

Making Sense of Finance for Board Members



OSBA Capital Conference

November 12, 2013

Financial Road Map

What is Everyone's Role?

Board Members

Where are we?

- What is the current status of the district's finances?

What is our destination?

- Where are your current spending patterns taking you?

How long until we get there?

- How long can our resources maintain our spending patterns?

Financial Road Map

What is Everyone's Role?

Administration

What is our route?

- Addresses student needs
- Prioritize based upon resources

How often and when do we need to stop to refuel?

- Line 6.01 of the forecast
- Revenue shortfall/surplus

What to we do if there is a detour?

- How fast can the conditions change?
- Identify vulnerabilities and adjust the course

Keep Your Eyes on the Road Ahead

Have you gone off course?

- Does your district estimate revenue and expenditures for each month?
- How do your estimates compare to your actual financial data?
- Will there be a point during the year that your revenue does not cover expenses?

Don't let the gas gauge get to empty

- Does your district have a cash balance policy?
- What is an adequate cash balance for your district?
- What factors have an effect on your cash balance?

Don't let what is happening on the side of the road affect you

- Are unexpected expenses or changes in revenue ongoing or one-time events?
- Are they sustainable?
- Does your cash balance continue to provide sustainability

Don't Let the Driver Fall Asleep at the Wheel

Are
you
going
off the
road?

- Do you have a revenue shortfall or surplus?
- How do you know?
- What time frame do you concentrate on?

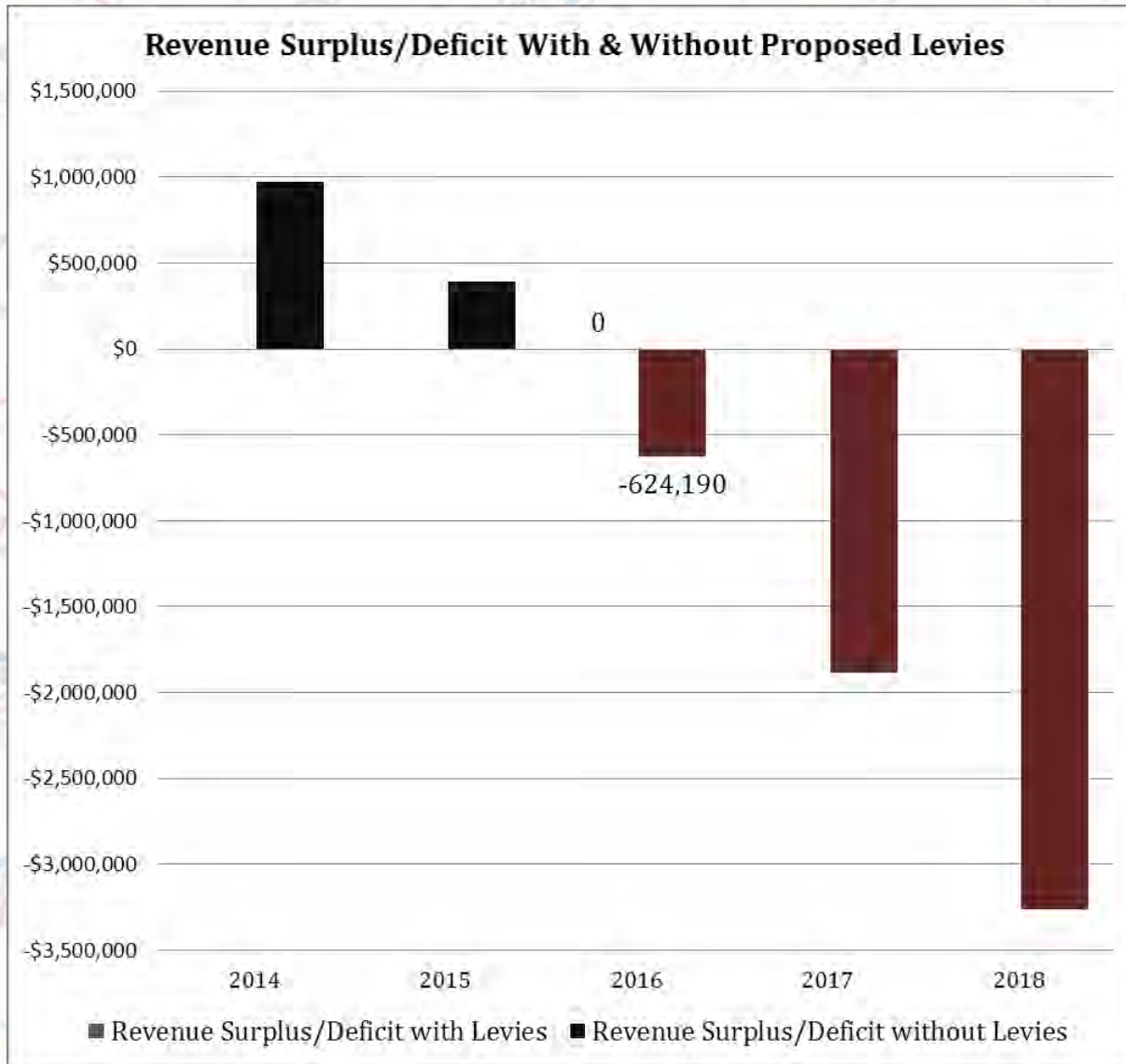
5-Year Forecast View

	ACTUAL			FORECASTED				
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
Revenue:								
1.010 - General Property Tax (Real Estate)	6,733,735	6,881,349	7,107,921	7,164,281	7,296,465	7,523,388	7,688,457	8,057,622
1.020 - Public Utility Personal Property	828,139	1,178,097	1,285,395	1,152,555	1,269,818	1,378,330	1,364,547	1,350,901
1.030 - Income Tax	2,811,774	2,982,673	3,296,230	4,995,224	5,579,842	5,773,487	5,974,878	6,184,325
1.035 - Unrestricted Grants-in-Aid	14,537,233	15,529,114	15,886,684	16,288,769	16,529,244	16,574,658	16,652,673	16,508,989
1.040 - Restricted Grants-in-Aid	249,404	246,192	249,352	255,096	262,529	262,529	262,529	262,529
1.045 - Restricted Federal Grants-in-Aid - SFSF	1,237,903	891,474	-	-	-	-	-	-
1.050 - Property Tax Allocation	1,228,073	962,888	972,836	988,991	1,014,867	1,045,312	1,069,597	1,123,733
1.060 - All Other Operating Revenues	745,485	985,027	1,234,698	1,205,636	1,137,575	1,185,327	1,234,033	1,258,714
1.070 - Total Revenue	28,371,746	29,656,814	30,033,116	32,050,552	33,090,340	33,743,030	34,246,714	34,746,812
Other Financing Sources:								
2.010 - Proceeds from Sale of Notes	-	-	-	-	-	-	-	-
2.020 - State Emergency Loans and Advancements	-	-	-	-	-	-	-	-
2.040 - Operating Transfers-In	-	-	-	-	-	-	-	-
2.050 - Advances-In	-	-	6,000	-	-	-	-	-
2.060 - All Other Financing Sources	32,057	3,229	3,823	95,426	18,000	18,000	18,000	18,000
2.070 - Total Other Financing Sources	32,057	3,229	9,823	95,426	18,000	18,000	18,000	18,000
2.080 - Total Revenues and Other Financing Sources	28,403,803	29,660,043	30,042,939	32,145,978	33,108,340	33,761,030	34,264,714	34,764,812
Expenditures:								
3.010 - Personnel Services	18,882,018	18,488,465	17,752,295	18,433,506	19,224,587	20,034,284	20,873,853	21,748,309
3.020 - Employees' Retirement/Insurance Benefits	6,141,008	6,260,675	6,500,870	6,778,705	7,279,622	7,874,697	8,524,718	9,236,524
3.030 - Purchased Services	3,186,538	3,387,476	3,320,146	3,540,584	3,707,207	3,880,495	4,060,715	4,254,993
3.040 - Supplies and Materials	975,324	849,190	960,302	984,310	1,013,839	1,044,254	1,075,582	1,107,849
3.050 - Capital Outlay	-	-	-	-	-	-	-	-
3.060 - Intergovernmental	-	-	-	-	-	-	-	-
Debt Service:								
4.010 - Principal-All Years	-	-	-	-	-	-	-	-
4.020 - Principal - Notes	-	-	-	-	-	-	-	-
4.030 - Principal - State Loans	-	-	-	-	-	-	-	-
4.040 - Principal - State Advances	-	-	-	-	-	-	-	-
4.050 - Principal - HB264 Loan	-	-	-	-	-	-	-	-
4.055 - Principal - Other	-	-	-	-	-	-	-	-
4.060 - Interest and Fiscal Charges	-	-	-	-	-	-	-	-
4.300 - Other Objects	1,168,655	1,201,847	982,280	1,420,571	1,477,394	1,536,490	1,597,949	1,661,867
4.500 - Total Expenditures	30,353,543	30,187,653	29,515,893	31,157,675	32,702,649	34,370,220	36,132,816	38,009,542
Other Financing Uses								
5.010 - Operating Transfers-Out	114,224	-	193,500	-	-	-	-	-
5.020 - Advances-Out	-	6,000	-	-	-	-	-	-
5.030 - All Other Financing Uses	-	-	4,000	15,000	15,000	15,000	15,000	15,000
5.040 - Total Other Financing Uses	114,224	6,000	197,500	15,000	15,000	15,000	15,000	15,000
5.050 - Total Expenditures and Other Financing Uses	30,467,767	30,193,653	29,713,393	31,172,675	32,717,649	34,385,220	36,147,816	38,024,542
Excess of Rev & Other Financing Uses Over (Under)								
6.010 - Expenditures and Other Financing Uses	(2,063,964)	(533,610)	329,546	973,303	390,691	(624,190)	(1,883,103)	(3,259,730)

