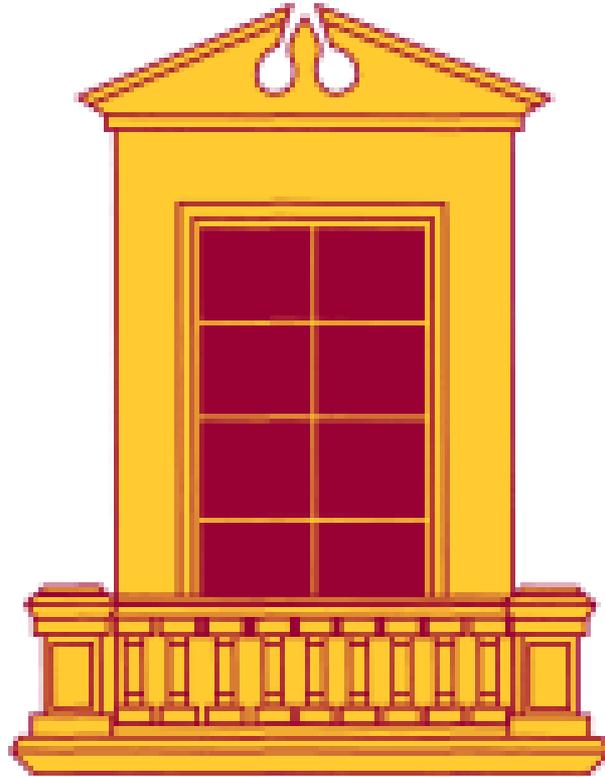


# Brecksville-Broadview Heights City School District

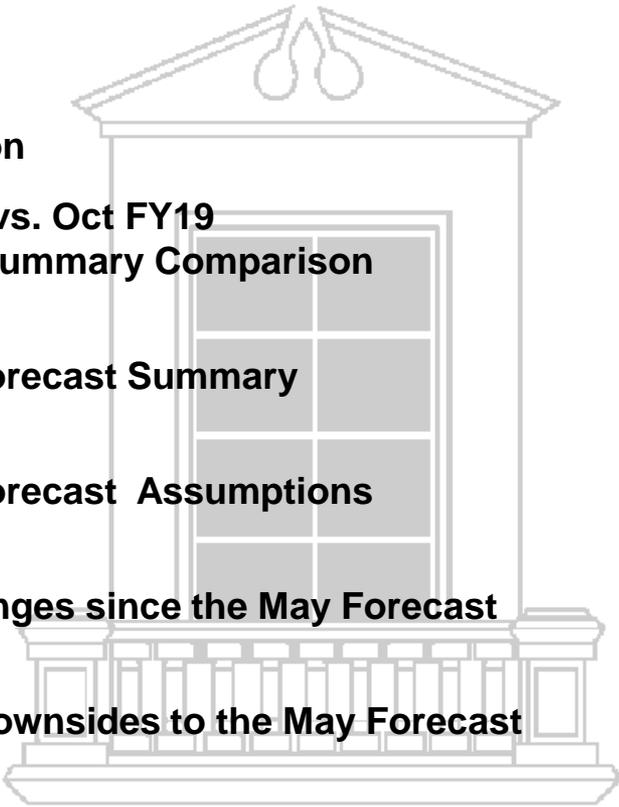


*“Where fine education is a heritage.”*

## **Five-Year Financial Forecast**

**October 22, 2018**

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# Introduction

- **The Five-Year Forecast (FCST)**
  - Is a semi-annual update required by the State.
  - Is a public document intended to represent the District's financial condition to support both the near term and long term decision making.
  - Provides supporting information to certify the District's ability to meet its current and potential future contractual obligations.
- A Forecast, by its nature, is based on assumptions of what will occur in the future. These assumptions should be neither overly optimistic nor pessimistic.
- It is essential to note that assumptions and forecast projections do not reflect the Board of Education's future negotiating position.
- The resulting certainty of a Forecast therefore decreases with an increasing time horizon and should be interpreted in light of what may change rather than an absolute of future events.

