



By Dan Romano,  
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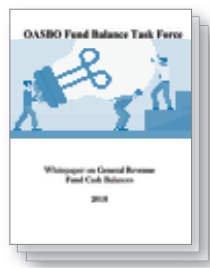
department: budget

# Ohio School District Cash Balances: The Rise and Eventual Fall Explained

Over the past decade, the collective ending general fund cash balances for Ohio school districts more than doubled from \$3.35 billion in FY10 to \$7.5 billion in FY19 (see chart 1). For that same period, the cash balance as a percent of expenses, increased from 19.9 percent to 37.8 percent. In this article we explore the reasons for this growth and the likely and eventual fall.

Although looking at the results and patterns of nearly 600 school districts' collectively may not be an exact replica for any one district, they tell a story that most district treasurer/CFOs should know and understand. The drivers of these trends can assist the author of a five-year forecast identify where they have been, how they landed on where they are today, and the direction they may be headed.

This is especially important for a school district having a cash balance, viewed by stakeholders desiring new programs to improve performance; to update infrastructure; to improve salaries and benefits to attract and retain employees, to offset or delay local tax increases; or in the present uncertainty brought about by Covid-19, to stabilize and offset inevitable funding losses and increased costs.



See the OASBO Fund Balance Task Force's "Whitepaper on General Revenue Fund Cash Balances" for guidance in navigating the budgeting, cash flow management and end-of-year cash balance reserve process at: <https://bit.ly/cash-balance-whitepaper>

Changes in cash balances are obviously connected to a spending surplus (revenues exceed expenses) increasing cash balance, a spending deficit (expenses exceed revenues) driving down cash, or perhaps a "balanced budget" (revenues = expenses) causing no change. Historically the pattern followed a steady inflationary expenditure line coupled with "stair-step" revenues causing an equilibrium to the rise and fall of cash balances over time (see chart 2). The revenue stair-step is the result of periodic passage of a levy combined with the effect of House Bill 920 and/or a jump in state funding.

## So how have the collective cash balances of over 600 school districts doubled in a decade?

### A Closer Look at Cash Balances: FY08 through FY19'

Prudent financial managers will seek to keep cash balances in proportion to their budgets. This will cause a natural increase in cash balances as expenses grow. For example, if expenses grow at 3 percent a year for 10 years, a \$10,000,000 budget will grow to roughly \$13,400,000. If the district wishes to maintain a 10 percent cash balance (\$1,000,000 in year 1), the targeted balance in year 10 would increase to \$1,340,000. Often a difficult task, financial managers need to "budget" annually for this cash balance increase. Many finance officers have requested their boards adopt a cash balance or reserve policy. If these policies are percent-based on expenses or revenues, cash balance should naturally grow.

The actual cash balances from the years including FY09 through FY19 and including the estimated FY20, indicate three distinct patterns. First, a five-year period from FY09 through FY13 where cash balance growth was relatively flat with modest increases

averaging less than 1.4 percent per year. Revenues and expenses for this period were somewhat in balance.

A growth period evolved for the next five years (FY14 through FY18). Cash balances grew on average 13.7 percent per year. During this period, the range of dollar increase to cash balance was from a half billion dollars to over a billion dollars per year. For the first three years, the increase in revenues outpaced increases in expenses by up to 2.5 percent. The inflection point was FY16 where cash balance increases were still being generated but slowed as the rate of increase in expense began to outpace that in revenue.

A third pattern is beginning with FY19 indicative of a more moderate cash balance increase of less than 5 percent and a projected balance decrease for FY20. Thus, the "fall" begins. The drivers of these patterns are explained by looking at the revenues and expenses for similar periods.

### Changes in Revenues

The funding of Ohio schools is driven by numerous factors but two primary sources—local taxes and state funding. In simple terms the latter is determined by a direct relationship to enrollment and enrollment type, and an inverse relationship to local wealth, or in some respects the ability to raise revenue locally (the wealthier the district the lower the state funding).

