Northwest Local School District (Hamilton County)
Assumptions to the Five-Year Forecast
November 18, 2024

The 5-year forecast for Northwest Local School District (Hamilton County) is derived from the last three completed fiscal years (FY22 – FY24) of historical data, the current fiscal year's (FY25) appropriations, and the next four fiscal years (FY26 – FY29) of forecasted data based on current information, logical estimates, and rational assumptions.

As we review the district's 5-year forecast we all must acknowledge this forecast as a work-in-progress and many of the assumptions used in this forecast are derived from past experiences and spending history. This year's forecast is again being presented in a format developed to assist the Board of Education, the Superintendent, and Administration in the financial management of the school district.

Financial Strategy

The district has determined the key focus areas that will be the foundation for continuous improvement of teaching and learning. Staffing is determined by the district's staffing plan. Programs are evaluated annually, and resources are allocated based on the priorities and needs of the district and its students.

Our strategic plan is made up of five key focus areas:

- Student Achievement;
- Social-Emotional Development;
- Diversity & Equity;
- **Financial Stability**; and
- Culture of Trust

Our Vision is teaching and learning in the Northwest Local School District. We will:

- Provide learning experiences that empower students to contribute to a future not yet imagined;
- Inspire learners to adapt, be resilient, collaborate and problem solve;
- Create a supportive social-emotional culture; and
- Provide a foundation to cultivate healthy relationships.

The Board of Education, the Superintendent and the District Leadership Team (DLT) will continue to address any projected operational deficit of the district by reallocating resources from existing activities in the budget to fund our instructional/operational priorities. This normally occurs as expenses increase due to inflationary increases while revenues continue to be flat-lined from passed fixed levies.

Even with the Emergency Levy passed in 2019, we still were not able to continue our operations without making reductions. In June 2020, the Board approved the $2.6 million in reductions to operations for fiscal year 2021 and beyond.

The Board also passed a Resolution of District Financial Parameters and Community Partnership on June 24, 2019. This partnership with our community commits that the 2019 Emergency Levy will last at least 3 years and that the Board projects an increase in revenue per our 5 mill/5 year Levy Cycle and/or reduction in operations will be needed in FY 2024 (November 2023). Per this forecast, the district has been able to extend the need for additional revenue and/or reductions in operational expenses/services until approximately fiscal year 2028. The Board renewed the Resolution of District Financial Parameters and Community Partnership on November 20, 2023.

Previous Emergency Levies will expire during this forecast period. Due to utilizing these funds for day-to-day operations, renewal of these funds and/or reduction in operations will be necessary during this forecast period.

While some of the post pandemic situations such as the lack of adequate staffing and supply shortages have alleviated, the district is still working to overcome post pandemic situations such as inflation, in addition to assisting our students with post pandemic learning loss, mental and behavioral issues.

REVENUES

Line 1.01 General Property Tax (Real Estate)

Property tax valuations have fluctuated since the Great Recession in 2008. Fiscal year 2020 was the first-time property valuation exceeded the 2005 valuation of 1,726,198,680. The current total valuation has increased to 2,339,882,760 bringing the district to the 20-mill floor for residential properties.

Property taxes are **fixed** when they are voted. Meaning that the district receives the same amount of money as when the levy passed. House Bill 920 (1976) eliminated the property tax on the increase in property value caused by inflation. Meaning that as property values increase the millage on those values reduces (rollback) to generate the same dollar amount. HB920 does not apply to inside millage or collections at the 20-mill floor, thereby, reflecting the growth in valuation (or reduction). Millage rates collected on residential properties dipped below the 20-mill floor for the 2023 Reappraisal, thereby providing an *increase in revenue* when rates are adjusted for the 20-mill floor. As community property values and income increase so does its local capacity. The State of Ohio requires local communities to fund their local public school districts basic education (as determined by the state's funding formula) based on the local capacity (as determined by the state) and then the state funds the difference. Anything above basic education, including infrastructure, is required to be 100% locally funded.

Currently the state legislature is having hearings on property tax reform, which could adjust reappraisal values. The district projects that these adjustments could reduce property taxes.

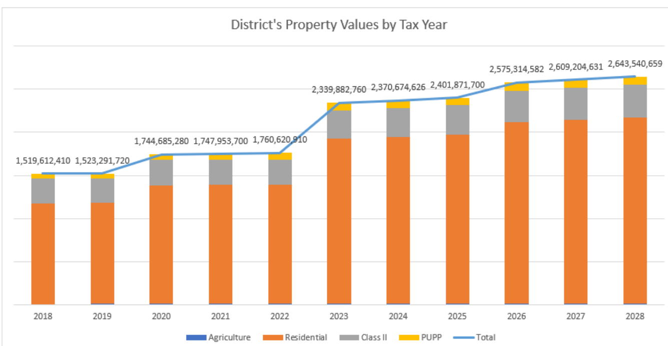
Northwest Local is a typical suburban school district, collecting most (56%) of its operating revenue from local property taxes. Reaching the 20-mill floor allows for revenue growth, which previously was only possible by going back to our community for additional support. Northwest is currently operating on levies passed in 1976, 1986, 1989, 1997, 2012 (renewed in 2017), 2015 (1 mill) and 2019. These levies generate approx. $65 million per year. The 2017 and 2019 Emergency Levies are fixed-rate dollar amount levies which are not impacted by the 20-mill floor and expire in December 2027 and 2029, respectively. Renewal of this revenue and/or reduction in operations will be necessary.

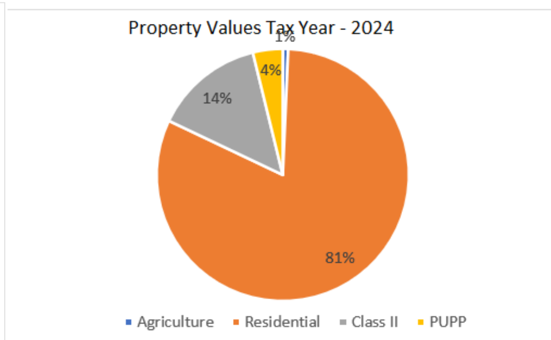
In November 2015, the Board replaced the $6.4 million Emergency Levy with a *1 mill operating levy that generates $1.4 million on a continuing annual basis.*

The Community renewed an Emergency Levy in 2017 to help offset a ***current annual operating deficit****.* This levy will generate $7.3 million per year through 2027. These funds have been used for operations since 2012 and continue to be needed for current operations.

