

Mansfield City Schools
Notes to the Five Year Forecast
General Fund Only
October 20, 2015

Introduction to the Five Year Forecast

All school districts in Ohio are required to file a five (5) year financial forecast by October 31, and May 31, in each fiscal year (FY). The five-year forecast includes three years of actual and five years of projected general fund revenues and expenditures. Fiscal year 2013 (July 1, 2013-June 30, 2014) is the first year of the five year forecast and is considered the baseline year. Our forecast is being updated to reflect the most current economic data for the May 2015 filing.

May 2014 Updates:

Revenues:

The overview of the revenues shows that we will receive more revenue than we estimated in the May 2015 Forecast. The total revenues that were forecasted for May were \$57,290,364 and the actual received was \$58,572,083 with a variance of 2.2% and acceptable within the confines of the forecast. There were a few revenue lines which did bring in more than expected with other revenue having the largest amount of lines which brought in more money.

Expenditures:

The overview of the expenditures shows that we are on target with the May 2015 Forecast. The total expenditures for the May Forecast were \$54,842,947 and the actual FY15 expenditures were \$53,301,231. The variance is a positive 2.8%.

Unreserved Cash Balance:

The cash balance for May increased by \$240,712 over the amount forecasted, and each of the major components of the forecast came in under the May estimates.

Forecast Risks and Uncertainty:

- 1) The long range forecast through FY19 shows a positive ending cash balance at this time but future state budgets could impact this heavily. The district is projected to begin deficit spending in FY19.
- 2) The recession is still affecting the real estate market for property values. There are currently about 2.5 million dollars in valuation which is going to be removed from the tax duplicate.
- 3) The State Budget represents nearly 61% of district revenues in FY15. It is clearly an area of on-going risk to the current level of revenue. Compounding the issue for our forecast will be the estimates built on a State Biennium Budgets which begin in FY18 which is unknown currently. We will continue to monitor legislative action that could affect our district. We believe the risk of future state budgets affecting our budget adversely is moderate as long as the economy remains stable.

There are many provisions in the current state budget bill HB59 that will increase the district expenditures in the form of expanded EdChoice Scholarships in the 2016-17 school years and the new Income Base Voucher Program in FY14. The new Autism voucher which began in FY13 cost the district \$18,900 in FY13 is now costing \$35,216 in FY14. This is an example of a new choice program in the prior state budget that cost the district money and these new voucher programs could increase costs as well. Expansion of programs such as these could expose the district to new expenditures that are not currently in the forecast. We are monitoring any new threats to our state aid and increased costs very closely.

