# NEW RICHMOND EXEMPTED VILLAGE SCHOOL DISTRICT

## FIVE YEAR FINANCIAL FORECAST

**October 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 and we can expect to face some significant storms in our near future.

While it’s been somewhat slow developing, our fortunes are definitely changing for the worse. Two years ago we spent $1 million more than our revenues and last year we spent $2.2 million more than our revenues. While this still left us with over $21 million in cash at June 30, 2018, we can expect that this balance will continue to decrease and the rate of decrease to increase significantly in the coming years.

At the present rate, we can expect to have a negative cash balance by June 30, 2022.

Our biggest problem continues to be the erosion of our revenues from our electric plants. The 2018/19 fiscal year will incorporate the full reduction in values that occurred with the devaluation of the Zimmer Plant in October 2017. In addition, we are going to continue to experience reductions in value related to the Beckjord Plant as the decommissioning continues.

We are receiving additional State revenues than we would normally receive, but those were primarily related to 2017/18 and 2018/19 and we can expect to see a reduction in State funding in 2019/20. The State does not have a budget for 2019/20 so there may be some changes, but they are not expected to be significant.

In May 2018 we had identified a number of changes in spending that we do not expect to be able to meet so the projected cash balance of a negative $9 million is still projected for June 2022.

To meet these financial challenges, we have to consider what our options are. It comes down to either raising additional funds through an operational tax levy, and/or reducing expenses. It would be difficult to eliminate future deficits simply by reducing expenses as it would require eliminating almost a third of our budget to match the reduction of revenues we're experiencing.

For the year just concluded, 2017/18, we had our second decrease in our cash balance since 2010. Unfortunately, this is not an aberration. It is expected that our cash balance will see significant reductions in the coming years. The projections for the current fiscal year, 2018/19, indicate a reduction of $4.8 million. Now, it's quite possible, and even highly likely, that we will do somewhat better than that. For example, last year we had projected spending in building and departmental budgets of $8.6 million and actual expenditures were only $7.9 million. So, perhaps we will see similar results there and we may have a few other positive variances. Still, there is no possible scenario in which we will make up that projected $4.8 million. At best then, I would expect that we would still spend $3 to $3.5 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 to the point 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.   In 2017/18 our revenues were about the same as in 2016/17 primarily due to additional State aide.  In 2018/19 we can expect to see a reduction in revenues approaching $1.4 million.

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.  Salaries, health insurance and special education expenses are all going to continue to rise.

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 $42,000 per year has an actual annual cost of about $63,000 the first year, and maybe an average of $68,000 per year over five years, so one teacher equates to $340,000 over five years, and just three teachers can have 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 three years, we're still dealing with projected reductions in the Beckjord Plant as well.  Closed in 2014, the Beckjord Plant still has $30 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 were notified of another $17 million reduction in value in 2018.  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. 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 FY18/19 will only receive $5.5 million. The future effect now appears to be about a $350,000 reduction in revenues each year for the next 15 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 2018/19. The salary schedules include no increases in the base salary amounts beyond our negotiated agreements that expired after FY 2019/20 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 9% this year. This is based upon a 12% increase in premium effective October 1st. As part of our negotiated agreement with teaching staff, they have increased their premium contributions by 5% which partially mitigates the effect of the 12% increase. 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 another 5% for 2018/19. These 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 transportation allocations are also exceptions.

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.

At the bottom of the spreadsheet titled "Five Year Financial Projections" are a couple of possible options that might help deal with the projected deficits in our future. One of those is a 5.9 mill levy that would generate $2.8 million of revenues each year. The second reference is to making $2 million of expenditure reductions beginning with 2019/20. These are included simply as a reference for you to consider and obviously, no plans of this nature have been developed.

The timing of our plans will present a number of challenges for the following reasons:

1) The Elevar facility study will not have any results prior to the spring of 2019.
2) If we decide to place an operational levy on the ballot there is a significant amount of lead time needed. For example, for the levy to be on the ballot in May of 2019 we would need to take formal action in January of 2019.
3) The Elevar study could have an impact on any operational levy decision depending upon their recommendations.
4) Asking for the levy prior to making staff reductions would give the community the opportunity to indicate their support for programs that might otherwise be cut, but any staffing changes for 2019/20 would need to be made by the end of June 2019.
5) There are also significant ramifications to any changes that might be considered to open enrollment or building level configurations, which again, might be impacted by, or have an impact on, the Elevar recommendations.

