

MASON CITY SCHOOL DISTRICT 5-YEAR PROJECTION ASSUMPTIONS OCTOBER 2016

The Mason City School District is a suburban school district located in south-western Warren County, 25 miles northeast of Cincinnati and 35 miles southeast of Dayton. The District is bordered by Interstates 71 to the east and 75 to the west and is in close proximity to Interstate 275 to the south. The District currently has an enrollment of approximately 10,700 students in five buildings. The District encompasses 25 square miles and is approximately 80% developed.

The District experienced rapid growth and development during the mid 1990's and 2000's, and increased an average of over 500 students per year during this period. That growth has leveled off and with our largest class sizes approaching graduation, enrollment is expected to decrease slightly each year through FY21.

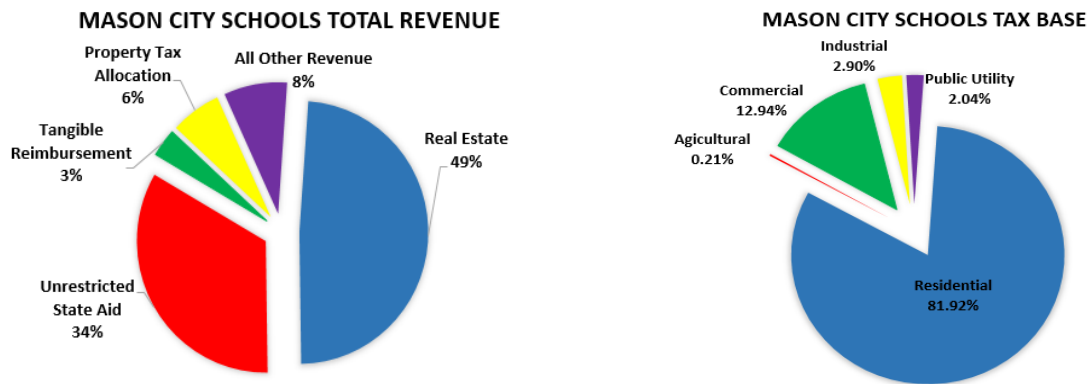
The district consolidated elementary buildings during the FY2012-13 school year. Mason closed the Mason Heights Elementary facility (Grades 2 & 3) and consolidated those students into Mason Early Childhood Center (part of 2nd grade) and Western Row Elementary (all of 3rd grade and part of 2nd grade). This reduced the number of school buildings from six to five.

The district's last operating levy was passed in May 2005 that phased in additional millage as follows: TY2005 (Collected 2006) 6.54 mills; TY2006 (Collected 2007) 1.70 mills and TY2007 (Collected 2008) 1.70 mills.

The following is a detailed description of the assumptions made in developing the current Five Year Forecast.

REVENUE

Line 1.01 General Property Tax



Real Property Taxes account for nearly half of the operating revenue for the District. Of the property tax base, nearly 82% is residential property. Over the forecast period, revenues are expected to grow between 1-2% per year in non-reappraisal years and approximately 4.5% in reappraisal/update years.

2015 was a triennial update year for Warren County. Preliminary data from the state Department of Taxation indicated that residential valuations were expected to grow by about 6% as a result of the update, but the actual increase was 9.91%. Due to the valuation increase, tax reduction factors lowered the effective residential millage rate by about 2.98 mills. Only the district's 4.68 inside mills are allowed to receive revenue growth from the triennial update valuation increases. In 2018, there will be a full reappraisal of values in Warren County. We are projecting a 6.5% increase in residential values.

Unlike with residential property, we do not have good data to know in advance the impact of the triennial update on commercial and industrial property. Based on historical data, both of these types of property are expected to decrease very slightly this year. At the 2018 reappraisal, we are anticipating a small increase in commercial value.

New construction of residential property has run about 1% per year over the last four years. We are anticipating that same rate of construction over the next few years but will continue to monitor changes in new construction patterns. Commercial property new construction is expected to average about 2% over the five-year forecast period based on recent history.

