



Middletown City School District

Five-Year Forecast Fiscal Years 2013-2018 May UPDATE 2014



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Success for Each Student

MIDDLETOWN CITY SCHOOL DISTRICT
Five-Year Forecast for Fiscal Years 2014-2018; May 2014

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*Middletown
City Schools*

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May 5, 2014

To the Members of the Board of Education:

The Five-Year Financial Forecast for the Middletown City School District for the period ending June 30, 2014, is respectfully submitted for your approval. This report adheres to the reporting requirements established by the Ohio Department of Education and the Ohio Auditor of State.

All school districts in Ohio are required to file a Five-Year Forecast in May and October of each fiscal year. The Forecast outlines the status of the district's finances for the future and includes the three prior years as well as the forecasted years. It is intended to be a fluid and adaptable document changing with fluctuations within the economy. The Forecast is designed to outline the general financial condition of the organization in broad terms. It is intended to provide general guidelines and indicate trends or patterns to be monitored. While the Forecast covers the General Fund and only represents about 80% the organization's financial transactions, it is a very useful document as the district looks to the future.

As with all future projections, the financial forecast tends to be less accurate the farther out in the time. Changes in state funding, local property taxes, and academic programming will initiate changes within the Forecast. The first year of any forecast will be more reliable and accurate than the fifth year. This Forecast, as submitted, includes actions or decisions specifically taken by the Board of Education, as well as initiatives and programs planned for future implementation.

Respectfully,

Kelley Thorpe
Treasurer

MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2014.

Executive Summary of the Five-Year Forecast

The Five-Year Forecast financial projection is required by Section 5705.391 of the Ohio Revised Code to provide a method for the Middletown City School District Board of Education, the Ohio Department of Education, and the Ohio Auditor of State to identify whether the school district may be facing financial difficulty over the next five years. The Auditor of State's Office and the Department of Education have designed the format of this projection. Responsibility for the preparation of the projection and the accuracy of reasonableness of the assumptions on which these projections are based rests with the Middletown City School District administration and the Middletown Board of Education.

Nature and Limitations of the Forecast

The Five-Year Forecast, to the best knowledge and belief of the Middletown City School District Board of Education, presents the expected revenues, expenditures, and operating balance of the general funds. Accordingly, the forecast reflects the Board's judgment of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Operating Results

The Forecast of the General Fund shows the cash position improving from 2013 largely due to the new funding formula proposed by the Ohio legislature. It is also important to note that changes in tax rates and state funding could affect this Forecast in the later years of the projection.

May Update

While the revised Forecast does still show an improved cash position, is it not as improved as originally thought due to increases in expected severance for retirees and the number of students attending community/charter schools.

Operating Revenues

Total operating revenues, excluding other financing sources, for the 2013-14 fiscal year are projected to reach over \$68.8 million, representing an increase over 2012-13. The major sources of revenue for the district are local property taxes and unrestricted grants from the Ohio Department of Education. It is important to note that also included in the revenues for fiscal year 2014 is borrowing of \$1.6 million for the Barnitz Stadium project.

May Update

The revised Forecast includes additional borrowing of \$845,000 for a HB264 project bringing estimated revenues to \$69.5 million.

MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2014.

Operating Expenditures

Total operating expenditures, excluding other uses, for the 2013-14 fiscal year are projected to reach \$66.9 million. This represents a 1% increase from 2012-13 and a decrease of 3.2% over the past three years.

The major sources of operating expenditures are personnel costs for faculty and staff wages and fringe benefits, supplies and materials for program and instructional needs, contracted and professional services, building utilities, and capital costs for equipment and technology.

May Update

Several lines within the operating budget have changed since October; see the accompanying details. The operating budget for Middletown is now estimated to be \$68.3 million. This amount includes the repayment of \$1.6 million borrowing.

State Budget

Every two years, Ohio adopts a two-year budget that funds all state operations including public education. Ohio schools have struggled in recent years as issues of equity and adequacy are addressed at the state level through a variety of legislative initiatives. As a result, school districts have experienced dramatic changes in funding with more changes anticipated during the duration of this Forecast.

The Ohio Department of Education is prepared to begin using a new funding formula for school district payments. While the ODE has provided districts with revenue details from the new formula, details on expenditures through the new formula have not yet been released at the time of this forecast. Recent communications from the ODE have indicated that material differences may exist between published information and the actual payment details once released.

