City of Springdale

DOYLE H. WEBSTER
Mayor

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City Administrator

KATHY McNEAR
Clerk of Council / Finance Director

November 26, 2014

Mr. Robert Diehl, Chair
Finance Committee
Springdale City Council

Re: 2015 Annual Budget

Dear Mr. Diehl:

The 2015 Annual Budget is hereby respectfully submitted for City Council's consideration. At the start of the 2014 fiscal year, the City's finances were projected to take a tremendous hit due to the anticipated decline in our 2014 revenues. As was pointed out in last year's budget process, the City was programmed to experience a revenue shortfall in the magnitude of $1,601,771. Based on the fact we received $122,249 more in actual 2013 revenues ($17,194,483) than our 2013 estimate ($17,072,234), the projected decline would have been even greater ($1,724,020). You may recall that our 2014 expected budget shortfall was primarily attributed to challenges facing three of our revenue sources: 1) the Estate Tax being eliminated as of December 31, 2012; 2) a number of unexpected 2013 General Fund reimbursements totaling $199,557 that were not expected to be a repeat in 2014; and finally 3) a projected decline of $577,123 in the City's 2014 earnings tax collections. Unfortunately, we did experience a decline in our 2014 revenues; however, thankfully the loss was not as bad as originally projected. The City's 2014 revenues ($16,448,854) are estimated to decline by approximately $745,629. This reduction is slightly higher than the amount of estate taxes we collected ($729,735) in 2013. Everyone clearly understood there was an extremely high probability we would not collect that amount in 2014 or ever again. To our surprise, we actually received something ($1,523) in estate taxes this year. Even better than the skimpy amount of estate tax received, the City was also surprised to receive a large amount in General Administration reimbursements in 2014. This year's total easily surpassed our 2013 collection. To date, we have collected $265,353 in reimbursements, exceeding last year's collections by $65,550 (33%). Unfortunately, a large portion of these reimbursements were due to some sort of public property loss in which the City expended dollars for repairs to then be reimbursed at a later date. For example, following the destruction of the City dump truck due to a fire, the City was reimbursed $44,364 by our insurance group (MVRMA). To replace the dump truck with a new truck, the City expended $70,530. In many other cases, City property was damaged or destroyed by a third party and either they or their insurance company reimbursed the majority of our expenses. On the other hand, we did receive another large rebate check from the Bureau of Workers' Compensation in the amount of $146,781. Again, this was a rebate none of us were anticipating.

Finally even better news, because this one sends a message of stability and potentially growth, the City's 2014 estimated earnings tax ($13,347,044) did not finish $577,123 below our 2013 earnings tax estimate or actual collections. As of the production of this document, our estimated 2014 earnings tax collections are $109,345 above the 2013 estimate amount and $25,150 above our actual 2013 collections. Now if we can have a repeat performance of 2013 and collect over $100,000 more in earnings tax than our 2014 projection, the City's bank account will be just that much greater.

In relation to our expenditures, the departments continue to do a fantastic job of delivering quality services while keeping our expenses to a minimum. The 2014 estimated General Fund expenses ($17,582,692) are anticipated to increase by only 0.28% ($48,386) above the actual 2013 General Fund expenses ($17,534,306). This occurs even amongst providing the employees with a 2% cost-of-living wage increase; replacing a number of really big ticket items including two new dump trucks, a new chipper, and a new DARE vehicle; making the third and final payments on both the 2012 ambulance and our new street sweeper; and continuing to pay down the debt on the Community Center in the amount of $418,150 this year, while maintaining an extremely low debt portfolio. In fact, the City's only debt is the Community Center, and it is scheduled to be paid off on December 1, 2017.

