

**AKRON PUBLIC SCHOOLS**  
**ASSUMPTIONS FOR FIVE-YEAR FORECAST BEGINNING FY06**  
**Adopted by the Akron Board of Education on May 22, 2006**

**REVENUES**

**Property Taxes (line 01.010 and 01.020, page 8)**

Property tax revenue estimates are based on historical growth patterns, including scheduled updates and reappraisals, and are substantiated by information provided for the upcoming fiscal year from the county auditor. Estimates take into consideration HB66 which affected tangible property and telecommunication property. The County and the School District have two different fiscal years. The County runs from January 1 through December 31 while the School District runs from July 1 through June 30. This requires the School District to use the County valuation figures for the first half of the fiscal year and project the second half valuation for any forecast prior to February of the fiscal year. This is most challenging when a reappraisal or triennial update is scheduled for the second half of our fiscal year. Every three years the County rotates between doing a reappraisal or update. These reappraisals and updates are done to account for inflationary growth. Calendar year 2006 will have a triennial update. The forecasts done in August and December of 2005 were based on estimates. This forecast has the actual valuations for both 2005 and 2006.

Real Estate growth for non-update or non-reappraisal years is practically flat. For CY2006 (triennial update year) our residential property grew by 8.6% and our commercial and industrial property grew by 11.5%. In the past it has been our residential property growing by double digit inflation while our commercial and industrial grew by a lesser amount. When reappraisal or an update occur the millage rate used to calculate taxes for voted mills is rolled back so that the district does not collect any more than they did when the tax was first voted. Inside millage, of which Akron Schools has 4.2, is not reduced during reappraisal and APS benefits by the valuation growth.

We then take the average collection percentage (three year average) and use that as our multiplier times the calculated revenue. The first half collection, (July through December) averages 96.18% while the second half (January through June) averages 101.21%. The second half historically has higher delinquent tax collections.

Real estate collections will also show an increase due to the fact that HB66 eliminates the 10% rollback for commercial and industrial property. Those taxpayers will now pay the entire amount of their tax bill. This increase does not signify a gain in revenue because line 01.050 shows a corresponding decline in revenue. This change takes affect in CY06.

Public Utility value has declined from \$161,279,920 in 1999 to our present value of \$111,881,580. Public Utility has declined about 5% each year since 1999. HB66 will dramatically expedite this decline because telecommunication property will be phased out beginning in CY07. In CY04 (paid in CY05) APS has \$66 million in telecommunication taxable property. Telecommunication property is valued at two different rates...for property in existence prior to CY95 (legacy property) it is assessed at 88% and property

first subject to tax in CY95 and after is valued at 25%. Legacy property will be valued at 67% in CY05, 46% in CY06, 20% in CY07, 15% in CY08, 10% in CY09, and 5% in CY10. Non-legacy property will be valued at 25% until CY07 at which time it will be phased out at the same percentage factor as legacy property. Through a combination of remaining property taxes and reimbursements by the state APS will receive 100% of what it would have collected had HB66 not changed valuations in CY09 and CY10. In CY07 we will receive payment for telecommunication property both as a public utility and as a general tangible property. Telecommunication property historically has been treated as public utility property which means it is paid in the year following the tax year...beginning in CY07 it will transition into general business tangible property which is paid the year it is valued and APS will receive tax revenue for two years. CY08 public utility property valuation will not include any values for telecommunications...the values for telecommunications will be reflected in the tangible value for CY08, CY09, and CY10.

I have not shown any growth in the remaining public utility property at this time and I have used a collection rate of 93% for the first half of the fiscal year and 96.68% for the second half. The second half collection rate is average of the last three years while the first half collection rate is higher than the three year average of 87%. The reason for my using the higher rate of 93% is that FY04 had a low collection of 65% which is abnormal and not expected to repeat.

