

Shaker Heights Schools

Finance & Audit Committee Levy Recommendation

December 17, 2013

Finance & Audit Committee Charter

In 2011, the Board of Education expanded the charter of the Finance & Audit Committee to

Support the Board in providing the desired level of governance over the financial administration of the District and in monitoring the District's financial planning and controls

This expanded role requires a close collaboration with the Board to

Identify and monitor financial and operational metrics

Review and provide guidance for Board targets and goals

Assess the reasonableness of the financial assumptions in the forecast

Ensure sound financial assumptions and fiscal necessity of levies

The Forecast and levy recommendations contained in this report reflect the close collaboration of the Committee and Board and are based on the Forecast that was initially approved by the Board in May 2013 and reapproved in October 2013

Executive Summary

The Finance & Audit Committee recommends the District seek a 6.9 Mill levy in 2014

This levy is needed to ensure the District can continue to deliver on its commitment to education excellence for all students

Without the recommended levy in 2014, the District will fall below the Target Fund Balance in 2016 – it is prudent to maintain an adequate Fund Balance at all times

The District's goal is for the recommended levy in 2014 to support operations for at least the next four years

The District has made key strategic changes and is aggressively pursuing cost savings and new, non-tax revenue sources to support this goal

Commitment To Education Excellence

District Investments to Advance Education Outcomes

- International Baccalaureate (IB) – Grades K-12, only District in Cuyahoga County
- Advanced Placement Program (AP) – largest in Cuyahoga County
- World Languages – Grades 1-12
- Fine and Performing Arts Programs – nationally recognized
- Continuous assessment of student progress to guide instruction (Measures of Academic Progress (MAP) Assessments, etc.)
- Technology for instruction and independent learning (SuccessMaker, etc.)
- Instructional Tutors and Coaches
- Professional Learning for Faculty and Staff

Evidence of the District's High Quality Education Outcomes

- Top SAT scores in Cuyahoga County
- 30 National Merit, National Achievement and National Hispanic Scholars
- 140 Advanced Placement Scholars
- Top 2% of high schools in the nation on *Newsweek* measure of academic challenge
- Improvement in Ohio Achievement Assessment (OAA) scores over past three years – District-wide and among target groups (African American, low income and special needs)
- High degree of parent satisfaction – 90% favorable in 2013 School Climate Survey

Commitment To Education Excellence

**Many of the District's students have achieved
impressive educational outcomes;
however, we must increase our efforts to
ensure ALL of our students have the
opportunity to reach their fullest potential**

Forecast Overview

Revenues

Real Estate Taxes = 82% of Revenues

Goal is for Revenues to increase to match the inevitable rise in Costs due to inflation

Ohio House Bill 920 (HB920) determines the specifics of Real Estate Tax calculations, resulting in a difference between *Voted Millage* and *Effective Millage* - prevents Real Estate Taxes from increasing with inflation

Costs

Salaries & Benefits = 77% of Costs

The General Fund typically does not include the costs of capital improvements. The current forecast includes Capital Outlay to cover expected capital costs because the \$23.5 Million Capital Fund established in 2004 to fund improvements for 5-8 years was fully depleted in 2012

