

FINANCE COMMITTEE MEETING

held August 3, 2012

7:30 a.m.

Present: Chairman Mike Young
Councilman Dwight Clark
Councilman Dave Tadych

Also Present: Finance Director Presley, Police Chief Wright

Audience: Bruce Geiselman

Mr. Young called the meeting to order at 7:30 a.m.

July Financial Statements

Mr. Young stated that the financial statements of the city through the end of July have been received by the Finance Committee. Municipal Income Tax statements through July and the Health Care Fund Expenditures statement have also been distributed to Council. (Exhibits A, B, and C attached)

Municipal Income Tax

Finance Director Presley commented that although municipal income tax receipts are down 5.35% from collections through July, 2011, in 2011 at the end of July the receipts were up 16.40%. On an average basis when you look at the comparison with 2010 and 2011, the 2012 receipts are ahead of 2010 by \$220,000. He noted that with a 5% reduction in municipal income tax, on a \$5.2 million budget the numbers are definitely worth watching.

Health Care Fund

The Health Care Fund expenditures have decreased by 13.50% from the 2011 expenditures at the end of July. Mr. Presley noted that there are fewer employees covered by health care than last year. Additionally employees are contributing monthly to their health care fund closing the gap between utilization and revenue. Mr. Clark noted that it is clear that the claims experience has been more favorable. The report attached reflects only the claims experience. Mr. Clark asked how many family and/or individuals were covered in 2009, when the claims experience was almost at a break-even point at the end of July. Mr. Presley stated that the numbers are down from the 115 in 2009, probably by 5 or 6%.

General Fund

Property Tax receipts through the end of July are up \$325,000 compared to where we should be at this time of the year. (67.12% collected). Mr. Presley stated that the collections do not come

in at an even percentage every month, due to the advances. The county has been selling off the delinquent property taxes to collection agencies that bid on the whole lot. It is their job to try to collect these delinquent property taxes, much like a credit collection company. This takes the burden off the county to have people to collect the delinquent property taxes and is immediate revenue for the taxing entity. A property tax advance for all funds was received today in the amount of over \$1.7 million. In July of 2011, collections were even higher than the 67% collected, probably because of the timing of the advance that is coming today. At year end, we will still see a higher number than last year because of the delinquent property tax collections.

Mr. Clark summarized the comments stating that although collections for property taxes are at 67% as of the end of July, we do recognize that there is some unevenness in the revenue that comes in so it is difficult to have a linear relationship. Overall, we are above budget, below 2011, but Mr. Presley is comfortable with the numbers as we are now, going forward. Mr. Presley noted that the 10% Rollback, and 2 ½% Rollback – Residential revenues are going to come in very close, if not over 100% by the end of the year. He noted that the rollbacks and the Homestead Exemption receipts do not come in from the state until December to close out the remainder of the year.

Mr. Young noted that General Fund revenues, to date, are \$685,000 above the 58% of collections expected at this point in the year. He noted that the Estate Tax receipts of \$678,238.69 year to date as compared to a total year estimate of \$435,000 is a large portion of that excess.

Mr. Clark stated that General Fund receipts year to date of \$7,543,710.88 compared to General Fund expenses year to date of \$6,670,224.80 shows a variance of \$900,000 positive. He questioned at what point in time the reserve fund is rebuilt. Mr. Presley commented that he would not be in a hurry to do that with 2013 approaching and the elimination of revenues from the state.

Mr. Young stated that the Building Permits account shows estimated revenue of \$105,000, and year to date receipts are only \$34,430.32. However, electrical, plumbing, and HVAC permits have increased.

Local Government Fund

Mr. Presley commented that at this time the State of Ohio is seeing an increase in their revenues. They are looking at a change in the formula to give the taxing districts that are losing the estate taxes a reallocation of funds to reduce the effect of the loss of estate taxes by sharing the revenue lost with the entities that did not receive estate taxes, i.e., townships, boards of education, and libraries. Cities would get a little bit more in local government funds; those taxing districts that never had estate tax revenue would lose some of their local government funds to share in the overall loss in the reduction in income to all taxing authorities.

Mr. Tadych asked if it can be anticipated that the amount collected in July of \$26,088.80 will remain stable for the rest of the year. Mr. Presley stated that the \$26,088.80 collected in July is lower than what has been collected monthly the previous six months.

Interest on Investments

The total interest on investments at the end of the year will be allocated at year end to other funds. The estimated revenue for 2012 is listed at \$75,000 and to date \$49,496.87 has been received. Mr. Presley reviewed the current low interest rates.

