

WORTHINGTON SCHOOLS

PROPOSED

GENERAL FUND 5-YEAR FINANCIAL FORECAST NOTES

May 21, 2007

Dear Reader,

The attached General Fund forecast is based upon years of historical data and a long list of assumptions for revenues and expenditures for the five-year period July 1, 2006 through June 30, 2011.

ASSUMPTIONS

The following assumptions are a part of Worthington Schools' 5-Year Financial Forecast for the period July 1, 2006 through June 30, 2011. Please note that the basis of accounting is cash, not accrual or modified accrual. Thus, timing issues impacting the receipt or disbursement of cash can distort operational considerations.

REVENUE

REVENUE-LOCAL

1. Property Taxes-Real & Tangible

A. New Operating Levy

Tax revenues reflect the passage of the new 6.85 mill levy on March 2, 2004. Increased tax collections began in the 2005 calendar year with about half of the increase impacting the last half of the 2005 fiscal year and half of the total increase impacting the first half of the 2006 fiscal year.

B. New Construction

Worthington Schools continues to experience a decline in the growth of new construction. It is assumed that new construction will be at .58% of residential/agricultural values and .6% of commercial/industrial values throughout the five-year forecast.

C. Triennial Update/Reappraisal

Worthington Schools continues to experience a rapid inflationary growth in property values as it has in the past. During the most recent triennial update, residential/agricultural values increased by approximately 13.97% with new construction accounting for approximately .58% and commercial/industrial values increased by approximately 6.07% during the triennial update with new construction accounting for approximately .60%. As a result of the increased property tax values, the effective millage for residential/agricultural dropped 4.66 mills for residential/agricultural property and 1.89 mills for commercial/industrial property on collections in 2003. The last reappraisal was in the 2005 calendar year for collection in the 2006 calendar year, which is the last half of the 2006 Fiscal Year and the first half of the 2007 Fiscal Year. During this reappraisal, property values increased 19.79% for the residential/agricultural property class and 1.22% for the commercial/industrial property class. This represented a \$220,626,000 increase in value which will over the 2006 and 2007 fiscal years generate an estimated additional \$992,817 in local property taxes but could result in \$5,074,398 losses in state funding should the formula aid guarantee or transitional aid guarantee be eliminated or changed. This loss in state funding is

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called phantom revenue. While real estate property values have increases, effective millage for residential/agricultural property dropped by 6.19 mills and commercial/industrial dropped 1.29 mills. The only increase was from the 4.5 inside mills which are not subject to anti-inflationary reductions.

D. Tangible Property Values

In June of 2005 the Ohio Legislature passed Amended House Bill 66, which was signed into law by Governor Taft. House Bill 66 effectively eliminated tangible property taxes through a phase out. General businesses and railroad property will be eliminated by 2009 and taxes on telephone and telecommunications property will be eliminated by 2011. These changes are in addition to the phase out process that was enacted for business inventory noted below.

As a result of the phase out of the tangible tax for general business and telecommunication companies, it is estimated that these losses will result in decreasing revenues from an estimated \$18,080,627 in the 2006 fiscal year to \$4.3 million in the 2010 fiscal year. H.B. 66 will also result in some additional increase in state funding as a result of some reimbursements for lost tangible tax revenue. See State Revenue section below for details. It should be noted the reimbursements are temporary while the losses of this source of revenue are permanent and significant.

The following is provided as a historical analysis of changes in tangible revenues from year to year.

- Tangible property values and revenues are extremely difficult to predict, second only to a new state biennial budget. In the past 10 years the district has seen values increase by as much as 11% or drop by as much as 3% in any given year. This is a significant variation when considering that tangible property revenues accounted for 20% of total revenues in the 2002 Fiscal Year. Most of the time the district is unaware that a significant change has taken place until revenue is distributed, which is particularly frustrating in light of the fact that Ohio law requires businesses to file a 945-S form if values are going to increase or decrease by \$500,000 or more. An example was when the District was informed in late September, 2004, that tangible personal property values decreased by \$4.5 million dollars in the 2004 Fiscal Year, which was three months into the fiscal year. After the forecast was approved October 2003, we were informed that Lydall Inc. and Big Bear would close impacting the 2005 fiscal year and that Worthington Foods will close in the summer/fall of 2004, which had full impact in the 2006 fiscal year. The taxable value losses from these three businesses were \$2,430,000, \$857,000 and \$4,770,000 respectively with revenue losses of approximately \$200,000, \$65,000 and \$385,000 respectively. Then in October of 2004 the District was informed that three of its major tangible taxpayers paid \$996,941 less in tangible taxes in the October 2004 tax distribution than they had the previous year as a result of reduced tangible tax values. In the 2006 Fiscal Year the district received \$1,393,000 more in tangible taxes than expected. It included \$810,000 in delinquents and \$583,000 in regular tangible tax revenue.
- Utility deregulation was implemented with the loss of \$10,185,000 in public utility taxable value resulting in the loss of over \$685,320 in tangible property tax income in the 2003 Fiscal Year. The state provided assistance in two forms to help hold districts nearly harmless. Because of the state funding formula, the district received \$224,255 in additional school funding through the formula. The state also provided \$397,994 in replacement income for Worthington Schools for a period of five years, per Senate Bill 3. State reimbursements began in the last half of the 2002 Fiscal Year and were scheduled to end the first half of the 2007 Fiscal Year. However, SB 3 also provides a provision that if state funding to Worthington Schools does not exceed the inflation rate, then the district would continue to get the funds up to the year in which they exceed the inflation rate. Based upon the current assumptions for state foundation revenue, it is assumed that we will continue to receive these funds during the forecast period.

