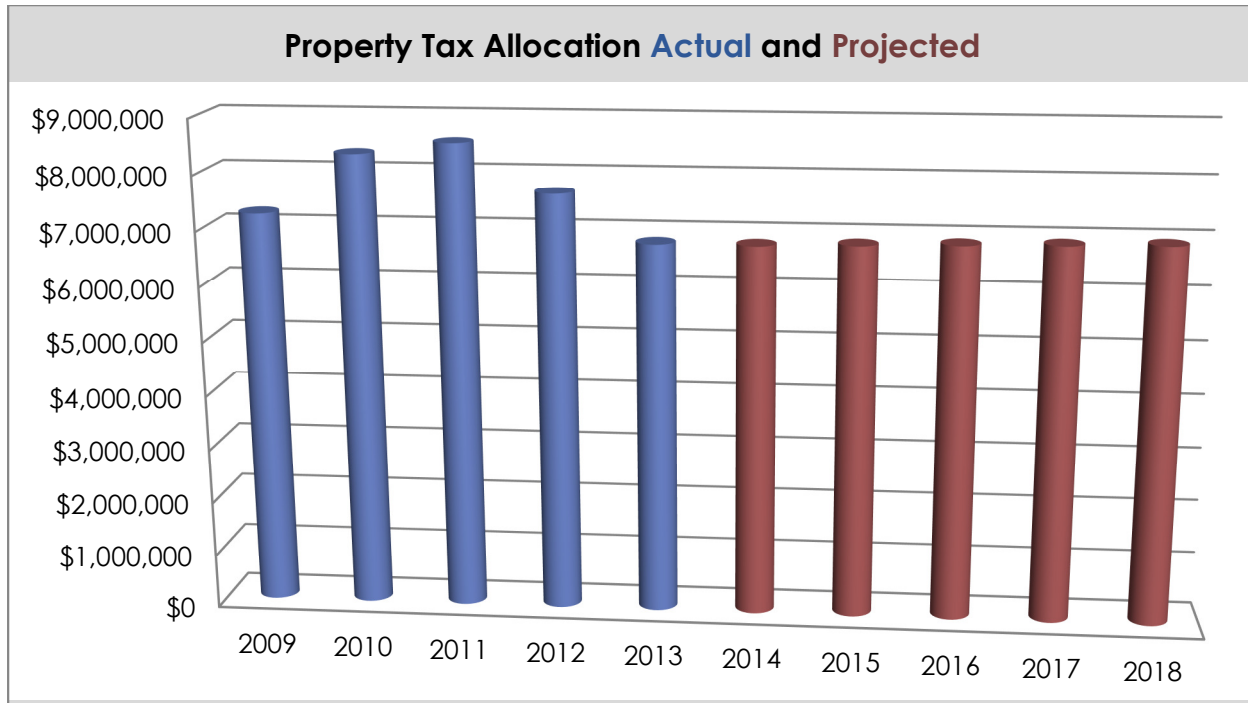
The new state's budget bill eliminated the rollback on residential property exclusively on NEW tax levies. All current levies and renewals will still receive the benefit of the residential property tax rollback.

It is important to note that in 2004, legislation (HB66) was approved by the General Assembly to eliminate the general tangible tax paid by businesses on equipment and inventory. The local collection of these taxes was ultimately phased out and by FY11 Public Utility Tangible collections were the only component of this category's collection remaining. Revenue from the state's Commercial Activity Tax (CAT) tax was supposed to provide the state a dedicated revenue stream to continue tangible replacement payments through at least 2017. Am. Sub. H. B. 153 introduced major changes in the reimbursement calculation and the distribution schedule. It also introduced a process of identifying reimbursement-eligible school districts which we did not have before the passage of the new law. For more information on Personal Tangible reimbursement levies:

<http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?Page=3&TopicRelationID=990&Content=128150>

According to the "Ohio Department of Taxation FY 2013 & Thereafter School District Current Expense TPP Reimbursement for Fixed Rate Levies, as enacted in HB 153", Hudson City Schools reimbursements are as follows: FY 2013 and thereafter annually will be \$1,828,367.

The reduction of this revenue source is reflected on line 1.05 Property Tax Allocation. The reimbursement is at risk and will be watched carefully over the life of the forecast.