Municipal Income Tax Receipts in the General Fund

Municipal Income Tax receipts in the General Fund represent 96% of total municipal income tax collections. The remainder 4% is divided between the Equipment Replacement Fund (2%) and the Accrued Benefits Fund (2%).

Sale of Recycling Materials

This line item represents recycling materials that only come through the Service Garage; not what comes off the curb. This item is under budget and will remain so. The employee expense has been reduced as well because an employee is no longer assigned to these duties.

Miscellaneous Income

Mr. Presley stated that he will check the source he used to anticipate revenue of \$26,000 for 2012. As of the end of July, \$175.00 has been received.

Total Revenues to date

Mr. Young stated that total revenues are ahead for the year and he is pleased with the numbers going forward. Mr. Clark agreed that it is a positive trend.

Expenses

Fire and Police Wages

Mr. Young stated that the Fire wages are at about \$66,500 below actual budget. The Fire Department and Police Department post deferred overtime at the end of the year. Mr. Presley noted that the longevity is not paid until December and adds another percentage point in expenses. The wages are also down because of the vacancies in the two departments which will be reflected in higher overtime wages continuing through the year. The two new hires this month in the Fire Department will have to receive training prior to being assigned to a shift.

Hydrant Repair and Maintenance is slightly over expense for year to date by the amount of \$2,300.

The Bay Lodge expenses are over by \$1,000. Mr. Presley is going to request that Council review the rental rates. This falls under the Planning, Zoning, Public Buildings and Grounds Committee chaired by Councilman Cleve Miller.

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Mr. Presley will correct the appropriation for fireworks since they were appropriated twice this year. A donation for the fireworks was received in full.

Items to watch as the year progresses

Mr. Presley commented that police and fire overtime wages will have to be monitored due to the departments not being fully staffed.

The Service Department may see a favorable leaf season because of the lack of rain resulting in early loss of leaves.

2013 Tax Budget

Mr. Tadych expressed that the year 2013 will be worse financially than 2012. He believes that 2012 is under control; the numbers are where we hoped they would be at this time. Losing the estate tax is going to be detrimental to the city, in 2014, but we should have considerable value and income in 2013 from the estate taxes collected in the last half of 2012. The possible lack of government funding will make 2014 more difficult.

Mr. Clark stated that he has a little concern about the municipal income tax collections but some of the difference will be made up through the final five months of the year. We have seen reductions in health care costs. A better trash contract has been negotiated which is a significant part of the expenses. Mr. Clark would still like to match up revenue and expenses for specific months. Additional discussion may have to take place regarding the Emergency Paramedic Unit fund before submitting the tax budget. The question of submitting the tax budget is that it is a play of hands in terms of revenue items and other ways of generating revenue going forward if there is a shortfall, such as a tax increase and reducing the income tax credit. Mr. Presley stated that once the tax budget is submitted tax rates are set. Adjustments to municipal income tax credit and fees charged for services can be done at any point in time.

Mr. Tadych noted that he received his property tax estimate and as far as he can tell it is going to be higher next year, even though the valuation is lower. Residents may look at their reduced valuations and think that their taxes are going to down. That is not true in a majority of the cases. Mr. Presley noted the levies on the November ballot which could increase taxes overall.

Mr. Clark commented on the magnitude of the effect of the the loss of the estate tax and the health care costs, as the city goes through the initiative of trying to design a better plan which is going to benefit the city, hopefully not to the detriment of the employees. The third factor going forward is the five bargaining units who will have contracts up for expiration at the end of the year. Mr. Tadych noted that health care plays a large part in those negotiations. He stated that health care is on the right path but additional work must be done.

Mr. Presley stated that if the 5% reduction in income tax collections becomes at 10% reduction at the end of the year it would translate to \$500,000 out of the General Fund. That amount would far outweigh the favorable trend this year in estate taxes, up \$243,000. Health care expenses are down because the number of bodies covered is down. At this point in time, the

enrollment is probably around 100 employees because of the people who have left police and fire. Mr. Presley will obtain the exact enrollment number for the committee. The loss of estate tax and what will happen potentially with local government funding were addressed by Mr. Presley. The move to state collection of municipal income tax may no longer be a threat with legislation only addressing uniformity of language, tax rates, what is taxable, and what is not taxable. Uniformity would be positive to the city but negative to the residents. The state may look at a uniform rate. A uniform rate for Bay Village would mean more withholding from employees and from businesses. The city would adjust the credit which impacts the individuals living within the city.

