



HUDSON CITY SCHOOL DISTRICT - -  
SUMMIT COUNTY

# **Five Year Forecast Financial Report**

October, 2016

*Kathryn L. Sines, CFO*

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### Forecast Purpose/Objectives

Ohio Department of Education's purposes/objectives for the five-year forecast are:

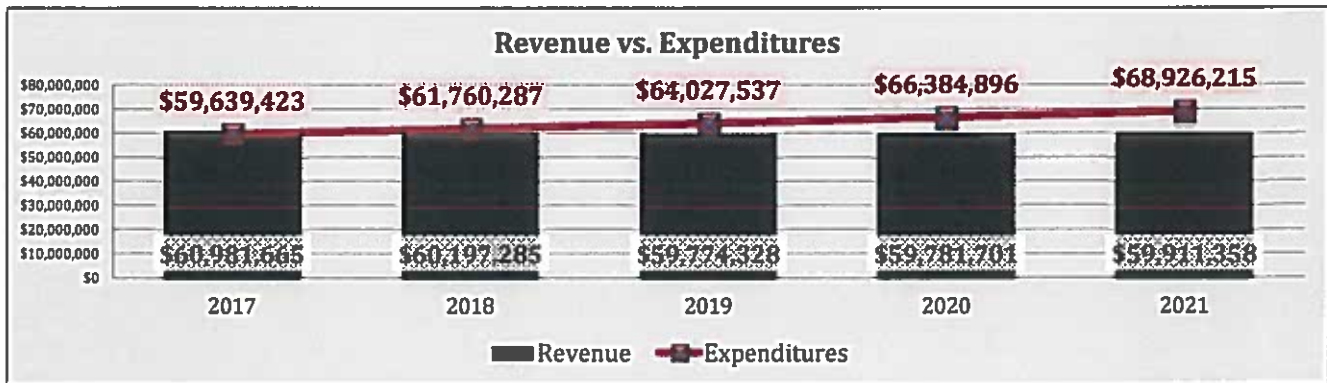
1. To engage the local board of education and the community in the long range planning and discussions of financial issues facing the school district.
2. To serve as a basis for determining the school district's ability to sign the certificate required by O.R.C. §5705.412, commonly known as the "412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

**Five Year Forecast - Simplified Statement**

	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Beginning Balance	28,727,971	30,070,213	28,507,211	24,254,001	17,650,806
+ Revenue	60,981,665	60,197,285	59,774,328	59,781,701	59,911,358
+ Proposed Renew/Replacement Levies	-	-	-	-	-
+ Proposed New Levies	-	-	-	-	-
- Expenditures	(59,639,423)	(61,760,287)	(64,027,537)	(66,384,896)	(68,926,215)
<b>= Revenue Surplus or Deficit</b>	<b>1,342,242</b>	<b>(1,563,002)</b>	<b>(4,253,209)</b>	<b>(6,603,196)</b>	<b>(9,014,857)</b>
Ending Balance	30,070,213	28,507,211	24,254,001	17,650,806	8,635,949
Revenue Surplus or Deficit w/o Levies	1,342,242	(1,563,002)	(4,253,209)	(6,603,196)	(9,014,857)
Ending Balance w/o Levies	30,070,213	28,507,211	24,254,001	17,650,806	8,635,949

**Summary:**

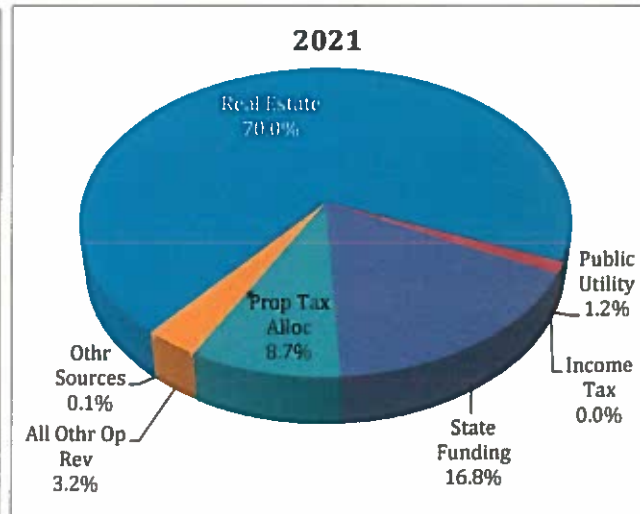
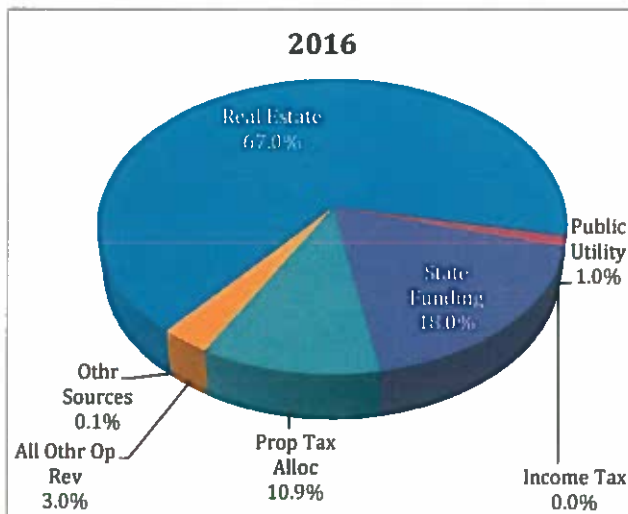
The district's projections reveal a stable operating environment through FY 2021 with a projected ending cash balance of \$8,635,949 or about 13% of the annual budget. State revenue to the district is projected to continue declining through FY 2021 and creates an ongoing challenge to balance revenue and expenditures. Each year the district will review spending and adjust decisions to help ensure ongoing stability.



