



**LEBANON CITY SCHOOL DISTRICT
5-YEAR FORECAST ASSUMPTIONS
October 30, 2010**

This report outlines the status of the District's finances for the future and conforms to the reporting requirements established by the Ohio Department of Education and the Ohio Auditor of State. The forecast will be reviewed and adopted by the Community Audit Advisory Committee (CAAC) and presented to the Board of Education for approval.

The forecast presents actual revenues and expenditures for three fiscal years (2008 to 2010) and projections of the financial performance for the next five fiscal years (2011 to 2015). It is important to note that the forecast is an estimate based upon current financial information, logical estimates and assumptions. The data is provided in summary form and includes the major operational funds of the District: General Fund, Emergency Levy Fund, State Fiscal Stabilization Fund and the Education Jobs Fund. Programs and services provided through state and federal grants are not included in this report.

This forecast is designed to outline in broad terms the general financial direction of the District. It is intended to be a general guide to indicate trends or patterns to watch over the next five years. The forecast as prepared includes only those decisions or actions specifically taken by the School District in terms of staffing levels, building utilization, and educational program offerings. As with any financial projection, estimates tend to be less accurate the further into the future they are. The report also outlines the assumptions made in preparing these estimates and any program or service changes expected over the next five years.

The CAAC committee reviews the forecast on a periodic basis to determine if material changes are needed to maintain the financial stability of the District. If revenues or expenditures are expected to change by more than 5% from the original projection, the Committee will review and revise the forecast as necessary and present these changes to the Board of Education.

REVENUES:

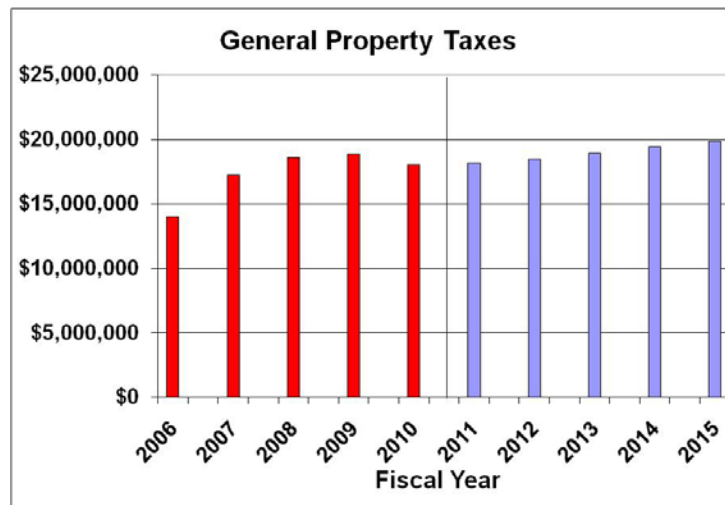
Line 1.01 General Property Tax (Real Estate)

In calendar year 2003, Warren County went through a real estate property value update and a reappraisal in 2006. These occurrences plus new construction caused the valuations for agriculture, residential and commercial/industrial property to rise 22.45%, while the valuations for agriculture, residential and commercial/industrial property rose 30.05% in 2006 respectively.

However, his trend did not continue when Warren County property values were reappraised in 2009 resulting in a 7.3% reduction in total property valuation in the district. This represents a significant reduction in anticipated revenues normally attributed to growth in property valuation that has traditionally occurred. This is significant in the near term as the property value reduction has caused the Districts effective property tax millage to rise above the 20 mill floor resulting in lost property tax revenue to the district. The forecast does assume a slight increase in property value due to new construction. However, these values have been reduced from previously forecasted amounts due to the sluggish economy and the anticipation that there will be a slow recovery. Finally, it is anticipated that property values will see a modest increase with the triennial update of property values in 2012.

The three-year emergency operating levy which generates \$4.2 million annually and was first passed (6.5 mills) on November 8, 2005 and the renewed on March 3, 2008 is critically important to maintain the districts local revenue. Future collections of this levy will depend upon renewal in FY12 through the first half of FY15. It is assumed that this emergency operating levy will be renewed throughout the forecast period which is not only consistent with Ohio Revised Code but also historical evidence both locally and around the state.

It is extremely important to note that non-renewal of the three-year emergency levy is financially devastating to the district. Based upon current assumptions, non-renewal of the levy would result in a \$4.2 million deficit in Fiscal Year 2012 and would grow significantly through the life of the forecast.



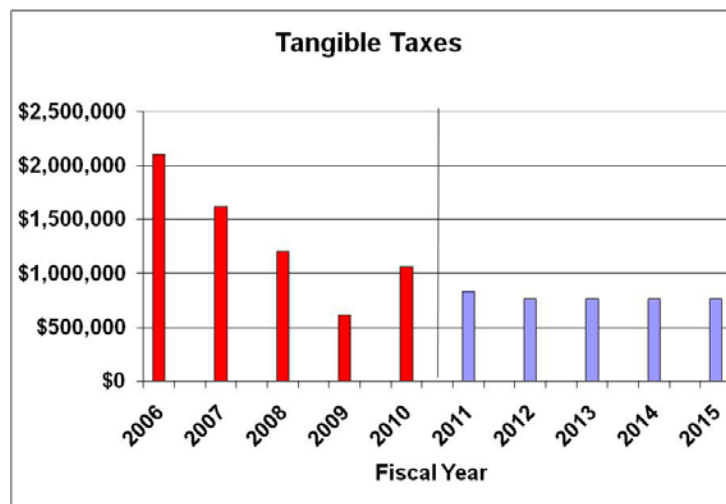
The District has experienced a steady increase in property tax revenue over the last five fiscal years. This growth can be attributed to increasing property values from new construction, valuation updates, reappraisals and new property tax levies. The significant increase in property tax revenue from fiscal year 2005 through 2008 is the result of the passage of emergency levies. However as previously stated, this trend of growth did not continue for the 2009 reappraisal. It is also important to note that the percentage of real estate revenue growth is not consistent with the percentage of actual real estate value increases due to HB 920 which doesn't allow levies to

grow beyond new construction, emergency levies which are dollar based and will never grow, and the ability of the County Treasurer to collect real estate taxes. However due to the decline in property values in Warren County, the significant increases in property values that the District has experienced in the past will not be realized. This has a significant negative impact on property tax revenue until the next property tax update in 2012.