Personal Tangible has declined from \$378,158,644 in 2002 to our present value of \$197,358,998. HB66 will eliminate personal tangible property entirely by the end of CY10. Personal Tangible valuation is machinery, office equipment, and inventories held by industrial and business entities. Machinery and equipment is assessed at 25% in CY05, 18.75% in CY06, 12.5% in CY07, and 6.25% in CY08. The factor for assessing inventories is 23% of value in CY05, 18.75% in CY06, 12.5% in CY07, and 6.25% in CY08. Telecommunications is moving from a public utility tax to a general business tangible property in CY07 and will be phased out by the end of CY10. The Tangible collection percentage for the past three years has been 93.41% for the first half and 90.47% for the second half. HB66 partially reimburses districts for their loss of local revenue due to the elimination of this tax. The reimbursement for machinery and equipment is at 100% for a five-year period and then is phased out completely by CY17. The inventory reimbursement is at a lesser amount since it was previously being phased out to begin with. The reimbursements from the state show up on line 01.050, Property Tax Allocation.

**Unrestricted Grants in Aid (line 01.035, page 8)**

Revenue from State Foundation payments is based on a revised state formula created by HB66. The basic aid amount for FY06 is 5,283 and for FY07 it is 5,403. This is almost identical to what was projected last May (5,283 and 5,399). The difference is the phase out of the cost of doing business factor. FY06 is 1.03613 and FY07 is 1.01807. In FY05 the cost of doing business factor was 1.0542. Based on a formula enrollment of 29,500 this is a loss of \$2.8 million in FY06 and \$5.6 million in FY07. In FY08 when it is completely phased out APS will lose over \$8 million.

Beginning in FY07 we will be subjected to two enrollment counts, the first week of October and the third week of February. The first one will fund July through December. The second count will be averaged with the first count and will fund January through June. Akron historically loses students in the second half of the year and this additional enrollment count will hurt us financially. Assuming we lose 500 students in the February count we will lose an average of 125 students in our total enrollment average for the year. This will be a loss of over \$700,000 in basic aid in each year beginning in FY07.

Beginning this Fiscal Year (FY06) we will receive a new source of revenue known as Add on Building Blocks. HB66 states that it intends for districts to use this money for large group intervention, professional development, data based decision making, and data based decision making professional development. Per ODE this revenue is not restricted to those areas unless a district is in Academic Emergency or Academic Watch. The total amount for this source in FY06 is \$1,183,301 and it grows to \$1.4 million by FY10. Currently we are in Continuous Improvement but if we slide back into Academic Watch or Emergency we will have to increase our budget to meet the mandated spending requirements.

The factor that continues to decline in calculating basic aid is our enrollment. Enrollment for funding purposes is different than students actually in seats. For funding purposes the state counts all the students in seats, adds students from the district that left under open enrollment or to charter schools and subtracts open enrollment students entering the district. Total funding enrollment (line 2, page 10) was projected to be 30,616 for the December 5 forecast. As of the April #2 state payment report our enrollment is 30,618. We project enrollment to be 30,291 for FY07 and then be reduced by 200 each year thereafter.

For this biennium the legislature continues to fund Special Education at 90% of the formula value. We do not anticipate this percentage to increase over the life of the forecast. Enrollment for Special Ed appears to be flattening out. The current year special ed enrollment and projected enrollments can be seen on the simulated SF-3's (pages 10 through 14) in categories 1A through 1F. (These simulations as well as other backup are not included in the electronic submission to the state but are on file in the Treasurer's Office).

BB66 revised the parity aid formula and reduced the amount of revenue APS could have received. This was done by reducing the millage multiplier from 9.5 mills to 7.5 mills. Assuming 100% funding this reduced the amount APS would have received by \$3.3 million to \$3.6 million each year from FY06 to FY10. This line also includes the reimbursements the state will be making to us during the phase out period of the tangible and telecommunications tax revenue.

#### **Restricted Grants in Aid (line 01.040, page 8)**

Possibly the biggest change in state funding has to do with what was previously known as Disadvantaged Pupil Impact Aid (DPIA)...it is now going to be known as Poverty Based Assistance (PBA). In FY05 we had three calculations and subsequent restricted uses for this money...all day kindergarten, class size reduction, and safety and remediation. We now have all day kindergarten, class size reduction, intervention, professional

development, community outreach, drop out prevention, and a guarantee. The total amount for FY06 is similar to FY05...the difference is in how it is restricted.

