

**NOTES TO THE FIVE YEAR FORECAST
GENERAL FUND ONLY
October 31, 2010**

REVENUE ASSUMPTIONS

REAL AND PERSONAL PROPERTY ASSUMPTIONS (1.010 & 1.020)

Property values are established each year by the County Auditor based on new construction and complete or updated appraisal values if applicable. The County Auditor completed the regular six year reappraisal of all Butler county property in 2008. The Auditor also completed a 'special' reappraisal in calendar year 2009 due to excessive complaints from taxpayers that the 2008 appraised values were overstated.

During calendar year 2009 Residential/Agricultural values declined by 4.08% and Commercial/Industrial values decreased by 8.36% versus the prior year. In addition, the district experienced a 3.00% increase in public utility valuation during calendar year 2009. Personal Tangible values have now been virtually eliminated in calendar year 2011 in accordance with the phase-out provisions of HB66.

Estimated future valuation increases for New Construction and the upcoming Reappraisal/Triennial Updates are conservative versus historical trends for the district. This is due to the current economic recession which has put downward pressure on home prices and commercial development. Also, the Butler County Auditor experienced unprecedented levels of valuation complaints across all classes of real property during calendar 2009. Consequently, the district engaged legal counsel to aggressively appeal the lower valuation requests initiated by commercial property owners. Such appeals were presented during the county's Board of Revision hearings held in early fall 2009.

Valuation complaints have continued into calendar 2010 despite the special reappraisal process that occurred in calendar year 2009. However, the level of such requests is down sharply versus the prior year with rental/commercial properties being the primary complainants. The forecast assumes existing Class II property values will drop by 1.5% in calendar 2010 and then another 3% in 2011. These existing property values are then expected to remain flat through 2015. New Commercial/Industrial construction is planned to grow just below 2% throughout all five years of the forecast.

There was also a very high level of reappraisal requests for residential/agricultural property in Butler County. However, the Board of Education decided not to formally appeal such requests given the downturn in the economy and the inability of many residential taxpayers to absorb higher property tax payments. Although the district did not appeal these Class I complaints, all such property tax appeals were heard by the Butler County Board of Revision and property owners were required to substantiate their lower valuation requests.

The forecast assumes a slight (.5%) decline in existing Res./Ag. Valuations for calendar year 2010 in the wake of the above mentioned 2009 special reappraisal process. Growth due to new construction is planned at .8% for calendar year 2010. The forecast assumes a 4.73% decrease in existing Class I property values for calendar year 2011 as result of the triennial update and the continued impact of depressed home sales. After 2011, existing values are expected to grow at an average of about 1% through 2015. All these growth assumptions are significantly below historical trends for the district and reflect the underlying uncertainty in any short term rebound in Res./Ag. property values.

The forecast shows that property tax collections for FY 2011 are expected to be \$231k or 2% lower than plan based on first quarter receipts. This erosion is due to increased property foreclosures, recessionary pressures on property owners and pending property valuation cases before the Board of Tax Appeals. Future delinquencies are uncertain at this time and not reflected in the forecast.

The forecast shows a decline in Tangible Personal Property (TTP) Tax Revenue as a result of the phase-out provisions of HB66. HB66 provides for direct payments to the district to offset losses in Tangible Tax Revenue. These direct payments have been factored into the forecast based on state estimates.

The forecast also shows a projected \$72k reduction in TPP payments from Duke Energy resulting from a tax appeal currently before the Ohio Board of Tax Appeals. This represents a 32% reduction in revenue versus Duke Energy's previous annual payment to the district.

Actual 2010 assessed valuations for all classes of property were not yet available at the time this forecast was prepared.

INCOME TAX

The District passed a 1% Income Tax on November 2, 2004. It took approximately 18 months to fully collect the tax once the levy was passed by the district. FY2007 was the first year in which the full tax was collected (less delinquencies).

The 1% Income Tax generated \$5.4 million in operating revenue for FY2010. The Income Tax grew by an average of 8.2% over the three years ended 2009 but dropped by 7.92% in FY2010. Last year's decline in SDIT revenue (vs. FY2009) indicates the effects of the recent economic recession were finally felt by taxpayer's district-wide.

