Prepared Notes for Board Meeting
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Marc A. Schare
614 791-0067
marc9@aol.com

Tonight, I have a few thoughts to share on the forecast.

First, there was a lot of discussion this past summer over whether the levy amount we selected was too high, too low or just right. The discussion centered around the ending cash balance in 2016. This is the first forecast that has end-of-year results for FY12, so just for fun, I went back and looked at the five year forecast which this board passed in October of 2007. It's been five years, how did we do at accurately predicting our expenses so far in advance.

On the expense side, the projection was that we would be spending $133 million dollars a year. We wound up spending $116 million dollars in FY12. That difference, 17 million dollars, is about 10 mills of property tax each and every year that were avoided**.** So what happened? Was our then-new treasurer just wrong? Not hardly. We achieved this result because of the hard work of our administrations, past and present, and the willingness of our employees to accept a slower rate of growth in total compensation.

On the revenue side, we projected 108 million and wound up with 116 million, but it's interesting to note that now, 5 years later, we have almost the exact same revenue projection, 108 million at the end of this forecast period in 2017 as we did in 2007, the primary driver of course being TPP reimbursement phase out. It's also interesting to note that in 2007, our treasurer projected TPP reimbursements would be 12.4 million dollars in 2012. The actual number turned out to be 12.8 million. Let me say that again for the benefit of those who want to blame the current governor for sharp cuts in education. The TPP reimbursement cut was one that our treasurer projected 5 years ago. How could this be, you ask? Was our treasurer psychic? Unfortunately no, the truth is that the TPP reimbursement schedule, despite a temporary reprieve due to federal stimulus money, is largely the same as it was five years ago through both Republican and Democratic administrations and is merely a reflection of decisions that were made by Governor Taft back in 2005 and continued by Governor Strickland in 2007. In other words, for the most part, the "sharp cuts" that many blame on Kasich were known to us in 2007 which is, I might add, one of the reasons <u>why</u> we modified our spending patterns and turned a two year levy cycle into a three year levy cycle. We'll talk more about TPP in just a bit.

So what is the Fall 2012 version of the document trying to tell us. First, the FY16 bottom line is around 4 million dollars better than it was in May, a welcome change that while not negating the requirement for a levy, certainly validates the board's decisions to go with the more taxpayer-friendly incremental levy as opposed to the more expensive alternatives that were under consideration at the time. The change also increases, slightly, the margin of error as our district seeks to protect, as the levy slogan goes, proven results.

Many of the concerns that I had over the May forecast remain in this document and were shared by some members of the Treasurer's advisory committee, however, Jeff has committed to address some of these in the next iteration of the forecast. They are, in no particular order:

1) There is no accounting for Casino Money. Mike Sobul, formerly with the Ohio Department of Taxation and now a local school district treasurer, has done some work modeling casino revenue and is currently estimating that despite a rather sharp drop between 2nd and 3rd quarters of this year for the casinos that are open, we can still expect about $20/pupil from this revenue source, or about $190K. The conventional wisdom is that despite the language in the Ohio Constitution, this money will be used to supplant, not augment, foundation revenue when the new formula comes out next year but even if accurate, those assumptions should be documented.

2) The May forecast broke with State law regarding TPP reimbursements. The law says they will continue in perpetuity, the forecast said they will be phased out. Based on conversations with members of the legislative finance committee and others in state government, I believe the odds favor some kind of phase out although the size, scope and dimension could be radically different. It is plausible, for example, that TPP could become part of the new funding formula. For purposes of this forecast, I'm much more comfortable with the phase-out assumption than I was in May, however, we should all realize that it's all guesswork at this point, both with regard to TPP reimbursement and state foundation.

3) The forecast accounts for new staff due to enrollment growth. This is something that Worthington residents haven't seen for a while but given the cyclic nature of residential turnover, was bound to happen sooner or later. There have been and still are staffing adjustments in the forecast for our special education population, but this forecast includes adjustments for general enrollment growth. By approving and funding a forecast, we are essentially approving a hiring plan, or at least the beginnings of one.

4) Finally, the forecast does not account for employee retirements. Ohio's pension reform will have the effect of providing a giant retirement incentive for every district in the state. While we can't know the exact impact in Worthington, we do know that retirements save money and that the number of retirements will be higher than average. A super conservative estimate would be 30 retirements, but the number could be twice that high. Again, even if included, this, by itself, does not negate the need for the 2012 levy, but it does increase our margin of error.

I do want to briefly address the misnomer that Worthington's levy is due to state budget cuts. As the forecast correctly documents, the 2009 state budget was propped up by stimulus dollars. The stimulus represented one-time money which, apparently, some people expected would be continued in perpetuity. When it was not, it was labeled as a cut. Across the state and according to OSBA consultants, some 75% of the total state cuts to K-12 education represented reductions at the federal level. Our problem at the state level stems from the fact that the state considers us a rich district. The foundation formula under both Republicans and Democrats is heavily redistributive and indeed, Worthington is currently receiving only around $1500/pupil from the foundation program. Hopefully, the new formula will acknowledge what seems obvious to many in Worthington – that there are too many seniors on fixed incomes that are house rich and cash poor and that some of these metrics, income for example, and not just property valuation, should be used as a measure of district wealth.

Speaking of the state, it must raise alarms whenever the state starts taking money from local property taxes and diverting it from its original purpose. Such is the case with the Jon Peterson scholarships, the impact of which makes their appearance in this forecast. It is a credit to our district that only 11 students have chosen to take advantage of this, but that number will surely go up over time and when the state gives us $1500/pupil but deducts (on average this year) $9100 or more for each “scholarship”, make no mistake, local dollars are involved.

I have one final comment. In opportunities I’ve had to speak on the subject of school funding and levies, I’ve made it a point to say to people who question school district spending that if you wait until the levy is on the ballot to engage in the discussion, you’ve waited too long. Multiple levy failures over a period of years typically yield undesirable results. Worthington is on the ballot in 2012 in part because state law does not grant inflationary revenue increases to school districts, in part because of employee compensation increases dating back 10 or 20 years and in part because of the redistributive nature of school funding in the state. The 2012 levy was first discussed in 2009. This new forecast represents a spending plan with accompanying revenue estimates. Assuming our current levy passes, the forecast suggests another levy would be needed in 2015 under current assumptions. If our constituents don’t want the district to plan on the three year cycle continuing or if they are otherwise concerned about sustainability under a policy of “Reasonable Levies at Reasonable Intervals”, they need to make that clear over the coming years.

In summary, the forecast and related assumptions are reasonable, confirm the requirement for a levy, but the smaller request that was ultimately made, appropriately document the risk factors of which there are many and in my opinion is certainly worthy of support.