Kenston Local School District -Geauga County

Five-Year Forecast Assumptions for Fiscal Years 2022-2026

1st Submission: November 15, 2021
2ND Submission: May 16, 2022

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. The 5-year forecast [including the assumptions] is a management tool that encourages management to examine future year's projections beyond just the current operational year. It allows for management to quickly identify when financial challenges will arise and to be proactive in addressing those challenges.

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, especially the last two (2) years of the forecast.

For the most part, the previous financial forecasts [those forecasts prepared from November 2019 through May 2021] 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 (72.8%)

Fiscal Year 2022

This line represents the expected tax collections on residential, 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.

May Update:

The original estimate for FY 2022 was $29,268,994 for all general property taxes. This estimate was approximately $150,000 more than what was received in FY 2021. Key factors used to arrive at the estimate for FY 2022 were 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. In addition, based on the overall collection rates in the second half of calendar year 2020 and the first half of calendar year 2021, it would appear that the pandemic had very little impact (positive or negative) on tax collections.

The revised estimate for FY 2022 is $29,428,516, which is $159,522 or less than 6/10ths of 1% more than the original estimate of $29,268,994. Below are the property tax categories, the original estimate, the actual collections and the difference.

	Estimate	Actual	Difference
Residential	$24,074,794	$23,947,527	($127,267)
Commercial	$ 4,570,000	$ 4,417,891	($152,109)
Delinquent	$ 624,200	$ 1,063,098	$438,898
Total	$29,268,994	$29,428,516	$159,522

It is important to note that taxes received during the first quarter of the fiscal year were approximately $240,000 below expectation and after consulting with the Geauga County Auditor's Office, it was learned that tax payments of just over $434,000 were made after the tax deadline and would not be paid to the district until the first advance in January. Those payments made after the tax deadline were considered delinquent and that is more than likely the reason why delinquent tax collections are almost $440,000 higher than anticipated.

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.

May Update:

Based on the revised estimate of $29,428,516 for FY 2022, the estimates for FY's 2023-2026 are as follows:

FY 2023	$29,635,600	[Increase over FY 2022 of $207,084 or 7/10ths of 1%]
FY 2024	$29,900,000	[Increase over FY 2023 of $264,600 or 9/10ths of 1%]
FY 2025	$30,125,000	[Increase over FY 2024 of $225,000 or 8/10ths of 1%]
FY 2026	$30,400,000	[Increase over FY 2025 of $275,000 or 9/10ths of 1%]

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.

May Update:

The original estimate for FY 2022 was $1,547,350 and the revised estimate [based on actual revenue] is $1,618,417. This represents an increase of just over $71,000.

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.

May Update:

Based on the revised estimate of $1,618,417 for FY 2022, the estimates for FY's 2023-2026 are as follows:

FY 2023	$1,662,300	[Increase over FY 2022 of $43,883 or 2.7%]
FY 2024	$1,725,000	[Increase over FY 2023 of $62,700 or 3.8%]
FY 2025	$1,770,000	[Increase over FY 2024 of $45,000 or 2.6%]
FY 2026	$1,820,000	[Increase over FY 2025 of $50,000 or 2.8%]

Line 1.35 – Unrestricted Grants-in-Aid (9.4%)

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.

May Update:

The original estimate for FY 2022 was $3,335,000 and the revised estimate [as a result of HB 110 and the inclusion of the net calculation of open enrollment tuition] is $3,817,000. The State Foundation Funding component [including net open enrollment tuition] is $3,640,000, the Ohio Casino Tax component is $164,000 and the Motor Fuel Tax reimbursement component is $13,000.

Fiscal Years 2023-2026

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

May Update:

Based on the revised estimate of $3,817,000 for FY 2022, the estimate for FY 2023 reflects no change from FY 2022 and the estimates for FY 2024, FY 2025 and FY 2026 represent a $10,000 increase in each year above the previous year.

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

May Update:
The original estimate for FY 2022 was $94,000 and the revised estimate [as a result of the inclusion of other State Foundation Funding components] is $316,000. Below are the revenue sources and amounts now included in line 1.04 [note that motor fuel tax reimbursement was included here in error and belongs in Unrestricted Grants-in-Aid]:

Catastrophic Special Education Reimb.	$ 85,000
New State Foundation Components	
Disadvantaged Pupil	$ 2,850
Career Technical	$ 350
Gifted	$112,000
English Learners	$ 400
Student Wellness	$115,400
	$316,000

Fiscal Years 2023-2026
For these fiscal years, the 5-year forecast reflects an estimate of $94,000.

May Update:
Based on the revised estimate of $316,000 for FY 2022, the estimates for FY 2023-2026 are the same as the estimate for FY 2022.

Line 1.05 – Property Tax Allocation (8.3%)

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.

May Update:
The original estimate for FY 2022 was $3,333,656 and the revised estimate is $3,336,000.

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.

