

**LORAIN CITY SCHOOLS
FIVE YEAR FORECAST – October 2018 Submission**

**INCLUDES: GENERAL FUND (Fund 001),
EMERGENCY LEVY (Fund 016),
Forecast Date as of 12-6-18**

THE FIVE YEAR FORECAST PROCESS

The Five Year Forecast process is a result of many factors and hundreds of assumptions. The process starts with the current year revenue and cost run rates. Additions, changes or deletions are bench marked from those current year revenue and cost streams. Input is gathered from:

- The CEO of Lorain City Schools regarding futuristic projections of where the district is headed, and what revenue or cost components may be affected.
- The Lorain City Schools leadership team where discussions are held as to adds, changes or deletions to the current run rate of expenses. The changes are pertaining to quantities of personnel and/or new projects, or programs no longer needed.
- The Ohio Department of Education as to the ODE's estimate of next year's State Foundation revenues.
- The actuary of the Lake Erie Regional Council (LERC) regarding projected health insurance costs for the next five years.
- The Lorain County Auditor as that entity provides information regarding Real Estate and Personal Property Tax revenues. Also, the District needs to be aware of when levies are expiring to properly project those revenue changes.
- Reviews of historical revenue and cost run rates.
- Review of Collective Bargaining Agreements (CBAs) and Board Policy so as to properly incorporate changes to salaries and wages.
- Review by the Lorain City Schools Treasurer's Office to ensure reasonability of assumptions.

INTRODUCTION

The state of Ohio requires all school districts to submit five year forecasts every May and October. This forecast satisfies the requirement of the October 2018 submission.

A new state of Ohio 2-year budget was approved June 30, 2017 for fiscal years 2017-18 and 2018-19. Fiscal years for Ohio public school districts run from July 1st to June 30th of each year. Lorain City Schools had not realized additional revenues due to new operating levies since 1992. As a result, Lorain City Schools completed a Reduction in Force (RIF) plan in the spring of 2012 to help mitigate the upcoming financial deficits.

In November of 2012, the voters in the Lorain City School District approved the passage of a 7-year, \$3.1M Emergency Tax Levy. The recent history of levies for Lorain City Schools can be reviewed below:

<u>On Ballot</u>	<u>Amount</u>	<u>Type of Levy</u>	<u>Result</u>
Nov 2008	4.90 Mills	Real Estate	Failed
Nov 2009	6.43 Mills	Real Estate	Failed
May 2010	8.97 Mills	Real Estate	Failed
Nov 2010	9.12 Mills	Real Estate	Failed
May 2011	23.85	Renewal Levy	Passed
Nov 2011	1.5%	Income Tax	Failed
Nov 2012	\$3.1M/4.8 mills	Emergency	Passed
Nov 2015	23.85	Renewal Levy	Passed

As stated above, a 23.85 mill “renewal” real estate levy tax was also passed by the voters in May 2011. Because of the large deficits, Lorain City Schools borrowed against those two passed levies (May 2011 and November 2012) via Tax Anticipation Notes (TAN). This is a legal debt instrument that a school district can use and receive proceeds by borrowing against its own projected revenues. Those borrowings have now been paid off fully.

Lorain City Schools had a “renewal” real estate tax levy on the ballot on Tuesday, November 3, 2015. This levy was 23.85 gross voted mills, and 15.80 net “effective” mills. This levy did pass on November 3, 2015.

KEY ASSUMPTIONS

- This forecast does not assume the passing of any “new money” levies after October 2018.
- This forecast does assume that the \$3.1M, 7-year Emergency Levy (scheduled to have its last collection year in calendar year 2019) and the 7.18 mill, 6.77 mill, and the 9.90 mill 5 year current expense levies will be renewed by the voters of the District. Though they are removed from the revenue section of the forecast and added back in on line 11.02.
- The tangible personal property tax reimbursements from the state of Ohio are now completed. The reimbursement was due to the phasing out of business tangible personal property via legislation. The district realized its final reimbursement from the state of Ohio in fiscal year 2012 at \$1.3M. All reimbursements from fiscal year 2012-13 and forward are now zero per the state of Ohio.
- State Funding: The most current biennium budget was implemented on July 1, 2017. The district realized an increase of \$2.7 M for FY 2017-2018. This forecast assumes an additional increase of state funding of \$2.5 M for FY2018-19. For biennium budgets beyond, they have yet to be developed/approved, and this forecast is taking a conservative approach by assuming zero increases for those future budgets.
- Data from the negotiation of the Lorain Education Association (LEA) contract has been incorporated into the Forecast. This contract was approved May of 2016.
- Deductions for Students Attending Community Schools, Open Enrollment and Scholarship Programs: This forecast assumes that the District will continue to incur costs for deductions of cost related to Community Schools, Open Enrollment and Scholarship programs at a rate which increases costs by an additional \$1.5M per year through FY2022-23. This may be a conservative assumption in that during the past two fiscal years, the Community School cost increases have been significantly reduced.
- Career and Technical revenue increased from \$408,809 in fiscal year 2016-17 to \$731,853.86 in fiscal year 2017-18 and is assumed to increase to \$736,810 in fiscal year 2018-19 (projections from the Ohio Department of Education). The Career and Technical revenue is assumed to be held flat at \$736,810 through FY 2021-22.
- Health Insurance costs increased in January of 2018 by 17% with no increase to our rates until July of 2019 and then a 10% increase per year every year after is assumed.

