

**NORDONIA HILLS CITY SCHOOL DISTRICT
FIVE YEAR FORECAST
FY 2012 THROUGH FY 2016**

All local, exempted village, city and joint vocational school districts are required by Section 5705.391 of the Ohio Revised Code to compile a financial forecast. Formatting of the forecast is prescribed by regulations. The intent of this mandate is to report and communicate the financial operations of school districts in order to promote planning and decision making beyond the current year.

A forecast is a best guess of the future based upon facts and trends known today. More like than not the main assumptions and data trends will change with time and the occurrence of unforeseen events. Hence forecasts are filed annually in October with an update in May should significant changes require disclosure for that period.

The following notes and assumptions are pertinent to Nordonia Hills City School District's Five Year Forecast.

Basis of Accounting

Under State law the cash basis of accounting is used for budgetary purposes. This means the forecast reports cash when received and disbursements when paid out. Any legally binding expenditure commitment requires an encumbrance of funds.

Fund accounting is used for the reporting of financial position and the results of operations. Fund accounting is a means of legal compliance and segregation of transactions related to specific functions and activities.

The transactions of each fund are reflected in a self-balancing group of accounts, which represent an accounting entity separate from the activities reported in other funds. The General Fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Description of the District

The District is governed by the Constitution of the State of Ohio and various statutes enacted by the Ohio General Assembly through the State Department of Education. Under Ohio law, the District is a separate and distinct unit of government. The Nordonia Hills City School District Board of Education is a five-member board elected at-large, with staggered four-year terms and serves as the taxing authority, contracting body, policy maker, and ensures that all other general laws of the State of Ohio are followed.

The District serves an area of approximately 28 square miles around the City of Macedonia, Northfield Village, Northfield Center, Boston Heights and Sagamore Hills.

Nordonia Hills City educates approximately 4000 students while employing over 400 personnel including teachers, administrators, aides, secretaries, bus drivers, custodians and cafeteria workers.

Fiscal Projections

This financial projection presents the expected revenues, expenditures and fund balance of Nordonia Hills City School District's General Fund for the fiscal years beginning July 1, 2011 and concluding June 30, 2016. Historical information is presented for fiscal years ended June 30, 2009, 2010, and 2011. All historical information comes from district's fiscal year-end annual cash reports filed with the Auditor of State.

REVENUE

Line 1.01 – Real Estate Revenue

Actual real estate tax collections are driven by a combination of factors, which include local taxable valuation increases/decreases (particularly new construction), collection and delinquency rates, and effective rates of taxation.

Collection/Delinquency Rates

This forecast assumes collection rates will continue in a manner which is supported by historical trends. According to data obtained from the County Fiscal Office, the delinquency percentage of real property fluctuates between 2–4%. No material change is anticipated, although challenges to the housing market and economy could impact delinquencies.

Local Taxable Valuation & Effective Millage

The property within the District is reappraised every six years, with a three-year update taking place between reappraisals (triennial update). Summit County will complete a triennial update in calendar 2011. Unofficial results indicate a decline in residential/agricultural values of 8.2% and commercial/industrial values decreasing 10.8%. The most recent full reappraisal occurred in calendar year 2008, and reflected limited gains (less than 1%).

The forecast assumes the 2014 reappraisal will result in a .5% increase in residential/ agricultural property, and a .5% increase in commercial/industrial property. New construction is assumed to total .5% of the annual increase for residential/agricultural and .5% for commercial/industrial property into the forecast period.

SUMMIT COUNTY FISCAL OFFICE CERTIFICATION

<u>Year</u>	<u>Type</u>	<u>Voted Mills</u>	<u>Effective Mills</u>	<u>Valuation</u>	
	Inside	4.97	4.97	Residential/Agriculture	\$ 812,050,720
1976	Operating	30.78	7.49	Other Real	176,758,250
1984	Operating	5.40	2.05	Public Utility Personal	<u>23,706,990</u>
1988	Operating	4.45	1.94	Total Value	<u>\$1,012,515,960</u>
1993	Operating	7.20	3.65	Exempt Value	<u>65,266,470</u>
2004	Operating	<u>6.50</u>	<u>5.89</u>		
	Total	<u>59.30</u>	<u>25.99</u>		

Line 1.02 – Personal Tangible Revenue

State legislators in a quest to make the State of Ohio business friendly and adhere to a flawed economic policy of low taxes effectively wiped out tangible personal property taxes on general business, telephone & telecommunications and railroad properties. At its peak the district collected almost \$5.5 million in tangible tax. Tangible personal property values were reduced to zero in calendar year 2009. Only public utility personal property values remain and it is assumed these will decrease 2 % annually for the forecast period. The new tax policies include a reimbursement provision to coincide with decreased valuation. The State is not obligated to reimburse and in fact can reduce or eliminate these as just witnessed in the latest budget. Any reimbursements will be booked within Line 1.050 of this forecast: Property Tax Allocation.

Line 1.035 – Unrestricted Grants-In-Aid

The District receives funding from the State of Ohio by way of a foundation formula. Nordonia is known as a “guarantee” district. This means the District is “guaranteed” to receive at least the same amount of basic aid as in fiscal year 2005. As a result of being a guarantee district, this revenue line item is fairly predictable. It was previously assumed the District will remain a guarantee district throughout the forecast period, and that the guarantee calculations would decrease by 1% in fiscal 2010 and an additional 1% in fiscal 2011.

Beginning in FY-10 Ohio changed their funding formula to the “evidence based model”. This new model was based on number of funded students, number of organizational groups by elementary, middle and high school, number of school buildings, total adjusted assessed property value and measure of the community’s educational challenge factor. With a change of the State Governor this formula was junked and the district went to the “Bridge Formula” until a new plan can be formulated.

