Memo

Office of the City Administrator

Springdale, Ohio

October 30, 2015

To: Robert Diehl, Finance Committee Chair
Springdale City Council

From: Derrick Parham
City Administrator

Re: 2016 Five-Year Revenue/Expenditure Report

Please find enclosed the 2016 Five-Year Revenue/Expenditure Report. As you know, the report is an assessment which measures the City's financial status as well as our available resources for the next five years. During this process, an extremely critical and microscopic review of the City's resources is performed on the current (2015) and upcoming year (2016) to assess our ability to effectively and efficiently deliver services to the community. The remaining years of the report (2017 – 2020) are also closely examined. However during those years, the departments' requests are essentially allowed to remain intact with a few minor adjustments on the part of the City Administrator. This practice provides the Department Directors with an opportunity to identify what they believe will be the future resources (staff, equipment, vehicles, etc.) necessary to aid in our delivery of services. The process in itself also provides valuable information for the City's elected officials in conjunction with the City Administration to set priorities for future programming.

In what has become a familiar scenario following my initial review of the Department Directors' budget requests, the picture for the next twelve months did not provide an attractive image. It was very evident that severe reductions in the departments' budget requests would be necessary. So that we are clear, this was not a case where the Department Directors made a number of requests in an attempt to replace long-time vacant positions and/or replace a lot of long overdue capital equipment and machinery. Quite the contrary, the majority of the directors have been through this process over the past few years. They have a pretty good understanding and view of the City's financial status. I would say their budget requests are pretty reasonable and conservative, considering the many things we have had to postpone over the years. Unfortunately, not only have the departments' operating budgets been substantially reduced, but key items in our Capital Improvement Budget have also been eliminated.

In reviewing the Budget Summary section of the report, you will notice the General Fund is the only fund showing a deficit. By year-end 2020, the General Fund is projected to reach a minus $12,137,619. This practice occurs each year, primarily because sufficient revenue is transferred to the other funds to keep them solvent. In fact, a deficit is expected to occur as early as the 2017 year-end balance to the tune of $1,936,183. Even in this situation, there is no need to be concerned because we have plenty of time to make the necessary adjustments to balance our resources and avoid such a situation. On page 63 under the Budget Summary tab, there is evidence of very large transfers which would have a significant impact on the General Fund for the years 2017 – 2020. These transfers would be necessary so that we can properly support 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 $1.1 million from the General Fund. Finally, on a more positive note, we are quickly becoming a totally debt-free community. The City is now only two years away from making our final payment on the Community Center debt. December 1, 2017 is the date which the final payment is scheduled to be made, and it could not come soon enough.

GENERAL FUND REVENUES

Since the loss of the General Electric (G.E.) jobs (2010 & 2013) and the additional reduction of Avon's employment base (2012), the City's revenues have been inconsistent and unable to achieve the preferred levels. In spite of several successful corporate additions to the City's economy (Humana, First Financial, Clark Fire Protection, etc.), the City's earnings tax has been unable to fully recover. While these new corporate citizens have added some stability and definitely have diversified our employment base, at this time they have not been able to collectively fill the void of the G.E. departure. Quite frankly, I am unsure if any single group will be able to fill that gap, but all are welcome to try. This year, the City's 2015 General Fund Revenues are estimated at $16,814,406. This is a slight increase over our 2014 collections ($16,457,957) by $356,449 (2.1%), but a 2.2% ($380,077) decrease below our 2013 collections ($17,194,483). On the surface, this may give someone the appearance that our revenues are quite stable. I would say there is some stability to the revenues; however, as you dive below the surface, the picture you will see is somewhat different. For at least the past two years, the City has been extremely fortunate to receive a number of large declarations (overpayments) from employers. These overpayments, although unexpected, have provided much relief to the City's bank account. Unfortunately, when we receive these extremely large payments, they also create extremely large credits for the business. As a result, there is no reason to expect we will receive an identical payment of taxes in the subsequent year. Things are great at the time you receive the funds, but the following year is definitely a bitter pill to swallow. In 2014, the City received a $300,000 overpayment from a company which is no longer doing business in Springdale. Of course, we did not have a repeat from them this year. In 2015, a rather large declaration in addition to very large withholding bonuses totaling approximately $841,000 were received by the City. In neither case, can we assume these payments will be repeated in 2016. If you deduct these large payments from our 2014 actual and 2015 estimated revenue collections, our year-end collections for 2014 would have been $16,157,957 and 2015 would be estimated at $15,973,406. In both cases, when compared to 2013, it would have represented a decline of over $1 million in our General Fund revenues. This is the primary reason you see a projected 2016 General Fund Revenue decline. This situation should speak volumes when you realize our 2016 anticipated collections include payroll estimates for the addition of Macy's Corporate Services, Inc. and Process Plus. In spite of this unpleasant reality, the addition of these two new employers will present very exciting opportunities for the Springdale economy in years to come. Once they achieve their full potential, I believe they will provide the City revenues with a significant boost.