The Community approved an Emergency Levy in 2019 to help offset a ***current annual operating deficit****.* This levy will generate $11.3 million per year through 2029. These funds are used to maintain current operations.

The June 24, 2019 Board approved *Resolution of District Financial Parameters and Community Partnership* "committed that this 2019 levy will last at least 3 years and projected a 5 mill Emergency operating levy in 2023." The district has been able to postpone this need. This current forecast projects *an* ***annual operating deficit*** *starting in FY 26.* This Resolution was renewed in November 2021 & 2023.





In calendar year 2009, 2 mills of the district's 6.33 inside mills were moved to our Permanent Improvement Fund (003). This move created the ability for our district to earmark approximately $4 million annually to fund the district's:

- bus replacement schedule ($500,000);
- technology replacement schedule ($700,000);
- district wide maintenance ($800,000); and
- capital maintenance plan for our three newer elementary buildings and Monfort Heights Elementary (1/2 mill as required by the State OFCC which is approx. $1 million); as well as,
- HB 264 and blended learning lab projects ($1 million for 15 years starting in 2013).

The district's buildings/infrastructure are worn out and deferred maintenance during the Great Recession has left us vulnerable. In 2019, it was estimated that our district had $46 million in deferred maintenance costs to keep buildings warm, safe and dry; not including Colerain Elementary or Colerain Middle Schools. The district was able to utilize federal pandemic relief funds to replace $6 million in HVAC upgrades leaving $40 million still to be addressed. The district recently involved stakeholders across the community to determine what facilities and repairs are needed. Most of our buildings, except our three new elementary schools and Monfort Heights Elementary are valued at greater than 66% replace/renovate and below 56% educational viability. In November 2021, the Community Visioning Team made a recommendation to the

Board of Education to move forward with Phase 2 of our Master Facilities Plan, including the construction of 2 larger Middle Schools, a new Colerain Elementary and renovation of Monfort Heights Elementary. After two unsuccessful attempts for community support the Master Facility Advisory Committee reconvened in July 2023. In February 2024, the Administration made a recommendation to the Board of Education to approve an updated Master Facilities Plan, including the construction of 1 high school, 2 larger Middle Schools, a new Colerain Elementary/preschool. Without additional revenue to address the infrastructure needs of district buildings, operations will need to be reduced to reallocate funds to address these deferred maintenance needs.

During fiscal year 2024, the district allocated $10 million in one-time carryover funds to fund the Capital Maintenance Plan including our three newer elementary buildings and the deferred capital maintenance needs of Monfort Heights Elementary, leaving approx. $35 million in deferred maintenance. Additionally, $20 million in one-time carryover funds were allocated to assist the community with funding the Master Facilities Plan.

In fiscal year 2025, the district entered into a Classroom Facilities Assistance Program Segment #1 with OFCC utilizing $19 million of the Master Facilities Fund for the communities' local share and the previous ELPP credits for the construction of a new Colerain Elementary. This is being done without a bond issue but does not include the preschool wing.

One-time monies of approximately $2 million are being utilized to renovate the current Central Supports Office into our preschool program. Adding the preschool onto the new Colerain Elementary would cost approximately $7 million and the district only has $3 million in the Master Facilities Fund. Additionally, due to limited space the district will need to increase operational costs to rent space for a Central Supports Office per our approved Catastrophic Plan.

Line 1.02 Public Utility Personal Property Tax

This line is projected to increase due to valuation and equipment purchases. Depreciation will cause this line item to decrease.

This line item previously included Tangible Personal Property until HB283 (July 1, 2003) and HB66 (July 1, 2005). HB283 reduced the assessed valuation of the inventory component of personal property tax from 25% to 0% by 2028. HB95 accelerated the reduction to 2% per year ending in 2016. In July of 2005, HB66 again accelerated the phase-out of tangible personal property and public utilities by the calendar year 2009 with a hold harmless piece in this bill for school districts through 2010 less the previously approved phase-out in HB95. These phase-outs were estimated to reduce our tangibles from $4,393,382 to $2,337,112 in fiscal years 2005 through 2020. The reimbursement portions of these House Bills were previously included in line 1.050 property tax allocations. This reimbursement was eliminated by a line-item veto by the Governor in HB 64 on July 1, 2015. ***This is a loss in revenue to the district of $4 million per year.***

Property Taxes and Credits make up 63% of the district's General Fund revenue.

Line 1.035 Unrestricted Grant-in-Aid

On March 24, 1997, the Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. Declared unconstitutional at that time was the State's "School Foundation Program," which requires local communities to provide significant amounts of monetary support (property taxes) to their local public-school districts.

Since the 1997 Supreme Court ruling, numerous pieces of legislation have been passed by the General Assembly in an attempt to address the issues identified by the court. The Court of Common Pleas in response to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State then appealed the decision made by the Common Pleas to the Ohio Supreme Court. In May 2000, the Supreme Court ruled that the State of Ohio had not done enough to comply with the original order found in the original case. The court gave the State of Ohio until June 15, 2001, to correct the school funding system. The school funding system was declared unconstitutional again in September 2001 and finally in December 2002.

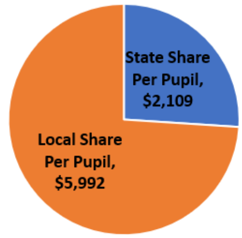
In 2003, the Supreme Court ruled that they would no longer provide oversight of the implementation of their ruling that the State of Ohio provide a "thorough and efficient" school funding program. While ruled unconstitutional by the Supreme Court, there will be no further oversight to ensure the court ruling is implemented.

To further compound any shortfall from "phantom revenue," the State Legislature in July 2005 passed HB 66, the biennium budget, which eliminated funding for schools through the Cost of Doing Business Factor (CODBF) in the Foundation Basic Aid Formula phasing it out from Fiscal Year 2006 until eliminated beginning Fiscal Year 2008. The CODBF increased this district's per pupil revenue 7.5% or **$2 million annually**. In addition to eliminating the CODBF it began the elimination of tangible personal property tax (TPP) and made sweeping changes to taxation in Ohio. This has resulted in lost revenues for schools across the state.

