

SHAKER HEIGHTS BOARD OF EDUCATION
SHAKER HEIGHTS, OHIO

April 12, 2004

TO: Members, Shaker Heights Board of Education
FROM: Bryan C. Christman, Treasurer
SUBJECT: Financial and Miscellaneous Briefs

I. GENERAL FUND (As of March 31, 2004)

A. REVENUE

1. **Real Estate Taxes**

\$3,949,070 or 9.5% more than taxes received as of March 2003. 94.0% of estimated real estate tax collections have been received to date. Last year at this time, we had received 92.3% of the estimated taxes. As reported in previous months, the 2nd half collections were in fact down about \$120,000 from a year ago (even though total collections for calendar 2003 are \$164,000 higher than calendar 2002). The increased collections in January and February are of course due to the new 9.6 mill levy.

2. **Personal Property Taxes:**

\$430,576 or 18.8% less than taxes received at this time last year. 84.5% of the estimated tangible tax has been received to date. Last year at this time, we had received 120.5% of the estimated taxes. The variance is due to lower collections of tax revenues in July (\$114,000) and for the 2nd half 2003 settlement (\$289,000). While \$50,000 of the difference in the 1st half settlement was simply a timing difference (there was only a \$64,000 difference between the 1st half 2003 and 2002 settlements), the combined non-timing reduction of \$353,000 is primarily due to a \$228,000 reduction from OfficeMax, a \$106,000 reduction from Adelphia, and a \$40,000 reduction from Wild Oats, offset by other net increases. As you may recall last fiscal year's collections were inordinately high primarily due to a substantial increase in OfficeMax. This year's revenues are expected to be more in line with that of fiscal 2002.

Additionally, the exempt personal property tax received in December 2003 was \$27,508 less than the prior year due to the implementation of the ten-year phase-out in accordance with the provisions of House Bill No. 95, the state's biennial budget bill passed last June.

3. Investment Earnings:

\$239,888 received this year, which is \$41,687 or 14.8% less than received at this time last year. 60.0% of estimated interest income has been received to date. Last year at this time, we had received 58.8% of the estimated interest. Cash-basis interest income varies month-to-month and year-to-year due to the varying maturity dates of the investment portfolio. Consequently, the monthly variances may swing from positive to negative throughout the year. This year's investment income continues to suffer from the depressed interest rates. The Federal Reserve again left the target federal funds rate unchanged at 1.00% at their March 16th meeting, and is not expected to make any change at its upcoming meeting on May 4th. Given that, we will not meet the revenue target for investment earnings for the year.

4. Other Local:

With the receipt of \$594,000 in December for the payment from the State for the semi-annual exchange of SF-14, regular education tuition from other districts, this category is now ahead of last year and budget.

5. State Sources:

State Foundation program receipts are \$476,757 or 4.6% less than those of one year ago. 73.0% of estimated Foundation receipts have been received to date compared to 73.8% for last year. It should be noted that the State Foundation payments are merely estimates until the ADM counts are finalized and adjusted starting in January, with final adjustments through May.

The State reflects the October fiscal year Average Daily Membership (ADM) counts in its 2nd January payment each year. The January 2004 adjustment reflected a decrease in excess of 200 pupils from the prior year. This decrease amounted to a gross loss of \$1.4 million offset by \$600,000 of transitional guarantee aid, for a net reduction of \$800,000.

We have undertaken extensive review procedures including a meeting with our ODE Area Coordinator, John Nairus, in order to analyze our ADM funding information and to maximize the District's funding from the State. Although we are in the final stages of reporting as of the writing of this brief, we have made definite progress and I believe that our final numbers will reflect funded ADM counts consistent with our prior year results. The total dollars collected this year, however, may fall short of the budgeted \$13.5 million by as much as \$300,000 for the year.

Other State Sources for the year-to-date include \$508,919 for reimbursement of special education catastrophic costs for fiscal 2003, representing a 59.1% increase over the fiscal 2002 reimbursement of \$320,000.

Other State Sources year-to-date also include two semi-annual public utility property tax reimbursements of \$388,739 each, the second of which was received in March. You may recall, such payments are to offset the reduction in real estate taxes collected due to the lower assessed value applied to the electric and natural gas industry properties.

