Financial Presentation

Five-Year Forecast

HB66

CAUSE & EFFECT

October 10, 2005
# General Revenue Fund Income

## 1973 vs. 2003

(As reported in 11/2004)

<table>
<thead>
<tr>
<th>GRF Income</th>
<th>FY73</th>
<th>% of Total</th>
<th>$ +/-</th>
<th>% +/-</th>
<th>FY03</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax</td>
<td>$816.5</td>
<td>33.58%</td>
<td>$5,581.4</td>
<td>683.58%</td>
<td>$6,397.9</td>
<td>36.61%</td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>$373.5</td>
<td>15.36%</td>
<td>$7,047.2</td>
<td>1886.80%</td>
<td>$7,420.7</td>
<td>42.46%</td>
</tr>
<tr>
<td>Corporate Franchise</td>
<td>$288.7</td>
<td>11.87%</td>
<td>$458.5</td>
<td>158.82%</td>
<td>$747.2</td>
<td>4.28%</td>
</tr>
<tr>
<td>Public Utility Excise</td>
<td>$124.4</td>
<td>5.12%</td>
<td>$434.1</td>
<td>348.95%</td>
<td>$558.5</td>
<td>3.20%</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>$364.8</td>
<td>15.00%</td>
<td>$828.8</td>
<td>227.19%</td>
<td>$1,193.6</td>
<td>6.83%</td>
</tr>
<tr>
<td>Non-Tax Income</td>
<td>$398.1</td>
<td>16.37%</td>
<td>$243.6</td>
<td>61.19%</td>
<td>$641.7</td>
<td>3.67%</td>
</tr>
<tr>
<td>Transfers etc.</td>
<td>$65.7</td>
<td>2.70%</td>
<td>$451.8</td>
<td>687.67%</td>
<td>$517.5</td>
<td>2.96%</td>
</tr>
<tr>
<td><strong>Total Income less Federal Grants</strong></td>
<td><strong>$2,431.7</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>$15,045.4</strong></td>
<td><strong>4054.20%</strong></td>
<td><strong>$17,477.1</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

(All figures in billions)

Source: Ohio Public Expenditure Council April 2004
# General Revenue Fund Spending

## 1973 vs. 2003

(As reported 11/2004)

<table>
<thead>
<tr>
<th>GRF Spending</th>
<th>FY73</th>
<th>% of Total</th>
<th>$ +/-</th>
<th>% +/-</th>
<th>FY03</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary &amp; Secondary</td>
<td>$ 841.1</td>
<td>38.93%</td>
<td>$ 6,864.4</td>
<td>816.12%</td>
<td>$ 7,705.5</td>
<td>39.01%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$ 320.2</td>
<td>14.82%</td>
<td>$ 2,090.5</td>
<td>652.87%</td>
<td>$ 2,410.7</td>
<td>12.20%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>$ 113.2</td>
<td>5.24%</td>
<td>$ 3,237.5</td>
<td>2859.98%</td>
<td>$ 3,350.7</td>
<td>16.96%</td>
</tr>
<tr>
<td>Other</td>
<td>$ 886.3</td>
<td>41.02%</td>
<td>$ 5,399.9</td>
<td>609.26%</td>
<td>$ 6,286.2</td>
<td>31.82%</td>
</tr>
<tr>
<td><strong>Total Spending</strong></td>
<td><strong>$ 2,160.8</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>$ 17,592.3</strong></td>
<td><strong>4938.24%</strong></td>
<td><strong>$ 19,753.1</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

(All figures in billions)

Source: Ohio Public Expenditure Council April 2004
FY 2006-07 Biennial Budget
Considerations
(As reported in 11/2004)

• Weak state of the economy
• A combined budget deficit of $5.10B comprised of the following:
  – Statutory increases in State Programs ($1.3B)
    • Medicaid $942.4M
    • School Funding $194M
    • Property Tax Relief $141.2M
  – $3.9B of one-time money to balance 2004-05 budget

Source: The Journal of the Center for Community Solutions, October 2004
Postcards from Columbus
(As reported in 11/2004)

• Even if the one cent sales tax is renewed, State is still faced with a ($2.6B) dollar shortfall.
• Cuts, Cuts, & More Cuts????
• Tax Increases – restructuring of the tax code???
• Local/State Partnership ????
• Between 1996 and 2003, the Ohio General Assembly has created $4.6B in tax breaks according to the Legislative Services Commission

NOW KNOWN AS HB66
Overview of Operating Revenue Mix
Fiscal Year 2006

• **Key factor - limited revenue growth**
  
  1. **Local Property Taxes (Includes H & R)** 74% or $37.9M
     - Growth restricted by HB920
     - Impacted by HB66 (State Legislature)
       » 8% or $3.7M or 7.2% Represents Personal Tangible Receipts
  
  2. **State Revenue** 23% or 11.8M
     - Growth influenced by State Legislature
       » HB66
  
  3. **Other Revenue (Interest, Payments in lieu of, etc.)** 3% or 1.4M
     - Growth influenced by economy
     
     - **HB66 will impact approximately 30% or 1/3 of the HCSD operating revenue.**
HB 66 – Tax Reform **CAUSE**

- Eliminate the Corporate Franchise Tax over 5-year period.
- Replace 1 cent sales tax with ½ cent
- Reduce Personal Income Tax by 21% over 5-year period.
- Enact Commercial Activity Tax .26% tax on business gross receipts over a 5-year period.
- **Repeal Business Tangible Personal Property Taxes and Public Utility Tangible Taxes over 4-years. (Cause)**
  - $4.1M or 8% of operating revenue to Hudson CSD in FY2005
- Repeal 10% Rollback on commercial & industrial real property
- Cigarette Tax increased by 70 cents to $1.25 per pack
Impact of Tax Changes to State Budget in FY2010, $3.050B Structural Deficit