May Update:
Based on the revised estimate of $3,336,000 for FY 2022, the estimate for FY's 2023-2026 are as follows:

FY 2023	$3,337,100
FY 2024	$3,339,000
FY 2025	$3,341,000
FY 2026	$3,343,000

Line 1.06 – All Other Revenue (3.1%)

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.

May Update:
The original estimate for FY 2022 was $1,384,000 and the revised estimate is $1,250,000. Below is the original estimate and the revised estimate for each revenue source represented in line 1.06:

Source	2022 Original Estimate	2022 Revised Estimate
Tuitions from all sources**	$1,088,000	$936,000
Interest Earnings	$ 130,000	$131,000
Class Fees	$ 81,000	$ 70,000
Miscellaneous Revenue	$ 45,000	$ 50,000
Medicaid Reimbursement	$ 40,000	$ 63,000
Total	$1,384,000	$1,250,000

** - Open Enrollment Tuition is no longer being accounted for in this line and is now part of the amount the district receives from the State Foundation Program reflected in line 1.035. In the past, open enrollment tuition was approximately $210,000 per year.

Fiscal Years 2023-2026
The estimate for these fiscal years is unchanged from the estimate of $1,384,000 in FY 2022.

May Update:
Based on the revised estimate of $1,250,000 for FY 2022, the estimate for FY's 2023-2026 are as follows:

FY 2023	$1,220,000
FY 2024	$1,210,000
FY 2025	$1,200,000
FY 2026	$1,190,000

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 from the CARES Fund and the ESSER Fund.

May Update:
The original estimate for FY 2022 was $558,938 and the revised estimate reflects no change.

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.

May Update:
Anticipated advances-out for fiscal year 2022 are $500,000 and as a result, estimated advances-in for fiscal year 2023 are also $500,000. For the remaining fiscal years of 2024-2026, the estimate is $120,000.

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.

May Update:
The original estimate for FY 2022 was $35,000 and the revised estimate is $94,000.

Fiscal Years 2023-2026
The estimate for these fiscal years is unchanged from the estimate of $35,000 in FY 2022.

May Update:
The estimate for these fiscal years is $20,000.

EXPENDITURE ASSUMPTIONS

Line 3.01 – Personnel Services (57.5%)

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.

<u>May Update:</u>
The original estimate for FY 2022 was $23,785,000 and the revised estimate is $23,887,000. The increase of just over $100,000 is mainly due to significant increases in both certified and classified substitute costs this fiscal year.

<u>Fiscal Years 2023-2026</u>
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%.

May Update:
For fiscal years 2023 and 2024, an increase of 3% is reflected to account mainly for the COLA increase related to KEA members and step increases for those in KEA and OAPSE whom are entitled to one. The increase in fiscal years 2025 and 2026 is 1.75% to account mainly for a step increase for those whom are entitled to one. A cost of living adjustment increase (COLA) is not factored in these years because a successor agreement has not been negotiated for KEA beyond 2024. At the present time, the district is in discussion with OAPSE to formalize a successor agreement for fiscal years 2023 and 2024.

It is important to understand that the increases noted in this narrative do not suggest that all staff will receive a 3% increase or a 1.75% increase; rather, that overall salary expenditures will increase by those percentage noted.

Line 3.02 – Employees' Retirement/Insurance Benefits (24.3%)

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.

May Update:
The original estimate for FY 2022 was $10,715,000 and the revised estimate is $10,105,000 or about $600,000 less due a number of factors. First, the State Teacher's Retirement System (STRS) reduced the General Fund yearly estimate from $2,682,000 to $2,400,000, which is a reduction of $282,000. Second, our initial General Fund estimate for the School Employee's Retirement System (SERS) was just under $1 million, but is on pace to be closer to $935,000, which is a positive difference of approximately $65,000. Finally, the budget amount related to the districts share of healthcare for all employees [existing and new hires] was $6,223,825, but is on pace to be closer to $5,998,500, which is a positive difference of $225,325.

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%.

May Update:
For a number of reasons, but largely in part to the selection of a new insurance consultant [Gallagher] in March 2022, the estimate for fiscal year 2023 reflects a minimal increase of 2%. The district, with the assistance of Gallagher, anticipates being able to contain insurance premium increases to a minimum over the next couple of years and anticipates stabilizing the reserve balance in the Self-Insurance Fund to an amount that is between four (4) and five (5) months of average monthly claims. For fiscal years 2024 through fiscal year 2026, the increases are reflected below:

Fiscal Year 2024 – 3.5%
Fiscal Year 2025 - 4%
Fiscal Year 2026 – 4.5%

These increases do not assume that all benefits items will increase by the percentage noted each year, but that overall benefit expenditures will increase by the percentages noted.

Line 3.03 – Purchased Services (10.3%)

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.

May Update:
The original estimate for FY 2022 was $4,532,991 and the revised estimate is $4,292,000. The district has seen a slight reduction in outplaced tuition costs and saw the removal of open enrollment tuition costs [approximately $85,000] pursuant to the new State Foundation funding.

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.

May Update:
Based on the revised estimate of $4,292,000 for FY 2022, the estimate for FY's 2023 through 2026 are projected to be $4,300,000 each year.

