KENSTON SCHOOLS

<u>Kenston Local School District -Geauga County</u>

Five-Year Forecast Assumptions for Fiscal Years 2022-2026
Approved: November 15, 2021

The following assumptions are an integral part of the 5-year financial forecast and are provided to assist the reader in understanding the basis for determination of the figures presented in the 5-year financial forecast. The 5-year forecast is designed to assist management in making well-informed decisions regarding educational programming while recognizing the financial impact of such decisions. Unfortunately, given the financial climate and the unforeseen financial and economic variables that often exist within school districts in the State of Ohio, the 5-year forecast tends to be a “moving target”. That said, the reader should be cognizant of the fact that the 5-year forecast is a “snapshot” in time and is only as accurate as the information that was available at the time it was prepared. Thus, one should expect the accuracy of the forecasted figures to diminish each year within the forecast period.

For the most part, the last few 5-year financial forecasts were prepared utilizing conservative estimates of revenue and liberal estimates of expenditures for the five-year period being reported. The preparation of this 5-year forecast (FY’s 2022-2026) differs slightly in that it was prepared utilizing less conservative estimates of revenue and less liberal estimates of expenditures than in years past. Although there is tremendous value in using a conservative methodology when it comes to projecting finances, there is also considerable value in presenting the district’s current and long-range financial position as accurately as possible without compromising the integrity of the process.

REVENUE ASSUMPTIONS

Line 1.01 – General Property Tax - Real Estate (74%)

Fiscal Year 2022

This line represents the expected tax collections on residential and agricultural properties and commercial and industrial properties located in the Townships of Auburn and Bainbridge. Because real estate taxes from all sources is the largest revenue item in the General Fund (greater than 70% of the General Fund’s yearly estimated revenue), a significant amount of time is dedicated not only to analyzing data provided by the County Auditor’s Office; but also, to analyzing historical trends and data maintained by the district.

Additionally, having knowledge of current economic conditions that exist within our district boundaries (which may or may not have a positive or negative effect on property values and tax collection rates) is an integral component in arriving at a reasonable revenue estimate for the fiscal year.

The estimate for fiscal year 2022 (FY 2022) is $29,268,994 for all general property taxes. This amount is approximately $150,000 more than what was received in FY 2021. Key factors in arriving at the estimate for FY 2022 are overall tax collection rates related to real estate and commercial/industrial properties over the past few years as well as delinquent taxes received over the same period and a conservative estimate related to new construction. Additionally, it appears that the pandemic had very little impact (positive or negative) on overall collection rates in the second half of calendar year 2020 or in the first half of calendar year 2021.

For informational purposes, the Geauga County Auditor's Office performed a reappraisal of all properties in the County in calendar year 2017 (tax year 2017 – tax collections beginning in calendar year 2018), which resulted in an overall increase in property values of approximately 4%. Each County is required to perform a reappraisal of all properties every six (6) years. The reappraisal conducted for tax year 2011 resulted in an overall **decrease** in property values of approximately 3.6% and the reappraisal conducted for tax year 2005 resulted in an overall increase in property values of approximately 14.7%. In addition to a reappraisal every six (6) years, the County also performs an "update" to all property values every three (3) years. An update was conducted for calendar year 2020 (tax year 2020 – tax collections beginning in calendar year 2021). As a result of this update, overall properties saw a 10.15% valuation increase. Auburn Township saw an 11.31% increase and Bainbridge Township saw a 9.58% increase in values.

Overall, yearly tax collection rates [excluding delinquent tax collections] have been relatively consistent dating back to calendar year 2010. As a matter of fact, the overall collection rate [excluding delinquent tax collections] in calendar year 2010 through calendar year 2020 has been as low as 95.86% and as high as 98.52%, with an average collection rate of 97.52%. The collection rate for the same period for residential taxes only has been as low as 97.16% and as high as 98.55%, with an average collection rate of 97.89%. However, the collection rate for commercial and industrial property has not been nearly as consistent during the same period, which presents more of a challenge in calculating a reasonable anticipated collection rate. The collection rate in calendar year 2010 through calendar year 2020 has been as low as 86.15% and as high as 99.06%, with an average collection rate of 95.44%.

Historically, the district has received significant delinquent tax collections each year. Beginning in calendar year 2010 through calendar year 2020, the highest amount received of delinquent tax collections was $888,451 in calendar year 2012 and the lowest amount received was $512,693 in calendar year 2013. The average amount of delinquent taxes received in a calendar year during calendar years 2010 through 2020 is just over $684,100.

