

# City of Springdale

DOYLE H. WEBSTER  
Mayor

DERRICK PARHAM  
City Administrator

KATHY McNEAR  
Clerk of Council / Finance Director

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November 27, 2015

Mr. Robert Diehl, Chair  
Finance Committee  
Springdale City Council

## Re: 2016 Annual Budget

Dear Mr. Diehl:

The 2016 Annual Budget is hereby respectfully submitted for City Council's consideration. This year's budget is one most would describe as extremely lean. The document has been trimmed very close to the edge as we have attempted to reach our annual year-end balance target of \$1.4 million. Unfortunately, the goal was not successfully achieved. However, this budget is projected to have a better anticipated balance at the end of next year than the 2015 Budget projected for this year. During the development of the 2015 Budget, the year-end balance was projected to finish at \$1,088,230. The 2016 Budget projects a year-end balance of \$1,333,959. It is believed this balance can be attained for a couple of reasons. First, over the past two years the City was fortunate to receive a number of unexpected declaration payments from several businesses. These declarations provided a much needed boost to our revenues. Next, the Department Directors did a fine job in limiting expenses, while efficiently managing the resources at their disposal. This can be a very delicate process, because necessary expenses often arise, and there are very few options other than making the repair or paying for the service. For instance, a year ago when our snow clearing fleet experienced a number of equipment failures, the decision was made to spend the dollars necessary to continue this essential function. The continuous aging of our equipment, vehicles, and buildings are having a significant impact on the City's expenditures. Throughout 2015, as a direct result of our aging capital items, several situations occurred where we were faced with making repairs on a much more frequent basis than originally intended. Until such time that our revenues make a greater turn around, we may be required to continue extending the life of equipment which normally would have been replaced. Of course, we have not seen normal in some years. In fact, this appears to be the new normal.

As usual, City expenditures are primarily consumed by personnel-related expenses. They truly are the bulk of the budget at approximately 75% of the City's expenditures. In fact, if you were to remove the personnel-related expenses from this document, and compare 2015 Estimated Expenses to 2016 Budgeted Expenses, practically every department's budget would experience a significant reduction in their 2016 line items. In the case of the smaller departments (Building, Health, Administration), they are pretty much comprised of nothing but personnel-related expenses.

In anticipation of the mandatory retirement of a senior Patrol Officer in early 2017, the 2016 Budget includes one new full-time Patrol Officer. The mandatory retirement is not because of the City; it is required through the Ohio Police and Fire Pension Fund (OP&F). At the conclusion of eight years in OP&F's "drop" program, the employee is required to retire. Due to the tightness of the City's resources at this time, the additional Patrol Officer position will only be added for one year. When the senior Patrol Officer retires, no officer will be hired at that time. We are essentially hiring the new officer in advance of the retirement. This is done because it appears to take roughly nine to ten months to hire an officer and then have them prepared to work alone on patrol. It is believed if we hire the new officer at this time, it will give the City the chance to have this officer trained and ready for road duty when the retirement occurs.

Finally, in relation to our capital investments (road improvements, vehicles, equipment, etc.), the overwhelming majority of requested capital items have been removed from the 2016 Budget as we worked to preserve an acceptable year-end balance. It is highly expected that a number of unplanned, but not unanticipated, capital improvements will need to take place in 2016 due to the age and condition of some of our resources.

## **GENERAL FUND REVENUES/EXPENDITURES**

### **Revenues**

In the 2016 Five-Year Revenue/Expenditure Report (five-year budget), it was pointed out that the City's revenues have not necessarily performed as preferred. The earnings tax, which is the City's primary revenue source, is a percentage of 1) wages earned by individuals working in the City; and 2) the profits earned by businesses in the City. In 2015, the earnings tax is projected to be approximately 82.6% (\$13,918,437) of the City's estimated 2015 General Fund (GF) Revenues (\$16,843,174). The estimated 2015 earnings tax represents a 4.6% (\$617,731) increase over the 2014 actual collections (\$13,300,706). While our earnings tax collections as well as our GF revenues experienced an increase, the GF revenues growth did not accelerate at the same rate. The increase experienced in the 2015 GF Revenues was only at 2.3% above the 2014 GF Revenues. In 2016, the earnings tax, while once again expected to be our dominant revenue source at 82.4% (\$13,637,168), is unfortunately projected to suffer a 2.0% (\$281,269) decline from the current year estimated collections.

