

Milford Exempted Village School District
Five Year Forecast – Assumptions
Fiscal Year 2020

INTRODUCTION

Per the Ohio Revised Code, public school districts in the State of Ohio are required to submit a Five-Year Financial Forecast in November and May of the fiscal year. School Districts operate on a fiscal year running from July 1st – June 30th. The forecast includes revenues, expenditures, excess/deficit line items, estimated encumbrances, and the projected fiscal year end cash balance. The forecast includes three years of historical/actual data and five years of projected estimates.

The Ohio Department of Education’s purpose/objectives for the five year forecast are:

1. To engage the local board of education and the community in the long range planning and discussions of financial issues facing the school district.
2. To serve as a basis for determining the school district’s ability to sign the certificate required by O.R.C. 5705.412, commonly known as the “412 Certificate”.
3. To provide a method for the Department of Education and Auditor of State to identify the financial standing of the Milford Exempted Village School District.

Understanding the Forecast:

The forecast is a tool used by the Board of Education to illustrate the projected financial position of the school district in upcoming years. Due to the unknowns’ in future economic conditions and assumptions, the forecast is an ever changing document. Overall, the forecast needs to be reviewed based on future trends and percentages, rather than specific amounts. Many projections are based on the information provided by the County Auditor, State Auditor, Ohio Department of Taxation, Department of Education, and partnership companies.

Revenue unknowns and variables, include, but are not limited to; enrollment, property valuation, new construction, and interest rates. State funding is based on a biennium budget, which will change every two years (meaning state revenue cannot confidently be projected beyond the biennium budget). Expenditures unknowns include, but are not limited to; staffing levels, retirements, healthcare fluctuations, utility costs, special education cost, and tuition.

Fluctuations in revenues & expenditures in the current year of the forecast, do not only affect the current year, but substantially compound and affect the future years of the forecast.

EXECUTIVE SUMMARY:

The district closed FY ’19 with a cash balance of \$43,179,512; the equivalent of 227 true cash days. With increasing expenditures annually and moderate growth in revenues, the District anticipates expenditures to exceed revenues in FY ‘20 at which time, the cash balance will progressively decline. The last operating levy was passed in May of 2013 with a necessity to replace the revenue stream (Tangible Personal Property Tax) removed by ODE in 2014. This operating levy was speculated to last 4-5 years per the last campaign. The district was fortunate

Milford Exempted Village School District
Five Year Forecast – Assumptions
Fiscal Year 2020

to receive additional state funding dollars over the past several years; this increase in district revenue has permitted the district to maintain a positive cash balance.

REVENUES:

Line 1.01 General Property Tax (Real Estate)

Projections for general real estate are based on property valuations provided by the Clermont and Hamilton County Auditors. Property values increased 1.38% in tax year 2019 with a collection year of 2020. Property in Clermont County went through a sexennial valuation update in 2017. As a result, property valuations for Milford EVSD increased 15.24% in calendar year 2017 with a collection year of 2018. Prior year increases were .75% in 2016, .86% in 2015, and 3.76% in 2014 respectively. Projections for 2020 reflect an increase in real estate collections due to an increase in overall property values. Future projected years of the forecast reflect a continued increase in real estate property valuation. The modest increases are based on new developments of residential and commercial property. Clermont County properties will be going through a full reappraisal in 2020.

The Ohio Governor's stay at home order due to the Coronavirus has resulted in the slowing of the State's economy. As a result, it is projected the District will experience an increase in the number of delinquencies in real estate tax revenue collections.

Line 1.02 Tangible Personal Property Tax

House Bill 66 eliminated tangible personal property tax on machinery, equipment and inventory used by businesses in the state of Ohio. This change is seen as an opportunity to promote economic development in Ohio. This source of income was eliminated in FY 2010.

Line 1.03 Income Tax

The District does not have an Income Tax.

Line 1.035 Unrestricted Grants-in-Aid

The State of Ohio funds public school districts on a two-year cycle, referred to as the biennium budget. Projecting state funds beyond the two-year budget is challenging since the reliance on these funds is based on future, unknown legislation. Funding public school districts in Ohio has been a controversial topic for decades, evident by the Ohio Supreme Court ruling school state funding unconstitutional on at least three different occasions.

