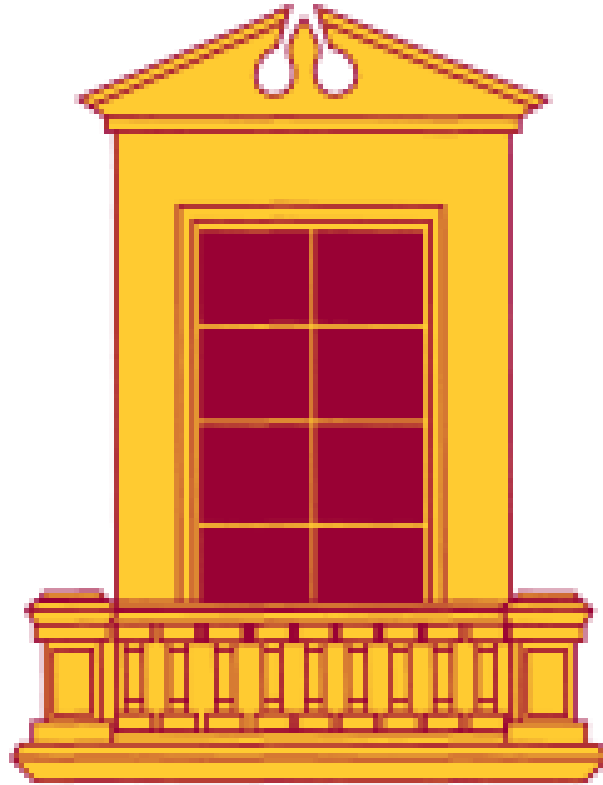


# Brecksville-Broadview Heights City School District

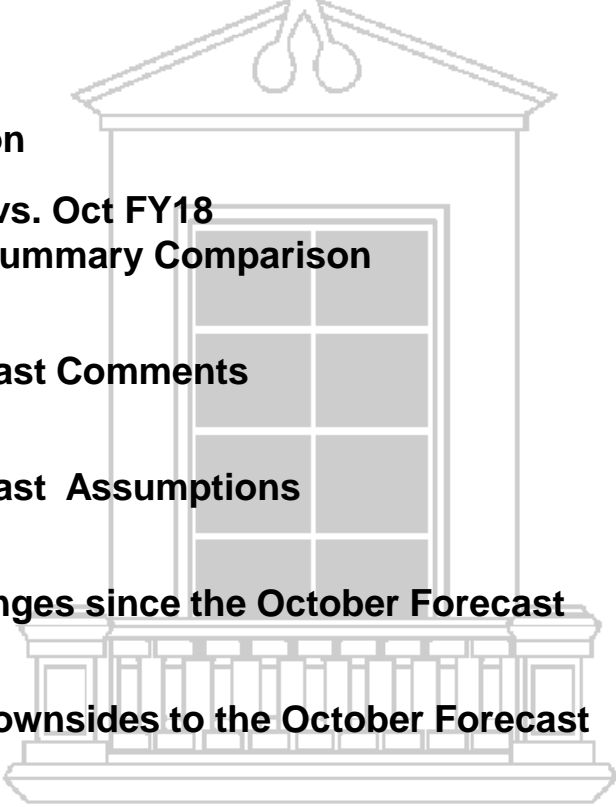


*“Where fine education is a heritage.”*

## **Five-Year Financial Forecast**

**May 21, 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 do not reflect the Board'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.*

