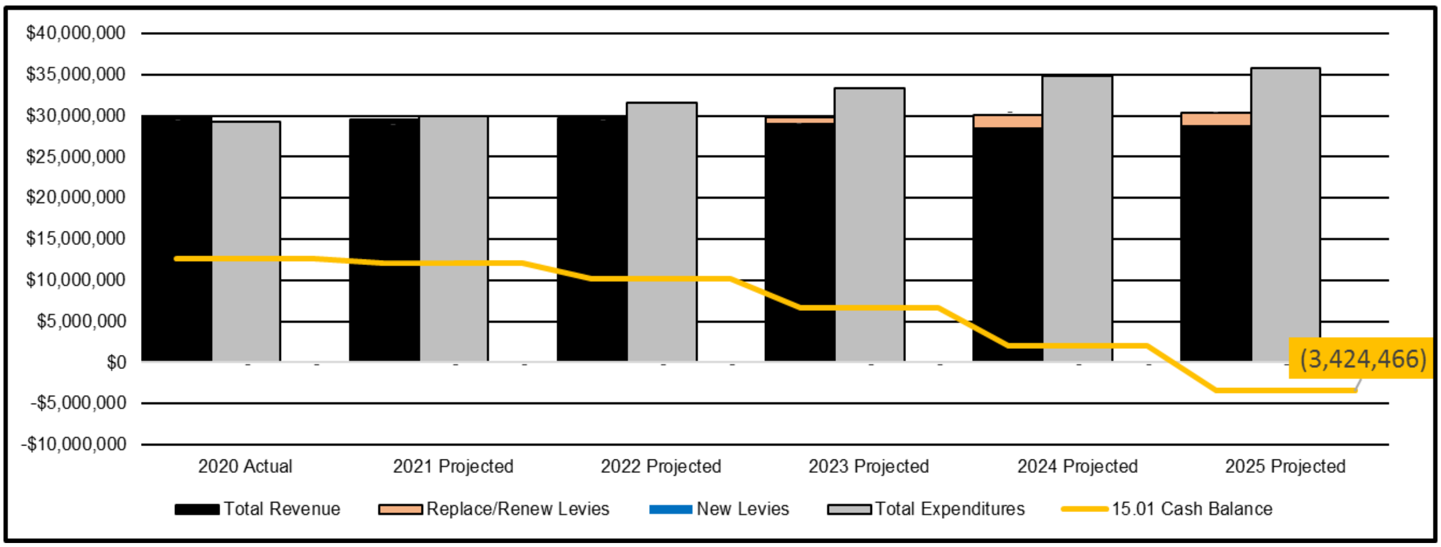
Defiance City School Five Year Forecast
November 2020

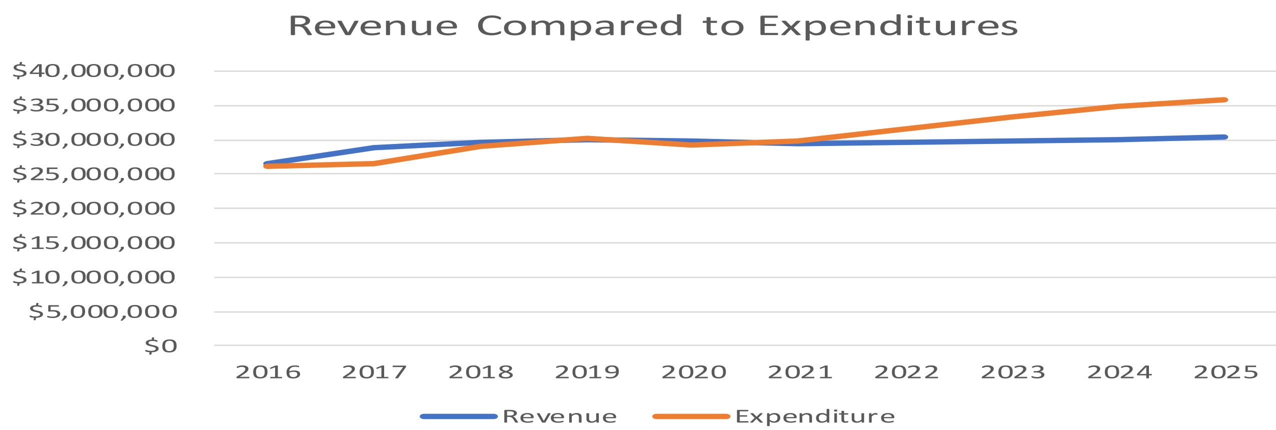
EXECUTIVE SUMMARY

The below chart is an executive summary that outlines a simplified statement of the five-year forecast. It takes revenues, plus levies not passed, minus expenses and shows whether the District is in a Surplus or Deficit situation. The District passed a $1.58 million levy in May 2017. The renewal for that levy will be in Fiscal Year (FY) 2023 (on the ballot in November of 2022). If renewed, the levy will begin collection January 2023.