Mr. Tadych noted that ambulance fees are remarkably accurate for not knowing how many calls we are going to have. Mr. Presley noted that prior to a change in Medicare the reimbursements were behind. After the claims were re-filed in one month over \$60,000 was collected in ambulance reimbursements that had been compiled from the previous months.

Mr. Clark asked if the city is reimbursed for ambulance runs outside the city. Mr. Presley stated that Bay Village, on a mutual aid run to another city, is reimbursed what the home city would receive.

Mr. Young stated that he feels favorably about the expenses and revenues of the General Fund. At year's end the revenue should exceed the expenses based on this seven month experience. Mr. Presley stated that the Emergency Paramedic Fund will have to be watched because anything over their current budget will come out of the General Fund. The second area of concern is that the sidewalk repair program will have to be reviewed as far as the schedule of work and certification of payments to the county. The 2012 sidewalk work will not be certified to the county for payment this year because of the timing of the program. The payments will not appear on property tax bills until 2014. An advance out of the Infrastructure Fund will be necessary to such time as the \$80,000 outstanding is collected. Mr. Presley had requested that the bills to the residents be out by August 1, but this has not been done. Mr. Presley stated that questions in this regard should be referred to Service Department Galli. Mr. Pohlkamp, as chair of the Public Improvements, Streets, Sewers and Drainage Committee will be asked to schedule a meeting to review the procedures.

Mr. Tadych asked Mr. Presley if he is confident that the city's finances will end favorably this year.

Mr. Presley stated that it is looking good. At this point in time, he is comfortable that we will be adding to fund balances, and not subtracting.

2013 Tax Budget

Mr. Young stated that a decision must be made soon as to whether it will be necessary to increase revenue for 2013. Without the benefit of having a budget from the Mayor, the committee is charged with making some projections.

Mr. Tadych noted that we did some things on this year's budget that we hadn't done before, working with caution and not over-estimating, for example, the interest on investments. We had previously over estimated interest and this year it was cut back to the point it looked sensible. The conservative method of setting budget numbers should continue.

Bond Retirement Fund

Mr. Presley stated that he has furnished the committee with a schedule of outstanding debt and bond repayment based on all of the debt that has been issued including the treasury bonds on July 18, 2012. Mr. Presley is comfortable in reporting that for 2013 the municipal income tax allocation to the General Fund of 96%, Equipment Replacement at 2%, and Accrued Benefits at 2%, since there is enough debt capacity to take care of vehicle needs through bond retirement. The timing of Bradley Road improvements means that the project will not be finished until the end of the year which means that the repayment schedule won't start until the following year. Also, the calculations with the aerial sewer were based on interest being paid. The loan is interest free.

Mr. Young commented that he is comfortable leaving the allocation of municipal income taxes of 2% to the Equipment Replacement Fund because when interest rates are low it is acceptable to pay for equipment with the issuance of bonds.

Mr. Presley continued, stating that the Bond Retirement Fund is in good condition, the Equipment Replacement Fund will be fine at the 2% level, and the 2% for the Accrued Benefits Fund as it historically has been is acceptable. The Emergency Paramedic Fund is a concern. The General Fund is a concern for 2013 because of the loss of revenue.

Mr. Clark stated that Mr. Presley does a nice job of putting together a summary of outstanding debt. All of the 2009 through 2012 debt issuance is held by the city. He asked Mr. Presley to summarize the expenditures for Public Improvements and Vehicle Replacement. Mr. Presley stated that \$395,000 is for equipment replacement for 2011, and \$580,000 is for 2012 and includes a fire truck. Public Improvement funds are for narrow band radio in the amount of \$30,000, a phone system estimated at \$50,000, and city hall renovations, \$25,000.

Mr. Clark noted that in the next one to two years the entire city's outside debt is basically gone, other than the debt for the police station, pool, and the community gym. All of the sewer and municipal program debt for 2003 through 2008 is going to be amortized out.

Mr. Presley noted that he is going to want to take something, at least biannually, to the outside investors to maintain the Moody's bond rating.

Mr. Tadych asked when the Cahoon Road Sewer project will materialize. Mr. Presley stated that he has not heard anything recently about that project. The Dover Center Road tennis courts improvement will have bid opening on August 16, 2012. It is not in the budget or the bond retirement schedule. It would have to be paid as an advance from the Infrastructure Fund and be bonded later. Mr. Presley stated that it will be necessary to incorporate the comments from the Public Improvements and other committees into the discussions with the Finance Committee.

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Mr. Clark also noted the needed improvement for the Columbia Road Park steps. Mr. Young added the need for improvements at the Community House and stated that he does not believe there is any objection on the part of Council on going forward with any of those projects, even if they must be taken out of a fund or put forward as a bond issuance in 2013 and 2014 sold externally.