It is apparent that additional local tax revenues will have to be placed on the ballot during calendar year 2011 for collection in 2012. The combined effect of the eroding local tax base, loss of State Foundation revenue that has already occurred and the likelihood of significant cuts of State Foundation revenue in the future will dictate that a new property tax levy will be needed to simply maintain current services.

Line 1.02 Tangible Personal Property Tax

The projected decline in revenues received through tangible personal property is a result of a decline in valuation due to a number of factors such as depreciation, deregulation, House Bill (HB) 283 (July 1, 2003), HB 95 (July 1, 2004) and HB66 (July 1, 2005). HB 283 reduces the assessed valuation of the inventory component of personal property tax from 25% to 0% by 2028. HB 95 accelerated that reduction to 2% per year ending in 2016. HB 66 accelerated the phase-out of tangible personal property and public utilities by the calendar year 2009. There is a hold harmless provision in this bill to maintain revenues through 2010 less the previously approved phase-out outlined in HB95. The phase-outs are estimated to reduce personal tangible revenues from a high of \$2,103,106 in fiscal year 2006 to \$674,381 in fiscal year 2015. Reimbursement revenues are included in line 1.035 unrestricted grant-in-aids. The increase in tangible personal property taxes in 2010 is a reclassification of Public Utility Personal Property tax that was included in the general property tax line item. The reclassification was necessary to more accurately reflect the legislation affecting the phase out of personal tangible property taxes.



Line 1.035 Unrestricted Grants-in-Aid

It is important to note that this forecast is based upon current Ohio law. However, House Bill 1 has introduced significant changes to Ohio’s schools funding formula. There is still a high

degree of uncertainty in the State funding model due to the significant changes, requirements introduced by House Bill 1 and general economic conditions. As the impact of these requirements and complexities become known, they will be incorporated into the forecast. Therefore, it is important to note that this forecast is a fluid document that will change as additional guidance and requirements are announced and implemented.

The significant changes to the funding formula introduced by House Bill 1 include:

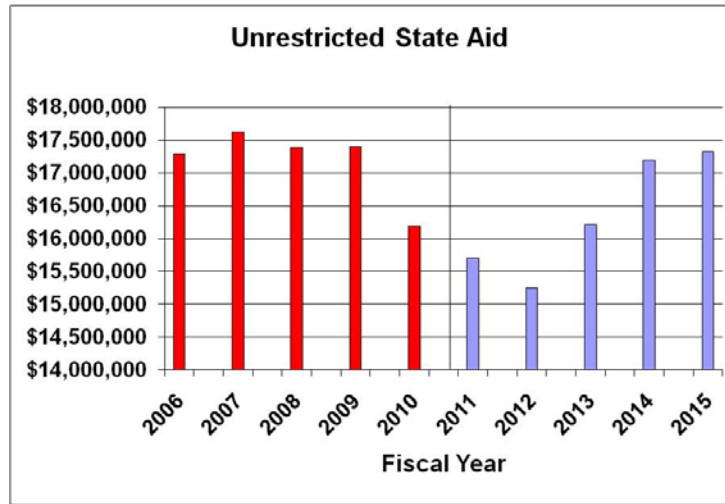
- Requires all schools districts to offer all day Kindergarten in Fiscal Year 2011 unless a waiver is granted
- Specifies that spending and reporting requirements will be established for all school districts by 2012 and that schools rated “excellent” or above are exempt from those spending requirements
- Outlines the ideal Operating Standards for school districts based upon the Evidence Based Funding Model (EBM)
- Evidence Based Funding Model includes funding components based upon:
 - Number of teachers needed to address specific student needs
 - Specific student teacher ratios
 - Minimum per pupil expenditures for supplies, materials, operation and maintenance
 - Organizational structure approach for administrators, gifted personnel, secretaries and support staff
- Prior year ADM will be used as the basis for the funding calculation
- Introduces the concept of the Educational Challenge Factor to adjust funding for certain factors such as:
 - Student and community socioeconomics
 - District’s wealth
 - Poverty
 - College attainment

Based upon current law, the Lebanon City School District is expected to see a decline in the Unrestricted Grant-in-aid from the State. The decline will be partially made-up with an increase in the Restricted Grants-in-Aid until fiscal year 2012 with the Federal Stimulus Dollars and the Education Jobs Bill. However, when both Unrestricted and Restricted Grants-in-Aid are considered the District lost approximately 1% in total funding in Fiscal Year 2010 and approximately 2% in total funding for Fiscal Year 2011. The State will be required to have a new-biennium budget bill in place by June 30, 2011. It is anticipated that there will be a significant reduction in total state aid due to the exhaustion of Federal Stimulus Funds and additional reductions in state funding to schools in the PASS formula. The initial impact of these cuts will be somewhat delayed by the Federal Education Jobs Bill funding that was enacted this year and must be completely spent by the end of Fiscal Year 2012.