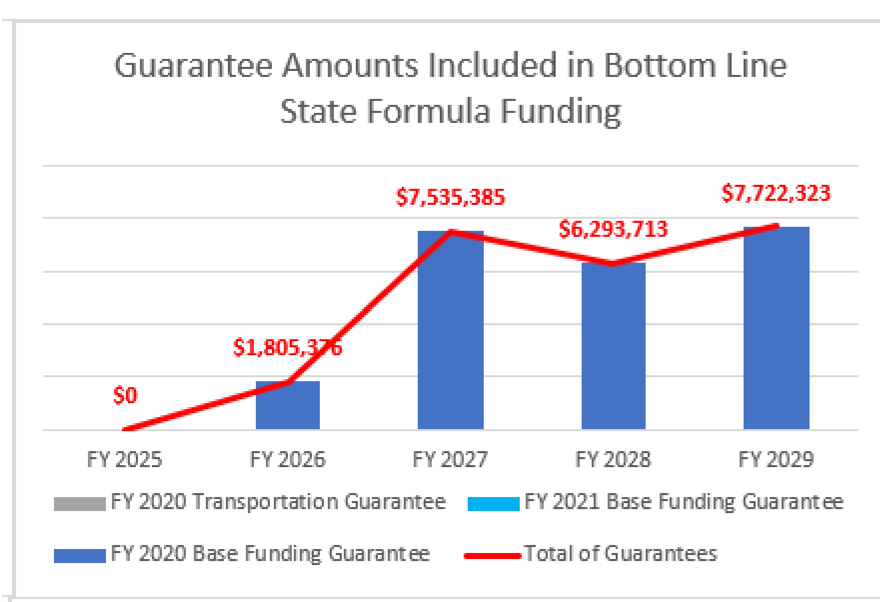
Due to the Great Recession, in FY 2010 and 2011 districts were funded on the PASS (Pathway to Student Success) or Evidenced Based Model (EBM). The net financial effects of the PASS Program created a funding decline in state aid. Under the old foundation formula, the district was **guaranteed approximately $28,400,000 (FY09) annually in unrestricted aid**. Since then, there have been biennial budgets with various names, such as the BRIDGE formula, the "School Finance Payment Report (SFPR)" all maintaining the FY 09 funding level. Finally in 2018, HB 49 increased per pupil revenue by $10 (less than 1%), which equated to only $4 per pupil for Northwest LSD, as well as, capped the district (meaning the state owed but did not pay) ***approximately $3 million annually*** and decreased the transportation reimbursement from 60% to 35% which equated to ***approximately $1 million loss in annual revenue.***

Sub HB 166 *<u>flat-lined</u>* districts for fiscal years 2020 and 2021 at FY 19 levels. In May 2020 the state reduced funding 6% for FY 20 or ***$1.8 million***. Due to the pandemics effect on the economy, this reduction was extended to FY 21 at ***$800 million*** (2.7%). HB 110 set the FY 22-23 biennium budget, maintaining revenues at FY 19 levels while phasing in the new ***Fair School Funding Plan*** over the next six years. The intent of the new funding plan was to finally have a constitutional solution to school funding. However, as it exists it is only part of the state budget and can change every two years.

Currently HB33, FY 24-25 biennial budget, continues with the six-year phase in, increases basic cost formula inputs to 2022 levels and guarantees revenues at FY 20 levels. This forecast projects the continued six-year phase in as per current law with basic cost input increases estimated at 4% bi-annually. As a community's local capacity increases the state's share of the school funding formula decreases. Local property tax projected growth and reaching the 20-mill floor further compounds the decrease in state revenue. This impact is reflected in the forecast by projecting the state share to decrease from 26% to 16%.



Due to the increase in local property valuation and community income, the district is moving from a *"formula"* funded district to a *"guarantee"* district. This impacts the district by guaranteeing state funding revenue at the FY 20 base funding level. The chart below shows this projected funding impact. The district is currently operating on these funds and if/when the guarantee goes away or is reduced the district will need to increase revenues and/or decrease services/operations to maintain financial stability.



In fiscal years 2020 & 2021, the state was funding the district with Student Wellness and Success Funds. These funds are restricted (Fund 467) and were to be used in partnership with local entities for students' mental and behavioral needs. The district's operating expenditures for elementary behavioral supports, including counselors and deans, were being supplemented with these dollars. Starting in fiscal year 2022, these funds and expenses are now reflected in the forecast as funding is still restricted but is now part of state funding in the General Fund (Line 1.040).

Line 1.040 Restricted Grant-in-Aid

Restricted funds are those in which the State requires specific spending requirements or the loss of funding.

With HB 59 (FY 14) the district started receiving additional restricted funding for "Economic Disadvantage Funding" (now referred to as DPIA) that addresses poverty and its effects on educational outcomes. This calculation is based on a per-pupil amount equalized by the poverty index of the district. We currently receive approximately $3.4 million each fiscal year in restricted aid for this subsidy.

The Fair School Funding Plan (FSFP) increased restricted state revenue from $2.7 to $6.4 million for DPIA, gifted, English Language Learners (ELL) and Success & Wellness. This did not increase the district's overall revenue. It is only a shift from unrestricted to restricted funding. These state allocations are capped with an appropriation line-item. With the change in enrollment and the phase-in of the FSFP restricted revenue decreases during the forecast period to $4.2 million.

There may also be some monies received in this category from time to time for miscellaneous reimbursements such as special education catastrophic reimbursements. These reimbursements are where the state is supposed to fund 50% of the additional costs necessary to provide services to our most needy students. Again, as a way for the state to control their costs, they cap the total reimbursement. With the new Fair School Funding Plan, the State now keeps 10% of our special education funding (approx. $250,000) to use towards their share of this reimbursement, thereby increasing our actual reimbursement with our own monies.

State unrestricted and restricted funding make up 26% of the district's General Fund revenue.