**Note:** *The convention used throughout this presentation is that numerical values are shown in millions of dollars (\$M). Values that are negative, represent a variance that negatively impacts the Cash Balance, or create a Deficit Spend are shown in red brackets: (\$1.2). Prior year values are often shown for reference.*

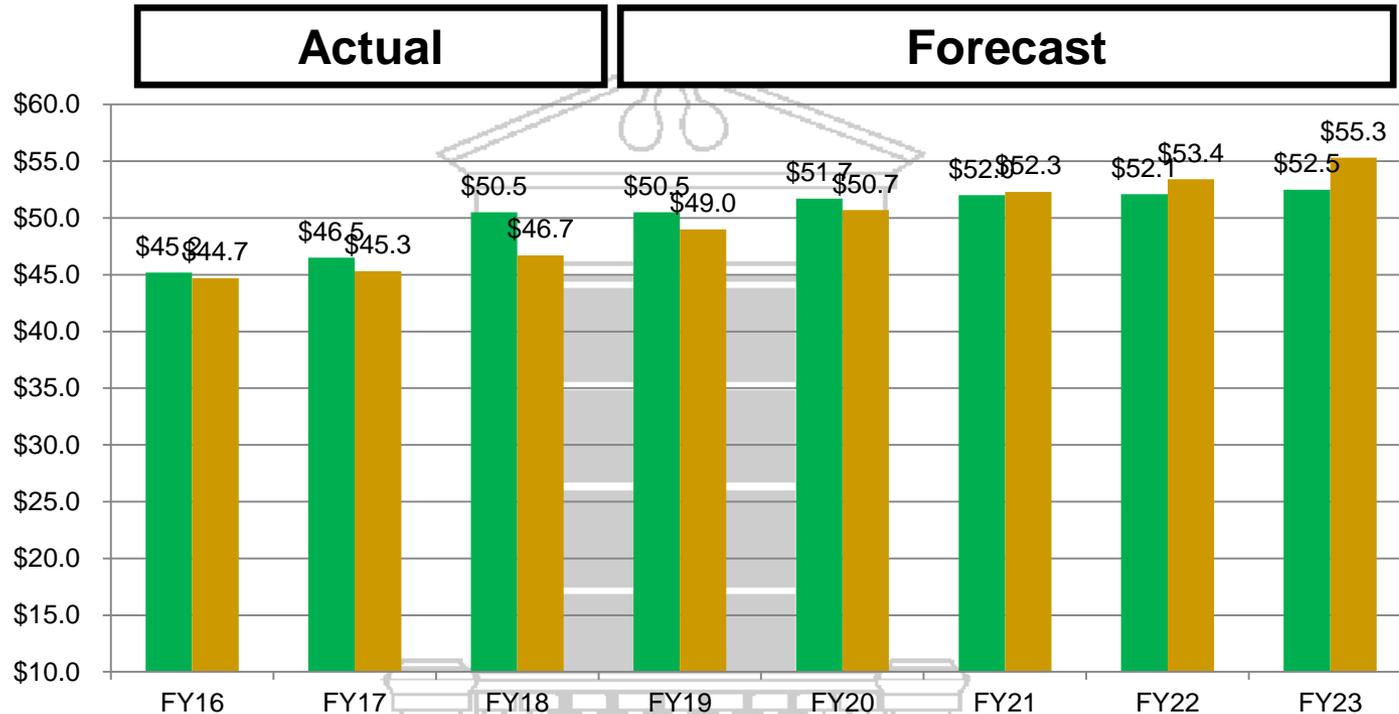
# Introduction

- **Cash Balance**, the amount of cash on hand on June 30 which is the end of each Fiscal Year (FY), is the ultimate measure of the District's solvency. As a practical minimum, the District requires two months or \$8M of cash on hand to operate the District smoothly.
- The **Deficit or Surplus** in any given year is another important metric and is the difference between revenues and expenditures in a FY. A deficit occurs when expenditures exceed revenues and a surplus occurs when revenues exceed expenditures.
- The annual **Deficit or Surplus** indicates how the cash balance is being decreased or increased.
- Taken in tandem, the forecasted cash balance and any deficit spending figures provide an indication as to the net revenue increases and expenditure reductions needed by the District.
- The magnitude of deficit spending provides an indication as to the amount of expenditure reduction and/or revenue increase to maintain a neutral Cash Balance.

