CMSD Five Year Forecast

May 12, 2020
Board of Education
Presentation Content

• Financial Impact of COVID-19

• SY20-21 Budget Approach

• Five Year Forecast
  – Assumptions of Revenue & Expenditures
  – Forecast

• Questions & Discussion
FINANCIAL IMPACT OF COVID-19
Our Five Year Forecast: November 2019

<table>
<thead>
<tr>
<th></th>
<th>SY17-18</th>
<th>SY18-19</th>
<th>SY19-20</th>
<th>SY20-21</th>
<th>SY21-22</th>
<th>SY22-23</th>
<th>SY23-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$731.1</td>
<td>$742.3</td>
<td>$744.0</td>
<td>$715.8</td>
<td>$687.7</td>
<td>$695.1</td>
<td>$702.0</td>
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<tr>
<td>Total Expenditures</td>
<td>$765.8</td>
<td>$790.1</td>
<td>$761.8</td>
<td>$764.9</td>
<td>$781.1</td>
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<td>($47.8)</td>
<td>($17.8)</td>
<td>($49.1)</td>
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<td>$17.6</td>
<td>$18.0</td>
<td>$18.0</td>
<td>$18.0</td>
<td>$18.0</td>
<td>$18.0</td>
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<tr>
<td>Unencumbered Balance</td>
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<td>$20.4</td>
<td>$2.2</td>
<td>($46.9)</td>
<td>($140.3)</td>
<td>($232.0)</td>
<td>($322.9)</td>
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If 2020 levy passes at the current millage and assessed valuation ...

<table>
<thead>
<tr>
<th></th>
<th>SY17-18</th>
<th>SY18-19</th>
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<th>SY21-22</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Levy Renewal</td>
<td></td>
<td></td>
<td></td>
<td>$33.0</td>
<td>$66.4</td>
<td>$67.0</td>
<td>$67.0</td>
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<tr>
<td>Unencumbered Balance</td>
<td>$69.3</td>
<td>$20.4</td>
<td>$2.2</td>
<td>($13.9)</td>
<td>($40.9)</td>
<td>($65.6)</td>
<td>($89.5)</td>
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</table>

Our challenge in November was a very small fund balance this year and a negative fund balance next year.
COVID-19: Potential Financial Impact

• Key Funding Sources at Risk
  – State Foundation Aid - $6 million (1.1%)
  – State Wellness funds (SY20-21) - $13 million (2.3%)
  – Levy Renewal (annually) - $67 million (12.0%)
  – Recession-level Tax Delinquencies (every 1% delinquency = $2.5 million) - $25 million (4.5%) 
  - $105 million (19.9%)

• Other Factors
  – State K-12 Funding to 3-yr avg. - $17 million (est.)
  – CARES Act funding +$20 million (est.)
  – COVID-19 unplanned expenses - $15 million (est.)
  – COVID-19 related savings +$10 million (est.)
COVID-19: Potential Financial Impact

- **School Closure**: Positive Impact ($10)
- **Remote Learning**: Negative Impact ($15)
- **Property Taxes**: Negative Impact ($92)
- **State Aid**: Negative Impact ($36)
- **Federal Stimulus**: Positive Impact ($20)

Impact (millions)
SY20-21 BUDGET APPROACH
Budget Development Challenges

• Our current budget level exceeds available resources

• We could end SY19-20 better than forecasted, but it not yet clear

• There is significant uncertainty about future revenues

• We need to align academic and operational service levels with available resources and new models in response to COVID-19

• We want to continue eliminating non-strategic spend

• We may need to reduce staffing levels to match available resources, but do not want to lay people off right now
Budget Approaches

“Traditional” Approach

• Set a fund balance target
• Make reduction decisions now ahead of the May Five Year Forecast and June appropriation

“Alternate” Approach

• Hold on further budget decisions until more information is known
• Take actions to limit unnecessary spending

We are recommending to use this approach for the SY20-21 budget.
We Need More Time …

• To see what savings we can achieve this year.

• To design what instruction needs to look like over the Summer and into next school year.

• To understand the impact on property taxes and State aid.

• To assess the impact of economic conditions on our levy goals.
How Do We “Buy” Time While Being Fiscally Responsible

1. Ask the Board in May to approve a Five Year Forecast reflecting known changes for SY19-20 and setting SY20-21 expenditures to leave a $2.5M fund balance for SY20-21

2. Ask the Board in June to approve a temporary budget for $487.2M
   – 100% of pass-through payments for charters schools and non-CMSD tuition
   – 50% of everything else (wages, benefits, and non-personnel for schools, departments, substitutes, utilities, etc.)

3. Significantly Limit Spending
   – Continue to restrict expenditures to essential items only (e.g., remote instruction, cleaning facilities, and critical business operations.)
   – Implement identified cost savings measures
   – Remove all non-essential, vacant positions from the budget
   – Freeze all remaining department and school-based vacancies
What Does This Enable?

