Orange SCHOOLS

To Learn. To Lead. To Make a Difference.™

Five Year Forecast Report to the Community

ORANGELIONS

Orange City School District Cuyahoga County

November 15, 2021

Contents

Executive Summary

No school district is an island unto itself. Public schools, in fact, are an integral part of the community. Since the 19th Century, education has been considered a vital governmental function. While teaching pedagogies change over time, the responsibility for serving pupils endures. The table below provides an abridged presentation of the financial forecast for the five years beginning this school year.

Orange City School District

Cuyahoga County

Abridged Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Years Ended June 30, 2019, 2020 and 2021 Actual;
Forecasted Fiscal Years Ending June 30, 2022 Through 2026

		Forecasted				
Forecast Line	Data Point	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026
2.080	Total Revenues and Other Financing Sources	$52,257,400	$52,675,818	$52,934,048	$53,336,314	$53,710,727
5.050	Total Expenditures and Other Financing Uses	$52,061,013	$52,885,532	$54,224,561	$55,639,592	$57,137,135
6.010	**Excess of Revenues over (under) Expenditures**	$196,387	($209,715)	($1,290,513)	($2,303,278)	($3,426,408)
7.010	Cash Balance July 1 - Excluding Proposed Future Levies	$25,829,415	$26,025,802	$25,816,087	$24,525,574	$22,222,296
7.020	Cash Balance June 30	$26,025,802	$25,816,087	$24,525,574	$22,222,296	$18,795,889
8.010	Estimated Encumbrances June 30	$500,000	$500,000	$500,000	$500,000	$500,000
11.300	Cumulative Balance of Replacement/Renewal Levies	$0	$0	$0	$0	$0
13.030	Cumulative Balance of New Levies	$0	$0	$3,265,369	$9,202,403	$15,139,437
15.010	**Forecast Fund Balance June 30**	**$25,525,802**	**$25,316,087**	**$27,290,943**	**$30,924,699**	**$33,435,326**

Commentary

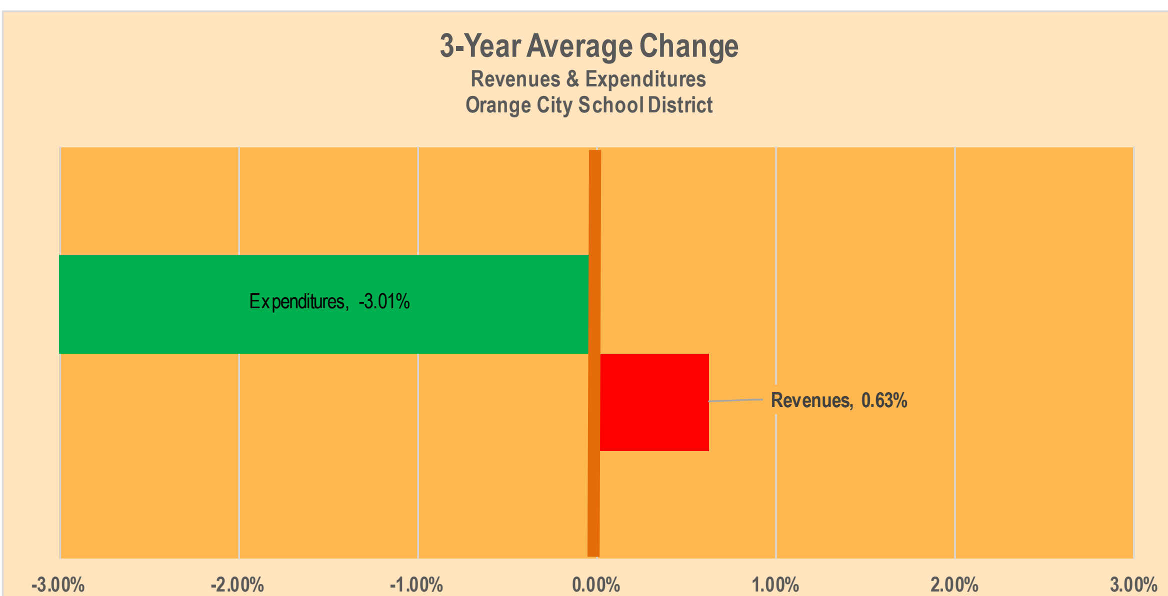
The COVID-19 pandemic has had profound effects on the operations of the Orange City School District and school communities throughout Ohio and the nation. Learning was disrupted when Ohio Gov. Mike DeWine ordered all Ohio schools to close to students effective March 16, 2020, for what would become the remainder of the 2019-2020 school year. The following school year, disruption to learning continued. At times during the 2020-2021 school year, students learned remotely. At other times, a hybrid approach of in-person and remote learning becoming the norm. Later during that school year, students could opt to return for a full school day or remain in a full remote learning environment. When the 2021-2022 school year began in August, students returned in-person for full-day every-day academic instruction; extracurricular activities largely resumed. The disruption that has occurred during the past 20 months has had a profound academic effect for some children and more limited effect for others. Still, it has become incumbent on teachers and administrators to identify pandemic-related learning gaps and develop strategies to overcome them. The Orange City Schools had used a comprehensive team approach to work through all associated issues to minimize deleterious effects on students' academic performance. That essential yet time-consuming and costly work is ongoing this school year. The School District has been allocated more than $2.5 million in federal COVID-19 relief funding as of October 2021 to address various pandemic-related learning impacts and associated mitigation costs. Possible congressional action this fall on infrastructure and budget reconciliation legislation could provide additional funding. In accordance with Ohio school accounting rules, this federal funding is accounted for outside of this forecast.

Among the consequences of the COVID-19 pandemic has been a massive economic dislocation unparalleled in modern American history. At the height of the pandemic, there was widespread disruption of business and social activity. While that disruption has abated somewhat, widespread effects remain. These include supply chain disruptions, labor shortages, and higher prices. At the midpoint of the fall of 2021, a lot of business and social activity has resumed, though not quite at pre-pandemic levels. One widely used metric to capture the economic impact of pandemic-related economic disruption is the Moody's Analytics "Back to Normal" index. As of October

15, 2021, that index found that economic activity in Ohio was at 97% of pre-pandemic activity compared with 95% for the nation as a whole. This ranked Ohio 23rd of the 50 states.

As of fall 2021, vaccines against the COVID-19 virus are widely available to all adults and teenagers who want them. Children ages 5-11 may be eligible to become vaccinated by the end of the calendar year. According to the federal Centers for Disease Control COVID Data Tracker, 66.9% of vaccine-eligible Americans and 64.7% of Ohioans age 12 or older are fully vaccinated against COVID-19 as of October 21, 2021. Yet vaccine hesitancy and resistance remains. An October 22, 2021, *Wall Street Journal* report indicates that legal challenges against vaccine requirements usually have been rebuffed. In the midst of this environment, economic activity has improved in recent months. The Philadelphia Federal Reserve Bank, in its 3rd Quarter Survey of Professional Forecasters, found the median forecast for economic growth in 2021 to be 5.5% and 4.4% in 2022. All of this portends a strong economy going forward. Pent-up demand along with an anticipated reduction in supply-chain bottlenecks are contributing factors to this positive outlook. Through at least the middle of the current decade, economists suggest that economic activity will flourish, albeit at a lower rate of growth in the latter years. Still, many of the constraints to robust economic activity evident in the spring remain. Labor availability is tight in many service and manufacturing industries. This has compelled employers to raise wage rates and limit operating hours in some cases. Appliances and building materials periodically have been in short supply. The need for vehicle computer chips continues to exceed available output, constraining automobile sales. While many government-imposed travel restrictions have been withdrawn in recent months, many businesses continue to minimize employee travel. According to the October 20, 2020, “Beige Book” report from the Federal Reserve, “Outlooks for near-term economic activity remained positive, overall, but some Districts noted increased uncertainty and more cautious optimism than in previous months.”

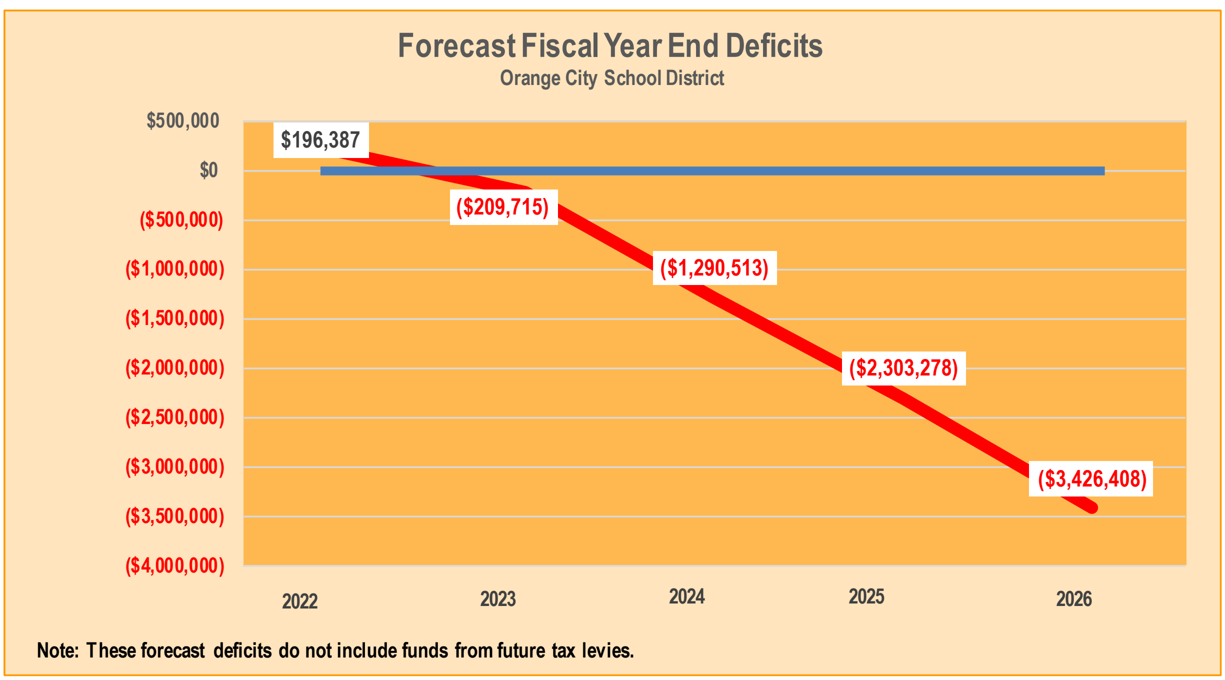
As a result, this remains among the most challenging periods for forecasting in the 23-year history of the financial forecasting law for Ohio school districts. Pandemic-related economic upheaval has weakened almost any financial assumptions or estimates based on current or historical data. Statistical standards commonly used to assess the credibility of financial forecast assumptions have become less reliable than in more stable times. While the environment for forecasting is somewhat improved, pandemic-related anomalies will factor into forecast data for several years. The data presented in this financial forecast are based on the best available information as of the time of its preparation. Yet the reliability of that information is contingent on conditions that could change rapidly, especially if another virulent strain of the COVID-19 virus circulates through the population.



Worst-case scenario predictions about the financial impact of the COVID-19 pandemic have not come to pass to date. In general, at the height of the pandemic, revenues were stable while expenditures were constrained. Real estate tax revenues declined slightly in the fall of 2020 but have since recovered. Also, State funding cuts imposed by the Governor of Ohio for Fiscal Year 2021, effective in July 2020, were rescinded in January 2021. Meanwhile, at the height of the pandemic, due to the closure of school buildings and related reduction of in-person school activities, certain costs were not incurred. These include but are not limited to substitute employees, employee overtime, utilities and bus fuel. While hiring for vacant positions slowed at certain points during the pandemic, all regular employees retained their jobs.

Despite the most challenging set of fiscal circumstances in the modern era, the School District is in a resilient financial position. Absent major changes to existing revenue and expenditure patterns, expenditures are forecast at close to breakeven for this fiscal year and next. Starting in Fiscal Year 2023-2024, expenditures are forecast to exceed revenues for the remainder of the forecast time horizon. This trend is in accord with several recent financial forecasts. At some point, revenues will have to be increased or expenditures reduced in order to correct an imbalance where the District will have fewer than 90 days of cash reserves on hand, contravening Board of Education Resolution R-14-2005.

Relative to school districts across Ohio, however, the Orange City School District is in a strong financial position. When the School District refinanced its entire outstanding voted debt in spring 2017, it upheld its standing as the only Ohio school district to have top credit ratings both from Moody's Investors Service [Aaa] and Standard & Poor's [AAA]. Conservative fiscal practices, strong reserves and community support are among the reasons cited by both agencies for affirming their highest ratings. In its March 2017, discussion about the rationale for conferring an Aaa rating, Moody's Investors Service said, "Given strong local support for revenue and the district's very healthy financial position, we expect future financial challenges to be minimal and that the district could absorb moderate growth in costs should they arise." Standard & Poor's found it especially noteworthy that the Orange City School District "can maintain better credit characteristics than the U.S. [federal government] in a stress scenario." Subsequent rating agency surveillance of the District's financial position suggests that the fiscal characteristics necessary to maintain these top ratings remain in place. In an October 2021 Issuer Comment report, Moody's said the following: "Orange City SD's credit position is exceptional. The Aaa rating is well above the US school district median of Aa3. Key credit factors include a very healthy economy, stable enrollment trend, robust financial position, high leverage and very low fixed costs." The Moody's report notes an average District resident income of 262% of the U.S. average, a 3-year enrollment trend of a 0.2% increase and full real estate value per capita of $230,377.

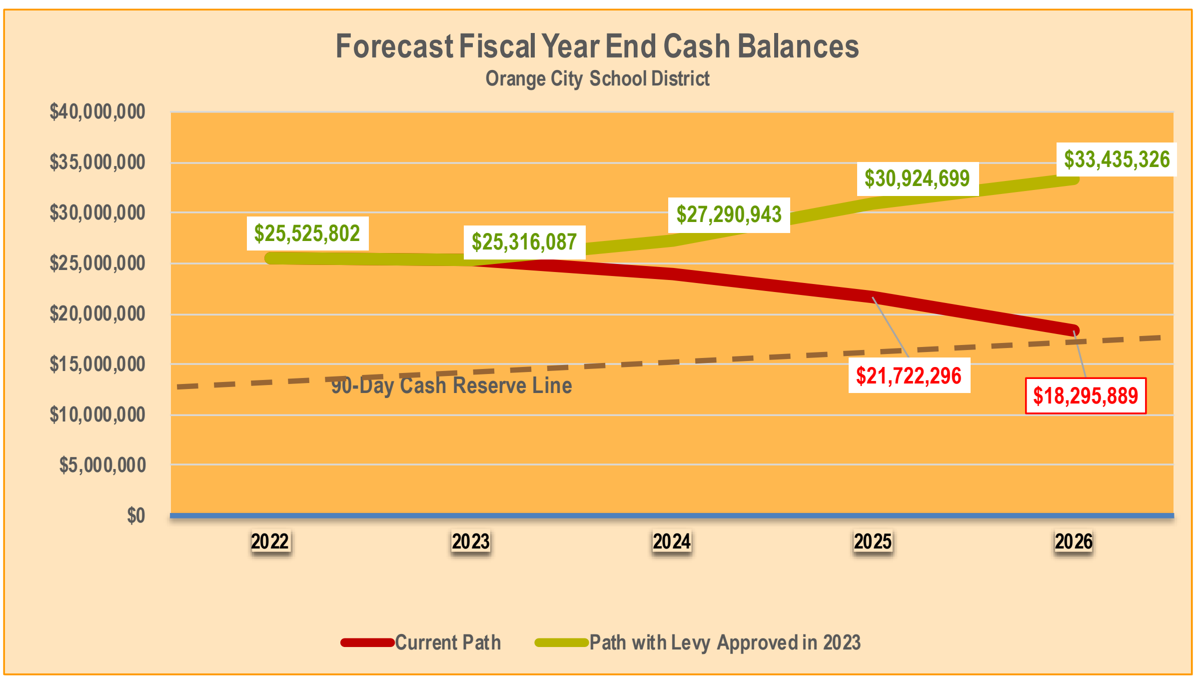


Throughout the course of the current five-year forecast time frame, the financial position of the School District is forecast to decline from breakeven in the next 2 fiscal years to a deficit of nearly $3.5 million in Fiscal Year 2026.

