



Toledo Public Schools

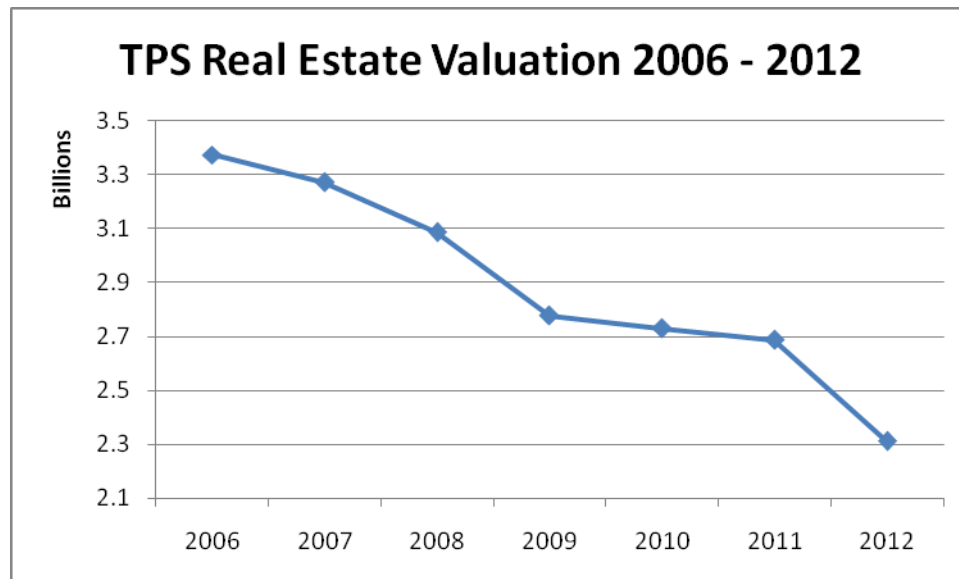
Notes to the Five Year Forecast

May 2013

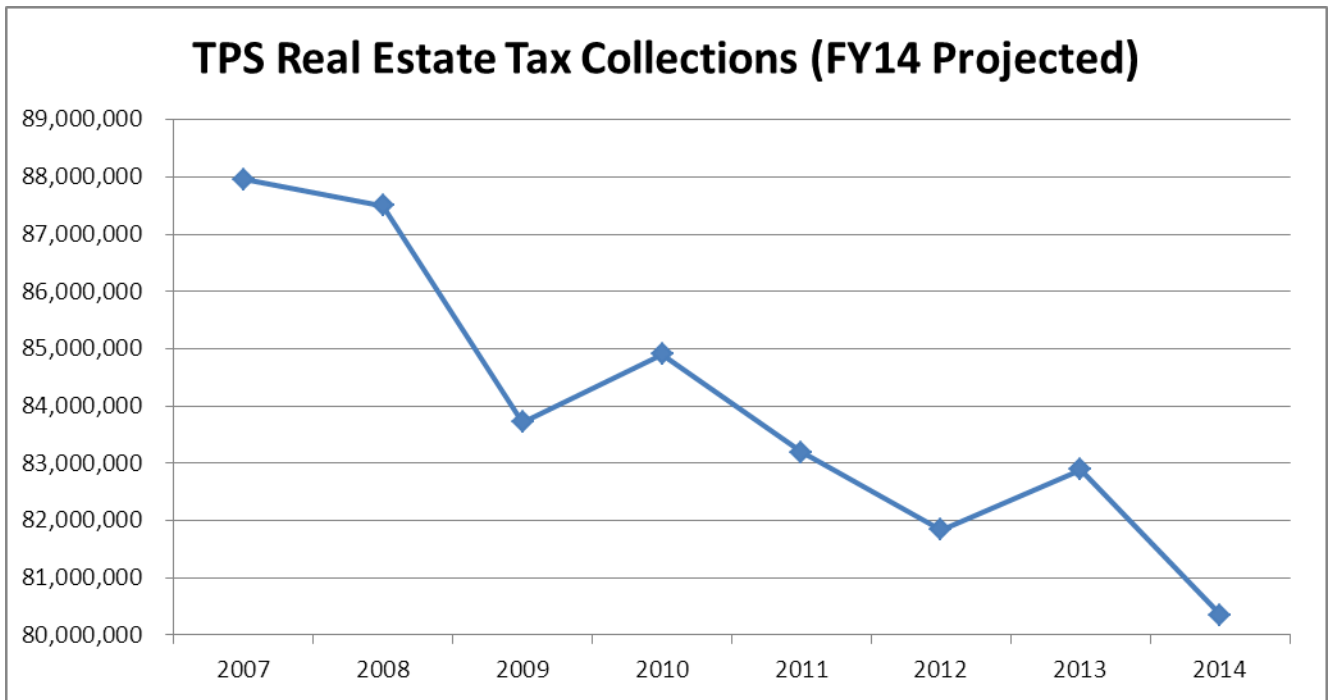
1. REAL ESTATE TAXES

Real Estate estimates for 2013-2017 are based on conversations with the Lucas County Auditor's office regarding preliminary numbers for the sexennial revaluation, large parcel refunds, and the addition of the casino to the tax duplicate. The effective voted millage rate has increased to partially compensate the decline in agricultural/residential property valuation. A schedule of total valuation changes is as follows:

	<u>Total Valuation</u>	<u>Amount of Change</u>	<u>Percent Change</u>
2006 Valuation	\$3,373,095,788		
2007 Valuation	\$3,272,309,313	(\$100,786,475)	(3.080%)
2008 Valuation	\$3,085,496,836	(\$186,812,477)	(6.055%)
2009 Valuation	\$2,776,709,325	(\$308,787,511)	(11.121%)
2010 Valuation	\$2,729,774,850	(\$ 46,934,475)	(1.719%)
2011 Valuation	\$2,687,777,080	(\$ 41,997,770)	(1.563%)
2012 Valuation	\$2,310,640,000	(\$377,137,080)	(14.030%)

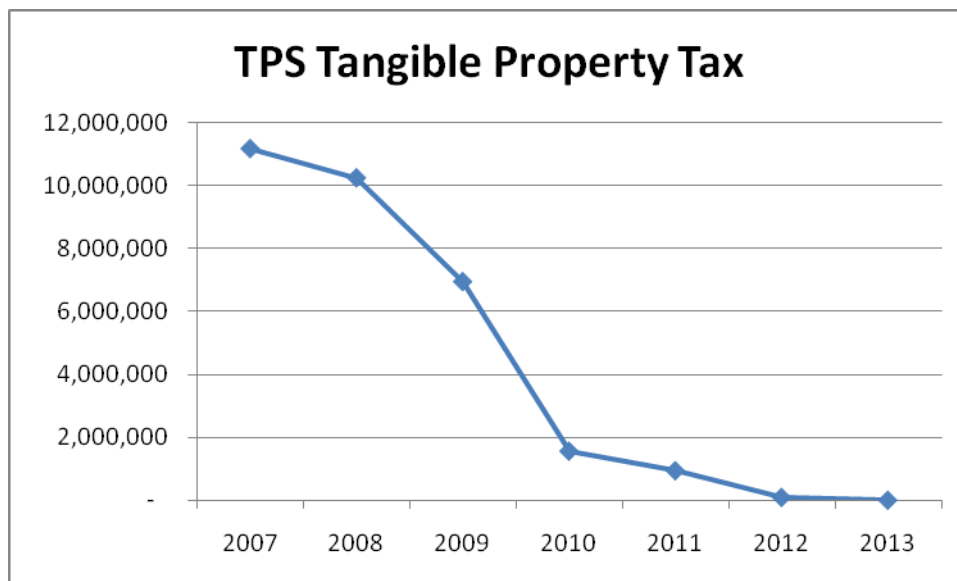


Board of Revision valuation claims have increased for Commercial/Industrial since the 2009 Triennial Update. The 2012 valuation reflects the Lucas County Auditor's sexennial update is an additional 14% declined in assessed valuation. This results in a loss of revenue to the District. In recent years, an advance of the upcoming year's real estate revenues was taken at the end of the fiscal year. At the end of FY-2012 no advance of FY-2013 revenues was taken; as a result, the decrease in real estate revenue is greater than it appears when comparing FY-2012 actual to FY-2013 estimate because 2.6 million dollars was advanced into FY-2011 from FY-2012 collections. There are no advances anticipated at the end of FY-2013.