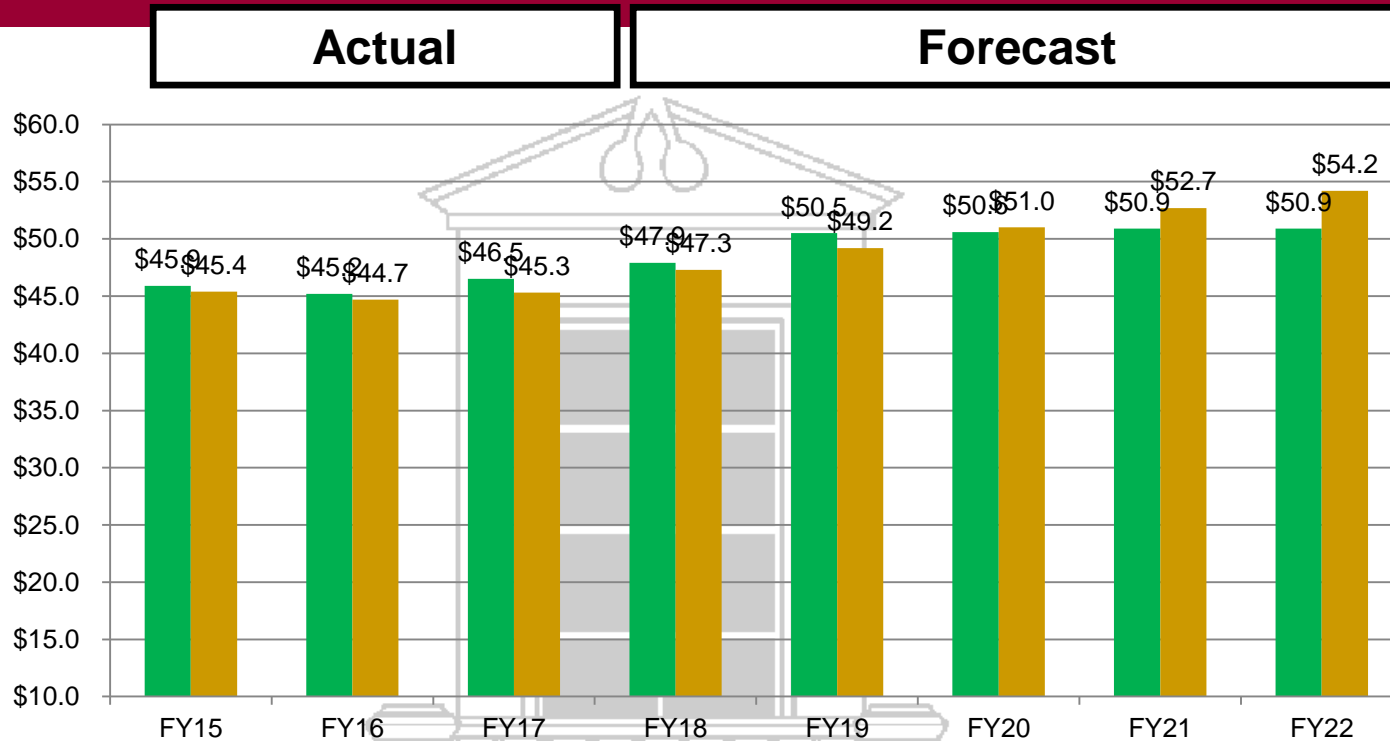
# Introduction

- **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
Oct - Revenues	\$ 47.9	\$ 50.5	\$ 50.6	\$ 50.9	\$ 50.9
Oct - Expenditures	\$ 47.3	\$ 49.2	\$ 51.0	\$ 52.7	\$ 54.2
Oct - Deficit Spend	\$ 0.6	\$ 1.3	\$ (0.4)	\$ (1.8)	\$ (3.3)
Oct - Cash Balance	\$ 12.5	\$ 13.8	\$ 13.4	\$ 11.6	\$ 8.3
May - Revenues	\$ 50.3	\$ 49.8	\$ 51.4	\$ 51.7	\$ 51.9
May - Expenditures	\$ 47.1	\$ 48.9	\$ 50.8	\$ 52.4	\$ 53.9
May - Deficit Spend	\$ 3.2	\$ 0.9	\$ 0.6	\$ (0.7)	\$ (2.0)
May - Cash Balance	\$ 15.0	\$ 15.9	\$ 16.5	\$ 15.8	\$ 13.8
Delta - Revenues	\$ 2.4	\$ (0.7)	\$ 0.8	\$ 0.8	\$ 1.0
Delta - Expenditures	\$ (0.2)	\$ (0.3)	\$ (0.2)	\$ (0.3)	\$ (0.3)
Delta - Deficit Spend	\$ 2.6	\$ (0.4)	\$ 1.0	\$ 1.1	\$ 1.3
Delta - Cash Balance	\$ 2.5	\$ 2.1	\$ 3.1	\$ 4.2	\$ 5.5