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- Business Inventory Tangible Tax Rate Reduction per House Bill (HB) 283 rates will be reduced from the current 25% rate of taxation to 0%. Thus beginning with the 2001FY, rates began dropping at 1% of value, or 4% of income per year for the next twenty-five years. As a result of House Bill 95, the New Biennium Budget Bill, the 1% reduction in value was accelerated to 2% beginning with the last half of the 2006 Fiscal Year. The total annual cost of these two pieces of legislation when fully implemented, is estimated at \$3,182,000 in lost revenue annually. This does not reflect any inflationary increases in valuation. The amount of revenue lost annually for Fiscal Years 2003 through 2008 is estimated at \$353,171, \$470,895, \$588,618, \$824,061, \$1,059,507 and \$1,294,953 respectively, for an accumulated loss of \$4,591,205 during the forecast period.

E. Unusual Fluctuations in Tax Revenues Not Described Above

- Real Estate
Between the 2002 Fiscal Year and the 2003 Fiscal Year, there was a \$13 million dollar increase in real estate revenues. This is a timing issue of when tax revenues were received as well as the collection of the tax levy passed in 2001. The 2002 Fiscal Year would have shown \$48.6 million instead of \$41.2 million in revenues if \$7.4 million in tax revenues had not been received as an advance in the 2001 Fiscal Year. An advance is money requested from the Franklin County Auditor at the end of June, which is intended for the next fiscal year. Receiving the money early allows the district to collect additional interest. As a result, the 2001 Fiscal Year was higher and the 2002 was lower. But normally, there would have been advances received in the 2002 Fiscal Year from the 2003 Fiscal Year, but there were none received in the 2002 Fiscal Year.

As a result of the 2002 Fiscal Year not receiving any advances from the 2003 Fiscal Year, the 2003 Fiscal Year revenues reflected all of the revenue that it was due, as well as collected \$1.9 million in real estate tax revenues from the 2004 Fiscal Year, in the form of a tax advance. In other words, if advances were not requested and received, then the 2002 real estate revenues would have been \$48.6 million and 2003 would have been \$52.3 million, which was a \$3.7 million dollar increase. The additional \$3.7 million in the 2003 Fiscal Year was the result of a full year's collection of the new tax levy, where as the 2002 Fiscal Year only reflected one half year of collections.

Similar circumstances have taken place in the 2004 Fiscal Year when \$13,628,316 in tax advances were received in May and June which would have otherwise been received in July and August 2004 and would have been part of the 2005 Fiscal Year. As a result of the \$11,628,316 increase in real estate tax advances in the 2004 Fiscal Year, the 2004 Fiscal Year real estate revenues increased from \$54,251,423 in the 2003 Fiscal Year to \$64,578,195 and then dropped to \$62,621,470 in the 2005 Fiscal Year even though half of the March 2004 levy was collected in the 2005 Fiscal Year. The 2005 Fiscal Year collections were higher than estimated because the tax advances increased to \$18.7 million. The 2006 revenues should have dropped as well except that the tax advances increased again to a new high of \$19.8 million. It is forecasted that the 2007 Fiscal Year real estate tax advances will drop to \$10.5 million which will result in overall real estate tax collections of \$56.3 million. Then in the 2008 Fiscal Year overall tax collections should increase to \$65.3 million even though tax advances are expected to drop to \$9.5 million.

- Personal Property Taxes-Tangible Taxes
Tangible taxes reflect a \$2.73 million increase from the 2002 Fiscal Year to the 2003 Fiscal Year, a \$1.8 million decrease from the 2003 Fiscal Year to the 2004 Fiscal Year and a \$680,000 decrease from the 2004 Fiscal Year to the 2005 Fiscal Year. Part of the \$2.73 million increase in the 2003 Fiscal Year was the result of re-categorizing some tax revenues that were previously shown as real estate revenues in the 2001 Fiscal Year. It also demonstrates a full year's collection of the 2001 tax levy and an increase in the tangible tax base. The 2004 and 2005 Fiscal Years reflect a \$1.8 million decrease and \$680,000 decrease, respectively, because of known decreases in the tangible tax base as a result of changes by

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corporations and the continued reduction of the inventory tax rate. While total revenues did not decrease in the 2006 Fiscal Year because of the passage of the March 2004 levy, revenues were reduced by over \$1.6 million as a result of business closures and tangible value reductions noted in paragraph "D" above.

2. Other Local Revenue

A. Interest Revenue

As a result, of increasing rates during the 2005-2007 fiscal years, earnings doubled each year. Interest earning will be nearly \$3 million in the 2007 fiscal year, decline to about \$2 million in the 2008 fiscal year, decline to nearly \$1 million in the 2009 fiscal year and bottom out at about \$350,00 in the 2010 year. The reductions are based upon reduced balances to invest.

Interest earning will increase should additional amounts be available for investment through additional cost reductions or revenue enhancements.

B. Other Revenue

Other revenues increased dramatically in the 2003 Fiscal Year and the 2004 Fiscal Year. The increase in 2003 was the result of resumed invoicing for rental and tuition services. Invoicing had fallen behind when the district was having difficulty replacing the Treasurer/C.F.O. The increase in the 2004 Fiscal Year was the result of additional fees approved by the Board of Education in May 2003 as well as a \$650,000 tax anticipatory note (TAN) issued in April 2004 to help finance the purchase of \$1 million in buses. Revenues dropped by approximately \$1 million in the 2005 fiscal year, the bulk of which was made up by the \$650,000 TAN transaction in 2004 not being duplicated in the 2005 fiscal year. Collections again increased in the 2006 Fiscal Year due to some temporary collections and expected to drop back to 2005 levels in the 2007 Fiscal Year. It is estimated that Other Local Revenues will be flat through out the rest of forecasted period.