As previously shared during the five-year budget process, this decline can be attributed to the loss of earnings tax collections following the departure of many General Electric and Avon jobs a few years ago. In addition to this, over the past two years, the City has been extremely fortunate to receive a number of large declarations (overpayments) from local employers. These overpayments, although unexpected, have provided much relief to City operations. Unfortunately, when these large payments are received, they create large credits for the business. This pretty much assures us that we will not receive the same amount of tax payments in the following year. Hence the primary reason we are projecting a decline in our 2016 General Fund Revenues (\$16,540,187) from our 2015 General Fund Estimate. The decline is projected even as we anticipate the addition of Macy's Corporate Services, Inc. and Process Plus to the community. In an effort to enhance the City's earnings tax and overall revenues, Springdale works to add quality employers such as these to our business community. Yet in spite of these additions, we still have not been able to return to our glory revenue collection days of 2007 and 2008. Nevertheless, new companies such as these will continue to add stability and much needed diversity to our economic base which was once dominated by aerospace and cosmetic products. The addition of these two particular companies will present

very exciting opportunities for Springdale in years to come. Once they achieve their full employment potential, City revenues could receive a major shot in the arm.

The nine-year history, as shown below, displays the initial annual decline of our City's earnings tax collections between 2007 and 2010. Collection years 2011 through 2013 illustrate a gradual swing back in the other direction, signifying an improving local economy. As pointed out earlier, the past two years (2014 and 2015) were aided by the overpayments in taxes by a couple of local businesses. These overpayments left one with the perception that the City's earnings tax was much further ahead than in reality. In spite of this, there are still signs throughout the community of a growing local economy. Estimated 2015 collections are shown to increase by 4.6%.

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	\$13,300,706
2015	\$13,918,437 (est.)

A summary of the 2015 and 2016 General Fund revenue and expenditure projections can be found in *Table I* below.

*Table I*

<b>GENERAL FUND REVENUES LESS EXPENDITURES</b>			
	<b>Budgeted 2015</b>	<b>Estimated 2015</b>	<b>Proposed 2016</b>
<b>Beginning Balance General Fund</b>	3,468,677	3,468,677	2,383,608
<b>Revenue</b>	16,153,280	16,843,174	16,540,187
<b>Total Funds Available</b>	19,621,957	20,311,851	18,923,795
<b>Total General Fund Expenditures</b>	18,459,124	17,928,243	17,589,836
<b>Ending Balance General Fund</b>	1,162,833	2,383,608	1,333,959

**Expenditures**

In relation to City expenditures, the departments continue to do a fantastic job of delivering quality services while keeping our expenses to a minimum. As has been consistent over the past few years, the City's 2015 GF Expenditures (\$17,928,243) are projected to be lower than the 2015 GF Budget (\$18,459,124). As we closely monitor the status of the City's revenues, all parties involved realize the importance of working to keep the GF expenditures on pace with our fluctuating GF revenues. As a result of everyone's combined efforts, the 2016 GF expenditures (\$17,589,836) are projected to be \$338,407 (1.9%) less than the 2015 Estimated GF Expenditures and \$213,073 (1.2%) above the 2014 expenditures (\$17,376,763).

As highlighted earlier in the letter, personnel-related expenses continue to be and will always be, the organization's primary expenditure. In 2014, personnel-related expenses consumed 75% of the General Fund budget. Once again, they are expected to consume roughly 75-76% of the 2015 GF Expenditures. In addition to our personnel-related expenses, the effects of the City's aging equipment, vehicles, and machinery are having a tremendous impact on the City's finances. In 2015, line items such as Vehicle Maintenance and Building Maintenance saw a spike in activities for several of the departments. For example, in the 2015 Fire Department Vehicle Maintenance line item, the 2015 Budget reflects the amount of \$30,000. Today, we are projecting to spend more than double before the year comes to a close. We estimate the number will be approximately \$70,000 instead of the budgeted \$30,000. While maybe not as severe, other departments are also exceeding the budgeted amount for the maintenance type line items. A couple of other line items having an impact on our expenses would be the Utilities line item for the Recreation Department and the Street Lights line item in the Public Works Department. Both of these reflect some very unattractive totals. While all other City facilities are able to benefit from the City's Electric Aggregation program, these two facilities are not permitted to participate at that same rate. They are omitted from enjoying the lower rate, primarily due to the amount of power each uses.