<u>Line 1.050 Property Tax Allocation</u>

Rollback and Homestead Exemption – All real property taxpayers receive a 10% credit or rollback on their tax bills that is "reimbursed" by the State of Ohio to the public entities. Homeowners are eligible for an additional 2.5% homestead exemption if they live in their home, and it is on a parcel that is less than 2.5 acres. Additional credits are available to residents based upon income and age. The district is anticipating that rollback and homestead will follow the same amount of change that real property experiences represented as a percentage of the real property taxes through fiscal year 2028. It should also be noted that a provision in HB59 states that the State no longer pays homestead and rollback tax credits on new and replacement levies after the August 2013 election. The continuing levies our district currently has are not affected by this change in law; however, our temporary levies may be in jeopardy if we allow them to expire or change the amount of the levies. These credits were maintained by the renewal of the May 2, 2017, Emergency Levy. These credits do not apply to the Bond/Operating Levy passed on November 3, 2015, the Emergency Levy passed in November 2019, nor will any proposed Bond or Operating Levy going forward.

Tangible Personal Property Reimbursement - reimbursements for the phase-out of tangible personal property (Line 1.020) are to be accounted for in line item 1.050. **HB 64 line-item veto eliminated TPP funding completely starting fiscal year 2016.** As noted in line 1.020 above, this is a <u>*loss in revenue to the district of $4 million per year*</u>.

Total revenues for line 1.05 are $6.3 million in fiscal year 2025 and projected to increase with taxes (line 1.01) to $6.5 million by fiscal year 2027. Fiscal years 2028 & 2029 do not include the renewal of the 2017 Emergency levy.

<u>Line 1.060 All Other Revenue</u>

Other Local Revenue – Typically other local revenue consists of fees, commissions, interest, rental income, payment in lieu of taxes, tuition and miscellaneous receipts. Payment in lieu of taxes is for TIF properties throughout Green Township. TIF revenue equates to approximately $5.6 million. The district also earns interest on accumulated cash reserves. Recently interest rates have risen but are projected to decrease throughout the forecast from $1.8 to $1 million. This line is projected at approximately $10 million throughout the forecast.

TIF revenue received from Colerain Township is used to assist our community with funding the Master Facilities Plan and goes into our district's Master Facilities Fund (004).

Line 2.050 Advances-In and Transfers-In

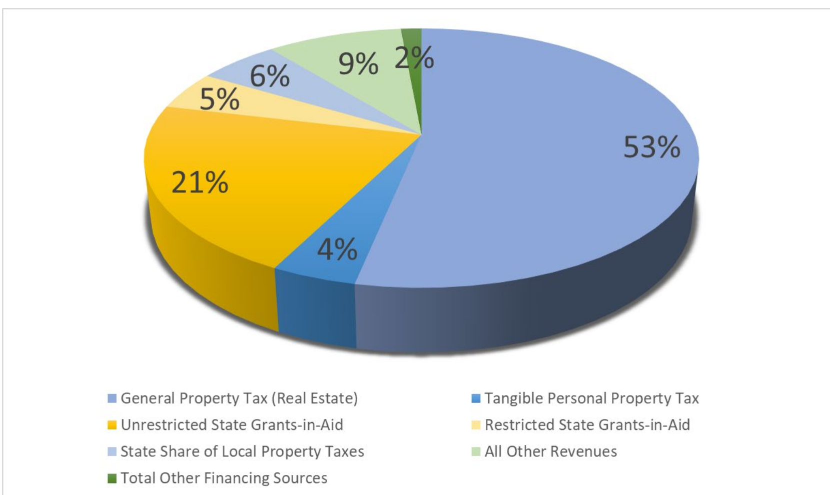
Advances-In – This line represents the return of temporary monies made to funds experiencing cash flow shortfalls. Advances are not permanent and must always be returned. The district advances funds at fiscal year-end for state and federal grant reimbursements and advances back (in) the following fiscal year.

Line 2.060 All Other Financing Sources

Refund of Prior Year Expenditures – This line represents funds received in refund of services or goods purchased and charged as expenditures in a previous fiscal year. The majority of this line item is from previous year's Medicaid reimbursements and e-rate reimbursements are included in this line item. Items refunded within the same year are treated as reductions to the actual expenditure. This line is projected at approximately $1.6 million throughout the forecast.

All other revenue and other financing sources make up the remaining 11% of the district's General Fund revenue.

Total Revenue Summary



Total revenues from all sources for the general fund account are estimated to be approximately $113 million and projected to remain relatively stable throughout the forecast due to the nature of how schools are funded and the phase-in of the new state funding formula.

Even with the anticipated tax revenue growth from reaching the 20-mill floor for residential properties, the district will continue to have to navigate through ***operating deficits***. It is crucial that the district continues to identify reductions and efficiencies while maintaining the support of our community for a positive financial future. The district anticipates an *operating deficit starting in 2026*.

EXPENDITURES

As a commitment to our community, the district made $2.6 million in reductions to ongoing operations starting in fiscal year 2021, as well as, passed a Resolution of Partnership agreeing not to grow operations by more than 3% annually.

Line 3.010 Personal Services (Salaries)

Salaries - Staffing is based upon the anticipated programs for the current school year, projected enrollment and the district's staffing plan. The district works with our teachers (NAE) and transportation (OAPSE) unions to maintain competitive salaries in an effort to *retain, reward and recruit* teachers and staff to our district, which is necessary for increasing and maintaining student achievement. Salary projections include steps, turnover, negotiated amounts and placeholders based on trend for any non-negotiated year.

The district publishes an Annual Budget Document each spring to inform our Community on how we align our resources, including personnel, to our instructional priorities. This document can be viewed on the district's website.

The district was able to increase our personnel for custodial cleaning, isolation nurses, teachers, and aides with the use of federal ESSER funds. Some of these positions shifted from the General Fund and have shifted back reflected in this five-year forecast during FY 24 & 25. The additional positions were impacted through FY 23 & 24 RIFs (reduction in force). Most of our ESSER funds were being used to increase student achievement and address learning loss. This was through additional purchase services and did not have an impact on the General Fund.

Due to state mandates for high dosage tutoring, as well as behavior and safety supports, we have increased assistants in the five elementary buildings starting in FY25.

Recent effects on the economy such as staffing shortages and inflation have put pressures on this line item, with high turnover, unfilled positions, and demand for higher wages. This has been factored into the five-year forecast. As part of our fiscal responsibility, the district has not shifted any reduction in costs from unfilled positions to expanding operations. Instead, these funds went into the General Fund carryover balance and were utilized in FY 24 to fund the Capital Maintenance Plan and the Master Facilities Plan.

