

**LAKEWOOD CITY SCHOOL DISTRICT FIVE-YEAR FINANCIAL FORECAST AND
EDUCATIONAL PLAN FOR FISCAL YEARS 2010 THROUGH 2014**

- The District has **unreserved fund balances of \$11.5 million at June 30, 2010, \$9.5 million at June 30, 2011, \$8.1 million at June 30, 2012, \$3.9 million at June 30, 2013, and (\$4.2 million) at June 30, 2014. Passage of the May 4, 2010 operating levy (6.9 mills) is factored into this forecast.** The forecast incorporates receipts and expenditures for the general fund, poverty-based assistance fund, and the school fiscal stabilization fund (SFSF) federal stimulus aid that is required by statute.
- This financial forecast and educational plan is based upon the staffing plan in place for the 2009-2010 school year, which includes **reductions and replacements of 23 certified and 10 classified positions that took part in the Timely Retirement Incentive Program (TRIP), and the March 2009 Budget Cuts** approved by the Board of Education. The **reduction of slightly more than 62 full-time equivalent positions for the 2010-2011 school year**, through a combination of reduction in force and a TRIP offering, are included in this forecast. Additionally, the District implemented **district-wide extended day kindergarten**, which will be fully paid by general fund in for the 2010-2011 school year and beyond. It is possible that carryover Title I stimulus funds will be available to cover at least a portion of this cost during the 2010-2011 school year only. Any deviations from this plan will impact the financial situation for the School District. No other staffing considerations are incorporated into this forecast, but need to be continually discussed in order to align with student enrollment and to contain the size of future millage requests.
- Fiscal year 2010 tax revenues are based upon the Certificate of Estimated Resources Amendment #2, in conjunction with in-house calculations based upon historical collection rates. For collection/calendar year 2009 (tax year 2008), the Cuyahoga County Auditor billed current taxes for general and bond retirement funds for Lakewood City Schools in the amount of \$47.8 million, with a tax collection of \$44.3 million (92.78%). The County Auditor also billed \$3.8 million of delinquent taxes, with a collection of \$1.9 million (50%). **The growing challenge for the school district is the increase in delinquent taxes from \$3.8 million at the beginning of calendar year 2009 to \$5.4 million at the close of 2009 collections.** The Cuyahoga County Auditor's office has previously used a collection percentage of 99.48% of actual, but has revised its projections in the past two fiscal years to reflect a collection percentage of 98.26%, 94.97%, and now 93.75% of actual. This revision by the Auditor is predicated upon the current uncertainty in the mortgage markets and rising housing foreclosures, thus increasing delinquent taxes. Future adjustments may be necessary if the lower collection percentages being used by the County Auditor actually occur and continue for future fiscal years. This forecast includes a **decline in residential/agricultural property values of approximately 7%**, while commercial/industrial property values are unchanged. **This valuation decline equates to an annual tax revenue loss of approximately \$250,000 from the impact of the District's 5.03 inside mills.** Calendar/collection year 2009 (tax year 2008) is a reappraisal year for Cuyahoga County, wherein past reappraisal and/or triennial update years it was not uncommon to experience an increase in property values of approximately 9%-15% for the three-year re-valuation period. Only 4% and 8% increases in property values for 2012 and 2015, respectively, are included in this forecast. **The estimated tax collection for fiscal year 2010 anticipates receiving tax collections similar to fiscal year 2009, less the inside millage losses due to the valuation losses and assumes that the delinquent tax amount collected in fiscal year 2009 will occur again in fiscal year 2010.** Additional adjustments for changes described in the next several sentences are included in the forecast. **Loss of tangible personal property tax collections** due to utility deregulation has been factored for fiscal year 2002 and beyond, and major changes in tangible personal property taxes due to House Bill 66 are included for fiscal year 2006 and beyond. The state will provide "hold harmless" funding based upon fiscal year 2004 tax valuations for the phase-out of tangible personal property taxes on all three categories of business personal property. **The hold harmless funding is at a 100% level for five tax years, and then phases out over a seven-year period, generally ending at the 100% level in fiscal year 2010 and completely by fiscal year 2018.** Electricity deregulation offset payments from the state are included as it is projected that the District will

continue to receive these monies until the legislative ending date of December 31, 2016 (one-half payment in fiscal year 2017).

