12/19/05

Finance Committee
Framing Statements
& Conclusions
What is the Desired Result?

1.) What educational programming “MUST” we offer to remain an “EXCELLENT” school district and is also “CONSISTENT” with community “EXPECTATIONS”?

   - This includes:
     i. Retaining & recruiting a highly qualified & trained staff
     ii. Developing a challenging & rigorous curriculum
     iii. Maintaining a safe & nurturing environment.
What is the “Evidence” that we are achieving the desired result?

• Rated as an “Excellent” school district by the State of Ohio.

• Rated as “one of the top 5 school districts in NE Ohio” by Cleveland Magazine over the last 5-years, having been 1st two of those 5-times.

• Ranked in the top 3% of schools in the country for AP curriculum” by Newsweek Magazine.

• One of the first schools selected by the U.S. Department of Education for “Educational Excellence”.

What is the “Evidence” of student success?

• 4% of the class of 2005 is attending colleges listed in “Peterson’s” publication of “The 55 Most Difficult Colleges in America.”

• 97.5% of graduating seniors attend some form of post-secondary education

• Currently, our 3rd graders ranked #1 in Summit County on the 3rd grade math achievement tests.
What is the cost?

<table>
<thead>
<tr>
<th>Year</th>
<th>Classroom</th>
<th>Operations</th>
<th>Admin</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2001</td>
<td>$6,048</td>
<td>$1,605</td>
<td>$931</td>
</tr>
<tr>
<td>FY2002</td>
<td>$6,304</td>
<td>$1,613</td>
<td>$958</td>
</tr>
<tr>
<td>FY2003</td>
<td>$6,597</td>
<td>$1,646</td>
<td>$972</td>
</tr>
<tr>
<td>FY2004</td>
<td>$6,902</td>
<td>$1,706</td>
<td>$1,062</td>
</tr>
<tr>
<td>FY2005</td>
<td>$7,116</td>
<td>$1,808</td>
<td>$1,054</td>
</tr>
</tbody>
</table>
How does this cost compare to other “EXCELLENT” Rated Schools in our Area?

<table>
<thead>
<tr>
<th>District</th>
<th>RANK</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beachwood</td>
<td>1</td>
<td>$17,763</td>
</tr>
<tr>
<td>Cuyahoga Heights</td>
<td>2</td>
<td>$16,559</td>
</tr>
<tr>
<td>Orange</td>
<td>3</td>
<td>$16,344</td>
</tr>
<tr>
<td>Mayfield</td>
<td>4</td>
<td>$11,680</td>
</tr>
<tr>
<td>Solon</td>
<td>5</td>
<td>$11,038</td>
</tr>
<tr>
<td>Westlake</td>
<td>6</td>
<td>$10,977</td>
</tr>
<tr>
<td>Chagrin Falls</td>
<td>7</td>
<td>$10,984</td>
</tr>
<tr>
<td>Rocky River</td>
<td>8</td>
<td>$10,782</td>
</tr>
<tr>
<td>Bay Village</td>
<td>9</td>
<td>$10,108</td>
</tr>
<tr>
<td><strong>Hudson</strong></td>
<td>10</td>
<td><strong>$9,978</strong></td>
</tr>
<tr>
<td>Strongsville</td>
<td>11</td>
<td>$9,904</td>
</tr>
<tr>
<td>Revere</td>
<td>12</td>
<td>$9,876</td>
</tr>
<tr>
<td>Olmsted Falls</td>
<td>13</td>
<td>$9,520</td>
</tr>
<tr>
<td>Brecksville-Brdvw Hts.</td>
<td>14</td>
<td>$9,122</td>
</tr>
<tr>
<td>North Royalton</td>
<td>15</td>
<td>$8,640</td>
</tr>
<tr>
<td>Green</td>
<td>16</td>
<td>$8,218</td>
</tr>
<tr>
<td>Norton</td>
<td>17</td>
<td>$7,653</td>
</tr>
</tbody>
</table>
What is the Problem?

1. *Our revenue cannot keep pace with our expenditures*
   
a.) On average, revenue growth is between .50% to 1.00% while expenditure growth is between 5.00% to 6.00%, therefore an annual cash deficit exists between 4.50% to 5.00%

   - *This is not a problem unique to Hudson*

2. *We are not completely in charge of how we conduct our public school business*
   
a.) We either benefit or suffer with the passage of each piece of federal or state legislation, therefore, the target and financial support continues to change.
How does our 5-year Avg. Expenditure Growth Rate compare to other “Excellent” Schools?

- The avg. of the 5-year averages listed for the “Excellent” schools is 5.82%
What Caused the Problem?

1. HB920 – restricts the growth of property taxes by reducing the tax rate in direct proportion to the increase in property value.
   - In 1976 when HB920 was enacted, the school district “taxing rate” was 31.20 mills. Since that time, the community has voted in an additional 41.10 mills, to **ONLY ADD 4.04 MILLS TO THE DISTRICT “TAXING RATE.”**

2. Recent legislative Acts by the Ohio General Assembly freezing and/or eliminating sources of revenue
   - HB66 enacted 07/01/05
     - Freezes 23% or $11.8M of 2005 operating revenue.
       - Does not provide any future growth
     - Eliminates 8% or $4.0M of 2005 operating revenue. Provides for a limited 5-year hold-harmless period and then is transitioned to $0 by 2018.
       - Does not provide any future growth
What is the Risk to our **community** if the Problem is Not Solved?

- Our students won’t have the competitive edge they need to get into the colleges they choose.
- The reputation our community enjoys as magnet school district will no longer exist.
- Houses will sit on the market longer and property values will drop.
- Business leaders will not move their companies or families here.
- Our community culture will change.
What is the Risk within our **schools** if the Problem is Not Solved?

- Lay-offs of outstanding teachers and staff.
- Less student course offerings, choices and activities
- Higher class sizes
- Loss of innovation and the ability to improve student learning
How have we reduced Costs?

• In Fiscal Year 2004/05, implemented permanent budget reductions of **$2.5M** that included:
  – Personnel ($1.92 million)
  – Purchased Services ($210,000)
  – Supplies, Materials, Equipment ($182,000)
  – Other Expenses ($209,000)

• In Fiscal year 2004/05, implemented additional budget reductions of **$155K**
  – Personnel ($19,000)
  – Purchased Services ($100,000)
  – Supplies, Materials, & Equipment ($26,000)
  – Other Expenses ($10,000)
What is the solution?

• Ask for more money (levies)
  – Property taxes
  – **School District Income Tax**

• Cut expenses
  – Continue to monitor expenses and make reductions where possible

• Make prudent financial decisions
  – Employee Severance Plan (Buy-Out)
Solution, School District Income Tax?

- HB66 provided a new School District Income Tax Alternative
  - It is essentially a payroll tax similar to that which is levied by the City of Hudson and includes earned income only.
    - Some examples of Income that is not taxed: Interest, Dividends, Pensions, Capital Gains, etc.
    - Who pays the SDIT, all persons residing within the Hudson City School District receiving earned income.
  - It has been estimated that a 1% SDIT would generate $8.0M when fully collected (RITA) or the equivalent of 9.0 mills of property taxes.
Why is the Solution Beneficial to all Concerned

- Income Tax revenue can grow as wages grow (inflation).
- Income Tax does not tax those on pensions or other fixed incomes.
- Tied to one’s ability to pay.
- With the State Income Tax Reduction of 21% in 5-years, this would become a no-cost option.