

**KIRTLAND LOCAL SCHOOLS
BOARD OF EDUCATION**

**FY 21 Five Year Forecast
(May 2021)**

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Kirtland Local Schools

Five Fiscal Management Beliefs

The Board of Education and Administration are committed to transparency in the fiscal management of the school district, and are committed to the following five fiscal management beliefs.

- All fiscal decisions should be made in the context of the five year fiscal projections.
- There are management options attached to every dollar spent.
- Every dollar spent must add value to teaching and learning.
- Focus on aggressively managing the largest expense areas:
 - Salaries
 - Benefits
 - Special Education
 - Facilities
- Aggressively pursue avoidance of deficit spending.

**Kirtland Local School District – Lake County
Assumptions for the Five-Year Forecast
Fiscal Years Ending June 30, 2021 through 2025**

November 2020 (May Update)

2019-20 GENERAL FUND INCOME SUMMARY

REAL ESTATE AND PUBLIC UTILITY TAX REVENUE

The school district received \$11,145,821 million dollars from local sources of tax revenue in the 2019-20 school year including tangible personal property tax. As in all years, the district receives tax revenue in two cycles March/April and August/September. Taxes collected in calendar year 2020, are due from tax rates and values from calendar year 2019. This process covers two separate school fiscal years as a school district fiscal year for 2020 runs from July 1, 2019 through June 30, 2020.

The district has experienced a number of errors on the part of the Lake County Auditor which has impacted the values received from one fiscal year to the next. The values in the forecast represent a restatement from the previous forecast due to the errors in how the County Auditor's Office reported the district's levy collections on apportionment sheets. With this error, taxes collected by the county treasurer, were being classified as Bond Retirement dollars in error. With the correction of this error, \$249,178 was corrected as FY17 general fund dollars, and \$489,661 was corrected and now shown as FY18 general fund dollars. This increase to the general fund from previous years also increased the General Fund balance by \$738,778. It was later discovered that the corrections sent by the county auditor in September 2018 and put in in FY19 were incorrect. These modified corrections were corrected for entry in FY20.

In addition to General tax collections, the district receives reimbursement from the State of Ohio for the Homestead and Rollback Exemption credit received by local taxpayers. The figure last year was just over \$1.59 million. Again the expectation is that this figure is artificially inflated as the average in prior years was approximately \$1.59 million.

Base foundation from the state represented just over \$599,600 last year. This is significantly lower than prior years due to the pandemic. This year, it is expected that the number remains steady, although the revenue may be placed in other line items that the district receives such as Bureau of Worker Compensation refunds (we have received two so far this year). When this occurs, the relative expenses for these revenue would be moved as well.

Overall, total operating revenues were \$14.6 million in FY20, and expected to be \$14.5 million last year

HOMESTEAD AND ROLLBACK

The school district received \$1.58 million dollars from the State of Ohio in FY20. Historically, the district has received an average amount of \$1.54 ,000 which is nearly \$40,000 less than we received this past year.

CASINO TAX REVENUE

The school district received over \$60,000 dollars from the State of Ohio, based upon gaming revenue within the state, which is about \$4,000 more than we received the prior year. This number is based upon district enrollment data and state taxed revenues from the state's casinos. Due to casino closures since COVID, the district expects about 50% less this year.

INTEREST INCOME

The school district received an average of approximately \$61,000 dollars for interest income over the past 5 years. This value fluctuates based upon market rates and maturities of those investments. Two -ear treasuries are less than 0.25% and STAR Ohio is at 0.13%. Investment revenue due to allowable investments are expected to be minimal over the next couple of years.

2019-20 EXPENSE SUMMARY

SALARIES AND WAGES/BENEFITS

The district's salary expenses have fluctuated very little over the past few years. Changes due to student needs, labor contracts, retirements, as well as rising healthcare costs have balanced each other out as total salary have decreased over the past three years due to reductions. Attributable benefits have remained flat due to the reductions of staff members but an increase of the healthcare rates. Together salaries and benefits represent 84% of the district budget. As a result, changes to salary and benefits have a large effect on the entirety of the budget and the long-term trend as the costs of salaries and benefits recurs and grows each year of the forecast.

