Miami County, Ohio

FIVE-YEAR FINANCIAL FORECAST NOTES AND ASSUMPTIONS

For the Fiscal Years Ending June 30, 2012 through 2016

April 9, 2012

General

The Ohio Constitution assigns the state the responsibility for a thorough and efficient system of public common schools as adopted in Article VI, section 2, which states, "The General Assembly shall make such provisions, by taxation, or otherwise, as, with the income arising from the school trust fund, will secure a thorough and efficient system of common schools throughout the state; but no religious or other sect, or sects, shall ever have any exclusive right to, or control of, any part of the schools funds of this state."

Ohio Revised Code (ORC) section 5705.391 and Ohio Administrative Code (OAC) section 3301-92-04 require a Board of Education (BOE) to submit a five-year forecast of operational revenues and expenditures along with assumptions to the Ohio Department of Education (ODE) prior to October 31 of each fiscal year and to update this forecast between April 1 and May 31 of each fiscal year. The Treasurer/CFO submits the forecast. The Board of Education is recognized as the official owner and has ultimate responsibility for its development.

A financial forecast can be broadly defined as the expected financial position and the results of operations and cash flows based on expected conditions. The five-year financial forecast is a key management tool designed to aid decision making in establishing and maintaining a prudent level of financial resources to ensure stable tax rates as well as to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Three key objectives of the five-year financial forecast include the following:

1) To engage the local board of education and the community in long range planning.
2) To serve as a basis for determining the school district's ability to sign the certificate required by O.R.C. 5705.412, commonly known as the "412 certificate".
3) To provide a method for the ODE and Auditor of State to identify school districts with potential financial problems.

Required funds to be included in the forecast are:

- General funds (001)
- Any special cost center associated with general fund money
- Emergency levy funds (016)
- Any debt service (002) activity that would otherwise have gone to the general fund
- Poverty Based Assistance (PBA) funds (494)
- Education Jobs funds (504)
- State Fiscal Stabilization funds (532)

The mission of the Troy City Schools, in partnership with our community, is to provide a quality education so our students become productive and responsible citizens.

The Five-year Financial Forecast is a planning tool used to implement our mission and will be monitored regularly and updated throughout the year. It allows the District to examine historical revenue and expenditure patterns and future years' projections and identify challenges so the district can be proactive in meeting those challenges.

The AICPA Guide for Prospective Financial Information defines "Particularly Sensitive Assumptions" as having a relatively high probability of variation that would materially affect the financial forecast. This may be due to a relatively high probability of a sizable variation or the probability of a sizable variation is not as high but a small variation would have a large impact. The following factors may be classified as such:

- The national and state economy continues to show slow progress in emerging from the 2008 national recession but the latest economic indicators continue to give mixed signals. The Federal Open Market Committee (FOMC), at their March 13, 2012 meeting, indicated that economic conditions warrant exceptionally low interest rates through late 2014. Consistent with its dual statutory mandate, maximum employment and price stability are top policy goals. The target for the fed funds rate is zero to 0.25 percent.
- In August 2011, Standard & Poor's (S&P) made an unprecedented downgrade of the U.S. credit rating from AAA, the highest rating, to AA+ citing concerns over the current political situation and the country's debt. Worldwide markets have been extremely volatile.
- Issue 2 was soundly rejected at the November 8, 2011 general election with over 60% of Ohioans voting no. As a result, Senate Bill 5 will not become effective. The bill would have restricted public employee bargaining powers and the subject of contract negotiations. Similar legislation is expected in the future.

State law requires schools to operate with positive cash balances. Additional revenue and/or expenditure reductions will need to be considered prior to years where line 7.020 Cash Balance June 30 is negative. Given the uncertainty of future state budgets, local, state and national economic factors, as well as state and/or federal mandates, years beyond fiscal year 2013 may deviate significantly from the forecast.