Fiscal prudence suggests that one should not expect or plan for delinquent tax collections in any given year; however, since the district has averaged more than $684,000 over the last ten (10) years and almost $680,000 over the last five (5), a rather "safe" estimate of $624,216 in delinquent taxes has been included in the expectations for FY 2022. Additionally, a liberal estimate of nearly $300,000 in new construction has also been included in the expectations for FY 2022.

Fiscal Years 2023-2026

The 5-year forecast reflects an increase of approximately $236,000 in FY 2023 and an increase of approximately $250,000 each year thereafter. The increase in FY 2023 is based on the expectation of additional revenue from inside millage as a result of the increase in property values for calendar year 2020. The increase of approximately $250,000 in each year beyond FY 2023 is based on additional taxes related to new construction and/or increase to property values expected in the calendar year 2023 reappraisal of properties, which will begin in calendar year 2024.

Line 1.02 – Tangible Personal Property Tax (4%)

Fiscal Year 2022

This line represents the expected tax collections on public utilities parcels located in the Townships of Auburn and Bainbridge. As mentioned previously, because taxes are the largest revenue item in the General Fund (greater than 70% of the General Fund's yearly estimated revenue), a significant amount of time is dedicated to analyzing data provided by the County Auditor's Office and to analyzing historical trends and data maintained by the district as well as current economic conditions that exist within our district boundaries with respect to property values and tax collection rates.

The estimate for public utility tax for FY 2022 is $1,547,350. This amount is approximately $10,000 more than what was actually received in FY 2021. Oddly enough, the collection rate in calendar year 2010 through 2015 averaged 99.74% and was 100% in four (4) of those six (6) years. However, the collection rate in calendar year 2016 through 2020 has only averaged 96.25% and was never higher than 96.56% in any of those years. Although the average collection rate has fallen from 99.74% to 96.25%, the actual amount received has gone up by an average of about 5% each year since the passage of the 2015 levy. Because public utility property is not subject to the provisions of HB 920 (restricting inflationary increases), as the value of this property increases, so does the tax liability. Hence, more taxes paid on public utility parcels.

Fiscal Years 2023-2026

The 5-year forecast reflects an increase of approximately $50,000 (about 3%) in each of the forecasted year beyond FY 2022.

Line 1.35 – Unrestricted Grants-in-Aid (8.4%)

Fiscal Year 2022

This line represents the expected revenue from the State Foundation Program and revenue received from the Ohio Casino Tax (imposed in FY 2013). Although the estimate for last fiscal year was extremely conservative primarily because of the devastating financial impact on the State budget from the COVID-19 pandemic, actual revenue received from the State Foundation program and the Ohio Casino Tax was only about $250,000 less than what was received in the fiscal year prior to the pandemic. The estimate for last fiscal year was just under $3 million and the district received just over $3.9 million.

With respect to the estimate for FY 2022, the three (3) paragraphs below were taken directly from the State Foundation Payment Letter related to the July #1 payment:

AMENDED SUBSTITUTE HOUSE BILL 110

The recently enacted state budget includes significant changes to the calculation and payment of state foundation funding. One of the biggest changes is a move to fund students where they are educated, rather than where they live. Community school students, STEM school students, students participating in a scholarship program (EdChoice, Cleveland Scholarship, Autism Scholarship, and Jon Peterson Special Needs Scholarship), and students participating in open enrollment will all be directly funded at their educating entity. This change will eliminate the deduction and transfer of funds from resident districts to educating entities for students participating in these school choice options.

As a result, this will cause significant changes in both the revenue and expense that school districts should expect in FY 2022 and beyond. School districts with large numbers of students who leave through choice options should expect to see less state foundation funding without the inclusion of these students. However, school districts will no longer see purchased services expenses associated with the deduction and transfer of funds for these students.

These changes will require significant changes to the payment reports, and result in the removal of the lines that reflect fund transfers for open enrollment students, community and STEM schools as well as for scholarship programs.

With that information, the estimate for State Foundation funding for FY 2022 is $3.2 million, which takes into account the anticipated reduction in revenue and expenditures associated with Community Schools, STEM schools and the Special Education Scholarship Programs, but not the open enrollment component. The open enrollment component has yet to be determined, but a decision is expected no later than November 2021.