The district's income tax revenue is expected to drop another 3.52% in FY 2011 versus the prior year. This assumption is based on a detailed historical analysis of the district's SDIT revenues adjusted for projected state-wide trends provided by the Ohio Department of Taxation. Using these trends the district's SDIT revenues will remain flat in FY2012 and then show modest growth of less than 2% in fiscal years 2013, 2014 and 2015.

These SDIT revenue streams are based on collection information (both actual and forecasted) provided by the Ohio Department of Taxation.

NEW AND EXISTING TAX LEVIES (13.020)

New and existing levies are estimated to be collected at 98.5% of the annual gross amount. This allows for an historical 1.5% delinquency rate in total collections excluding FY2011 where property tax delinquencies are expected to increase by \$231k versus historical trends based on first quarter collections. Also, 54% of new Res./Ag. And Comm./Ind. is expected to be collected in February tax settlements and 46% collected in August tax settlements.

Public Utility taxes are estimated at 50% in both February and August. Public Utility and Tangible Personal Property Taxes are estimated at 68% in the first half of the fiscal year with the balance of 32% coming in the last half of the fiscal year. These timing estimates are very important to estimating when new levy tax dollars will be available to the district.

STATE REVENUE ESTIMATES (1.035 & 1.040)

Effective July 1, 2005, State Funding is subject to the new provisions of HB66. Other provisions of the bill dealing with tax code are reflected throughout the forecast document. As a result of the changes in HB66, the district became eligible for the state's transitional aid guarantee beginning in FY2006 and continues under the state's new EBM funding model adopted in 2009. Fiscal 2008 showed 1.4% ADM growth versus FY2007 and FY2009 ADM increased by 1.7% in the second half of the school year. ADM for FY2011 is planned at 3,205 and all subsequent years are planned flat to 2011.

The amounts reflected in FY2011 through FY2015 represent the Department of Education's estimate based on the latest SF-3's and PASS simulations for FY2011 and beyond. For the years 2011-15, the forecast assumes the district will remain on the transitional aid guarantee at 100%. It is anticipated that the district would need to increase its enrollment by approximately 350 students to come off the guarantee under the new state funding model. In addition to funding received under the foundation formula, other state reimbursements/allocations are included in the forecast.

In 2009, Governor Strickland introduced a new education funding model that dramatically changed the funding formula for public schools in Ohio. This new model was as implemented as part of HB 1 and it replaces the traditional pupil based funding calculation with an Evidence Based Model (called EBM) formula. The EBM purports to fund schools based on educational requirements determined by the Ohio Department of Education.

The forecast assumes the district's basic EBM foundation monies will continue to decrease by 2% in FY2011 followed by 2% decreases in each of the following four years. This funding calculation is based on the PASS simulation model developed by Baird Securities and includes the current 'phase-in' assumptions contained in HB1. The forecast also assumes additional cuts in state foundation monies in FY's 2012 through 2015 due to uncertainty surrounding the Ohio's projected budget deficit for the next biennium. These projected reductions total about \$1.9 million.

The forecast shows Federal Stimulus (SFSF) monies totaling \$591k in 2011 and \$454k for Education Jobs Fund (Ed Jobs) stimulus monies in FY2012. The SFSF will not continue after 2011 and the impact of this reduction is included in the additional state foundation funding cuts described above. The Ed Jobs funding must be used for school-level employee salaries/benefits and these one-time stimulus monies are not expected to continue after FY2012. This creates a 'funding cliff' for the district because these positions are not included in the forecast after 2012.

Tax-exempt funding has now become a part of basic aid for those districts that qualify.

STATE ROLLBACK & HOMESTEAD REIMBURSEMENT (1.050)

These funds are reimbursements from Ohio for tax credits given owner occupied residences equaling 12.5% of the gross property taxes charged residential taxpayers and up to 10% for commercial and industrial taxpayers. HB66 eliminated the 10% rollback on commercial property shifting the tax burden to the commercial taxpayer. While the impact is revenue neutral to the school district changes will be reflected in the Real Estate Tax Revenue and Property Tax Allocation line of the forecast. These amounts will grow along with new levies and new construction in Res./Ag. and Comm./Ind. Property classifications. These amounts are represented in the forecast under Property Tax Allocations.

