

Southwest Local School District
Five Year Forecast – Assumptions
Fiscal Year 2021

INTRODUCTION

Per the Ohio Revised Code, public school districts in the State of Ohio are required to submit a Five-Year Financial Forecast in November and May of the fiscal year. School Districts operate on a fiscal year running from July 1st – June 30th. The forecast includes revenues, expenditures, excess/deficit line items, estimated encumbrances, and the projected fiscal year end cash balance. The forecast includes three years of historical/actual data and five years of projected estimates.

Understanding the Forecast:

A forecast is a tool used by the Board of Education to illustrate the projected financial position of the school district in upcoming years. Due to the unknowns' in future economic conditions and assumptions, the forecast is an ever changing document. Overall, the forecast needs to be reviewed based on future trends and percentages, rather than specific amounts. Many projections are based on the information provided by the County Auditor, State Auditor, Ohio Department of Taxation, Department of Education, and partnership companies.

Revenue unknowns and variables, include, but are not limited to; enrollment, property valuation, new construction, tangible personal property tax laws, and interest rates. State funding is based on a biennium budget, which will change every two years (meaning state revenue cannot confidently be projected beyond the biennium budget). Expenditures unknowns include, but are not limited to; staffing levels, retirements, healthcare fluctuations, utility costs, and community school enrollment.

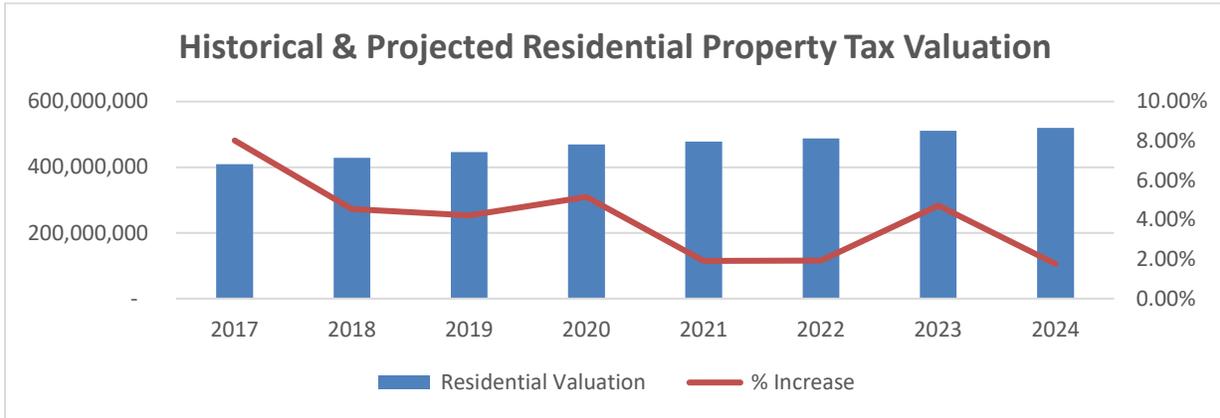
Fluctuations in revenues & expenditures in the current year of the forecast, do not only affect the current year, but substantially compound and affect the future years of the forecast.

REVENUES:

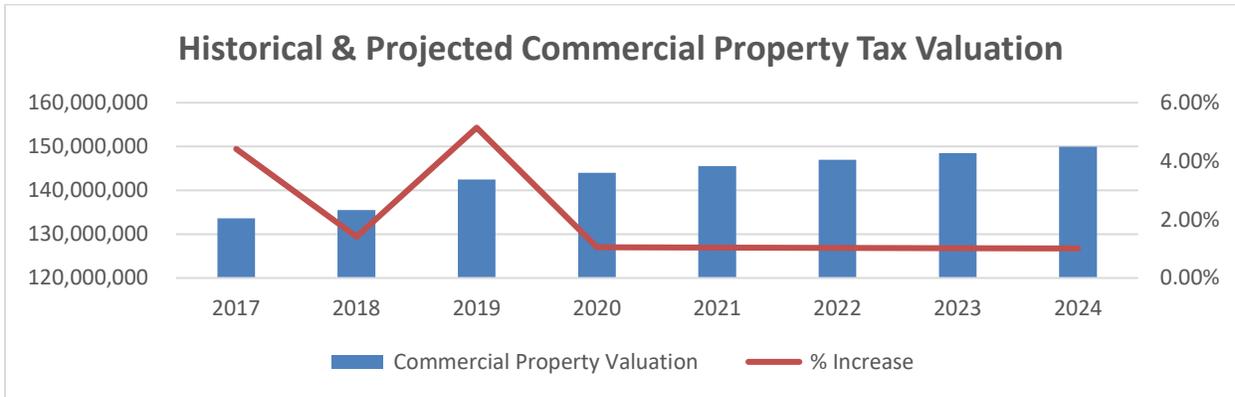
General Property Tax (Real Estate) & Tangible Personal Property Tax