Summary View

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
Beginning Balance	3,639,810	4,613,113	5,003,804	4,379,614	2,496,512
+ Revenue	32,145,978	33,108,340	33,761,030	34,264,714	34,764,812
+ Proposed Renew/Replacement Levies	-	-	-	-	-
+ Proposed New Levies	-	-	-	-	-
- Expenditures	(31,172,675)	(32,717,649)	(34,385,220)	(36,147,816)	(38,024,542)
= Revenue Surplus or Deficit	973,303	390,691	(624,190)	(1,883,103)	(3,259,730)
Ending Balance	4,613,113	5,003,804	4,379,614	2,496,512	(763,218)
Revenue Surplus or Deficit w/o Levies	973,303	390,691	(624,190)	(1,883,103)	(3,259,730)
Ending Balance w/o Levies	4,613,113	5,003,804	4,379,614	2,496,512	(763,218)

Graphic View



Don't Let the Driver Fall Asleep at the Wheel

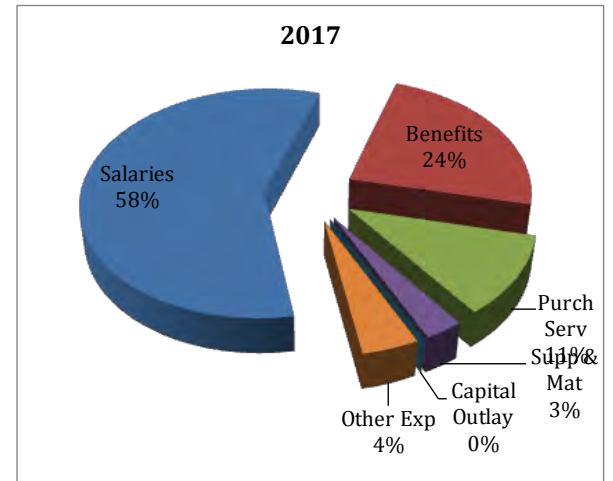
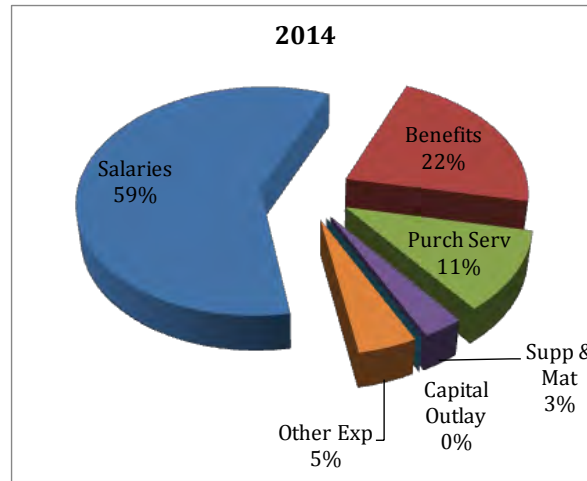
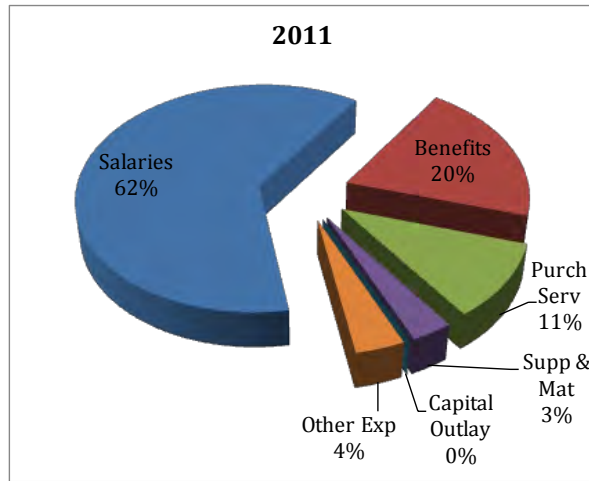
Are you going off the road?

- Do you have a revenue shortfall or surplus?
- How do you know?
- What time frame do you concentrate on?

Is your speed over the limit?

- How are your salaries and benefits changing compared to the rest of the forecast?
- What is driving the changes in your expenditures?
- What can be done to manage these costs?

Expenditure Breakdown



	ACTUAL		FORECASTED				6 Year Projected
	2011	% of Budget	2014	% of Budget	2017	% of Budget	% Change
3.010 - Personnel Services	18,882,018	62.21%	18,433,506	59.16%	20,873,853	57.77%	10.55%
3.020 - Employees' Retirement/Insurance Benefi	6,141,008	20.23%	6,778,705	21.76%	8,524,718	23.59%	38.82%
3.030 - Purchased Services	3,186,538	10.50%	3,540,584	11.36%	4,060,715	11.24%	27.43%
3.040 - Supplies and Materials	975,324	3.21%	984,310	3.16%	1,075,582	2.98%	10.28%
3.050 - Capital Outlay	-	0.00%	-	0.00%	-	0.00%	0.00%
3.060-4.300 - Other Expenditures	1,168,655	3.85%	1,420,571	4.56%	1,597,949	4.42%	36.73%
4.500 - Total Expenditures	30,353,543		31,157,675		36,132,816		19.04%

Don't Let the Driver Fall Asleep at the Wheel

Are you going off the road?

- Do you have a revenue shortfall or surplus?
- How do you know?
- What time frame do you concentrate on?

Is your speed over the limit?

- How are your salaries and benefits changing compared to the rest of the forecast?
- What is driving the changes in your expenditures?
- What can be done to manage these costs?

Are you not following the GPS?