C. Non-operating Other Revenue

Returned advances jumped \$974,000 in 2003 dropped to \$527,800 in 2004, dropped to \$313,820 in 2005 and then dropped to zero in 2006. The jump in the 2003 Fiscal Year is the result of a need for the General Fund to advance cash to other funds in the 2002 Fiscal Year in order to cover cash deficits, which were primarily the result of delayed receipt of grant receipts. Those funds were then repaid to the General Fund in the 2003 Fiscal Year. In the 2003 Fiscal Year advances were needed again, that were returned to the General Fund in the 2004 Fiscal Year. And then again in 2004 advances amounted to \$313,820, which have been returned in the 2005 Fiscal Year. While there is no further assumption that this will be necessary in future years, it is acknowledged that this type of loan is common and cannot be adequately foretold.

REVENUE-STATE

1. Foundation Revenue

The new Biennium Budget, House Bill 66 (HB66), will result in \$3.3 million in additional Foundation revenues each year for the 2006 and 2007 Fiscal Years than had previously been forecasted. This is the direct result of a new Transitional Aid Guarantee that stops any school district from receiving less Foundation revenue during the current biennium, which covers the 2006 and 2007 Fiscal Years. While the 2006 and 2007 fiscal years show improved state funding, there is concern for possible reduced Foundation funding in future years, 2008 and beyond.

A. Increased Property Values

In the 2005 tax year for collections in 2006 calendar year, the District experienced an increase in residential/agricultural values of approximately 20%. And, even though some additional local taxes will be generated by these increases in value, the District would have lost even more funds in state funding were it not for a couple of new guarantees in school funding. This loss is what is referred to as "Phantom Revenue." In effect, the state funding formula

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reduces state aid based upon inflationary increases in property values for which the District receives very little additional tax revenue. Specifically, the district receives 4.5 mills on the new valuations as a result of triennial updates and reappraisals, while losing 23 mills in state aid. However, there is a phased-in implementation of the lost revenue through a process called the "reappraisal guarantee" which provides for one year of "hold-harmless", one year of 50% implementation and is fully implemented the third year, which will impact fully the 2009 fiscal year State Foundation funding.

B. Declining Enrollment

The number of students the District serves is expected to continue to drop annually. In the 1995-96 school year the District had an average daily membership (ADM) count of 10,818 in K-12, while the 2005-2006 school year had an ADM of 9,412. The ADM is projected to continue to drop to a level of 9,161 in the 2011-12 school year, which does not reflect any consideration of enrollment increases as a result of the Antrim property construction. And even though we know that enrollment is most likely going to be higher than the 9,161 shown, it is still expected to result in annual reductions in state aid amounts ranging from \$1.3 million per year to as much as \$2 million dollars, unless the new Foundational Aid Guarantee and new Transitional Aid Guarantee stay in place.

C. Amended House Bill 66-New Biennium Budget (7/05-6/07)

Amended House Bill 66 significantly altered many of the state funding assumptions placed in the October 2004 forecast as did House Bill 95 passed in June 2003 significantly impact school funding for Worthington Schools. House Bill 66 contained the following:

- Eliminated the 1998 Guarantee, which would have kept Worthington Schools funding from dropping below the amount the District received in the 1998 Fiscal Year
- Reduced the cost of doing business factor from 6.08% in the 2005 Fiscal Year to 4.053% in the 2006 Fiscal Year and 2.027% in the 2007 Fiscal Year
- Implemented a new transitional aid guarantee that will not let a school district receive less state funding in fiscal years 2006 and 2007 than was received in the 2005 Fiscal Year
- Implemented another funding guarantee called the Foundation Aid Guarantee that ensures a school district receives the same amount of funds per pupil in the 2006 and 2007 fiscal years that was received in the 2005 Fiscal Year or receives the total amount in Foundation funding that was received in the 2005 Fiscal Year, whichever is less
- Provides an annual 2.2% increase in the 2006 and 2007 Fiscal Years for per pupil funding.

D. Impact of Reappraisal/Triennial Update Guarantees, Loss of 1998 Guarantee, Formula Aid Guarantee and New Transitional Aid Guarantee

- Reappraisal/Triennial Update Guarantees
The Reappraisal Guarantee continues unchanged by HB 66. This means that when the new real estate values established by the 2005 Reappraisal were assessed and millage was reduced for collection in the 2006 calendar year, as a result of HB 920, the state foundational funding was not impacted by "phantom revenue" in the 2007 Fiscal Year because of the Reappraisal/Triennial Update Guarantee. In fact, only 50% of the phantom revenue will impact the 2008 Fiscal Year with full impact not appearing until the 2009 Fiscal Year. The Reappraisal/Triennial Update Guarantee was designed to allow school districts some time to pass additional levies or make reductions in costs before the full phantom revenue impact is felt. Phantom Revenue is a phenomenon that happens when real estate values increase as a result of a reappraisal or triennial update. The values increase because of inflation and the millage on voter approved levies is decreased so that the voter approved levies do not produce any additional tax revenue.

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- **Loss of 1998 Guarantee**
HB 66 eliminated the 1998 Guarantee in school funding from permanent law. The law provided a floor or minimum amount of state funding for all schools. Thus there was a minimum amount of funding past which phantom revenue, decreased enrollment and/or new property values could not drive a school district below. Worthington Schools anticipated that it would hit this floor in 2008 or 2009 as a result of phantom revenue and reduced enrollment of children. The loss of this guarantee will result in the loss of approximately \$8 million annually in Foundation revenue unless the Formula Aid Guarantee and/or Transitional Aid Guarantee continue in their current form.
- **Formula Aid Guarantee**
HB 66 created the Formula Aid Guarantee. This Guarantee assures that during the 2006 and 2007 Fiscal Years every school district will receive a minimum amount of formula aid in the foundation payment. It provides for the lesser of the total amount of formula aid received in the 2005 Fiscal Year or the same amount of formula aid received per pupil in the 2005 Fiscal Year times the current average daily membership (ADM).