Fund Balance

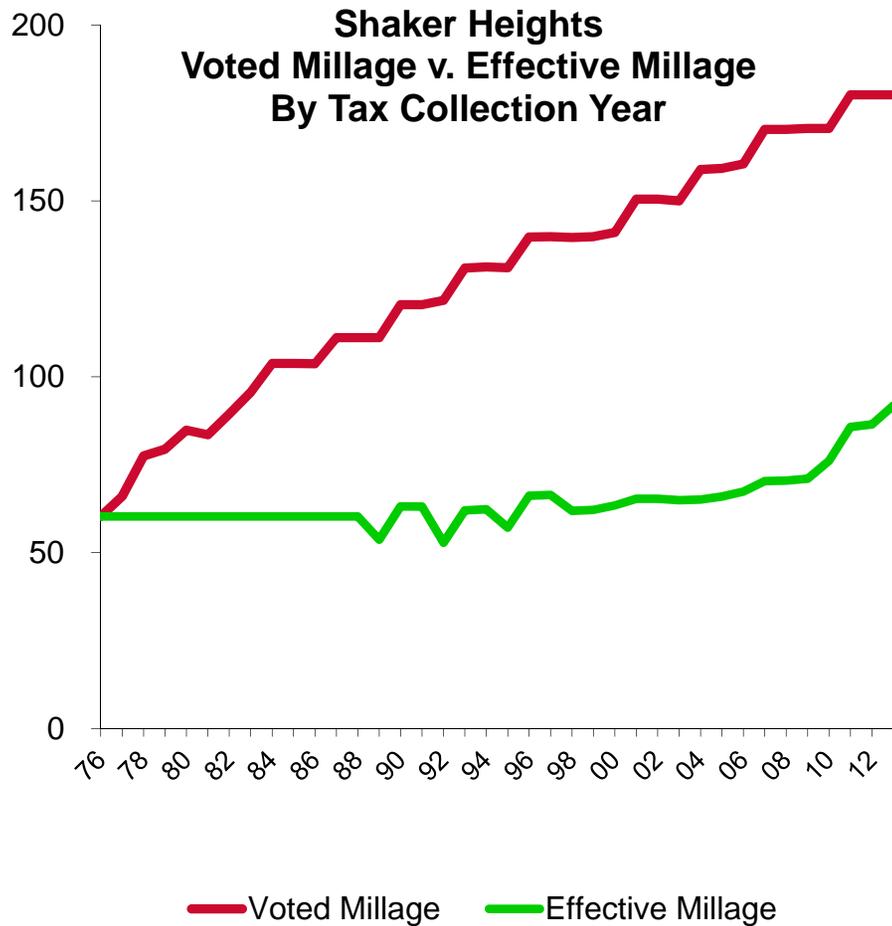
Absorbs unexpected changes in the District's finances

Plays an important role in the District's bond rating, which influences borrowing rates

Goal is to maintain Fund Balance equivalent to 12-15% of costs to absorb unexpected changes and preserve the Aaa bond rating

NOTE: All Forecast data will be displayed on a Fiscal Year basis. The District's Fiscal Year is July 1-June 30.

HB920 Basics



Voted Millage

Voted Millage = sum of all levy millage approved to date

Effective Millage

When Property Values Increase:

Effective Millage decreases resulting in essentially the same tax collections as the original Voted Millage value; therefore, District revenues do not increase when property values are increasing

When Property Values Decline:

Effective Millage increases (to a limit) so tax collections remain the same as the original Voted Millage value

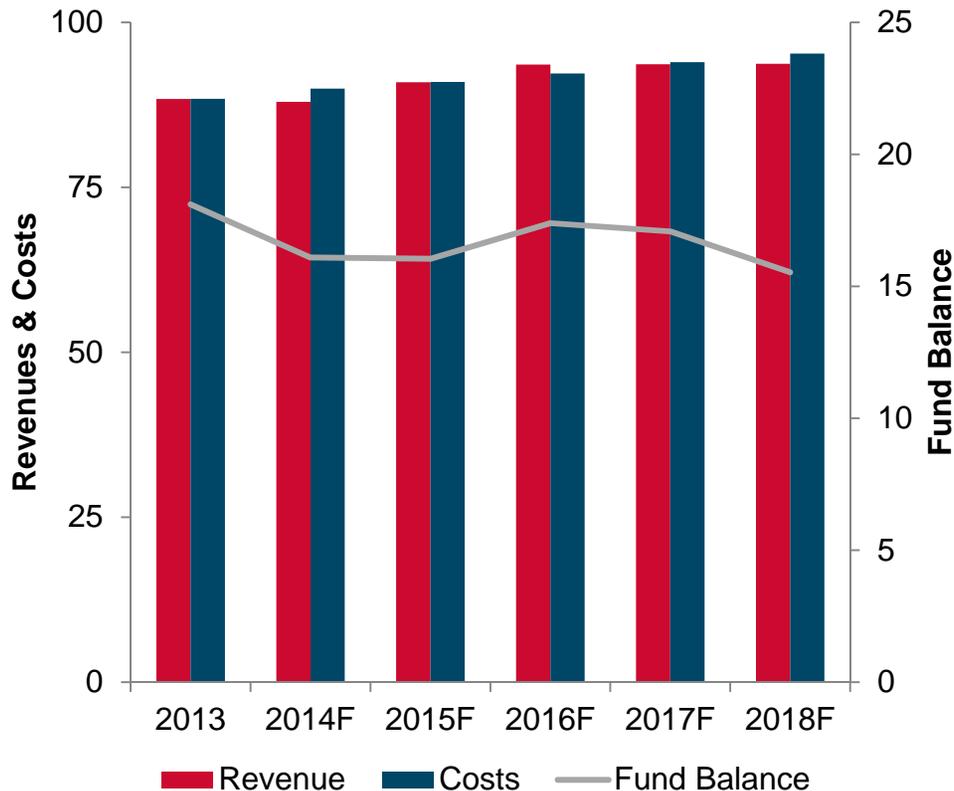
The limitation is that the increased Effective Millage rate cannot exceed the Voted Millage rate for a given levy