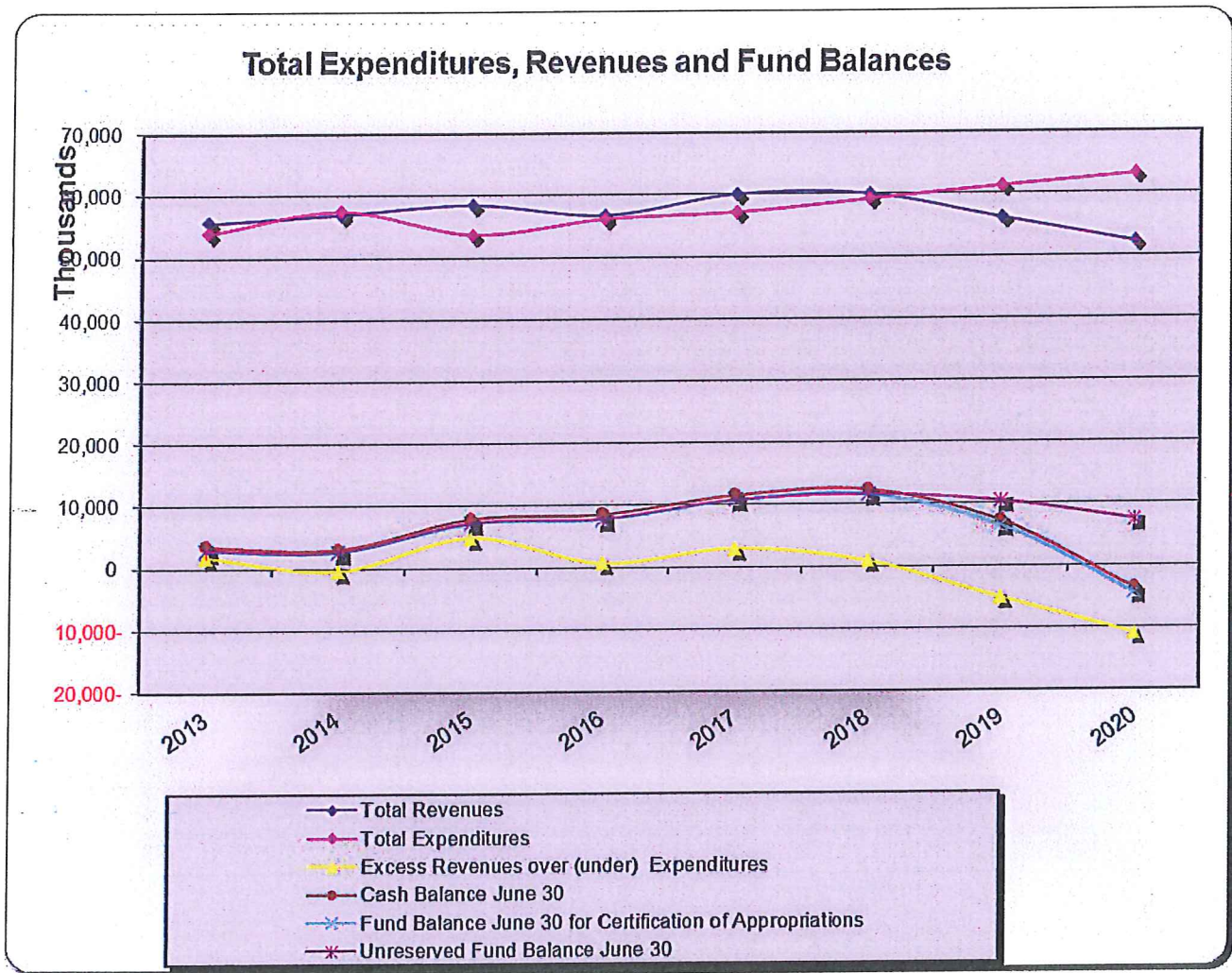
- 4) Patient Protection and Affordable Care Act (PPACA) – This program was approved March 23, 2010 along with the Health Care and Education Reconciliation Act. Many of the provision of this federal statute were supposed to be implemented January 1, 2014 but were delayed by the IRS until January 1, 2015. There is the additional risk that costs will go up as additional employees are added to our health care rolls. Rules for the PPACA are in flux at this time and we are tracking them closely. Future uncertainty over rules and implementation of PPACA is an elevated risk to district costs. We continue to monitor the rules and implementation as this significant change to health care evolves.
- 5) Labor relations in the district are currently in negotiation which all unions. The reductions of the past due to fiscal emergency are currently working fiscally for the district.

The financial forecast presents, to the best of the Mansfield City Schools Board of Education's knowledge and belief, the expected revenues, expenditures, and operating balance of the General Fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected.

The major lines of reference for the forecast are noted below in the headings to make it easier to relate the assumptions made for the forecast item and refer back to the forecast. It should be of assistance to the reader to review the assumptions noted below in understanding the overall financial forecast for our district. If you would like further information please feel free to contact Mr. Trevor R. Gummere, Interim Treasurer at gummere.trevor@mansfieldschools.org.

