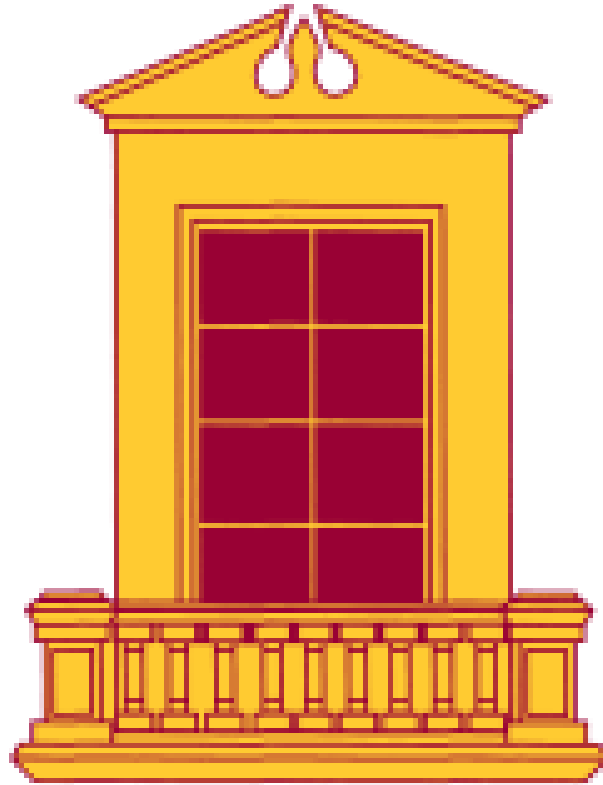


Brecksville-Broadview Heights City School District

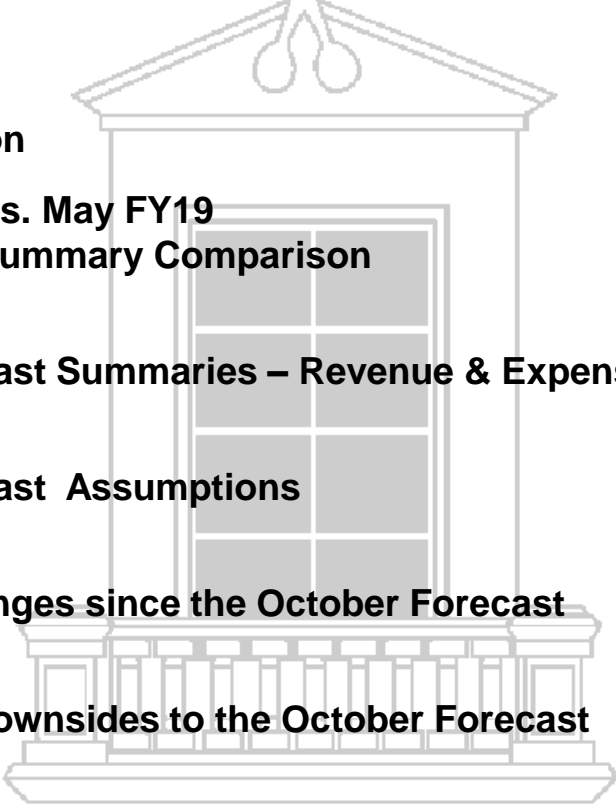


“Where fine education is a heritage.”

Five-Year Financial Forecast

May 22, 2019

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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.

