FIVE YEAR FORECAST

Forecast Overview

October 2012

Forecast Disclaimer

- The financial forecast, presents, to the best of the Treasurer's knowledge and beliefs, the Garfield Heights City Schools expected financial position and results of operations for the forecasted periods. Accordingly, the forecast reflects judgments as of October 15, 2012.

- In a financial forecast, the numbers only tell a small part of the story. For the numbers to be meaningful, the reader must review and consider the *Assumptions to the Financial Forecast* before drawing conclusions or using the data as a basis for other calculations.

Key Forecast Revenue Points

- Based on the County's current revaluation estimates, Residential valuations will **decrease by 21.85%**. ***The County had not completed the Other/Commercial revaluation; therefore, we are currently projecting a 0% change.***

- No growth is projected for Residential and Commercial valuations in the forecasted fiscal years.

- The District's delinquency factor is **currently at 87.52%** for tax revenue collections.

- The District has three five-year emergency levies: two of which generate $2.5 million and $2.85 million annually. The $2.5 million levy and the $2.85 million levy expire at the end of Calendar Years 2015 and 2016, respectfully. The third emergency levy was passed in March 2012 for $4.1 million. Collections for this levy begin in January 2013. The district will only see a half year of collections ($2,132,000) on this levy in fiscal year 2013.

Key Revenue Points

- For the Public Utility (PU) tangible tax, revenue amounts are estimated for each of the forecasted fiscal years using the Calendar Year 2011 actual valuation for PU property. At the time of this forecast, we do not know Calendar Year 2012 actual valuation for PU tangible property. Projected revenues are based on 2011 valuations and are projected to be flat lined.

- The current Governor has established a temporary funding formula called the "Bridge" formula for individual school districts under House Bill 153. It is called the Bridge formula because it will bridge the gap until a final school funding formula is established. The current bridge formula uses property tax wealth and ADM as its main components.

- State Foundation revenue amount shown for fiscal year 2013 is the Bridge formula amount as calculated by the Ohio Department of Education (See Exhibit 1). Fiscal years 2014 through 2017 are projected using the same Bridge formula and 4,000 as the ADM.

Key Revenue Points

- The projections for the Homestead and Rollback payments are based upon the historical relationship to actual tax collections (12.5% on residential). As tax collections decrease, so do the rollback reimbursements.

- However, under the current state budget bill (House Bill 153), the district had a significant amount ($667,000) of their TPP reimbursement phased out in Fiscal Year 2012, and an additional amount ($122,000) will be phased out in Fiscal Year 2013. This phase out is shown in the forecasted fiscal year 2013.

Key Revenue Points

- ***Casino Revenues*** Schools are designated to receive 34% of tax receipts generated from the casinos. However, there is still much unknown about the formula and the amount of tax to be generated. That being said, initial projections show approximately $21 of revenue per pupil in FY13. Assuming a $21 dollar per pupil distribution, that means an additional $84,000 in revenue for the district. While this amount of revenue is welcome, it certainly doesn't change District planning or decision making in a significant way. When all casinos are eventually opened, they are expected to supply more revenue per pupil. The forecast employs a conservative approach to estimates and continues the $21 per pupil revenue assumption in FY14 and beyond. This is due to the fact a new biennial budget will be adopted in FY14 and casino revenue growth could quite possibly be offset by reductions in other state funding sources.

Key Revenue Points

- The bottom line changes in total revenues, assuming passage of the renewal levies and not including 'Other Financing Sources', show an average annual revenue increase of .93% over the forecasted five years as compared to an actual average revenue decrease of 1.78% over the previous 3 years.

Key Expenditure Forecast Points

- Personal Services had averaged a .65% decrease over the past 3 years. However, Personal Services expenditures increased 4.34% in 2012. Based on the above assumptions, Personal Services is projected to decrease 3% in fiscal year 2013 and then increase 2% annually in each of the forecasted fiscal years 2014 through 2017.
  - No base salary increases are in this forecast.
  - Step increases are in the forecast.
  - Supplemental contracted amounts are projected to follow the Garfield Heights Teachers' Association negotiated agreement base salary amount and no increase in that base salary is projected in the forecasted fiscal years.
  - Salary schedule educational level movement, overtime, extra time, incentives and extended times wage amounts are projected to be $275,000 in fiscal year 2013 and to increase by 2%, with exception of the salary schedule movement ($100,000) in forecasted years 2014 through 2017. This amount is based on past history.