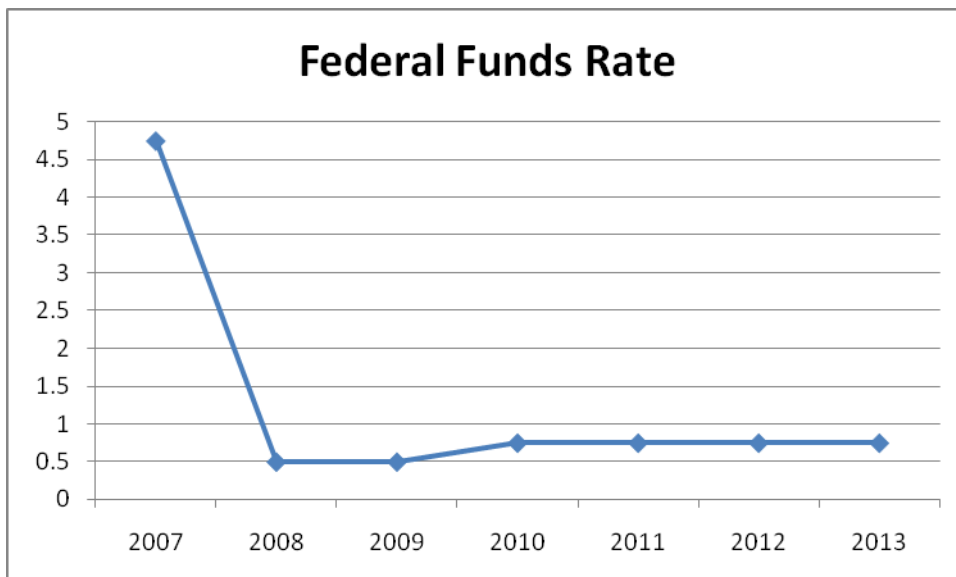
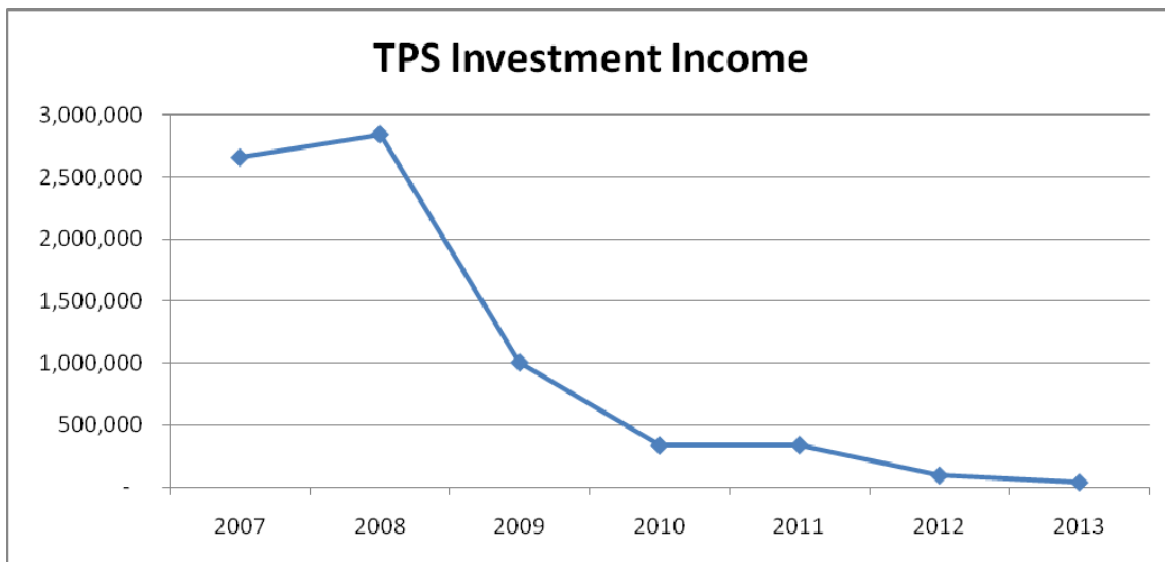
2. PERSONAL TANGIBLE

House Bill 66 eliminates all three components of the tangible personal property tax by 2010. No additional collections are anticipated moving forward.



3. INVESTMENT EARNINGS

Interest earnings for fiscal year ending June 30, 2013 reflect current market conditions and total available cash to invest. The mix of the investment portfolio remains well balanced and conservative with regard to credit risk. With a change in the investment mix to increase duration of the portfolio, some of the interest earnings are deferred into future years. Increased duration optimizes reinvestment risk and interest rate risk.



4. BUDGET RESERVE

The District used the “rainy day” (budget reserve) fund during FY-2011 in the amount of \$3.7 million. The Board approved a policy on May 22, 2012 that reestablishes a budget reserve as funds become available.

5. OTHER REVENUE

Other revenues include tuition revenue, charter school sponsorship revenue, and indirect cost reimbursements. Significant changes in this category are due to an expected decline in charter school sponsorship revenue and collection of energy conservation revenue not previously received.

6. FOUNDATION PROGRAM

On July 14, 2009 the General Assembly passed and the Governor signed HB 1, the State Budget Bill effective through June 30, 2011. The bill included the Governor’s education reform initiative, the Ohio Evidence Based Model for School Funding (OEBM). Formula ADM under the OEBM is based on the prior