As a result of the elimination of the 1998 Guarantee, the Formula Aid Guarantee becomes a very important guarantee for the funding of Worthington Schools and many other school districts throughout Ohio. While this funding law is only in the current funding bill, rather than in permanent law, and could be eliminated in the next biennium budget, this forecast assumes that it will continue in the next couple of biennium budgets because of its importance to many Ohio schools. This guarantee provides an additional funding source of between \$1.2 million and nearly \$5 million during this 5-year forecast. Should it be eliminated in the next biennium budget and should the new Transitional Aid Guarantee not be kept in place, Worthington Schools would lose \$2.9 million in the 2008 Fiscal Year, \$1.6 million in the 2009 Fiscal Year and \$4.978 million in the 2010 Fiscal Year.

- **New Transitional Aid Guarantee**
The new Transitional Aid Guarantee provides a minimum amount of funding. It ensures that every school will receive during the 2006 and 2007 fiscal years at least the amount of funding they received in the 2005 Fiscal Year for foundation, categorical, and transportation funding. This is an important source of funding protection for Worthington Schools.

As of the 21st of May, the State's biennium budget had not been finalized. And even though the Governor included the continuation of the Transitional Aid Guarantee in his proposal and was included in the House version of the biennium budget, there is no guarantee that it will be in the final document at 100% or percentage thereof. Therefore, it was not included in this forecast, since we were unsure as to the amount that should be included. If the Transitional Aid is continued at 100% in the new biennium budget, it will provide an additional \$6.5 million by June 30, 2009.

There is a major concern that the Legislature may eliminate or further reduce the Formula Aid Guarantee, Reappraisal/Triennial Update Guarantee and/or the Transitional Aid Guarantee. All of these are important to Worthington Schools. It should be remembered that these could be eliminated in the next biennium budget just as easy as the 1998 Guarantee was eliminated in the last biennium budget.

2. Categorical Revenue

Categorical Revenue has now been collapsed into foundation revenue per state mandated coding.

3. Other State Revenue

A. Rollback and Homestead

Rollback and Homestead stands for two separate programs established to give home owners a tax break. The Rollback portion is a break for all individual home owners and allows them to forgo paying 12.5% of their real estate taxes on their residents and reimburses the local governments for this lost tax. The Homestead portion is a tax break given to elderly low income resident. Both of these reimbursements normally increase each year as property values increase. This is the result of continued inflationary growth in values and more property qualifying as a result of additionally qualified residents. H.B. 66 eliminated the rollback for business real estate property and as a result, revenues dropped from a high of \$7.4 million in the 2005 Fiscal Year to \$7.1 million in 2006 and are expected to reach \$6.095 million by the 2007 Fiscal Year before it begins to gradually increase again. There is discussion among legislators that these reimbursements may be eliminated in the future, much like what happened with tangible taxes and the \$10,000 tangible tax exempt reimbursements.

B. Tangible Reimbursement- \$10,000 Exemption

This reimbursement was established decades ago to reimburse local governmental units the lost revenue that they would have received on tangible taxes if the full value were taxed and paid. The state sought to give tangible tax payers a break, so the first \$10,000 in value is exempt from taxes.

In HB 95, the 2004 and 2005 Biennium Budget, the State began a phase out process of eliminating this reimbursement. House Bill 95 starts the clock running on the elimination of this reimbursement and our annual revenue losses will increase by \$57,100 annually to a total loss of about \$571,000 annually by 2013, assuming no inflation.

C. Tangible Utility De-Regulation Reimbursement

The state of Ohio de-regulated utilities and in so doing significantly reduced the amount of tangible tax that utilities paid. In order to soften the blow to local governments for this lost revenue, a surcharge was added to customer's bills to help pay for a reimbursement program. This program was set to expire in the 2006 calendar year which includes the last half of the 2006 Fiscal Year and first half of the 2007 Fiscal Year for many school districts. However, the law contained a provision that the reimbursement would continue until 2016 as long as the increase in school foundation funding did not exceed the rate of the consumer price index. This determination is made annually. Since Worthington is nearly flat lined on its school foundation revenue forecast, it is assumed that this reimbursement will continue throughout this forecasted period.

D. Tangible Tax Reimbursement-Elimination of General Business and Telecommunication Tangible Taxes

HB 66 included the greatest business tax change in Ohio history. It eliminated the tangible tax on general businesses and telecommunication companies and implemented an "activity tax" on all businesses. Due to the significant lost revenue to schools and other governmental entities throughout Ohio, the state put into place a reimbursement program to reimburse for these lost taxes beginning in the 2006 calendar year through the 2010 calendar year. The reimbursements will be phased out beginning in 2011 and will be totally eliminated by 2018. This reimbursement began with \$691,071 in the 2006 Fiscal Year and will increase to about \$8.3 million in the 2011 Fiscal Year.

There is a major concern for the financial well being of the Worthington Schools beginning in 2011 and beyond when the reimbursements begin to decrease and are fully eliminated.

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Tangible taxes amounted to \$19.5 million in the 2006 Fiscal Year and to replace this revenue would cost about 12 mills currently.

EXPENDITURES

An overall assumption has been made that inflation will run approximately 3% per year during the five years forecasted. In addition, the Board and administration have put into place \$1.1 million cuts in the 2007 Fiscal Year and are planning an additional \$1.8 million beginning in the 2008 Fiscal Year. The \$1.1 million in cuts reflected \$568,000 in personnel and \$532,000 in non-personnel. The exact cuts for the \$1.8 million have not been identified at this time.

SALARY COSTS

1. Step Increases

Step increases are the result of teaching and non-teaching employees moving from one step to another step on a salary schedule. In addition, teachers may move from one educational level to another as a result of the completion of additional college educational requirements. The average increase in cost each year is anticipated to run at approximately 1.9%.

