

**NOTES TO THE FIVE YEAR FORECAST
GENERAL FUND ONLY
October 2018**

REVENUE ASSUMPTIONS

1.010 Property Taxes

Garaway LSD receives property tax revenue from Tuscarawas, Coshocton, and Holmes counties. Tuscarawas County accounts for approximately 90% of the District's total valuation while Coshocton County has 8% and Holmes County has 2% respectively.

Real estate property tax revenues increased an average of 3.98% from FY15 to FY18. Property taxes typically increase based on reappraisals, new construction, property sales, changes approved by the Board of Revision, triennial updates and state mandated property percentage increases on real estate by county auditors, and other factors such as changes in the law such as C.A.U.V. calculations. While future estimates will increase, past growth may not be sustainable because of adjustments in C.A.U.V. and other factors such as reductions in revenue because of past property valuation appeals coming into effect.

The District's Emergency Levy expiring in tax year 2018 was renewed as a Substitute Levy in May 2018 for a continuing period. This levy produces a fixed-sum tax revenue annually of \$1,393,000 and reaches the full voted value of \$1,487,300 through reimbursement from the state. This reimbursement is the result of HB 66 phasing-out of tangible personal property taxes on general business, telephone & telecommunications, and railroad properties in 2006. With the passage of the Substitute Levy, all of the District's levies are for a continuing duration.

Agricultural property values were adjusted in 2013 which helped generate additional tax revenue for the district. In summer 2017, with the state's biennial budget bill (HB 49), sweeping changes were made to the Current Agricultural Use Value (C.A.U.V.) program and the formula was codified in the Ohio Revised Code. The new land valuation formulas will be phased in over the next six years. Overall, change in the C.A.U.V. formula is expected to decrease the amount of property tax collected from agricultural use land. The total dollar amount of change is not determinable at this time.

With the district being at the 20 mill floor, increases in property valuation were realized as revenue for the district since the reduction factors remain the same in order to keep the district at the 20 mill floor. This is a case of where HB 920 cannot stifle revenue growth.

1.030 Income Tax

Garaway does not have any income tax levies.

1.035 & 1.040 Unrestricted/Restricted Grants-In-Aid

The State biennium budget funds school districts such as Garaway through the State Foundation Program. The State Foundation Program emphasizes the District's three-year average property valuation in relationship to all other school districts and student Average Daily Attendance among many other factors. Revenue will fluctuate as student enrollment increases/decreases and as the valuation of other Ohio school districts in relationship to Garaway rises/falls.

For years beyond FY19, state foundation revenue shows no increases/decreases as FY20 will be a new state budget. The budget requires approval by the governor and state legislature. Because these are political bodies, the state budget can literally change focus every two years depending on changing political winds. With various "overhauls" over the past decade, so it is possible that there may be major changes with the new biennial state budget beginning in FY20 and another new state budget again in

FY22 of this forecast. The decisions of the Cupp-Patterson Committee may make significant or insignificant changes to foundation funding. This creates great difficulty in predicting future state funding levels.

Casino tax revenues are also “Unrestricted.” From this, Garaway receives an estimated \$60,000 from the state each year.

1.040 Restricted State Grants-in-Aid

Most Restricted Grants-in-Aid have been eliminated. Career technology and Economically Disadvantaged are considered “Restricted” of which the district is to receive approximately \$94,000 combined in this current year. In FY19, as these components are part of the state biennium budget, these revenues were slightly lowered because of decreased poverty levels within the District. It is difficult to predict tenants of future state funding levels.

1.050 Property Tax Allocation

Homestead and rollback reimbursements are estimated at percentage of residential/agricultural real estate tax revenue.

House Bill 66, effective July 1, 2005, eliminated the general personal tangible tax base and the telecommunication personal tangible tax base. The State has been required to hold school districts harmless for lost tax revenue through FY16 and provided reimbursements to school districts by means of indirect increases to the State Foundation Program and direct payments over a phase-out period through calendar year 2021. FY15 was the last year the District received 100% of the fixed sum amount.

1.060 All Other Operating Revenues

Open enrollment from students living outside Garaway boundaries, investment interest, tuition, and manufactured home tax are revenues in this category of income along with class fees and miscellaneous income. Garaway Virtual Academy (GVA) has significantly increased revenue as a result of students enrolling in this educational option from other school districts. While GVA has had a positive revenue impact, it is important to note that out-of-district students are more transient than the traditional brick and mortar students which can result in greater variability of enrollment. Included in this line item is income tax received from the Village of Sugar Creek as a result of new jobs created through an Enterprise Zone Agreement with the Village of Sugar Creek and Pleasant Valley Teardrop Trailer. As FY18 was the first year the District received these monies, it is difficult to establish historical trend analysis based on first year collections. Future years' projections for tuition out of district revenue for students and manufactured home tax are estimated similar to the actual revenue received in FY18.