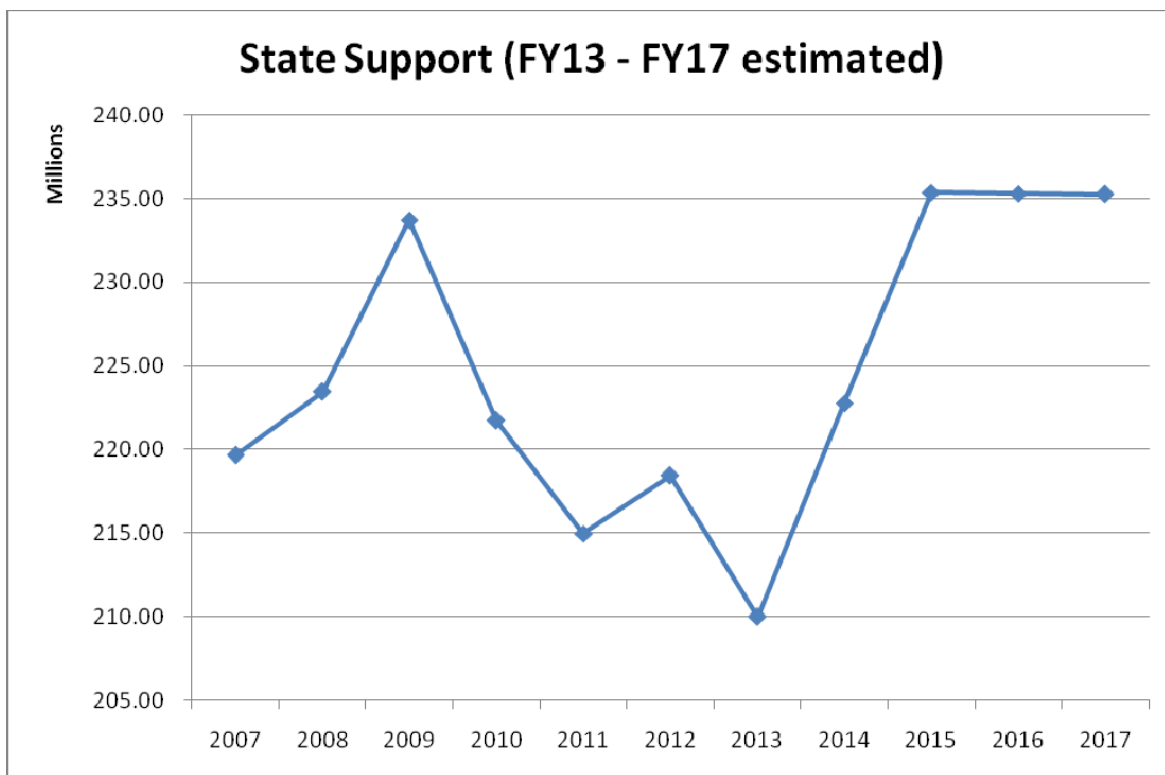
year October count Average Daily Membership (ADM). In addition, all kindergarten students were counted as 1.0 Full Time Equivalent (FTE) rather than .5 FTE.

The General Assembly and Governor Kasich have stated the FY-2012 Foundation is a transition formula (BRIDGE). The Ohio Office of Budget & Management (OBM) developed an index for reducing districts' funds to account for the removal of the stimulus funds. The index was created by using each district's FY-2011 charge-off values divided by the district's Average Daily Membership (ADM) to arrive at a value per pupil (VPP). OBM then determined the statewide median VPP, creating a factor for each district. The district's factor was then applied to the per-pupil stimulus amount to determine the district-by-district reductions. The BRIDGE is scheduled to be replaced for FY-2014.

Although the Governor's funding proposal called for a new funding formula to be released January 2012, that formula was not completed and schools remain on the BRIDGE formula for FY-2013.

The FY-2013 estimate for the Foundation Program was established by taking the amounts in the Ohio Department of Education (ODE) BRIDGE report and BRIDGE simulation tool.

The projected increases in State support in FY-2014 and FY-2015 are based upon amended substitute HB 59 projections. These figures are dependent on the Senate and Governor ratifying HB 59 in its current version.



7. CASINO REVENUE

The first payment of casino revenue was received in January, 2013. The District received \$20.91 per student for a total of \$462,617 versus TPS projection of \$481,636. Public Finance Resources Incorporated (PFR) estimated \$21.40 per student for the initial payment. The District estimates assume \$50.00 per student and a decline in enrollment for FY-2014 and beyond. This is consistent with PFR estimates for future per student amounts.

8. ROLLBACK AND HOMESTEAD

Money received as a result of homestead exemption legislation (Sections 323.151, et. Seq.), property tax rollback legislation (Sections 319.301, et., Seq.). Revenue estimates were provided by the Lucas County Auditor.

9. PERSONAL PROPERTY TAX REIMBURSEMENT

Collection of Tangible Personal Property Tax (TPPT) ended in 2008 bringing about the phase out of TPPT and public utility tangible personal property tax (PUTPPT) reimbursement. The process for phase out of this reimbursement was updated by HB 153. Projected revenues for this reimbursement were determined using ODE estimates and language included in HB 153.

