Prepared Notes for Board Meeting – Levy

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The first topic in any levy discussion is whether or not a levy is justified or whether it is possible to live within the confines of current revenue. Our treasurer will point out, correctly, that total revenues in FY13, the last year which can be forecasted with any accuracy given the vagaries of the state budget, are all of 3% higher than total revenues in FY08. The primary reason why is the loss of TPP reimbursements which, while anticipated, are still sizable. Whether the phase out continues past FY13 is the subject of some debate, but the phase out that has already occurred does partially justify a levy in 2012. Again turning to the forecast, we see an increase in expenditures of approximately 10.4% from FY08 to FY12. This works out to a 2.6% annualized increase during a period where inflation, while benign, was still around 1.75 and given the rapid increase in health care costs, that difference is certainly understandable. In the period from FY12 to FY16, the treasurer forecasts a total expenditure increase of 10.9%, an average of 2.72% while forecasting a revenue decrease at the same time. The revenue decrease is by no means certain, but I agree with the treasurer that it is more likely to happen than not. Given this dynamic, there is clearly a mathematical case that can be made for the levy.

By what process should a board of education come up with a levy amount? As a student of this process in Worthington and throughout the state, the methodology varies depending on local circumstances. In Worthington, for at least the last 11 years and inclusive of the levy cycles of 2001, 2004, 2006 and 2009, the methodology employed would be to calculate how long you wanted the levy to last, take the deficit at the end of that period, add a fudge factor, divide by how much a mill raises and finally, divide by the number of years of collection. The only real variable in this calculation has been the size of the fudge factor, so let's talk about that.

The fudge factor, known in financial circles as the cash balance reserve is the amount of cash you want to have available at all times for emergencies and to carry over into the next cycle. The policies vary widely, even in Central Ohio. Our friends in Hilliard, for example, have a board policy indicating a minimum of 10%. The Ohio Association of School Business Officials says a minimum of 60 days is justified. The GFOA concurs, saying 5 to 15% or 1 to 2 months should be sufficient. [1]Dublin City Schools, in their recent decision to run a 6.94 mill operating levy is apparently content, according to the Columbus Dispatch, with a cash reserve of 3.4 million dollars at the end of the forecast period, or a little under 2%. Westerville's stated policy is 30 days, or 8.2%. While operating under a different funding formula, it is interesting to note that school districts in Pennsylvania are restricted in the amount of cash reserve that can carry over in any given year to 8% to 12% of the budget and that school districts across that state are having to defend themselves against the charge of hoarding cash. [2]

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[1] http://www.gfoa.org/downloads/caafr-appropriate-level.pdf ((Page 1)
[2] http://www.msnbc.msn.com/id/47580081#.T81mc8XrRQg

As we analyze the levy recommendations from our administration, it soon becomes clear that the only thing really under discussion, at least as far as the operating levy goes, is the size of the cash balance at the end of the levy period, which is FY16. The calculation is not difficult:

Mills	FY16 Balance (exclusive of 3.118 million dollar contingency)	Amount Raised if passed November, 2012	Amount Raised if Passed May, 2013	% of FY16 Expenses		GFOA recommended (60/365)
6.9	$24,199,987	$41,246,582	$29,461,844	18.56%		16.44%
6.8	$23,602,210	$40,648,805	$29,034,861	18.10%		16.44%
6.7	$23,004,434	$40,051,029	$28,607,878	17.64%		16.44%
6.6	$22,406,657	$39,453,252	$28,180,895	17.19%		16.44%
6.5	$21,808,881	$38,855,476	$27,753,911	16.73%		16.44%
6.4	$21,211,104	$38,257,699	$27,326,928	16.27%		16.44%
6.3	$20,613,328	$37,659,923	$26,899,945	15.81%		16.44%
6.2	$20,015,551	$37,062,146	$26,472,962	15.35%		16.44%
6.1	$19,417,775	$36,464,370	$26,045,978	14.89%		16.44%
6	$18,819,998	$35,866,593	$25,618,995	14.43%		16.44%
5.9	$18,222,222	$35,268,816	$25,192,012	13.98%		16.44%
Mills	FY16 Balance (inclusive of 3.118 million dollar contingency)			% of FY16 Expenses		GFOA Recommended (60/365)
6.9	$27,317,987			20.95%		16.44%
6.8	$26,720,210			20.49%		16.44%
6.7	$26,122,434			20.04%		16.44%
6.6	$25,524,657			19.58%		16.44%
6.5	$24,926,881			19.12%		16.44%
6.4	$24,329,104			18.66%		16.44%
6.3	$23,731,328			18.20%		16.44%
6.2	$23,133,551			17.74%		16.44%
6.1	$22,535,775			17.28%		16.44%