The following is a detailed line-by-line description of the assumptions made in developing the forecast:

REVENUE

Line 1.010 Real Estate

Residential and commercial real estate property tax revenue collection estimates are based on valuation and effective tax rates provided by the Miami County Auditor. Based on the reappraised or updated tax value increases, voted tax rates are reduced proportionately to produce the same amount of revenue as originally approved by the voters. Conversely, if tax values should happen to decrease, voted tax rates are raised proportionately to yield the same revenue amount approved by the voters. Only the 4.50 inside mills will remain constant after reappraisal or update years. Notable assumptions include the following:

- At the May 3, 2011 primary election, voters approved the renewal of 5.80 mills which expires in 2015. The Miami County Auditor projects the renewal levy will generate $3,754,109 in revenue annually.
- Calendar year 2011 values and rates have been used. Class 1 residential/agricultural valuation increased by $1.4 million or .30%. Class 2 commercial/industrial valuation increased $.3 million or .19%.
- It is anticipated that the collection split percentage of annual taxes in each settlement will trend close to recent allocations. The July-December collection split is 48% and the January-June split is 52%.
- New construction values decreased by $(.28) million or (4%) from 2010 to 2011. Future anticipated increases are 0.25% in 2012, 0.50% in 2013, 0.25% in 2014, 0.25% in 2015, and 1.0% in 2016.
- Homestead Exemption and Rollback (HERB) are reductions in the amount of actual taxes paid by a residential property owner. Amounts are reimbursed by the state and discussed in line 1.050 below.

Line 1.020 Tangible Personal Property Taxes

Tangible personal property (TPP) taxes are assessed on the equipment and inventory owned by businesses and public utility tangible property (PUTP) taxes are assessed on electric power and natural gas providers. The assessed value is taxed at the full voted rate of 48.35 mills. Businesses and public utilities report tangible values annually which may cause substantial fluctuations from year to year.

Beginning in tax year 2006, HB 66 (Ohio Budget Bill FY08-09) provided for reductions in tangible personal property tax values on equipment and inventory by 25% per year for a four-year phase out period. The state has provided only partial reimbursement for this tax loss to all governmental agencies (including schools) through the creation of a new state tax on businesses called a Commercial Activities Tax (CAT). The estimates of taxes and associated state fixed rate direct reimbursements are included in Line 1.050 Property Tax Allocation based on information currently available from the Ohio Department of Taxation.

- Calendar year 2011 values and rates are the most recent available.
- Tangible personal property values are now zero due to repeal legislation contained in HB 66.
- Public utility property is about 2.7% of total valuation and is projected to remain flat for the forecast period. The public utility property settlement collection split is 50% for July-December and 50% for January-June.

Property valuation and effective millage estimates for fiscal years 2012, 2013 and 2014 are indicated below:

Fiscal Year 2012

Second Half	2011		
Settlement Sheet			
		Calendar Year	Calendar Year
Percent		2010	2010
Of Total		Property	Effective
Valuation	Property Classification	Valuation	Millage
1.67%	Agr. R.E.	$10,952,890	20.8815
71.37%	Res. R.E.	$467,206,770	20.8815
24.36%	Subtotal Com/Ind/Min/PU - RE	$159,457,970	29.0818
0.00%	Tangible Pers Property	$0	48.3500
2.60%	P.U. Pers Property	$17,014,100	48.3500
100.00%	Total Valuation	$654,631,730	
First Half	2012		
Settlement Sheet			
		Calendar Year	Calendar Year
Percent		2011	2011
Of Total		Property	Effective
Valuation	Property Classification	Valuation	Millage
1.63%	Agr. R.E.	$10,681,550	20.9028
71.39%	Res. R.E.	$468,925,560	20.9028
24.32%	Subtotal Com/Ind/Min/PU - RE	$159,753,620	29.6682
0.00%	Tangible Pers Property	$0	48.3500
2.66%	P.U. Pers Property	$17,495,050	48.3500
100.00%	Total Valuation	$656,855,780	

Fiscal Year 2013

Second Half	2012		
Settlement Sheet			
		Calendar Year	Calendar Year
Percent		2011	2011
Of Total		Property	Effective
Valuation	Property Classification	Valuation	Millage
1.63%	Agr. R.E.	$10,681,550	20.9028
71.39%	Res. R.E.	$468,925,560	20.9028
24.32%	Subtotal Com/Ind/Min/PU - RE	$159,753,620	29.6682
0.00%	Tangible Pers Property	$0	48.3500
2.66%	P.U. Pers Property	$17,495,050	48.3500
100.00%	Total Valuation	$656,855,780	
First Half	2013		
Settlement Sheet			
		Calendar Year	Calendar Year
Percent		2012	2012
Of Total		Property	Effective
Valuation	Property Classification	Valuation	Millage
1.63%	Agr. R.E.	$10,708,254	20.9028
71.35%	Res. R.E.	$470,097,874	20.9028
24.37%	Subtotal Com/Ind/Min/PU - RE	$160,552,388	29.6682
0.00%	Tangible Pers Property	$0	48.3500
2.66%	P.U. Pers Property	$17,495,050	48.3500
100.00%	Total Valuation	$658,853,566	