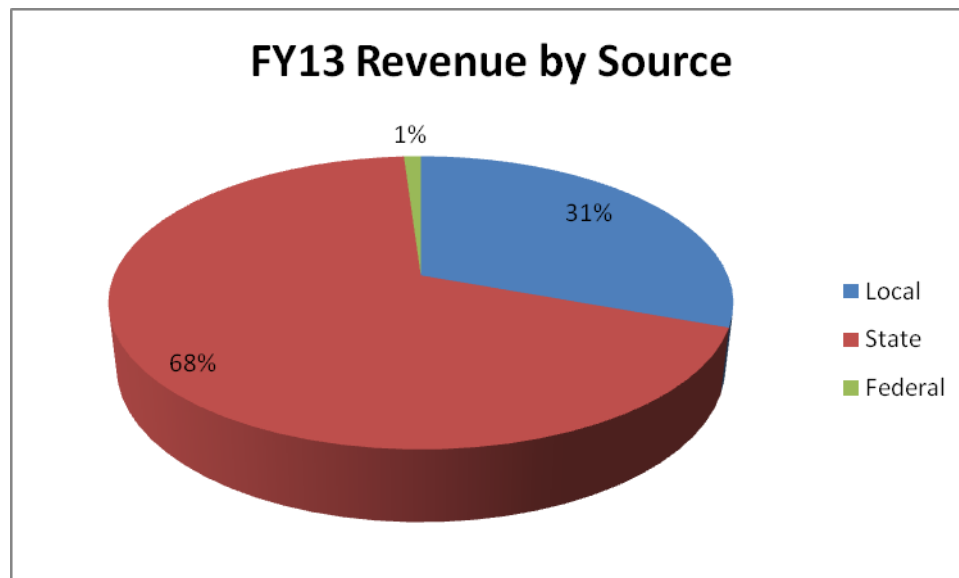
10. OTHER STATE SOURCES

Other State sources include the utility deregulation reimbursement as stated in the above paragraph and other state revenue payments. No such payments are in the current State budget.

11. FEDERAL SOURCES

The Education Jobs Fund (Ed Jobs) is a federal program for the purpose of saving or creating jobs for FY-2011 and/or FY-2012. The total allocation for the Toledo City School District was \$7,578,666.45. These funds were received in FY-2012.

The remaining federal sources are Medicaid reimbursements from Ohio Department of Jobs and Family Services. The Center for Medicaid/Medicare Services, the Lucas County Board of Developmental Disabilities and school districts continue to work on a long-term reimbursement plan. A new reimbursement formula is currently being established. Estimates Medicaid reimbursements to the District are from Healthcare Process Consulting, Inc.



12. PROCEEDS FROM SALE OF NOTES

In July 2010 the Board issued Current Tax Revenue Anticipation Notes, Series 2010-2011, in the amount of \$15 million. The notes were paid back through collection of current property tax revenues in and for FY-2011. The notes matured June 2011. In FY-2012 Series 2011-2012 Notes were issued in the amount of \$20 million and matured June 2012. It was not necessary for the District to issue notes for cash flow purposes in FY-2013.

These notes are issued solely for cash flow purposes. This is evidenced by repayment in the same year of issue.

13. RETURN OF ADVANCES

Each year, monies are returned to the General Fund from various other funds as a result of advances made in the previous year. These advances are made primarily to federal funds to achieve a positive year end fund balance and are paid back to the General Fund in the subsequent fiscal year.

14. SALARIES

The District and the Toledo Federation of Teachers accepted the Fact Finders recommendations for FY-2012 and FY-2013, which included wage concessions and position reductions. The District negotiated similar general wage reductions and reductions in staff with all other employee groups. As part of the above negotiated agreements, a salary reduction was extended, salaries were decreased, and movement on the salary schedule was frozen.

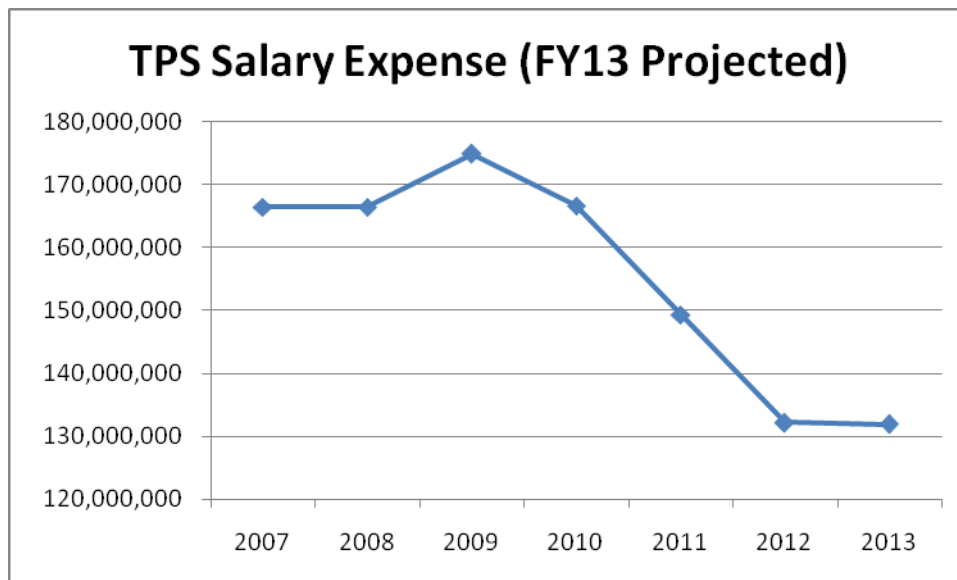
Staffing adjustments, movement of allowable expenditures to other funding sources and a \$200,000 increase in athletics account for the net reduction in salaries between FY-2012 & FY-2013.