## Revenue Overview

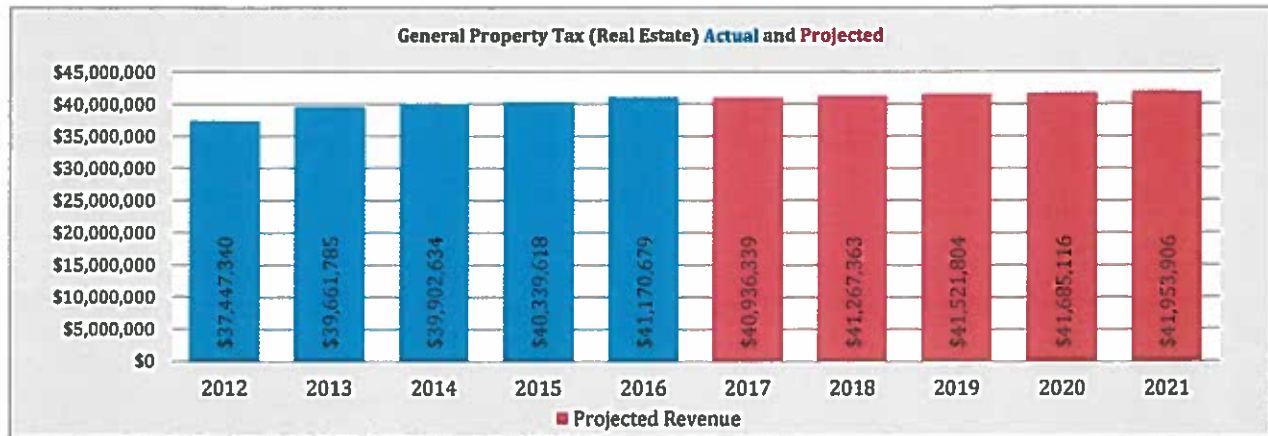
	Prev. 5-Year Avg. Annual Change	PROJECTED					5-Year Avg. Annual Change
		Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	
<b>Revenue:</b>							
1.010-Real Estate	2.92%	-0.57%	0.81%	0.62%	0.39%	0.64%	0.38%
1.020-Public Utility	20.57%	0.07%	3.00%	3.25%	3.50%	3.50%	2.66%
1.030-Income Tax	n/a	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1.035-State Funding	0.18%	2.31%	-1.39%	-4.57%	-2.16%	-2.20%	-1.60%
1.040-Restricted Aid	109.63%	-31.93%	0.00%	0.00%	0.00%	0.00%	-6.39%
1.045-Restr Federal SFSF	n/a	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1.050-Property Tax Alloc	-4.63%	-4.53%	-15.62%	-4.21%	0.48%	0.76%	-4.62%
1.060-All Other Operating	11.41%	-0.29%	0.78%	0.79%	0.80%	0.81%	0.58%
1.070-Total Revenue	1.34%	-0.74%	-1.29%	-0.70%	0.01%	0.22%	-0.50%
2.070-Total Other Sources	30.42%	45.83%	0.00%	0.00%	0.00%	0.00%	9.17%
2.080-Total Rev & Other Srcs	1.32%	-0.71%	-1.29%	-0.70%	0.01%	0.22%	-0.49%

The district's revenue is projected to decline annually -0.5% on average through FY 2021. The three state funding categories 1.035, 1.040, and 1.050 are the primary reasons the district's revenue is projected to decrease.



### 1.010 - General Property Tax (Real Estate)

Revenue collected from taxes levied by a school district by the assessed valuation of real property using effective tax rates for class I (residential/agricultural) and class II (business).



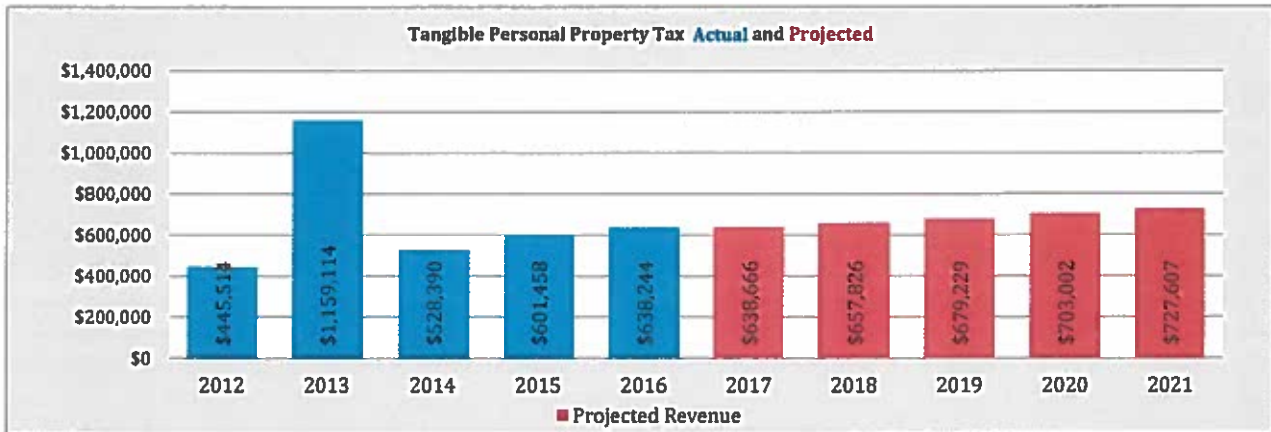
Real estate tax revenue comprises 67% of the district's revenue. Tax rates and property values are its key components. A new 4.9 mill levy began generating revenue in FY 2012. No new levies are modeled in this forecast. The district's residential effective tax rate (operating levies) was 47.10 mills in 2015, which is \$4.71 per \$1,000 of assessed value. Real estate is assessed at 35% of appraised value.

