

# **Medina City School District**

***Medina, Ohio***

“Recognizing Potential  
Maximizing Achievement”

## **Five-Year Forecast Assumptions**

**2009 – 2013 Fiscal Years**

**May, 2009**



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### Five-Year Forecast Report Introduction

The Five-Year Forecast is a schedule of revenue, expenditures, and changes in fund balance for the actual fiscal years ended June 30, FY2006 through FY2008, and the forecasted fiscal years ending June 30, 2009 through 2013.

One financial goal that Medina has been working toward is to have a balanced budget for the FY2007 through FY2009 fiscal years. The current forecast states that we are inline exceeding this financial goal while not compromising Medina’s excellent education ratings and the continuous improvement plan.

This goal is being extended to having a balanced budget from FY2006. To meet this goal, revenues must be equal to or greater than expenditures for the extended period, and the Unreserved Balance ending in the extended period, must be at least equal to June 2006. The Unreserved Balance at the end of the extended period needs to be at least \$6,300,000 to meet this extended goal.

The State has added a section at the bottom of the forecast to enter estimated enrollment counts. This can be used to forecast per student information.

# Summary of Five-Year Forecast Assumptions FY2009 – FY2013

## The Big Picture

Medina students received an “Excellent Education” rating by the Ohio Department of Education for the 2007-08 school year. This is the third year that the students have received this rating. We commend the students, parents, staff and the community for this high achievement. This forecast covers the funding that supported obtaining this high rating and will be used to support improving our programs and services over the forecasted period.

The first three years of the forecast is historical financial information representing programs and services that were provided to our students by the board, administration, district and community. The next five years represent the sources and uses forecasted for the current school year and the next four schools.

The Medina CSD's sources and uses of revenue are controlled by many conditions. Some of these conditions are: student enrollment; the community, state, national, and global economy and mandates; business and residential property values; state and federal school funding; personal jobs, unemployment and income; and school programs and services expected by our community. These conditions continue to shift funding education to on local communities.

Medina CSD is a residential community located close to Cleveland and Akron Ohio. Families with children are moving to Medina at a faster pace than the residential property values and taxes are increasing. The State is lowering the percentage of its share of education funding to Medina CSD by shifting property tax revenues to the State. The state does this by changing the tax laws without going to the voters. The State can then use property tax revenues as another State source of revenues. The economy is down across the globe. Wage earners, businesses, governments, are reducing spending and looking for alternative sources of revenue to compensate for the decline. State law prohibits school districts from limiting some of these conditions. Therefore, the burden to the local community member increases due to these conditions. The programs and services valued and provided to our students are being impacted by these conditions.

**These conditions challenge the school district and community to adjust and balance the school districts long-range revenue and expenditure structure based on the community’s values, goals, resources, and expectations. Medina CSD is making a concerted effort to receive input from the community members on how to address this situation.**

## Summary of assumptions

1. Our goal is to improve the effectiveness and efficiency of our programs and services by continuing to realign and reallocate our resources while not compromising our school district’s “Excellent” rating and our continuous improvement plan.
2. Student enrollment is increasing approximately 0.9% (65 students) per year. The State has not been covering increasing enrollment since 2005 and it is forecasted that State basic aid funding will not increase to cover the additional enrollment for many years.

3. Our community is providing the forecasted revenue increases for our school system through paying local real property taxes directly to our school system. Total revenues are projected to decrease an average of 0.9% per year.
4. Personnel salary and benefit costs are projected to increase an average rate of 5.5% and 7.1 respectively per year. Increased staffing is included in this forecast in order to maintain current programs and services. The increase also includes covering a major reduction in federal funding and opening two new elementary buildings in August 2009.
5. Both controllable and uncontrollable factors drive non-personnel costs. Estimating these costs can become more subjective over time. These costs are increasing approximately 5% per year. Some examples of uncontrollable cost are tuition to community schools and other districts, utilities, and special education needs.
6. Total expenditures are increasing approximately 5.6% higher than total revenue per year. The district is continuing to improve the fund balance by reducing and reallocating expenditures.
7. Revenue projections through 2013 are included in the five-year forecast. The Board and administration are considering various revenue and expenditure options. One option is to extend balancing the budget through more than three years. The FY2006 ended with an Unreserved Fund Balance of \$6,300,000.
8. The unreserved general fund balance is projected to be a minus -\$32,200,000 at the end of fiscal year 2012. Adjustments in revenue and expenditures are needed to raise the fund balance to a positive amount.
9. One example of these conditions that impact this financial forecast is that the State is continuing to shift part of the burden of per pupil educational funding for Medina students to the Medina taxpayers. The State is diverting some of its share of funding from Medina CSD to other school districts, taxing districts, and State programs.

What does this mean? **It means that only by approving new revenue levies that direct the funds specifically to Medina CSD can Medina taxpayers assure that funds stay local.** Where the funds go directly to the State and then are allocated by the State back to the school districts, the State will allocate a large share of these funds to poorer Ohio districts.

A prime example of this phenomenon is the phasing out of locally collected business tangible personal property tax and replacing it with the State collected Commercial Activity Tax (CAT). The tangible personal property tax represented \$7,417,076, 8.5% of Total Revenues for Fiscal Year 2006. The Fiscal Year 2013 forecast projects that tangible personal property tax will be \$1,524,931. The State changed the law to partially holding the school district harmless through 2011 then phasing out the partial hold harmless through CY2017.