OTHER LOCAL REVENUES (1.060)

These amounts are estimated based on past trends and using activity over the past four years. The tuition revenue is projected to remain steady over the life of the forecast with the exception of all-day Kindergarten revenue which will be eliminated in FY2012 for all school districts as prescribed by HB 1. The bill mandates free all-day Kindergarten beginning that school year which will reduce annual revenue by \$113k beginning in 2013.

Effective with the 2005/06 school year, the District participated in open enrollment at the secondary level. The Board of Education offered open enrollment at the elementary level for 2006/07. The current forecast reflects the flat revenue projections for open

enrollment at both the elementary and secondary level. Rental income is also projected to be flat during the forecast period due to elimination of a local church that has relocated to its own facility. Interest income is determined on available cash flows and market conditions of interest rates. Interest income increased in FY2008 but began eroding in FY2009 due to sharply lower interest rates. Interest rates have steadily declined in FY2010 and the prognosis for any increase in rates is uncertain at this time.

For example, the stated rate of return on the district's investments for April 2010 was .33% versus 1.49% for the same period one year ago. The target Fed Funds rate currently stands at 25 basis points.

It should be noted that the district doesn't invest in high-risk derivative investment options. Funds are predominately invested in Star Ohio, T-bills, T-notes, CD's and interest bearing sweep accounts. Security is the top priority of the investment philosophy of the treasurer's office.

OTHER FINANCING SOURCES (2.010 – 2.080)

These are non-operating revenues which are the repayment of short term loans to other funds over the previous fiscal year and reimbursements for expenses received for a previous fiscal year in the current fiscal year. All advances over year-end are planned to be returned in the succeeding fiscal year. Transfers-In represents money being placed into the required set-aside funds.

EXPENDITURE ASSUMPTIONS

PERSONAL SERVICES (3.010)

FY 2011-2015 Previously negotiated 'step' increases (%) have been factored in the forecast to cover annual experience and education pay adjustments. The following COLA pay raises have been forecasted for all employee groups:

2009/10	0.00% (Actual)
2010/11	0.75% (Based on Mediation but not approved)
2011/12	1.50% (Based on Mediation but not approved)
2012/13	1.50% (Not Negotiated and/or approved)
2013/14	1.50% (Not Negotiated and/or approved)
2014/15	1.50% (Not Negotiated and/or approved)

Changes in personnel will now be driven by the District Leadership Team (called DLT). This new state developed model was adopted by the district in FY2011 and replaces the previous Continuous Improvement Plan. In addition, an all-day Kindergarten program was introduced in FY2007 and was designed to leverage existing teaching staff while increasing tuition revenue for the district. Such all-day programs are now mandated by state (effective FY2011) and are included in all five years of this forecast.

Replacement savings as a result of resignations/retirements and the associated severance payments are budgeted when realized.

FRINGE BENEFIT ESTIMATES (3.020)

The following percentage increases have been forecasted for Fringe Benefits:

Retirement, Workers' Comp, Medicare	Same percentage increase as wages
Health Care Insurance	9.5% for FY11; 11.75% for FY12; then 14%

The district belongs to a health care consortium called Butler Health Plan (BHP). BHP adjusts its premiums on a calendar year basis and the FY2011 forecast reflects the actual 9.5% BHP increase for calendar year 2011. Also, the forecast assumes annual 14.0% premium increases beginning in calendar year 2012 through 2015. This results in a 'blended' rate increase of 11.75% for FY2012 followed by 14% increases in FY2013 and beyond.

The above BHP premium increases were based on guidance provided by the consortium.

The market average for health care increases in calendar year 2010 is 12%- 15%.

Replacement savings as a result of resignations/retirements and the associated severance payments are budgeted when realized.

PURCHASED SERVICES (3.030)

A 3.75% increase is assumed throughout the forecast period for reoccurring expenditures of which approximately 37% is student busing services provided by Petermann, Ltd.