Values increased by \$9,254,470 to \$928,703,860 in 2015. The county will be performing a reappraisal in 2017 which is projected to continue growing values (modeled to increase 6.0% for the three-year period). The district's residential and business real estate 2020 property values are projected to exceed \$1.0 billion and total \$1,055,701,339.

The calculation of taxes owed is also a function of the actual collection rate of taxes. Collections including prior year delinquencies paid were 100.9% of 2016 current taxes billed. A 100.3% gross (current + delinquent) collection rate of taxes is forecasted through FY 2021.

### 1.020 - Public Utility Personal Property

Revenue generated from public utility personal property valuations multiplied by the district's full voted tax rate.

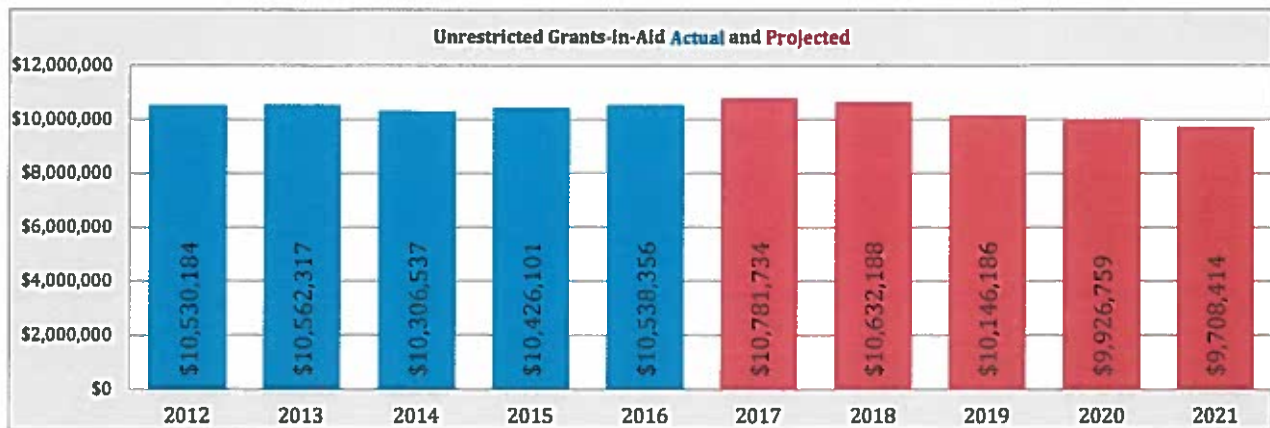


Public utility property (gas lines, power grids, etc.) generates only 1.0% of the district's revenue. The valuation is taxed at the district's full voted tax rate which is 86.93 mills (\$8.63 per \$1,000 of assessed valuation). Valuations are projected to grow similar to the historical five-year trend.

In November 2012 the district received a one-time personal tangible settlement payment of \$697,083.

### 1.035 - Unrestricted Grants-in-Aid

Funds received through the State Foundation Program with no restriction.



The state's per pupil funding formula generates 17.2% of the district's revenue. It has remained fairly stable for the past five years because the district is on what is known as the "guarantee." In essence, the current formula calculation does not generate as much as the district's historical level and the result is a guaranteed level of funding of approximately \$10.4 million in 2015.

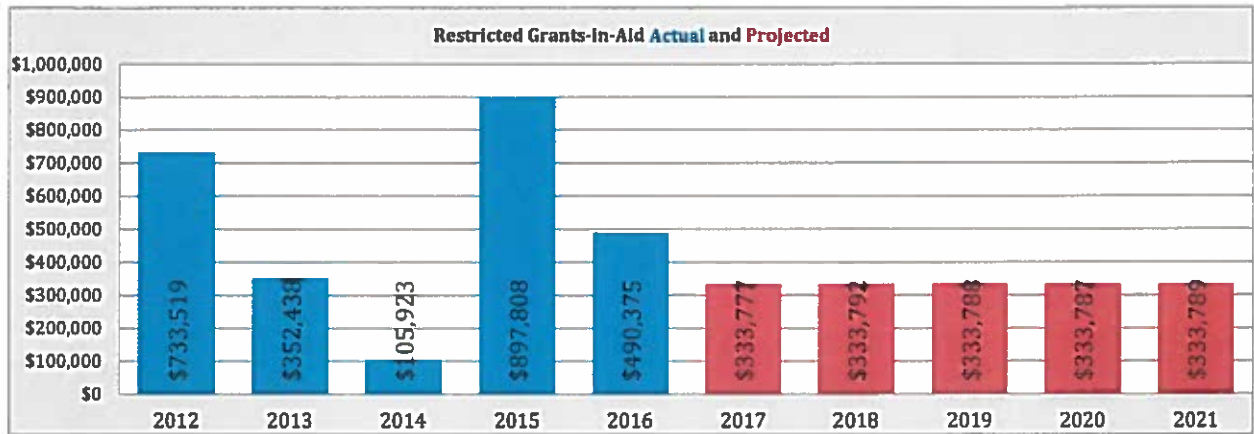
Because the district's state funding is not increasing it is eligible for a hold harmless supplemental payment to offset losses associated with the state's phase-out of tangible personal property tax reimbursements. This supplemental revenue is reflected in the district Property Tax Allocation revenue note. (page 9)

The district's per pupil valuation of \$201,450 is 144% of the state average per pupil valuation of \$139,135. It is this ratio that drives the district's per pupil funding which calculates a state share of 21.31%, or \$1,356 of the state's \$6,000 per pupil in funding. Hudson's median taxpayer income is \$68,832 which is more than twice the statewide median of \$32,873. This local wealth per pupil and local taxpayer capacity generate a much lower state share percentage than that calculated for poorer school districts. Districts with lower per pupil valuation receive higher levels of state share of the \$5,900 formula amount per pupil. In recent years the state of Ohio has continued to present change to the guarantee calculation. Because of these past attempts the forecast models a 2.0% reduction in each year for 2018 through 2021.