Southwest is projecting strong growth in residential property tax valuations. Residential property tax valuations are expected to grow at 2.6% for tax years 2020 through 2024. Below depicts the tax valuation as well as the expected growth in each year as a percent, years 2017-2019 are actuals, years 2020-2024 are projected. The district expects to collect the minimum statutory millage (20 mills) for residential property taxes in tax year 2020 and beyond.

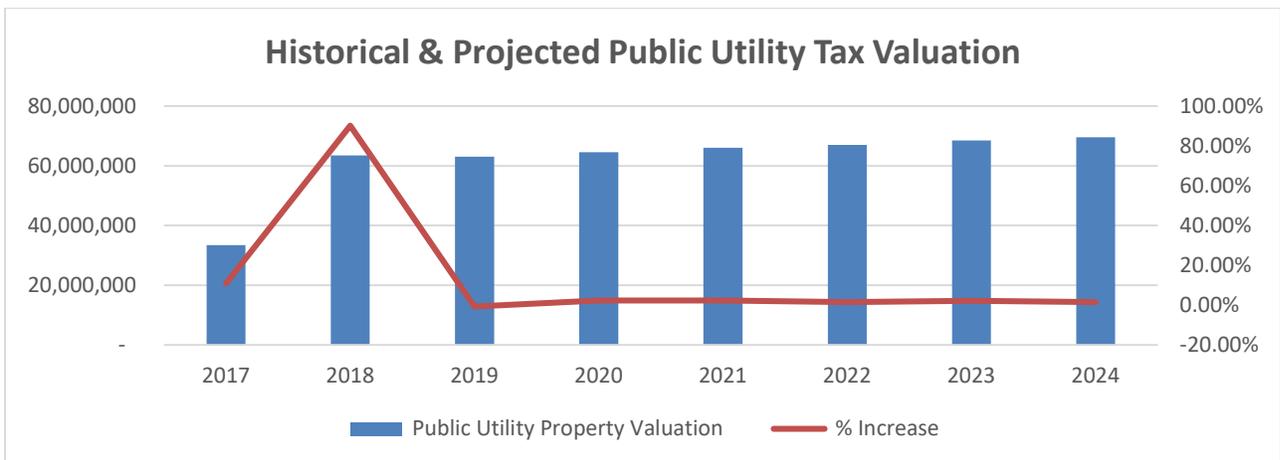
Southwest Local School District
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Fiscal Year 2021



Commercial property tax valuations are expected to grow at 1% for tax years 2020-2024. Below illustrates expected growth in commercial property taxes, as well as historical growth for tax years 2017-2019, with tax years 2020-2024 being projected.



Public utility personal property (PUPP) tax valuations are expected to grow at 2% for tax years 2020-2024. Below illustrates expected growth in PUPP valuations, years 2017-2019 are actuals and 2020-2024 are projected.



Southwest Local School District
Five Year Forecast – Assumptions
Fiscal Year 2021

Earned Income Tax

The community of Southwest LSD approved a 0.75% continuing earned income tax in November 2006. The earned income tax was the last general fund voted tax increase. The earned income tax has historically been increasing as a percentage of the overall general fund revenues. The income tax made up 11.98% of all general fund revenue in fiscal year 2015, 11.98% in 2016, 12.95% in 2017, 13.05% in 2018, and 12.5% in 2019. Income taxes are expected to see a slight decline of 3.93% in fiscal year 2020 and return to an average 6.5% in fiscal years 2022-2025.