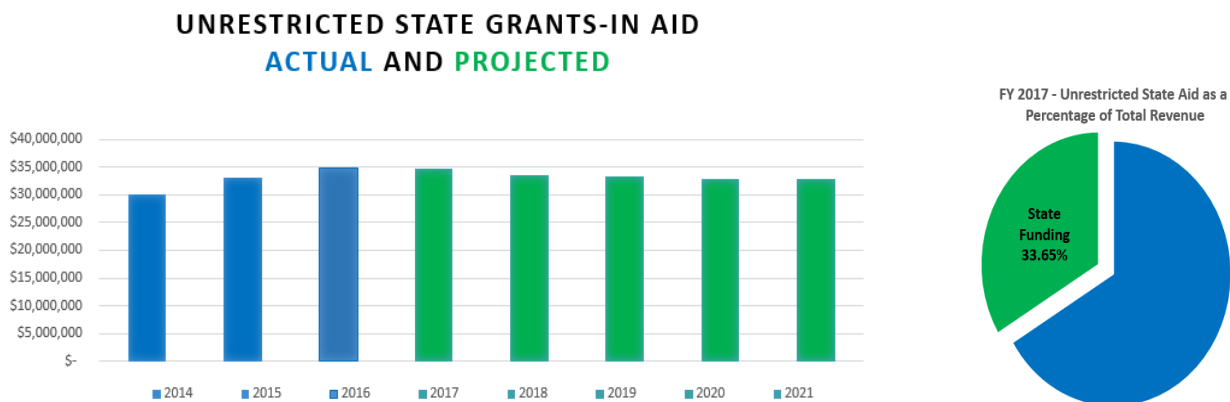
Line 1.02 Public Utility Personal Property



Public utility tax revenue is received based on the equipment and inventory of primarily electric and natural gas companies. While these taxes only account for a little over 2.5% of district revenue, they have been growing at a healthy pace – an average annual rate of over 9%. Over the forecast period, growth is expected to average about 6% per year. Because increases in public utility values are treated as new construction, revenues will grow at the same rate as valuations.

Line 1.03 Income Taxes - The District does not have an income tax.

Line 1.035 Unrestricted Grants-in-Aid



Unrestricted state aid is the second largest source of Mason's operating revenue, accounting for one-third of the total budget. Revenues from the state are expected to remain relatively flat in FY17 and then begin to recede based on a projected decline in student enrollment. With an increase in property valuation and a decline in enrollment, the District's state share index, which is an important driver of calculations in the current school funding model, will decrease.

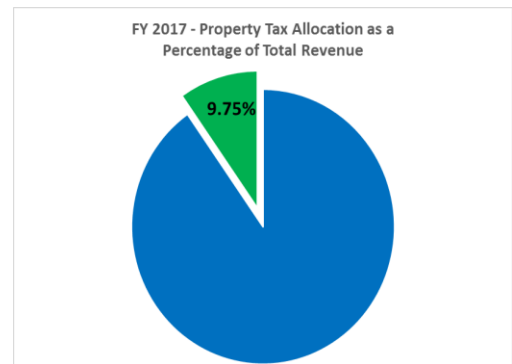
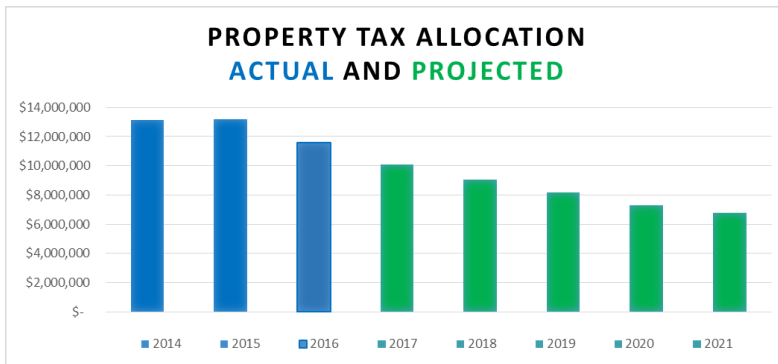
Ohio public schools have been subject to numerous funding models over the last decade. In FY 14 and FY15, the model resulted in the district being capped in its funding from the state, which means Mason received significantly less state revenue than the formula variables calculated. Beginning in FY 2016, the district became formula funded and remains formula funded for FY17. Actual enrollment and the state share index are important variables in determining whether Mason is formula funded or guarantee funded. The administration continues to carefully monitor our enrollment projections.

How the next state biennium budgets handle the funding guarantee levels will be important to Mason. The assumption in this forecast is that the guarantee will be the amount of funding from 2015 – the same guarantee that exists in current law – and that Mason will be funded on the guarantee in FY20 and FY21. Should the guarantee base year change, Mason could see additional revenue. It is also important to note that state budget constraints, along with other economic and political factors, could result in the elimination of funding guarantees.