**Property Tax Allocation (line 01.050, page 8)**

The property tax allocation includes Homestead and Rollback (Real Estate) and the \$10,000 Tangible Exemption (Personal Property). The Rollback is a 12.5% reduction in the tax bill of an owner occupied home. The state of Ohio pays this portion for the taxpayer. Previous to HB66 the state also paid 10% of the tax bill for commercial property owners. *Beginning in CY06 commercial property owners will pay 100% of their tax bill.* That is one of the reasons you see a reduction in this amount beginning this year. The other reason is...

The \$10,000 Tangible Exemption was being phased out over a ten-year period starting in FY04. \$1,126,580 is the amount we collected in FY03 and is the base year. HB66 expedited the phase out and now instead of a ten-year phase out it will be done in seven years. The amount in FY06 will be 64%, FY07...40%, FY08...32%, and FY09 16%.

As of April 28, 2006 the State Auditors Office has established new coding for all tax reimbursements made by the state. This enables the state to better track those revenues. Two of the changes, Tangible Personal Property Loss and Electric Deregulation Property Tax Replacement, move into line 01.050 from line 01.035 due to this change.

These amounts are shown on page 16.

Electric deregulation reimbursement from the state will end in CY06 which means in FY07 we will only receive half of the amount received in FY06 and from that point on we will not receive any further reimbursements. In FY06 we project receiving \$1.4 million and in FY07 that is reduced to \$700,000.

**All Other Revenue (line 01.060, page 8)**

Last year APS along with many other districts sued the department of jobs and family services in order to continue our Medicaid reimbursements. We prevailed in this suit. However, we learned in early November that the Federal Government rejected our plan. We will be submitting an appeal but will not project any additional revenue for Medicaid reimbursement other than revenue received this fiscal year which are reimbursements for last year.

Revenues from all other sources are individually calculated based on historical patterns. Estimates of all revenue sources are on pages 15 through 17.

**EXPENDITURES**

**Personal Services (wages) (line 03.010, page 8)**

FY06 salary increases assume a 2% increase on the base and a 1% longevity increase for all personnel.

FY07 salary increases are forecasted at 0%, step increases, degree changes and the effects of replacing 60 retirees is expected to add \$1,220,055. Wages will be affected by the changes listed on pages 18A through 21. In FY07 teachers are changing from a 19 pay cycle to a 24 pay cycle. This results in wages of \$18.5 million being deferred into FY08. This occurs because instead of having their entire salaries paid in the school year that it is earned (19 pays) they only receive 20 of their 24 pays in school year 2006-07. The following year they receive 24 pays...4 from the prior year and twenty that are current. Exactly what happens is shown below:

| # of<br>pays | FY06        | # of<br>pays | FY07        | # of<br>pays | FY08        |
|--------------|-------------|--------------|-------------|--------------|-------------|
|              | 114,881,993 |              | 114,881,993 |              | 114,881,993 |
|              |             |              |             | 2            | 9,573,499   |
|              |             |              |             | 2            | 9,573,499   |
| 2            | September   | 2            | 9,573,499   | 2            | 9,573,499   |
| 2            | October     | 2            | 9,573,499   | 2            | 9,573,499   |
| 2            | November    | 2            | 9,573,499   | 2            | 9,573,499   |
| 2            | December    | 2            | 9,573,499   | 2            | 9,573,499   |
| 2            | January     | 2            | 9,573,499   | 2            | 9,573,499   |
| 2            | February    | 2            | 9,573,499   | 2            | 9,573,499   |
| 2            | March       | 2            | 9,573,499   | 2            | 9,573,499   |
| 2            | April       | 2            | 9,573,499   | 2            | 9,573,499   |
| 2            | May         | 2            | 9,573,499   | 2            | 9,573,499   |
| 1            | June        | 2            | 9,573,499   | 2            | 9,573,499   |
| 19           |             | 20           | 95,734,994  | 24           | 114,881,993 |

The difference between the FY06 wages and FY07 wages is \$19,146,999 which you would expect to be the amount of the deferment. However, we anticipate 60 retirements and those individuals retiring will receive the entire amount due them upon retirement reducing the deferment to approximately \$18.5 million. We also are reducing wages by staff reductions listed on pages 18 and 18A.