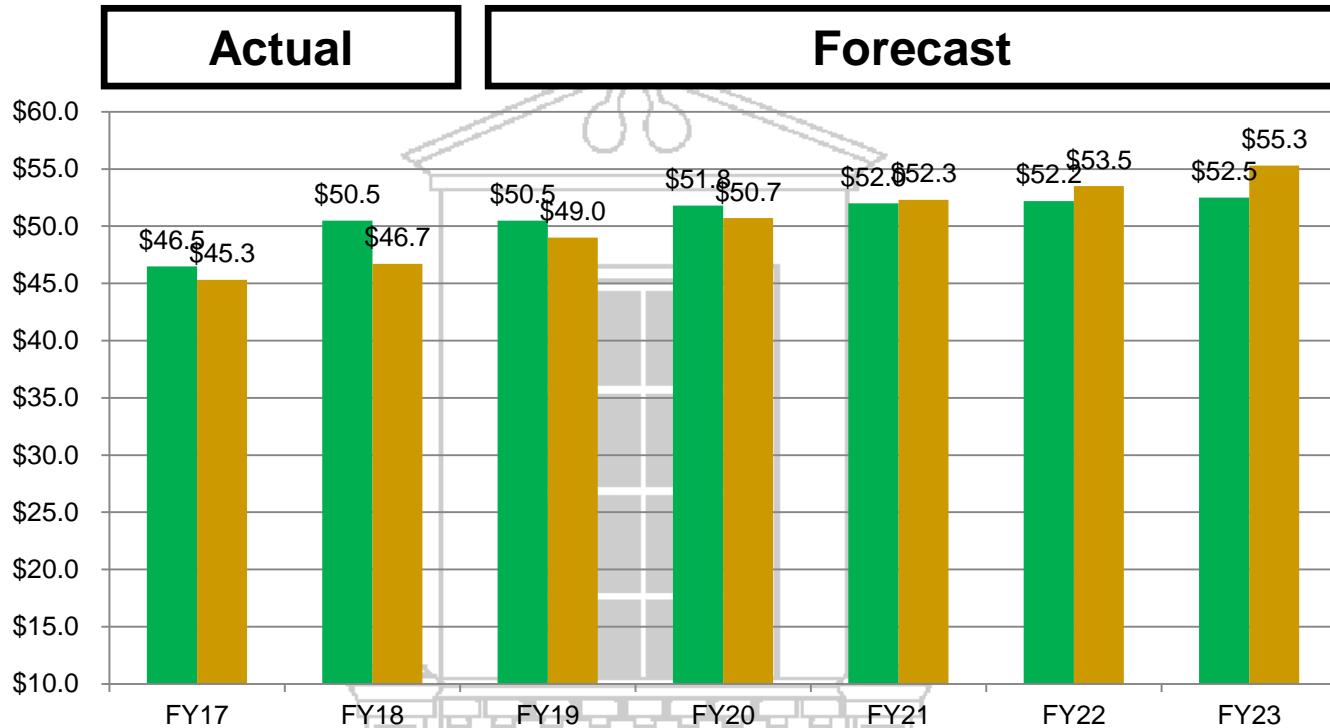
Introduction

- **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

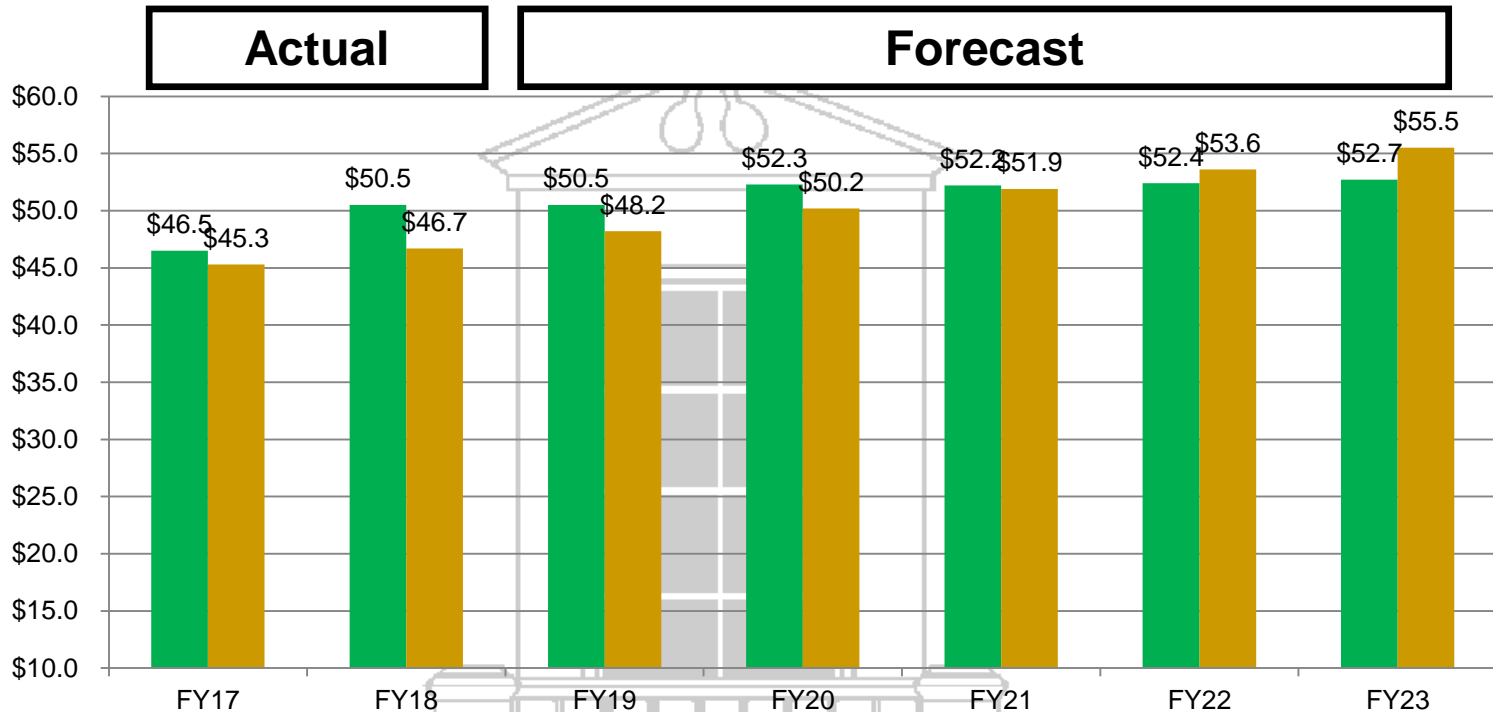
(\$ in millions)	FY18	FY19	FY20	FY21	FY22	FY23
Oct - Revenues	\$50.5	\$50.5	\$51.7	\$52.0	\$52.1	\$52.5
Oct - Expenditures	\$46.7	\$49.0	\$50.7	\$52.3	\$53.4	\$55.3
Oct - Deficit Spend	\$ 3.8	\$ 1.5	\$ 1.0	\$ (0.3)	\$ (1.3)	\$ (2.8)
Oct - Cash Balance	\$15.6	\$17.1	\$18.1	\$17.8	\$16.5	\$13.7
May - Revenues	\$50.5	\$50.5	\$52.3	\$52.2	\$52.4	\$52.7
May - Expenditures	\$46.7	\$48.2	\$50.2	\$51.9	\$53.6	\$55.5
May - Deficit Spend	\$ 3.8	\$ 2.3	\$ 2.1	\$ 0.3	\$ (1.2)	\$ (2.8)
May - Cash Balance	\$15.6	\$17.9	\$20.0	\$20.3	\$19.1	\$16.3
Delta - Revenues	\$ -	\$ -	\$ 0.6	\$ 0.2	\$ 0.3	\$ 0.2
Delta - Expenditures	\$ -	\$ (0.8)	\$ (0.5)	\$ (0.4)	\$ 0.2	\$ 0.2
Delta - Deficit Spend	\$ -	\$ 0.8	\$ 1.1	\$ 0.6	\$ 0.1	\$ -
Delta - Cash Balance	\$ -	\$ 0.8	\$ 1.9	\$ 2.5	\$ 2.6	\$ 2.6

