RIVER VALLEY LOCAL SCHOOL DISTRICT

NOTES TO FIVE-YEAR FORECAST

NOVEMBER 2024

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 1% Earned Income Tax being renewed and the bond + PI combination levy being approved by taxpayers in the November 7, 2023, election, the district is no longer projected to begin deficit spending until FY2028.

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. The district is experiencing a decrease beginning in FY2025 in real estate tax revenue since the Emergency Levy was not renewed by the district. The last collection for the Emergency Levy was for tax year 2022 in calendar year 2023. The District is seeing an increase in restricted grants-in-aid in FY2025 due to operating under Community Eligibility Provision (CEP) and therefore having all students qualify as economically disadvantaged.

At the beginning of 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. Once the District passed its levies on the ballot in November 2023, reductions made to building level budgets were restored. Some positions that were previously reduced through attrition were filled at the beginning of the 2024-2025 school year as well due to the passing of the levies. The district has employees that will begin being paid out of the general fund again in FY2025 due to ESSER grants ending in FY2024. As of right now, the district is projected to have expenditures that exceed revenues beginning in FY2028 of the forecast.

REVENUES

Revenue Overview

Revenues began to increase 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. In FY2025 the District is seeing a reduction in property tax collections compared to the forecast filed in May 2024 due to a lower collection rate than what was projected. The District is seeing an increase in restricted state grants-in-aid now that all students qualify as economically disadvantage due to the district operating under CEP. This increased DPIA funding for the district by over $1M compared to the funding estimated at the beginning of the 24-25 school year. State funding reductions had an impact on 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 FY2025 a revenue surplus is expected. This means that revenues are expected to exceed expenditures by $1,498,844. By the second to 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 $858,844.

Line 1.01 Real Estate

Real Estate revenue represents approximately 28% of our total revenue. River Valley collects real estate taxes in two counties: Marion County and Morrow County. The district is on 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 72.98% of the real estate property tax revenue. The Class I tax rate is 20 mills in tax year 2024.

Any historical 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 seeing a return to just market forces, which we anticipate will result in increases 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 (Marion County) and 2023 (Morrow County) triennial update periods are unprecedented and therefore we are projecting increases like historical reappraisal periods rather than what we are experiencing in the most recent environment. The projection in the May forecast reflected an average gross collection rate of over 100% annually, which was based on historical trend data. The FY2025 fall settlements reflected an unprecedented decrease in our collection rate, at a rate of 97%, which has reduced our overall real estate collections projected for FY2025 from what was forecasted in May 2024.

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 had an Emergency Levy that ceased revenue collections after August 2023, in Fiscal Year 2024. The decrease in real estate collections due to the non-renewal of this levy began in FY2024. FY2025 is the first year that there are no emergency levy collections. The voters did not renew this levy in the November 8, 2022, election and the district chose not to place it back on the ballot for renewal. Instead, the district placed a combination bond + permanent improvement (PI) levy, as well as an income tax renewal on the ballot in November 2023.

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 2023, the property is taxed at the full voted tax rate of 31 mills. The forecast is modeling an average gross collection rate of 99.85%.

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 FY2025. The district is projecting income tax revenues through all forecasted years, as the taxpayers just renewed the income tax levy for another 5-year term in the November 7, 2023, election. The 1% income tax levy is now in place through December 31, 2029. Income tax revenue accounts for approximately 12% 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%. It also projects that the state will continue to update the base cost data input by 4% in each evenly numbered fiscal year, or the beginning of each new biennium budget.

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 costs 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. We are hopeful that the legislature will continue to update the base cost during each biennium, if not annually, moving forward. No increase in base cost causes a district's per pupil state funding to go down as we experience an increase in the actual cost to educate and an increase in "wealth", which ultimately means that our state funding will decrease despite our costs to educate increasing and a lack of funding will make this disproportional.

For River Valley, the calculated base cost total for FY2025 is $14,954,487. The state's share of the calculated base cost total is $6,848,889 or $3,834 per pupil. Unrestricted State Aid accounts for 38% of the total district general fund revenue.

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 8% of total revenue, which is a significant increase from the 3% in FY2024. 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 $301,426. 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. The increase in restricted grants-in-aid in FY2025 is due to the district operating the Community Eligibility Provision (CEP) for the first time. Under this program, all students are eligible to be classified as economically disadvantaged. This change in classification increased the District's disadvantaged pupil impact aid (DPIA) by over $1M in FY2025 from the beginning of the year estimates to the second October SFPR.

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 FY2025, approximately 11.5% of local residential property taxes will be reimbursed by the state in the form of rollback credits and approximately 2.5% will be reimbursed in the form of qualifying homestead exemption credits. We will see a reduction in these credits with the emergency levy no longer being included in the calculation.

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 that 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 FY2025 due to increased interest rates and a healthy cash balance, however a decrease is anticipated in this category later in the forecast due to projected lower interest rates. 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 refunds 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 but it has increased compared to the May forecast. Now that the district will no longer pay tuition for students attending other schools, we see a reduction in purchased services compared to years prior to FY2022.

