Memo

Office of the City Administrator

Springdale, Ohio

November 6, 2013

To: Robert Diehl, Finance Committee Chair
Springdale City Council

From: Derrick Parham
City Administrator

Re: 2014 Five-Year Revenue/Expenditure Report

Please find enclosed the 2014 Five-Year Revenue/Expenditure Report. Typically, this document is constructed to reflect all of the potential projects and programs competing for funding and, in some instances, it is referred to as a "wish list." In our most recent past reports, the process was altered to focus more realistically on the City's current financial picture. With rapidly declining City revenues and expenditures moving in the opposite direction, it was necessary to readjust the aim of this report. This year's report, as well as the 2013 report, could probably be seen as somewhat of a hybrid of the two (2) philosophies. In this report, we have focused very critically on the 2013 year-end process and 2014 Budget year. What you will see for the latter years (2015 – 2018) of the report reflects practically every request of the Department Directors during that time. I think everyone understands as we approach those years, the same detailed and critical analysis will take place to determine what items will remain and which will be deferred.

In the report as always, the General Fund is the only fund showing a deficit. It is projected to have a deficit of $3,387,992 by year-end 2015. Of course 2015 is not that far away, and we have plenty of time to make whatever crucial adjustments necessary to balance our resources. In such a process, the General Fund will typically suffer the bulk of the loss. This occurs because it is the fund which supports all other funds. For further evidence of this, page 55 under the Budget Summary tab of the report, shows very large amounts being transferred from the General Fund in the final years of the report to properly fund the Community Center Debt Fund, the Health Insurance Trust Fund, the Insurance Trust Fund, and with the greatest impact, the Capital Improvement Fund. In each of these years, we are projecting to transfer over $2 million from the General Fund.

In last year's Five-Year Revenue/Expenditure Report, as well as during the 2013 Budget process, we pointed out the wonderful strides made in our financial picture when comparing our most recent years with that of our 2009 and 2010 experiences. For the first time in several years, we were anticipating our annual earnings tax to exceed $13 million at year-end 2012. We actually came in a little short ($32,881) of $13 million. With the addition of several new companies and their employment numbers, we felt confident the $13 million number would be achieved this year. As a result, our 2013 Budget projected us coming in at $13,168,484. Based upon the amount of earnings tax we have received year-to-date, we believe we will surpass $13.2 million. In fact, our overall General Fund revenues are up in 2013. We estimate the 2013 General Fund revenues will exceed the budget by $1,010,364 (6.3%) and exceed our 2012 actual by $363,849 (2.18%).

Unfortunately, the City's 2014 estimated revenues do not paint nearly as bright a picture as above. You will see a very significant decline of $1,581,677 in our anticipated 2014 General Fund revenues. As a result of this decline, it has become necessary to take a number of very drastic measures to achieve a comfortable year-end balance for 2014. At this point, you are probably wondering what makes up this projected $1,581,677 revenue decline. The amount can be identified primarily amongst these three (3) revenue sources: the City's earnings tax, the estate tax, and the reimbursements (Administration) line item. Of course, there are other revenue sources which will generate less in 2014 than 2013, but these are the ones where you can easily see a significant decline.

The 2014 Earnings Tax

The City's earnings tax, which is approximately 75% of our revenue source, is expected to decline in 2014 by $577,123 (4.36%) from our 2013 year-end estimate. The primary cause of this decline is due to General Electric (GE) finally vacating the Executive Plaza I & II Buildings. We have known for a couple of years they were planning to relocate these jobs from Springdale, so their departure did not come as a surprise. In fact, our revenue projections in the 2013 Budget process for both 2013 and 2014 anticipated the loss of the GE employees. What we did not expect was the low number of jobs produced by some of the new employers. We were lead to believe their employment numbers would be higher and arrive sooner than what was realized. Our assessment was based upon the projected employment numbers provided by the employers. Had their numbers come in as projected, it would have helped to balance the GE departure. Unfortunately, it appears those companies have not added or retained the number of jobs they originally predicted. Hopefully, they will be added by the end of 2013 or early 2014.