# Five-Year Forecast Report

## MEDINA CITY SCHOOL DISTRICT - - MEDINA COUNTY

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCES FOR THE FISCAL YEARS ENDED  
JUNE 30, 2006, 2007, AND 2008 ACTUAL;  
FORECASTED FISCAL YEARS ENDING JUNE 30, 2009 THROUGH 2013

	Actual			Forecasted				
	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
<b>Revenue:</b>								
1.010 General Property Tax (Real Estate)	31,822,003	36,861,215	37,957,505	38,745,610	38,987,667	38,987,667	38,987,667	38,987,667
1.020 Tangible Personal Property Tax	7,417,076	6,859,233	5,371,152	3,356,921	2,043,754	1,853,684	1,681,292	1,524,931
1.030 Income Tax	0	0	0	0	0	0	0	0
1.035 Unrestricted Grants-in-Aid	17,356,832	17,117,841	17,067,858	17,224,632	17,230,802	17,235,987	17,668,538	18,184,781
1.040 Restricted Grants-in-Aid	77,518	88,002	67,044	99,131	99,131	99,131	99,131	99,131
1.050 Property Tax Allocation	4,407,015	6,356,946	8,262,154	8,980,659	9,881,458	9,517,033	8,688,407	9,087,314
1.060 All Other Revenues	2,080,247	2,594,326	2,822,793	1,422,793	1,222,793	1,222,793	822,793	622,793
<b>1.070 Total Revenues</b>	<b>63,160,691</b>	<b>69,877,563</b>	<b>71,548,506</b>	<b>69,829,745</b>	<b>69,465,605</b>	<b>68,716,296</b>	<b>67,947,828</b>	<b>68,506,618</b>
<b>Other Financing Sources:</b>								
2.050 Advances-In	73,008	108,140	35,310	35,000	35,000	35,000	35,000	35,000
2.060 All Other Financing Sources	53,166	58,595	138,236	58,595	58,595	58,595	58,595	58,595
2.070 Total Other Financing Sources	126,174	166,735	173,546	93,595	93,595	93,595	93,595	93,595
<b>2.080 Total Revenues and Other Financing Sources</b>	<b>63,286,865</b>	<b>70,044,298</b>	<b>71,722,052</b>	<b>69,923,340</b>	<b>69,559,200</b>	<b>68,809,891</b>	<b>68,041,423</b>	<b>68,600,213</b>
<b>Expenditures:</b>								
3.010 Personal Services	38,656,819	39,477,305	42,119,428	44,735,295	48,177,736	50,463,080	52,570,084	55,068,177
3.020 Employees' Retirement/Insurance Benefits	15,700,585	15,149,283	15,753,113	16,289,905	18,263,092	19,729,246	20,853,788	22,130,772
3.030 Purchased Services	5,761,131	6,598,755	7,206,816	7,667,972	8,881,331	9,058,958	9,240,137	9,724,940
3.040 Supplies and Materials	1,638,484	1,968,725	2,023,704	2,076,303	1,965,512	2,015,451	1,967,551	1,967,551
3.050 Capital Outlay	253,030	378,780	350,350	139,656	210,843	118,594	201,346	201,346
4.300 Other Objects	1,049,501	1,066,485	1,467,840	1,467,840	1,482,518	1,497,344	1,512,317	1,527,440
<b>4.500 Total Expenditures</b>	<b>63,059,550</b>	<b>64,639,333</b>	<b>68,921,251</b>	<b>72,376,971</b>	<b>78,981,033</b>	<b>82,882,672</b>	<b>86,345,222</b>	<b>90,620,225</b>
<b>Other Financing Uses</b>								
5.010 Operating Transfers-Out	28,672	32,929	186,500	444,942	382,630	385,910	383,770	390,420
5.020 Advances-Out	80,000	35,310	0	35,000	35,000	35,000	35,000	35,000
5.030 All Other Financing Uses	5,468	0	0	0	0	0	0	0
5.040 Total Other Financing Uses	114,140	68,239	186,500	479,942	417,630	420,910	418,770	425,420
<b>5.050 Total Expenditures and Other Financing Uses</b>	<b>63,173,690</b>	<b>64,707,572</b>	<b>69,107,751</b>	<b>72,856,913</b>	<b>79,398,663</b>	<b>83,303,582</b>	<b>86,763,992</b>	<b>91,045,645</b>
<b>Excess of Rev &amp; Other Financing Sources over (under) Expenditures and Other Financing Uses</b>								
<b>6.010</b>	<b>113,175</b>	<b>5,336,726</b>	<b>2,614,301</b>	<b>-2,933,573</b>	<b>-9,839,463</b>	<b>-14,493,691</b>	<b>-18,722,570</b>	<b>-22,445,433</b>
<b>Cash Balance July 1 - Excl Proposed Renewal/Replacement and New Levies</b>								
7.010	12,022,650	12,135,825	17,472,551	20,086,852	17,153,279	7,313,816	-7,179,876	-25,902,445
<b>7.020 Cash Balance June 30</b>	<b>12,135,825</b>	<b>17,472,551</b>	<b>20,086,852</b>	<b>17,153,279</b>	<b>7,313,816</b>	<b>-7,179,876</b>	<b>-25,902,445</b>	<b>-48,347,878</b>
8.010 Estimated Encumbrances June 30	2,711,560	2,163,333	1,570,895	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
<b>Reservation of Fund Balance</b>								
9.030 Budget Reserve	3,115,415	3,235,378	3,408,053	3,592,944	3,915,550	4,108,122	4,278,772	4,489,922
9.080 Subtotal	3,115,415	3,235,378	3,408,053	3,592,944	3,915,550	4,108,122	4,278,772	4,489,922
<b>Fund Balance June 30 for Certification of Appropriations</b>								
10.010	6,308,850	12,073,840	15,107,904	11,560,335	1,398,265	-13,287,997	-32,181,217	-54,837,800
<b>Fund Balance June 30 for Certification of Contracts, Salary and Other Obligations</b>								
12.011	6,308,850	12,073,840	15,107,904	11,560,335	1,398,265	-13,287,997	-32,181,217	-54,837,800
<b>Revenue from New Levies</b>								
13.010 Income Tax - New				0	0	0	0	0
13.020 Property Tax - New				0	0	0	0	0
13.030 Cumulative Balance of New Levies	0	0	0	0	0	0	0	0
<b>15.010 Unreserved Fund Balance June 30</b>	<b>6,308,850</b>	<b>12,073,840</b>	<b>15,107,904</b>	<b>11,560,335</b>	<b>1,398,265</b>	<b>-13,287,997</b>	<b>-32,181,217</b>	<b>-54,837,800</b>
<b>ADM Forecasts</b>								
20.010 Kindergarten - October Count			549	553	553	553	553	553
20.015 Grades 1-12 - October Count			6,982	7,049	7,114	7,179	7,244	7,309
20.02 Kindergarten - February Count			551	553	553	553	553	553
20.025 Grades 1-12 - February Count			6,941	7,049	7,114	7,179	7,244	7,309
<b>Student Enrollment (Formula ADM)</b>	<b>7,051</b>	<b>7,150</b>	<b>7,260</b>	<b>7,325</b>	<b>7,390</b>	<b>7,455</b>	<b>7,520</b>	<b>7,585</b>