Shaker Examples:

2006 and 2010 Levies: Each was approved at 9.9 Mills
Due to 2013 reduction in assessed property values, the Effective Millage would exceed the 9.9 Mill cap, so actual collections declined below historical amounts

2014-2018 Forecast Basics

Current Forecast – with Levy
\$Million, Fiscal Years



Revenues

2013-14: 0.5% decrease

2014-18: 1.6% average annual increases, with levy

Costs

2013-14: 1.8% increase

2014-18: 1.4% average annual increases

Fund Balance

2013-14: 11.1% decrease

2014-18: 0.9% average annual decreases

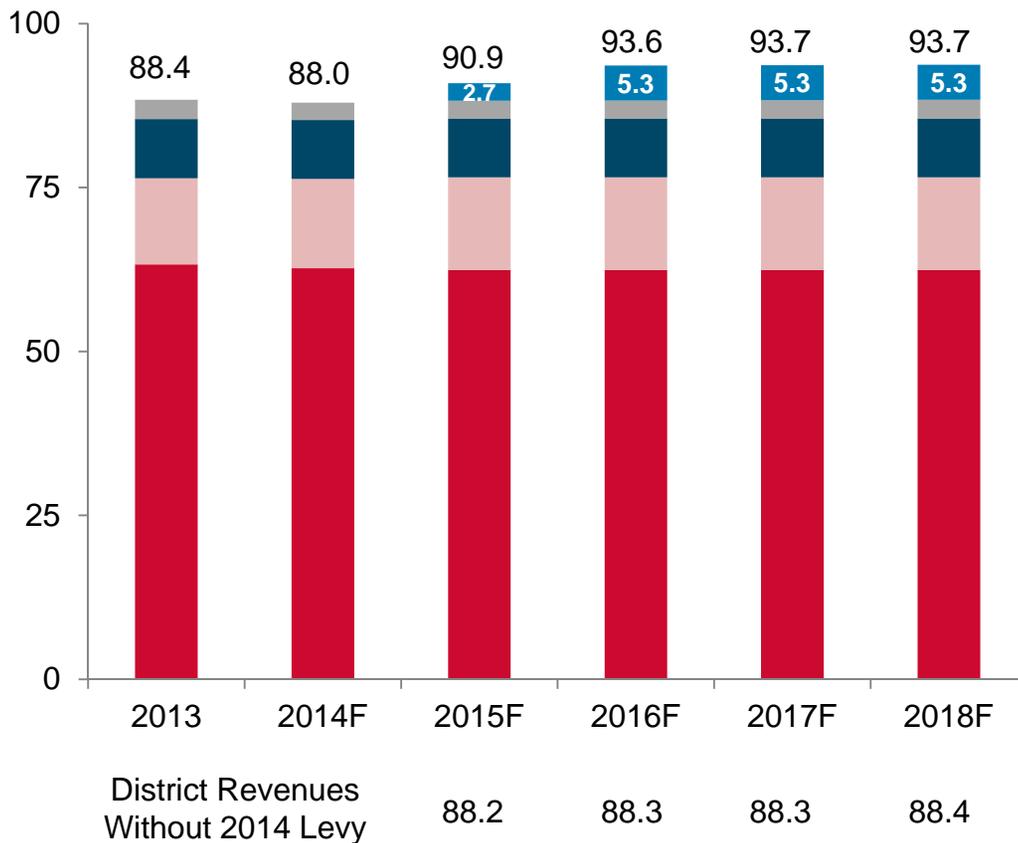
2015-18 Projected Inflation Rate¹ = 2.1%

Revenues and Costs are forecast to increase slower than the projected inflation rate