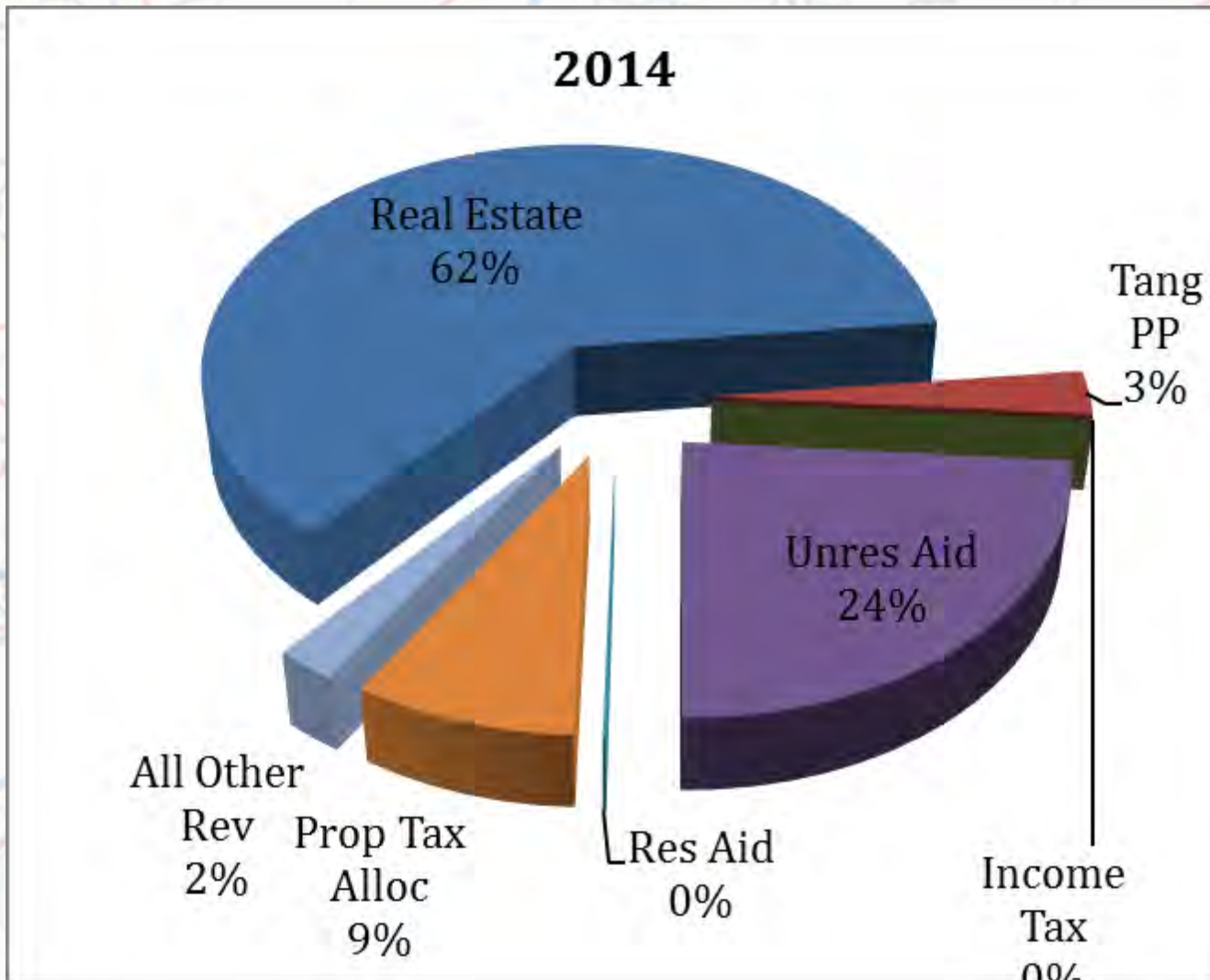
- Does your strategic plan align with your spending plan?
- What processes do you have in place to link the documents?

When to Stay-the-Course, and When to Look for an Alternative Route

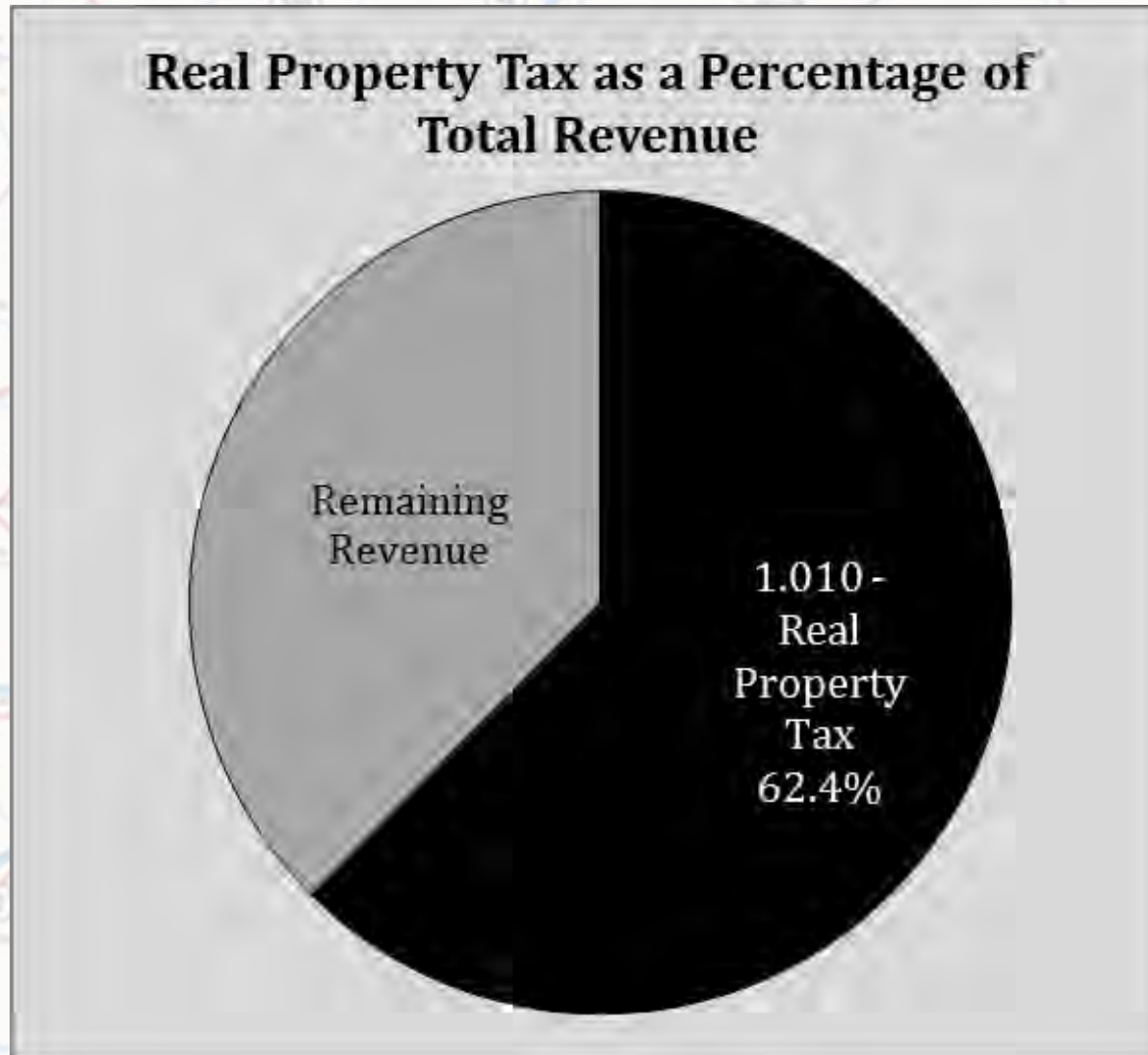
Are there detours in the road?

- What's going on with your largest sources of revenue?
- What impact is the real estate market having on your district?
- Do you understand the trends?