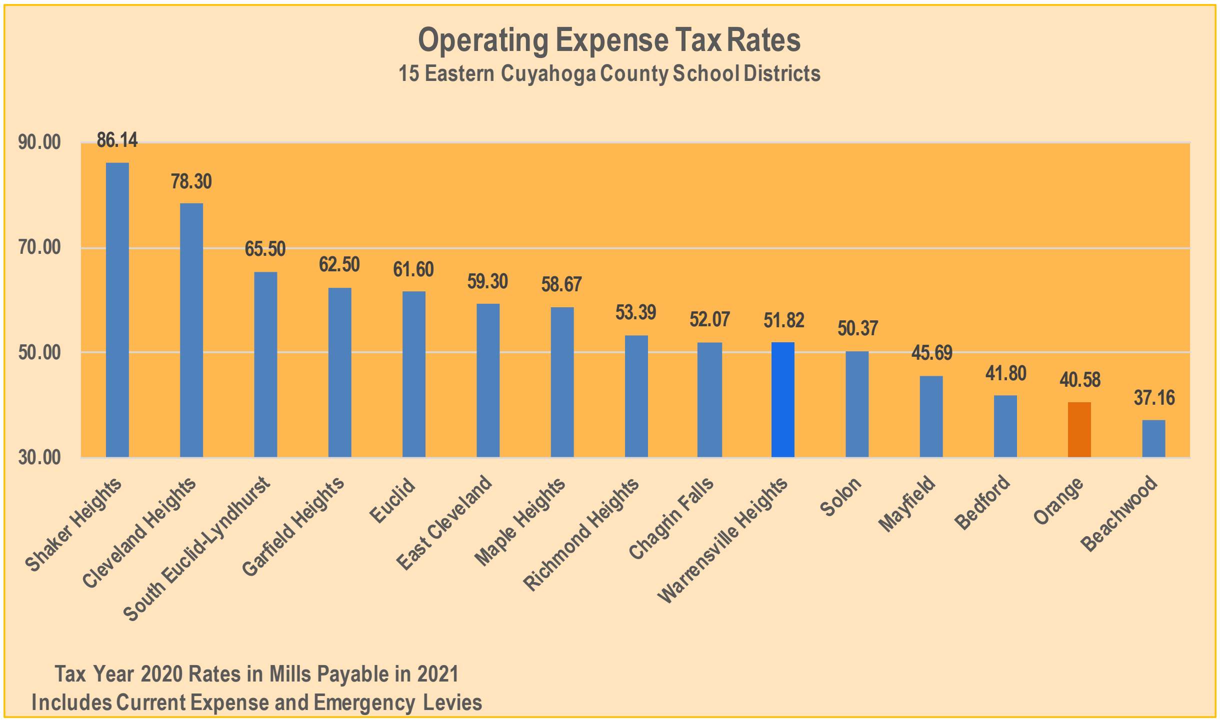
While this trend is somewhat of an improvement from recent forecasts, this trend of declining cash balances has been predicted for several years through multiple forecast documents. Forecast costs rising faster than revenues is a common predicament for Ohio school districts that is rooted deeply in Ohio school funding laws. A moderate level of new construction, redevelopment, and renovation of residential and commercial property has occurred in the community in recent years. All of this has had a modest positive fiscal impact. The COVID-19 pandemic seemed to limit new residential construction in its early days. However, new residential construction has accelerated more recently. Residential renovations, according to local municipal officials, are occurring at a robust pace now. Still, the pandemic has slowed some anticipated commercial development. Nevertheless, commercial leasing activity has increased in the past few months with retail occupancy rates moving toward pre-pandemic levels.

While development of the commercial portion of Pinecrest complex along Interstate 271 at the western edge of the School District has positively impacted the financial condition of the School District, payments in lieu of real estate taxes have not met pre-construction projections to date. Income tax sharing payments have been much closer to pre-construction projections. Orange Village officials currently are in discussions with the developer of the residential portion of Pinecrest about plans for that portion of the development. Where appropriate, future development projects such as these have been factored into the financial forecast. Further specific information about the Pinecrest development is contained in Exhibit A of this document.

Among the most vexing issues in Ohio school finance over time has been the adequate and equitable provision of financial resources for the school districts of the State. Since the 1930s, the Ohio General Assembly has appropriated funds for distribution to school districts through various iterations of formulas that allocate funds to school districts according to wealth. As part of the 2021-2023 biennial budget bill, State legislators approved a major package of school funding reforms. While the Ohio Fair School Funding Plan is anticipated to have a positive effect on education funding in the state as a whole, its impact appears to be limited for the Orange City School District. This is largely due to a plethora of wealth indices for the District that show it has a high ability compared with other school districts to raise revenue locally. Nevertheless, a number of impediments exist with regard to raising local revenue. For a variety of reasons, partially related to tax-reform legislation enacted in the mid-1970s and subsequent State constitutional amendments, the distribution system for funds for schools became somewhat detached from the revenue actually received.



To address forecast future imbalances in revenues and expenditures, the superintendent and treasurer have worked with the Board of Education to consider budget-balancing preferences going forward. These options include significant expenditure reductions and possible revenue enhancements. With respect to revenue enhancement, a 5-mill current expense levy has been considered. The District is forecast to have sufficient reserves to maintain a minimum cash reserve of 25% of anticipated expenditures through the next several years, but comes close to breaching that reserve level during Fiscal Year 2026. The District is expected to remain highly dependent on local property taxpayers for funding day-to-day operations for the 5-year period and beyond. Indeed, the local taxpayer burden for funding day-to-day operations is likely to increase. Nevertheless, the District is in the lower third of the 31 school districts in Cuyahoga County in terms of its tax rates on real property. With respect to nearby districts in eastern Cuyahoga County, it has the second lowest tax rate for day-to-day operations.

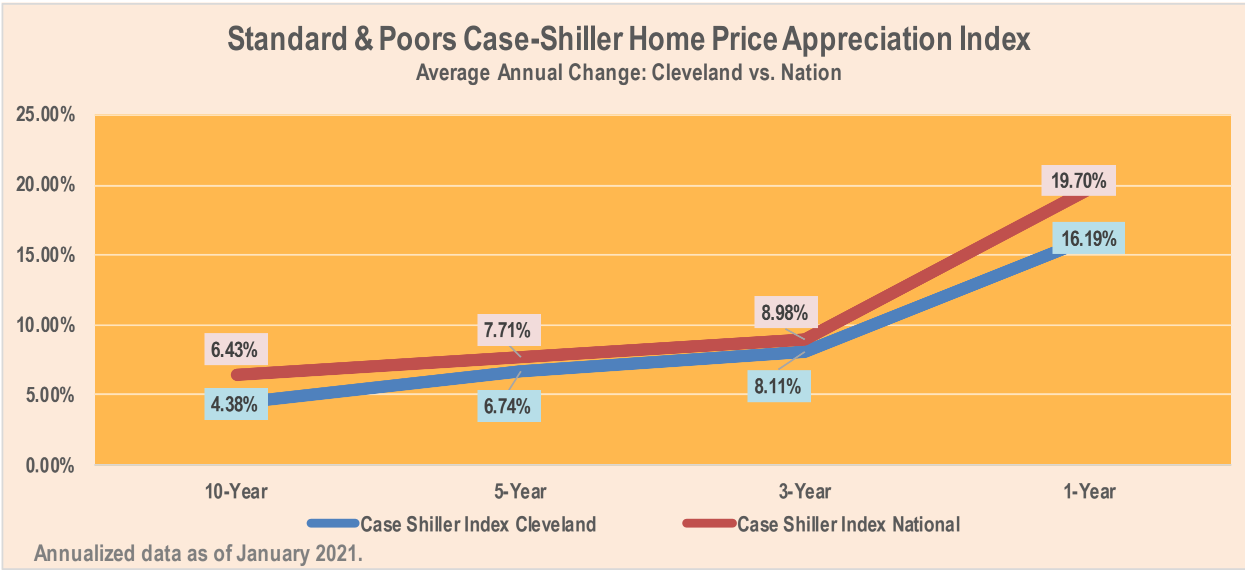


Two other trends also will be significant for the foreseeable future. The first trend is stable-to-declining enrollment. In the past 5 years enrollment for funding purposes at the end of the fiscal year has fluctuated between 1970 and 2014 students. It is forecast that enrollment will remain within this narrow band during the near term. However, development trends suggest a slight increase is possible in the next several years. As a result, enrollment-related changes in staffing are unlikely to be needed in the next several years.

This forecast is filed with the Ohio Department of Education in accordance with Section 5705.391 of the Ohio Revised Code. Consistent with its statutory obligations, the Orange Board of Education adopted this forecast document on November 15, 2021. The projections contained herein are based on information known to the District as of November 2021 and are subject to revision as facts and circumstances warrant.

Economic Environment

The economic environment of the school community influences the resources available to the School District. Since the mid-1980s, resident incomes as determined by the metric of federal adjusted gross income (AGI) ranked no lower than third highest among Ohio's more than 600 school communities. Providing resources for public education is primarily a function of government at the local and state levels throughout the United States of America.



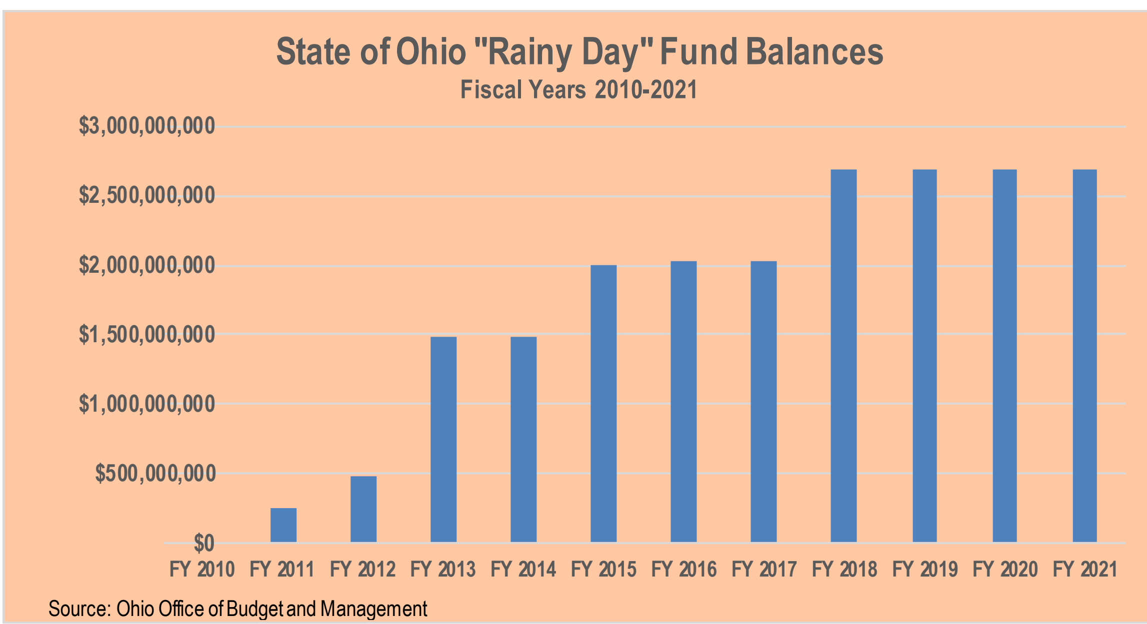
Commentary

It is prudent in long-range forecasting to consider the economic climate in which projections of revenues are made. The international economic turmoil resulting from the COVID-19 pandemic continues to make the forecasting environment challenging. As a general rule, Ohio and the Cleveland region have fared somewhat better than the nation as a whole during the pandemic. In some measure, this is due to the region's lower economic reliance on travel, hospitality and other leisure enterprises than the nation as a whole. In its October 20, 2021, "Beige Book" report of regional economic activity, the Federal Reserve Bank of Cleveland found, "On net, contacts expect demand for their goods and services to increase in coming months, but their optimism has been moderating since early summer as supply disruptions intensified and COVID cases rose. That waning optimism was accompanied by lowered expectations for capital spending. Meanwhile, most contacts indicated that input costs (labor and non-labor) increased in recent weeks, and a majority had raised selling prices. Finally, in a now familiar refrain, labor demand remained solid, but many contacts continued to suggest that hiring was limited by a dearth of job applicants."

A number of recent economic reports suggest the pace of national and regional activity is generally growing, but at a slower rate than in recent months. Explanations for this moderation are varied, but perhaps suggest a normalizing flow of economic activity. According to the October 12 Ohio Budget & Management Monthly Financial Report, "Economists continued to downgrade their forecasts for third quarter of calendar year 2021, while simultaneously predicting a reacceleration of growth during calendar year 2022." The Cleveland "Beige Book" report noted that "product shortages were resetting customers' expectations" at least for now. As a result, a purchase that may have been made before the end of the year perhaps will be deferred until next year if it can be. Automobile dealers, according to the Cleveland report, are seeing fewer customers come into their showrooms because of limited inventory availability.

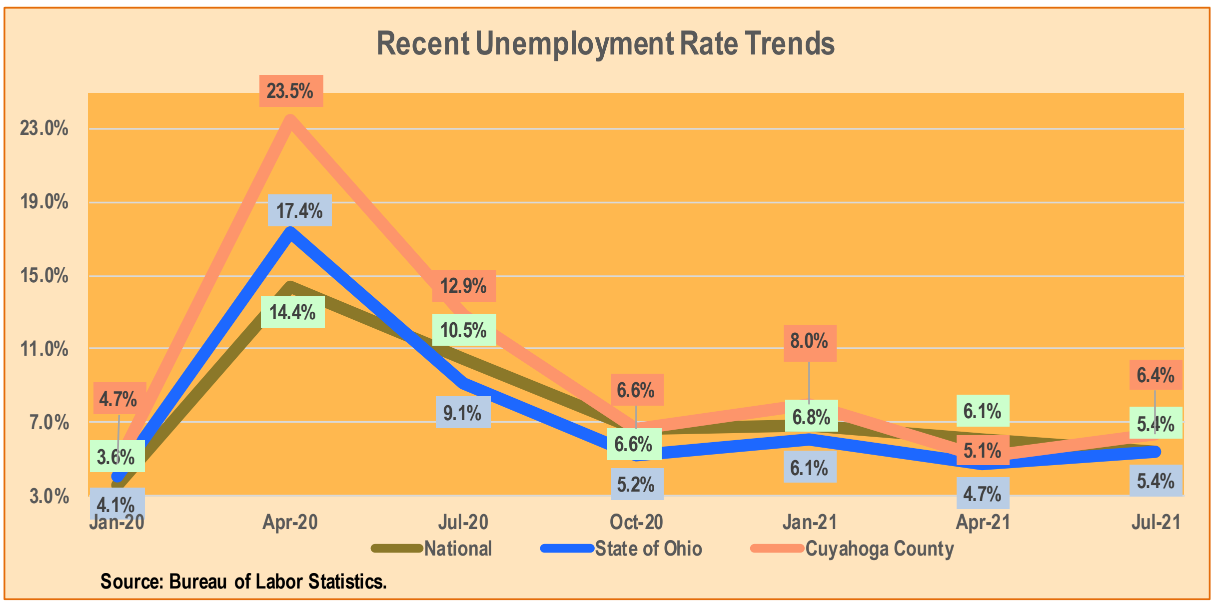
It is important for the School District to consider regional economic data for two reasons: First, State funding is directly affected by State revenue collections and the health of the State budget. The effects of the 2008 recession required the State of Ohio to make nearly $8 billion in reductions in the State biennial budget for fiscal years 2012 and 2013, which translated into flat funding and/or funding reductions for nearly every school district in Ohio. Early in the COVID-19 pandemic, angst about economic conditions was high. Pandemic-induced revenue losses necessitated $775 million in budget reductions to State agencies through the Fiscal Year ending June 30, 2020, including $355 million in cuts to PK-12 education programs. Second, the same economic forces driving State tax revenues are also generally affecting the underlying economics of most communities across Ohio, which impacts the ability to collect local tax revenue. Indeed, it took 10 years for property values in most of Ohio to recover from declines incurred during the Great Recession with statewide property values rising above 2008 levels for the first time only in 2017. Starting in the summer 2020 real estate selling season and through the present time, housing values and sales prices have risen in the Cleveland area and much of Ohio, including eastern Cuyahoga County. Indeed, bidding wars for desirable residential properties have become a frequent occurrence. Many homes are sold within days of coming onto the market. Residential property values continued to hold up remarkably well in Cuyahoga County through the 2021 update to real property values for tax purposes. Though reappraisal value increases varied throughout the communities of the School District, an overall increase of approximately 5% was then norm. As a rule, a local school district's economic viability is tied to the same fundamental economics that drive the State's economic viability.

The State has significant reserves to weather any future pandemic-related economic downturn if it comes. The Ohio Budget Stabilization Fund, more commonly known as the "Rainy Day Fund" currently has nearly $2.7 million on deposit, an amount unchanged from a year ago. Early in the pandemic, Gov. DeWine was authorized by State legislators to withdraw funds as necessary to meet State financial obligations. Gov. DeWine, has not used that authority and is not expected to do so for the foreseeable future. The last time the Budget Stabilization Fund was depleted was in 2010 when just 89 cents was on deposit as reserves were used to ameliorate the effects of the Great Recession on Ohio's economy.



From 2010 until March 2020, the labor market had been in recovery mode from the Great Recession. With the shutting down of many business in the spring of 2020, unemployment spiked dramatically. While not fully recovered as of the fall of 2021, unemployment rates have declined significantly in the past year. In August 2021, the unemployment rate for Cuyahoga County was 5.8% compared with 23.5% in April 2020 during the height of the pandemic. Still, the unemployment rate is 1.1 percentage points greater than the 4.7% rate for Cuyahoga County in January 2020. Over the past five years, the unemployment rate for Cuyahoga County has consistently trended above national and State levels. Although unemployment rate data is not calculated for the District or its constituent communities, demographic factors such as education and income levels would suggest lesser unemployment than the County and State metrics indicate. Monitoring unemployment rates is important because it is one measure to determine whether conditions exist for continued economic growth and viability. Revenue from personal income taxes and sales taxes also is highly correlated to employment. While not moving perfectly in tandem, unemployment rates for Ohio and the nation dropped by more than half in the 10 years prior to the pandemic.

