

LAKE LOCAL SCHOOLS (Wood)
FIVE-YEAR FORECAST ASSUMPTIONS
OCTOBER 2013

OCTOBER UPDATE

The 2014-2015 Ohio Biennium budget was finalized in late June. Although the final bill as passed was not as favorable to the District as the Governor's initial proposal, it still represented an increase in state aid that's on par with what the district received in 2002. This 13-year period saw zero increase in state aid that caused the state's percentage of Revenue to General Fund Expenditures fall from 40% to 27%.

While it appears that this funding model reverses the downward trend in state revenues, we are still cautious given that this represents the 4th state education funding model in 8 years and is still subject to the guarantees, caps, and other distortions created by the political processes. We've spent twice as much time on this forecast as any in the past, with half the confidence in the numbers, particularly for the years past the current biennium.

Additionally, other aspects of the state budget could have immediate and/or long range impacts on district expenditures including the expanded school voucher program, increased transportation requirements, and funding cuts to the county Educational Service Centers that will in turn increase costs to the District. Also, Ohio education reform initiatives call for New Learning Standards, New Teacher Evaluations, and New Student Assessments that will increase teacher and administrator workloads that have already demonstrated the need for additional resources.

ASSUMPTIONS

REVENUES

Property Tax Receipts

As a result of the last tri-annual county property valuation update, the District's total valuation dropped from \$238 Million dollars to \$217 Million dollars, led by a 15% decline in Residential property valuation. This resulted in a \$380,000 annual loss in property tax receipts.

Fortunately, the district passed 6.75 mill three-year operating levy in 2012 that eliminated the need for a second round of lay-offs following the RIF that occurred in May of 2012. (10 Teaching positions, 12 classified, and numerous assistant coaching and advisor positions)

Tangible Personal Property (TTP) Tax

The Tangible Personal Property Tax is now completely gone after a five-year phase-out that began in 2006. This was a locally collected tax that was replaced by the state collected CAT (Commercial Activity Tax). Originally promised by the state to “hold harmless”, TTP loss reimbursement payments have been significantly reduced over the past few years (33%) with the Public Utility TTP payments being completely eliminated. Combined, this is a loss of over \$600,000 annually to the District.

Property Tax Allocation

Another interesting development with this year’s budget focused on the 10% and 2.5% rollbacks that have been around since the 1970’s. All existing levies are grandfathered, and will continue to receive rollback payments from the state, but new levies passed going forward will not be subject to rollback. This means that districts will have to ask their voters for higher millage rates than they have in the past just to receive the equivalent dollar amounts.

Unrestricted Grants-in-Aid – State Foundation Payments

As previously mentioned, the District will finally receive an increase in state aid with the 2014-2015 budget. After years of the Ohio Budget process passing districts with similar demographics like us by, the new formula is more representative of where the kid’s actually are. Also, the district’s district lower valuation per pupil, as a result of lower property values, is also factor in the increase. Still, the funding mechanism is riddled with guarantees and caps that make any assumptions past 2015 questionable.

The increase in 2014 is 6.25% and the increase in 2015 projected to be 10.5% limited by increase “caps”. Without the caps, the increase would have been 25% and 18.5% for 2014, 2015, respectively. So, assuming that the funding formula will remain the same in 2016-2017, will there be caps put in place or will the payments reflect the true calculations of the formula? With this “unused cap space” in mind, this forecast uses 5% increases in basic state aid in FY16 and FY17.

Other Local Revenues

This category includes Open Enrollment, Tuition Transfers from other districts, Student Activity Fees, and Investment Income. Investment income typically has been the largest component of this category, but we has seen this steadily drop from \$230,000 in 2008 to \$1,900 in 2013 due to dwindling fund balances and interest rates at all time record lows.

There is no expectation that interest rates will return to normal levels any time soon.

EXPENDITURES

Salaries

Both certified (teachers) and classified (support staff) unions accepted concessions of 0% base increases in FY11 and FY12. In FY13, both unions accepted a complete pay freeze, including steps, and took on higher employee health care premium contributions. District administrators have gone 4 years without any pay increases.

This summer, both unions agreed to three-year contracts through 2016 with salary increases of 6.95% over the three years. Administrators received similar increases over the 3 years.

Benefits

The District belongs to the Wood County Schools Health Consortium for Health Care Coverage. This has been advantageous in controlling premium costs with most increases generally falling below the national and regional averages. For FY14, the medical component increased 7% with the Dental component showing no increase.

This forecast uses 7% increases for medical and 5% for dental over the forecast period. Also, in 2014 the consortium added a lower cost 60% policy in compliance with the Affordable Care Act to benefit lower income classified workers.

Additionally, the consortium will be adding an optional Health Saving Account (HSA) plan in FY15, designed to be more affordable and lower premium costs.

Last year, the state legislature approved significant changes to the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS) that will have a profound impact on school district finances in the future.

While contribution increases have been limited to employees (STRS) only at this time, school districts will see substantial hidden costs through the lengthening of retirement and service age requirements that will have a negative impact on future salary expense, medical insurance premiums and worker's compensation premiums.

Purchases Services/Materials and Supplies

We expect most other categories to be relatively stable and grow fairly slowly. The major unknown at this point would be the impact of the expanded voucher program that could potentially led to a jump in transfer payments to charter/community schools.