WOOSTER CITY SCHOOL DISTRICT

FIVE-YEAR FORECAST

FY2017 – FY2021

Bonnie West, Treasurer

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INTRODUCTION

Section 5705.391 of the Ohio Revised Code requires that public school districts file a Five Year Forecast with the Ohio Department of Education once in October and then again in the form of an update in May of each fiscal year. The fiscal year of the Wooster City School District is from July 1 through June 30.

This financial forecast reflects the cost of general operations typically recorded in the District's General Fund (001). It is within this General Fund that the majority of the District's tax dollars are received.

Other funds required to be included in this document include the Debt Service Fund (002) related to General Fund Debt. This is separate from the Debt Service Fund for repayment of the high school construction bonds which are not a function of this forecast.

The forecast includes three years of historical (FY2014 – FY2016) data, as well as a projection of the present fiscal year (FY2017) and four additional fiscal years (FY2018 – FY2021).

It is important to recognize that the District manages a multitude of Local, State, and Federal funds that are not included as part of this projection. These excluded funds, totaling $13,770,000 for FY2017, are typically earmarked as grants or funds derived from sources separate from general operations and to be used for specific projects or initiatives. In the case of State and Federal grant funds, there are separate State reporting systems related to the management of those funds.

The forecast provides a good internal planning tool for the Board of Education and should be viewed as such. It is important for the reader to understand that this document, as presented, is based upon a set of circumstances and assumptions at a point in time certain. As time passes, new events and additional information will alter this outlook. When such changes are significant, an updated forecast will be prepared for review.

Users of the Five Year Forecast are encouraged to review the Notes to the Financial Forecast to aid in understanding the data. It is also recommended that users direct any questions about the attached information to the District Treasurer who can provide additional explanation.

NOTES TO THE FINANCIAL FORECAST

REVENUES

Line 1.010 - General Property (Real Estate) -

Line 1.010 accounts for the receipt of property tax revenue as determined by the Wayne County Auditor and collected by the Wayne County Treasurer on behalf of the School District. This tax revenue is derived from the local millage rate as approved by majority vote of the local community and then applied to the value of real estate as contained on the tax duplicate.

Typically, Wooster City Schools has returned to its community every four years with a request for additional operating millage. Having passed an operating levy in March 2004, the District lengthened the typical levy cycle to six (6) years as it returned to the voters in May 2010. As that first attempt failed, the District then returned to the ballot in August 2010 and found success. The passage of that August 2010 6.5 mill continuing operating levy generates approximately $4 million annually.

Estimates in future years allow for an approximate ½ percent of annual growth in revenue as may occur based on adjustments to inside millage and new construction.

Line 1.020 - Tangible Personal Property Tax –

Legislative action (HB66) called for the phase out of the Tangible Personal Property Tax beginning in FY2006. This funding source, which once provided as much as $8 million in annual revenue to the District, saw the last collection of any significance occurring in FY2012 in the amount of $154,255.

The Commercial Activity Tax (CAT) was the planned funding source for the Tangible Personal Property Reimbursement replacement payments to schools in an effort to replace the loss of tangible personal property tax revenue. This revenue stream is accounted for in line item 1.050 as discussed later in this document.

Line 1.035 - Unrestricted Grants-in-Aid –

Unrestricted Grants in Aid consists of basic per pupil state funding known as State Foundation. This funding is determined by applying the state's funding formula to the district's student enrollment and local community demographics.

Upon his arrival in office, Governor Kasich called for the creation of a new formula method for allocation of basic per pupil funding to school districts. During the biennium years of FY2012 and FY2013 a temporary formula, referred to as the Bridge Formula, was in place while the Governor's office worked on construction of a new funding model.

The State approved (effective July 1, 2013) biennial budget for FY2014 and FY2015 included a new formula for distribution of state dollars to public school districts. Wooster has benefited from this new formula with increased funding levels of $7.7 million to the General Fund in 2014 and $8.4 million in FY2015.