TAX VALUATIONS

Tax valuations from the Lorain County Auditor for tax years 2016, 2017, and 2018 are listed below. Tax valuations are the basis by which millage rates are multiplied to achieve tax revenue for public entities through tax bills. Assessed tax valuations (35% of market value) for Lorain City Schools from the Lorain County Auditor are as follows:

Assessed Values from Lorain County Auditor

<u>Type of Property</u>	<u>Tax Year 2016</u>	<u>Tax Year 2017</u>	<u>Tax Year 2018</u>
Residential/Agriculture	426,316,300	424,806,010	424,347,670
Commercial/Industrial	114,790,310	114,882,480	116,274,050
Personal Public Utility	<u>20,638,810</u>	<u>24,784,730</u>	<u>26,150,500</u>
Totals	\$561,745,420	\$564,473,220	\$566,772,220

MILLAGE INFORMATION (General Fund)

	<u>Orig</u>		<u>Res/Agr</u>		
	<u>Year</u>	<u>Number of</u>	<u>Full</u>	<u>Effective</u>	<u>Last CY</u>
	<u>Voted</u>	<u>Years</u>	<u>Mills</u>	<u>Mills</u>	<u>Collected</u>
Inside Millage			3.44	3.44	
Current Expense	1976	Continuing	28.20	10.39	
Current Expense	1992	5 years	23.85	15.85	2021
Emergency Levy (\$3.1M)	2012	7 years	<u>6.00</u>	<u>6.00</u>	2019
Totals			<u>61.49</u>	<u>35.68</u>	

The explanation of millage data is as follows: Any **voted** millage (outside millage) is subject to House Bill 920 accounting. In the mid-1970s with extreme inflation, the state of Ohio legislated a bill (HB 920) whereby as housing valuations rose, the “effective mills” would decrease to make the net voted tax revenue equal to the revenue that was initially voted in. As a result, there are two levies listed above which have voted full mills at 28.20 and 23.85 respectively. However, the actual millage number being multiplied by tax valuation figures is 10.39 and 15.85 respectively...the “effective millage rate”. This means that the original voted millage for those two levies has been reduced by 50% of its original value because of inflation and HB 920.

Inside millage is millage that is “*inside the constitution of the state of Ohio*” and is allowed by law. It is not subject to HB 920 accounting. The inside millage of Lorain City Schools is 3.44.

REVENUES and OTHER FINANCING SOURCES

Forecast Line 1.010: General Property Tax Revenue (Real Estate)

General Property Real Estate tax revenues are realized by a school district by the assessed valuation of real property located within the school district. Real estate tax collection estimates are communicated to the school districts by the Lorain County Auditor.

The voters of the district passed a \$3.1M Emergency Real Estate Tax levy in November 2012. Twelve months of revenue is fully realized by fiscal year 2013-14. In fiscal years 2018-19 through 2021-22, it is assumed that real estate revenues will be reduced by \$100,000 per year because of reductions in tax valuations.

The forecast includes the revenues from the 23.85 mill Renewal levy which was passed by the District voters in November 2015. As previously mentioned, the 7-year 6.0 mill Emergency Levy passed in 2012 will expire with the last collection year being calendar year 2019, and the 7.18 mill, 6.77 mill, and the 9.90 mill 5 year current expense levies will expire with the last collection year being calendar year 2021. The reader will observe a reduction of revenue in fiscal year 2019-20 associated with the levy expirations. That levies are assumed to be renewed and tax revenue is added back into the forecast on line 11.020.

Real Estate (R/E) tax revenues are as follows in the forecast (in millions of dollars):

	Actual	Actual	Actual	Act/Fcst	Forecast	Forecast	Forecast	Forecast
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
R/E Rev	\$17.5	\$18.2	\$17.8	\$17.8	\$16.3	\$14.8	\$10.6	\$6.4

In millions of dollars



Renewal levy expiration.
Revenue assumed recovered on
line 11.020 of Five Year
Forecast.

