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State Budget Update—District Financial Forecasting Workshop

OSBA Capital Conference

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Overview

- Key Issues with the State Funding Formula
 - What is new in the 2018/2019 Biennial Budget
- What factors are influencing State Aid?
 - Both the current biennium and beyond
- How are the Valuation Issues also Impacting Local Revenue?

State Aid and the Current Budget

- Base per pupil aid is \$6,010 in 2018 and \$6,020 in 2019
 - In 2017 it was \$6,000
- Implications of the slow growth
 - Little opportunity for inflationary growth
 - In 2018, lack of growth is contributing to more guarantee districts
 - In 2019, lack of growth yields little opportunity to move off the cap or guarantee
- Special Education, ELL, Economic Disadvantaged, Targeted Assistance, Gifted, and K-3 Literacy aid have no built in base growth in either 2018 or 2019

State Aid and the Current Budget

- Base Capacity Aid increased 14.3% from 2017 to 2018
 - This will help many small districts
- Base Transportation Aid is reduced for districts with State Share Indexes below 50%
 - For districts with SSI below, 37.5%, the cut in aid is 25% in 2018
 - For districts with SSI below 25%, the cut in aid is an additional 33% in 2019 (from 2018)

State Aid and the Current Budget

- Funding Cap and Guarantee are both impacted by changes in Total Average Daily Membership (ADM) between FY 2014 and FY 2016
 - The cap is impacted if ADM grew by more than 3%
 - The guarantee is impacted if ADM fell by more than 5%
- The base cap is 3% growth in 2018 from 2017 and another 3% from 2018 to 2019
- The base guarantee both years is FY 2017 total state aid

State Aid and the Current Budget

- **Funding Cap Exceptions**
 - If ADM grew more than 3%, the cap is the lesser of ADM growth or 5.5% in 2018 and ADM growth or 6% in 2019
 - In addition, 27 districts who are capped in 2018 but lost more in TPP reductions than they gained in state aid get a supplement for the difference
- **Funding Guarantee Exception**
 - Districts with losses of ADM in excess of 5% have their guarantee reduced by the difference between the percent loss and 5%, with a maximum loss of 5% (this is total funding)

Cap and Guarantee Districts

	FY 2017, Final #2 Payment	FY 2018, October #2 Payment
Number of Guarantee Districts	140	348
Number of Capped Districts	151	95

Why More Guarantee Districts

- The impact of Current Agricultural Use Values (CAUV)
 - The big CAUV increases in 2013 and 2014 were not fully captured in the FY 2016/2017 biennium
 - They are fully captured in 2018/2019
- The \$10 increases in per pupil funding in 2018 and 2019 are not able to overcome the CAUV impacts

Why More Guarantee Districts

	Number of Districts
Per Pupil Values from 2017 to 2018 increased by over 10%	59
Per Pupil Values by 5% to 10%	168
Per Pupil Values by 3% to 5%	131
Statewide Increase in per pupil values from 2017 to 2018	2.95%

59% of all districts grew faster than the state as a whole, 227 significantly faster

