NEW RICHMOND EXEMPTED VILLAGE SCHOOL DISTRICT

FIVE YEAR FINANCIAL FORECAST

January 2018

State Mandated Five Year Forecast Model

The State requires that each school district submit their financial data in accordance with the format shown on the following page. There is also a summary following the Forecast that provides the reader information on how to read the forecast.

For our internal purposes, our Five Year Forecast follows the “Summary” tab and while it agrees with the State model in terms of the total amounts, our forecast model breaks down the data differently in accordance with our individual district needs.

Summary

I like to begin with a visual impression of where I sense we are with our current forecast. The picture above reflects our worsening financial condition as storm clouds are forming in the sky.

After three years, I am becoming much more familiar and confident in the numbers provided herein that have been used to develop the forecast. There are always a lot of uncertainties, whether they are future State funding levels, negotiated pay increases, etc., but based upon the factors that are known we can develop some very credible projections for two years. The three years of the forecast beyond that are much more subject to change, but trends can most certainly be identified.

I often use acronyms such as “FY” which represents fiscal year, or “F.T.E.” which means “full time equivalency”. In that these can become something of a second language for me I don’t always realize when I use them without fully explaining their meaning, so please ask for clarification whenever you note that I don’t provide the necessary explanation.

For the year just concluded, 2016/17, we had our first decrease in our cash balance since at least 2010 (the furthest back I researched). Unfortunately, this is not a one time aberration. It is expected that our cash balance will see significant reductions in the coming years. The projections for the current fiscal year, 2017/18, indicate a reduction of almost $4 million. Now, it’s possible that we will do somewhat better than that. For example, last year we had projected spending in building and departmental budgets of $8.2 million and actual expenditures were only $7.3 million. So, perhaps we will see similar results there and we may have a few other positive variances. Still, there is just about no possible scenario in which we will make up that projected $4 million deficit, and in fact, the amount could be higher as we still have to negotiate a contract with the teachers. At best then, I would expect that we would still spend $3 million more than our revenue sources bring in.

The problem is abundantly clear - we have revenue issues, and they all revolve around our public utility tax base. Having two power plants in the district for so many years provided a very strong and reliable revenue stream. Recent economic realities of the power industry have now seen one power plant close and the other one reduced in taxable value such that we are losing significant revenues. We're also losing other revenues related to the power plants from State sources that were provided to the District as a result of deregulation that occurred many years ago.

In all, our revenues in 2016/17 went down $1.8 million, are expected to go down another $500,000 in 2017/18 and are followed with reductions of $1.9 million, $500,000, $250,000 and $200,000 in future years.

Many districts struggle with the revenue side of the equation, but few actually see decreases in revenues. This is such a major factor in our finances that it cannot be understated.

At the same time, expenses are expected to increase. While negotiated base salary increases have not been included in our projections, step increases are, health insurance increases are and special education increases are.

Revenues are typically difficult to increase based upon school district actions outside of levy requests, so the one aspect where the District can provide some level of control is over expenditures. As with any school district, this will chiefly mean personnel costs.

The State's mandate that school districts adopt a five year financial forecast is widely recognized as an important planning tool. It's also very important to recognize that for the most part these forecasts become very uncertain after the first two or three years. This is because that's when many unknowns come into play, from State funding levels, negotiated salary schedules, and even student enrollment numbers and health insurance costs.

The most important aspect of the forecast is the assumptions used. Variations in one factor that may seem inconsequential can have a major impact on the projections five years out. For example, the hiring of one additional teacher at $35,000 per year has an actual annual cost of about $55,000 the first year, and maybe an average of $60,000 per year over five years, so one teacher equates to $300,000 over five years, and just three teachers can have almost a $1 million impact.

Each of the following sections will have a brief summary indicating the most significant assumptions affecting that revenue source or expenditure category, but to briefly summarize, the following assumptions have the greatest impact on the current forecast:

1) While the district has received significant bad news related to reductions in the taxable value in the Zimmer Plant the past two years, we're still dealing with projected reductions in the Beckjord Plant as well. Closed in 2014, the Beckjord Plant still has $29 million of taxable value, with most of that expected to disappear as the plant continues closing operations.

