

FIVE-YEAR FORECAST ASSUMPTIONS

These assumptions deal with calendar years 2011 & 2012, (fiscal year 2012) and the next four fiscal years FY 2013, FY 2014, FY 2015 and FY 2016.

REVENUES

Property Tax

Property tax revenues for FY 2012 are based on the Official Certificate of Estimated Resources for July 1, 2011 received from our Champaign County Auditor on April 5, 2011, and the Five-Year Projection Program, which calculates an anticipated amount based on property values and past history. Property valuations for next year are currently being projected until actual values are received from the Champaign County and Logan County Auditor, which will not take place until December 2011. Future years are based on these same calculations and anticipated property values for those years. Negative or positive adjustments may be required in December once we know our actual property valuations. Due to the current economy and the real estate crisis, property values are not anticipated to increase very much over the next five years, and it is possible that property values could decline during this five year span. New construction for Ag/Res over the last nine years has averaged 1.64%, with last year being only .24% for both counties (most of which was for Residential) and new construction for Com/Ind/Min/PU-RE over the last nine years has averaged .96%, with last year showing a decrease. For new construction I am using a base of .92% for Calendar 2011/FY 2012 for both Ag/Res and Com/Ind/Min/PU-RE. For all other remaining projected years I am using 2%.

Tax Year 2010 was our Tri-Annual update year for both counties and we did receive an adjustment in our collections for the Feb/March 2011 payment. The remaining adjustment will occur in the July / August 2011 payment, which will be FY 2012. Overall, our total valuation went from \$114,116,300 to \$118,721,880, a 4% increase in the amount of \$4,605,580. Included in this amount was an increase of \$6,849,100 for our Agriculture / CAUV (Current Agriculture Use Values). The average simple use value per acre across the state was \$505 in 2010. In 2007 that same value was \$181, or a 279% increase for 2010. These agriculture related values are recalculated by the State every three years using a formula that includes a number of values that are assigned to the planting and harvesting of the various crops by our farmers throughout the State. These values are then taxed at a lower rate since the land is agriculture related. Aside from new construction without the increase in CAUV, WL-S overall property valuation would have decreased by \$2,243,520, or gone from \$114,116,300 to \$111,872,780.00. Tax year 2013 will be our reappraisal year, and both county auditors have already begun work on this process. We can only hope that the economy and property values will improve, and that we don't see a negative impact in our overall property valuation.

West Liberty-Salem Local is a multi-county school (Champaign and Logan), and is at the 20-mill floor (of which 3.9 is inside millage). Our general fund levies consist of seven (9.7 mill, 3.0 mill, 3.0 mill, 3.0 mill, 5.0 mill, 3.0 mill, and 3.0 mill which total 29.7 voted mills, however the total effective or collected mills is 16.1) that are for a continuing period of time.

Delinquent taxes in this area as of June 30, 2011 are approximately \$173,351 for both counties, all real estate funds. This amount did increase over the same time period last year by approximately \$53,000. These amounts, which include late fees and penalties, are not for one or two large accounts, but for a number of small accounts, which both County Auditors anticipate will be collected over a period of time.

Personal Property Tax

As is evident by past history, this is an area that is hard to predict due to changes in inventory, refunds and recent changes to the Public Utility collections and HB66 impact on all Personal Tangible collections. In regards to the Public Utility collections, beginning tax year 2001 there were significant reductions in the valuation of certain types of public utility property as required by Senate Bills 3 and 287. The assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities were reduced. For all electric utilities, including rural electric utilities, all property except transmission and distribution property was reduced to 25 percent. All natural gas personal property goes to 25 percent from 88 percent. This new law does state that a new consumption tax will be enacted to help offset this loss of revenue to schools and cities. For FY 2005 WL-S received \$22,122.74, for FY 2006 WL-S received \$16,215 and for FY 2007 WL-S received its final payment in the amount of \$11,900. These payments were received through the state foundation payment system, and are tied to a complicated formula and the state foundation formula.