An additional \$1.2 million was allocated to FY-2013 salaries due to a decrease in IDEA funding.

Increased mandated spending on gifted education as proposed in Amended Substitute HB 59, is projected to increase salaries in fiscal year 2014 and beyond.

Salary estimates for FY-2013 are refined by a projection of employees on payroll in the month of March projected through June 30, 2013. Special payrolls that occur through out the year are also considered.

Acknowledgement of possible staff changes and/or possible adjustments resulting from the current negotiations with all bargaining units' negotiations is identified with a modest increase in salary estimates beyond FY-2013 and may impact the District's forecast.



15. FRINGE BENEFITS

The District utilizes a self-insurance program for Health, Drug, and Dental benefits. The rates internally charged are established annually and are actuarially determined. Consideration was given to outlying years for a reduction in The Board's contribution to the self-insurance fund.

The District's pension liability is projected to remain at 14% of salary expenditures.

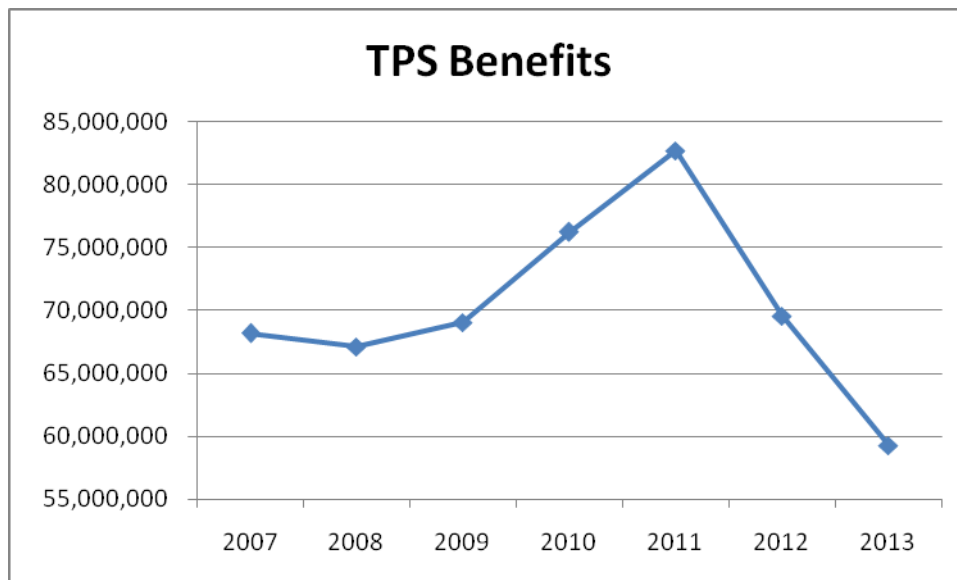
The School Employee Retirement System (SERS) on March 18, 2010 adopted legislation that requires School Districts to "catch-up" the employer share of SERS contributions. The six month arrearage amount will be collected over the next six fiscal years. The amount is estimated to be \$550,000 annually.

The District and Employee Groups accepted the Fact Finders recommendations for FY-2012 and FY-2013, which included increased premium co-pays and plan design changes resulting in significant savings to the District. Projections to the outlying years are dependent on the outcome of current negotiations with all bargaining units.

An additional \$500,000 was allocated to FY-2013 fringes due to a decrease in IDEA funding.

Increased mandated spending on gifted education as proposed in Amended Substitute HB 59, is projected to increase benefits in fiscal year 2014 and beyond.

FY-2013 fringe benefits declined by \$6.2 million in severance based on a reduction in the number of retirements. Fringe benefits for FY-2014 – 2017 are increased by 6% representing an approximate 8% for health fringes and payroll fringe increases associated with increases in salaries.



16. UTILITIES

Utility expenditures for FY-2013 were established at a level sufficient to cover historical trends. Estimates used to support utility expenditures are received from our consultant, Palmer Energy.

Utility expenditure projections for FY-2013 through FY-2017 reflect anticipated building openings/closings due to the school facilities building program as well as inflationary increases.

17. PURCHASED SERVICES

Toledo Area Regional Transit Authority (TARTA) contract was substantially reduced to “state minimums” for transportation. That is, no high school transportation and only students outside of a two-mile radius receive transportation in grades K-8. Future costs will be incurred for use of a TARTA satellite site including minor maintenance charges.