Key Expenditure Forecast Points

- Employee Retirement/Insurance Benefits is projected to increase 2% in fiscal year 2013 and then increase 6% annually in each of the forecasted fiscal years 2014 through 2017.

  - It is assumed that there will be a continuation of the current fourteen percent employer contributions for both STRS and SERS during each year of the projected years.

  - Health Insurance increased 7.5% for FY13 and then on an average of 10% annually for the forecasted fiscal years. The employee contribution amount is not projected to increase over the forecasted fiscal years unless negotiated agreement provisions contain a change to this amount. The forecasted fiscal years do not show WSL savings for any other employee groups than what is currently negotiated.

  - Workers compensation rate decreased for FY12. Rate is projected to remain constant for the forecasted years.

Key Expenditure Forecast Points

- Purchased Services had a 3 year average of a .49% increase. However, Purchased Services expenditures increased 11.38% in 2012. Based on our current assumptions, Purchased Services is projected to increase 8% annually in each of the forecasted fiscal years 2013 through 2017.

  - Special Education costs increased 26% in fiscal year 2012. However, based on past history, we are projecting these costs to only increase 15% in fiscal year 2013. Increases of ten percent (10%) are projected annually for fiscal years 2014 to 2017.

  - Utilities are projected to increase between 3% and 5% annually based on projected increase in rates.

  - A significant decrease (50%) in legal services is projected for fiscal year 2013. An inflationary annual increase of three percent (3%) for fiscal years 2014 to 2017 is projected.

Key Expenditure Forecast Points

- Supplies and Materials had averaged a 4.33% decrease. However, Supplies and Materials expenditures increased 3.24% in 2012. Based on our assumptions, Supplies and Materials is projected to increase 39% for fiscal year 2013 and 2.5% annually in each of the forecasted fiscal years 2014 through 2017.

  - Fuel costs decreased 7.4% in fiscal year 2012. For fiscal year 2013, a 15% increase in fuel costs is projected due to bussing returning to 1.5 miles. In forecasted fiscal years, fuel costs assume a three percent (3%) inflation rate assuming the same level of pupil transportation is being provided.

  - The district has made a commitment to get on a schedule for the annual purchasing of new classroom resources (textbooks). Therefore, this amount has been increased significantly for fiscal year 2013. Instructional resources assume an inflationary three percent (3%) increase in projected years 2014 to 2017.

Key Expenditure Forecast Points

- Over the past three years, Capital Outlay had averaged an 8.42% decrease. Furthermore, Capital Outlay expenditures decreased 44.45% in 2012. Capital Outlay is projected to increase an inflationary 2.5% annually in each of the forecasted fiscal years 2013 through 2017.

- The district has two debt service obligations from the General Fund. These are the repayment of two Qualified Zone Academy Bonds. Repayment amortization schedules have been established for each of the two QZAB debt issuances. The amounts are reflected in the forecast under Principal-Other. The HVAC lease purchase repayment ended in fiscal year 2012.

Key Expenditure Forecast Points

- Other Objects had averaged a 19.66% increase. Furthermore, Other Object Expenditures increased 36.77% in 2012. Based on our current assumptions, Other Object Expenditures is projected to decrease 2% in fiscal year 2013, and then assume an inflationary 2.5% annual increase in each of the forecasted fiscal years 2014 through 2017.

  - County Auditor/Treasurer tax collections fees are not projected to increase based on current property tax collection decrease. past history. An inflationary increase of 2.5% annually is projected for years 2014 to 2017.