Other revenue highlights to appreciate or be aware of include: The City's earnings tax remains as our primary revenue source. In 2015, the earnings tax is expected to be 82.7% of the City's revenue source with 2016 projected at 82.4%. We are projecting a $335,019 (2.4%) decline in our 2016 earnings tax collections below 2015 estimates. In 2015, Miami Valley Risk Management Association or MVRMA (the City's property and casualty insurance provider), closed out a couple of their loss years and returned $84,153 to the City. In 2016, the City plans to receive a payment in the amount of $100,000 from the MVRMA General Reserve Fund to help stabilize the City's General Fund. Unfortunately, the State Legislature continues to reduce the amount of Local Government Funds (LGF) we receive. The 2015 State of Ohio Budget is expected to reduce our LGF by approximately $40,000 between 2014 and 2016. The decline in 2015 is approximately $20,000.

GENERAL FUND EXPENDITURES

As in previous years, the Department Directors have done an outstanding job managing City resources. The City organization is once again fully expected to: experience a balanced budget; have less debt than a year ago; and see less than a 4% increase in expenditures from one year to the next. The 2015 estimated expenses ($17,970,177) are projected to come in 3.4% ($593,414) above our 2014 expenses ($17,376,763). Our 2016 projected General Fund Expenses ($17,502,684) are proposed to be 5.2% ($956,440) below the 2015 Budget ($18,459,124) and 2.6% ($467,493) below our 2015 estimate. As you examine these numbers, please remember the 2016 General Fund Expenses have been drastically reduced in order to achieve a 2016 year-end balance of $1,287,535. Normally, our target for the year-end balance for the subsequent year is approximately $1.4 million. To achieve that target, additional cuts may have required reducing staff, eliminating already funded capital improvement projects, reducing or eliminating the cost-of-living increase in 2016, or making many more reductions in line items where there is a strong likelihood the line item will be exceeded.

For each year of the report, including the 2016 General Fund Expenses, employees are programmed to receive a 2% cost-of-living wage increase. The patrol officers' collective bargaining agreement calls for this level of pay increase in 2016. This is the last year of the current contract. The firefighters' contract expires at the end of this year (2015), and they are scheduled to begin talks in the upcoming months.

Practically all capital items in the General Fund have been removed from the 2016 expenditures. As it stands right now, the 2016 Annual Street Improvement program has been eliminated from this budget. Unless there is substantial outside funding associated with a street improvement project, that project has also been eliminated in 2016. I have allowed all capital item requests in both the General Fund and the Capital Improvement Fund for the years beyond 2016 to remain in the budget. Postponing the purchase/replacement of much needed capital items (equipment, vehicles) will continue to occur based upon budget projections in this report. As always, we will continue to work towards 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 $1.9 million deficit in the General Fund by the end of 2017. 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 2014, this practice of under-spending returned over $200,000 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

For the most part, there are no "new" full-time or part-time positions projected to be added in 2016 throughout the organization. The only exception is the anticipation of a mandatory retirement of one of our senior patrol officers who must retire in early 2017. Our plan is to recruit one new officer in early 2016, so the new officer will be road ready by the time the senior officer retires. This will hopefully keep us from dipping below our current number of officers for any extended period of time. As always, the report does include several positions being added or replaced during the life of the document. Beyond 2016, I have not edited the requests of the directors for additional personnel.

