

Mad River Local School District
801 Old Harshman Road
Riverside, OH 45431
IRN 048702
FY 2012 thru 2016 Five Year Forecast Assumptions

General Comments:

This document provides a line by line description of the assumptions made in developing the District's Five Year Forecast.

The economic climate at the time of this revision is that we are in a recession. The Ohio Department of Taxation has advised us that State income tax collections are down and are not projected to grow between Fiscal Year 2012 and 2013. The housing sector is in a serious slump or decline due the sub-prime mortgage fallout. Foreclosures are at an all time high. The condition of the housing sector means that property tax revenue will not be increasing with new construction as previously projected. New construction has slowed to a trickle.

The District's enrollment has been declining. FY10 enrollment was 3,607 and FY11 has dropped by 127 to 3,480. FY12 enrollment is expected to be flat. The District is not on the guarantee for Foundation funding. Due to the State's budget woes, the Foundation funding will decline once the Stimulus money runs out in FY11. The District has opened enrollment for FY12 and has projected \$911,388 of new revenue which is included in the State Foundation funding. The District's expenses are increasing with inflation but the State's support is decreasing. This is causing an ever increasing need for the District to have to raise revenues or cut expenditures to balance the budget. Revenue is declining but expenses keep rising with inflation.

Real Estate Tax revenues for the District have declined in recent years with the current economy and credit crunch in the housing sector. The County Auditor has projected our FY12 real estate tax collections to be significantly less than last year.

The District has a General Fund reserve of \$9,935,093 at the beginning of FY12 but because the District's expenditures are more than its revenue for each year in the forecast, the reserve will run out in FY14. The District will need to either reduce expenditures or pass a new tax levy (or both) to balance its budget. A levy would need to be passed in calendar 2011 in order to receive tax collections in the 2012-2013 school year. The District has a 5.9 mill levy on the ballot in November 2011 which would bring in \$1.4 million per year in new revenue.

The new Governor has eliminated the previous Governor's OEBM (Ohio Evidence Based Model) method of calculating the State Foundation funding. FY12 funding is a "bridge" funding year until the new Governor's administration has time to develop a school funding formula. The FY12 Ohio budget cut funding to the District by phasing out the Tangible Personal Property Tax Loss reimbursement the District was receiving. Also, FY11 was the last year for the State Fiscal Stabilization (Stimulus) Funds.

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Line by Line Descriptions:

REVENUES:

Tax revenues (lines 1.010, 1.020, & 1.050)

- **FY 2012 thru 2016 Tax Revenues** are based on current values and effective millage as provided by the County Auditor for the tax year 2012. Due to the instability in the local economy, the projections for fiscal years 12 through 16 are flat with no increase.
- The significant decline in estimated tangible personal property receipts reflect the phase out of the tax except for Public Utility Personal Property Tax on some utilities.
- Note that there is no “make whole” provision in place for the elimination of inventory taxes or telephone taxes.
- **Note that the direct reimbursement payments for continuing operating levies (“fixed rate” levies) phase out was accelerated in FY12 and 13.**

Unrestricted grants in aid (line 1.035)

- **FY 2012 Unrestricted grants in Aid** reflects the estimated amount of foundation funding through the Ohio Department of Education funding under the “bridge” year funding of FY12.
- The foundation funding figure includes \$911,388 in estimated open enrollment revenue starting in FY12.
- **FY 2013-2016 Unrestricted Grants in Aid** –at the current time, there is no Ohio school funding formula. It is impossible to know what the District’s foundation funding will be for future years. The Assumption was made in this forecast that the funding will be the same for future years as it is for FY12 due to lack of better information at this time.

Restricted grants in aid (line 1.040)

- Currently restricted grants in aid are limited to preschool special education classrooms, special education transportation and career/technical education monies. Due to the inherent uncertainty of projecting state revenues and the continuing decline in the state economy, the figures for future year’s foundation funds reflect no increase. For Mad River, the bulk of these funds are for Career Technical Education.

Restricted Federal Grants-in-Aid – SFSF/Ed Jobs Grant (line 1.045)

- This line item is used to account for the SFSF funds that the federal government provided to States through part of the economic stimulus package for fiscal years 10 & 11. The State has used these funds as a dollar for dollar supplant of prior

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year's foundation funds, thus they are reflected as a decrease to unrestricted state funds and reported in this line item for the two years of the funding.

- The Federal Government has provided a new one-time source of funding for schools called the Education Jobs Grant. The grant was provided to schools to help retain jobs and prevent lay-offs. The district is slated to receive \$1,182,695 and will use this to supplement FY12 budget when the SFSF funds are discontinued. This amount is less than the SFSF funds received in FY 10 & 11.