State Funding has seen different funding "formulas" in three of the last four biennium budgets. The most recent biennium budget passed by the State in 2019, eliminated the basic funding formula. The State budget allocated funds to each school district based on the amount received the previous fiscal year.

Milford Exempted Village School District
Five Year Forecast – Assumptions
Fiscal Year 2020

The State's 2020 revenue collection has been severely impacted by the slowing economy due to the stay at home order. With the State required to have a balanced budget by the end of its fiscal year, the State has been forced to make expenditure reductions. As such, the State has reduced the foundation funding to all public schools by \$300 million. This reduction has resulted in the loss of \$1,243,819 in State funding for the District in fiscal year 2020. As of the date of this forecast, the State has proposed to gradually lift the stay at home restrictions which will allow the economy to slowly recover. Until the stay at home order is fully lifted, State revenues are expected to lag that of the previous year. As a result, it is projected that the District will see an additional reduction in State funding for fiscal year 2021. In fiscal year 2022, it is projected that State funding will return to its previous levels.

Casino gambling was approved by Ohio voters in 2009 with the passage of a constitutional amendment. The amendment allowed for four casinos to be located around the State. Thirty-four percent (34%) of the gross casino revenue goes into the County Student Fund. Money is distributed from this fund to all school districts in Ohio based upon student populations as certified by the Department of Education. The Ohio Department of Taxation receives a student count by county and by district within the county. Money is remitted directly to the school districts. The District received \$343,720 in casino revenues in fiscal year 2018, \$352,686 in fiscal year 2019 and \$361,343 in fiscal year 2020. Casino gambling revenues are projected to decrease in fiscal year 2021 due to the Ohio Governor's stay at home order. Revenues from casino gambling are projected to increase once again beginning in fiscal year 2022

Line 1.04 Restricted Grants-in-Aid

The most recent biennium budget passed by the State in 2019, eliminated the funding formula for economically disadvantaged and career technical education. The State budget allocated funds to each school district based on the amount received the previous fiscal year. The funding received through these two items are restricted on how it can be spent. The District also receives restricted funds from the State through the catastrophic cost program.

Economically Disadvantaged Funding

Economically disadvantaged funding is provided by the State to address economic disadvantage (poverty) and its effects on educational outcomes. Funding was based on the number of students who qualify for the free or reduced lunch program. Those that qualify are considered economically disadvantaged. This represents students in poverty, but also students of families with low incomes.

The District received \$58,998 in economic disadvantaged funding in fiscal year 2019 and \$61,379 in fiscal year 2018.

Career Technical Education Funding

Milford Exempted Village School District
Five Year Forecast – Assumptions
Fiscal Year 2020

Career technical education funding is provided for additional state support for students who are in career technical programs.

The District received \$6,694 in career technical education funding in fiscal year 2019 and \$6,694 in fiscal year 2018.

Catastrophic Cost Reimbursement

Catastrophic cost reimbursement is additional State aid for special education students' whose individual educational costs exceed the statutory threshold limits. The current threshold amounts that must be exceeded are \$27,375 and \$32,850 based upon the severity of the student.

State aid is in the form of partial reimbursement of prior year expenses.

It is projected that the District will continue to receive catastrophic cost reimbursement at its current funding level.

The District received \$697,635 in catastrophic cost reimbursement in fiscal year 2019 and \$702,623 in fiscal year 2018.

Line 1.05 Property Tax Allocation

The State provides reimbursement to the District for property tax relief given to residential taxpayers through the Homestead & Rollback program.

Line 1.06 All Other Operating Revenue

Other local income includes investment income, tuition from other districts, rental of school facilities, donations, open enrollment, Tax Increment Financing (TIF) payments, All Day Kindergarten tuition, student fees and other miscellaneous revenues. The collections from the Union Township TIF began in FY12, with the district receiving 25% of the school district TIF amount collected. Beginning with the second payment in FY 19, the district is now receiving 100% of the school district TIF amount collected. The district also receives TIF funding from Miami Township and the City of Milford.