- CAFS revenue, now named Ohio Medicaid School Program (OMSP) is a federal revenue source that was in serious jeopardy of being lost to the District. While we were part of litigation against the State of Ohio to retain this important funding, we received minimal revenue from this source in fiscal years 2006 and 2007 for past years' claims filings. The State of Ohio released the new program guidelines in May 2007, and we are now receiving revenue for past years claims. For fiscal year 2005, the District received approximately \$725,000 in CAFS funding, and for fiscal year 2004, we received \$362,000. Part of this variance was caused by timing of payments from the State, and part of the increase was attributable to additional services for which we started to claim reimbursement under the CAFS program. This forecast anticipates annual revenue of approximately \$300,000 from this source.
- Unrestricted Grants-in-Aid (State Foundation) revenues are based upon the April 2010 payment number 2 SF-3 calculation provided by the Ohio Department of Education. **The state of Ohio has implemented a new funding model for fiscal year 2010 and beyond call Pathway to Student Success (PASS).** This model is substantially different than its predecessor, the SF-3. Funding continues to be based upon student enrollment and property valuation, but the enrollment factor is different for grades K-3 than it is for grades 4-12. Funding is not tied to staffing. Additionally, the charge-off millage calculated as local effort against the property valuation is reduced from 23 to 22 for this biennium. **A final major element changed in this model is a reduction in the guarantee amount, wherein Lakewood has been "guaranteed" to receive 100% of the prior fiscal year's state support, this "guarantee" is changed in this biennium to guarantee 99% of the fiscal year 2009 state support for fiscal year 2010, and 98% of the fiscal year 2010 amount in fiscal year 2011. The outcome of the change to the PASS model is that Lakewood's state foundation educational support will decrease by \$189,669 during fiscal year 2010 and by \$565,213 during fiscal year 2011 from the 2009 amount. This is a total two-year impact of \$754,882, but the impact continues to be felt in fiscal years 2012 and beyond.** Current legislation calls for this guarantee to continue to be 98% of the prior fiscal year amount in each subsequent fiscal year, which will eventually move all districts off of the guarantee and onto the formula funding. It remains to be seen what adjustments the state will have to make to this funding formula over the ensuing years, but it is a certainty that this revenue line in the forecast will continue to change. **It is difficult to fully predict future state foundation support due to enrollment trends (which increased by nine students this year over last year's October reporting date), the condition of the state's finances, and unknown factors for school funding relative to the PASS funding model and the state's ability to fund the plan. There is much uncertainty about future state funding amounts for fiscal years 2011 and beyond, particularly during the upcoming fiscal years 2012 and 2013 biennial state budget. The District will continue to closely monitor this issue, and adjust future forecasts in accordance with new information that is received.**
- All other revenues is a concern as the District experienced substantial revenues in past years from interest income during times of higher interest rates than are possible to achieve in today's market. Additionally, the State has done well to date not to reduce state foundation support to public schools, but there have been reductions in other areas, such as **special education catastrophic costs reimbursement that caused a revenue loss of approximately \$270,000 in fiscal year 2009.** This decline is anticipated to occur in fiscal year 2010 and beyond.
- **The District has not reached a final decision regarding future Race To the Top funding from the federal government via the Ohio Department of Education. No additional funds for delivery of educational services are part of this forecast.**
- Personal Services expenditures include all negotiated increases with three bargaining units, and two percent increases in future years. Fiscal year 2010 includes reductions for (non)replacement of 23 certified retirees, and 10 classified retirees, all of whom are participants in the Timely Retirement Incentive Program (TRIP),

plus the transition from the pilot program for extended day kindergarten to a comprehensive extended day kindergarten program in all seven elementary schools. Staffing modifications included in the Budget Cuts approved by the Board of Education in March 2009 are included for fiscal years 2010 and beyond. The reduction of slightly more than 62 full-time equivalent positions for the 2010-2011 school year, through a combination of reduction in force and a TRIP offering, are included in this forecast. **Additional staffing decisions may need to be made as we learn more about our enrollment trends and District finances.** Stimulus funds are used for personnel costs as appropriate and as approved by the Board.