Under this formula, the school district currently falls under the cap, meaning that the formula provides more dollars in theory than the state can afford to pay. For example, FY2015 basic state aid funding was estimated and capped at $8,575,860 compared to the formula structured to provide revenue of $13,097,512.

Recently, the State approved (effective July 1, 2015), the biennial budget for FY2016 and FY2017. While increases are noted in FY2016 and FY 2017, the degree of those increases are offset by a similar degree of reduction in Tangible Personal Property Reimbursement in (Line 1.050) estimated at $756,000 annually in the same years of the forecast.

Adjustments to apply State Foundation payments estimated at approximately $250,000 per year to the Boys Village Fund are accounted for each year.

Casino Revenue, first distributed by the State in FY2013, continues to generate about $190,000 annually and is also accounted for in this line.

Because the legislative action to determine state funding for FY2018 and beyond has yet to occur, this forecast assumes stagnant funding of $9.9 million for the remainder of the forecast.

Line 1.040 - Restricted Grants-in-Aid –

Restricted Grants in Aid include elements of the State Foundation that are restricted for use according to guidelines established by the State.

Two categories of state funding are accounted for in this line of the forecast to include: Career Technical Funding for use in vocational content areas as defined by the State of Ohio, and Economic Disadvantaged Funding which requires the district demonstrate use according within specific guidelines.

Line 1.050 - Property Tax Allocation –

Property Tax Allocation currently accounts for two pieces of State reimbursement received by the School District. These are the (1) Homestead and Rollback

Reimbursements projected at $2,927,500 in FY2017 and the (2) Tangible Personal Property Fixed Rate Payments projected at $3,841,000.

The Homestead and Rollback Reimbursement compensates the District for the local taxpayer reduction of 10% on real estate and a 2.5% taxpayer reduction for owner occupied residency.

The Tangible Personal Property (TPP) Fixed Rate Payment, currently funded by the Commercial Activity Tax (CAT), was designed to provide temporary revenue replacement in lieu of the now defunct Tangible Personal Property Tax (HB66).

This reimbursement, when first implemented, provided annual revenue to the District in the amount of nearly $7 million, which equated to 17% of the District's General Operating budget. The District ranked 23rd highest out of 614 public school districts as a high dollar recipient of this annual payment.

In 2009, HB1 postponed the gradual phase out of TPP replacement revenue until FY2014 as total elimination was scheduled to occur by FY2019. This decision came on the heels of bipartisan support to provide a permanent funding solution as opposed to proceeding with the phase out. However, Governor Strickland chose to issue a veto to maintain the funding just for the biennium. Given this evidence of support within the legislature, the potential for continued effort to a permanent solution by 2014 to ward off, in some degree, this scheduled loss of funding was deemed highly plausible at that point.

In 2011, under newly elected Governor Kasich, legislation later reversed the sentiment of the prior administration and called for the TPP reimbursement phase out to occur at a faster pace as was evidenced in actual revenue reported for FY2012 and FY2013. A reprieve occurred heading into the biennial budget for FY2014 -15 as the $5,355,000 funding was maintained at the same level as FY2013.

The current FY2016-FY2017 state budget originally called for continued phase out of this line item at a rate of $756,000 in each year of the forecast causing the revenue line to reach $0 by 2022. Subsequently, SB208 was signed by Governor Kasich in November 2015, which while not changing FY2016 or 2017 estimates, will prescribe a slower rate of reduction starting in FY2018 at an amount of $395,000 per year. Under this assumption the revenue line will reach $0 by FY2027.

Line 1.060 - All Other Revenue –

This line includes various miscellaneous revenue accounts such as investment income, student fees, tuition from other districts, pay-to-participate receipts, rental income of school facilities, open enrollment income, and Medicaid reimbursement.