The estimate for unrestricted grants-in-aid in total for fiscal year 2022 is $3,335,000, which includes $3.2 million in State Foundation funding and $135,000 in the Ohio Casino Tax funding.

Fiscal Years 2023-2026

The estimate for FY 2023-FY 2026 represents an increase of $5,000 above the estimate for FY 2022. The increase is reflected in the Ohio Casino Tax revenue only increasing the estimate from $135,000 in FY 2022 to $140,000 in FY's 2023-2026.

Line 1.04 – Restricted Grants-in-Aid (<1%)

Fiscal Year 2022

This line represents the expected revenue from the Ohio Department of Education for Catastrophic Special Education Reimbursement, Economically Disadvantaged Funding, Motor Fuel Tax Reimbursement and Career Tech Funding. The estimate for this revenue line is $94,000 for FY 2022. Below are the amounts received last fiscal year and the estimates for this fiscal year:

	FY 20	FY 21
Catastrophic Special Education Reimb.	$88,200	$85,000
Economically Disadvantaged Funding	$ 2,862	$ 2,850
Motor Fuel Tax Reimbursement	$16,139	$ 5,335
Career Tech Funding	$ 819	$ 815
Total	$108,020	$94,000

Fiscal Years 2023-2026

For these fiscal years, the 5-year forecast reflects an estimate of $94,000.

Line 1.05 – Property Tax Allocation (8.4%)

Fiscal Year 2022

This line represents the expected revenue from the State of Ohio for Homestead and Rollback reimbursements. The State of Ohio contributes 10% of the real estate taxes for homeowners in the State of Ohio. The State of Ohio also contributes 2.5% of the real estate taxes for owner occupied homes in the State of Ohio. Finally, the State of Ohio contributes a portion of real estate taxes for qualified senior and/or disabled citizens, regardless of income, on the dwelling that is the individual's principal place of residence. This portion of taxes paid by the State of Ohio directly to school districts is known as the Homestead Exemption. * **- For levies passed after 2012, the State of Ohio does not contribute any tax allocation with the exception of those who qualify for the homestead exemption.**

The estimate for FY 2022 is $3,333,656, which is approximately $14,000 more than what the district received in FY 2021. Similar to that of General Property Taxes, significant time is dedicated to analyzing data provided by the County and past trends related to collection patterns is necessary to achieve a reasonable yearly estimate.

Fiscal Years 2023-2026

The 5-year forecast reflects a slight decrease of approximately $10,000 in each of the forecasted years after FY 2022. This decrease is based on the yearly decrease in the homestead reimbursement which has been steadily declining since FY 2016.

Line 1.06 – All Other Revenue (3.5%)

Fiscal Year 2022

This line represents the other local revenue that is received by the school district and is estimated to be $1,384,000 in FY 2022. Below are the revenue sources, the FY 2022 estimate and the FY 2021 actual amount received related to other revenue sources.

Source	2022 Estimate	2021 Actual
Tuitions from all sources	$1,088,000	$985,627
Interest Earnings	$ 130,000	$190,474
Class Fees	$ 81,000	$ 86,675
Miscellaneous Revenue	$ 45,000	$637,671
Revenue in Lieu	$ -	$201,143
Medicaid Reimbursement	$ 40,000	$ 75,050
Total	$1,384,000	$2,176,639

The tuition received in FY 2021 included the reduction or "paying back" of nearly $93,500 in excess costs to the State. The State in error credited the district with $93,500 in June 2020. The district actually received the excess cost payment of $93,500 in March 2020. The estimate for FY 2022 reflects what the district is expected to receive and does not include any "pay back" amount related to FY 2021.

As a result of continuing declining interest rates, the district expects to continue to see disappointing interest earnings despite the fact that nearly 100% of the district's funds are invested at all times. Current investment rates for "liquid" funds at Star Ohio are currently less than 1/10th of 1%. The majority of the district's funds are invested at Star Ohio. The district also maintains a Money Market account at First National Bank, which is currently earning about 2/10ths of 1%. Lastly, the district's investment portfolio includes approximately $7 million in Certificates of Deposit (CD's), with a range in interest rates from a quarter (1/4) of 1% to 3.15%.