This year, once again we have not added any new employees to the City's workforce. We have replaced a number of employees who have retired or in the rare occasion left our employment, but no new positions were created. The 2015 Budget is essentially a repeat of that process. At this time, we will continue to program replacing positions as employees leave our organization; however, I must warn this is a process that is being stretched to the limits and should not continue for too much longer. The City has a maturing employee population that is accumulating in both "time of service" and in "age." With both of those come challenges. Challenges we are currently facing and can expect to continue facing in the near future are employees accumulating more available leave time and the need and desire to spend that time away from the office. With age come bumps, bruises, aches, and pains as well as the extended amount of time to recover from the like. Other times, employees' children have grown and flown the nest, and now the employee wants to enjoy the fruits of their labor for themselves. All of this simply means someone will need to be here to deliver the services. If everybody is at the top with max leave time, you either have to reduce the number of staff needed which may reduce the quality of the service provided, pay the employees for their unused time, or hire more people.

When it comes to maintaining and improving the City's infrastructure, unfortunately, our 2014 Capital Improvements list was not as large as in previous years; however, I would suggest with the resources we had available this year, we were able to accomplish quite a bit. It appears that since we were unable to have a 2014 Street Improvement Program, some might suggest we did not make any investments in our residential neighborhoods. In response, I would simply point you to the Capital Improvements Fund (090) beginning on page 127 of this document. There you will see that the overwhelming dollars spent on road improvements this year were on our residential streets. In fact, of the $529,086 spent on construction (see the Transportation Projects section of 090), all but $26,008 (4.9%) for the SR 4 Urban Paving project were spent on or related to residential streets. Nevertheless, to address those concerns and in an attempt to have some form of a Street Improvement Program in 2015, there are $260,000 in the Capital Improvements Fund (090) and another $150,000 in the Street Maintenance Fund (061) for a total of $410,000 to hopefully implement a small street program.

As mentioned in the 2015 Five-Year Revenue/Expenditure Report, I believe it is extremely important that the City replace and upgrade the citywide communication network (local band radio system.) This system includes the City radios which are intended to allow City departments to communicate with one another. More importantly, the system is the primary communication device for our police officers to remain in contact with each other while on duty. Because the system is well over thirty years old, it often fails when officers are attempting to contact each other or to reach headquarters. Frequently, it may be necessary for one officer or for headquarters to relay a message intended for another officer who was unable to hear the original communication. The inability to communicate with each other using the radio system has the potential to create very unsafe situations for our employees as well as the general public. It is one we believe must be addressed sooner rather than later. Although funding was not included in the five-year budget process, we have placed $200,000 in the Capital Improvements Fund (090) to replace the system.

Typically, we like to enter into a new year with a balance which provides for at least one month of our municipal operations. Over the years, we have estimated that number to be in the vicinity of $1.4 to $1.5 million. Unfortunately, this budget does not provide the City with a year-end balance matching that goal. Instead, the projected 2015 year-end balance is $1,088,230. This is about $300,000 short of our target. The incorporation of the two capital improvement projects identified above has an impact on us not achieving our target. At the same time, those two projects are important to the organization. It is my opinion that should they both remain in the 2015 Budget, our finances will be just fine. There is truly nothing magical about our target number. At the end of the day, it comes down to whether or not we feel comfortable with our available and future resources as well as our ability to manage them.

The information found on the remaining pages is intended to provide a more detailed examination of the City's 2014 and 2015 financial picture.

GENERAL FUND
REVENUES / EXPENDITURES

Revenues

Not to belabor the point, but of course we enjoy sharing good news, our General Fund revenues are finishing far better than any of us could have predicted. However, since we are still experiencing a decline in General Fund revenues, I will not rehash the amount again. I would like to point out that in spite of some of the major hits our General Fund revenues have taken, the 2014 General Fund revenues are only $229,962 or less than one and a half percent (1.4%) below what was collected in 2012. Consider these events since 2012: the loss of the Estate Tax, reductions in the Local Government Funds, and not to mention the loss of many General Electric and Avon jobs. Yet in spite of these challenges, our revenues remained within $250,000 over this two-year period. Here is one other thing for you to consider and hopefully enjoy. Going into 2015, this is the first year we have not been aware of a "guaranteed known event" that presents a threat to our General Fund revenue collections. That is a huge relief for this year. Yes, I realize HB 5 (the Tax Uniformity Bill) is out there, but I did say a "guaranteed known event."