The 2014 Estate Tax

In 2011, the Ohio State Legislature eliminated the Estate Tax effective December 31, 2012. As a result, it was difficult to determine whether or not we would receive any estate tax collections during 2013. Therefore, in the 2013 Budget we made an estimate to receive $100,000 this year. The good news is our 2013 collections far exceeded the budgeted amount. By the end of October, we had received $729,735 in estate tax collections (amount found in the report). In 2014, we do not expect to receive any estate tax revenue and as a result, there are no funds identified in the budget.

2014 Reimbursements (Administration)

Just like our estate tax revenue, we were not expecting to receive any significant amount of reimbursements. In a normal year, we may generally receive $20,000 - $30,000. For example, in 2011 and 2012, the City received $29,663 and $20,400. This year, we were fortunate to receive a very large amount ($199,557). In reality, the majority of the funds were not technically reimbursements. Earlier this year, the Bureau of Workers' Compensation (BWC) decided they would provide refunds to employers. I am not sure why, but we are happy to receive the funds. Our refund from BWC was $164,593. When you subtract the BWC refund from this year's total, the balance is consistent with what we generally receive in this line item. While the reimbursements, as well as the large amount of estate tax collections are great for the City in 2013, they both contribute to our expected 2014 shortfall. Totaling these three (3) events which occurred in 2013 and are not expected to occur in 2014 equals $1,506,415. This total is 95% of the $1,581,677 expected revenue decline. The remaining 5% ($75,262) is spread out amongst the balance of our revenue sources.

The anticipated loss of this revenue brought to light issues on the expenditure side. In particular, we were forced to re-evaluate the City's 2014 Capital Improvement Program. Originally, our proposed 2014 Capital Improvement Program reflected $4,133,000 in projects. For some of those projects, we have previously been approved for outside funding (Ashmore Court and Woodvale Court Reconstruction projects). We have submitted OPWC funding applications for assistance with other projects desperately in need of repairs/improvements (W. Kemper Road Rehabilitation, Jake Sweeney Way Reconstruction, and Boggs Lane Repair). Finally, there were projects included where the City would be responsible for 100% of the construction cost (Annual Street Improvement Program, Ross Park Bridge Replacement). Unfortunately, we do not believe our available as well as anticipated resources are able to carry the load of such a program. A capital improvement budget of that magnitude would require well over a $3 million transfer from the General Fund. At the same time, it would totally drain our estimated 2014 beginning year balance of $3,911,125. In fact, the initial proposed program would have left the City with a 2014 year-end General Fund balance of **negative** $972,878. As a result, it became necessary to restructure the proposed 2014 Capital Improvement Program, which unfortunately does not include a 2014 Annual Street Improvement Program.

In addition to restructuring the Capital Improvement Program, we have also removed any "new" full-time and part-time positions requested by the departments. As we have mentioned before, personnel-related expenses are approximately 75% of the City's General Fund Budget. I realize several of our departments are working with less than the preferred number of employees; however, our preliminary financial picture suggests adding new employees at this time would not be prudent. The report does include a 2% wage increase for all full-time employees and part-time firefighters in 2014 and the remaining years.

For several years, we have delayed the replacement of major equipment and vehicles throughout the organization. Over the past two (2) years, we have replaced a very small number of these (ambulance, street sweeper). In this report, we are continuing the effort to update more of our aging equipment and fleet. Several items (Public Works dump trunk, new vehicle for Health Department sanitarian, new chipper, and new Fire Department radios) are included in 2014. We have begun to schedule the replacement of other major items during the life of this report. Our practice of delaying these purchases may be catching up to us as we are beginning to see much higher repair bills than in previous years. As always, we will continue to work on extending the life of our equipment and vehicles as long as possible without placing our employees or the general public at risk.

As indicated above, the report projects a $3.3 million deficit in the General Fund by the end of 2015. To repeat, such a shortfall is not unusual at this stage. Keep in mind that:

1. We are working with "projected budgets" for each future year without taking into consideration the under-spending that usually occurs. As a result, I would estimate the operating expenses for each future year are probably overstated by $125,000 to $250,000 because of this factor alone.