It's likely that no matter what the Board decides there will be a lot of second guessing and criticism as the process is never straightforward and the decisions that need to be made are going to be extremely difficult and will affect both the programs we will provide and the livelihood of staff.

In case you're interested in knowing, the cost of 1 mill of tax on a $100,000 home is $35 per year. You take the $100,000 and multiply it by 35% and then .001 to get the $35. There used to be a further reduction from Homestead/Rollback paid by the State amounting to 12.5% but they eliminated that for new levies a few years ago.

So, for example, a 5.9 mill levy on a $300,000 home would cost 5.9 (mills) x $35 x 3 (for $300,000) = $619.50 per year.

## Prior Year Review

The 2017/18 fiscal year ended with a positive cash balance variance of $900,000 versus projections. This is not to be confused with the change in actual cash balance which was a negative $2,200,000. The $900,000 positive variance simply reflects that we had anticipated a decrease of $3,100,000 and the results were actually a decrease of $2,200,000.

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

| | |
|---|---|
| Taxes | +$300,000 |
| Interest Earnings | +$150,000 |
| Tuition from Other Districts | +$270,000 |
| State Funding | -$450,000 |
| Other Line Items | +$170,000 |

Taxes came in higher than anticipated and while this can occur in some years due to factors such as changes in delinquent payments, prepaid taxes, etc., we also went through re-appraisal and that may have had an impact. The calculations indicate we should have received less, so we don't anticipate as much going forward.

Interest income has been on the rise as interest rates have been increasing. Based upon those results, the projections for 2018/19 have been increased.

The $270,000 variance in Tuition from Other Districts was rather surprising. We can't readily project this for any given year so a lower amount that is in line with prior year results has been used in projecting future years.

State Funding was $450,000 lower than projections but that was due to a mistake made by the Ohio Department of Education in late June when they changed variables in the funding formula and those variables were wrong. We immediately addressed the matter with the State and they agreed with us, but it was too late to receive the funds in 2017/18. We have since received the amount they owed us which was ultimately calculated to be $550,000.

On the expenditure side we were over $400,000 below our projected expenditures based on the following results:

| | |
|---|---|
| Salaries | -$180,000 (above expenses) |

| | |
|---|---|
| Retirement | -$190,000 |
| Building and Dept. budgets | +$800,000 |

Salary expense was under projected by $190,000 because we had not included any increases in teacher salaries but concluded negotiations with them prior to the end of the fiscal year and made payments to them based on that settlement. Retirement expense was under projected in the Five Year Forecast but over projected with the State Teachers Retirement System leading to excess charges being deducted from our State Funding Payments. The biggest difference was in the Building and Departmental budget allocations which were not fully expended and returned $800,000 to our cash balance.

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In looking at the projections for the current year, FY18/19, as contrasted with the projections made in October 2017, we've got some fairly significant variances as well. To start, we have the $900,000 higher beginning cash balance from last year.

For this year's revenues, we're projecting $750,000 more, while expenditures, in total, are expected to come in about where they were projected last year.

The biggest reason for the $750,000 more in revenues is primarily related to the funding owed by the State from last year for our per pupil funding and those funds have already been received this year.

We've also increased projected investment interest significantly as well as "other local" revenues to be more in line with prior year results.

We received notice on October 9, 2018 that we're going to have another reduction in the Zimmer Plant of $17 million in Public Utility Values. Included in the projections had been an anticipated $5 million reduction that was expected to occur for the Beckjord Plant since it has been closed since 2014. That did not occur, but the Zimmer reduction will mean a loss of $500,000 per year. In the current year this will translate into a $200,000 reduction after the offset from the anticipated Beckjord reduction that did not take place.

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

On the expenditure side, while total expenses for this year are expected to be approximately what they were projected to be last October, the individual line items have some fairly significant variances, as follows:

| | | |
|---|---|---|
| Salaries | +$180,000 | (below expenses) |
| Insurances | -$160,000 | |
| Special Education | -$325,000 | |
| Curriculum | -$170,000 | |
| Other Budgets | -$ 70,000 | |
| PI Fund Transfer | +$500,000 | |

Salaries are projected to be below expenses despite providing for an increase from the recently negotiated contract with the teachers. Countering the teacher increase was a reduction of slightly more than 3 teaching staff on payroll.

Insurances are projected to be over last year's estimate due to a 12% increase in premium rates where we had been anticipating a 7% increase.

Special Education costs continue to increase dramatically faster than projections have typically forecast.

