



Miami County, Ohio

## **FIVE-YEAR FINANCIAL FORECAST NOTES AND ASSUMPTIONS**

**For the Fiscal Years Ending June 30, 2011 through 2015**

March 29, 2011

**\*\*The assumptions in this March 29, 2011 update are the same as those approved by the board on October 11, 2010 with the exception of Line 3.010 Personal Services on page 8. The effects of pending legislation and the Executive Budget for FY's 2012 and 2013 are still unknown and have not been included. They will likely have a significant negative impact on this five-year financial forecast.**

### **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 Department of Education (DOE) 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 DOE 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 national recession but the latest economic indicators continue to give mixed signals. Federal Reserve Chairman Ben Bernanke recently told Congress that the economic outlook remains "unusually uncertain."
- The November 2010 general elections have already impacted the direction of public education in Ohio with Republicans controlling the Senate and the House as well as most statewide elected offices.
- The level at which the State will fund schools for the 2012-2013 biennium budget is still quite uncertain. **The Governor's budget bill and pending legislation has not been factored into the assumptions herein.**
- State law requires schools to operate with positive cash balances. Additional revenue and/or expenditure reductions will need to be considered in 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 2012 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 4, 2010 primary election, voters approved the renewal of 5.90 mills which expires in 2014. The Miami County Auditor projects the renewal levy will generate \$2,607,000 in revenue annually.
- Line 11.02 includes revenue for renewal of a 5.8 mill levy which expires in December 2010. Voters will be asked to renew the levy at the May 3, 2011 primary election.
- Calendar year 2009 values and rates have been used. Total real property valuation increased by 1.41%. The county auditor has projected real property values will decrease 2-4% for the 2010 triennial update.
- 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 increased by .87% from 2008 to 2009. Future anticipated increases are 0% in 2010, .75% in 2011, .75% in 2012, 3% in 2013, and 1.5% in 2014.
- 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 taxes are assessed on the equipment and inventory owned by businesses and public utilities. The assessed value is taxed at the full voted rate of 48.35 mills. Businesses 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 hold harmless payments are included based on information currently available from the Ohio Department of Taxation and reflected in Line 1.050 Property Tax Allocation.

- Calendar year 2009 valuations and rates are the most recent available.
- House Bill 1 (Ohio Budget Bill-FY10-FY11) extends reimbursement of business personal and telecommunications property phase-out through FY2013 rather than FY2011 (see tax allocation line).
- Public utility property is projected to remain flat for the forecast period. The settlement collection split percentages are expected to be close to recent allocations. The July-December split for tangible is 100% and for public utility is 50%. The January-June split for tangible is 0% and for public utility is 50%.

Property valuation and effective millage estimates for fiscal years 2011, 2012 and 2013 are indicated below:

**Fiscal Year 2011**

Second Half 2010 Settlement Sheet		Calendar Year 2009	Calendar Year 2009
Percent Of Total Valuation	Property Classification	Property Valuation	Effective Millage
1.21%	Agr. R.E.	\$8,018,080	20.4049
72.68%	Res. R.E.	\$482,082,920	20.4049
23.56%	Subtotal Com/Ind/Min/PU - RE	\$156,264,210	28.7917
0.10%	Tangible Pers Property	\$675,445	48.3500
2.46%	P.U. Pers Property	\$16,286,840	48.3500
100.00%	Total Valuation	\$663,327,495	
First Half 2011 Settlement Sheet		Calendar Year 2010	Calendar Year 2010
Percent Of Total Valuation	Property Classification	Property Valuation	Effective Millage
1.21%	Agr. R.E.	\$7,857,718	20.7295
72.54%	Res. R.E.	\$472,441,262	20.7295
23.75%	Subtotal Com/Ind/Min/PU - RE	\$154,701,568	29.0371
0.00%	Tangible Pers Property	\$0	48.3500
2.50%	P.U. Pers Property	\$16,286,840	48.3500
100.00%	Total Valuation	\$651,287,388	