2.040 Operating Transfers-In

Transfers-In result from monies, previously held in separate Unclaimed Monies funds, not being claimed. After the state statutory minimum of five years, these funds revert to the District's General Fund and become eligible for appropriation. In FY16, the Common Pleas Court of Tuscarawas County approved the transfer of the remainder of the monies in the debt service fund to be transferred back to the General Fund.

2.060 All Other Financing Sources

At various times during throughout District history, the District has offered obsolete equipment for sale to the general public through an annual auction. Following the transformation of the District's High School library into a modernized library and technology learning lab in FY16, most surplus equipment has been auctioned for the District. The District does not anticipate any other large additional sale of District surplus items in the coming years.

EXPENDITURE ASSUMPTIONS

General expenditure assumptions are based on historical cost patterns with current staffing that will continue in the same manner into the future and are predictable through FY2020. In that year, a new contract will become effective with both the Garaway Teachers Association and the OAPSE classified unions.

This forecast does not factor into the funding equation how state and federal mandates and changes in federal programs will affect the General Fund. In FY18, federal funding levels have decreased because of falling poverty rates in the Garaway District coupled with decreased federal funding for special education. Going forward, this forecast considers current funding allocations. Federal funding allocations for FY19 are similar to those in FY18. However, additional cuts are anticipated for FY20 and beyond.

President Trump's federal budget focused on expanding school choice and STEM education. At the same time, federal funding to K-12 schools was decreased by \$9 billion from prior years. Because these cuts were not disclosed to Ohio school districts until late June 2017, the General Fund had to absorb personnel and benefit costs paid for in prior years by federal funds. Staffing changes were made in FY19; however, grants are funded based on a District's percentage of free and reduced meals, not student needs. Student needs remained, and the affected salaries were transferred to the General Fund. Garaway recognizes the needs of our most vulnerable students and continues to provide services for them in a fiscally responsible manner.

3.010 & 3.020 Personnel Services and Benefits

The amounts for past salaries and benefits are based on the current negotiated agreements with the certified staff of the Garaway Teachers' Association (GTA) and classified staff of the Ohio Association of Public School Employees Local 11 (OAPSE) union through June 30, 2020. The current contracts call for a 2% raise in FY18, 1.75% raise in FY19 and 1.75% raise in FY20 on the base salary for all employees. Step increases continue for years of service and education. Future years have similar increases built in that would require negotiation between the board and both unions before they would be accepted.

In today's world, health insurance is costly. The Garaway Teachers' Association and the OAPSE classified union took health insurance concessions in FY18-FY20 contract negotiations to help negate the rising cost of health care to the District. In FY18, Garaway was able to utilize three premium health insurance holidays resulting in cost savings for the General Fund. Three premium holidays are unusual in a fiscal year. For FY19, this forecast assumes two health insurance premium holidays. These will be taken under advisement by Jefferson Health Plan, Burns Consultants, and Educators Consulting Services.

This forecast does not account for any penalties accruing from the "Cadallie Tax" that may begin in 2022. The current GTA negotiated agreement stipulates an 11% employee insurance premium contribution. The current OAPSE negotiated agreement stipulates an employee insurance premium contribution at 7% in FY18 with increases by 1% each year in FY19 and FY20. Additionally, the Board offered "opt-out" incentives for employees choosing not to enroll in the District's health insurance as a cost-saving measure. In FY18, this option has saved the District approx. \$48,000 plus the cost of claims. Insurance expenditures fluctuate over time and may significantly change with the number of enrollees and the amount of claims each year.

3.030 Purchased Services

Purchased services are the most difficult category to forecast. Utilities and many other contracted services constitute a large portion of this line item. If a winter has colder or warmer temperatures than in the prior year, and/or more snow and ice conditions than in past winters, utility costs are impacted. The weather, coupled with increases in utility and utility transmission costs, contributes to great variance in expenditures from year to year. Another factor increasing operational costs is need for increased data transmission for educational and operational internet services.

The District is charged through the State Foundation distribution for resident students who are being educated by other school districts or at charter schools through open enrollment options. Garaway has pioneered Garaway Virtual Academy (G.V.A.) to retain Garaway students who prefer an online education and attract additional students from outside the District. This effort has been successful, but there are students who seek school options outside Garaway.

With the implementation of the State of Ohio's "College Credit Plus" program, Garaway students can earn college credits while still attending high school. This is a beneficial program for students and their families. However, Garaway receives no additional money from the State of Ohio to cover the cost of College Credit Plus. As knowledge of this program increases and the option becomes accessible for students in lower grades, it is expected that the number of students choosing to enroll in College Credit Plus will grow and subsequently increase costs for the District.

Special Education costs: In Coshocton and other counties, Boards of Development Disabilities collect property taxes specifically levied to help educate and transport students with disabilities. The Boards of DD, however, have ceased transportation and significantly decreased educational services provided to these students. These costs are being passed onto local school districts without any revenue support. Costs for these services are expected to be significant for Garaway.