Fiscal Year 2014

Second Half	2013		
Settlement Sheet			
		Calendar Year	Calendar Year
Percent		2012	2012
Of Total		Property	Effective
Valuation	Property Classification	Valuation	Millage
1.63%	Agr. R.E.	$10,708,254	20.9028
71.35%	Res. R.E.	$470,097,874	20.9028
24.37%	Subtotal Com/Ind/Min/PU - RE	$160,552,388	29.6682
0.00%	Tangible Pers Property	$0	48.3500
2.66%	P.U. Pers Property	$17,495,050	48.3500
100.00%	Total Valuation	$658,853,566	
First Half	2014		
Settlement Sheet			
		Calendar Year	Calendar Year
Percent		2013	2013
Of Total		Property	Effective
Valuation	Property Classification	Valuation	Millage
1.60%	Agr. R.E.	$10,333,465	21.5863
70.39%	Res. R.E.	$453,644,448	21.5863
25.29%	Subtotal Com/Ind/Min/PU - RE	$162,960,674	29.5430
0.00%	Tangible Pers Property	$0	48.3500
2.71%	P.U. Pers Property	$17,495,050	48.3500
100.00%	Total Valuation	$644,433,637	

Line 1.030 Income Tax

At the November 7, 2006 general election voters in the District approved a levy for a 1.5% School District Income Tax on earned income on a continuing basis effective for tax year 2006. The earned income tax base includes self-employment income (including partnerships) of the residents of the school district and does not allow for personal exemptions. Non-residents of the school district are not obligated to pay the tax. Excluded from income are all other types of income such as interest, dividends, capital gains and pensions.

The tax is collected in the same manner as the state income tax: through employer withholding, individual quarterly estimated payments, and annual returns. Quarterly distribution payments are received by the district in July, October, January and April. The State deducts amounts for administrative fees and estimated refunds.

Tax receipts at the state level are 4% above estimates through February 2012. In addition, on a year-over-year basis, total tax receipts for February 2012 exceed February 2011 by 12%. The income tax receipt growth is attributed to growth in quarterly estimated payments, withholding and lower-than-anticipated refunds. Due to the uncertain economic condition and the unemployment rate fiscal year 2012 revenue is projected to increase 2%. Future increases are projected at 2%.

Line 1.035 Unrestricted Grants-in-Aid

The funding of K-12 public schools in Ohio is a joint effort between the state and local school districts. State foundation funding distributions to school districts are determined by the biennial budget bill. The state budget is adopted in odd numbered years and implemented beginning in even numbered years.

The 129th General Assembly adopted the FY 2012-2013 biennium budget in June 2011 as Amended Substitute House Bill 153. The new funding model known as Ohio Evidence Based Model (OEBM), created in the previous biennial budget, has been repealed, and the School Funding Advisory Council is eliminated. A transitional approach to fund school districts in FY 2012 uses a temporary Bridge formula which allocates foundation funding based on a FY 2011 per-pupil amount multiplied by the FY 2012 formula ADM. A charge-off valuation index is used to equalize the fund distribution and keep the total statewide funding within the appropriated limits. A Supplemental Guarantee Payment continues the guarantee concept to ensure that in FY 2012 each school district receives an adjusted total funding amount that is at least equal to the PASS funding (minus SFSF) the district received in FY 2011. In addition, a subsidy payment of $17 per pupil is included for high performing districts who are rated Excellent or Excellent with Distinction in the prior academic year. A permanent formula is being developed with implementation expected by FY 2013 or FY 2014.

The Bridge Formula for State Foundation Funding form replaces the PAthways to Student Success (PASS) form, and prior to that the SF-3 form, which were used to calculate payments to districts. Payments are received twice per month.

Section 267.30.50(A) of the budget bill provides for the funding distribution to school districts as follows:

[The Final Amount Computed for FY 2011/Recalculated Formula ADM for FY 2011) X FY 2012 Formula ADM] – District's Adjustment Amount

Key calculation factors of the formula are highlighted below:

- Line F: The Final Amount Computed for FY 2011 is $10,950,585
- Line A: Recalculated Formula ADM for FY 2011 is 4,486.84
- Line I: FY 2012 Formula ADM is 4,478.18
- Line K: District's Adjustment Amount is $(788,572)
- Line G: FY 2011 PASS Form Amount Per Pupil is $2,441
- Line E: District Charge-off Valuation Index is 1.18981100295300
- Line N: Subsidy payment for high-performing districts:
    - FY 2012 = $76,129
- Line Q: Additional aid items include $99,752 for special education transportation
- Line W: An adjustment of $(42,475) for autism services is included
- Disclosure items assumed to be a portion of the total funding calculation:
    - Line Y: Special Education = $732,285
    - Line Z: Career-Technical Education = $9,718
    - Line AA: Gifted Education = $121,660

Line 1.040 Restricted State Grants-in-Aid

Other state revenue sources are based on historical trends. These include state reimbursement for career technical and special education catastrophic costs.