- A. Includes the General Fund District Wide operating costs through June 2013 (FY13)
  - B. Includes the operating costs for two elementary schools opening in August 2009 (FY10)
  - C. Includes covering lost revenue of \$900,000 from Title VI-B funds starting in FY08 and FY09
  - D. Health care increase allowance of 0% FY09, 12% FY10-11, 6% FY12-13
  - E. Moving \$90,000 Per Year to pay \$50,000 on principle plus one year interest and closing cost on former Ryder Truck facility
  - F. 0 new teachers added in FY09-FY12 (originally budgeted 4 FY09-FY13)
  - G. 0 support staff added in FY09-FY12 (originally budgeted 1 FY09-FY13)
  - H. Property tax revenues based on County Auditor January 2009 letter (projected zero increase in taxes through 2012)
  - I. State Pupil Funding based on Ohio Dept of Education Supt January 2009 letter (projected zero increase in State per pupil funding for FY10-FY11)
- Example of Possible Goals:
- J. New property tax levy to meet FY12 fund balance goal of \$6,300,000 (break even FY06 - FY12)
  - K. Reduction in expenditures to meet FY12 fund balance of \$6,300,000 (break even FY06 - FY12)
  - L. Revenue and expenditures per pupil close to Similar Excellent Districts each year.
  - M. Enrollment increasing 65 students per year.

# Percent of Change Report

## MEDINA CITY SCHOOL DISTRICT - - MEDINA COUNTY SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE FISCAL YEARS ENDED JUNE 30, 2006, 2007, AND 2008 ACTUAL; FORECASTED FISCAL YEARS ENDING JUNE 30, 2009 THROUGH 2013

	Prev 3 Yr Avg Annual Change	Projected Fiscal Year 2009	Projected Fiscal Year 2010	Projected Fiscal Year 2011	Projected Fiscal Year 2012	Projected Fiscal Year 2013	Five-Year Avg. Annual Change
<b>Revenue:</b>							
1.010 General Property Tax (Real Estate)	9.40%	2.08%	0.62%	0.00%	0.00%	0.00%	0.54%
1.020 Tangible Personal Property Tax	-14.61%	-37.50%	-39.12%	-9.30%	-9.30%	-9.30%	-20.90%
1.030 Income Tax		n/a	n/a	n/a	n/a	n/a	n/a
1.035 Unrestricted Grants-in-Aid	-0.83%	0.92%	0.04%	0.03%	2.51%	2.92%	1.28%
1.040 Restricted Grants-in-Aid	-5.15%	47.86%	0.00%	0.00%	0.00%	0.00%	9.57%
1.050 Property Tax Allocation	37.11%	8.70%	10.03%	-3.69%	-8.71%	4.59%	2.18%
1.060 All Other Revenues	16.76%	-49.60%	-14.06%	-16.36%	-19.55%	-24.31%	-24.77%
1.070 Total Revenues	6.51%	-2.40%	-0.52%	-1.08%	-1.12%	0.82%	-0.86%
<b>Other Financing Sources:</b>							
2.020 Proceeds from Sale of Notes		n/a	n/a	n/a	n/a	n/a	n/a
2.030 State Emergency Loans and Advancements		n/a	n/a	n/a	n/a	n/a	n/a
2.040 Operating Transfers-In.		n/a	n/a	n/a	n/a	n/a	n/a
2.050 Advances-In	-9.61%	-0.88%	0.00%	0.00%	0.00%	0.00%	-0.18%
2.060 All Other Financing Sources	73.06%	-57.61%	0.00%	0.00%	0.00%	0.00%	-11.52%
2.070 Total Other Financing Sources	18.12%	-46.07%	0.00%	0.00%	0.00%	0.00%	-9.21%
2.080 Total Revenues and Other Financing Sources	6.54%	-2.51%	-0.52%	-1.08%	-1.12%	0.82%	-0.88%
<b>Expenditures:</b>							
3.010 Personal Services	4.41%	6.21%	7.70%	4.74%	4.18%	4.75%	5.52%
3.020 Employees' Retirement/Insurance Benefits	0.24%	3.41%	12.11%	8.03%	5.70%	6.12%	7.07%
3.030 Purchased Services	11.88%	6.40%	15.82%	2.00%	2.00%	5.25%	6.29%
3.040 Supplies and Materials	11.47%	2.60%	-5.34%	2.54%	-2.38%	0.00%	-0.51%
3.050 Capital Outlay	21.10%	-60.14%	50.97%	-43.75%	69.78%	0.00%	3.37%
4.300 Other Objects	19.63%	0.00%	1.00%	1.00%	1.00%	1.00%	0.80%
4.500 Total Expenditures	4.56%	5.01%	9.12%	4.94%	4.18%	4.95%	5.64%
<b>Other Financing Uses</b>							
5.010 Operating Transfers-Out	240.61%	138.57%	-14.00%	0.86%	-0.55%	1.73%	25.32%
5.020 Advances-Out	-77.93%	n/a	0.00%	0.00%	0.00%	0.00%	0.00%
5.030 All Other Financing Uses		n/a	n/a	n/a	n/a	n/a	n/a
5.040 Total Other Financing Uses	66.54%	157.34%	-12.98%	0.79%	-0.51%	1.59%	29.24%
5.050 Total Expenditures and Other Financing Uses	4.61%	5.43%	8.98%	4.92%	4.15%	4.93%	5.68%
6.010 Excess of Rev & Other Financing Sources over (under) Expenditures and Other Financing Uses	282.23%	-212.21%	235.41%	47.30%	29.18%	19.88%	23.91%
7.010 Cash Balance July 1 - Excl Proposed Renewal/ Replacement and New Levies	22.46%	14.96%	-14.60%	-57.36%	-198.17%	260.76%	1.12%
7.020 Cash Balance June 30	29.47%	-14.60%	-57.36%	-198.17%	260.76%	86.65%	15.46%
Student Enrollment (ADM)	1.47%	0.90%	0.89%	0.88%	0.87%	0.86%	0.88%

