

ADAMS COUNTY/OHIO VALLEY LOCAL SCHOOL DISTRICT
NOTES TO THE FIVE-YEAR FORECAST
October 2017

Nature of the Forecast

This financial forecast presents the expected revenues, expenditures and operating cash balance of the Adams County/Ohio Valley School District's General Fund. The forecast reflects the Board of Education's judgment of the expected financial conditions and its expected course of action as of the date of the forecast. The assumptions used in preparation of the forecast are management's best estimate of future financial conditions. The assumptions described below are those that are material to the forecast.

Differences between forecasted and actual results usually occur because events and circumstances frequently do not occur as expected, and those differences may be significant.

REVENUES

Property Taxes (Lines 1.010 and 1.020)

Property tax revenues for the General Fund are generated from 26.00 gross operating mills, which consist of 3.30 inside mills and 22.70 outside mills. The outside millage consists of a 17.00 mill levy approved in 1969 and a 5.70 mill levy approved in 1998, both for a continuing period of years. In 2007, the Board of Education voted to convert a half-mill of inside mills to permanent improvement.

General Property Tax – Real Estate (Line 1.010) includes all real estate property taxes, including agricultural/residential and commercial/industrial real estate. Adams County recently had a reappraisal in 2016 with collections in 2017. A triennial update will occur again in 2019 for collections in 2020.

The coal fired energy plants on the river announced they would be closing in 2018. The District received approximately \$200,000 in tax revenue for the transmission lines that run through it. Revenue needs a one-time adjustment down in 2019 (tax collection year for 2018) and this will follow thru all further years.

Tangible Personal Property Tax (Line 1.020)

This line item includes business tangible personal property taxes and public utility personal property taxes. Business tangible personal property taxes are being phased out as a result of House Bill 66 passed in June of 2005. Business tangible values will be reduced by 25% each year starting in fiscal year 2007, until fully eliminated in fiscal year 2010. House Bill 1 passed in July of 2009 extended TPP payments to 2013. However the passage of HB 153 eliminates all reimbursements for the Adams County/Ohio Valley Local School District and we received the final reimbursement payment from the State in FY 2011. Projections for FY 2015 and beyond are based upon historical trend data and information from the Adams County Auditor regarding personal property utility taxes.

Unrestricted Grants-in-Aid (Line 1.035)

The State funding for schools is based upon several factors all of which are subject to deliberations and approval of the Ohio General Assembly. The passage of HB 64 included a brand new school

funding formula. This budget bill was passed in June of 2015; however, many aspects of the formula were not implemented until October 1, 2015, and funding was adjusted.

In addition, proposed casino revenues have been added to this line item per a memorandum from Auditor of State, David Yost dated October 19, 2012. Casino revenues are estimated at an additional \$30.00 per pupil for the August 2013 payment and \$22.00 per pupil for January 2014 which is included in the Fiscal Year 2014 calculations. There has been a steady decline in overall Casino revenues so the anticipated revenues for this forecast have been reduced from \$210,000 to \$198,000 for the current fiscal year and will remain flat until additional information is available that shows an increase in this possible revenue stream.

The most recent adopted biennial budget for FY18/FY19 shows minimal change in funding for the District. Due to a slight enrollment drop, we will reduce funding by \$100,000 per year for the life of this forecast.

Any other significant changes in the proposed funding for the Adams County/Ohio Valley School District will have a materially adverse effect on this forecast.

Restricted Grants-in-Aid (Line 1.040)

Restricted Grants-in-Aid includes Economic Disadvantaged Funding and career-technical education weighted funding received from the State. The new funding formula has the same funding stream in place so the fiscal Year 2016 projections are based upon current foundation settlement reports provided by the State. Trend analysis since 2015 is a reduction in funding of approximately 10% in 2016 and 5% in 2017. We will project flat funding for future years for now.

This number will change.

Property Tax Allocation (Line 1.050)

Homestead & Rollback revenue is in the form of tax relief to local property taxpayers. The State grants a ten percent rollback on all agricultural and residential real estate taxes and a two and one-half percent rollback on owner-occupied single-family residences. The State also grants tax relief to qualified elderly and disabled homeowners.