The Curriculum budget is higher this year as we initiated a new robotics program and contracted for the services of a technology integrationist and gifted services.

Other budgets are slightly higher due to contracting for a School Resource Officer.

The Permanent Improvement Fund transfer was reduced by $500,000 for the current year so that was a one time event with a large savings.

# Taxes

Three years ago we were concerned with the closing of the Beckjord Plant in 2014 and how that was expected to impact tax revenues when much of the plant values were no longer on the tax duplicate. We were anticipating that the total impact of the plant's closing was going to result in a $1.6 -1.8 million reduction in 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 2015, we did not see a decrease in values the past two years. It's important to note that we can anticipate further reductions in values in future years as the decommissioning continues.

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 acquisition of up to 8 other plants in Ohio by a firm by the name of Dynegy (now Vistra). 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.

We received notice on October 9, 2018 of a further reduction in values for the Zimmer Plant of $17 million which will translate into lost revenues of $500,000 per year. We had not anticipated any further reductions in the Zimmer Plant but we had anticipated a $5 million reduction in the Beckjord Plant which did not occur so the loss in the current year is offset somewhat by that. Still a reduction of $200,000 in the current fiscal year (based on ½ year's collections from January to June 2019) has now been added. While it did not occur in 2018, we should still be prepared to see reductions in the Beckjord Plant in future years.

We received $250,000 more in local tax revenues than had been calculated for FY2017/18. While there are always some differences between the calculated amount and amount actually received from the County Auditor, it usually is fairly insignificant. The most likely reason would be that there was a change in the amount of delinquent taxes due, but it does not appear to be related to that. We don't receive all the information from the County Auditor's Office related to the taxes levied, delinquencies, new construction values, deferred payments and prepaid taxes, so it could be a function of some combination of factors. At this point, local tax revenues are expected to return to the level predicted in the prior year.

Perhaps the biggest concern in the long term is the viability of the Zimmer Plant. Hopefully, the plant will stay open for many years to come and the owners will invest in the plant to make it economically viable, but we don't have enough information to determine just what will occur.

## State Funding

State Funding isn't typically a bright spot when discussing our financial forecast, but for last year and this year at least we're seeing some significantly increased revenues that partially offset some of the local tax revenue losses.

Unfortunately, the current levels of funding are not expected to continue into the future. We will see an increase in funding over the FY16/17 levels, and it will be significant, but far below the losses of local tax revenues.

We expected that our funding for 2017/18 would increase by $1,750,000 and that did occur. There was a problem with the State's funding model that resulted in us receiving $550,000 less than we should have, but we worked that out with the State and they have given us those funds in 2018/19.

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 recent reductions in local valuation.

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

Our funding levels are 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 $6,020 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, our

State Share Index was .189, which was up from the 2014/15 year when it was .162. The 2017/18 State Share Index was.262 and is projected to be .281 for 2018/19.

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 for future years 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.

After a projected decrease in funding for 2019/20, State funding levels are not projected to increase dramatically, 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 charts following this summary reflect a simplified calculation of the State funding formula as well as calculations involving the State Share Index.

The area that may be the most conservative in these financial projections is the State Share Index and with the additional reductions in value we may see a higher Index score than the .25 included in the projections. The .25 used for future years is lower than the .28 factor used for 18/19 as the 18/19 basis is calculated using our current year valuation but the State funding formula is supposed to revert to a three year average of our values which would be a higher valuation than the one used in 18/19. However, if the total valuation of all other districts in Ohio increases our index score would also increase.

We may also receive an ".028 adjustment" based upon the $17 million reduction in Zimmer values. The calculations are fairly involved but it would appear that we may qualify and if so, I believe we might receive up to one half of the tax loss or $250,000. It would be a one year payment, so we can't count expect it in the future. In speaking with Daria Shams, Senior Policy Analyst with the Office of Budget and School Funding at the Ohio Department of Education, he said the State won't be able to calculate the adjustment until next Spring when all values are certified to his office.

## 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, $600,000 in FY16/17 and $455,000 in FY17/18.

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 15 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.

The next largest source of “Other Revenue” is Interest Revenues.  Ohio law places significant restrictions on us in terms of what investments we can own, with the security of our principal being the most important feature.   The problem we have had in the past was that interest rates in general had been very low.