This forecast assumes that the SFSF funds will be completely eliminated by the end of the Fiscal Year 2011. It is assumed that the Federal Education Jobs Bill funding will not be continued after the funds are exhausted in Fiscal Year 2012. In addition, the forecast assumes a reduction in PASS Funding of 10% in Fiscal year 2012 resulting in an approximate 12%

reduction in overall state support. Current law indicates that the PASS formula phase-ins will begin to restore a portion of the State funding that was reduced beginning in fiscal year 2013. However, there is a great deal of uncertainty surrounding State funding and this line item will need to be monitored closely as new information becomes available.

The following chart demonstrates the reduction and potential increase in Unrestricted Aid for our District:



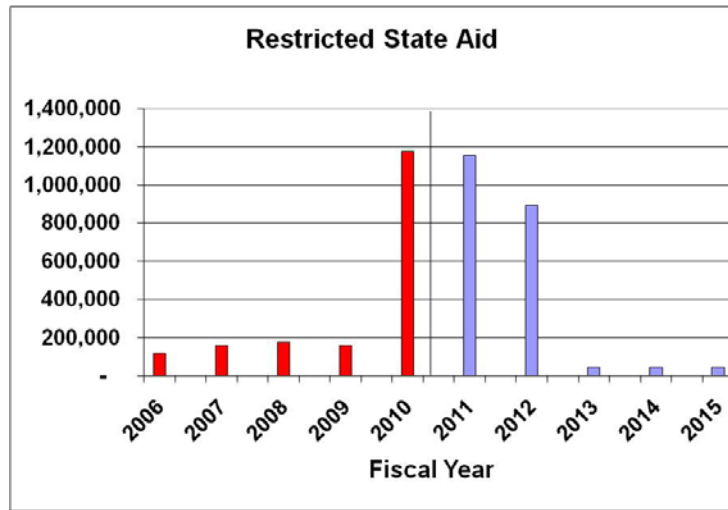
Line 1.04 Restricted Grants-in-Aid

Restricted funds are those in which the State requires spending to be done following a specific guideline. Restricted funds are also determined by Ohio law and have significantly increased due to House Bill 1. However, the increase in this line item has not resulted in an increase in total state funding for the District. In fact as previously discussed, the Lebanon City School District realized a real decline in State funding by 1% in Fiscal Year 2010 and a 2% reduction in Fiscal Year 2011. House Bill 1 has simply taken funds that were previously unrestricted and made them restricted.

This forecast assumes that the SFSF portion of the restricted grants in aid will be completely eliminated after Fiscal Year 2011. However, the Federal Educational Jobs Bill will continue to provide approximately 76% of the Fiscal Year 2011 revenue into Fiscal Year 2012 until which point it will be eliminated. Therefore, the only restricted funding that the district will receive after Fiscal Year 2012 is Career Tech Funding.

LCSD receives approximately \$45,000 annually for Career Tech Funding through the forecast. These funds support career education at the high school. Only 25% of these funds can be used for salary while the rest are used for support. In addition, some small monies received in this category from time to time for miscellaneous reimbursements. The significant increasing in funding for the fiscal years can be attributed to increased reimbursement for special education catastrophic costs which is highly dependant upon the individual student population. This level of reimbursement is not expected to continue into the future. The following chart depicts the

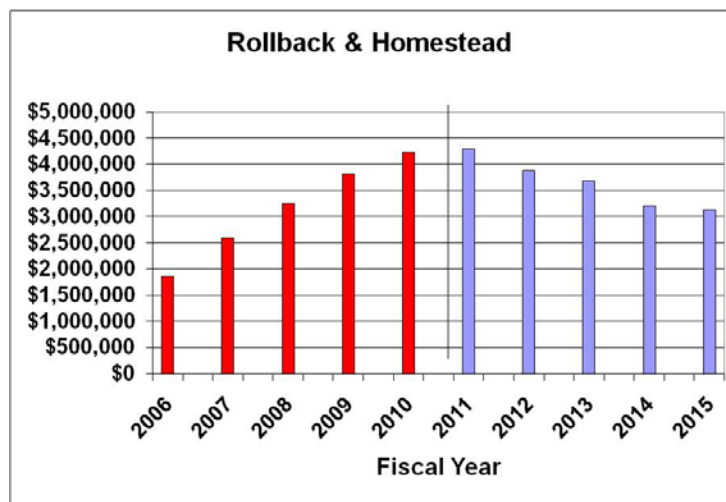
significant increase in restricted state funding and the virtual elimination of those funds in the future:



Line 1.05 Property Tax Allocation

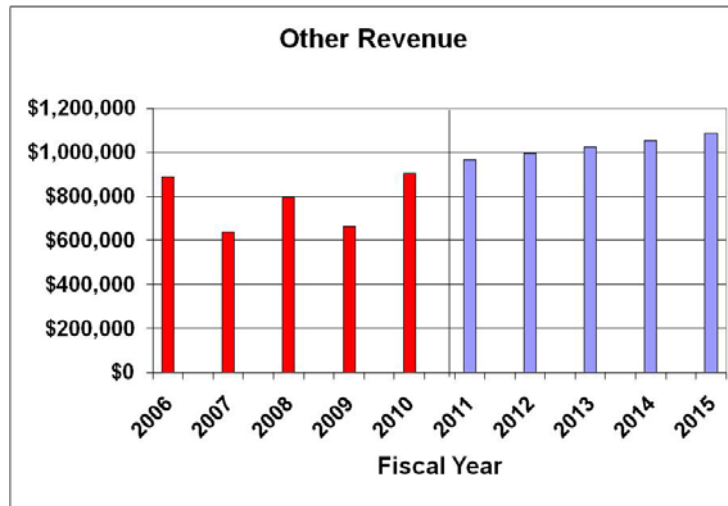
Rollback and Homestead Exemption – All real property taxpayers receive a 10.0% credit or rollback on their tax bills that is “reimbursed” by the State of Ohio. Homeowners are eligible for an additional 2.5% homestead exemption if they live in their home and it is on a parcel that is less than 2.5 acres. Additional credits are available to residents based upon income and age. The District estimates rollback and homestead exemption revenues at approximately 11% of the total real property tax generated for a given year. The District is anticipating that rollback and homestead will follow the same amount of change that real property experiences represented as a percentage of the real property taxes.

Tangible Personal Property Reimbursement - Additionally, reimbursements for the phase-out of tangible personal property (Line 1.020) are to be accounted for in this line item.



Line 1.06 All Other Revenue

Other Local Revenue – Typically other local revenue consists of extra-curricular participation fees, commissions, rental income and summer school tuition. It is important to note that the District implemented an Athletic Pay to Participate fee that will impact fiscal year 2011 and beyond with an anticipated annual revenue of approximately \$35,000. The District also earns interest on accumulated cash reserves. In FY06 there were proceeds from a note recorded on this line that caused this line to appear high for that year; usually notes should be recorded in line 2.06. It is important to note that revenue from interest income is anticipated to decrease during Fiscal Year 2010 due to current economic conditions and stabilize thereafter. This line item is anticipated to grow at a modest rate of 3% annually over the life of the forecast.



Line 2.05 Advances-In

Advances-Returned – This line represents the return of temporary monies made to funds experiencing cash flow shortfalls. Advances are not permanent and must always be returned. The District originally anticipated advances of \$500,000 annually. However, this amount was increased to \$950,000 annually. It is important to note that this is merely an accounting transaction required by law and an offsetting entry is made in the advances out section of expenses.

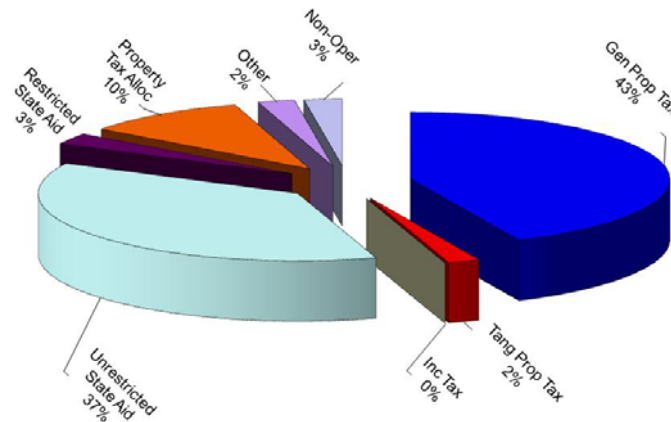
Line 2.06 All Other Financing Sources

Refund of Prior Year Expenditures – This line represents funds received in refund of services or goods purchased and charged as expenditures in a previous fiscal year. Items refunded within the same year are treated as reductions of the expenditure. It's estimated to have \$50,000 annually on this line item.

Revenue Summary

Total Revenues from all sources are expected to remain relatively constant over the life of the forecast. The following chart depicts the total anticipated revenue for the first year of the forecast.

Revenue as a Percentage of Total



EXPENDITURES:

Line 3.01 Personal Services

Salaries - Staffing is based upon the program for the 2010-11 school year. It is important to note that the District took significant steps to reduce personnel cost in May 2005, December 2005 and April 2006. The May 2005 reductions included 3.0 elementary principals, 2.0 elementary teachers, 1.0 high school guidance counselor, 1.0 athletic secretary, 1.0 student attendant, 1.0 maintenance worker and 1.0 intervention coordinator. The December 2005 reductions included the of Director of Business, 1.0 payroll specialist, 4 hours of custodial personnel and the reduction of 3.0 groundskeepers from 260 days to 200 days. Additional reductions of 8.5 instructional leader positions and their associated extended service were reduced effective July 1. The District has made additional personnel reductions of 1.0 high school business teacher, 1.0 high school art teacher, .43 music teacher, 1.0 junior high assistant principal, 1.0 high school study hall monitor and 2.0 elementary secretary positions. In addition, salaries for field trips and substitute teachers for professional development were reduced and salary schedules were frozen for the 2006 and 2007 fiscal years.

Hiring in Fiscal Year 2008 included five teachers, eleven classroom aids, 1 psychologist and 1 RN for special education that is contracted with the Warren County's Educational Service Center. We have also added 3 teachers for growth and two additional special education aids.