As usual, the disparity between the 2016 GF Expenses and the 2016 GF Revenues present a significant gap. Expenses are once again programmed to outpace the revenues. This year, the difference between the two is projected at \$1,049,649 (6.4%). Last year, the projected difference was much greater. Again, this is not a cause for panic. As you may recall during this time period in 2013, the 2014 Budget anticipated the gap to be 14.9% (\$2,311,141). The difference for that year turned out to be 5.6% or \$918,806. Next, the City's practice is always to be very conservative when it comes to projecting our revenues. This year, we stepped out on the limb a little, but nothing that would be too big of a risk. We estimated the potential revenue from the addition of the two new employers (Macy's and Process Plus) and included those into our GF revenue totals. Once again, we were pretty conservative in our estimates. In any event, we are confident that once these two new employers begin locating their operations in Springdale, our revenue base will see a positive impact. 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 2015 expenses versus our actual 2015 expenses. Based upon previous years, it is likely the operating expenses for 2015 may be overstated by \$125,000 - \$225,000. The amount of under-spending in 2014 was \$205,929 which represents the estimated 2014 expenses of \$17,582,692 minus the 2014 actual expenses of \$17,376,763.

Again, the City departments have performed very well in managing the community's resources. The reduction of the 2015 expenditures relative to the 2015 Budget gives us an opportunity to have a comfortable year-end balance as presented in *Table I*.

## PERSONNEL

Over the last three years, 2016 will be the first year in which a "new" full-time position is being added to the organization. In this case, the position will only be added as we prepare for the mandatory retirement of a senior Patrol Officer in 2017. If it was not for the senior officer retiring in 2017, and the fact that it takes about nine months to get a newly hired Patrol Officer ready for the road, this hire would not take place until 2017. There are no other "new" full-time employees being added to the workforce at this time. As has been our practice, we continue to replace positions that may become vacant due to retirements or other departures. In 2015, we had three employees retire and five others leave our employment. Each of those eight positions has

been or is expected to be replaced. In 2016, several other City employees will become eligible to retire, but at this time, no one has submitted a written notice of their intent.

By the end of 2016, the City will be down 22 full-time positions, leaving an overall employment base of 111 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 2016 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 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 who have achieved the required threshold or are scheduled to retire. During the fall of 2014, the City reached an agreement with the two police unions for new contracts that will expire in December 2016. The contract with the firefighter's union will expire December 31, 2015. Negotiations for a new contract began earlier this fall.

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**

Very similar to 2014, this budget does not include a Street Improvement Program. The program was removed in order to attain the year-end balance we were able to achieve. Not only has the Street Improvement Program been deleted, but many other capital investments were eliminated in the early stages of developing this document. With a few exceptions, for the most part only projects with substantial outside funding or those previously approved for funding have been allowed to remain in the 2016 Budget. One of those exceptions to this rule would be the upgrades to the City's traffic signal system (battery backup system and microwave detection devices). In anticipation of the major developments (Macy's and other opportunities) occurring at both the Progress Park (formerly Avon) and Pictoria sites, we feel the microwave detection system is a necessary feature. It will assist with moving these large volumes of traffic through the intersection of SR 4 and Crescentville Road. The battery backup systems continue to be installed in an effort to lessen the downtime during any power outages affecting the City's traffic signals.

In the 2015 Capital Improvement program, the City is scheduled to spend \$1,491,216. Of this total, \$841,543 (56%) is being paid with outside funding (SCIP, MRF, HB51). The remaining \$649,673 (44%) is paid from City dollars in order to leverage the outside funds to make these improvements come to fruition. The proposed 2016 Capital Improvement program has a total budget of \$1,887,209, with 60% (\$1,130,893) of the amount being covered with outside funding. This will be the case, as long as the City's SCIP application for Jake Sweeney Place is successful. The City would then be responsible for covering the remaining 40% (\$756,316). A large portion of the City's 2016 share is a result of the construction for the 2015 Street Improvement program not taking place until early 2016. As a result, the costs (\$333,890) associated with the project are a part of the 2016 Capital Improvement Budget. The majority of

the remaining 2016 costs are comprised of the City's share when leveraging funds to secure outside funding (STP, MRF, SCIP) for the SR 4 Southbound Lane Addition project and the Jake Sweeney Place Rehabilitation project. Funding for the SR 4 Lane Addition project has already been awarded. The City is awaiting the results of our application for the Jake Sweeney Place funding.

## 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.

In 2012, the City called the existing bonds and new bonds were issued with US Bank at a rate of 1.21% for the remaining \$1,900,000. This was accomplished without extending 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, 2016, the balance on the bonds will drop to \$300,000. The "new" bonds are still scheduled to be paid in full on December 1, 2017. Our 2015 payment is scheduled to be \$413,270 with a remaining balance of \$700,000.

