EASTWOOD LOCAL SCHOOL DISTRICT

HOME OF THE EAGLES

Five Year Forecast Notes and Assumptions

May 15, 2017

REVENUE ASSUMPTIONS

School districts operate from three sources of tax revenue: Local Property Taxes, State Funds, and Federal Funds. For the purpose of a Five-Year Forecast, only those revenues affecting the general fund are considered. **Eastwood is facing a near certain drastic cut in state funding for the FY18/FY19 biennium. State budgets have not been completed but foundation funding is expected to fall by over $300K per year, plus reductions in income taxes and the state is considering possible reductions in Agricultural Use Valuations. In total $500K/yr in revenues is now uncertain at best. The Ohio legislature may not adopt the final budget until sometime in June.**

Eastwood LSD Financial Recognition

2015 Ohio Auditor of State Award winner for exemplary financial reporting and effective and accountable financial practices.

Eastwood LSD State Report Card

Performance Index: C
Indicators Met: D
Value Added: A
4-Year Graduation: A
5-Year Graduation: A

Property Taxes

FY17 included a one-time receipt $373K for prior-year's taxes owed by Troy Energy that had been withheld while valuations were appealed by Troy Energy. In FY18 we expect a 12% reduction in CAUV Ag use valuation, and with the legislature considering further reductions, we have included a possible additional 10% reduction starting FY19.

Real estate and tangible personal property tax revenue is collected by Wood County based on inside millage and voted millage for operating and emergency levies. The most recent tax data from the county auditor is presented below. Sexennial revaluations in Wood County last occurred in 2011 and will take place in 2017. The district allowed an $878,000 per year Emergency Levy to lapse providing a 3.15 mill reduction to district taxpayers.

The tables below reflect current valuation.

The 2017 Sexennial Revaluation, and proposed CAUV Ag use changes, will cause burden shifts with reductions in CAUV affecting Residential Real Property. Valuation reductions will directly affect district receipts on the inside millage portion. The voted millage portion will adjust upward under HB920, and with the burden shift, homeowners will likely see an increase as taxes shift from their agricultural neighbors.

Also we are beginning to see reductions in Homestead exemption payments from the state. Under HB59 state budget law, all new Homestead Exemptions are now means tested and any new or replacement millage results in the elimination of Rollback, effective beginning with all November 2013 enacted millage. As Homestead is reduced, the tax burden shifts from the state to local taxpayers as they now pay the full unsubsidized rate. The rollback elimination provision further complicates the ability of public school districts to attempt new money levies and further complicated our efforts to explain tax levy proposals to our voters.

Under state law, differing property types are taxed at different rates necessitating valuation by classification:

	District Valuation in 2016 for Taxes Paid in 2017
	Wood Co. Total
Res/Ag	$ 217,061,820
Mobile Home	992,630
Real Est Other	18,880,510
Real Est - Public Utility	202,140
Personal Property - Public Utility	67,325,530
Res/Ag New Construction	$ -
Other New Construction	-
Total	$ 304,462,630

In an effort to end inflationary tax increases, many years ago the state enacted HB920 which caps the effect of voted millage to have no greater dollar impact than when originally approved by the voters. As property values grow, voted millage is reduced to collect the same total amounts and millage is reduced to an effective rate. Many other factors also come into play such as homestead exemption, rollback, sexennial reappraisal, and the triennial update. As mentioned above, rollback will only apply to levies in existence prior to November 2013 or renewed without changes in their collected amounts. Current certified rates are in the following table:

		Effective Millage Res/Ag		Effective Millage Other	
School District Levies	Originally Voted Millage	General Fund	Permanent Improvement Fund	General Fund	Permanent Improvement Fund
1976 Operating Levy	14.40	7.415640	n/a	8.189812	n/a
1979 Operating Levy	6.50	3.583983	n/a	4.045866	n/a
1997 Operating Levy	6.00	4.000404	n/a	5.184108	n/a
$4.34 MM Bond, 1998-2022	1.250000	0.750000	n/a	0.750000	n/a
2013 PI Levy, 2017	2.000000	n/a	0.911188	n/a	1.624686
Total Voted Millage	30.150000	15.750027	0.912120	18.169786	1.624686
Inside Millage	5	5.00	0.00	5.00	0.00
Total Millage	35.150000	20.750027	0.912120	23.169786	1.624686

As mentioned above, the district allowed an $878,000 per year Emergency Levy to lapse providing a 3.15 mill reduction to district taxpayers.

One other item of interest to the taxpaying public and to the forecast planning of the school district is the concept of the 20 mill floor. Under state law if the total effective millage of all operating levies and inside millage falls below 20 mills, the county auditor must adjust effective tax rates to collect a minimum of 20 mills from those levies.