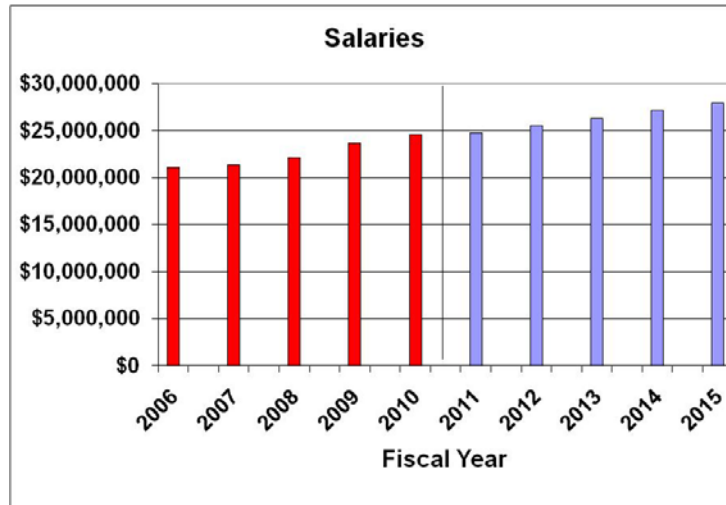
In May 2009, the Board implemented a retirement incentive that will save approximately \$1.1 million over an eight-year time period than would normally have occurred given the typical retirement cycle. The program included 16 teachers and one administrator with retirement dates between May 2009 and June 2010. The anticipated savings is included in this forecast. In addition, the district hired thirty-two part-time tutors for the 2009-10 school years to address academic needs throughout the district.

In response to the cuts in State Funding, the District has frozen staffing at current levels for all employee classifications when permitted by law. The Board will seek to reduce staffing where possible when attrition occurs through retirement or separation of employment. This is significantly different than previous forecasts that assumed the addition of five certified staff and one non-certified employee in each year of the forecast due to anticipated enrollment growth throughout the District. Enrollment is still expected to continue to grow at a rate of approximately 100 students per year of the life of the forecast. Based upon this assumption, student employee ratios are expected to rise across the district in all employee classifications. The forecast does assume that one additional aide will be needed every other year beginning in Fiscal Year 2011 due to special education needs of students within the District to be compliant with both State and Federal law.

In addition, the District reduced an Intervention Teacher, two Instructional Leader positions and reduced extended time for a total approximate savings of \$176,500 annually.

The forecast also assumes that base salary increases for all staff will average approximately 1% in Fiscal Year 2012. A 1% annual increase has been forecasted for the remainder of the forecast period. Step increases for all staff are anticipated at 2.00% for the forecast period.

House Bill 1 currently has language requiring all school districts to implement all day kindergarten programs by Fiscal Year 2012. However, the legislation previously allowed for school districts to apply for waivers to be exempted from that requirement. It is anticipated that the Lebanon City School district will apply for waivers during the life of the forecast. However, if that waiver is not granted it is estimated that an additional 11 teachers will be needed significantly impacting the total personnel cost for the District.



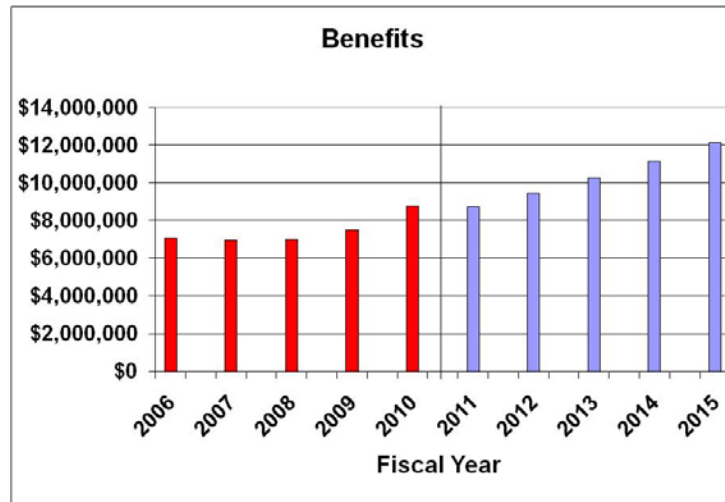
Line 3.02 Employees' Retirement/Insurance Benefits

The District is required by law to pay 14% of employees' salary into the State Teachers Retirement System and School Employees Retirement System. SERS also charges a surplus cost for employees who earn less than \$31,600 annually. This surcharge has an effect of the District paying approximately 15% into the retirement systems. It's also required of the District to pay 1.45% of salaries to Medicare and approximately 1% to the State Worker's Compensation Program. With the cost of the District's share of retirement, Medicare and worker's compensation insurance, we contribute 17.36% of salaries. No significant changes are forecasted in retirement, Medicare and worker's compensation beyond the increases due to the staff and wage increases.

The District has experienced significant increases in health and dental insurances historically. Due to staffing reductions in Fiscal Years 2005 and 2006, employee benefit costs were reduced by \$135,410 in Fiscal Year 2007. The District realized a 10.6% increase in rates for Fiscal Year 2007, 2.3% decrease for Fiscal Year 2008, 4.95% increase for Fiscal Year 2009. In Fiscal Year 2010, the district experienced a 23.2% increase in health insurance premiums due to higher than anticipated claim expense. Our most recent renewal resulted in a 3.5% reduction in overall health insurance premiums for Fiscal Year 2011. The reduction was a result of lower than expected claims expense as well as concessions from all employee groups to lower premiums in reaction to reduced revenues. All three unions in addition to the exempt staff, agreed to plan design changes impacting copayments for emergency room and inpatient hospital admissions.

Future premium increases are anticipated to increase 12% annually for the remaining years of the forecast. In addition, approximately \$55,000 is expected for workers compensation premium increases beginning in Fiscal Year 2011 and increase in each subsequent year due to increasing claims cost. Dental and life insurances are estimated to respectively rise 5% and 3% annually.

Health care costs provide the District with the greatest opportunity to recognize expenditure savings without cutting programs or services. The District is currently exploring options to minimize future increases through education programming, plan design changes or alternate plan providers. It is hoped that the informational meetings and materials will reduce costs by creating more informed health care consumers for those who participate in the benefit. In addition, the District has partnered with The Bureau of Workers Compensation, CompManagement and Public SchoolWorks to develop strategies to reduce workers compensation premiums.