Fiscal Year	Total Income Tax
2018	4,614,635
2019	4,715,629
2020	5,160,750
2021	4,958,091
2022	5,281,516
2023	5,627,283
2024	5,997,084
2025	6,392,740

* Fiscal Year 2021-2025 are projected



Unrestricted Grants-in-Aid

The State of Ohio funds public school districts on a two-year cycle, referred to as the biennium budget. Projecting state funds beyond the two-year budget is challenging since the reliance on these funds is based on future, unknown legislation. Funding public school districts in Ohio has been a controversial topic for decades, evident by the Ohio Supreme Court ruling school state funding unconstitutional on at least three different occasions.

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Fiscal Year 2021

State Funding has seen different funding “formulas” in three of the last four biennium budgets. Fiscal year 2020 through 2024 are based on the current state funding formula.

The current state funding formula, as well as prior formulas, have included a line item referred to as the “guarantee”. A district’s funding is determined by the state formula. If after the formula has been calculated and a district would experience a loss in state funding, the guarantee would be applied. The guarantee ensures districts that they will receive the same amount of funding from the State as they had the previous year. The Southwest Local School District has received guaranteed funding over the past several years. However, due to continued increases in enrollment, the amount the District has received, as a result of the guarantee being applied, has continued to decrease. The continued increases in enrollment, have resulted in the District no longer receiving guaranteed funding beginning in FY 2017. This has also resulted in additional State funding based on student enrollment.

The State’s latest biennium budget, which was approved in June of 2019, froze state funding in 2019 with the exception of student growth funds. The current budget includes student growth funds of \$143,772 in FY 2020 and \$227,492 in FY 2021. In fiscal year 2020 the state of Ohio cut funding to all schools including Southwest. Southwest has seen a reduction in fiscal year 2020 of \$760,000 and expects fiscal year 2021 to see the same reductions. However, Southwest expects the State of Ohio to eliminate funding cuts beginning in fiscal year 2022. No additional state funding increases are planned beyond the growing student aide provided to districts with higher annual enrollment growth.

Casino gambling was approved by Ohio voters in 2009 with the passage of a constitutional amendment. The amendment allowed for four casinos to be located around the State. Thirty-four percent (34%) of the gross casino revenue goes into the County Student Fund. Money is distributed from this fund to all school districts in Ohio based upon student populations as certified by the Department of Education. The Ohio Department of Taxation receives a student count by county and by district within the county. Money is remitted directly to the school districts. The District received \$201,989 in fiscal year 2018, and \$212,163 in fiscal year 2019, and \$170,728 in fiscal year 2020. Fiscal year 2021 is expected to see Casino Tax revenues of \$227,492. However, COVID-19 related closures could substantially affect this funding by up to 50%. It is anticipated that the District will continue to see a similar amount of casino revenues in FY2021 through FY2025.

Southwest expects Health & Wellness aid from the state to remain constant from fiscal years 2021 – 2025. An elimination in Health & Wellness aid from the state would have a substantial impact on the district’s financial forecast.

Restricted Grants-in-Aid

Southwest Local School District
Five Year Forecast – Assumptions
Fiscal Year 2021

Through the State funding formula the District receives funding for economically disadvantaged students and for the offering of career technical education programs. The funding received through these two items are restricted on how it can be spent. The District also receives restricted funds from the State through the catastrophic cost program.

Economically disadvantaged funding is provided by the State to address economic disadvantage (poverty) and its effects on educational outcomes. Funding is based on the number of students who qualify for the free or reduced lunch program. Those that qualify are considered economically disadvantaged. This represents students in poverty, but also students of families with low incomes.

The District has seen a decrease in the number of students considered economically disadvantaged. It is anticipated that number of will remain consistent.

The District received \$292,908 in economic disadvantaged funding in fiscal year 2018, \$287,224 in fiscal year 2019, and \$321,731 in fiscal year 2020. The district expects economic disadvantaged funding to remain unchanged in fiscal years 2021-2025.

Total restricted state aid is expected to remain at \$402,804 for future years 2021-2025.

Property Tax Allocation

Homestead and rollback payments are anticipated to slightly increase based on increased property valuations over the life of the forecast.