## 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. In a prior year discussion 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 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. Over the past two years, there has been more activity and interest in the remaining fifteen-acre site which is currently intended for an office development. The property has been vacant since the development began in 2000. For the first thirteen years, there had been extremely limited inquiries concerning the development of this property. None of those inquiries had been to construct an office development. 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 and only project to date 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 "then" 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 2015.

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 now has a new management team in place. Earlier this year, they began construction on the first of three proposed outlot developments. At this time, we are unsure if the new developments planned for the mall will increase the property values enough to generate new service payments for this TIF.

**Tri-County Commerce Park (GEEAA Park)**

In the later months of 2014, Vandercar, the proposed developer of the Tri-County Commerce Park development (formerly the GEEAA Park property), approached the City Administration concerning a possible TIF for their project. The Tri-County Commerce Park is proposing to construct nine separate buildings at a total estimated value of \$54,319,300. The public improvements would involve the construction of a new roadway system and associated improvements (storm sewers, sidewalks, etc.), construction of a new bridge at the south side of the property to access the property adjacent to Interstate 275, and a number of improvements along Beaver Run to address bank stabilization issues. The estimated cost of the public improvements is approximately \$5,960,000. At the time of the publication of this document, discussions on the subject matter were ongoing.

**2016 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**

As I reflect on our 2015 year and anticipate the coming of the 2016 year, the status of the City's revenues is in the forefront of my mind. This letter touches on our challenges with the expected decline in our earnings tax. However, this letter also suggests that with the addition of the two new employers locating their operations here, as well as other organizations seriously considering Springdale as a future site for their operations, the status of the City's earnings tax should be less of an issue in the near future. Although it was not mentioned in the body of the letter, 2016 will be the first year municipalities will be required to operate under the State of Ohio's new tax code requirements. Initially, it is unclear what true impact this will have on our current collections. However, what is clear to me is that long term, it may lead to some very devastating reductions or even the elimination of our earnings tax. Another item not mentioned above is the Ohio State Legislature has, once again, reduced the amount of Local Government Funds received by the City. This year, they have decided to take the money from municipalities and give it to townships and small villages. It is estimated the City will lose in the neighborhood of \$40,000 in Local Government Funds from 2014 to 2016 due to reductions incorporated in the State's 2015 Biennial Budget. These are perhaps the most substantial threats to our revenues.

In spite of the above-mentioned challenges, I remain very hopeful that our organization will be able to change the lens of how our revenues will perform. Before you find yourself feeling alarmed that the City isn't going to be able to pay its bills, I would ask that you take a look at some exciting things yet to come to Springdale.

**Coming Attractions**

- 1) Planning to begin their new life and operations at a new location in the City of Springdale, Process Plus is scheduled to open its new office in January 2016;
- 2) Following the Process Plus entry, Macy's Corporate Services, Inc. is anticipated to begin their operations sometime around April 2016 after locating at least 150 jobs into 110,000 square feet of space at the Progress Park facility;
- 3) Not only has Progress Park been able to land Macy's, but because the new owners (First Highland) have invested in a number of improvements to their facility, multiple organizations are now evaluating the site for a possible relocation of their operations;
- 4) Tri-County Mall has a new owner, who appears to have a new vision for the future of the Mall, as well as the financial capital to realize that vision, essentially changing the landscape of the City's retail district;
- 5) Finally, perhaps the one potential newcomer that could have the greatest impact on our local economy would be the redevelopment of the GEEAA Park. At some point in the near future, a development will begin coming out of the ground at this location. The Vandercar plan proposes to construct nine new individual buildings thereby creating the Tri-County Commerce Park. Such a development would truly add a substantial boost to the City's revenues.

In the meantime, we simply need to continue managing our resources in an effective way so that when appropriate, we will know to adjust our expenses in an effort to match the available revenues.

As we proceed into 2016, as always, I am confident that the 2016 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 and the business community 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 2016 Budget. They are:

Michael Mathis, Chief, Police Department  
Michael Hoffman, Chief, Fire Department  
Jeff Agricola, Director, Public Works Department  
Greg Karle, Director, Recreation Department  
Gregg Taylor, Building Official, Building Department  
Christine Russell, Director, Economic Development Department  
Matthew Clayton, 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.

Mr. Robert Diehl, Chairman  
November 27, 2015  
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Should you have any questions concerning the proposed 2016 Budget prior to our formal review, please feel free to contact me at your convenience.

Sincerely,

A handwritten signature in blue ink, appearing to read "Derrick Parham", with a long horizontal flourish extending to the right.

Derrick Parham  
City Administrator

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