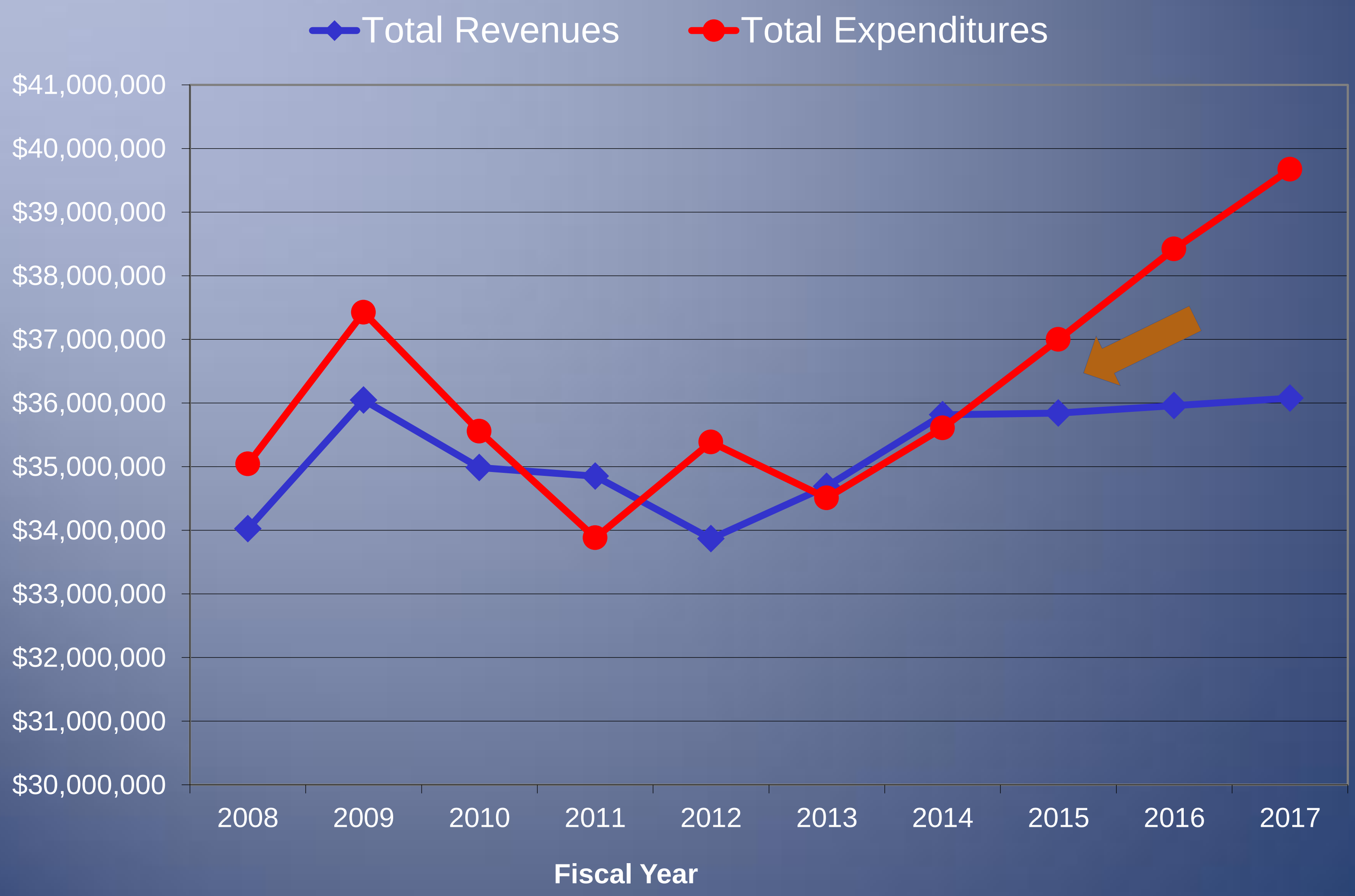
  - Election expenses will decrease significantly due to it being the odd year and then remain constant in forecasted years 2014 through 2017, as no further elections are anticipated.

  - Insurance premiums for fleet and general liability insurance increased in fiscal year 2013 (actual costs are known). This cost is projected to increase by an inflationary 2.5% annually in projected years 2013 to 2016.