In many sectors of the economy, jobs are plentiful. This fall, many businesses have "Help Wanted" signs on their tree lawns. Some signs advertise starting wages of at least $25 an hour or hiring bonuses of several thousand dollars as a way to entice potential applicants. School districts also are having great difficulty filling openings, especially for non-teaching positions. Bus driver vacancies have become the norm across the nation as well as for Orange City Schools. Across Ohio, school districts are holding job fares, paying hiring bonuses and taking various other actions to recruit and retain non-teaching employees. The District has several non-teaching staff openings at this time.



The Orange City School District is highly reliant on property taxes for supporting its educational program. When reimbursements from homestead and rollback tax credits are included, more than 90% of its revenue is associated with property taxation. In recent years, the tax base has grown modestly. In the most recent sexennial reappraisal year, Tax Year 2018, overall values grew by 5%. In non-reappraisal years, growth rates based primarily on new construction have varied in the range of 1%. The 5-year growth from 2016 to 2020 was 8.2%. The triennial update to the Tax Year 2018 reappraisal will occur in 2021 for Cuyahoga County. Preliminary information from the 2021 update shows assessed valuation growth of 5%, setting total assessed valuation at $1,213,472,531. The most recent real property tax settlement, which occurred on August 15, totaled $19,303,667, which is $1,501,075 (8.4%) more than the summer 2020 real estate tax settlement of $17,802,592. This is indicative of an improving economic environment for taxpayers now compared with a year ago.

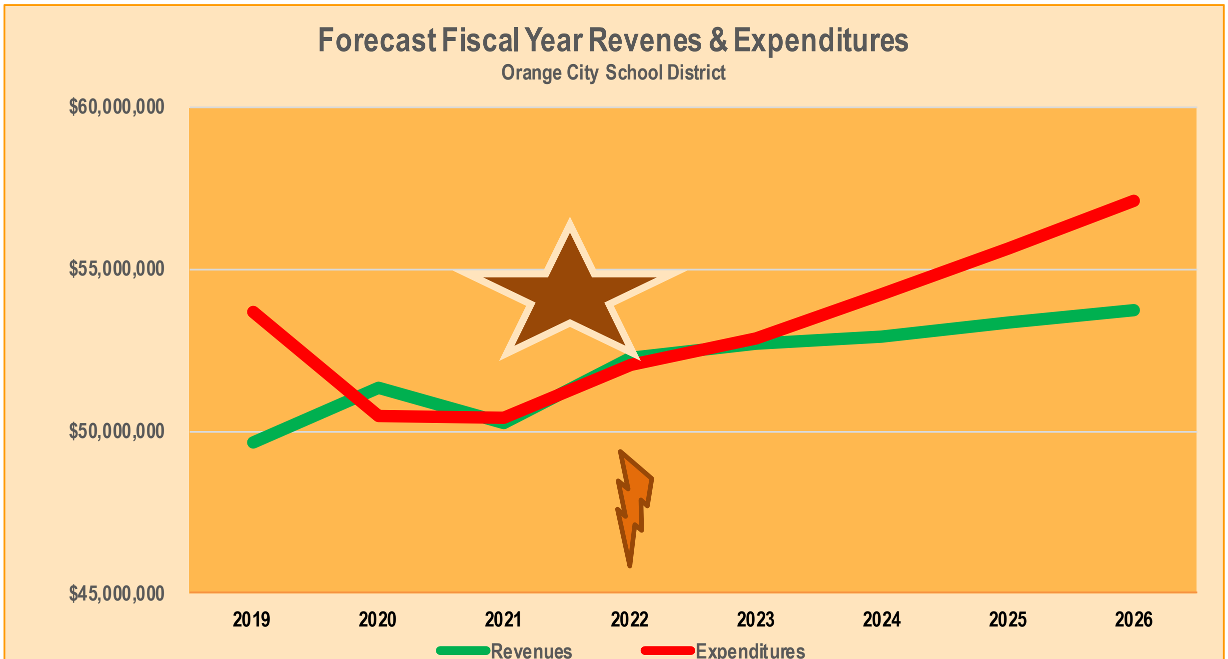
The local real residential estate market actually strengthened during the pandemic and this was the consistent trend throughout the State of Ohio. While the industrial market appears strong and retail space has shown recent signs of life, there is some concern about whether the office market will rebound as quickly with many office employers considering some form of permanent or semi-permanent work-at-home arrangements. Meanwhile, Public Utility Personal Property taxable values have grown more rapidly than real property values in the School District and throughout the State in recent years. This reflects investment to rehabilitate or to replace aging infrastructure as well as the development of new natural gas and petroleum transmission lines across the State.

The School District is comprised of 8 taxing districts, all of which have experienced growth in property values in recent years. The 2020 Tax Base was 84.2% residential, 14.3% commercial and 1.5% public utility. The largest taxing district, the City of Pepper Pike, comprises 41.1% of the total Tax Year 2020 tax base. It also has the largest proportion of taxable residential property in the school district (43.9%) and largest proportion of taxable public utility property (51.6%). The Village of Woodmere has the largest proportion of commercial property at 29.5% of the tax base.

Prior to the COVID-19 pandemic, many economists had forecast an economic downturn during the spring or summer of 2020 due to a maturing business cycle. The pandemic likely accelerated and deepened that economic downturn. The subsequent rebound from the depths of the pandemic has created some statistical distortions about the pace of recovery. Nevertheless, economic activity had plunged to the lowest levels on records that go back to the post-World War II era. The path of the economy in the year ahead and beyond will depend significantly on the course of the virus and whether virulent variants develop. It is argued, for example, that the Delta variant of the virus has constrained current economic recovery somewhat. Indeed, the ongoing public health crisis continues to weigh on the economy, and risks to the economic outlook remain.

Forecast Risks & Uncertainty

No financial forecast is an absolute prediction of the future. Indeed, the word forecast suggests that the intended purpose of the document is to provide guidance to a probable future outcome. A financial forecast, in fact, is similar to a weather forecast in that it is intended to provide insight into a probable future financial conditions. The purpose of this forecast is to guide the decisions of educational leaders and policy makers.



The star represents the fiscal year when expenditures and revenues approximately matched. The lightning bolt is positioned at the current year.

Commentary

A five-year financial forecast has inherent risks and ambiguity. The COVID-19 pandemic has been a stark reminder of these realities. These fundamental uncertainties result not only from economic vicissitudes but also deliberative actions. The forecast time horizon includes two future State biennial budgets. Legislative actions that will occur during the first six months of 2023 and 2025, related to enactment of these State biennial budgets, will play an important role in the financial health of all Ohio local governments, including school districts. At this time, it is unreasonable to attempt to predict the outcome of future budget deliberations. Yet the future budget recommendations of governors and actions of the Ohio General Assembly play an important role in this forecast despite the high level of uncertainty associated with those actions. Revenues and expenses are estimated based on the best data available at the time of this forecast; at best, the reliability of this information remains unusually problematic due to the pandemic.

The items below give a short description of the current issues and how they may affect the forecast long term:

Orange City Schools receives more than 90% of its operating revenue directly or indirectly from local property taxpayers. Direct payments include property tax payments made to the Cuyahoga County Fiscal Office. Indirect payments include various State subsidies for property tax exemptions granted in accordance with Ohio law. Valuation growth is one factor for increased revenue year over year. Preliminary information from the tax year 2021 (2022 collection) triennial update of property values shows an increase of $61,206,331 in total valuation to $1,213,472,531, a 5.0% increase. This increase is attributable both to increasing property valuations as well as new construction. The next sexennial real property reappraisal occurs in 2024; and the next interim adjustment in real property values to reflect inflation (or deflation) will occur in 2027. Inflationary increases in tax revenues are limited due to State law and the Ohio Constitution, so revenue growth due to appreciating property values only occurs on 5.2 inside mills allocated to the School District. The estimated increase in revenue from the 2021 triennial update, according to the Cuyahoga County Fiscal Office, is $318,273.

State of Ohio appropriations is the other primary source of School District revenues. About two-thirds of State revenue flows to the District in the form of reimbursement for property tax subsidies. These reimbursements are an important revenue source and a point of risk to the financial stability of the District. The most recent State biennial budget bill for the period from July 1, 2021, to June 30, 2023, included substantial changes to the manner by which the State funds local school districts by beginning a phase-in of the Ohio Fair School Funding plan. While substantial on a statewide basis, the impact of House Bill 110, the budget bill, on District finances is projected to be relatively small.

It is important to remember that there are several future State biennial budgets covering the forecast time frame. The new funding formula has a 6-year phase-in period and there is no way to know if future legislative budget bill deliberations actually will adhere to that phase-in timetable. This unknown about the State foundation funding phase-in and general difficulty in forecasting the vibrancy of the State's economy over many years makes this area a high risk to the funding projections presented in this forecast document.

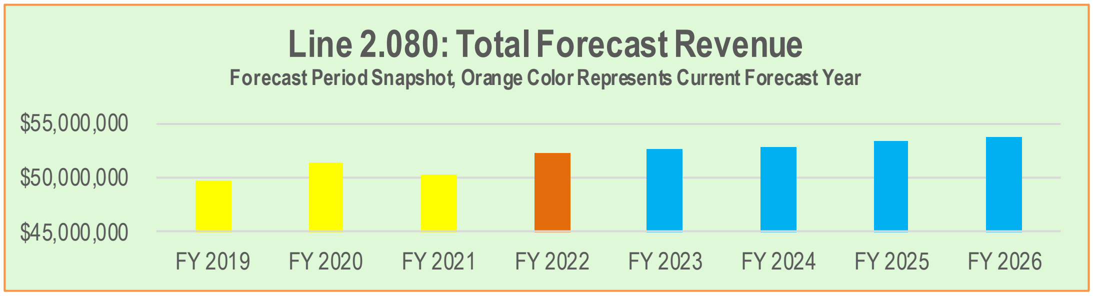
In addition, many State education programs, draw funds away from local school districts through a variety of school choice programs and other legislative initiatives. College Credit Plus draws funds directly away from school districts by debiting State Foundation. Changes in how various school choice initiatives and scholarship programs are funded also have an impact on District funding. Future expansion or creation of additional programs such as these exposes the district to the risk of new expenditures that are not currently contemplated in the forecast.

A wide variety of risks on the expenditure side of the ledger also exist. For example, a currently tight labor market for bus drivers and other non-teaching employees, exposes the District to potential labor shortages and related wage pressures. The District is also having difficulty finding substitute teachers. With respect to supplies and materials, the District is facing higher prices and order backlogs for a number of educational and office supplies. With respect to utilities, the District uses long-term consortium contracts to mitigate day-to-day utility price fluctuations, but those contracts are repriced periodically based on market conditions at the time of repricing. The District also is exposed to volatility in prices for bus fuel, repair parts and similar maintenance items.

The major categories of revenue and expenditures on the forecast are noted in the headings to make it easier to reference the assumptions made for the forecast item. It should be of assistance to the reader to review the assumptions noted in the following in order to understand the overall financial forecast for the District.

Revenue Forecast Introduction

Ohio school districts have two primary revenue sources: local taxpayers and the State government. Each school district has a unique proportionate share of State versus local revenue based on a metric of wealth per pupil. While a cumbrous array of factors is involved in these proportionate calculations, the driving factor is assessed property valuation per pupil. The revenue discussion reviews the sources of funds for daily school operations.



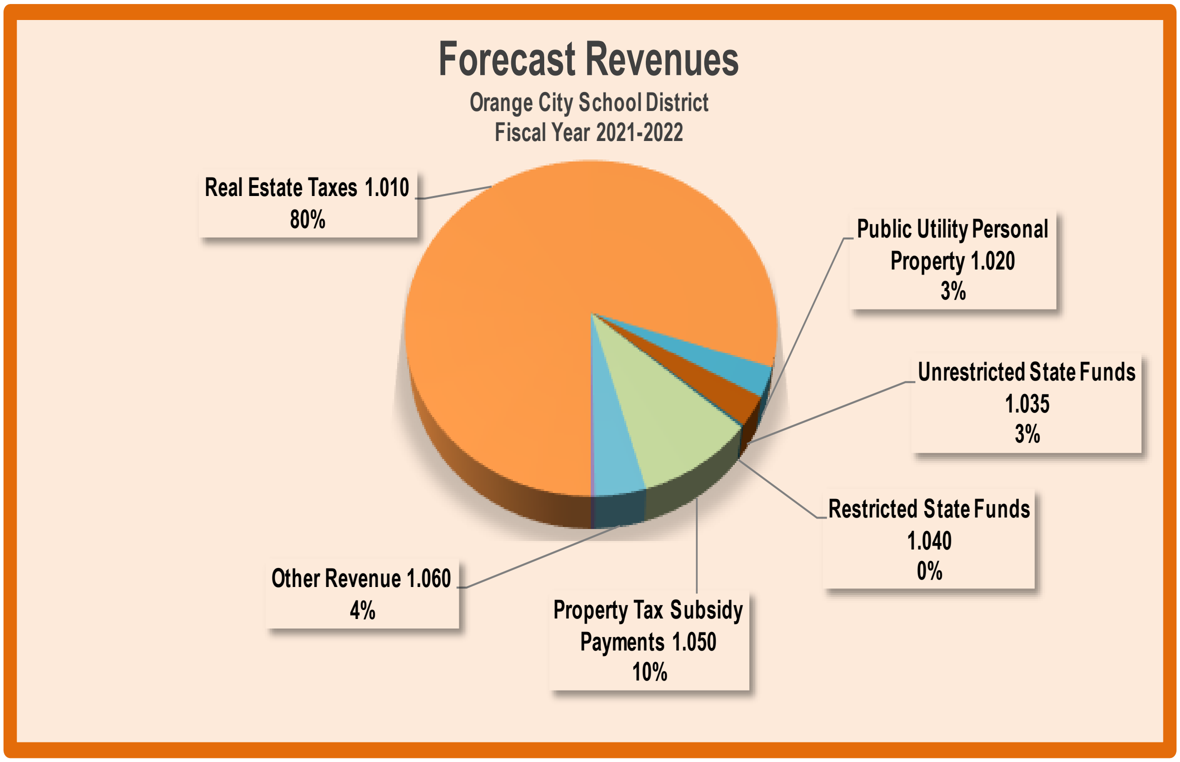
Commentary

By far, the largest source of revenue for the Orange City School District is real property taxes. In fact, the proportion of school revenue derived from local property taxes is forecast to increase during the next five years. Currently, the largest area of forecast revenue growth is public utility personal property taxes, and that growth is forecast to continue through at least the middle of this decade. Total average annual revenue is forecast to grow modestly with net average annual revenue growth totaling about 0.5% per year.

Total revenue has fluctuated in the past few years. This is primarily due to federal tax law changes that created one-time anomalies in the timing of property tax receipts. Throughout the COVID-19 pandemic, local tax revenue has maintained remarkable stability. Property tax delinquencies rose somewhat in the summer of 2020, but largely recovered in the winter of 2021. As long as the economic recovery from the COVID-19 pandemic continues, future tax revenues are likely to remain strong. Underlying tax-related revenue projections are based on all current tax levies remaining in effect.

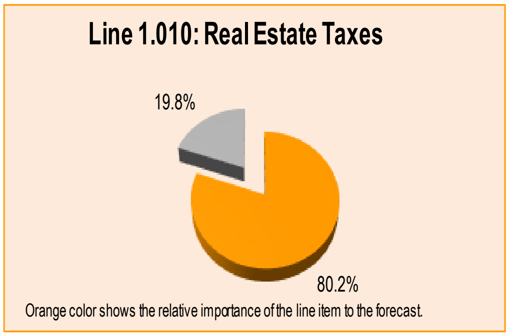
The State Foundation subsidy for schools has provided about 3% of the District's operating budget in recent years.. Projections about the impact of the Ohio Fair School Funding on District revenues have been factored into the current forecast to the extent possible. Details about the new funding formula continue to be communicated to local school leaders by State officials. Currently, the Ohio Department of Education is programming its computer system so that it can send subsidy payments to local school districts in accordance with the new funding formula. Incorporation of the new formula into the funding payment schedule is anticipated in December 2021. Furthermore, estimates for Casino Tax revenues, which had been lowered during the pandemic, have been returned to historical patterns.

So far this fiscal year, property tax receipts are running at levels somewhat greater than the past few years. State unrestricted financial support is running at a modestly lower level. Other operating revenue is running close to updated projections. Investment income is expected to continue to be down as interest rates remain near record lows. Most other revenue is tracking fairly close to historical patterns. A compensation agreement with Orange Village associated with a Tax Increment Financing incentive package granted by Orange Village to encourage development of the Pinecrest property near the Harvard Avenue interchange to Interstate 271 has had an overall positive effect on District revenues. Income tax sharing payments have nearly met forecast estimates in spite of the COVID-19 pandemic. However, payments in lieu of real estate taxes are roughly $300,000 less than initial estimates for this time period. The Cuyahoga County Fiscal Office has reported to the District that final values for the commercial portion of the real property portion of the development were not finalized as of the most recent tax lien period, which may be a contributing factor to this shortfall. Further information about the anticipated financial impact of this development can be found in Appendix A. Other sources of revenue are forecast to increase modestly over time.