In FY13/14 we had just over $150,000 in earnings, then $250,000 in FY16/17 and this past year we had $370,000 of interest revenue as a result of the increasing interest rate environment.  We have increased projected revenues from this source for future years significantly based upon the expectation that rates will not fall anytime soon.

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.  This past year we saw a significant increase in tuition revenue for students (court placed or living with foster parents for examples).  This is rather difficult to predict from year to year so we have included a lower amount of revenues from this source.

# 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 is displayed in the chart that follows this summary.  This information comes primarily from the enrollment study conducted by the Ohio Facilities Commission.

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.

At present we are expecting our enrollments to remain relatively stable, with perhaps some slight decreases.

# 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 classified (non-teaching) staff whose union contract expires at the end of 2018/19. Certified staff (teachers) recently entered into a new contract that extends through 2019/20.

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.

The new teacher contract is completely revised from previous years and now calls for a 1.75% step increase in each year. This should help significantly in projecting costs for the District and provide for reasonable step increases to staff without increasing the base salary.

Two years ago 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 went away in the 2017/18 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 and four 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 the only year with significant severance costs are shown in FY 19/20.

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 "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 usually fairly easy to project 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.

As indicated above, these costs are “usually fairly easy to project”. The State Teacher’s Retirement System requires an estimate of the Fiscal Year’s earnings to determine their monthly expense and this past year the salary amount projected was higher than our actual cost resulting in excess contributions to the retirement system. The contributions in 2018/19 will then be adjusted downwards to account for that.

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 5% increase was used to project the FY17/18 fiscal year costs, which turned out to be close for certified staff but the classified staff costs increased by 11% due to enrollment increases.

A 9% factor is included for the current year (2018/19) increase related to certified staff and 15% for classified staff. Future year increases are pegged at 7%. We received a 12% increase in rates from our insurance consortium, the Southwestern Ohio Educational Purchasing Council (the EPC) in FY18/19 but the teachers agreed to pick up 5% more of the premium cost so that helped significantly. 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 2018/19 budget includes building and departmental budget allocations totaling $8.8 million. Last year's budget was $8.6 million, but only $7.9 million was actually expended.

While the increased budget allocations amount to only $200,000 in total, there are some significant changes within some of the line items.

The Special Education budget was $2.8 million in FY 2017/18, and is $3.3 million in FY 2018/19. We had anticipated reductions in Special Education costs back in May for this current year and even more reductions in future years. Those reductions for this year never materialized and future reductions have been removed from the Forecast. In fact, increases of approximately 5 - 6% are included for future years.

We had also anticipated decreasing the Curriculum budget. It did receive a slight decrease, but we contracted with the Hamilton County Educational Service Center for a technology integrationist and gifted services for this year. We also added the Robotics program at the High School which requires additional materials. As a result, the Curriculum budget is $300,000 for FY 18/19, as opposed to as little as $150,000 as recently as FY 2016/17.

We did apply five percent (5%) reductions to many of the other line item budgets for various buildings and departments, as well as reduced the transfer to the Permanent Improvement Fund by $500,000.

One other significant change was the addition of a School Resource Office (SRO) at a cost of $90,000.

Noting that we didn't spend about $700,00 of the amount allocated in FY 17/18 and $900,000 of the amount allocated in FY16/17, we are hopeful that the full $8.8 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. Eleven cents ($.11) 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.

It's important to note that many of these Building and Departmental budgets 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 $180,000 is not something we can reduce. Utilities represent another $700,000 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 three years ago relative to how these costs are represented in our Five Year Forecast.

In the past, 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.

At the recommendation of 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). Thus we show categories such as "Special Education and Utilities". This is a much more representative and useful manner or presenting how we are spending our moneys than the State's categories of "supplies, equipment, etc."

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, but more recently we have been making an effort to allocate $1 million per year for these needs. That’s not always necessary based upon our maintenance requirements and we also have concerns about our General Fund resources. As a result, for FY18/19 we have allocated $500,000 for these purposes and will continue to review this allocation for future years.

We have developed a Five Year Capital Improvements Plan which allows us to anticipate our major needs involving the upkeep up our facilities. Please see the following pages for a summary of those planned activities.

# FY18/19 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. Two years ago we reported 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 16/17 fiscal year and we dropped significantly, not only in CPP, but in our ranking and we are now 11th 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 in the following years 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 which then allows us to 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 263 days and it is expected that this will drop to 196 days by June 30, 2019. The 196 days is still rather significant but the trend is concerning, and under these circumstances we would not want to get down to the 90 day level before taking action to reverse this trend.