

HIGHLAND LOCAL SCHOOLS

FIVE YEAR FORECAST

FISCAL YEARS 2013 – 2017

MAY 2013 UPDATE



HIGHLAND LOCAL SCHOOL DISTRICT -- MEDINA COUNTY
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
ACTUAL AND FORECASTED OPERATING FUND

	Actual			Forecasted				
	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017
Revenue:								
1.010 General Property Tax (Real Estate)	14,636,006	14,641,173	16,859,542	19,407,971	19,512,321	19,631,475	19,876,868	20,125,329
1.020 Tangible Personal Property Tax	668,235	669,670	702,534	780,670	804,090	828,213	853,060	878,651
1.030 Income Tax	0	0	0	0	0	0	0	0
1.035 Unrestricted Grants-in-Aid	4,234,451	4,072,044	4,198,133	4,242,927	4,542,113	4,827,478	4,827,478	4,827,478
1.040 Restricted State Grants-in-Aid	9,589	14,766	18,583	14,661	29,117	29,391	29,391	29,391
1.045 Restricted Federal Grants-in-Aid	283,466	414,194	140,463	25,467	0	0	0	0
1.050 Property Tax Allocation	3,454,602	3,538,679	3,244,540	3,121,732	3,149,462	3,177,340	2,903,400	2,931,799
1.060 All Other Revenues	656,012	812,483	918,527	888,002	896,882	905,850	914,909	924,058
1.070 Total Revenues	23,942,361	24,163,009	26,082,322	28,481,430	28,933,985	29,399,747	29,405,106	29,716,706
Other Financing Sources:								
2.010 Proceeds from Sale of Notes	0	0	0	0	0	0	0	0
2.020 State Emergency Loans and Advancements	0	0	0	0	0	0	0	0
2.040 Operating Transfers-In.	3,825	0	0	0	0	0	0	0
2.050 Advances-In	0	0	1,000	1,500	10,000	10,000	10,000	10,000
2.060 All Other Financing Sources	302,529	19,964	35,351	109,584	10,000	10,000	10,000	10,000
2.070 Total Other Financing Sources	306,354	19,964	36,351	111,084	20,000	20,000	20,000	20,000
2.080 Total Revenues and Other Financing Sources	24,248,715	24,182,973	26,118,673	28,592,514	28,953,985	29,419,747	29,425,106	29,736,706
Expenditures:								
3.010 Personal Services	16,542,084	15,880,626	15,835,190	15,850,859	16,347,364	16,972,473	17,131,760	17,533,442
3.020 Employees' Retirement/Insurance Benefits	5,696,202	5,076,217	5,068,118	4,937,427	5,444,000	6,106,667	6,440,501	6,848,482
3.030 Purchased Services	2,704,673	2,737,601	2,838,095	3,138,820	3,336,526	3,461,646	3,591,457	3,726,137
3.040 Supplies and Materials	884,710	872,452	980,628	945,959	969,608	993,848	1,018,694	1,044,161
3.050 Capital Outlay	188,381	149,561	161,694	91,247	93,072	94,933	96,832	98,769
3.060 Intergovernmental	0	0	0	0	0	0	0	0
Debt Service:								
4.010 Principal-All (History Only)	0	0	0	0	0	0	0	0
4.060 Interest and Fiscal Charges	0	0	0	0	0	0	0	0
4.300 Other Objects	357,423	339,979	477,155	521,313	529,132	537,069	545,125	553,302
4.500 Total Expenditures	26,373,473	25,056,436	25,360,880	25,485,625	26,719,702	28,166,636	28,824,369	29,804,293
Other Financing Uses								
5.010 Operating Transfers-Out	27,000	0	2,250	30,500	15,000	15,000	15,000	15,000
5.020 Advances-Out	0	0	1,500	11,000	10,000	10,000	10,000	10,000
5.030 All Other Financing Uses	0	0	0	500	0	0	0	0
5.040 Total Other Financing Uses	27,000	0	3,750	42,000	25,000	25,000	25,000	25,000
5.050 Total Expenditures and Other Financing Uses	26,400,473	25,056,436	25,364,630	25,527,625	26,744,702	28,191,636	28,849,369	29,829,293
Excess of Rev & Other Financing Sources over (under) Expenditures and Other Financing Uses								
6.010	-2,151,758	-873,463	754,043	3,064,889	2,209,283	1,228,111	575,737	-92,587
Cash Balance July 1 - Excl Proposed Renewal/ Replacement and New Levies								
7.010	9,056,840	6,905,082	6,031,619	6,785,662	9,850,551	12,059,834	13,287,945	13,863,682
7.020 Cash Balance June 30	6,905,082	6,031,619	6,785,662	9,850,551	12,059,834	13,287,945	13,863,682	13,771,095
8.010 Estimated Encumbrances June 30	107,042	148,478	92,894	150,000	150,000	150,000	150,000	150,000
Reservation of Fund Balance								
9.010 Textbooks and Instructional Materials	0	0	0	0	0	0	0	0
9.020 Capital Improvements	19,514	0	0	0	0	0	0	0
9.030 State Fiscal Stabilization Funds	143,892	9,739	0	0	0	0	0	0
9.040 DPIA	0	0	0	0	0	0	0	0
9.050 Debt Service	0	0	0	0	0	0	0	0
9.060 Property Tax Advances	0	0	0	0	0	0	0	0
9.070 Bus Purchases	0	0	0	0	0	0	0	0
9.080 Subtotal	163,406	9,739	0	0	0	0	0	0
Fund Balance June 30 for Certification of Appropriations								
10.010	6,634,634	5,873,402	6,692,768	9,700,551	11,909,834	13,137,945	13,713,682	13,621,095
Rev from Replacement/Renewal Levies								
11.010 Income Tax - Renewal				0	0	0	0	0
11.020 Property Tax - Renewal or Replacement				0	0	0	0	0
11.030 Cumulative Balance of Replacement/Renewal Levies	0	0	0	0	0	0	0	0
Fund Balance June 30 for Certification of Contracts, Salary and Other Obligations								
12.011	6,634,634	5,873,402	6,692,768	9,700,551	11,909,834	13,137,945	13,713,682	13,621,095
Revenue from New Levies								
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
14.010 Revenue from Future State Advancements								
15.010 Unreserved Fund Balance June 30	6,634,634	5,873,402	6,692,768	9,700,551	11,909,834	13,137,945	13,713,682	13,621,095