The District has experienced a loss of tuition and student fee revenue in fiscal year 2020 as a result of the State's school closure order. It is expected these revenues will return to previous fiscal year levels beginning in fiscal year 2022.

Line 2.04 Operating Transfers In

During construction of Boyd E. Smith and Seipelt under the OFCC project, the funding awarded was less than the construction bids received, forcing MEVSD to pay for excess costs. The board voted in June 2015 to transfer from the General fund to the Building fund \$4,000,000 to cover this short fall. The OFCC then responded by asking \$195,323 be placed in a School Facilities fund opposed to a Building fund per the necessary calculation of LFI & OFCC portions of

Milford Exempted Village School District
Five Year Forecast – Assumptions
Fiscal Year 2020

various aspects of the Segment One revision to the contract for abatement and demolition of Main as well as site safety allowances for both Boyd E. Smith and Seipelt. These construction projects were financial completed in FY18 with a transfer in to the general fund for the balance of \$1,607,144 and out to the permanent improvement fund for the same amount.

The district receives funds for hosting state sponsored athletic events. These funds have been transferred into the general fund. These funds were then transferred out to the athletic fund.

Line 2.06 All Other Financing Sources

All other financing sources include refunds from expenditures made in the previous fiscal year.

EXPENDITURES:

Line 3.01 Personal Services

Educational institutions in the state of Ohio, including public school districts, are service based industries. As a result of being a service based industry, the majority of expenditures for school districts are salaries and benefits.

Staffing is projected to remain at their current levels thought the length of the forecast. The current MEA and MCEA union contracts run through June 30, 2020.

The personnel services have been adjusted to reflect the step increases for the length of the forecast as well as raises 2.5% and 2.5% for FY 2019 and FY 2020 respectively. Projected raises of 1% are reflected in FY 2021 – FY 2024.

Line 3.02 Employees' Retirement/Insurance Benefits

Benefits are projected using two categories. The first category is based off of State or Federal government mandates. The second category is based off of employee voluntary benefits.

The first category includes retirement benefits. The State mandates 14% on an employee's salary be contributed to the retirement system by the District. This category also includes Medicare payments which is 1.45% of an employee's salary. The final expenditures in this category included unemployment claims and workers compensation claims.

The second category includes health, dental, and life insurance. Expenditures for these items are based on enrollments and rates. Employee enrollment is project to stay at its current level throughout the life of the forecast. The District is part of the Southwest Ohio Organization for School Health (SWOOSH) consortium. SWOOSH is a self-funded model for health and dental insurance. Life insurance is fully insured.

The District's health insurance rate increased 16% beginning on January of 2020. It is projected that the District will experience an annual increase of 10% in the remaining years of the forecast.

Milford Exempted Village School District
Five Year Forecast – Assumptions
Fiscal Year 2020

The District's dental insurance rate decreased 3.3% beginning on January of 2020. It is projected that the District will experience an annual increase of 4% in the remaining years of the forecast. The District does not anticipate a rate change to the life insurance through the remaining years of the forecast.

Line 3.03 Purchased Services

Purchased Services projections are based on numerous variables such as inflation, enrollment, staffing, and the weather. Major purchased services items include maintenance costs, utilities, contracted services, professional meeting expenses, property and vehicle insurance, student transportation services, tuition to other districts and communication expenditures. Projections are increased at the rate of four percent (3%). The district anticipates expending funds over the next several years for major repairs. The forecast reflects the expensing of \$2.425 million in FY 2021, and \$1.8 million in FY 2022 respectively for these items.

The State's school closure order beginning in mid-March, impacted several service contracts as well as utility expenses. As a result, the District has seen a reduction in expenses in these areas.

To help offset the State's reduction in funding, the District is making budget reductions for fiscal year 2021.

Line 3.04 Supplies and Materials

Supplies and materials projections are based on inflation estimated at three percent (3%). Supply expenditures include instructional materials such as textbooks, software, and computer supplies. It also includes expenditures for office and custodial supplies, as well as fuel for the buses.