Recently, the State of Ohio changed the law on property tax levy renewals and tax collections. Because of this, we are showing limited growth in Homestead and Rollback taxes starting in FY2019.

All Other Operating Revenue (Line 1.060)

Tuition payments include the revenue generated from providing career-technical services to the Manchester Local School District.

Earnings on Investments include interest earned on the District's deposits and investments. The forecast assumes that interest rates have steadily declined. The FED in 2017 raised interest rates for the first time in several years. We are hesitant to project increased interest earnings as we feel if the economy slows, the FED will reverse its decision.

Open Enrollment revenue projections are based on 127 students attending schools within the District through open enrollment. The District currently has 260 resident students open-enrolling

into another school district. The expense for these students is included in the Purchased Services expenditure line.

Manufactured Homes Tax revenue is projected to increase by 1% annually.

Operating Transfers-In/Advances-In (Lines 2.04 and 2.05)

Operating Transfers in are the transfers received in for the operation of the Career Technical Center from the General Fund and for payment of the HB264 project..

Operating Advances-In are the repayments of prior advances out for the operation of Federal and State Programs.

EXPENDITURES

Personal Services (Line 3.01)

In Fiscal Year 2015, the District saw the addition of four elementary teaching positions, three additional administrative positions which were previously listed as a purchased service through the district's ESC and the addition of three social worker positions. Fiscal year 2016 continued the hiring trend by adding nine teaching positions, three administrative positions and ten additional aide positions. For Fiscal Year 2017, the District added eight (8) new teaching positions, additional secretarial help in the buildings and one additional supervisor which was previously contracted through the district's ESC and shown as a purchased service

Negotiations with both associations resulted in a 3% increase in base pay for FY 17 and FY18.

For FY18, early projections indicate the District may add 6 new positions District wide.

Additional positions coupled with declining enrollment can lead to salaries and benefits reaching eighty percent (80%) of overall expenditures which can lead to an overstaffed scenario and necessary reductions in force. It may be necessary to review positions as individuals vacate to see if there truly is a need for full replacement. If salaries and benefits reach eight-five percent (85%) of overall expenditures, the District could be facing cuts and possible reduction in force (RIF's). For Fy18, we are at 71%.

All personal service projections after FY18 include a two percent (2%) increment for base increases on the salary schedule and an additional (2%) for step increases.

Supplemental salaries are tied to the base salary in the OVEA agreement and projected increases are based on the same percentages as identified for certificated salary projections above.

Employees' Retirement/Insurance Benefits (Line 3.020)

Projections for this line include employer costs for contributions to the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS), employer share of Medicare, workers' compensation premiums, unemployment compensation and health insurance premiums paid on behalf of employees. Increases and/or changes to current retirement contributions have not been factored into this forecast. Any changes will have a materially adverse effect on the District.

Projections for contributions to STRS and SERS, Medicare, and workers' compensation premiums are tied to projected increases in personal services.

Health insurance premiums for 2018 are based on claims experience and a switch to a self-funded insurance package. For FY19-FY 21, until claims experience is known, we will project 8% per year increases. The full implementation of the Affordable Care Act may have a significant impact on the district as we will be required to offer variable hour employees health insurance coverage unlike years in the past. The 2017 Congress may replace or drastically modify the Affordable Care Act. This will be closely monitored. In addition, it should be noted that the projected increase in health insurance costs is lower than the trend of 12% -15% statewide. Any substantial increases to health, dental and vision insurance costs beyond these assumptions will have an adverse effect on the district's forecast possibly resulting in additional adjustments to the plan.

Purchased Services (Line 3.030)

Purchased service expenditures include utilities, contracted repairs and maintenance, professional services, and tuition and open enrollment costs for resident students attending other public schools as well as community schools. In addition, this line item does include the costs of additional services provided by the Southern Ohio Educational Service Center and The Hopewell Cooperative. These services include but are not limited to hearing impaired interpreters, occupational therapy, physical therapy and autism services. The top expenses in this category are Open Enrollment costs of approximately \$1,530,342 per year, ESC and Hopewell services of approximately \$500,000 per year, Electricity costs of \$700,000, and Community School Payments of approximately \$586,779.