2. As is routine for this exercise, many of the individual revenue sources have either been capped in our projections and not allowed to grow over the five (5) years covered in the report or have received an extremely modest inflation rate. In our conservative but prudent practice, this document continues to not anticipate any occupancy of the space vacated by General Electric in the Executive Plaza Buildings until 2015, and even then it is factored in at a very modest level.

PERSONNEL

As stated earlier, there are no "new" full-time or part-time positions added in 2014 throughout the organization. The document does include several key positions being replaced during 2014. Some of those positions include a patrol officer, an account clerk in the Tax Department, the administrative assistant position in the Health Department, and the Economic Development Director or similar type position. In instances where the Department Directors may have requested additional personnel in 2014, those positions have been postponed until 2015 or later. Beyond 2014, I have not edited the request of the directors for additional personnel.

At the end of 2014 the City will be down 24 full-time positions and will have an overall employment base of 110 full-time employees, 57 part-time employees, and throughout the year, 34 additional seasonal employees.

By the final year of this report (2018), the City will have at least thirty-five (35) of our current employees eligible to retire. We continue to see the make up of our organization change dramatically. Although we are losing a lot of experience and talent, we hope to fill the positions with good, talented, and hard-working people.

CAPITAL IMPROVEMENTS

As previously highlighted, due to our major decline in revenues, we were forced to restructure the City's Capital Improvement Program. For the most part, only projects with outside funding are shown as being a part of the 2014 Capital Improvement Program.

Perhaps the most frustrating adjustment made to the proposed 2014 Capital Improvement Program has to be the elimination of the 2014 Annual Street Improvement Program. The initial program, as reviewed by the Capital Improvement Committee, provided for a $700,000 street improvement program in 2014. Unfortunately, it has been totally eliminated from the capital program; however, the $700,000 has been retained for each of the remaining years of the report. Other items displaced from the 2014 program and relocated to future years are: Ross Park Bridge Replacement ($474,632) relocated to year 2015; Chamberlain Park Gabion

(Phase II) originally scheduled in phases during years 2014 ($86,200), 2015 ($50,900), and 2016 ($60,500) is now planned for 2015, 2016, and 2017; Jake Sweeney Way ($703,718) and Boggs Lane ($307,918) repairs moved from 2014 to 2015; $100,000 eliminated from the Tri-County Business District line; another $100,000 eliminated from the General Improvements Capital line; and finally, an additional $100,000 of the 2013 Annual Street Improvement Program is being charged to the Street Maintenance Fund (061) requiring less funds be transferred from the General Fund to the Capital Improvements Fund (090). There were a number of other adjustments made to projects scheduled in later years of the report.

One major project remaining in the 2014 Capital Improvement Budget is the Woodvale Court ($169,000) and Ashmore Court ($167,803) Reconstruction. The City has been approved to receive OPWC funds ($165,033) to assist with these improvements. The W. Kemper Road Rehabilitation Project ($1,074,086) is also scheduled to remain in 2014. Currently we are awaiting the results of a pending application for SCIP and MRF funds to assist with the cost of the project. If successful, the City would potentially receive the following funding: SCIP 48% ($515,561) and MRF 21% ($225,558). We would then be responsible for the remaining 31% ($332,967) of the construction cost. Although, the City has a pending SCIP application in place for the Jake Sweeney Way/Boggs Lane projects (combined application), these streets have been moved to the 2015 Capital Improvement Program. Due to the amount of matching funds required for all of these projects along with our shortage of revenues, I believe it would not be in the best financial interest of the City to attempt to perform both pending SCIP projects in the same 2014 calendar year. If the two (2) City applications are approved for funding, I would recommend we make a request of OPWC to allow the City to use the funds for the repair of W. Kemper Road during 2014. Then we would bid the Jake Sweeney Way/Boggs Lane streets in 2014, but not perform the construction work until 2015. If OPWC is in agreement with such a request, I believe our budget should be able to support that strategy. In any event, we must remain mindful that there is always the possibility the City may not be approved for funding for either project. At that time, we may want to reconsider a small street improvement program with the unused local matching funds.