At the end of 2016, the City will continue to be down 22 full-time positions and will maintain an overall employment base of 111 full-time employees, 59 part-time employees, and 35 additional seasonal employees throughout the year.

By the final year of this report (2020), the City will have at least 37 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 mentioned above, a great deal of the projects previously requested or planned for the Capital Improvement Fund has been eliminated. For the most part, only projects with substantial outside funding or those previously approved for funding are included in the 2016 Budget. The one exception to this rule would be the upgrades to our traffic signal system (battery backup system and microwave detection system). In anticipation of the major developments occurring at the Avon and Pictoria sites (Macy's and other opportunities), we feel the microwave detection system is a necessary feature. It will assist with moving these large volumes of traffic at the intersection of Springfield Pike and Crescentville Road. The battery backup systems continue to be installed in an effort to lessen the downtime for the City's traffic lights during an outage. No other adjustments have been made to requests beyond 2016.

The proposed 2016 Capital Improvement program has a total budget of $1,887,209, with 65% ($1,230,893) of the amount being covered with outside funding. The City will be responsible for covering the remaining 35% ($656,316). The bulk of the City share is because the 2015 Street Improvement program will not take place until early 2016 and therefore the costs ($333,890) associated with the project are a part of this calculation. The remaining cost is the City's share when leveraging our funds to secure outside funding 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 funding of the Jake Sweeney project.

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.

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 $413,310 with a remaining balance of $700,000.

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 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 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. 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 and none is expected in the immediate future.

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 developments planned for the mall will increase the property values enough to generate new service payments for this TIF.

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 2016 through 2020. Of the City's three labor contracts, the two Police contracts have one additional year remaining and will expire on December 31, 2016. The firefighters' contract will expire this December 31, and negotiations are expected to begin in the very near future. As always, adjustments in the personnel line items are also made for those employees with additional step increases on their pay grade as well as to the reflect changes associated with the City's Longevity program.

2. **Medical costs** found in the departments' Hospitalization line items are projected to increase 5% for each year of the report, 2016 through 2020. In 2015, there were no increases to the insurance rates. 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

To some it may seem like a case of déjà vu, because the report once again highlights the challenges the City is facing with revenues. If that is the case and déjà vu looks like our past twelve months, I could be convinced to sign up for another year of this program. In our past twelve months, we once again were able to balance our City budget without a mandatory reduction in our workforce. In fact, the City has only replaced vacant positions from retirements and a few persons leaving our employment. We have not added any new employees. We were even able to accomplish this while rewarding our employees with a 2% wage increase and continuing to provide very good health care benefits. Even with a few changes in the City's management team (new Building Official and new Public Health Commissioner), the Department Directors did a fantastic job in managing the City's resources. There has been no lapse in service delivery, and the City's expenditures continue to hover around a 4% delta each year.

In the areas of capital improvements, unfortunately we have been limited in getting huge sections of our residential infrastructure repaired; however, we have been rather successful in leveraging local dollars to secure outside funding to keep our commercial streets in relatively good condition. Investing in the commercial (office, retail, and industrial) areas encourages companies to relocate jobs to our City. This creates revenue and that revenue will eventually be sufficient to once again make improvements in the residential neighborhoods. An example of this connection of the dots would be the fact that we were able to land a number of new and very impressive corporate partners. Partners who committed to join Springdale during 2015 are MediSync, Macy's Corporate Services, and Process Plus. These would be a welcome addition to any community.

We have reduced our current debt level to the point where there are only two years remaining before we are debt free. The elimination of that debt will provide opportunities for those funds to be redirected towards other much needed projects and programs.

Once again, I extremely pleased with what we were able to accomplish over these past twelve months (2015). I am likewise very hopeful and confident as to the direction we are heading. Our departments and employees continue to produce good quality services for our residential and business communities. They have in most cases produced these services with less than the ideal amount of resources at their disposal. It is my hope that after reading this report, you too will share the same optimism as the rest of the Administrative team.

Finally, as we proceed with the annual budget process, the 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
File