For FY 25 the state has required that districts pay teachers $1200 or $400 stipends, depending on licensure, for the Science of Reading training. The district will be reimbursed by the state; however, this cost is included in the forecast as revenue and expenditures by the same amount.

In summary, salaries contribute 57% of the district's annual expenses.

Line 3.020 Employees' Retirement/Insurance Benefits

Benefits - The district is required by law to pay 14% of employees' salary into the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS). SERS also charges a surcharge for health insurance on employees who earn less than $30,000 annually. It's also required of the district to pay 1.45% of salaries to Medicare. The district pays into the district's self-insurance set-aside programs for Workers' Compensation, Severance, and Healthcare Funds. These benefits cost the district 17% of salaries.

The district has established an internal Severance, Workers' Comp and Health Insurance Fund. The Severance fund was set-up so that a % of salary can be paid over the career of an employee versus paying the full amount of severance from the General Fund at the time of retirement. The Workers' Comp fund was set-up as a reserve since going self-funded and a % of salary is adjusted annually based on an actuary report to cover claims balances as well as projected future claims. The Health Insurance fund was set up to aid the district with large swings in health insurance premiums. This allows for a 5% increase to be projected throughout the forecast and to utilize the Health Insurance fund to account for additional health insurance premium increases or decreases.

In summary, benefits continue to contribute 20% of the district's annual expenses.

As a service industry, salaries and benefits traditionally make up approximately 80% of annual operating expenses for school districts nationally.

Line 3.030 Purchased Services (Contracts)

Increases in purchased services can be a result of increased utility costs and additional specialized services for students with special needs, of which the district has little control over the cost of. Due to inflationary pressures and the increase in special education enrollment tuition and related costs increased 21% for FY25. The district continues to take steps to try to control its utility costs even with the projected 10% increase for the capacity billing:

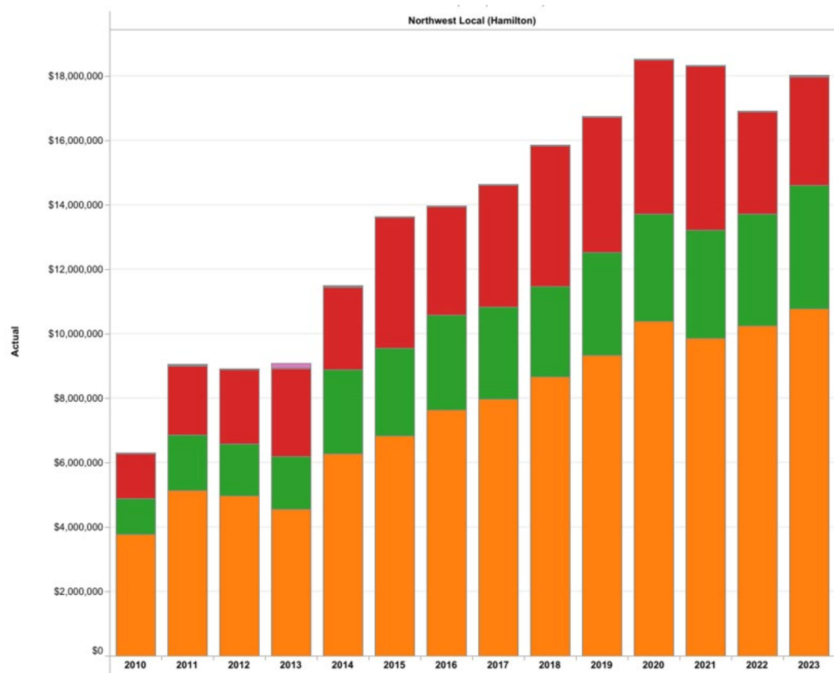
> HB264 Energy Conservation measures were implemented throughout the district during the school year 2012-2013. The district's three new elementary buildings achieved LEED Gold status for energy efficiency. ESSER funds were used to install HVAC controls in all buildings to control and monitor systems.

Previously the district lost $6 million each year for students being educated elsewhere, opting for open enrollment, charter/community school or scholarship programs. Due to the new ***Fair School Funding Plan***, these expenditures are now being directly paid by the state and therefore, have been removed from the forecast. What this means for our district is that starting in FY22 our local share of the $6 million that was being spent to educate students elsewhere will stay here at the district. **This equates to $4 million.** Additionally, when the district becomes funded by the state on the guarantee, the district will continue to receive this additional $4 million.

Safety is a priority for the district. The district increased our safety and security measures in FY24 by $500k.

There were $400,000 in prior year expenses for purchased services that were paid in FY24. The district considers this to be a one-time issue and did not continue to project.

Our special education expenditure trend is presented in the chart below. Over the past 13 years these costs have doubled, accounting for approximately 20% of the district's General Fund expenses. The district has built in a 3% escalator for related services such as OT/PT, psych and nursing as well as tuition for out of district placements and residential students being educated elsewhere.



In FY24, one-time expenditures were approved to addresses infrastructure issues at CHS, CE and CM. Due to the timing and payment of these projects, these one-time expenditures are reflected in FY24 & FY25.

In summary purchased services, which historically contributed to 21% of the district's annual expenses, are 19%. The district has limited control over the cost of these utility and special needs services, making it difficult to reduce from year-to-year.

<u>Line 3.040 Supplies and Materials</u>

Supplies and materials are estimated to stay stable throughout the forecast. Consumable supplies contribute 3% of the district's annual expenses.

<u>Line 3.050 Capital Outlay (Equipment)</u>

Capital outlay and equipment are estimated to remain stable throughout the forecast. The district expenses capital purchases out of its Permanent Improvement Fund for such items as the Bus and Technology Replacement Schedules. Additionally, maintenance and summer permanent improvement projects come from the Permanent Improvement Fund.

The district is utilizing $2M in Permanent Improvement funds to assist with the renovation for our preschool since we would only have $3M of the $7M needed to include a new preschool onto our new Colerain Elementary building project.

In summary, capital outlay typically contributes to less than 1% of the district's annual expenses.

Lines 4.020 to 4.060 Debt

Debt – The district currently pays outstanding debt through its Permanent Improvement and Bond Retirement Funds.

Line 4.300 Other Objects

Any other costs not previously listed are allocated here. One of the largest items is the payment to the county for collecting and processing tax payments.

