# Memo

**Office of the City Administrator**

**Springdale, Ohio**

November 7, 2014

**To**: Robert Diehl, Finance Committee Chair
Springdale City Council

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**From**: Derrick Parham
City Administrator

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**Re: 2015 Five-Year Revenue/Expenditure Report**

Please find enclosed the 2015 Five-Year Revenue/Expenditure Report. If you were to refer back to the 2014 Five-Year Revenue/Expenditure Report, in the opening paragraph I briefly described the focus of this report from the perspective of what the process has typically been in the past as well as what our most recent experiences have been. In that report, I used the term "hybrid" to describe the 2014 process and product. A hybrid being a combination of our "wish list" practice (one in which very few of the requests are rejected) and our more realistic and critical focus on the City's current financial picture. Here in 2015, I would submit that this year's product is also a hybrid. While we have focused very critically on the 2014 year-end process and 2015 Budget, the latter years (2016 – 2019) of the report reflect practically every request of the departments. Nevertheless, 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.

As always, the General Fund is the only fund showing a deficit. That practice occurs each year, primarily because the General Fund is most often the source to support and subsidize the majority of the other funds. Year-end 2016 is projected to have a deficit of $2,438,505. Although 2016 is not too far away, we have plenty of time to make the necessary crucial adjustments to balance our resources and avoid such a situation. For further evidence of this, page 60 under the Budget Summary tab of the report displays very large transfers from the General Fund between 2016 - 2019 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 at least $1.2 million from the General Fund. One special note I would like to draw to your attention is that same page also shows the last transfer to the Community Center Debt Fund will occur in 2017 at slightly above $300,000.

## GENERAL FUND REVENUES

As projected in last year's Five-Year Revenue/Expenditure Report, the City's 2014 General Fund Revenues are coming in less than our 2013 collected amount of $17,194,483. At this time, it appears 2014 General Fund Revenues are coming in around $16,465,450, a decline of $729,033

(4.2%) from the 2013 collections. While this is clearly less revenue received than the previous year, it is far better than what was projected. At that time, we were expecting a significant shortfall in our 2014 revenues in the neighborhood of $1,581,677. That is a difference of some $852,644. Our proposed 2015 General Fund revenues are expected to continue the decline by $294,044 (1.79%) from the 2014 estimate.

The expected shortfall from a year ago was contributed to three factors: 1) the elimination of the Estate Tax effective December 31, 2012; 2) several unexpected 2013 General Fund reimbursements totaling $199,557; and finally 3) a projected decline of $577,123 in the City's 2014 earnings tax collections.

Here is how each of those factors faired in 2014. 1) Even though it was eliminated as mentioned above, the City still was able to collect $1,523 in estate taxes. Unfortunately, the other $728,212 in estate taxes received the previous year was able to elude the City. 2) To everyone's wonderful surprise, we actually anticipate exceeding the amount collected in General Fund Reimbursements by $65,550 in 2014 ($265,353) than were received a year ago. In 2014, Springdale received approximately $88,100 in insurance reimbursements for property losses, $5,608 in reimbursements from other jurisdictions for aiding them with rock salt, and for the second consecutive year, the Bureau of Workers' Compensation has indicated the City will receive approximately $146,781 in rebates and reimbursements. 3) Finally, the City's 2014 earnings tax far surpassed the anticipated collections for this year. In the City's 2014 Budget, earnings tax collections were to decline by $577,123 (4.36%) from the previous year's estimate. Today, we are on pace to collect $13,383,220 in earnings tax. This would be a $61,326 (0.47%) increase over the City's 2013 actual collections and $722,644 (5.71%) greater than the 2014 Budget figure. The City's earnings tax continues to provide the lion's share of revenue for our organization. Based upon the 2014 Estimated General Fund Revenues and the 2015 Proposed General Fund Revenues, the City's earnings tax will represent 81% and 83% respectively. Therefore, in two of these three categories, the City's anticipated collections should far exceed the 2014 Budget projections.

Because the amount of 2014 General Fund Reimbursements exceeded what we typically expect to receive, the 2015 Budget proposes a $235,353 shortfall in this line item. Excluding this line item, the balance of our 2015 General Fund Revenues are projected to fall short of 2014 by a total of $58,691.