PURCHASED SERVICES

Outside of personnel, purchased services represents the largest cost for the school district. Purchased services represents several large categories such as utilities and special education services, but it also includes several other areas including property, fleet and liability insurances; travel and meeting expenses including mileage and conference registrations costs; repairs of facilities, busses, and instructional equipment, as well as legal expenses. In total, the district spent \$1,567,753 for purchased services. This represents just over 11.1% of our entire budget. Historically, this number represents an anomaly from prior years. Where the average is approximately 12.5%-13% of the district budget, and was a 5.7% reduction from the prior year. Some of the largest expenses in this category include:

- 1. SPECIAL EDUCATION – 19% of purchased services**
- 2. FACILITY MANAGEMENT (Including Utilities) –23.3% of purchased services**
- 3. TUITION –** The district paid out \$219,530 for the education of students at community schools, special education schools and those participating and receiving college credit through the College Credit Plus program. This value well below the five-year average from previous years of \$422,000. 14% of purchased services

SUPPLIES AND MATERIALS – Supplies and materials make up only 2.4% of the school district budget. The three largest categories of supply expenses are instructional supplies and textbooks, maintenance and custodial supplies, and transportation and vehicle supplies including fuel. Of those, instructional supplies and textbooks has comprised over 50% of the supply budget, maintenance and custodial supplies and transportation supplies and fuel comprised 46%. The remaining 3%-4% of the district supply and material cost is spent on administrative functionality.

EQUIPMENT

This area of the forecast includes the following:

- 1. INSTRUCTIONAL EQUIPMENT**
- 2. SCHOOL BUSES**

3. FACILITY ITEMS SUCH AS BUILDING, HVAC, PLUMBING, ETC

This area historically represents about 2% of the district budget and preventive maintenance items are necessary to continue to keep safe facilities with comfortable educational environments. The value spent over the past year of \$9,324 is only a fraction of a percent of general fund expenses.

OTHER EXPENSES

Other expenses in the school district budget comprise approximately 2% or approximately \$296,000 of the total budget. The largest areas in this area (over 95%) are comprised of the three following annual expenses.

1. Property, fleet and liability insurances
2. Auditor and County Treasurer Fees
3. Tax Assessment

TRANSFERS AND ADVANCES

Transfers and advances occur from time to time to account for one time needs outside of the General Fund but need either the permanent or short term cash infusion from the general operating fund.

PROJECTION SUMMARIES AND ASSUMPTIONS FY21

TAX REVENUES

Tax revenues are based upon three factors. The valuation of the school district, the millage voted upon by the voters of the community and finally, the percent of the taxes assessed that actually get collected. In this forecast, the assumptions are based upon:

- a. The district does not pass any additional millage, but successfully renews any expiring millage.
- b. The valuation of the school district residential property increased in 2018 – collection 2019 and beyond at a rate of 9.5% higher than the valuation from 2017 – collection 2018.
- c. School district taxes are collected at 100% of valuation, or with any delinquency, the taxes are collected from the prior year in the following year.

The 2018-19 tax collections came in approximately \$55,000 below the October 2018 projection or 0.5%. This was corrected already in the 2019-20 year as the Lake County Auditor found an error in their first half settlement that was paid in the 2019 CY 2nd half settlement, which will increase our estimates for FY20. This will not be continued into FY21. It is expected that FY21 collections will be flat from FY20.

In November, we projected that due to the COVID-19 pandemic, the district will be assuming that FY22 revenues in collections will decrease 2% due to delinquencies. Whereas Lake County Auditors had not provided official guidance on this percentage, the prior recession indicated that this was the case. My May 2021, the district had received collections in excess of this value and collected on pay with the prior year.

PUBLIC UTILITY TAXES

Assumptions for the forecast are that public utility values remain unchanged for the life of the forecast. Any adjustments made from the October forecast in this update were similar and reflective to the tax collection note above from real property.

HOMESTEAD AND ROLLBACK

The projections for the Homestead and Rollback payments in November were based upon the historical relationship to actual tax collections, with the exception that the district will estimate a 2% reduction in FY22 due to the COVID-19 pandemic. This assumption too was under actual collections and the district received on par with prior year collections.

STATE FOUNDATION AND AID

In this forecast, the state budget calls for the base formula for school funding to remain unchanged for FY21 from the reductions received in May 2020. Historically, the state increases base aid by 2% annually, but this reduction significantly reduced Kirtland's state revenue for FY2020. The decreases that began FY21 were in fact made up from other fiscal sources such as ESSR funds from the federal government and rebate checks from the Ohio Department of Workers Compensation.

