FIVE YEAR FORECAST

GARFIELD HEIGHTS City Schools

Forecast Overview

October 2013

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 17, 2013.

- 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 Revenue Points

- Residential and Other Commercial valuations are not projected to change significantly until the next revaluation in 2015.
- No major new construction is projected for 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 began in January 2013.

Key Revenue Points

- For the Public Utility Personal Property (PUPP) tax, revenue amounts are estimated for each of the forecasted fiscal years using the Calendar Year 2012 actual valuation for PUPP property. At the time of this forecast, we do not know Calendar Year 2013 actual valuation for PU tangible property. Projected revenues are based on 2012 valuations and are projected to be flat lined.

- The state legislature has established a new school funding formula in the recently passed biennial budget.

Key Revenue Points

The state legislature has established a new school funding formula in the recently passed biennial budget.

Three main components:

- Core Funding
- Targeted Funding
- Economic Disadvantaged

Key Revenue Points

- State funding is capped at 6.25% of FY13 amount and 10% of FY 14 amount.
- Under the current formula, our calculated state funding amount for FY14 is $20,079,800. Since we are capped, the amount we will actually be receiving is $17,588,625
- For FY 15, our calculated state funding amount is $20,422,177 but we will only receive is $19,435,431.

Key Revenue Points

- Casino Revenues are an ‘Other Unrestricted State Grant-In-Aid. The district received $91,500 in August at a $25 per pupil rate. The district is scheduled to receive an additional $75,630 in January 2014. The projected rate moving forward will be $26 per pupil amount as established by State Legislature.

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.

- In fiscal year 2013, the district received $356,410 as their share from the CityView Tax Increment Finance (TIF) agreement. However, CityView is in receivership and current indicators point to potential reductions in this TIF payment going forward into the projected years 2014 through 2018.

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 2.2% over the forecasted five years due in large part to the increase in state basic aid as compared to an actual average revenue decrease of .11% over the previous 3 years.

Key Expenditure Points

- Beginning this school year 2014, the district has implemented all-day kindergarten and a K-5 configuration for all of its elementary schools. Staffing levels needed to be increased and additional costs were incurred due to this transition including hiring over 30 new staff members. These costs are contained in this forecast.

Key Expenditure Points

- Over the past three years, Personal Services had averaged a 1.37% increase. Based on the above assumptions and the hiring of additional staff members, Personal Services is projected to increase **5.49%** in fiscal year 2014 and then increase and average of 2% annually in each of the forecasted fiscal years 2015 through 2018.
  - 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.

Key Expenditure Points

- Employee Retirement/Insurance Benefits had averaged a 2.27% increase over the past 3 years. However, Employee Retirement/Insurance Benefits expenditures increased 2.76% in 2013. Base on the above assumptions, Employee Retirement /Insurance Benefits is projected to increase 4.43% in fiscal year 2014 and then increase 4% annually in each of the forecasted fiscal years 2015 through 2018.

  - 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 9% for FY14 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 show WSL savings for all employee groups.

  - Workers compensation and unemployment costs are projected to remain constant for the forecasted years.

Key Expenditure Points

- Purchased Services, which includes contractual services, special education, legal services, rentals and leases, travel and mileage, utilities, and building/ equipment repairs had averaged a 9.57% increase over the past three years. However, Purchased Services expenditures increased only 7.76% in 2013. Therefore, Purchased Services is projected to increase 8% annually in each of the forecasted fiscal years 2014 through 2018.

- Supplies and Materials had increased an average a 25.92% over the past three years with the significant increase of 48.6% for fiscal year 2013, due in large part to the General Fund now absorbing the cost for workbooks that was previously paid for with student fees. However, moving forward, Supplies and Materials are projected to increase an inflationary 2.5% annually in each of the forecasted fiscal years 2014 through 2018.

Key Expenditure Points

- Over the past three years, Capital Outlay had averaged a 37.4% decrease. Furthermore, Capital Outlay expenditures decreased 30.36% in 2013. While 2014 shows a slight increase, we project Capital Outlay to return to the 2013 level in 2015 and then to increase an inflationary 2% annually in each of the forecasted fiscal years 2016 through 2018.

- The district has two debt service obligations from the General Fund. These obligations 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. Both of these bonds mature in 2017.

Key Expenditure Points

- Over the past three years, Other Objects had averaged a 1.85% increase. Furthermore, Other Object expenditures decreased significantly (33.07% in 2013). Other Object expenditures assume an inflationary 2% annual increase in each of the forecasted fiscal years 2014 through 2018.