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The school funding system in the State of Ohio is constantly changing. Accordingly, the Highland Local School District's Five-Year Forecast is based upon factors known as of this date. Additionally, District management must make assumptions about the future based upon the current environment in which the School District operates. Assumptions about the future have been formulated in a conservative manner. The Treasurer will monitor the Five-Year Forecast and will update it as appropriate for changes that may occur. Consistent with Ohio Administrative Code 3301-92-04, the Forecast will be approved by the Highland Local School District Board of Education at least twice per fiscal year in October and May and submitted to the Ohio Department of Education. The following is a discussion of the pertinent assumptions used in the development of the attached Five-Year Forecast of the Highland Local School District.

REVENUE ASSUMPTIONS

Line 1.010 – General Property Tax (Real Estate)

Base Year – Fiscal Year 2013

General Property Tax (Real Estate) revenues reported for Fiscal Year 2013 represent actual real estate tax collections through May 2013. No additional collections are anticipated for the remainder of Fiscal Year 2013. This amount includes proceeds from the Emergency Levy that was passed by the Highland Community in May 2011 collections upon which began in January 2012.

Future estimates are based upon the most recent data provided by the Medina County Auditor, including information on expected rates of collection, new construction, and reappraisals.

New Construction

The District continues to experience relatively modest new construction growth. The current forecast includes new construction growth of 1.25% for each fiscal year presented. Prior to the decline of the housing market, the District had experienced average new construction growth in excess of 4% annually.

Calendar Year 2013 (Collection Year 2014) Reappraisal

Calendar Year 2013 (Collection Year 2014) represents a reappraisal year for Medina County. Based upon recent guidance provided by the Medina County Auditor, it is expected that values will decline by 3% - 5%. This decrease in valuation will only impact the District's unvoted (or inside) millage. The anticipated impact of this decrease is projected to be \$138,000.

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Medina County Schools Sales Tax

In May 2007, a ½% county schools sales tax was approved by Medina County voters. Medina County schools share in the proceeds of this tax based upon student enrollment. The proceeds of this tax are not available for operating expenditures of the District. The dollars derived from this tax are restricted to capital projects/permanent improvements and are accounted for in a separate capital projects fund. Revenues and expenditures from this tax are **not** included in this Forecast.