DEBT

With the City's last short-term debt paid off in late 2007, our only remaining general obligation debt is the "Community Center Bond."

Community Center Bond

In 1999, the City issued a $7,000,000 note to finance the expansion of the Community Center. That note was rolled in 2000 and 2001. Each year, the interest was paid in full and the principal paid down by $600,000 resulting in a debt of $5,800,000 by September 2002. At that time, the City issued a $5,900,000 fifteen-year bond at an interest rate of 3.72%. In 2003, the City began making annual principal payments of $400,000 with declining interest payments over the fifteen-year term. Once our payment of $489,600 was made in 2012, the balance on the debt dropped to $1,900,000.

On December 1, 2012, the City became eligible to "Call" the bonds and explore an opportunity to save on its interest. The existing bonds were called and new bonds were issued for the remaining $1,900,000 with US Bank at a rate of 1.21% with no extension on the term of the debt. Through the new process, the City was able to save approximately $140,000 in interest payments. The City will continue to pay the annual principal in the amount of $400,000 plus declining interest. Following the payment on December 1, 2015, the balance on the bonds will drop below $1,000,000 to $700,000. The "new" bonds are still scheduled to be paid in full on December 1, 2017. Our 2013 payment is scheduled to be $425,289 with a remaining balance of $1,500,000.

TIF FUNDS

Northwest Business Center TIF

In 2000, the City issued $3,040,000 in thirty-year bonds for **Phase I** of the NW Business Center. This covered the debt from an earlier TIF on this same property, certain infrastructure improvements, and the professional service fees for the bonds.

The first business to be built under Phase I was the Bahama Breeze Restaurant which opened in December 2000. A second restaurant, Karlo's Bistro Italia, opened in the spring of 2003 and a third, Pappadeaux, opened in October 2005. Two of these restaurants, Bahama Breeze and Karlo's, eventually closed. The Pappas family apparently purchased the former Karlo's site and is now leasing it to "Smoq." Smoq opened its doors in 2011 and appears to be performing very well. The Pappas continue to own the fourth restaurant site at Phase I. In discussions with the local manager, if Pappadeaux's numbers achieve at a certain threshold, they may consider bringing their Mexican-style restaurant called Pappasito's. The Bahama Breeze site continues to sit vacant.

Tower I, the eight-story office tower built as part of **Phase II**, was completed in 2001. In order to pay for the public improvements in Phase II, including a 1,132 stall parking garage, the owners of the property, the City, and the Greater Cincinnati Port Authority concluded a complex financing plan in 2006. This involved the issuance of $10,000,000 in TIF debt by the Port Authority. The arrangement also created a special assessment on the office building over and above the regular service payments to assist in debt retirement. While the City was a party in the transaction, we have no responsibility for or association with the debt issued by the Port Authority. In 2012, the office tower became 100% occupied for the first time since its construction when First Financial Bank moved into the building.

The site proposed for the six-story office tower along with the remaining fifteen (15) acres along Northwest Boulevard is owned by the Frederick's Steel family. At present, it is unclear if they will proceed with the second office tower and associated parking garage or pursue an alternate development concept. In 2011, they apparently hired a consultant to work on marketing the property. Consequently, this report does not include debt issuance for a second public parking garage or other related public improvements associated with **Phase III**.