This line item also includes casino revenue which is estimated to be about \$51.85 per student.

### 1.040 & 1.045 - Restricted Grants-in-Aid

Funds received through the State Foundation Program or other allocations that are restricted for specific purposes.

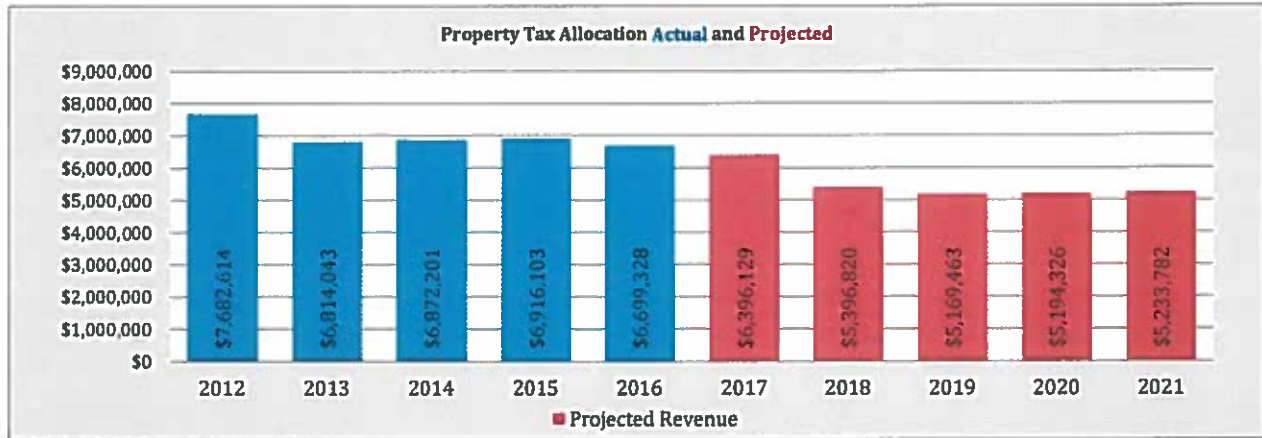


Career tech funding is deposited in this line item along with catastrophic special education cost reimbursement. In 2014 we did not receive the reimbursement but received it twice in 2015. The district averages about \$300,000 per year in catastrophic special education cost reimbursement, the trend is projected to continue.



### 1.050 - Property Tax Allocation

Includes funds received for Tangible Personal Property Tax Reimbursement, Electric Deregulation, Homestead and Rollback.



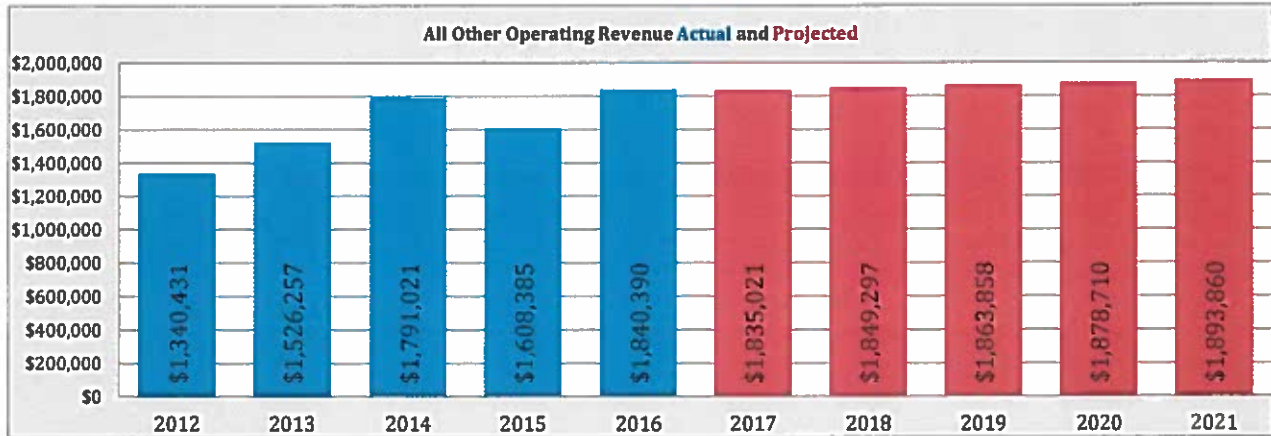
The state's reimbursement for local property taxes made up 10.9% of the district's revenue in 2016. The primary sources for this revenue are residential rollback (12.5% on owner/occupied) which was \$4,617,154 in 2016, and homestead which was \$461,662 in 2016.

In 2015, the district also received \$1,828,367 in tangible personal property (TPP) reimbursement for Ohio's 2005 tax reform which removed this local source of taxation and replaced it with a reimbursement. The reimbursement was \$4,085,069 in 2011, and has been reduced to its current level. The reductions are legislated to continue, and 2016's revenue was only \$650,451; a hold harmless supplement was received in 2016 and is projected to be received in 2017. There is no provision for a hold harmless supplement in 2018 which explains the decrease reflected in the bar chart.