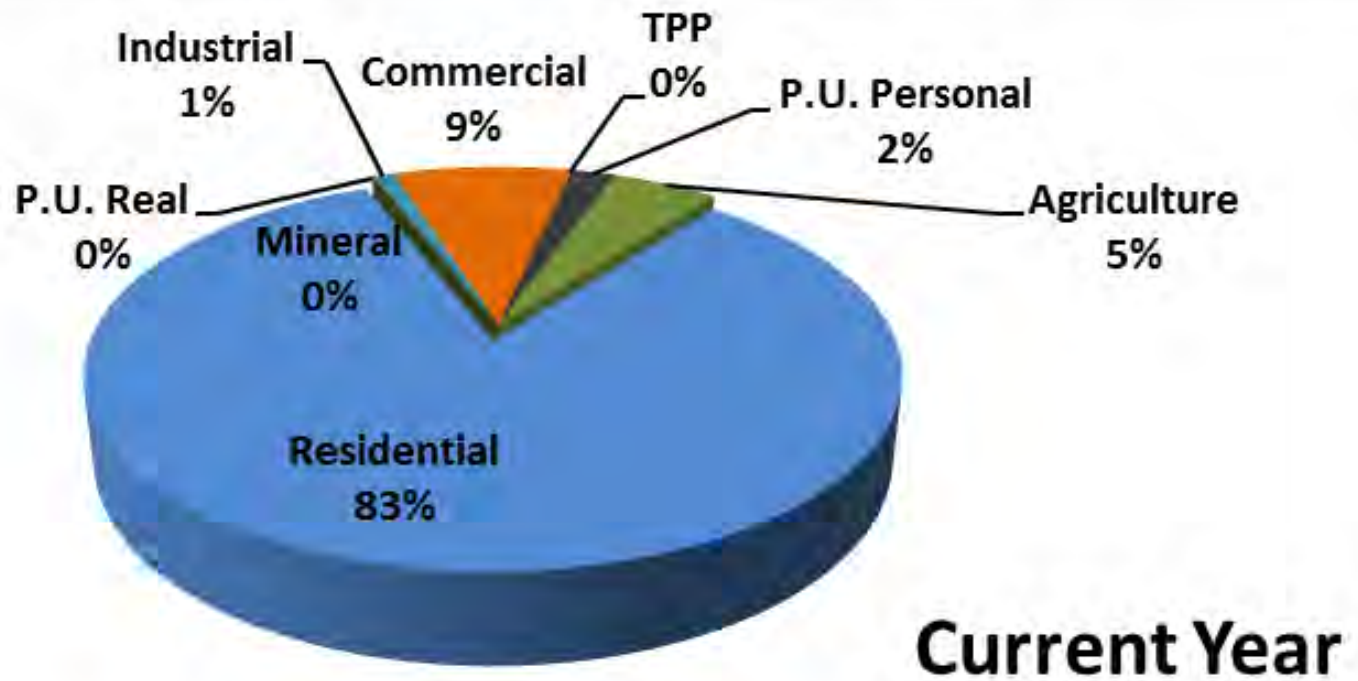
What Revenue Components are Important?