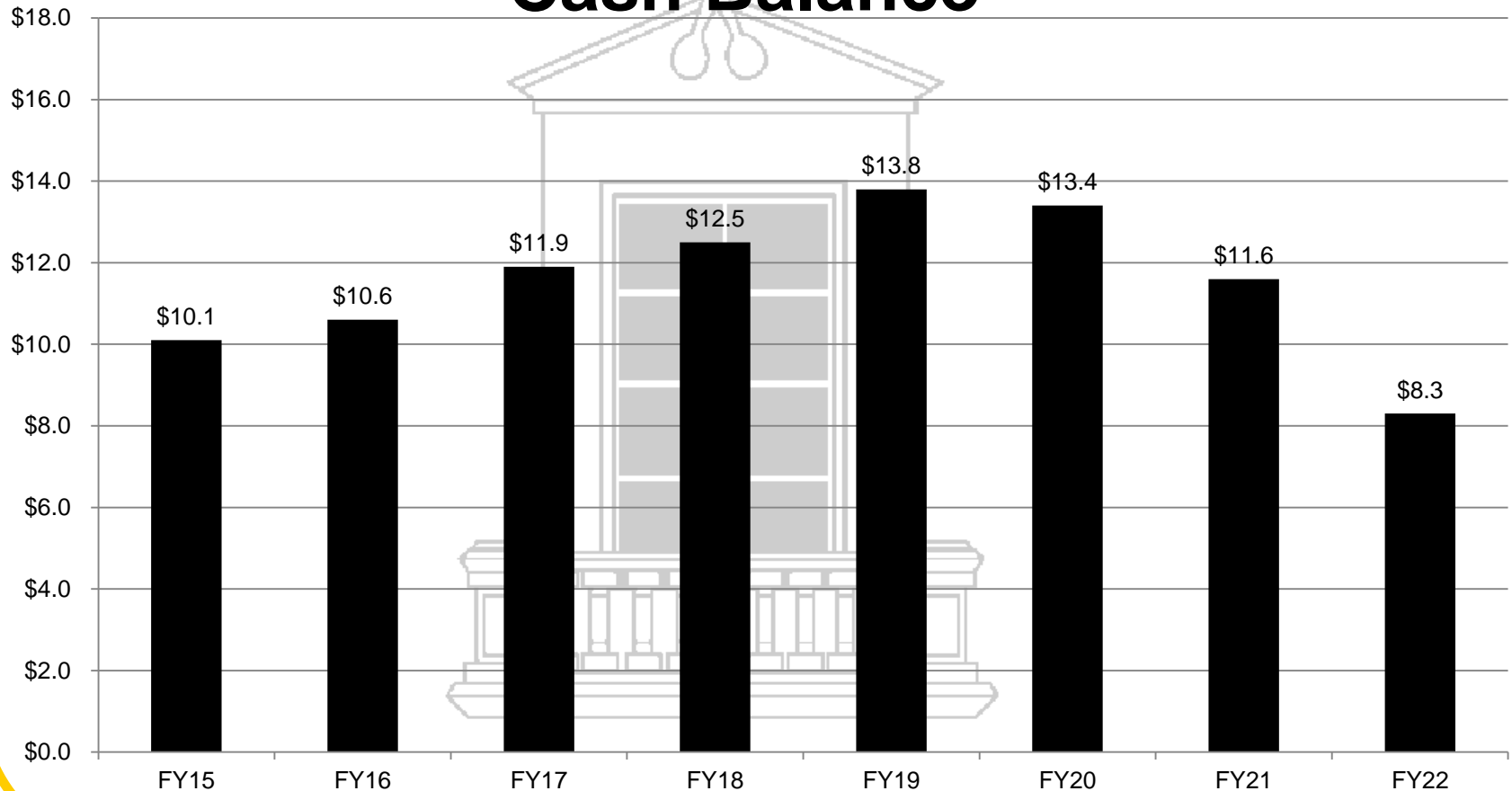
# October FY18 Forecast Summary



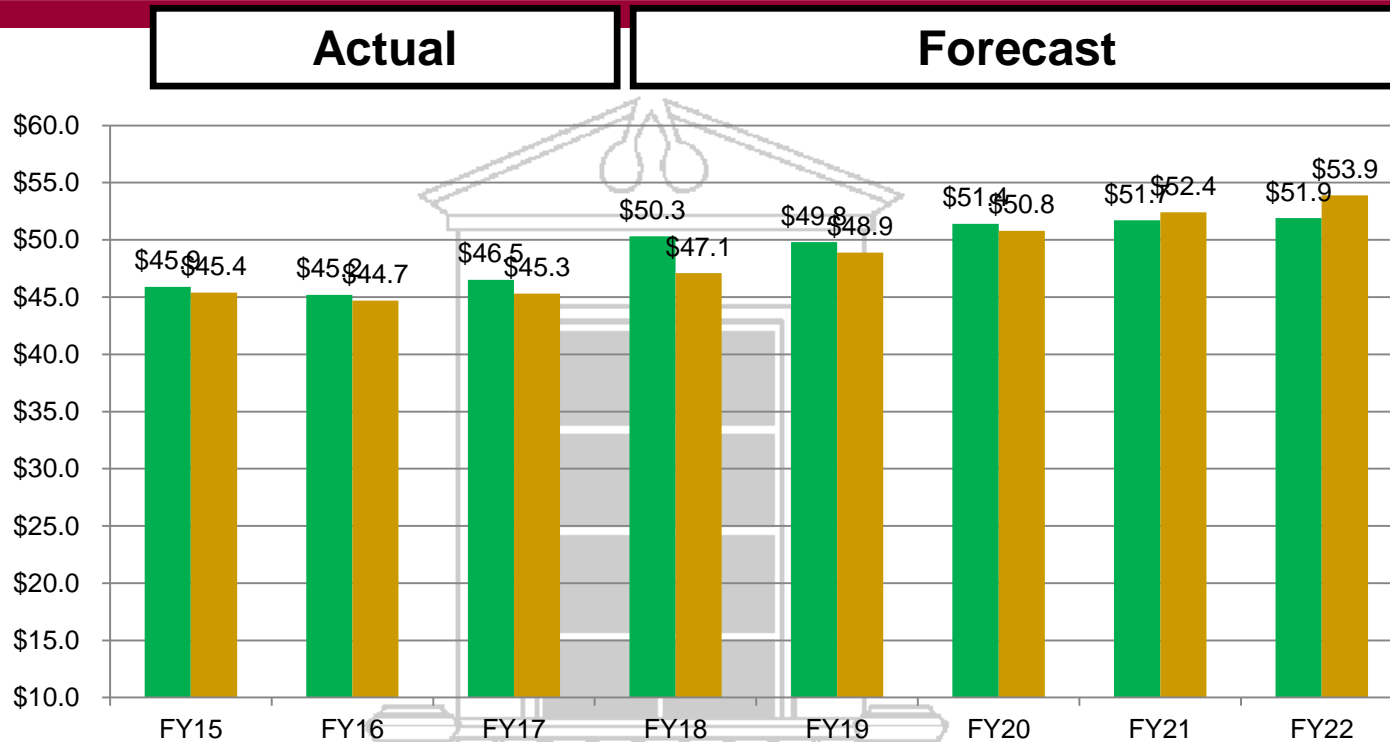
(\$ in millions)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Revenues	\$45.9	\$45.2	\$46.5	\$47.9	\$50.5	\$50.6	\$50.9	\$50.9
Expenditures	\$45.4	\$44.7	\$45.3	\$47.3	\$49.1	\$51.0	\$52.7	\$54.2
Deficit Spend	\$0.5	\$0.5	\$1.2	\$0.6	1.3	(\$0.4)	(\$1.8)	(\$3.3)
Cash Balance	\$10.1	\$10.6	\$11.9	\$12.5	\$13.8	\$13.4	\$11.6	\$8.3