The increase noted in FY2015 is the direct result of a one-time claw back payment of prior property taxes associated with the termination of a local tax abatement. The increase in FY2016 represents a one-time payment from the State of Ohio as they settled outstanding Medicaid reimbursement claims.

Line 2.050 - Advances-In –

The FY2017 amount of $1,025,928 constitutes the repayment to the General Fund of temporary loans made to other funds at the end of FY2016 (see Line 5.020).

Temporary loans to other internal funds are sometimes necessary to meet the Ohio Revised Code requirement that all funds end the fiscal year with a positive cash balance.

The initial loans out to other funds are recorded in Line 5.020 as Advances Out with repayment recorded the following year in Line 2.050 as Advances In.

While it is difficult to predict the future needs of temporary loans to other funds, an estimate of $500,000 has been included for FY2017 – FY2021.

Line 2.060 - All Other Financing Sources –

Proceeds from the sale of obsolete equipment as well as the periodic write off of stale checks generally account for the small activity in this line.

EXPENDITURES

With losses of State revenue in FY2012 and FY2013, the Board of Education implemented budget reductions totaling approximately $1 million for FY2012 and another round of additional reductions for FY2013 also totaling $1 million.

The specific cuts contained in the first phase of this reduction strategy were approved by the Board of Education for FY2012 and included the elimination of 16 staff positions with all but (3) three accomplished through attrition.

In preparation for the FY2013 school year, the District engaged in a Facility Reconfiguration Process that ultimately closed two elementary buildings identified as Lincoln Way and Wayne. The remaining four elementary buildings now house grades Pre-K thru 4, Edgewood Middle School houses grades 5 – 7, and Wooster High School houses grades 8 – 12.

As the Facility Reconfiguration Process came to a close, the District identified idle property to include Lincoln Way, Wayne, Maurer Field, and property formerly known as the Armory which later sold at public auction.

Line 3.010 - Personnel Services –

The Board of Education is party to union labor contracts for the certified (teachers) unit and the classified (support staff) unit.

Historically, labor agreements have provided salary increases to staff as follows:

FY2010 = 1%, FY2011 = 2%, FY2012 = 2%, FY2013 = 0%,

FY2014 = 1%, FY2015=1% and FY2016=1%.

These increases are in addition to automatic step increases built into various sections of the schedules.

Recently negotiated labor agreements provide annual increases of FY2017 = 3%, FY2018 = 2.5%, and FY2019 of 1.5%.

While this forecast does recognize the likelihood that salary increases may occur in future years, the actual percent of those increases will ultimately and are yet to be determined through the negotiation process of the Board of Education and the Union.

Pension reform, particularly that of the State Teachers Retirement System (STRS), prompted larger numbers of retirements at the end of FY2013 through FY2015.

Staffing levels throughout the forecast are projected to remain constant.

Line 3.020 – Employees Benefits –

This line includes expenditures related to employee benefits including retirement, health insurance, workers compensation, and unemployment.

Wooster City School employees participate in the Ohio State Teachers Retirement System (STRS) for teachers and administrators and in the Ohio School Employees Retirement System (SERS) for support staff. Employee participation in these retirement systems is a requirement of State law. The school district is required to contribute 14% of annual employee salary to the applicable retirement system. Each employee is then required to make a related contribution through payroll deduction. The employee contribution is currently 13% for STRS and 10% for SERS.

Current labor agreements provide for various levels of employer pick up of the employee share. This benefit was established during prior contracts in lieu of increases to the base salary schedule.

For the balance of the forecast, increases in retirement benefit obligation are directly tied to estimated salary increases.

With respect to employee health insurance, Wooster City Schools had previously managed a self-insurance fund for medical, prescription, and dental benefits. Effective January 1, 2013, the District transitioned its employee health benefit plan to the Stark County Schools Council of Governments. The Stark County COG is a consortium of public school districts and other local governments with over 14,000 enrolled lives. The Stark County COG has a proven track record of providing quality employee benefits while containing annual premium increases.