In FY 2021 a revenue shortfall is expected. This means that expenditures are expected to be greater than revenue by $444,563 in FY 2021. By the last year of the forecast, FY 2025, the district is expected to have a revenue shortfall where expenditures are projected to be greater than revenue by $7,095,052. The district would need to cut its FY 2025 projected expenses by 19.80% in order to balance its budget without additional revenue. The district's cash balance is positive at year-end in FY 2021 and is projected to worsen by FY 2025. A worsening cash balance can erode the district's financial stability over time.

These illustrations demonstrate how this impacts the District.





Note: Includes Renewal of Existing Levies

Defiance City School Five Year Forecast
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REVENUE OVERVIEW

Lines 1.01 and 1.02 are Class I and Class II property tax collections. In FY18-FY20, line 1.01 had an average increase of .78% and line 1.02 2.94%. Forecasting forward from FY21-FY25, Line 1.01 has an average increase of 1.36%, and line 1.02 has an average increase of 1.64%.

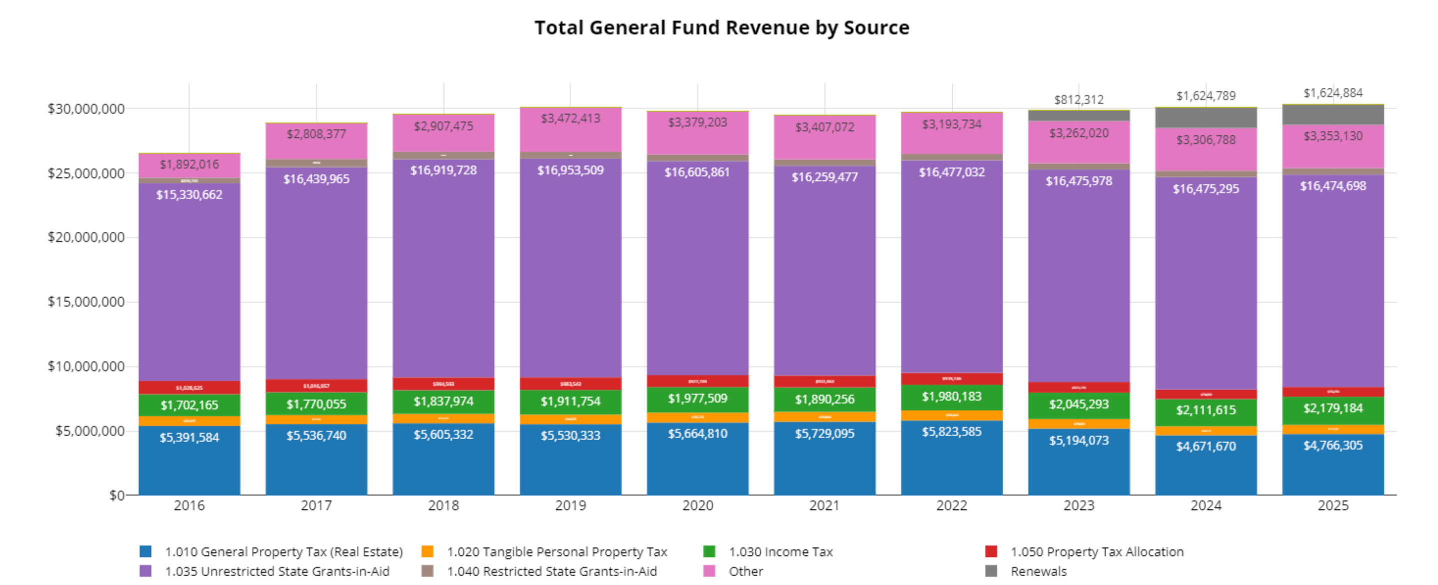
Line 1.03 is an income tax which is a tax collected based on earned wages from residents of the District (regardless of where they work) and flows to the District quarterly from the Ohio Department of Taxation. The past 3 years, the collection has been an average increase of 3.76%. It is only projected to increase of 2.02% for FY21-FY25 as a result of some years having a lower collection due to current pandemic and unemployment rate.

Line 1.035 is the funding the District receives from the Ohio Department of Education (ODE) based on the biennium budget set by the Governor of Ohio. In FY20 the Governor cut the schools funding by $359,293 in May of 2020. FY21 is forecast at that same reduction, minus adjustments for funding outside the formula.

Line 1.04 and 1.045 are Restricted Aid. Restricted aid is money the District receives from ODE but is set aside for a specific purpose and that allocation must be spent on that specific area. Restricted aid is mainly made up of economic disadvantaged and career tech funding and that amount is based on student demographics and enrollment.

Line 1.05 Property tax allocation is the revenue the District receives from the State for taxes that the State has reduced or discontinued that had a significant impact on School District's tax base. This line includes Homestead and Rollback credits as well as Tangible Personal Property (TPP) that businesses paid.