October FY19 Forecast Summary



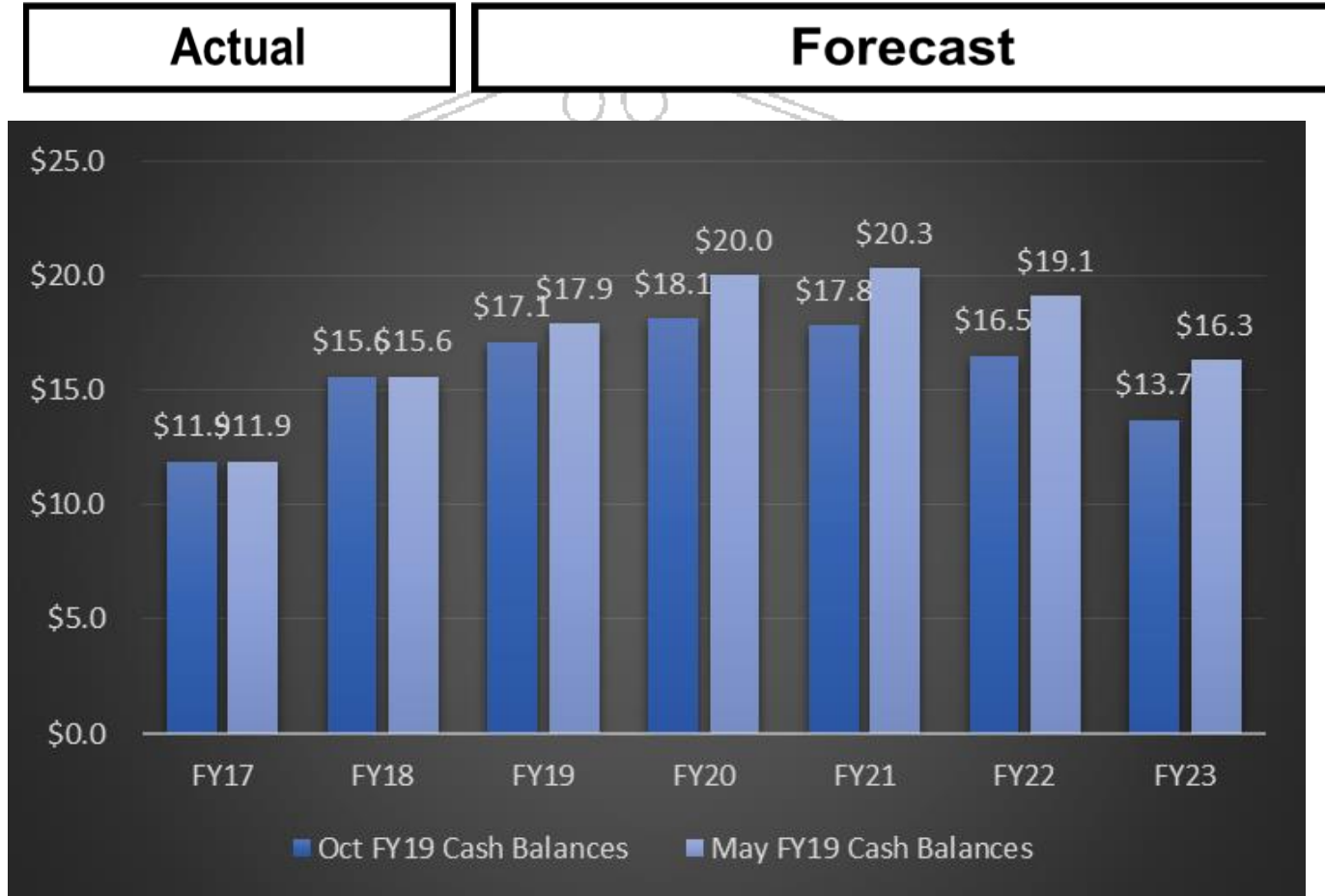
(\$ in millions)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenues	\$46.5	\$50.5	\$50.5	\$51.8	\$52.0	\$52.2	\$52.5
Expenditures	\$45.3	\$46.7	\$49.0	\$50.7	\$52.3	\$53.5	\$55.3
Deficit Spend	\$1.2	\$3.8	\$1.5	\$1.0	(\$0.3)	(\$1.3)	(\$2.8)
Cash Balance	\$11.8	\$15.6	\$17.1	\$18.1	\$17.8	\$16.5	\$13.7

May FY19 Forecast Summary



(\$ in millions)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenues	\$46.5	\$50.5	\$50.5	\$52.3	\$52.2	\$52.4	\$52.7
Expenditures	\$45.3	\$46.7	\$48.2	\$50.2	\$51.9	\$53.6	\$55.5
Deficit Spend	\$1.2	\$3.8	\$2.3	\$2.1	\$0.3	(\$1.2)	(\$2.8)
Cash Balance	\$11.8	\$15.6	\$17.9	\$20.0	\$20.3	\$19.1	\$16.3

Cash Balance - FCST Comparison



May Forecast Summary

- The October 2018 FCST is used as the basis for the May 2019 FCST.
- May FCST projects \$700k less in overall expenditures for FY19 and \$100k more in revenues than the October FCST.
- The May FCST projects a positive FYE cash balance variance of \$800k vs. Oct FCST. The May FCST projects cash balance on June 30, 2019, of \$17.9M.
- Under current assumptions, the District's cash balance is estimated to be \$16.3M on June 30, 2023 (FY23).
- Beginning in FY22, under current assumptions, expenditures are expected to begin to outpace revenues, when the operating deficit is forecasted to be (\$1.3MM) with an expanded deficit spend in FY23 of (\$2.8MM).
- The operating deficit should be muted beginning in FY22 & FY23 with significant cost savings associated with the opening of the new PreK-5 school building and consolidating three remaining elementary school buildings.