6	$21,937,998			16.83%		16.44%
5.9	$21,340,222			16.37%		16.44%
FY16 Debt Without Levy	$17,046,595.00					

As the spreadsheet demonstrates, a 6.9 mill levy will leave us with around 24.2 million dollars in the bank at the end of the levy period whereas a 5.9 mill levy will leave us at 18.2 million dollars at the end of FY16, however, that does not tell the complete story because the district still maintains a contingency reserve of 3.118 million dollars and could therefore count as cash in the bank should the need arise to balance a budget, therefore, a 5.9 mill levy will leave us with 21.3 million dollars, a few dollars short of the official GFOA recommendation of 60 days.

The GFOA recommendation is inclusive of a number of risk factors that wouldn't necessarily apply to us. For example, a successful levy would include bond money, therefore, we would be protected from such exogenous events as roof repairs, blown boilers, buses failing and so forth. There are only a few events that would materially and negatively change the forecast. Even a sudden, unpredictable increase in the cost of employee health care is accommodated in this forecast. The three events that can be game changers are – a really bad state budget that phases out TPP and/or foundation at a rate exceeding that projected in the forecast, a negotiated agreement with significantly higher increases than suggested by the forecast or an outflow of kids to charter schools should the legislature implement something like the original version of HB136. All of these events are possible, none are likely.

So let's apply all this to our decision this evening. First, for the record, I am supportive of going with an incremental levy and a bond issue as two separate ballot questions. I recognize the possibility that the bond issue may pass and the operating issue may fail, however, even if the levy fails, a new 6.9 mill levy in the spring of 2013 would still leave us with a 12 million dollar balance at the end of FY16. In other words, failure would not the catastrophic event that some would make it out to be. At worst, it would be inconvenient and time consuming. If the issues are split, we have the ability to run an incremental levy which is the most taxpayer friendly approach to the decision. An incremental levy of 3.9/5.4/6.9 would still keep us close to GFOA guidelines. If we wanted to run a combined issue, my choice would be the "Promised Incremental Levy", however, it appears that the board consensus if evidently a straight levy with a bond issue, so what should that number be. Here, my preference would be to go with the mathematical calculation of 5.9 mills, the lowest it can be while still more or less within GFOA guidelines. Technically, we can go much lower with either the Hilliard or Westerville policies, but 5.9 mills is safe. I understand that our Superintendent and Board President want to go with 6.3 mills and I'm not going to vote against them over that relatively small difference. We did, after all, work very, very hard since 2006 to adapt a planned, three year levy cycle and despite the ebb and flow of school funding in the state, thanks primarily to fiscal conservatism and employee sacrifice, we have managed to do just that with a bond issue in 2006, an incremental levy in 2009, this levy in 2012 and the next levy planned for 2015. It wasn't that long ago that we were looking at a double digit millage levy every other year, in perpetuity so getting to reasonable millage at a reasonable interval is an accomplishment that this district's staff should be proud of.

Now, with regards to bond component, I'm not going to register my disapproval with a "no" vote, but I am going to say a few words about process. The administration, in determining the bond amount, calculated how high the dollars can go while still maintaining the moniker of "No additional millage" and then working backward to justify the need. A better approach, in my opinion, would have been to rigorously define anticipated needs vs. wants, calculate what they should be and levy that amount and only that amount. It is true that Worthington taxpayers will not see an increase as a result of this bond package, but it's also true that we might have shaved a few tenths of a mill off of future indebtedness had we employed a different process. In my opinion, if the voters do approve a bond issue, this board must remain vigilant as we approve the bond purchases and the eventual expenditures.

There is but one more issue to discuss. The current five year forecast anticipates loss of TPP reimbursements between FY13 levels and FY16 levels to be cumulatively at 13.3 million dollars for FY14 through FY16 inclusive, noting that the loss for current biennium is already locked in. This is the approximate amount that will be at risk in the next state budget. If TPP reimbursements continue as in current state law, Worthington will have 13.3 million dollars that it didn't know it was going to have. My proposal is to make a promise to the taxpayer that if TPP reimbursements do continue at a pace higher than that forecasted in years FY14 through FY16, the administration make a commitment to save those dollars and put them towards extending the life of this levy or reducing the size of the levy currently planned for 2015. In other words, if we are using TPP reimbursement loss as partial justification for our action this year, we should be willing to commit in writing to saving that money if our assumptions were incorrect.

As always, I appreciate the indulgence of the room.