REVENUES and OTHER FINANCING SOURCES

Forecast Line 1.020 Tangible Personal Property Tax Revenue

This category is paid by commercial/industrial property owners on the value of their inventory, furnishings and equipment. The state of Ohio is phasing out this local revenue source and has replaced it with a statewide Commercial Activity Tax (CAT). Beginning in fiscal year 2009-10, school districts no longer received this revenue other than Public Utility Personal Property tax revenue and that is also reducing. The state of Ohio reimbursed some of the lost revenue in a “hold harmless” manner via a Personal Property Tax Reimbursement (on forecast line 1.050), but the reimbursement does not reimburse 100% of lost revenue. Additionally, a new and important development was projected in the state of Ohio budget passed in June 2011 in that this Personal Property Tax Reimbursement phased out much sooner than previously projected for Lorain City Schools.

Further analysis about this segment of revenue reveals that a few years ago, Lorain City Schools was realizing over \$6M per year for Tangible Personal Property revenue (including the state of Ohio reimbursement). Because of the State phase out in favor of the Commercial Activity Tax (which is not realized directly by each school district), the revenue from this activity has gone from millions of dollars per year to just a few thousand dollars per year for Lorain City Schools.

This forecast assumes that PPT revenues will decrease by 5% per year because of tax valuation reductions in the school district. The reader of the forecast will see the expiration of the 7-year 6.04 mill Emergency Levy beginning in fiscal year 2019-20 and the expiration of the 7.18 mill, 6.77 mill, and the 9.90 mill 5 year current expense levies for a half year revenue loss in 2021-22 on forecast line **1.020** (and 1.010 and 1.050). That levies are assumed to be renewed and tax revenue is added back into the forecast on line 11.020.

REVENUES and OTHER FINANCING SOURCES

Forecast Line 1.020 Tangible Personal Property Tax Revenue (cont'd)

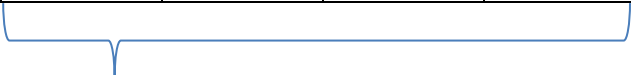
For comparison purposes, Personal Property Tax (PPT) revenues from fiscal year 2009-10 through fiscal year 2022-23 are shown below:

	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16
PPT Rev	\$3.8M	\$3.7M	\$.6M	\$.7M	\$795,040	\$843,185	\$1,083,403

In millions of dollars

	Actual	Actual	Act/Fcst	Forecast	Forecast	Forecast	Forecast
	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
PPT Rev	\$1,396,183	\$1,569,181	\$1,569,181	\$1,412,270	\$1,259,283	\$876,629	\$497,515

In Whole Dollars



Renewal levy expirations.
Revenue assumed recovered on
line 11.020 of Five Year
Forecast.

REVENUES and OTHER FINANCING SOURCES

Line 1.035 Unrestricted Grants in Aid (State Foundation)

SCHOOL FUNDING in the STATE OF OHIO

Overview of School Funding

In fiscal year 2014-15, the State of Ohio spent more on primary and secondary education than at any point in state history. FY 2014-15 State General Revenue Fund and Lottery Profit spending for primary and secondary education exceeded FY 2009-10 funding levels by nearly \$1.3 billion, or 17.8 percent. Even including one time federal-stimulus funding, TPP/KwH reimbursements, and property tax relief, FY 2014-15 funding levels exceeded FY 2009-10 funding levels by \$322.5 million, or 3.4 percent.

Am. Sub. House Bill 64 (HB64) continues to invest additional funds for primary and secondary education in the state of Ohio. Fiscal Year 2016-17 State General Revenue Fund and Lottery Profit spending for primary and secondary education exceeded FY 2014-15 funding levels by more than \$725 million, or 8.8 percent. Even including TPP/KwH reimbursements and property tax relief, FY 2016-17 funding levels exceeded FY 2014-15 funding levels by more than \$500 million, or 5.2 percent.

How School Funding is Distributed

Public school districts use a combination of state funds, local sources such as property taxes (and in some cases income taxes) and federal funds. The amount of state funds that a district receives is based on a formula that takes into account the student enrollment, the property wealth of the district and many other factors.

About School Funding

The Department of Education's General Revenue Fund budget represents the largest component of primary and secondary education. These funds, along with profits from the Ohio Lottery are used to fund Ohio's 611 public school districts, 49 joint vocational school districts, and approximately 381 public community schools. They also fund the activities of the Ohio Department of Education, including funding for early childhood education, pre-school special education, assessments, and the A-F report card.