- **Insurance Benefits premiums increased only 4.62% (effective October 1, 2008) for fiscal year 2009, without any additional increase for fiscal year 2010 (effective October 1, 2009). A projected increase of 8% is included for fiscal years 2011 and 2012 due to the positive claims history currently being experienced by Suburban Health Consortium.** An increase of 10.0% annually, which is generally lower than inflationary trends, is assumed beginning in fiscal year 2013. Fringe benefits expenditures are reduced in the appropriate fiscal years in which staffing realignments occur, in order to reflect the savings in fringe benefits that correspond to the staff reductions identified in personal services above. Unemployment costs are included to compensate for expenses the District may incur from the staffing reductions identified above. The District negotiated **mandatory spousal enrollment** for medical and prescription drug insurance programs for all new hires for the 2005-2006 school year, which will create a **premium savings of 15%** for any employee impacted by this provision. Increases in the employee contribution for the insurance premiums, from 5% family and 0% single, to 7.5% family and 5.0% single on August 1, 2008, and to **10.0% for both family and single on August 1, 2009**, are incorporated into this forecast, in addition to premium savings from increasing the prescription insurance co-payment amount. State Teachers Retirement System and School Employees Retirement System have proposed changes to the employer contribution percentage for the state pension plans. The latest proposal, which has not been adopted by the Ohio legislature as of this date, increases the contribution rates by 0.5% per year for five years beginning July 1, 2016 and ending on July 1, 2020. Lastly, **SERS did receive approval to begin catch-up collections of six-months of payments in arrears, effective fiscal year 2011 for six years ending at the close of fiscal year 2016, which will create additional cost to the District in the amount of \$139,040 annually.**
- All other expenditure areas are consistent with the Board approved Appropriations measure and subsequent amendments for fiscal year 2010, and include the assumption that carryover encumbrances will remain relatively constant throughout the five-year forecast cycle period. Inflationary growth of 2% annually is included for purchased services, supplies/materials, and other objects in fiscal years 2012 and beyond. Reductions in each of these expenditure categories for fiscal years 2010 and beyond have been made for the Budget Cuts approved by the Board in March 2009, for the additional reductions approved by the Board in June 2009 as part of the fiscal year 2010 Board-approved appropriations measure, and for the **\$1.3 million of budget cuts for fiscal year 2010 that were approved by the Board in January 2010.** Additionally, **fiscal year 2011 budget reductions in the amount of \$380,000, as approved by the Board at its April 19, 2010 meeting** are incorporated into this forecast. Some of these reductions return to the forecast in future fiscal years. **Usage of approximately \$900,000 of Title VI-B ARRA (stimulus) funds to replace current general fund expenses is included for fiscal years 2010 and 2011.**
- This forecast continues to show an **issue of concern for District finances as expenditures exceeded revenues by \$2.9 million and \$4.0 million in fiscal years 2008 and 2009 respectively, and are projected to exceed again in fiscal year 2010 by \$3.2 million.** The situation continues in fiscal years 2011 and beyond. The spreadsheets and charts show this issue in numbers and in pictures. This **trend would be worse if not for the passage of the 6.9 mill levy on May 4, 2010, \$1.3 million of budget cuts made in March 2009, an additional \$1.6 million of budget cuts made in August 2009, and the infusion of federal stimulus funds. The District also made expenditure reductions of \$5.0 million during fiscal years 2004 through 2009.** Prior to the May 4, 2010 operating levy, the District was **not on the ballot for operating funds since 2002, which was eight years versus a three-year commitment. Any unforeseen**

revenue loss from a state budget cut or increasing delinquent property taxes may cause fiscal year 2011 and beyond to become much tighter than the current projected balances. Strict budget monitoring and adherence to the forecast and educational plan has occurred to control future millage requests. These practices must continue! State funding is certainly a critical component to the revenue side of this forecast, but the new PASS funding formula developed by the state only provides less funding to our district. We have been **fortunate financially for 15 years now, and we must continue to be proactive to address revenues and expenditures** for our school district.

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