# Forecast Summary Comparison

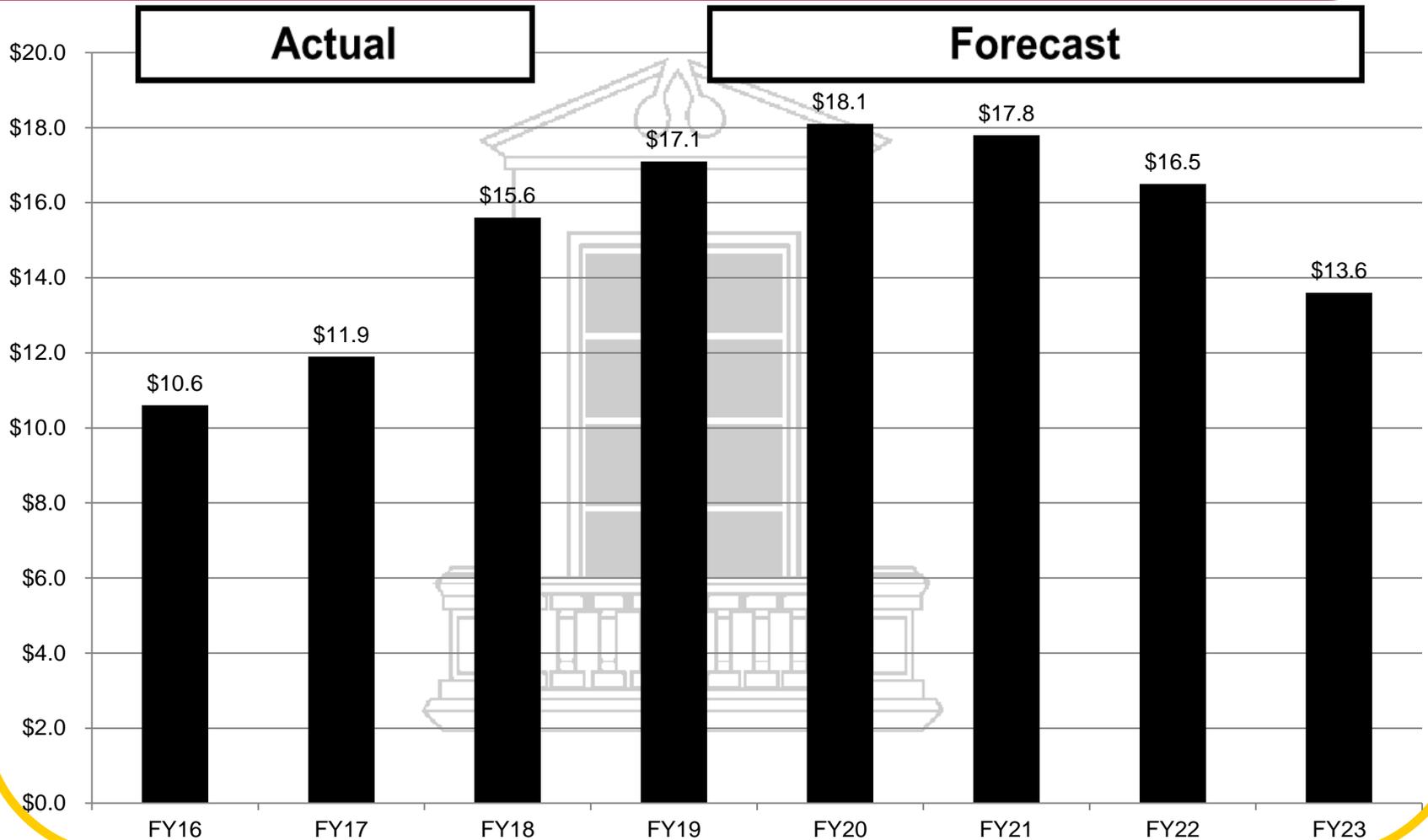
(\$ in millions)	FY18	FY19	FY20	FY21	FY22	FY23
May - Revenues	\$ 50.3	\$ 49.8	\$ 51.4	\$ 51.7	\$ 51.9	
May - Expenditures	\$ 47.1	\$ 48.9	\$ 50.7	\$ 52.4	\$ 53.9	
May - Deficit Spend	\$ 3.2	\$ 0.9	\$ 0.7	\$ (0.7)	\$ (2.0)	
May - Cash Balance	\$ 15.0	\$ 15.9	\$ 16.6	\$ 15.9	\$ 13.9	
Oct - Revenues	\$ 50.5	\$ 50.5	\$ 51.7	\$ 52.0	\$ 52.1	\$52.5
Oct - Expenditures	\$ 46.7	\$ 49.0	\$ 50.7	\$ 52.3	\$ 53.4	\$55.3
Oct - Deficit Spend	\$ 3.8	\$ 1.5	\$ 1.0	\$ (0.3)	\$ (1.3)	\$ (2.9)
Oct - Cash Balance	\$ 15.6	\$ 17.1	\$ 18.1	\$ 17.8	\$ 16.5	\$13.6
Delta - Revenues	\$ 0.2	\$ 0.7	\$ 0.3	\$ 0.3	\$ 0.2	
Delta - Expenditures	\$ (0.4)	\$ 0.1	\$ -	\$ (0.1)	\$ (0.5)	
Delta - Deficit Spend	\$ 0.6	\$ 0.6	\$ 0.3	\$ 0.4	\$ 0.7	
Delta - Cash Balance	\$ 0.6	\$ 1.2	\$ 1.5	\$ 1.9	\$ 2.6	