(total of inside plus voted millage)	Res/Ag	Other
FY16	20.001618	22.321924
FY 17:		
Operating Levies	15.000027	17.419786
Inside Millage	5.000000	5.000000
	20.000027	22.419786

When appraised values decrease, operating levy millage rates will adjust upward in a reversal of the normal HB920 effect. Rates adjust up to a maximum of the original voted millage. The understandably frustrating impact to the taxpayer with declining valuation will be that their tax bill will only be reduced by the amount of the inside millage applied to their property valuation, with the added complexity of board of revision appeals shifting tax burdens among taxpayers in the district and state changes in agricultural valuation methods causing additional shifts of tax burden among neighbors.

With the effect of HB920, and the elimination of the 3.15 mill Emergency Levy, Eastwood is operating the district at the 20-mill minimum property taxation floor, with dollar growth coming only from new construction, plus the 1% earned income tax which is also under pressure from expansions in small business tax exemptions.

Reappraised valuation will affect tax collections in calendar years 2018-2020. A "desk" re-valuation will occur in 2020 affecting 2021-2023 valuations. We expect net decreases in valuation if the legislature enacts additional CAUV changes as expected.

Line 1.01 property tax revenue decreases in FY18 due to the one time Troy Energy receipt in FY17 and a 12% reduction in CAUV. We expect an additional 10% CAUV reduction and some offsetting growth in residential real property with new home construction growth.

Income Taxes

In 2016 district voters renewed a 5-Year Earned Income Tax that will collect from 2017-2021. Expected revenues from this tax are $2,000,000 per year, but we now expect a reduction as the small business exemption enacted for FY16 at the first $125,000 of income, has now expanded to the first $250,000 of income (applies to both the state income tax and "earned income" school district income taxes.) We had projected steady growth in the income tax but now expect a decline for FY18 and only slight growth in the following years.

Unrestricted Grants-In-Aid (State)

State funds include Foundation Funding, Career Tech Aid, Special Ed Catastrophic Aid, and Tangible Personal Property Tax Reimbursement and had included a "bonus" for being an Excellent Rated District. Total State funding to Eastwood has been drastically reduced. The State implemented a "Bridge Funding" model for FY12 and FY13. With the FY14-FY15 budget bill HB59, the state implemented its fourth new funding model in five years. Eastwood lost approximately $1.42 million per year in state and federal funding since FY10-FY11. The state formula was again modified for FY14-15 and yet again for FY16-17.

The FY14-FY15 State budget funding formula promised the district would receive no less than the prior fiscal year. However, the district saw this "promise" to be adjusted downward for increased deductions to charter schools, increased scholarship deductions, loss of "Excellent With Distinction" bonus (the state discontinued that metric in the new system) and reductions based on enrollment and additional unfunded cost mandates (ESC funding reductions and other mandates that increase district costs). Various voucher and scholarship proposals seem to be perpetually before the legislature that would further reduce state funding. The state formulas now include an estimate of income wealth, along with property wealth. Eastwood has higher property tax valuation and income wealth per pupil than the state median. Eastwood is viewed by the state funding formulas as a "wealthy rural district," in both property and income wealth, resulting in lower "state share" for the state funding formula.

The most alarming aspect of the new funding model was the potential impact on rural districts like Eastwood. The new state formula placed Eastwood on a "Guarantee" estimated at $716,336.87 (which changes every two weeks as calculated by ODE) meaning the State could ultimately cut that amount, per year.

We are now facing an additional reduction in excess of $300,000 per year in the new state budget.

This forecast includes Casino revenue which has been reduced from initial estimates as casino revenues continue to come in below estimates.

All listed impacts affect lines 1.02, 1.035, 1.04 and 1.05.

Restricted Grants In Aid (Federal)

The last federal stimulus dollars were used in FY13. We do not plan for any additional federal stimulus monies to be received. Title and IDEA-B funds have also been reduced for FY14, FY15 and again for FY16.Districts are seeing increased special needs costs in the form of increased need for intervention specialists, special needs aids and paraprofessionals. The ongoing special education costs will shift to the General Fund have and been incorporated into this forecast.