In FY2015 and FY2016, the school district qualified for a 2 month insurance premium holiday. Determination of premium holidays are made on an annual basis by the Stark County COG based upon their review of that year's claims experience and fund balance reserves.

Also in FY2015, the district closed out the balance of the district self -insured funds by distributing those funds balances in the form of an additional, partial month premium holiday.

For FY2017, the Stark County COG raised insurance premiums by 2.5% and has declared a 3 month insurance premium holiday.

FY2018 – FY2021 follow the Stark County COG recommendation of an annual 10% premium increase and no premium holiday. The Stark County COG notifies districts of required premium increases and ability for premium holidays at the start of each school year.

With respect to Bureau of Workers Compensation (BWC) premium, the school district experienced extremely low annual premiums during the period of FY2014 - FY2016 that did not exceed $10,000 in any one year due to the large premium refunds that were being issued by the State. The degree of future refunds from the state is unknown thus necessitating an assumption of a more typical budget level for FY2017 of $250,000 per year.

Line 3.030 - Purchased Services –

Fiscal years 2017-2021 include projections of varying increases among a multitude of purchased services accounts in the General Fund. This line accounts for items such as utilities, legal fees, tuition paid to other districts, excess costs for students, open enrollment tuition, nursing services, mileage and travel reimbursement, property insurance, and data site acquisition services.

In FY2014, the escrow deduction as a function of State Foundation revenue payments to school districts was eliminated. This process impacted the method of accounting for $400,000 of related services purchased through the Tri County Educational Service Center. These are not new expenditures to the District but simply reflect a change in accounting and distribution of those dollars, which previously were received at the ESC and held for District use.

Line 3.040 - Supplies and Materials –

Budget for FY2017 - FY2021 provides for typical allocations of supplies and materials to each school building and department within the District. In FY2010, a continuing annual cycle of curriculum and textbook replacement was incorporated into this line with an ongoing allocation of $500,000 each year.

Line 3.050 - Capital Outlay - New and Replacement –

Capital outlay generally includes budget for purchase of either additional new or replacement equipment as needed throughout the district.

Purchases typically include new /replacement technology ranging in cost from $250,000 - $350,000 annually, school bus replacement (also at times funded in part by the Permanent Improvement Fund), and periodic replacement of district vehicles for maintenance and student transportation. Allowances for other minor equipment needs are also budgeted here.

The district also has a permanent improvement levy that generates approximately $500,000 annually to assist with capital projects. Those levy proceeds are not a function of this forecast.

Line 4.050 - Principal - HB 264 Loans –

A HB264 project was approved in 2009 which provided for renovations to improve energy efficiency at targeted buildings throughout the District.   Projected energy savings are anticipated to cover the cost of the project.

This line represents the principal payments required during the (10) year life of the note. The final payment is scheduled for December 1, 2018.

Line 4.060 - Interest and Fiscal Charges –

This line accounts for the interest payments on the HB 264 loan with the final payment scheduled for December 1, 2018.

Line 4.300 - Other Objects –

Expenses accounted for in this line primarily consist of County Auditor and Treasurer Fees charged for the service of assessing, collecting, and remitting property taxes to the school district. This line also includes payment of miscellaneous dues and fees.

Line 5.010 - Operational Transfers-Out –

For FY2015, an operating transfer of $2.5 million to the Permanent Improvement Fund was made for the completion of various capital repair and improvement projects throughout the district. An additional $5,000,000 of capital improvements was identified for FY2016 necessitating transfer of funds to the Permanent Improvement Fund.

For FY2017 approximately $2 million is currently scheduled for transfer to the Permanent Improvement Fund, again, for planned capital improvement projects.

Planned replacement of the Wooster High School Roof to occur during the period of FY2018-FY2020 is estimated to cost $2 million requiring a transfer of $665,000 in each of those 3 years.