May Forecast Summary

- **With the passage of the new levy in 2017, revenue into the district is expected to exceed spending in FY21. By the end of FY21, BBHCSD cash balances are expected to grow to about \$20.5 million, nearly forty percent of the annual operating budget.**
- **Beginning in 2022, under current assumptions, expenditures are expected to begin to outpace revenues. The operating deficit is expected to be muted beginning in FY 2022 by cost savings associated with the opening of the new PreK-5 building and closing of three remaining elementary buildings.**
- **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 30 percent of the annual budget.**

May Forecast – Revenue Summary

- Over the **past five years**, operating **revenues grew** at an average annual rate of **about 2.3 percent**. Most of that growth was driven by the new levy passed in 2017. State funding increased at a rate of 0.5 percent per year, but was offset by drops in property tax allocation because of the continued phase-out of tangible personal property tax reimbursements.
- Going forward, revenues are expected to grow by about one percent per year. There will be some **property tax growth** from a combination of the 2018 reappraisal, some new construction going forward, and increases in public utility tangible property valuations. **State aid** is expected to decline slightly over the next five years because of assumptions about reduction in funding guarantees as part of the school funding formula. There is still a drop in property tax allocation because of the final reduction of tangible property tax reimbursements in 2019.

May Forecast - Revenues

Property Tax Revenue

- Real property tax revenues make up over **72 percent** of the total revenue in the Brecksville-Broadview Heights (BBHCSD) operating budget. These revenues grew by nearly \$5 million in FY 2018. The growth was driven by a combination of a new 5.99 mill levy passed in 2017 and a pulling forward of 2018 payments into late 2017 because of property owners' reactions to changes in federal deductibility. The shifting of payments from FY 2019 to FY 2018 is offsetting the growth that would have otherwise occurred in FY 2019 from the new levy.
- Cuyahoga County conducted the sexennial real estate property reappraisal in 2018. Residential values in BBHCSD increased by 9.6 percent and business property values by 6.5 percent as a result of the reappraisal. These changes yielded growth to the district on its 4.69 inside mills. Residential values are projected to grow by three percent in the next triennial reappraisal in 2020.

May Forecast - Revenues

Unrestricted State Aid (State Aid)

- Unrestricted aid from the state makes up just **10 percent** of the total revenue in BBH. That percentage is expected to decline slowly through the forecast period.
- The district is on the formula funding guarantee. In FY 2019, of the \$4.7 million the district is receiving from the state, over \$2.4 million was because of the guarantee. Based on the current district capacity for funding resources, we would need to add over 5,000 additional students to ADM.
- It is highly likely the district will remain on the guarantee as long as the current funding formula is in effect. The biggest risk to the district's revenue is a legislated reduction in the guarantee percentage. The forecast assumes a three percent reduction in funding because of the guarantee in FY 2020, which carries through to FY 2021, followed by another three percent reduction in FY 2022. These assumed reductions lower revenue to the district by \$140,000 each time.

May Forecast - Revenues

Other revenue

- Other revenue is about **3.5 percent** of total revenue annually. There are three main components: payments from other districts whose students are being educated by BBHCSD because of court placements, foster care arrangements, or similar reasons, pay-to-participate fees, and interest earnings.
- Tuition related revenue makes up about 37 percent all other revenue and is expected to remain fairly constant through the forecast period.
- Pay-to-participate fees, which were reduced for the 2017/2018 school year, account for a little over \$300,000 annually. In the 2016/17 school year, these fees brought in over \$500,000.
- Interest earnings are expected to reach \$542,000 this year, which is \$250,000 above FY 2018 and remain there for FY 2020. They are expected to begin dropping each year after 2020 as district cash balances decline.

May Forecast – Expense Summary

- **Over the most recent five-year period, BBH expenditures grew at a rate of just 0.2 percent per year. Salary growth declined by about 0.3 percent per year and benefit spending increased by two percent per year.**
- **Moving forward, total operating expenditures are expected to grow by 3.65 percent 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.**
- **Salaries are expected to increase by about 2.5 percent per year and benefits by nearly 6.8 percent per year. Other areas of spending are expected to be in line with general inflationary growth.**

May Forecast - Expenses

Salaries

- In FY19, BBHCSD certified staff had the option to migrate from the existing salary schedule A to schedule B. Based on spending in the first ten months of the fiscal year, salaries are expected to climb 2.1 percent for the year. In FY 2020 and FY 2021, the last two years of the current labor agreement, salaries are expected to increase about 3.5 percent per year. In the final two years of the forecast, we are reserving three percent per year to pay for anticipated increases.
- In each year of the forecast, we assume four teacher retirements with replacements at a lower salary level. This is expected to save the district about \$100,000 per year, lowering the anticipated overall growth rate in salaries by about 0.5 percent per year.
- Beginning in FY20, due to the closing of Central School, the FCST assumes a reduction of one elementary school principal, due to retirement, and the addition of five bus drivers due to modified bus schedules.

