

**Cardinal Local School District  
Work Session/Special Meeting  
April 26, 2017**

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The **Work Session/Special Meeting** of the Cardinal Board of Education held at 6:00 p.m. on April 26, 2017, was attended by Ken Klima, Wendy Anderson, Greg McClain, Linda Smallwood and Katie Thomas.

**Discussion Item:**

Five-Year Forecast – Final Review – Ms. Knuckles gave the Board copies of the worksheets and the draft Five-Year Forecast for the Final May filing prior to the meeting for their review. The worksheets were updated from the October submission based on the current budget and any currently known changes for now and future years. Those changes are highlighted in blue. We have to set an initial budget in October and show that in the Forecast based on all of the known revenues and expenditures at that time. The changes since October were highlighted on the worksheets. In October the tax revenues budget is certified at 98% per the County Auditor which means there is \$200,000 to \$300,000 in tax revenues not included in that budget which means there are \$200,000 to \$300,000 in expenditures not included in that budget as well. By the time the May Forecast is due we have we received the final settlement in March showing 103% collected including the homestead and rollback revenues collected. Delinquent taxes will push the collection over 100%. At the budget hearing we were informed that most of the delinquent taxes are caught up so we should see collection at 100% or just a little over, not the 105% or more we have had in the past. Our tax revenue collections include about \$70,000 in taxes from the small portion of Trumbull County included in our District.

This year the County Auditor's Office is preparing their re-evaluation of all properties in Geauga County. This is the six-year physical review of properties and changes to property valuations. The auditors will review any changes to the property from the last time and the condition of the property. For the School District, if the property valuation for the district goes up we would collect more tax money on the 4.5 mills of inside millage which collects at 100% of value. So if the district valuation increases we will see an increase in the 3.5 mills collected in the General Fund and the 1 mill collected in the Permanent Improvement Fund as our only increase in taxes for next year. For the tax-payer, if the total valuation goes up our tax payments will go down since all of our levies can only collect at the value from when they were first voted upon. The 9.7 mill levy is collecting at \$2.766 million. If the valuation goes up the amount collected would be more than the \$2.766 million. Therefore, the amount paid by the homeowner would be less to make sure that levy only collects the \$2.766 million as voted. Any new construction from 2015 will be part of the tax base now, so the more people paying into the pot the lower the payment for each property owner. *Mr. McClain asked if that amount would change with the levy being renewed in December.* Ms. Knuckles replied no. A renewal is placed for the same value. A replacement would make it 9.7 mills at current tax values and that would create an increase in taxes collected. Always use a conservative amount for increases in the future years, only a 1.5% increase, since there usually is not much change in the amounts collected.

The next big change in the loss of state funding. In March we received information from the State Department of Education that the state budget for FY 2018 shows a \$129,000 decrease for Cardinal Schools in basic state aid. At this time the FY 2018 amounts are to be carried into FY 2019. Starting last year the foundation payments were based on student ADM each month and the amount paid out was recalculated each month before distribution. We had a decrease of 29.92 students in FY 2017 – 1,066.15 down from 1,096.07 in FY 2016 for the month of April. Each month the budget will change to reflect the change in revenues received so the budget is not overstated.

After the students attending Metzenbaum were integrated back into the public schools, the ESC worked with the MRDD Board to get pass-thru payments for the Geauga County school districts. In the past we have received over \$350,000 a year in these payments. In FY 2007 we paid out about \$700,000 in special education costs and we are now paying out about \$2 million a year in special education costs. In FY 2016, ODE changed the funding formula for students with specific disabilities and we received \$240,000 less in FY 2016 than in

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FY 2015. Plus, they also went back and adjusted the FY 2015 amount and took money away. This money should be received by June 30<sup>th</sup>. *Mrs. Smallwood asked where the tax money goes for the levy that always gets passed.* Ms. Knuckles said it goes to Metzenbaum to support the programs they are running for the adult-aged clients. *Mrs. Smallwood did not think it sounded fair to receive so little when we are paying out so much.* Mr. McClain stated he sees many of these folks working at the hospital and other areas. These folks are outliving their parents and caregivers and Metzenbaum is supporting them with homes and services. *Mrs. Anderson feels folks do not understand that the levy money is not paying for all the services we provide to our students. Many think we get 100% reimbursement for special education services and we need to make them aware of this in a manner that does not offend anyone.* Mrs. Smallwood has a neighbor whose child attends a special school and when she asked if the parent would like a levy sign she declined since her son does not attend Cardinal. She does not understand that Cardinal pays for her child to attend that special school, not the state. *Mrs. Thomas said it takes a village to raise these children along with our tax money.*

Since 2010 we have been participating in the Medicaid reimbursement program for students who qualify for Medicaid. Kudos to Karen Retych for all the work she does to get parents to sign off for the Medicaid program and to Carol Spano at Ohio Alliance Billing for all the work they do to get these reimbursements paid to us through the Department of Medicaid. The FY 2014 Medicaid audit is completed and we are expecting a reimbursement of \$175,382 which should be received by June 30<sup>th</sup>. However, last year we were told the same thing and it was not received until September, 2016. This amount is not included in the budget or the forecast.