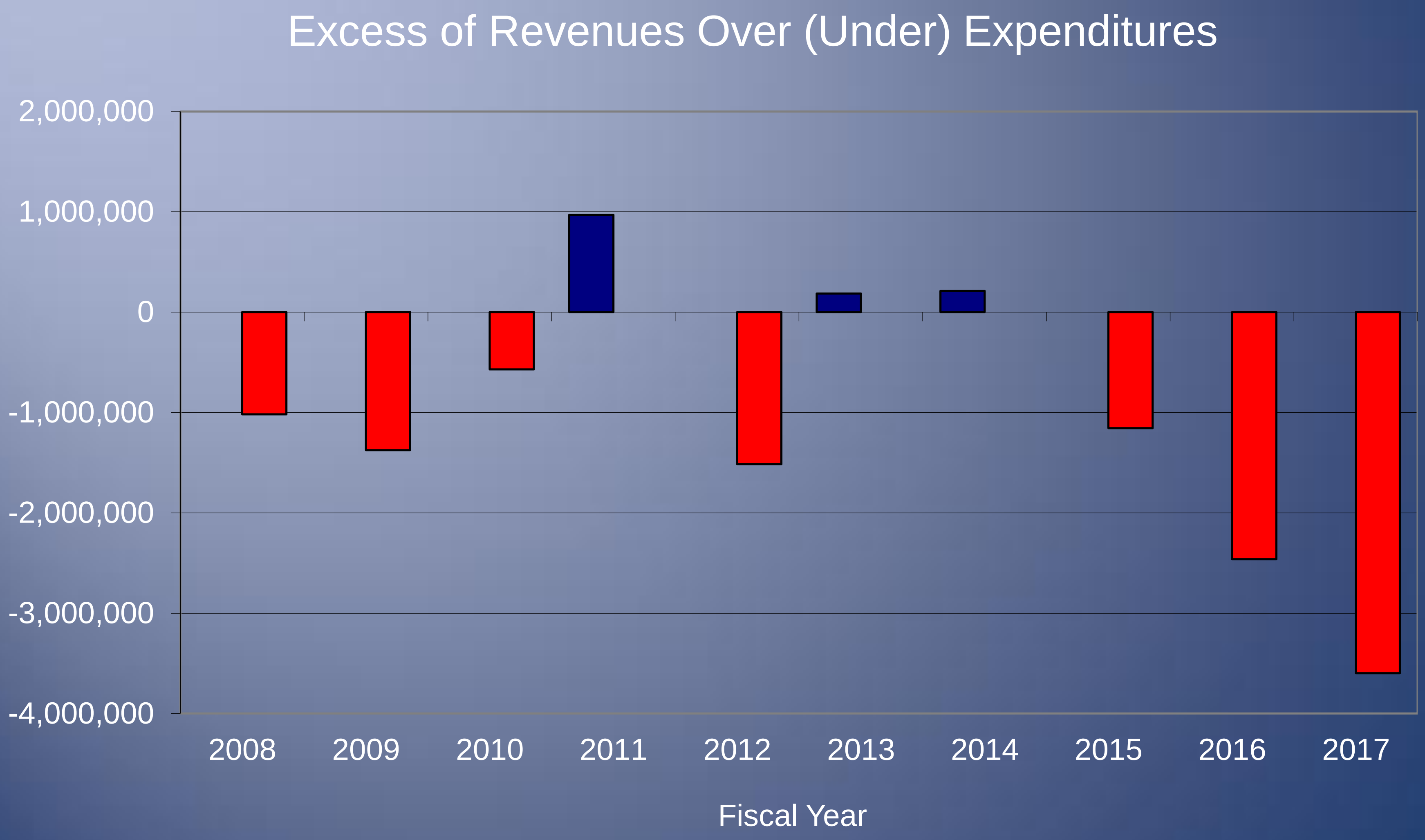
Key Expenditure Forecast Points

- The bottom-line changes in total expenditures including ‘Other Financing Uses’ show an average annual expenditure increase of 2.34% over the forecasted five years as compared to an actual average annual expenditure decrease of .14% over the previous 3 years.

