



FIVE-YEAR FINANCIAL FORECAST NOTES AND ASSUMPTIONS

For the Fiscal Years Ending June 30, 2014 through 2018

October 19, 2013

The mission of the Dayton City Schools is to provide a high-quality education in a safe environment that prepares our students for success in school, work and life by providing a highly effective trained staff working each day with community resources.

General

The Ohio Constitution assigns the state the responsibility for a thorough and efficient system of public common schools as adopted in Article VI, section 2, which states, “The General Assembly shall make such provisions, by taxation, or otherwise, as, with the income arising from the school trust fund, will secure a thorough and efficient system of common schools throughout the state; but no religious or other sect, or sects, shall ever have any exclusive right to, or control of, any part of the schools funds of this state.”

Ohio Revised Code (ORC) section 5705.391 and Ohio Administrative Code (OAC) section 3301-92-04 require a Board of Education (BOE) to submit a five-year forecast of operational revenues and expenditures along with assumptions to the Ohio Department of Education (ODE) prior to October 31 of each fiscal year and to update this forecast between April 1 and May 31 of each fiscal year. The Treasurer/CFO submits the forecast. The Board of Education is recognized as the official owner and has ultimate responsibility for its development.

A financial forecast can be broadly defined as the expected financial position and the results of operations and cash flows based on expected conditions. The five-year financial forecast is a key management tool designed to aid decision making in establishing and maintaining a prudent level of financial resources to ensure stable tax rates as well as to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Three key objectives of the five-year financial forecast include the following:

- 1) To engage the local board of education and the community in long range planning.
- 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 ODE and Auditor of State to identify school districts with potential financial problems.

Required funds to be included in the forecast are:

- General funds (001)
- Any special cost center associated with general fund money
- Emergency levy funds (016)
- Any debt service (002) activity that would otherwise have gone to the general fund
- Poverty Based Assistance (PBA) funds (494)
- Education Jobs funds (504)
- State Fiscal Stabilization funds (532)

The American Institute of Certified Public Accountants (AICPA) Guide for Prospective Financial Information defines “Particularly Sensitive Assumptions” as having a relatively high probability of variation that would materially affect the financial forecast. This may be due to a relatively high probability of a sizable variation or the probability of a sizable variation is not as high but a small variation would have a large impact. The following factors may be classified as such:

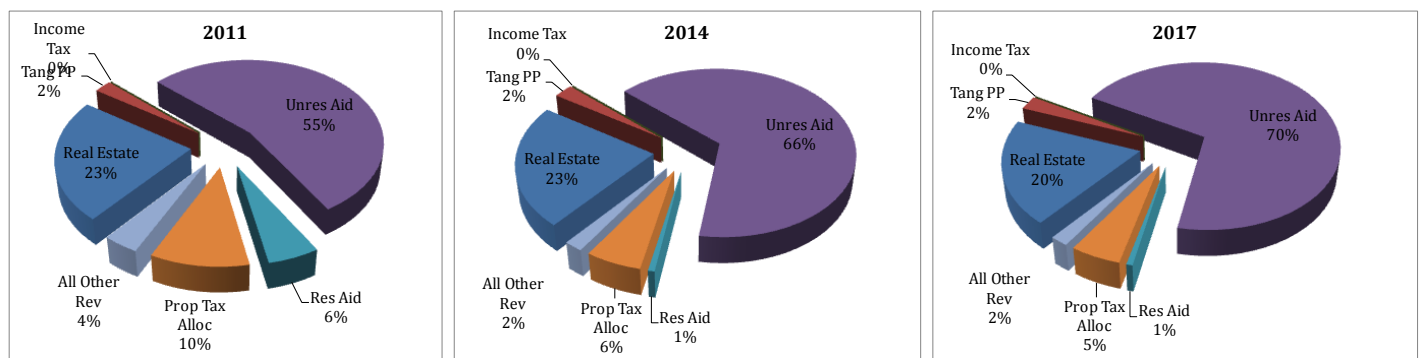
- Revenue and Other Financing Sources:
 - ❖ General Property Tax factors include taxable values, tax rates and collection rates.
 - ❖ Unrestricted Grants-In-Aid and Property Tax Allocation factors include the state biennium budget cycle. Also, student enrollment and property/income wealth are major factors with unrestricted grants.
- Expenditures and Other Financing Uses:
 - ❖ Personal Services factors include the various collective bargaining agreements.
 - ❖ Purchased Services factors include community school enrollment, scholarships, open enrollment and the state biennium budget cycle. Also, climate conditions and market factors impact utilities.