Line 1.020 – Tangible Personal Property Tax

Public Utility Tangible Personal Property

Tangible personal property tax collections are derived from public utility tangible personal property. Collections on this tax base experienced an increase from \$702,534 in Fiscal Year 2012 to \$780,670 in Fiscal Year 2013 due to the investment in additional taxable property by utility companies and the newly passed Emergency Levy. Based upon historical growth trends, collections on this tax are projected to grow at a rate of 3% annually for Fiscal Years 2014 through 2017.

House Bill 66

House Bill 66 incrementally phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads beginning in 2006. Other than possible delinquent tax collections, October 2010 represented the final collection of tangible personal property taxes on general businesses, telephone and telecommunications companies, and railroads due to the phase out. Current Law provides that the State of Ohio will partially reimburse the District for the resulting loss in tax collections. Further discussion of this reimbursement is included below in Line 1.050 - Property Tax Allocation.

Line 1.035 – Unrestricted State Grants in Aid

House Bill 153

The 2012-2013 State Biennial Budget (i.e. House Bill 153) signed into law by Governor Kasich on June 30, 2011 held districts harmless at Fiscal Year 2011 base student cost funding levels, but provided for no replacement of the State Fiscal Stabilization Funds (SFSF) used to balance the previous biennial budget. Further discussion of SFSF is included below in Line 1.045 – Restricted Federal Grants in Aid. HB 153 did provide a subsidy of approximately \$17 per pupil for high-performing districts. Highland is expected to receive over \$54,000 as a result of this subsidy in Fiscal Year 2013.

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House Bill 59

The 2014-2015 State Biennial Budget (i.e. House Bill 59) is still a work in progress. As of May 2013, the bill has made its way through the House and is in the process of being reviewed by the Senate. The Senate is not expected to finalize its work on the Bill until early June 2013. The Governor will likely sign the bill on or around June 30, 2013. The estimates included in this Forecast are based upon the work of the House. The House version of the Bill results in Highland receiving an additional 6% in formula funding in Fiscal Year 2014 plus an additional 6% in Fiscal Year 2015. For Fiscal Year 2014, this increase equates to roughly \$243,000. For Fiscal Year 2015, the increase amounts to an additional ~\$257,000.

Casino Tax Revenues

In 2009, Ohio voters approved the construction of four full-service casinos. State law dictates that a tax will be levied on these casinos at a rate of 33% of gross casino revenue, which equates to total betting less payouts. Of this new tax, 34% is to be distributed to public school districts. This new revenue source is intended to supplement not supplant current State funding. In January 2013, the District received its first installment of this revenue source. The total amount received was \$68,353 or about \$21 per pupil. The next installment is due in August 2013. An updated analysis conducted by Public Finance Resources, Inc. estimates that school districts will ultimately receive about \$50 per pupil once all of the casinos are fully phased in. The Forecast includes projected revenues consistent with this analysis.

Line 1.040 – Restricted State Grants in Aid

This line item includes career tech education funding and expected catastrophic special education cost reimbursements from the State. The House version of HB 59, which is discussed above, is expected to result in an increase in catastrophic special education cost reimbursements of ~\$15,000 beginning in Fiscal Year 2014. Overall, this revenue line is relatively immaterial and is projected to remain consistent throughout the duration of the Forecast.

Line 1.045 – Restricted Federal Grants in Aid

Education Jobs Fund

On August 10, 2010, federal legislation passed that included a provision for an Education Jobs Fund aimed at saving or creating education jobs. Of the total \$10 billion earmarked by the federal government for this purpose, the State of Ohio received approximately \$361 million. From this amount Highland Local Schools was awarded a total allocation of ~\$236,000. Consistent with the State's school funding formula, because Highland Locals Schools is

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considered to be a high wealth district, the District received a less than proportionate share of this funding in relation to its student enrollment. The funds were allowed to be used to retain, rehire, and/or hire school level employees such as teachers, principals, classroom aides, counselors, nurses, custodians, bus drivers, and cafeteria workers. The funds were required to be expended by the District by September 30, 2012 and the District has met this requirement. The total amount expended in Fiscal Year 2013 prior to the September 30, 2012 deadline and reimbursed through this funding source totaled \$25,467.

No new funding sources similar to SFSF or Education Jobs are anticipated in the future.