With Athletic Field Turf installed in 2014, a planned transfer of $20,000 annually to the Turf Replacement Fund is forecasted to reserve the dollars necessary for its eventual replacement.

This line also provides a $100,000 contingency fund to cover unanticipated expenses not budgeted elsewhere in the General Fund. Should dollars from the contingency fund be necessary, budget is moved from this line to the appropriate cost center where the expenditure will ultimately be recorded.

Line 5.020 - Advances-Out –

An annual projection of $500,000 for temporary loans to other funds is anticipated at the end of each fiscal year. Such temporary loans are necessary, particularly to State and Federal grant funds which often operate on a reimbursement basis, in order to close all funds at year end with a positive cash balance.

Subsequent repayment of Advances-Out is recorded the following year in Line 2.050 as an Advance-In.

Line 6.010 – Excess of Revenues over (under) Expenditures –

This category compares total revenues to total expenditures and measures the extent to which current operating expenditures are supported by current revenues.

A <u>negative</u> number in this line represents the extent to which current expenditures are not supported by current revenues, resulting in a degree of reliance on cash reserves to fund current operations.

Line 8.010 - Encumbrances –

This category represents commitments against current year budget for authorized but unpaid purchase of goods and services. These commitments are in the form of approved purchase orders that will be paid in the next fiscal year after the District takes delivery of the order or is in receipt of the service.

Line 9.010 - Textbook and Instructional Materials Set Aside –

HB 412 was passed in the summer of 1998 and was a State mandated set-aside which required a 3% expenditure level in each year. If the District was unable to spend the required amount, the balance was put aside as a reserve in a separate fund restricted to this category of future expenditure.

Subsequent state law discontinued this set aside requirement in FY2012.

Line 9.020 - Capital Improvements Set Aside –

HB 412 was passed in the summer of 1998 and was a State mandated set-aside which requires a 3% expenditure level in each year.

Qualifying expenditures include General Fund expenditures used to enhance or improve, but not maintain assets, and Permanent Improvement funds generated to again enhance or improve assets.

With the passage of the 1 mill Permanent Improvement levy in 1999 and the current qualifying accounts in the General Fund, no additional reserves were required to meet the 3% requirement.

Line 9.030 - Budget Reserve Set Aside –

With the passage of S.B. 345 during FY 2001, the District has elected to no longer maintain the budget reserve previously required under HB 412.

Line 9.050 - Debt Service –

This reserve was established to fund the HB 264 energy efficiency program. An annual transfer is made each year from the General Fund to satisfy the debt service requirements for this project. Historically, this line represents the fund balance remaining in that debt service account once the year's loan payment is made.

Line 15.010 - Unreserved Fund Balance –

The Unreserved Fund Balance of the District represents the cash balance that is free from encumbrances, reservations, or restrictions.

A school district is not permitted to begin a school year anticipating it will end the year with a negative cash balance. Should such a situation be expected, the District must take steps in advance to remedy the situation by increasing revenue or reducing expenditures.

With budgeted operating expenditures of $42,625,875 for FY2017 averaging $3.6 million per month, the projected unreserved cash balance at June 30, 2017 translates into an estimated nine and three-quarters (9.75) months of operating cash on hand.

CONCLUSION

As the District has now arrived in FY2017, state per pupil funding levels appear to be stable having provided increases in the short term.

Per pupil funding estimates for FY2018- FY2021 carry a degree of uncertainty as future legislative action will be needed to determine state budget for those years.

At the same time, the District continues to be challenged with the seemingly certain prospect that Tangible Personal Property reimbursement will be entirely eliminated by FY2027. This area of concern will continue to be watched closely.

Based on circumstances in place today, the District does not foresee an immediate need to seek additional operating dollars (levy).

Should either revenue or expenditure patterns experience change to a degree different than the assumptions within this forecast, a revision to the forecast will be warranted to determine the resulting financial impact.