# October FY19 Forecast Summary

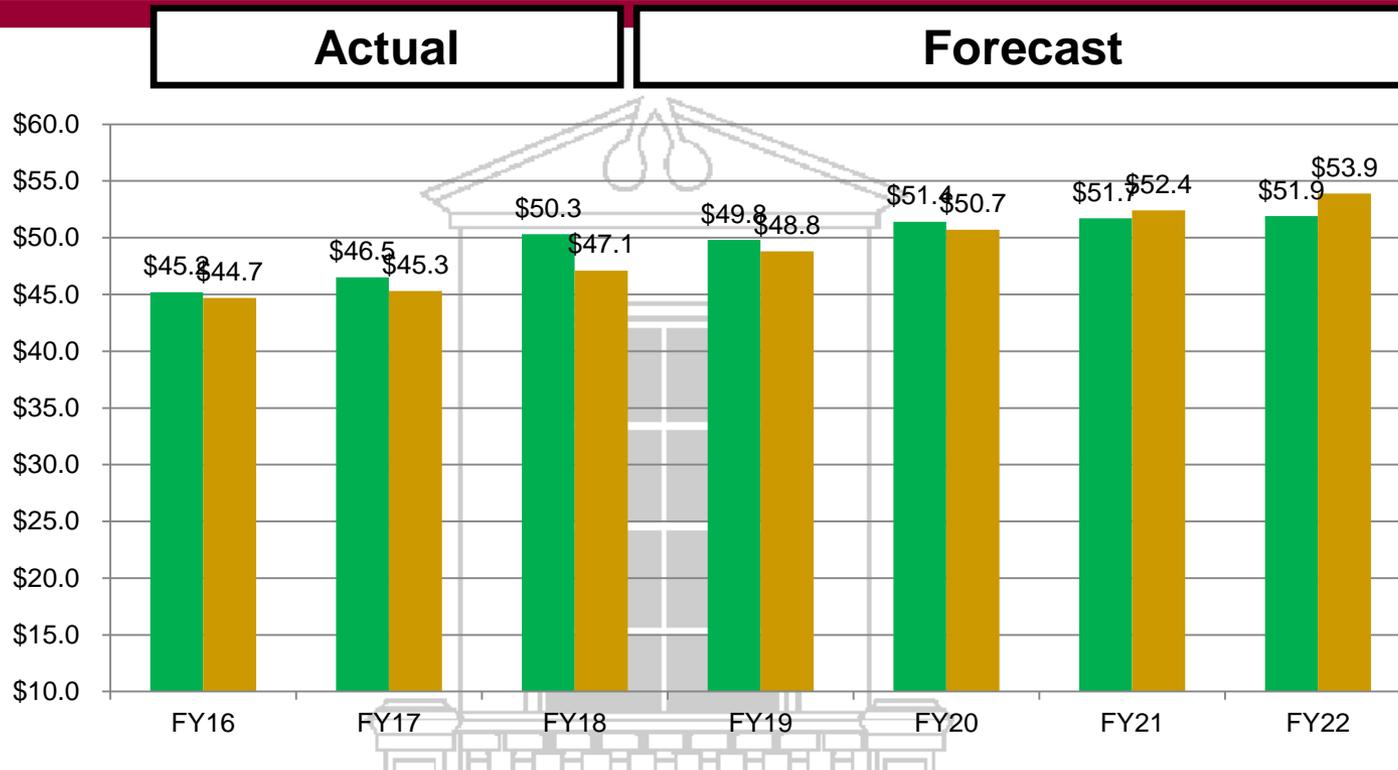


(\$ in millions)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenues	\$45.2	\$46.5	\$50.5	\$50.5	\$51.7	\$52.0	\$52.1	\$52.5
Expenditures	\$44.7	\$45.3	\$46.7	\$49.0	\$50.7	\$52.3	\$53.4	\$55.3
Deficit Spend	\$0.5	\$1.2	\$3.8	\$1.5	\$1.0	(\$0.3)	(\$1.3)	(\$2.9)
Cash Balance	\$10.6	\$11.8	\$15.6	\$17.1	\$18.1	\$17.8	\$16.5	\$13.6