In summary, other items contribute to 1% of the district's annual expenses.

Lines 5.010 and 5.020 Operating Transfers-Out and Advances-Out

Transfers and Advances – Transfer are monies approved by the Board to give to another fund to maintain a legal balance. Advances are monies loaned to other funds with the approval of the Board to keep those funds legal. Advances will be repaid to the general fund. Currently, we advance funds to state and federal grants at year-end if waiting for reimbursement. Transfers in the amount of $60,000 annually are authorized for the Athletic Departments to help with the cost of athletic transportation. Additionally, the Board authorizes the transfers of the annual $20,000 Board Service Fund and funds to cover the cost of waived fees for students. Advances and Transfers may change annually depending on need and Board authorization.

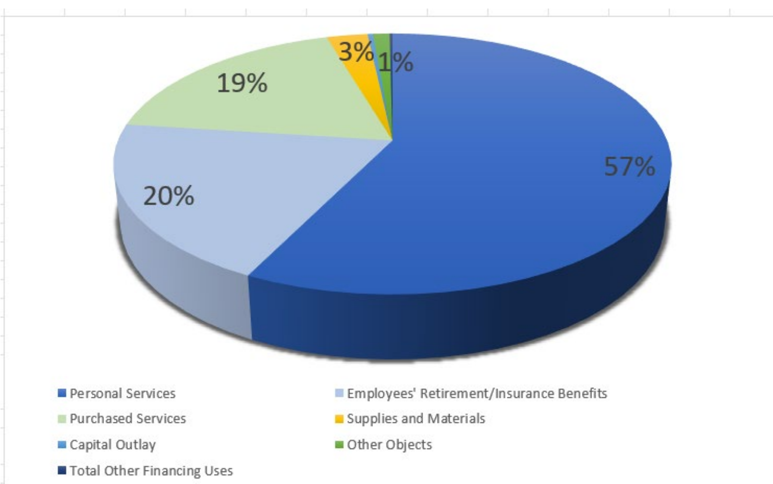
There was a one-time transfer of $10 million to fund deferred maintenance for Monfort Heights elementary and the district's capital maintenance plan. As well as, $20 million in one-time funds for the Master Facilities Plan in fiscal year 2024.

In summary, transfers typically contribute to less than 1% of the district's annual expenses.

Line 5.030 All Other Financing Uses

Refund of Prior Year Receipts – We don't anticipate any refunds of prior year receipts of large significance in this forecast.

Total Expenditure Summary



Expenditures are anticipated to be $111 million in fiscal year 2025 growing to $124 million in fiscal year 2029. Primarily the increases are due to anticipated salary and benefit increases over the term of the forecast, as well as, increases in Purchased Services due to increased cost of alternative education programs and special education needs. The *Resolution of District Financial Parameters and Community Partnership* (June 2019/renewed November 2021 and again in 2023), requires that annual operational growth not exceed 3%. This requires the adjustment of operations and services throughout the five-year forecast.

Line 8.010 Estimated Encumbrances

Outstanding Encumbrances - Encumbrances are legal financial obligations of the district that have not been expended at fiscal year-end. We anticipate roughly the same amount will remain unpaid each fiscal year. This amount is included in the aforementioned line items for forecasted years, except June utility costs which are encumbered to be paid in July (next fiscal year). In the event actual encumbrances are higher than anticipated on June 30, the actual expenditures in the aforementioned line items may be lower.

Line 13.020 Proposed New Levy

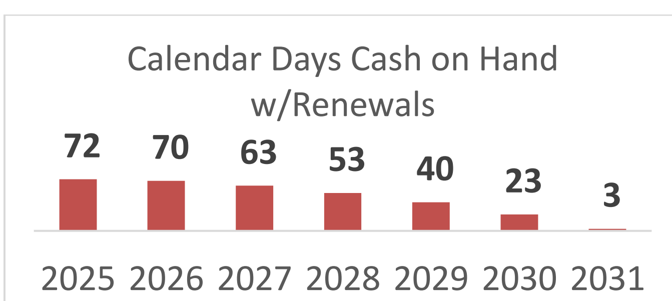
Due to the Ohio School Funding Concept, the ***State*** develops a school funding formula for *basic education* and determines the amount of money a district *can* collect locally (*local capacity*). Then the state pays the difference. The district is then required to ask for additional operating levies as costs increase. The Board of Education and Administration anticipate the need for additional revenue during this forecast period. We have worked with our community on a partnership (currently approved November 2023) to determine the type, amount and length of our 5 year/5 mill levy cycle. Our partnership with our community is critical to balance the need for services with the ability to pay.

The district currently utilizes two emergency levies that will expire during the forecast period. A $7.3 million Emergency Levy will expire on December 31, 2027 and an $11.3 million Emergency Levy will expire on December 31, 2029. In order to maintain current operations additional revenue and/or reduced operations will need to occur.

Line 15.010 Unreserved Fund Balance June 30th

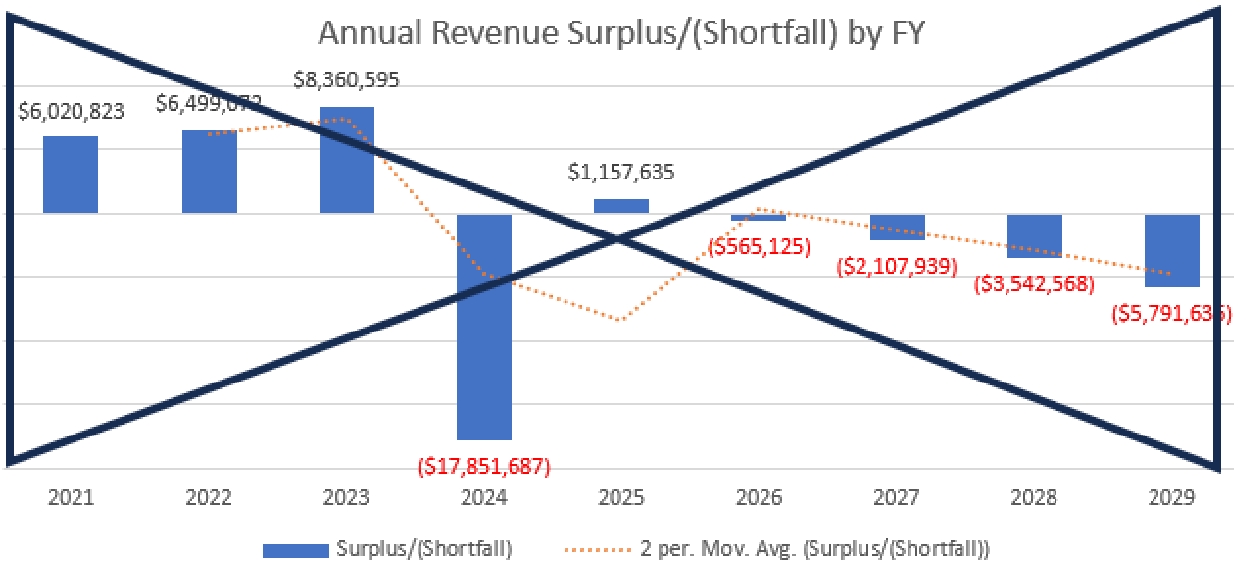
The district's unreserved fund balance is the cash balance less outstanding encumbrances.