Excess Costs are a "tuition" that we can charge back to the home district for services we provided their students that attend our district. Certain paperwork must be in place to use the Excess Costs system. Excess cost submission was delayed again this year like last year. Excess Costs reimbursement was completed and received which then opened the catastrophic costs window. That window is expected to close on April 28<sup>th</sup>. We were the first school in Geauga County to submit our catastrophic costs. Then they changed how they wanted one group of expenditures classified and returned our submission for correction. It was corrected and re-submitted before any other Geauga County school did their first submission. We have 219 students receiving some type of special education services. Any student in a category of 2-6 (hearing impaired, MD, Autism, traumatic brain injury, LD, blind, etc.) qualifies for submission in the Catastrophic cost program. We have 35 students who qualified for submission. For categories 2-5, the costs must be greater than \$27,375 and for category 6 it must be greater than \$32,850. We submitted \$2,005,798 in special education costs with an allowable cost amount of \$1,009,348. Of that amount the percentage for reimbursement will be applied and determine our actual amount to be received. With Excess Costs you get a majority of the cost back but with Catastrophic Costs all 680 schools submit their costs and the pot of money for reimbursements is only so big. The reimbursements to the schools is prorated from that pot of money. It runs between 22-30% of the allowable cost amount. This payment is to be received by June 30<sup>th</sup>. All costs must be submitted before any payments can be made.

We received our Homestead and Rollback distribution in April. This amount was just lower than budgeted based on the County Auditor certification. These reimbursements will not be available on any new levy passed after 2016. The homeowners will be paying the full value and not a reduced rate like on our other levies. Property Tax Allocation on the Forecast includes the Homestead and Rollback and TPP monies. In the past the County Auditor calculated the Homestead and Rollback amount at about 15% and we were receiving much less. After several conversations, we are not getting a lower percentage certified. Last year the number was \$200,000 less and this year the amount was only \$5,000 less. It is much easier to increase a budget in May instead of decreasing the budget. Homestead and Rollback settlement was received and posted today. The latest information on the TTP monies show a decrease of \$400,100 expected on the FY 2018 budget. The FY 2019 amount is expected to be decreased by \$190,400. The TPP money is to be phased out by the end of 2020. The District received \$142,245 in hold harmless supplemental payment on April 19<sup>th</sup>. The second half settlement should be received by the end of May. With this decrease we will be starting the year over \$500,000 less than

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last year. Excess costs reimbursement of \$121,993 was received on our March foundation settlement. However, the excess costs payments to other districts educating our students is \$380,787 and will be taken out of our foundation settlements over the next three months.

In the spring the community and parents raised or donated money to cover the cost of spring sports. However, the fall and winter sports PTP fees were short about \$30,000 in covering the costs of those sports. The general fund will have to cover this difference. In FY 2016 we had to cover over \$100,000. The amount could be less since the past due PTP fees are being collected and that money will be used to cover the difference between current collections and current costs. *Sandra Stocz-Fenton asked what caused the \$30,000 difference. Was it the timing of the payments?* Ms. Knuckles replied people have consistently been late with paying the fees for their children, but we have always had to make up the difference between the cost of the coaches and transportation and the amount of the fees collected. The fees do not cover the full cost. *Mrs. Anderson said this spring was the first time the fees had to cover the full cost of the sport. In the past the \$300 collected and the family cap did not cover the full cost.*

The tax abatement approved in 2014 for Chem Tech was subjected to state tax changes and the amount expected will not be received as initially projected. However, the village, Chem Tech and the superintendent worked out an agreement to have \$60,000 paid up front for the \$10,000 a year expected later. This is to help provide a positive ending cash balance as of June 30, 2017. The revenues show on the Forecast but not the reserve expenditure, so it shows in our ending cash balance.