2) After reductions in the Zimmer Plant of $42 million and then $48 million over the past two years, we should be able to reasonably expect it won't see further reductions in the immediate future, but there is a sense of uncertainty over any aspect of these plant valuations.

3) The State adopted a biennium budget in July of 2017 for FY17/18 and FY18/19. We feel fortunate that the Governor and State legislature considered the significant reductions in tax valuation we were experiencing and included changes to the State budget that would partially offset those losses. We'll see approximately $1.1 million more in State Foundation aid this year, and the State is also including a one time payment of approximately $650,000 this year. This is far more than we would have received without the changes made by the legislature. For the 2018/19 fiscal year, we should see a drop in State aid of approximately $650,000 in that we won't receive the one time payment again. Unfortunately, the State budget still included the phase out of the PUTPP reimbursement from which we had once been receiving $8.1 million per year, and for FY17/18 will only receive $5.8 million. The net effect now appears to be about a $350,000 reduction in revenues each year for the next 16 years.

4) We had been seeing significant increases in revenue from Open Enrollment up through the 2016/17 fiscal year. We are anticipating that this revenue source will stay relatively stable at $2 million per year. These revenues are wholly contingent upon students continuing to enroll with the district and therefore outside of our control.

5) Salary expenses are based upon two factors, staffing numbers and salary schedules. The current forecast includes no additional staff hires for the next four years beyond FY 2017/18. The salary schedules include no increases in the base salary amounts beyond our negotiated agreements that expired after FY 2016/17 for the teachers and will expire after 2018/19 for the classified staff members. The salary costs do include future step increases.

6) Health insurance costs are projected to increase 5% this year. This is based upon a 5% increase in premium effective October 1st. For each of the succeeding years a 7% increase has been included.

7) Many building and departmental budgets were reduced for 2017/18 by 10% and are projected to remain essentially unchanged for the next four years with the exception of Special Education where a factor of 5% has been added to deal with potential increases in services. Some variances for textbook and technology allocations are also exceptions.

The Board approved a Five Year Financial Forecast in October 2017. The data in the current forecast has been updated and reflects a decrease of $950,000 in the projected cash balance at June 30, 2022. The following factors were involved in the change in projected cash balance:

1) The State has just integrated the student enrollment data from EMIS which indicates a reduction of 46.10 funded students which reduces State funding projections for each year for a total of $700,000.

2) Salary cost data has been updated to reflect changes in staffing that have occurred in the last month. The net effect of which amounts to approximately $50,000 in additional expenses for wages and benefits, for a total of $250,000 over five years.

The Five Year Forecast prepared today should be recognized as just a snapshot in time and is constantly evolving and the Board and Administration should continually update the forecast as major developments occur.

Prior Year Review

The 2016/17 fiscal year ended with a positive cash balance variance of $350,000 versus projections. This is not to be confused with the change in actual cash balance which was a negative $950,000. The $350,000 positive variance simply reflects that we had anticipated a decrease of $1,300,000 and the results were only a decrease of $950,000.

The most significant variances between last year's projections and actual results break down as follows:

Taxes	-$700,000
"Other Revenues"	+$400,000
(Interest Earnings, Open Enrollment, Rents, Special Education Excess Costs paid by other districts)	
State Funding	-$100,000
Other State Funding	+$ 50,000
PUTPP Reimbursement	-$150,000
Miscellaneous	-$200,000

The largest variance, "Taxes", was the result of the notice we received that the Zimmer Plant had been devalued, which occurred after the projections were developed.

Other Revenues includes additional interest income and open enrollment revenues. Based upon those results, the projections for 2017/18 have been increased.

The other significant variance is the $200,000 for "Miscellaneous". When the projections were originally developed it was expected that we would credit this revenue account for reimbursements received from the Clermont County Educational Service Center. The funds were received, but it was determined that the appropriate accounting treatment was to reduce expenses as opposed to posting as a receipt.

On the expenditure side we were almost $1 million under our projected expenditures based on the following results:

Salaries	+$ 75,000 (below expenses)
Retirement and Ins	+$ 35,000
Building and Dept. budgets	+$890,000

So, when you look at the sub-categories there is only one significant variance. Building and Departmental budget allocations were not fully expended which returned almost $900,000 to our cash balance. Very positive news, and while we anticipate that future year allocations for Building and Departmental budgets may not be fully expended as well, we believe it is prudent to expect that they may be, so we are not currently anticipating that this will occur in future years.