• Time to see where our expenditures land this year and what our revenue picture looks like next year.

• Time to build our academic plans for the summer and next school year

• Keeps all current staff employed during this public health crisis.

• Time for department leaders to identify additional cost savings and implement opportunistically.
What Does This Require?

• Reorganizing existing staff to deliver services and perform business operations

• Flexibility and adaptability from our employees and labor union partners to meet shifting needs.

• Recognizing that staffing actions and tough decisions are still likely to occur

• More frequent and detailed financial tracking and expenditure monitoring

• Clear guidance to our financial managers (department heads and principals)

• “Esprit de corps” – We can and will get through this difficult time if we work together!!
FIVE YEAR FORECAST
Statutory Requirement

• ORC 5705.391 & OAC 3301-92-04

• Required to submit twice annually to the Ohio Department of Education:
  – By November 30th
  – Between April 1st and May 31st

• The forecast contains historical and projected financial data along with notes and assumptions.

• Serves as a planning tool to assess the financial health of a district.
Revenue Assumptions

• Local Property Tax (31.1% of Revenue)
  • Reflects a $5.2 billion valuation based on the 2018 reappraisal, which resulted in a 10% increase in our valuation.
  • Uses a current collection rate is 88.3%, which is down 0.1% from prior year; assumes the same rate through 2024.
    – Does not reflect potential increases in property tax delinquencies.
  • Includes the 4-year, 15-mill levy, but, in the formal forecast, assumes it expires on December 31, 2020.

• State Foundation Formula (61.0% of Revenue)
  • Utilizes the current formula but reflects a $5.6 million reduction for SY19-20 that was announced May 5th; forecasts the same reduction for SY20-21.
  • Forecasts Student Wellness and Success dollars for SY20-21, but not included beyond in SY21-22 or beyond.
  • Does not reflect the potential of additional reductions in State aid or Wellness funds.
Expenditure Assumptions

- The Forecast Includes
  - A 7.5% increase in healthcare costs each year
  - The final bus lease payment in SY20-21
  - Reductions from current and prior year budget reduction actions
  - Expenses related to Wellness funds returning to the General Fund in SY21-22
  - Slight annual increases in non-CMSD tuition and pass-through expenses
  - A $2.0 million reduction in encumbrance levels

- The Forecast Does Not Include
  - Any changes to salaries in SY20-21 and beyond (i.e., across-the-board cost of living adjustment)
  - Potential savings from COVID-19 school closures
  - Potential expense reduction if charter schools experience reductions in State aid
Our Five Year Forecast: May 2020

<table>
<thead>
<tr>
<th></th>
<th>SY17-18</th>
<th>SY18-19</th>
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<td>$785.4</td>
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<td>($34.7)</td>
<td>($47.7)</td>
<td>($16.6)</td>
<td>($36.0)</td>
<td>($86.0)</td>
<td>($84.2)</td>
<td>($83.4)</td>
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<tr>
<td>Ending Cash Balance</td>
<td>$85.8</td>
<td>$38.1</td>
<td>$21.5</td>
<td>($14.5)</td>
<td>($100.5)</td>
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<td>Encumbrances</td>
<td>$16.5</td>
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<tr>
<td>Unencumbered Balance</td>
<td>$69.3</td>
<td>$20.5</td>
<td>$5.5</td>
<td>($30.5)</td>
<td>($116.5)</td>
<td>($200.7)</td>
<td>($284.1)</td>
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<td>$5.5</td>
<td>$2.5</td>
<td>($17.0)</td>
<td>($34.2)</td>
<td>($50.5)</td>
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</table>
QUESTIONS & DISCUSSION
APPENDIX
Enrollment Trend

- Enrollment is forecasted at 51,246 student full-time equivalents (FTE), which reflects the current funded level.

<table>
<thead>
<tr>
<th></th>
<th>June 2019</th>
<th>Current Forecast</th>
<th>Difference</th>
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<tbody>
<tr>
<td>CMSD</td>
<td>34,926</td>
<td>34,193</td>
<td>-733</td>
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<tr>
<td>Community School</td>
<td>15,219</td>
<td>15,040</td>
<td>-179</td>
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<tr>
<td>Cleveland Scholarship</td>
<td>1,258</td>
<td>1,636</td>
<td>378</td>
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<tr>
<td>Other</td>
<td>326</td>
<td>376</td>
<td>50</td>
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</table>
Revenue Sources

SY19-20 Projected General Fund Revenue

- State Aid: 61.0%
- Local Property Taxes: 31.1%
- Other: 5.5%
- Advance In: 1.9%