The State Foundation is comprised of three key elements: 1.) Total state “basic” aid, 2.) Added items to arrive at the foundation level, and 3.) Items funded outside of the foundation level. Each element includes a series of complex calculations. For the purpose of this forecast, the total State Foundation assumes no growth in categories of funding beyond the calculations to arrive at the net basic aid.

The basic aid amount was developed in accordance with per pupil funding levels of \$5,732 for fiscal 2010 and 2011. This base cost would change as the mechanics and application of the building blocks approach is applied in future periods.

Since Nordonia’s property wealth and other factors negate this approach the district qualifies for a special category in the regulations – “transitional aid guarantee”. This guarantee is not law but a regulation that is subject to change in the state budget bill. Fiscal 2012 & 2013 reflect known state allocations. Flat funding is assumed for the remainder of the forecast period.

Line 1.040 – Restricted Grants-In-Aid

The district qualifies for special grants from time to time. During fiscal 2010 onetime federal stimulus money became available in the amount of \$383,816. These funds along with a second federal grant carried over to fiscal 2011. The last year of these restricted grants is fiscal 2012. No other restricted grants are available for the balance of the forecast period.

Line 1.045 – Property Tax Allocation

Property tax allocation revenue is directly related to Line 1.01 of this forecast. Property tax allocation revenue includes local property tax relief reimbursements from the State of Ohio in the form of the 2.5% rollback, 10% homestead allowance, and other poverty-based exemptions (homestead exemption).

The note to Line 1.02 mentioned personal tangible tax replacement revenue. This reimbursement data comes from State Department of Taxation spreadsheets. Due to the 2011 state fiscal crisis, the Governor's two year budget decimates Nordonias personal tangible tax and utility tax reimbursements by \$1,359,000 for fiscal 2012. Fiscal 2013 reimbursements will decrease another \$742,000. The decimation of this reimbursement is assumed to continue thru fiscal 2015 thereby effectively wiping out all reimbursements and leaving only the rollback and homestead amounts in this category.

Line 1.060 – All Other Operating Revenue

This revenue line includes items such as interest income, tuition income (excess costs), fees and fines, and other minor collection sources. Interest income is dependent upon available cash balances and current market rates. Obviously both are quite depressed. We anticipate an increase in fees in the coming fiscal years. The forecasted general increase of this revenue line is approximately .1% annually after factoring in fee increases.

Line 2.050 – Advances In

This line item accounts for the return of advanced monies to the general fund from the other funds to which the advances were initially made. Fiscal 2011 represents a new approach whereby monthly advances and repayment of those advances have stopped. Only year-end advances where required by law will be made.

EXPENDITURES

Line 3.010 – Personal Services

This expenditure line includes all salaries, wages, overtime, and substitute pay for the District's employees. Inflationary factors for this line item include negotiated base salary increases, as well as scheduled seniority step increases.

The new contract with Nordonias Hills Education Association freezes teacher wages and steps for fiscal 2011. The second year of the contract returns the step increases and grants a 1.5% increase to the base wage in exchange for an additional 2% employee contribution of medical insurance. This contract expires August, 2012.

OAPSE negotiations resulted in a new 3 year labor agreement with the classified staff. Wages and steps are frozen for fiscal 2012 along with increased employee insurance contributions. There is a salary and benefit reopener in the spring of 2012 but if no agreement is reached the contract becomes void on July 1, 2012.

Fiscal 2013 assumes steps but no base increase. The remaining years assume steps and 1.0 % base increases for 2014 thru 2016.

Line 3.020 – Employees’ Retirement/Insurance Benefits

This line item includes employer costs related to SERS/STRS, Worker’s Compensation, Medicare, medical insurance, and severance pay. As a general rule, 16.5% is applied to Line 3.010 to arrive at the estimate for costs related to SERS/STRS, Medicare, and Worker’s Compensation. Health insurance premiums are estimated to increase at a rate of approximately 10% per year. For historical perspective, health premium increases have ranged from 5% to 14%. The district reimburses the state for the actual unemployment costs paid to discharged employees. Due to the large number of recent layoffs unemployment costs are increasing sharply.

Line 3.030 – Purchased Services

Purchased services include utilities, postage, legal and professional fees, property insurance, transportation, consultants, copier leases and other contractual costs of doing business. The forecast assumes a 2% annual increase.

Line 3.040 – Supplies & Materials

The forecast assumes a 2% annual increase.

Line 3.050 – Capital Outlay

A 2% annual increase has been assumed during the forecast.

Line 4.300 - Other Object

This expenditure line includes fleet and educator’s liability insurance, state audit fees, county auditor fees, professional dues/fees, County ESC fees, bank charges, and other items. The District has minimal control over these costs. Costs are project to increase at an annual rate of 2%.

Line 5.010 & 5.020 – Transfers and Advances

This line item accounts for the advance of monies to other funds in order to avoid year-end cash deficits. This is a new approach, see note 2.050 – Advances In.

Line 6.010 – Revenue over/(under) Expenditures

This line must be monitored closely in order to determine when the Board should consider seeking additional operating monies. When this line becomes negative, expenditures are outpacing revenues, and the general fund’s cash balance begins to erode. Fiscal 2009 showed a negative number. This negative trend continues in the forecast, the result of which is that the District’s cash balance will be wiped out by the end of FY 13.

Line 13.020 – Property Tax New

The District has a 6.0 mill continuing operating levy on the November 2011 ballot. A successful outcome is required to avoid a cash deficit in 2013.