Reading Community City School District
Five-Year Forecast Update – October 20, 2021

Colette Lewis, Treasurer

Ensuring transparent and responsible use of district resources to provide the highest quality education for our students.

What is a Five-Year Forecast?

The intent is to provide the district's financial trend over five years and it is the roadmap to help make decisions that are financial sustainable.

Objectives for the five-year forecast are:

1. To engage stakeholders regarding the school district's finances
2. To serve as a basis for determining the school district's ability to sign a "412 certificate" required by O.R.C. §5705.41
3. To provide a method for ODE and the Auditor of State to identify school districts with potential financial problems

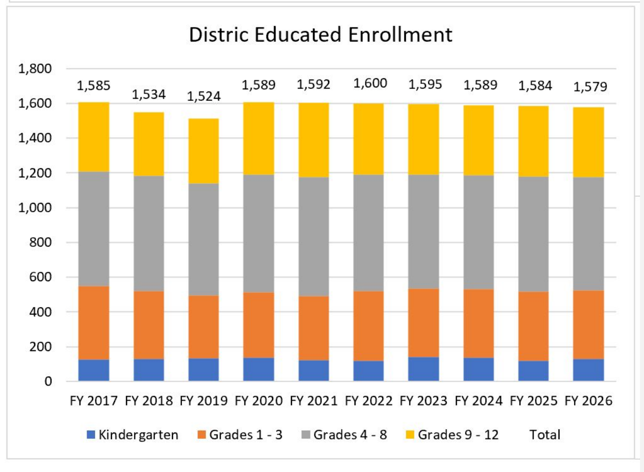
Forecast Methodology:

1. This forecast is prepared based upon historical trends and current factors.
2. The information is then extrapolated into estimates for future years and variables can change multiple times throughout the fiscal year.

By law every Board of Education is required to approve a five-year forecast and it must be submitted to ODE in May and November.

Forecasts are constantly changing and adapting to the needs of the district.

Five-Year Forecast – FSFP



Beginning in FY 2022 Ohio adopted the Fair School Funding Plan (FSFP)

- Funding is driven by a base cost methodology that incorporates the four components identified as necessary to the education process.

  - Direct Classroom Instruction, Instructional & Student Support, Building Leadership & Operations, Leadership & Accountability

- The Base Cost is currently calculated for two years using a statewide average from historical actual data.

- The FSFP change to district educated enrollment.

- Tuition expense for community schools, open enrollment out, STEM, scholarships, and EdChoice are no longer incurred as expenses in FY 2022.

FY 2022 and 2023 are based on the simulations for the Fair School Funding Plan and State aid has been projected to be flat beyond FY23.

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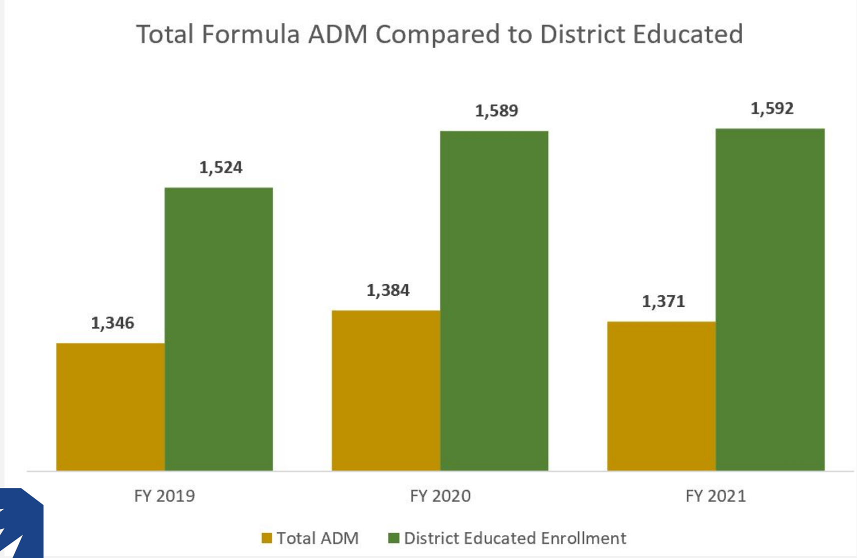
Five-Year Forecast – FSFP