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## Enrollment, inflation, change in personnel assumptions

	2009	2010	2011	2012	2013
Student Growth	65	65	65	65	65
Inflation Factors	0%	0%	0%	0%	0%
Teachers	+0	+0	+0	+4	+4
Bus Driver or Support	+0	+0	+0	+1	+1
Cover Federal Grant reductions by moving existing positions to the General Fund (reduced from +12 positions)	6				
Add support positions for two new Elem. (reduced from +22 per elementary)	+0	+15.5 per elem.			

A. Growth in student enrollments has averaged above 120 new students per year prior to 2005. Student enrollment increased approximately 160 student in 2005 and approximately 5 in 2006. We are estimating that the average increase in students will be 65 for the forecasted period. This enrollment is based on the ODE funding formula.

We are estimating inflation factors will be around 0% per year for the forecasted Five-Years.

Medina is freezing new teaching positions in 2009, 2010, and 2011, and increasing four teaching positions per year 2012, and 2013 to cover the projected increasing enrollment, programs and services. Continuing realignment of programs and services is needed to offset increasing enrollment.

Four administrative intern positions were added in 2008. Some administrators could retire in the near future. Some administrative intern positions are being added to cover the potential future administrator position needs.

The IDEA Federal Grant is being reduced by approximately \$265,000 starting in 2009. The General Fund budget is being realigned to continue to provide the needed programs for our students.

Medina is freezing new support staff positions in 2009, 2010, and 2011, increasing one new bus driver position or one support staff position as needed are projected each year to handle estimated increases in enrollment, programs, services.

Two new elementary buildings will open in August 2009 to help the crowding in our elementary schools. Certificates of Participation (COPS) were sold to fund the construction of the elementary buildings. The voters approved a countywide school permanent improvement sales tax. Fifty percent of the sales tax revenues will pay for the principle and interest on the COPS. Fifty percent of the sales tax revenue will pay for permanent improvements of existing school buildings.

The majority of the teaching positions are currently in temporary trailers that are outside elementary buildings. Additional support staff for the two new elementary buildings is included starting in FY2010. The building principal, secretaries, custodians, and aides are some of the positions included in the budget.

**Lines 1.010 – 2.080 Revenue Assumptions and Revenue % of Change**

	Prev 3 Yr Avg Chg %	2009 %	2010 %	2011 %	2012 %	2013 %	5 Yr Avg Chg %
Local Real Estate	9.40	2.08	0.62	0.0	0.0	0.0	0.54
State Per Pupil	-0.83	0.92	0.04	0.03	2.51	2.92	1.28
Total Rev	6.54	-2.51	-0.52	-1.08	-1.12	0.82	-0.88

Local real estate valuation and tax revenues are projected to increase an average of 0.5% per year over the forecasted period.

Total revenue is projected to decrease an average of -0.88% over the forecasted period.

### Lines 3.010 – 3.020 Expenditure Assumptions

	2009 %	2010 %	2011 %	2012 %	2013 %
Experience and Education Steps Increase (Weighted)	1.7	1.7	1.7	1.7	1.7
Base Salary Increases (weighted)	3.29	3.32	3.04	2.0	2.0
Health Care Premium Increases	0%	12%	12%	6%	6%
Employee Monthly Premium Deductable Single	\$40	\$40	\$40	\$40	\$40
Employee Monthly Premium Deductable Family	\$80	\$80	\$80	\$80	\$80

### Lines 3.010 – 5.050 Expenditure % of Change

	Prev 3 Yr Avg %	2009 %	2010 %	2011 %	2012 %	2013 %	5 Yr Avg %
Personal Services	4.41	6.21	7.70	4.74	4.18	4.75	5.52
Employee Retire. & Insure.	0.24	3.41	12.11	8.03	5.70	6.12	7.07
Total Expend.	4.61	5.43	8.98	4.92	4.15	4.93	5.68

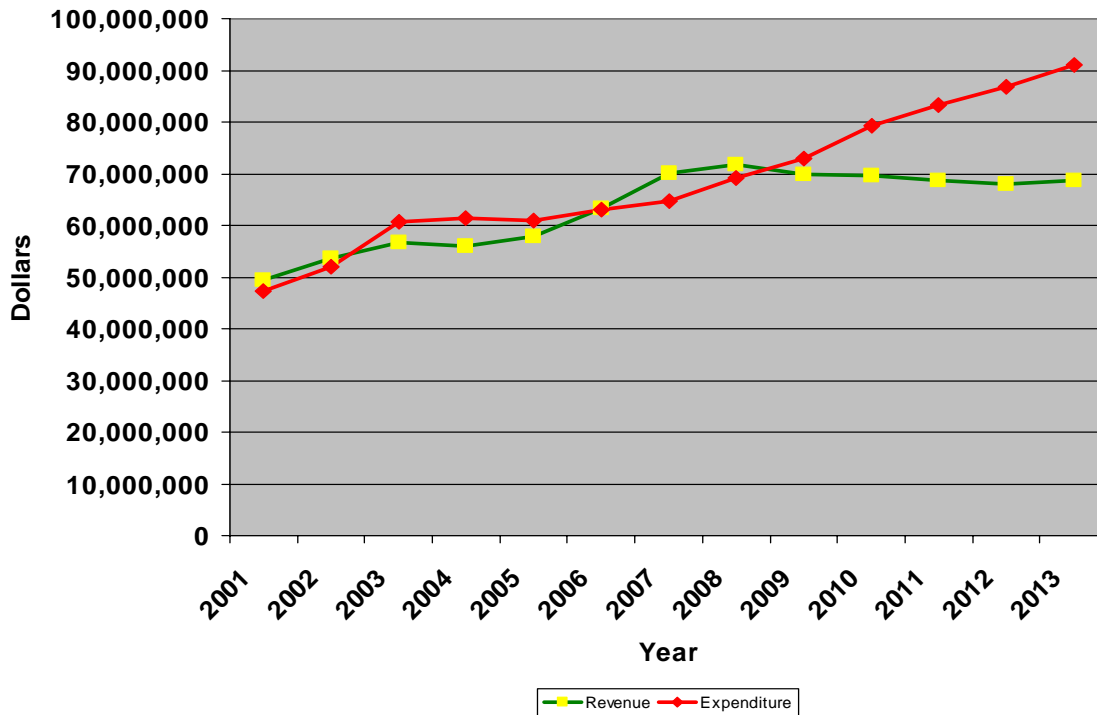
Personnel cost is projected to increase approximately an average of 5.0% per person for 2009 through 2011 based on current negotiated agreements. The projection decreases to approximately an average of 3.7% per person for 2012 and 2013.