Summary of General Fund Revenue, Expenditures and Ending Cash Balance

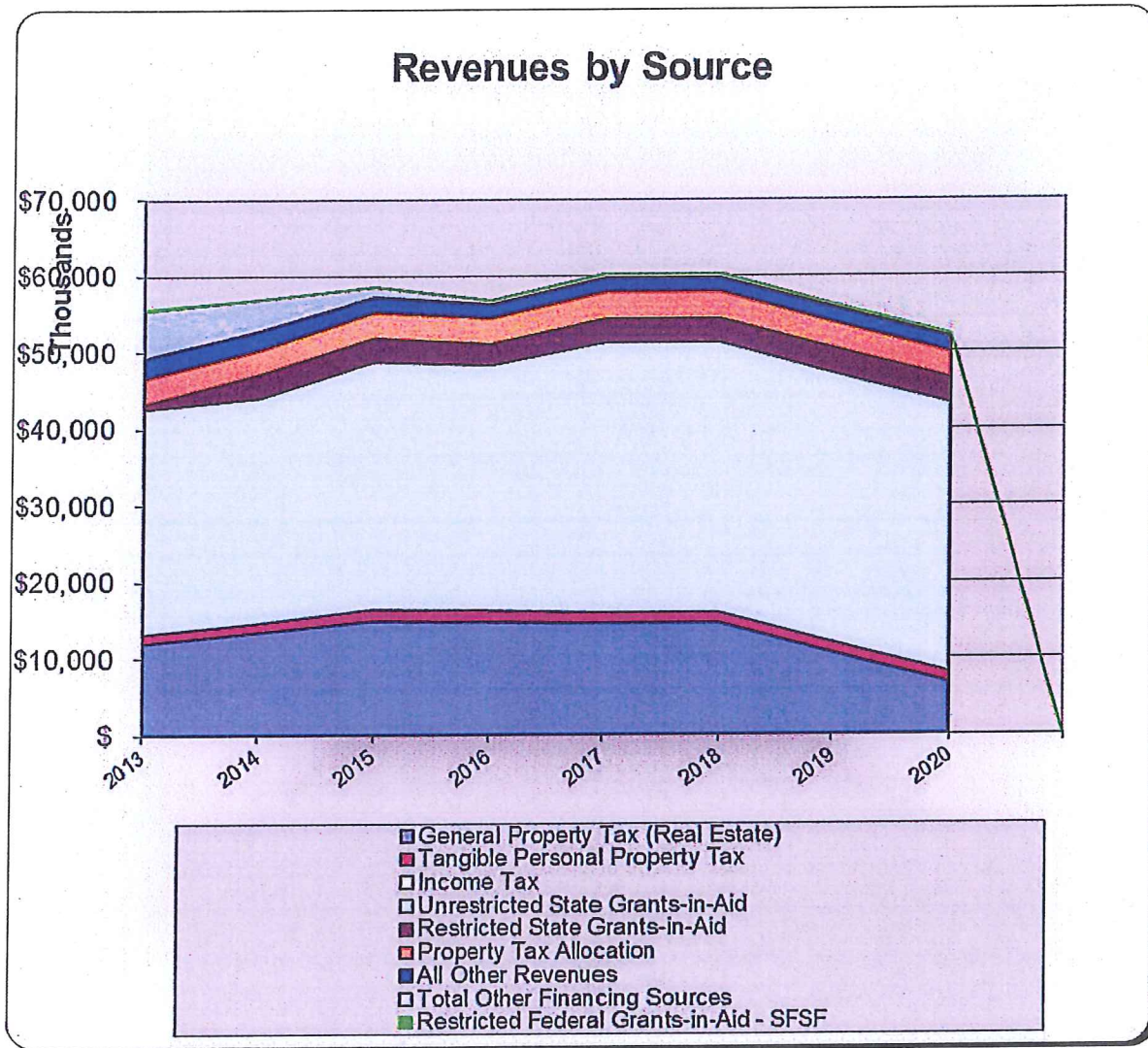
The graph below summarizes the districts estimated cash receipts, expenditures and ending cash balances actual FY11 through FY13, and estimated FY14 through FY18.



Revenue Assumptions

Summary of General Fund Estimated Receipts for FY15

The graph below shows our estimated revenues for our entire forecast. The largest portion of the graph is the state aid, which has our district exposed to the more volatility when the state's budget must be cut.



Real Estate Value Assumptions – Line # 1.010

Property Values are established each year by the County Auditor based on new construction and complete reappraisal or updated values. A reappraisal of the district property value occurred in 2014 for values collected in calendar year 2015. The increased values have been factored into the projection for the district property values along with their corresponding tax reduction factors affecting outside millage. Real Estate collections represent 34% of Mansfield City Schools revenue, and this is a significant source.

For 2015-2016 growth trends will be essentially a 0% increase in property values following the increase values in 2014. Increases are shown in the real estate collection on the district's 4.5 inside millage rate.