Line 1.06 All other Operating revenue is difficult to forecast based on past trend lines because it includes one-time payments that can skew the average percentage. It is 9.7% of the total revenue for the District. The chart shows the breakdown of how much revenue the District receives and from where.



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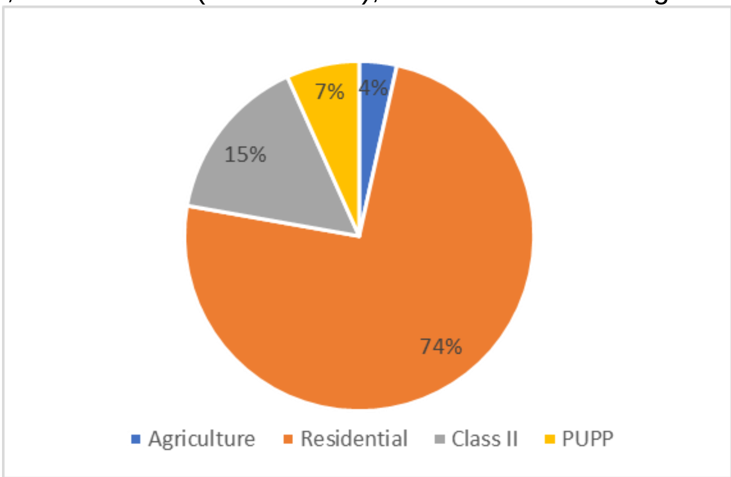
November 2020

REVENUE ASSUMPTIONS

1.01/ 1.02 Taxes (Real Estate and Public Utilities Personal Property - PUPP):

Real Estate (Property Taxes):

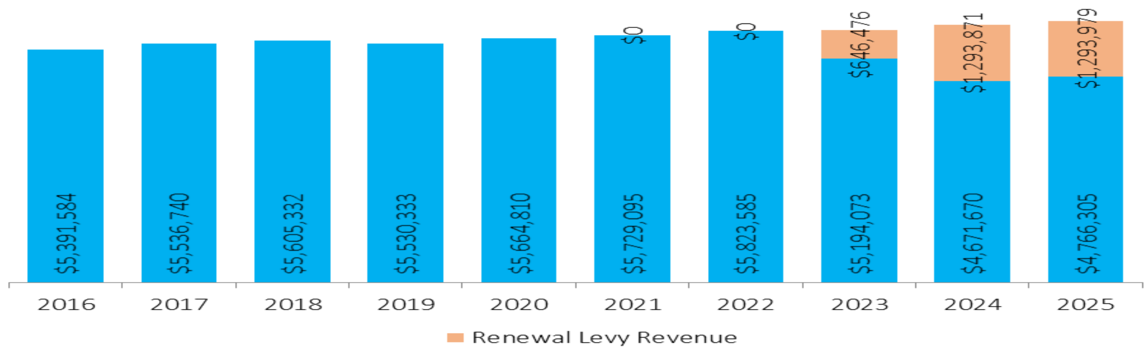
Real Estate contributes about 19% to overall funding (includes lines 1.01 and 1.02). The District's tax base consists of 74% Residential, 15% Class II (Commercial), 7% PUPP and 4% Agriculture.



There are only two elements that affect change in the valuation of a District. Those two elements are Reappraisal/Updates (Including Board of Revision complaints) and New Construction. The District is currently in a Triennial update in TY2020 (collected in TY2021). That increase is forecast at a valuation change of 4.1%. Tentative valuation increases for Defiance County are tentatively approved at 10.9%, however that includes other Districts in Defiance County which have inflated rates because of a pipeline going through their District.

The District is at 20.02 mills, which puts the District at the 20-mill floor, which means it is collecting at the lowest tax rate for Class I allowed by law. If the millage for the District "rolls" below 20 mills, it is increased back to 20 mills to accommodate this law. This happens in FY2023 and FY2024. Because the District is at the floor, changes in Class I valuations will not impact collections unless the District moves off the floor.

The average gross collection rate is forecast at 99.6% annually through TY24. This revenue changed at an average annual historical rate of .78% and is projected to change at an average annual rate of 1.36% through FY25.



Public Utilities Personal Property - PUPP:

The public utility personal property tax revenue is generated from the personal property values, additions, and depreciation reported by the utility companies. This category currently makes up 2.57% of total district revenue. The property is taxed at the full voted tax rate which in tax year 2020 is 43.52 mills. The forecast is modeling an average gross collection rate of 94.22%. The revenue changed historically at an average annual dollar amount of $21,256 and is projected to change at an average annual dollar amount of $12,952 through FY 2025.

1.03 Income Tax:

In 1991, the District passed a continuous Income tax levy. That levy collected $1,977,510 in FY20, a 3.44% increase from collections in FY19. Historically, the levy has had an average collection increase rate of 3.76% per year. There are four different factors that combine to make the total collection. Those four factors are withholding, quarterly estimated payments, payments made with returns, and refunds. Those payments are paid to the District quarterly from the Ohio Department of Taxation. FY21 first quarter collection for withholding (April 2020- June 2020) was down 14.7% due to factors like the unemployment rate increasing and tax filing deadline extensions. Second quarter collections for withholdings were at -5.7% and collections are forecast to continue to decrease 2% and 1% in the next two quarters. Non-withholding was also down first quarter by $153,915, but did recoup some loss in quarter 2 of $79,334. Future years are forecast to return to prior pandemic collection rates of 3%.