The forecast contains certain expense increases associated with the opening of a new 190,000 square foot high school building in December 2011. The forecast also includes expenditures to maintain the 'old' high school facility until it can sold or otherwise utilized as determined by the Board of Education. Such costs are assumed through 2015 due to the current weakness in the commercial real estate market.

Also, the forecast assumes a sharp increase in diesel fuel prices which are based the current price of \$82 per barrel versus LY's \$40 per barrel.

Completed cost savings projects are included in the prior year actuals while anticipated savings are included in the forecasted years where appropriate.

The district began a five year contract with Petermann, Ltd., for student transportation services in FY2008. The district then signed a two extension which fixes Petermann's annual increase at 3.75% through FY2014. This protects the district from significant price increases due to the contractor's escalating operating costs (Ala health care). As indicated above, these contractual increases are reflected through FY2014 with the assumed same rate of change for FY2015.

The forecast reflect increases in utility costs at a 3.75% annual rate beginning in 2011 through 2015. This compares to the average CPI of 2.33% for the trailing three years.

MATERIALS AND SUPPLIES (3.040)

These costs are expected to grow at the current 1.1% annual CPI during FY2011. Afterwards, the forecast assumes 2.0% inflation in FY2012 followed by .5% increases in each of the three subsequent years. The majority of instructional supply expense associated with the SB345 set-aside requirement deals with textbooks and technology and is purchased from the Permanent Improvement Fund. The district transferred 2 inside mills in 2004 to cover the costs associated with SB345.

Currently, the district has 35 regular bus routes covering a distance of about 3,600 miles per day.

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CAPITAL OUTLAY (3.050)

These costs are expected to grow at the current 1.1% annual CPI during FY2011. Afterwards, the forecast assumes 2.0% inflation in FY2012 followed by .5% increases in each of the three subsequent years.

The district is experiencing increases in capital outlay due to the conditions of the existing facilities. The majority of capital expense associated with the SB345 set-aside is purchased from the Permanent Improvement Fund. The district transferred 2 inside mills in 2004 to cover the costs associated with SB345.

DEBT SERVICE (4.010-4.060)

This expense group accounts for general fund debt service associated with HB 264 projects and/or Capital Leases that are obligations of the General Fund. There is currently no outstanding debt for the General Fund.

OTHER EXPENSES (4.300)

This expense group accounts for auditor and treasurer fees; County Board of Education deductions for participation in the SB 140 City/County Agreement; liability insurance and other miscellaneous expenses. Auditor and Treasurer fees and County Board deductions increase with additional revenue from property taxes and state aid. In addition, the district has experienced large increases in insurance premiums in both property and liability insurance.

NON OPERATING EXPENSES (5.010 – 5.050)

This expense group primarily accounts for board transfers to the set-aside funds and year-end advances.

ENCUMBRANCES (8.010)

There are outstanding purchase orders that have not been approved for payment as goods were not received in the fiscal year in which they were ordered. These estimates are based on historical data.

ENDING UNENCUMBERED CASH BALANCE (15.010)

This amount must not go below \$-0- or the district General Fund will violate all Ohio Budgetary Laws. Any multi-year contract, which is knowingly signed, which will cause a negative unencumbered balance is a violation of 5705.412, ORC, punishable by personal liability of \$20,000.

HB 412 RESERVE BALANCE (9.010 – 9.030)

SB 345 changed the calculation for the HB 412 set-asides. Beginning in FY 2002 the instructional material and capital maintenance calculation will use the base cost allocation multiplied times the district ADM. SB 345 also reduced the requirements for the Budget Reserve Fund to the amount received from Workers' Compensation rebates. This significantly impacted the district forecast.

This financial forecast includes the new requirements of SB 345. In addition, the forecast currently reflects \$228,358 in the Budget Reserve Fund.

CONTINGENCY PLAN

In the event these assumptions should change that would create a negative balance for purposes of certification or if the district is forecasting a deficit balance within the three year period, a contingency plan will be implemented in order to offset any projected shortfall. Said contingency plan may include additional millage and/or necessary budget cuts to address any projected shortfalls.