Line 1.04 Restricted Grants-in-Aid

Restricted aid amounts from the state are minimal

Line 1.05 Property Tax Allocations



Property tax allocation includes the state's reimbursement for the discount of local real estate taxes associated with residential property and reimbursements of lost tangible personal property taxes that were eliminated by the state seven years ago.

All residential property receives a 10.0% discount, and owner occupied property receives an additional 2.5% discount. Also, handicapped individuals and senior citizens can receive a homestead exemption. All three of these categories are reimbursed by Ohio to the local district. Revenue from the property tax reimbursements are expected to grow at about the same rate as real property taxes through the forecast period.

In addition to property tax rollbacks, the district also receives tangible property tax reimbursements. Beginning in FY 2016, these payments are phasing out over several years. The district will lose approximately \$1.7 million per year until the reimbursements are completely eliminated in FY 2020.

The District continues to participate advocacy efforts with the Ohio Legislature to alter the phase-out of these payments in a way that is beneficial to the long-term financial stability of public school districts. Mason City Schools received \$7 million in TPP reimbursements in FY15 and current law phases that payment out by FY20. Should the efforts succeed, the district may not realize the forecasted elimination of these state reimbursements.

Line 1.06 All Other Revenue

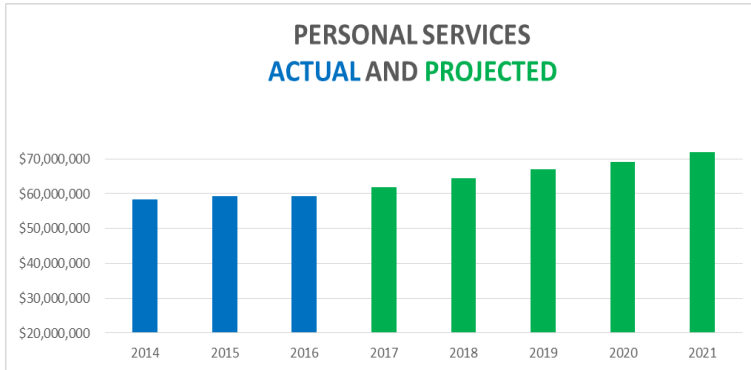
Other revenue accounts for a little less than 3% of total revenue for the district. About one-third of other revenue comes from enrollment receipts. These are expected to grow slightly through the forecast period. Otherwise, revenue is expected to remain flat through the forecast period.

Line 2.05

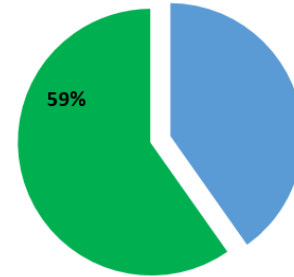
Other financing sources account for just 1-2% of total revenues. This revenue is primarily "advances in," which corresponds to expenditures in "advances out" from the prior year. The two generally balance each other out during the year.

EXPENDITURES

Line 3.01 Personal Services



FY 2017 - Personal Services as a Percentage of Total Expenditures



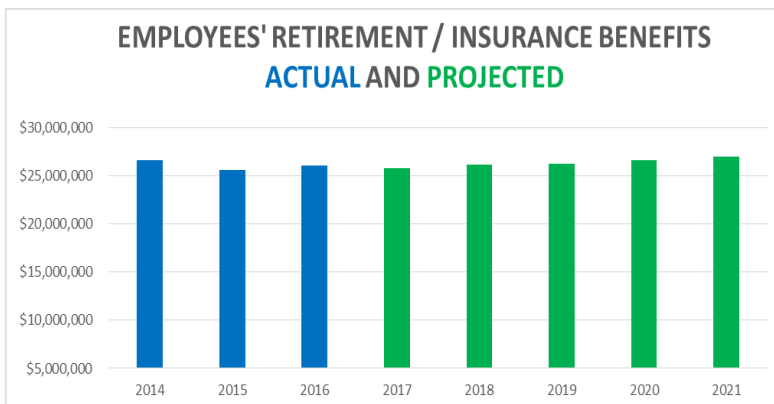
Wages and salaries for over 1000 employees, including approximately 630 teachers, account for about 59% of the total operating expenditures in the district. In 2016, salaries were relatively flat over FY 2015 but are anticipated to increase moving forward. The increase is due to a combination of base and step increases less any savings from higher cost retiring staff members being replaced by less experienced personnel.