The \$500,000 in Tax Anticipation Notes must be repaid by June 15<sup>th</sup>. It will be paid in May after receiving the TPP monies so we have a realistic view of the cash on hand for the end of the year. We have about \$14 million in revenues in our budget this year and with the decreases in revenues known for next year our budget will be around \$13 million, including the 9.7 mill levy renewal.

During the school year we had 9 teachers move up on the education scale. The new budget amounts were updated in the worksheet to reflect the current year budget. We had all of the classified positions recalled by the beginning of the school year due to student needs, so those savings were not realized. Estimated amounts for RIF/cuts are included. This is where the Board has to do some work to determine what cuts will be made to make up the \$1.5 million needed even with the passage of the 5.5 mill levy. With salaries and benefits being 72% of our budget this is the main place to look for savings. Our premiums for health care were to go up over 30% this year, but we were able to switch to Medical Mutual with a 23% increase in premiums as of January 2017. We are working to save more in FY 2018 by potentially joining a consortium. We will be able to save significant dollars with a consortium, but since it is not a solid, known number is it not included in the forecast at this time. A 22% increase is included for FY 2018 and a 15% for FY 2019 and beyond. Dr. Hunt has been talking with our broker Cyndie to find a consortium to join and ways save money. *Mr. McClain asked if our experience rating is still high.* Ms. Knuckles replied yes, although some of our claims will be coming off the projection. *Dr. Hunt has some immature data coming in at the end of the month; three months of our current claims. It is not based on a full year, but she will use this to shop around for us. We are meeting May 2<sup>nd</sup> for more information.* Ms. Knuckles continued, if something solid comes in by May 10<sup>th</sup> she will update the Forecast before it is approved at the May 10<sup>th</sup> board meeting.

The District instituted a RIF due to financial difficulties, however the classified staff was recalled and 2 psychologists and a speech teacher were hired over the summer. Therefore, the expected savings was not realized for FY 2017. This puts us behind the eight ball again this year at the end of the fiscal year. At this time we have roughly \$600,000 in bills we are unable to pay in this fiscal year since we paid over \$500,000 in FY 2016 bills in the beginning of FY 2017. We did not save enough money with the RIF's to make up for this shortage on top of the other losses of state revenues. *Mrs. Smallwood asked if the \$600,000 is included in the*

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*forecast numbers.* Ms. Knuckles replied yes, there is an increase in the purchased services expenditures for FY 2018 to reflect these costs carried over.

One of the things that drives her nuts is the commercials talking about free online education. Last year the District got about \$3,700 per student through state funding. When she did the calculation recently the amount is down to \$2,785 per student. We pay out \$6,000 per student that open enrolls out to another school or goes to an online school. So this is a severe loss of revenues to the District. *Mrs. Thomas asked how they justify using our tax dollars to pay for this tuition free education outside of our District.* Ms. Knuckles answered the state does not justify this decision. *Dr. Hunt added the money follows the student.* Mrs. Anderson stated we get their tax money and the per student amount, but the state takes more then what they are paying. *Mr. McClain said they do not pass on their tax dollars. Plus, the amount we get per student, they give them the full amount of \$6,000, which is a significant loss for us.* Ms. Knuckles said the key question is if they determine it costs \$6,000 to educate a student and give that amount to an online school, how could it not cost more for the public school to pick-up, feed and educate a student in our buildings as opposed to sitting in front of a computer at home. We are subjected to the funding calculation and they are not.

Materials and supplies can go up or down depending on the costs and the needs. Fuel costs are dependent upon the economy and the amount needed. It is hard to know how much this budget will need to be but it is a small part of our overall budget. We do have a supply warehouse where the supplies are purchased from the general fund to begin with but then as the requests come in the cost is reclassified to the 009 and 018 funds as appropriate. Copy paper and teacher supplies are charged to the 009 fund where the student fees are collected.

Bus leases are the main capital outlay costs. They are up in 2020, but by that time we may need to replace additional buses. The bus inspection is early in June and Roger will be busy getting the necessary bus repairs done as soon as we stop running our students. If a bus does not pass, it will be tagged and cannot be put back on the road until the repairs are completed. *Mr. McClain questioned the bus leases as to if they were regular leases or lease-to-own.* Ms. Knuckles stated they are capital leases where we can buy them for \$1 at the end of the lease.

Other expenditures include audit costs, election costs, certain ESC service costs, auditor and treasurer fees related to the tax settlements and our energy conservation bond payments. Transfers are mainly to transfer money to different line items and for the food service fund. We transfer money to cover their operating shortages. *Mr. McClain asked if the transfers were for our employee operating costs or the cost of Nutrition Group to operate the cafeterias.* Ms. Knuckles explained the transfers are to cover the operating deficit of the fund. The amount of money collected through lunch costs and federal and state reimbursements is not enough to cover the cost of the employees' salary and benefits, supervision services and the food and paper products needed to serve the lunches. Whenever a fund has a deficit, per the ORC, the general fund is required to transfer funds to cover the deficit.

