What was the purpose?

- Evaluate Cincinnati Public Schools:
  - Financial Spending Efficiency
  - Financial Forecast Efficiency

- Paid for by the business community and some philanthropic and civic organizations
Who was involved?

- Steering Committee
  - Cincinnati Business Committee
  - Cincinnati Regional Business Committee
  - Philanthropic and Civic Organizations
  - School Board members
  - Board Audit Committee
  - Cincinnati Federation of Teachers
  - Parents for Public Schools
  - CPS Administration
How was the firm chosen?

Steering Committee:

- Scope of work
- Request for Proposal
- Vendor Selection
Parthenon - EY

- 12 week engagement
- Began in January 2016
- On-site – 3 days per week
- 5 years of historical financial and enrollment data
- Ohio funding formulas
- Review budget and forecasting methodology
- Benchmarked other districts
Cincinnati Public Schools Financial Review: Executive Summary

- Over the past 10 years, CPS has reduced its footprint and spending in response to declining enrollment trends.
- Recent growth in enrollment and stagnant revenue growth is creating a structural imbalance, which is expected to grow.
- Enrollment is expected to grow a little over 1% per year for the next several years (excluding accelerated growth of preschool).
- Assuming renewal of emergency levies, revenue will only grow ~1% without any “new-money” levies.
- Personnel costs (i.e. wages and benefits), on the other hand will grow at a much faster pace due to structure of teacher compensation and rising benefits costs (even without base pay increases, wages will grow ~3% per year).
- Based on preliminary projections the annual deficit could grow to almost $60M by FY21 before any further preschool expansion costs (average of $35M per year for next 5 years).
- Cost reduction initiatives could reduce the deficit by $5M-$10M per year, but CPS may likely need ~$30M+ in new money annually to bridge the average shortfall through FY21 (5 years).
Forecast – Revenues

Revenue projections are contingent upon growth in state foundation aid and renewal of emergency property tax levies that expire in FY18 and FY20

Forecasted CPS General Fund Revenue
FY16-21

Source: Independent analysis using data provided by CPS
Property Tax Revenue

Due to Ohio law, tax revenue generally does not grow with inflation in market values and therefore revenue has not kept up with inflation.

- Ohio law requires rate adjustments (i.e. effective tax rates) when property values increase or decrease in order to collect the same amount of revenue on existing property from year to year. This means that property tax revenue is relatively flat from one year to the next.

- If the tax rate wasn’t adjusted, this would mean:
  - In good economic times, property tax revenue would increase with higher property values. For example, the 2005 reappraisal increased real property assessed values by 14% in the CPS District from 2004.
  - In bad economic times, property tax revenues would fall along with declining property values. For example, the reappraisal in 2011, reduced assessed values in the CPS District by 9% from 2010.

- If the effective rate had been adjusted since tax year 2009 (last levy passed in 2008) to allow for annual inflation of 2.1% per year, property taxes would have been $20 million higher in FY 16.

- An additional $20M is enough revenue to cover projected deficits in FY16 and FY17.
Forecast – Expenditures

CPS has reduced its teaching force by ~33%; faster than the rate of decline in enrollment since FY05.

CPS ADM, Total Enrollment, Teacher Headcount, and Number of School Buildings, Indexed to FY05, FY05-FY14

Note: “School buildings” includes school buildings and vacant health clinics
Source: CPS 2014 CAFR; CPS Internal Data
Historical – Expenditures Composition

CPS school-based expenditures, including school expenditures that were centrally budgeted, comprised ~80% of district-used expenditures in FY15

Source: CPS FY15 Financial Detail
Historical – Wage Benchmarks

CPS teachers have intermediate base and average salaries, as well as higher average years of service relative to comparable school districts.

Base Salaries for Teachers with Bachelor’s and Master’s Degrees

FY16

Average Teacher Salary and Years of Service, FY14

Note: Milwaukee’s base salaries are the average of the New Teacher lane ($41.2K) and Career Teacher lane ($47.2K), which are not clearly defined; Akron is not present in NCTQ database; Data from NCTQ and the State of Ohio District Benchmark Report may not tie directly to internal CPS data because they are external data sources. Source: NCTQ; State of Ohio District Benchmark Report.
Forecast – Payroll Expenditures

Payroll costs will increase over time even without a base pay increase due to impact of steps, lanes, and new hires needed with enrollment growth.