Health care premium is projected to increase 0%, 12%, 12%, 6%, 6% for 2009 through 2013 respectively.

**Lines 2.080, 5.050 and 6.010 Cash comparisons before considering new adjustments and new levy options**

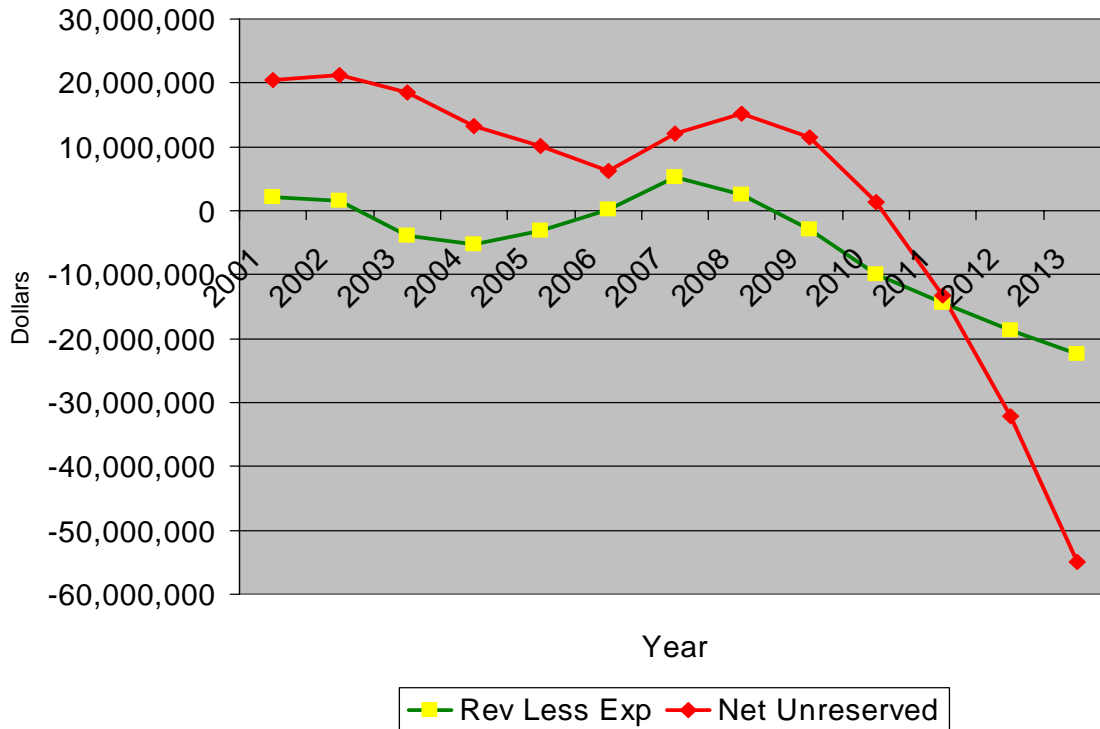
	2009	2010	2011	2012	2013
Revenue	69.9	69.6	68.8	68.0	68.6
Expenditures	72.9	79.4	83.3	86.8	91.0
Yearly Diff	-2.9	-9.8	-14.5	-18.7	-22.4

**Revenue and Expenditures Graph**



Enrollment is projected to increase an average of 0.9% per year. Revenue is projected to decrease an average of 0.9% per year and expenditures are projected to increase an average of 5.7% per year.

## Line 6.010 Revenue less Expenditures And Line 15.0 Net Unreserved



Expenditures are exceeding revenue approximately \$14,000,000, per year for the period of FY2008 through FY2013, an average of 20% of revenue per year. Expenditures include the cost of the increasing enrollment of 0.9% per year.

The Unreserved Fund Balance is decreasing approximately from \$15,100,000 at the end of FY2008 down to a negative -\$54,800,000 at the end of FY2013.

# HOW TO READ A FIVE-YEAR FORECAST

## Tips and Explanations on Understanding a School District's Forecast

### INTRODUCTION

Recognizing the importance of discussing school district finances, the Ohio Department of Education (ODE) has developed this guide to assist teachers, administrators, Boards of Education, community members or other individuals in developing a general understanding of a school district's five-year forecast. Additionally, this document includes ODE's perspective of the forecast's purpose, O.R.C. and O.A.C. requirements for school district forecasts, definitions of key terms, an expectation of key lines, some general beliefs on what a "good" forecast should contain, and a line-by-line explanation of the forecast (see Appendix for a complete line-by-line description)

A forecast is somewhat like a painting of the future based upon a snapshot of today. That snapshot, however, will be adjusted and the further into the future the forecast extends, the more likely it is that the projections will deviate from actual experience. A variety of events will ultimately impact the latter years of the forecast, such as state budgets (adopted every two years), tax levies (new/renewal/ replacement), salary increases, or businesses moving in or out of the district. The five-year forecast is viewed as a **key management tool** and must be updated periodically. In Ohio, most school districts understand how they will manage their finances in the current year. The five-year forecast encourages district management teams to examine future years' projections and identify when challenges will arise. This then helps district management to be proactive in meeting those challenges. School districts are encouraged to update their forecasts with ODE when events take place that will significantly change their forecast or, at a minimum, when required under statute.