With respect to miscellaneous revenue, in FY 2021 the district received nearly $560,000 from the Bureau of Worker's Compensation (BWC) in the form of a dividend check. This was in response to the pandemic and represented a significant portion of the "Billions Back" program sponsored by the BWC whereby the BWC returned nearly $8 billion dollars to employers in calendar year 2020 and 2021. The district is not anticipating a dividend check from the BWC in FY 2022.

With respect to revenue in lieu, pursuant to a settlement agreement with a few commercial property owners, the district received just under $1 million in FY 2019 which was credited directly to the Permanent Improvement Fund (003). In FY 2020 as part of the settlement, the district received just under $580,000 and received the final settlement amount of just over $201,000 in FY 2021, thus concluding the settlement agreement. The district does not expect to enter into any settlement agreements in the future.

Fiscal Years 2023-2026

The estimate for these fiscal years is unchanged from the estimate of $1,384,000 in FY 2022.

Line 2.05 – Advances-In (1.4%)

Fiscal Year 2022

This line represents the return of monies advanced to other district Funds from the General Fund made during the previous fiscal year. Last year, the General Fund made advances to other funds in the amount of $558,938; therefore, the estimate for FY 2022 is $558,938. Of the $558,938 in advances, almost $427,000 was advanced to the CARES Fund and the ESSER Fund.

Fiscal Years 2023-2026

For these fiscal years, an estimate of $120,000 is being reflected. There is a yearly expectation of the need to advance certain Federal Funds cash at the end of the fiscal year. Thus, the expectation of that advance of cash being returned in the subsequent fiscal year is why there is an estimate reflected in these years.

The district does not anticipate the need to advance any funds to either the CARES Fund or the ESSER Fund in the future.

Line 2.06 – All Other Financing Sources (<1%)

Fiscal Year 2022

This line represents the sale of assets, insurance claim proceeds and refunds of prior year's expenditures. This line varies from year to year and is typically not a large source of revenue. However, the past few years has averaged just over $285,000 and was just over $300,000 in FY 2021.

In FY 2021, the district received a refund from the Geauga County Auditor of just over $75,000 resulting from an overestimation of the cost for property appraisals and a refund from the BWC of almost $155,000 in premiums paid. The district does not anticipate receiving any large refunds in FY 2022 and has established an estimate of only $35,000 in FY 2022.

Fiscal Years 2023-2026

The estimate for these fiscal years is unchanged from the estimate of $35,000 in FY 2022.

EXPENDITURE ASSUMPTIONS

Line 3.01 – Personnel Services (56.6%)

Fiscal Year 2022

This line represents the salary expectations for all employees of the School District based on current contractual obligations which are paid out of the General Fund. Personnel services include administrative staff, teachers, classified personnel, exempt personnel, substitute personnel, supplemental contracts related to academics and athletics, overtime and other salary related items.

Because school districts are a service industry, costs associated with personnel, are the largest expenditure category of the school system. In many school districts, personnel costs (salaries and benefits) account for between 80-85% of the total budget of a school district and we are no different (approximately 82%). Because of that fact, fiscal prudence requires extensive monitoring and extensive data analysis regarding salaries and benefits of all employees of the district.

The District has two (2) unions, one inclusive of all teaching staff and the other includes most classified support staff such as secretaries, educational aides, proctors, custodians, transportation employees, cafeteria workers, etc. School district administrator's both certified and classified are not represented by a union nor are the nine (9) administrative support personnel. Contract negotiations with both unions were completed during fiscal year 2019, which provided for a successor three (3) year contract. Although there were a number of negotiated items, the primary item which has a more substantial financial impact was a two percent (2%) cost of living adjustment (COLA) in each of the three (3) years of the new agreements. Additionally, concessions related to employee healthcare were negotiated and are expected to have a positive financial impact to the district's overall healthcare cost moving forward.

The personnel services (salaries only) estimate for FY 2022 is $23,785,000 and includes all current staff (except cafeteria staff, which are paid out of a different fund and a small handful of teachers paid out of Federal Grant Funds). Historical trends and a thorough analysis were used to determine an estimate for substitute costs, supplemental contracts, overtime and other salary related items.