1.035 Unrestricted State Grants-in-Aid:

This line is based on the funding formula from the State of Ohio and it changes with each biennium budget. Unrestricted State Funding is 55.7% of the District's revenue each year. In July 2019, the State of Ohio passed H.B. 166 as the state's 2020 and 2021 state budget. Included in the budget, there is additional state aid for student wellness, supplemental student wellness, and growing district aid. With this new biennium budget, the District base aid was frozen at $16,744,199 which is about the same amount the District received in FY19 ($16,761,840). Instead of increasing the formula amount, the budget bill introduced Student Wellness and Success funding. The District does not qualify for the supplemental student wellness or the growing district aid. In FY20 and FY21, the District was able to use Student Wellness and Success funding to offset personnel and purchase service expenses. In FY20, the District received Student Wellness and Success funding of $541,203.30 and in FY21 it will receive $836,600.55. The expenses that are removed and paid for by this grant, will come back to the general fund in FY22, as it is not yet clear if that funding will be continued after this biennium budget. The Student Wellness and Success is not recorded in general fund revenue.

The State of Ohio announced in May 2020 that the District Budget would be cut by $359,293 in FY20. In FY21, the funding was frozen at the reduced rate of $16,384,782.21. FY22-25 is adjusted for changes in enrollment since the Legislature is looking at a new purposed funding formula called the "Fair Funding Model."

Funding for Special Education transportation, preschool, and revenue from casinos are accounted for outside of the base aid and if enrollment changes it could positively/negatively impact collections. Currently preschool numbers are down creating a decrease in revenue to this line item.

1.04 Restricted Federal Grants-in-Aid (line 1.045):

The amounts reported in this category are career tech and economic disadvantaged funding. Currently the District receives an estimated $496,402 in economically disadvantaged monies and career tech funding. That funding is based on a calculation that includes the percentage of the District's students who are considered economically disadvantaged by the state. As of November 2020, 1119 students (43%) of the District is considered economically disadvantaged. This is down 130 students from FY20, however since the funding is frozen at previous year amounts, this did not financially impact the district in FY21. Career tech is based on participation in career tech programs. Current data shows a 22.85% reduction in those numbers from FY20 to FY21. This is reduction is not seen in FY21 for the same reason as economic disadvantaged. If the Fair Funding Model is implemented in FY21, this figures could negatively impact the district financially.

1.05 Property Tax Allocation:

Property tax allocation primarily consists of reimbursements from the state of Ohio for local taxpayer credits or reductions. The state reduces the local taxpayer's tax bill with a 10% rollback credit, and 2.5% owner-occupied rollback credit, plus a homestead credit for qualifying taxpayers. Currently, the District is receiving monies for homestead and rollback credits given to taxpayers and HB 66 elimination of the Tangible Personal Property (TPP) tax for businesses. The District has lost all of its fixed rate levy TPP reimbursements but has retained a small amount on the fixed sum (Emergency) levy collections. In FY20, that reimbursement was $35,672, and it decreases to $21,403 in FY21, $7,134 in FY22 and is completely phased out by FY23.

In FY 2021, approximately 11.8% local residential property taxes will be reimbursed by the state in the form of rollback credits and approximately 5.0% will be reimbursed in the form of qualifying homestead exemption credits.

1.06 All Other:

Other revenue includes tuition received by the district for non-resident students educated by the district. It also includes interest income, payments in lieu of taxes, and miscellaneous revenue. This line accounts for 9.7% of the overall revenue received by the District. Revenues from all other sources are based on collection patterns and not trend analysis as they vary widely from year to year. Collections include items such as tuition, open enrollment, interest, property rental, student fees (not annual student fees), donations, compensation for property exemption, etc. FY21 includes a one-time payment for the bond refunding proceeds of $230,231 which is then removed from future years causing a decrease from FY21-FY22. This same amount is recorded as an expense.

Changes in Open Enrollment numbers can increase revenue on this line (Open Enrollment out is posted as an expense and Open Enrollment in is posted here as a revenue). Our Open enrollment number of students coming in have decreased from 235.50 in FY20 to 228.18 in FY21. Tuition related Revenue (including open enrollment) make up over 66% of this category's revenue in FY21 and continues to grow through FY25.

2.070 Total Other Financing Sources

This section includes transfers in and advances in. The repayment of the $2.5 million COPS issue from 2016 is what is transferred out to repay the loan from a Special Cost Center. This is paid in full in FY24 so it does not reflect in FY25. Also, this line allows for transfers to the capital improvements Special Cost Center within the general fund.