¹According to the US Congressional Budget Office, 2015-18 inflation is expected to rise approximately 2.1% per year. "The Budget and Economic Outlook: Fiscal Years 2013 to 2023" www.cbo.gov

Forecast Revenue Basics

Forecast Revenues – with Levy
\$Million, Fiscal Years



Proposed 2014 Levy

2014: If approved, no collections

2015: 50% of tax year collections

2016-18: 100% of tax year collections

Other

2013-14: \$0.3M decrease

2014-18: 1.6% average annual increases

Property Tax Allocation

2013-14: \$0.05M decrease → Based on Declining Property Values

2015-18: equal to 2014

Unrestricted State Grants-in-Aid

2014: \$0.5M increase } Based on State Biennial Budget Estimates

2015: \$0.5M increase

2016-18: equal to 2015

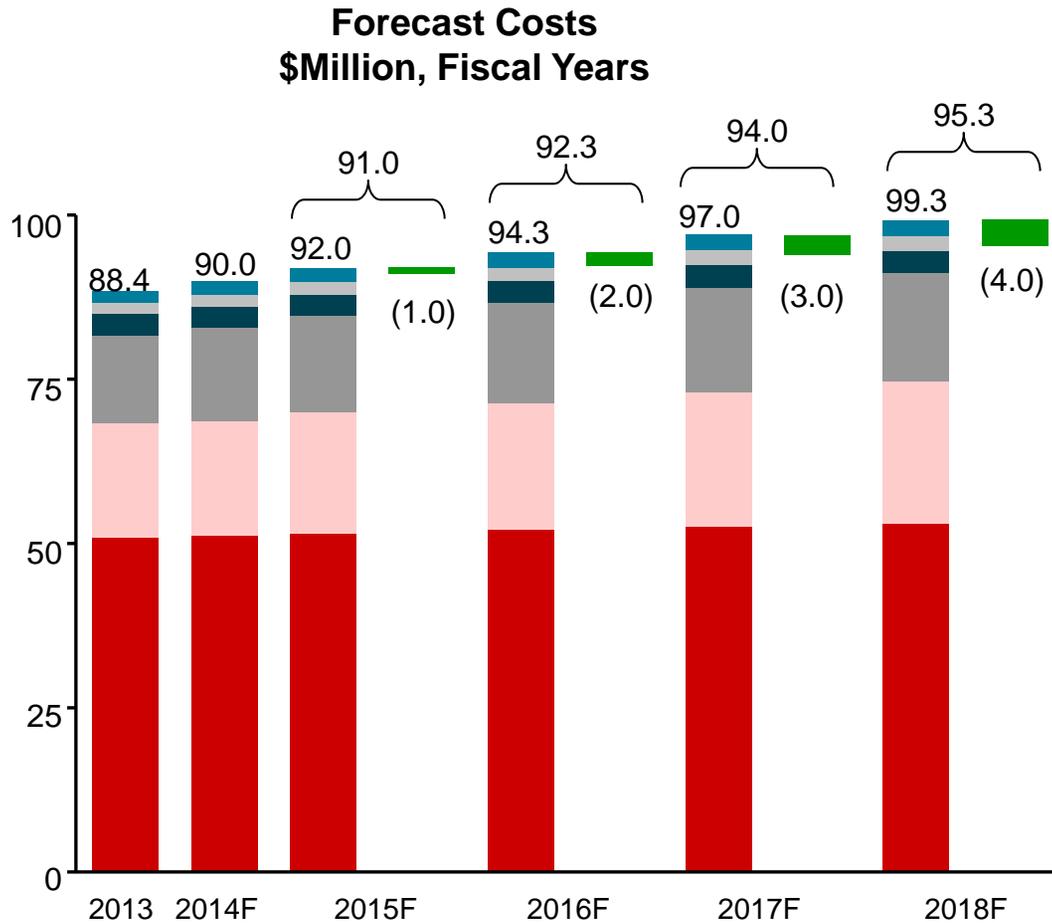
General Property Tax

2014: \$0.6M decrease } Based on Declining Property Values

2015: \$0.25M decrease

2016-18: equal to 2015

Forecast Cost Basics



Intentional Cost Reductions

2014: realized cost savings in health insurance rates
 2015-18: \$1M per year, increase from \$0.8M per year in prior forecast cycle

Debt Service, Financing and Other

2013-14: \$0.4M increase; Debt Service & Other
 2014-18: 4.4% average annual increases