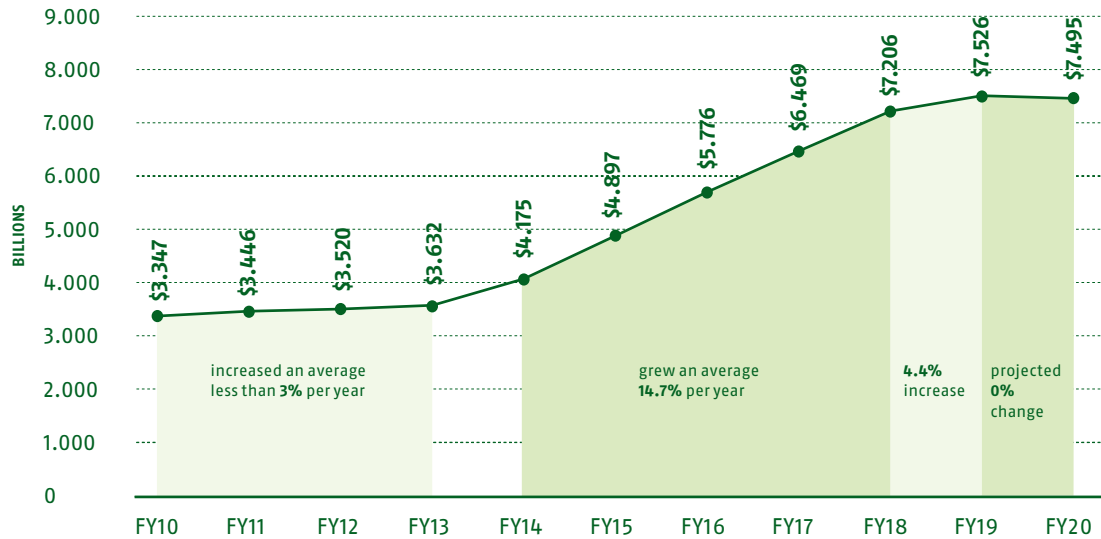
### Local Taxes

For the period FY08 through FY14 local taxes realized a 3.7 percent decline over the three-year period FY08 to FY10 (losing about 1.2 percent per year). The drivers of this loss were reductions of property values to the extent of inside millage, continued reductions in tangible personal property tax, and for some districts with income taxes, lower taxable income due to the great recession.

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**Chart 1: Traditional School Districts General Fund Ending Cash Balances**