# October FY19 Forecast Cash Balances

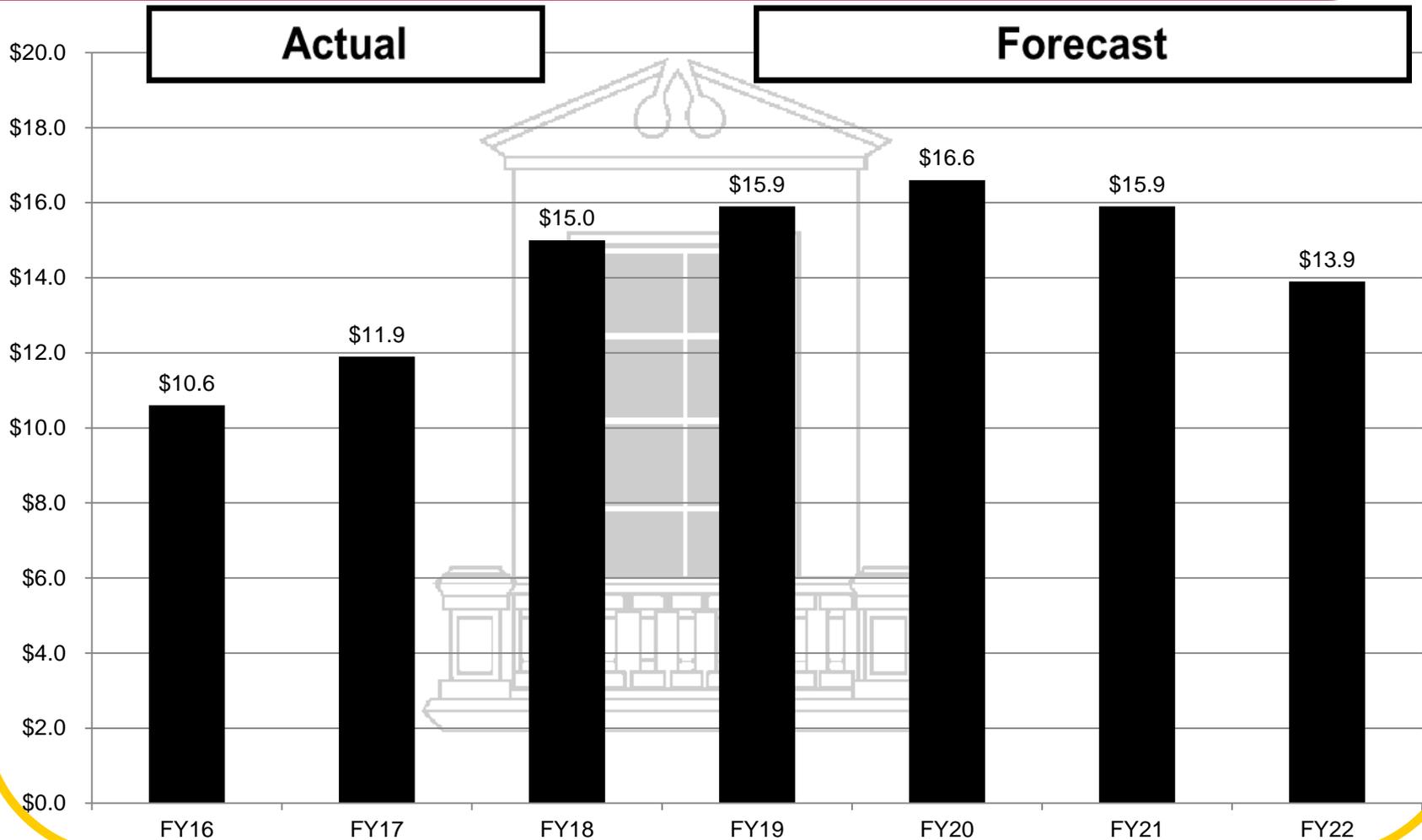


# May FY18 Forecast Summary



(\$ in millions)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Revenues	\$45.2	\$46.5	\$50.3	\$49.8	\$51.4	\$51.7	\$51.9
Expenditures	\$44.7	\$45.3	\$47.1	\$48.8	\$50.7	\$52.4	\$53.9
Deficit Spend	\$0.5	\$1.2	\$3.2	\$0.9	\$0.7	(\$0.7)	(\$2.0)
Cash Balance	\$10.6	\$11.9	\$15.0	\$15.9	\$16.6	\$15.9	\$13.9