A reminder that Tangible Personal Property (TPP) values decreased to \$-0- for 2011 as a result of HB 66 passed effective July 1, 2005. This began a systematic phase-out of this tax base statewide to be replaced by a Commercial Activities Tax (CAT). Revenue from the CAT tax was to fully reimburse school districts for TPP losses through FY18 based on 2004 property values. HB153 effective July 1, 2011 eliminated the TPP reimbursement for our district in FY12. These

reimbursements were originally going to phase reimbursement out through FY 2018. This in effect transferred the burden for those lost dollars into increased taxes on local taxpayers, a shift of taxes from businesses residential taxpayers.

ESTIMATED ASSESSED VALUE (AV) BY COLLECTION YEARS

Estimated Real Estate Tax Collections - (Line #1.010)

Property tax levies are estimated to be collected at 100% of the annual amount due to the increase in delinquent tax collections. In general, 56% of the new Residential/Agriculture and Commercial/Industrial expected to be collected in February tax settlements and 44% collected in August tax settlements. Public Utility tax settlements (PUPP taxes) are estimated to be received 50% in February and 50% in August settlement from Richland County, and are included in Line 1.01 of the forecast as those taxes are settled along with the real estate taxes.

Renewal and Replacement Levies – Line #11.02

We are planning to renew the expiring emergency levies in 2018, as the lines in the forecast do present with the amount of collection without the levies. In the lines down the forecast the levies are represented as being passed, as a note of caution there has not been any discussion as of this forecast to a commitment by the Board of Education to pursue the levies.

New Tax Levies – Line #13.010 and Line #1.030

Currently we have not planned any new income or earned income tax levies.

Estimated Tangible Personal Tax – Line#1.020

The phase out of TPP taxes as noted earlier began in FY06. HB66 was adopted in June 2005 and the provisions of the legislation have eliminated tangible personal property tax after FY11. Any general personal property TPP revenues received in FY12 and beyond are delinquent TPP taxes.

School District Income Tax – Line #1.030

We do not have any income tax levies and do not anticipate pursuing any at the time of the forecast, however the decision always is a discussion topic with the Board of Education

State Foundation and Casino Revenue Estimates – Line #1.035; #1.040, and #1.045

A) Unrestricted State Foundation Revenue– Line #1.035

The amounts estimated for fiscal year 2014 and fiscal year 2015 for state funding is based on funding component computations of House Bill 59 and April 2014 state foundation payment report. The current state budget includes an increase in funding for our district in fiscal year 2014 and fiscal year 2015. We are using the funding formula model provided by the Ohio Department of Education for the May forecast. The October forecast was based on formula simulations provided by the Legislative Service Commission because an actual model had not yet been released by ODE. The current calculation using the official formula model indicates that the original estimates in October were accurate. However, there was a slight change regarding the amount allocated to restricted state revenues which will be discussed under the heading “Restricted State Revenues – Line #1.040”.

In FY14-15 HB59 is using the fourth new funding formula for public education since 2009. The new funding formula has a new method to measure a district’s wealth and capacity to raise local revenue. The new wealth measure is called the State Share Index (SSI). There are three components of the SSI:

- 1) Valuation Index that measures the district’s average property value per pupil for tax year 2010, 2011 and 2012 compared to the statewide average valuation per pupil;
- 2) Median Income Index that uses tax year 2011 median income compared to statewide median income that is used to measure the ability of a district’s residents to pay property taxes;
- 3) Wealth Index which uses two thirds (2/3) of the Valuation Index and one third (1/3) of the Median Income Index to compute the overall district Wealth Index.

The three components taken together form the one overarching State Share Index (SSI) which equalizes state funding based on wealth. In prior funding formulas the main tool to equalize wealth was a millage charge-off of 23 mills of adjusted valuation per pupil. If the SSI were reduced to a charge-off as in past formulas there would not be a uniform charge-off, rather a range of charge-off rates from 11.3 mills to 22.9 mills.