2. Negotiated Increase

In the previous forecast, negotiated raises were estimated at .18% for the 2006 calendar year and 0% each year thereafter, and health insurance was estimated to increase at about 20% per year. As a result of the recently completed negotiations, the teachers received a 3.75% increase in the 2005-06 school year, 3.25% in the 2006-07 school year and a 3.5% in the 2007-2008 school year and the non-teaching staff received a 3.5% increase each year of the same three year period. These increases were possible because of the significant savings recognized with a negotiated change in the health insurance during the same period. See details in health insurance section below.

It should be remembered that the teacher bargaining unit and administrators got a 1% for the 2005 school year and the classified unit got a 1.75% increase for the same period.

3. Staff Reductions

Salaries reflect the reduction of 87.47 positions as approved by the Board in May 2003. This will result in a \$4.7 million reduction in staffing costs by the 2005 Fiscal Year. In the 2004 Fiscal Year, salary costs were nearly \$1.2 million less than anticipated. This is the result of additional teachers leaving prior to the end of their 185 day layoff notice, which generates a larger savings the first year, but will even out in 2005 to the level targeted.

The October 2002 forecast included a plan which provided for 8 additional staff reductions annually to address the declining enrollment. Because of the significant staff cuts made in May 2003, that plan has been cancelled. This will result in additional costs each year of \$500,000 per year from levels shown in the 2002 forecast.

Besides the reductions made in May 2003, the Board of Education implemented a merger of Sutter Park Elementary School into the Liberty Elementary School building effective the 2005-06 school year. As a result, the district will save approximately \$750,000 per year beginning with the 2006 Fiscal Year. In addition, the administration has put into place additional savings through not filling a vacancy created by the resignation of the Director of Business, the Director of Secondary Education and through reductions in high school, middle school and elementary school teachers which were accomplished as a result of further declining enrollment. When combined with the merger noted above, personnel costs will be reduced by slightly more than \$3.5 million through June 30, 2007 and nearly \$5.1 million by June 30, 2008.

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As for future assumption on staff reductions, this forecast assumes that in addition to the four middle school positions eliminated in the 2006-07 school year there will be an additional four middle school positions eliminated in the 2007-08 school year. All of this is in addition to the planned budget cuts of \$1.8 million in personnel and non-personnel areas in the 2008 Fiscal Year.

4. Retirements and Retirement Incentives

The most recent teacher's contract contained a retirement incentive program which would pay up to \$40,000 for each teacher if between 40 and 54 teachers retired under the incentive. This resulted in the retirement of 42 teachers at the conclusion of the 2005-06 school year. Of these 42 retirees, 38 have been replaced and four will not, which resulted in four of the middle school reductions noted above in "staffing reductions".

Besides the 38 retirements noted above, this forecast assumes that 8 additional teacher retirements will take place each year in the 2008 through 2010 fiscal years. As a result of these retirements and incentives, terminations cash expenses will increase in 2007 fiscal year to \$1.3 million, the 2008 and 2009 fiscal years to \$1.4 million each year and the 2010 fiscal year will return to the standard cost of \$500,000. Please note that the district has encumbered about \$1 million towards these costs. As a result, the forecast reflects an additional amount of \$764,000 in the 2007 and 2008 fiscal years and an additional \$641,000 in the 2009 Fiscal Year rather than the higher amounts of \$1.3 million and \$1.4 million.

5. Non-represented Employee Raises

- A. Exempt Support Staff
Assumptions are the same as Step Increases & Negotiated Increases noted above.
- B. Supervisors
Assumptions are the same as Step Increases & Negotiated Increases noted above.
- C. Administrators
Administrators were given a 3.25% increase each year for the three year period August, 2005 through July, 2008.
- D. Substitutes
Assumptions are that they will continue to receive increases in pay in line with inflation.

6. Significant Fluctuations

Total salary costs dropped 3.1% from the 2003 level to the 2004 level and then increased 5.9% from the 2004 level to the 2005 level. The 3.1% reduction in the 2004FY was the result of staff reductions and the delay of \$2.3 million in "lump sum" summer payments from June 30th to July 15th, which effectively pushed the amount into the next fiscal year. Thus these reductions lowered annual cash costs in spite of a 4% base increase and a 1.9% step increase.

Then in the 2005FY salary costs increased 5.9% even though only a 1% base increase was given and a 1.9% step increase is assumed. In reality, the delay of the \$2.3 million in "lump sum" payments from one fiscal year to the next distorts the cost comparisons of the 2003, 2004 and 2005 fiscal years. When factoring out the return of the \$2.3 million in expenditures into the 2005FY, the total salary increase is only 2.2%, not the 5.9% shown in this forecast. Further staffing reductions noted in #3 above reduced the percent from the 2.9% expected to the 2.2% demonstrated.

Similarly, the 2007 Fiscal Year is forecasted to drop .1% from the 2006 Fiscal Year which is \$500,000 higher than the staff reductions would call for in the forecast. The additional reduction in the 2007 Fiscal Year was the result of an additional \$500,000 in summer salaries being paid off early on June 30, 2006 rather than being spread out into July and August, which is the 2007 Fiscal Year, for the

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retirement incentive employees. As a result, the 2006 Fiscal Year was artificially high by \$500,000 and the 2007 Fiscal Year will be artificially low. As a result of the shifting, the 2008 Fiscal Year had to then be increased sufficiently to cover the July and August 2007 salaries for the staff hired to replace the retirement incentive staff which were not reflected in the 2007 forecasted salary amounts. This resulted in a 5.4% increase in costs from the 2006 Fiscal Year to the 2007 Fiscal Year even though reductions had been put in place which should have reduced costs below the percentages called for as a result of increases in base pay and steps.