Property Tax Allocations (line 1.05)

- Property tax allocations are the Homestead exemption, the 2.5% and 10% rollbacks, and the Tangible Personal Property Tax Loss Reimbursements paid by the State to School Districts. The Tangible Personal Property Tax Loss Reimbursement is now being phased out over FY12 and FY13 resulting in a reduction of \$652,187 reduction in FY12 and a \$266,660 reduction in FY13 which represents complete elimination of the reimbursement over this biennium's State budget.

All Other Revenues (line 1.06)

- **FY 2012 thru 2016 all other revenues** are mostly made up of impact aid and other tuition and fees. We are anticipating that these sources of revenue will remain level for the forecast.

EXPENDITURES:

Personnel expenditures (line 3.010)

- **FY 2012 & 13 Personnel expenditures** are based upon the currently contracted personnel for the District. Employee unions agreed to a 0% wage increases and no steps for FY12 & 13. 26 employees who retired or left the District in FY11 were not replaced in order to reduce personnel expenditures.
- **FY 2014 thru 2016 Personnel expenditures** these figures reflect no increases due to the current economic conditions and the District's declining cash position. The assumption was made that additional raises would not be offered until the District's financial picture improves.
- There are currently no staff increases or decreases built into this forecast.

Employee's retirement/insurance benefits (line 3.020)

- **FY 2012 Employee's retirement/insurance benefits** were computed using the actual rates for retirement (14%), Medicare (1.45%) & a 1.55% allowance for workers compensation, unemployment and various other salary related benefits multiplied by the related personnel services line item 3.010 and the actual budgeted figure for the district share of health insurance for general fund employees. The District's Health Insurance premiums increased 15% for FY11

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and 11% for FY12. Employees agreed to increased co-pay for medical insurance starting with FY12 to help reduced the cost of health insurance.

- **FY 2013 thru 2016 Employee's retirement/insurance benefits** were computed using the actual rates for retirement (14%), Medicare (1.45%) & a 1.55% allowance for workers compensation and unemployment multiplied by the related personnel services line item 3.010.
- Insurance premiums for FY 2013-2016 are estimated based upon no additional covered lives and an annual 12% increase in premiums. Any premium change different from the projection will have a significant effect on the projections.

Purchased services (line 3.030)

- **FY 2012 Purchased services** are based upon FY11 expenditures increased by 2%. Of this amount approximately \$1,600,000 is special and alternative education related purchased and/or placement services including community school deductions. Utilities account for approximately \$1,450,000.
- **FY 2013 thru 2016 Purchased services** reflect a 2% inflationary increase. These figures do not reflect any anticipated major increases in purchased special education and/or community school services. If unexpected increases occur, they will have significant effects on the projections reflected in the forecast.
- **NOTE** that any significant change in the overall rate of inflation will result in a required adjustment to the forecasted numbers.

Supplies & materials (line 3.040)

- **FY 2012 Supplies & materials** are based upon the actual expenditures for FY11 increased by 2% for the current year.
- **FY 2013 thru 2016 Supplies & materials** were projected to increase by an inflationary rate of 2%.

Capital Outlay expenditures (line 3.050)

- **FY 2012 Capital Outlay** is based upon the actual expenditures for FY11 increased by 2%.
- **FY 2012 thru 2015 capital outlay** was projected to increase by an inflationary rate of 2%.

Other Objects expenditures (line 4.300)

- **Other Objects expenditures** are mostly expenditures related to Montgomery County Auditor & Treasurer fees and the Montgomery County ESC deduction. We are projecting a stable use of ESC services and auditor & treasurer fees throughout the life of the forecast.

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ESTIMATED ENCUMBRANCES:

Estimated Encumbrances (line 8.010) are the amount of payables the District owes at any given year end. Amounts are based on FY10 actual plus inflation for future years.

RESERVATION OF FUND BALANCE:

1. On an annual basis, **the textbook and instructional supplies and capital improvement set-aside (lines 9.010 & 9.020)** requirements are expected to be met through expenditures already projected in the forecast, thus requiring no additional reservations of general fund balance.
2. **The budget reserve set aside (line 9.030)** is no longer required by the ODE and has been eliminated.

ADDITIONAL LEVIES:

Based upon the forecast assumptions and the historical data, the district has been operating with declining cash from operations (excluding inner-district borrowing) for the past several years. The district is operating at a deficit this year and will deplete all available cash reserves during fiscal year 2014 without new revenue or expense reductions.

In order to provide a sustainable financial future for the district, the MRLSD has begun to develop a long range plan that includes detailed plans for reductions of ongoing expenditures and additional funding. The Board of Education has placed a 5.9 mill levy on the ballot in November 2011, and is reviewing the budget for additional cuts necessary to balance the budget. The forecast does not include any new revenue from the proposed November ballot issue because the revenue will not be certain until after the election date of November 8, 2011.

As always, the state budget and the economic stability of the region as well as the enrollment of the district and overall inflationary trends may dramatically impact the forecast. We will continue to monitor the forecast against actual data to determine its reflection of current conditions as well as the need to update and revise the projections to reflect unforeseen conditions that impact our district.