Since 2011 the district will have lost \$4,085,069 in annual state funding for tangible personal property reimbursement. In addition, the state legislated that future levies would not include the 12.5% owner/occupied tax credit, this will increase the local taxpayer cost of any future levies that are passed.

### 1.060 - All Other Operating Revenues

Operating revenue sources not included in other lines; examples include tuition, fees, earnings on investments, rentals, and donations.



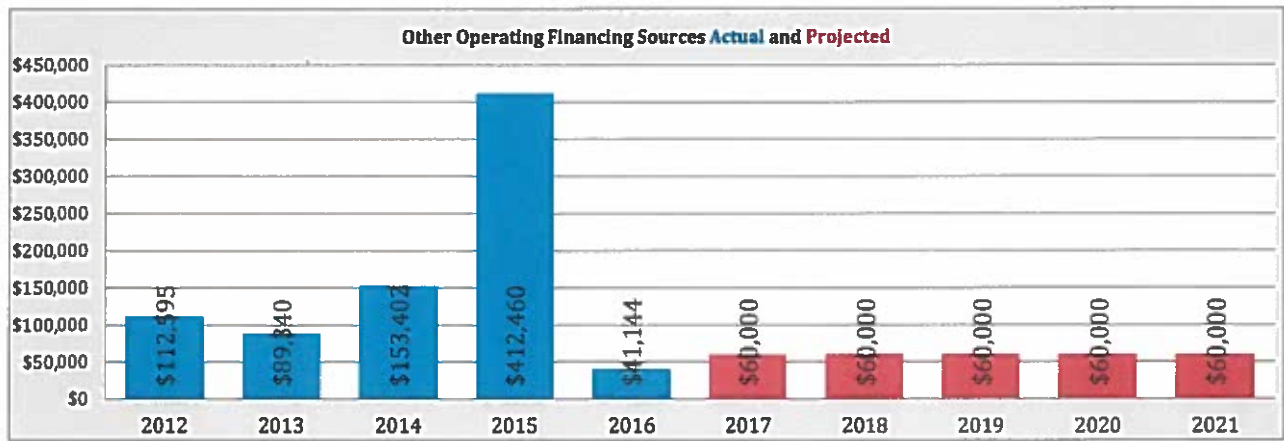
All other revenue is 3% of the district's total operating revenue and is comprised of tuition payments, extracurricular and classroom fees, interest income, etc.

Kindergarten tuition is the largest single tuition source of revenue.

Revenue increased in 2016 because of an increase in interest income and also tuition revenue. The 2016 revenue serves as the basis for 2017 and beyond.

### 2.070 - Total Other Financing Sources

Includes proceeds from sale of notes, state emergency loans and advancements, operating transfers-in, and all other financing sources like sale and loss of assets, and refund of prior year expenditures.

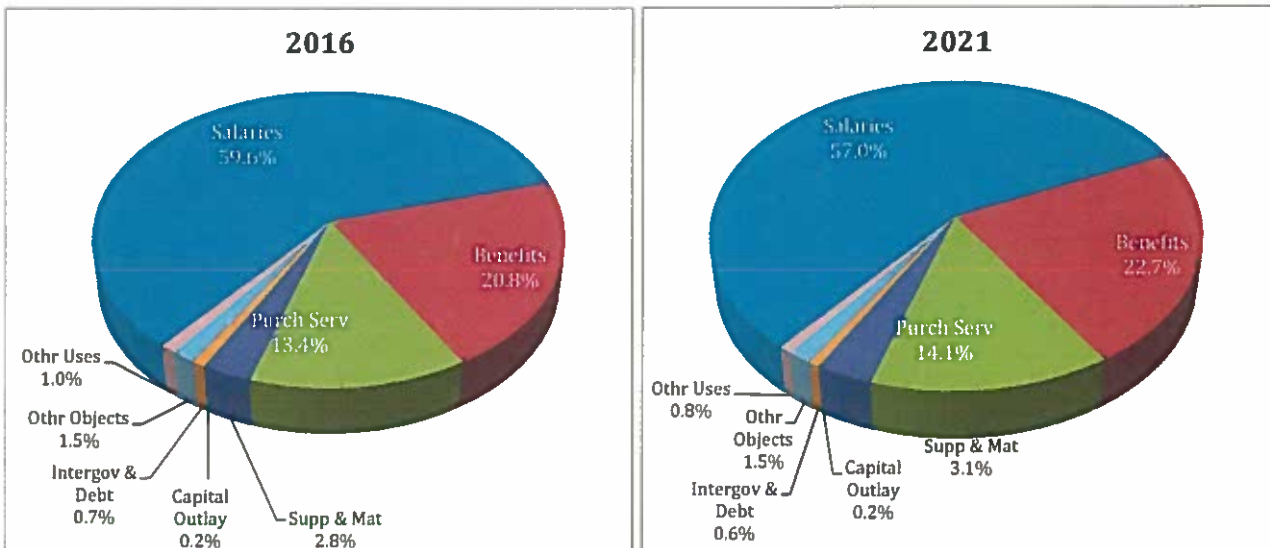


Other sources are non-operating and are usually refunds received, or reduction adjustments made to prior year expenditures. The district received a one-time reimbursement of county auditor and treasurer fees in FY 2015.