Sixty-eight positions were reduced in FY12; an additional forty-eight positions were reduced in FY13. Twenty-six positions were reduced for FY15. Additional reductions are planned for future years to align with declining enrollment. Wage increases, both historical and forecasted, are the result of the bargaining agreement with both the Mason Education Association (certified staff) and the Ohio Association of Public School Employees (classified staff):

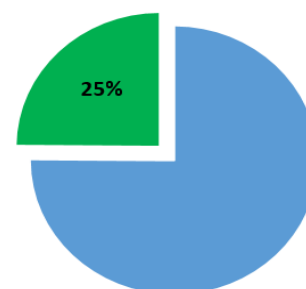
- FY14 – 0%
- FY15, 16 – 2%
- FY17, 18, 19 – 2.5% each year

All other employees had and will have the same salary increases.

Line 3.02 Employees' Retirement/Insurance Benefits



FY 2017 - Employees' Retirement/Insurance Benefits as a Percentage of Total Expenditures



Employee benefits account for about 25% of total operating spending. In 2015, total expenditures declined by 3.67%, primarily due to slightly lower health insurance costs as employees began paying a portion of premium costs for the first time. In FY 2016, benefit costs increased by about 2%, about half of that growth being due to higher than normal severance costs for certified staff to account for the large number of retirees resulting from changes in STRS retirement eligibility

Benefits are projected using two categories. The first category, retirement benefits and Medicare, is included at the current employer contribution level of 14% and 1.45% respectively of salaries. The second category includes employee insurance and workers compensation that are both based on demographic enrollment and the impact of recent experience on rates. Health, dental, vision and workers' compensation insurances are self funded. The restricted growth in this category is due to employees picking up a larger share of medical insurance premiums beginning in FY17 as an outcome of recent labor agreements.

Line 3.03 Purchased Services

Purchased services account for nearly 9% of total expenditures. Purchased services includes such items as utilities, professional meeting expenses, outside repairs, property and vehicle insurance and other fixed costs. Increases in professional/technical services and repair/maintenance services were the largest drivers of increases in this category.

Line 3.04 Supplies and Materials

Supplies and materials are about 3% of all expenditures. In FY15 and FY16, overall spending declined. While spending on general school supplies increased, sharply lower fuel costs led to the net decrease. For FY17 and moving forward, this line item is targeted at \$3,025,000.

Line 3.05 Capital Outlay

Most capital spending in Mason is funded by the district's permanent improvement fund. In FY16, total operating spending was just \$72,560. Moving forward, the projection is \$50,000.

Line 4.30 Other Objects

Other objects account for about 1% of total spending. About two-thirds of this spending is for property tax collection expenses paid to the County Auditor and County Treasurer, which will generally grow at the same rate as total property tax collections.

Lines 5.040 Other Financing Uses

Other Financing Uses includes transfers and contingency funds to make some provision for unanticipated expenditures. Advances are necessary when a lag exists between the time monies are expended and when grant money is received on a reimbursement basis.

Line 8.01 Estimated Encumbrances

Estimated Encumbrances are legal financial obligations of the District that have not been expended at fiscal year end. Encumbrances are projected to remain at the same level for the projection period. Any increase in this line item would result in an offsetting decrease in the actual cash expenditures listed in lines 5.01 to 5.05, and would therefore not affect the ending cash positions in any year.

SUMMARY

With the passage of the last incremental operating levy in May 2005 and implementation of staff reductions and other cost savings measures, the District has been able to project positive cash reserves through FY2020. Despite continuous staff and other cost reductions, the District began to experience annual operating deficits in FY2012, in large measure due to the State's elimination of the Tangible Personal Property (TPP) Tax and then the reduction of the TPP reimbursement payments. Despite additional planned decreases in staff and other cost reduction actions, this forecast predicts future annual operating deficits each year, but because of cash reserves, positive cash balances are maintained through Fiscal Year 2020.

It is expected that the District will need to place a levy on the ballot at some point during the next five years in order to stabilize its financial position.

This forecast is based on the above assumptions and the information available on the day it was prepared. This forecast is subject to change as circumstances change or additional information becomes available.