In addition, HB283, which was adopted in 1999, says that the assessed valuation of the inventory component will be reduced from 25% to 0% by 2028. Generally, the assessed valuation of the inventory component will be reduced by 1%, beginning with the January 1, 2002 tax year through the 2006 tax year, if statewide total personal property tax revenues increase over the preceding years. However; beginning January 1, 2007, assessed values on the inventory component of personal property taxes will be the lessor of 24% or the current assessed value if lower, and will be reduced by 1% each year beginning in 2008, until the assessed value is 0%, not later than 2028. Experts are saying that this will have little if any effect on most schools due to the fact that if the recognized valuation number decreases, it will be made up for by an increase in State support. The potential loss of revenue is hard to estimate, as business tangible personal property tax returns are confidential and also subject to economic condition changes annually. The recently passed HB 95 states that this 1% reduction will accelerate to 2% per year, and will be eliminated over a 10-year period.

The passage of House Bill (HB) 66 has made a number of the comments stated above obsolete; however I have chosen to leave these comments in place for informational purposes. HB 66 states that starting in 2011, all Tangible Personal Property Tax will be phased out. The five years prior to 2011 have a hold-harmless period, which will provide full reimbursement calculated on the Tangible Personal Property Tax values as of August 31, 2005. Reimbursement will come from the state, both on our foundation payment through property valuation decreases and from special payments as determined by the Department of Taxation. These special payments are being receipted into the Property Tax Section (Rollback & Homestead) line 1.050 of the Five-Year Forecast. Reimbursement payments are based on tax levies in place as of August 31, 2005. Property Valuations for Calendar years 2010 and 2011 have been reduced while the remaining years beyond that period have been reduced to zero and completely phased out. Additional comments and changes to this revenue area are discussed in the Property Tax Allocation Section located below.

With the passage of HB153, the hold-harmless payment for our district has been eliminated effective FY 2012. In FY 2011 we received \$151,087.00 as our hold-harmless amount and our overall revenue is being reduced by this amount due to this change.

Delinquent taxes in this area are approximately \$13,253.09 all funds for both counties as of June 30, 2011, which includes late fees and penalties. These amounts may be collected over a period of time although they were all prior to Tax year 2008, and it is doubtful that the full amount will be collected. Even if the full amount is collected, it is possible that the Auditor & Treasurer collection fees may end up being more than the amount collected, and in effect, create a negative payment.

Income Tax

WL-S has a 1.5 % income tax of which .5 is continuing. The 1.0 % is up for renewal every three years. This was last renewed May 2010 for the tax years 2011, 2012, and 2013. I have included this money in my projection until fiscal year 2014 at which time these collections start to decrease due to the 1% being up for renewal. The .5 will remain at this time but the 1.0 % drops off, and I have excluded it from the revenue section at the top as instructed by the State. As is evident by the projection, once this 1.0 % drops off, our financial condition changes in a hurry. As allowed by the State, I do show the anticipated proceeds of the 1.0 % being renewed on Line 11.010 and line 11.030 at the bottom in the Income Tax renewal section for 2014, 2015 and 2016. This is based on our past ballot success with this issue and the anticipated willingness of the Board to place the renewal on the ballot. May 2013 will be the first opportunity to place the 1% renewal on the ballot. The .5 has been effective since 1984 and the 1.0 % first passed in November 1992, with collections starting in 1993 for a three-year period.

FY 2007 & FY 2008 show an increase in collections of 8.8% and 10% for each year; however these percentages are inflated due to the collection of delinquent tax

accounts being included, and the early payment of taxpayers in April 2008 in order to take advantage of the Federal Tax Rebate payment. Due to the poor economy, high unemployment, reduced work week (Honda Plants), and three major businesses that closed their doors last year (Siemens Urbana & Bellefontaine & Fox River Urbana), FY 2009 collections only increase by \$4,104, and collections for FY 2010 decreased by \$144,654 or 8.03%. Collections in FY 2011 decreased by an additional \$56,658 or 3.42%. The average percentage increase over the past seven years has been 2.23%, including the last two negative years. For FY 2012 and beyond I am hoping that the economy will improve, and I have projected the annual trend increase to be 4.25% for FY 2012, and a 5% increase for the remaining years after that. In addition, I had added a one-time increase of \$50,000 for FY 2012; however after we received our decreased payment in July, I removed this one-time positive adjustment from the forecast. A number of factors can impact this area of revenue, including the economy, the weather (farm income), refunds back to taxpayers by the state, and various other factors including delinquent taxes and assessments. At some point, the Department of Taxation will be caught up collecting past year delinquent taxes, and will be working on a year to year basis. They currently are collecting 2009 delinquent taxes, some of which appeared in the payment received in July, 2011. Later in the year they will start collection of 2010 delinquent taxes or the most current tax year.