May Update

There is little change for this area. Published amounts have been used for this Forecast for 2014 and 2015. With no information going forward, the 2015 amount has been used for the remainder of the forecasted years.

The Forecast on the next page is required to be submitted to the Ohio Department of Education. Information about each line item can be found in the next section of this forecast.

MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2014.

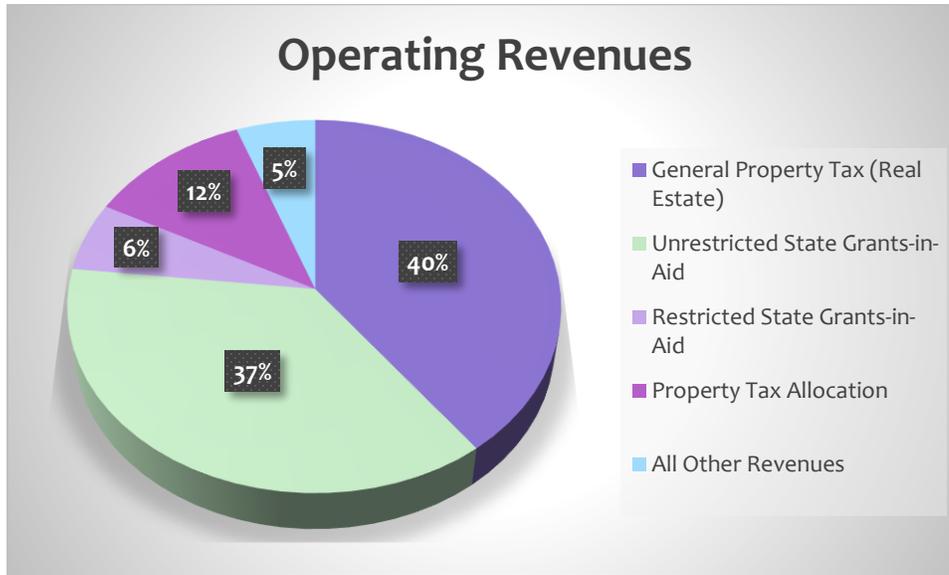
MIDDLETOWN CITY SCHOOL DISTRICT - - BUTLER COUNTY									
Butler and Warren Counties									
Schedule of Revenues, Expenditures and Changes in Fund Balances									
ACTUAL AND FORECASTED OPERATING FUND									
		Actual			Forecasted				
		Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
		2011	2012	2013	2014	2015	2016	2017	2018
	Revenues								
1.010	General Property Tax (Real Estate)	27,459,498	27,429,425	27,844,786	27,586,034	27,406,695	27,456,695	27,561,158	27,763,566
1.020	Tangible Personal Property Tax	132,757	11,089	1,943	(0)	0	(0)	(0)	0
1.030	Income Tax	-	-	-	-	-	-	-	-
1.035	Unrestricted State Grants-in-Aid	26,652,103	27,354,387	27,802,355	25,792,965	27,158,516	27,158,516	27,158,516	27,158,516
1.040	Restricted State Grants-in-Aid	2,424,232	1,318,949	360,088	4,131,791	4,131,791	4,131,791	4,131,791	4,131,791
1.050	Property Tax Allocation	7,271,639	8,146,901	8,302,805	8,109,964	7,900,136	7,750,136	7,612,203	7,486,437
1.060	All Other Revenues	1,538,573	1,858,113	1,552,332	3,932,332	1,532,332	1,532,332	1,532,332	1,532,332
1.070	Total Revenues	65,478,802	66,118,864	65,864,309	69,553,086	68,129,469	68,029,469	67,995,999	68,072,642
	Other Financing Sources								
2.010	Proceeds from Sale of Notes	-	-	-	-	-	-	-	-
2.020	State Emergency Loans and Advances	-	-	-	-	-	-	-	-
2.040	Operating Transfers-In	34,950	81,563	594,150	-	-	-	-	-
2.050	Advances-In	91,636,036	2,322,466	2,113,895	1,500,000	-	-	-	-
2.060	All Other Financing Sources	137,968	286,362	448,527	-	-	-	-	-
2.070	Total Other Financing Sources	91,808,954	2,690,391	3,156,572	1,500,000	-	-	-	-
2.080	Total Revenues and Other Financing Sources	157,287,756	68,809,255	69,020,881	71,053,086	68,129,469	68,029,469	67,995,999	68,072,642