With the loss of \$129,000 in state funding and \$400,000 in TPP funding, the carryover of \$700,000 in FY 2017 bills into FY 2018 and the high insurance premiums, we have to make significant cuts to begin FY 2018. The cuts have to be solid and not retractable in order to have the cash in the bank needed to make it through the slow cash period of November through February. We are starting another fiscal year behind again even if the levy passes on May 2<sup>nd</sup>. At least \$1.5 million has to be cut in order to have money in the bank at the end of FY 2018 and that is with the new levy money counted into the mix. Without the levy, the amount will be even higher. The homework for the Board and the Superintendent is to come up with a solid \$1.5 million in not retractable cuts to begin FY 2018. When you put all this information into the Forecast and if the levy passes in May, we could end next fiscal year with \$350,000 in the bank. If the levy fails in May, the Board has to decide if they are putting both levies on in November. If both levies fail, we are looking at another \$1.8 million in cuts in addition

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to the \$1.5 million already included to operate. People need to understand the real need here in the District and how much a failed levy will hurt the quality of the education at Cardinal. While red is our school color we do not want it in our Forecast. *Mrs. Smallwood stated so we need to find another \$890,000 more in cuts to go with the \$610,000 already presented. Do you agree with that?* Ms. Knuckles stated yes, it has to be \$1.5 million. As you can see even with passing the two levies we are only left with \$350,000 at the end of next year. If there are any questions please let her know. The Forecast will be updated with any new information prior to approval in May. *Mrs. Thomas stated when you submit this forecast and the state department looks at the red numbers, are they going to be calling you and what will they be saying. What category will we be in?* Ms. Knuckles said we would not be in a category yet. They will send the same letter that we got last year, telling us we have a deficit included on our Forecast for the fund balance as of June 30<sup>th</sup>. Then they will ask “what is your plan for the deficit.” And I will respond as I have in the assumptions. We have a levy on in November, we have made \$1.5 million in cuts to start the school year and are looking at ways to maintain. Nothing different from what we have been doing for the last couple of years. Now, if both levies fail and we cannot make the necessary cuts, they will come in and review the Forecast and assist us with making cuts and passing a levy. *Dr. Hunt added they come in, do a study of the district, remove all emotion and tell you where you are eliminating costs, positions and people.* Ms. Knuckles stated it is the one time when seniority does not count. The commission will come in and tell you where to cut and what to pay. *Mrs. Stocz-Fenton asked what power does the union have when they come in.* Ms. Knuckles replied none, it is all laid out in the Ohio Revised Code or you can visit the State Auditor’s website and read all about Fiscal Caution, Watch and Emergency. *Mr. McClain asked how many schools come out of fiscal emergency.* Ms. Knuckles stated most do. *Dr. Hunt added it does take time for that to happen; look at Cleveland City Schools.* Mr. McClain said they had to close buildings and re-organize. We do not have any more buildings to close. *Dr. Hunt agreed the cuts would be tough.* Ms. Knuckles stated, as Mr. Klima, Mrs. Anderson and Mrs. Thomas know we have made significant cuts in the past. We cut \$1.7 million one year and \$1.5 million another year which included closing Huntsburg and Parkman elementary buildings. We have trimmed everything people might assume is fat out of this District already; there is not much left. *Mrs. Smallwood said exactly and wondered how we would find \$2.1 million to cut if both levies do not pass.* Mrs. Thomas said it is like what Ledgemont did when they were in fiscal emergency. They cut so much people were open enrolling out to other districts. The amount of the levy they would have to pass people said was ridiculous and they could not support it. A school district down in Miami County had to pass a 13 mill levy to get out of fiscal emergency. *Dr. Hunt stated we are barely going to make it with the 5.5 mill levy we are running right now. For those folks who think it is too much, it is in fact not enough to cover our costs without some major adjustments. There is no extra money.*