6. Federal Sources:

Federal YTD receipts include primarily Medicaid and intervention program reimbursements.

7. Total Revenue:

\$3,308,149 or 5.6% more than the amount received during the prior fiscal year-to-date. 85.2% of estimated revenue has been received to date compared to 85.4% last year. The variance from prior year and budget is primarily due to the increased real estate taxes due to the new levy, offset by decreased personal property tax collections in the 2nd half of 2003 and reduced State Foundation receipts.

B. EXPENDITURES

1. Salaries & Wages:

Payroll expenses as of March 31st represent a 4.5% increase over last year's payrolls for the same number of year-to-date pay dates. Payrolls averaged \$1,923,108 for the year-to-date vs. \$1,839,674 for the prior year. The rising average reflects the cumulative effect of the contractual increases that went into effect on January 1 and last July 1, as well as the step increments that went into effect on September 1. Total salaries and wages are 4.9% above the prior year due to timing of other fund chargebacks.

2. Fringe Benefits:

Fringe benefit expenses are \$878,348 or 8.6% higher this fiscal YTD vs. the prior year. The all other fringe benefits are \$366,544 or 71.6% higher, primarily due to the change to an "accrual" approach for the non-health fringe benefit expenses in concert with the change to the state software system for our payroll processing

effective July 1, 2003. The “accrual” of these amounts is accumulated in Fund 22, District Agency, from which payments to the respective vendors are made (similar to how we have been reporting the health insurance expenses in Fund 24 for the last several years).

3. Utilities:

Utility payments are \$273,344 or 30.8% higher this fiscal YTD vs. the prior year due primarily to budget basis natural gas payments of \$54,000 per month in this fiscal year vs. \$0 per month last year (for the first five months) due to the “gas payment holiday” resulting from the overpaid position at June 30, 2002. Additionally, rates have risen this winter, but not nearly as steep as the highest months during the 2002-03 winter. Because of the high budget amounts this year, our expenses for fiscal 2004 will be significantly higher than fiscal 2003. We do anticipate at least one “gas payment holiday” in June, which will help alleviate the increased expenditures.

The consumption in the December billing month was 1,800 mcf’s less than that of a year ago (11,097 mcf’s vs. 12,937 mcf’s last year). The rate, however, was 28% higher (\$6.311 vs. \$4.940). The consumption in the January billing month, although high was not significantly higher than the prior year (14,782 mcf’s vs. 14,238 mcf’s). The price continued to rise to \$6.944 vs. \$5.627 the prior year. The consumption in the February billing month was nearly identical to that of a year ago (15,502 mcf’s vs. 15,507 mcf’s last year) while the price actually decreased (from \$8.887 a year ago to \$6.965 this year). We will continue to monitor the usage and pricing throughout the rest of the year.

4. Total Expenses:

On a cash basis, total expenses were \$3,294,939 or 6.4% more than the YTD expenditure level for the prior fiscal year. YTD expenses represent 74.5% of the estimated fiscal 2004 expenses vs. 74.6% of the budget year elapsed. Last year at this time, we had spent 74.7% of estimated annual expenses. The cash basis budget to actual variance is a positive \$137,563. This variance is considered a timing difference in payments of expenses. Besides the increase in salaries of \$1,616,000, the variance vs. the prior year is primarily due to the following:

- \$197,000 increase in retirement expenses;
- \$348,000 increase in workers’ compensation due to discount program in the prior year coupled with the accrual method implemented this year;
- \$314,000 increase in total health insurance costs (net of \$43,273 contingent premium payment received from the Shaker Heights Public Library);
- \$217,000 increase in out-of-district tuition payments;
- \$273,000 increase in utility payments due to reasons discussed above;
- \$45,000 increase in pupil transportation costs; and

- \$312,000 increase in other purchased service line items, including a \$57,000 increase in legal fees.