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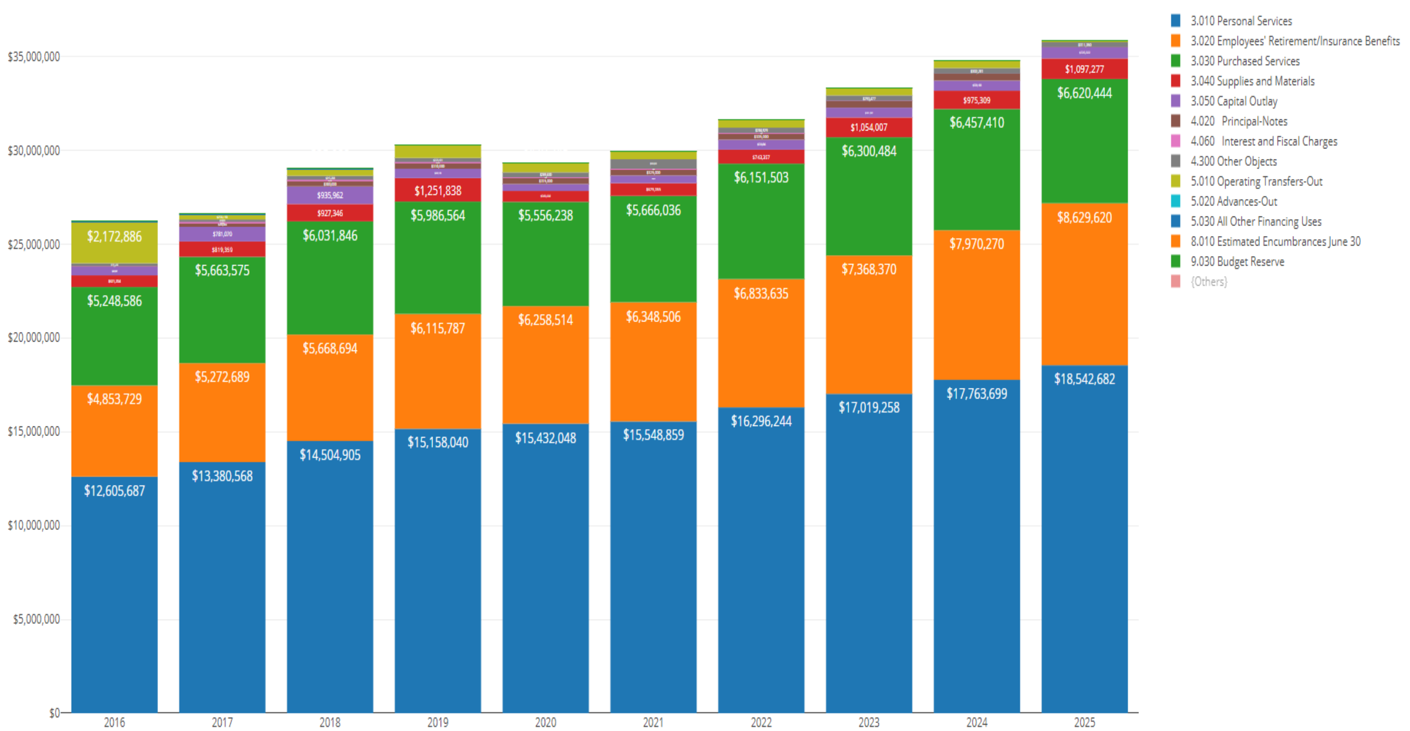
EXPENDITURE OVERVIEW

Expenditures for the District are comprised of salaries, benefits, purchased services, supplies and materials, capital outlay and other. Salaries are controlled mainly by the 2 union contracts at the District. One contract is the Defiance City Education Association (DCEA) that includes teachers, guidance counselors, etc. The other is Ohio Association of Public School Employees (OAPSE). That union encompasses the custodial, bus, café, aid, and secretarial staff. The District concluded negotiations with both unions in FY20. Both contracts are only for one-year. Purchased services are service contracts, travel, special education services, utilities, etc. Supplies are what is needed to teach and run the District and capital outlay is usually a purchase of items like computers, buses or improvements to facilities, etc.

Total expenditures increased 3.38% or $894,474 annually during the past five years and is projected to increase 4.47% or $1,309,247 annually through FY2025. Purchased Services has the largest projected average annual variance compared to the historical average at $248,620. Purchased service changes are difficult to control because pricing increases are controlled by vendor rate increases, student population and special needs services that are usually mandated by the State to be provided.

Supplies are a small part of the total cost and capital outlay is based on district needs. Other objects are based mainly on changes in County Auditor's tax collection fees, annual audit costs and property and fleet insurance. The below chart shows the breakdown of these categories.