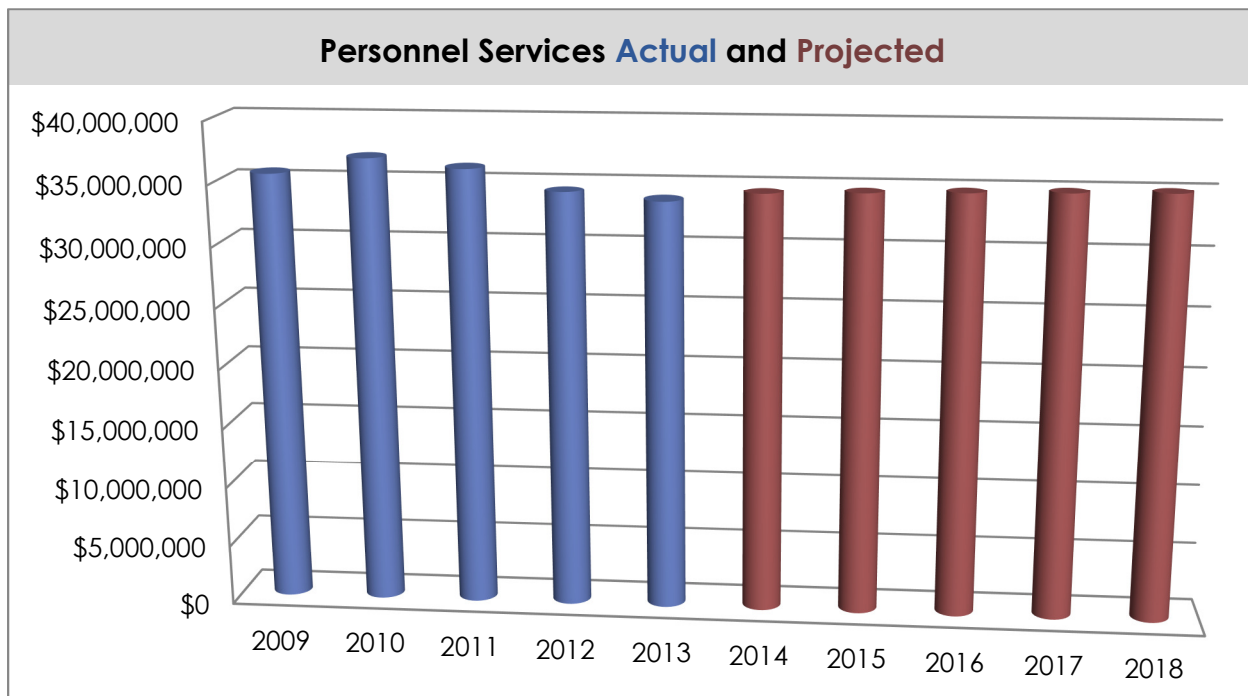
All Other Sources – Investment earnings, revenue in lieu of taxes, classroom fees, and provider fees are all examples of other revenue items included in this category's total. Casino revenue is now reported in line 3.0135 Unrestricted State Grant-in-Aid (State Foundation).

Advances & Transfers – In – Advances and transfers are used sparingly and only when other categories do not appropriately capture the essence of a transaction. Little activity is expected in these classifications in the future.