Real Property Tax Trends

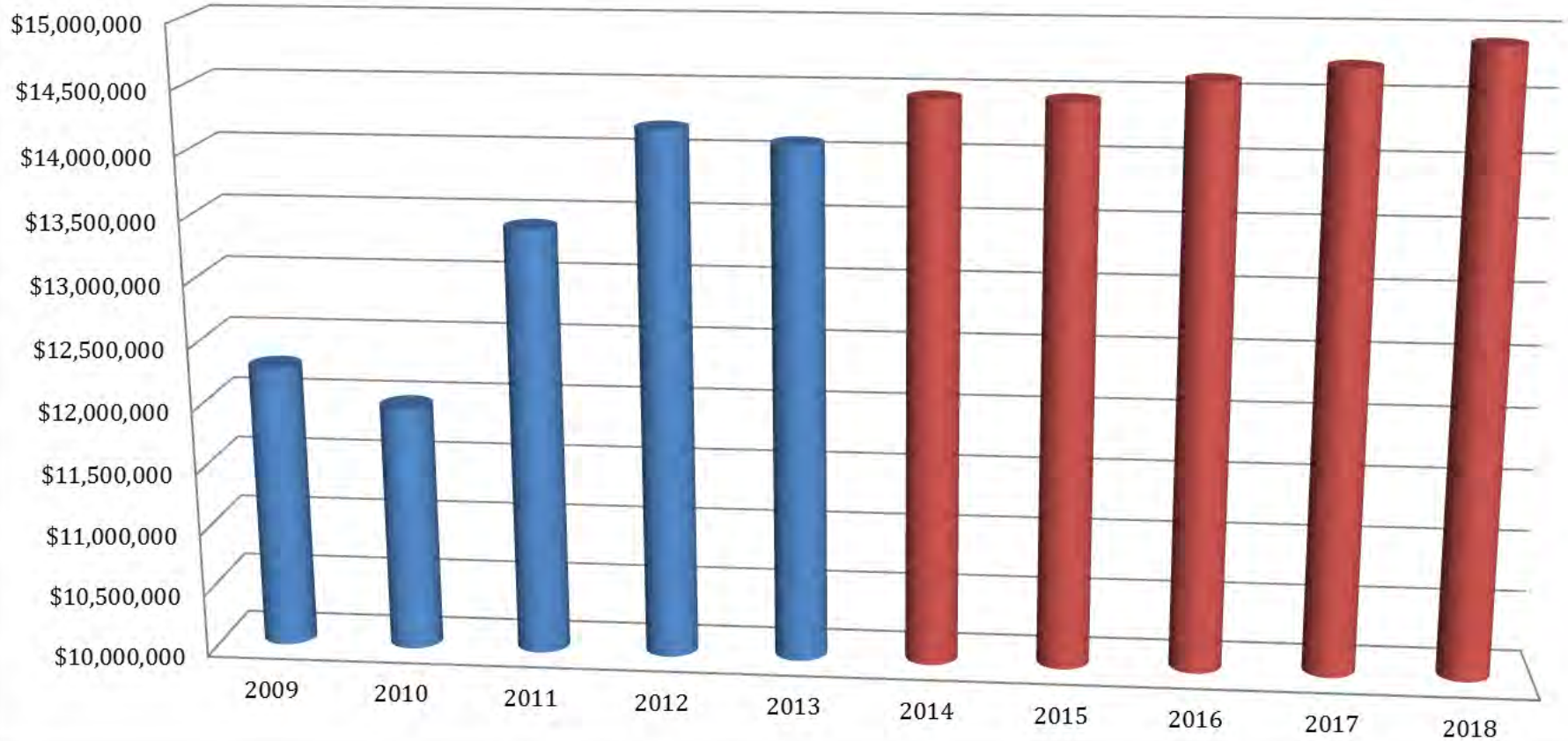


Real Property Tax Trends



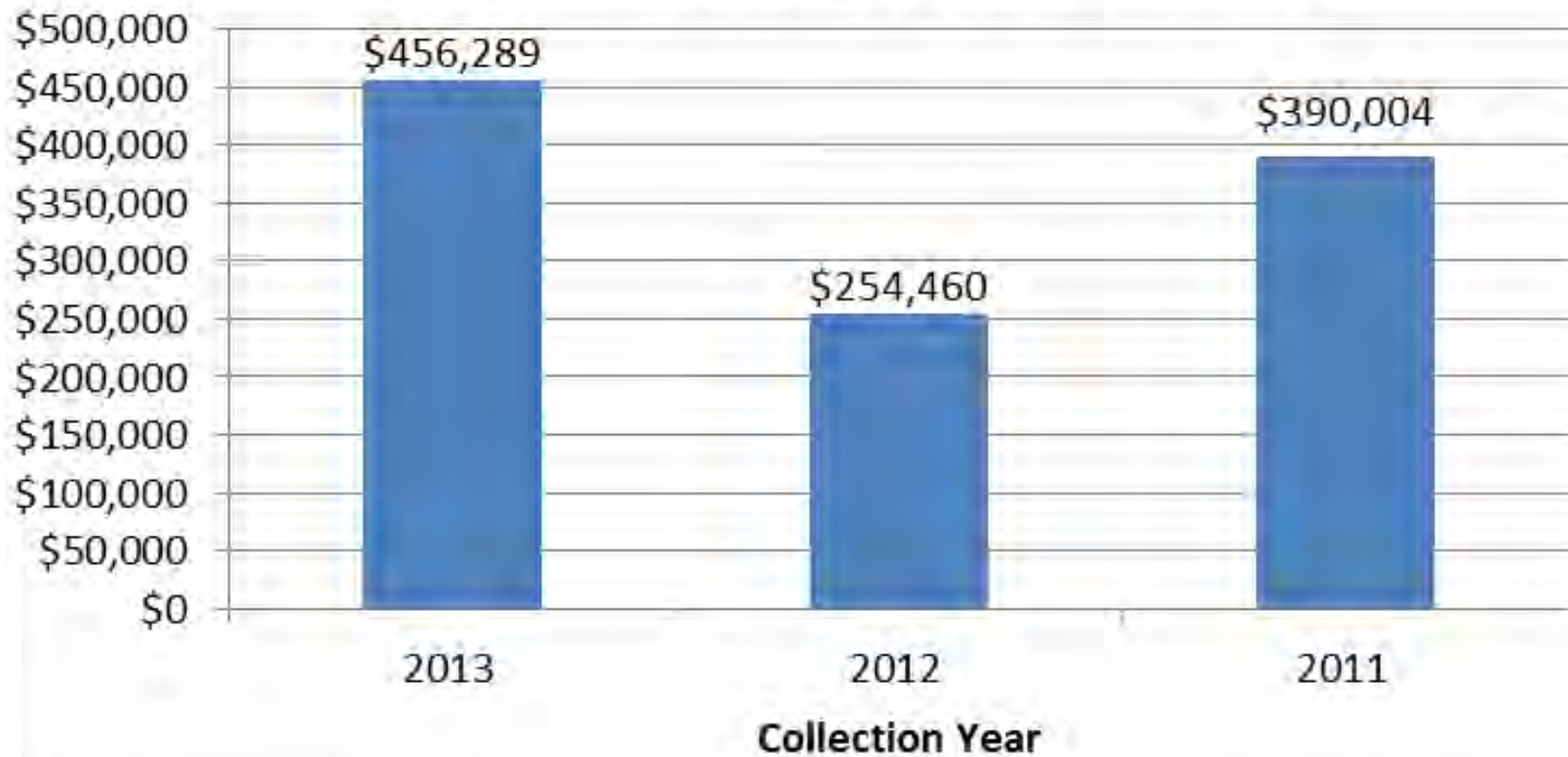
Real Property Tax Trends

General Property Tax (Real Estate) Actual and Projected



Real Property Tax Trends

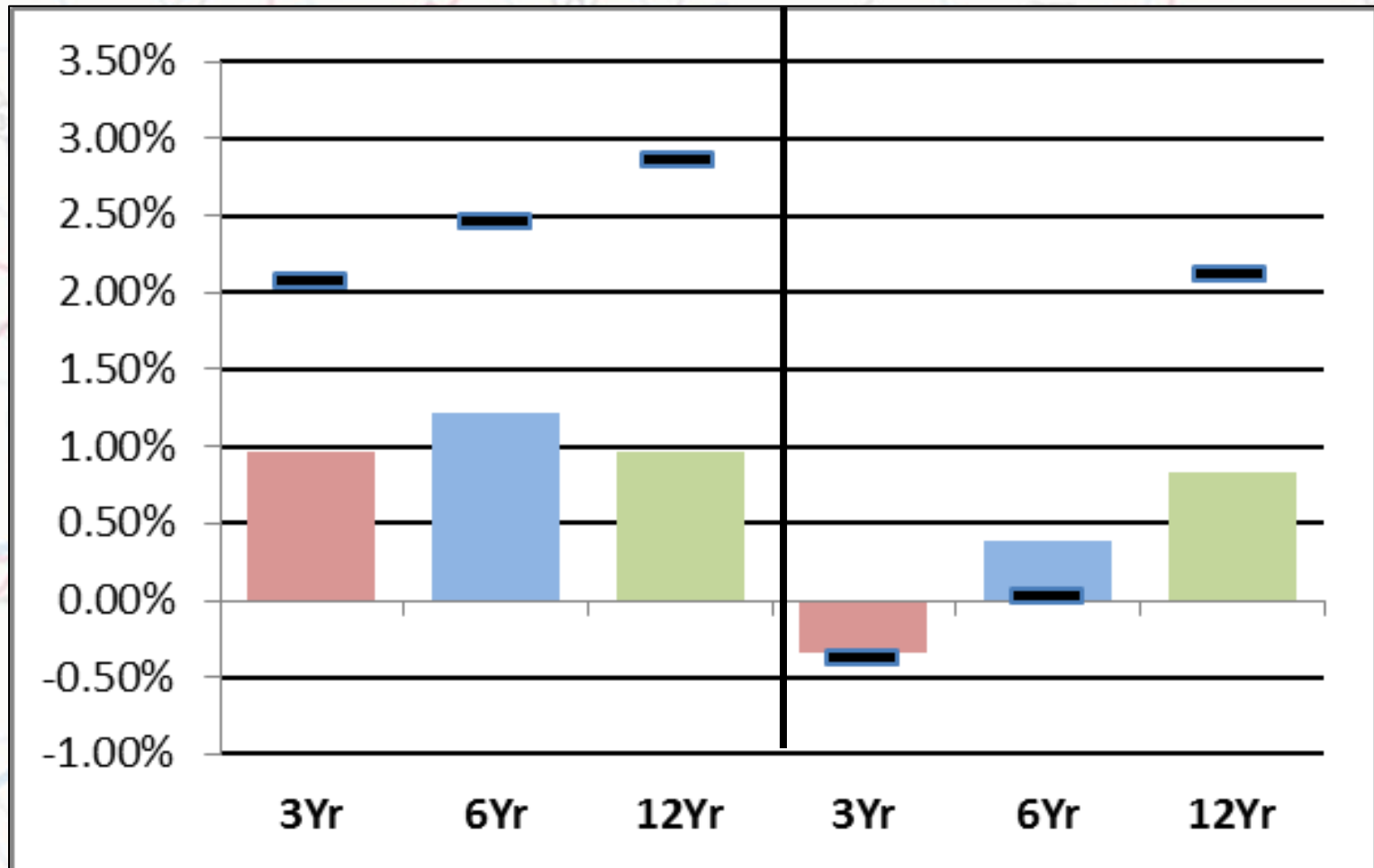
Total Delinquency Collections



Real Property Tax Trends

Agricultural Property

Residential Property



Real Property Tax Trends

Class I Property Tax Rates by Levy

	Levy Number	Levy Year	Full Voted	Effective 2012	Effective 2013
Inside Mills			5.20	5.20	5.20
Existing Millage	1	1976	22.90	4.70	4.73
	2	1977	8.00	1.64	1.65
	3	1985	10.00	3.63	3.65
	4	1992	4.90	2.43	2.44
	5	1993	6.00	2.97	2.99
	6	1995	3.70	2.17	2.18
	7	1999	3.70	2.80	2.81
	8	2003	7.70	6.84	6.88
	9	2010	5.80	5.80	5.80

When to Stay the Course and When to Look for an Alternative Route

Are there detours in the road?

- What's going on with your largest sources of revenue?
- What impact is the real estate market having on your district?
- Do you understand the trends?

Did you find a shortcut? Is it really a shortcut?

- How is the new funding formula impacting your district?
- What are the key factors to understanding the new funding formula?
- How will casino revenue impact your district?
- Are there other sources of revenue that are material to my district?