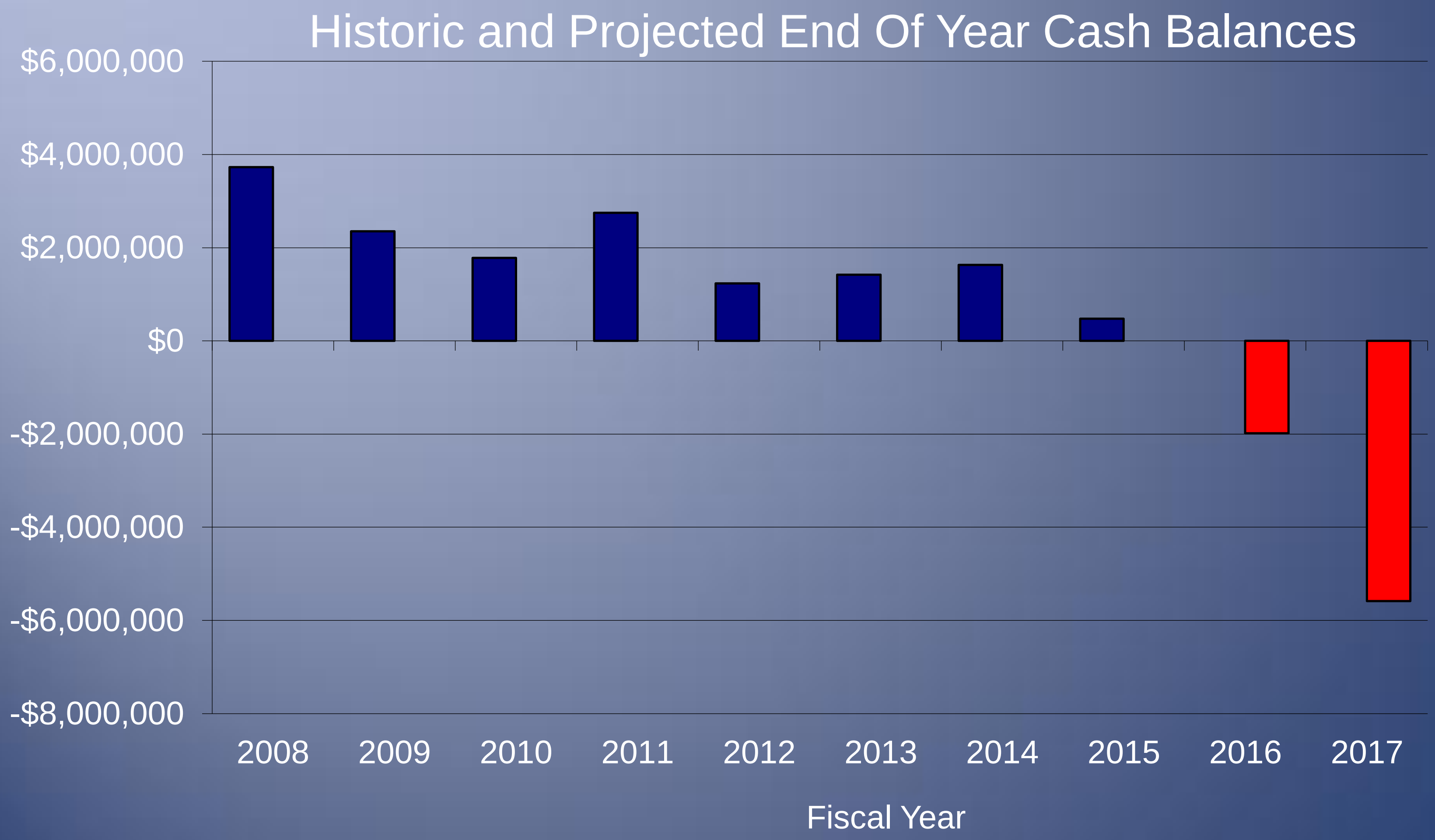
Revenues & Expenditures



Bottom Line


Excess of Revenues Over (Under) Expenditures
2,000,000
1,000,000
0
-1,000,000
-2,000,000
-3,000,000
-4,000,000
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Fiscal Year

Effect on Cash Balances



Future Outlook

- Due to the passage of an additional five-year emergency operating levy in March of 2012, Total Revenues and Other Financing Sources are projected to **increase** annually by an average of .99% over the forecasted years 2013 through 2017, while Total Expenditures and Other Financing Uses are projected to **increase** annually by an average of 2.34%. Based on these current projections, it is anticipated that this levy will carry the district for only the next three years.

- Governor Kasich and the Ohio state legislature has yet to unveil their school funding formula for the 2014-2015 biennium state budget. Therefore, the future of state funding for public schools is still unknown. With over 55% of the school district's revenue coming from the state, the district will need to closely monitor the Governor's proposed budget.

- Actions by the Ohio Department of Education, the U.S. Department of Education, the State Legislature, the Ohio Board of Taxation, the Ohio Supreme Court, the Cuyahoga County Board of Revision, and other governmental bodies, will impact these projections and the results of their actions could seriously threaten the accuracy of the forecast and assumptions.

Questions?