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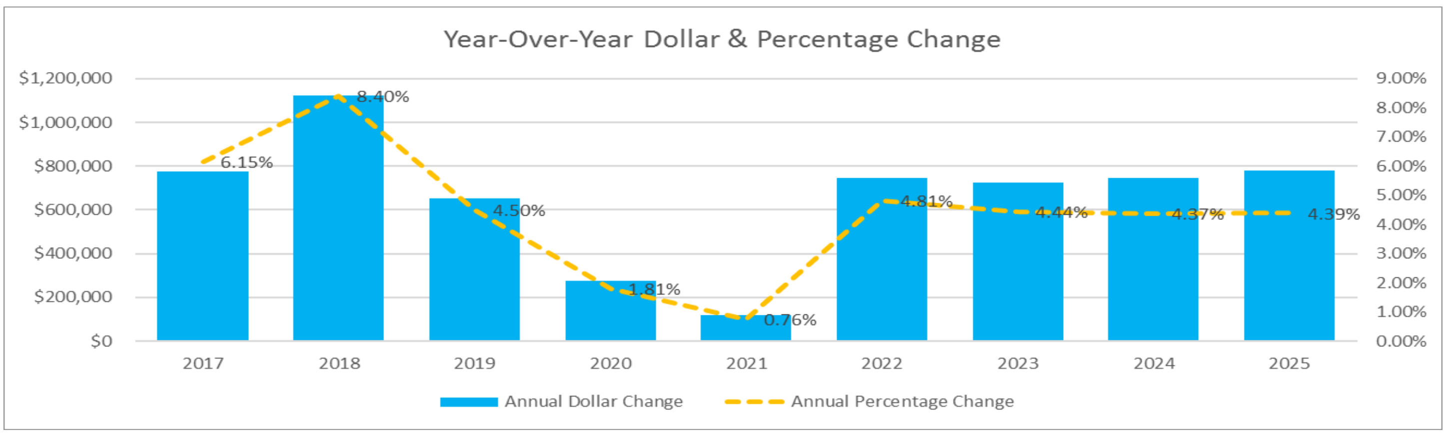
EXPENDITURE ASSUMPTIONS

3.01 Personnel Services:

Personnel Services are 52.68% of the total expenses for FY20 for the District. Most personnel expenses are negotiated as part of union agreements and the remaining are Board approved employment contracts. In FY18, as a result of 2017 negotiations, the teaching salary base increased more than usual to help bring the District in line with what area schools are paying their teaching staff. This was done in an effort to help retain and encourage teachers at the District. The District also increased and created new supplemental positions and had to reallocate to the general fund over $160,000 in grant reductions. All those items combined contribute to the increase of 8.40% in FY18. In FY19 the increase was reduced to only 4.5%.

In FY21, staff positions were reduced through attrition and reduction in force (RIF). This reduction was made in an effort to reduce deficit spending in FY21. In addition, FY21 has adjustments for nursing services ($129,508.48), guidance services ($113,950.03) and a behavioral specialist ($45,631.76) that are being paid from fund 467 (student wellness and success grant - SWSS). In FY22, this expenses will return to the general fund making the increase from FY20-FY21 jump from .76% to 4.81%. If SWSS continues, these expense may not return to the general fund. Also contributing to the decrease in FY21, was one time CARES (ESSER) Act funding of $237,361.52. This is demonstrated in the below chart.



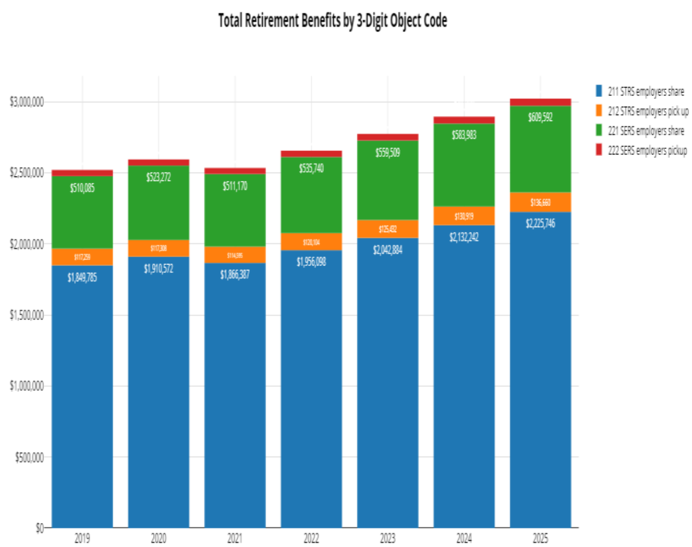
There are no new staff forecast in future years unless it is through attrition.