The following is a detailed line-by-line description of the assumptions made in developing the forecast:

REVENUE

Operating Revenue Summary

Dayton City School District



	ACTUAL		FORECASTED				
	2011	% of Revenue	2014	% of Revenue	2017	% of Revenue	6 Year Projected % Change
1.010 - General Property Tax (Real Estate)	53,236,079	23.34%	50,360,740	23.10%	46,287,256	19.67%	-13.05%
1.020 - Public Utility Personal Property	5,379,151	2.36%	5,639,034	2.59%	6,027,641	2.56%	12.06%
1.030 - Income Tax	-	0.00%	-	0.00%	-	0.00%	0.00%
1.035 - Unrestricted Grants-in-Aid	124,473,515	54.58%	143,399,691	65.79%	164,528,903	69.92%	32.18%
1.040 & 1.045 - Restricted Grants-in-Aid	12,491,633	5.48%	1,523,125	0.70%	1,565,057	0.67%	-87.47%
1.050 - Property Tax Allocation	23,820,868	10.45%	12,742,345	5.85%	12,435,243	5.28%	-47.80%
1.060 - All Other Operating Revenues	8,642,803	3.79%	4,301,456	1.97%	4,464,758	1.90%	-48.34%
1.070 - Total Revenue	228,044,049		217,966,391		235,308,857		3.19%

Line 1.010 General Property Tax (Real Estate)

Residential/agricultural and commercial/industrial real estate property tax revenue collection estimates are based on taxable valuation, effective tax rates and collection rates. Based on the reappraised or updated tax value increases, voted tax rates are reduced proportionately to produce the same amount of revenue as originally approved by the voters. Conversely, if tax values should happen to decrease, voted tax rates are raised proportionately up to the maximum revenue amount approved by the voters. The 4.48 unvoted inside mills is not impacted during reappraisal or update years. The districts voted levies are indicated below:

Original Year of Passage	Term	Year Levy Was Last Approved	2012 Full Voted/ Amount/Millage	2012 Class I Effective	2012 Class II Effective
1976	Continuing	1976	32.50	11.91418	24.83796
1988	Continuing	1988	15.27	8.39751	15.27000
1992	Continuing	1992	10.40	7.03640	10.40000
2008	Continuing	2008	4.90	4.90000	4.90000

Tax year 2012 actual real property valuation and effective millage and estimates for tax years thru 2017 are indicated below:

	Real Property Valuation	Year-Over-Year Change	Res./Agr. Tax Rate	Year-Over-Year Change	Business Tax Rate	Year-Over-Year Change
2012	1,459,489,480		36.73		59.89	
2013	1,426,920,188	(32,569,292)	36.93	0.21	61.04	1.15
2014	1,259,742,169	(167,178,019)	40.69	3.75	63.77	2.73
2015	1,245,006,731	(14,735,439)	40.85	0.16	64.30	0.53
2016	1,229,342,785	(15,663,946)	41.01	0.16	64.95	0.65
2017	1,182,916,857	(46,425,928)	41.98	0.98	66.39	1.44

- Tax year 2014 is a reappraisal year in Montgomery County.
- Class I property consists of agricultural and residential property.
 - ❖ Assessed valuation is 68% of the total valuation.
 - ❖ Collection rates, excluding delinquencies, range from 82.24% to 83.25%.
 - ❖ Projected increases for new construction/growth are as follows:

Tax Year	2013	2014	2015	2016	2017
Class I New Construction/Growth	0%	-.50%	0%	0%	-.50%

- Class II property consists of public utility real, industrial and commercial property.
 - ❖ Assessed valuation is 27% of the total valuation.
 - ❖ Collection rates, excluding delinquencies, range from 82.00% to 82.50%.
 - ❖ Projected increases for new construction/growth are as follows:

Tax Year	2013	2014	2015	2016	2017
Class II New Construction/Growth	-1.54%	-.14%	-1.10%	-1.09%	.05%

- The actual 5-year average annual change was -1.69%.
- The projected 5-year average annual change is -1.06%.

Line 1.020 Personal Property Taxes

Tangible personal property (TPP) taxes are assessed on the equipment and inventory owned by businesses and public utility personal property (PUPP) taxes are assessed on electric power and natural gas providers. The assessed value is taxed at the full voted rate of 67.55 mills. Businesses and public utilities report personal values annually which may cause substantial fluctuations from year to year.