Capital Outlay

2013-18: 5.0% average annual increases

Supplies and Materials

2013-14: \$0.2M decrease
 2014-18: 1.6% average annual increases

Purchased Services

2013-14: 8.1% increase
 2014-18: 3.7% average annual increases

Employees' Retirement & Insurance Benefits

2013-14: 0.8% decrease – health insurance rates
 2014-18: 5.5% average annual increases

Personal Services – Salaries

2013-14: 0.7% increase
 2014-18: 0.9% average annual increase

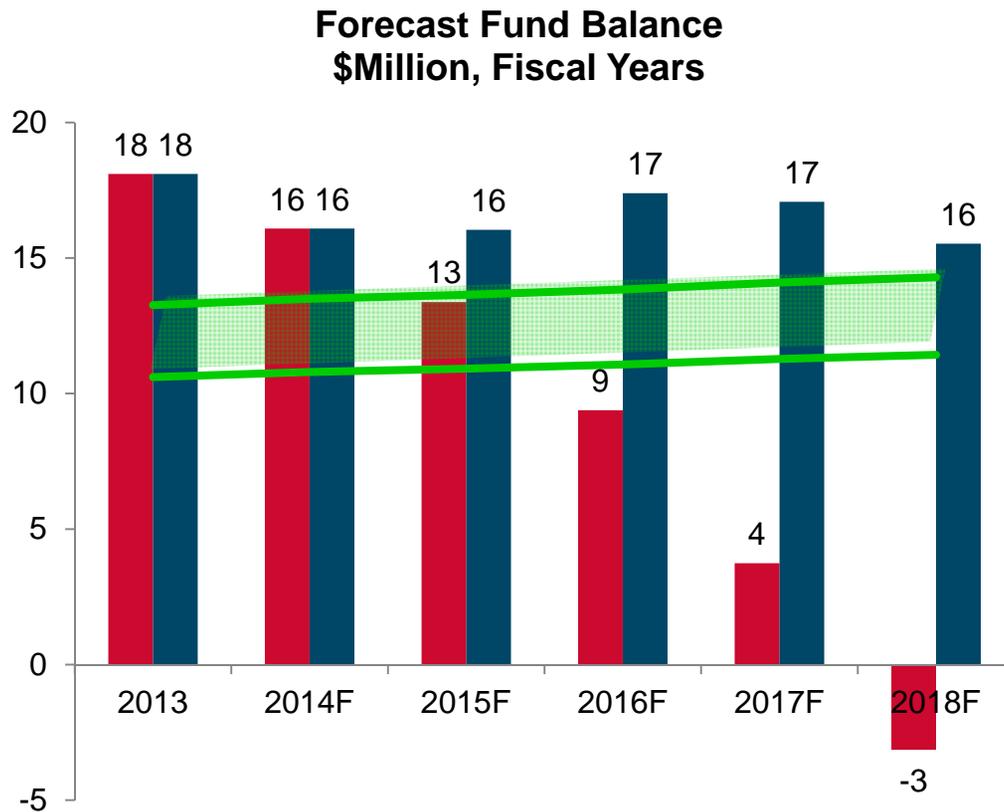
Forecast Fund Balance Basics

Fund Balance

Amount available at the end of each fiscal year to absorb unexpected changes

Forecast Fund Balances determine the legal limits of the District's ability to enter into contracts

Fund balances also impact the District's bond rating



Fund Balance – without Levy

If there is no levy, the District will fall below the Target Fund Balance in 2016

Fund Balance – with Levy

The Levy will supply sufficient funds to maintain an adequate Fund Balance during the forecast period

Target Fund Balance

The District has established a goal of maintaining a Fund Balance of 12-15% of costs to ensure financial health

Conclusions

Regardless of the proposed levy...

- Even with the most aggressive cost savings initiatives in the District's history, costs are forecast to rise 1.4% per year 2014-18

Without the proposed levy...

- District Revenues will be flat, which will not cover the rising Costs
- The Fund Balance will be required to absorb the excess Costs over Revenues, falling below targeted levels in 2016

Even with the proposed levy...