Mr. Clark commented that he has asked Service Director Galli to put a schedule together of all the various capital projects. Mr. Clark will follow up with Mr. Galli.

Mr. Tadych noted that he has not heard anything about the flow monitoring of the Lake Road Interceptor Sewer.

Mr. Clark noted that \$1.5 million will be reimbursed to the Infrastructure Fund because of the Bradley/Naigle Improvement Project.

Emergency Paramedic Unit Fund

Mr. Young stated that he has suggested that changes need to be made to better reflect reality in the Emergency Paramedic Unit Fund. One-third of employee costs and miscellaneous supplies of the Fire Department budget are set aside for the Emergency Paramedic Unit Fund. There has been discussion that one-third is too low, and guidance has been sought from the Fire Chief.

The Fire Chief has provided information that states that approximately 72% of total runs are emergency paramedic funds, and 28% are fire runs. The Fire Chief also notes that the training time trends more heavily toward fire, and all firemen are also certified paramedics. Mr. Young noted that as far as employee costs, fire and emergency paramedic runs are not the same. Fire runs are 5 or more employees; emergency medical runs use 2 to 3 employees. Mr. Tadych suggested using the 50%-50% percentage to divide costs. Mr. Young agreed. If the Emergency Paramedic Unit Fund budget number would be increased to 50%, the EPU millage could be increased for additional funding and that offset by reducing or eliminating the fees for trash collection. Mr. Presley stated that the needed increase in millage would be .75 for emergency paramedic, bringing in \$356,000 annually.

Mr. Presley stated that it is his recommendation to leave the General Fund millage as is, knowing that at any point in the future the refuse collection fee can be limited. That allows the residents on a tax basis to deduct the increase in the property taxes which they can't do currently on a trash collection fee.

Mr. Clark stated that the increase of .75 mills is close to what the voted millage for the Emergency Paramedic Unit has already been approved. The residents would be charged with an increase in taxes, based on our discussion that we are guessing that 50%-50% is the split between fire and paramedic costs. Mr. Young and Mr. Tadych agreed that the 50%-50% is much more reasonable.

Mr. Clark and Mr. Tadych stated that they would have a difficult time imposing a tax increase on the residents of the City of Bay Village. Mr. Young concurred, stating that the decision would

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be beyond that of the Finance Committee. It is something that has to be brought before the Council of the Whole. Mr. Young stated that he would rather see, as a resident that pays taxes, get rid of the fee for trash collection and pay the increased tax. If it is done that way, there is no actual increase of the amount of money a resident pays.

Mr. Clark stated that his concern about that approach is that dollars that the residents are used to paying for trash collection and are allocated according to the amount of the increased contract cost for trash collection are being used for a different purpose. This discussion, at a higher level basis, is well beyond the Finance Committee in terms of understanding the true numbers in how emergency paramedic and fire department services work.

Mr. Young stated that there is a reason why the trash collection fee expires at the end of each year, and is not a permanent fee. This is because the Council did not necessarily want to keep it that way. Mr. Young stated that, personally, he was hoping either that we would reach the point when we didn't need the revenue or if we did need the revenue we would do something that could be written off on tax returns.

Mr. Clark stated that the trash collection fee is \$48.00 per year for residents. He asked if that is a huge tax write off. Mr. Tadych stated that it certainly is not. Mr. Clark stated that he would not like to raise taxes unless we needed to. We have talked before about running the city as efficiently as possible before going to the voters and asking for another \$1.00 in taxes. Mr. Tadych noted that changing the revenue source would appear that way.

Mr. Young countered, saying that a fee is not a tax, but the overall money that will be paid each year by increasing the Emergency Paramedic Unit millage and eliminating the trash fee will not be any different. Mr. Tadych noted that it would not be the same for everyone. Many people do not take itemize deductions and write their property taxes off their annual tax return. The argument is not valid because we have no idea what each individual property owner is doing. That is not a reason it should be changed.

Mr. Clark stated that the other argument to that point is because alternative minimum tax catches a lot of people in Bay Village, the wealthier grouping of people will have less real estate property tax to deduct. If everyone were in the same income strata, it would hold true.

Mr. Clark noted that it is a healthy discussion and a first step in properly aligning our revenues and expenses.

Mr. Tadych stated that he would like to see the General Fund reduced and the Emergency Paramedic Unit fund increased, with no change in taxes.