A **Structural Operating Deficit** (line 6) exists starting in fiscal year 2026. The district has a Cash Balance Reserve policy (#6220), requiring 60 days of annual operating expenditures. This threshold is met for the three years of the five-year forecast. Per policy #6220, if this threshold is not met a plan must be developed of options for the Board of Education to consider, as well as operational levies pursued.



The operating deficit in FY24 was caused by the one-time transfers of $30 million to fund the Capital Maintenance Plan and assist our community with funding the Master Facilities Plan.

Due to property tax levies being flat when passed it is important to note that the district (and any taxing district) receives more funds when a levy is passed, breaks even in the middle of the levy cycle and starts deficit spending at the end of the levy cycle. This is referred to as the **Bow-Tie effect**. Per the district's Community Partnership Resolution #1929 passed on June 24, 2019 (and again on November 15, 2021, and November 20, 2023), the district has a 5 year/5 mill levy cycle. Meaning that the community has asked that the district ask for smaller levies, more often. The levy cycle requires the district to ensure that a 5-mill levy will last at least 5 years before coming back to the community for additional revenue.

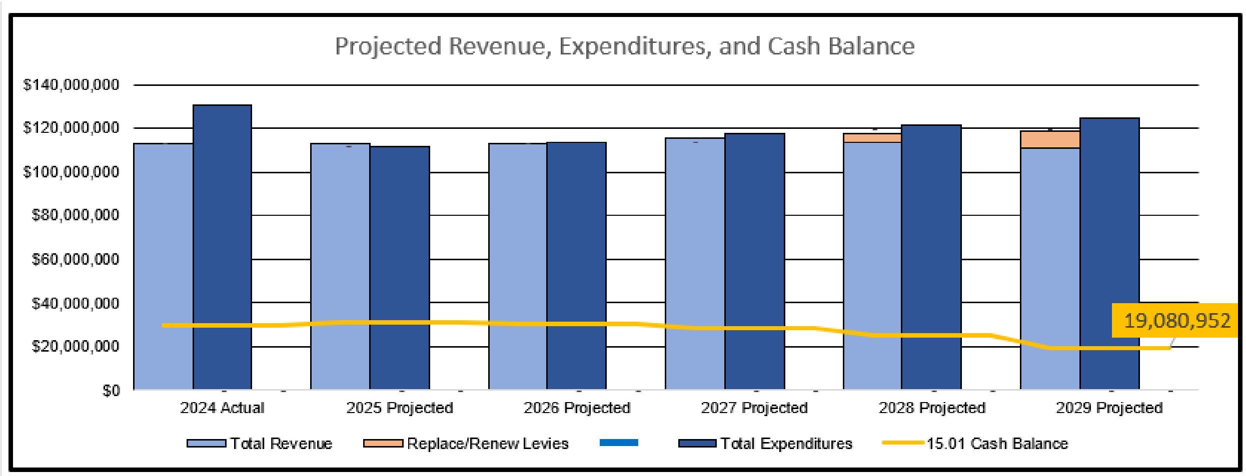


With deficit spending starting to occur at the end of the previous levy cycle, the Board of Education has some upcoming decisions. Within this five-year forecast, there is a renewal of an emergency levy that was originally passed in 2012. This $7.3 million Emergency Levy will expire on December 31, 2027. With another $11.3 million Emergency Levy set to expire on December 31, 2029 just outside this five year forecast. Additionally, if the Board of Education chooses to maintain current operations, there are two options utilizing the forecast projections and assumptions, understanding the compounding effect as well as the 5 mill/5 year levy cycle per our community.

Option #1: 4 mill/5 year $10.3 million passed by November 2026 for collections in January 2027

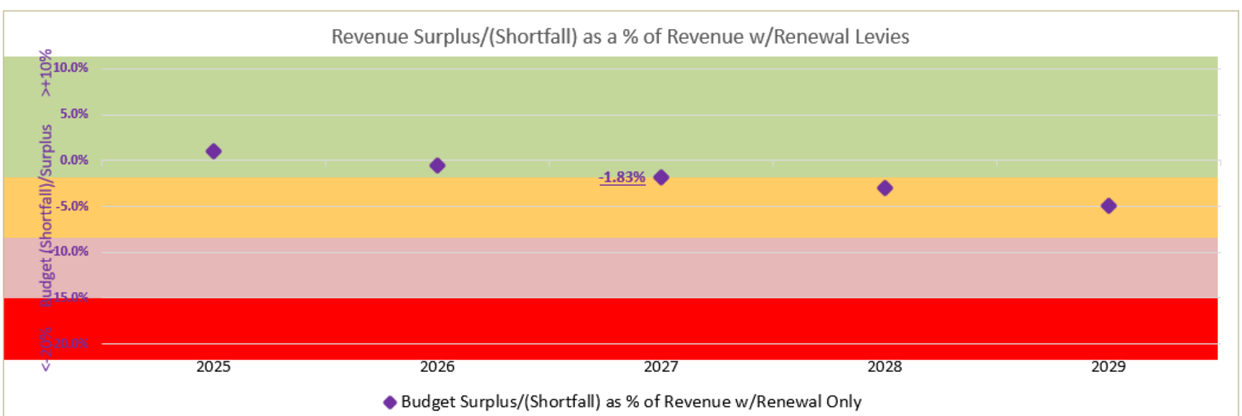
Option #2: 6 mill/5 year $15.4 million passed by November 2028 for collections in January 2029

Assumptions and operating budgets reflected in this forecast are as of when it is approved. Cost savings and/or increased expenses can occur during the fiscal year that will impact the overall picture and future assumptions.