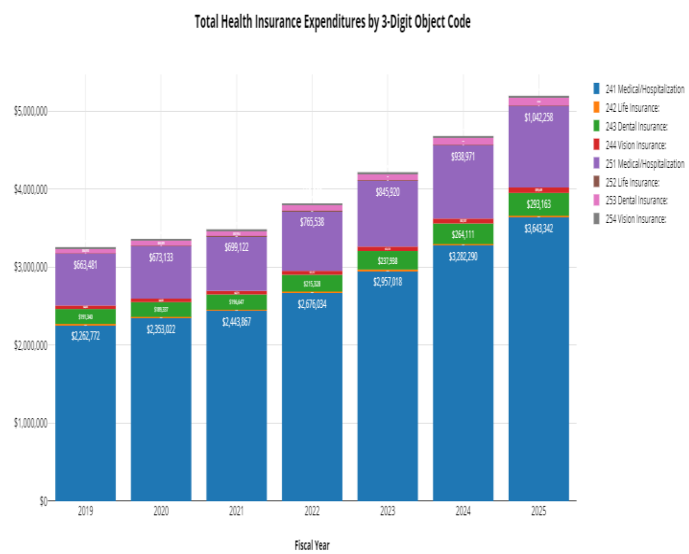
3.02 Retirement and Benefits:

Retirements and benefits are 21.37% of the total expenses per year for the District. Combined with personnel expenses, that equates to 74.05% of the total expenditures per year for the District. Historically, the District has seen an average increase of 5.91% over the past five years.

The expense for this category is derived from actual health plan costs, number of enrollees, SERS and STRS. The insurance rate increases for FY 21 were 9% for medical. In addition, the District added the option of a High Deductible Health Plan (HDHP), resulting in a savings of $155,779 (27 staff moved to this plan), making the impact of the increase only 6.4%. Furthermore, staff positions that were part of the staffing reductions cost for benefits were removed or paid by grants. The overall increase to this line item was 1.44% for FY21. Future years, however, benefits paid by grants will return and future healthcare costs have been forecast in FY22-25 to increase by 9-11%

The below charts are a visual representation of the largest contributors, health insurance and retiree benefits.





3.03 Purchased Services:

Purchased Services is the next largest category of spending outside of personnel and benefits. It is 18.97% of overall expenditures. This category consists of tuition expenses (including open enrollment out and community schools), utility expenses, professional and technical services, maintenance and repairs, professional development, contracted services and postage expenses.

Purchase services are difficult to manage because they are services that the District is mandated to supply to students. Programs like digital academies (online schools), community schools, college credit plus, Jon Peterson Scholarship, Ed Choice and the Autism scholarship take money away from the District when the District has no control over how much or how many students are awarded access to these programs. In addition, excess costs are costs that the District pays to other Districts for special needs students open enrolled out or foster placed in the other District, yet the District cannot control the costs of the other Districts for that student.

Tuition expense is the largest portion in this category, averaging about 75% of all purchase service expenses. Tuition expenses include College Credit Plus (CCP), Excess cost, SF14H (Special needs enrolled out), contracted health services (Northwest Ohio Educational Service Center (NWOESC)) open enrollment out and other/scholarship expenses.

Contracted health services are provided by the Northwest Ohio Educational Service Center (NWOESC). These services include nursing, special education interventions as well as the District's typical peer preschool. In FY20, the District reduced one typical peer classroom and was able to divert $292,983.33 of the preschool costs to the Student Wellness and Success Funds. Also, the SWSS funds continued in FY21 so the preschool expense will return to the general fund in FY22. Because of this removal of expenses, contracted Health services decreased 15.93% from FY19 to FY20 and 9.75% in FY21.

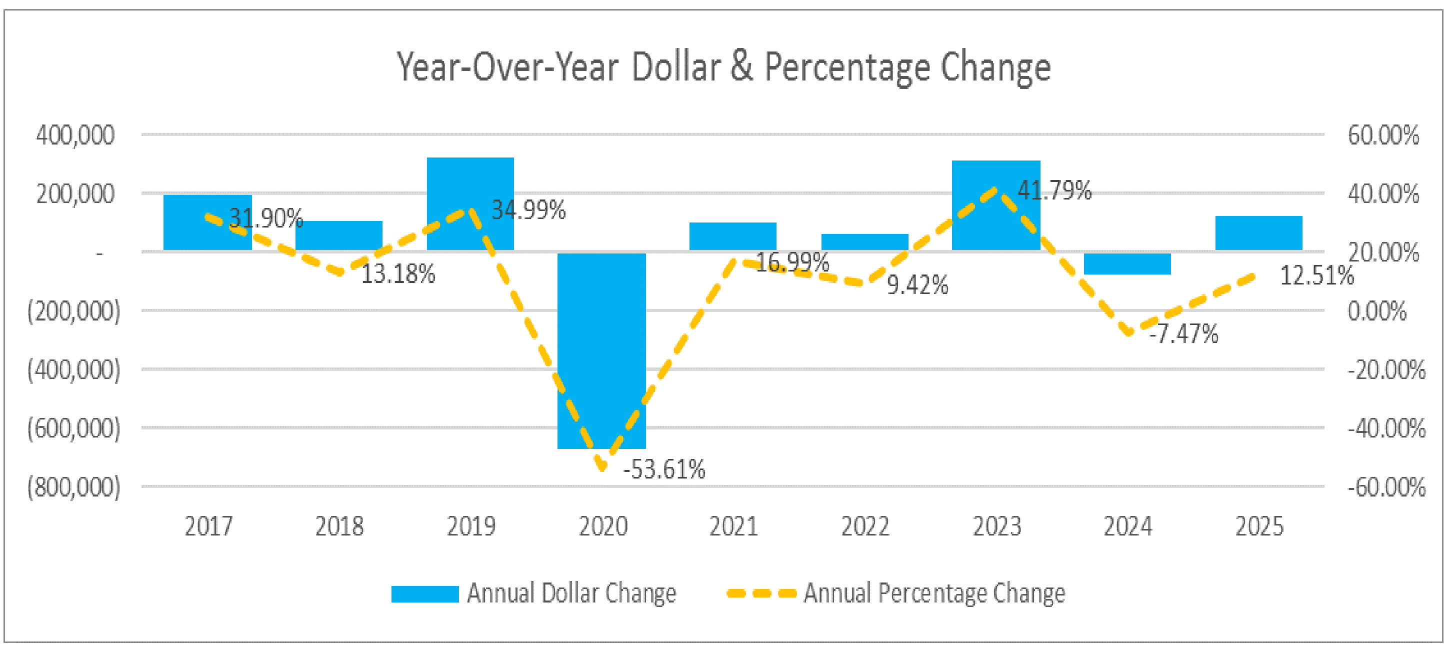
Open enrollment out (students leaving District) went down 1.18% from FY19 to FY20 and an additional .76% from FY21-FY22. The District currently has 332 students leaving the district. Utility expenses are the other largest category. This includes trash, telephone, electric, water/sewer and gas expenses. In FY20 the District realized a decrease in its utilities due to the closure of the buildings in March 2020 (Governor's order) and specifically in electricity for joining a consortium with discounted electricity rates. Future years are forecast between 2%-6% based on trend analysis.