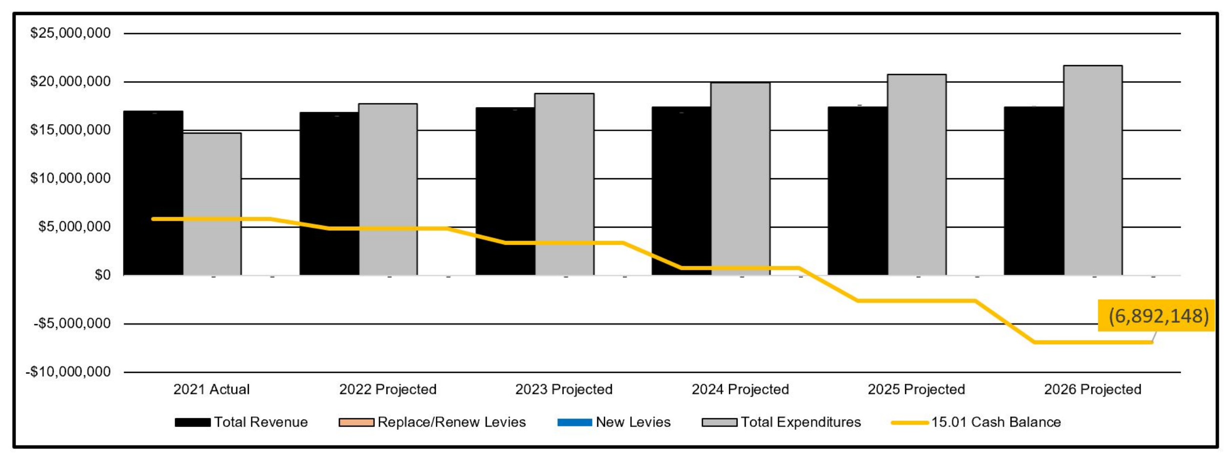


One of the biggest changes that Ohio made to per pupil funding is the definition of enrollment. Starting in FY 2022 Ohio will use "district educated" enrollment which is comprised of resident students attending and open enrollment "in" students. In prior funding formulas the district total/ formula ADM was used to calculated state funding. However, at the same time, the district will not be expensing tuition to pay for these students and therefore expenses will be lower.

These changes are expected to have a net positive impact and are incorporated into the forecast.

Note: Total ADM includes community school, open enrollment "out", scholarships, STEM.

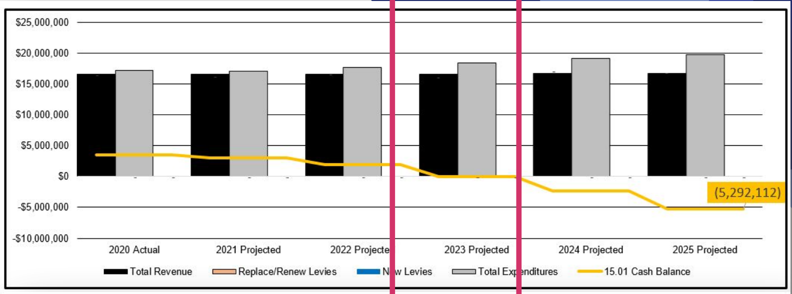
Executive Summary



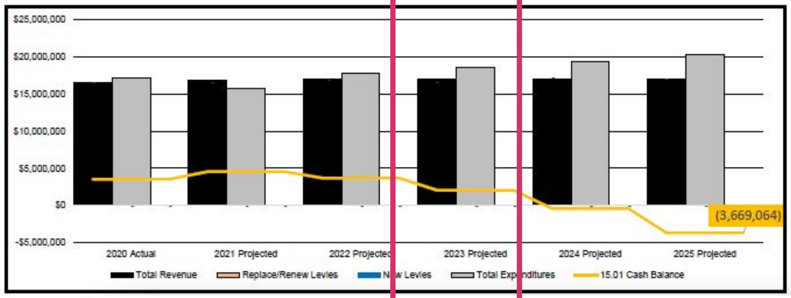
In FY 2022 a revenue shortfall is expected. This means that expenditures are expected to be greater than revenue by $924,712 in FY 2022. By the last year of the forecast, FY 2026, the district is expected to have a revenue shortfall where expenditures are projected to be greater than revenue by ~$4,255,000.

The district would need to cut its FY 2026 projected expenses by 19.64% in order to balance its budget without additional revenue. Budget Reductions and ESSER Funds provided relief to the district allowing the Board of Education to postpone a request for new operating funds, however, the district should begin planning for new operating funds in calendar year 2022.