Line 1.045 Restricted Federal Grants-in-Aid – Ed Jobs Fund

The district has received the remaining $120,844 in Education Jobs funds for use thru September 2012. The funds are intended for compensation and benefits of school-level educational and related services. These federal funds are accounted for in fund 504 per applicable federal and state requirements.

Line 1.050 Property Tax Allocations

This line includes state reimbursement for funds received for tangible personal property tax reimbursements, electric deregulation, homestead and rollback, and the "ten thousand dollar exemption" where businesses are exempt from paying the first $10,000 of property tax. HB66 has eliminated the 10% commercial property tax rollback effective with the 2005 tax year (collected in 2006). The remaining property tax rollback amounts will grow along with new levies and new construction and the district reimbursement for these rollbacks will increase proportionately. Amended Substitute House Bill 153 (Ohio Budget Bill FY12-FY13) restructures reimbursement of tangible personal property (TPP) and electric deregulation property (KwH) tax such that the reduction in the district's phase-out for each reimbursement (TPP and KwH) is limited to no more than 2% per year of its total resources (state plus local funding) as compared to the base year. Any reimbursement we are still receiving in FY 2013 continues at that level in the future. Also, the reimbursement for TPP will be made twice a year (November and May) rather than three times per year. The reimbursement estimates included herein are based on information currently available from the Ohio Department of Taxation.

Projected reductions by type and year are as follows:

- TPP: $(776,109) in 2012 and $(766,237) in 2013
- KwH: $(224,613) in 2012 which completely phases it out in first year
- 2006 4.5 mill expired levy $(460,098) in 2012

Line 1.060 All Other Revenues

This line item serves as a miscellaneous revenue category for various sources not included above such as investment income, payments in lieu of taxes for compensation agreements, facility rentals, fees, tuition, donations, and other miscellaneous revenue sources. Estimates are based upon historical trends.

Lines 2.040 through 2.060 Other Financing Sources

Included in this category are operating transfers-in and advances-in. Advances-in include returns of money advanced by the General Fund to other funds to cover a short-term end of year deficit balance. These transactions are considered a "loan" to the deficit fund and must be repaid to the General Fund and are estimated based on historical trends.

In October 2008, MT Picture Display (Panasonic) paid tangible personal property taxes to prevent interest and penalties on audit findings by the Ohio Department of Taxation (ODT). They appealed the audit findings. At that time the district elected to receipt $900,000 to the Reserve Overpayment fund 007-9580 pending conclusion of the appeal process. We have received confirmation that the tax appeal case has been closed and the district has no liability to repay the funds. The balance is therefore being transferred to the General Fund in FY 2012.

EXPENDITURES

Line 3.010 Personal Services

The expenditures in this category are for salaries and wages for services rendered for all union and non-union employees. In addition to cost of living wage increases, a majority of employees who are paid on a salary schedule receive vertical step increases based on years of experience. Additionally, certified staff can move horizontally between ranges on the salary schedule by furthering their education (i.e. Bachelors Degree to Masters Degree, etc.). Costs for vertical step and horizontal range increases range between .25% - 1.5% a year.

In 2010 the Board of Education approved two year negotiated agreements with both the Troy City Education Association (TCEA) through July 31, 2012 and with the Troy City Support Staff Association (TCSSA) through June 30, 2012. Base salary increases for each association were 1.95% for each year.

Key personal services factors used in the model are highlighted below:

- An Employee Severance Plan (ESP) has been approved to reduce the percentage of staff at the top of the scale. Actual participation results are below. Positions not replaced may increase based upon need.
  - Certified staff: 24 opted with 19 replacements (5 not replaced)
  - Classified staff: 11 opted with 8 replacements (3 not replaced)
- In April 2011, the Board and both associations approved Memorandum of Understanding's which freezes steps and base salary increases at 0% for FY 2012, FY 2013 and FY 2014 and extends the duration to July 31, 2014 for TCEA and to June 30, 2014 for TCSSA.
- Horizontal placement to a higher salary classification for additional education will be recognized.
- Savings of over $700,000 were achieved in fiscal 2012 by not replacing certain positions and/or replacing other positions with less experience and/or less education. The overall salary increases are managed through the District's retirement incentive plan as well as our philosophy of decreasing staff through attrition.
- The five-year average annual change is .26%.