Other purchase services include professional and technical service contracts, property services, professional development, postage services, contracted services, legal fees, pupil transportation and other. Of these categories, property services are the largest contributor at over $81,000 per year.

3.04 Supplies

Supplies consists of general supplies (instructional, maintenance, transportation, etc.) textbooks, library books and newspapers/periodicals. This line item is only 1.98% of the operational budget total. Historically the District has seen a large increase in FY19 of $487,727 to account for replacing a large series of English textbooks. FY20 will be the completion of the series with a carryover expense of $50,000. Textbook purchases in FY21 will be eliminated to assist in reducing deficit spending. This reduction will save the District $200,000. Future years are forecast but are subject to future scrutiny based on the District's financial condition.

General Supplies historically have cost over $320,000 per year (in addition to the fees collected from students which are not accounted for in the general fund). This expense includes copy paper, classroom supplies, teaching materials, custodial supplies, transportation supplies, etc. FY20 budgets were reduced by 10%, coupling that with the closure of the school buildings, the District realized a 34.99% savings from FY19 for general supplies. The overall supplies category reduction was a 53.61% decrease. In FY21, budgets will remain at the reduced level with a slight increase for a return to in person learning. Future years are forecast based on trending analysis.



3.05 Capital Outlay

This line item is used for capital improvement or equipment purchases so the percentages can be skewed from year to year based on program needs.

Capital Outlay makes up only 1.26% of the overall expense budget. In FY18, there was an increase of $93,000 for a new lease for Elementary Chromebooks, $58,600 for the purchase of 200 Chromebooks and $41,000 for a purchase of Chromebooks. Because of this, equipment costs went up 19.83%. In FY19 it decreased by 46.67% because of those one-time purchases.

Building costs went up in FY17 and FY18 because of needed capital improvements at buildings not covered by the permanent improvement levy. Since the new Middle School and High School are now operating, those expenses can be reallocated to that permanent improvement fund resulting in future decreases. Those expenses were reduced from $455,234 in FY18 to $20,032 in FY19.

Also included in this line item is bus lease expenses. The District bus fleet is aging and is need of replacements. Two busses were leased in FY19, but in FY20, no buses were leased. In FY21, two school buses are forecast with the first year of the lease (FY21) being paid for by a grant, saving the District over $62,000. The following replacement schedule is forecast for buses and subject to change based on District financial needs:

FY22-one new bus, FY23–two new busses, FY24-one new bus and FY25 – two new buses.

3.06-4.06 Intergovernmental Debt

In March of 2016, the District borrowed 2.5 million in Certificates of Participation. The line items in this category are based on the principle and interest repayment schedule. This debt will be paid in full in FY24.

4.30 Other Expenses

This category is less than 1% of the total operating budget. Expenses include audit fees, county auditor property tax collections fees (largest fee), bank charges, insurance and other misc. dues and fees. This line item can vary based on one-time expenses so forecasting forward is based on known factors and historical data.

5.010 to 5.030 Advances and Transfers

Operating transfer out is to move the expense of the payment for Certificates of participation to the correct cost center. That transfer is used for accounting purposes only and is not an expense. Refund of prior year expense are also accounted for in this line item.