OTHER REVENUE

It is assumed that outside of one-time payments that are unknown at this time, the district other revenue will remain flat. Whereas interest rates rose during the first half of FY19, they sharply changed course during the second half and are projected to continue dropping during this fiscal year. The November 2019 forecast reflected a decrease to the projected interest income for FY20 due to the maturity dates of existing investments. As noted above, US Treasury yields continue to fall, and the average yield on allowable securities is now below 0.25%. An estimate of 0.2% is assumed for FY21 and beyond. The district also increased student fees, but that value of that is built into the first year of the forecast.

EXPENSES

The school district has taken initiatives to stabilize the inflationary pressures on the budget. As such, the district enacted zero based budgeting on all district budgets and reduced staffing levels through both attrition and through a reduction in force after the 2017-18 school year. In addition, the district completed negotiations with its OAPSE bargaining unit in May 2019, and a one-year contract with KEA in August 2020. During this negotiation process, the district was able to provide raises in the second and third year of the contract with OAPSE, and a 1.25% raise with KEA, plus Health Savings Account (HSA) incentives, switching the healthcare program to a higher deductible healthcare plan (HDHP). The negotiations with KEA included an elimination of the highest priced healthcare plan and HSA incentives for the HDHP, and a Health Reimbursement Account (HRA) for the lower priced standard plan. These plans lowers the district premium costs significantly because the plans provide for more first dollar payments for the employee. With the HDHP, the employees receives a HSA contribution to offset the increased deductible costs from the new plan. If the employee does not utilize the HSA contribution, the employee can retain those dollars for a year in which they do need them. The amount of the HSA contribution is less than the savings that the district receives by making lower premium payments. The district is also providing more education to the staff to make them better consumers of the healthcare plan to hopefully allow them to retain a greater share of those HSA dollars for the future. By moving to this higher deductible plan, the district was able to hold expenses from the three-year contract flat while putting more dollars in the hands of the employees. The district will again be negotiating with the teaching staff during the 2020-21 school year.

Salaries and Benefits.

Each year, based upon the negotiated salary schedule, employees move up the schedule for years of experience as well as across (for teacher only) based upon educational attainment of additional hours of graduate credit. This "stepping" along with the current negotiated raises increases salary costs by approximately \$280,000 in salary. The district negotiated a one-year settlement with the Kirtland Teachers Association which included a 1.25% salary increase. The district also is required to pay 14% of all salary to the respective retirement systems SERS and STRS. Federal Medicare and State worker's compensation costs add in another approximately 2.35%. In addition, the school district saw a 9% increase to the healthcare premium base rates, which increases the district costs for healthcare by over \$150,000/year.

As we move forward, the district expects salary trends to continue an upwards trend as STRS reform trends are pushing employees to get to 35 years of service prior to retirement as opposed to 30 years of experience in the past. This keeps employees on the salary schedule for additional years at a higher salary than being replaced by a

newer lower paid employee on the salary schedule. The district has very few employees expected to retire over the next 3-5 years.

From a healthcare perspective, the district does expect base healthcare rates from the consortium to continue to rise at market pace (8%), but continues to seek relief through searching for competitive quotes from other consortiums, assessing the product plans that are being offered to staff, and gaining a greater share of employee premiums. With the exception of already negotiated contracts, none of these options have been calculated into the forecast as of the time. Additionally, the district received a one-time premium holiday for healthcare premiums in July 2020. This will reduce FY21 benefit costs by approximately \$140,000.

Administration will work throughout each of these school years to reduce these numbers.

PURCHASED SERVICES

As notes above, outside of personnel, purchased services represents the largest cost for the school district. In November, the district was expecting to spend \$1,623,265 for purchased services. This represents just over 11% of our entire budget. This represents a significant decrease from the October 2019 forecast as Special Education line items were reduced throughout the year due to reduced student need. In May, the district is revising downward to \$1.42 million this value as we continue to pare down our outside purchased services. Some of the largest expenses in this category include:

- 1. SPECIAL EDUCATION** – Outside of the cost of our special education teachers, the district has allocated an additional \$260,000 for Special Education purchased services.
- 2. UTILITIES** – The value that the district is forecasting for the payment of utilities for FY2021 is \$215,000. One hundred forty-five thousand (\$145,000) of that value represents the electric costs for the school district. In September 2019, the Board acted to join a consortium of schools throughout Ohio to lower electric only rates to a base rate of \$.0032/kwh. This represents a discount to the electric portion of our electric bill which was \$.0052/kwh. This rate took effect in January 2020 and runs for 24 months. (The first six months of this agreement is reflected in the 2019-20 forecast.)
- 3. TUITION** – The district is estimating to pay out over \$350,000 for tuition for the education of students at community schools, special education schools and those participating and receiving college credit through the College Credit Plus program.