Line 3.04 – Supplies and Materials (2.7%)

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.

May Update:
The original estimate for FY 2022 was $1,098,879 and the revised estimate is $1,136,000. The increase is mainly a result of inflationary increases to bus fuel and custodial supplies.

Fiscal Years 2023-2026
For these fiscal years, the estimate reflects a decrease of approximately $100,000 from the estimate reflected for FY 2022.

May Update:
Based on the revised estimate of $1,136,000 for FY 2022 and inflationary increases, especially bus fuel and various supplies, the estimate for FY's 2023 through 2026 is projected to be $1,300,000 each year.

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).

May Update:
The original estimate for FY 2022 was $198,200 and the revised estimate is $57,000. The budget amount of $198,200 included approximately $150,000 in technology purchases for replacement servers, switches and access points. The replacement of these technology items is expected to occur next year.

Fiscal Years 2023-2026
For these fiscal years, the estimate reflects a decrease of approximately $50,000 from the estimate reflected in FY 2022.

May Update:
The estimate for FY 2023 is $300,000 and is inclusive of the replacement of servers, switches and access points. The estimate for FY's 2024 through 2026 is $150,000 each year.

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.

May Update:
The original estimate for FY 2022 was $749,930 and the revised estimate is $748,000.

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.

May Update:
For fiscal years 2023 through 2026, the estimate is $750,000 each year.

Line 5.01 – Operational Transfers Out (2%)

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.

May Update:
The original estimate for FY 2022 was $800,000 and the revised estimate is $805,000.

Fiscal Years 2023-2026
For these fiscal years, the estimate is unchanged from the estimate for FY 2022.

May Update:
For fiscal years 2023 through 2026, the estimate is $800,000 each year.

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.

May Update:

The original estimate for FY 2022 was $120,000 and the revised estimate is $500,000. The School District received additional ESSER funding of which approximately $350,000 will be used to replace the boilers at KMS. The timing of payment to the vendor and the request for reimbursement of funds will require an advance to be made from the General Fund to the ESSER Fund in June to erase any negative balance which may exist.

Fiscal Years 2023-2026

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

May Update:

For fiscal years 2023 through 2026, the estimate is $120,000 each year.

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.

May Update:

The original estimated ending cash balance on June 30, 2022 was $8,284,527 and the revised estimate is $9,618,444 or just over $1.3 million more.

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.

<u>May Update:</u>
The estimated ending cash balance is expected to gradually decline during these fiscal years from about $7.6 million to negative $3.1 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 April 11, 2022) 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~~ 30 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.

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.

May Update:

The original estimated ending fund balance on June 30, 2022 was $7,759,527 and the revised estimate is $9,093,444 or just over $1.3 million more.

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.

May Update:
The estimated ending fund balance during FY's 2023 through 2026 is expected to decline from about $7.1 million at the end of FY 2023 to an estimated negative $3.6 million by the end of FY 2026. This decline in fund balance is not uncommon or uncharacteristic especially when deficit spending is anticipated each year. For the most part, deficit spending will occur and become larger each year the longer time passes since the previous operating levy was approved by voters. There is certainly cause for concern regarding the anticipated deficit spending represented in this 5-year forecast; however, based on the conservative manner with which the forecast was prepared, it is reasonable to expect that the **ACTUAL** financial position will exceed the estimate in each year of this forecast.

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 and many revenue and expenditure assumptions, which may or may not come to fruition. Again, it is extremely important for the reader to understand that, by design, this 5-year forecast was prepared utilizing conservative revenue estimates and liberal expenditure estimates and is only as accurate as the information that was available at the time it was prepared. With that said, the 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.

As a result of the anticipated declining fund balance in each of the forecast years as reflected in this 5-year forecast, there is a need in the near future for additional revenue in order to avoid a dangerously low fund balance. Revised Board Policy 6210 states in part "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~~ 30 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)". Thirty days of operating expenses is approximately $3.5 million.

The 5-year forecast reflects an estimated ending fund balance on June 30, 2024 of approximately $4.15 million and just under $585,000 on June 30, 2025. Based on this information, a successful operating levy in November 2023 would be ideal. However, should circumstances suggest delaying an operating levy until May 2024 or November 2024, it is imperative to understand that should a levy in calendar year 2024 be unsuccessful, the district will be required to make rather significant reductions [$2.5 million to $3 million] in staff and educational programs for the start of the 2025-2026 school year.

Past Levy Data:
May 2021 – voters rejected a combination 4.75 mill continuing operating levy and a 1.75 mill continuing permanent improvement levy.

May 2015 - voters approved a combination 4.0 mill continuing operating levy and a $10 million Bond Issue.

February 2005 – voters approved a 9.4 mill continuing operating levy.
November 2004 – voters rejected a 7.9 mill continuing operating levy.

February 1997 – voters approved a 7.9 mill continuing operating levy.
November 1996 – voters rejected a 6.9 mill continuing operating levy.
March 1996 – voters rejected a 6.9 mill continuing operating levy.