There have been some unexpected additional costs for this category during the 2016 fiscal year. The most notable being the financial implications of College Credit Plus (CCP). College Credit Plus will have a significant impact in the district's costs for fiscal year 2016 and beyond. Postsecondary billing had always been done a year in arrears; however, CCP is billed in the year that costs are incurred. Therefore, the district will see a significant increase to cover the enrollment of students and the costs of textbooks and tuition for CCP programs. Additional special education services were also added to accommodate the ever growing needs of our student population and to remain in compliance as those numbers grow. It is imperative that the district examine all special education costs as any additional spending will lead to a Maintenance of Effort required spend on future years.

We are hopeful that the addition of a HB264 project during the 2015 fiscal year will enable us to reduce some costs in this line item.

The availability of (034) maintenance funds enables the district to utilize these funds for preventative maintenance contracts and has reduced general fund expenditures. A 3% increase has been factored in to offset any increases in the cost of doing business such as ever changing utility costs.

Supplies and Materials (Line 3.040)

This line includes purchases of textbooks and instructional materials, custodial and maintenance supplies, fuel purchases for bus transportation, and other miscellaneous supplies and materials. The District currently runs a fleet of over 60 buses and utilizes approximately 140,000 gallons of fuel each year. The additional cost of textbooks for the College Credit Plus Program has also been factored into this budget line which is substantial with an estimate of approximately \$135,000 for

Fiscal year 16. Each year has an estimated increase of 1% factored in beyond fiscal year 2018 . The District is behind in new textbooks adoptions and will have to adopt new books in several content areas in the upcoming years. In lieu of textbooks, increased use of technology may absorb the budgeted amounts.

Capital Outlay (Line 3.050)

Capital outlay expenditures include items such as improvements to building property, purchase of school buses, equipment, computers, and other assets with an estimated useful life in excess of five years. The district has allocated additional resources in this category for the purchase of new technology resources such as computers, laptops and chrome books throughout the district during the fiscal years of 14 and 15 in an effort to prepare for the new core curriculum initiatives. In addition, the district has multiple capital improvement projects currently awaiting final decision such as bus garage renovations, chiller replacements for all the High Schools, and parking and traffic control at the West Union Campus.

The district does have access to a half-mill of permanent improvement funds that will assist in minimizing the effect these expenditures have on the overall general fund. These savings will be utilized to purchase four to five new buses each year for the years 2018 thru 2021.

As the budget gets tighter, we will see less expenditures from the General Fund and more expenditures from the Permanent Improvement Fund and Class Room Maintenance Fund. For this projection for years Fy18 to Fy22, we will flat line expenditures at \$300,000 per year.

Debt Service (Lines 4.010 through 4.060)

In FY15, the Adams County Ohio Valley Local School District issued \$2,631,695 in bonds for an approved House Bill 264 project with the OFCC. The project converted a fuel oil furnace in the Career and Technical Center to a propane system, as well as enabled the district to bring solar energy to the West Union Attendance Area, and retrofitted the entire district to a cleaner more efficient lightning initiative to reduce costs.

The first payment for this un-voted debt was an interest payment in June 2015. All future payments are based upon amortization schedules and debt payment schedules.

Transfer-Out/Advances Out (Lines 5.01 and 5.02)

Operating transfer out and advances out are expenditures of General Fund resources. Each transfer or advance is a pledge from the Board of Education to financially support a function or program that does not generate enough revenue to support its self. The functions and programs supported by the General Fund include: Fund 035 Termination Benefits paid to retiring staff members; Fund 003 Permanent Improvements, School Bus Purchases, building renovations, capital maintenance items, large equipment purchases, Fund 023 Insurance Self-Insurance Fund, funds to supplement federal and state grant programs, and funds for the operation of the Career Technical Center, the FRS Program, and the HB 264 projects.

Encumbrances

Estimated encumbrances have been projected based on historical patterns and existing encumbrances at the time of this forecast.

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