The SSI, or one or more of the other three indexes, are applied in determining need on the nine separate components that constitute state aid in FY14 and FY15. The nine components of the new funding model are:

- 1) Opportunity Grant – Per pupil amount of \$5,745 in FY14 and \$5,800 in FY15
- 2) Targeted Assistance – Tier I based on wealth and Tier II based on percentage of district agricultural assessed value
- 3) Special Education Additional Aid – Based on six (6) categories of disability
- 4) Limited English Proficiency – Based on three (3) categories based on time student enrolled in schools
- 5) Economically Disadvantaged Aid- Based on number and concentration of economically disadvantaged students
- 6) K-3 Literacy Funds- Based on districts K-3 average daily membership and two Tiers
- 7) Gifted Funds –Based on average daily membership at \$5.00 in FY14 and \$5.05 in FY15
- 8) Career-Technical Education Funds – Based on career technical average daily membership and five (5) categories students enrolled in
- 9) Transportation Aid – Funding based only on greater of per rider or per mile costs for each district. A supplemental payment for districts that have a SSI of .5 or greater and pupil density at or below the state median

The current ODE State Funding Report Calculations from April 25, 2014 are using current FY14 Average Daily Membership (ADM) of 1,304. The new funding formula causes districts either to be on the “Cap”, “Formula” or “Guarantee”, our district is now a “Cap” funded district for FY14 and we anticipate that we will be a “Formula” district beginning in FY15 and beyond. As a result, any changes in ADM will result in State Funding increases or decreases. While the Cap increased 10.5%, the actual formula calculations we are estimating call for a 8.4% increase in FY15 State Funding.

On November 3, 2009 Ohio voters passed the Ohio casino ballot issue. This issue allowed for the opening of four casinos one each in Cleveland, Toledo, Columbus and Cincinnati. As of March 4, 2013 all four casinos were open for business and generating Gross Casino Tax Revenues (GCR). Thirty-three percent (33%) of the gross casino revenue will be collected as a tax. School districts will receive 34% of the total tax that will be paid into a student fund at the state level. These funds are distributed to school districts on the 31st of January and August each year. These distributions began in January 2013.

The initial student payment to schools in January 2013 was \$21.00 per pupil based on 1,816,000 pupils in Ohio. As more actual taxes are collected the State has indicated that the original 2009 estimates of \$1.9 Billion of Gross Casino Revenue (GCR) may be closer to \$900 million to \$1.1 billion, as revenues from casinos are falling off. We are estimating statewide student enrollment to decline by ½ of 1% from the fiscal year 2013 total to 1,808,000 students in fiscal year 2014. Based on 1,808,000 students we expect school districts share of GCR to be \$85million resulting in fiscal year 2014 payments of \$51.57 per pupil. For fiscal year 2015 through 2018 we estimated another ½ of 1% decline in pupils to 1,797,885 and GCR increasing to \$90 million or an estimated per pupil amount of \$53.56 in fiscal year 2015 and a 3% increase in per pupil amounts in fiscal years 2016 through 2018.

B) Restricted State Revenues – Line # 1.040

One significant change that occurred from House Bill 59 was the change in classification from unrestricted to restrict for economically disadvantaged funds. It is anticipated that there will be legislative action in the future that will require school districts to account for how this revenue was used to benefit students who are economically disadvantaged. The other item that is currently required to be categorized as restricted aid is Career Technical. These amounts are generally stable and the state should continue into the future with small growth from year to year.

Restricted Federal Grants in Aid – line #1.045

The district received its final payment of in Ed Jobs money in FY12. These funds will no longer be available after FY12.

Summary of State Aid

State Taxes Reimbursement/Property Tax Allocation – Line #1.050

a) Rollback and Homestead Reimbursement

Rollback funds are reimbursements paid to the district from Ohio for tax credits given owner occupied residences equaling 12.5% of the gross property taxes charged residential taxpayers on tax levies passed prior to September 29, 2013. HB59 eliminated the 10% and 2.5% rollback on new levies approved after September 29, 2013 which is the effective date of HB59. HB66 the FY06-07 budget bill previously eliminated 10% rollback on Class II (commercial and industrial) property.