In looking at the projections for the current year, FY17/18, as contrasted with the projections made in October 2016, we've got some fairly significant variances as well. To start, we have the $350,000 higher beginning cash balance from last year.

For this year's revenues, we're projecting $125,000 more, while expenditures are down about $350,000 over last year's projections.

The biggest reason for the $125,000 more in revenues is primarily related to two factors.

One, last year's notice of reduced tax values for the Zimmer Plant also affected the 2017/18 projected revenues. Further, the notice we received this year that there was an additional reduction in values related to the Zimmer Plant are expected to result in approximately $1.75 million less in tax revenue this fiscal year. Offsetting that is additional State aid amounting to about $1,700,000. Other increased revenues amount to $250,000 that we anticipate collecting.

Clearly, the reductions in value for the Zimmer Plant are having a very negative effect on our revenues and are expected to continue to do so in future years as State funding is not expected to offset the losses in future years

Taxes

Last year we were concerned with the closing of the Beckjord Plant in 2014 and how that was expected to impact tax revenues as the plant values were no longer on the tax duplicate. Anticipating that the total impact of the plant's closing was going to result in a $1.6 -1.8 million reduction in tax revenues once the final decommissioning of the plant was complete. While the value of the plant has been going down and we are now receiving about $1 million less than we did in calendar year 2016, we did not see an a decrease in values this past year. It's important to note that we can anticipate further reductions in values in future years.

Unfortunately, while the Beckjord plant closing is having a major impact on our finances, we were about to learn in October of 2016 of an even more significant event. We were informed at that time that the records filed with the Ohio Department of Taxation related to the purchase of a 50% interest in the Zimmer power plant had resulted in a reduction in value for the plant of $42 million which mean a reduction of $1.35 million in annual tax revenues.

We consulted with various attorneys, public utility experts and our professional associations about the impact this devaluation was going to have on the District and our options to challenge the valuation placed on the plant. We were informed at every step that the District does not have legal standing to challenge the valuation or to see the records submitted to the Department of Taxation as they are considered private. It was the Department of Taxation's responsibility to ascertain the appropriate value for the plant.

This affected not just New Richmond schools. The purchase of the Zimmer plant was part of a major acquistion of up to 8 other plants in Ohio by a firm by the name of Dynegy. Economic realities are what drove the reduction in values. Simply put, coal fired plants are not as economically viable as natural gas plants.

With the knowledge that the sale of 50% of the plant had driven a significant reduction in value for the Zimmer plant we had anticipated that there may be a further reduction in October of 2017 on the other 50% of the plant, and so we were not surprised when we were notified that there was in fact a reduction in value of $48 million dollars, which translates into a further reduction of tax revenues of $1.5 million per year.

At this point, we don't anticipate further reductions in the Zimmer plant in the future, but the loss of revenues we will experience will have a major impact on our future revenues.

State Funding

There aren't too many bright spots to this updated Five Year Forecast, but State Funding is one of them.

This is not because the State has poured money into funding for school districts in Ohio. In fact, total State funding levels are somewhat anemic.

Our State funding will increase by approximately $1,750,000 in the 2017/18 fiscal year. This includes a one time payment of $650,000 and then revenues are expected to decrease by $650,000 in the 2018/19 fiscal year after taking out the one time payment. Nonetheless, this is significantly more revenues than we would normally receive.

The reason for our significant increases is that the State legislature and Governor gave consideration to the dramatic changes in our local tax base and were willing to make modifications to the State funding formula that recognized that we were losing significant local tax revenues and the results of these dramatic reductions in taxable value would not be reflected in the State funding formula immediately.

Without getting into all of the intricacies of the formula itself, the State's funding formula utilizes a district's local tax valuation in their calculations and the higher the local valuation, the lower the amount of State funding. The State uses a three year averaging formula and therefore our district would not have benefited significantly in the first two years following the reductions in local valuation.

The State has changed the formula to provide more weight to a district that saw a large reduction in value.

One might think that we would see another increase in State aid as a result of the latest reduction in values from the Zimmer plant, but other values in the district, residential and agricultural, were increased this past year and will serve to partially offset the reduction in local public utility tax values.