# October FY18 Forecast Summary

## Cash Balance



# May FY18 Forecast Summary

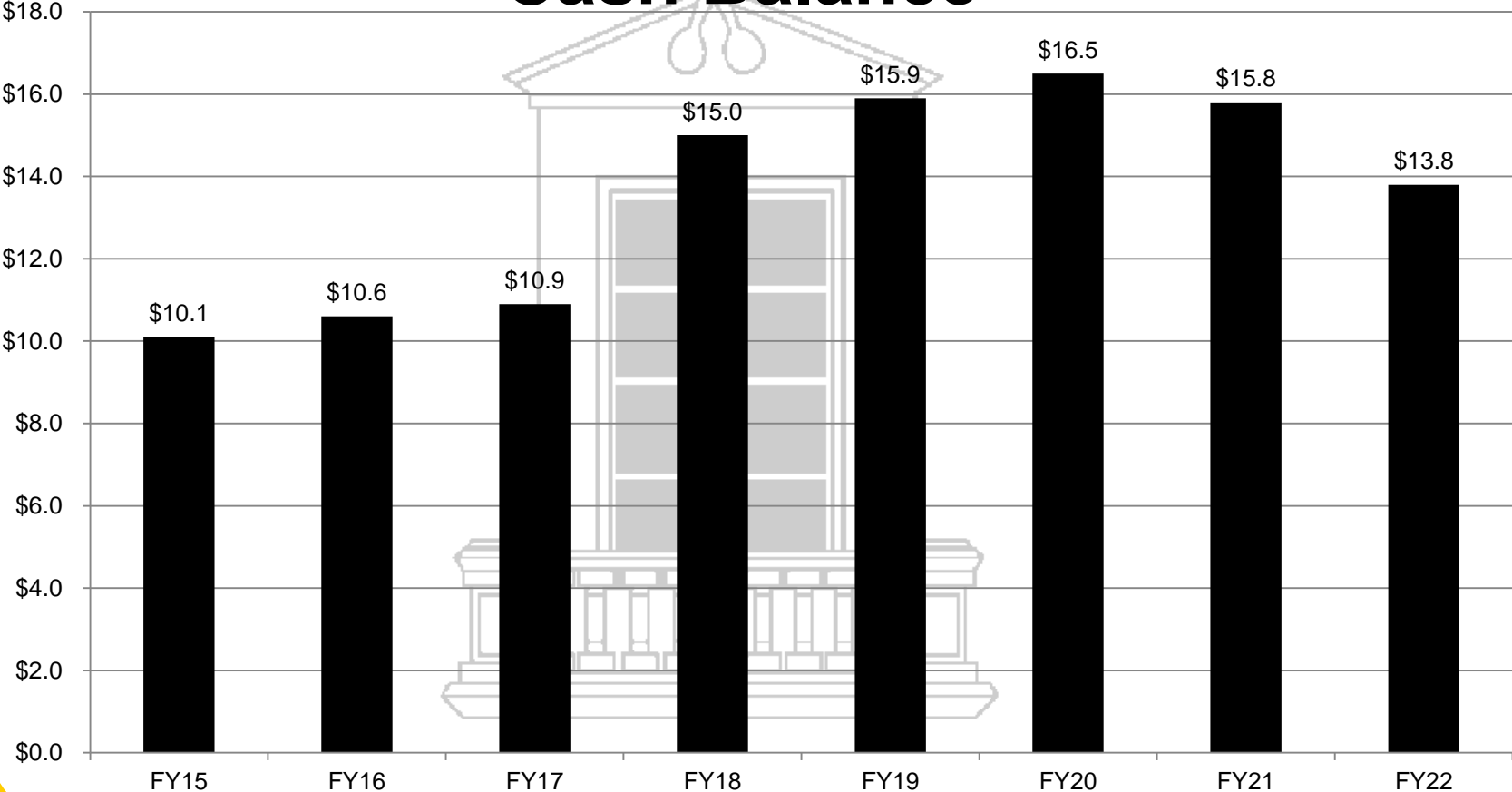


(\$ in millions)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Revenues	\$45.9	\$45.2	\$46.5	\$50.3	\$49.8	\$51.4	\$51.7	\$51.9
Expenditures	\$45.4	\$44.7	\$45.3	\$47.1	\$48.9	\$50.8	\$52.4	\$53.9
Deficit Spend	\$0.5	\$0.5	\$1.2	\$3.2	\$0.9	\$0.6	(\$0.7)	(\$2.0)
Cash Balance	\$10.1	\$10.6	\$11.8	\$15.0	\$15.9	\$16.5	\$15.8	\$13.8