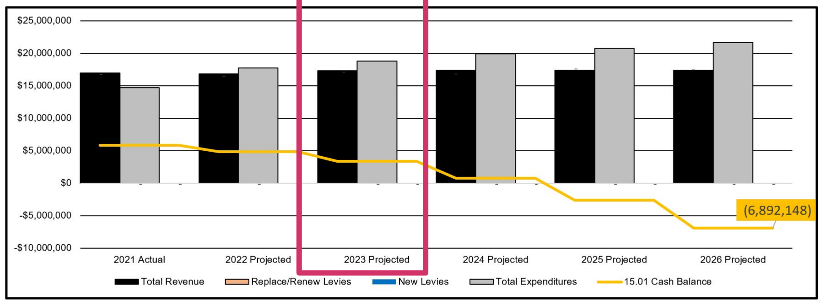
November 2020 Submission Forecast



May 2021 Submission Forecast



November 2021 Submission Forecast



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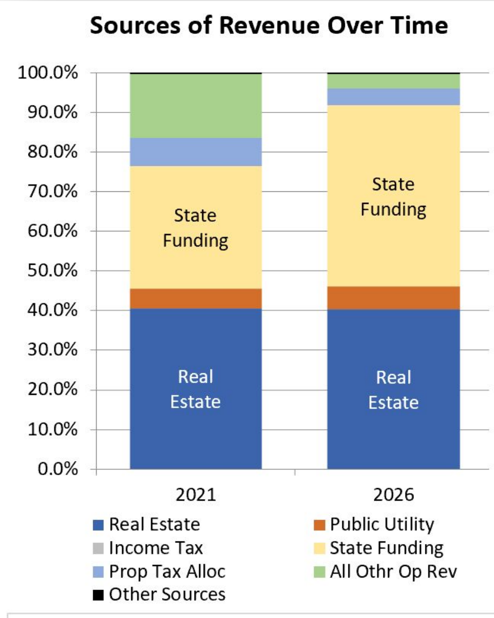
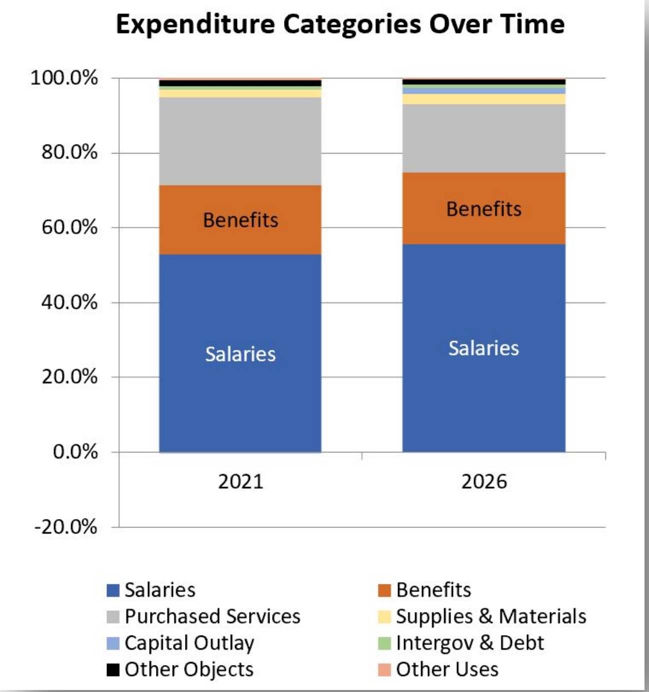
* The last two years in the forecast indicate there is still a need for an operating levy in the near future.

Revenue



- Total revenue is anticipated to increase 0.56% or $96,739 annually through FY 2026.
- State Funding has the most projected average annual variance compared to the historical average at $549,292
- The forecast assumes that the revenue will remain similar to FY2023 and the FSFP will remain intact.
- For the first two years of the State budget schools will be held harmless against any reduction in revenue. The forecast does not anticipate any additional revenue for the Duke Pipeline project of the TIF on the Dow Property.
- The District relies heavily upon State support for revenue. With the implementation of HB110 the District will need to study how the change in open enrollment funding will affect the five-year forecast.