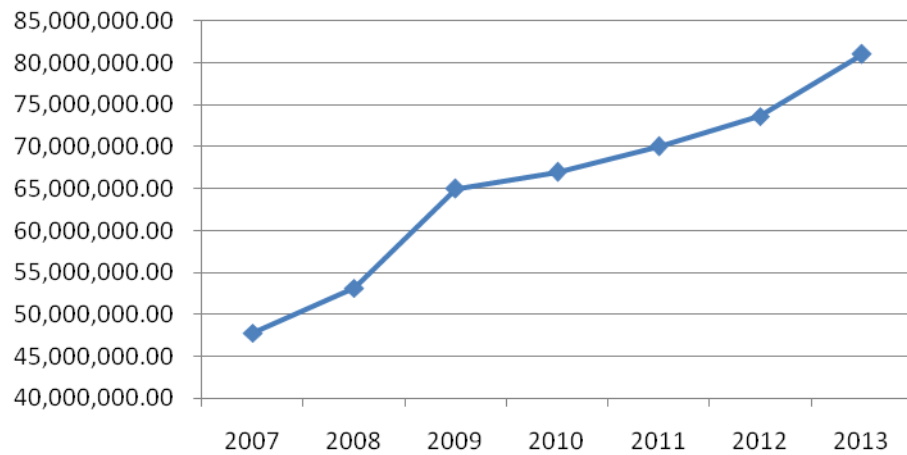
Amended Substitute HB 59 also contains language increasing the payment in lieu of transportation (Fair Bus Law), from \$240.66/student to \$800/student. The District is estimating 1,500 students to receive this payment in fiscal year 2013. Using the same number of students, the increase in this payment will be approximately \$1,000,000 in fiscal year 2014 and beyond.

Increased mandated spending on gifted education as proposed in Amended Substitute HB 59, is projected to increase purchased services in fiscal year 2014 and beyond.

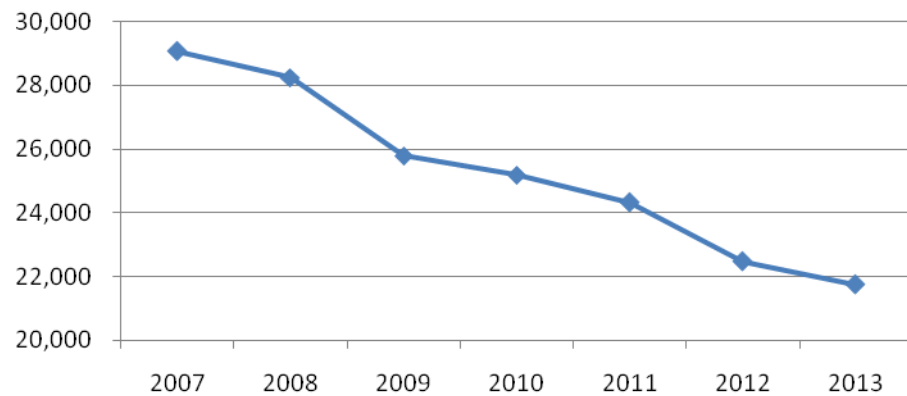
Purchased services estimate for FY-2013 was refined using expenses through March projected through June 30, 2013. Outlying years increased using Consumer Pricing Index (CPI) for rate of increase.

Purchased service expenditure projections for FY-2013 through FY-2017 are adjusted to reflect community school and EdChoice voucher enrollment changes as well as modest inflationary increases on district services. In the present version of Amended Substitute HB 59, presently before the State Senate, there is an additional \$100/per student enrolled in a Community School, which will be transferred to those schools for their building expenses. This transfer will cost District about \$900,000 annually beginning in fiscal year 2014. HB 59 also contains language expanding scholarship/voucher programs to students of any school regardless of the academic standing of their home school. This could have a large impact on the amount deducted for scholarship/voucher programs from the District’s foundation payments.

