Miami County, Ohio

FIVE-YEAR FINANCIAL FORECAST NOTES AND ASSUMPTIONS

For the Fiscal Years Ending June 30, 2020 through 2024

February 10, 2020

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 2020 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.

The reappraisal was completed in Miami County in Calendar Year 2019, with the new assessed values and rates being implemented in Calendar Year 2020. The next triennial update will be completed in Calendar Year 2022 and implemented in Calendar Year 2023. These updated changes are reflected in the revenue forecasts.

The number of claims being filed by either residential or commercial property owners has decreased in the most recent year. 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.

The projected annual amount for each of the fiscal years from 2020-2024 are based on the Miami County Auditor's Estimate supplied for Fiscal Year 2020. We are assuming a renewal of our 5.8 mill issue during FY 2021.

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. The projected five-year annual change is that this line item is currently completely phased out for Troy City Schools.

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 2.00%.

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 134th General Assembly adopted the FY 2019-2021 biennium budget in July 2019.

The projected five-year average annual change is being maintained.

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

The rollback and homestead reimbursements are tax credits by the State of Ohio granted to owners of real estate property. A 10% reduction in the property taxes paid by the owner is paid by the state to the school district. If the property owner occupies the property, then an additional 2.5% reduction in the property taxes are paid by the state to the school district instead of the property owner. Projections are based upon historical collections and calculated by applying the appropriate percentages to residential and commercial property tax collections. This category also reflects the state's reimbursement of lost personal property taxes (aka "hold-harmless" payments) except those the state shifted (.5 mills) to our taxpayers. Based upon the recently enacted biennium budget and the Governor's veto of the legislature's continuance of hold-harmless payments after FY2016, the District is projecting the loss of this reimbursement, beginning in FY2020.

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 June 2017, the Board and TCSSA reached an agreement that allows one step movement per year of the contract along with a 3% increase on the base per year. A 2.5% increase per year was also awarded to the Administrators over the next three years. In June 2017, the Board and TCEA reached an agreement that allows one step

movement along with a make-up of a step in year 1 of the contract along with a 2% increase on the base in year 1. A one step movement with the addition of step 31 in year 2 of the contract along with a 2.5% increase on the base in year 2. A one step movement in year 3 of the contract along with a 2.75% increase on the base in year 3. Personnel were added for fiscal year 2018 consisting of the following: Concord Elementary, 1 aide and 1 Kindergarten Teacher; Cookson Elementary, ½ Guidance Counselor; Forest Elementary, ½ Guidance Counselor; Hook Elementary, ½ Guidance Counselor and reduced ½ Intervention Specialist; Van Cleve Elementary, 2 aides; Troy High School, 1 Credit Recovery Supervisor and ½ American Sign Language Teacher.

We have been able to save the general fund expenses for the next 4 years by not filling some vacancies that will be realized at the end of the 2019-2020 school year and utilizing some of the student wellness dollars to offset some additional positions added in recent years.

The actual five year forecast average annual change is 1.00% in Fiscal Years 2021, 2022, 2023 & 2024.

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 $21,600. 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.
- Premium Share Increases have been negotiated with the Certified & Classified Staff along with a Health Savings Account (HSA) insurance plan beginning in Fiscal Year 2018.
- Health care coverage is provided for employees on a self-insured basis up to a stop loss limit of $150,000 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 no cost as the implementation of this tax has been eliminated.
- We have been able to save the general fund expenses for the next 4 years by not filling some vacancies that will be realized at the end of the 2019-2020 school year and utilizing some of the student wellness dollars to offset some additional positions added in recent years.

The projected five year forecast average annual change is 5.00%.

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 an extended agreement for natural gas that will last through June 2023 with Direct Energy that will save the consortium several Million dollars over the length of the contract.
- The EPC recently modified our electricity agreement to reestablish pricing, extend the current term through December of 2024 and redefine certain other terms which provide savings in excess of several

Million dollars over the length of the contract.

- 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 3.00%.

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. The only exception to this is that the District is implementing a new reading program for 2019-2020 with extra expenditures needed during 2020.

The projected five year forecast average annual change is 3.00%.

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. Two buses were purchased from Fund 001 in fiscal-year 2017. We purchased three buses in fiscal year 2018 and 2019 and are assuming that we will be purchasing 3 buses in 2020.

We also plan to make various land purchases, during FY 2020, to give us locations for a Pre-K through Grade 6 capital improvement plan, that the Board of Education plans to put before the community in 2020.

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 is to maintain expenditures.

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, but realize that we probably will not be able to completely eliminate the need.

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.

*With the current Biennial Budget there are dollars designated specifically for what is called Student Wellness & Success Funds. We are expecting $869,299 in FY 2020 and $1,257,687 in FY 2021. There is a plan developed for the use of these funds to offset some added recently added expenditures to the general fund. This anticipation has been incorporated into the five-year forecast and has improved the bottom line.

**If our bond issue initiative for new Pre-k through Grade 6 Buildings is approved by the community on March 17th, 2020, this will have a further positive impact on our bottom line as it will allow us to become more efficient in expenditures as a district.

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”.