	Expenditures								
3.010	Personal Services	38,920,804	33,389,497	30,299,357	29,197,574	29,400,568	28,824,070	28,896,130	28,968,370
3.020	Employees' Retirement/Insurance Expense	13,102,714	13,267,055	11,701,747	11,544,685	11,324,410	12,051,189	13,221,135	14,622,915
3.030	Purchased Services	15,775,221	19,375,754	22,350,326	23,841,580	23,742,989	24,338,409	24,792,918	25,256,518
3.040	Supplies and Materials	1,675,720	1,449,608	996,931	1,176,343	1,352,816	1,393,400	1,435,202	1,478,258
3.050	Capital Outlay	305,674	11,033	-	1,600,000	-	-	-	-
3.060	Intergovernmental	-	-	-	-	-	-	-	-
	Debt Service:								
4.010	Principal-All (Historical Only)	152,655	156,287	160,580	-	-	-	-	-
4.020	Principal-Notes	-	-	-	-	-	-	-	-
4.030	Principal-State Loans	-	-	-	-	-	-	-	-
4.040	Principal-State Advancements	-	-	-	-	-	-	-	-
4.050	Principal-HB 264 Loans	-	-	-	160,580	210,082	214,802	219,750	229,939
4.055	Principal-Other	-	-	-	-	-	-	-	-
4.060	Interest and Fiscal Charges	73,488	66,553	59,326	77,395	84,323	75,407	66,262	56,802
4.300	Other Objects	708,342	715,992	705,227	705,227	691,122	698,034	705,014	712,064
4.500	Total Expenditures	70,714,618	68,431,779	66,273,494	68,303,384	66,806,310	67,595,311	69,336,412	71,324,867
	Other Financing Uses								
5.010	Operating Transfers-Out	727,325	701,643	1,199,084	700,000	700,000	700,000	700,000	700,000
5.020	Advances-Out	91,501,864	2,007,078	1,715,038	1,500,000	-	-	-	-
5.030	All Other Financing Uses	-	-	88	-	-	-	-	-
5.040	Total Other Financing Uses	92,229,189	2,708,721	2,914,210	2,200,000	700,000	700,000	700,000	700,000
5.050	Total Expenditures and Other Financing Uses	162,943,807	71,140,500	69,187,704	70,503,384	67,506,310	68,295,311	70,036,412	72,024,867
6.010	Excess of Revenues and Other Financing Sources over	(5,656,051)	(2,331,245)	(166,823)	549,702	623,159	(265,842)	(2,040,413)	(3,952,225)
7.010	Cash Balance July 1 - Excluding Proposed Renewal/Replacement and New Levies	9,677,338	4,021,287	1,690,042	1,523,219	2,072,921	2,696,080	2,430,238	389,825
7.020	Cash Balance June 30	4,021,287	1,690,042	1,523,219	2,072,921	2,696,080	2,430,238	389,825	(3,562,400)
8.010	Estimated Encumbrances June	954,830	647,610	738,081	725,000	725,000	725,000	725,000	725,000

MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2014.

Revenue and Other Financing Sources

Significant sources of revenues include general property tax, tangible personal property tax, unrestricted grants in aid, and all other revenue as shown in the following graph:



General and Tangible Personal Property Taxes:

Property taxes consist of real property, public utility real and personal property, and tangible personal property taxes. Property values are established each year by the Butler County Auditor and are based on new construction, updated appraisal values, and commercial and industrial business growth during the triennial appraisal years.

Property tax revenue estimates are based on historical valuation growth patterns and are used to determine tax revenue estimations in fiscal years 2014 through 2018. Property values have continued to steadily drop in Butler and Warren counties. Middletown's valuation has continued to be affected. Tax revenues in the fall 2013 were less than revenues a year ago. 2014 is a reappraisal year for Butler County and, as a result, a relatively static growth rate for property values is being used for the purpose of this forecast.

Property Valuation for Middletown City Schools:

Year	Total Valuation	
2008	975,663,642	(Actual)
2009	859,196,078	(Actual)
2010	788,571,770	(Actual)

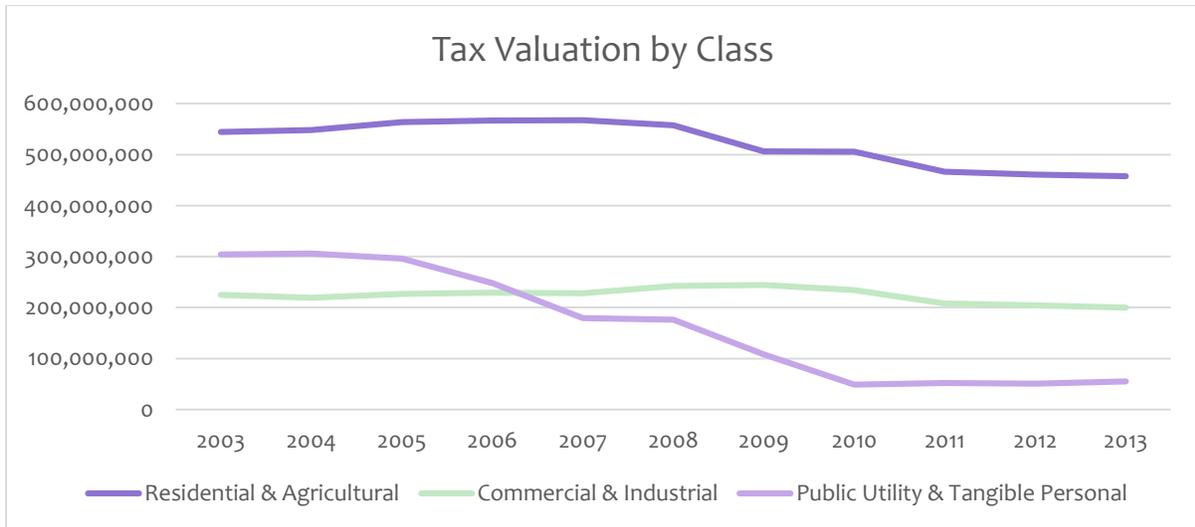
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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2014.

2011	726,323,420	(Actual)
2012	716,283,510	(Actual)
2013	712,307,751	(Actual)
2014	711,488,784	(Estimated)
2015	711,488,784	(Estimated)

The following table and graph show the growth patterns of all taxes assessed by the County Auditor on behalf of the District.

Tax Year	Agricultural & Residential	Commercial & Industrial	Public Utility & TPP	Total Value	Percent Change
2008	557,430,580	242,205,030	176,028,032	975,663,642	0.04%
2009	506,294,060	244,526,380	108,375,638	859,196,078	-13.56%
2010	505,459,290	234,335,510	48,776,970	788,571,770	-8.96%
2011	466,355,790	207,896,610	52,071,020	726,323,420	-7.89%
2012	460,678,180	204,894,810	50,710,520	716,283,510	-1.40%
2013	457,555,300	200,154,670	54,597,781	712,307,751	-0.56%



[General Property Tax- \(Real Estate\) \(Line 1.010\)](#)

General property tax revenue used to be the fastest growing assessed tax valuation. However, in recent years, this source of revenue has been decreasing steadily due to changes in property valuation in Middletown. Despite the upcoming triennial update, values have been held static for this line item as a result. Middletown continues to experience decreasing valuation and increasing delinquency rates. Revenues for the fall tax settlement in 2013 were \$200,000 less than revenues a year ago.

MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2014.

May Update

No update necessary. The October forecast estimated property taxes of \$27,592,794 for FY14. Middletown actually received \$27,586,034 – a difference of \$8,758. The ongoing decrease in valuation has been continued for 2015 as well.

Tangible Personal Property Tax (Line 1.020)

As part of the Tangible Personal Property Tax (TPP) reforms, this tax has been phased out. As a result, the district does not anticipate any revenues for this forecast line.

May Update

No update necessary.

Unrestricted Grants-in-Aid (Line 1.035)

At this time, this is the most volatile line within the forecast. The State of Ohio has prepared a new funding formula to be implemented in October, 2013. Payments to school districts based on the new formula began with the October 11 payment.

At this time, the state budget represents almost half of the district's total general fund revenue. Because it represents such a large percentage of the available dollars, any change in the provided revenue will have a definite impact on the district's finances. For FY14 and FY 15, the revenue amounts provided by the ODE have been used for this forecast. Because nothing is known about revenue for years beyond 2015, the same number has been used for those years. This could be a flaw in the forecast if state funding is reduced or if the formula goes through additional changes.

