Miami County, Ohio

FIVE-YEAR FINANCIAL FORECAST NOTES AND ASSUMPTIONS

For the Fiscal Years Ending June 30, 2013 through 2017

May 13, 2013

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 economies continue to show slow progress in emerging from the 2008 national recession but the latest leading economic indicators suggest uninterrupted growth at a modest pace especially in Ohio. The Federal Open Market Committee (FOMC), at their March 19-20, 2013 meeting, anticipates exceptionally low levels for the federal funds rate at least as long as the unemployment rate remains above 6-1/2 percent. Consistent with its dual statutory mandate, maximum employment and price stability are top policy goals. The target for the fed funds rate remains between zero to 1/4 percent.
- The unemployment rate remains elevated. The FOMC anticipates inflation over the medium term to run at or below its 2 percent objective. Longer-term inflation is expected to remain stable.

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 2015 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 General Property Tax (Real Estate)

Residential/agricultural and commercial/industrial 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:

Real property valuation and effective millage estimates for tax years 2012 thru 2016 are indicated below:

	Real Property Valuation	Year-Over-Year Change	Res./Agr. Tax Rate	Year-Over-Year Change	Business Tax Rate	Year-Over-Year Change
2011	639,360,730		20.90		29.67	
2012	644,949,493	5,588,763	20.93	0.03	30.08	0.41
2013	648,841,084	3,891,591	21.07	0.14	29.74	(0.33)
2014	654,345,190	5,504,106	21.09	0.02	29.91	0.17
2015	662,582,055	8,236,865	**20.00**	(1.09)	24.63	(5.28)
2016	677,414,011	14,831,955	**20.00**	-	**20.00**	(4.63)

- Tax year 2013 is a reappraisal year in Miami County.
- Tax year 2012 values and rates are the most recent available. Residential assessed valuation is 71% of the total valuation. After decreasing from 2009 to 2010 by -3%, the first decrease in over two decades, residential values increased by just .4% from 2011 to 2012. Class II commercial/industrial valuation, which represents 25% of total valuation, increased $3.9 million or 2.41% from 2011 to 2012.
- 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%.
- Projected increases for residential and Class II new construction/growth are as follows:

Tax Year	2012	2013	2014	2015	2016
Residential New Construction/Growth	.54%	.50%	.50%	1.00%	1.00%

Tax Year	2012	2013	2014	2015	2016
Class II New Construction/Growth	4.01%	2.36%	3.06%	3.10%	2.80%

- 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.
- Two levies are due to expire during the forecast period. 5.90 mills will expire 12/31/2014 and 5.80 mills will expire 12/31/2015. Revenue is included in Line 11.020 – Property Tax Renewal or Replacement below until approved by the voters.
- The actual 5-year average annual change was -2.66%.
- The projected 5-year average annual change is -1.72%.

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 personal property (PUPP) 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 personal 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.

Personal property valuation and effective millage estimates for tax years 2012 thru 2016 are indicated below:

	Pers Property Valuation	Year-Over-Year Change	Full Voted Tax Rate	Year-Over-Year Change
2011	17,495,050		48.35	
2012	21,247,126	3,752,076	48.35	-
2013	21,565,833	318,707	48.35	-
2014	21,997,149	431,317	48.35	-
2015	22,217,121	219,971	42.45	(5.90)
2016	22,439,292	222,171	36.65	(5.80)
2017	22,663,685	224,393	48.35	11.70

- Tax year 2012 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 personal property is about 3% of total valuation. Projected increases are as follows:

Tax Year	2012	2013	2014	2015	2016
Public Utility New Construction/Growth	21.45%	1.50%	2.00%	1.00%	1.00%

- The settlement collection split is 50% for July-December and 50% for January-June.
- Two levies are due to expire during the forecast period. 5.90 mills will expire 12/31/2014 and 5.80 mills will expire 12/31/2015. Revenue is included in Line 11.020 – Property Tax Renewal or Replacement below until approved by the voters.
- The projected 5-year average annual change is 2.34%.

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 refunds.

- Withholding is 85% of income tax revenue and Annual Returns are 15% of income tax revenue.
- Projected quarterly percentage changes for withholding, annual returns, estimated payments and refunds are based upon historical trend and personal income tax receipt performance at the state level.

Withholding Projected Growth Rate				
2013	2014	2015	2016 and 2017	
5.39%	7.50%	5.00%	5.25%	July
4.62%	4.00%	4.25%	4.50%	October
2.53%	2.00%	2.25%	2.50%	January
1.02%	0.50%	0.75%	1.00%	April

Payments with Returns Projected Growth Rate				
2013	2014	2015	2016 and 2017	
-16.24%	-15.00%	-15.00%	-15.00%	July
52.14%	0.00%	0.00%	0.00%	October
19.06%	10.00%	10.00%	10.00%	January
11.89%	5.00%	5.00%	5.00%	April

- Personal income tax receipts at the state level are 2.8% above estimates through March 2013. In addition, personal income tax receipts through March 2013 exceed the March 2012 level by 10.4%. The growth is attributed primarily to estimated payments and withholding.
- The projected 5-year average annual change is 2.41%.