**Fiscal Year 2012**

Second Half 2011 Settlement Sheet		Calendar Year 2010	Calendar Year 2010
Percent Of Total Valuation	Property Classification	Property Valuation	Effective Millage
1.21%	Agr. R.E.	\$7,857,718	20.7295
72.54%	Res. R.E.	\$472,441,262	20.7295
23.75%	Subtotal Com/Ind/Min/PU - RE	\$154,701,568	29.0371
0.00%	Tangible Pers Property	\$0	48.3500
2.50%	P.U. Pers Property	\$16,286,840	48.3500
100.00%	Total Valuation	\$651,287,388	
First Half 2012 Settlement Sheet		Calendar Year 2011	Calendar Year 2011
Percent Of Total Valuation	Property Classification	Property Valuation	Effective Millage
1.21%	Agr. R.E.	\$7,877,363	20.7295
72.50%	Res. R.E.	\$473,622,365	20.7295
23.80%	Subtotal Com/Ind/Min/PU - RE	\$155,475,076	29.0371
0.00%	Tangible Pers Property	\$0	48.3500
2.49%	P.U. Pers Property	\$16,286,840	48.3500
100.00%	Total Valuation	\$653,261,643	

**Fiscal Year 2013**

Second Half 2012 Settlement Sheet		Calendar Year 2011	Calendar Year 2011
Percent Of Total Valuation	Property Classification	Property Valuation	Effective Millage
1.21%	Agr. R.E.	\$7,877,363	20.7295
72.50%	Res. R.E.	\$473,622,365	20.7295
23.80%	Subtotal Com/Ind/Min/PU - RE	\$155,475,076	29.0371
0.00%	Tangible Pers Property	\$0	48.3500
2.49%	P.U. Pers Property	\$16,286,840	48.3500
100.00%	Total Valuation	\$653,261,643	
First Half 2013 Settlement Sheet		Calendar Year 2012	Calendar Year 2012
Percent Of Total Valuation	Property Classification	Property Valuation	Effective Millage
1.21%	Agr. R.E.	\$7,897,056	20.7295
72.46%	Res. R.E.	\$474,806,421	20.7295
23.85%	Subtotal Com/Ind/Min/PU - RE	\$156,252,451	29.0371
0.00%	Tangible Pers Property	\$0	48.3500
2.49%	P.U. Pers Property	\$16,286,840	48.3500
100.00%	Total Valuation	\$655,242,768	

**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 January, April, July and October. The State deducts amounts for administrative fees and estimated refunds.

Tax receipts at the state level are above estimates through August 2010. Withholding tax collections accounted for the majority of the positive income tax performance. Due to the expected economic condition and the unemployment rate fiscal year 2011 revenue is projected to decrease 1%. Future increases are projected at 1%.

**Line 1.035 Unrestricted Grants-in-Aid - Ohio Evidence Based Model (OEBM)**

The district's second largest operating revenue source comes from the State of Ohio through the school foundation program as defined in the current year's budget bill. The state budget is adopted in odd numbered years and implemented beginning in even numbered years. After three seven-day temporary appropriations, the 128<sup>th</sup> General Assembly adopted the FY 2010-2011 biennium budget on July 17, 2009. A new funding model known as Ohio Evidence Based Model (OEBM) has been created. The OEBM provides funding for a series of education components based on research that identifies effective education strategies that improve student achievement for all children. Funding is based on calculations that use either Average Daily Membership (ADM) or the number of organizational units a district has. The new model retains the concept of a shared state and local school district responsibility for funding schools in Ohio. The local contribution is determined by a calculation based upon a charge-off millage amount multiplied by district property valuation. The SF-3 form which was used to calculate payments to districts has been replaced with the Pathways to Student Success (PASS) form. Payments are received twice per month.

The following Formula ADM projections used herein are based on historical trend. Enrollment and formula ADM are not the same. Formula ADM excludes 80% of regular and special education pupils on a full time equivalency (FTE) basis attending a joint vocational school district (JVSD). ADM figures in the OEBM are based upon the previous year's October ADM count unless the current enrollment grows by 2% or more. Key funding factors used in the model are highlighted below:

- Forecasted formula ADM are:
  - ❖ FY 2011 4,497
  - ❖ FY 2012 4,439
  - ❖ FY 2013 4,472
  - ❖ FY 2014 4,483
  - ❖ FY 2015 4,439
- The OEBM funds core teachers in math, science, reading/language arts, social studies and foreign language based upon the following student-teacher ratios:
  - ❖ Grade band K-3 = 19:1
    - Grade band K-3 = 17:1 in FY2012 & FY2013 and 15:1 in FY2014
  - ❖ Grade band 4-5 = 25:1
  - ❖ Grade band 6-8 = 25:1
  - ❖ Grade band 9-12 = 25:1
- The OEBM uses the concept of "organizational units" to determine funding for various supporting services. The average size for schools in Ohio is used for the computation. The average school size by level is indicated below. Troy's organizational units will range from 8.5 to 8.8 over the next five years.
  - ❖ Elementary (K-5) = 418
  - ❖ Middle School (6-8) = 557
  - ❖ Elementary (9-12) = 733
- The charge off amount equals the adjusted recognized valuation at 22 mills. Voter approval of additional property taxes is periodically necessary to generate this local share of the base-cost funding. The state share ratio will range from .4251 to .5442 over the next five years. Charge off millage is phased down as follows:
  - ❖ FY 2011 22 mills
  - ❖ FY 2012 21 mills
  - ❖ FY 2013 21 mills
  - ❖ FY 2014 20 mills
  - ❖ FY 2015 20 mills

- Base teacher salary, including a 14% benefit factor, in FY10 is \$56,902 and in FY11 is \$57,812
- All kindergarten students are counted as 1.0 full time equivalent (FTE) rather than .5 FTE
- Other statutory adjustments include the community school transfer and county board deduction
- The Education Challenge Factor (ECF) is applied to the instructional component to account for the education level of the community, district wealth, and concentration of poverty between districts. Troy's ECF is 1.12845
- The District is on the Formula for the entire forecast period
- The FY 2012-2013 biennium Guarantee Percentage is funded at 92.5% and the Gain Cap remains .75%

### **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 adult education students. In addition, the district is projected to receive \$572,142 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 included in the forecast for fiscal 2011 (75%) and 2012 (25%) only and are accounted for in fund 504 per applicable federal and state requirements.

### **Line 1.045 Restricted Federal Grants-in-Aid - SFSF**

State fiscal stabilization funds made available in the American Recovery and Reinvestment Act (ARRA) are provided through the school foundation payment system. The district is due to receive \$876,830 in FY11. These stimulus funds are included in the forecast for fiscal 2011 only and are accounted for in fund 532 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 (as discussed above), 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 1 (Ohio Budget Bill-FY10-FY11) extends reimbursement of business personal and telecommunications property phase-out through FY2013 rather than FY2011. The estimates of taxes and associated state hold harmless payments are included based on information currently available from the Ohio Department of Taxation.

### **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 are expected to average 1.5-1.9% a year.

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 are 1.95% **for FY 2011 only**.

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

- **The Board and both associations have approved a Memorandum of Understanding 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.**
- The overall salary increases are controlled through the District's aggressive retirement incentive plan as well as our philosophy of decreasing staff through attrition. Savings are achieved by not replacing certain positions and/or replacing other positions with less experience or with less education.

### **Line 3.020 Employees' Retirement and Insurance Benefits**

Employee benefits include the following:

- 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 maximum amount charged per year based on 2% of total payroll as well as an adjustment for the statewide payroll limit.
- 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 historical trend of between 8-12%.
- Dental insurance future increases are expected at trend of 4% annually.
- Medicare contributions continue to be 1.45% of payroll for all employees hired after April 1, 1986. Increases are expected to grow at a rate similar to salaries.
- Workers Compensation insurance is about .3% of payroll. Increases are expected to grow at a rate similar to salaries.



### **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:

- Stimulus dollars are being used to pay a large portion of our contract for services with both Miami County ESC and Montgomery County ESC. Both entities provide special education services to the district.
- Utility costs continue to increase due to market factors. Management is utilizing various methods to reduce costs. These methods include cooperative purchasing of heating fuel and electricity, energy conservation measures and facility audits to determine the efficiency of our cooling and heating systems.
- 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 3.6%.

### **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 five-year average annual change is 6.9%.

### **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 to be no more than twelve years of age. The current replacement cycle includes the purchase of three buses per year. Also, the final payment for the phone system was made in August 2010. The five-year average annual change is 12.0%.

### **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. 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 educational service centers (ESC) deductions, county auditor and treasurer fees, audit charges, and election fees. The county board of education expenditures include services for special education. The five-year average annual change is 5.5%.

**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-out is 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.

**Line 11.020 Property Tax – Renewal or Replacement**

Revenue for renewal of a five-year 5.8 mill levy which expires December 2010 is included in this line. Voters will be asked to renew the levy at the May 3, 2011 primary election.

**Conclusion**

This forecast is based on the forgoing assumptions and the information available when it was prepared. 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.