# May FY18 Forecast Cash Balances



# October Forecast Summary

- The May 2018 FCST is used as the basis for the October 2018 FCST.
- October FCST projects \$100k less in overall expenditures for FY19 and \$700k more in revenues than the May FCST.
- Due to a FYE18 positive cash balance variance of \$600k, a relatively flat projected change in expenses and the significant increase in revenues due to positive sexennial property reappraisal, the October 2018 FCST Cash Balance on June 30, 2019, of \$17.1M, or \$1.2M more than May 2018 FCST.
- Under current assumptions, the District's cash balance is estimated to be \$16.5 M on June 30, 2022 (FY22) and \$13.6M on June 30, 2023 (FY23).
- Beginning in FY21, under current assumptions, expenditures are expected to begin to outpace revenues. While the operating deficit is relatively small in FY21 (\$300k), it is forecasted to begin expanding in FY22 and FY23.
- The growth in the operating deficit should be muted beginning in FY22 by cost savings associated with the opening of the new PreK-5 school building and consolidating four existing school buildings.

# October Forecast Summary

- By the end of the forecast period, the operating deficit is expected to grow to nearly \$3 million and cash balances are expected to fall to about 25% of the annual budget.
- Over the prior five years, operating revenues grew at an average annual rate of about 2.3%. Most of that growth was driven by the new levy passed in 2017. State funding increased at a rate of 0.5% per year, but was offset by drops in property tax allocation because of the continued phase-out of tangible personal property tax reimbursements.
- As a result of the new Collective Bargaining Agreement, FY19 is the first year certified staff were given the option of selecting one of two salary schedules (A or B). Approximately 70% of the certified staff selected to move to B.
- According to current FCST, cash balances remain above \$10MM on 6/30/23. As a result, no additional operating levies are recommended at this time.
- Changing real estate market values, regular & delinquent tax collection rates, staffing levels, student population, as well as supply and material spending habits will influence the net cash balance five years in the future.

# October Forecast - Revenues

- Real property tax revenues make up over 70% of the total revenue in the Brecksville-Broadview Heights (BBH) operating budget. These revenues grew by nearly \$5 million in FY18.
- The growth was driven by a combination of a new 5.99 mill levy passed in 2017 and a prepayment of 2018 real estate tax payments into late 2017 because of property owners' reactions to changes in federal deductibility. The shifting of payments from FY19 to FY18 is offsetting the growth that would have otherwise occurred in FY19 from the new levy.
- Cuyahoga County is completing a sexennial real property reappraisal in 2018. Data from the county indicate that residential values in BBH will increase by 8.7% and business property values will increase by 4.4%. These changes will yield growth to the district on its 4.69 inside mills.
- The May forecast had assumed residential values would grow by 3%, so the additional growth is adding about \$250,000 of revenue per year into the forecast. Residential values at the triennial update in 2020 are assumed to grow by nearly 3%.

# October Forecast - Expenses

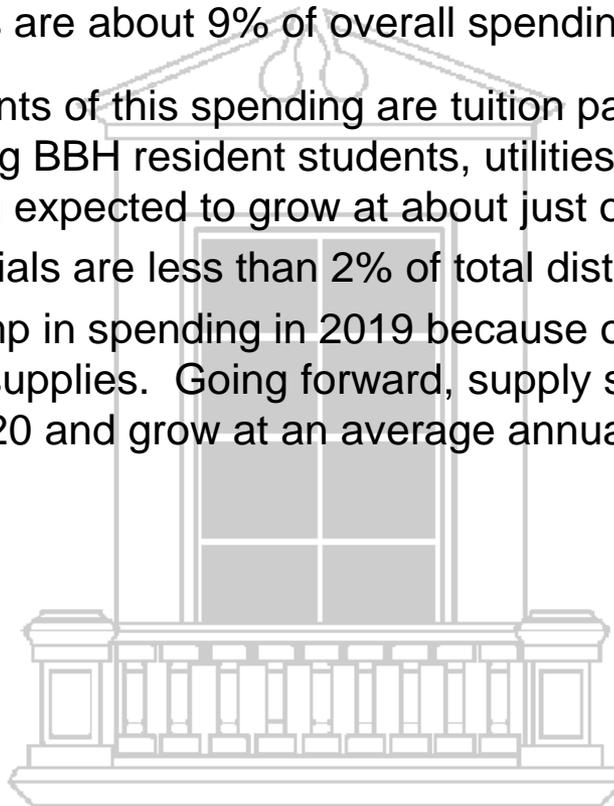
- Over the most recent five-year period, BBH expenditures grew at a rate of just 0.2% per year. Salary growth declined by about 0.3% per year and benefit spending increased by 2% per year.
- Personnel payroll and benefits account for approximately 85% of all expenses.
- In FY18, base salaries were estimated to grow by 2.2%. However, because FY17 included a non-recurring salary expense, that did not recur in FY18, the overall personnel services line item actually increased by just 0.7%.
- In 2019, BBH is continuing its transition from old to the new salary schedules. Based on spending in the first three months of FY19, with September representing a true base month, overall salaries are expected to climb by just under 3.8% for the year. Salaries account for 60% of the budget.
- In FY20 and FY21, the last two years of the current labor agreement, salaries are expected to increase 3.5% per year. In the final two years of the forecast, we are reserving 3% per year to pay for anticipated increases. This does not factor the correlation of staff to student enrollment ratio.