Line 3.020 Employees' Retirement and Insurance Benefits

Employee benefits include the following:

- Retirement, Medicare and health insurance costs will decrease as a result of the ESP implementation.
- Employer retirement payments to the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS) are equal to 14% of salary. SERS levies a surcharge for part time employees who earn less than $35,800. There is a cap of 2% of total district payroll. In addition, SERS cannot collect more than 1.5% of the total statewide payroll.
- The employer "picks-up" .75% of the employee's share for both certified and classified staff. In addition, all of the employee share is paid for administrators.
- Effective July 2010 SERS Foundation deductions will change from a calendar year basis, six months in arrears, to a fiscal year basis creating additional cost projected at $72,606 per year thru 2016.
- Health care coverage is provided for employees on a self-insured basis up to a stop loss limit of $100,000 per employee. Claims are funded based upon a per employee charge. Future increases are projected based upon actuarial assumptions and historical trend of between 7.5-10%.
- The five-year average annual change is 3.11%.

<u>Line 3.030 Purchased Services</u>

This line includes contracted services, utilities, legal services, data processing, tuition and professional meetings expenses. Key factors impacting this category include:

- The Southwestern Ohio Educational Purchasing Council (EPC) ratified two agreements in early 2012 for natural gas sales and service. The agreement with Energy USA was terminated and a new agreement to engage Constellation NewEnergy was executed. Energy USA hedge costs for school years 2012-2013 and 2013-2014, reduced by 50% to about $200,000, will be paid over a five year period.
- The EPC recently modified our electricity agreement to reestablish pricing, extend the current term and redefine certain other terms which provide savings in excess of $11 million for the Council's 80 members. The agreement accomplishes the following:
  - Increases the current 12% discount to 18% beginning August 2011
  - Extends the current contract from December 2012 to June 2014
  - Establishes a fixed price of 6.495 cents per kWh from December 2012 through June 2014
- Tuition paid to community schools, post secondary education option costs, and tuition paid for students who are court placed in other districts are projected to increase.
- The five-year average annual change is 2.63%.

<u>Line 3.040 Supplies and Materials</u>

This line includes general supplies, instructional materials including textbooks and media materials, bus fuel and tires and maintenance supplies. The five-year average annual change is 1%.

<u>Line 3.050 Capital Outlay</u>

The capital outlay category consists of any item having a life expectancy of five years or more, such as land, buildings, ground improvements, computers/technology, buses, vehicles, furnishings and equipment. One of the goals of the capital plan is to have all buses in the active fleet to be no more than twelve years of age. The current replacement cycle includes the purchase of three buses per year. For fiscal 2012 the forecast includes the purchase of one bus. The five-year average annual change is (6.25%).

<u>Lines 4.055 and 4.060 Debt Service Principal, Interest and Fiscal Charges</u>

Repayment on debt for the HB264 Energy Conservation Measure began in FY2010 for a $1.1 million bond issue which provided funding for the HVAC and lighting projects at Troy Junior High and various other schools. Qualified School Construction Bonds made available through the federal governments American Recovery and Reinvestment Act (ARRA) stimulus program were issued. The bonds were sold at no interest cost to the district. Principal will be repaid over fifteen years. The cost savings from reduced energy consumption is used to repay the debt.

<u>Line 4.300 Other Objects</u>

Expenditures in this category include property tax collection fees, school district income tax administrative fees, memberships and audit fees. The five-year average annual change is 1.08%.

Lines 5.010 through 5.030 Other Financing Uses

This category includes operating transfers-out, advances-out and refund of prior year receipts. Operating transfers are funds transferred to the other funds. Advances are a loan to another fund to cover a temporary end of year deficit balance. These funds are returned to the general fund in the subsequent fiscal year. Refunds of prior year receipts are payments received in one fiscal year and returned to original payer in another fiscal year.

Line 8.010 Estimated Encumbrances

Encumbrances are legal financial obligations of the District that have not been expended at fiscal year end. Encumbrances are not projected.

Conclusion

This forecast is based on the forgoing assumptions and the best information available to the administration at this time. Past performance is not necessarily an indication of future results. Changes in circumstances and the availability of additional information make this forecast subject to revision.