The encumbrances (\$4.4 million at March 31, 2004), which include \$2.8 million for out-of-district tuition, are \$1.3 million higher than the prior year, primarily attributable to an \$800,000 increase in tuition encumbrances. While we feel these differences are due primarily to timing at this point, the enormous increase in special education out-of-district tuition is causing a significant strain on the budget for the remainder of this and the ensuing fiscal years. We will continue to monitor and report the status in this critical area.

II. CONCLUSIONS

1. Cash balance reflects an increase of \$2.0 million from that of one year ago. This is due to the \$2.0 million higher beginning of year balance, coupled with the \$13 thousand larger excess of revenues over expenditures for the current YTD vs. the prior YTD.
2. The \$1,322 cash deficit in Fund 020, Shaker Merchandise, is due to the purchase of merchandise for resale.
3. All prior month federal fund deficits were resolved in March.

III. OTHER ITEMS

1. **OfficeMax Revenue Sharing Agreement:**

As the Board may recall in 1996 the Board of Education and the City of Shaker Heights executed a Memorandum of Understanding concerning the creation of an enterprise zone to facilitate the relocation of the OfficeMax corporate headquarters. A component of that Memorandum of Understanding was to provide for the sharing of city income tax revenue derived from the expansion of the OfficeMax headquarters. The income tax revenue sharing agreement was intended to partially replace lost property tax revenue as a result of the creation of the enterprise zone and the resultant tax abatements. In 1996, it was estimated that the former property was producing approximately \$158,878 of annual real estate tax revenue and an additional \$69,850 in annual personal property tax revenue. The abatement pertains only to the increased real estate values and personal property additions up to \$17.6 million. Due to major technology related equipment additions beyond the abatement cap at OfficeMax, the Company paid in excess of \$1.1 million (about \$910,000 was the District's portion) in personal property tax in 2002, and about \$230,000 less in 2003. Details of the amounts received to date under the income tax sharing agreement are as follows:

	Amount Received		
Tax Year	Yearly	Cumulative	Date Received
1996	\$12,544	\$ 12,544	May 1998
1997	32,777	45,321	May 1998
1998	125,213	170,534	March 1999
1999	205,207	375,741	March 2000
2000	161,751	537,492	March 2001
2001	117,931	655,423	March 2002
2002	141,400	796,823	April 2003
2003	323,065	1,119,888	April 2004