Mrs. Anderson was asked about an income tax levy. This person said the village of Middlefield get about \$3 million with their 1% tax and we would not even need that amount. She said “Excuse me”. The person said well you would collect the money from everyone. This person should have known that we do not collect from everyone. We would only collect on earned income for those people who live in the district. It is not from the workers who could live outside of Middlefield and pay to the municipality. There is some conversations out there that are not right. *Dr. Hunt said if this is a recommendation from the task force then the correct information will be put out there to show what it looks like.* Mrs. Anderson did comment to the person that you do not know what amount you will be getting and it can take two years before you get any money. If anyone is hearing that out there make sure to set it straight. This could be a topic for the rumors page. *Ms. Knuckles stated it is only on earned income tax that is W-2’s and 1099-MISC. You have to get an estimated amount from the Department of Taxation based on last year’s figures. Then when it passes you have to tell your employer to take the 1% out of your paycheck for 2018; some will; some will not. If they do not, it is not taken out until you file your taxes in 2019. During the time from when you get the estimate, you will have people retire, lose their jobs, new jobs started, etc., so the amount received will bounce up and down.* Mrs. Anderson asked how often you would receive the money. *Ms. Knuckles said it depends. It may only be twice a year; she was not sure. If the business takes it out of your pay they have to file it regularly, but if they do not, people do not pay it until they*

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*file in the following year. Mrs. Smallwood said when she worked at Kraft Maid village tax was taken out each pay and then accounts payable paid it quarterly to the village. People whose employers do not take it out have to make quarterly estimated tax payments. Mrs. Anderson said her son only pays the school tax once a year when he files. Ms. Knuckles replied that is what the majority of people do since it is not required for employers to take it out like a village income tax can be. Mrs. Stocz-Fenton said you are looking at a pool of senior citizens who are thinking hey this is good since I would not be paying for it, so it can be very passable. Ms. Knuckles agreed but it is not a steady revenue source like a property tax. We know we are getting \$2.7 million with our 9.7 mill levy and the amount received from income tax can fluctuate each year and it can be by significant amounts. Mrs. Smallwood said if we pass these other levies we could consider this. Mr. Noble would still like to see how other schools are doing with the income tax. Ms. Knuckles said to look at Berkshire because they changed their income tax on all revenues to an earned income tax. They did this the first year she worked as treasurer for both schools. We went out and said to the senior citizens, we appreciate you for supporting the district all these years and now we need your support once again. Only this time you would not have to pay the tax as it would only be on W-2's and 1099-MISC's. The tax was collected in the third year, after I left and the problem they had right off the bat was the amount they were told when they placed the levy on the ballot was much higher than the amount they actually collected once it was put into place. It depends on W-2's and 1099's and on who will file and who will pay. It is not as steady as a property tax. Mrs. Smallwood said it would a good supplement and we can get it in the works for two years down the road. Dr. Hunt said it is something we could investigate. The fact of the matter is we are going to need more money even with this levy passing. Mrs. Smallwood said our residents are spoiled since we have had a high TPP money amount all these years and now that is going away. Other districts without the TPP money have been passing levies all along. So now when we need them to step up they are reluctant.*

Mrs. Stocz-Fenton asked where the money for the charter schools comes from. Ms. Knuckles stated from the public schools foundation settlements. Mrs. Anderson replied that is the \$6,000 we mentioned earlier. The basic goal was that the competition would increase the education levels, or so they thought, in public school districts. They were trying to turn a service industry into a business and it doesn't work that way. Then the charter schools can say "I am not taking Johnny because Johnny has an issue and I am only getting \$6,000 for him so go back to your home district for the extra services." It is a very frustrating situation.

**Executive Session:**

Upon conclusion of these executive sessions, the Governing Board President will gavel the Governing Board back into open session at this location. All matters discussed in all executive sessions are designated to the public officials and employees as confidential pursuant to R.C. 102.03(B) because of the status of the proceedings and/or the circumstances under which the information will be received, and preserving its confidentiality is necessary to the proper conduct of government business.

Mrs. Anderson moved and Mrs. Thomas seconded a motion for the Cardinal Local Schools Board of Education to recess into executive session for the purpose of consideration of the appointment, employment, dismissal, promotion, demotion, or compensation of a public employee, or official as it relates to discussing candidates to fill the school board vacancy.

Roll call vote:

Ken Klima, aye    Wendy Anderson, aye    Greg McClain, aye    Linda Smallwood, aye    Katie Thomas, aye

Motion approved:        7:15 P.M.

Time Retire:                7:20 P.M.

Time Return from Executive Session:    7:50 P.M.

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**Adjournment:**

Mrs. Anderson moved and Mr. Klima seconded a motion to adjourn the meeting.

Meeting adjourned at 7:20 P.M.

Roll call vote: unanimous yes.

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Kenneth Klima, President

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Merry Lou Knuckles, Treasurer