BENEFIT COSTS

1. Retirement

Retirement costs will increase in direct correlation to salary and wage increases. See salaries above.

2. Social Security Medicare

Only employees hired at Worthington Schools after April 1, 1986 are required to pay Medicare taxes. The district is required to pay a matching 1.45% of all salaries and wages for those employees. The employer-paid portion, the portion shown in our forecast, is expected to increase at a rate of approximately 15% per year. This is primarily due to the volume of new employees hired in the past several years. This trend is expected to continue. While the percentage of increase appears large, the amounts in question are actually a very small part of the annual increase in costs.

3. Insurance

A. Health

In the 2002 Fiscal Year, the district changed from a self-insured plan to a fully insured plan. As a result of the closure of the self-insured plan, the district literally paid two insurance premiums for a period of a few months. This resulted in a much larger cost in the 2002 Fiscal Year. The 2003 Fiscal Year reflected a discontinuance of the double premiums, as well as a 17% increase in December 2002. As a result of the unusually large costs in 2002, the increase in 2003 only reflected a 1.2% increase for teaching and a 10% increase for non-teaching.

As a result of the high historical premium increases and estimates that those increases would run about 20% per year each year, the Board interred into bargaining with its two associations to find a way to cut costs and slow the rate of increase in future years. As a result of work by the District's Employee Insurance Committee, the recommendation was made to change to a high deductible health plan accompanied with a health savings account (H.S.A.). In the most recent teaching and non-teaching contract negotiations, it was agreed that the current health plan would change to a high deductible plan and a H.S.A. beginning in January, 2006 in exchange for three year contracts and raises noted above. While Health insurance premiums were going to increase by 14% for the old plan, which was to begin in January, 2006, the high deductible plan reduced the rate to be paid in January 2006 by slightly over 41% from the amount to be paid for the old plan or a net decrease of 27% from actual premium costs, ignoring pending increases in premium. This savings was used to pay for the salary increases. Beginning in calendar year 2007 health insurance premiums will increase by 7.9% and are assumed to increase by 14% annual for each year thereafter.

B. Dental

Dental costs are forecasted to increase by 18.6% in the 2007 Fiscal Year for the self insured dental plan. The district interred into a new fully insured dental contract in October 2006 which will keep rates level at the increased rate beginning the 2007 calendar year and in the 2008 calendar year. The contract also provides a cap of 8% on premium increase in 2009 calendar year. This will translate to a 0% increase in the 2008 Fiscal Year, a 4% increase in the 2009 Fiscal Year and an 8% increase in the 2010 Fiscal Year. It is assumed that dental rates will increase by 10% for the 2011 Fiscal Year.

C. Life

Life insurance premiums are expected to increase by 0% during this forecast.

NON-PERSONNEL BUDGET REDUCTIONS

In May of 2003 the Board of Education reduced non-personnel spending in future years by nearly \$700,000. In addition to these reductions, the administration reduced an additional \$600,000 to \$700,000 from the levels forecasted in October 2002 for the 2004 Fiscal Year, as well as removed all inflationary cost increases for discretionary budget items from the 2004FY through the 2008FY. These reductions are contained in the following categories: Contract Services, Supplies/Materials/Textbooks, and Capital Outlay. Besides the reductions noted above, the Board of Education, as a part of the March 2004 levy plan, provided for the cost shifting of \$3.2 million in capital items from the General Fund to the Permanent Improvement Fund as well as the annual savings of minimally another \$500,000 in non-personnel. The cost associated with the cost shifting is returned to the forecast with the 2008 Fiscal Year.

In the fall of 2006 another \$532,000 was reduced from non-personnel budgets and is reflected in the 2007 Fiscal Year forecast and subsequent years. This forecast also reflects an annual bottom line reduction of an additional \$1.8 million beginning in the 2008 Fiscal Year. These reductions are not identified as to amounts for personnel or non-personnel.

CONTRACT SERVICE COSTS

1. Personal Services Including Legal

Personal services include such services as legal, educational consultants, data processing, printing, postage, and health services. The amount used is determined each year by need. However, the forecast has based all future years upon the budget set in the 2002-03 Fiscal Year along with a forecast assumption that costs will go up at an inflationary rate of 3% per year on some items in this category. The inflationary increase is forecasted at 2% for 2008 and beyond.

2. Tuition, Related Services & Contract Transportation

Management has little control over tuition, related services such as, speech therapy, psychological services, occupational/physical therapy and contract transportation. They are driven by the needs of handicapped students, their Individual Education Plans (IEP's), tuition for students who attend a vocational school and tuition for other students who attend other schools as a result of open enrollment, charter/community schools and autisms scholarships. These costs are determined by the special education IEP or by the state. Special education student placement selection is generally driven by availability of space and services provided by other districts or providers, which may be unavailable in Worthington Schools.

In the 2001 Fiscal Year the district paid \$980,000 in tuition and in the 2006 Fiscal Year paid \$1,999,000, which is a 104% increase from the 2001 levels. This forecast assumes that tuition costs for the 2007 Fiscal Year will increase to \$2,614,000 or a 30.8% increase from 2006 Fiscal Year level. This assumption is based upon a sudden increase in the number of identified autism students either through identification or through recent move-ins to the district. Our assumption is that the level of increase will slow to about a 10% per year thereafter.

3. Utilities

In the past six years electric utility costs have gone up annually by as much as 15.6% or down by as much 4.6% and natural gas has seen a 37.8% reduction from 2001 to 2002, a 77.9% increase from 2002 to 2003, a 50.9% increase from 2005 to 2006 and then a 40.9 reduction from 2006 to 2007. Recognizing that these significant fluctuations cannot be adequately forecasted and yet spikes must be

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paid, a contingency fund is now shown in the forecast to cover such fluctuations. Unlike in the past, this forecast no longer assumes a hard winter, but rather a normal winter for utilities.