Our increase funding is dependent upon what the State calls the "State Share Index". This factor is utilized by the State to adjust for the relative wealth of a school district using our tax values and also includes residents' income earnings.

The resulting factor is applied to the "basic" funding formula, called the "Opportunity Grant", which is $6,010 per pupil times the number of students times the "State Share Index".

Obviously then, the greater the State Share Index value, the greater the amount of funding we receive from the State under the formula. For 2015/16 and 2016/17, the State Share Index was .189055592, which was up from the 2014/15 year where it was .162236098. The 2017/18 and 2018/19 State Share Index is projected to be .27834349.

This means we are considered less wealthy compared to other school districts in Ohio than we had been in prior years, but the good news is that this then provides more revenues from the State.

That State Share Index is difficult to predict as we don't have all the information available to us and must wait until the State performs the calculation. The only positive to all this is that we might be able to realize greater increases in State Funding in future years.

State funding levels beyond 2018/19 are not projected to increase, but this may prove to be the most conservative aspect of the projections as we can hopefully see some additional revenue from this source.

The included charts depict a simplified calculation of the State funding formula as well as calculations involving the State Share Index, and beyond that are 17 pages of part of the State funding formula. The actual formula is obviously rather complex.

The last data set is the State projections that were provided to us back in July 2017. Through discussions with the Ohio Department of Education it appears that these projections may not be accurate and therefore our current projections are lower, particularly for 2018/19 and beyond.

Public Utility Tangible Personal Property Tax (PUTPP) Reimbursement

This is the second largest source of revenue (beyond local taxes) for the District. Unfortunately, it is also a State revenue source, so it is always uncertain if we will continue to receive these funds.

Without going into all of the history related to why we receive these moneys, the State had been making us whole for local tax revenues they took away from us. They reduced the amount we receive when the State was in fiscal crisis back in FY11/12 and FY12/13. We had been receiving $8.1 million as recently as FY10/11. Reductions of $500,000 per year took this down to $7.1 million and in the State biennium budget for FY13/14 and FY14/15 we continued to receive $7.1 million.

The State legislature adopted a new biennium budget for FY15/16 and FY16/17 and at the last minute the Governor vetoed a provision that would have continued the reimbursement at the $7.1 million level, and reinstated a phase out of this funding beginning in FY 15/16. The State reimbursement was reduced by $275,000 in FY15/16, and then reduced District funding by $600,000 in FY16/17.

The current schedule for reimbursements as developed by the State follows this summary. The current year we expect to see a reduction of $475,000 based upon their estimate. Future year decreases approximate $350,000 and will continue for 16 years.

We are hopeful that the State legislature will give additional consideration in future budgets to eliminating the phase out for districts that are still receiving the PUTPP reimbursement as it is a core part of our funding and would be difficult to replace. This takes on added weight given that our local tax base has seen significant reductions.

Other Revenues

"Other Revenues" comprises about $2.7 million dollars, the lion's share being our Open Enrollment receipts. Last year we received $2 million dollars from this source, and our enrollments seem to have leveled off so we anticipate our revenues staying at that level. As the data provided under "State Funding" indicates, 240 of our 335 Open Enrolled students come from West Clermont Schools.

The next largest source of "Other Revenue" is Interest Revenues. While restricted in terms of what investments we can own, the problem we have is that interest rates in general have been very low. As recently as FY 2009/10 we had over $400,000 in interest earnings. In FY13/14 we had just over $150,000 and this past year we had $250,000. We have increased projected revenues from this source by $100,000 based upon recent results.

Other Revenues also includes summer school tuition, rentals, fees, donations and moneys paid by other districts for special education costs we incur related to students that come from those districts.

Enrollments

Enrollment analysis is considered an integral part of the Five Year Financial Forecast as the number of students we serve has a direct relationship to the number of staff we employ.

Some data has been displayed on the graph that follows this summary. This information comes from a variety of sources, but this needs to be evaluated much more closely than what is presented here.

There appears to be some inconsistency in the data utilized here. It may be necessary for a much more detailed analysis to be performed as there are a number of variables involved. Some of those variables are Career Center students, special education students (served here, through the County ESC or another provider) and tuition students. Without this data it is difficult to accurately gauge staffing needs.