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. A transitional approach to fund school districts in FY 2013 uses a temporary Bridge formula which allocates foundation funding based on a FY 2011 per-pupil amount multiplied by the FY 2013 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 2013 each school district receives an adjusted total funding amount that is at least equal to the OEBM funding (minus State Fiscal Stabilization Funds) the district received in FY 2012. 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 revised school funding system is currently being developed by the legislature for the FY 2014-2015 biennium. 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 2013 Formula ADM] – District's Adjustment Amount

Key calculation factors of the formula are highlighted below:

- Line A: Recalculated Formula ADM for FY 2011 is 4,486.84
- Line E: District Charge-off Valuation Index is 1.18981100295300
- Line F: The Final Amount Computed for FY 2011 is $10,950,584.94
- Line G: FY 2011 PASS Form Amount Per Pupil is $2,440.60
- Line I: FY 2013 Formula ADM is 4,504.39
- Line K: District's Adjustment Amount is $(535,937.28)
- Substitute House Bill 59 is the basis for foundation funding estimates as follows:
    - FY 2014 = $11,193,840; FY 2015-FY2017 = $11,865,469
- Casino revenue is included and projected as follows:
    - Per Pupil amounts are forecasted at $21.05 in 2013; $52 in 2014 and $50 thereafter
    - Formula ADM is forecasted at 4,579 in 2013 and 4,504 thereafter
- The actual 5-year average annual change was 3.71%.
- The projected 5-year average annual change is 3.03%.

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 supplemental $15,336 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 Allocation

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. The reimbursement for TPP is made twice a year in November and May. The reimbursement estimates included herein are based on information currently available from the Ohio Department of Taxation.

- TPP reduction is $(766,237) in 2013
- KwH was completely phased out in fiscal 2012
- Two levies are due to expire during the forecast period. 5.90 mills will expire 12/31/2014 and 5.80 mills will expire 12/31/2015. Revenue is included in Line 11.020 – Property Tax Renewal or Replacement below until approved by the voters.
- The actual 5-year average annual change was 5.95%.
- The projected 5-year average annual change is -5.62%.

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.

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 0% - 1.30% a year.

Union employees are represented by the Troy City Education Association (TCEA) or the Troy City Support Staff Association (TCSSA).

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

- An Employee Severance Plan (ESP) has been implemented to reduce the percentage of staff at the top of the scale. General fund actual participation results are below.
  - Fiscal 2013 Certified staff: 6 opted with 4 projected replacements (2 projected not replaced)
  - Fiscal 2012 Certified staff: 18 opted with 11 replacements (7 not replaced)
  - Fiscal 2012 Classified staff: 8 opted with 5 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 $1,000,000 have been achieved the last few years 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 actual five-year average annual change is 2.18%.
- The projected five-year average annual change is .43%.

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.
- In July 2010, SERS Foundation deductions changed 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 projected five-year average annual change is 6.28%.

Line 3.030 Purchased Services

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 over 50% to $170,637, 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
- Payments 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 actual 5-year average annual change was 6.98%.
- The projected five-year average annual change is 5.31%.

Line 3.040 Supplies and Materials

This line includes general supplies, instructional materials including textbooks and media materials, bus fuel and tires and maintenance supplies. The projected five-year average annual change is .20%.

Line 3.050 Capital Outlay

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 not exceeding twelve years of age. The regular replacement cycle includes the purchase of three buses per year. For fiscal 2013 no buses are included. Instead one bus was purchased from Fund 003. One bus is forecasted in fiscal 2014 and an additional one in fiscal 2015. The projected five-year average annual change is 8.76%.

Lines 4.055 and 4.060 Debt Service Principal, Interest and Fiscal Charges

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.

Line 4.300 Other Objects

Expenditures in this category include property tax collection fees, school district income tax administrative fees, memberships and audit fees. The projected five-year average annual change is .42%.

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 deficit balance. These funds are subsequently returned to the general fund. 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.

Line 11.020 Property Tax Renewal or Replacement

- Two levies are due to expire during the forecast period. 5.90 mills will expire 12/31/2014 and 5.80 mills will expire 12/31/2015. Revenue from Line 1.010 General Property Tax (Real Estate), Line 1.020 Tangible Personal Property Tax and Line 1.050 Property Tax Allocation is included here until approved by the voters.

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.