New State Aid Formula

Forget everything you know or have heard about previous state funding formulas

Enrollment and relative wealth have a crucial impact on allocation

There is no longer an assumed local share based solely on property valuation (no longer a charge-off)

The State's share of funding is determined before calculating base aid

New State Aid Formula

Core
Opportunity
Grant

Targeted
Assistance

Economically
Disadvantage

K-3 Literacy
Assistance

Special
Education

English
language
Learners

Gifted

Career Tech

Transportation

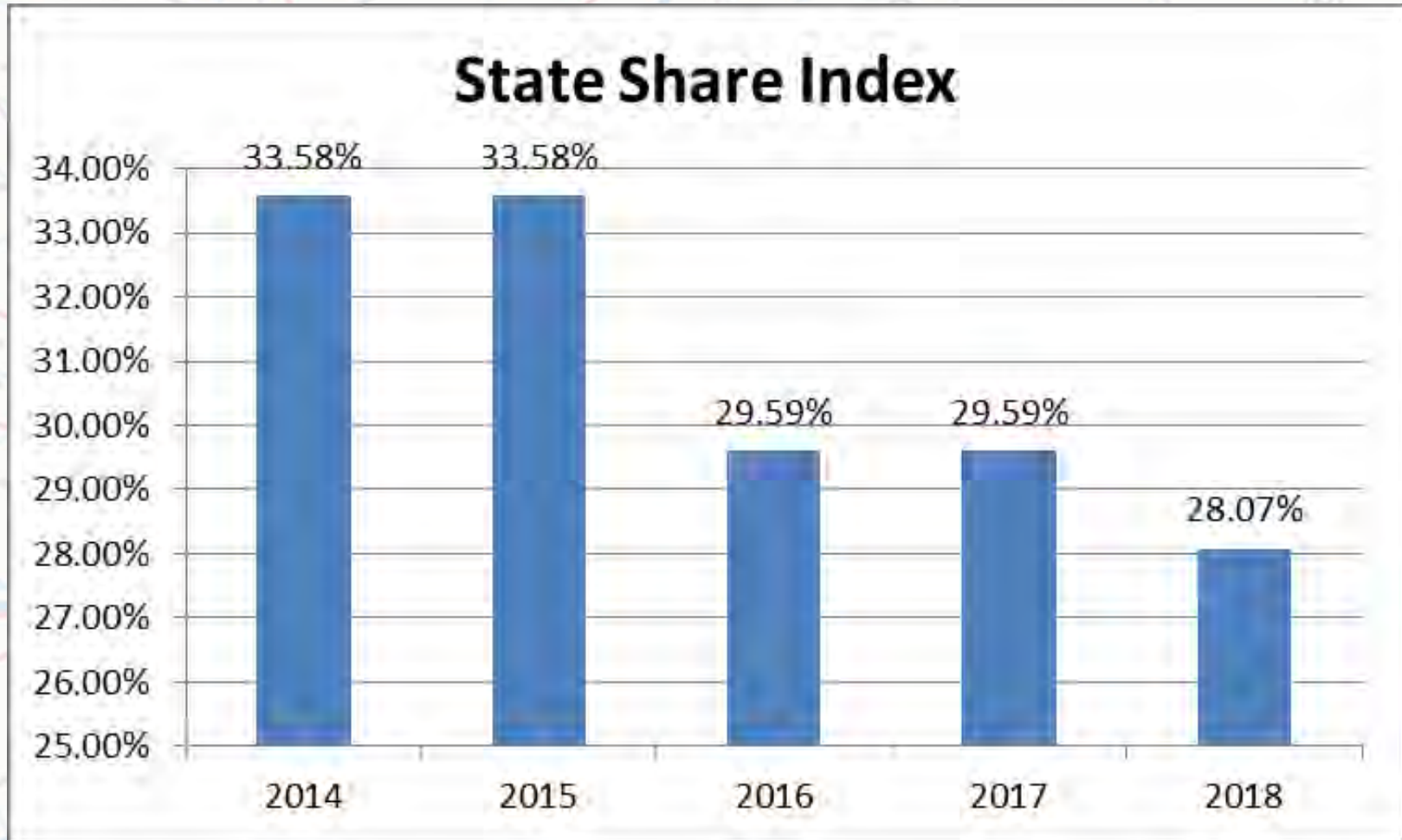
New State Aid Formula

Adding or losing students will make a district richer (losing students) or poorer (adding students)

This will cause either increases or decreases in state aid not only for the students added or lost, but will cause increases or decreases for every student being educated in the district

The State Share Index (SSI) drives most funding

New State Aid Formula



New State Aid Formula

Total Formula Aid (SFPR line J)	\$7,325,688	\$7,485,863	\$7,415,682
Prior Year Funding Amount (SFPR line K)	\$7,628,726	\$7,628,726	\$7,628,726
Guarantee Percentage	100%	100%	100%
Transitional Aid (SFPR line L)	\$303,038	\$142,863	\$60,469
Growth Cap	1.0625	1.105	1.050
Maximum Capped Amount (SFPR line N)	8,105,521	8,429,742	8,010,162
Final Funding Amount (SFPR line O)	7,628,726	7,628,726	7,628,726
Unfunded Formula Above Cap	\$0	\$0	\$0

New State Aid Formula

	2014	2015	2016
Total Formula Aid (SFPR Line J)	\$162,517,870	\$167,643,434	\$176,473,684
Prior Year Funding Amount (SFPR Line K)	\$140,720,002	\$149,515,002	\$165,214,077
Guarantee Percentage of 2013 Funding	100%	100%	100%
Transitional Aid (SFPR Line L)	\$0	\$0	\$0
Growth Cap	1.0625	1.105	1.030
Maximum Capped Amount (SFPR Line N)	149,515,002	165,214,077	170,170,500
Final Funding Amount (SFPR Line O)	149,515,002	165,214,077	170,170,500
Unfunded Formula Above Cap	\$13,002,868	\$2,429,356	\$6,303,185

New State Aid Formula

	2014	2015	2016
Total Formula Aid	\$6,127,824	\$6,051,668	\$5,469,777
Prior Year Funding Amount	\$5,164,085	\$5,486,840	\$6,051,668
Guarantee Percentage	100%	100%	100%
Transitional Aid	\$0	\$0	\$0
Growth Cap	1.0625	1.105	1.050
Maximum Capped Amount	5,486,840	6,062,959	6,354,251
Final Funding Amount	5,486,840	6,051,668	5,469,777
Unfunded Formula Above Cap	\$640,984	\$0	\$0

Keeping Your Eyes on the Road Ahead

Have
you
gone
off
course?

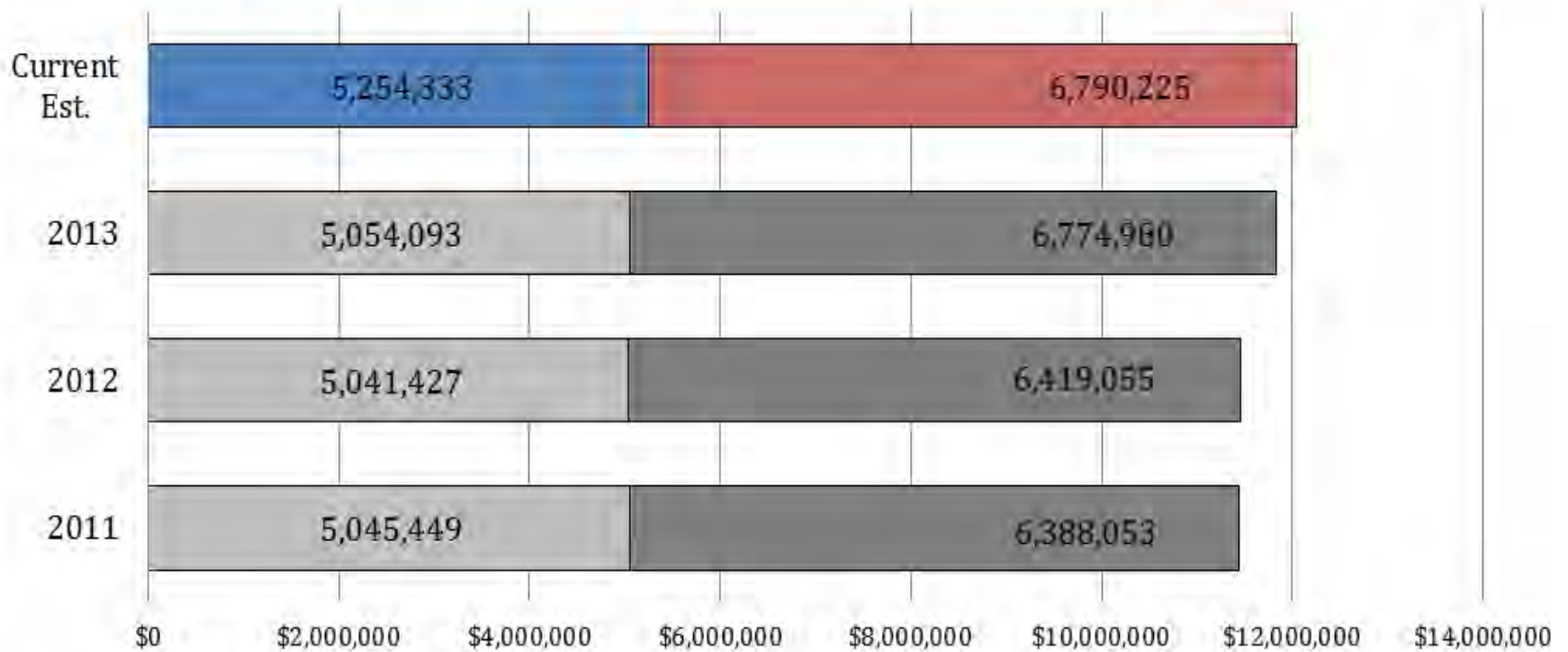
- Does your district estimate revenue and expenditures for each month?
- How does your estimates compare to your actual financial data?
- Will there be a point during the year that your revenue does not cover expenses?