An analysis is under way by the Ohio Schools Facility Commission of enrollment projections for the district which may be of assistance.

Enrollments are often difficult to predict, but we don't have a lot of major residential developments so the most challenging aspects will probably be related to anticipating what our new Kindergarten enrollments are and determining what our Open Enrolled student base might tell us.

Salary Costs

As a school district, salary costs will always be our single largest expenditure category.

When we have information on our staffing levels and negotiated agreements in place we can fairly accurately project many salary costs.

While we do not anticipate additional hiring needs in the forecast, there is still uncertainty about wage rates for certified (teaching) staff. Classified (support) staff recently entered into a two year contract with the District which allows us to project those costs fairly reliably. Until we have a negotiated contract with the teachers there is a distinct possibility that the salary costs included in the projections are understated.

Included in the assumptions is that we do not anticipate base wage increases for future negotiated contracts with our unions. This is very common as many school districts do not want to build in a percentage into the forecast that is highly uncertain.

Step increases are included so if those were to be frozen again at some point in time this would be a savings that is not included in the forecast.

Last year, a rather significant anomaly occurred. That fiscal year, July 1 to June 30, we had 27 pay dates. Most years have 26, but about every six years or so this can occur. This represents a one year jump of about $600,000 (one payroll) that goes away in the current fiscal year.

On one sheet behind this summary we break our salary costs down into various groups. We can often discern certain trends in areas like sub teacher costs and supplementals from the use of this data. You'll note a very high Severance cost three years prior to this current year. This relates to the high number of retirees we had at the end of 2014/15. We had no retirements at the end of 2015/16, a few at the end of 2016/17 and looking forward we do not anticipate nearly as many retirements in the coming years.

Those retirements that occurred represent a savings to us in future years as most were replaced with entry level staff which significantly reduces their individual cost.

The tab "Staff Counts" represents a staffing analysis that still needs a lot of work and then compared should then be compared with our student enrollment data.

The "Admin" tab gives a breakdown on costs related to Administrators.

“Certified Details” will give you a breakdown by individual teacher, their degree and step level.

The Certified Index tab is used to build the future year teacher salary costs. Using our current index with no base increases, each staff member is “stepped up” and their cost then calculated.

Under the “Classified” tab you’ll first find a cost summary of the various underlying classified staff groups and then following that are the individual staff members listed by group.

The “Supplementals” tab is a list of those supplemental positions we currently have.

Finally, the “Severance” tab is an individual break down of those staff included in our total severance costs that we anticipate retiring and their related costs. We don’t know with certainty who or when individual staff will retire, but this allows us to prepare an estimated cost.

Fringe Benefits

Fringe benefits represent two sub groups of benefits provided to staff – Retirement and Insurances.

With regard to retirement costs, those track directly to salary costs and are easily projected using a factor of 16.3% of salary costs. 14% of that is our State mandated contributions to the retirement systems. Another 1.45% is required to be paid for Medicare (for all employees hired after April 1, 1986, which is just about everyone now). We also have Board paid pick up for administrators, a “surcharge” leveled by the School Employees Retirement System and other benefits that can be charged here such as cell phone reimbursements.

With insurances, it’s important to break this line item down into sub groups, for health, dental and life insurance, workers compensation insurance and unemployment costs as shown on the following spreadsheet.

We can then isolate the largest sub category related to health insurance and calculate those costs. Last year a 7% increase was used to project the FY16/17 fiscal year costs, which turned out to be a bit high, with our net increase being 5%.

A 5% factor is included for the current year (2017/18) and future year increases are pegged at 7%. We received a 5% increase in rates from our insurance consortium, the Southwestern Ohio Educational Purchasing Council (the EPC) in FY17/18 so we should be fairly close with our projection. 7% is probably a fair estimate for future year increases given that EPC increases are not typically much more than this and we can control plan design if necessary to bring costs down.

There are also a few graphs included depicting different aspects of our health insurance costs.

Building and Departmental Budgets

The 2017/18 budget includes building and departmental budget allocations totaling $8.7 million. Last year's budget was $8.2 million, but only $7.3 million was actually expended.