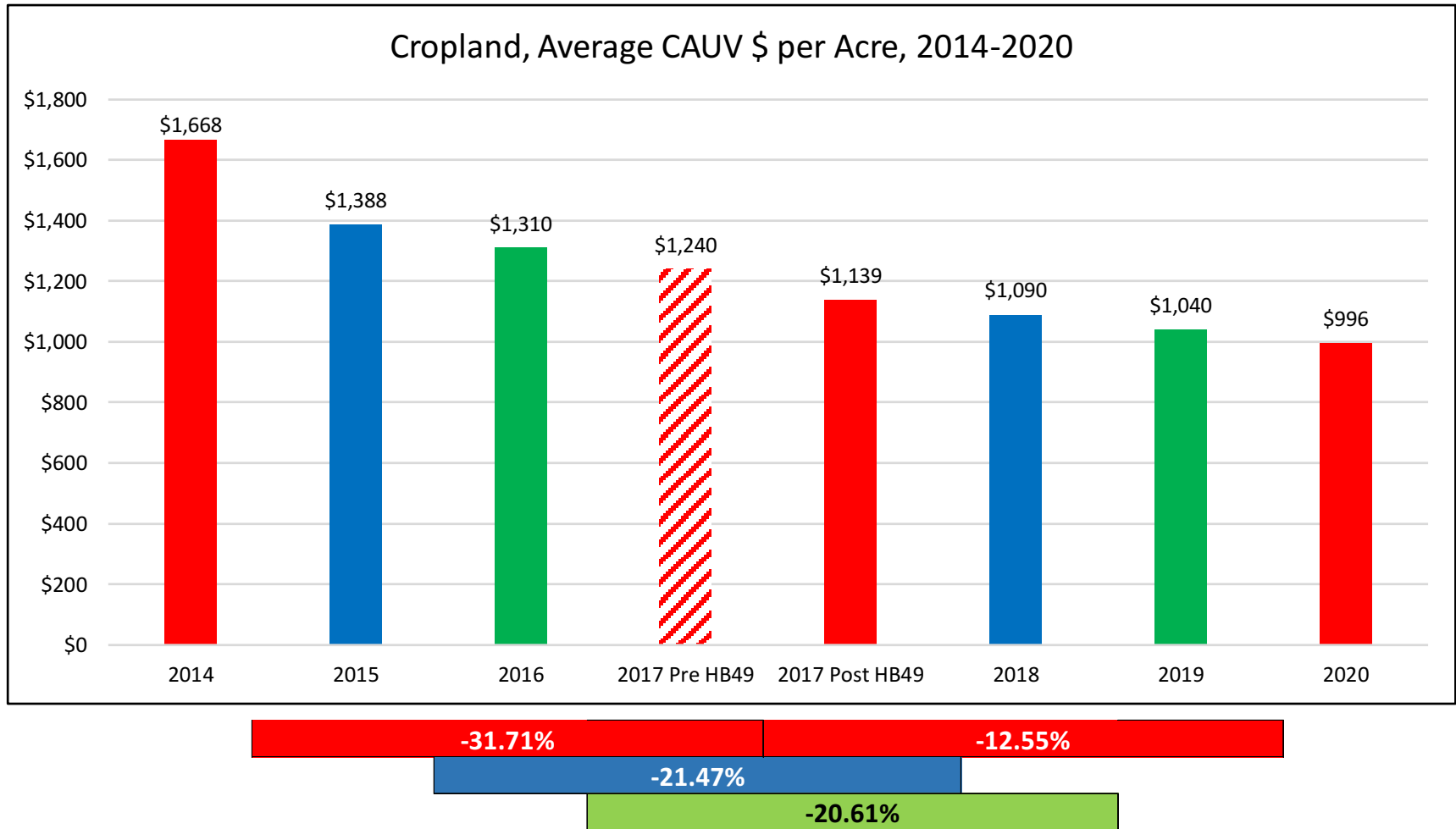
Why More Guarantee Districts

- Many of the districts growing faster than the state are small and agricultural property heavy
- These are most of the new districts going onto the guarantee
- There are 179 districts that had valuation per pupil grow at least twice as fast as the state
 - There are 208 more districts on the guarantee

Why Fewer Capped Districts

- Many agricultural districts moved from being on the cap to on the guarantee because of valuation increases
- Falling enrollment in capped districts will have cause districts to come off the cap
- The 3% cap growth coupled with minimal per pupil base growth would have moved districts that were marginally on the cap in 2017

What is Happening Going Forward



What is Happening Going Forward

- In counties going through reappraisal or triennial update in 2017, CAUV values are expected to decline by an average of 31.7% statewide
- In 2018 counties, CAUV values are expected to decline 21.5%
- In 2019 counties, CAUV values are expected to decline 20.6%



What is Happening Going Forward

2017 Tentative Residential Valuation Changes

County	Recommended Increase	Tentative Change	County	Tentative Change	County	Tentative Change
Ashland	13.0%	12.2%	AUGLAIZE	8.9%	MAHONING	2.0%
Ashtabula	6.0%	5.7%	CLINTON	11.1%	MERCER	6.8%
Athens	7.0%	7.1%	DARKE	12.2%	MORROW	8.1%
Butler	13.0%	8.6%	DEFIANCE	7.9%	PERRY	7.9%
Clermont	14.0%	14.0%	DELAWARE	11.9%	PICKAWAY	9.9%
Fulton	15.0%	10.4%	FRANKLIN	13.7%	PIKE	
Greene	8.0%	5.4%	GALLIA	5.2%	PREBLE	7.6%
Knox	10.0%	8.1%	GEAUGA	7.0%	PUTNAM	11.1%
Madison	18.0%	15.7%	HAMILTON	5.2%	RICHLAND	4.6%
Montgomery	6.0%	6.3%	HARDIN	6.2%	SENECA	5.0%
Noble	12.0%	8.8%	HARRISON	1.5%	SHELBY	6.5%
Summit	8.0%	7.8%	HENRY	9.0%	TRUMBULL	3.1%
Wayne	7.0%	6.5%	JACKSON	7.4%	VANWERT	3.3%
			LICKING	13.4%	WOOD	10.2%

What is Happening Going Forward

- 11 of the 41 counties going through reappraisal or triennial update is are expected to see double-digit increases in residential values
- Only two counties are expecting lower than 3% growth in residential values
- Barring a major change in the housing market or the economy, 2018 residential changes are likely to be consistent with 2017