Line 1.010: Real Estate Taxes

Line 1.010 is used to account for revenues received from taxes levied on real property in a school district. In Ohio, real property is subdivided into two broad classes for taxation purposes in accordance with the Ohio Constitution and State law. Residential and agricultural property is taxed at one rate, usually lower, while commercial and industrial property is taxed at a second rate, usually higher.

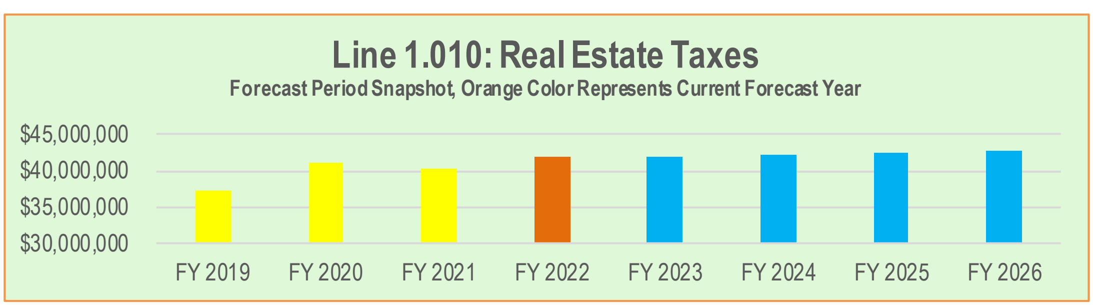


Key Source
Of Funds
Local Property Taxpayers

Revenue
Impact Rank
1

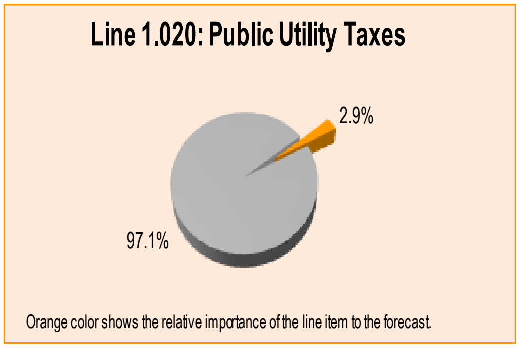
Commentary

Direct real estate tax revenues account for more than $40 million a year in revenue, or about four of every five dollars available to the Orange City School District. The financial importance of real estate taxes to the District is expected to increase modestly over time. Throughout the COVID-19 pandemic, residential real estate sales have remained resilient. In recent months, commercial leasing activity has improved. The Cuyahoga County Fiscal Office recently shared preliminary data for the triennial update of real property values that suggests a strong market in the School District and throughout the County. Real property is reappraised every six years in Ohio with values updated for inflation during the third year of the six-year cycle. Sales prices in the District in the past 10 to 20 years have been more stable than the County as a whole. This is reflected in the fact that the triennial update of property values fixed increases in the District as a whole was 5% versus 16% countywide for residential properties. Additional information about the tax base can be found in Appendix C. The most recently published Standard & Poor's Case-Shiller Cleveland Home Price Index shows annual growth in housing prices of 16.2%, compared with a median composite annual growth rate of 19.7% for the 20-city index. During the past 10 years, Index data show less volatility in housing prices in the Cleveland market (positive and negative) than the nation as a whole. In recent years, the communities within the School District have seen a modest amount of new home construction and improvement projects. Meanwhile, communities in the western part of the School District have experienced several commercial construction and redevelopment projects. One major commercial construction development project in the District, the Pinecrest development, is the subject of a tax increment financing (TIF) incentive package. Additional information about Pinecrest is reviewed in Appendix A. Also noteworthy is that significant acreage within the District's 25 square miles is controlled by public entities, private institutions and various non-profit organizations. This may act as a constraint on potential future development. Possible future tax levy requests are not factored into the figures reported here. Information about tax rates and revenues can be found in Appendix B.



Line 1.020: Tangible Public Utility Taxes

Line 1.020 is used to account for revenues received from taxes levied on tangible public utility personal property in school districts. The tax base includes designated property owned by utilities, pipeline companies and commercial ferry boat operators. In Ohio, public utility personal property is taxed at the maximum rate permitted by law to be levied.



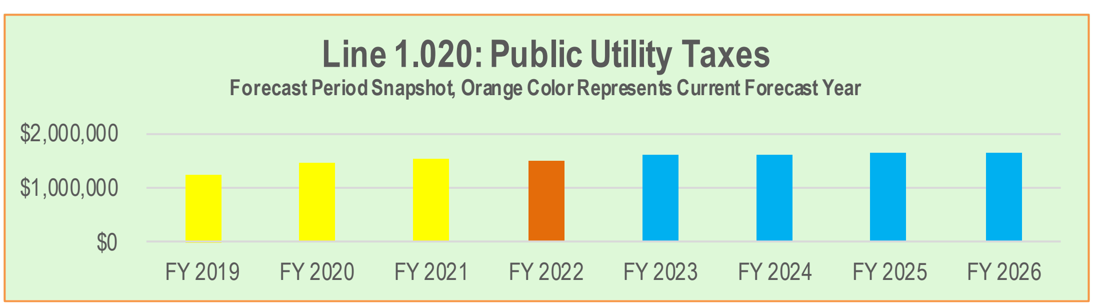
Key Source Of Funds
Public Utility Companies

Revenue Impact Rank
5

Commentary

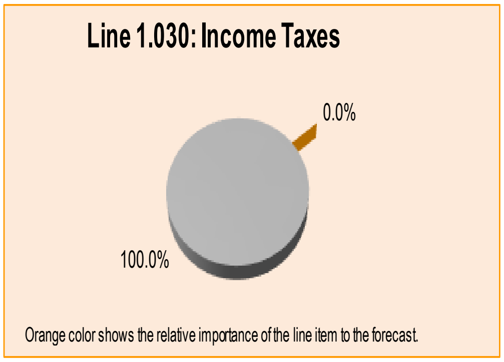
Public Utility Personal Property tax revenue is forecast to be nearly $1.5 million a year. In percentage terms, this is the fastest growing source of revenue for the School District. Proportionately, however, this is a comparatively small source of revenue for the school district. Currently, it comprises a little less than 3% of estimated General Fund revenue. Major utility infrastructure investments are likely to continue in the School District for the foreseeable future, especially in the general vicinity of Interstate 271. So, this is a portion of the tax base that should continue to grow over time.

The tax base for the tangible public utility personal property tax includes electric companies; natural gas companies; heating, pipeline and water works companies; and, water transportation companies, according to the Ohio Department of Taxation. While historical data suggests some volatility, the recent trend has been for revenues to increase as a general rule. Modest increases are forecast for the foreseeable future. Driving these increases since the Great Recession has been reinvestment in aging utility infrastructure due to historically low interest rates as well as the development of natural gas and petroleum transmission lines across the State and in the District. The location of the District, adjacent to major transportation arteries in the Cleveland metropolitan area, also places it at critical junctions within the region's utility infrastructure. Public Utility Personal Property values are of higher revenue worth to a taxing jurisdiction in Ohio as this is the only property taxed at the full gross tax rate.



Line 1.030: School District Income Tax

Line 1.030 is used to account for revenues received from a voted income tax levied on the income of school district residents. The Orange City School District has never levied this tax and does not anticipate requesting voters approve such a levy in the foreseeable future.



Key Source Of Funds

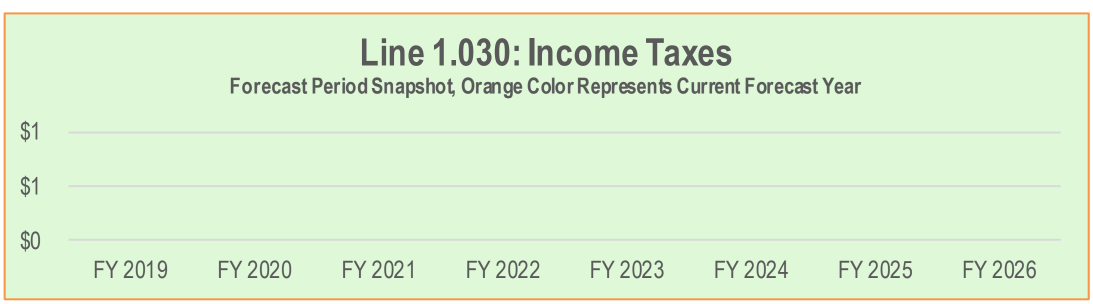
Tax Not In Effect In Orange

Revenue Impact Rank

—

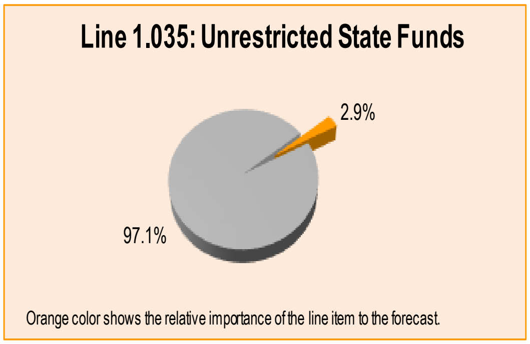
Commentary

No revenue is forecast because the Orange City Schools does not levy an Ohio School District Income Tax. Further, the Board of Education has no plans to consider this as a revenue option in the foreseeable future. For the past 30 years, the federal adjusted gross income (AGI) of District residents has ranked first, second, or third highest among more than 600 school districts in Ohio.



Line 1.035: Unrestricted State Grants in Aid

Line 1.035 is used to account for revenues received from the State of Ohio that have no restriction on how the funds are used. The State Foundation program and casino gambling taxes are primary sources of unrestricted revenue for school districts.



Key Source Of Funds

Ohio General Assembly

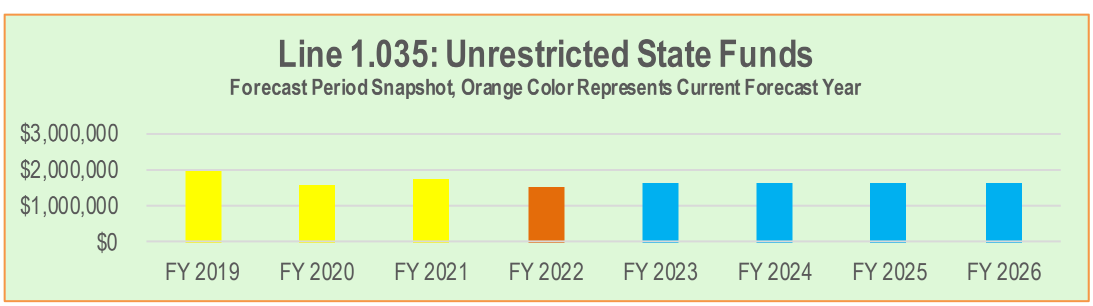
Revenue Impact Rank

4

Commentary

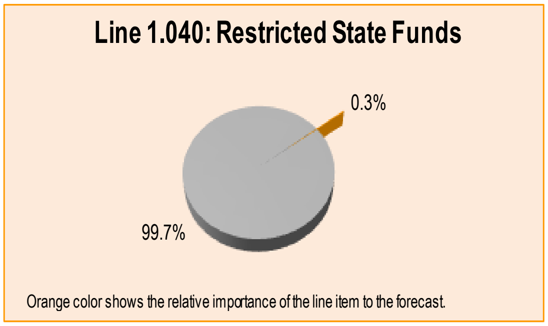
Less than 1 dollar of every 25 dollars of financial support for the School District comes through Unrestricted Grants in Aid from the State of Ohio. The largest portion of this funding comes through the State Foundation program for distributing financial resources to Ohio's more than 600 school districts. Perhaps the greatest changes in the funding formula since it was created in the 1930s were enacted in June 2021 by the Ohio General Assembly when legislators incorporated key provisions of the Ohio Fair School Funding Plan into the funding formula through the State biennial budget bill. While distribution mechanics are currently being implemented by the Ohio Department of Education, this is considered a once-in-a-generation reform of school funding and arguably the most comprehensive response to date to the 1997 Ohio Supreme Court decision declaring the school funding system unconstitutional.

Total Foundation formula funding the District is approximately $1.5 million and is forecast to increase slightly during the forecast period. Several funding simulations have resulted in varying funding results for the District and a conservative approach to future funding levels has been adopted. At this point, the District is anticipated that the level of State funding will increase by about $150,000 over the next 5 years. The new funding formula is quite detailed but four key factors influence the level of basic aid: student population and demographics, property valuation, personal income of district residents, and prior funding levels. The formula then considers 22 subcomponents in determining a base case for basic school operations including the following: teacher costs (4 subcomponents), student support costs (7 subcomponents), district leadership and accountability costs (7 subcomponents), building leadership and operations costs (3 subcomponents), and athletics and co-curricular activity costs.



Line 1.040: Restricted State Grants in Aid

Line 1.040 is used to account for revenues received from the State of Ohio that are restricted for use to fund specific instructional services or programs. Currently, such funds are used to defray certain costs associated with special education and vocational education.



Key Source Of Funds

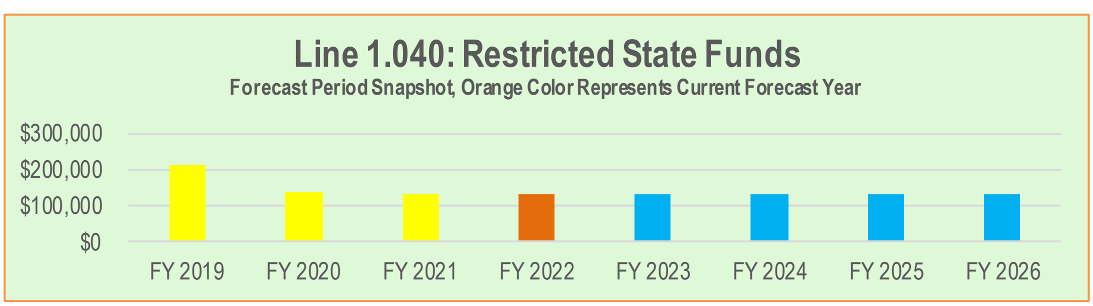
Ohio General Assembly

Revenue Impact Rank

7

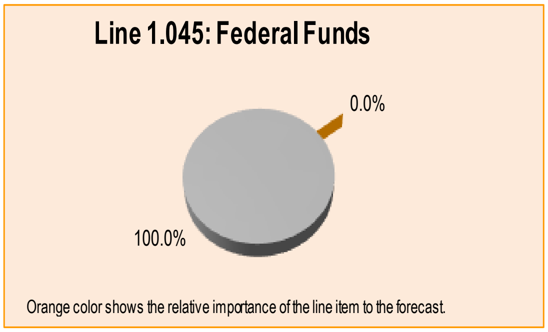
Commentary

Restricted State Grants-in-Aid include funds received for specialized programs within the schools. The largest source of restricted State funds is reimbursement for catastrophic special education costs. This has accounted for more than 95 percent of restricted funds the School District has received in recent years. This reimbursement is available when the cost of educating a pupil is greater than $27,375 or $32,850, according to Ohio Department of Education data. (The cost difference is related to the special program in which the pupil is enrolled.) A number of students are served through programs that cost in excess of $60,000 per pupil per year. Other, but relatively small, restricted foundation grant-in-aid program line items account for the balance of these funds. These include aid for vocational education and aid targeted to serve economically disadvantaged pupils.



Line 1.045: Federal Funding for Day-to-Day Operations

Line 1.045 is used to account for revenues received from the federal government for day-to-day operating expenditures. Currently, the School District receives no federal funding for day-to-day operating purposes. Fund accounting rules require separate accounting for federal grant funds targeted for specific programs.



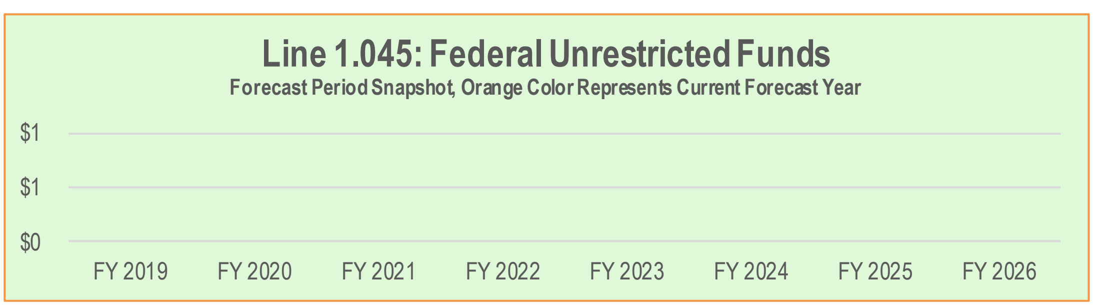
Key Source Of Funds
United States Congress

Revenue Impact Rank
-

Commentary

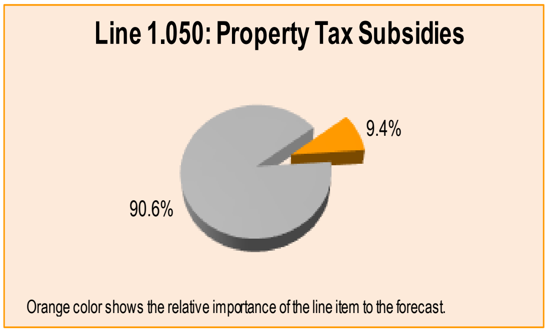
Like all Ohio school districts, the last time Orange City Schools received federal funding for operations was during the Great Recession through the American Recovery and Reinvestment Act of 2009. For the most part, these funds acted to blunt the negative effects of State budget cuts imposed then that were necessitated by reduced tax receipts. Funds from the federal government passed through the State for COVID-19-related costs are accounted for as restricted federal grant funds and are not included in the forecast in accordance with law. This is consistent with the fact that most federal funding for the School District comes in the form of grants targeted for specific projects or purposes.