As mentioned above, our first payment in July for FY 2012, was less than what we received in FY 2011 during the same time period but only by \$1,988. It is possible that this source of income may start to improve and therefore I have left the percentage increase at 4.25%. During the July and August 2011 Board of Education meeting, this revenue source was discussed in detail and it was the general consensus of the Board to leave the forecast as it is until we know what the end of October payment amount is.

Bridge / Foundation State Funding

With the approval of HB 153 this area of state revenue is now being calculated under a different method. This new method of calculation for schools means that they are being funded based on a transitional approach until a new funding formula is devised. This transitional approach is referred to as the 'Bridge' formula, which the administration hopes to replace with a permanent formula by FY 2013 or FY 2014. The FY 2012 Bridge formula provides for a simplified approach to fund distribution based on FY 2011 total calculated amounts on a per-pupil basis. The approach involves 3 steps as follows:

1. Each district's FY 2011 total state funding through EBM (Evidence Based Model) is divided by a formula ADM calculated based on the total ADM that was compiled during the first full week of October 2010 to get a FY 2011 per-pupil amount. This FY 2011 ADM is referred to as the 'Recalculated' ADM which is not necessarily the same ADM on the basis of which the funding in FY 2011 was calculated through EBM.

2. The FY 2011 per-pupil funding amount is in turn multiplied by the FY 2012 formula ADM to establish the basis of the FY 2012 total funding.
3. The FY 2012 total funding is then adjusted by means of a charge-off valuation index to further equalize the fund distribution and also to keep the distributions within the limits of appropriations. In addition to this adjustment, each district's FY 2012 funding is further adjusted so that the district receives at least the total funding it received in FY 2011 after subtracting the state fiscal stabilization funds (SFSF) from the total funding, as well as to provide financial incentives for high performing districts.

WL-S is currently being paid based on the ODE simulations created in early July, and the current ODE calculations being used to prepare the Bridge report on a semi-monthly basis. These calculations are using October 2010 student count data which could create a problem for WL-S since the data in October 2010 was higher than our data in 2011 and appears to be higher than the estimated student data for FY 2012. The payment that the district is currently receiving could be more than we will end up receiving if our student count is less in October 2011 than it was in October 2010. This is somewhat hard to determine since the calculations are bridging between the two counts to arrive at a payment amount. WL-S is currently receiving payments based on their funding being \$5,611,047.76 for FY 2012 and if our enrollment does not match the October 2010 count and we end up on the guarantee threshold, our funding could drop down to \$5,306,014, or \$305,033 less than we are currently receiving. Until 09/16/11 it was my understanding that the district would not receive any less funding than the simulations being provided by the ODE dated 07/18/11. In our case, this meant that our un-restricted aid would be approximately \$5,611,047.76 prior to deducting the Career Tech funding. Needless to say, this is an area of revenue that we are watching and tracking, although there is little we can do until the actual student count takes place, which will be the first full week in October (10/3/11 thru 10/7/11). At that point we will still have to wait to see how the October 2011 numbers blend in with the October 2010 numbers using the Bridge calculations.

Since this is our largest source of revenue, any reductions to these anticipated amounts will create a negative impact to this forecast for all years. On the other hand, if for some reason we receive more than the amounts forecasted, the results will create a positive impact to this forecast for all years.

Restricted Grants-in-Aid

This area for our district is made up of the following: Career Tech Funding and School Age Catastrophic Aid funding. We are anticipating receiving \$38,777 in Career Tech Funding, the same amount as last year, and \$47,223 in School Age Catastrophic Aid funding, also the same amount as last year. Factors that could impact the School Age

Catastrophic funding is the number of schools applying, the number of students who qualify and the amount of dollars in the fund for the state to pay out. To the best of my knowledge, there have been no indications that these funds are being done away with.