Beginning in tax year 2006, HB 66 (Ohio Budget Bill FY06-07) provided for phase-out of tangible personal property (TPP) taxes on general business, telephone & telecommunications, and railroad properties over a period starting in tax year 2006 and ending in tax year 2010. In fiscal year terms this would be from FY 2008 to FY 2012. The state has provided only partial reimbursement for this tax loss to all governmental agencies (including schools) through the creation of a new state tax on businesses called a Commercial Activities Tax (CAT). The estimates of taxes and associated state fixed rate direct reimbursements are included in Line 1.050 Property Tax Allocation based on information currently available from the Ohio Department of Taxation.

Tax year 2012 actual personal property valuation and effective millage and estimates for tax years thru 2018 are indicated below:

	Pers Property Valuation	Year-Over-Year Change	Full Voted Tax Rate	Year-Over-Year Change
2012	82,448,800		67.55	
2013	84,510,020	2,061,220	67.55	-
2014	86,622,771	2,112,751	67.55	-
2015	88,788,340	2,165,569	67.55	-
2016	89,676,223	887,883	67.55	-
2017	90,572,985	896,762	67.55	-
2018	90,572,985	-	67.55	-

- Tax year 2014 is a reappraisal year in Montgomery County.
- Tangible personal property consists of general business machinery, equipment and inventories.
 - ❖ Assessed valuation is 0% of the total valuation.
 - ❖ Collection rates are 0%.
 - ❖ Projected increases for new construction/growth are 0%.
- Public utility personal property is subject to taxation on their tangible personal property include electric, rural electric, natural gas, pipeline, water works, water transportation, heating, and telegraph companies.
 - ❖ Assessed valuation is 5% of the total valuation.
 - ❖ Collection rates are projected at 100%.
 - ❖ Projected increases for new construction/growth are as follows:

Tax Year	2013	2014	2015	2016	2017
Public Utility New Construction/Growth	2.5%	2.50%	2.50%	1.00%	1.00%

- The actual 5-year average annual change was -16.13%.
- The projected 5-year average annual change is 2.50%.

Line 1.035 Unrestricted Grants-in-Aid

The funding of K-12 public elementary and secondary schools in Ohio is a joint effort between the state and local school districts. State foundation funding distributions to school districts are determined by the biennial budget bill. The state budget is adopted in odd numbered years and implemented beginning in even numbered years. Payments are received twice per month.

The 130th General Assembly adopted the FY 2014-2015 biennium budget as Amended Substitute House Bill 59. The temporary Bridge formula is being replaced by new funding calculations. The amount of state funds that a district receives is based on a calculation that takes into account the student enrollment and both the property and income wealth of the district. The new School Finance Payment Report (SFPR) replaces the BRIDGE Report. It is important to note that what is calculated for a funding component is not necessarily what the district will receive for it due to the existence of a funding cap in the new formula that limits funding.

Key factors, parameters and components of the calculations are highlighted below by the 3 primary segments:

- Statewide Factors and Parameters:
 - ❖ Total ADM, Formula ADM, Median Income, Economic Disadvantaged Percentage, 3 Year Average Valuation and 3 Year Federal Adjusted Gross Income
 - ❖ Guarantee Percentage of 2013 Funding = 100%
 - ❖ Growth Cap above 2013 Funding = 6.25% in FY14 and 10.50% in FY15

- District Factors and Parameters:
 - ❖ Basic ADM, Special Education ADM, Career Tech FTE, Limited English Proficient ADM, K-3 Formula ADM, K-3 Formula ADM, K-3 E-School Formula ADM, Preschool Autism Scholarship ADM, Brick & Mortar Community and STEM School Formula ADM, E-School Formula ADM, Jon Peterson Scholarship ADM, Autism Scholarship ADM, Ed Choice Scholarship ADM, Economic Disadvantaged ADM, Economic Disadvantaged Percentage, 3 Year Average Federal Adjusted Gross Income, 3 Year Average Total Real Valuation, 3 Year Average Agricultural Real Valuation, 3 Year Average Adjusted Total Valuation, 3-Year Average Total Valuation, Exempt Property Valuation for FY14, Potential Property Valuation, State Share Index and Economic Disadvantaged Index
 - ❖ Formula ADM: 22,484 in 2014 and 2015; 22,670 in 2016; 22,673 in 2017; 22,763 in 2018
 - ❖ State Share Index = .7901
 - ❖ Economic Disadvantaged Index = 3.8674