## GENERAL FUND EXPENDITURES

As one reviews the City's financial condition, what they will find is an organization that repeatedly balances its budget, has very little debt, and in spite of awarding its employees with a 2% cost-of-living wage increase over the past three years, has done an outstanding job of maintaining expenses below 7% since 2012. It is important to recognize that this feat was accomplished without a reduction in the City's workforce, and I would submit without a negative impact on the quality of services delivered to Springdale's residential and business communities. In 2012, the City's expenses totaled $16,451,781 which is $1,210,153 (6.9%) below our 2014 projected expenses of $17,661,934. Even more impressive is the City's 2014 estimated expenses increased by less than 1% ($127,628 or 0.73%) over the 2013 actual expenses ($17,534,306). According to this report, the 2015 Budget proposes to expend $18,016,349. This would increase our budget by $354,415 (2.0%).

Key expenses included as a part of the proposed 2015 Budget include: a 2% cost-of-living wage increase for all full-time Springdale employees as well as part-time firefighters; a substantial investment of over $160,000 in rock salt to help keep the streets clear during the winter season; and approximately $410,000 spread over two different funds (Capital Improvement Fund and Street Maintenance Fund) to perform a 2015 Annual Street Improvement Program. This document does not include the addition of any new employees during the 2015 year; however, the 2% wage increase does appear in each year of the report. Of course, all of these expenses will be further critiqued, scrutinized, and re-evaluated as a part of the 2015 Annual Budget process prior to being committed to for 2015.

As has been pointed out each year, the City continues to delay the replacement of equipment and vehicles throughout the organization. Lately, we have made some strides in replacing several pieces of equipment/vehicles. Roughly two to three years ago, we replaced two of our three ambulances along with the City's street sweeper. This year, we made a number of significant purchases in an effort to play catch-up in this area. We purchased and received two new large size dump trucks, a new chipper to replace one of our two old units, and purchased a new automobile for the Sanitarian in the Health Department. We also ordered but have yet to receive, a new Ford F-150 Parks Department truck to replace one that caught fire and burned to disrepair during last year's challenging winter snow storm season. 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 $2.4 million deficit in the General Fund by the end of 2016. 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. Last year, for year-end 2013, this practice of under-spending returned over $300,000 to the City's General Fund.

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 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 immediate occupancy of the current vacant space once occupied by General Electric in the Executive Plaza Buildings until 2017, 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 2015 throughout the organization. The report does include several positions being added or replaced during the life of the document. Beyond 2015, I have not edited the request of the directors for additional personnel.

At the end of 2015 the City will continue to be down 23 full-time positions and will maintain an overall employment base of 110 full-time employees, 59 part-time employees, and 35 additional seasonal employees throughout the year.

By the final year of this report (2019), the City will have at least thirty-seven 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

In anticipation of the expected $1.58 million revenue shortfall, we severely reduced the 2014 Capital Improvement Program. Originally, we were planning on the W. Kemper Road improvement, a Jake Sweeney Place and Boggs Lane improvement, and a 2014 Street Improvement program. Upon identifying our sizable 2014 revenue shortfall, the Jake Sweeney Place and Boggs Lane project along with the street improvement program were eliminated from the budget. Instead, we were only able to begin the W. Kemper Road improvement. The focus of the City's Capital Improvement Program quickly became primarily limited to those projects receiving a significant amount of outside funding. More often than not, that means improvements made in the City's business and retail community. The annual street improvement program is a 100% City-funded program focusing on neighborhood infrastructure improvements.