1.010 - General Property Tax (Real Estate)

Cash Flow Analysis

	Cash Flow								
	Actual Fiscal Year Revenue				Current Fiscal Year			2015	
	2011	2012	2013	Distribution	Current Est.	Est./Actual	Original Est.	Cash Flow Est.	
July	0	0	0	0.0%		0	-	-	
August	0	5,068,200	4,177,000	35.3%		0	-	4,270,000	
September	5,045,449	-26,773	877,093	7.4%		5,254,333	-	992,607	
October	0	0	0	0.0%	-	0	-	-	
November	0	0	0	0.0%	-	0	-	-	
December	0	0	0	0.0%	-	0	-	-	
January	0	0	0	0.0%	-	0	-	-	
February	0	0	0	0.0%	-	0	-	-	
March	6,333,000	0	3,529,680	29.8%	3,575,000	3,575,000	-	3,600,000	
April	55,053	6,419,055	3,245,300	27.4%	3,215,225	3,215,225	-	3,321,256	
May	0	0	0	0.0%	-	0	-	-	
June	0	0	0	0.0%	-	0	-	-	
Actual Revenue Received FYTD	5,045,449	5,041,427	5,054,093			5,254,333			
Actual % Received FYTD	44.1%	44.0%	42.7%			43.6%			
Remaining Revenue Estimated	6,388,053	6,419,055	6,774,980			6,790,225			
Remaining % to be Received	55.9%	56.0%	57.3%			56.4%			
Annual Cash Flow Total	11,433,502	11,460,482	11,829,073			12,044,558	-	12,183,863	
						Forecast Amt >>	12,044,555	12,183,871	
						Cash Flow Exceeds	Variance >>	(3)	8
							% Variance >>	0.00%	0.00%

Comparison of FYTD Actual Revenue Received vs. Revenue Remaining



Actual Revenue Received FYTD

+

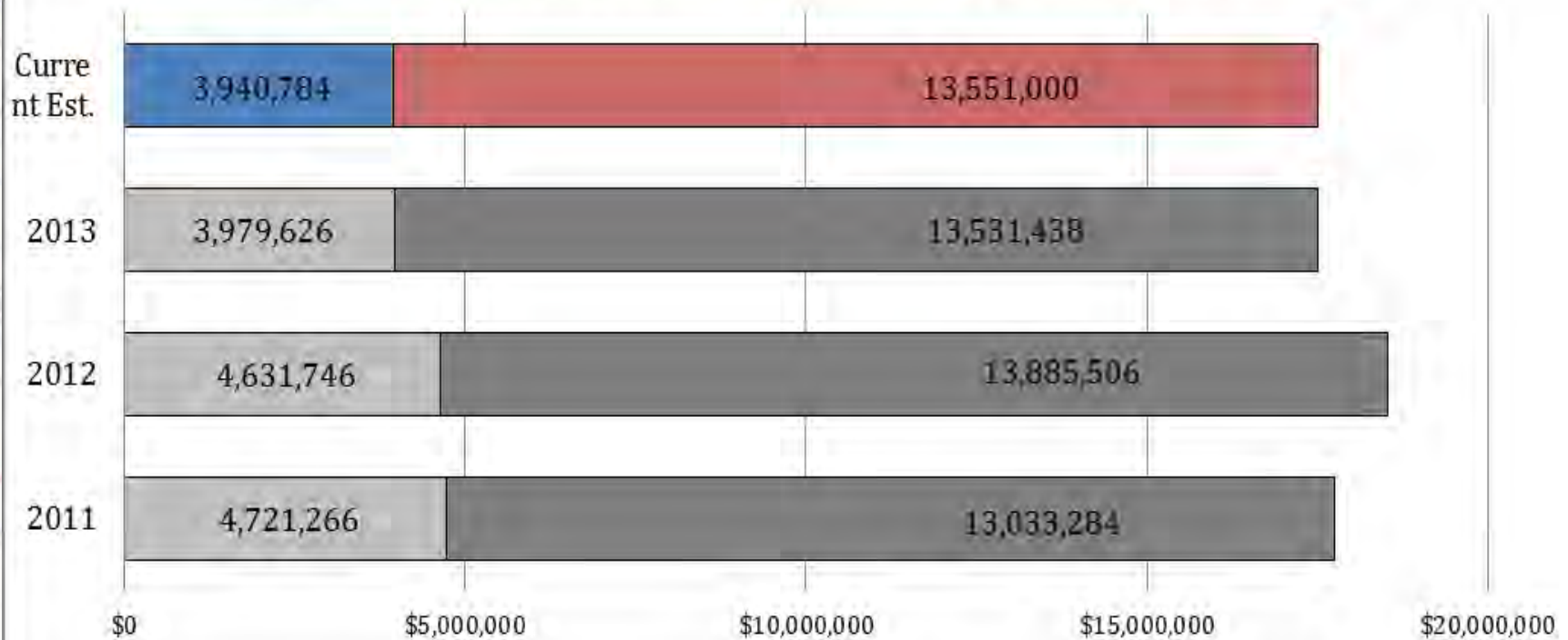
Remaining Revenue Projected

3.010 - Personnel Services

Cash Flow Analysis

Cash Flow								
Actual Fiscal Year Expenditures				Current Fiscal Year			2015	
	2011	2012	2013	Distribution	Current Est.	Est./Actual	Original Est.	Cash Flow Est.
July	2,018,929	1,970,094	1,332,022	7.6%		1,287,141	-	1,335,000
August	1,350,321	1,305,070	1,337,688	7.6%		1,296,923	-	1,335,000
September	1,352,016	1,356,582	1,309,916	7.5%		1,356,720	-	1,344,488
October	1,364,740	1,372,568	1,323,990	7.6%	1,300,000	1,300,000	-	1,357,129
November	1,483,830	1,501,736	2,108,475	12.0%	2,105,000	2,105,000	-	2,161,249
December	2,026,051	2,065,984	1,321,144	7.5%	1,300,000	1,300,000	-	1,354,212
January	1,324,992	1,348,677	1,369,029	7.8%	1,330,000	1,330,000	-	1,403,295
February	1,359,117	1,362,275	1,329,181	7.6%	1,330,000	1,330,000	-	1,362,450
March	1,429,451	1,438,482	1,393,342	8.0%	1,400,000	1,400,000	-	1,428,217
April	1,285,103	1,348,887	1,313,881	7.5%	1,330,000	1,330,000	-	1,346,767
May	1,359,243	1,368,625	2,032,693	11.6%	2,126,000	2,126,000	-	2,083,570
June	1,400,757	2,078,272	1,339,703	7.7%	1,330,000	1,330,000	-	1,373,235
Actual Dollars Spent FYTD	4,721,266	4,631,746	3,979,626			3,940,784		
Actual Percentage Spent FYTD	26.6%	25.0%	22.7%			22.5%		
Remaining Dollars to be Spent	13,033,284	13,885,506	13,531,438			13,551,000		
Remaining Percentage to be Spent	73.4%	75.0%	77.3%			77.5%		
Annual Cash Flow Total	17,754,550	18,517,252	17,511,064			17,491,784	-	17,884,611
						Forecast Amt >>	17,491,784	17,884,611
Cash Flow Exceeds						Variance >>	(0)	(0)
						% Variance >>	0.00%	0.00%

Comparison of FYTD Actual Expended vs. Expenditures Remaining



Actual Dollars Spent FYTD

+

Remaining Dollars to be Spent

Keeping Your Eyes on the Road Ahead

Have you gone off course?