What Do the Changes Mean for State Aid

- There will be little impact from the 2017 valuation changes in FY 2019
 - Only Targeted Assistance and Capacity Aid will be impacted
- Districts with a lot of CAUV value going through reappraisal or update in 2017 will see 2/3rds of the drop in values reflected in FY 2020/2021 SDI calculations
 - Districts going through in 2018 will see a 1/3rd weight in 2020/21
- Districts with big residential increases and little agricultural value will become significantly more wealthy under the formula in 2020/21

What Do the Changes Mean for Taxpayers

- Districts with significant CAUV will see a shifting of tax burden off of farmers onto residential taxpayers
 - This is the reverse of what has been happening over the past 5-10 years as farm values have increased faster than residential values
- These same districts who are at the 20-mill floor, if aggregate CAUV drops are greater than residential valuation increases, could come off the floor, which will impact future revenue growth
- Districts with large residential increases and little agricultural property may see significant burden shifting among residential taxpayers
 - Such districts on the 20-mill floor could see substantial tax revenue increases

Even Further into the Future

- The 2017 and 2018 valuation changes will fully impact state aid in the 2022/2023 biennium
- Under budget bill provisions, there will be another round of CAUV reductions from 2020-2022
 - These will further shift tax burden from farmers to homeowners
- The second round of CAUV changes will impact the 2022/2023 budget partially and the 2024/2025 budget fully
 - This assumes the same formula structure as currently exists remains in place

Other Forecast Risks Going Forward

- With over 70% of all districts either on the funding cap or guarantee in 2018, legislative decisions about how to handle these become crucial
 - It is also an indication the current formula is not being allowed to work or is not working
 - In 2017, only 48% of districts were on the cap or guarantee
- There will be a new Governor and new Speaker of the House when state budget time rolls around again

Key Takeaways

- The big changes in CAUV values are significantly impacting both agricultural districts and districts with little agricultural value because of relative wealth
 - This is exacerbated in areas with strong residential growth
- There will be an ongoing shift of local tax burden from farmers to homeowners in districts with a lot of agricultural value
- There is a tremendous amount of uncertainty around state funding because of the 2018 elections
 - Districts will need to carefully consider what the risk factors associated with the uncertainty might mean for their forecasts

The Public Finance Resources Team



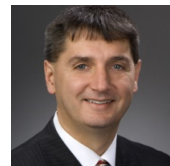
Matt Bunting, Consultant, has over 30 years of experience in the public finance sector. This includes 20 plus years as a school district treasurer, and 11 years with the Auditor of State where he led financial, legal compliance, and Federal single audits of government entities. Matt has helped develop financial forecasting tools, and providing instruction and training opportunities attended and used by over two hundred of Ohio's public school treasurers. Matt works with clients to help determine a long-term operating strategy for the organization. He holds a Degree in Accounting from Hocking College, and is a Certified Government Financial Manager.



Ryan Ghizzoni, Consultant, began his career with the Auditor of State's Office and has served as a school district treasurer for the past 10 years. During his career, he has been the recipient of six Association of School Business Officials International Meritorious Budget Awards and was the recipient of the Ohio Association of School Business Officials 2011 Outstanding Treasurer of the Year Award. Ryan holds a Bachelors of Business Administration from the Youngstown State University, and is a Certified Administrator of School Finance and Operations.



Debra Hoelzle, Chief Operations Officer, provides direct services to clients, and oversees the day-to-day operations of PFR. She brings with her operational experience from both the public and private sectors, including a school district and multiple corporations in the financial services industry. Debra holds her Masters of Business Administration from Ohio University, and her Bachelors of Science in Business Administration from The Ohio State University.



Stacy Overly, Consultant, provides direct financial services to clients. He has over 20 years of experience serving as school district treasurer, including 15 plus years of developing financial forecasting tools, and providing instruction and training opportunities attended and used by over two hundred of Ohio's public school treasurers. Stacy works with clients to analyze trends and review local economic data to help determine a long-term operating strategy for the organization. He holds his Masters of Business Administration and his Bachelors of Business Administration in Finance from Ohio University.



Mike Sobul, Consultant, brings 30 years of experience in public finance and tax analysis. Currently a school district treasurer, Mike spent nearly 25 years with the Ohio Department of Taxation where he led revenue forecasting efforts and provided analysis, training, and fiscal services to schools and local governments. Mike holds a Masters Degree in Public Policy from the University of Michigan and a Bachelors Degree in Economics and Political Science from Wittenberg University.



Ernie Strawser, Consultant, provides direct services to our public finance clients. He has over 30 years of public finance experience as a CFO, consultant, and developer and instructor of financial forecasting techniques and tools which have been used by over two hundred Ohio school district CFOs. Ernie works with clients to facilitate their understanding of local financial results, trends, and strategies. He holds both a Masters of Science in Administration from Central Michigan University and a Bachelor of Science in Finance from Ohio University.



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