

**Otsego Local School District – Wood, Lucas, & Henry County  
5 Year Forecast Assumptions and Accounting Policies  
Prepared by Adam Koch, Treasurer  
For October 2011, approved by BOE @ the October 25, 2011 Board Meeting**

**Assumptions/Explanations for years Fiscal Years 2012 through 2016**

The Otsego Local School District's Five Year Forecast is based on the factors that are known as of this date and are subject to change. There are some areas of the forecast that could change significantly in FY 12 and 13 that would impact the financial stability of the district. These areas include property taxes and revenue from the State of Ohio. Wood County underwent a full re-appraisal in 2011 which will be collected in 2012. Real estate values are anticipated to decrease significantly where agricultural value is set to increase significantly. It is not known at this time how this will effect district collections during the forecasted period. The State of Ohio is currently in the process of developing a new funding formula for FY 2013. There are certain to be major changes in regards to the flow of dollars from the state to districts and it is not known at this time how this will impact Otsego. Expenditures will be a little more consistent throughout the forecast. We have negotiated agreements through June 30, 2014 with both our unions. These agreements are going to save the district a significant amount of money during the course of the next three fiscal years. The district is currently operating extremely efficiently and will continue to be fiscally conservative throughout the forecasted period. We have decreased our expenses by roughly \$1,850,000 since FY 2008 (FY 2008 = \$14,400,000 and FY 2011 = \$12,550,000) while at the same time our district rating rose to **EXCELLENT** status after the 2010/2011 school year.

**Revenues**

**Line 1.010 (Real Estate)** – This line accounts from Real Property Taxes collected from Wood, Lucas, and Henry Counties. Property values are set by the County Auditor each year and are based on new construction and complete or updated values. Wood County makes up the majority of the district and 2011 is a complete re-appraisal year. Due to the continued decline in the housing market it is tough to determine any significant increase due to new construction. Preliminary values indicate that real estate values will decrease significantly. Our effective rate of taxation is significantly lower than our voted tax rate; therefore, it is tough to determine if a decrease in revenue will occur as a result of the complete re-appraisal. In discussions with the Wood County Auditor CAUV taxes will increase throughout the County which is about 13% of our total assessed value. The forecasted revenue for all 5 years is flat lined with what was collected in FY 2011.

**Line 1.020 (Tangible Personal Property Tax)** – Starting in FY 07 the phase in elimination of this tax base began. The phase out continued over a 4-year period. The values were reduced each year 25% until the general tangible values were fully eliminated in 2010. Public utility tangible collections are the only component of this collection. The forecasted revenue for all 5 years is flat lined with what was collected in FY 2011.

**Otsego Local School District – Wood, Lucas, & Henry County**  
**5 Year Forecast Assumptions and Accounting Policies**  
**For October 2011**  
**Page -2-**

**Line 1.030 (Income Taxes)** – The 1% Income Tax is for a continuing period of time and was fully collected beginning with FY 05. The weak economy has negatively impacted our collections in FY 10 and 11. Collections increased slightly in FY 11, but still significantly less than collections in FY 08 and 09. The first collection in FY 12 was an increase of \$75,000 from the previous year. Based on information from the Ohio Department of Taxation this increase is not anticipated to continue in the remaining collections in FY 12. An increase of 100,000 was used for FY 12. It is not anticipated that the economy will recover (est. collections of 2.5 million) completely in the forecasted period. This line assumes a slight increase of 1/2% each year (FY 13-16) and the assumption that no additional income taxes will be levied.

**Line 1.035 (Unrestricted State Grants-in-Aid)** – This line makes up 40% of our revenues for the fiscal year. The continued weakened economy and the budget shortfall currently at the state level has resulted in a significant loss of revenue, and it is estimated that we will continue to experience loss in revenue. For FY 2012 the amount represents current simulations from ODE and could change once ADM is adjusted for the year. Also in total we lost a significant amount of state aid due to SFSF money going away. Original estimates included a loss of \$40,000 in FY 13. This was used for the remaining four years of the forecast. As mentioned above a new funding formula is being developed that could significantly change the amount of money received from the State of Ohio.

**Line 1.040 (Restricted State Grants-in-Aid)** – Career Tech funds have been transferred to our Penta Career Center. This line is based on assumptions received from the Ohio Department of Education.

**Line 1.045 (Restricted Federal Grants-in-Aid - SFSF)** – This line item represents revenue for three fiscal years (FY 10, 11, and 12) as part of the stimulus money the Federal Government gave to individual states. Originally, FY 11 was going to be the last year for SFSF funds. However, Ohio received a one-time allocation called Education Jobs Allocation which will be spent in FY 12. These funds will no longer be available for the remaining four years of the forecast. This will result in a significant loss of revenue for Otsego.

**Line 1.050 (Property Tax Allocation)** – This line is state reimbursed real property taxes for homestead, 10% rollback, and 2.5% rollback reductions. These are funds that are reimbursed by the State of Ohio for tax credits given owner occupied residences equaling 12.5% of the gross property taxes charged residential taxpayers. Homestead and Rollback amounts will stay constant over the forecasted period due to the consistent property tax collections anticipated. The other significant revenue in this line is HB 66 reimbursements for loss of Tangible Personal Property taxes. This represents \$235,000 of this line. Originally this reimbursement was going to be completely funded until 2014 and then phased out over time. The new budget eliminated this reimbursement for Otsego starting July 1, 2011. Therefore, we will lose \$235,000 starting in FY 2012.