The Garaway LSD is experiencing an increased number of students who require costly educational intervention services at earlier grades than were identified in prior years. The dynamics of transient students, earlier identification of students needing intervention services, and varying degrees of disability severity result in the cost of meeting student needs to be indeterminable. To be conservative, amounts budgeted were increased for FY19 and throughout the forecasted years.

3.040 Supplies and Materials

The District is utilizing wireless internet technology for a large portion of its educational delivery at the middle and high school levels. Therefore, hard copy textbook adoption and purchase has decreased with additional open-source software and minimal purchased software as the forecast develops. Garaway LSD utilizes Google-based Chromebooks for student technology.

College Credit Plus textbooks and other instructional costs are included in this line item. As the College Credit Plus program expands to additional colleges and universities and the number of students participating increases, textbook costs continue to increase.

As a rural school district, bus transportation plays a vital role in the education of students. With the volatile world of politics and supply & demand, fuel prices are expected to increase over time.

3.050 Capital Outlay

Garaway School District underwent assessment by PlugSmart to strategically address building and grounds capital maintenance and replacement planning. They analyzed District facilities, prioritized projects, and estimated costs for repair or replacement.

During summer 2018, the lighting and window replacement portion of the plan was completed. These projects were at the top of the priority list as they contributed the most to cost savings through energy efficiency as well as addressing safety concerns. As these are capital-type expenditures, they will be funded by the Permanent Improvement – Building Fund (#003). Because of the cost, the Permanent Improvement Fund balance has been significantly reduced in FY19 and future years.

As a result of the significantly decreased balances Permanent Improvement-Building Fund, any emergency repairs or replacements will need to be paid for by the General Fund. Three large projects may be necessary: replacement/repair of the student drop-off parking lot at Miller Avenue Elementary and the replacement of the boilers at Miller Avenue Elementary and the High School. Currently, the boilers are functioning without any known issues. However, the Miller Avenue Elementary student drop-off area poses not only a safety hazard for students, but can pose damage to District buses as well. This project is planned for the summer of 2019. In FY20 and FY21, a boiler replacement will be planned for each summer.

The Bus/Technology Permanent Improvement Fund is used to purchase one school bus per year. Therefore, the general fund would not incur the cost of new buses unless sufficient funds were not available in this fund or more than one new bus would be needed in a fiscal year.

4.050 & 4.060 Debt Service

The District does not have any debt.

4.300 Other Objects

The costs for expenses such as county auditor/treasurer fees to administer and collect property taxes, election expense for putting levies on the ballot, payments to the East Central Ohio ESC as mandated by the state, membership fees, and annual financial audit charges are expected to increase. County auditor/treasurer fees increase as property tax revenue increases. In FY18, the cost of election fees increased because of Board election in November and tax levy ballots in May. The cost for the May 2018 election expenses will not be charged until FY19.

5.010 Operational Transfers Out

Advances are needed to other funds such as state and federal programs, food service, and the athletic program to deter negative cash balances within those funds at the end of the fiscal year. Advances are generally expected to be re-paid by the end of the fiscal year. In contrast, transfers are not repaid to the general fund. Because of higher than anticipated revenues, the General Fund was able to eliminate \$10,000 for scheduled transfers to the Food Service Fund for FY18. For future years, transfers to the Food Service Fund are estimated \$50,000 per year. As the Food Service Fund balance improves, these transfers may be decreased. An intensive school breakfast program is planned to be implemented in FY19. This program will have a positive impact on children's nutritional needs and enhance learning as well to increase cash flow. Significant effort is being put forth to alleviate the need to transfer revenue from the General Fund.

8.010 Outstanding Encumbrances

Encumbrances are obligations not paid in the year appropriated and carried to the subsequent fiscal year for payment. The District assumes all appropriations are paid in the year appropriated until such time as encumbrances can be better identified. In FY18, the District had large open purchase orders open for a computer lab and a contracted shared service agreement for transportation with another school district. Large encumbrances such as these unusual; therefore, encumbrances (outstanding purchase orders) are shown lower than this amount for forecasted years.

9.080 Reservation of Fund Balance

Required amounts to be reserved in compliance with HB 412 for instructional materials and capital improvements are reduced by permanent improvement levies for buildings, buses, and technology. The District expects to meet the expenditure requirements for the capital improvement set-aside throughout the forecast period. House Bill 30 eliminated the requirement of setting aside funds for textbooks and instructional materials.

11.020 and 13.030 Replacement/Renewal/New Levies

The District's Emergency Levy was renewed as a Substitute Levy in May 2018 for a continuing period, amounts shown on this line item of the October 2017 forecast, and was removed from line 11.020.

Garaway has an Emergency Levy on the November 2018 ballot. If approved by voters, the estimated proceeds of this levy will be shown on line 13.030.