May Update

Updated to split restricted revenues from unrestricted per the change in the ODE funding formula. The revenue amounts published by the Ohio Department of Education have been used for FY14 and FY15. Without further information, the FY15 amount has been carried forward into the remaining years of this Forecast.

Restricted Grants-in-Aid (Line 1.040)

This line item is designate for restricted state funding grants. Revenue from these grants averages \$150,000 annually.

May Update

Updated to split restricted revenues from unrestricted per the change in the ODE funding formula. This line now estimates revenues of \$4.1 million for FY14.

MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2014.

Property Tax Allocation (Line 1.050)

State law grants tax relief in the form of a 10% reduction in Real Property Tax bills. In addition, a two and one half percent (2-1/2%) rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners via the Homestead Reduction Program. The State reimburses the school district for the loss of Real Property taxes due to Homestead and Rollback reductions. These reimbursement monies are included in this line item of the forecast. It is important to note that HB59 eliminated the rollback on new levies and added an income eligibility for seniors. The addition of the income requirement for seniors could lower the amount of reimbursement received by the district over time.

May Update

No update necessary.

All Other Revenues (Line 1.060)

The All Other Revenues line includes interest income, incoming open enrollment payments, donations, and any other general fund revenues that do not have a place somewhere else. As there is not any indication that interest rates will be climbing in the near future, this line has been held stagnant for the remaining years of this forecast.

For FY14, this line also includes borrowing of \$1.6 million for the Barnitz Stadium project. This borrowing will be refinanced after one year for the remaining parts of the project. Payments for this borrowing will be made from private donations over the next 5-10 years.

May Update

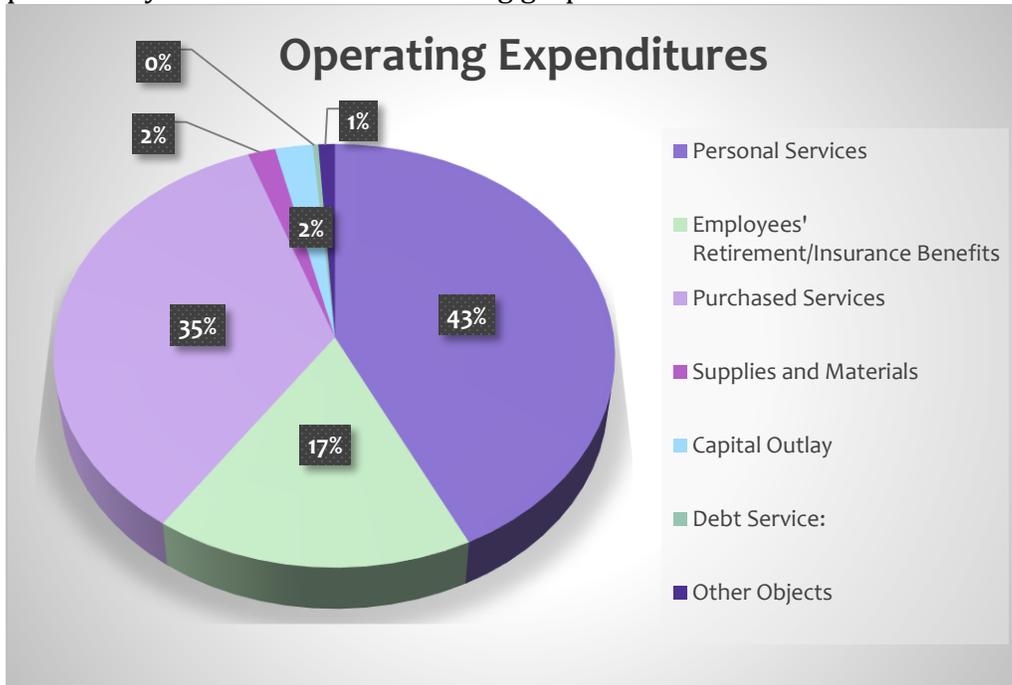
Additional borrowing of \$845,000 for completion of HB264 project has been included in the revenue for FY15. The repayment of this loan will be included in lines 4.050 and 4.060 - Debt service principal and interest respectively.

MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2014.