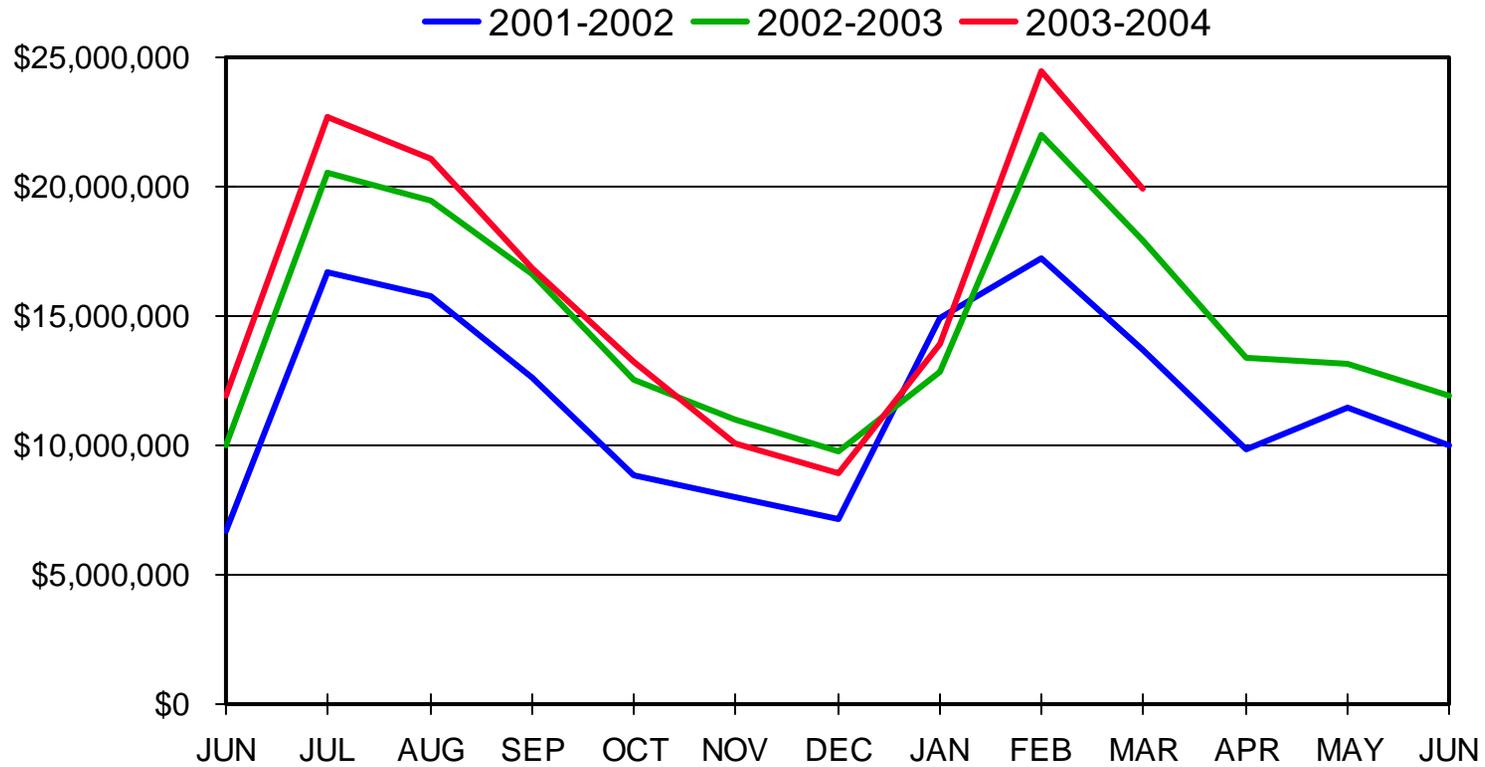
The payment was credited to the District's capital fund, Fund 004, as has been the practice since the inception of the agreement.

2. Shaker Square Update:

As you may recall, the Square redevelopment was 75% TIF'ed (Tax Increment Finance agreement-which means that the tenants made payments equal to the tax amount, but such payments are dedicated to paying the bonds issued to finance part of the redevelopment, rather than going to the taxing government entities). Under the current agreement, the District is receiving a payment in lieu of taxes for the 25% portion of the redevelopment increment value that amounts to about \$65,000 per year.