Total Personnel Salaries by Increases in Pay Components for CPS Employees, FY16-FY21

- Assumes 0% base salary increase each year
- Cumulative impact of $112M incremental cost

Forecast – Payroll Expenditures
Payroll costs will increase over time even without a base pay increase due to impact of steps, lanes, and new hires needed with enrollment growth

Total Personnel Salaries by Increases in Pay Components for CPS Employees, FY16-FY21

- Assumes 0% base salary increase each year
- Cumulative impact of $112M incremental cost

Note: The name of each scenario denotes the percentage base increase starting in FY17 until FY21
Source: CPS Internal Data; Independent Analysis
Forecast – Deficit

Based on these assumptions, expenditure growth is outpacing revenue projections resulting in an average annual deficit of ~$35M

CPS Forecasted Revenues and Expenditures, FY16-FY21

<table>
<thead>
<tr>
<th>Projection</th>
<th>Forecast</th>
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<tbody>
<tr>
<td>FY16</td>
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5-year Avg. Deficit – $35M

CAGR ('16-'21)

Rev: 0.8%
Exp: 2.4%
Cost Efficiency Opportunities

$7-$15 million of savings have been identified to help close the financial gap over the next several years

CPS Cost Efficiency Opportunities

$2-4M

$1-2M

$3-8M

$1-2M

Total ~$7-15M

*Note: These savings are assumed to not be realized until FY19 due to CBA

Source: CPS Internal Data; Independent Analysis
Overview

While cost cuts have been made in some areas, CPS has been strategically investing in academic programs including the My Tommorow*ed initiative and pre-school

What is it?
A comprehensive curriculum and instruction program that relies on technology to create a blended learning experience for all students

Goal:
Ensure that 100% of all 7th graders are prepared to actively pursue their chosen career path by the time they graduate through higher expectations, real world connections, 21st century skills, and personalized learning

Key Measures of Success:
- ACT results, GPA, grades, & semester exams
- % of students that have applied, been admitted, and persisted through college
- % of students with an acceptance letter from a college, military offer, or job offer from an employer

What is it?
A variety of high-quality preschool programs funded through a mix of revenue streams including: head start (fed), early childhood education (state), general fund, and tuition dollars

Goal:
Prepare as many Cincinnati students as possible for success in the district’s Whole Child and My Tomorrow*ed initiatives

Key Measures of Success:
- % of students demonstrating proficiency in school readiness standards
- Number of quality seats offered
- Number of students and families served
- Number of locations and programs offered

Source: CPS Internal Data
Adjusted Five Year Forecast

Assuming the low end of potential savings ($7M), the average deficit could be reduced to $28M, before preschool expansion costs which could increase the deficit.

CPS Forecasted Revenues and Expenditures, FY16-FY21

<table>
<thead>
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5-year Avg.:
- Deficit: $-28M
- Potential Savings: $-12M
- Potential Savings + ECE: $-12M

CAGR ('16-'21):
- Revenue: 0.8%
- Expenditure: 2.1%
How is CPS using this study?

- Reduced transportation budget by $3M (FY17)
  - Double Routing of Non-CPS schools
  - Routing In-house
- Changed budget practice – (3 year historical average)
  - Example: Utilities
- Reduce outsource contracts by 2%
  - As contracts expire with new RFP cycle
- Staffing & Overload formulas
  - Referred to negotiating team – December 2016
- Managing future benefit cost growth
  - Referred to Joint membership benefits committee for negotiations
- Adopting new forecasting model
- Reorganization for Financial Reporting/Analytics and Transparency
- Steering Committee continue -monitoring progress and accountability
- Business Committee volunteer team to assist with Benefit recommendations
Thank You

- Members of the Steering Committee
- Members of CBC & CRBC
- The Carol Ann and Ralph V. Haile, Jr./U.S. Bank Foundation
- GE Aviation
- The Greater Cincinnati Foundation
- United Way of Greater Cincinnati
- Cincinnati Public Schools