In addition to state aid through the foundation program, many school districts (*Lorain City Schools is not one of these school districts*) receive reimbursements payments for lost property tax revenue caused by the phase out of the general business tangible personal property tax (TPP) and the reduction of property tax assessments rates on utility property (KwH). Finally, the state pays 10% of locally levied property taxes for residential and agricultural real property owners and an additional 2.5% for homeowners and represents property tax relief to individual property taxpayers in Ohio.

REVENUES and OTHER FINANCING SOURCES

Line 1.035 Unrestricted Grants in Aid (State Foundation)(cont'd)

District Payment Reports:

Payments to city, local and exempted village school districts are calculated from data reported by the district, such as the number of students enrolled in the district, and are made twice each month according to a schedule published each spring. Since the data are updated throughout the year, the annual amount due to the district is calculated for each payment and the district receives approximately 1/24th of the annual amount.

State Foundation Funding for Lorain City Schools

The state foundation revenue (line 1.035) for Lorain City Schools consists of two components. The first component is the summation of revenues from the Ohio Department of Education District Foundation Settlement Report which was effective as of the October 2017 payment #1 to Lorain City Schools. A detailed line-by-line explanation can be found on the ODE website. Specific revenue components pertaining to Lorain City Schools for fiscal year 2016-17 and 2017-18 are as follows:

	<u>ODE June 2018, #2</u> <u>FY2017-18</u>	<u>ODE September 2018, #2</u> <u>FY 2018-19</u>
Opportunity Grant	\$49,936,070	\$50,814,455
Targeted Assistance	16, 279,415	17,578,460
K-3 Literacy	929,718	957,930
Limited English Proficiency	652,348	671,961
Gifted Education	396,966	407,603
Transportation	911,572	911,170
Special Education Additional	10,720,067	10,775,088
Graduation Bonus	114,446	114,664
Third Grade Reading Bonus	29,710	23,223
Sub Total State Funding	\$79,970,312	\$82,254,554
Additional Items:		
Preschool Special Educ	599,448	602,646
<u>Special Education Transp</u>	<u>430,988</u>	<u>430,988</u>
TOTAL ALL FUNDING	\$81,000,748	\$83,288,188

The new biennium budget that was approved on June 30, 2017 provided an increase in state funding of \$2.7M for fiscal year 2017-18. As well as a projected additional \$2.5M for fiscal year 2018-19. The revenue figure of \$83,288,188 is held flat through fiscal year 2022-23.

REVENUES and OTHER FINANCING SOURCES

Line 1.035 Unrestricted Grants in Aid (State Foundation) (continued)

State Foundation Funding for Lorain City Schools

The second component of line 1.035 is revenue from the state of Ohio casinos. Conservative estimates are that school districts will receive \$50 per pupil per year. This forecast assumes August 2018 actual and projected January 2019 combined estimate of \$330,146 reduced by 5% each year after. Summarized totals for State Foundation revenue on line 1.035 are as follows:

	Actual	Actual	Actual	Act/Fcst	Forecast	Forecast	Forecast	Forecast
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Foundation	\$73.8	\$78.7	\$81.2	\$83.3	\$83.3	\$83.3	\$83.3	\$83.3
Casino	.3	.3	.3	.3	.3	.3	.3	.3
TOTALS	\$74.1	\$79.0	\$81.5	\$83.6	\$83.6	\$83.6	\$83.6	\$83.6

In millions of dollars

Line 1.040 Restricted Grants-In-Aid (Economic Disadvantaged and Career and Technical Funding)

The Economic Disadvantaged funding is provided to address poverty and its effects on educational outcomes.

Career-Technical Education programs in Ohio prepare students for success in college and in jobs that require a high level of technical skill. Students typically enroll in Career-Tech during their junior and senior years of high school. Some students also take Career-Tech courses during their freshman and sophomore years. Much information is available on the ODE website regarding Career and Technical Education programs.

Forecasted revenues for this line are a direct tie to the Ohio Department of Education Foundation Settlement Reports. These revenues are assumed to be held “flat” through fiscal year 2022-23. Forecasted revenues are as follows:

Both Economic Disadvantaged and Career and Technical funding act as a “*restricted grant inside the General Fund*”. Certain criteria must be met to satisfy the funding.

	Actual	Actual	Actual	Act/Fcst	Forecast	Forecast	Forecast	Forecast
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Econ Disad	6.1	7.6	7.5	7.9	7.9	7.9	7.9	7.9
Career/Tech	<u>1.3</u>	<u>.4</u>	<u>.7</u>	<u>.7</u>	<u>.7</u>	<u>.7</u>	<u>.7</u>	<u>.7</u>
Totals	\$7.4	\$8.0	\$8.2	\$8.6	\$8.6	\$8.6	\$8.6	\$8.6

In millions of dollars

REVENUES and OTHER FINANCING SOURCES

1.050 Property Tax Allocation

This category represents the Homestead and Rollback (HSRB) revenue the District receives from the State of Ohio. The State of Ohio partially pays for some of the locally levied property taxes for residential and agricultural real property owners and an additional amount for homeowners and represents property tax relief to individual property taxpayers in Ohio.