With deficit spending occurring, renewal of, additional revenue and/or reduced operations will need to occur during this five-year forecast. The district provides educational services. A reduction in operations will mean reduced services provided too and opportunities for the families and children of our community.

When expenditures exceed revenue (deficit spending) the Ohio Department of Education & Workforce measures the cash shortfall relative to revenue. The coding above represents yellow (fiscal caution), pink (warning), red (fiscal emergency). Once placed in fiscal caution, state law requires districts to provide a plan, similar to our Cash Balance Reserve policy (#6220), for discontinuing or correcting the practices and conditions that led to the declaration of Fiscal Caution. The chart below illustrates where the district falls based on this five-year forecast, including the 2027 renewal.



EXECUTIVE SUMMARY

The five-year forecast is a compilation of data based on funding formulas, as they currently exist in State law. The five-year forecast is due to the State of Ohio every November 30th and May 31st and can be revised and updated anytime between. Assumptions are based on historical trends and analysis, and it is important to monitor forecast activity on a monthly basis in an effort to ensure the budget stays on target. This is addressed in monthly board meetings.

Utilization of the monthly Cash Flow Report will allow management to monitor all major revenues and expenditures against the five-year forecast. It is important to modify the forecast as management learns of changes in laws or events that would cause a material change in forecasted numbers. This is even essential during potential economic downturns.

Our continued partnership with our community is crucial for the district to maintain a positive financial future. Ohio law requires the district to operate within a balanced budget. In the event that significant events alter the projections in the five-year forecast, management will assess the situation and make recommended changes to the forecast and budget in order to maintain a balanced budget.

As expenses continue to increase due to inflationary pressures and revenues continue to be stable, this will require the district to continue to reallocate resources from existing activities in the budget to fund our instructional priorities and infrastructure needs. These instructional priorities are not selected in a vacuum. The Board, administration, and individuals within the schools from all levels contribute to the development of these instructional priorities, as documented in the One Plan, to meet the district's mission of *"creating a responsive learning community where all students are valued, challenged, and guided along a pathway to success*." We then work on resource realignment to maximize these opportunities. Decisions must be driven by data and resources allocated based on academic return on investment (A-ROI). As an administrative team we adopted national best practices in school budgeting. We believe it is important that our budget is used as a tool to help us to spend money wisely in ways that have the greatest impact for our students. We continue to work hard to develop a budget that reflects what our community needs and wants.

We believe that community engagement is essential for the success of our school district. Our strategic plan is the foundation of how our district will grow and operate in years to come. It is the Vision for our tomorrow, including our financial stability. Please join us as we continue to partner and collaborate with our community to do what is best for all students. Let's #Go Beyond together!

Finally, during this five-year forecast, the district begins to deficit spend. If management is unable to adjust operations to stay within the Cash Balance Reserve policy, they must present a plan to the Board of Education including pursuing operational levies. The Board of Education will have significant decisions to make during this five-year forecast, including two renewal emergency levies, as well as new funds to maintain current day-to-day operations and/or reduction in operations. As of this forecast, it is the Board's intention is to ask the community to renew the 2017 Emergency Levy for $7.3 million.

Operational funding is in addition to facilities and infrastructure. The Board of Education approved the updated Master Facilities Plan on February 26, 2024. After carefully listening to and understanding our community's concerns, the district created a Capital Maintenance Plan to prevent deferred maintenance with our three newer elementaries (Pleasant Run, Struble & Taylor) as well as including the deferred and future maintenance for Monfort Heights elementary. This plan was seeded with $10 million in one-time carryover funds, as well as funded with an annual required ½ mill from the Permanent Improvement Levy. In May 2024 the brick facade started to fall off Colerain elementary. The district entered into a Classroom Assistance Facilities Project (CFAP) with OFCC for Segment #1. The district utilized $20 million in increased tax revenue from the 2023 reappraisal along with one-time carryover funds and prior ELPP credits to build a new Colerain elementary without needing a bond from the community. The district has 5 additional buildings over 50 years old that have significant needs and approx. $35 million in deferred maintenance, along with aging athletic facilities and the preschool. The district will need community support to fund the Master Facilities Plan, which currently includes consolidating buildings for operational efficiencies and increased educational opportunities.

CONCLUDING COMMENTS, DISCLAIMERS AND NOTIFICATIONS

Reasonable professional diligence and care is exercised in the preparation of this forecast document. It is a public record pursuant to Ohio law. Public dissemination is required by State law and enabled by Resolution of the Northwest Local School District Board of Education. Multiple and varied sources and methods are used to develop the forecast data. Various assumptions and other extrapolations are employed in developing data that may or may not be timely, accurate, complete, or correctly interpreted. All forecast data is subject to change or correction at any time without notice. If any notice is subsequently provided, such notice may be limited to the filing of a revised forecast within the parameters of the statutory filing schedule. The forecast document is designed solely to provide a general indication of the probable future financial position of the School District. The legitimacy or accuracy of any specific assumption, number, or the forecast in total – while deemed reliable – cannot be guaranteed. In many cases, a relatively small change in one forecast number will have the effect of materially changing forecast data and trends, positive or negative. Therefore, professional discretion, diligence, caution, and care is required when using and interpreting forecast information. Current fiscal year data does not necessarily reflect current School District appropriations, budgets, certifications, or other data maintained in the files of the School District, including by the Office of the Treasurer of the Board of Education. Future forecast fiscal year data is compiled from public sources to the extent possible and reasonable; however, some information may be based on proprietary and or non-public data originating with private third parties. Such third-party data may in reality be promotional puffery or advocacy propaganda, despite contrary assurances, and the purpose of the third party providing the data may or may not be aligned with the financial best interest of the School District. Historical data is based on fiscal year end data filed by the Treasurer of the Board of Education with the Ohio Department of Education. Questions from the community and other users of this data are encouraged. The contact person is Amy M. Wells, CFO/Treasurer, Board of Education.