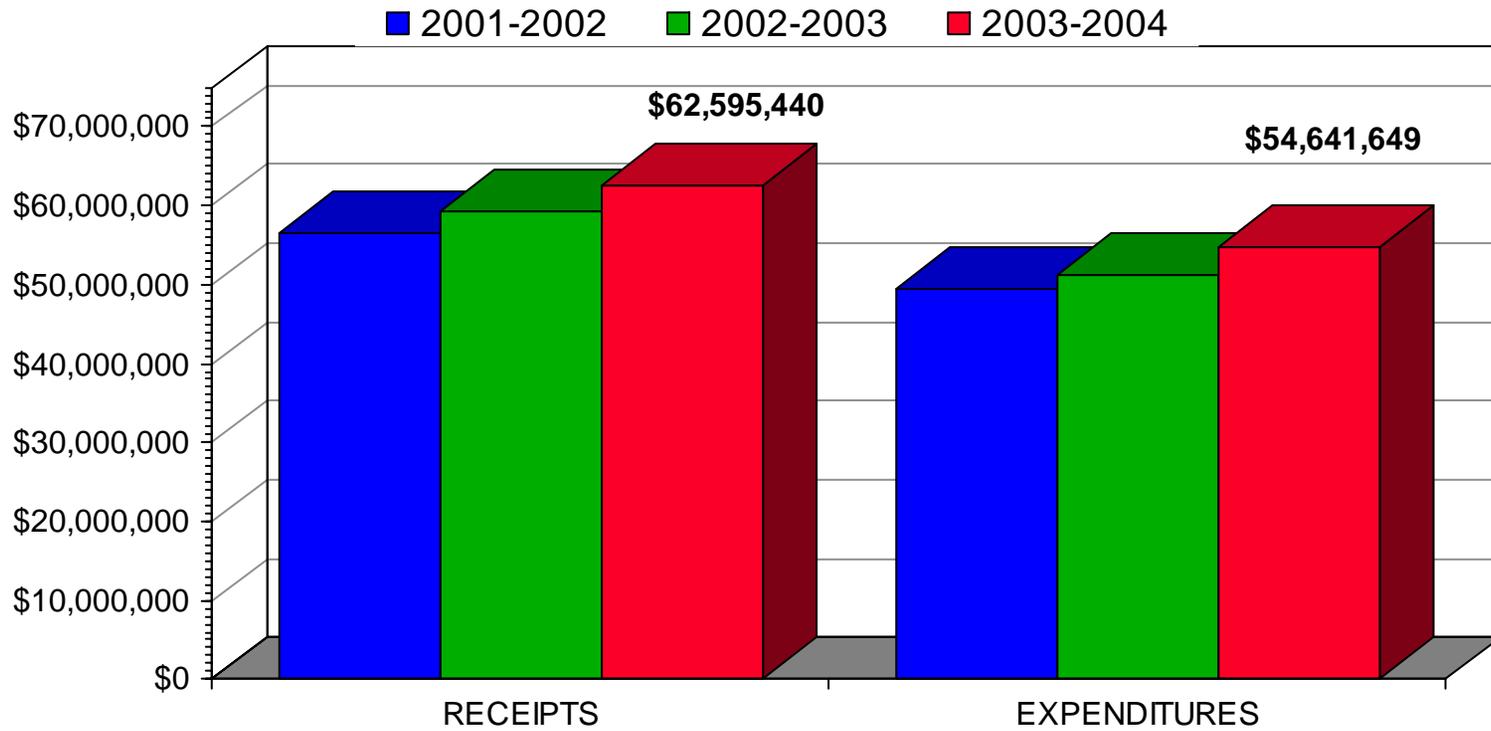
As you already know, the ownership of Shaker Square was taken over from the previous owners by the lead financial institution, Key Bank, last December. Recently, they announced the pending sale of the Square to another investor. It is our understanding that the Square ownership has filed for a significant reduction in the valuation (the deadline for filing was March 31st). The impact of any reduction in valuation would result in a pro-rata reduction in our TIF payment going forward. We will continue to monitor and update the situation as it unfolds. Please feel free to call or email if you have questions.