State Fiscal Stabilization Funds

For the 2010-2011 State Biennial Budget, the State of Ohio employed American Recovery and Reinvestment Act (ARRA) Federal Stimulus Funds to ensure Ohio school districts would be guaranteed to receive 99% of Fiscal Year 2009 base funding in Fiscal Year 2010 and 98% of this reduced amount in Fiscal Year 2011. The State referred to these ARRA monies as State Fiscal Stabilization Funds (SFSF). For Fiscal Years 2010 and 2011 these ARRA dollars must be considered together with the amount included in the Unrestricted State Grants in Aid line to understand the total amount of base student funding received from the State.

As noted above, HB 153 (the 2012-2013 State biennial budget) did not provide for the replacement of these funds. As a result, the District received ~\$343,000 less in operating revenue from this funding source beginning in Fiscal Year 2012. **This funding scenario results in the continued reliance on local taxpayers to fund District operations.**

Line 1.050 – Property Tax Allocation

10% Rollback, 2.5% Owner Occupied, and Homestead Exemption

By Law, taxpayers receive certain reductions on their tax bill. All homeowners receive a 10% rollback on their gross tax bill. Additionally, if the homeowner occupies the residence being taxed, an additional 2.5% reduction is granted. Finally, qualifying homeowners (65 years or older and/or disabled) can receive a \$25,000 exemption from their home's fair market value, which will further reduce the gross tax amount due. Currently, the State of Ohio reimburses school districts for these entitlements provided to taxpayers. For Fiscal Year 2013, these reimbursements total approximately \$2,820,000. These reimbursements increased over the prior year by more than \$275,000 primarily due to the newly passed Emergency Levy. Beyond Fiscal Year 2013, these reimbursements are projected to increase modestly as a direct result of new construction growth.

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Tangible Personal Property Tax Loss Reimbursement

As noted above, House Bill 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads beginning in 2006. Currently, the State of Ohio reimburses the District for only a portion of this tax loss, which exceeded \$1,200,000. **This funding scenario results in the continued reliance on local taxpayers to fund District operations.** Language contained in the current version of the 2014-2015 State Biennial Budget (i.e. HB 59) provides for the continuation of a partial reimbursement. Beyond Fiscal Year 2015, the District has conservatively assumed that this reimbursement will cease. Accordingly, the Forecast assumes a reimbursement of ~\$302,000 for Fiscal Years 2013 through 2015 and then \$0 thereafter.

Public Utility Tax Loss Reimbursement

Through Fiscal Year 2011, the District had received tax loss reimbursements related to the deregulation of utility companies in prior years. This reimbursement totaled \$159,232 for Fiscal Year 2011. Unfortunately, the 2012-2013 State Biennial Budget (i.e. House Bill 153) eliminated this tax loss reimbursement to Highland beginning in Fiscal Year 2012. **This funding scenario results in the continued reliance on local taxpayers to fund District operations.**

Line 1.060 – All Other Revenues

All other operating revenues include but are not limited to investment income, tuition, classroom fees, pay to participate fees, facility use fees, Medicaid reimbursements, and donations. Investment income is not expected to be a significant source of current or future revenue given current interest rates. Pay to participate fees have helped bolster this revenue line item and offset rising operating costs associated with extracurricular activities. These revenues are expected to remain relatively consistent throughout the Forecast and experience only immaterial growth in the future.

The District has and will continue to explore alternative revenue sources.

Line 2.070 – Other Financing Sources

All other financing sources include most notably returns of advances from other funds, refunds of prior year expenditures, and proceeds from the sale of assets. For Fiscal Year 2013, there were significant refunds of prior year expenditures including refunds from the Medina County ESC (~\$9,500), SERS (~\$27,000), and the BWC (~\$66,000). These items are considered one-time occurrences and are not included in estimates beyond Fiscal Year 2013.

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EXPENDITURE ASSUMPTIONS

Line 3.010 – Personal Services

Negotiated agreements are in place for the Highland Education Association (HEA) through June 30, 2013 and the Highland Support Staff Association (HSSA) through June 30, 2015. Pursuant to these contracts, both unions received a 0% increase in base compensation for the 2012-2013 contract year, but a slight increase in costs over the prior year is expected to occur due to longevity and furtherance of education pay plus the addition of several new staff. These costs are substantially offset by the savings realized through the implementation of an employee severance plan at the end of the 2011-2012 school year.

