

Board Members:

Attached is a set of scenarios to replace those I sent you earlier. These are different than those in two significant ways: 1) they all (other than the base cases) assume a 6.9 mill permanent levy will be passed in 2011; and, 2) they adjust the revenue per mill to \$2.2m/yr, reflecting the impact of the anticipated 8% property value decreases on new revenue.

The objective is for us to look past the levy decision immediately before us, and to examine what things might look like down the road during the span of the Five Year Forecast. It's hard to imagine a scenario without another levy in that period, but the decisions we make now will affect when the next levy will be needed, and how large it will need to be.

This is a synopsis of the scenarios:

D1: The base case – the Five Year Forecast as it stands today. The yellow shaded area on the chart shows the size of the gap between revenue and spending (on the left axis), while the green line shows the year end cash balance (on the right axis).

D2: Adds in a 6.9 mill levy in 2011. This one shows us running out of cash in FY14, implying the need to pass a levy again in 2013, because of the way levy timing works.

D3: Asks the question: "How large would the 2013 levy need to be to keep us from running out of cash FY13-FY15, if spending is kept as depicted in the Five Year Forecast?" The answer is 12.8 mills. By the way, the spending growth depicted in the Five Year Forecast has a 4.25% compound annual growth rate (CAGR) from FY11 to FY15, from \$167m to \$191m.

D4: Same question, except what if the objective is to keep the cash balance in the \$2-5m range? Ans: This requires 17.3 mills in 2013, again because of levy timing issues, but would delay the need for the next levy by a few years.

D5: What do the numbers look like if we hold the CAGR of spending to 3%? With only a 6.9 mill levy in 2011, we still run out of cash in FY14. Just confirms we'll need another levy in 2013.

D6: So if the spending is held to 3% CAGR, how large of a levy do we need in 2013 to keep from running out of cash before the end of FY15? Ans: 5.3 mills

D7: ... but if we want to keep the cash balance from dropping below \$5m in any year, it takes 8.1 mills

D8: Let assume that the levies in 2011 and 2013 are both 6.9 mills. What rate of spending growth do we have to stay below to not run out of cash before the end of FY15? Ans: CAGR = 3.3%

D9: ... and to keep the cash balance at least \$5m? Ans: CAGR =2.9%.

D10: This is the Five Year Forecast as is, but with State funding reduced another \$3m year starting in FY12. This of course only makes the gap larger.

D11: With 6.9 mill levies in 2011 and 2013, and also a \$3m/yr State funding cut, at what rate could we allow spending to grow and keep our cash balance above \$5m. Ans: CAGR = 2.0%

D12: Same as D11, but allowing the cash balance to drop all the way to zero. Ans: CAGR = 2.5%, requiring \$28m of spending to be taken out of the FY12-15 budget.

D13: So if there is a 6.9 mill levy passed in 2011, and the State reduces its funding by \$3m/yr, and there is no adjustment in spending, how large would the 2013 levy have to be to keep from running out of cash? Ans: Nonsensical scenario. If there is both a State funding cut, and no reduction in spending, we would have to go back to the voters next year (in 2012) to raise more money, else we run out of money in FY13.

All I am asking is that we have a discussion which examines these other parameters in conjunction with our consideration of the size and form of the levy we'll put on the ballot in May. Otherwise it's like driving down the road at 100mph texting on the cell phone, instead of paying attention to what's on the road ahead of us.

Please let me know if you have any questions, or would like to see other scenarios depicted.

Thanks

Paul

(614) 313-9262