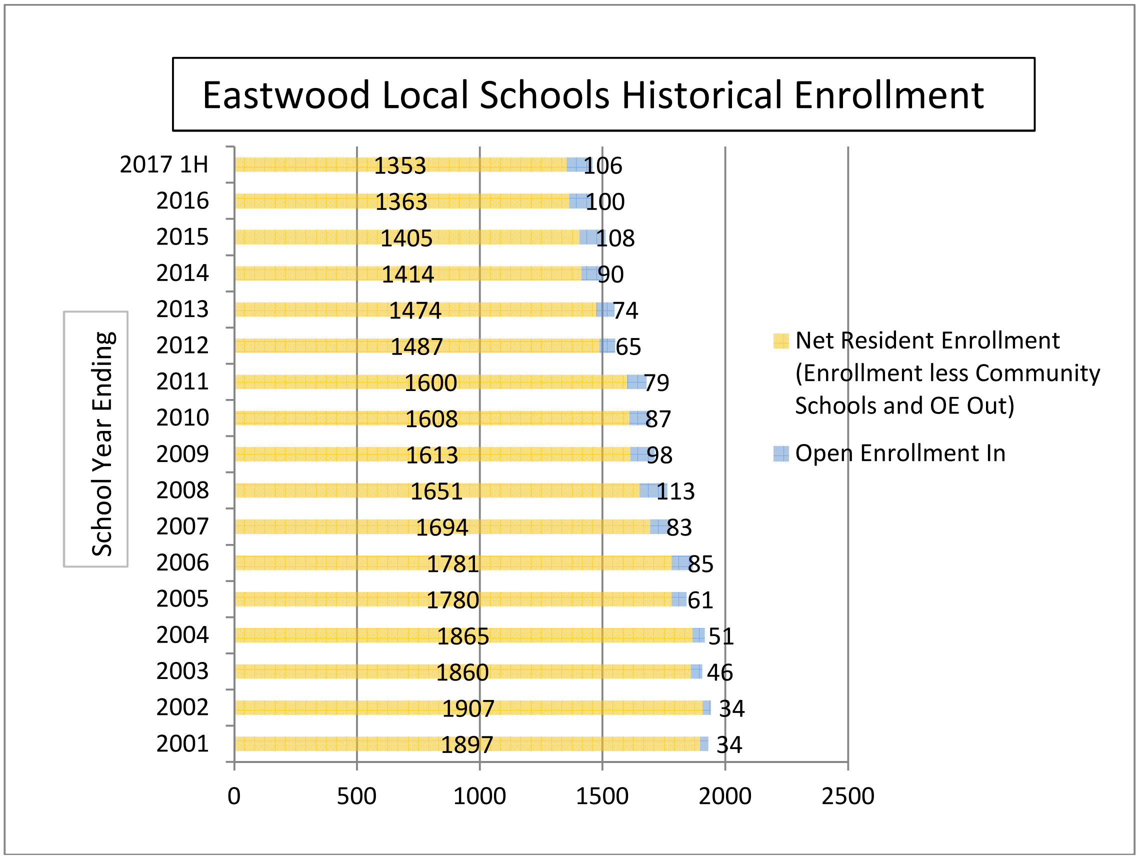
Property Tax Allocation

This line includes Homestead and Rollback reimbursement from the state. The state offers homeowners a 10% property tax rollback and an additional 2.5% rollback was established in 1979. Effective 2014, these Rollbacks are eliminated for any levy except renewals. In 2007, a $25,000 Homestead tax exemption was established for those 65 years or older. Effective 2014, all new Homestead Exemptions applications are means tested and households earning more than $30,000 in Ohio Adjusted Gross Income in the prior year are ineligible. These changes to Homestead and Rollback reimbursement occurred in the HB59 budget in conference committee with no prior proposal by the Governor, Senate or House and very limited public testimony. Current district levies are not affected, however we are seeing reductions in Homestead Reimbursements. As properties change hands and the new owners are means-tested out of the exemption, this portion of tax burden shifts from Columbus to the new property owner.

Also included in this line are Tangible Personal Property reimbursements by the state. The HB153 budget bill ended TPP reimbursements to Eastwood tied to operating levy millage in FY12. This was a damaging loss of about $580,000 per year ($2.9MM over a five year forecast). Eastwood received $593,333.45 in FY11 in TPP reimbursement. Today the district receives nothing.

Other Revenue
Line 1.06 "All other revenues" includes operating income from tuition, open enrollment, donations, school fees, pay-to-participate fees, and interest on investments. We have changed to "state-wide" open enrollment beginning in FY17 with the hope that will result helping to stabilize our financial situation.

Historic Enrollment Trend:



EXPENDITURE ASSUMPTIONS

School districts typically expend between 80% and 85% of all spending on personnel and benefits. Anything approaching 85% is risking the ongoing financial health of the district. Eastwood is projected to expend 77%-79% for salary and benefits during this forecast period.

Contracts with EEA and OAPSE froze base salaries for FY10-FY13 allowing for only step increases in those years. FY14-FY16 contracts allowed for base increases of 2.5% in FY14, and 1.75% in FY115 and FY16. New contracts for FY17-FY19 include base increases of 2% per year. EEA and OAPSE and agreed to reduce the medical and prescription benefit plan design effective 7/1/13 and increase contribution to 10%. Beginning 7/1/16 EEA and OAPSE agreed to further plan design reductions that reduce plan inflation for FY17 to 0% by adopting consortium “Benchmark” plans. All administrators will also all be paying the full 10% contribution as their contracts are renewed or as they opt-in earlier, stepping to 5% this year and 10% next year.