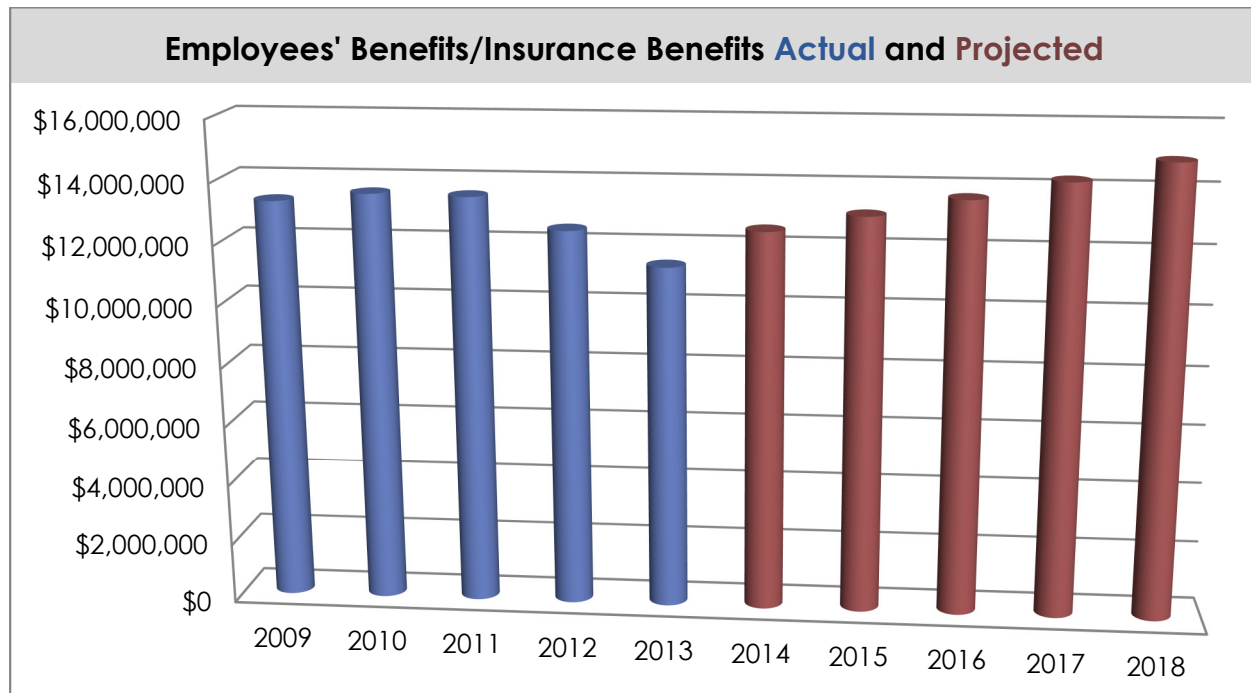
Expenditures

Personnel Services – approximately 60% of the school's budget is for employee salaries. This expenditure has dropped by 6.5% over the past four years (FY 2010 \$36,935,614 to FY 2014 \$34,521,000).

The forecast is modeling a step increase in FY 2015, 2016 and 2017. The forecast is also projecting a loss of two certified staff per year due to the decreasing enrollment. We will watch closely for possible changes due to specific grade-level increases or the requirements of special needs students.

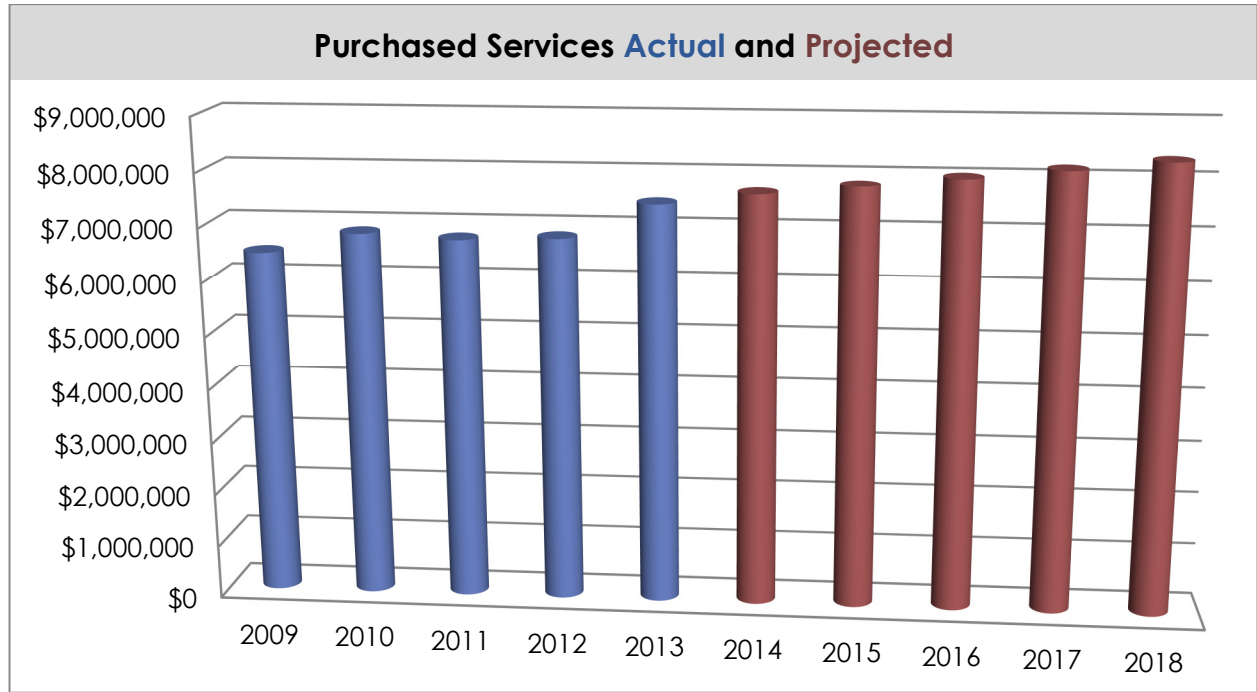


Fringe Benefits – Fringe benefits make up 20.1% of our expenditures. The district is self-insured and the health care fund is stable. Insurance premiums have been below expectations and the employee's share of the premium costs has increased to 15%; therefore, we are able to keep the rates the same in FY 2013 and in FY 2014 as they were in FY 2012. The forecast assumes health insurance premiums increasing by 8% in FY 15 through FY 18. Outside of health insurance (medical, dental, vision, and life), fringe benefit costs such as retirement, workers compensation and Medicare are driven as a percent of projected salary.