In a financial forecast, the numbers only tell a small part of the story. For the numbers to be meaningful, the reader must review and consider the *Assumptions to the Financial Forecast* before drawing conclusions or using the data as a basis for other calculations. The assumptions are very important to understanding the rationale of the numbers, particularly when a significant increase or decrease is reflected. Individual district forecasts are posted on the ODE Web site at: <http://www.ode.state.oh.us> >finance and grants >school district financial status >five year forecasts. The Assumptions can either be included in the forecast itself or in a PDF file posted separately.

Since the preparation of a meaningful five-year forecast is as much an art as it is a science and entails many intricacies, it is recommended that you contact the Treasurer/Chief Fiscal Officer or Board of Education (BOE) of the individual school district with any questions you may have. The Treasurer or CFO submits the forecast, but the BOE is recognized as ultimately responsible for the development of the forecast and the official owner.

### PURPOSES/OBJECTIVES OF THE FIVE-YEAR FORECAST

Here are at least three purposes or objectives of the five-year forecast:

- (1) To engage the local board of education and the community in long range planning and discussions of financial issues facing the school district
- (2) To serve as a basis for determining the school district's ability to sign the certificate required by O.R.C. §5705.412, commonly known as the "412 certificate"
- (3) To provide a method for the Department of Education and Auditor of State to identify schools districts with potential financial problems

## **O.R.C. and O.A.C. REQUIREMENTS**

O.R.C. §5705.391 and O.A.C. 3301-92-04 require a Board of Education (BOE) to submit a five-year projection of operational revenues and expenditures along with assumptions to the Department of Education prior to October 31 of each fiscal year and to update this forecast between April 1 and May 31 of each fiscal year. ODE encourages school districts to update their forecast whenever events take place that will significantly change the forecast.

Required funds to be included in the forecast are:

- General funds (001)
- Any special cost center associated with general fund money
- Emergency levy funds (016)
- Any debt service (002) activity that would otherwise have gone to the general fund
- Disadvantaged Pupil Impact Aid (DPIA) funds (447)
- Poverty Based Assistance (PBA) funds (494)

## **DEFINITIONS**

Following are some definitions of terms commonly used to discuss the five-year forecast:

**412 Certificates** – ORC 5705.412 requires the treasurer, superintendent, and president of the board of education to certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year and for a number of days in the succeeding fiscal years.

412 Certificates must be attached to:

- Appropriations for the current fiscal year
- Qualifying contracts covering the term of contract
- Wage and salary schedule for the term of contract
- Negotiated agreement(s) and contracts for benefits

**Encumbrances** – Money obligated to pay for any purchase. An end of year encumbrance is money obligated in the current fiscal year to be paid in the next fiscal year.

**Expenditures** – The spending of any public money for a specified purpose as approved by the BOE policy and procedures.

**Fiscal Year** – In education and state government, the fiscal year runs from July 1 through June 30, and each fiscal year is dated by the ending date. Example: FY08 would start July 1, 2007 and end June 30, 2008.

**Revenues** – Receipts generated from property taxes, school district income taxes, state foundation formula, and local monies (such as donations, fees, tuition, etc.).

## **KEY LINES**

**The five-year forecast is divided into two sections: revenue and expenditures. A district's revenue is made up of two main sources, local and state funding. The expenditures are mainly salary and wages, benefits, and purchased services. The following is a brief explanation of some of the key lines with a line-by-line explanation in the Appendix.**

### *Revenue*

**1.010 General Property Taxes** – Every three years, school districts rotate having reappraisals and triennial updates performed by the County Auditor's Office. Since taxes are collected and distributed on a calendar year, the first fiscal year following a reappraisal or a triennial update

will only generate one-half of the increase resulting from the reappraisal or triennial update (January – June distribution).

Aside from a district's typical trend in valuation, the district may experience fluctuations for other reasons.

An upward spike in this line item could be caused by the passage of a new levy. Again, since taxes are collected and distributed on a calendar year, the first fiscal year following the election will only generate one-half of a typical year's proceeds.

A downward spike in this line item could indicate that an existing levy is up for renewal in which case the proceeds from this levy are relocated on the five-year forecast to line 11.02 until such time as the levy is either passed (and the proceeds are moved back up to line 1.010) or the renewal of the levy is no longer an option for the district.

A school district that takes a tax advance against its next fiscal year's collection could have fluctuations in either direction. The Assumptions to the forecast should explain these fluctuations in detail.

**1.030 Income Taxes** – When a school district passes an income tax levy, the tax becomes effective on the following January 1. The first payment will be received by the school district in April of that year (a relatively small payment). It will take 1 ½ years (six quarters) for the school district to receive the full amount of taxes liable from the first year it is levied because of the collection process. School districts will receive four income tax payments per calendar year, one each in January, April, July, and October.

**1.035 Unrestricted Grants in Aid** – This line represents the State Basic Aid to schools as defined in the current year's budget bill. The state budget is adopted in odd numbered years and implemented beginning in even numbered fiscal years. The formula is primarily based on the number of students in the school district multiplied by the State's per pupil funding level, less the amount contributed through local property taxes. Other statutory adjustments impact this calculation as well making the State Foundation calculation (also known as the SF-3) a very complicated formula. A school district's individual SF-3 can be found on the ODE Web site, as well as a comprehensive handbook entitled SF-3 LINE BY LINE.

### *Expenditures*

**3.010 – Personnel Services** – Since schools are service oriented entities, salaries and wages represent the bulk of school district expenditures. Fluctuations may occur due to reductions in force, negotiated salary schedule changes, retirement levels, or changes in enrollment which may cause the required staffing levels to fluctuate.