Expenditures



- **Total expenditures are projected to increase 9.53% or $1,398,310 annually through FY 2026.**
- **Salaries have the largest projected average annual variance compared to the historical average at $1,247,364.**
- **$100,000 for Curriculum adoption is included in each year of the forecast.**
- **Capital Outlay anticipated to increase each year of the forecast for additional needs.**

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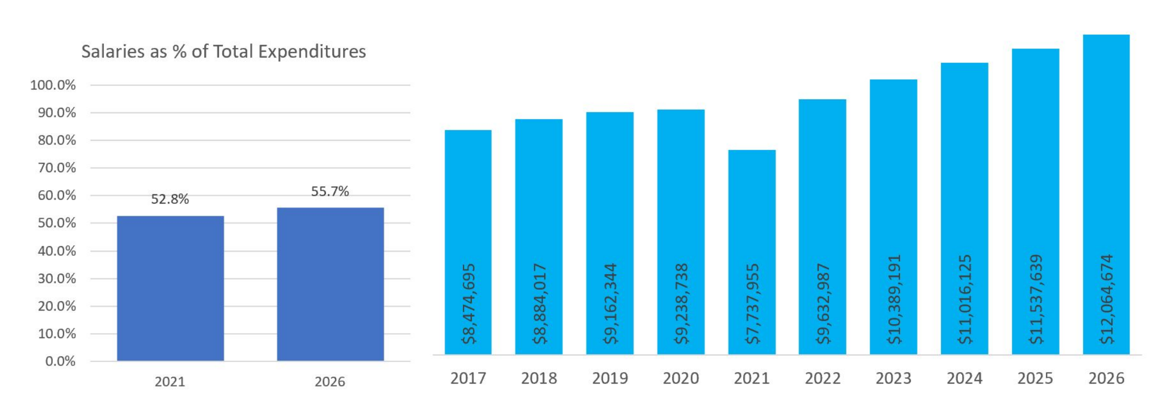
Salaries and Staffing Assumptions



Salaries represent 52.75% of total expenditures and is projected to grow at an annual average rate of 7.92% or $865,344 through FY 2026.

During negotiations the staff has agreed on the following base salary increases 0% in FY 2020 and FY 2021, 2.5% in FY 2022, and 2.0% in FY 2023. The current forecast assumes a 2% increase FY 2024 – FY 2026 and incorporates step increases as well.

This forecast assumes stable staffing and a traditional pattern of teachers eligible for retirement replaced by teachers with less experience. Major shifts in programming and/or delivery models resulting in additional staff will significantly impact this forecast.

The district will also need to consider reevaluating all salary schedules to be more sustainable and competitive with the marketplace.

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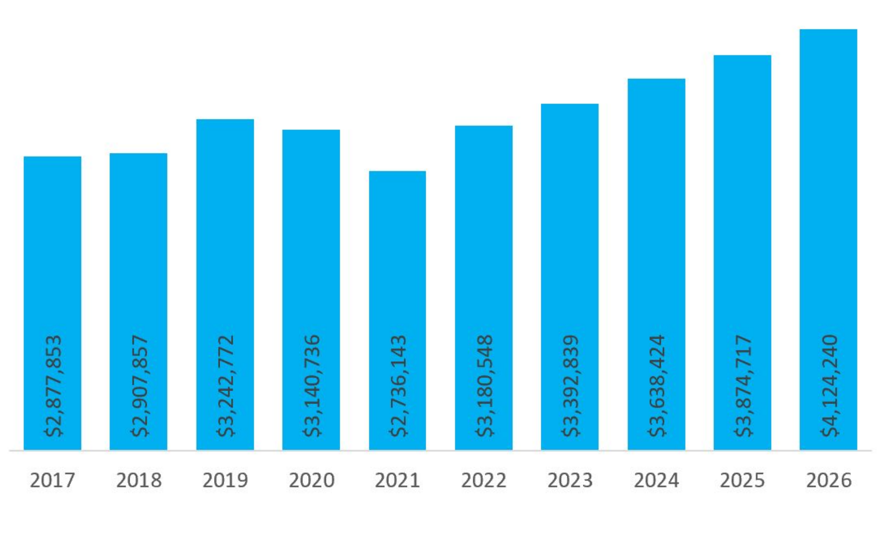
Staff Benefit Assumptions

Staff benefits make up 19% of the total budget.



Benefits represents retirement for all employees, Workers Compensation, early retirement incentives, Medicare, unemployment, and all health-related insurances.