Mr. Clark noted that you could also argue that we put a half a mill away for Parks and Recreation yet we have a \$300,000 plus General Fund appropriation for Parks and Recreation. Mr. Presley stated that the half mill property tax is a Charter levy for Parks and Recreation. The Parks and Recreation Fund has to be kept separate even though the bulk of the revenue is transfers and fees for services.

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Mr. Young stated that the Service Department budget would in the past recover all of that money. It no longer does, so it appears that Parks and Recreation costs more because we changed the way those expenses are paid. We need to discuss increasing the Emergency Paramedic Unit fund and have Council discuss the merits of leaving the General Fund the same and getting rid of the trash fee, or just reducing the General Fund fee. Having that discussion will be part of what we do in regard to passing the tax levy.

Mr. Clark stated that looking at the Bond Retirement Fund allotment of 3.89 mills, a portion of that generates about \$1,950,000 per year in revenue. In 2013 our debt service is \$1,700,000 for the year. He asked if we were to reallocate that millage, would that free up some money for the Emergency Paramedic Unit.

Mr. Presley stated that the debt schedule is just for current obligations. There is no money set aside for streets or for the equipment replacement for 2013 reflected on the debt schedule. The schedule is just a snapshot of what is currently authorized. Mr. Presley stated that in addition to the actual schedule he can do a 2013 forecast debt, knowing that there are other items coming up, and also include the road improvement projects for 2013, 2014, 2015. Mr. Clark noted that while we are adding new debt, we are also rolling debt off.

Mr. Young stated that he and Mr. Presley had the discussion about the millage for the Bond Retirement Fund previously. Mr. Presley stated that on the inside millage should be kept at 3.89 total. If it is reduced, the Board of Education can take it away for energy savings improvement and it will never be returned. They can come in and take the 3.89 or any portion that is not levied.

Mr. Presley stated that he will talk with President of Council Koomar regarding the 2013 Tax Budget. The budget must be adopted and submitted to the County by August 17, 2012. Mr. Presley stated that he would like to schedule a special meeting of Council the week of August 6, 2012. Mr. Tadych noted that the rest of Council deserves the same amount of time to discuss the budget before passage, and we are running out of dates.

Mr. Clark noted that it could be decided to keep everything unchanged until negotiations are completed with bargaining units. Mr. Young stated an easy solution would be to increase the EPU allocation of millage and decrease the General Fund allocation of millage, and have further discussion later on about changes. Mr. Tadych stated that he would be agreeable to that suggestion. Mr. Young stated the reason he would like to see the trash fee eliminated because at some point in time there must be an increase in the sewer fee to capture more than just the cost of operations.

Mr. Tadych stated that certain cities nearby have adjusted their sewer fee by usage and have calculated an expected increase in their revenues. Something similar might enable us to reduce a fee and give the residents a more exacting way of looking at their sewer bill. This method may be fairer to the residents. Mr. Presley has stated that it is too expensive to switch to this method. Mr. Tadych asked how other cities are able to accomplish this, and is it expensive as we anticipated it to be.

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Mr. Presley stated that presently we pay the City of Cleveland nothing because we don't get their meter readings. If we go to get their meter readings on a quarterly basis only, it is \$4.00 per quarter per household for the meter readings. That would amount to \$100,000 to be paid to the City of Cleveland annually for the meter readings, and that cost would have to be passed on to the residents. Then the minimum actual usage would have to be averaged for the last five years. Most residents would not want to pay a sewer bill for watering their lawn. When people conserve, or put in a second meter, there won't be the revenues needed to offset the sewer fees paid to Rocky River for the Wastewater Treatment Plant. Mr. Tadych suggested that we investigate the actions being taken by Rocky River to see if it is possible for Bay Village to do something similar. He noted that the method may be more cost efficient and also give a break to the people who need it most, those who have few people in the house, the seniors of the community.

Mr. Presley will check on the sewer rate increases going forward that have been approved by ordinance.

Mr. Tadych suggested for the 2013 Budget, increasing the Emergency Paramedic Unit Fund allocation of millage and decreasing the General Fund allocation. Mr. Young stated that he would like to have the discussion with the Council of the Whole. It was agreed that the Fire Department expenses and Emergency Paramedic Unit expenses would be split as 50%-50%.

Mr. Presley will prepare two tax budgets for study. One will have the millage changed in the two funds, but keeping the total the same and show the effects in the budget pages. The other will increase the Emergency Paramedic Unit Fund, but keeps the General Fund as is, and show the expenses for the Fire Department at 50%, and the Emergency Paramedic Unit expenses at 50% of the total cost of Fire.

The meeting adjourned at 9:15 a.m.

Mike Young, Chairman

Joan Kemper, Secretary