- Does your district estimate revenue and expenditures for each month?
- How do your estimates compare to your actual financial data?
- Will there be a point during the year that your revenue does not cover expenses?

Don't let the gas gauge get to empty

- Does your district have a cash balance policy?
- What is an adequate cash balance for your district?
- What factors have an effect on your cash balance?

What is a Cash Balance Policy?

BusinessDictionary.com defines it as:

- “The least amount of available cash that management decides to maintain to avoid or cover up cash shortfalls resulting in a mismatch between cash inflows and outflows during an accounting period.”
- Basically what is the least amount of cash we can have and still be reasonably certain we can pay our bills and payroll each month.

What a Cash Balance Policy is NOT

It's not arbitrary

It's not to "hide" money from labor negotiations

It's not intended to force borrowing when you have cash in the bank.

It's not a "Gotcha" moment.

In a lot of cases it may not even be an amount you are currently able to meet but it still represents the GOAL you should be working toward.

What is an Adequate Cash Balance for Your District?

There are many ways to calculate a minimum cash balance amount,

Some even look like this equation...

Illustration 11.31

A firm plans to hold Rs. 10 lakh in cash, on an average, to meet its transaction needs during its planning period of next six months. The firm has this amount in marketable securities at 10% p.a. The fixed cost of conversion of marketable securities is Rs. 1,000 per transaction.

(a) What is the optimal cash balance?

(b) How many times the firm need to convert marketable securities to maintain the optimum cash balance?

(a) The optimal cash balance(s) is given by

$$D = \sqrt{\frac{2aq}{k}}$$

where a = re-order cost i.e. fixed cost of conversion per lot = Rs. 1,000

q = volume of transactions = Rs. 10 lakh

k = rate of interest foregone = $0.10 \div 2 = 0.05$ (for six months).

$$\therefore D = \sqrt{\frac{2 \times 1,000 \times 10,00,000}{0.05}} = \text{Rs. } 2,00,000$$

$$(b) \text{ Number of conversions of marketable securities} = \frac{\text{Rs. } 10,00,000}{\text{Rs. } 2,00,000} = 5$$

The more simple and more common calculations usually produce a similar amount.

How to Determine an Adequate Amount

- 1 Month Expenditures: $\$30,203,618 / 12 \text{ months} = \$2,517,000$

- 30 Days Expenditures: $\$30,203,618 / 365 \text{ days} \times 30 \text{ days} = \$2,482,000$

- 10% of Annual Expenditures: $\$30,203,618 \times 10\% = \$3,020,000$

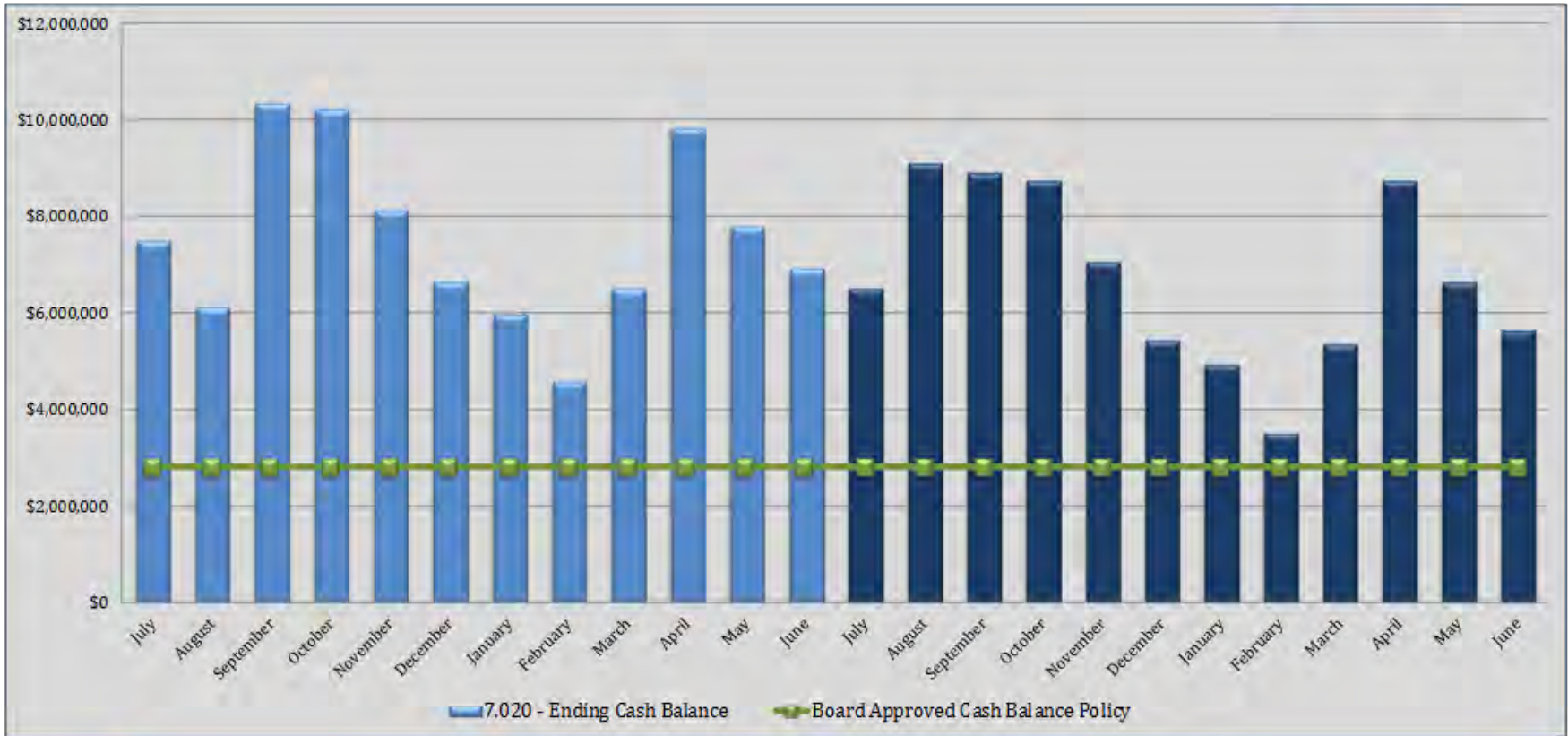
- Minimum of 3 Payrolls: $\$17,491,784 / 26 \text{ pay periods} \times 3 = \$2,018,000$ (what about benefits?)

Two months of property tax settlements

Cash Balance Policy Tracking

Projected Monthly Cash Flow

Board Approved Cash Balance Policy **\$ 2,800,000**



2014

2015

Keeping Your Eyes on the Road Ahead

Have you gone off course?

- Does your district estimate revenue and expenditures for each month?
- How does your estimates compare to your actual financial data?
- Will there be a point during the year that your revenue does not cover expenses?

Don't let the gas gauge get to empty

- Does your district have a cash balance policy?
- What is an adequate cash balance for your district?
- What factors have an effect on your cash balance?

Is it time to stop and ask for directions?

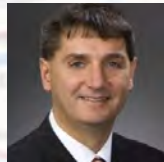
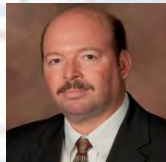
- Can benchmarking data help in our decision making?
- What forecasting resources are there to help my district?
- How can my district get help with strategic financial planning?

PFR Contact Information

Ernie Strawser
Consultant
Public Finance Resources, Inc.
PO Box 1822
Columbus, OH 43216
ernie@pfrcfo.com
Phone: 614-732-5948

Debra Hoelzle
Chief Operating Officer
Public Finance Resources, Inc.
PO Box 1822
Columbus, OH 43216
debra@pfrcfo.com
Phone: 614-732-5948

www.PFRCFO.com



Ernie Strawser

Matt Bunting

Stacy Overly

Ryan Ghizzoni

Mike Sobul

Debra Hoelzle