Fiscal Years 2023-2026

For FY 2023, the estimate reflects an estimate of $24,475,000, which is an increase of approximately $690,000 or about 2.9% more than the estimate for FY 2022. The Board of Education recently (October 2021) approve a 2-year successor agreement with the teacher's union (KEA), which included a 2% cost

of living adjustment (COLA) for SY's 2022-2023 and 2023-2024 [the KEA was due to expire on February 28, 2022]. The 2% COLA in SY 2022-2023 amounts to approximately $310,000 and a step increase for those employees who may be entitled to one amounts to approximately $275,000.
Because a successor agreement beyond the expiration [June 30, 2022] of the current OAPSE [non-teaching staff] has not been negotiated, a COLA adjustment cannot be factored into the 5-year forecast for FY 2023 through FY 2026. However, a step increase for those OAPSE employees who may be entitled to one amounts to approximately $71,000. Additionally, other salary items such as: substitutes, supplemental contracts, overtime, etc. are estimated to increase by 2%, which amounts to approximately $35,000.

For FY 2024, the estimate reflects an estimate of $25,187,000, which is an increase of approximately $712,000 or about 2.9% more than the estimate for FY 2023. The KEA 2% COLA in SY 2023-2024 amounts to approximately $320,000 and a step increase for those employees who may be entitled to one amounts to approximately $285,000. Again, because a successor agreement beyond the expiration [June 30, 2022] of the current OAPSE [non-teaching staff] has not been negotiated, a COLA adjustment cannot be factored into the 5-year forecast for FY 2023 through FY 2026. However, a step increase for those OAPSE employees who may be entitled to one amounts to approximately $73,000. Additionally, other salary items such as: substitutes, supplemental contracts, overtime, etc. are estimated to increase by 2%, which amounts to approximately $36,000.

For FY 2024-2025 and 2025-2026 the forecast reflects a 1.75% increase over the previous year's estimate [2023-2024]. This increase does not assume that all salary items will increase by 1.75% each year, but that overall salary expenditures will increase by 1.75%.

Line 3.02 – Employees' Retirement/Insurance Benefits (25.5%)

Fiscal Year 2022

This line represents the cost of benefits for all employees of the School District who are paid out of the General Fund based on current contractual obligations. These benefits include expenses for retirement (STRS and SERS), healthcare benefits (hospitalization, prescription, dental, vision and life insurance), Medicare, Worker's Compensation premiums and unemployment compensation. Fiscal prudence requires extensive monitoring and extensive data analysis regarding benefits similar to that of the extensive monitoring and data analysis done in the area of salaries.

Beginning in January 2020, a change in the accounting practice related to the premium for worker's compensation occurred. This premium will be accounted for within the General Fund and charged off to the appropriate benefit accounts related to the various salary accounts. This deduction of premium in total will be credited to a separate fund (024-9020) specifically designated for the yearly premium payment made to the Bureau of Worker's Compensation each December/January.

The estimate for FY 2022 is $10,715,000 and includes all benefits for current staff (except cafeteria staff, which are paid out of a different fund and a handful of teachers paid out of Federal Grant Funds). The amount is approximately 7.25% higher than the actual amount of expenditures during FY 2021 primarily as a result of rising healthcare costs.

Fiscal Years 2023-2026

The 5-year forecast reflects a 2.5% increase over the 2021-2022 estimate for FY 2022-2023. This minimal increase is an attempt to reduce the reserve balance in the Self-Insurance Fund by approximately

$500,000 bringing the reserve balance to about four (4) months of claim reserves. For forecasted years 2024-2026, the 5-year forecast reflects a 4.5% increase over the previous fiscal year estimate. This increase does not assume that all benefits items will increase by 4.5% each year, but that overall benefit expenditures will increase by 4.5%.

Line 3.03 – Purchased Services (10.8%)

Fiscal Year 2022

This line represents the cost of purchased services for the district. This expenditure category consists of a variety of expenditure types which include, but are not limited to: service contracts, legal services, maintenance/repairs, property insurance, travel/meeting expenses, postage, utilities, tuition, excess costs, community school deduction, special educational scholarship deduction, stem school deduction, post-secondary enrollment option deduction, open enrollment deductions and private transportation costs. However, as a result of the most recent State Budget Bill passed in July 2021, community school deductions and special education scholarship deductions no longer exist. These two deductions combined were just over $640,000 last fiscal year.

The estimate for FY 2022 is $4,532,991 and actual expenditures last fiscal year were just over $4.9 million.

Fiscal Years 2023-2026

For these fiscal years an estimate of $4.5 million is being reflected, which is a slight decrease from the estimate for FY 2022 of $4,532,991.

