Prepared Notes for Board Meeting (Forecast)
October 27, 2014

Marc A. Schare
614 791-0067
marc9@aol.com

I'm not going to dissect the numbers this evening although I believe the forecast is still a bit too conservative when it comes to state funding, number of retirements and TPP tax reimbursements. At this point, I don't think there is any serious argument that our levy in 2012, given our perfect vision 20-20 hindsight was higher than it needed to be as a result of overly conservative projections, but we are where we are.

There is also no serious argument that the district is in its best financial condition in recent memory. The forecast, conservative projections and all, shows cash balances of 60.9 million dollars at the end of FY15 and 65.9 million dollars in FY16 before leveling off to 64.1 million in FY17, the first year that deficit spending returns to Worthington.

This is all pretty terrific news and I feel really badly that I need to be a bit of a party pooper here, but the first observation I will make tonight is that unlike a private sector corporation with shareholders, the Worthington School District should not have as an objective the accumulation of wealth. Let me say that again. On our list of goals that we'll hopefully be putting together one of these days, amassing large bank balances shouldn't be on it. We should tax the community, with their consent of course, only as much as is required to deliver the quality product the community expects of us. These large balances are the result of revenue increases primarily driven by overtaxation and spending restraint primarily caused by an external factor – Ohio's Pension Reform.

Let's talk about choices and opportunities. We have a large balance. What should we do with it. As I see it, we have three options.

1) There is no law that says we have to collect all of it. We can easily forego, for example, 1 or 2 mills in 2015 as was suggested by a member of the Treasurer's Advisory Committee (no, not me).

2) We can spend it. I'm fairly certain that our administrators would have no difficulty coming up with uses for a million dollars or so.

3) We can save it and use it to prolong the life of the levy.

Since this did come up in the TAC, I've had a chance to mull over these options.
For option 1, it's important to remember that despite running with a large balance, Worthington Schools is actually increasing taxes on residents next year as per the 2012 incremental levy. Under Option 1, we would simply tell the county that we want to collect one mill less than the voted millage, which works out to $71.66 for the average

Worthington home valued at $234,000. Note that the Worthington Libraries is actually doing this in that they deferred collection of their 2013 tax levy until next year. I have to admit that option 1 has some appeal to me since I believe, in general, that taxing jurisdictions have no business running with balances well in excess of the reserves recommended by GFOA, however, in order for us to save the average homeowner $71.66, we would also have to forego the state rollback contribution of $10.34 cents, or 12.5% of the amount we forego. Given how difficult it is to extract state money, I think we have better options, although option one is worthy of discussion.

For option 2, we certainly do have collective and individual wish lists for program augmentation across the district and there is no shortage of things we could be spending money on. For example, we can implement a foreign language program for elementary school, we can increase foreign language offerings in secondary school, we can offer a robust e-school alternative and these are just a few of my choices – I'm sure if we all chime in, we can make our surplus vanish almost immediately. There are two problems with this option. First, when we campaigned in 2012, we were very clear that the levy money was going to replace what we perceived the state would be taking away and that the money was not going to go towards new programming. The ethical issue on the table with option 2, therefore, is – what is the lifespan of that promise. Is it until we run another levy? Has it already expired? Should we do some community engagement to ascertain if our taxpayers want us to look at program augmentation? All good questions. The second problem with option 2 is operational. These balances are the result of one time events. We are not going to see a hundred teachers retire again anytime soon, nor are we likely to see huge increases in combined state funding from foundation and TPP reimbursements. We therefore must be very, very careful in taking on additional ongoing expenses with one time money. The forecast itself puts out a cautionary flag against doing that, but more on that in a minute.

Option 3, using our balance to prolong the life of the 2012 levy is my preferred choice. The numbers are compelling. In November of 2016, the year mentioned in our current financial goal, we'll have 65.9 million dollars in the bank. No one is going to vote for a levy when we have 65.9 million dollars in the bank. In November of 2017, the year that both Jennifer and I campaigned on last year in terms of extending the 2012 levy, we will have 64.1 million dollars in the bank. Levy passage with that balance would also be problematic. Unfortunately, by November of 2018, we start to see the problems endemic of program augmentation and the additional staff we've hired over the last 2 years in that we'll be deficit spending to the tune of 9.2 million dollars, increasing to 16.3 million dollars by the end of the forecast in 2019. Given the conservative nature of the forecast, I'm guessing we can stretch the levy until 2018, but if the forecast turns out to be accurate, it'll be a tight squeeze. I spoke of a cautionary flag. That deficit spending figure of 16.3 million dollars at the end of the forecast is THE key number in this document. You can poo-poo the 5th year of a five year forecast if you want, but our major expenses are pretty much locked in for at least the next 2 years and our revenue picture is cloudy. Therefore, in my opinion, we should heed the caution and resist the siren call of additional ongoing expense until we receive clarity on the state budget and visibility as to the actual employee retirements.

Finally, no forecast review would be complete without mentioning the thoroughness of the district's finance office. The information contained in this forecast, the CAFR and the supporting documents allows our district to do long term planning, a point also noted by the TAC. Indeed, this forecast was thoroughly vetted by the treasurer's advisory committee and there was discussion not just around the underlying assumptions but around each of these options as well. The document itself is in a revised format that provides additional commentary as to the nature of the assumptions which is so appreciated because after all, the assumptions drive the forecast. No doubt we'll see even better documentation in the years to come but as with all products of the finance department, this forecast is an outstanding example of how government finances should be documented for the average taxpayer. We take it for granted here in Worthington but imagine how difficult long term planning might be without such robust documentation.