Line 3.03 Purchased Services

Projected increases in purchased services are the result of increased student enrollment, additional building space to maintain, increase utility costs, increased and specialized services for students, and students enrolling in charter schools and other districts through open enrollment. Purchased services are anticipated to increase approximately 3% annually which is consistent with prior year increases.

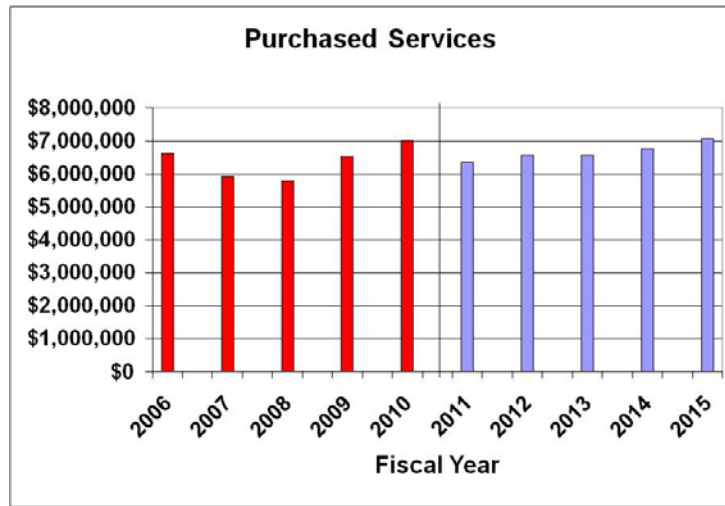
Previously the District contracted with Laidlaw Transportation Services to provide transportation for all students at a cost of approximately \$1.45 million per year. In subsequent years, the transportation management services were returned to the District and Laidlaw only provided leased buses. That contract expired July 30, 2010 and the District entered into a lease purchase agreement for the existing bus fleet. This change is expected to save approximately \$500,000 the first year of the agreement.

The contract with Warren County Education Service Center is expected to increase approximately 5% annually. In order to reduce costs, a social worker was reduced from the 2011 Fiscal Year contract saving approximately \$29,000 and the gifted program coordinator services were contracted with the Hamilton County Educational Service Center.

Utilities are also a concern to the District. We have contracted with BCI to asses our energy use and identify potential areas to reduce costs. We have initially invested in software to

measure energy consumption in the District and measure the impact of cost reduction strategies. In addition, we have appointed an energy chairman to oversee behavioral changes in the District to reduce energy costs by turning off computers, lights and eliminating unnecessary energy utilizing appliances. It is anticipated, that equipment upgrades will also result in significant energy savings and will be explored in the future.

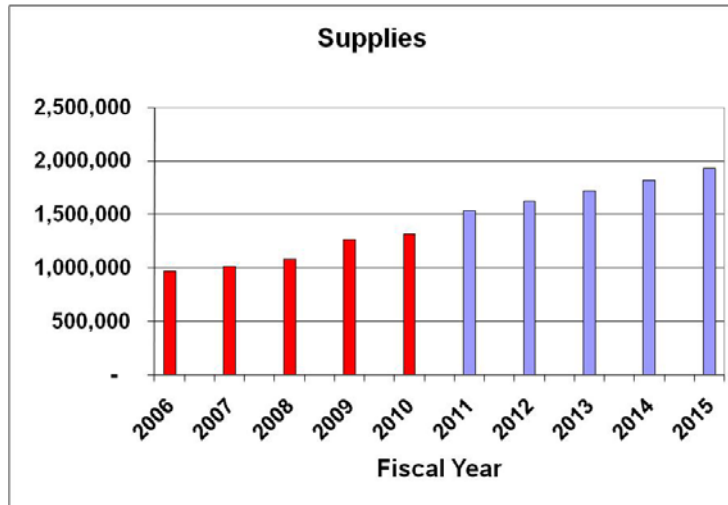
In addition, we recently installed software to allow us to monitor and limit printing and copying in the district. It is anticipated that printing and copying can be reduced by \$19,000 the first year of the program. Finally, the district implemented a retirement incentive in 2010; the costs to implement that program are reflected in this line item while the savings are reflected in the salary line item.



Line 3.04 Supplies and Materials

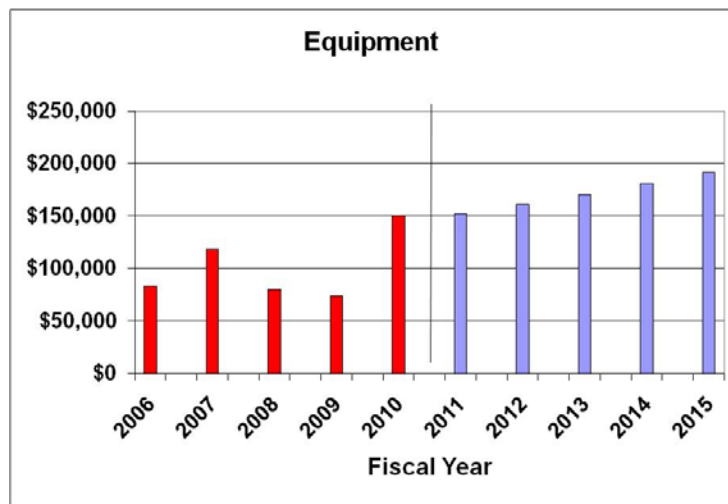
Supplies and materials are estimated to increase at a 6% rate annually in the forecast. The additional costs are for the assumed 3% student growth and a 3% inflationary factor. In 2011, the district implemented cost containment measures to reduce supply and material expenditures by 5% or approximately \$65,000. However, supplies and materials are expected to increase due to the expiration of the Laidlaw leasing contract and the return of the fleet maintenance to the district. However, overall transportation costs are expected to decrease over \$500,000 annually.