It is not considered likely at this time that the United States Congress will appropriate funds that the District would receive on a flow-through basis for funding for day-to-day operations. Therefore, there is no anticipated revenue in this line of the forecast.



Line 1.050: State Property Tax Exemption Reimbursements

Line 1.050 is used to account for revenues received from the State of Ohio in lieu of local taxpayers. The State currently offers two main property tax exemptions: a rollback exemption for owner-occupied housing and a homestead exemption for eligible elderly and disabled home owners. Without these programs, local taxpayers would pay the entire tax levy.

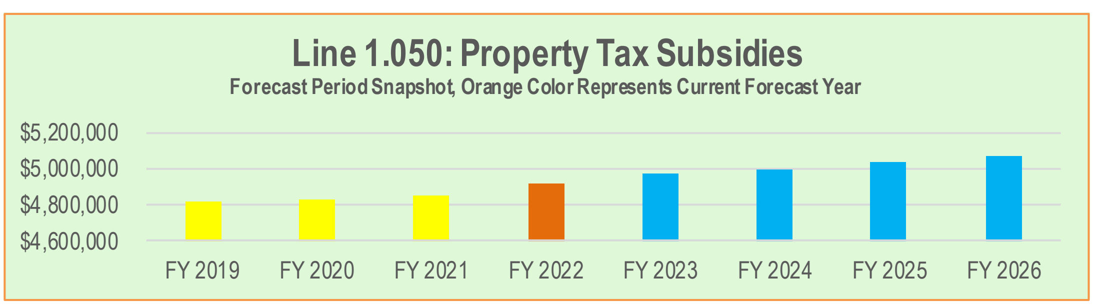


Key Source
Of Funds
Ohio General Assembly

Revenue
Impact Rank
2

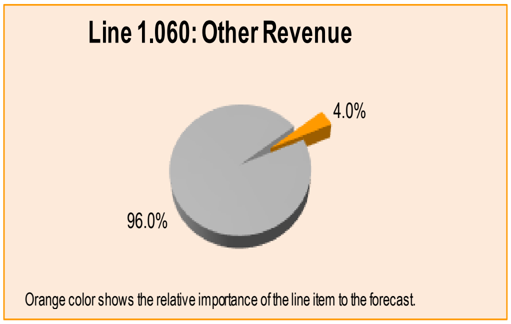
Commentary

The property tax allocation line item includes money the State government provides school districts as reimbursement for tax breaks given to local property taxpayers. Tax levies to which this reimbursement applies must have been in effect prior to September 2013. All School District tax levies currently in effect were approved prior to 2013. With an annual value of nearly $5 million, this actually is the largest source of State funding for the Orange City School District. If these tax breaks did not exist, these dollars would be fully paid and collected locally. Funding for property tax allocations currently is based on the "rollback" tax credit given to residential property owners who live in their homes and the "homestead" tax credit given to the qualified elderly and disabled home owners. Rollback funds are reimbursements paid from the State treasury to the School District for tax credits given to home owners that equal 12.5% of the gross property taxes charged on tax levies approved prior to September 2013. The homestead exemption program allows qualifying residents to shield some of the market value of their home from taxation. The exemption, which is a credit on property tax bills, exempts the first $25,000 of the market value of a home from all local property taxes. The value of the credit, according to the Ohio Association of Realtors, typically is $300 to $400 per year. As of tax year 2014, home owner eligibility for the exemption is based on income. Previously, eligible homeowners were given grandfathered eligibility status, which is portable to any Ohio residence. These reimbursements from the State are more than double the amount of money received through the State Foundation program. So, this is, by far, the largest source of State financial support for day-to-day school operations.



Line 1.060: All Other Revenue for Day-to-Day School Operations

Line 1.060 is used to account for all other revenue for day-to-day school operations. These revenue streams include investment earnings, tuition fees, and payments in lieu of taxes.



Key Source Of Funds

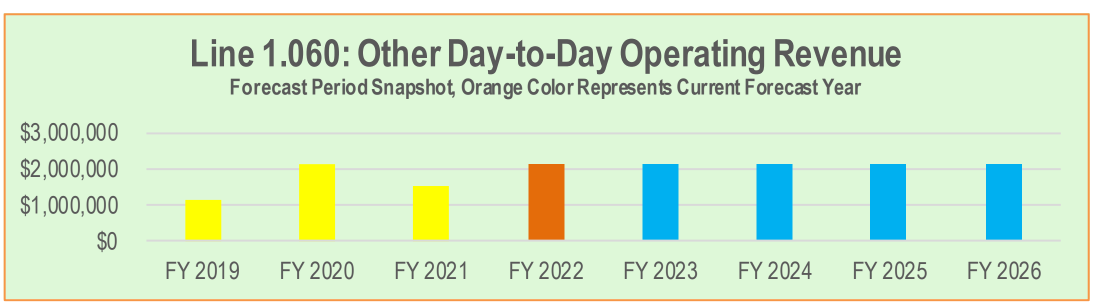
Various Local Sources

Revenue Impact Rank

3

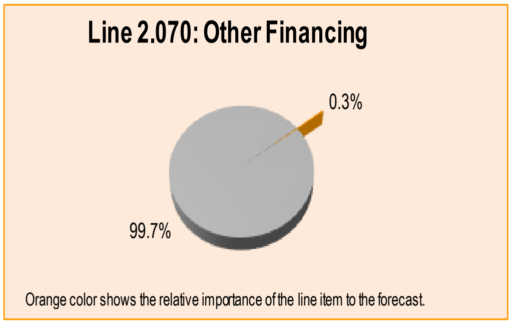
Commentary

For the Orange City Schools, investment earnings, payments in lieu of taxes from the Pinecrest Tax Increment Financing compensation agreement, and tuition receipts are the primary other sources of revenue. Investment earnings in recent years have been modest. While investment earnings had been increasing somewhat until mid-2019, they have trended downward in the past year and are forecast to continue to do so. This trend accelerated in the spring of 2020 as a result of Federal Reserve actions to set benchmark interest rates essentially at zero. Since then, interest rates have fallen dramatically as have investment returns on government and other securities. While the District has taken mitigation strategies within the parameters of Ohio public funds investment laws to maximize investment earnings, Treasury and agency securities are selling at near record low interest rates and are expected to stay near those lows through this calendar year and perhaps beyond. Another important source of revenue is tuition or excess cost payments from other districts. Even though the District does not accept open-enrolled students, the District does educate students placed by judicial order or as otherwise required by law. The District also receives tuition income when students from other districts enroll in vocational programs operated by the District that are part of the Excel TECC regional vocational education consortium. Another factor propelling increases in forecast revenue in this line item is projected payments in lieu of taxes (PILOTs) and related income tax sharing associated with the Pinecrest development. Recent developments with respect to a transfer of ownership of the Pinecrest development are not expected to affect these payments. However, payments tied to employee income tax payments might be lower in 2022 due to pandemic-related business closures and operating restrictions. This revenue is still forecast to increase in later forecast years. Additional information about these forecast revenues is discussed in Appendix A. Total other revenue is forecast to be about 3% of total revenues.



Line 2.070: Other Financing Sources

Line 2.070 is used to account for funds from other financial sources. These funding sources include the refund of prior year expenditures, compensation for the sale or loss of assets, and the return of money advanced to other funds.



Key Source Of Funds

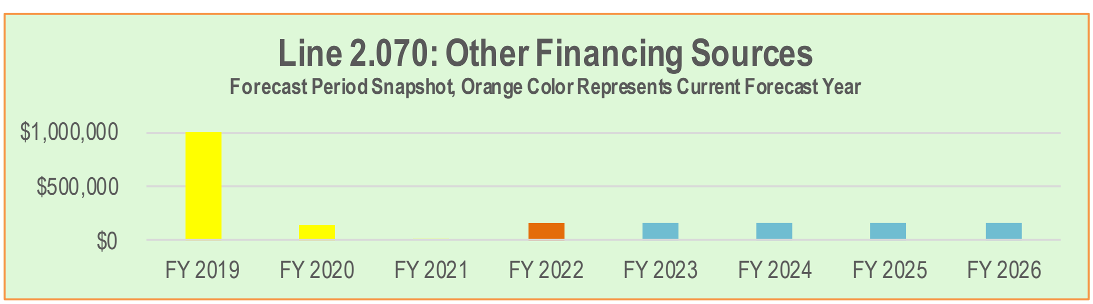
Other Financing Sources

Revenue Impact Rank

6

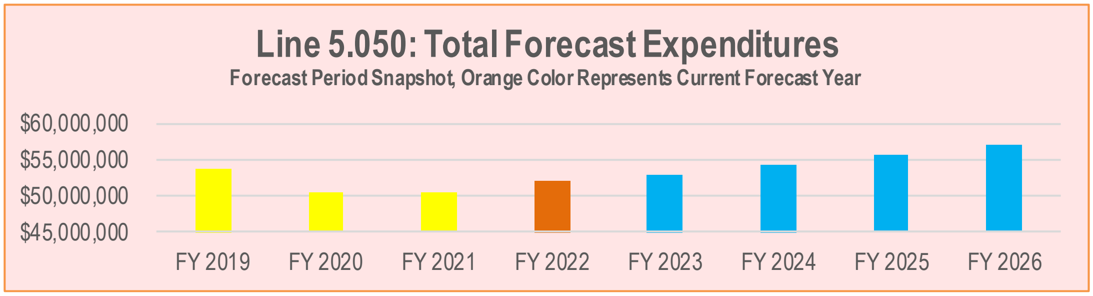
Commentary

The primary source of revenue from other financing sources is a modest amount of money from compensation for the sale or loss of assets, refunds of prior-year expenditures and similar accounting adjustments. The large amounts shown in some prior years are for the return of monies advanced from the General Fund to cover deficits in other funds. A one-time transfer-in from an internal service fund associated with the former Gund School, which closed in June 2016, is included in Fiscal Year 2019 forecast receipts.



Expenditure Forecast Introduction

Ohio school districts budget approximately four of every five dollars for employee compensation—salaries and benefits—which is common throughout the United States. From a business perspective, the purpose of a school is to have a trained person deliver an educational program to students. In support of that mission, schools maintain large physical plants, operate bus fleets and provide an array of support services. The expenditure discussion reviews the sources of funds for daily school operations.



Commentary

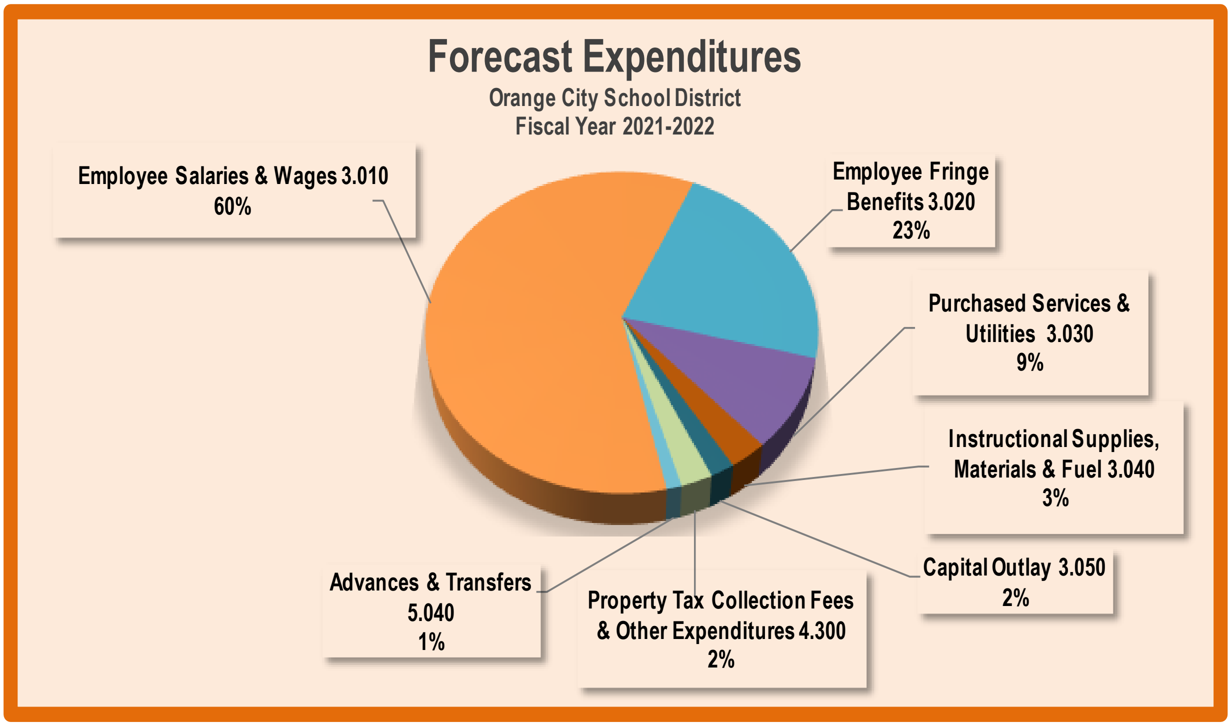
As revenue constraints are deeply rooted in Ohio taxation and school funding laws, so are expenditure requirements that mandate a plethora of local school expenditures. These deeply rooted requirements have grown in recent years and factor into a common trend for Ohio school districts for expenditures to rise faster than revenues over time. Indeed, there is no direct correlation between inflation and most school revenue streams; it is tenuous at best. However, there is direct correlation between inflation and many school expenditures. Although price inflation has been modest for many years until recently, the Orange City School District is at the common Ohio school fiscal point threshold at which expenditures are forecast to start exceeding revenues. The District today has strong reserves, which will cushion that impact for a few more years. Various other factors are constraining the drawdown of reserves. However, inevitable growth in expenditures that simply maintains existing program- and service-delivery levels will reduce reserves over time.

The COVID-19 pandemic has had a mixed effect on school expenditures. During the spring 2020 closure of schools and periods of remote instruction during the past school year, utility costs trended lower, less bus fuel was used, and there was less wear-and-tear on school facilities and vehicles. However, technology spending increased and the District had to purchase electronic curriculum materials to facilitate remote learning. During periods of hybrid instruction, costs to operate the bus fleet increased as did spending for health and sanitation supplies. Personnel costs fluctuated similarly depending on the personnel needs associated with the instructional format. Some, but not all, of these costs were offset with federal COVID-19 grant funds.

Schools inherently are a people business. Schools historically have operated based on this service delivery model: Highly educated and trained personnel provide direct instructional and related services to students, usually in a physical classroom setting. Those teachers are supported by a wide array of personnel, including administrators, paraprofessionals and custodians. Others involved in the pupil support continuum include secretaries, bus drivers and technology support workers. More than 80% of day-to-day school operating costs are associated with compensating personnel. This includes salaries and fringe benefits. Schools also incur an array of costs in support of that mission. These costs include utilities, supplies, textbooks, bus fuel, and technology.

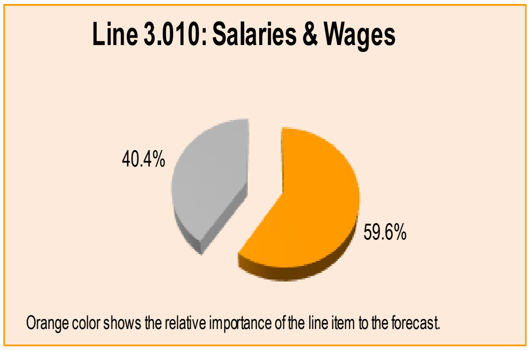
Prior to the pandemic, the District had seen increases in various expenditure patterns over time. For instance, fees associated with the collection of property taxes generally have increased in line with property tax collections. However, during the pandemic, expenditure increases have been more limited to date. Last fiscal year, pandemic-related disruptions to the educational program constrained increases. This school year, the District has faced price volatility for essential products such as bus fuel and classroom supplies. Furthermore, the District has experienced fulfillment delays in obtaining supplies at times.

Within its current cost structure, the School District will face ongoing cost pressures to maintain existing programs. In recent years, enrollment has been flat to decreasing slightly on an annual basis, although a modest increase has been seen at the start of the current school year. In recent years, costs per pupil have increased. This happens in periods of enrollment decrease even if aggregate actual expenditures remain unchanged. The conundrum of balancing program offerings and costs will challenge the School District in the years ahead.



Line 3.010: Employee Salaries & Wages

Line 3.010 is used to account for expenditures associated with paying employees. This includes employees paid on an annual salary or at an hourly rate. Overtime, supplemental duties and coaching payments are among school district employee payments.