# October Forecast - Expenses

- Overall, board-paid benefit spending is expected to grow 9.7% in FY19 and 6-7% thereafter. The personnel reductions in the 2021-22 school year are expected to lead to insurance savings because there will be fewer covered employees
- Moving forward, total operating expenditures are expected to grow by 4% per year. As the minimal growth over the prior period was driven by salaries and benefits, most of the additional growth in the next five years is in these two areas.
- In FY22 and FY23, salaries are projected to increase by a little more than 3% per year and benefits by nearly 7.4% per year.
- In the 2021-22 school year (FY22), the district is expecting to consolidate four PreK-5 into one. Since there will be fewer buildings once the new construction is done, we are anticipating a reduction in personnel, as well as property and equipment expenses.
- We expect to have a clearer idea of the expense reduction outlook later in FY19 as the new building planning process evolves.
- It is essential to note that assumptions and forecast projections do not reflect the Board of Education's future negotiating position.

# October Forecast - Expenses

- Purchased services are about 9% of overall spending in the district.
- The main components of this spending are tuition payments to schools outside the district educating BBH resident students, utilities, and contracted professional services. Spending expected to grow at about just over 2% per year.
- Supplies and materials are less than 2% of total district spending.
- There is a large jump in spending in 2019 because of sharp increases in curriculum related supplies. Going forward, supply spending is expected to return normal levels in 2020 and grow at an average annual rate of 2% beginning in 2021.



# October Forecast Assumptions

- Assumptions that remain constant in the October FY18 FCST:
  - Projected tax collection rates equal to 98.6%,
  - Decline in State foundation aid projected to decrease 3% in the next two bienniums.
  - Public Utility Personal Property (PUPP) increase of 2.5% throughout the FCST.
  - Projecting 3% market value increase in next Cuyahoga County triennial reappraisal in FY21.
  - Four teacher retirements per year, FY20-23, saving approximately \$100k in replacement costs.
- Assumptions that have been modified in October FY18 FCST:
  - FY18 triennial real property reappraisal increase of 8.7% in TY18, CY19.
  - 3.78% overall salary growth in FY19, followed by 3.5% in FY20 & FY21 with 3% growth in FY22-23.
  - Board-paid medical insurance benefits cost increase equal to 9%.
  - Over 70% of certified staff transitioned from Schedule A to B in FY19.
  - Projected cost savings of \$475k is projected in FY22 when the new PreK-5 building opens.
  - Supply spending is expected to return normal levels in FY20 with avg. growth rate 2% in FY21.
  - Dental Insurance is projected to increase 3% per year in FY20-23.
- Purchased services and all other expenditures, forecasted using actual expenses and multi-year averages plus 2% inflation adjustment, unless otherwise noted.
- All levies are continuing with the 5.99 mill levy passed in May 2017 included.

