

COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT

Five-Year Forecast Notes & Assumptions

Prepared for the October 2007 Financial Forecast Filing

REVENUE

PROPERTY TAXES

The district valuation and effective mills form the basis for estimating income from real and personal property taxes. Property Tax revenue estimates are based upon historical growth patterns, including scheduled updates and reappraisals, and are substantiated by information provided for the upcoming fiscal year from the county auditor. The property tax figures are based on historical collection levels with consideration made for the changes required by HB66.

A 5 mill Emergency Levy which generated about \$384,00 annually, expired at the end of the 2005 tax year (collected through December 2006.) We began seeing the loss of those dollars beginning in FY07 (partial), with the full effect being reflected in each subsequent year. This levy was allowed to expire in conjunction with the passage of an additional income tax.

The operating levies for the district total 30.4 voted mills. All of the levies are voted for permanent or continuous collections (except for the five-year emergency levy which just expired.)

Real Property Tax (Line 1.01)

Real property tax is levied upon land and buildings located within the school district (including private residences, agricultural property and business property.) The district's assessed millage (i.e. effective rate) is at the 20-mill floor as applied to both real property classifications due to the tax reduction factor.

Tangible Personal Property Tax (Line 1.02)

This line item applies to taxes on businesses for furniture and fixtures, machinery and equipment, and inventory. The Tangible Personal Property rate is 30.4 mills.

HB66 phases out the tax on tangible personal property on general business, telephone and telecommunications companies and railroads. The tax on general business and railroad property will be eliminated by tax year 2009 (the second half of the 2009-2010 school year) and the tax on telephone and telecommunication property will be eliminated by 2011 (the second half of the 2011-2012 school year.) There is some unaffected public utility personal property.

HB66 replaces the revenue lost due to phasing out of the tax for the first five years (2006-2010). The reimbursement will then be phased out starting in 2011 and ending in 2017. Tax rates for reimbursements are based on valuations and levies in effect for the collection of tangible personal property taxes for tax year 2004. Levies passed after August 2005 and tangible personal property acquired after tax year 2004 will not be

eligible for reimbursement. Reimbursement is accounted for in the Property Tax Allocation line (1.05).

Income Tax (line 1.03)

Income tax revenue is generated from a tax on personal income of residents that live in the Covington School District. The current income tax includes one-half percent (.50%) which was approved in 1993 for continuous or permanent collection. In May of 2005, the voters approved an additional five-year 1.25% Income Tax (which was effective in January 2006, to be collected through 2010). The new tax was projected to generate approximately \$1,000,00 per year, with an estimated timeline of 1½ years (six quarters, beginning in the last part of FY06 and ending in the 1st qtr of FY08) to receive the full amount of taxes liable from the first year it is levied. This is due to how the tax is collected; employer withholding comes in throughout the year, but individual annual returns are not due until the following calendar year.

Revenue from this additional tax has exceeded projections (based on timelines provided by the State Dept of Taxation) in FY06 and FY07; FY08 is looking favorable as well. Based on the first quarter's collection and an updated estimate from the Dept of Taxation, FY08 receipts are projected at just under \$1.7 million. This includes approximately \$25,000 in assessments on delinquent payments and some catch-up money from implementation of the 1.25% rate. The Dept of Taxation has projected our FY09 income tax receipts to be around \$1.6 million.

The 1.25% 5-year levy will expire in year five of the forecast (FY2011), therefore the income tax shows a decrease in the final year on this line; however, line 11.03 projects additional income should the tax be renewed.

Income tax collections generally show some growth. We are projecting increases of 3% on the base, for the last three years.

Unrestricted Grants-in-Aid (line 1.035)

The State Foundation amount to be received from the state for fiscal years 2007-08 and 2008-09 is based on provisions found in the current biennium budget bill that went into effect on July 1, 2007. The State Foundation payment consists of two parts: Basic Aid and Categorical Aid.

The Basic Aid calculation consists of four elements: 1) the foundation per pupil, 2) the District's student ADM count, 3) the assessed property values for the District and 4) the 23 mill charge off factor. The foundation amount per pupil is multiplied by the 23 mill charge off factor. The result of these two calculations are subtracted, to which the amount for Building Blocks and Poverty Based assistance is added to determine the Basic Aid amount the District will receive.

Parity Aid provides funding beyond the formula aid although it is considered to be a part of the total SF3 calculation and is distributed in converse relationship to the local wealth

of school districts. The district is projected to receive an increase in Parity Aid in the current year.

The major elements of Categorical Aid are the Special Education-weighted amount and Transportation.

The foundation amount per pupil of \$5,565 for this year is a net increase of 1.6% over last fiscal year, not an increase of 3.0% as was publicized in the biennium budget. The reason for this difference is because the Cost Doing Business factor was dropped from the formula this year. For fiscal year 2008-09, the foundation amount per pupil is \$5,732 which is a 3.0% increase over this fiscal year.