The Homestead Exemption program allows qualifying Lorain County residents to shield some of the market value of their home from taxation. The Exemption, which takes the form of a credit on property tax bills, allows qualifying homeowners a homestead reduction in taxes equal to the taxes on \$25,000 of the county auditor’s market value of their home from all local property taxes. For example, through the Homestead Exemption, a home with a county auditor’s market value of \$100,000 would be billed as if it is valued at \$75,000. The tax savings vary by taxing district, but is typically \$400-\$450 annually.

Under the Disabled Veteran – Enhanced Exemption, disabled veterans who qualify are entitled to a homestead reduction in taxes equal to the taxes on \$50,000 of the auditor’s market value of their home.

Property Tax Allocation projections are affected by the reappraisal/tri-annual updates and levy renewals. Estimates are calculated from historical data. This revenue from the state of Ohio is captured on line 1.050 of the Forecast. The reader of the forecast will see the expiration of the 7-year 6.04 mill Emergency Levy beginning in fiscal year 2019-20 and the expiration of the 7.18 mill, 6.77 mill, and the 9.90 mill 5 year current expense levies for a half year revenue loss in 2021-22 on forecast line **1.050** (and 1.010 and 1.020). That levy is assumed to be renewed and tax revenue is realized back into the forecast on line 11.020.

The detail of forecast line 1.050 (Property Tax Allocation Revenues) is as follows:

	Act	Act	Act	Act/Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
HSRB	\$2.8	\$2.8	\$2.8	\$2.8	\$2.6	\$2.4	\$1.8	\$1.2
Totals	\$2.8	\$2.8	\$2.8	\$2.8	\$2.6	\$2.4	\$1.8	\$1.2

In millions of dollars

Renewal levy expirations.
Revenue assumed recovered on
line 11.020 of Five Year Fcst

REVENUES and OTHER FINANCING SOURCES

1.060 Other Miscellaneous Revenues

The following revenues are miscellaneous with the larger revenues being Open Enrollment “In” from other school districts (students open enrolled to Lorain City Schools), and Indirect Costs which is “Administrative Revenue” to cover costs to operate Federal Grants.

	Act	Act	Act	Act/Fcst	Fcst	Fcst	Fcst	Fcst
	<u>FY15-16</u>	<u>FY16-17</u>	<u>FY17-18</u>	<u>FY18-19</u>	<u>FY19-20</u>	<u>FY20-21</u>	<u>FY21-22</u>	<u>FY22-23</u>
Tuition (1219)	17,253	17,089	4,119	3403	3403	3403	3403	3403
Tuition (1221)	61,642	51,583	161,021	155,266	155,266	155,266	155,266	155,266
Tuition (1223)	168,884	88,668	127,199	68,342	68,342	68,342	68,342	68,342
Open Enroll	722,511	640,601	636,922	703,147	703,147	703,147	703,147	703,147
Interest Income	9,079	118,960	346,231	322,431	229,162	47,199	0	0
PSEO	0	0	0	0	0	0	0	0
Rentals	59,555	129,721	85,364	80,000	80,000	80,000	80,000	80,000
Misc	0	0	0	0	0	0	0	0
PPT Exempt	0	2,582	11,830	11,830	11,830	11,830	11,830	11,830
Misc	102,718	65,574	82,385	65,000	65,000	65,000	65,000	65,000
Indirect Cost	204,255	318,653	406,250	309,672	294,189	279,479	265,505	252,230
Insur Proceeds	0	108,918	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Federal	67,061	68,703	65,348	65,000	65,000	65,000	65,000	65,000
Medicaid	200,207	367,213	493,953	300,000	300,000	300,000	300,000	300,000
TOTALS	1,613,166	1,978,265	2,420,623	2,084,091	1,975,339	1,778,666	1,717,493	1,704,218

In Whole Dollars

Line 2.010 Proceeds from Sale of Notes (Tax Anticipation Notes)

As mentioned earlier, Lorain City Schools borrowed against its two recently passed levies: the Renewal levy passed in May 2011 and the Emergency levy passed in November 2012. The proceeds realized from the sale of these TANs were \$4,793,000 (in fiscal year 2010-11) and \$3,126,190 (in fiscal year 2012-13). The debt on the notes will be paid off over five (5) years for each. Principal and interest payments to pay back those loans are listed separately in lines 4.020 and 4.060 respectively. The reader will notice that beginning in fiscal year 2018-19, all TAN loans are paid off.