**3.020 – Employee Retirement/Insurance Benefits** – Some components of this line item, such as retirement contributions and Medicare, will have a direct correlation to the Personnel Services line item. Factors that could cause inconsistencies from year to year might include increased health insurance costs, future employee contributions toward medical costs, early retirement incentives (ERI), premium holidays, insurance claim pay outs, etc.

**3.030 – Purchased Services** – This line includes open enrollment (students leaving the school district), community schools, tuition, legal fees, utilities, and any contracted service. If a district contracts certain services (transportation, maintenance, janitorial services, etc) its 'personnel service' component (line 3.010) and 'employee retirement/insurance benefit' (line 3.020) will be lower percentages in relation to purchased services than if the district employs those service personnel directly.

**6.010 Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses** - Line 2.080 minus 5.050. This line can be used to get a good sense of a school district's fiscal health. A positive number indicates that a school district spent within its revenue for that fiscal year. A negative number indicates that a district's expenditures exceeded the revenue generated for that fiscal year resulting in a reduction to any surplus the district holds, or in the worst-case scenario, a deficit. A district experiencing several years of "overspending" will almost always experience fiscal concerns or insolvency. **Pay great attention to this line!**

**7.020 Ending Cash Balance** – This line represents the total cash balance without including reservations or outstanding obligations. In ODE's experience, school districts should attempt to maintain a 30 – 60 day cash reserve.

### **“GOOD” FORECASTING PRACTICES AND HELPFUL HINTS**

As financial forecasting is more of an art than a science, the forecaster's interpretation of events or numbers will influence the information contained in the forecast. Responsibility for the preparation of the forecast, the accuracy of the presented figures and the reasonableness of the assumptions on which they are based rests with district administration and the board of education. ODE believes there are certain practices that help make the forecast a more accurate management tool, allowing decision makers and stake holders to use it with greater confidence. Following are tips to assist the reader in better understanding a forecast:

- The five-year forecast starts with three years of historical revenues/expenditures. These historical numbers can be used to develop trends when forecasting.
- Know when the three-year and six-year reappraisals for the school district's valuation occur. Tax revenue may change the year after reappraisal because of the increased valuation.
- Be aware of the school district's Average Daily Membership (ADM) and whether the number of students is increasing or decreasing. The ADM contributes to the state's foundation formula as much of the formula funding is based on a per pupil amount.
- When reading a forecast, look for fluctuations in numbers on the same line. If numbers significantly vary up or down there should be a discussion in the Assumptions explaining why this has occurred or is expected to occur.
- Look specifically at Line 6.010. This line shows the school district's expenditures as "over or under revenue." A school district experiencing several years of expenditures exceeding revenues (overspending) will almost always experience fiscal concerns or insolvency. Positive numbers on this line are a good sign!
- A clear, concise narrative is critical to understanding the Assumptions used by the local BOE and treasurer in preparing the forecast. A careful reading of this text will often help understand why certain numbers are used in the forecast. Unexplained variances or ones that don't seem to make sense are cause for concern.
- Be aware of different types of levies and when they are collected. Permanent Improvement (PI) or bond levies cannot be used to fund general operations of the district. New school buildings may cause the misconception that the district is operationally solvent. Only operational levies may be used to finance the day to day operations (salaries, utilities, etc) of the district.
- Think long term and look at many data sources to make informed decisions. For example, new housing developments may bring additional students into the district (and additional revenue) but may require new buildings and/or staff (increased expenditures). Conversely, a factory closing may reduce funding and population causing the need for buildings and/or staff to decrease. Economic and population projections are essential factors in determining future requirements for educational services from the district.
- It is not uncommon to see deficits in years four and five of a forecast. Given the uncertainty of future state budgets, local economic factors, state or federal mandates, etc., years four and five are difficult to project. The key is recognizing how these conditions relate to current operations. Identifying future years' deficits allows districts to engage in planning for those conditions prior

to their arrival and eliminating the projected deficit. Remember, the longer the period of time allotted to deal with a potential financial problem the better. Longer time horizons allow reductions in expenditures to be spread out over several years, reducing their impact on students and staff. Also, some reductions may take many years before realizing their full impact.

## **APPENDIX LINE BY LINE REVIEW**

### **1.0 General Fund Revenue**

- 1.010 General Property Tax – Taxes levied by a school district by the assessed valuation of real property located within the school district.
- 1.020 Tangible Personal Property Tax – Businesses pay the ‘tangible personal property tax’ on equipment or supplies/materials of which they own. This tax is being reduced 25% per year (started in FY06) and is being replaced with the Commercial Activities Tax (CAT). Districts are reimbursed those reductions through 2010 before a phase out begins which will last through FY17.
- 1.030 Income Tax – In the past, income tax for schools was paid by individuals residing in the school district, estates of school district residents, and unincorporated businesses located in the school district that file Ohio individual income tax returns. With the passage of HB66, however, school districts are now permitted to levy a school district income tax against an alternative tax base that includes only earned income and self-employment income.
- 1.035 Unrestricted Grants-in-Aid – Funds received through the State Foundation Program with no restriction. The foundation formula is the primary vehicle which the Ohio legislature uses to determine how much state aid each school district is to receive.
- 1.040 Restricted Grants-in-Aid – Funds received through the State Foundation Program or other allocations that are restricted for specific purposes. Examples include the bus purchase allocation, career-technical funds, and all poverty based assistance funds.
- 1.050 Property Tax Allocation – This line includes funds received for Tangible Personal Property Tax Reimbursement (as discussed above), Electric Deregulation, Homestead and Rollback, and the “ten thousand dollar exemption” where businesses are exempt from paying the first \$10,000 of property tax and the district is reimbursed through state funding.
- 1.060 All Other Operating Revenue – Operating revenue sources not included above. Examples include but are not limited to tuition, fees, earnings on investments, rentals, and donations.
- 1.070 Total Revenue – The sum of lines 1.010 through 1.060

### **2.0 Other Financing Sources - The lines in this section are relatively self explanatory.**

- 2.010 Proceeds from Sale of Notes
- 2.020 State Emergency Loans & Advancements (Solvency Assistance Funds)
- 2.040 Operating Transfers-in (permanent movement of monies between funds)
- 2.050 Advances-in (temporary movement of monies between funds)
- 2.060 All Other Financing Sources (Sale and Loss of Assets, Refund of Prior Year Expenditures)
- 2.070 Total Other Financing Sources – The sum of lines 2.010 through 2.060
- 2.080 Total Revenue and Other Financing Sources – The sum of lines 1.070 and 2.070

### **3.0 Expenditures**

- 3.010 Personal Services – Employee salaries and wages, including extended time, severance pay, supplemental contracts, etc.
- 3.020 Employees’ Retirement and Insurance Benefits – Retirement for all employees, Workers Comp., early retirement incentives, Medicare, unemployment, pickup on pickup, and all health-related insurances.