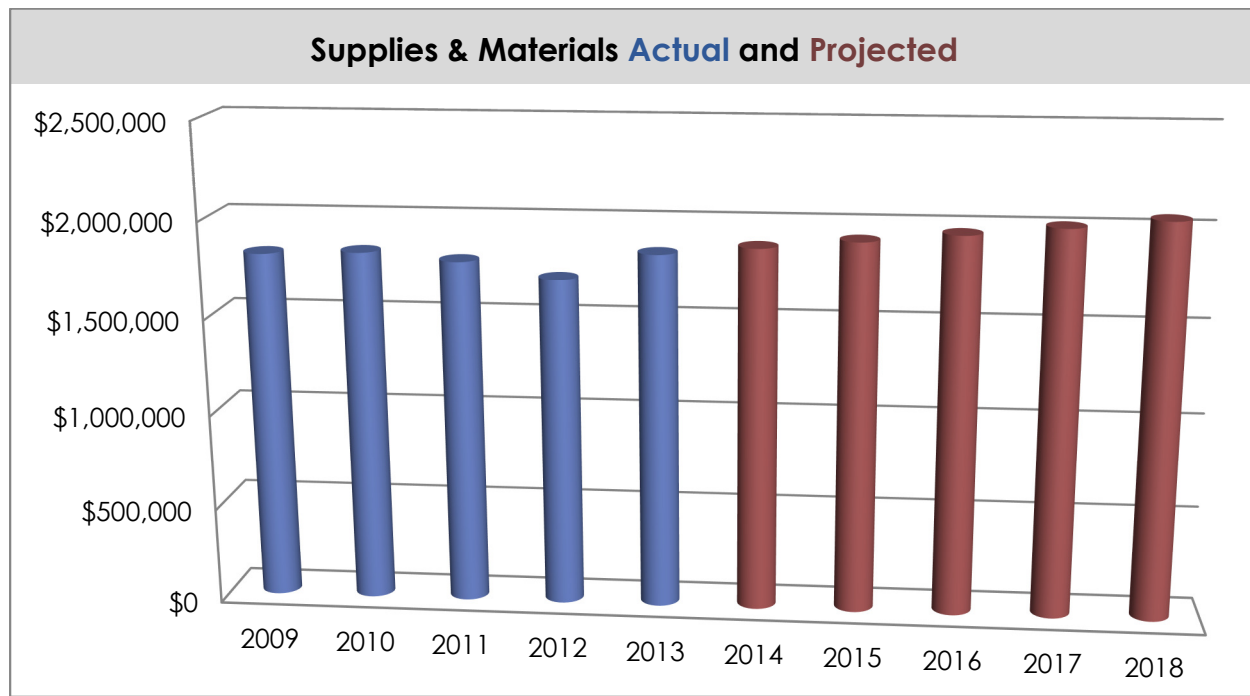


Purchased Services – This category accounts for a variety of expenses including special education tuition, utilities, transportation charges, technical services, communication expenses, and repairs and maintenance, as well as open enrollment charges. Ohio Department of Education deducts over \$559,000 of Hudson City School District resources for community schools and other school choices/scholarships.

Estimates for this category include a 2.15% annual increase from FY 15 through FY 18. This estimate considers the impact of inflation (<http://www.usinflationcalculator.com/inflation/us-inflation-edges-up-in-august-2013-inflation-rate-at-1-5/10001211/>).



Supplies and Materials – This category includes amounts paid for material items of an expendable nature that are consumed, worn out, or deteriorated from use, or items that lose their identity through fabrication or incorporation into different or more complex units or substances. Included are general supplies, instructional supplies, teaching aids, library books, periodicals, textbooks, building and grounds supplies, and vehicle supplies including fuel. The forecast has projected an annual increase of 2.15%.



Capital Outlay – The Permanent Improvement Fund shoulders the majority of expenses in this category. The Permanent Improvement levy was renewed on November 6, 2012 for five years. The forecast has projected an annual increase of 2.15% .

Debt Services – The HB 264 principal and interest amount are from our debt schedule. We currently have two HB 264 loans, Series 2007 and Series 2009.

Other Objects – Costs associated with membership dues, state audit fees, county auditor and treasurer fees, bank charges, liability insurance, and judgments are included in this category. The forecast has projected an annual increase of 2.15%.

Other Financing Uses – Advances and Transfers are used sparingly and only when other categories do not appropriately capture the essence of a transaction. Little activity is expected in these classifications in the future.