Line 3.04 – Supplies and Materials (2.6%)

Fiscal Year 2022

This line represents the cost of supplies and materials for the district. This expenditure category consists of a variety of expenditure types which include, but are not limited to: instructional supplies, software, textbooks, library books, custodial/maintenance supplies, bus supplies and bus fuel.

The estimate for FY 2022 is $1,098,879, which is approximately $20,000 less than actual expenditures last fiscal year.

Fiscal Years 2023-2026

For these fiscal years, the estimate reflects a decrease of approximately $100,000 from the estimate reflected for FY 2022.

Line 3.05 – Capital Outlay (<1%)

Fiscal Year 2022

This line is for the purchase of new and replacement equipment. The estimate for FY 2022 is $198,200, which is approximately $100,000 more than actual expenditures were last fiscal year and includes necessary replacement of technology infrastructure equipment of slightly more than $150,000.

The district anticipates the purchase of two (2) replacement buses and one (1) replacement van this fiscal year in accordance with the replacement cycle, but these replacement vehicles will be paid from the Permanent Improvement Fund (003).

Fiscal Years 2023-2026

For these fiscal years, the estimate reflects a decrease of approximately $50,000 from the estimate reflected in FY 2022.

Line 4.3 – Other Objects (1.8%)

Fiscal Year 2022

This line represents the cost of other objects which are also referred to as dues and fees. This expenditure category consists of a variety of expenditure types which include, but are not limited to: memberships, State audit charges, Educational Service Center (ESC) deductions, County Auditor/Treasurer fees related to tax collections, financial institution service charges and district liability insurance.

The estimate for FY 2022 is $749,930. Last fiscal year, actual expenditures for other objects was just over $670,000, which is about $80,000 less than the estimate reflected for FY 2022.

Fiscal Years 2023-2026

For these fiscal years, the estimate reflects a slight decrease of approximately $10,000 from the estimate reflected in FY 2022.

Line 5.01 – Operational Transfers Out (1.9%)

Fiscal Year 2022

This line represents transfers from the General Fund to other funds in the district that require a transfer of funds to cover any deficit. The estimate for FY 2022 is $800,000. Below is a list of the funds that are expected to require a transfer and the anticipated transfer amounts:

Permanent Improvement Fund (003-0000)	$465,000
HB 264 Debt Repayment (002-9219)	$145,000
Athletic Surfaces (003-9020)	$ 25,000
Stadium Turf Replacement (003-9999)	$ 50,000
Athletics (300-9400/9500)	$115,000
Total	$800,000

The transfer to the Permanent Improvement fund is required pursuant to Sections 3315.18 and 3315.19 of Am. Sub. H. B. 166 of the 133rd General Assembly which requires districts to set aside funds for capital improvement and maintenance. School Districts are free to choose one of the approaches set forth in either of the two legislation sections for setting up such a fund. This is required yearly unless the School District receives funding from a Permanent Improvement levy.

Fiscal Years 2023-2026

For these fiscal years, the estimate is unchanged from the estimate for FY 2022.

Line 5.02 – Advances-Out (<1%)

Fiscal Year 2022

This line represents advances from the General Fund to other funds in the district that require an advance to end the fiscal year with a positive cash balance. An advance is different from a transfer in that an advance must be repaid to the General Fund no later than the next fiscal year. A transfer of funds is not repaid back to the General Fund. Typically, advances are made to Federal Funds because most, if not all, grants require the district to spend funds then request to be reimbursed. Most of the time, the advance is only necessary to cover the amount of purchase orders (encumbrances) that are on the system at the end of the fiscal year. These encumbrances render the particular fund in a negative fund balance position which is why an advance would be necessary. Advances for FY 2022 are estimated to be $120,000.

Fiscal Years 2023-2026

The estimate of $120,000 will be used for these fiscal years.

Line 7.02 – Cash Balance June 30

Fiscal Year 2022

This line represents the actual ending cash balance of the General Fund. A negative ending cash balance indicates prior and/or current deficit spending and requires corrective action to be taken to ensure the ending cash balance is no longer negative. The General Fund realized deficit spending (expenditures exceeding revenue) of just over $1.3 million in FY 2019 and just over $813,000 in FY 2021, which was the first and second time since the passage of the 2015 levy. The current 5-year forecast reflects deficit spending again in FY 2022 in the amount of nearly $2.5 million. It should be noted that deficit spending in any one year or multiple years for that matter does not suggest mismanagement or misappropriation of district funds, rather deficit spending over multiple years typically suggests that the previous levy cycle is coming to a conclusion and the need for additional resources and/or the need to reduce future anticipated expenditures is rapidly approaching.