The increased budget allocations of $500,000 are related to special education funding, curriculum budget, some fixed costs, an increase in the amount transferred to the Permanent Improvement Fund (last year we transferred less than normal) and textbook funding. At the same time, most other budgets – building allocations, central office budgets, maintenance and transportation were reduced by 10%.

Noting that we didn't spend about $900,000 of the amount allocated last year, we are hopeful that the full $8.7 million allocated will not be fully expended this year as well, but it would be premature to anticipate that we will have any specific sum unexpended.

The most concerning aspect of the budget allocations is in the Special Education costs as they have been rising dramatically in recent years. Ten cents ($.10) of every dollar the district expends is now for contracted special education costs. This does not include the moneys the district already expends for special education direct services – personnel we employ. These are for services (personnel) for which we contract primarily with the Clermont County Educational Service Center, but also with entities such as St. Rita School for the Deaf, Clermont County Board of DD, Interim Healthcare, etc.

An increase of 5% has been used in projecting future Special Education funding levels, but this may prove to be either low or high depending upon the needs of the students that we serve which is difficult to predict.

It's important to note that many of these costs are "fixed costs" or items that we do not control which cannot be significantly reduced. For example, the County Auditor receives a percentage from the amount collected in tax revenues, so that $240,000 is not something we can reduce. Utilities represent another $730,000 and while we can make an effort to be energy efficient, this will always be a fairly significant part of the budget and is largely weather dependent.

It's also important to note that a significant change was made two years ago relative to how these costs are represented in our Five Year Forecast.

Typically, these items have been combined and shown in the following groups: Contract Services, Supplies, Equipment, Dues/Fees and Other. This is the way the State requires that they be shown in the Five Year Forecast submitted to them.

Through discussions with the Superintendent, the decision was made to change this to the sub groups shown on the last page of the spreadsheet following this summary and then to have those sub groups represented on the Five Year Forecast we utilize internally (under the "Summary" tab).

Additionally, in prior years up to $3 million was being transferred between different General Fund accounts, so our total revenues and expenditures were being distorted. We have moved those transfers below the normal operating revenues and expenditure categories shown on our internal five year forecast.

Permanent Improvements

Many districts have a separate tax levy that supports major building maintenance repairs such as roof replacements, blacktopping, air conditioning units, etc. We do not, so it's necessary to allocate some of our General Fund moneys for this purpose.

In prior years we have spent upwards of $2.5 million a year for this purpose. We have developed a Five Year Capital Improvements Plan which allows us to anticipate our major needs involving the upkeep up our facilities. We are currently expecting to spend approximately $1 million per year for this purpose.

Please see the following pages for a summary of those planned activities.

FY17/18 Forecast

This represents a monthly breakdown of the current fiscal year's forecast that we can utilize as we move through the year to determine if we are on track with our revenues and expenses.

CPP/True Days Cash

There are two items under this tab.

One is CPP, which is Cost Per Pupil. This data is pulled directly from aggregations made at the State level from financial information processed by each district. It's just one additional piece of data that can assist us in reviewing our operations.

In prior years it was somewhat striking how high our CPP had been compared to others in the area. Last year we reported on information that was current for the 14/15 fiscal year and we had the 6th highest CPP out of the 23 districts shown. This year's update is for data from the 15/16 fiscal year and we dropped significantly, not only in CPP, but in our ranking and we are now 13th of the 23 districts included in the analysis. In looking back at the data for 13/14, we did have a spike for a one time compensation payment to many staff in the district, a one time payment related to a change in health insurance providers, much higher utility costs than experienced the following year and a significant number of retirements which skewed severance costs higher.

The second item is the True Days Cash sheet which indicates how long we can operate using only our ending cash balance from June 30. We can use our projected expenses and then get that down to a daily expenditure rate and then determine how long we can operate on the prior year's ending cash balance.

Generally, a 90 day True Days Cash ratio is considered excellent. This would mean that we have sufficient cash reserves to operate for 90 days without any additional revenues coming in.

Our True Days Cash ratio reached its highest point in over 10 years in 2015/16, with the ability to operate for 326 days without additional revenue. This past year, it dropped to 304 days and it is expected that this will drop to 250 days by June 30, 2018. The 250 days is still rather significant but the trend is concerning.