RIVER VALLEY LOCAL SCHOOL DISTRICT

NOTES TO FIVE-YEAR FORECAST

MAY 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 being projected to begin deficit spending again by FY2026 as it was in the forecast filed in November 2023. The district is now projected to begin deficit spending in 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 will see a decrease in real estate tax revenue moving forward as 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.

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 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.

<u>REVENUES</u>

Revenue Overview

Revenues have spiked 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 $3,123,039. 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 $531,920.

Line 1.01 Real Estate

Real Estate revenue represents approximately 31% 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 80% 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 the forecast includes this increase in property values in tax year 2023 for collection in calendar year 2024. Our tax year 2023 abstract tells us that agriculture is 19.6% of our total valuation, with CAUV representing 64.11% of the total agricultural value. Residential is 60.7% of our total valuation. Real railroad is .13% of our total valuation. Industrial is 5.21% of our total valuation. Commercial is 14.35% of our total valuation.

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 seeing 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 (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 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 has ceased 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 2023, the property is taxed at the full voted tax rate of 31 mills. The forecast is modeling an average gross collection rate of 99.73%.

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 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. Over 70% of income tax collections are done through payroll withholdings. 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%.

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. 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 FY2024 is $15,166,258. The state's share of the calculated base cost total is $7,395,564 or $4,096 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 $306,652. 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% of 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 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 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 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. 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 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 our current classroom facilities maintenance levy ceasing collections now that our District made the final payment on our bond levy for the construction of our school buildings. 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 53% of all general fund expenditures.

Included in this forecast is a 1% base salary increase for all staff in FY2024, a 4% increase in FY2025 for certificated staff, a 4.5% increase in FY2025 for classified staff, a 3% in FY2026 for certificated staff, a 3.5% increase in FY2026 for classified staff, and a 2% increase in FY2027 and 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 these negotiations, only FY2024 wages were agreed upon with wage reopeners in spring 2024. During the wage reopening this spring, the district settled on wage increases for both unions for both FY2025 and FY2026. The district will negotiate wages for FY2027 and FY2028 in the spring of FY2026.

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 district will also be separating out its HS Assistant Principal/Athletic Director position beginning with the 2024-2025 school year, hiring an additional Reading Intervention Teacher at both 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 last spring/summer.

Line 3.02 Employees' Retirement/Insurance Benefits

Benefits represent approximately 24% 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 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 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 6.5% in FY2025 and an 8% increase in each of the remaining years of the forecast with a 7% board cap and one premium holiday in FY2025, but none in any other year of the forecast, as those medical insurance premium 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 took place in December this year, which resulted in no employee or board portion of medical insurance being paid.

Line 3.03 Purchased Services

Purchased service costs are the third largest expenditure totaling 12% 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. 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 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 the 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 was able to purchase two school buses this year at a reduced rate, which originally were anticipated to be purchased during FY2025. 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 through the remaining years of the forecast compared to the forecast filed in November 2023. 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 dependent 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 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 shows that transfers out will remain constant in all forecasted years. This fund makes up less than 1% of total expenditure.