## Expenditures Overview

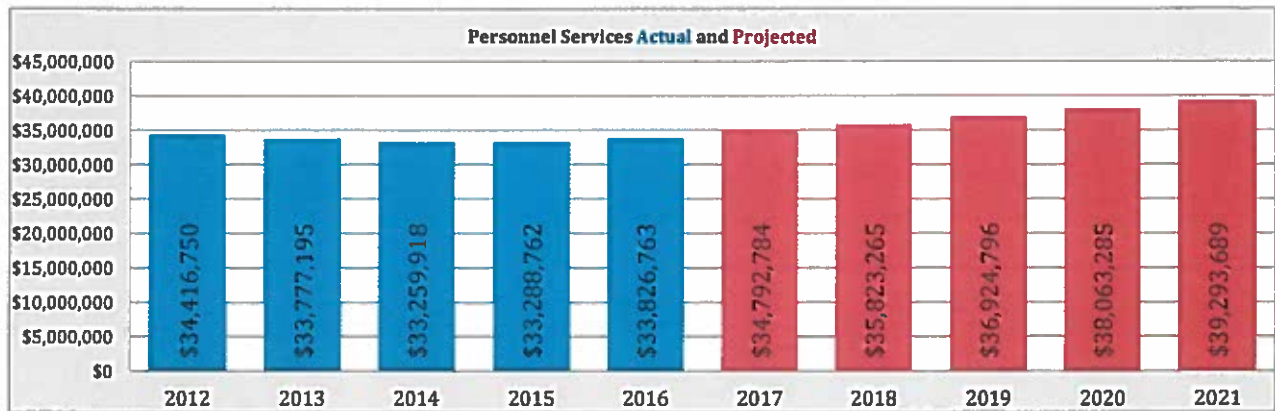
	Prev. 5-Year Avg. Annual Change	PROJECTED					5-Year Avg. Annual Change
		Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	
<b>Expenditures:</b>							
3.010-Salaries	-1.32%	2.86%	2.96%	3.07%	3.08%	3.23%	3.04%
3.020-Benefits	-2.59%	5.61%	5.72%	5.83%	5.89%	6.01%	5.81%
3.030-Purchased Services	2.38%	13.14%	1.83%	3.51%	3.54%	3.58%	5.12%
3.040-Supplies & Materials	-1.90%	10.41%	11.65%	2.91%	2.93%	2.96%	6.17%
3.050-Capital Outlay	3.28%	40.89%	2.00%	2.00%	2.00%	2.00%	9.78%
3.060-Intergov	n/a	n/a	n/a	n/a	n/a	n/a	n/a
4.010-4.060-Debt	-0.06%	-0.83%	-2.10%	2.57%	-1.38%	0.81%	-0.19%
4.300-Other Objects	0.27%	10.50%	2.12%	2.12%	2.13%	2.13%	3.80%
<b>4.500-Total Expenditures</b>	<b>-1.21%</b>	<b>5.20%</b>	<b>3.59%</b>	<b>3.70%</b>	<b>3.71%</b>	<b>3.86%</b>	<b>4.01%</b>
5.040-Total Other Uses	297.78%	-6.07%	0.00%	0.00%	0.00%	0.00%	-1.21%
<b>5.050-Total Exp &amp; Other Uses</b>	<b>-1.02%</b>	<b>5.09%</b>	<b>3.56%</b>	<b>3.67%</b>	<b>3.68%</b>	<b>3.83%</b>	<b>3.96%</b>

Operating expenditures are projected to grow at an average annual rate of 4.01% from FY 2017 through FY 2021. Salaries and benefits combined make up 80% of the district's budget.



### 3.010 - Personnel Services

Employee salaries and wages, including extended time, severance pay, supplemental contracts, etc.



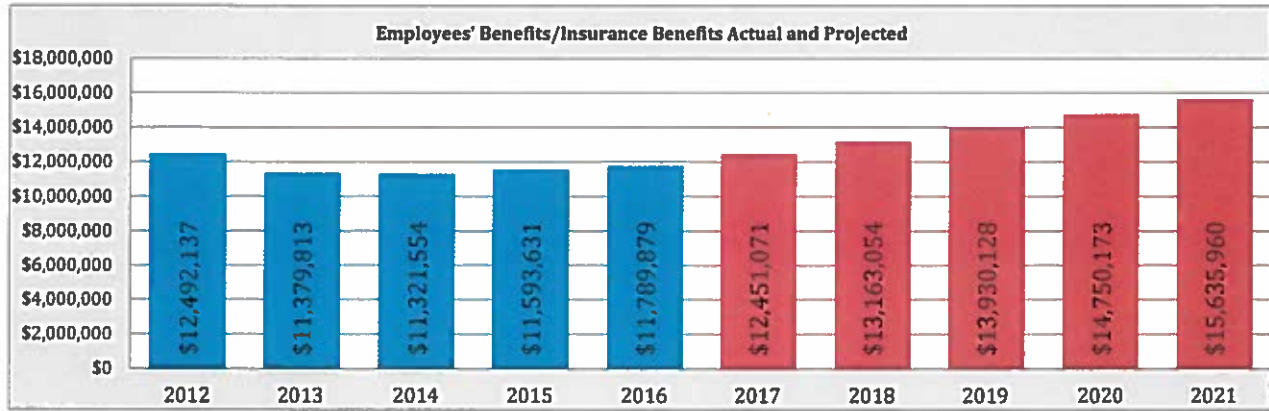
Salary costs are 59.6% of the budget and have been reduced at an average annual rate of -1.32% over the past five years. The costs are projected to increase annually at a rate of 3.04% over the forecast period.

The number of employees are projected to remain relatively consistent through the forecast with the exception of one teacher FTE reduction in 2017 and 2018 through attrition. The forecast does reflect the retirement of 10 employees per year with lower cost replacements. The salary savings average \$305,000 per year.

Certified employees comprise about 71% of total salaries, classified is 14.14%, and administrative is 6.10%. The average annual increase of 3.04% through 2021 is modeled to show the historical trend change in these salary categories.