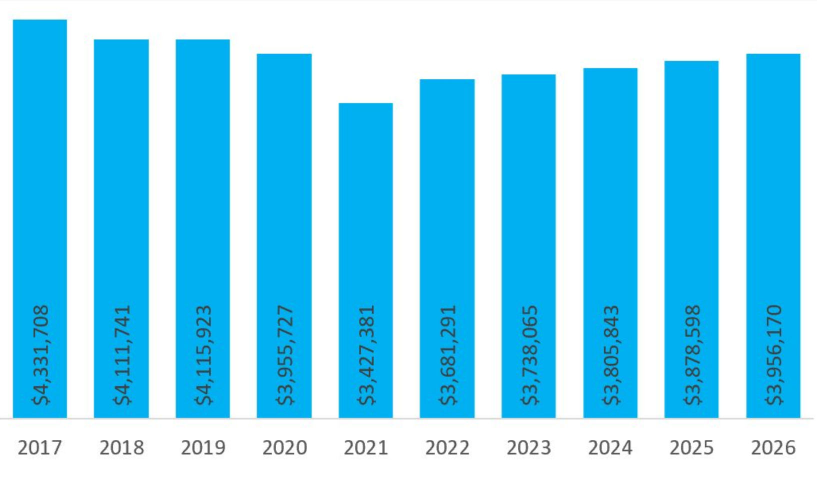
Staff benefits represent the cost of employee retirement, health, dental, and life insurance. The cost consist mostly of employer retirement contributions (14%) and employer paid health insurance premiums (85%).

Health insurance reflects a 4.0% increase (actual) in FY 2021, 1% increase (actual) in FY 2022, and an increase of 9.0% through FY 2026. If insurance does not increase by 9% this will result in a positive impact to the forecast.

This category of expenditure is projected to grow at an annual average rate of 9.51% through FY 2025.

Purchased Services

Purchased Services make up ~20% of the total budget



Purchased Services represent 23% of total expenditures. This category of expenditure is projected to grow at an annual average rate of 2.77% through FY 2026.

This forecast also incorporated an additional support personnel for a study hall monitor for grades 7-12 for FY 2022.

The pandemic has caused additional concerns around labor cost and the future impacts are unknown, therefore, not incorporated into the forecast.

Abbreviated Forecast

Financial Forecast	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026
Beginning Balance	5,797,214	4,872,502	3,352,249	786,287	(2,637,355)
+ Revenue	16,808,297	17,268,019	17,367,542	17,353,137	17,405,683
+ Proposed Renew/Replacement Levies	-	-	-	-	-
+ Proposed New Levies	-	-	-	-	-
- Expenditures	(17,733,009)	(18,788,272)	(19,933,505)	(20,776,779)	(21,660,475)
= Revenue Surplus or Deficit	(924,712)	(1,520,253)	(2,565,963)	(3,423,642)	(4,254,792)
Ending Balance with renewal levies	4,872,502	3,352,249	786,287	(2,637,355)	(6,892,148)
Note: Not Reduced for Encumbrances					

Analysis Without Renewal Levies Included:

Revenue Surplus or Deficit w/o Levies	(924,712)	(1,520,253)	(2,565,963)	(3,423,642)	(4,254,792)
Ending Balance w/o Levies	4,872,502	3,352,249	786,287	(2,637,355)	(6,892,148)

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Summary and Next Steps

Key Components:

- FY2020: BOE approved reductions of ~$1.8 million to be implemented prior to FY 2021
- FY2021: The district's cash balance is positive at year-end in FY 2021 due to supplanting of the ESSER funds
- FY2022: The SWSF expenses are incorporated back to the General Fund as these funds are no longer separated
- FY2022: FSFP implemented thru FY 2023, school districts are held harmless for the first two years
- FY2024: The forecasted cash balance at year end of FY 2024 is less than a month worth of expenditures
- Duke Pipeline: This forecast is not accounting for any revenue from the Duke Pipeline project
- TIF: No additional funds have been incorporated for the TIF associated with the DOW property; timeline unknown

Additional Considerations:

Previous five-year forecast assumptions have indicated a need for additional funds. However, the Board of Education approved reductions worth ~$1.8M for FY2021 to avoid an operating levy during a pandemic. In addition, the district received unexpected federal grants that provided direct relief to the general fund. **As previously discussed, the negative cash balance in year FY 2025 of the forecast is an indicator that levy planning should begin and be considered in calendar year 2022.**

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