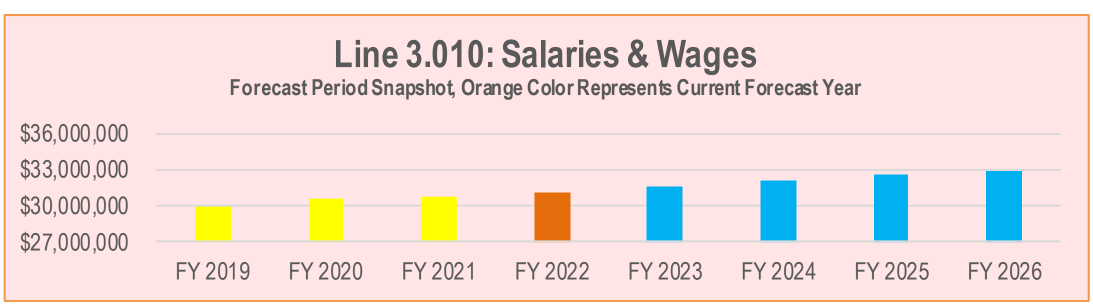
Key Uses
Of Funds
Orange Employee Payroll

Expenditure
Impact Rank
1

Commentary

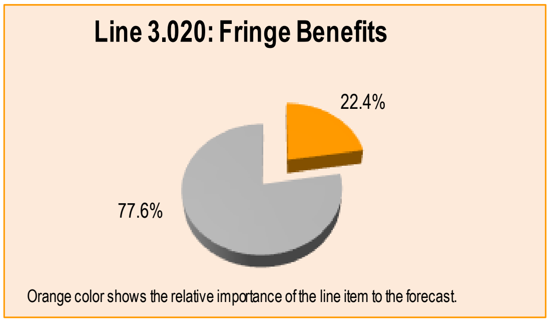
Expenditures for personnel services are the largest cost for the School District, representing approximately 60% of total expenditures. These costs are associated with salary and wage payments to all employees. This includes regular base salaries, supplemental compensation and overtime payments. Included in the expenditure forecast are negotiated base salary schedule annual wage increases. During recently concluded negotiations with the Orange Teachers Association, changes in the index matrix of the salary schedule were negotiated. A noteworthy change is that the base salary level is now set at the master's degree level instead of the bachelor's degree level, which is unique among Ohio school districts. Base increases were also negotiated, including 1.95% for the 2021-22 school year, 1.75% for the 2022-23 school year and 1.35% for the 2023-24 school year. These bargained base wage increases are lower than many comparable school districts. Negotiations currently are underway with two unions representing non-teaching personnel. The Orange Teachers Association negotiated agreement runs through June 2024. One non-teaching association is working under the terms of a contract that expired in June 2021 while a second agreement expires in December 2021. This forecast assumes that current factors for teacher and other salary schedules will remain in place for years when a collective bargaining agreement is not in place. The compensation for administrators and confidential other non-administrative employees is set annually by the Board of Education and is not governed by collective bargaining agreements.

The District operates in the eastern Cuyahoga County market, which perhaps is the most expensive school personnel market in which to operate in the State of Ohio. In order to be competitive with school districts in its market area, the District has bargained one of the most attractive teacher salary schedules in the State of Ohio. A teacher with a bachelor's degree and no experience, who is at the lowest point on the salary schedule, will earn $46,434 per year this school year. Meanwhile, the highest teacher salary schedule pay of $117,021 can be earned by any teacher who has at least 30 years of experience and a doctorate degree. In addition to market factors, the District expects greater competition in the future for the best teachers, bus drivers and other employees. Employee compensation levels reflect the desire of the Board of Education to recruit and retain the best employees.



Line 3.020: Employee Fringe Benefits

Line 3.020 is used to account for expenditures associated with employee fringe benefits. Many fringe benefits—including pension, workers' compensation and Medicare tax payments—are a mathematical function of salary or wage payments. Other fringe benefits, such as health insurance, are based on premiums charged and not tied directly to employee salaries or wages.



Key Uses
Of Funds
Orange Employee Fringe Benefits

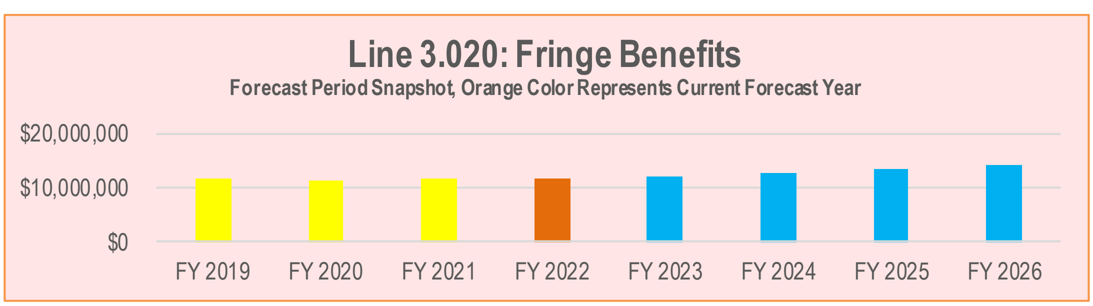
Expenditure
Impact Rank

2

Commentary

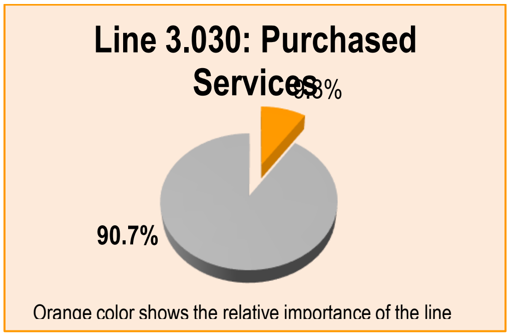
Expenditures for employee fringe benefits represent almost a quarter of School District spending. Health benefits costs are the largest source of fringe benefits expenditures. In recent years it has been the fastest rising area of school expenditures. The cost of retirement benefits is a percentage of salary as are allowances for workers' compensation and Medicare tax. (Public employees in Ohio are required to participate in one of the five State retirement systems in lieu of participating in Social Security.) Non-insurance fringe benefits costs, including retirement, Workers' Compensation and employer Medicare Tax payments, total approximately 16.5% of personnel services expenditures and are calculated based on the employee's salary.

Unlike other fringe benefits, health insurance expenditures are not a mathematical function of salaries and wages. Indeed, health insurance costs have increased much faster than salaries or general inflation in recent years and such cost increases are an ongoing concern. The School District attempts to contain those costs through its participation in the Suburban Health Consortium, which administers health benefits for the District and 19 other school districts in the Cleveland metropolitan area. (The District currently serves as fiscal agent for the Consortium.) During the pandemic, health care costs in the Cleveland market have been constrained to date. The Consortium kept premium rates unchanged for the 2020-21 plan year and imposed a 2% increase for the 2021-22 plan year for major medical and prescription coverage. This has had the greatest influence in moderating forecast expenditures over the next several years. The District also has bargained plan design changes and employee co-payment increases in recent years. In the most recent round of bargaining, the District bargained changes in the prescription program. The District anticipates in the years ahead that managing plan design will be critical to containing health insurance program costs. As a conservative budgeting practice, the School District has anticipated aggregate annual future increases in health insurance costs in the final three years of the forecast period to be 10%.



Line 3.030: Purchased Services & Utilities

Line 3.030 is used to account for expenditures associated with payments for professional services, maintenance services, postage and utilities. Also paid here are costs assessed against the school district for various state school choice programs, college credit plus, special needs scholarships and autism scholarships.

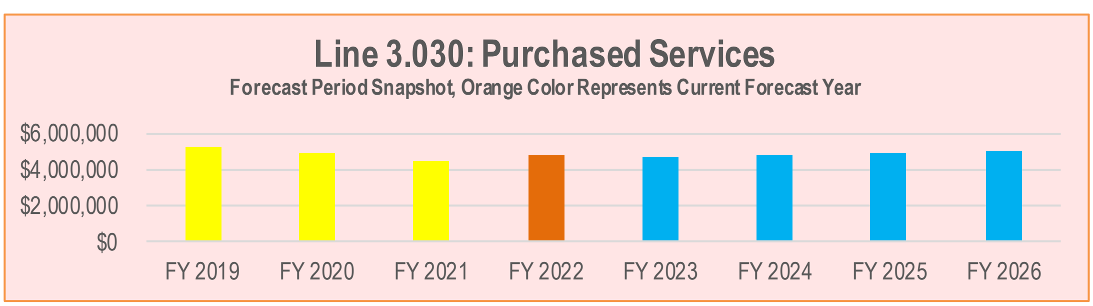


Key Uses
<u>Of Funds</u>
Professional Services & Utilities

Expenditure
<u>Impact Rank</u>
3

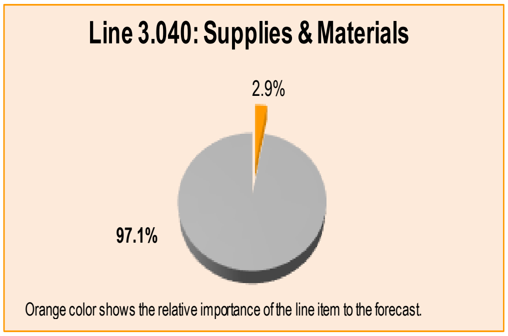
Commentary

Expenditures for purchased services, as a proportion of the budget, are projected to be relatively stable, in the range of 10% to 12% of expenditures for the forecast period. Purchased services cost trends have moderated somewhat in the past few years and this trend is potentially sustainable for a variety of reasons, including lower utility costs associated with the completion of energy conservation improvements. Some costs associated with State-mandated educational options programs have been picked up by the State under the most recent budget bill. Still, costs for initiatives such as college credit plus remain the financial responsibility of the District. These are costs the District administration does not control directly, so it is difficult to predict probable future costs. Contracts for educational services with the Educational Service Center of Northeastern Ohio, and other third-party education support services providers, are another major component of purchased services costs. Another significant element of purchased services costs is District utilities--electricity, natural gas, and water. The District participates in consortium purchasing for its utilities when available in order to minimize these costs. In order to protect the physical assets of the District, property, casualty and fleet insurance is purchased. In order to improve coverage, the District changed insurance programs effective July 1, 2019, and did not incur significant additional costs.



Line 3.040: Instructional Supplies, Materials & Fuel

Line 3.040 is used to account for expenditures associated with instructional supplies, materials, periodicals, textbooks, and computer software. This broad category includes repair parts, buildings and grounds maintenance supplies and fuel for buses and vehicles.



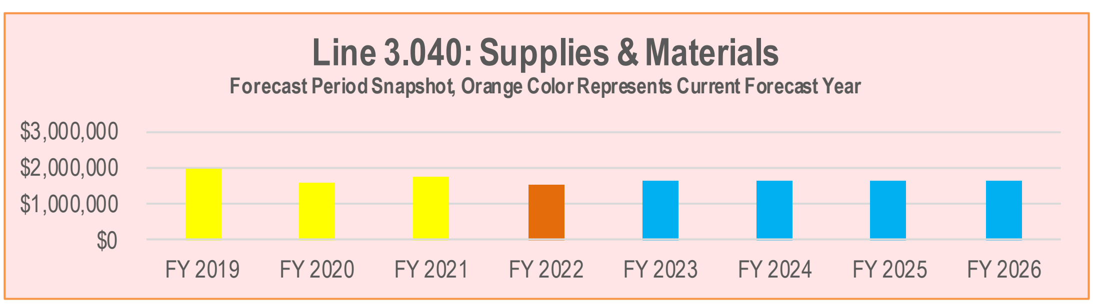
Key Uses
Of Funds
Classroom Supplies & Textbooks

Expenditure
Impact Rank
4

Commentary

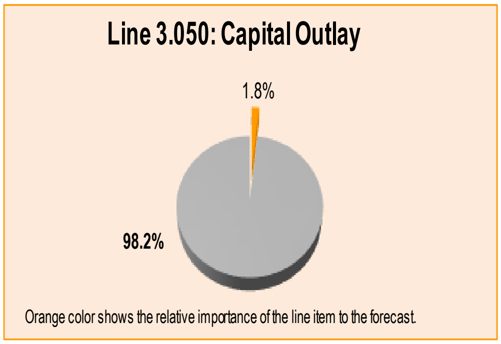
Expenditures for supplies and materials total just under 3% of District spending. In general, budgets for supplies and materials have been restrained in recent years. However, these budgets in aggregate are forecast to increase by 2% per year. During the COVID-19 pandemic, District instructional supply resources have moved somewhat toward electronic resources that facilitate remote learning. Bus wear-and-tear and fuel consumption is correlated to the instructional model—remote, hybrid, traditional—and spending will increase or decrease in tandem. As long as the pandemic persists, the District must purchase additional health and sanitation supplies. Some, but not all, of these costs can be offset with federal pandemic-relief funds.

A wide variety of spending on physical goods is included in this line item. These items range from classroom supplies and textbooks to computer software and periodical subscriptions. This spending category also includes maintenance and vehicle supplies as well as repair parts. Some costs in this line item are volatile and subject to market conditions at the time of purchase. Two commodities included in this category that are essential for school operations that have been subject to dramatic price swings in recent years are fuel for school buses and salt for ice melting. Vehicle fuel prices have increased substantially in recent months. Salt prices, at least as of mid-autumn, are below levels reached during the past several years. However, limited ability exists to stockpile these items so they must be purchased at the market price when needed. Price discounting, when available, is often based on a market index or factor. Therefore, sufficient funds must be available to purchase these items at whatever the best available market price is at the time when the purchase needs to be made.



Line 3.050: Capital Outlay

Line 3.050 is used to account for expenditures associated with significant building upgrades, site improvements as well as the purchase of equipment, maintenance vehicles and school buses when paid by the General Fund. This line item is also used for furniture and equipment when the unit cost exceeds $500 and has a useful life of five years or more.



Key Uses
Of Funds

Major Equipment & Vehicles

Expenditure
Impact Rank

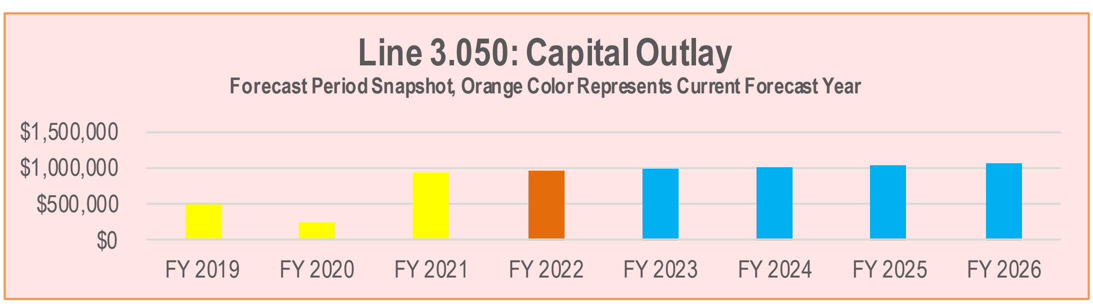
6

Commentary

Capital outlay expenditures from the General Fund represent a little more than 1% of total District spending. These expenditures include school buses, maintenance vehicles, technology, and major pieces of equipment. Forecast spending is expected to increase at an inflationary rate of 2% per year, consistent with the need to replace items that have become obsolete or are at the end of their useful life.

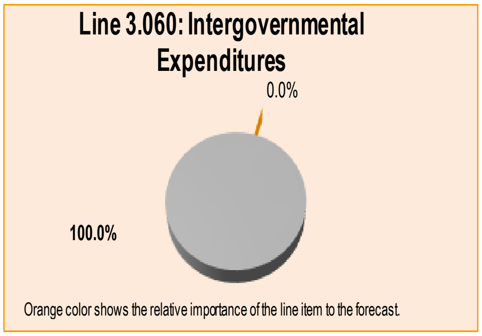
Many capital outlay expenditures for facilities improvements are paid from a separate Permanent Improvement Fund that is not a part of the operating budget of the School District and therefore, pursuant to law, is not included in this forecast. The primary source of money for the Permanent Improvement Fund is a voter-approved 1-mill tax levy. This dedicated funding stream reduces the capital expenditure burden on the General Fund.

As part of its stewardship of taxpayer financial resources, the District has a rolling 10-year program to identify capital improvement needs and possible funding sources to meet those needs. The capital plan includes infrastructure projects, vehicle replacement, technology improvements, and furniture and equipment needs. The plan is updated by the administration with consultation from the Board of Education. The Board of Education currently is considering significant capital improvements for Orange High School, including the redesign of the front entrance and a thorough renovation of locker room facilities.



Line 3.060: Intergovernmental Expenditures

Line 3.060 is used to account for expenditures associated with grants from another governmental entity, but only when other accounting restrictions did not apply in accordance with law. This category, which is rarely used, typically applies to cooperative programs.