SHAKER HEIGHTS BOARD OF EDUCATION GENERAL FUND CASH BALANCE



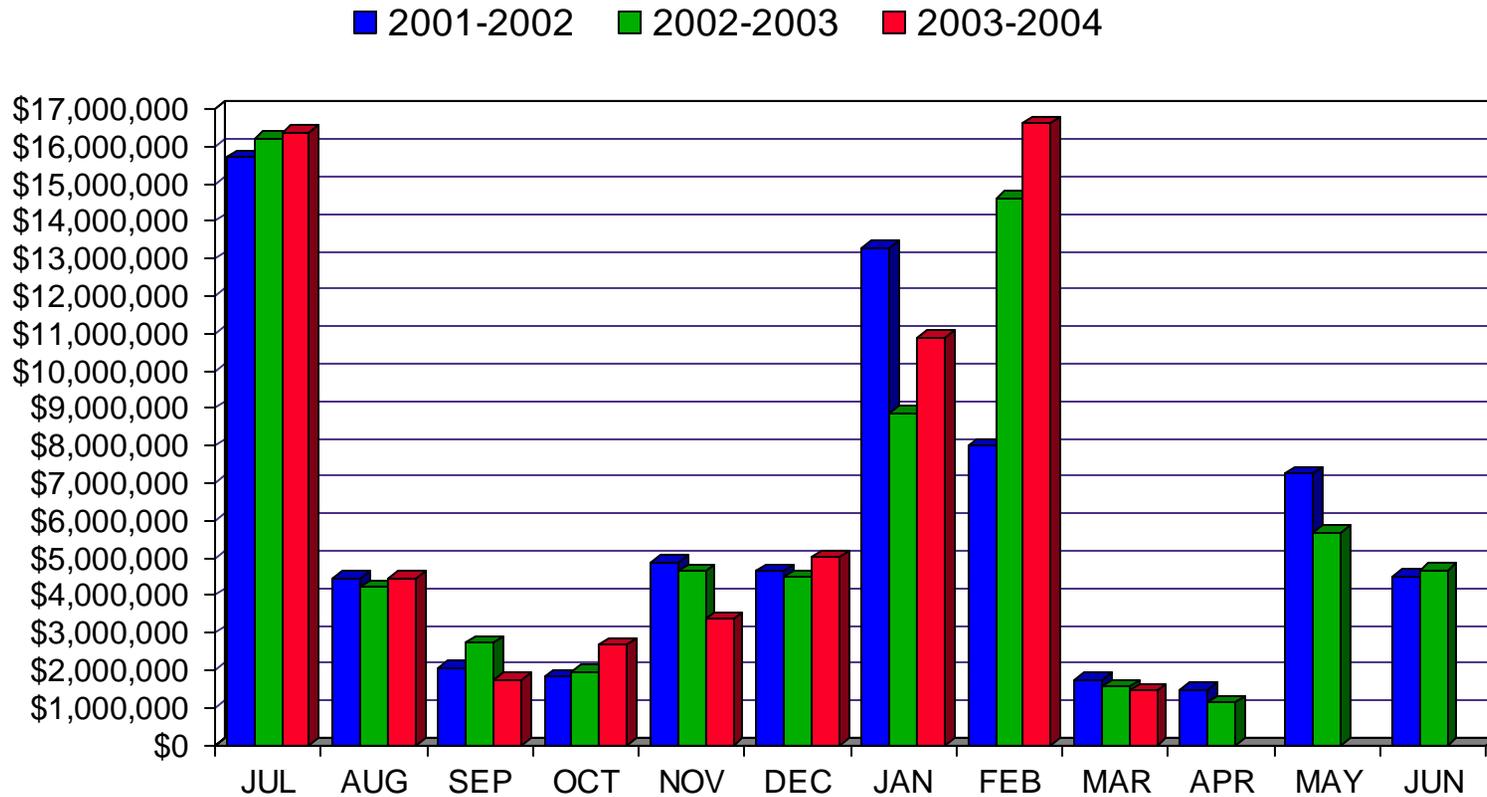
March 31, 2004

SHAKER HEIGHTS BOARD OF EDUCATION GENERAL FUND



March 31, 2004

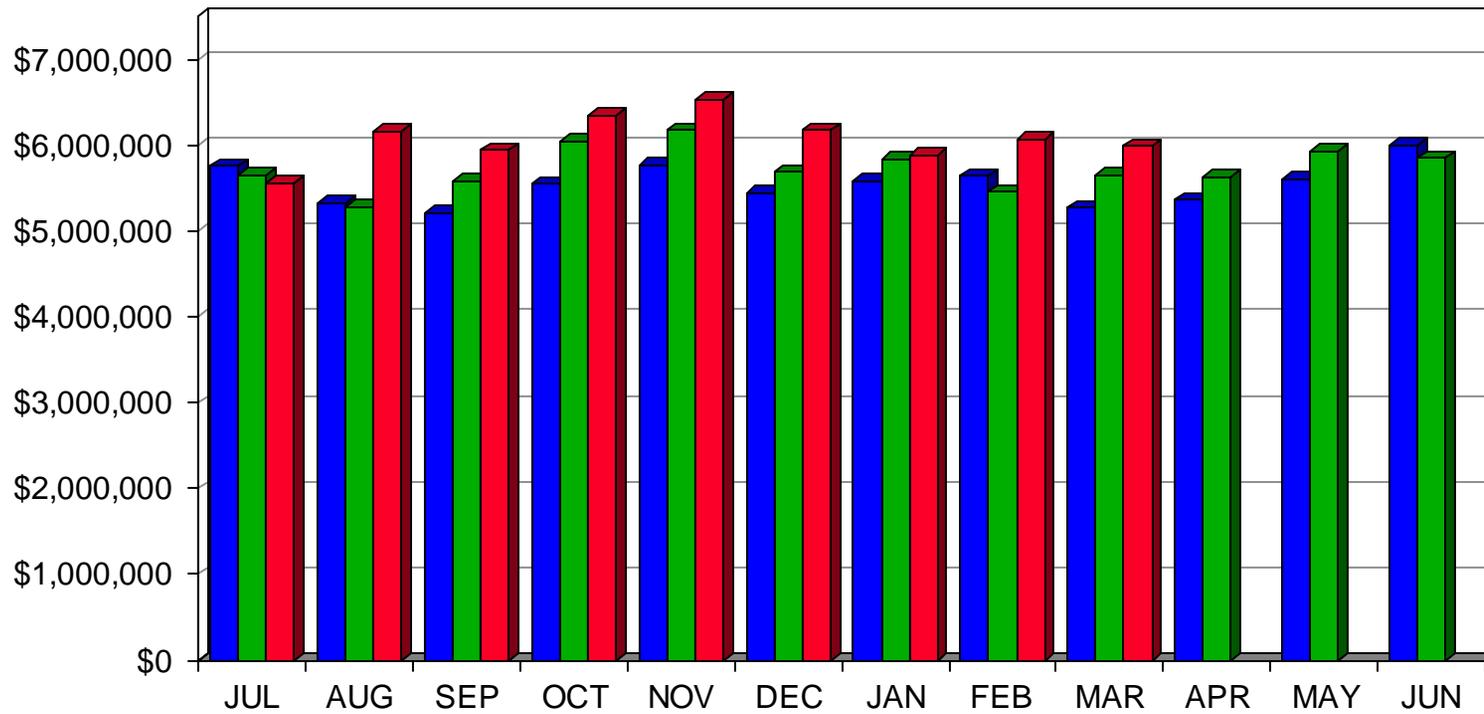
SHAKER HEIGHTS BOARD OF EDUCATION GENERAL FUND RECEIPTS



March 31, 2004

SHAKER HEIGHTS BOARD OF EDUCATION GENERAL FUND EXPENDITURES

■ 2001-2002 ■ 2002-2003 ■ 2003-2004



March 31, 2004

SHAKER HEIGHTS CITY SCHOOL DISTRICT
General Fund-Financial Statement
Fiscal Year Ending
June 30, 2004