As a result of the anticipated deficit spending of approximately $2.5 million, the estimated ending cash balance will decline from $10,727,589 on July 1, 2021 to $8,284,527 on June 30, 2022.

Fiscal Years 2023-2026

The estimated ending cash balance is expected to significantly decline during these fiscal years from about $4.9 million to negative $10.1 million. It is extremely important to understand that these are merely estimates and that long before the district's ending cash balance fell below $5 million, a plan for corrective action would be formulated. It is also important to note that Board Policy 6210 – Fiscal Planning (revised on August 23, 2021) reads as follows:

The Board of Education shall collect and assemble the information necessary to discharge its responsibility for the fiscal management of the School District and to plan for the financial needs of the educational program. The Board will strive toward maintaining both short and long range projections of District financial requirements.

Accordingly, the Board directs the Treasurer to:

A. include cost estimates in all ongoing financial requirements;

B. prepare a long range year-by-year plan for the maintenance and replacement of facilities and equipment;

C. maintain a plan of anticipated local, State, and Federal revenues;

D. report to the Board any serious financial implications that emerge from the District's ongoing fiscal planning.

In addition, the Board directs the Treasurer to maintain annually a detailed five (5) year projection of estimated revenues and expenditures, as required by Policy 6231

The board hereby affirms and declares it to be the board philosophy, in the interest of sound fiscal management, that tax levies may be pursued, and the school district's finances otherwise managed, to ensure a general fund cash balance equivalent to at least 45 days of operating expenses (for the purpose of determining operating expenses the district shall use line 5.05 of the districts prior year five year forecast).

Promptly upon the official determination that such a cash balance may not be achieved within the first three years of the current five year forecast period the Treasurer shall immediately report such a finding to the board along with options for recovery to be developed by the Treasurer and Superintendent no later than ninety (90) days from reporting such findings.

This 5-year forecast projects an estimated ending cash balance in the third year (FY 2024) of just under $560,000. Forty-five (45) days of actual operating expenses (line 5.05) of fiscal year 2021 is just under $5.2 million. Therefore, this situation will be reported to the Board of Education and options for recovery will be developed in the near future by the Treasurer and Superintendent as required by policy 6210.

Line 10.01 – Fund Balance June 30

Fiscal Year 2022

This line represents the actual ending cash balance of the General Fund minus the amount of outstanding encumbrances at the end of the fiscal year. Under Ohio Law, a negative estimated ending fund balance in the current year is not permitted. The estimated ending fund balance for June 30, 2022 is $7,759,527

Fiscal Years 2023-2026

The estimated ending fund balance (as a result of continued deficit spending) is expected to decline during FY's 2023-2026 from about $4.4 million at the end of FY 2023 to an estimated negative $10.6 million by the end of FY 2026. This is not uncommon or uncharacteristic especially as more time passes since the passage of last operating levy, which occurred in May 2015.

Whereas the primary function of the 5-year forecast is to provide a reasonable expectation of the financial condition of the school district over the next five (5) years, it is important to realize that this 5-year forecast was prepared utilizing sound financial data, but it was also prepared utilizing many assumptions which may or may not come to fruition. Again, it is extremely important for the reader to understand that this 5-year forecast, by design, reflects conservative revenue estimates and liberal expenditure estimates.

It is not only fair but reasonable to be concerned by the anticipated deficit spending represented in this 5-year forecast. However, it is also fair and reasonable to understand what has been presented is the “worst case scenario” and that more than likely the **ACTUAL** financial position in each year of this forecast will be exceed the estimate each year. That said, district leadership is committed to continuous monitoring of the district’s financial condition on a monthly basis and is committed to continually look for ways to operate the school district in a more effective and efficient manner.

Additional Note:

The school district placed a 6.5 mill combination continuing operating levy (4.75 mills) and continuing permanent improvement levy (1.75 mills) before the electors on May 4, 2021. The electors rejected this ballot issue 81% to 19%.

Based on the fund balance in June of $10.7 million and the results of a community survey, the Board of Education chose not to seek a levy in November 2021, but anticipates being on the ballot in November 2022 if the financial outlook does not improve significantly before then. This is reflected in section 13.020 – Revenue from New Levies, which includes additional revenue beginning in FY 2023 should a ballot issue be successful in November 2022.