Key Uses Of Funds

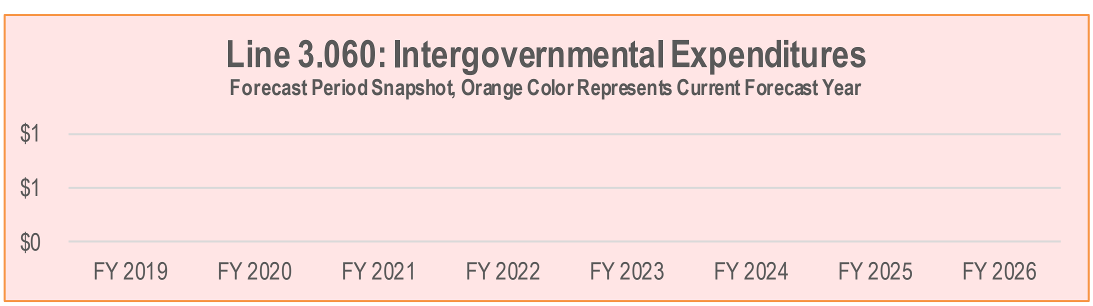
Other Government Units

Expenditure Impact Rank

-

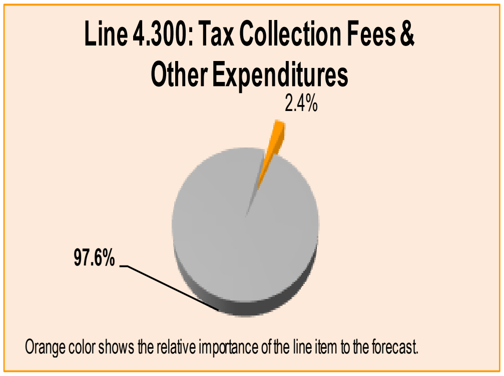
Commentary

The District has not had any intergovernmental expenditures for the past five years and does not forecast any in the foreseeable future.



Line 4.300: Property Tax Collection Fees & Other Expenditures

Line 4.300 is used to account for expenditures associated with the collection of property taxes, audit fees, Educational Service Center fees, and liability insurance.



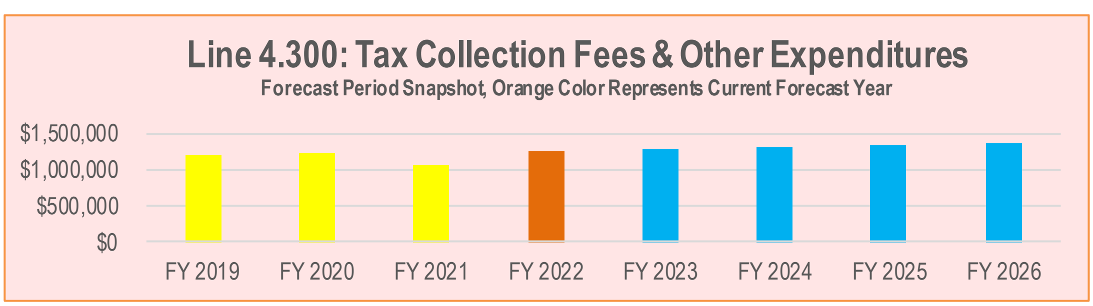
Key Uses
<u>Of Funds</u>
Tax Fees & Liability Insurance

Expenditure
<u>Impact Rank</u>
5

Commentary

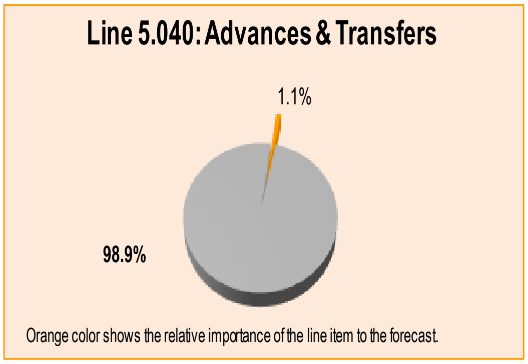
The largest expenditures in this category are for property tax collection fees imposed by Cuyahoga County in accordance with a statutory formula in Ohio law. The general strengthening of local property tax collections in recent years has resulted in the imposition of additional tax collection fees, resulting in an increase in these expenditures. Various other essential operating costs that are part of this category of expenditures, including liability insurance, membership fees for professional organizations and costs associated with the annual audit. These expenditures are forecast to increase by 2% a year.

Although many of these costs are mandated by law and the School District has no ability to negotiate associated costs, discretionary expenditures are actively managed. For example, liability insurance is priced annually as part of the School District's comprehensive insurance package.



Line 5.040: Advances, Transfers & Other Financing Uses

Line 5.040 is used to account for expenditures associated with advances and transfers to other funds. This includes transfers for capital improvement purposes, athletics, and end-of-service benefits.



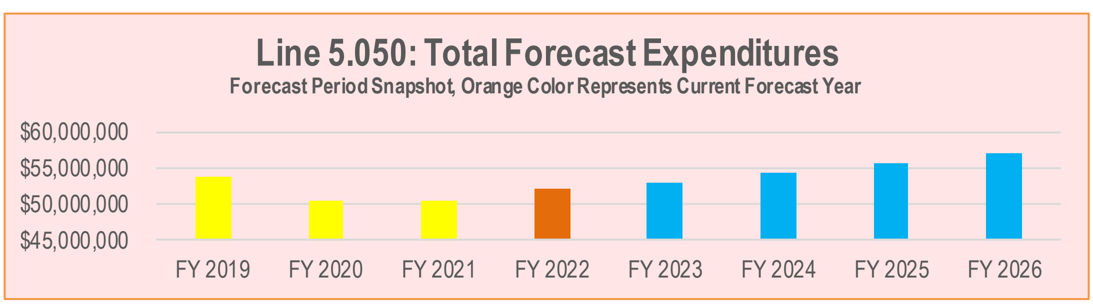
Key Uses
Of Funds
Non-Operating Expenses

Expenditure
Impact
Rank
7

Commentary

This line item primarily accounts for funds advanced or transferred from the General Fund for specified purposes approved by the Board of Education. During fiscal years ending June 30, 2017, and June 30, 2018, the Board transferred $5.9 million to a restricted capital improvement fund established for the purpose of making major capital improvements to Brady Middle School. These improvements, which were substantially completed in time for the start of the 2019-2020 school year included restroom renovations, extensive classroom renovations, the creation of music and performance rooms, lobby and office renovations, and renovations to the media center. The intent of the project was to make the facility originally constructed in the mid-1960s useful for another generation of students. It is believed the renovations were a more cost-effective use of taxpayer dollars than new construction.

Meanwhile, anticipated annual transfers and other uses of funds are forecast to total $600,000, and include $400,000 to the termination benefits fund, $175,000 to the athletics program, and $25,000 for other needs.



Orange City School District Five Year Forecast

This includes the Schedule of Revenues, Expenditures and Changes in Fund Balances, including possible future tax levies, for the School District.

Orange City School District

Cuyahoga County

Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Years Ended June 30, 2019, 2020 and 2021 Actual;
Forecasted Fiscal Years Ending June 30, 2022 Through 2026

		Forecasted				
Forecast Line	Data Point	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026
	Revenues					
1.010	General Property Tax (Real Estate)	$41,917,373	$42,049,870	$42,252,549	$42,583,016	$42,886,226
1.020	Public Utility Personal Property Tax	$1,497,958	$1,590,164	$1,611,851	$1,633,539	$1,655,226
1.030	Income Tax	$0	$0	$0	$0	$0
1.035	Unrestricted State Grants-in-Aid	$1,516,272	$1,645,408	$1,646,497	$1,647,583	$1,648,666
1.040	Restricted State Grants-in-Aid	$132,939	$132,939	$132,971	$133,004	$133,037
1.045	Restricted Federal Grants In Aid	$0	$0	$0	$0	$0
1.050	Property Tax Allocation	$4,919,223	$4,974,069	$4,996,736	$5,035,296	$5,072,895
1.060	All Other Revenues	$2,113,635	$2,123,368	$2,133,444	$2,143,876	$2,154,677
1.070	*Total Revenues*	$52,097,400	$52,515,818	$52,774,048	$53,176,314	$53,550,727
	Other Financing Sources					
2.010	Proceeds from Sale of Notes	$0	$0	$0	$0	$0
2.020	State Emergency Loans and Advancements (Approved)	$0	$0	$0	$0	$0
2.040	Operating Transfers-In	$0	$0	$0	$0	$0
2.050	Advances-In	$25,000	$25,000	$25,000	$25,000	$25,000
2.060	All Other Financing Sources	$135,000	$135,000	$135,000	$135,000	$135,000
2.070	*Total Other Financing Sources*	$160,000	$160,000	$160,000	$160,000	$160,000
2.080	*Total Revenues and Other Financing Sources*	$52,257,400	$52,675,818	$52,934,048	$53,336,314	$53,710,727
	Expenditures					
3.010	Personal Services	$31,161,539	$31,606,126	$32,059,478	$32,521,769	$32,993,175
3.020	Employees' Retirement/Insurance Benefits	$11,722,700	$12,091,500	$12,779,000	$13,528,600	$14,346,500
3.030	Purchased Services	$4,847,727	$4,765,580	$4,868,050	$4,972,992	$5,080,472
3.040	Supplies and Materials	$1,507,957	$1,553,195	$1,599,791	$1,647,786	$1,697,219
3.050	Capital Outlay	$964,520	$987,429	$1,010,905	$1,034,963	$1,059,617
3.060	Intergovernmental	$0	$0	$0	$0	$0
	Debt Service:					
4.010	Principal-All (Historical Only)	$0	$0	$0	$0	$0
4.020	Principal-Notes	$0	$0	$0	$0	$0
4.030	Principal-State Loans	$0	$0	$0	$0	$0
4.040	Principal-State Advancements	$0	$0	$0	$0	$0
4.050	Principal-HB 264 Loans	$0	$0	$0	$0	$0
4.055	Principal-Other	$0	$0	$0	$0	$0
4.060	Interest and Fiscal Charges	$0	$0	$0	$0	$0
4.300	Other Objects	$1,256,570	$1,281,702	$1,307,336	$1,333,483	$1,360,153
4.500	*Total Expenditures*	$51,461,013	$52,285,532	$53,624,561	$55,039,592	$56,537,135
	Other Financing Uses					
5.010	Operating Transfers-Out	$575,000	$575,000	$575,000	$575,000	$575,000
5.020	Advances-Out	$25,000	$25,000	$25,000	$25,000	$25,000
5.030	All Other Financing Uses	$0	$0	$0	$0	$0
5.040	*Total Other Financing Uses*	$600,000	$600,000	$600,000	$600,000	$600,000
5.050	*Total Expenditures and Other Financing Uses*	$52,061,013	$52,885,532	$54,224,561	$55,639,592	$57,137,135
6.010	*Excess of Revenues over (under) Expenditures*	$196,387	($209,715)	($1,290,513)	($2,303,278)	($3,426,408)
7.010	Cash Balance July 1 - Excluding Future Levies	$25,829,415	$26,025,802	$25,816,087	$24,525,574	$22,222,296
7.020	*Cash Balance June 30*	$26,025,802	$25,816,087	$24,525,574	$22,222,296	$18,795,889
8.010	*Estimated Encumbrances June 30*	$500,000	$500,000	$500,000	$500,000	$500,000
10.010	*Fund Balance June 30 for Certification of Appropriations*	$25,525,802	$25,316,087	$24,025,574	$21,722,296	$18,295,889
	Revenue from Replacement/Renewal Levies					
11.010	Income Tax - Renewal	$0	$0	$0	$0	$0
11.020	Property Tax - Renewal or Replacement	$0	$0	$0	$0	$0
11.300	Cumulative Balance of Replacement/Renewal Levies	$0	$0	$0	$0	$0
12.010	*Fund Balance June 30 for Certification of Contracts, Salary Schedules and Other Obligations*	$25,525,802	$25,316,087	$24,025,574	$21,722,296	$18,295,889
	Revenue from New Levies					
13.010	Income Tax - New	-	-	-	-	-
13.020	Property Tax - New	-	-	$3,265,369	$5,937,034	$5,937,034
13.030	Cumulative Balance of New Levies	-	-	$3,265,369	$9,202,403	$15,139,437
15.010	*Unreserved Fund Balance June 30*	**$25,525,802**	**$25,316,087**	**$27,290,943**	**$30,924,699**	**$33,435,326**

Appendix A: Pinecrest Development Tax Increment Financing

Appendix A provides additional information about the probable impact of the Pinecrest development in Orange Village. Pinecrest is the subject of a tax abatement known as Tax Increment Financing whereby increased real property taxes from site improvements go toward financing infrastructure improvements. The Board of Education in 2015 entered into a 30-year compensation agreement intended to compensate the School District for its inability to collect future tax revenue on various commercial improvements. A second, solely residential, phase of the development is not subject to tax abatement. The initial anticipated build-out timeline was 7 years.

Pinecrest Tax Increment Financing Agreement Updated Financial Impact Estimates

Funding Stream	2015 Initial Proposal*	2018 Updated Estimate*	Current Calendar Year Actual	Current Calendar Year Status
Payments in Lieu of Taxes	$828,343	$915,203	$566,045	Meeting Current Year Projection
Income Tax Sharing (Orange Village)	$415,000	$415,000	$374,479	First Sharing Payment Remitted in 2020
Residential Taxes	$1,145,000	$1,176,180	$0	Development Pending; No Announced Timeline
Future School Property Tax Increases	$621,664	$621,664	$0	No Voted Tax Increase Placed on Ballot
Totals	**$3,010,007**	**$3,128,047**	**$940,524**	

*Figures beginning as of the estimated build out year of 2022.

Commentary

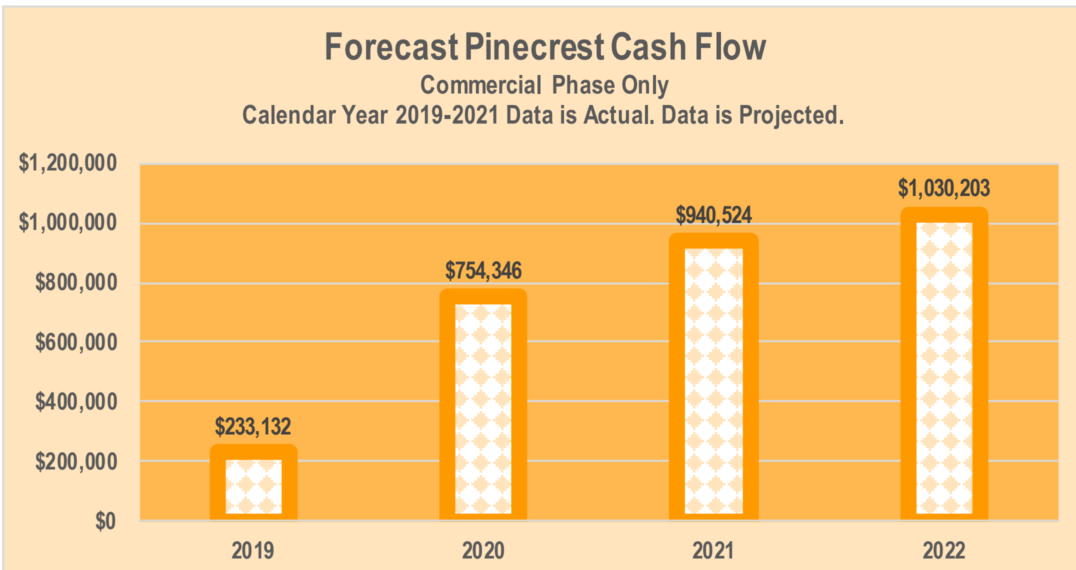
The Board of Education authorized entering into a 30-year Tax Increment Finance (TIF) Compensation Agreement with Orange Village in April 2015 concerning the development of the Pinecrest complex. As of autumn 2021, development of the commercial portion of the complex that is the subject of the TIF has been completed and businesses have opened. At this time, the Cuyahoga County Fiscal Office reports that commercial values have not been stabilized. Further, those values are subject to increase as a result of the triennial update of real property values in the county. The purpose of the TIF is to redirect additional property tax revenue from the development that otherwise would have gone to other local governments to the Village for the purpose of paying debt service incurred to finance public infrastructure improvements related to the development. These infrastructure improvements included roads, water and sewer lines, and safety lighting. Pursuant to Ohio law, municipalities are required to enter into school district Compensation Agreements when certain thresholds are met. As the terms of the Pinecrest TIF met those parameters, Orange Village negotiated a Compensation Agreement with the Orange City School District. The first payments made in accordance with the Agreement were remitted in 2019. Probable cash flow information is disclosed in the table below.

Pinecrest Tax Increment Financing Agreement Probable Commercial Cash Flow

Funding Stream	2019*	2020*	2021*	2022
Payment in Lieu of Taxes	$233,132	$564,846	$566,045	$615,203
Income Tax Sharing (Orange Village)	$0	$207,500	$374,479	$415,000
Subtotal: Commercial Property	**$233,132**	**$754,346**	**$940,524**	**$1,030,203**

*Actual Data for Calendar Years 2019, 2020 and 2021. The projected build out year is 2022.

Development of the Pinecrest complex has been forecast to have a significant positive effect on the financial position of the School District during the 30-year timeframe of the agreement. However, the COVID-19 pandemic had raised some questions about whether the anticipated cash flow estimates will be met going forward. The primary concern is associated with income tax sharing payments as many businesses had reduced operations for a period of time. Orange Village officials advise that office space in Pinecrest currently is about 94% leased and that several new retailers have announced plans to locate in the development. However, retailers and restaurants were disproportionately affected by COVID-19 pandemic related business restrictions that now have been lifted. As businesses operations have become closer to normal, some business operators have had challenges finding enough employees to staff all the hours that they would like to operate. In October 2020, according to news media reports, Fairmount Properties and the DiGeronimo Companies, developers of Pinecrest, transferred ownership to Square Mile Capital Management, the organization that provided financing for the project through a deed in lieu of foreclosure. A principal officer of Fairmont Properties told a news organization at that time of the deed transfer that the former owners will continue to manage and oversee day-to-day operations of Pinecrest. Orange Village officials said they anticipate limited repercussions and little effect on daily operations due to the transfer of ownership.