Homestead Exemptions are also credits paid to the district from the state of Ohio for qualified elderly and disabled. In 2007 HB119 expanded the Homestead Exemption for all seniors over age 65 years of age or older or who are disabled regardless of income. Effective September 29, 2013 HB59 changes the requirement for Homestead Exemptions. Individual taxpayers who do not currently have their Homestead Exemption approved or those who do not get a new application approved for tax year 2013, and who become eligible thereafter will only receive a Homestead Exemption if they meet the income qualifications. Taxpayers who currently have their Homestead Exemption as of September 29, 2013 will not lose it going forward and will not have to meet the new income qualification. This will slow the growth of homestead reimbursements to the district, and as with the rollback reimbursements above, increase the taxes collected locally on taxpayers.

b) Tangible Personal Property Reimbursements – Fixed Rate

The district no longer receives any fixed rate reimbursement. HB153 effective July 1, 2011, the FY12 and FY13 state budget, dramatically changed this revenue as our district did not qualify as highly reliant.

Summary of State Tax Reimbursement – Line #1.050

We have anticipated a flat rate of growth going forward as to not appear overly optimistic in any growth of revenue to Mansfield City Schools with the State of Ohio.

Other Local Revenues – Line #1.060

Open enrollment is the most significant revenue source in this area of the forecast and is expected to remain stable after the decrease from FY12 to FY13. In FY13 and FY14 the revenue was \$549,184 and \$608,604, respectively. The remaining other revenues are projected to grow by 1% annually.

Transfers In / Return of Advances – Line #2.040, Line #2.050, and, Line #2.060

These are non-operating revenues which are the repayment of short term loans to other funds over the previous fiscal year and reimbursements for expenses received for a previous fiscal year in the current fiscal year. All advances over year end are planned to be returned in the succeeding fiscal year.

Short Term Borrowing - There is no planned short term borrowing at this time.

Expenditures Assumptions

Wages – Line #3.010

The model reflects no base salary increases in any year of the forecast, but does include the step increases going forward. Any raise granted to any union will need to be shown in the May 2016 forecast or an updated forecast with any approved union agreement.

Fringe Benefits Estimates – Line #3.02

This area of the forecast captures all costs associated with benefits and retirement costs. The district pays 14% of each dollar paid in wages to either the State Teachers Retirement System or the School Employees Retirement System as required by Ohio law. We have also included an increase in SERS retirement due to the catch-up provision adopted in April 2010. This will increase our costs by 1/6 of the annual amount each year for 6 years until SERS is caught back up to a current collection cycle. This corrects a situation that occurred back in 1987 when school districts shifted from calendar year to fiscal year.

The current structure is to have Health Insurance paid at 100% on the employee's behalf, with a maximum out of pocket of \$90/month for a Prescription and Dental. The proposed rate increase in January 2016 (obtained in September 2015) is 10% for the district, and is reflected in the forecast. The forecast also has the 10% increase going throughout all five years and it is significant cost to the district. The below listed

2010	\$475,000	Dollars Converted to district raises:	1.7%
2011	\$435,000		1.6%
2012	\$550,000		2.0%
2013	\$740,000		2.8%
2014	\$1,100,000		4.2%
2015	\$960,000		4.3%
2016	\$830,000		3.8%
Average dollar increase per year \$727,000			
Average raise per year			2.9%

The issue with health insurance is the increases happen mid fiscal year and impact our cash position immediately. If we are to better manage cash in the future serious thought to change the insurance to a July renewal maybe helpful.

Patient Protection and Affordable Care Act (PPACA) Costs- the **Patient Protection and Affordable Care Act (PPACA)** commonly referred to as **Obamacare** or the **Affordable Care Act (ACA)**, is a United States federal statute signed into law by President Barack Obama on March 23, 2010. Together with the Health Care and Education Reconciliation Act, it represents the most significant regulatory overhaul of the country's healthcare system since the passage of Medicare and Medicaid in 1965. Many of the significant provisions of the PPACA that were scheduled to be implemented by employers on January 1, 2014 were delayed until January 1, 2015 by a July 2, 2013 ruling from the IRS.