Source: ETPI August 2005

-2,025

-850

-790

1,550

400

365

-1,700

Income Tax  Sales Tax  Corporate Franchise Tax  CAT  Cigarette Tax  Business Real Estate Rollback Repeal  Tangible Property Tax
# Estimated Revenue Effects of Tax Law Changes in HB66

*Source: ETPI, August 2006*

## Revenue Impact (In Millions)

<table>
<thead>
<tr>
<th></th>
<th>FY06</th>
<th>FY07</th>
<th>Biennium</th>
<th>FY2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax Reductions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>-$306</td>
<td>-$622</td>
<td>-$928</td>
<td>-$2,025</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>-$719</td>
<td>-$752</td>
<td>-$1,471</td>
<td>-$850</td>
</tr>
<tr>
<td>Corp Franchise Tax</td>
<td>-$142</td>
<td>-$292</td>
<td>-$434</td>
<td>-$790</td>
</tr>
<tr>
<td><strong>Tax Increases</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAT</td>
<td>$265</td>
<td>$550</td>
<td>$815</td>
<td>$1,550</td>
</tr>
<tr>
<td>Cigarette Tax</td>
<td>$499</td>
<td>$423</td>
<td>$922</td>
<td>$400</td>
</tr>
<tr>
<td>Repeal 10% Bus. Prop</td>
<td>$155</td>
<td>$319</td>
<td>$474</td>
<td>$365</td>
</tr>
<tr>
<td><strong>Net State Impact</strong></td>
<td>-$248</td>
<td>-$374</td>
<td>-$622</td>
<td>-$1,350</td>
</tr>
<tr>
<td>Tang Pers Prop Tax</td>
<td>-$71</td>
<td>-$527</td>
<td>-$598</td>
<td>-$1,700</td>
</tr>
<tr>
<td><strong>COMBINED EFFECT</strong></td>
<td>-$319</td>
<td>-$901</td>
<td>-$1,220</td>
<td>-$3,050</td>
</tr>
</tbody>
</table>
HB66 Phase-out of Tangible Personal property Taxes **EFFECT**

- Tangible Personal Property Taxes (In-General)
  - Not subject to HB920 and the rollback effect.
  - Taxed at total voted millage rates FY2006 76.53 for operations
  - Taxes can increase due to investments by business in machinery, equipment, inventory, etc.
  - Tends to follow economic up & down turns.
HB66 Tangible Tax Reform

(EFFECT continued)

• 5-Year 100% Hold-Harmless period tied to a Tax Year 2004 base level, beginning in Tax Year 2011 phase-out of hold-harmless begins until 0% in Tax Year 2018.
  – Over the 13-year phase-out period, Hudson CSD will need to replace $13.8M in lost tangible taxes with other local taxes Just to equal that which it otherwise would have been received prior to HB66. Essentially, a 1-mill shift to remaining taxpayers.
• Hold-harmless does not factor in the previous legislated phase-out of inventory taxes.
• Hudson CSD will experience a tax base shift to residents to make-up tangible tax base loss with upcoming levies.
# HB66 Tax Base Effect

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Residential</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>1983</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>(1988 Terex closes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>2003</td>
<td>79%</td>
<td>21%</td>
</tr>
<tr>
<td>*<em>2010</em></td>
<td><strong>85%</strong></td>
<td><strong>15%</strong></td>
</tr>
</tbody>
</table>

* Estimated – All district property valuation subject to the effects of HB920
HB66 **CAUSE**– State Foundation Program Formula Changes impacting Hudson CSD

- **Base Cost** – inferential method – includes allowances for classroom teacher, other personnel & non-personnel.
  - Totals $5,283 per student in FY06 – same level identified in HB95
- **Cost of Doing Business Factor** – 2-year phase out of the cost of doing business factor
  - 7.5% in FY05* - **Hudson CSD = 5.42%**
  - 5.0% in FY06 – **Hudson CSD = 3.61%**
  - 2.5% in FY07 – **Hudson CSD = 1.81%**
- **ADM** – 2 counts rather than the current 1-count.
  - October for July thru December
  - The average of the February & October counts for January for June
- **Charge-Off Valuation** – includes tax exempt property if there was compensation paid to school district.

23% of Hudson CSD operating revenue or $11.8M dollars comes from State Aid.
HB66
Modified State Foundation Program **EFFECT 23% or $11.8M**

- The district is no longer a “formula” district and is subject to an FY2005 “guarantee” calculation
  - The lesser of the FY2005 Total Basic Aid $9.3M or Basic Aid per pupil or $1,767
    - All other non-basic aid state payments (transportation, preschool unit, etc.) is added to the $9.3M to arrive at $11.8M
- **Over the next five forecasted periods, the district will receive subsidy payments totaling $3.4M in order to achieve a state aid amount close to that which was received in FY2005 “the guarantee”**.
Summary of impact of HB66

- Over the 5-year period from FY2006 to FY2010, Hudson CSD will receive “hold-harmless” or “guarantee” payments tied to a FY2005 level totaling $13.5M from the State of Ohio.
- As has been projected by ETPI, the State of Ohio tax reform effort included in H66 generates a $3.050B deficit in FY2010.
Concluding Thoughts

• The hold-harmless provisions only contemplate a fixed dollar threshold and do not consider inflationary increases to expenses?

• Will the State of Ohio be able to fund the hold-harmless provisions considering:
  – Potential State Budgetary problem due to structural taxing deficiency?
  – Hold-Harmless provisions are included in a 2-year budget and could/can be superceded with next budget?
Other Concluding Thoughts

- Increased local dependence and problem solving.
- Constitutional Amendment
- Alternative funding options