### 3.020 - Employee Benefits

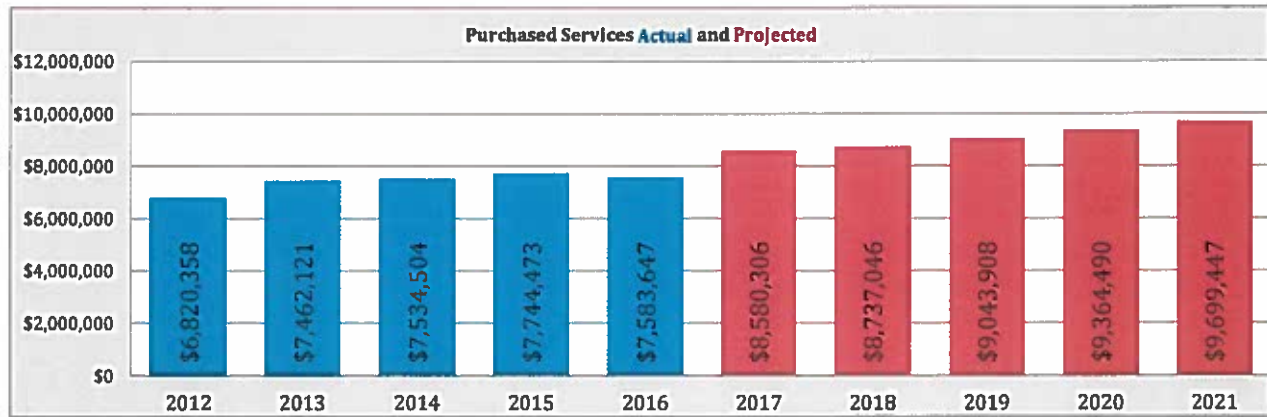
Retirement for all employees, Workers Compensation, early retirement incentives, Medicare, unemployment, pickup on pickup, and all health-related insurances.



A little over one-fifth of the district's operating budget is spent on fringe benefits. Health insurance is a little more than half of the total fringe benefit cost. Health insurance costs are projected to increase 8% or \$502,704 from 2016 to 2017. The health insurance costs are projected to increase in FY 2018 and beyond at an annual rate of 8%.

### 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.



Purchased services comprise 13.4% of the district's budget and cover services such as student tuition, utilities, transportation, and professional services. Fiscal year 2017 expenditures are projected to increase 11.34% or \$859,635 primarily because of the new storm water (NEORS) fees, service contracts for all the security cameras and radios, and the projected increase in transportation cost.



### 3.040 - Supplies & Materials

Expenditures for general supplies, instructional materials including textbooks and media material, bus fuel and tires, and all other maintenance supplies.



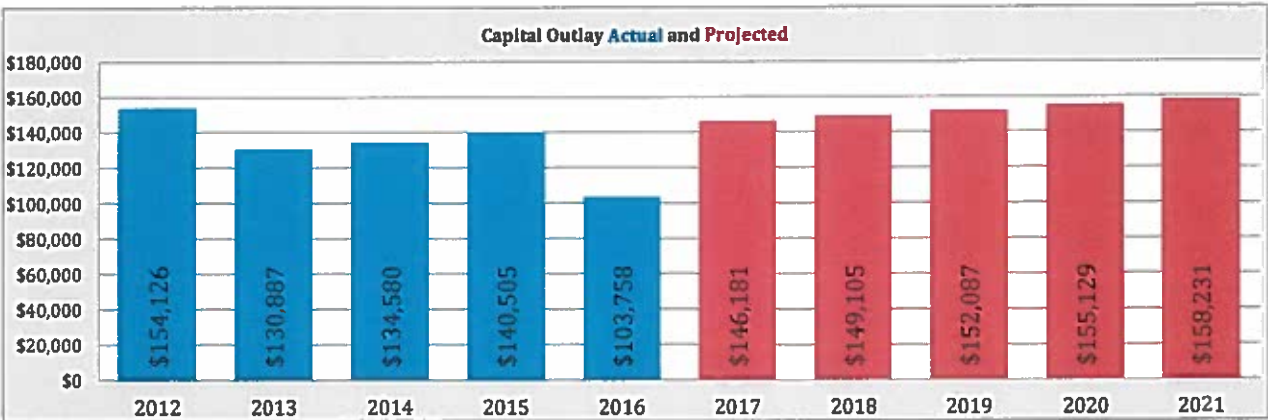
Supplies are just 2.8% of the budget. Instructional supplies totaled \$979,095 in 2016, and are projected to grow at an average annual rate of 6.17% through FY 2021.

Fuel costs dropped by \$100,000 in 2016, which is a decrease of 31.2% over the previous year. These costs are projected to grow to their 2015 level in FY 2017 and then grow by 5.0% per year through 2021.



