CINCINNATI PUBLIC SCHOOLS

Building Excellence

2005-2006 General Operating Budget

Overview

Revenues

Under Ohio's current method of funding public schools, revenues do not automatically grow with inflation, yet state and federal mandates continue to escalate. The Cincinnati Public School District is required to pay for increasing costs of state mandates and inflation with dollars that remain constant. In November 2000, district voters passed a new 6-mill operating levy targeting 2 mills ($12 million) for K-3 class size reduction, 1 mill ($6 million) for neighborhood schools equity, 1 mill ($6 million) for facilities maintenance and 2 mills ($12 million) for budget restoration and inflation. This levy was projected to last four years through FY 2004. This budget extends that through FY 2006.

Negatively impacting Cincinnati Pubic Schools' revenues have been several provisions of the State of Ohio's last two biennium budget bills. As shown on the chart on page 20, State Foundation Revenues comprise 36% of the District's general operating budget. The State's 2002-03 biennium budget bill rolled back the "Cost-of-Doing-Business" for the highest-cost counties in the state from the final phased-in amount of 18% beginning in FY 2004 to 7.5%, which was then capped. Because CPS was scheduled to be at the 18% Cost-of-Doing-Business maximum in FY 2004, this action by the Legislature cost the district $90 million over the past four years.

Legislative actions taken in the state's 2004-05 Budget further exacerbated the district's state foundation funding. Contributing to decreased funding from the state over the past two years was the elimination of the practice of substituting a school district's 3-year average formula Average Daily Membership (ADM) in the base cost formula, in place of its current-year formula ADM if the 3-year average is greater than the current year number. Additional loss of state revenue occurred through the phasing out of the state reimbursement for the $10,000 business property tax exemption, accelerating the phase-out of the personal property tax on inventory, and expanding Parity Aid funding to Charter schools.

The proposed State Biennium Budget Bill for 2006-07 (Sub. H.B. 66), contains significant changes to both the foundation funding formula and local property tax collections. The bill establishes a "building blocks" methodology reflecting determinations that the base cost of providing an adequate education comprises the costs of base classroom teachers, other personnel support and non personnel support. The 7.5% Cost-of-Doing-Business Factor will be completely phased out over the biennium budget period, with the funds redirected for academic intervention services, professional development and data-based decision making programs. The Disadvantaged Pupil Impact Aid

Overview (cont.)

(DPIA) subsidy has been renamed "Poverty-Based Assistance" and expanded to include additional payments for services to limited-English proficient students, teacher professional development, dropout prevention in the Big Eight districts, and community outreach programs in the Urban-21 districts.

The bill eliminates all tangible personal property taxes on business equipment, machinery, inventory and fixtures over the next four years beginning with tax year 2006. Replacement payments will be made to school districts for five years, some through the foundation formula and some by direct payments from the state. After that, the direct payments from the state will phase down to zero over the next eight years. School districts will receive no state reimbursement for the elimination of inventory taxes, as this provision was in effect prior to this bill. Tangible personal property owned or used by public utilities is not affected by the phase-out and eventual tax exemption.

Because these tax reform measures are effective for the tax year beginning 2006, except for new machinery and equipment installed in 2005, the district will not experience much fiscal impact from these changes during FY 2005-06 as tangible personal property taxes generated during the next fiscal year will be based on tax year 2005. Inventory tax revenues will continue to decrease from their already established phase-out timetable. Tangible personal property taxes from business machinery, equipment, fixtures and inventory constitute $31 million of the $50 million the district receives in tax revenues from these sources, the balance generated from public utility personal property.

State replacement payments will last only five years and be completely eliminated over the next eight years. The state will be making no replacement payments for lost inventory tax revenues. The burden for making up these lost local business tax revenues will be shifted to the residential tax payer.

The most recent revenues projections from the Legislative Service Commission as Sub. H.B. 66 heads into a joint House-Senate Conference Committee show CPS gaining $924,669 in additional state foundation revenues in FY 2006 and an additional $6.7 million on top of that in FY 2007, for an overall increase of 5.2% over the next two years.

Regarding other General Fund revenues, the district expects a moderate increase in general property real estate taxes in FY 2006 as a result of the six-year reappraisal completed for tax year 2005. Interest income will continue to decline due to smaller cash reserves. All these revenue projections are shown on page 10 of this book.