The telephone budget increases \$36,000, 25.7%, from the actual level in 2006 to the forecasted level in 2007 and then assumes a 4% annual inflation rate. Most of the increase from 2006 to 2007 is to adjust the annual forecasted amount since the 2006 contained a large amount of one-time refunds received as a result of a recent phone bill audit.

The electric budget shows annual 5.4% increases beginning in the 2007 Fiscal Year and then 2.6% increases thereafter.

The 2007 natural gas forecast contains a \$495,000, 45.5%, reduction from actual 2006 cash expenditures. Of this amount, \$156,000 is reflective of a one-time refund due from the district's natural gas consortium and a \$289,000 reduction due to changing natural gas markets. As a result, the forecast shows a 39.2% increase in the 2008 fiscal year and then inflationary increases are set at 2.6% from 2009-2011.

The 2007 water and sewer forecast contains a 15% increase as a result of recent rate change announcements from the Columbus City Water and Sewer Department. Even though part of the district is in the City of Worthington, all of the water and sewer services ultimately come from Columbus and Worthington City costs increases will be past on to its customers. Inflationary increases are set at 4% from 2008-2011.

4. Maintenance & Building Services

In the 2003 Fiscal Year, the district spent \$1.2 million for maintenance and repair alone. In fiscal years 2004-2006 as much as \$700,000 annually was transferred/shifted to the permanent improvement fund. The 2007 Fiscal Year reflects the full amount in the General Fund even though at the bottom of the forecast it indicates that a total of \$722,000 from the General Fund forecast will be cost shifted to the Permanent Improvement Fund. When the 2007 Fiscal Year forecast for this line item is compared to the 2003 actual expenditures, it reflects approximately a 6% annual increase. Inflation is estimated at 4% for the period 2008 through 2011 Fiscal Years.

SUPPLY, MATERIAL & TEXTBOOK COSTS

From year-to-year the amount spent on supplies, materials and textbooks can vary significantly. The curriculum and subsequent textbook purchase cycle primarily drive this variation. In addition, timing may also play a significant role in cost reporting depending upon when the textbooks are ordered, delivered, and the bill is paid.

Amounts budgeted for 2007 were established through the budget reduction process and are in line with over all budgetary direction adopted by the Board of Education in May 2003. Inflationary increases for supplies, materials and textbooks are estimated at 2% for the 2008 Fiscal Year and beyond. Inflationary costs for that same time period for fuel and tires reflects a 4% increase.

CAPITAL OUTLAY COSTS (new & replacement)

Capital outlay can vary significantly each Fiscal Year depending upon need, funding and timing. As an example, buses were ordered in 2002 but were not received in time to pay for them by the end of the 2002 Fiscal Year. As a result, the costs were contained in the encumbrances that were owed at the end of the 2002 Fiscal Year and the bills were paid in the 2003 Fiscal Year. For this forecast, capital items have been cost shifted to the Permanent Improvement Fund from the 2004 Fiscal Year through the 2007 Fiscal Year for a total amount of \$3.2 million. Of this amount, \$2,478,000 million has already been transferred to the Permanent Improvement Fund and the balance of \$.72 million is shown being shifted from the bottom line of expenditures for the 2007 Fiscal Year. In 2003 and 2004 there were some significant cuts made in Capital expenditures. Those reductions are restored in the 2008 Fiscal Year and each subsequent year of the

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forecast. The 2007 Fiscal Year reflects increases from the cash outlay levels in the 2006 Fiscal Year to a targeted budget amount for the current fiscal year. In fiscal years 2008 and beyond, inflationary increases are set at 4% per year.

OTHER COSTS

Historically, "Other" costs can vary significantly from year-to-year depending upon whether the Franklin County Auditor refunds any of the County Auditor/Treasurer fees that are to be charged to the District for property tax collections and operations. Since the 2001 Fiscal Year, costs have decreased by 12.1%, increased by 20%, decreased by 2.9%, increased by 6.7% increased by 5.4% and increased by 43.3% with the 2007 Fiscal Year. It is assumed that the county auditor will not refund fees during the forecasted period. Bank fees were added due to a change in reporting procedure. In the past, fees were subtracted from interest earnings by the banks. These fees will now be paid directly by the District. Inflation was set for the Other Cost category at 2% for Fiscal Years 2008 through 2011.

NON-OPERATING COSTS

There are three types of non-operating costs shown in this forecast. They are transfers to other funds, cash advances to other funds and the refund of prior year receipts. In reverse order of frequency of use, the refund of prior receipts has only happened once since 2001 and it was in 2004 in the amount of \$4,661 and is not expected to happen again in this forecast period. The cash advance to other funds happens periodically when other funds experience delays in the receipt of promised or expected revenues. Most generally the funds that are affected are the grant funds. Transfers on the other hand happen annually to pay debt obligations of the General Fund. Fund accounting requires that the debts themselves be paid out of the Bond Retirement Fund and the transfer process is a mechanism used to move the money from its General Fund revenue source to where the debt is paid.

Historically "Non-Operating Costs" can vary significantly from year-to-year. This is due to the amount transferred from the General Fund to the Debt Service and the Athletic Funds, as well as cash advances (loans) to other funds. In the 2001 Fiscal Year, only \$107,224 was transferred to the Athletic Fund and zero was transferred to the Debt Service Fund. As a result, a double portion had to be transferred in the 2002 Fiscal Year in order to make the Debt Service Fund whole. In the 2003 Fiscal Year, \$684,650 was transferred to satisfy the District's General Fund debt obligations and make transfers to the Athletic Fund. Also, in the 2003 Fiscal Year \$527,800 was advanced to other funds which were experiencing cash flow problems. In the 2004 Fiscal Year the advances to other funds were \$313,820. This amount was repaid in the 2005 Fiscal Year. There were no advances to other funds in 2005 and 2006. Advances are difficult to predict; it is assumed that there will be no advances in future years. There was also one final adjustment made to the Non-operating debt transfer costs for the Worthington Education Center. Amount needed for transfers were reduced by \$34,000 annually to reflect that portion of the debt payment that will be paid from rental funds received through the lease of nearly 2,900 square feet of space on the third floor of the Worthington Education Center (WEC) building.