An average increase in personal service costs of 2.65% is assumed for Fiscal Years 2014 through 2017. This increase is intended to encompass cost of living, longevity, and performance pay increases; the impact of the aforementioned employee severance plan; and the commencement of all day, every day kindergarten beginning with school year 2014-2015.

Line 3.020 – Employees’ Retirement/Insurance Benefits

This line item primarily consists of costs associated with Health Insurance, Public Retirement Systems, Medicare, and Workers’ Compensation.

Retirement, Medicare, and Workers’ Compensation are driven by salaries and wages and will fluctuate directly with changes in Line 3.010 – Personal Services.

The District is a member of the Stark County Schools Council of Governments (the “COG”) Health Insurance Plan. Health insurance premiums increased by 5% over Fiscal Year 2012. The District was granted three premium holidays for Fiscal Year 2013 by the COG. Each holiday granted saves the District about \$250,000. In May 2013, the District was notified by the COG that the premium rate increase for Fiscal Year 2014 would be 4.5% and two premium holidays will be granted. The Forecast assumes that health insurance premiums will increase 10% annually beyond Fiscal Year 2014, which is relatively consistent with national healthcare trends and reflective of guidance provided by consortium officials. Additionally, it is assumed that the COG will only grant one premium holiday per year beyond the 2014 policy year.

In April 2011, HEA agreed to increase employee health insurance contributions from 5% to 15% effective July 2011 and from 15% to 20% effective July 2012. Administrators also agreed to these changes. In May 2012, HSSA also agreed to increase employee health insurance

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contributions incrementally. For Fiscal Year 2015 and beyond, it is assumed that all employees contribute 20% towards their health insurance coverage.

Line 3.030 – Purchased Services

Significant items within this category include services provided by the Medina County Educational Service Center, computer services, legal fees, risk management insurance, utilities, and tuition (i.e. open enrollment, community schools, special education placements, etc.).

A blended rate of annual increase of 3.75% is utilized for Fiscal Years 2014 through 2017.

Also, for Fiscal Year 2014 and beyond, there is an assumed annual increase in District costs related to transporting private and parochial school students as required by HB 59 of approximately \$80,000.

Line 3.040 – Supplies and Materials

Significant items within this category include educational supplies, office supplies, maintenance supplies, and fuel.

A blended rate of annual increase of 2.5% is utilized for Fiscal Years 2014 through 2017.

Line 3.050 – Capital Outlay

This line item includes provision for the purchase of new and replacement equipment including classroom technology items. The aforementioned Medina County sales tax proceeds are utilized to fund the majority of capital purchases of the District. As a result, capital outlay expenditures out of general operating funds are relatively immaterial.

A significant decrease from Fiscal Year 2012 to Fiscal Year 2013 resulted from the District entering into a new operating lease related to copiers. In previous years, the District made capital outlay payments in relation to a copier lease purchase agreement. The current arrangement through which the District leases copiers is considered a service agreement and is included above in purchased services.

A rate of annual increase of 2% is utilized for Fiscal Years 2014 through 2017.

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Line 4.300 – Other Objects

Significant items within this category include County Auditor and Treasurer's Fees for the collection of property taxes, annual financial audit fees, State Foundation deductions related to the Medina County ESC, and bank charges.

For the 1st half Calendar Year 2011 property tax collection period, the County Auditor did not assess political subdivisions with real estate reappraisal fees. This saved the District approximately \$90,000 for Fiscal Year 2011. For Fiscal Year 2012 and beyond, there is no assumption that these fees will be reduced. Additionally, County Auditor/Treasurer fees are increased to account for the passage of a new Emergency Levy collections upon which began in January 2012.

A rate of annual increase of 1.5% is utilized for Fiscal Years 2014 through 2017.

Line 5.040 – Other Financing Uses

The Forecast assumes advances out of \$11,000 for Fiscal Year 2013 to address potential deficit fiscal year end balances caused by timing differences in cash receipts and expenditures primarily within the federal grant funds. An assumption of \$10,000 per year for advances is made beyond Fiscal Year 2013. Additionally, for Fiscal Year 2013 \$30,500 is budgeted for potential interfund transfers that are not expected to be paid back to the General Fund. The majority of this amount relates to an anticipated transfer to the Uniform School Supply fund to offset annual deficit spending within the fund caused by legislation passed in House Bill 1 in July 2009. Beyond Fiscal Year 2013, annual interfund transfers are assumed to be \$15,000 per year.