The \$350,000 value also includes over \$250,000 of tuition for special needs schools that is not also counted above in the Special Education category.

SUPPLIES/MATERIALS

It is assumed that the increase to this area increases only at minimal inflationary rate of 1.5%.

EQUIPMENT

The cost of equipment in the forecast is minimal. Most capital expenses come from the district's Permanent Improvement Levy which is not a part of the five-year forecast. It is assumed however that the increase to this area increases only at minimal inflationary rate of 1.5%.

OTHER EXPENSES

Costs in this expense area from generally fees associated to charged fees for investments that must be booked with gross expenses, fees associated local tax collections from the County Auditor (also which must be booked as gross expenses), and costs associated to the State Auditor's office related to audits and reporting. It is assumed that the change to this area is negligible and that the value will remain flat for the term of the forecast. However, as noted above, the values provided by these assumptions (which is where the growth in the forecast exists) exceeded the guidance that the district has made to the community. As noted above, the district has established parameters for maximum expense growth in the budget.

TRENDS OF REVENUES VS EXPENSES

Due to the onset of COVID-19, the district still expected to see reductions to state revenues as we had seen to end FY20. This trend did not continue as the economy bounced back due to federal fiscal stimulus. It is undetermined how long this will last, or if it will create other issues and pressures to the forecast such as future foreclosures or inflation.

On May 7, 2019, the district passed a renewal levy for five years, but this does not produce any new revenues for the school district. School tax collections are based on a fixed amount or rate of collections are do not grow with inflation. School district local tax dollars can grow only by inflation to the 4.8 mills of inside millage, receiving new millage that has to be voted on, or if the effective millage rate of inside and outside permanent millage falls below the 20 mill floor. In this forecast, the district expects to receive approximately \$130,000 from the impact of growth to the inside millage due to the new tax valuation for 2019 (collection 2019 and beyond). This value reflects less than a 1% increase to total general fund revenue. There are no other current expectations of revenue growth in this forecast. In FY20, however the district received approximately \$100,000 in tax collections which were from the prior fiscal year but were not in the FY19 settlement. As a result, the values for FY20 had to be increased for the one time collection and then the future years were based upon FY20 collections less the one-time payment. So far in FY21, we did not see property tax collection decreases, but the local county auditor warned about decreases in upcoming collections.

Expenses continue to grow with inflation as well as student need. Depending on the market, some aspects of the district budget grow at different rates than core inflation. Healthcare for instance is projected to grow at 8% for the term of the forecast, although the district administration is actively working to seek cost reductions associated to that projected growth. Other areas such as utilities are projected to be flat (outside of the current two-year agreement for electric rates), but utility rate fluctuation is more dependent on weather conditions for a winter and associated use than by actual rates.

As a result, the overall district budget would be expected to rise from year to year at 2.9% to 3.8% based upon the conditions that exist as of the date of the forecast. The district Board of Education and management team are focused on reducing that growth to 2.75%. Proactive reductions will need to be made to change the bend of the current forecast. The following pages indicate the current trend expected revenues and the expected expenditures, as well as the cash balance over time. The

cash balance is measured against the district having at least two months of operating cash flow, which is considered to be the minimum amount that a stable district should have. Fiscally stable districts should maintain significantly more than that value. In addition, the ratio of salary and benefit expenses to total revenue needs to be watched carefully. The district stands at a ratio of over 85% of revenues are spend on salaries and benefits, and whereas a school district is a people business that “produces” educated students; revenues need to be appropriate to spend on all necessary items. The district intends to carefully monitor this value as it creeps higher.

FORECAST AND RESOLUTION

2020-2021 THROUGH 2024-2025

KIRTLAND LOCA SCHOOLS

RESOLUTION _____

ADOPTION OF FORECAST 2020-21 THROUGH 2024-25

Whereas, the Kirtland Local School District Board of Education has committed itself to long range fiscal planning; and

Whereas, the previously adopted Fiscal Forecast has been updated to include data through fiscal year 2018-19 and updated for projected fiscal year 2020-21 through 2024-25;

NOW THEREFORE BE IT RESOLVED, that in accordance with HB 412, the Board of Education adopts the Fiscal Forecast for 2020-21 through 2024-25 fiscal years;

BE IF FURTHER RESOLVED, that the Treasurer be authorized and directed to file this resolution, the Updated Budget Estimate and Fiscal Projections and the written assumptions with the Ohio Department of Education on or before the November 2020 filing deadline.