



Miami County, Ohio

FIVE-YEAR FINANCIAL FORECAST NOTES AND ASSUMPTIONS

For the Fiscal Years Ending June 30, 2015 through 2019

October 13, 2014

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.

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.

A triennial update was completed in Calendar Year 2010 and implemented in Calendar Year 2011. These updated changes are reflected in the revenue forecasts. The reappraisal was completed in Miami County in Calendar Year 2013, with the new assessed values and rates being implemented in Calendar Year 2014.

The number of claims being filed by either residential or commercial property owners has increased in recent

years. We continue to evaluate these filings and file counter claims when we feel it is necessary. The counter claim filings allow the District to remain involved throughout the entire process and to garner and/or provide any additional information pertaining to each of the properties involved.

We have two expiring operating levies within this year's five year forecast. The first operating levy being the 5.90 mill, five year levy which expires at the end of tax year 2014/calendar year 2015. This levy generates \$2,607,000 annually and the current effective rate for this levy is 3.58 mills. The second operating levy being the 5.80 mill, five year levy which expires at the end of tax year 2015/calendar year 2016. This levy generates \$3,754,109 and the current effective rate for this levy is 4.81 mills. The assumption of straight renewals has been made for this five year forecast. The funds for these levies is pulled out of line 1.010 – General Property Tax (Real Estate) and placed in line 11.020 – Property Tax – Renewal beginning in Fiscal Year 2016 through the end of the forecast.

The projected five year annual change is 1.00%.

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.

Tangible personal property values are now zero due to the repeal legislation contained in HB 66. Public utility personal property is about 3.2% of total valuation. The projected five year annual change is 0%.

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 January 1, 2007. 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.

The projected five year average annual change is 1.00%.

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 131th General Assembly adopted the FY 2014-2015 biennium budget in June 2013. We were originally told that the new funding formula would be completed and implemented at the first October 2013 settlement. However, it was finally realized in January of 2014. Payments are received twice per month.

The projected five year forecast shows the Ohio department of Education simulation value for fiscal year 2015. The final three years of the forecast show a continuation of fiscal year 2015 estimate.

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 1.050 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 throughout the next biennial budget. 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.

The projected five year forecast shows a continuation of fiscal year 2014 for fiscal year 2015. Fiscal years 2016, 2017 & 2018 show a reduction range of 5.00% per year.

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).

In 2012 an Employee Severance Plan (ESP) has been implemented to reduce the percentage of staff at the top of the scale. In June 2014, the Board and TCSSA reached an agreement that allows one step movement per year of the contract along with a 2% increase on the base per year. A 2% increase per year was also awarded to the Administrators over the next three years. Negotiations with TCEA are ongoing at this time. An assumption of one step movement per year of the contract along with a 2% increase on the base per year has been made for all of TCEA employees.

The actual five year forecast average annual change is 4.00% in Fiscal Years 2016 & 2017 and 2.00% in Fiscal Years 2018 & 2019.

Line 3.020 Employees' Retirement and Insurance Benefits

Employee benefits include the following:

- Retirement, Medicare and health insurance costs should 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 \$20,450. 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.
- Premium Share Increases have been negotiated with the Classified Staff along with a Health Savings Account (HSA) insurance plan beginning in Fiscal Year 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 trends.
- Healthcare "Cadillac Tax"- Based upon what we currently know we are assuming a cost of \$617,608 annually. We will set aside the funds beginning in July of 2018 so that we have the funds available to pay the tax in July of 2019.

The projected five year forecast average annual change is 6.00%.

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 2015
 - ❖ Establishes a fixed price of 6.495 cents per kWh from December 2012 through June 2015
- 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 projected five year forecast average annual change is 4.00%.

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 forecast average annual change is based upon historical trends and expected needs.

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 year 2013 no buses were purchased from the general fund. Instead one bus was purchased from Fund 003. Two buses were purchased from Fund 001 in fiscal year 2014. Two buses are forecasted in fiscal year 2015 and the potential of an additional one from Fund 003 if we do not experience any surprises with our facilities over the next several months.

The projected five year forecast average annual change is based upon historical trends and expected needs.

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 (2025). 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 forecast average annual change is .45%.

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.

You will notice here with line 5.010 - Operating Transfers-Out, that we have drastically reduced this number. We have made several changes and or adjustments to try and eliminate this Operating Transfer-Out going forward.

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 Tax Year / 12/31/2015 Calendar Year and 5.80 mills will expire 12/31/2015 Tax Year / 12/31/16 Calendar Year. Revenue from Line 1.010 - General Property Tax (Real Estate) is included here until approved by the voters. A renewal of both issues is assumed in the forecast.

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. It is our goal, as our mission statement, "Troy City Schools, in partnership with our community, is to provide a quality education so our students become productive and responsible citizens".