When proposed, the 58-acre mixed-use development was expected to provide an additional $3 million in revenue to the School District by 2023 when all development was expected to be completed. The table on the previous page shows how the $3 million figure was derived. Construction of the commercial portion of the development, which is now complete, included offices, stores, restaurants, a theater and a hotel. Development of the residential portion of the site has not yet begun. According to Orange Village officials, the developer has been discussing revised plans for the residential portion of the development with the Village. Construction on this phase of the project is not expected to move forward in the near term. As a result, the Village has advised the School District to exercise caution about forecasting the amount and timing of potential future tax receipts from the residential phase of the development. Therefore, probable residential tax proceeds are not included in the forecast document at this time. For disclosure purposes only, probable financial impact information from the initial submission of the residential (second phase) is included in the table below.

Pinecrest Tax Increment Financing Agreement Probable Residential Cash Flow				
Funding Stream	2019	2020	2021	2022
New Residential Taxes (original proposal)	$294,045	$588,090	$882,135	$1,176,180
Actual New Residential Taxes Paid	$0	$0	$0	NA
*Actual Data for Calendar Years 2019 and 2020. The initial projected build out year is 2022.				

The financial impact figures for the School District used in this forecast document originate with the developer and the financial advisor for Orange Village. Neither the District nor an independent third party provided an independent opinion to validate this data. While believed reliable, the School District cannot attest to the accuracy of this data and is relying on the best efforts of the developer, the Village and its financial advisor to provide information that is as accurate as possible. The commercial phase of the Pinecrest development is marketed as a "total value lifestyle shopping center" that has 87 apartments, a 145-room hotel, 400,000 square feet of retail space, 162,000 square feet of office space and a 1-acre programmable town center. In November 2021, the developers' web site, www.discoverpinecrest.com, had the following marketing message: "Cleveland's newest mixed-use district, located right off the Harvard Road exit of I-271 in Orange Village, Ohio, Pinecrest blends the best national and emerging brands to bring sought after apparel, home and specialty stores, chef-driven restaurants and incredible entertainment venues—many of which are first to the market. In addition, Pinecrest is home to a boutique hotel, contemporary apartments and next-generation Class A office space."

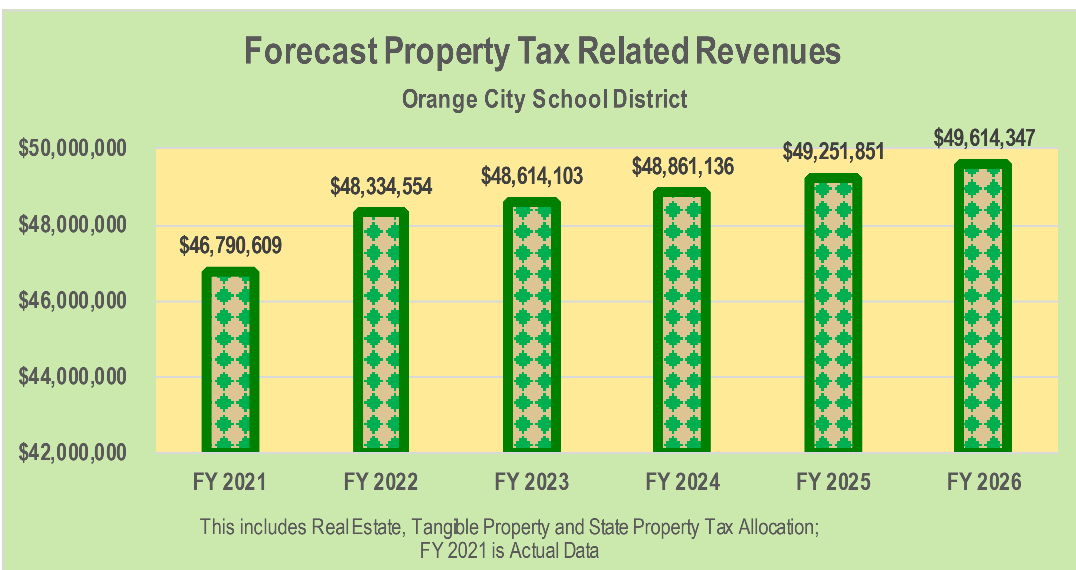
Appendix B: Tax Levies and Rates

Appendix B provides additional information about the property tax structure of the School District, including voted and effective tax rates for current expenses (operating purposes). [Not considered here are bond retirement, permanent improvement and recreation levies.] The table below shows tax rates for all voted levies as well as taxes levied within parameters set forth by the Ohio Constitution, commonly known as inside millage.

Orange City School District Tax Rates for Taxes Collected in Calendar Year 2020			
Election Date	Full Rate	Class 1 Rate	Class 2 Rate
Inside Mills (constitutional)	5.2	5.2	5.2
Before 1976	36.0	5.6	10.6
June 7, 1983	5.0	1.9	2.5
May 5, 1987	7.0	2.9	3.6
May 8, 1990	8.5	4.4	5.1
May 2, 1995	5.5	4.0	3.9
November 7, 2000	9.5	7.2	7.2
November 2, 2004	5.0	4.5	4.6
November 8, 2011	5.0	4.6	4.6
Total	**86.7**	**40.3**	**47.3**

Commentary

The Orange City School District is fortunate to have maintained community support for tax levies over time. In fact, no tax issue for day-to-day operating expenses has been voted against by the electorate in more than 40 years. (A bond issue for capital improvements was defeated in 1992.) In accordance with the Ohio Constitution and State law, three tax rates are in effect: The full tax rate is levied on public utility tangible property. An inflation-adjusted tax rate, designed to blunt property price inflation, is levied on residential and agricultural properties, so-called Class 1 property. A separate inflation-adjusted tax rate, also designed to blunt property price inflation, is levied on commercial and industrial properties, so-called Class 2 property. Over time, the Board of Education has considered when it might be necessary to seek additional funds from the community through a property tax levy. At this time, however, the Board of Education has taken no official actions related to placing a tax levy before the electorate of the School District.



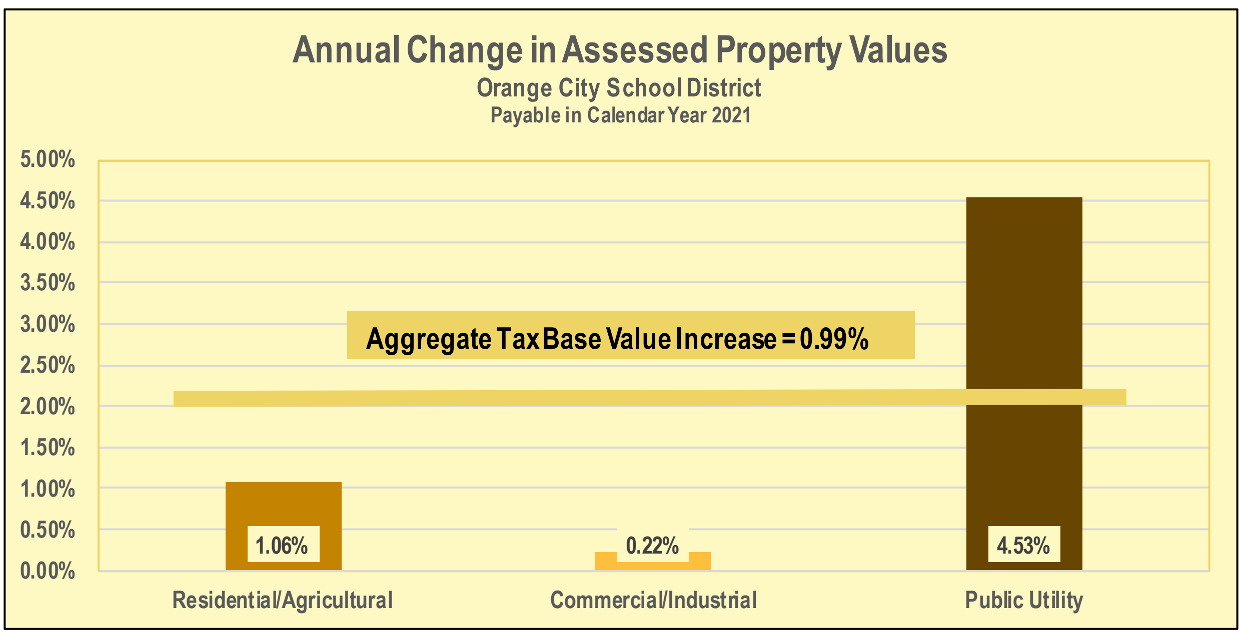
Appendix C: Property Tax Base

Appendix C provides additional information about the property tax base of the School District. Pursuant to Ohio law, the property tax base for funding public schools has three components: residential and agricultural property; commercial, industrial and mineral property; and, public utility tangible property. Property tax categories and rates are set in accordance with Article XII of the Ohio Constitution. The dual rate structure for real estate taxation is imposed in accordance with Section 2a of Article XII. The table below shows the value of taxable property in the School District by category for the past five years.

Orange City School District 5-Year Property Valuation History				
Valuation Tax Year	**Residential/Agricultural**	**Commercial/Industrial**	**Public Utility**	**Total**
2020	$969,924,400	$164,386,380	$17,955,420	$1,152,266,200
2019	$959,745,250	$164,019,660	$17,176,930	$1,140,941,840
2018	$948,840,880	$158,938,250	$15,913,230	$1,123,692,360
2017	$906,162,800	$150,713,950	$12,565,760	$1,069,442,510
2016	$905,439,820	$148,113,990	$11,698,940	$1,065,252,750

Commentary

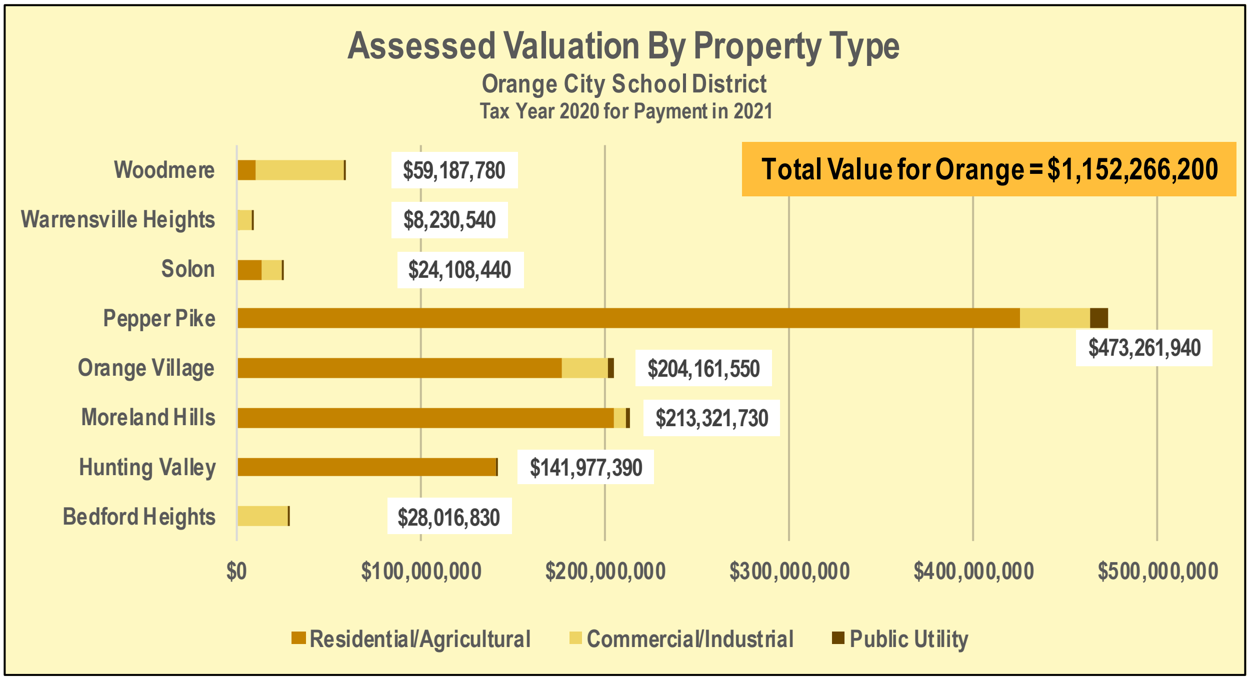
The Orange City School District has a robust and diverse tax base. In recent years, the tax base has grown each year due to new construction. Inflationary adjustments to property values that are calculated every 6 years and updated in the third year of the 6-year cycle also have been positive during that time period. The public utility tangible property tax base, as shown in the graph below has grown by more 50% in the past 5 years. As a whole, the tax base has grown by more than 8% from Tax Year 2015 to Tax Year 2019. Updates to property values for the next year usually are published in December.



The School District has eight taxing districts with a total assessed valuation in excess of $1.1 billion. As real property taxes are assessed at 35% of fair market value in Ohio, the equivalent market value of real estate within the 25-square-mile territory of the District exceeds $3 billion. While the tax base is predominately residential, it also has significant business components. On a per-student basis, the Orange tax base is among the most robust supporting any school district in Ohio. For many taxpayers, the five principal taxing districts are of greatest interest. The Orange City School District stretches west-to-east in east-central Cuyahoga County from Interstate 271 to as far as the Geauga County line. Most of the commercial/industrial real estate in the School District is situated at points with easy expressway access. Farther east, the District transitions from urban to semi-rural. This is also reflected in proportionate property uses and values. Woodmere, located near the Chagrin Boulevard interchange to Interstate 271, has about 84% of its real estate valuation in commercial property. Meanwhile, Hunting Valley, located by the Geauga County line, is 99% residential. While the largest 3 communities have mostly residential property valuation, there is significant commercial/industrial and public utility property in each. Approximately 40% of the tax base is concentrated in the most populous community in the School District, the City of Pepper Pike, which is predominately a residential community. Each taxing district is unique, however. Woodmere, for example, has mostly a commercial tax base. On the other hand, the least populous of the 5 primary constituent communities, Hunting Valley, has an overwhelmingly residential tax base. The tax base includes the five primary constituent communities of Hunting Valley, Moreland Hills, Orange Village, Pepper Pike and Woodmere as well as geographically small parts of three other communities: Bedford Heights, Solon, and Warrensville Heights. The table below presents assessed property values for Tax Year 2019 by taxing district.

Orange City School District Tax Year 2020 Assessed Property Values By Community				
Taxing District	**Residential/Agricultural**	**Commercial/Industrial**	**Public Utility**	**Total**
Bedford Heights	$0	$26,987,750	$1,029,080	$28,016,830
Hunting Valley	$140,833,140	$67,030	$1,077,220	$141,977,390
Moreland Hills	$204,890,170	$6,155,670	$2,275,890	$213,321,730
Orange Village	$175,818,000	$25,773,480	$2,570,070	$204,161,550
Pepper Pike	$425,749,680	$38,245,280	$9,266,980	$473,261,940
Solon	$12,814,870	$10,832,130	$461,440	$24,108,440
Warrensville Hts.	$42,840	$7,916,160	$271,540	$8,230,540
Woodmere	$9,775,700	$48,408,880	$1,003,200	$59,187,780
Grand Total	$969,924,400	$164,386,380	$17,955,420	$1,152,266,200

The 5 primary constituent communities of the School District proportionately have the largest school tax bases. Nevertheless, because most of the 3 smaller taxing districts are totally or substantially commercial areas in property use, these taxing districts make significant contributions to the tax revenue of the School District. The graph below shows assessed valuation by property type for each of the 8 taxing districts within Orange.



During the past five years, the composition of the tax base has been fairly stable. The proportionate share of taxable property by classification has changed less than 1.5 percentage point within that time frame. However, during the 5-year time frame, the proportion of the tax base that is residential/agricultural has decreased each year while the commercial/industrial and public utility proportions have increased. The following table shows the proportionate change in the tax base by tax type going back 5 years from Tax Year 2019.

Orange City School District Tax Base By Percentage of Total Tax Base			
Valuation Tax Year	**Residential/Agricultural**	**Commercial/Industrial**	**Public Utility**
2020	84.18%	14.27%	1.56%
2019	84.12%	14.38%	1.51%
2018	84.44%	14.14%	1.42%
2017	84.73%	14.09%	1.17%
2016	85.00%	13.90%	1.10%

The School District contains attractive business districts that are easily accessible to residents of the Cleveland metropolitan area and all of northeastern Ohio. As a result, business development and redevelopment is expected to continue at a moderate pace for the foreseeable future. As far as residential property development is concerned, a variety of housing choices are available. These range from condominium units to estate homes. While some new residential construction is occurring in the community, it is equally important that many homes built in the first major wave of development in the area in the 1960s and 1970s are being updated or rebuilt. This bodes well for a continued strong tax base for the School District even in the face of current economic conditions.