- 3.030 Purchased Services – Amounts paid for personal services rendered by personnel who are not on the payroll of the school district, and other services which the school district may purchase. Examples include but are not limited to legal fees, maintenance agreements, utilities, and tuition paid for students attending other school districts, including open enrollment and community schools.
  - 3.040 Supplies and Materials – Examples include but are not limited to general supplies, instructional materials including textbooks and media materials, bus fuel and tires, and all other maintenance supplies.
  - 3.050 Capital Outlay – This line includes expenditures for items having at least a five-year life expectancy, such as land, buildings, improvements of grounds, equipment, computers/technology, furnishings, buses, and vehicles.
  - 3.060 Intergovernmental – While very rarely used in forecasts, this line accounts for pass through payments, as well as monies received by a school district that will be spent by the school district on behalf of another government. This does not include purchased services from other government agencies such as ESCs.
- 4.0 Principal and Interest** – This category represents general fund borrowing.
- 4.010 All Principal (Historical)
  - 4.020 Principal – Notes
  - 4.030 Principal – State Loans
  - 4.040 Principal – State Advances
  - 4.050 Principal – HB 264 Loans
  - 4.055 Principal – Other
  - 4.060 Interest and Fiscal Charges
  - 4.300 Other Objects – The primary components listed here consists of membership dues and fees, ESC contract deductions, County Auditor/Treasurer fees, audit expenses, election expenses, etc.
  - 4.500 Total Expenditures – Total Lines 3.010 through 3.060 and Lines 4.010 through 4.300
- 5.0 Other Financing Uses** – Transfers are a permanent movement of monies between funds, and advances are a temporary movement of monies between funds. These are usually projected based on past history and knowledge of deficits in other funds. Advances and transfers both take BOE approval.
- 5.010 Operating Transfers-out
  - 5.020 Advances-out
  - 5.030 All Other Financing Uses
  - 5.040 Total Other Financing Uses – Total of Lines 5.010 through 5.030
  - 5.050 Total Expenditures and Other Financing Uses – Total Lines 4.500 and 5.040
- 6.0 Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses**
- 6.010 Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses** - Line 2.080 minus 5.050. This line can be used to get a good sense of a school district’s fiscal health. A positive number indicates that a school district spent within its revenue for that fiscal year. A negative number indicates that a school district’s expenditures exceeded the revenue generated for that fiscal year resulting in a reduction to any surplus the district may hold. A school district experiencing several years of “overspending” will almost always result in fiscal concerns or insolvency. **Pay great attention to this line!**
- 7.0 Cash Balance July 1**
- 7.010 Cash Balance July 1
  - 7.020 Cash Balance June 30 – Line 6.010 plus line 7.010

**8.0 Estimated Encumbrances**

8.010 Estimated Encumbrances June 30 – The amount of money already requested through a purchase order. The funds have been obligated, but a check has not yet been written. Funds may be encumbered (obligated) in one fiscal year and paid in another.

**9.0 Reservation of Fund Balance**

9.010 Textbook and Instructional Materials – O.R.C. 3315.17 requires 3% of general funds to be set aside for the purchase of textbooks and instructional materials. School districts may spend more or less and carry the surplus or deficit forward.

9.020 Capital Improvements – Similar to above, O.R.C. 3315.18 requires a 3% set aside each fiscal year for maintenance and capital improvements.

9.030 Budget Reserve – No longer required, but some school districts use this line as a “rainy day fund”.

9.040 Poverty Based Assistance (PBA) – PBA has replaced the DPIA funding. The amount of funds a school district receives is based on the overall poverty levels within the school district. PBA funds are restricted funds.

9.050 Debt Service - This includes any loans or other debt for which repayment by the district is essential during the fiscal year.

9.060 Property Tax Advances – County Auditors may advance property tax payments (if money is available to the County Auditor through pre-payment of taxes) to school districts at the conclusion of a fiscal year to be spent at the beginning of the next fiscal year. This practice allows a school district to start the fiscal year with money for operations.

9.070 Bus Purchases

9.080 Subtotal – Total of lines 9.010 through 9.070

**10.0 Fund Balance June 30 for Certification of Appropriations**

10.010 Fund Balance June 30 for Certification of Appropriations – Line 7.020 minus line 8.010 minus line 9.080. All reserved funds are “backed out” and therefore not available for the school district to use in school operations.

**11.0 Revenue from Replacement/Renewal Levies**

11.010 Income Tax – Renewal

11.020 Property Tax – Renewal or Replacement

11.300 Cumulative Balance of Replacement/Renewal Levies – Previous year line 11.300 plus the current

**12.0 Fund Balance June 30 for Certification of Contracts, Salary Schedules, and Other Obligations**

12.010 Fund Balance June 30 for Certification of Contracts, Salary Schedules, and Other Obligations

**13.0 Revenues from New Levies**

13.010 Income Tax – New

13.020 Property Tax – New

13.030 Cumulative Balance of New Levies

**14.0 Revenue from Future State Advances**

14.010 Revenue from Future State Advances

**15.0 Unreserved Fund Balance June 30**

15.010 Unreserved Fund Balance June 30 – Line 12.010 plus line 13.030 plus line 14.010