# May FY18 Forecast Summary

## Cash Balance



# May Forecast Comments

- The October 2017 FCST is used as the basis for the May 2018 FCST.
- May FCST projects \$200k less in actual expenditures for FY18 and \$2.4M more in revenues.
- Due to the cumulative effect of higher revenue and less expenditures, the May 2018 FCST Cash Balance on June 30, 2018, of \$15M, is \$2.5M more than the October 2017 FCST.
- With the current assumptions (no new levies and no further cost reductions), the District's cash balance is estimated to be \$13.8M on June 30, 2022 (FY22).
- The District passed a 5.99 mill operating levy in May 2017 which resulted in property tax revenue increase of \$3M in FY18 and \$6M in FY19 fiscal forecast.
- Passage of the May 2017 levy, coupled with a projected increases in assessed valuations from the FY18 triennial reappraisal, influences the forecast in determining the next deficit spending year, projected to begin in FY21.

# May Forecast Comments

- The May FY18 FCST projects a 3% increase in assessed valuations during the FY18 (CY19) and FY21 (CY22) triennial reappraisal years.
- Five year labor agreement ratified in FY17 with Memorandums of Understanding signed in March, 2018.
- Projected salary growth of 3.2% in the OCT FCST is expected to be 2.5% actual in FY18.
- Changes in state aid, real estate collection rates and numerous other revenue or expense variables will influence the net cash balance five years in the future.
- According to current FCST, deficit spending begins in FY21. However, if the FCST projections hold true, the next new operating funds levy may not be required until FY23 or beyond, if cash balances drop below \$10MM.
- In BBHCSD one mill of new levy money represents approximately \$1M in revenue.
- The FCST does not reflect the Board of Education's negotiating position with its employees.

# May Forecast Comments

## Overall Summary

The overall long-term forecast has improved modestly since the October forecast. The revenue outlook has gotten a bit better and the expenditure forecast are somewhat lower. Deficit spending, which was anticipated to begin in FY 2020 in October is not expected to begin until FY 2021. Cash balances are expected to peak at just above \$16 million and remain above 20% of total budget through the forecast period.

## REVENUE

Over the past five years, revenues in the district essentially remained flat. Minimal increases in property taxes and state aid were offset by the elimination of the tangible personal property tax reimbursements by the state. Going forward, revenues are expected to grow by 2.25% annually, primarily driven by the new operating levy passed during 2017. For state aid, the district is expecting to be on a funding guarantee the next four years. The forecast is showing a drop in state aid two of the four years because of concerns that the guarantee could be phased-down in future years by the state.

# May Forecast Comments

- Real estate taxes make up 68% of the total operating budget of the Brecksville-Broadview Heights City School District. In FYs 2018 and 2019, the district is being impacted by two significant events. Because of the federal income tax deduction changes beginning in 2018, there is evidence that a significant number of district residents pre-paid their entire 2018 property taxes prior to January 1, 2018. This has led to a shift of about \$1.4 million of revenue from FY 2019 into FY 2018. There is no net long-term impact of this change in payment behavior.
- The second significant event is the upcoming 2018 property reappraisal in Cuyahoga County. Based on data from Sales Ratios from the state, we are expecting residential property values to grow by 3-5 percent in the district.



# May Forecast Comments

## EXPENDITURES

- Over the prior five-year forecast period, expenditures averaged DROPPING by about a ½% per year. Moving forward, driven primarily by the new labor agreement and escalating health insurance expenses, expenditure growth is expected to average 3.65% per year. Non-personnel expenditures are anticipated to grow at about the same rate as inflation.
- Based on year-to-date spending, salary expenses (87% of operating expenses) have grown at a base rate of 2.5 percent this year, a little bit lower of a rate than had been anticipated in October (3.2%). The estimated growth rate moving forward is subject to some level of uncertainty because of the employee options allowed under the new collective bargaining agreement. Assumptions are made as to the percentage of certified staff transitioning to the new pay schedule for FY 2019 and the rate of growth due to the choices staff make.
- May FCST anticipates 75% of certified staff will transition to “schedule B” in FY19, estimated to cost \$650 per staff member. FCST estimates transitions equal to 20% of staff in FY20, with remaining 5% in FY21.