The City's earnings tax collections continue to be the primary revenue source for our organization. In 2012 and 2013, our earnings tax represented 78% and 77%, respectively, of the City's revenue source. In 2014, that number is estimated to increase up to 81% of the City's revenue sources. Several years back, that may have served as a greater threat to the organization. At that time, our community was severely dominated by General Electric and Avon jobs. As we suffered through the pains of losing those jobs and subsequent income, we now celebrate the diversity enjoyed by the Springdale business community that should allow us to weather any future individual industry collapses. Today, even with less (but still growing) revenue, I believe we are a stronger community financially. These days, we only have to fend off our representatives up Interstate 71.

The eight-year history, as shown below, displays the initial annual decline of our City's income tax collections between 2007 and 2010. However, 2011 through the present illustrates a gradual climb or rebound of our local economy. Estimated 2014 collections show a minuscule increase of 0.19%, but it is an increase. For 2015, we have simply budgeted our earnings tax to be flat as there are a number of moving parts coming and going over the next twelve-month cycle.

2007	$15,671,631
2008	$14,884,827
2009	$13,678,901
2010	$11,994,298
2011	$12,485,560
2012	$12,967,119
2013	$13,321,894
2014	$13,347,044 (est.)

A summary of the 2014 and 2015 General Fund revenue and expenditure projections can be found in *Table I* below.

Table I

GENERAL FUND REVENUES LESS EXPENDITURES			
	Budgeted 2014	**Estimated 2014**	**Proposed 2015**
Beginning Balance General Fund	4,387,483	4,387,483	3,253,645
Revenue	15,471,151	16,448,854	16,151,280
Total Funds Available	19,858,634	20,836,337	19,404,925
Total General Fund Expenditures	18,286,219	17,582,692	18,316,695
Ending Balance General Fund	1,572,415	3,253,645	1,088,230

Expenditures

To properly manage the organization's resources and expenses, one must remain keenly aware of the dollars available on hand as well as try to identify those potential dollars which may be received. *Table 1* above clearly illustrates the amount of resources the City had at the beginning of 2014 and projects the potential resources available at year-end 2015. Information such as this helps the City formulate its 2015 Budget plan and defines which programs and services are to be delivered to the community. Over the past few years, the organization has consistently delivered quality services well within our pre-defined plan (budget). An examination of the City's 2014 General Fund expenses when compared to the actual 2013 General Fund expenses presents a small 0.28% ($48,386) increase. When the review is extended back to the 2012 General Fund expenses, 2014 projections increase by only 6.8% ($1,130,911) over the two-year period. In the 2015 Budget, General Fund expenses ($18,316,695) increase by $734,003 (4.2%) above the 2014 estimate. Based upon what we are hoping to accomplish in 2015, I would see this as a modest increase.

Some may choose to focus on the disparity between the 2015 General Fund expenses and the 2015 General Fund revenues. The expenses for next year are programmed to outpace the revenues by $2,165,415 (13.4%). For several reasons, that should not cause one to panic. First of all, in the 2014 Budget our expenses were anticipated to exceed our revenues by 18.2% ($2,815,068). Right now, that number appears to be more like 6.9% ($1,133,838). Second, everyone is aware that we are always extremely conservative when it comes to projecting our revenues. Do not forget, we have projected our earnings tax to experience zero growth in 2015. Finally as we mention each year, the budget does not take into consideration the amount of "under-spending" that occurs annually. As a reminder, the under-spending is the difference between our estimated 2014 expenses versus our actual 2014 expenses. Based upon previous years, it is likely the operating expenses for 2014 may be overstated by $125,000 - $200,000. The amount of under-spending in 2013 was $265,049 which represents the estimated 2013 expenses of $17,799,355 minus the 2013 actual expenses of $17,534,306.