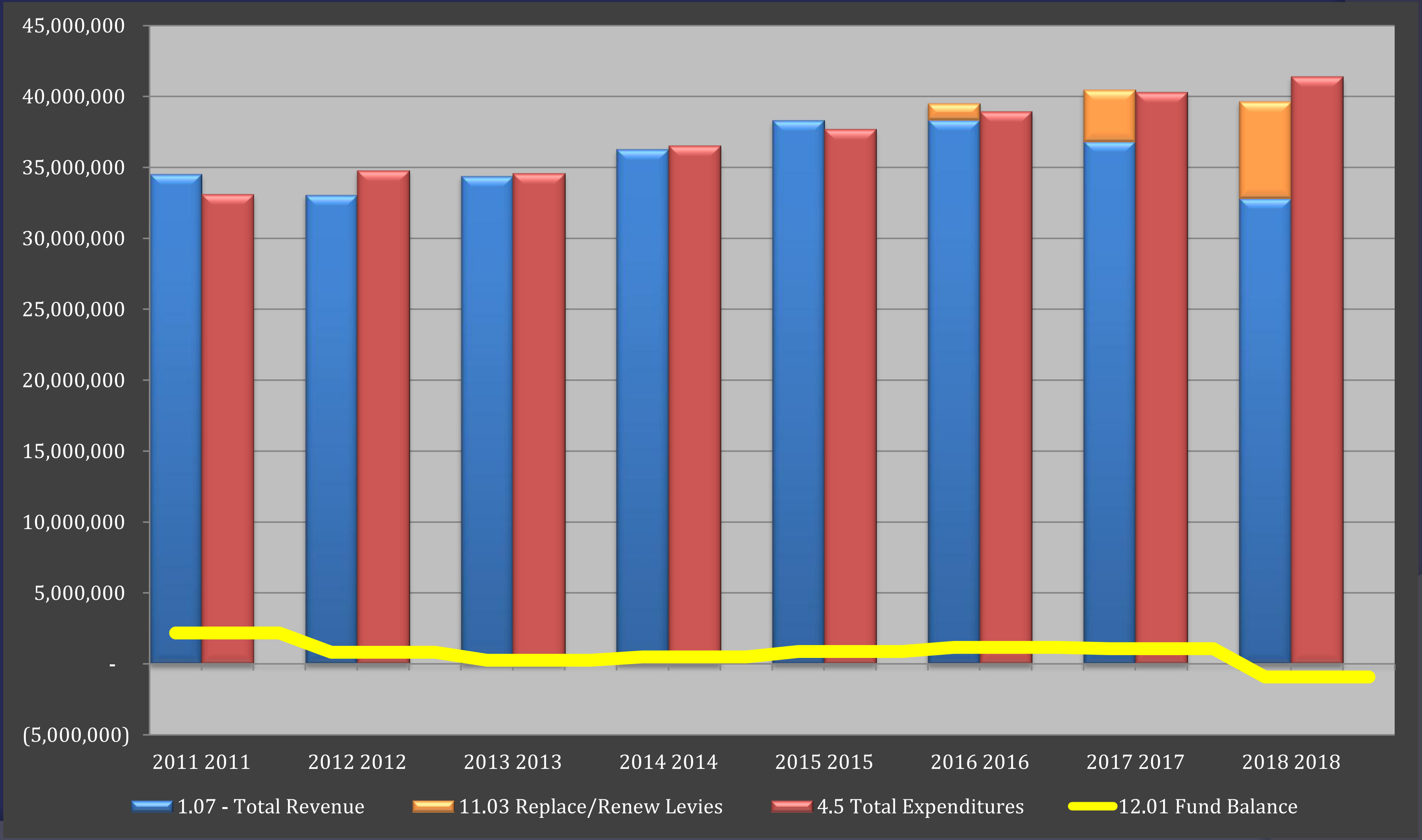
- **Transfers Out** is projected to increase significantly in 2014 due to the Board's commitment to the Athletic Fund and then remain constant over the forecasted period and that no other funds will need a transfer.

- **Advances Out** has been required in previous years. Projected Advances Out are offset through an Advance In in the following fiscal year, thus creating no financial impact on the overall forecast.

Key Expenditure Points

- The bottom-line changes in total expenditures including ‘Other Financing Uses’ show an average annual expenditure increase of 3.58% over the forecasted five years as compared to an actual average annual expenditure increase of 1.96% over the previous 3 years.

Operating Revenue, Expenditures & Year End Fund Balance



Future Outlook

- Due to the passage of an additional five-year emergency operating levy in March of 2012 and the increase in State Basic Aid from the biennial budget, and further assuming the passage of the renewal levies, Total Revenues and Other Financing Sources are projected to **increase** annually by an average of 2.2% over the forecasted years 2014 through 2018, while Total Expenditures and Other Financing Uses are projected to **increase** annually by an average of 3.58%. Based on these current projections, it is anticipated that the district will need additional revenues beginning in fiscal year 2018.

- The state legislature has passed a school funding formula for the 2014-2015 biennium state budget. This formula included an increase of state basic aid to the district. However, beyond the two year biennium budget, 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 state's economic outlook.

Questions?