If the District is required to implement all day kindergarten as a result of House Bill 1, an additional 11 classrooms will need to be prepared for these classes. This will require a significant one-time increase in the supply cost to initially outfit these classrooms. In addition, supply and material needs will increase costs due to the longer school day for all kindergarten students.



Line 3.05 Capital Outlay

Capital outlay and new equipment are estimated to increase just 6% annually in the forecast. The District does maintain a permanent improvement fund that currently purchases most of these items. The significant increase in this line item is a direct result of state spending requirements. In 2011, the District implemented a cost reduction program in response to the decreases in revenue and it is anticipated that this line item will be reduced by approximately \$7,500.



Line 4.02 to 4.06 Debt

Debt – The District has two outstanding debt issues that are the responsibility of the General Operating Fund and are consequently included in this five-year forecast. Line 4.02 represents principal repayment for tax anticipation notes issued to provide cash flow to the

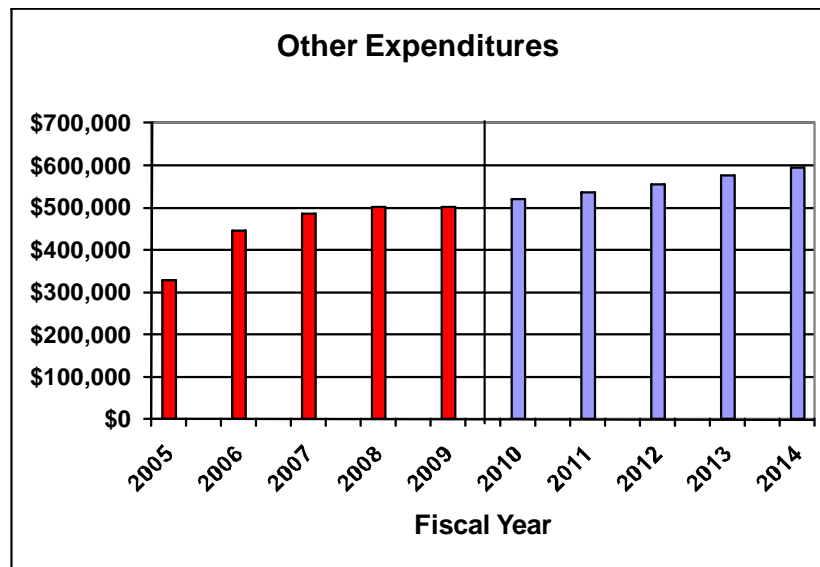
District. During Fiscal Year 2006 the District borrowed \$2,100,000 dollars against the proceeds of the emergency-operating levy to meet cash flow obligations and to avoid additional program or service reductions. The repayment of that issue is included on lines 4.01 and 4.02 of the forecast.

Line 4.055 represents the payment of the refinanced Certificates of Participation (COPS) issued to fund the locally funded initiatives (LFI) in the construction of the high school and elementary. The LFI's included additional classrooms at Bowman Elementary and Lebanon High School. The principal for this issue is detailed on line item 4.055.

Line 4.06 represents the interest cost for both of these issues. The issues are financed at fixed rate and cannot increase in cost over time.

Line 4.30 Other Objects

Any other costs not previously listed are other object expenses. These are assumed to increase 3.5% annually.



Line 5.01 & 5.02 Operating Transfers-Out and Advances-Out

Transfers and Advances – Transfer are monies approved by the BOE to give to another fund to maintain a legal balance. Advances are monies loaned to other funds with the approval of the BOE to keep those funds legal. Advances will be repaid to the general fund. The District does anticipate transfers out of this line item to permanent improvement in this forecast for the

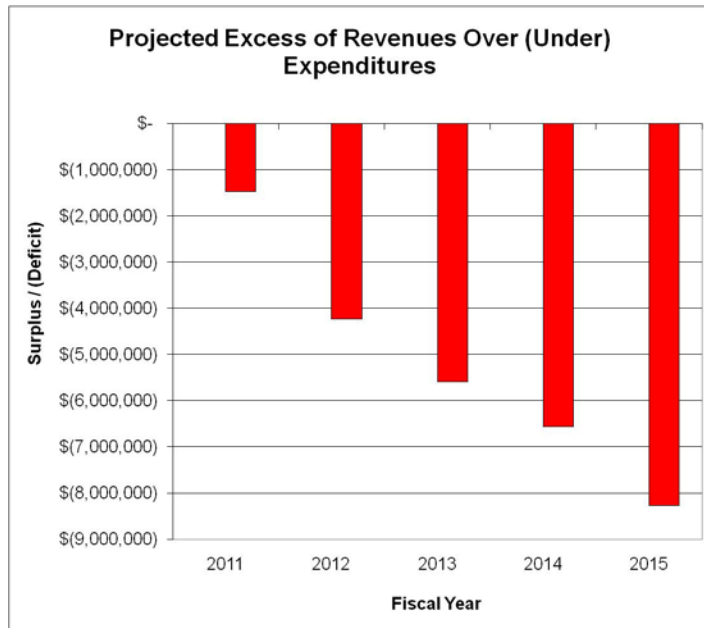
purchase of buses in the Amount of \$400,000 in years Fiscal Year 2011 and \$500,000 in the remaining fiscal years. Advances to other funds are anticipated to be \$950,000 annually.