Assumed step and base changes below are for the purpose of forecast planning and do not signal any agreement with EEA or OAPSE for FY20 and beyond. Actual changes will be the result of legislative changes, including any additional pension reform legislation, and through board negotiation with EEA and OAPSE.

Personnel Services – Wages

For FY17 three teaching positions will be replaced by retire-rehire savings. One of these three positions will also have reduced hours. One additional teaching position will be attritioned for FY17. One administrative position will be attritioned in FY17. Due to growth and class size issues, we are planning to add three elementary positions for FY18 (1st grade, 4th grade, and SPED Intervention Specialist). The forecast assumes 2% base changes in FY20 and FY21. With the consolidation of our elementary buildings in FY18 we have eliminated positions affecting OAPSE staff for FY18.

Benefits

As mentioned above on 7/1/16 EEA has agreed to further plan design reductions that reduce plan inflation for FY17 to 0% by adopting consortium “Benchmark” plans. All administrators will also all be paying the full 10% contribution as their contracts are renewed or as they opt-in earlier. We are expecting FY18 medical, dental and life insurance rate increases will be 0%. For following years we are forecasting 5% in FY19 and 7% in FY20 and This forecast assumes that all insurances will include employee contribution of 10% in FY20 and beyond.

Purchased Services

Items included in this line include purchased instructional services, professional & technical services, computer services, special education and health services, data processing services, professional and legal services, garbage removal, repairs and maintenance, property insurance, leases, travel & meeting expenses, telephone, postage, electricity, natural gas, water, excess special education costs, open enrollment and other tuition payments to other districts including community schools, and purchased transportation services. The forecast includes the potential offset of special education costs that would come to the General Fund due to reduced Federal Title and IDEA-B funding. FY16 and FY17 natural gas costs include rebates from our purchasing consortium due to pricing reductions. FY18 and beyond include budgeted increases for electricity and water/sewer, reductions for telephone/natural gas/propane/fuel oil after opening the consolidated elementary building. A 1% annual increase is assumed for other items for FY18-FY21.

Supplies and Materials

Items included in this line are general & classroom supplies, health supplies, textbooks, library books, media purchases, janitorial/cleaning and maintenance supplies, equipment & furniture, bus maintenance & repair supplies, and fuel. Substantial textbook purchase increases were needed beginning in FY16, and again in FY18 and FY19. This forecast includes diesel costs rising after this year.

Capital Outlay

The budget includes planned bus replacement purchases at a rate of one per year this year and in FY18, then two per year FY19-FY21. Annual purchases of student computer equipment to sustain the district’s one-to-one computer initiative are ongoing.

Other Expenses

Line 4.3 includes professional memberships, state auditor fees, county ESC charges, bank fees, county auditor and election fees, delinquent tax collection fees, bank fees, liability insurance and fidelity bond expenses. Included are planned expenditures with the county ESC. An additional expenditure to pay for the sewer line from the main campus to Pemberville is included in this line starting in FY17.

Transfers Out

Transfers out include transfers to the bond fund for payments due on HB264 Energy Savings Bonds and elementary building Certificates of Participation Bonds (COPS) and to 004 Fund for Locally Funded Initiative items of the elementary construction project.

Also included are monies transferred from the General Fund to other funds to pay for costs not covered by their revenues such as to pay for classroom workbooks where student fee payments do not cover the cost, to Food Service fund and to the Athletics fund.

SUMMARY

This forecast assumes significant reductions in state funding. It does not include possible impact of any expanded voucher/charter tuition program funding. Reductions are forecast in local property tax collections due to anticipated valuation reductions associated with expected CAUV agricultural valuation declines.

Additional reductions are expected in our income tax collections due to changes in the small business income exemption.

In 2016 the district allowed an $878,000 per year Emergency Levy to lapse providing a 3.15 mill reduction to district taxpayers to return excess cash balances to our voters and provide a several years of tax relief. At some point in the future new tax revenues will need to be voted. With the changes in funding from Columbus, we must now consider the amount and timing for a new levy request.

Building closures, and associated staffing and other spending reductions have been ongoing within the Eastwood district as enrollment has declined. Additional attrition was implemented for FY17 in both certified and administrative positions. With the consolidation of the new elementary building, we have factored in staffing reductions affecting OAPSE positions for FY18, and reductions in utilities and operations expenses.

With the adoption of additional benefit plan reductions for FY17 by the ratification of new EEA and OAPSE contracts for FY17-FY19, medical/prescription benefit future inflation costs were dramatically reduced and our forecast assumes 0% increase for FY18, 5% for FY19 and 7% annual increases thereafter vs. the 9-10% annual increases that would normally be expected.

We are experiencing in-district enrollment growth in elementary and have forecast hiring additional teaching staff for next fall. This additional staff cost will be 100% funded by local taxpayers because we will not receive additional funding from the state.