Again, the City's Department Directors have performed very well in managing the community's resources. The reduction of the 2014 expenditures relative to the 2014 Budget gives us an opportunity to have a comfortable year-end balance as presented in *Table I*.

PERSONNEL

As pointed out above, this will be the second consecutive year in which no new employees are being added to the workforce. We continue to replace positions that may become vacant due to retirements. This year, we had four employees retire from the City, and all of those positions have been replaced. Next year, we will have two more employees retiring from public service. First, our full-time custodian at the Community Center is scheduled to retire in March of 2015. Next, after almost thirty years of service, our Building Official is retiring from the City at the end of April 2015. Of course, we will shortly begin the process of locating the successor for both of these key positions. Please keep in mind that the issue of the City's maturing workforce will need to be addressed in the very near future.

By the end of 2015, we will continue to be down 23 full-time positions, leaving an overall employment base of 110 full-time employees, 59 part-time employees, and throughout the year, 35 additional seasonal employees. At one point, the City's authorized full-time employee total was 133. In the next five years, at least 37 of our current employees will be eligible to retire.

PERSONAL SERVICE COSTS

The 2015 Budget includes increases to the Personal Service line items reflecting a 2% wage increase across the board for all full-time City employees and part-time firefighters. In addition to the wage increase, employees with room to advance across their individual pay grade with a satisfactory evaluation are expected to receive an increase to their pay. Other increases expected to occur will include the projected changes in the longevity compensation as employees advance under that program as well as the payout of accumulated leave (sick, vacation, compensatory) for those employees scheduled to retire. Earlier this fall, the City reached an agreement with the two police unions for a new deal that expires in December 2016. The contract with the firefighter's union will expire December 31, 2015, so we expect negotiations to begin in early fall 2015. Finally, effective January 1, 2015, the State of Ohio minimum wage is scheduled to increase from $7.95/hour to $8.10/hour. The City's pay ordinance will be amended to reflect this change.

The City's contributory rate under the Ohio Public Employees Retirement System (OPERS) remains at 14% of payroll, while the rates for the Ohio Police and Fire Pension Fund (OP&F) are 19.5% for police and 24% for fire personnel.

CAPITAL IMPROVEMENTS

I would have to say this year's Capital Improvement Program (CIP) was perhaps one of the most efficient CIP budgets ($787,738) I can recall in my twenty-one years of service with the City. I refer to it as being efficient because we accomplished quite a bit this year with limited funds. Here are a few highlights.

The City began the implementation of a three-year program to minimize the downtime experienced at a number of our signalized intersections with the installation of battery backup systems; made the third and final payment on our 2012 ambulance; concluded the total reconstruction of both Ashmore Court and Woodvale Court; finalized the 2013 Street Improvement Program with a number of significant infrastructure improvements in the Oxford Hills Subdivision; and started with the initial improvements on W. Kemper Road to address ride quality issues as well as upgrade the existing storm sewer system.

In 2015, we plan to continue the second phase of our battery backup system at five new intersections; complete the W. Kemper Road Rehabilitation project; complete a number of pavement repairs and significant crack sealing work on W. Sharon Road; implement a 2015 Street Improvement Program (yet to be defined); replace and upgrade the City's local radio band system; and if successful with our SCIP funding application, start and complete the Jake Sweeney Place/Boggs Lane Rehabilitation project.

GENERAL OBLIGATION DEBT

With the City's last short-term debt paid off in late 2007, the 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 payments. 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 realize approximately $140,000 in net interest savings. 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 2014 payment is scheduled to be $418,150 with a remaining balance of $1,100,000.

TAX INCREMENT FINANCING (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. It is our understanding, if Pappadeaux's numbers achieve at a certain threshold, they may consider bringing their Mexican-style restaurant called Pappasito's to occupy the fourth restaurant site. Unfortunately, the Bahama Breeze site continues to sit vacant.