PLANNED COST SHIFTING AND COST REDUCTIONS

As noted above in Capital Items and Contract Services, certain capital costs were spent from the Permanent Improvement Fund rather from the General Fund as had been the practice in the past. Beginning in the 2004 Fiscal Year through the 2006 Fiscal Year, there was \$2,478,000 in costs contained in the forecasts but transferred/shifted and ultimately spent from the Permanent Improvement Fund. With passage of the November 7, 2006 \$37.5 million bond levy, the District will cost transfer/shift \$2 million in expenditures per year beginning in the 2007 Fiscal Year through the 2011 Fiscal Year for a total of \$10 million in transfer/shifts in this forecast.

This forecast also reflects a \$1.1 million reduction in the expenditure detail categories of the 2007 Fiscal Year and subsequent fiscal years. These reductions are spread out over personnel and non-personnel categories. There is also an additional \$1.8 million in planned reductions in the 2008 Fiscal Year and subsequent fiscal years. While the \$1.1 million in reductions has been identified and reduced from the

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detailed categories above, the \$1.8 million has not been identified in detail and as a result, it has been reduced from the total expenditures. Once identified, these savings will be reflected in the details above rather than reduced from the total.

ENCUMBRANCES

Encumbrances are similar to an accounts payable in business. Budgetary accounting uses encumbrances as a method to reserve fund balance for future payment of goods and services ordered. In effect, it insures that the district will not spend the funds on something else when it has already been committed for a particular purpose, unlike an accounts payable, which is only established when the goods or services are actually received. Since all purchases are required to be encumbered when ordered, the amount of encumbrances at year-end is directly related to the timing of ordering, delivery and subsequent payment of the bill. As a result of these timing issues, the ending encumbrances as of June 30 each year can vary significantly. The 2005 Fiscal Year reflected a low of approximately \$3,281,635, while the 2006 Fiscal Year was \$4,484,838.

As for future years, it is assumed that encumbrances will continue at 2006 Fiscal Year levels. The only impact of a deviation is that if encumbrances increase then expenditures will have decreased from forecasted levels or vice versa. The impact on available funds would then zero.

GENERAL FUND BALANCE RESERVES

Worthington Schools has established General Fund Balance Reserves for three purposes. They are to comply with House Bill 412 Reserve requirements, to acknowledge the reserve of funds as a result of the early receipt of tax advances from August real estate collections and to provide for a contingency.

1. House Bill 412 Reserve Requirements

House Bill 412 requires that reserves be established as follows:

A. Educational Supplies & Equipment Reserves

House Bill 412 requires that a district spend a certain amount on educational supplies and equipment during a fiscal year. The calculation is based upon certain General Fund revenues. Should the district not expend the required amounts in the required categories, then the district must "reserve" whatever balance is required from the General Fund balance as of June 30 each year. The current requirement is 3% of selected revenues.

B. Capital Improvement Reserves & Bus Purchase Reserve

House bill 412 requires similar expenditures each year for non-instructional capital areas as well as maintenance costs for those non-instructional items. The reserve requirements are also similar as noted above in "Educational Supplies & Equipment Reserves."

2. General Fund Reserve For Tax Advances

This reserve is set annually based upon the amount of cash received from the Franklin County Auditor for tax advances from the up coming August real estate settlements. These amounts can vary significantly from year-to-year, thus unpredictable, and are representative of the amount of money that taxpayers have paid early for taxes owed and due after July 1st. Because these funds are not due until the next fiscal year and should not be used to fund the current fiscal year, the Board has taken a position not to spend these funds in the fiscal year in which they were received, but to reserve them for the fiscal year in which they were due and intended to fund.

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3. Contingency Reserve

This is a new reserve appearing on the forecast. This reserve is designed to cover unforeseen losses in revenue and/or increases in expenditures. The targeted amount of the contingency reserve is \$4 million. This reserve requires that the Board of Education approve any expenditure of these funds. Complete rules for the use, replenishment and follow up procedures will be created and approved by the Board in next 3 months.

SUMMARY

The assumptions noted above are varied and cover a five-year period. Between now and June 2010 most will prove to be inaccurate. However, it should be remembered that a forecast should become a living document that is corrected and adjusted as circumstances change and/or additional information becomes available.

As for the assumptions themselves, I have several concerns that revolve around the outcome of future legislation and inflation.

Future legislation concerns are primarily directed at further changes to the revenue forecast. I have a concern that the next biennium budget will not include or contain a change in the Reappraisal/Triennial Update Guarantee, the Formula Aid Guarantee and/or the Transitional Aid Guarantee. Further it is imperative that some type of permanent replacement for the tangible tax reimbursement be put into place. Given the nature and size of risk in the loss of revenue in each of these circumstances, the district administration will continue to be active in influencing our legislature and other individuals/groups for a more favorable district outcome. I also have a concern that law suites may be brought over the recent tangible tax changes which could result in the elimination of public utility tangible taxes and the loss of an additional \$4.8 million annually in tangible tax revenues.

This concludes the notes and assumptions associated with the Worthington School District's "5-Year Forecast" dated May 21, 2007. The reader should feel free to call and ask questions. My number is (614) 883-3121.

Respectfully submitted,

Tracy DeMatteo
Interim Treasurer