May Forecast - Expenses

Benefits

- Health insurance premium costs grew by nine percent with the October 2018 renewal and RX premiums grew by seven percent.
- In October of 2019, and each year thereafter, medical and RX insurance rates are assumed to grow by 10 percent annually.
- Overall, benefit spending is expected to grow six percent this year and in the six to eight percent range thereafter. The higher level of growth in 2020 is because of the addition of the five bus drivers.

May Forecast - Expenses

Purchase Services

- Purchased services are about nine percent 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 is expected to grow at about just over three to four percent per year over FCST period.
- In FY21, the growth rate is muted by savings from closing an old building and opening a new one. The new building is expected to yield cost savings in utilities and maintenance services.

Supplies

- Supplies and materials are about two percent 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 to more normal levels in 2020 and grow at an average annual rate of two percent beginning in 2021.
- The new building is expected to yield savings in FY21 in the areas of custodial and maintenance supplies.

May Forecast - Expenses

Capital Outlay

- Capital expenses from the operating budget have been less than \$100,000 annually. This spending is on miscellaneous equipment purchases. Beginning in FY 2020, capital expenses include lease/purchase payments on the acquisition of five new buses.

Other Expenses

- Spending in other objects spiked last fiscal year because of charges from the county for election expenses related to the operating levy in 2017. In addition, because delinquent property tax collections were higher than expected, so were the fees paid to the county for collecting those delinquent taxes.
- In 2019, these expenditures are expected to fall back to more normal levels and then grow slowly each year.

May Forecast Assumptions

- Assumptions that remain constant in the May FY19 FCST:
 - Projected tax collection rates equal to 98.6%
 - Projecting a 3% market value increase in next Cuyahoga County triennial reappraisal in FY21.
 - Projecting decline in State Aid funding of 3% in the next two biennium budgets.
 - Public Utility Personal Property (PUPP) increase of 2.5% throughout the FCST.
 - Salary growth of 3.5% in FY20 & FY21 with 3% growth in FY22-23
 - Four teacher retirements per year, FY20-23, saving approximately \$100k salary/benefits.
 - Board-paid medical insurance benefits cost increase equal to 9%.
 - Dental Insurance is projected to increase 3% per year in FY20-23.
 - Supply spending is expected to return normal levels in FY20 with avg. annual growth rate of 2%.
- New or Modified Assumptions since October FY18 FCST:
 - Residential property values increased 9.6% as result of the reappraisal.
 - Business property values increased 6.5% as a result of the reappraisal.
 - 2.1% actual projected salary growth in May FY19 vs. October FY19 projection of 3.78% in FY19.
 - One principal retirement, Central School closing, coupled with purchase of five new buses in FY20, is projected to have a net increase in expenses of just under \$200k in FY20.
 - 64 certified personnel, currently on Schedule A, would have minimal annual impact of <\$25k on FCST if they transition to Schedule B over next two years.
- 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 since OCT Forecast

(\$ in thousands)	FY19	FY19-23 FCST TOTAL
Increase in Other Revenues: Interest Income, Special Education Tuition, Pay to Participate, Medicaid Reimbursement and Workers Comp Retro Reimbursement	\$132	\$454
Decrease in Gen Prop Tax, Tangible Tax Collections	(\$82)	\$789
Decrease in Personnel Services (FY19)	\$503	\$1,492
Decrease in Retirement/Insurance Benefits (FY19)	\$427	\$1,596
Increase in Purchase Services - Maintance, Repair, Special Education, BH Lease	(\$150)	(\$1,035)
Unrestricted State Aid - FY19 Flat, No Change in FCST Assumptions	(\$14)	(\$14)
Increase in Supplies and Materials - Software licenses, Custodial	(\$49)	(\$199)
Increase in Capital Outlay - Bus Lease and GPS Equip	\$0	(\$423)
TOTAL CHANGE: FAVORABLE (UNFAVORABLE)	\$767	\$2,660

- The impact of each change is shown for current FY19 and as a total for the five-year FCST period through FY23 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 TY18/CY19 collection. Recent annual collection rates fluctuated from 98.9% (CY17) to 100.37% (CY18).
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)		\$412		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 3% decrease FY20-21.
1% Change in Purchased Services	\$47	\$47	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 reduced 50% in 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. 14 Certified staff become eligible for retirement FY20-23.
1% Change in Supplies & Materials	\$12	\$12	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.