It is uncertain to what extent the implementation of PPACA will cost our district additional funds. There are numerous new regulations that potentially will require added staff time, at least initially due to increased demands, and it is likely that additional employees will be added to coverage that do not have coverage now. We are not certain what these added costs maybe but there are "taxes" mandated by the act which we are aware of. The Transition Reinsurance fee due January 15, 2015, is a fee due the IRS for \$5.25 per covered member per month for the prior year (2014). This will be \$63 for each employee who had a full year of coverage in the prior year. This tax could equate to roughly a 2% annual increase in FY15. For fully insured plans an Insurer Fee of 2.46% of premium is due by the insurer January 1, 2014. This cost will be passed along in fully insured plans. Longer-term a significant concern is the 40% "Cadillac Tax" that will be imposed in 2018 for plans whose value of benefits exceed \$10,200 for individual plans and \$27,500 for family plans. The rules and implementation of the PPACA is an ongoing issue we are watching closely to evaluate the effect on our district. Currently our district will be assess the "Cadillac Tax" in FY20, but the tax is not forecasted this far in advance.

B) Workers Compensation & Unemployment Compensation

Workers Compensation is expected to remain at about 1.1% of wages after FY14-18 as claim experience has moderated. Unemployment Compensation has been negligible however this may increase in out years if staff reduction are needed.

C) Medicare

Medicare will continue to increase at the rate of increase of wages. Contributions are 1.45% for all new employees to the district on or after April 1, 1986. These amounts are growing at the general growth rate of wages.

Summary of Fringe Benefits – Line #3.020

Purchased Services – Line #3.030

Open enrollment and Community schools continue to draw a significant number of students from our funding, which is the expenditure in this area. Over the last year, we are currently seeing a reduction in the expenditure for the open enrollment and community school. The problem when the student(s) return from the community school, the majority are significantly behind regular Mansfield City Schools students and require additional services to bring them current with their counterparts. Technology has been contracted out to be able to use the expertise of commercial providers for our staff and students. There will be continued support of the technology as a key component in education moving forward.

Supplies and Materials – Line #3.040

An overall inflation of 3% is being estimated in FY14 and beyond for this category of expenses which are characterized by textbooks, copy paper, maintenance supplies and materials, etc. HB153 effective July 1, 2011 eliminated textbook and material set asides required by earlier law HB412.

Equipment – Line # 3.050

The district has new facilities; however, there are other buildings with significant needs. The busses had 5 taken off the road due to safety concerns and the Ohio State Patrol did remove those units. In order to have a ten year turn for the busses, it has been put in the line to purchase three (3) busses each year. The administration will provide the mix at the conclusion of the fiscal year for regular and special education busses.

At this time we are in need of technology to support our students with basic tools so FY16-19 budget for technology was increased to update our network and equipment to support students. Longer term the administration is in process of reviewing a capital plan which will lead to a new five-year capital plan in the meantime the items noted below have been added to the forecast as they are critically needed instructional items.

Other Expenses – Line #4.300

The category of Other Expenses consists primarily Auditor & Treasurer fees, annual audit costs and liability insurance coverage. We are estimating annual increase of 1% for this forecast period for these items.

Transfers Out/Advances Out – Line# 5.010

This account group covers fund to fund transfer and end of year short term loans from the General Fund to other funds until they have received reimbursements and can repay the General Fund. The district has some new facilities, but the overall average of the buildings is 65 years old. We have put one million dollars in next year and throughout the forecast to transfer into the permanent improvement fund to fix all the major needs of each building. Each year the administration will select the most needed corrections and begin the process at least six to eight months ahead of job to secure the best possible vendor and price. There will be a maintained capitol building needs plan which will be reviewed and maybe adjusted each year based on the recommendation of the administration.

Encumbrances –Line#8.010

These are outstanding purchase orders that have not been approved for payment as the goods were not received in the fiscal year in which they were ordered. The amounts fluctuate but we have estimated the average amount we anticipate will be outstanding.

Reservations of Fund Balance – Line #9.080

Mansfield City Schools currently has no reservation of funds policy, but GFOA best practice suggests a 30 to 60 day unreserved cash balance at the end of every fiscal year. The district will be reviewing in the next 60 days a policy to establish a reserve amount acceptable to the administration and the Board of Education.

Ending Unencumbered Cash Balance – Line#15.010

This amount must not go below \$-0- or the district General Fund will violate all Ohio Budgetary Laws. Any multi-year contract which is knowingly signed which results in a negative unencumbered cash balance is a violation of 5705.412, ORC punishable by personal liability of \$10,000.