# Major Changes to the May FCST

(\$ in thousands)	FY19	FY19-22 FCST TOTAL
Personnel Services (payroll)	419	2,392
Increase in property tax revenue due to 8.7% sexennial reappraisal increase and new construction.	529	1,362
Actual FY18 closing cash balance favorable to May FCST	600	600
Homestead and Rollback tax credit reimbursemetn influenced by increased market values	18	103
Other Operating Revenue: Special Education Tuirtion, All Day Kindergarten Tuition, Pay to Participate Fees and Interest Income - Reduced growth to 1% in out years	107	86
Other Revenue: BWC Retro Rebate Program	53	68
Other Expenditures	(2)	10
PUPP	(3)	(3)
Unrestricted and Restricted State Aid	1	(25)
Purchase Services	(70)	(334)
Supplies & Materials	(210)	(360)
Personnel Services (benefits)	(265)	(1,216)
<b>TOTAL CHANGE to May FCST: FAVORABLE (UNFAVORABLE)</b>	<b>1,177</b>	<b>2,683</b>

- The impact of each change is shown for current FY19 and as a total for the five-year FCST period through FY22 to align with the ending year of the May FCST.
- Slight variances may occur due to rounding.

# Upsides/Downsides to May Forecast

- Given that assumptions are not 100% certain and that circumstances change, the Board makes every effort to be aware of alternate fiscal outcomes that are possible and even probable.
- While not included in the Forecast, an “Upside” is an event that could occur making the financial outcome more favorable than what is reflected in the Forecast. An example of an “Upside” could be receiving a federal stimulus grant that is currently not anticipated and would lessen General Fund expenditures.
- Conversely, an event resulting in a financially unfavorable outcome is referred to as a “Downside” to the Forecast. An example of a “Downside” could be the loss of State funding that is currently included in the Forecast.
- Some events that could occur are shown on the following page listed in order of the dollar impact and showing the perceived probability of each event occurring.

# Upsides/Downsides to May Forecast

<u>Item (annual dollars shown in 000s)</u>	<u>Upside</u>	<u>Downside</u>	<u>Probability</u>	<u>Comments</u>
1% Change in Real Estate Tax Collection Rate	\$388	\$388	Med	98.6% collection rate to reflect the last half TY17/CY18 collection. Recent annual collection rates fluctuated from 98.8% (CY16) to 98.7% (CY17).
1% Property Valuation Change	\$52	\$52	Med	Inside Millage (4.69) only, Sexennial Update in TY18(CY19) and TY21(CY22) residential growth estimated at 3% in both reappraisals. \$1,116,000,000* 1%=\$11,160,000/1000 * 4.69
1% Base Salary Change (includes fixed fringes)		\$358		Current contract expires 6/30/2021 (1%+16.5%)
1% Change in Insurance Premium	\$61	\$61	High	FCST uses 9.7% per annum for medical & prescription drugs, 0% for dental in FY19, 3% FY20-23

- “Upside” events represent financial outcomes favorable to those in the Forecast.
- “Downside” events would cause a financial outcome worse than the Forecast.
- Probabilities (Blank(unknown)/High/Medium/Low) reflect the likelihood of an event occurring.
- Several items above merely reflect the sensitivity to changes up or down.

# Upsides/Downsides to May Forecast

<u>Item (annual dollars shown in 000s)</u>	<u>Upside</u>	<u>Downside</u>	<u>Probability</u>	<u>Comments</u>
1% Change in State Aid - Unrestricted/Restricted	\$55	\$55	Med	Every 1% or <1>% adjustment in state aid equals \$55k annually. Project flat YOY state aid FY18-19 with 5% decrease FY20-21.
1% Change in Purchased Services	\$45	\$45	Med	Impacted by special education services, professional services, legal services, utility rates, facility maintenance needs, etc.
Pay to Participate Fees Change 10% in "participation" and/or "rate"	\$26	\$26	Low	Fees will be 50% less beginning FY18 w/student cap @ HS \$500 & MS \$300 (assumes \$260K total).
10% Change in Special Education Catastrophic Reimbursement from State	\$26	\$26	Med	Reimbursement amount has averaged \$264K FY14 to FY18.
Each Teacher Retirement/Reduction more or less 4	\$25	\$25	Med	Approx. 19 Certified staff become eligible for retirement FY19-23.
1% Change in Supplies & Materials	\$11	\$11	Med	Impacted by transportation expenses, maintenance, fuel, custodial services, instructional materials, etc.

- "Upside" events represent financial outcomes favorable to those in the Forecast.
- "Downside" events would cause a financial outcome worse than the Forecast.
- Probabilities (Blank(unknown)/High/Medium/Low) reflect the likelihood of an event occurring.
- Several items above merely reflect the sensitivity to changes up or down.

# Official State Forecast Submission

- Please visit the Ohio Department of Education website at -- <ftp://ftp.ode.state.oh.us/geodoc/5-yrForecast/>.
- Complete Forecast with assumptions available on BBHCSD website.