- Foundation Funding Components:
 - ❖ A. Opportunity Grant – Per pupil amount of \$5,745 in FY14 and \$5,800 in FY15 at state share index
 - ❖ B. Targeted Assistance – uses the wealth index and a target millage rate of 6 mills each fiscal year
 - ❖ C. K-3 Literacy Funding – Tier 1 provides \$125 in FY14 and \$175 in FY15 for each student in grades K-3 multiplied by the state share index. Tier 2 provides \$86 in FY14 and \$115 in FY15
 - ❖ D. Economic Disadvantaged Funding - \$269 in FY14 and \$272 in FY15 at disadvantaged index
 - ❖ E. Limited English Proficiency Funding - \$1,500 in FY14 and \$1,515 in FY15 at state share index
 - ❖ F. Gifted Education Funding – Identification funding of \$5 in FY14 and \$5.05 in FY15 for all resident students; Service funding of \$37,000 in FY14 and \$37,370 in FY15 for every 1,100 students for intervention specialist services and every 3,300 students for coordination services
 - ❖ G. Transportation Funding – Greater of the cost per rider or cost per mile at state share index

❖ H. Special Education Additional Funding – funded by category

Category	Description	Amount
1	Speech Only	\$1,503 in FY14 and \$1,517 in FY15
2	Cognitive Disabilities, Specific Learning Disability, Developmentally Delayed, Other Health Impaired (Minor)	\$3,813 in FY14 and \$3,849 in FY15
3	Hearing Impaired, Emotional Disturbance	\$9,160 in FY14 and \$9,248 in FY15
4	Visual Impairment, Other Health Impaired (Major)	\$12,225 in FY14 and \$12,342 in FY15
5	Multiple Disabilities, Orthopedic	\$16,557 in FY14 and \$16,715 in FY15
6	Deaf-Blind, Autism, Traumatic Brain Injury	\$24,407 in FY14 and \$24,641 in FY15

- Casino revenue is included and projected as follows:
 - ❖ Per Pupil amounts are forecasted at \$51 in 2014; and \$50 thereafter
- The actual 5-year average annual change was 5.66%.
- The projected 5-year average annual change is 4.45%.

Line 1.040 Restricted State Grants-in-Aid

Other state revenue sources are based on historical trends. These include funding for career technical education and reimbursement for special education catastrophic costs.

❖ I. Career-Technical Educational Funding – funded by category

Category	Career Fields	Amount
1	Agricultural & environmental systems, construction technologies, engineering & science technologies, finance, health science, information technology, manufacturing technologies.	\$4,750 in FY 14 and \$4,800 in FY15
2	Business & administration, hospitality & tourism, human services, law & public safety, transportation systems, arts & communications	\$4,500 in FY14 and \$4,550 in FY15
3	Career based intervention	\$1,650 in FY14 and \$1,660 in FY15
4	Education & training, marketing, workforce, development academics, public administration, career development	\$1,400 in FY14 and \$1,410 in FY15
5	Family and consumer sciences (which includes students enrolled in GRADS)	\$1,200 in FY14 and \$1,210 in FY15

Line 1.045 Restricted Federal Grants-in-Aid – SFSF and Education Jobs Fund

State Fiscal Stabilization Funds and Education Jobs funds were received in previous years. All funds have been previously received and expended. None of these federal dollars are projected during the forecast period.

Line 1.050 Property Tax Allocation

This line includes state reimbursement for tangible personal property tax, electric deregulation, homestead and rollback, and the “ten thousand dollar exemption” where businesses are exempt from paying the first \$10,000 of property tax. HB66 has eliminated the 10% commercial property tax rollback effective with the 2005 tax year (collected in 2006). The remaining property tax rollback amounts will grow along with new levies and new construction and the district reimbursement for these rollbacks will increase proportionately. Amended Substitute House Bill 153 (Ohio Budget Bill FY12-FY13) restructured reimbursement of tangible personal property (TPP) and electric deregulation property (KwH) taxes such that the reduction in the district’s phase-out for each reimbursement (TPP and KwH) is limited to no more than 2% per year of its total resources (state plus local funding) as compared to the base year. Any reimbursement received in FY 2013 continues at that level in the future. The reimbursement for TPP is made twice a year in November and May. The reimbursement estimates included herein are based on information currently available from the Ohio Department of Taxation. HB59 (Ohio Budget Bill FY14-FY15) eliminated both the 10% rollback and the 2.5% rollback for additional, replacement and the increase portions of renewal levies passed after the August 2013 election. In addition, beginning with tax year 2014, new participants in the homestead exemption program will be subject to a means test.