Overall this area of revenue is \$788,605 less than what we received last year. The loss of SFSF (State Fiscal Stabilization Funds) accounts for \$455,992 of this reduction and the loss of EJJ (Education Job Funds) accounts for the other \$332,653. It is important to keep in mind that the SFSF money was not additional state funding but a supplement source of Federal funding to help offset the decrease in State funding due to the poor economy and the low revenue collections by the state. The EJJ money was considered to be one-time additional stimulus money that the district could have used in FY 2011 or in FY 2012 and we chose to use it in FY 2011.

Property Tax Allocation

This area consists of Rollback and Homestead / Exemptions payments which we receive from the State a month or two after our county auditors have processed the real estate tax payments. Effective in March 2006 this area did include State Tangible Personal Property reimbursement payments and State Electric Deregulation reimbursement payments. WL-S received its last Electric Deregulation payment in FY 2007 and these dollars have been eliminated from our forecast for future years. WL-S had been receiving direct Tangible Personal Property reimbursement payments from the State since the spring of 2006. Starting in FY 2006 we received the first payment and the General Fund amounts are as follows: \$4,348.80, FY 2007 \$34,005.45, FY 2008 \$55,865.66, FY 2009 \$72,495.27, FY 2010 \$140,254 and FY 2011 \$151,087. The recent passage of HB 153 has eliminated this general fund funding for our district in FY 2012 and all future years since the amount we had been receiving calculates to less than 2% of our overall revenue source. The District will continue to receive a small amount of TPP reimbursement funding for our PI (permanent improvement) account which is not part this forecast.

All Other Revenues

This area consists of interest income, donations, crop sales, open enrollment In, summer school fees, and other miscellaneous revenues such as SF14 & SF14H Non-Special Education Tuition and Special Education Tuition payments and SF-6 Special Education excess cost payments. This area of revenue decreased in FY 2011 due mostly to a decrease in the number of open enrollment In students. Open enrollment In and the Special Education Tuition and excess cost payments as mentioned above, account for a large portion of this overall revenue. The number of open enrollment students coming into the district for FY 2012 is anticipated to be approximately 122 students or 22 students more than last year. That same number is being used for each of the remaining years of this forecast. Open Enrollment Out funded students for FY 2011 was approximately 58 students and that same number is being used for next year and all remaining years although the anticipated number for FY 2012 could decrease down to approximately 50 students based on early student counts. In addition there are 24-26

WL-S students planning to attend the Ohio Hi Point Career Center during the school year. All of these numbers are being estimated at this point in time based on what happened last year and what we know as of early September 2011 this year. Actual numbers won't be known until later this year. As of August 2011 investment interest rates continue to remain low. All financial experts are predicting that rates will stay low for at least the next two years. As our cash balances continue to decrease and interest rates stay at their current level, this area of revenue will continue to decrease.

Other Financing Sources

This area accounts for money that is transferred or advanced to other accounts within the General Fund. Transfers are not paid back, but Advances must be paid back. If transfers occur, they must be shown as Transfers In to offset the Transfer Outs. This area also includes an anticipated miscellaneous payment of \$2,000 from other sources that may or may not occur.

EXPENDITURES

Personal Services

The Average Annual change for the last six years has been 3.01% with FY 2011 only being .29%. This includes step adjustments and all new hires. For the upcoming years, this program figures a blended increase based on what information I put into the program. For FY 2012 there is no base increase, only step adjustments for certified and non-certified employees. There was no increase provided for any sub employees, certified or non-certified, and all administrators and supervisors received no base increase nor step increase. For FY 2013 and FY 2014 there are neither base increases nor step increases for any staff calculated in this forecast. The Certified / Teaching employees have agreed to a contract extension through 06/30/2014 which includes a 0% base increase and no step adjustments. The non-certified contract / negotiated agreement will be open for negotiations at the end of June 2012 and that agreement is anticipated to have the same terms as agreed to by the teachers. In addition for FY 2012 I have prepared payroll calculations for each employee based on their rate of pay, step advancements, and job classification. The blended percentages for all employees over the next five years are as follows: 2012 – (3.39%), 2013- 0%, 2014- 0%, 2015- 1.5% steps only, and 2016- 1.5% steps only. All years after FY 2012 are based on the districts declining cash reserve and anticipated negative cash balance. To allow for step adjustments, I have used 1.50% as the annual incremental step. Staffing levels for 2012 reflect not hiring any replacement teachers for the three teachers who retired at the end of FY 2011 and the teacher retiring at the end of October. We do receive some normal grant dollars that help offset some of these areas of expense which have been allowed for in this forecast.