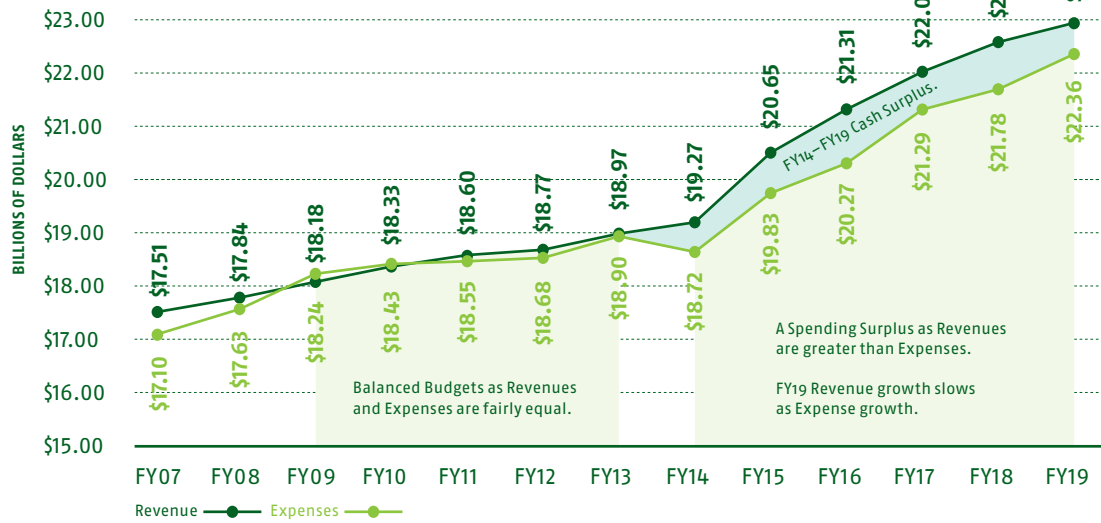
FY10 – FY19 Actual, FY20 Projected



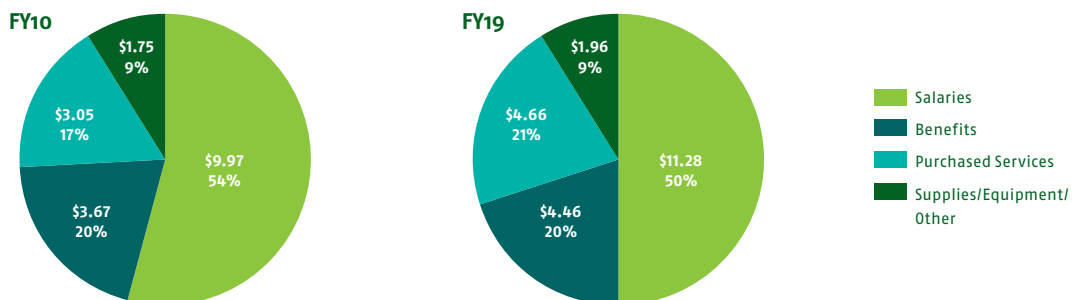
Source: ODE Five Year Forecast Ending Cash Balance (Line 7.020)

**Chart 2: Statewide School District Revenue and Expenses**

FY07 Through FY19



**Chart 3: Expenditure Comparison FY10 to FY19**



Local tax revenues began a modest rebound in FY11 through FY14 increasing between a half a percent to just under 3 percent per year. The real growth in local tax revenue began in 2015 jumping 5.6 percent and continuing with average annual increases of 2.7 percent through FY18. This growth was the result of gaining back property values (extended by inside millage); growth in new construction; increases in Current Agricultural Use Valuation (CAUV) values; a steady increase in Public Utility Personal Property (PUPP) values; and additional revenues from districts passing new operating millage. Local revenues continued to increase in FY19, but at a rate less than 1 percent.

Worthy to note is Ohio's long-standing tax equalization mechanism—HB920. In times of property value growth due to reappraisal, HB920 protects taxpayers by reducing the effective millage rate. When reappraisal lowers property values, HB920 acts as a safety net for local government increasing effective rates preventing any substantial loss.

### State Funding

As local revenues declined between FY08 and FY10, state funding compensated for the loss with increases of 4 percent (FY08), 6 percent (FY09) and 3 percent (FY10). This netted a modest total revenue increase for each of the three years. The reverse occurred from FY11 through FY13 where state funding was a zero increase in FY11, a half percent decrease in FY12 and a 1 percent decrease in FY13. Coupled with the gains in local taxes for each of those three years netted total revenue increases averaging about 1 percent a year.

The growth in state funding began with FY14 with a 2 percent increase. Then a big jump occurred in FY15 with an increase of nearly 9 percent. This drove FY15 total revenues to increase over 7 percent.

State funding continued to grow at just under 3 percent for the next two years followed by a drop to a 0 percent change in FY18 and a 1 percent increase in FY19.

### Revenue Summary

During and following the Great Recession (between 2008 and 2014) total revenues were level. Predicted losses in total revenue never really occurred. In years where local taxes declined, state funding filled the gap. In years where state funding declined, local taxes became the offset. Noteworthy is the American Recovery and Reinvestment Act (ARRA) revenue from the federal government to the state enabled funding to continue with little to no loss. The jump in revenue (+7 percent) began in FY15 and continued with 3 percent annual increases through FY18. Modest increases returned in FY19, continuing today, and leaving uncertainty for tomorrow.

### Changes in Expenditures

The typical pattern for total expenditures (all districts combined) follows inflationary trends with annual increases between 2.5 percent and 3.0 percent (basically following average inflation). The two years FY08 and FY09 continued this pattern. The Great Recession caused a disruption. With concerns over declining revenues and the uncertainty of a return to “normal,” school leaders guided by treasurer/CFOs sought to reduce budgets while stabilizing educational programs.

School budgets are driven by the three primary object code categories—salaries, benefits and purchased services. In each of the years from FY08 through FY19 these three categories accounted for over 90 percent of the total expenses.

The mix of these three categories has gradually shifted over the past 15 years due

to “choice.” Students and parents making alternative choices for education along with, in the most recent years, direct funding of private/parochial education. Chart 3 illustrates this shift. From FY08 to FY19 salaries and benefits declined from 74 percent of total expenses to 70 percent while purchased services (with increases in tuition) rose from 16 percent to nearly 21 percent.

Total statewide expenditures between FY10 and FY14 ranged from a very modest high of 1.2 percent to a negative 1 percent (FY14). The expenditure line not only flattened, it dropped. This drop was key to increasing cash balances. As revenues continued to rise, although moderate, expenses dropped creating a positive spread (budget surplus) driving up cash balances statewide. This spread in FY14 added over a half-billion dollars to cash followed by four years of significant increases; \$784 million (FY15), \$970 million (FY16), \$708 million (FY17) and \$777 million (FY18).