The State's school closure order beginning in mid-March, has resulted in a decrease in the amount of supplies needed. As a result, the District has seen a reduction in expenses.

To help offset the State's reduction in funding, the District is making budget reductions for fiscal year 2021.

Line 3.05 Capital Outlay

This area is used to fund equipment purchases from building and departmental budgets. This mainly includes expenditures for technology and furniture. The District chose to implement a 1:1 technology initiative beginning in 7th grade starting FY17. To put this in place, the BOE chose to approve purchasing new devices as well as switches and access points to support additional usage on campus.

The State's school closure order beginning in mid-March, has resulted in a decrease in capital outlay expenditures for fiscal year 2020.

Milford Exempted Village School District
Five Year Forecast – Assumptions
Fiscal Year 2020

To help offset the State's reduction in funding, the District is making budget reductions for fiscal year 2021.

Line 4.30 Other Objects

This area includes such items as county auditor and treasurer fees, membership fees, liability insurance and fees for the annual district financial audit. Any increases for this line item are projected to be minimal.

Line 5.01 Operating Transfer-out

This reflects FY15 Board approved transfer from the General Fund to the Building Fund to cover the cost of potential LFI (locally funded initiatives) for the two Elementary Buildings through the OFCC project for GMP exceeding estimated costs covered by OFCC. These construction projects were financial completed in FY18 with a transfer in to the general fund for the balance of \$1,607,144 and out to the permanent improvement fund for the same amount.

The district receives funds for hosting state sponsored athletic events. These funds have been transferred into the general fund. These funds were then transferred out to the athletic fund.

The District has two outstanding loans for the purchase of land and the bus garage. The principle and interest on these loans is currently be paid out of the permanent improvement fund. However, the balance in the permanent improvement fund will not cover the remaining cost of these loans until maturity. The Board approved the transfer of funds from the general fund, into the permanent improvement fund to cover the remaining payments on these outstanding loans.

8.01 Estimated Encumbrances

Encumbrances are funds that have been set aside for payment of goods or services that have been ordered but have not yet been expensed at the end of the fiscal year. The increase for fiscal year 2020 is the result of the proposed capital projects described under purchase services.

CONCLUSION:

The State funding reductions for the current fiscal year, as well as projected reductions for fiscal year 2021, have pushed the District into deficient spending for the current fiscal year. The District will continue monitoring the situation at the State level as the stay at home restrictions are slowing lifted and its impact on the economy. The District will also need to closely monitor its revenues and expenditures since deficit spending is projected in the forecast.

DISCLAIMERS:

Professional Diligence Notice and Disclaimer:

Milford Exempted Village School District
Five Year Forecast – Assumptions
Fiscal Year 2020

Reasonable professional diligence and care has been exercised in the preparation of this forecast. It is a public record pursuant to Ohio law. Public dissemination is required by State law and enabled by Resolution of the Milford Exempted Village School District Board of Education. A variety of sources and methods are used to develop the forecast data. Various assumptions and projections are employed in developing the data that may or may not be timely, accurate, complete or correctly interpreted. All forecast data is subject to change or correction at any time without notice. If any notice is subsequently provided, such notice may be limited to the filing of a revised forecast within the parameters of the statutory filing schedule. This forecast document is designed solely to provide a general indication of the probable future financial position of the Schools District based on information currently available to the School district. The legitimacy or accuracy of any specific assumption, number or the forecast total, while deemed reliable, cannot be guaranteed. In many cases, a relatively small change in one forecast number will have the effect of materially changing forecast data and trends, positive or negative.

Therefore, professional discretion, diligence and caution are required when using and interpreting forecast information. Current fiscal year forecast data does not necessarily reflect current School District appropriations, budgets, certifications or other data maintained in the files of the School District, including the Office of the Treasurer of the Board of Education. Future forecast fiscal year data is compiled from public sources to the extent possible and reasonable. Historical data is based on fiscal year-end data filed by the Treasurer of the Board of Education. Questions from the community and other users of this data are encouraged. The contact person is Brian Rabe, Treasurer, Board of Education.