The District will need to aggressively pursue Cost Savings and Non-Tax Revenues, supported by the Key Strategic Changes since the last levy in 2010

Key Strategic Changes

Since the last levy in 2010, the District has implemented several important strategic changes

Expanded Finance & Audit Committee Charter

Transformed from a civic levy and audit committee to an ongoing, active financial partner for the District

Established Levy Goals

Goal is to continue to reduce the amount and frequency of levy requests

Established Cost Saving & New Revenue Expectations for Superintendent

Included clear expectations for reducing costs and increasing revenues while improving results for all students in performance expectations

Engaged School Finance Experts for Benchmarking & Cost Analysis

Treasurer – with F&A Committee – hired school finance consultants for benchmarking and cost savings support

Incorporated Financial Impact in Strategic Planning Process

New Strategic Planning process, kicking off in 2014, will include assessment of the financial impact of Plan considerations

Cost Saving Efforts

Recent Cost Saving Efforts

	Description
Hiring Practices	Hiring choices for new staff
Attrition	Not filling vacant positions, where possible
Transportation	Streamlining routes
Custodial	Changing overtime approval process
Security	Reducing weekend workload
Food Service	Outsourced food service operations

Ongoing Cost Savings Efforts

Further exploration of opportunities identified by the school finance consultants

- Building Operations
- Transportation

Additional opportunities pursued by the Superintendent and Treasurer

- Recruiting & Hiring Strategy
- Analysis of Instructional Support Costs

Non-Tax Revenue Opportunities

Non-Tax Revenue Realized

The District has realized \$0.84 Million in non-tax revenue sources

- Shaker Schools Foundation – \$0.40 Million in FY2013
- Huntington Bank sponsorship – \$0.40 Million plus the potential for up to \$0.30 Million in additional funds
- Private foundation grants - \$0.04 Million in FY2013

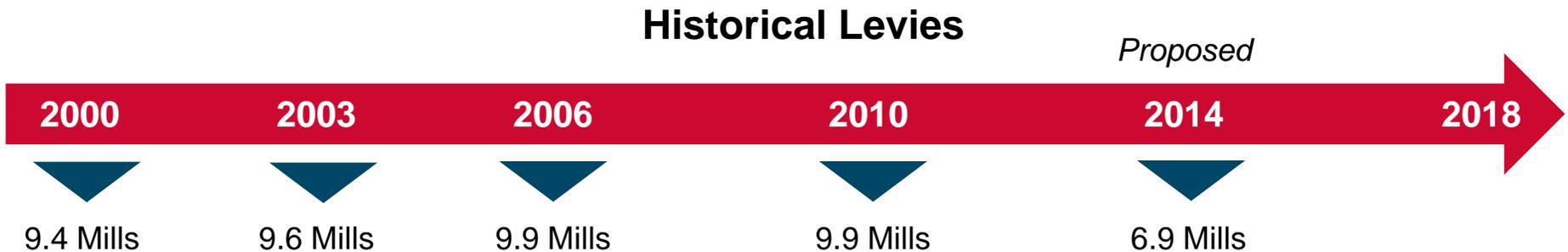
Efforts to Generate New Non-Tax Revenue

The District is aggressively seeking new, non-tax revenue sources to support strategic priorities

Examples include:

- Enhancing Greater Cleveland and local community corporate support
- Pursuing appropriate international, federal, state and local grants
- Enhancing efforts of the Shaker Schools Foundation

Committee Recommendation



The Finance & Audit Committee of the Shaker Heights City School District recommends that the Board pursue a 6.9 Mill levy in Spring 2014 to ensure the District has sufficient funds available to deliver high quality education for its students

The Committee also applauds the District's continued cost savings and non-tax revenue enhancement efforts to minimize the future tax burden for the citizens of the Shaker Heights City School District

Committee Members

Karen Schuele, Chair of Finance and Audit Committee
Dean, Boler School of Business, John Carroll University

Paul Carleton, Mayor's Financial Task Force Member
Managing Director, Carleton McKenna & Co., LLC

William Clawson, School Board Member
Product Manager, Progressive Insurance

Pawan Divakarla, Shaker Schools Foundation Board Member
Process Manager, Progressive Insurance

Marilyn Eisele
President, NDI Medical

Amy Fulford, School Board Member & Mayor's Financial Task Force Member
Founder & Managing Partner, *enlight*

Martin R. Kolb, Chair of Mayor's Financial Task Force
General Manager, General Electric Company, Retired

John Lalley
Managing Director, Inglewood Associates LLC.



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