5-Year Trend
State Aid

<table>
<thead>
<tr>
<th>SY</th>
<th>Foundation Formula</th>
<th>Casino Revenue</th>
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<tr>
<td>SY16-17</td>
<td>$463.4</td>
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<td>SY17-18</td>
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<td>SY18-19</td>
<td>$462.6</td>
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<td>SY19-20</td>
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<td>SY20-21</td>
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<td>SY21-22</td>
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<td>SY22-23</td>
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<td>SY23-24</td>
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Local Property Tax Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Property</th>
<th>Public Utility</th>
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<tbody>
<tr>
<td>SY16-17</td>
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<td>SY17-18</td>
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<tr>
<td>SY23-24</td>
<td>$147.8</td>
<td>$30.3</td>
</tr>
</tbody>
</table>

SY16-17 to SY23-24 represent the years from 2016 to 2023.
Historic Assessed Valuations

Residential
Commercial
TPP
Public Utility
Property Tax Collection Rates


88.3%
## Property Tax Abatement Tracking

Cleveland Municipal School District

### Abatement Impact on District

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Type</th>
<th>Abated Value</th>
<th>Additional Tax Receipts</th>
<th>Calendar Year</th>
<th>Type</th>
<th>Abated Value</th>
<th>Additional Tax Receipts</th>
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<tbody>
<tr>
<td>2019</td>
<td>Commercial</td>
<td>20,165,400</td>
<td>394,601</td>
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<td>Commercial</td>
<td>10,550,800</td>
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<tr>
<td></td>
<td>Residential</td>
<td>67,178,100</td>
<td>977,403</td>
<td>Residential</td>
<td>11,305,200</td>
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<tr>
<td></td>
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<td>87,343,500</td>
<td>1,372,004</td>
<td>2025</td>
<td>Commercial</td>
<td>16,546,400</td>
<td>323,784</td>
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<td>23,227,600</td>
<td>454,523</td>
<td>Residential</td>
<td>10,944,300</td>
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<td>60,406,400</td>
<td>878,879</td>
<td>2026</td>
<td>Commercial</td>
<td>4,428,700</td>
<td>86,662</td>
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<td>83,634,000</td>
<td>1,333,402</td>
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<td>16,087,200</td>
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<td>2020</td>
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<td>18,162,200</td>
<td>355,402</td>
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<td>Commercial</td>
<td>1,234,105</td>
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<td></td>
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<td>115,057,400</td>
<td>1,674,020</td>
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<tr>
<td></td>
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<td>133,219,600</td>
<td>2,029,422</td>
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<td>-</td>
<td>-</td>
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<td>2021</td>
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<td>18,355,600</td>
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<td>Commercial</td>
<td>8,633,927</td>
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<td>75,987,100</td>
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<td>-</td>
<td>8,633,927</td>
<td>125,615</td>
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<tr>
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<td>94,342,700</td>
<td>1,464,756</td>
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<td>-</td>
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<td>-</td>
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<tr>
<td>2022</td>
<td>Commercial</td>
<td>11,710,900</td>
<td>229,162</td>
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<td>-</td>
<td>-</td>
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<tr>
<td></td>
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<td>29,419,200</td>
<td>428,033</td>
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<td>-</td>
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<tr>
<td></td>
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<td>41,130,100</td>
<td>657,195</td>
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<td>-</td>
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State Reimbursements

SY16-17: $0.8
SY17-18: $17.5
SY18-19: $17.1
SY19-20: $14.5
SY20-21: $14.2
SY21-22: $11.5
SY22-23: $11.8
SY23-24: $11.8

- Property Tax Reimbursements
- Tangible Personal Property Reimbursements
Revenue Forecast – General Fund

- **SY15-16**: General Fund w/o 2020 Levy
  - $711.8

- **SY16-17**: General Fund w/ 2020 Levy at 15 mils
  - $739.5

- **SY17-18**: General Fund w/o 2020 Levy
  - $731.1

- **SY18-19**: General Fund w/ 2020 Levy at 15 mils
  - $749.7

- **SY19-20**: General Fund w/o 2020 Levy
  - $745.2

- **SY20-21**: General Fund w/ 2020 Levy at 15 mils
  - $743.2

- **SY21-22**: General Fund w/o 2020 Levy
  - $754.1

- **SY22-23**: General Fund w/ 2020 Levy at 15 mils
  - $762.0

- **SY23-24**: General Fund w/o 2020 Levy
  - $769.0

The graph illustrates the revenue forecast for the General Fund from SY15-16 to SY23-24, with and without the 2020 Levy at 15 mils.
Non-Personnel Expenditures

Chart Title

- Advances / Transfers
- Other Uses
- Equipment
- Supplies & Materials
- Purchased Services

SY17-18 | SY18-19 | SY19-20 | SY20-21 | SY21-22 | SY22-23 | SY23-24
Expenditure Forecast – General Fund

- SY17-18: $765.8
- SY18-19: $790.0
- SY19-20: $778.2
- SY20-21: $746.1
- SY21-22: $781.1
- SY22-23: $786.8
- SY23-24: $786.8

Millions

SY17-18  SY18-19  SY19-20  SY20-21  SY21-22  SY22-23  SY23-24
Expenditures
SY19-20 Board Approved Budget