We will see an increase in capital outlay expenses in FY2025 due to the Board deciding to move forward on additional HVAC upgrades that were not originally planned last spring. Capital outlay is expected to decrease and be somewhat constant over the remaining years of the forecast due to being able to offset permanent improvement costs through the permanent improvement levy approved by our taxpayers in the November 7, 2023, election. If this levy had not passed, then these expenses would have had to be spent out of the general fund due to the classroom facilities maintenance levy ceasing collections in calendar year 2023. This would have significantly increased our supplies, equipment and purchased services components of our forecast, as reflected in our original November 2023 five-year forecast. The district has aging buildings with maintenance improvements that need to be addressed. This will primarily be done through the newly approved permanent improvement levy, but some expenses may still need to flow through the general fund as projects that previously were unable to be addressed due to a lack of designated funds get taken care of.

Line 3.01 Personal Services

Personal Services is the district’s payroll. Salaries make up approximately 51% of all general fund expenditures.

Included in this forecast is a 4.5% base salary increase for classified staff and 4% increase for certified staff in FY2025, a 3% in FY2026 for certificated staff, a 3.5% increase in FY2026 for classified staff, and a 2% increase in FY2027, FY2028, and FY2029 as well as 4% step increases in each year of the forecast. Wages are negotiated through FY2026. The district will negotiate wages for FY2027, FY2028, and FY2029 in the spring of FY2026.

Beginning in FY2025, the District is paying the salaries of three employees that were previously covered by ARP ESSER funds out of the general fund due to the period of allowable expenditures for ARP ESSER ending at the conclusion of FY2024. The district also be separated out its HS Assistant Principal/Athletic Director position beginning with the 2024-2025 school year, hiring an additional Reading Intervention Teacher at one of the elementary buildings due to requirements within the Science of Reading, and bringing back a couple of the positions that were eliminated through attrition for the 2023-2024 school year due to the levy uncertainty the district was experiencing at the end of FY2023 and the beginning of FY2024.

Line 3.02 Employees' Retirement/Insurance Benefits

Benefits represent approximately 23% of FY2024'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 percentage increase or decrease in benefits due to most of these benefits being a percentage of gross income. The district became a member of the Stark Council of Governments (COG) Consortium for health insurance beginning July 1, 2021. We were previously with the Jefferson Health Plan Consortium and experienced an average 8-9% increase each year. In FY2021 the District absorbed the entire increase, exceeding its previously agreed upon 7% cap. The District had a 6.5% increase for FY2025 and will have a premium holiday in the month of December. The forecast includes an expected annual increase of 8% in FY2026 through FY2029 with a 7% board cap and no premium holidays since the premium holidays are not guaranteed. The premium holiday means that no employee or board portion of medical insurance being paid.

Line 3.03 Purchased Services

Purchased service costs are the third largest expenditure totaling 14% of general fund expenses in FY2025. This line includes utilities, liability and property insurance and personnel services. We are experiencing increases in our utility costs and anticipate that this will continue to occur in each year of the forecast. We also have an increase in purchased educational services and professional services that the District is paying for, which has further increased our purchased services expenses this year and throughout future years of the forecast.

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. We no longer need to budget for these expenses due to the changes implemented through the new funding formula.

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 being able to offset some of these expenses over the next five years due to the passage of our permanent improvement levy in the November 7, 2023, election. Overall, due to the increase in supply costs and the large number of projects that we need to address with permanent improvement funds we still anticipate an overall increase in this category throughout the forecast. We hope that in the future we will be able to offset more annual expenses with permanent improvement funds as we get some of our larger projects completed in these next few years that unfortunately were unable to be addressed previously due to a lack of designated funds.

Line 3.05 Capital Outlay

The main expenditure out of this line is the purchase of technology, new vehicles, and new maintenance equipment. The district's capital improvement plan includes a bus purchase rotation of two buses one year and one bus the following year. Over the next five years the district intends to use the newly approved permanent improvement levy to offset the costs previously incurred by the general fund, therefore reducing the costs over the remaining years of the forecast. The anticipated costs for FY2025 increased from the May forecast, because the Board has decided to invest in two new, custom RTUs at our elementary buildings. The District is using bond funds for HVAC upgrades, and after our consultants, STAN Engineers, recommended that we invest in replacing both RTUs at each elementary the Board felt that now would be the best time to do so. Once this project is complete, we anticipate that capital outlay costs will be reduced in each of the remaining years of the forecast as we utilize our permanent improvement funds. Our capital improvement plan includes a rotation schedule with purchasing new equipment and making capital improvements to our district's facilities to ensure that we are trying to space out how often we purchase new equipment depending on its useful life and plan long-term for anticipated projects.

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 are 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 by year depending on what is needed to offset receivables in other funds. The forecast shows that transfers out will remain constant in all forecasted years. This fund makes up less than 1% of total expenditures.