All Other Operating Revenue

All other revenue includes revenue from open enrollment, tax increment funding agreements with the City of Harrison and Harrison Township, extra-curricular fees, interest income, Medicaid payments, rentals, and donations. This category is expected to decrease to \$2,430,168 in fiscal year 2021 from \$2,649,155 in fiscal year 2020. This decrease is mainly attributed to decreasing interest income due to declining interest rates. Other operating revenues are expected to grow slightly each fiscal year from fiscal year 2021 – 2025.

EXPENDITURES:

Personal Services

Educational institutions in the state of Ohio, including public school districts, are service based industries. As a result of being a service based industry, the majority of expenditures for school districts are salaries and benefits. Beginning in fiscal year 2021, the district eliminated the PPO100 plan, decreasing total health insurance costs an estimated \$430,000 in fiscal year 2021 and an additional \$170,000 in fiscal year 2022.

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Five Year Forecast – Assumptions
Fiscal Year 2021

In total, personal services are projected to increase slightly in fiscal year 2021 as a result of additional staff and increases reflected in the negotiated agreement. Increases for future years are based on the negotiated agreements. Current projections are based on total annual increases in salaries of no more than 2.5%, including steps, inflationary increases, and increase for education achievements for teachers. Based on current agreements this would require future bargaining agreements to receive 0% inflationary increases for a period of 3 years (FY2022-FY2024).

Fringe Benefits

Medical insurance premiums for calendar year 2021 are scheduled to increase by 6%. A conservative estimate was projected for future years of the forecast.

The District is part of the Southwest Ohio Organization for School Health (SWOOSH) consortium. In January 2014, SWOOSH moved to a self-funded model in the hopes this will reduce our premium, fees and taxes assessed.

Also included in benefits are Medicare payments and state mandated retirement contributions to STRS and SERS, which are projected to increase due to the increase in wages. Southwest LSD is a member of the Ohio Bureau of Workers Comp.

Purchased Services

Similar to homeowners, there are many fixed costs incurred by School Districts such as utilities, insurance, and maintenance/repairs. Fixed costs for school districts also include legal fees, community school deductions, special needs services and substitutes.

Like many items in the forecast, there are several items which cannot be predicted in purchased services. Major items that will impact purchased services which are not known at this time include fuel costs, legal fees, climate changes, snow days, community school enrollment, and special needs services for potential students moving into Southwest LSD. The District re-assesses utilities on an annual basis to try to get the best rates available.

Supplies, Capital Outlay, and Other Expenditures

Southwest LSD cycles curriculum items to ensure the students have updated instructional material. The curriculum cycle involves purchasing textbooks and other materials.

Other non-negotiable expenditures include fees paid to the County Auditor, Board of Election Expenses, and the Ohio Department of Taxation.

COVID-19 IMPACT

Southwest LSD does not anticipate any additional expenditures in the general fund due to COVID19. The State of Ohio has provided Corona Relief Funds (CRF) in the amount of \$184,000,

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Fiscal Year 2021

a broadband connectivity grant in the amount of \$20,000, and federal funding of nearly \$760,000 for Care’s Act funding. The district expects that all COVID19 expenditures will be covered from these funds. There is a possibility that some Care’s Act funds will be able to be used for operating expenditure reductions in the general fund for fiscal year 2021. There is expected to be minimal impact to property taxes from COVID19 in fiscal year 2021. It is likely that earned incomes, casino taxes, and state foundation revenues will be impacted the most significantly due to COVID19. However, at this time it is too early to determine the total cost and financial impact that COVID19 may have on the district.

CONCLUSION

The forecast projects an excess of expenditures over revenues for the current fiscal year. The Board of Education will have to closely monitor future fiscal years, as the forecast projects deficit spending in every fiscal year. As noted in the assumptions, there are so many variables that will impact these projections including, but not limited to staffing levels, tangible personal property replacement, state funding, medical insurance, community schools, and vouchers, that projecting the future is extremely challenging.

Please contact Thomas Lowe, Southwest LSD Treasurer (513-367-4139) / thomas.lowe@southwestschools.org), with questions regarding this forecast or visit www.southwestschools.org for more financial data.