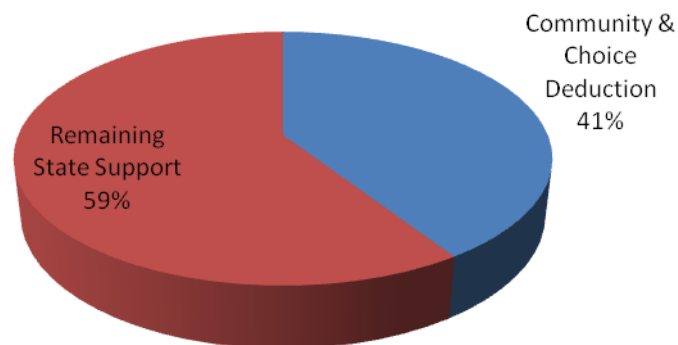
TPS Charter & Choice Expense

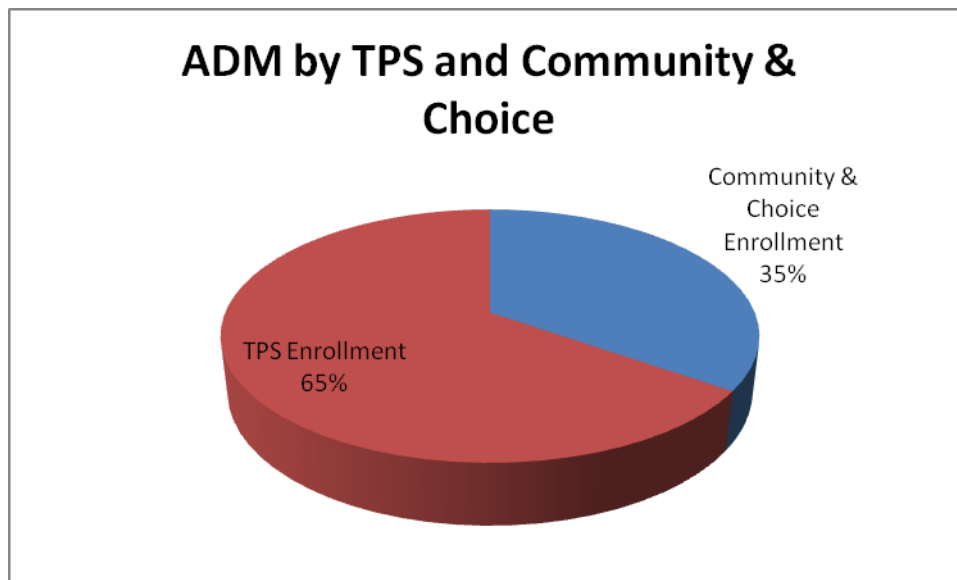


TPS Enrollment - Net Community/Choice



Community & Choice deduction from State support





18. SUPPLIES AND MATERIALS

Supplies and materials were projected based on historical trends for FY-2013 and then adjusted to reflect inflationary increases for FY-2014 through FY-2017. These projections were then adjusted by moving \$650,000 from FY-2014 into FY-2013 to take advantage of text book purchase discounts. In addition projections were adjusted by moving \$3 million from FY-2014 into FY-2013 for the Pearson Textbook Adoption for Common Core Curriculum.

There is also an increase beginning in FY-2016 of \$750,000 for equipment purchases currently supported by the capital improvement fund.

19. OTHER EXPENDITURES

Other expenditure projections have been set at an amount sufficient to cover historical expenses and are increased for inflation in years FY-2014 through FY-2017.

ERATE reimbursements over past several years were significantly lower than forecasted resulting in an increased expense in FY-2013.

20. ADVANCE OF FUNDS

Each year general fund dollars are advanced to State and Federal funds for the purpose of maintaining positive fund balances over the year end. These funds are returned to the general fund in the following year. FY-2013 advances are projected to be \$2 million based upon FY-2012 advances. Future year-end advances are projected to remain at \$2 million.

The general fund subsidy to the cafeteria program is projected at \$1,000,000 for FY-2013 based upon FY-2012 performance.

In Fiscal Year 2012 \$20 million was borrowed and repaid for cash flow purposes. It is not necessary for the District to issue notes for cash flow purposes in FY-2013.

21. UNCERTAINTIES

The items listed below may or may not have an impact on the District's finances; the amount of such impact is currently undetermined.

- A driving factor to the General Fund budget is the school district's enrollment. Current years, as well as future projections are driven from changes (increases/decreases) in enrollment, Community Schools, Edchoice, and open enrollment. This factor impacts nearly all expenditure line items.
- Recovery of the local, state and national economy.
- Local property tax collection rates, property valuations and further tax abatements. The Lucas County sexennial update is complete; final results of this revaluation resulted in a reduction of valuation of 14.030%. Board of Revision cases continues to be a strain on property tax revenues.
- Although the Governor called for a new funding formula to be released January 2012, that formula was not completed and schools remain on the BRIDGE formula for FY-2013. The Governor's FY-2014-15 biennial budget proposal has been modified by the House and is currently being debated in the Senate with a vote scheduled in June 2013. The results of this legislation have a profound impact on the fiscal stability of the District.
- Expansion of Scholarship/voucher programs as proposed in current legislation.
- Funding level provided to Community Schools as proposed in current legislation.
- Recommendations included in performance audit conducted by Evergreen Solutions, Inc. in FY-2013 may result in future savings.
- Possible staff changes and/or adjustments resulting from current negotiations with all bargaining units.
- The impact of the reforms passed by State Teacher's Retirement System may result in increased teacher retirements due to increased employee contributions and reduction in future benefits.
- The FY-2012 sequestration requires an automatic reduction of \$1.2 trillion in defense and domestic discretionary spending over a ten year period. Congress did not act before January 2013 to find a solution. Therefore reductions are estimated at approximately 8% per year for education funding effective FY-2015. The District's allocations of affected Federal funds are currently expected to decrease approximately 5%.
- Sustainability of programs currently funded through Race to the Top and School Improvement Grants which expire at the end of FY-2014.
- Future legislation and litigation as it relates to school funding, school choice and schools in general.