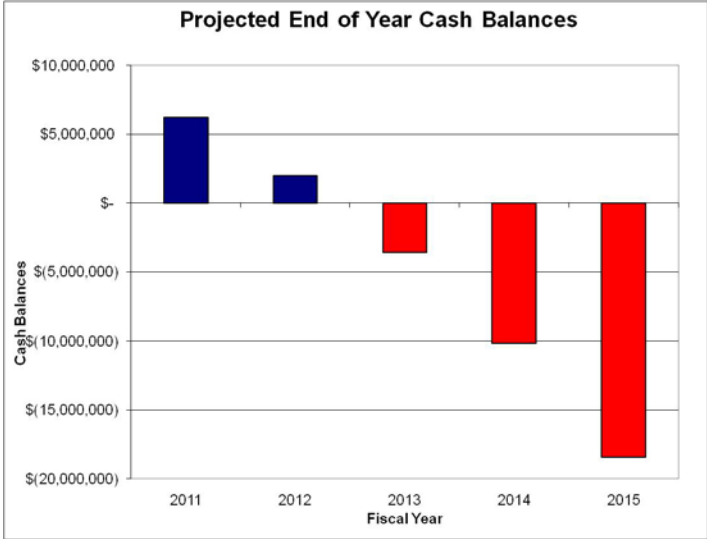
Line 5.03 All Other Financing Uses

Refund of Prior Year Receipts – The cost for fiscal year 2006 represents an accounting correction for the overstatement of investment income in the previous 3 fiscal years. We don't anticipate any refunds of prior year receipts of large significance in this forecast.

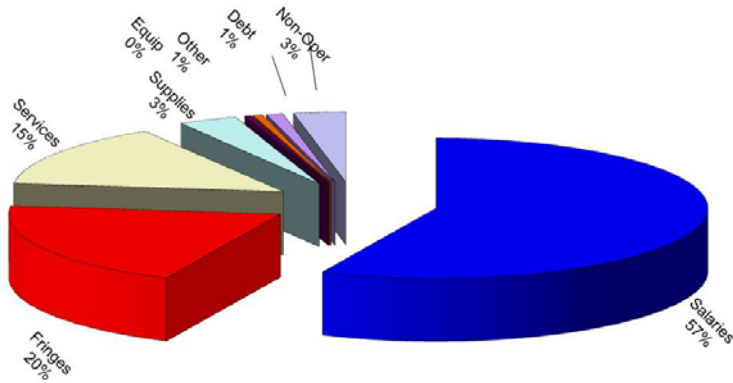
Expenditure Summary

Total expenditures are expected to rise at an annual rate of approximately 3.31% over the life of the forecast. It is important to note that expenditures are expected to exceed revenues over the life of the forecast. The District will be utilizing cash reserves to satisfy current expenses. This is significantly different than previous forecasts due to recent changes in state funding and the anticipated reduction in local property values. It is critical to the long-term financial stability of the District to explore strategies to address this disparity. Options to explore must include revenue generation and cost reduction strategies. The final chart depicts the anticipated expenditures by category for Fiscal Year 2011





Expenditures as a Percentage of Total



Line 8.01 Estimated Encumbrances

Outstanding Encumbrances - Encumbrances are legal financial obligations of the District that have not been expended at fiscal year end. We have anticipated the same amount each fiscal year of \$700,000. In the event actual encumbrances are higher than anticipated on June 30, the expenditures in the aforementioned line items will be lower.

CONCLUSION

This forecast has been significantly more challenging than previous forecasts because of the dramatic changes introduced in House Bill 1 (Fiscal Years 2010 and 2011) and the uncertainty regarding the potential reductions in State funding and property valuations due to the poor economy. In addition, the complexities introduced by House Bill 119, House Bill 66 (Fiscal Years 06 and 07), House Bill 95 (Fiscal Years 04 and 05). Every attempt was made to include the impact of the changes introduced by these bills into the forecast. House Bill 1 has significantly added to that complexity. It is important to note that this is a fluid document and only an estimate of future financial trends. In addition, the poor economy and failing State budget are anticipated to force additional changes in the future. However, at this point it is impossible to predict how those changes will affect the District.

The five-year forecast is a compilation of data based on funding formulas, as they currently exist in State law. The five-year forecast is due to the State of Ohio every October 31st and May 30th and can be revised or updated anytime between. Assumptions are based on historical trends and analysis and it is important to monitor forecast activity on a monthly basis in an effort to ensure the budget stays on forecast. Utilization of the monthly Five-Year Forecast Analysis Report will allow management to monitor all major revenues and expenditures against the five-year forecast. It is important to modify the forecast as management learns of changes in laws or events that would cause a material change in forecasted numbers. In the event that significant events should alter the projections in the five-year forecast, management will assess the situation and make recommended changes to the forecast and budget in order to maintain a balanced budget.

The 5-year forecast presented has significantly deteriorated over those depicted in previous years due the rapid erosion of both local and state revenue. Many challenges lay ahead in both the short and mid-term period and it is clear that the District must make significant cuts in combination with increased local revenue to balance the budget. District Fiscal Policy dictates that the current year budget be structurally balanced. Management will need to develop plans in the future to address these challenges and remain in compliance with fiscal policy.

If you have any questions, feel free to contact the District Treasurer at 934-5770.