Employer Retirement / Insurance Benefits

In FY 2011 we experienced a 10.4% Health Insurance Rate increase. The three years prior to this time period the district had increases of 7.8%, 6.8%, and 6.8%. The health insurance rates for FY 2012 have increased by 14% due to increased claim activity within the consortium, the departure of Olentangy City School, the largest school in the CDMU consortium, and the required federal benefit changes (such as the new unlimited benefit maximum requirement). Olentangy City School had filed a suit against the CDMU consortium hoping that they could avoid having to pay their runoff claims for the last two months and also for trying to collect some to the consortium's reserve, which they are no longer entitled to once they chose to leave the consortium, per the bylaws and the constitution of the consortium. CDMU and Olentangy did reach a settlement in this suit prior to it going to trial, and in the aftermath of this settlement, the remaining schools in the consortium have decided to disband the consortium as of August 31, 2012. For the years beyond FY 2012 I am using 8% for the Insurance Renewal Percentage increase for the next four years. Whether 8% is an accurate amount will be determined as this year proceeds and we learn more about what path WL-S will take in regards to health insurance coverage. Some of the questions that will need to be answered include will the CDMU continue in some format with another consortium, will WL-S join another consortium on its own, or will we go out on our own for independent coverage. In regards to the SEHCB (School Employee Health Care Board), with the passage of HB153, this origination was disbanded, along with most of the requirements associated with the group.

Total health insurance cost is calculated on 2 months at the old rate and 10 months at the new rate less the amounts the employees are required to pay. Starting in September 2011 employees with single coverage will be paying 5% of the monthly premium. Employees with family coverage and married couples who are both employees of the district will pay 15% of the monthly premium. For FY 2012 the district is providing two higher deductible plans, which have a higher out of pocket maximum, for the employees to consider along with the standard plan. Payroll deduction amounts for the higher deductible plans are lower than the standard plan deductions offering the employees some options as to how they want to pay for their share of health care.

Other areas of expense in this area include SERS, STRS, Medicare, Workers Compensation and SERS Surcharge, an area that keeps increasing each year. STRS has been discussing a possible rate increase for both employees and employers over a five-year period. There has been no additional dollars added to this forecast to allow for this additional expense should STRS be able to get this legislation approved. WL-S Workers Compensation is determined by the group rating program they belong to and this has been allowed for in this forecast.

As was mentioned earlier, there are four employees retiring that will impact FY 2012, and the severance payment for all four of these people has been allowed for in this area of the forecast.

Purchase Services

The Annual Average Change for the last seven years is 11.72%. The range of this change has been a high of 34.98% (FY 2008) and as low as - 2.60% (FY 2006). Increase was 10% in FY 2011. A large part of this widespread range is due to the number of Special Education Students that come in and out of our district, which impacts how much our costs are with the Madison/ Champaign Educational Service Center and the Logan County Educational Service Center. I am using 3.00% as the Projected Trend increases for 2012 and 3% for the remaining years. In addition in FY 2009, I had to add additional expenses in the amount of \$260,604 to cover the anticipated cost of VARtek Services. This was the first year we used this company and the increase for the following four years of the remaining contract in regards to VARtek calculates out to about 2.6% per year. As of FY 2012 this company is no longer servicing our technology needs and has been replaced by SMS proTECH. There is an additional one time expense in the amount of \$107,000 for FY 2012 in order to pay out VARtek; however after this first year of conversion, the district does anticipate saving money by making the switch to SMS over the next two to three years.

The majority of the 34.98% increase during FY 2008 was due to Adriel School obtaining their ESC services from the Logan County ESC instead of The Champaign County ESC. Since the Logan County ESC does not service as many students as the Champaign County ESC, we are now paying a higher cost per student, which drives our overall cost up. In addition ODE has changed the process of how the excess cost payments for the special behavior students are being collected. These collections are now being posted as receipts instead of reduction of expenses, which accounts for a large part of the remaining 34.98% increase. On the positive side, our All Other Revenue category has increased by the same percentage. WL-S does receive some limited regular Grant dollars in this area that can help go towards paying our always-increasing ESC Purchase Service cost.