REVENUES and OTHER FINANCING SOURCES

Line 2.050 Advances In

This line captures any cash advances repaid back to the General Fund from other funds. It correlates with the “Advances Out” (line 5.020) in that “Advances Out” in one year are “Advances In” during the next fiscal year. The General Fund typically “advances” cash to other funds (i.e. federal grants) at year end until that fund’s cash timing catches up and returns those funds back to the General Fund. The “advancing” is required by Ohio law.

	Act	Act	Act	Act/Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Advance In	1,140,416	580,503	1,344,203	465,772	1,200,000	1,200,000	1,200,000	1,200,000
Total In	\$1,140,416	\$580,503	\$1,344,203	\$465,772	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000

In Whole Dollars

EXPENSES and OTHER FINANCIAL USES

Schoolwide and Consoldated Pooling

The district has moved to a schoolwide pooling model for most instructional purchases. This resulted in the creation of the 598 account which is where general funds and title funds are pooled to support the instructional direction of the district.

Districts that operate Title 1 schoolwide programs (which allow for comprehensive reform strategies to improve the academic achievement of all students in the school) may consolidate and use federal, state, and local funds to upgrade the entire educational program of a school.

Eligibility

School enrollment is at least 40% low-income students.

Pooling Purpose and Benefits

Consolidation of various grant funds give district/school leaders a total amount of funding available to serve their unique needs within each school building. District /School leaders that operate schoolwide pooling within their buildings have the ability to focus on and budget against their collective needs rather than having to focus on and budget against individual program/grant amounts and requirements. In other words, with consideration of funds, the focus is first on the needs rather than the focus being first on individual grant amounts and rigid requirements.

Benefits include:

- One budget
- One plan
- Leverage of resources and flexibility of using of funds
- Quicker rate of spending down federal funds

What Impact Does Schoolwide Pooling Have on the Forecast?

For expenditure lines 3.010-3.040 (Personal Services, Employee' Retirement/Insurance Benefits, Purchased Services, and Supplies and Materials), about \$42.1M are now being expended in the 598 fund. So those lines have been significantly reduced. The other line on the forecast impacted by Schoolwide Pooling is line 5.010 Operating Transfers-Out. This is due to the transferring of the general fund portion of the Schoolwide pool to the 598.

Line 3.010 Personal Services

A new LEA 3-year contract was negotiated and approved by the Lorain City Schools Board of Education in May 2016. The provisions of that new contract have been incorporated into this forecast.

After individual budget meetings with LCS Leadership in the spring of 2018, the District is scheduled to add personnel to the current employee base to shore up areas of need, and to comply with certain Collective Bargaining Agreements. Those additions of personnel have been incorporated into this Forecast.

Personal Services salary and wage related costs are as follows:

	Act	Act	Act	Act/Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Personal Services	\$41.9	\$44.1	\$45.7	\$19.9	\$15.5	\$15.9	\$16.3	\$16.8

In Millions of Dollars

Line 3.020 Employees' Retirement and Insurance Benefits

This line captures costs paid by Lorain City Schools for employee retirement costs, medical insurance, dental and prescription drug insurance, life insurance, workers compensation, unemployment, and Medicare costs. Retirement costs for the State Teachers Retirement System (STRS) and School Employees Retirement System (SERS) are assumed to correlate to changes in salaries and wages every January and July respectively. The collective bargaining agreement between the Lorain Education Association and the Lorain City Schools Board of Education was approved in May 2016. The current agreement expires on July 31, 2019. Scheduled provisions of that CBA have been incorporated in this agreement.

With the transition away from the Health Trust to the Lake Erie Regional Council the medical Insurance costs showed an increase of 19% over prior year costs. Which was far less than the projected increase within the trust. The rates are locked until July of 2019. The medical rates beyond that are then based on an analysis completed by the LERC in the spring of each year, and are expected to increase at a rate of 10% for every year after in this Forecast. Medical insurance cost assumptions change every July. District cost increases associated with the Federal Affordable Health Care Act (ACA) are rising and may not be fully known at this time as the country sorts through all the requirements.

Employee retirement and insurance benefits are as follows:

	Act	Act	Act	Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Benefits	\$14.5	\$15.2	\$17.3	\$8.2	\$7.1	\$7.3	\$7.6	\$8.1

In Millions of Dollars

Line 3.030 Purchased Services

These expenses include services purchased from outside sources and include professional, technical, legal, data processing, electricity, natural gas, trash collection, water, telephone services, travel, meetings, craft, trade, postage, property insurance, rentals, leases, printing and binding, tuition paid to other districts, excess costs, student transportation, and other miscellaneous purchased services costs. Also captured in Purchased Services are deductions for Community Schools, Open Enrollment and Scholarship Transfers.