In this year's report, we have planned for three road improvement projects in 2015. We are once again seeking outside assistance from the Ohio Public Works Commission (OPWC) for State Capital Improvements Program funding (SCIP) for improvements on Jake Sweeney Place and Boggs Lane. The cost of this project is estimated to be over $1 million. We are seeking SCIP funds to cover 49% of the construction cost to go along with the $100,000 (approximately 10% of the construction cost) previously approved by the Ohio Department of Transportation's Jobs and Commerce (HB51) to assist with this project. The City's share would be the remaining 41%. Next, we have applied for $44,700 in Municipal Road Funds (MRF) to perform pavement repairs and crack sealing work on Sharon Road. The MRF funds would cover 100% of the construction cost. Staff believes with this minimum investment, we could quite possibly buy ourselves another seven to ten years before any major improvements will be needed on Sharon Road. Finally, this document also reflects roughly $410,000 spread between the Capital Improvement Fund (090) and the Street Maintenance Fund (061) for a 2015 Street Improvement Program. These funds could be used to possibly finish the final two streets (Cedarhill Drive and Yorkhaven Road) in the Oxford Hills Subdivision or to implement a citywide improvement project. Under this citywide improvement project, we would focus on making pavement repairs, performing crack sealing improvements, and permanently repairing a number of sidewalks around the entire community. This program was shared with the Capital Improvement Committee earlier this year while discussing the funding applications for both the Jake Sweeney Place/Boggs Lane and Sharon Road Improvement projects.

Another key project, not currently included in the Capital Improvement Budget, is a replacement of the City's local band radio system. This system includes the radios which are supposed to allow our departments to communicate with one another. More importantly, it is the system that allows our police officers to communicate 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 headquarters to relay a message intended for another officer who was unable to hear the original communication. This has the potential to create an unsafe situation and must be addressed in the immediate future, preferably in 2015.

## 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 2014 payment is scheduled to be $418,150 with a remaining balance of $1,100,000.

## 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 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 in early 2015. 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 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 a couple of outlot developments designed to be the initial phase of a long-term investment on the part of the new mall ownership.

## 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 2015 through 2019. Of the City's three labor contracts, both Police contracts were renewed in 2014 retroactive to January 1, 2014 and will expire on December 31, 2016. The firefighters have completed the second of a three-year agreement. The current agreement is scheduled to expire on December 31, 2015. 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 5% for each year of the report, 2015 through 2019. 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 2% 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

Over the past few years, City revenues have been threatened by events outside of our organization's control. In 2008, the City's earnings tax began its initial descent as the economy began to struggle. From 2007 until 2010, our earnings tax declined by over $3.6 million for a 23% reduction over a four-year period. Today, we are still trying to get back to the 2009 attainment of $13,678.901. From 2010 through 2012, the City then faced the loss of approximately 2,100 General Electric jobs and another 400 or more Avon jobs from our community. In 2011, the Governor and the State Legislature began reducing the amount of funding previously received by Cities. The reduction of the Local Government Funds has been a tremendous loss for our community. Finally, this past year (2014), we have had to face another significant reduction in our revenues with the elimination of the Estate Tax. In 2013 we received $729,735 in estate taxes. This year, we only received $1,523.

In spite of these tremendous losses to City revenues, our organization continues to provide excellent City services while keeping expenses at a minimum. As highlighted earlier, City expenses have not increased above 7% over the three-year period between 2012 and 2014, despite the fact that employees were rewarded with a 2% pay increase during those years. We were even able to replace a number of key pieces of capital equipment throughout the organization. Think of these investments: a new street sweeper, two new ambulances, a new chipper, two new large dump trucks, and a new smaller unit for the Parks Department (pending delivery). There continues to be several pieces of capital equipment needing to be replaced and in time, we hope to replace them. Additionally, there are still a number of road improvement projects which must be addressed. If you review the past five years, it may surprise you as to what we have accomplished by way of road and other infrastructure improvements. I think you would agree, much has been achieved while a great deal (revenues) has been taken away.

And before anyone suggests the City had a really big slush fund of money to draw from, let me assure you that the answer is we did not. We simply managed our resources to the best of our abilities, and the departments did a very good job of adjusting along the way.

As we envision 2015, today we foresee a slight decline in our revenues however numerous opportunities to enhance them through further growth and development of our business community. Despite committed obligations (Community Center debt, wage increases) with the potential to significantly impact our bottom line, we will continue to adapt and strategically manage the community's resources through the efficient and effective delivery of City services while at the same time maintaining a professional and skilled workforce. As opportunities become available, we will seek to leverage outside funding to improve the City's infrastructure.

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 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
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