# May Forecast Assumptions

- Assumptions that have remained constant in the MayFY18 FCST:
  - Projected tax collection rates equal to 98.6%,
  - Triennial real property appraisal increase of 3% in FY18 and FY21.
  - 3.2% overall salary growth in FY19-21, followed by 2% growth in FY22.
  - Public Utility Personal Property (PUPP) increase of 2.5% throughout the FCST.
  - Board-paid Insurance Benefits cost increase equal to 10%.
- Assumptions that have been modified in MayFY18 FCST:
  - Decline in State foundation aid modified from 5% down to 3% in the next two bienniums.
  - Increase in cost per staff member (\$50) and number of certified staff transitioning per year from Schedule A to B in FY19-21.
- Purchased Services, Supplies, and Other Expenditures, forecasted using actual expenses and multi-year averages plus 2% inflation adjustment, unless otherwise noted.
- Four retirements (per year) assumed in FY19-22 of FCST. This includes certified staff reaching 30+ years experience over the next five years. Assume MA, Step10 personnel replacement.
- All levies are continuing with the 5.99 mill levy passed in May 2017 included.

# Major Changes to the May FCST

(\$ in thousands)	FY18	FY18-22 FCST TOTAL
Increase in Other Revenues: Special Education Tuition, Pay to Participate, Interest Income, Medicaid Reimbursement and Workers Comp Retro Reimbursement	\$296	\$2,219
Increase in Gen Prop Tax, Tangible Tax Collections	\$2,080	\$1,360
Decrease in Personnel Services (FY18)	\$248	\$1,091
Decrease in Retirement/Insurance Benefits (FY18)	\$163	\$993
Increase in Purchase Services	(\$200)	(\$846)
Unrestricted State Aid - Funding guarantee adjustment increased from 95% to 97%	\$21	\$418
Decrease in Other Expenses in May FCST due to overestimation of Capital Outlay, Election Expense, Tax Collection Fees, Prof Membership Dues	\$3	\$342
Increase in Supplies and Materials, includin all other expenses	(\$53)	(\$275)
Increase in Non Operating Revenue: BWC Retro Reimbursement Program	\$4	\$199
<b>TOTAL CHANGE: FAVORABLE (UNFAVORABLE)</b>	<b>\$2,562</b>	<b>\$5,501</b>

- The impact of each change is shown for current FY18 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 (\$ in thousands)</u>	<u>Upside</u>	<u>Downside</u>	<u>Probability</u>	<u>Comments</u>
1% Change in Real Estate Tax Collection Rate	\$386	\$386	Low	98.6% collection rate to reflect the last half TY16/CY17. Fluctuated from 96% (CY15) to 98.9% (CY16). % based on roperty Tax and Pupp valuations. No rollback & homestead.
1% Property Valuation Change	\$48	\$48	Med	Inside Millage (4.69) only, Triennial Update in TY18(CY19) and TY21(CY22) residential growth estimated at 3% in both reappraisals. \$1,033,000,000* 1%=\$10,330,000/1000 * 4.69
1% Base Salary Change (includes fixed fringes)		\$405	High	Current contract expires 6/30/2021
1% Change in Insurance Premium	\$61	\$61	High	FCST uses 10% per annum for medical & prescription drugs, 0% for dental
1% Change in State Aid - Unrestricted/Restricted	\$42	\$42	Med	Every 1% or <1>% adjustment in state aid equals \$55k annually. Project flat YOY state aid FY18-19 with 5% decrease FY20-21.

- 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>
5.99 Mills New Money Levy	\$6,000			\$3M in FY18 , \$6M thereafter.
Pay to Participate Fees Change 10% in "participation" and/or "rate"	\$26	\$26	Low	Fees were 50% less beginning FY18 w/student cap @ HS \$500 & MS \$300 (assumes \$260K total).
Each Teacher Retirement/Reduction more or less 4	\$25	\$25	Med	Approx. 26 Certified staff become eligible for retirement FY19-22.
1% Change in Purchased Services	\$44	\$44	Med	Impacted by special education services, professional services, legal services, utility rates, facility maintenance needs, etc.
1% Change in Supplies & Materials	\$9	\$9	Med	Impacted by transportation expenses, maintenance, fuel, custodial services, instructional materials, etc.
10% Change in Special Education Catastrophic Reimbursement from State	\$22	\$22	Med	Reimbursement amount has averaged \$224K FY14 to FY16.

- "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.