Another large and unpredictable set of costs are those associated with Community Schools, Open Enrollment (out to other districts) and Scholarship Programs. This forecast assumes that costs associated with that trio of costs increases by \$1.5M per year. The \$1.5M cost increase per year is captured on the row labeled “Increase in C/S, O/E, Vouchers” in the table below. There is a cumulative year-by-year effect of those cost increases should they occur. Purchased Services costs are as follows:

	Act	Act	Act	Act/Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Purchased Services (All Other Costs)	9.7	11.6	11.9	12.8	12.6	12.8	12.6	12.8
Community Schools	17.5	17.2	17.2	17.6	17.6	17.6	17.6	17.6
Open Enrollment (Out)	5.6	6.1	6.3	6.3	6.3	6.3	6.3	6.3
Scholarship Programs	4.4	5.7	5.5	5.7	5.7	5.7	5.7	5.7
Increase in C/S, O/E, Vouchers				1.6	1.5	3.0	4.5	6.0
Total Purchased Services	\$37.2	\$40.6	\$40.9	\$44.0	\$43.7	\$45.4	\$46.7	\$48.4

In Millions of Dollars

EXPENSES and OTHER FINANCIAL USES

3.040 Supplies and Materials

This line includes instructional supplies for students, office supplies, teaching aids, software, textbooks, library books, newspapers, periodicals, supplies for maintenance and repair of land, buildings, equipment, and furniture, and gasoline costs. Large fluctuations over the years are mainly due to the timing of textbook purchases and repairs for buildings. Fiscal year 2016-17 includes an increase in supplies and materials for instructional materials for students. Text book replacements have been added on a yearly basis starting in Fiscal year 2016-17. The school district has a blend of hard cover text books and e-books and associated software and computers for students. Replacement costs are expected to occur to keep curriculum current. There are other costs added for increases in Art and Physical Education supplies beginning in fiscal year 2016-17. Other costs in this category correlate to the Career and Technical program. Cost assumptions are as follows:

	Act	Act	Act	Act/Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Supplies and Materials	\$1.4	\$2.4	\$2.6	\$1.6	\$1.6	\$1.6	\$1.6	\$1.6

In Millions of Dollars

3.050 Capital Outlay

This line captures technical equipment and capital fixed asset costs in excess of \$5,000 per item and includes costs for land, existing buildings, equipment, vehicles and other fixed assets. Some costs are replacement costs for vehicles in the fleet. Other costs are associated with the Information Technology department to replace outdated equipment (personal computers, servers, and other infrastructure, etc.) The large cost increase in FY 2016-17 is due to costs associated with the Lorain City Schools Administration Building.

	Act	Act	Act	Act/Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Capital	\$.4	\$3.1	\$1.6	\$1.2	\$.6	\$.6	\$.6	\$.6

In Millions of Dollars

EXPENSES and OTHER FINANCIAL USES

4.020 Debt Service Principal

In May 2011, the voters approved a 23.85 mill (voted millage) renewal levy. The district borrowed \$4,793,000 against that levy over five years. Principal paybacks will be incurred for five years beginning December 1, 2012 at \$958,600 per year plus interest.

In November 2012, the voters approved a \$3.1M, 7-year Emergency Levy. The school district made the decision to also borrow \$3,126,190 against those tax levy revenues with principal debt payments beginning December 1, 2013 and continuing for four more years at \$625,238 per year plus interest. The entire debt forecast for principal payback is as follows:

Debt Payments on Principal

	Act	Act	Act	Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
2011 Debt	.96	.96						
2013 Debt	.62	.62	.62					
Totals	\$1.58	\$1.58	\$.62	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

In Millions of Dollars

4.060 Interest and Fiscal Charges

This line captures the interest associated with the loans mentioned in line 4.020. Those interest charges are as follows:

Interest Cost on Listed Tax Anticipation Note (TAN) Loans:

	Act	Act	Act	Act/Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
on \$4.M Loan	41,699	13,900						
on \$3.1M Loan	30,480	18,288	6,097					
Other Costs	127							
Totals	\$72,306	\$32,188	\$6,097	\$0	\$0	\$0	\$0	\$0

In Whole Dollars

EXPENSES and OTHER FINANCIAL USES

4.300 Other Objects Costs

This line captures expenses not otherwise classified such as audit fees, bank charges, liability insurance (which is what accounts for the increase from FY2018 to FY2019), tax collection fees from the Lorain County Auditor and other dues and fees. Expense assumptions are as follows:

	Act	Act	Act	Act/Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Other Objects	\$740,250	\$884,060	\$909,532	\$958,422	\$1,047,475	\$1,047,475	\$1,047,475	\$1,047,475

In Whole Dollars

5.010 Operational Transfers-Out

This line captures monies transferred to other funds from the General Fund to cover those respective costs which are not self-funding, and cannot be in a negative balance (by law) at June 30th of any year. Additional costs have been added for Athletic program expansion. The school wide pooling transfer is included for FY18-19. For fiscal year 2015-16 through fiscal year 2022-23, below are the forecasted Operational Transfers-Out:

In Millions of Dollars

	Act	Act	Act	Act/Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Athletics	\$.8	\$.8	\$ 1.3	\$.8	\$.8	\$.9	\$.9	\$.9
School Wide				\$42.1	\$50.3	\$51.8	\$53.4	\$55.0
Totals	\$.8	\$.8	\$ 1.3	\$ 42.9	\$ 51.1	\$ 52.7	\$ 54.3	\$ 55.9

REVENUE from REPLACEMENT / RENEWAL LEVIES

5.020 Advances-Out

This line captures cash outflows from the General Fund which are temporary in nature. This normally occurs at the end of the fiscal year when other funds in the district are “negative” because of cash timing issues. These advances from the General Fund are repaid normally in the following month (July) and come back into the General Fund on line 2.050 “Advances-In”. Federal and State grants are the normal recipient of these advances.

	Act	Act	Act	Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Advances Out	\$.6	\$ 1.3	\$.5	\$ 1.2	\$ 1.2	\$ 1.2	\$ 1.2	\$ 1.2

In Millions of Dollars

Line 11.020 Property Tax Renewal or Replacement

As mentioned in lines 1.010 General Property Tax (Real Estate), 1.020 Tangible Personal Property Tax, and 1.050 Property Tax Allocation, this forecast shows the \$3.1M, 7-year Emergency levy is expiring in fiscal year 2019-20 and the 7.18, 6.77, 9.90 current expense levies expiring halfway through fiscal year 21-22. Lines 1.010, 1.020 and 1.050 are all affected as revenues were deducted. Line 11.020 anticipates that the 7-year, \$3.1M levy (which is expiring with last collection year of 2019) and the 7.18, 6.77, 9.90 current expense levies (which is expiring with a half a year collection year of 2022) are passed by the voters, and the revenue is added back into the forecast on line 11.020.

	Act	Act	Act	Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Anticipated Passed Levy					\$ 1.7	\$ 3.4	8.4	13.3

In Millions of Dollars

SUMMARY

Lorain City Schools has experienced severe financial struggles since 2007. Examination of history reveals that the school district completed Reductions-In-Force (RIF) in 2007 and in the spring of 2012 to help relieve some of the financial pressures. The tax payers of the District passed a levy in November 2012 which was the first “new money levy” passed since the early 1990s (excluding the facilities construction project). However, that “new money levy” was not enough to eliminate projected deficits in future years.

Adding to the financial challenges is the proliferation of Community Schools since the year 2000. In fiscal year 2017-18, funding transferring to Community Schools from Lorain City Schools totaled over \$17.2M, and is projected to grow further. Also, the U.S. wide recession of 2007 had a negative financial impact on the school district in the area of Real Estate Tax revenue but the market is starting to bounce back.

Additional funding from the state of Ohio along with the passed 2012 levy and better and more precise forecasting processes have helped to mitigate the financial issues. The State of Ohio approved a new biennium budget on June 30, 2017, and additional incremental revenues to Lorain City Schools are \$2.7M in FY2017-18 and are projected to be an additional \$2.5M in FY2018-19.

More stringent cost controls and projects designed to reduce cost and time have been or are in the process of being implemented by the leadership team. Although certainly not fully remedied, the school district is beginning to experience a more favorable financial position, especially if the school district can mitigate the funding flowing to Community Schools. The Five Year Forecast is showing a positive fund balance every year through fiscal year 2020-21. Opportunities to show further positive ending balances (beyond fiscal year 2021-22) are available with the next state of Ohio biennium budget as those increases (if any) are not included in this Forecast.

The Five Year Forecast “bottom line” is line 15.010 and is forecasted as follows:

Line 15.010 Fund Ending Fund Balances

	Act	Act	Act	Fcst	Fcst	Fcst	Fcst	Fcst
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Fund Balances	9,307,651	14,430,423	17,018,077	16,117,255	11,547,777	1,116,461	(14,890,361)	(40,315,841)

In Whole Dollars