Tower I, the eight-story office building 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 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. Earlier this year, a developer met with the City Administration to discuss the opportunity of constructing a light industrial flex space development on the fifteen-acre site currently intended for an office development. Flex space developments typically include a combination of limited office space in the front of the operations and small warehouse/industrial space in the rear of the operations. The property has been vacant since the development began in 2000. There have been extremely limited inquiries concerning the development of this property and none have been to construct an office development. It is our understanding this developer has placed an option on the property and intends to submit a plan for the City's Planning Commission to consider early next year. Consequently, this budget 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 ($549). 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 2014 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 mall management team was recently before the City's Planning Commission seeking final plan approval for several outlot developments designed to be the initial phase of a long-term investment on the part of the new mall ownership.

2015 PERFORMANCE GOALS

The City incorporates elements of its strategic planning process into the annual budget in order to focus the organization's attention on its mission and to link the annual budget process with performance goals, productivity, and outcome. Please take the time to closely examine each department's goals and objectives. You will note 1) they have been formatted according to the programs identified in the department's mission statement, and 2) specific performance measures have been developed for each objective.

CONCLUSION

Each budget season as our year comes to a close, we look back at the previous ten to eleven months to assess what type of year we as an organization have experienced. This year, as I re-read my "Conclusion" of a year ago, I felt tempted to simply cut and paste sections of that report into this year's document. I decided against it, and instead decided to use it as my inspiration. In particular, I want to focus on the second paragraph of the Conclusion section. I think that paragraph more than anything else captures so much of what could be said to summarize our 2014 year in review. The second paragraph speaks of all the challenges we anticipated facing in 2014 as we were concluding what was a pretty good 2013. There was not much to look forward to because at that time we understood the tremendous amount of revenue loss we would face in the upcoming year (2014).

Yet, today when I look at the previous eleven months, the reality of 2014 is a stark contrast to what we thought. Sure, our revenues were less, but they were actually "far better" than what we anticipated. We did not lose $1.6 million. Unfortunately as anticipated, we did not add new employees to the rolls, but yet we still accomplished a great deal. Not only did we continue to make investments in the City's infrastructure, but the work that was accomplished was pretty much all performed in our residential neighborhoods. And yes, finally, we have not replaced a lot of our major capital equipment at the accelerated pace preferred, but flip back to page 2 of this letter and marvel at what a substantial amount of capital equipment investments were made in 2014 that have tremendously enhanced the ability of our employees to continue delivering quality services. So much was accomplished in 2014, when far less was expected. That is what I call success.

As we proceed into 2015, I once again feel confident that this new 2015 Budget document being presented to you, developed with the aid of the City's Department Directors and the Administrative team, will allow our organization to continue the exceptional service delivery in the most prudent and effective manner to the citizens of the City of Springdale.

In closing, I would like to thank the Department Directors for their unselfish cooperation, good stewardship, and sound fiscal practices as well as for all of their efforts in the preparation of the 2015 Budget. They are:

Michael Mathis, Chief, Police Department
Michael Hoffman, Chief, Fire Department
Jeff Agricola, Director, Public Works Department
Greg Karle, Director, Recreation Department
William McErlane, Building Official, Building Department
Christine Russell, Director, Economic Development Department
Cammie Mitrione, Health Commissioner, Health Department
Jerry Thamann, Assistant City Administrator, Administration

I would also like to recognize Stephanie A. Morgan, Sr. Administrative Assistant, and Jeff Williams, Finance Officer/Tax Commissioner, for their invaluable assistance and contributions in the production of this document. Their importance in helping to develop the numbers, notes, and every facet that goes into finalizing the document could never be understated.

Should you have any questions concerning the proposed 2015 Budget prior to our formal review, please feel free to contact me at your convenience.

Sincerely,

Derrick Parham
City Administrator

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