After deducting the charge off, the District will actually receive a net amount of \$2,937 per pupil (\$5,565 Basic Aid less \$2,628 charge off at 23 mills.)

FY07 funded ADM was 769 (up from 747 in FY06), resulting in an increase in our state foundation. Fiscal Years 2008 through 2010 are projected with ADM at the FY07 level. The foundation dollar amount per pupil is being projected to increase 2% each year for FY10 thru FY12.

Restricted Grants-in-Aid (line 1.04)

Special state funding programs such as bus purchase replacement funds and special education reimbursements are included in this category's total. Bus Purchase Funds have decreased from \$13,000 in FY03 to \$3,986 in FY07. An allowance of \$2,200 for buses and a \$15,000 reimbursement for special education was projected for the remaining years.

Property Tax Allocation (line 1.05)

The Property Tax Allocation or Homestead & Rollback includes a 10% property tax rollback for all real property tax owners. An additional 2.5% rollback was enacted for owner occupied homes. These tax credits are reimbursed to the district through the state. HB66, however, eliminated the rollback for business real estate. This elimination will result in increased property taxes collected and decreased rollback collections from the state.

Also included in this category is the reimbursement for an exemption for personal property taxes on tangible property valued at less than \$10,000. This reimbursement will be phased out over the next 10 years.

Reimbursement for the phase out of the assessed rate on Tangible Personal Property is also accounted for here. Full reimbursement will occur through 2010 and then the reimbursement is phased out through 2017.

The expiration of the Emergency Levy also affects this line, beginning with FY07.

All Other Revenue (line 1.06)

The majority of this line item is income from open enrollment students. Open enrollment has been favorable for the Covington Schools, with around 67 students coming in for \$372,883 and 25 students going to other districts totaling \$141,236 (expenditure included in line 3.03) for a net gain of \$231,647 in FY07. Projections have been made assuming the open enrollment numbers will remain constant over the next 5 years.

Also included in this line are donations and interest income.

EXPENDITURES**Personal Services (line 3.01)**

Step increases are the result of teaching and non-teaching employees moving from one step to another step on the salary schedule due to experience. In addition, teachers may move from one educational level to another as a result of completion of additional college courses and degrees. The average increase in cost each year from movement on the schedule is anticipated to be around 1.7%.

The classified staff negotiated a two-year agreement (FY07 & FY08) with a 1% increase for each year. The Certificated staff agreement included steps only (FY07 & FY08, with no change in their current insurance plan.)

Although not yet negotiated, the projection assumes 1.5% base salary increases, as well as step increases for the remaining years (FY2009 thru FY2012)

In FY06 staff reductions were made including two teachers, a part-time custodian, one aide, and a preschool bus route. In FY07 savings were realized from the retirement and rehire of the Superintendent, and a reduction in the number of supplemental contracts issued.

Other personnel changes in FY07 included the retirement of an elementary teacher and two bus drivers, the reduction of a fifth grade teacher, the addition of a special education teacher, an additional first grade teacher and a change from part-time to full-time for one teacher at the Middle School. The savings and additional costs related to these changes pretty much offset one another.

FY08 will see savings due to the retirement of three teachers and one librarian, with the library position not being replaced.

Employees' Retirement/Fringe Benefits (line 3.02)

Outside of health insurance (medical, dental, vision and life), most fringe benefits are driven by salary. Medical insurance plan changes were approved in FY06 by the Classified staff, resulting in an approximate savings of \$12,000.

Medical rates for the Classified (Core Plan) actually decreased this year by 3.1%, while the Certified Plan only increased by 2.9%.

The forecast is based upon the assumption that the certificated staff will adopt health insurance plan changes (similar to those in place for the classified staff) in FY09, with an allowance for 12% increase in premiums for fiscal years 2009 thru 2011.

Purchased Services (line 3.03)

Included in this line item are utilities, cost of students open-enrolling to other districts & community schools, repairs & maintenance, and services purchased from the Miami County Educational Service Center. We have projected a 5% increase each year.

Supplies & Materials (line 3.04)

Budgets for classroom supplies and materials were reduced in FY06; however, due to the increase in gas prices, the expenditures for diesel fuel increased by 20%. The increase in FY07 was due to the purchase of textbooks. A 2% increase has been included for the remaining years.

Capital Outlay (line 3.05)

This line item was reduced to \$37,000 in fiscal year 2006 due to financial problems, and \$60,00 for years 2007 thru 2009. The purchase of replacement buses was budgeted for FY2010, FY2011, and FY2012 (one each year.) Covington does not have a permanent improvement levy, therefore all improvements and capital projects have been funded by General Fund dollars.

Other Expenses (line 4.3)

The major expenses in this line item are non-discretionary. Included are the fees to the Miami County Auditor & Treasurer for the collection of property taxes, fees paid to the State for the collection of the school district income tax, the cost of the required financial audit (currently performed every other year) and liability insurance expense.