- The TPP projection of \$5,023,786 in 2014 and beyond is based upon current legislation.
- The KwH was completely phased out in fiscal 2012.
- The actual 5-year average annual change was 1.02%.
- The projected 5-year average annual change is -2.06%.

Line 1.060 All Other Revenues

This line item serves as a miscellaneous revenue category for various sources not included above such as investment income, payments in lieu of taxes for compensation agreements, facility rentals, fees, tuition, donations, and other miscellaneous revenue sources. Estimates are based upon historical trends.

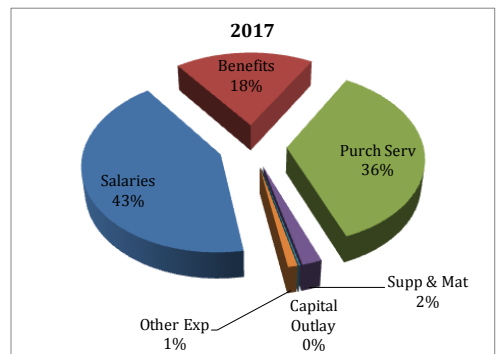
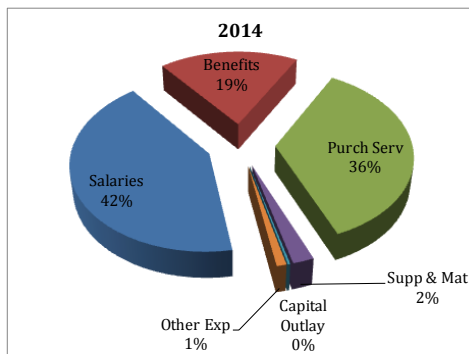
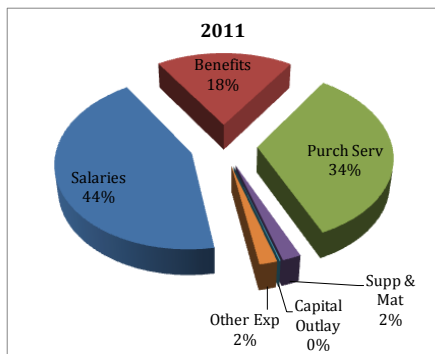
Lines 2.010 through 2.060 Other Financing Sources

In fiscal year 2012 the District issued the Series 2012 Certificates of Participation (COPS) for the purpose of advance refunding \$14,035,000 in aggregate principal amount of \$16,360,000 COPS dated August 12, 2003. Also included in this category are operating transfers-in and advances-in. Advances-in include returns of money advanced by the General Fund to other funds to cover a short-term end of year deficit balance. These transactions are considered a “loan” to the deficit fund and must be repaid to the General Fund. Projected amounts are based on prior year actual advances-out and historical trends.

EXPENDITURES

Operating Expenditure Summary

Dayton City School District



	ACTUAL		FORECASTED				
	2011	% of Budget	2014	% of Budget	2017	% of Budget	6 Year Projected % Change
3.010 - Personnel Services	96,892,815	43.65%	94,872,984	42.16%	101,935,048	42.60%	5.20%
3.020 - Employees' Retirement/Insurance Benefi	41,053,386	18.49%	41,733,902	18.55%	44,318,811	18.52%	7.95%
3.030 - Purchased Services	75,254,665	33.90%	80,627,048	35.83%	85,455,773	35.72%	13.56%
3.040 - Supplies and Materials	4,369,713	1.97%	4,963,449	2.21%	4,913,323	2.05%	12.44%
3.050 - Capital Outlay	258,174	0.12%	539,472	0.24%	273,108	0.11%	5.78%
3.060-4.300 - Other Expenditures	4,158,193	1.87%	2,286,675	1.02%	2,367,627	0.99%	-43.06%
4.500 - Total Expenditures	221,986,946		225,023,531		239,263,690		7.78%

Line 3.010 Personal Services

The expenditures in this category are for salaries and wages for services rendered for all union and non-union employees. In addition to cost of living wage increases, a majority of employees who are paid on a salary schedule receive vertical step increases based on years of experience. Additionally, certified staff can move horizontally between ranges on the salary schedule by furthering their education (i.e. Bachelor’s Degree to Master’s Degree, etc.). Union employees are represented by twelve different associations. Professional staff members are represented by the Dayton Education Association (DEA). DEA and the District are currently in negotiations at the time this forecast was prepared and approved.