Expenditures and Other Financing Uses

Significant sources of expenditures include personal services (employee salaries), employee retirement/insurance benefits, purchased services, supplies and materials, and capital outlay as shown in the following graph:



Personal Services (Line 3.010)

The amounts for salaries and benefits are based on the most recent negotiated agreements for all Middletown Teachers Association (MTA) members. The agreement, implemented July 1, 2011, included a decrease of 1% for all employees for FY12 and FY13. There is no increase in base pay planned during the period covered by this forecast. Reductions in staff over the past three years has resulted in the decrease of spending in this area. Additional reductions have been implemented for FY14. It is also important to note that additional severance costs were paid out in 2013 due to retirements. Additional increases in severance are included for 2014 and 2015 due to changes in the State Teacher's Retirement System (STRS).

May Update

Severance payouts for FY14 are expected to be slightly higher than anticipated with an additional increase in FY15 due to changes in the STRS regulations.

MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2014.

Employees' Retirement/Insurance Benefits (Line 3.020)

The amounts for benefits are reflective of the activity in personal services because of retirement insurance and health insurance benefits. Employee benefits are typically driven by the amounts presented as salaries for the year and average approximately 32% percent of the average annual payroll costs. Middletown City Schools is a member of the Butler Health Insurance Program (BHP) consortium. BHP has announced that the increase for health insurance effective January 1, 2014 will be 4.5%. It is unclear at this time what effect the Affordable Care Act (ACA) will have on the district.

On July 1, 2013, all employees in Middletown began paying an additional 5% of their health insurance costs. This has had a positive effect on the district's forecast. A benefit committee has been formed to make recommendations to the district about benefits for the future.

May Update

No update necessary. Increases of 12-15% annually have been assumed for the purpose of this Forecast.

Purchased Services (Line 3.030)

Purchased services have seen dramatic increases in recent years due to outsourcing. Outsourcing services in Middletown included: busing, nursing, technology, food services, substitute teachers, and custodial and maintenance.

The purchased service line is also the category for tuition paid to other districts for open enrollment and community or charter school students. Changes in the new funding formula may have a negative impact on this line, but the effect of this impact is not yet known. An additional increase has been included in this line to account for potential applicants for autism scholarships, the Peterson scholarship, and parochial school vouchers.

May Update

For FY14, more students left Middletown to attend charter/community schools than originally thought. This caused an increase in tuition payments of approximately \$1.0 million. This increase has been carried forward into the remaining years of the Forecast.

Supplies and Materials (Line 3.040)

Changes in technology have resulted in increases to this line. Newer technologies, such as e-readers, are too inexpensive to qualify as capital outlay expenditures. Therefore, much of the technology budget for Middletown is being moved out of permanent improvement and into supplies and materials.

MIDDLETOWN CITY SCHOOL DISTRICT
BUTLER COUNTY

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2014.

May Update

For FY14, Middletown chose to discontinue the collection of student fees. Therefore, student supplies that would have normally been purchased out of the Student Fee Fund (009) have been moved to the general fund and are being included in this line item moving forward. This line item has been increased for FY15 and beyond. Likewise, the amount has been deducted from line 5.010 - Operating Transfers Out.

Capital Outlay (Line 3.050)

Purchases in capital outlay are necessary for current repair and maintenance of the current buildings and technology needs. Many of the technology purchases will be moved to supplies and materials. In 2012 and 2013, almost all of the capital needs within the district have been able to be paid through the district's permanent improvement monies. For 2014, capital outlay costs include payments for remodeling of the Barnitz Stadium.

May Update

No update necessary.

Debt Service (Lines 4.010 and 4.055)

Middletown has an outstanding HB 264 loan. Upcoming payments are included on line 4.055; historical payments are listed on line 4.010. At this time, the district is also exploring an additional HB 264 loan to help pay for lighting upgrades at Barnitz Stadium.

May Update

The loan repayments for the new HB264 loan and the borrowing for the Barnitz Stadium updates have been included in this line moving forward.

Other Objects (Line 4.300)

This line item contains mostly auditor and treasurer fees. These fees are automatically withheld from tax payments received by the county auditor. The gross amount is receipted into real estate taxes and the expense is recorded in this line. Dues and fees for membership in professional organizations are also included in this line. This line has been held static for the duration of this forecast.

May Update

No update necessary.