### 3.050 - Capital Outlay

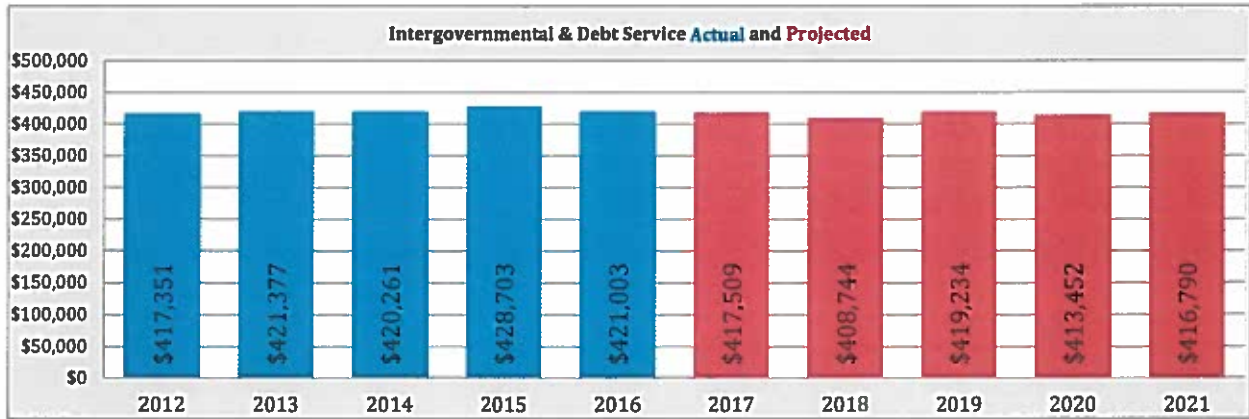
This line includes expenditures for items having at least a five-year life expectancy, such as land, buildings, improvements of grounds, equipment, computers/technology, furnishings, and buses.



Capital outlay is just 0.2% of the district's general fund budget and are projected to remain consistent with historical levels.

### 3.060-4.060 - Intergovernmental & Debt

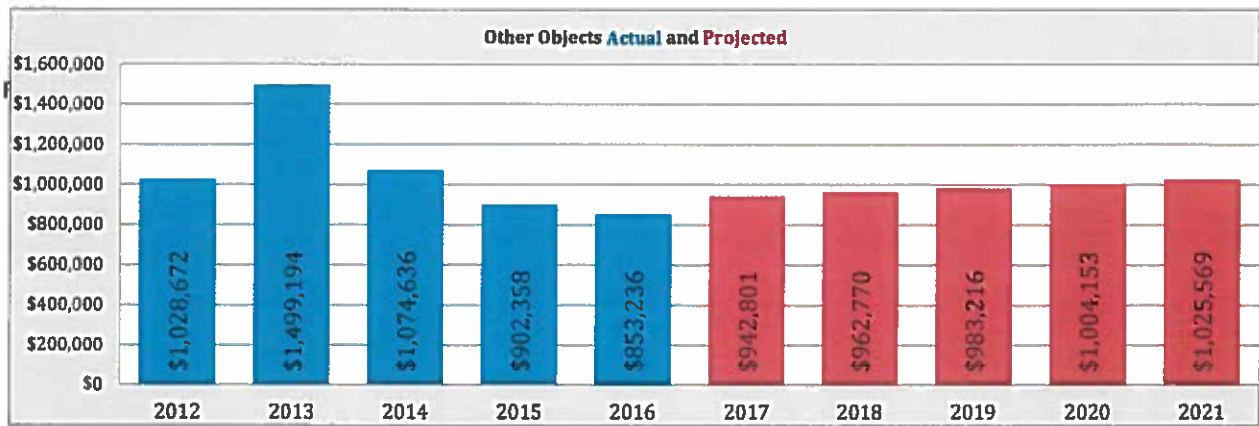
These lines account for pass through payments, as well as monies received by a district on behalf of another governmental entity, plus principal and interest payments for general fund borrowing.



The district has two HB 264 energy conservation loans. One issue originated in 2007 and will be fully paid in FY 2022. The other issue originated in 2009 and will also be fully paid in FY 2022.

### 4.300 - Other Objects

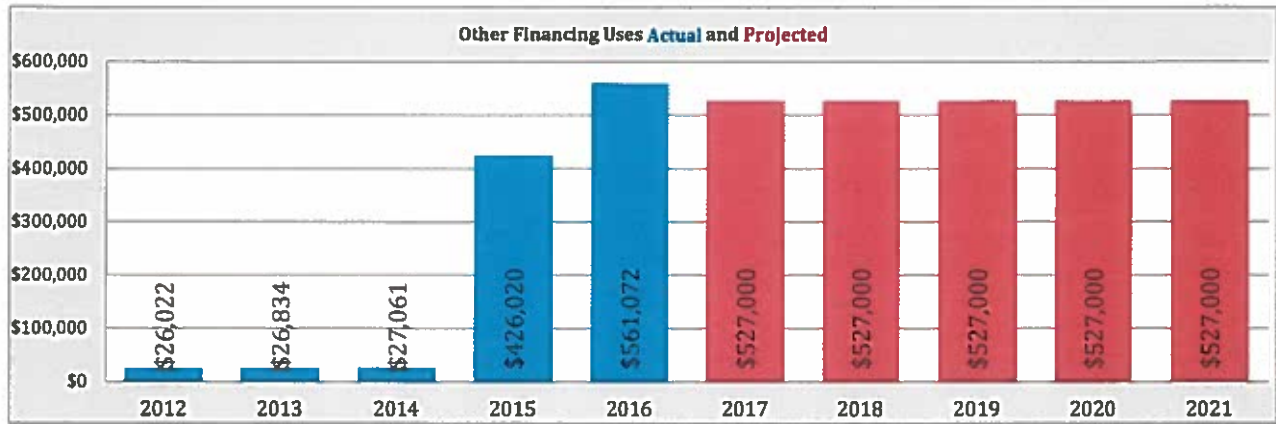
Primary components for this expenditure line are membership dues and fees, ESC contract deductions, County Auditor/Treasurer fees, audit expenses, and election expenses.



Other objects include county auditor and treasurer fees and represent 1.5% of the district's budget. Projected trends are in line with historical levels.

### 5.040 - Total Other Financing Uses

Operating transfers-out, advances out to other funds, and all other general fund financing uses.



Other financing uses are comprised of transfers to the permanent improvement fund for funding of the district's capital plan, the amount for this purpose is \$500,000 each year. Transfers also include funding provided to student activities.