Tri-County Mall TIF

The Tri-County Mall TIF (TCM TIF) was created by ordinance on February 2, 2005. The purpose of this TIF was to help finance public improvements to hopefully aid in the redevelopment of Tri-County Mall. The first major project undertaken through the TIF occurred in 2007 and involved the construction of a new signalized intersection for the mall on Kemper Road. Professional services and construction costs for this project totaled $516,341. To cover these costs until the TIF could generate its own income, the City advanced $2,250 from the General Fund to the TCM TIF in 2005, $56,200 in 2006, and another $483,015 in 2007. To date, the City has advanced a total of $541,465 to the TIF. Based upon the original project, repayment of the General Fund was anticipated to begin in 2009. Unfortunately in 2009, the value of the mall was reduced by the County Auditor at the request of the mall owners. As a result, no revenue was generated in the fund to begin paying off the debt. In early 2010, with the assistance of the mall owners, the County Auditor re-instated the higher value on the mall. Thus, the City received a net payment of $53,917. This amount represented the 2008 settlement of taxes of $26,762 as well as the City's first and second half 2009 settlements of $13,852, less the County Auditor assessed fees. These payments reduced the amount owed to the General Fund to $464,674. Unfortunately in September of 2010, the owners of the mall went back to the Hamilton County Board of Revisions and had the valuation of the mall reduced again to an amount that generates no service payments for the City. A request was made of the mall to have the value re-instated or, at a minimum, to repay the money advanced for the intersection improvement. The mall owners declined due to the economy and their financial condition. Under the most recent payment plan which has now ceased, the debt would have been repaid by the end of 2027. At the conclusion of the construction project, there was $22,874 remaining in the TCM TIF. That amount was transferred back to the General Fund in 2009. There has been no activity in the TCM TIF in 2013 and none is expected in the immediate future.

Earlier in May 2013, the note on the debt for Tri-County Mall was purchased and subsequently sold to American Pacific International Capital, Inc. and the SingHaiyl Group. The new mall ownership group now includes Mr. Neil Bush.

ASSUMPTIONS

The values assumed for some of the general cost factors affecting this report are as follows:

1. **Employee compensation** for all employees reflects a 2% cost-of-living wage increase annually for all years 2014 through 2018. Of the City's three (3) labor contracts, both Police contracts will expire on December 31, 2013. The terms of a new agreement are currently being negotiated. The firefighters are completing the first of a three-year agreement. As always, adjustments in the personnel line items are also made for those employees with additional step increases on their pay grade.

2. **Medical costs** found in the Departments' Hospitalization line items are projected to increase 10% for each year of the report, 2014 through 2018. Dental costs, along with the City's 50% contribution to the employees' Health Savings Accounts (HSA) created in 2010, are accounted for in the Health Insurance Trust Fund (086). The City continues to self-insure the dental costs of the program.

3. **An inflationary rate** of 4% has been assumed in this process for all years; however, it should only apply in those cases where the line items typically consume the full allocation based on the products or services needed.

CONCLUSION

This time a year ago, the City was rejoicing in the positive strides we as an organization had made over the past few years. We were all too familiar with the challenges faced just a few years back. Our primary revenue source was growing again, new employers with significant workforces were relocating to our City, we were able to continue securing outside funding to help with major roadway improvements, and we were finally able to return to our residential neighborhoods making substantial investments in the infrastructure. Things were definitely heading in a very promising direction.

Unfortunately, as we begin our 2014 budget process, we are faced with a familiar adversary (major declining revenue). Although, it is a major disappointment to see such a large decrease ($1,581,677), we have faced and effectively dealt with this challenge before (2009, 2010, etc.). Because of our prior experience, we are more familiar with what measures must be taken to overcome this challenge. We have already taken some of the initial steps to begin adjusting to this revenue shortfall. Our Capital Improvement Program has been restructured, mainly including projects with substantial outside funding. Hiring any "new" personnel at this time is on hold, but we continue to replace key positions previously identified. The Department Directors are making adjustments to their operating budgets as well. We continue to postpone purchasing some equipment and vehicles, however we are also replacing some where we can.

On the revenue-generating side, a couple of organizations are considering Springdale as a place to operate their business. We continue to experience growth in the majority of our retail areas. In addition, several very desirable office buildings remain available for new employers in the City's office park. Overall, Springdale remains a great location to operate a business.

Finally, as we proceed with the annual budget process, annual revenues and expenditures will be brought into line providing for a sustainable balance. We will continue to use this report to summarize the City's anticipated needs over the next five (5) years so the Administration and City Council can set priorities to best meet the needs of the community.

Respectfully submitted,

Derrick Parham
Springdale City Administrator

Mayor
Members of the Finance Committee
Clerk of Council/Finance Director
City Council Members
Assistant City Administrator
Department Directors
File