FY08 salary increases are forecasted at 0%, step increases, degree changes and the effects of replacing 60 retirees is expected to add \$1,129,195.

FY09 salary increases are forecasted at 0%, step increases, degree changes and the effects of replacing 60 retirees is expected to add \$1,182,009.

FY10 salary increases are forecasted at 0%, step increases, degree changes and the effects of replacing 60 retirees is expected to add \$1,200,000.

**Benefits (line 03.020, page 8)**

Health insurance is projected to increase by 3.85% in FY07, 11.31% in FY08, 12.53% in FY09, and 12.62% in FY10. These increases were forecasted by our Insurance Consultant,

Group Health Care Consultants, Inc. *In FY06, we will take advantage of our Insurance Reserve and only make eleven of the twelve monthly payments. The following year (FY07) we will go back to twelve payments. That accounts for a very large increase in insurance from FY06 to FY07. In FY08 we plan to take another premium holiday.* See page 23 for the details.

**Purchased Services (line 03.030, page 8)**

On page 24, you will see that we have broken Purchased Services into five segments: purchased services, utilities, tuition, open enrollment, and charter tuition. We have projected a 1.5% increase in purchased services, a 5% increase in utilities, and a 10% increase in tuition. The increases in Open Enrollment can be found on page 27 and the increases for Charter Schools can be found on page 28. Utilities for these purposes include gas, electric, water, steam, and telephone. Please be aware that we have concern on the telephone portion. This is because we receive an e-rate discount. E-rate is a Federal Program for schools and libraries that help reduce telephone and internet line expenses. Last year e-rate accounted for a reduction of \$345,000 in our phone expenses. If e-rate is reduced or eliminated our phone bills will increase accordingly.

Tuition includes excess cost billing from other districts for educating Akron special education students because of either court placement or open enrollment. Excess cost billing is the additional cost for educating special education students above what is received from the state. Tuition also includes Post-secondary tuition which is for Akron City School students enrolled at a University and receiving University credits. Lastly, SF-14 tuition is for regular education students from Akron placed in other districts by the Court. SF-14 tuition is calculated by dividing the previous year tax revenue that was charged and payable by the previous year formula ADM. The Akron Board of Education approves this tuition amount every year usually in August or September. The average increase for the above tuition expenses the past three years has been 23.5%. We do not feel this growth will continue at such a high rate and have reduced this to a 10% growth.

For Open Enrollment we have assumed no further loss of students but we are assuming a 2.3% increase in the per pupil basic aid each year. These projections are on page 27. For Charter Schools we have assumed a loss of an additional 200 students each year and those calculations are on page 28.

**Supplies (line 03.040, page 8)**

Supplies are broken down into non-text supplies and textbooks. The non-text supplies are projected to stay flat for FY07 through FY10. The curriculum office uses a textbook replacement cycle to project the textbooks. The District projects being in compliance with the percentage expenditure requirements established by H.B. 412 for the life of this five-year projection. See page 25.

**Capital Outlay (equipment) (line 03.050, page 8)**

This year we anticipate purchasing 14 busses. This expenditure is a result of our needing additional busses to assist in the transporting of “swing space students” from their home location to their temporary housing. APS anticipates purchasing 14 more busses in FY07, five in FY08, and five in FY09. Each bus is estimated to cost \$75,000. These bus purchases

are contingent upon passage of an operating levy. In addition to these bus purchases APS anticipates spending \$1,000,000 a year to purchase new equipment.

**Other (line 04.300, page 8)**

The Other category is expected to grow by 1.5% each year. *Included in the “Other” category in FY07 (page 26) are possible additional expenses to offset the Add on Building Blocks revenue and Poverty Based Assistance revenue. The revenue for FY07 grows substantially and we have to match that revenue with required expenditures.*

All exhibits are on file in the Treasurer’s Office. For a copy please call (330)761-2851.