Other areas of expense of major impact to this area include Open Enrollment Out expenses, Community School expense, Utilities, and Tuition to Other Districts. Open Enrollment Out expenses for FY 2012 are based on 58 students and 58 students for all other remaining years of this forecast. I am confident this number will change, I am just not sure if it will increase or decrease. FY 2012 utilities costs have been held constant for the most part thanks to our participation in the Southwest Ohio Educational Purchasing Council (EPC). The district, in conjunction with the EPC, has obtained group purchasing power for electric services similar to what is currently being used for our natural gas purchases which will save the district an additional 6% on top of the 12 % they were already saving on electric generation and transmission cost.

Supplies and Materials

I am using 11% as the Historical Trend Increase for FY 2012 and 0% for the remaining years. Most of this increase is required to cover the rising cost of bus fuel. The total expense in this area for FY2011 was \$239,628 which was \$71,547 less when compared to the previous year due to a joint effort by all staff to reduce this area of expense. WL-S does collect student fees for this area and these fees, once they are paid, are applied back to the budget account as a reduction of expense. Expenses for future years are trying to be maintained at the FY 2012 level and therefore, no increases have been factored in for fiscal year 2013 through fiscal year 2016. In FY 2011 WL-S did have a HB412 unaudited set aside carry over balance in this area of expense in the amount of (\$927,872) that we could have applied towards the FY 2012 spending requirements if needed; however this required set aside was repealed for FY 2012 and beyond with the passage of HB 30 of the Ohio 129th General Assembly.

Capital Outlay

The only expense being shown in this area is for Career Tech equipment in the amount of \$8,750 each year. All other expenses in this category have been moved to the PI (permanent improvement) account / fund as approved by the Board of Education. The set aside spending requirements for this area of expense was not repealed for FY 2012 or any other years as of September 2011. The set aside spending requirement for FY 2012 in this area for our district will be \$210,081. Unlike supplies and materials, a carry over balance was not allowed in this area, meaning that the district is required to spend this amount of money in FY 2012. The district is allowed, however, to use its Permanent Improvement Levy and the Classroom Facilities Levy as offsets against the required spending amount. The total of these two offsets will account for approximately \$163,000 in FY 2012 and may be more depending on the amount actually spent during the year from these two areas. In addition, there are two general fund maintenance accounts, Contract Service / Grounds & Maintenance and Repairs, that the district will be counting qualified expense toward this spending requirement.

Debt Service

Currently we do not service any debt from the General Fund. The building payment was paid out of the Bond Fund, both principal and interest. On the positive side our building debt was paid off in December 2009, although that does not impact the General Fund or this forecast.

Other Objects

The Annual Average Change for the last seven years has been .603%. Last year this area of expense decreased by 7.1% when compared to the previous year, mostly due to the overall effort of all staff to reduce this area of expense. In addition, the district used RttT (Race to the Top) grant funds to help cover some of the professional development cost for the staff and its training requirements. For FY 2012 projected expenses, I am using a 0% increase and 2% each year for all of the other remaining years. Other areas of expense that impact this area are the State Audit Fees (Audit cost and GASB 34 cost), and the required payment to the ESC by the state, which is now approximately \$50,000.

Other Financing Uses

For FY 2011 I am allowing \$25,000 for transfers out to other areas. I did not allow anything for the Advance Out category this year due to the fact that that we have not used this category over the last five years. All other years are computed at \$25,000 for transfers out. The transfers are normally used by the Board of Education to help out other areas or departments such as Athletics, Cafeteria, etc. All funds transferred out must be approved by the Board of Education.

Estimated Encumbrances

Estimated Encumbrances are based on previous years. Last year this amount was \$62,298. For FY 2012 I am using \$65,000, which is based primary on the amount from last year. For the remaining years I have used the following amounts FY 2013-\$65,000, FY 2014-\$65,000, FY 2015-\$65,000, FY 2016-\$65,000.

**Prepared by: Steven J. Godwin, Treasurer West Liberty-Salem Local School
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