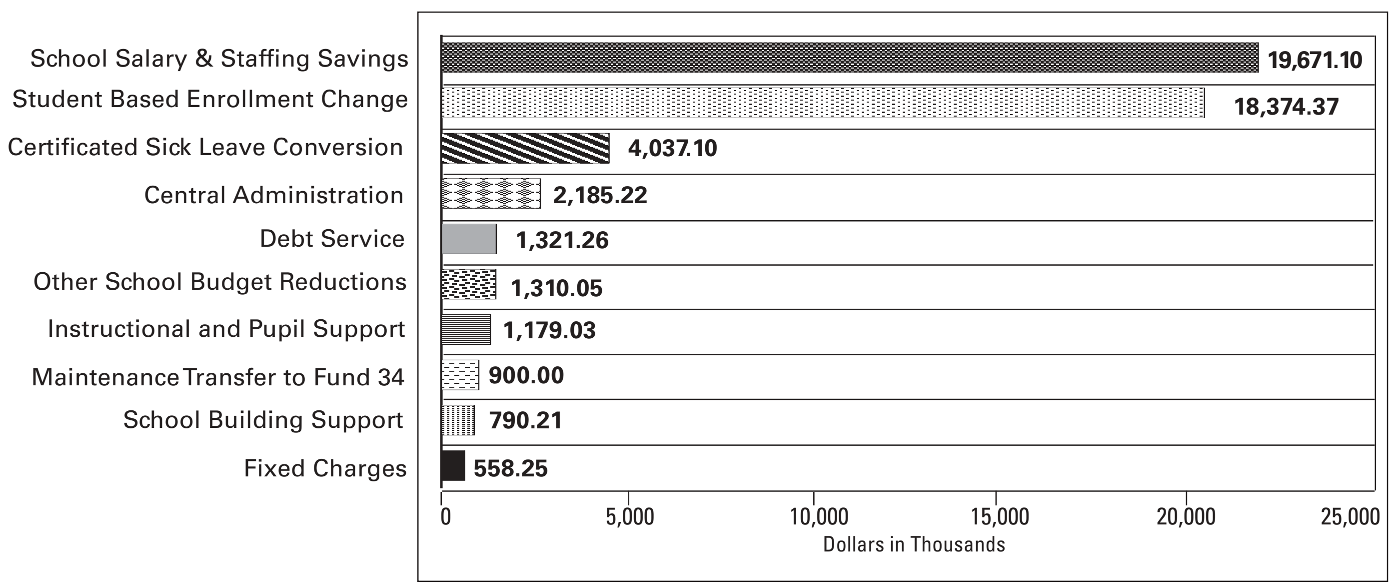
2005-2006 General Operating Budget

Expenditures

The district's budget for FY 2006 projects spending in the amount of $428,576,920, a net reduction of $40,792,200 from last year's budget and nearly the lowest spending level for the district in four years. This is the result of cost-reduction and staff rightsizing measures implemented by CPS since December, 2004 that included consolidating/merging and closing six small schools; implementing zero-based budgeting for nonpersonnel requests requiring all branch and program managers to provide a detailed breakdown and narrative justifying dollars requested; offering a voluntary employee severance plan; eliminating centrally funded positions (across all funding sources); and eliminating 116 certified positions through a reduction in force. This budget represents a major step in aligning current year expenditures with current year resources and student enrollment.

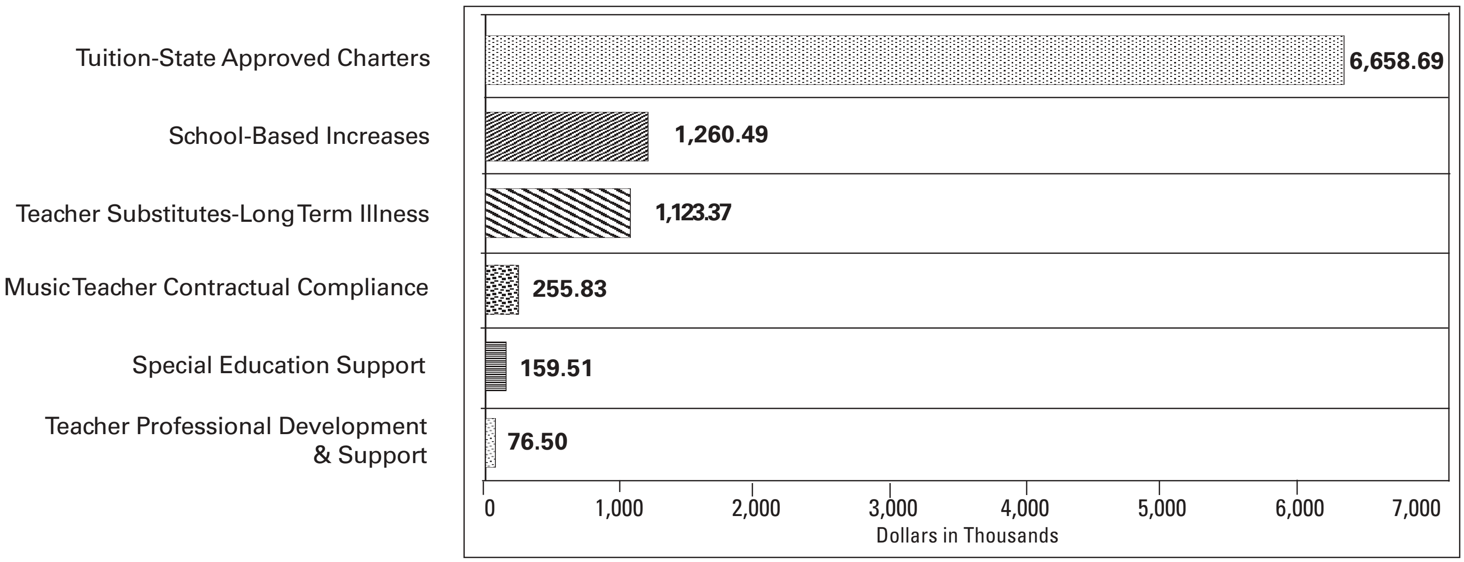
The details of the changes in the FY 2006 budget from the FY 2005 budget are shown in detail on pages 14-17 of this book. A summary of the changes is shown on page 12. Highlights of the major changes in the budget are as follows:

Budget Category Reductions



Overview (cont.)

Budget Category Increases



Student-Based Budgeting

Each school submitted a local budget for the 2005-06 school year, developed and recommended by a school leadership team consisting of the principal, teachers, other staff members and parents. Each school's Local School Decision Making Committee approved its school's budget.

Every student in a major funding category is supported at the same level regardless of the school the student chooses to attend, a design that supports funding equity among schools. Student-based budgeting allows for adjustments in overall expenditures as enrollment declines or increases due to a changing city population or competition from charter and non-public schools.

The central focus of Cincinnati Public Schools is concentrating organizational energies on significantly improving academic achievement by putting the majority of resources at the school level and strengthening support to schools for quality instruction and leadership. The FY 2005 budget expends 72.11% of general funds on schools and schools support, 5.21% on central administration and the remaining 22.68% on charter and out-of-district tuition, debt service, fixed costs and maintenance.