Key personal services factors used in the model are highlighted below:

- Salary and wage allocations by category are as follows:
 - ❖ Certified staff are 63% of total personal services
 - ❖ Classified staff are 24% of total personal services
 - ❖ Administrative staff are 7% of total personal services
 - ❖ Substitutes, overtime and other are 6% of total personal services
- Costs for vertical steps range between 0% and 1.50%.
- Costs for horizontal range increases are between 0.10% and .25%.
- Negotiated cost of living wage increases are either a percentage or flat dollar amount per employee.
- The actual five-year average annual change is -.30%.
- The projected five-year average annual change is 2.64%.

Line 3.020 Employees' Retirement and Insurance Benefits

Employee benefits include the following:

- Employer retirement payments to the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS) are equal to 14% of salary. SERS levies a surcharge for part time employees who earn less than \$35,800. There is a cap of 2% of total district payroll. In addition, SERS cannot collect more than 1.5% of the total statewide payroll.
- In July 2010, SERS Foundation deductions changed from a calendar year basis, six months in arrears, to a fiscal year basis creating additional cost of \$503,608 per year thru 2016.
- Health care coverage is provided for employees on a self-insured basis up to a stop loss limit of \$350,000 specific claim. Claims are funded based upon a per employee charge. Future increases are projected to range between 6.9-7.5% based upon actuarial assumptions and historical claims trend.
- The district contributes 85% of the premium for full time staff and less for part time staff.
- The actual five-year average annual change is 0.90%.
- The projected five-year average annual change is 3.71%.

Line 3.030 Purchased Services

This line includes costs for community and Science, Technology, Engineering and Math (STEM) schools, scholarships, open enrollment, contracted services, utilities, legal services, data processing, tuition and professional meeting expenses.

- School Finance Payment Report (SFPR) transfers are projected as follows:

Description	2013	2014	2015	2016	2017	2018
Community School and STEM Deductions	46,008,078	48,139,294	49,007,425	49,888,104	50,781,497	51,687,768
Open Enrollment	3,002,604	3,059,654	3,116,705	3,202,280	3,287,855	3,401,955
Scholarship Tuition	7,640,966	7,928,510	8,220,410	8,526,465	8,856,394	9,202,094

- The actual 5-year average annual change was 1.40%.
- The projected five-year average annual change is 2.28%.

Line 3.040 Supplies and Materials

This line includes general supplies, instructional materials including textbooks and media materials, bus fuel and tires and maintenance supplies.

- The projected five-year average annual change is -.20%.

Line 3.050 Capital Outlay

The capital outlay category consists of any item having a life expectancy of five years or more, such as land, buildings, ground improvements, computers/technology, buses, vehicles, furnishings and equipment.

- The projected five-year average annual change is -14.50%.

Line 4.010 through 4.060 Debt Service

In fiscal year 2012 the District issued the Series 2012 Certificates of Participation (COPS) for the purpose of advance refunding \$14,035,000 in aggregate principal amount of \$16,360,000 COPS dated August 12, 2003.

Line 4.300 Other Objects

Expenditures in this category include property tax collection fees, memberships and audit fees.

- The projected five-year average annual change is 1.20%.

Lines 5.010 through 5.030 Other Financing Uses

This category includes operating transfers-out, advances-out and refund of prior year receipts. Operating transfers are funds transferred to the other funds. Advances are a loan to another fund to cover a temporary deficit balance. These funds are subsequently returned to the general fund. Refunds of prior year receipts are payments received in one fiscal year and returned to original payer in another fiscal year.

Line 8.010 Estimated Encumbrances

Encumbrances are legal financial obligations of the District that have not been expended at fiscal year end. Encumbrances are not projected.

Conclusion

This forecast is based on the forgoing assumptions and the best information available to the administration at this time. Past performance is not necessarily an indication of future results. Changes in circumstances and the availability of additional information make this forecast subject to revision.

State law requires schools to operate with positive cash balances. Additional revenue and/or expenditure reductions will need to be considered prior to years where line 7.020 Cash Balance June 30 is negative. Given the uncertainty of future state budgets, local, state and national economic factors, as well as state and/or federal mandates, years beyond fiscal year 2016 may deviate significantly from the forecast.