### What drove the expenditure line to drop and then follow with multiple years of below inflation increases?

Between 2011 and 2014 (post-recession) the following occurred:

1. Salaries and wages were not only frozen, but in many districts, wages were reduced.
2. District employment levels dropped due to reductions in force and retirements not being replaced.
3. Average salaries were reduced as above normal retirements driven by changes in School Employees Retirement System (SERS) and State Teacher Retirement System (STRS) were replaced by new

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hires at the beginning of salary schedules /tables.

*Note:* Given items 1,2 and 3 above salaries and benefits declined 3.3 percent and 2.4 percent respectively in FY14.

4. The shift of students (choice) further prompted districts to reduce staff, especially if the district followed staffing formulas tied to students. Although this was a reduction to salaries and benefits, it did cause an increase to tuition expense.

5. Senate Bill 5 (SB5) in 2011 was passed and eventually repealed. Its impact though, resulted in numerous collective bargaining agreements to include language establishing and/or increasing insurance premium co-pays (some exceeding the 15 percent requirement in SB5) reducing the cost to school districts.

*Note:* Many school employees sacrificed twice, once with freezes/reductions in wages and second with an increased premium co-pay.

6. As a result of the premium co-pay, districts and employee groups sought more affordable insurance plans shifting from traditional health insurance to Health Maintenance Organizations (HMO), Health Savings Accounts (HSA), and other plans with lower premiums.

7. As a result of insurance plan changes (6 above) and increased premium share (5 above), employee behaviors on how to more efficiently utilize insurance benefits lowered claims experience.

*Note:* Savings due to changes in employee health behaviors are difficult to predict and are identified post plan changes.

8. Workers' Compensation reductions in the form of annual rebates began to be the norm. In FY20 many districts realized significant returns of their premium.

Not all districts realized the above items equally. But from a macro view the changes in revenue and expense patterns from FY14 through Fy19 added \$3.73 billion to cash balance statewide.

Additional "safety nets" were also seen in funds that assist operating expenses. For example, cash balance growth was also observed statewide for the Permanent Improvement Fund (003) and the Self-Insurance Funds (024 and 027). Shifting equipment expenses to the PI fund kept the capital expenses level in the general fund. And "excess reserves" in self-insurance funds became a source of additional funding back to the general fund

### Why is any of this important to finance officers?

The simple answer is because of a change to a gloomy financial outlook. Beginning in FY15 and continuing through today, expenditures started to rise back to normal inflationary trends, increasing on average 3.25 percent a year. These increases are embedded in total expenditure due to wages, benefits and purchased services—items not easily reduced in budgets. As revenue growth begins to decline (for FY19 the total rate of increase was less than 1.5 percent) cash balance will begin a decline. With the current state K12 budget cuts of \$300+ million for the last two months of FY20, the uncertainties of both the FY21 state funding and districts' ability to pass local issues, and a recovering economy due to both COVID-19 and the end of an 11 year economic expansion (ended March 2020) causing a recession, a dismal financial future will again need the wisdom and guidance of treasurer/CFOs. 🍷

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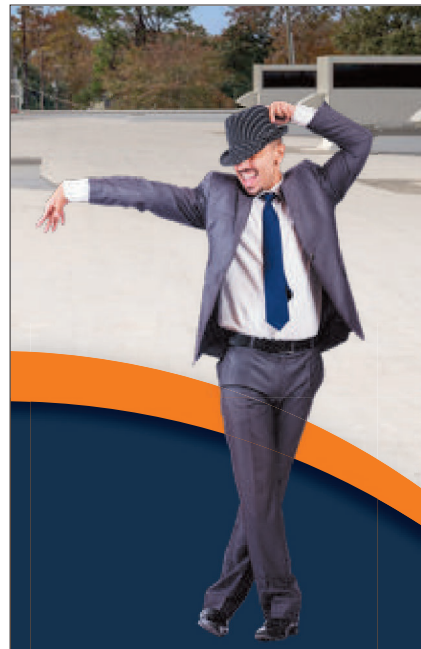
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1 Several data sets from ODE were used for this analysis. Because some records were eliminated for years with missing data, the totals may not tie out to past reports. However, it was felt that a data set of just shy of 600 school districts would fairly represent the school districts in total.