**Otsego Local School District – Wood, Lucas, & Henry County  
5 Year Forecast Assumptions and Accounting Policies  
For October 2011**

**Page -3-**

**Line 1.060 (All Other Revenues)** – This line includes all other revenue sources. Monies here primarily represent monies received for interest income, open enrollment monies, rental income, tuition, and money received from other miscellaneous sources. Revenue from this line is expected to remain constant over the forecasted period.

**Other Financing Sources**

**Line 2.060 (All Other Financing Sources)** – All other financing sources is made up of refunds of prior year expenditures.

**Expenditures**

**Line 3.010 (Personal Services)** – This line is based upon the FY 12 contracts for all personnel paid for by the general fund. A decrease in this line item was a result of reduction in personnel, which was a result of the latest round of budget cuts passed by the board of education in spring of 2011. Both union agreements were signed prior to the start of FY 2012 which saved the district a significant amount of money. All employees agreed to a two year step freeze for FY 12 and FY 13. In the third year of the contract employees will receive their step increase but the base amount will not change. Also, employees are paying a higher percentage of their health and dental insurance. Personal service (salaries) expenditures will have to be maintained at the current level to help cope with the loss of revenue in the upcoming fiscal years. For all fiscal years the estimated amount for FY 12 was used.

**Line 3.020 (Employees' Retirement/Insurance Benefits)** – This line is based upon appropriations for employee's fringe benefits, retirement system payments (STRS/SERS), insurance payments and other associated fringe benefits. For FY 12 the increase is a result of increased STRS and SERS payments. These payments are estimated each year based on salary estimates, and estimates for the FY 11 were low, resulting in increased payments for FY 12. Medical insurance premiums increased 5% in FY 12. Any negative changes in the medical insurance industry could lead to percentage increases much larger than anticipated. FY 12 includes the budget cuts that were passed. For the remainder of the forecast an increase of \$65,000 is included for anticipated insurance increases..

**Otsego Local School District – Wood, Lucas, & Henry County  
5 Year Forecast Assumptions and Accounting Policies  
For October 2011**

**Page -4-**

**Line 3.030 (Purchased Services)** – A wide variety of expenses are in this category including utilities (electric, gas, water/sewage, telephone), tuition to other districts, property/fleet insurance, and equipment repairs. Fiscal Year 2011 reduced significantly due to the reduction of services with the Wood County Educational Service Center which resulted in increase in salaries for Otsego. Employees were hired directly by us rather than employed through the Wood County Educational Service Center. Overall a slight increase for FY 12 is expected. Several budget cuts and a credit from the Wood County Educational Service Center helped offset the increase, but an increased in special education expenses as well as a continued increase in utilities will net a possible slight increase. The remaining years of the forecast is a result of paying the full amount for the services provided by the Wood County Educational Service Center. Through conservative spending all other expenses in this line item will be closely monitored to limit deficit spending.

**Line 3.040 (Supplies and Materials)** – Expenses in this line item consists of all bus fuel, bus maintenance, instructional and office supplies, textbooks, and custodial supplies. FY 11 we cut our supplies significantly in order to prepare for the loss of revenue. Textbooks and instructional supplies will increase slightly in FY 12 in order to not fall behind educationally. A 2% increase in this line item was used for the remainder of the forecast.

**Line 3.050 (Capital Outlay)** – This line includes all equipment and capital outlay purchases. Bus purchase(s) expenses are included in this category. We will continue to purchase used busses. Equipment and technology will be purchased each year in order to stay up to date with technology and not fall behind. Our bus fleet continues to get older and more miles accumulated which will result in continued bus purchases.

**Lines 4.055 and 4.060 (Principal and Interest Charges)** – These lines reflect actual principal and interest payments on the loan for the lease-purchase of the new elementary school. The loan is for 15 years. The General Fund will pay 13 out of 15 years.

**Lines 4.300 (Other Objects)** – This includes county auditor and treasurer's fees, liability insurance, audit costs, and other miscellaneous Board of Education costs.

**Other Financing Users**

**Line 5.010 (Transfers-Out)** – The transfers in current and subsequent years are those of small in nature, primarily for EMIS and Food Service costs. Previously, a transfer was needed for the food service fund. This will be eliminated in FY 12 and for the remaining forecasted years.

**Otsego Local School District – Wood, Lucas, & Henry County**  
**5 Year Forecast Assumptions and Accounting Policies**  
**For October 2011**  
**Page -5-**

**Line 8.010 Estimated Encumbrances June 30**

Line 8.010 represents estimated encumbrances (Outstanding obligated but unpaid purchase orders) @June 30 of each year.

**Reservations of Fund Balances**

Lines 9.010 to 9.070 - No reservations of fund balances are expected in the forecasted period.

**ADM**

The ADM in FY 12 is based on the October 2011 count week. It is not anticipated to fluctuate significantly during the remaining forecasted period.

**Other comments:**

State funding from all sources and the 1% income tax will have the most effect on the district's financial future. As the economy improves so will our income taxes. It is not anticipated to reach levels of 2008 or 2009 but any increase will help offset the loss of state revenue. We should be able to get a clearer picture in regards to property taxes in the next few months with the updated assessed values from Wood County. No new General Fund funding sources are anticipated in the near future. The anticipated loss in state funding will have a tremendous impact on our budget. Based on current estimates our state funding will be cut \$326,000 in FY 12 and another \$326,000 in FY 13. Expenses will need to be maintained at current levels as much as possible in order to deal with the loss of revenue. Continued fiscal conservativeness will be needed to balance our budget.

Submitted by: Adam Koch, Treasurer Otsego Local School District  
@ October 25, 2011 Board Meeting