	Month of March				Year-To-Date March				Year-To-Date March		
	Actual F04	Actual F03	\$ Inc(Dec)	%Inc(Dec)	Actual F04	Actual F03	\$ Inc(Dec)	%Inc(Dec)	YTD Bud.F04	\$ Inc(Dec)	%Inc(Dec)
REVENUE:											
Real Estate Taxes	\$0	\$0	\$0	#DIV/0!	\$45,311,484	\$41,362,414	\$3,949,070	9.5%	\$44,167,000	\$1,144,484	2.6%
Personal Property Taxes	0	0	0	#DIV/0!	1,858,439	2,289,015	(430,576)	-18.8%	2,010,000	(151,561)	-7.5%
Investment Earnings	40,318	34,303	6,015	17.5%	239,888	281,575	(41,687)	-14.8%	300,000	(60,112)	-20.0%
Other Local	16,361	14,075	2,286	16.2%	769,200	731,928	37,272	5.1%	768,000	1,200	0.2%
State Foundation	982,056	1,094,549	(112,493)	-10.3%	9,860,277	10,337,034	(476,757)	-4.6%	10,125,000	(264,723)	-2.6%
Homestead Exemption & RollBack	0	0	0	#DIV/0!	2,951,650	2,911,920	39,730	1.4%	2,950,000	1,650	0.1%
Other State	388,739	388,680	59	0.0%	1,374,119	1,124,920	249,199	22.2%	1,091,000	283,119	26.0%
Federal-primarily Medicaid	19,959	33,554	(13,595)	-40.5%	230,383	248,485	(18,102)	-7.3%	216,000	14,383	6.7%
Transfers & Advances In	0	0	0	#DIV/0!	0	0	0	#DIV/0!	0	0	#DIV/0!
TOTAL REVENUE	1,447,433	1,565,161	(117,728)	-7.5%	62,595,440	59,287,291	3,308,149	5.6%	61,627,000	968,440	1.6%
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EXPENDITURES:											
Salaries & Wages	3,905,275	3,699,547	205,728	5.6%	34,614,449	32,998,924	1,615,525	4.9%	34,460,000	154,449	0.4%
Fringe Benefits:											
Health Insurance	451,134	459,980	(8,846)	-1.9%	5,006,873	4,692,441	314,432	6.7%	5,384,000	(377,127)	-7.0%
Retirement Expense	588,359	555,657	32,702	5.9%	5,245,217	5,047,845	197,372	3.9%	5,238,000	7,217	0.1%
All Other Fringes	86,812	55,336	31,476	56.9%	878,261	511,717	366,544	71.6%	652,000	226,261	34.7%
Total Fringe Benefits	1,126,305	1,070,973	55,332	5.2%	11,130,351	10,252,003	878,348	8.6%	11,274,000	(143,649)	-1.3%
Purchased Services:											
Utilities	120,252	108,120	12,132	11.2%	1,161,991	888,647	273,344	30.8%	1,035,000	126,991	12.3%
Out-of-District Tuition	239,529	267,150	(27,621)	-10.3%	1,657,069	1,440,068	217,001	15.1%	1,925,000	(267,931)	-13.9%
Pupil Transportation	143,355	132,153	11,202	8.5%	958,080	913,249	44,831	4.9%	890,000	68,080	7.6%
All Other Purchased Services	267,784	207,561	60,223	29.0%	2,353,496	2,041,154	312,342	15.3%	2,388,000	(34,504)	-1.4%
Total Purchased Services	770,920	714,984	55,936	7.8%	6,130,636	5,283,118	847,518	16.0%	6,238,000	(107,364)	-1.7%
Materials & Supplies	117,840	104,866	12,974	12.4%	1,634,457	1,767,300	(132,843)	-7.5%	1,804,000	(169,543)	-9.4%
Capital Outlay	18,359	16,375	1,984	12.1%	347,374	384,293	(36,919)	-9.6%	367,000	(19,626)	-5.3%
Other-primarily Cty. Aud.&Treas.Fees	8,922	4,480	4,442	99.2%	532,170	414,111	118,059	28.5%	384,000	148,170	38.6%
Transfers & Advances Out	40,000	33,000	7,000	21.2%	252,212	246,961	5,251	2.1%	252,212	0	0.0%
TOTAL EXPENDITURES	5,987,621	5,644,225	343,396	6.1%	54,641,649	51,346,710	3,294,939	6.4%	54,779,212	(137,563)	-0.3%
	0	0	0		0	0	0		0	0	
Net Revenues/(Expenditures)	(4,540,188)	(4,079,064)	(461,124)	11.3%	7,953,791	7,940,581	13,210	0.2%	6,847,788	1,106,003	16.2%
Cash, Beginning of Period	24,438,549	21,983,334	2,455,215	11.2%	11,944,570	9,963,689	1,980,881	19.9%	11,944,570	0	0.0%
Cash, End of Month	19,898,361	17,904,270	1,994,091	11.1%	19,898,361	17,904,270	1,994,091	11.1%	18,792,358	1,106,003	5.9%
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Less O/S Encumbrances	4,425,334	3,126,826	1,298,508	41.5%	4,425,334	3,126,826	1,298,508	41.5%	2,500,000	1,925,334	77.0%
Less Budget Reserve	353,070	353,070	0	0.0%	353,070	353,070	0	0.0%	353,070	0	0.0%
	0	0	0		0	0	0		0	0	
Fund Balance, End of Month	\$15,119,957	\$14,424,374	\$695,583	4.8%	\$15,119,957	\$14,424,374	\$695,583	4.8%	\$15,939,288	(\$819,331)	-5.1%
	0	0	(0)		0	0	0	0.0%	0	(0)	0.0%
Total General Obligation Debt Outstanding					\$13,867,774	\$15,235,247		(0)			