

FINANCE COMMITTEE MEETING
held January 27, 2014
5:30 p.m. Conference Room

Present: Councilman Dwight Clark, Chair
Councilman Tom Henderson

Absent: Councilman Tadych

Also Present: Mayor Sutherland, Finance Director Mahoney, President of Council Paul Koomar, Councilman Lee, Councilman Vincent, Councilwoman Lieske, Service Director Thomas, Assistant Service Director Sears, Fire Chief Lyons, Police Chief Spaetzel, Law Director Ebert, Recreation Director Enovitch, Operations Manager Landers

Audience: Conda Boyd, Marty Mace, Susan Murnane

Mr. Clark opened the meeting at 5:30 p.m. This meeting will continue the efforts to create a balanced or positive budget for the 2014 year. The ordinance approving the budget, the Annual Appropriation Ordinance for the year 2014, Ordinance No. 14-02 will be placed for second reading at this evening's special Council meeting. It is hoped to pass this ordinance in early February this year, as opposed to the passage of the 2013 budget in late March of last year. Clearing the way for the passage of the budget earlier this year is the finalization of the bargaining unit contracts, revised health care plans, and settlement of several lawsuits. Director Mahoney has done a nice job of making some agreed-upon changes after receiving the Finance Committee's input.

Year 2013 Summary (Exhibit A attached)

Mr. Clark noted that at his request Director Mahoney has done a summary of year 2013 for the City of Bay Village from a financial perspective. Mrs. Mahoney reviewed the report as follows.

Receipts

- Municipal Income Tax Receipts increased by 12 % which is \$600,000 more than 2012
- The last of the estate tax, over \$400,000, was collected
- Reimbursements were received from FEMA and First Energy for damages during Superstorm Sandy, totaling \$164,000

Expenditures

- All departments stayed within budget. Noteworthy is the fact that the budget was prepared prior to contract negotiations, which provided an increase of 1% effective July 1, 2013
- Unions agreed to pay more out-of-pocket expenses for their portion of health care
- Police gained \$150 in uniform allowance

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- Deductibles and out-of-pocket maximums went from \$750 single to \$1400 and \$1500 family to \$2800 family coverage respectively, causing a reduction in health care costs toward the end of 2013.
- General Fund expenditures were down almost \$500,000 as compared to 2012, partially due to outsourcing the Building Department. Fourteen full time employees were lost due to retirement, resignation or elimination. This caused expenditures from the Accrued Benefits Fund of over \$300,000. Accrued Benefits payments in 2012 were also high. Six vacancies remain to be filled: three in the Fire Department; one in the Police Department, and two in the Service Department.
- The General Fund ended the year less than it started in 2013 due to \$164,000 being transferred to the Reserve Fund, which has been the desire of the Finance Committee for some time.

The challenge to the city for 2014, in addition to the loss of the estate tax revenue, is the increase in potential sewer operating costs for the Rocky River Wastewater Treatment Plant. Mr. Clark stated that within the next two weeks this matter will be discussed with the Council of the Whole. There are also capital components to be addressed for the Sewer Fund. Director Mahoney was thanked for her presentation.

Mr. Clark stated that although there was a negative \$80,000 in expenses over revenue in 2013 there were some very positive financial points in 2013. Over \$450,000 from the General Fund was transferred back to funds as required by the City's auditor. The strong municipal income tax receipts for the year put the city in a position to correct some of the funds, provide some liquidity and put the city in a break-even position at the end of 2013. Overall, the year was strong. The loss of the estate tax will be hurtful going forward.

Mr. Henderson expressed agreement with Mr. Clark that it was a nice set of outcomes for the year. The work done on health care in particular was good. That seems to be trending toward the direction in cost-sharing ratios between employer and employees, which is happening in more companies. While it is always challenging to share costs, that is what people are doing these days. Next year with the estate tax being lost it is important to look at other means to fill that hole. We have been talking about an adjustment in the fees charged for cable television and whatever we need to do to make that work.

Mr. Clark noted that Mrs. Mahoney has been on-board full time for almost a year now. She has come a long way and has been great to work with. Mr. Clark expressed appreciation to Mrs. Mahoney for her good work.

City of Bay Village General Obligation Bonds (Schedule B attached)

Synopsis

- As of January 1, 2014 the city has total General Obligation debt of \$13.86 million
- It is anticipated the City will take in from property tax millage approximately \$1.9 million per year, which would be used to pay debt service on the \$13.86 million

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- Some of the debts are rolling off after this year, including remaining debt from 2007 and 2008 debt issues.
- Much of the long term debt is associated with the Police Station (\$5 million remaining) and the Community Gym and Aquatic Center (\$1.4 million)
- Zero interest loans have been added in the amount \$1.8 million for the Cahoon Creek Aerial Sewer and the Cahoon Road Sewer Project
- A short term note was done in June, 2013 in the amount of \$1,250,000. We will pay about \$250,000 down from that note and take the \$1 million remaining balance and couple that with about \$1.3 million borrowings for projects for 2014 in the areas of capital equipment, public improvements and municipal building projects.
- The police station bond issues were refinanced two years ago, resulting in a lower interest rate
- At the end of this year all of the 2007 and 2008 debt will be paid off from sewers, streets, infrastructure and equipment.

Mr. Henderson stated that the bottom of the report shows a deficit as far as funding ability (\$844,614). Mr. Clark stated that the way this is made up is that the \$1,250,000 note is going to be paid off since we are going to pay part of that down and the \$1 million left will be refinanced and extend through a note for another year. That \$844,614 negative will become about \$155,000 positive. Part of the reason for doing that is because in the past we have purchased some of our own debt and called it manuscript debt (2009, 2010, and 2012). The thought is to rely less on that and go out for public debt and keep our bonds short term because interest rates are low. The borrowing we did last year was priced at .55% for a year, and it is expected that the rates are still in that neighborhood. We believe we have the ability to refinance those notes 60 to 90 days prior to maturity.

Mr. Clark noted that the bottom of the report indicates how the surplus and deficit will grow over time. It seems as though we are stashing money away but we will have capital needs going forward in each of the following years. For example, we will have to purchase a composter for \$250,000 this year to share with the City of Westlake. In 2012 we bought a brand new fire engine for about \$425,000. This year we will budget \$130,000 for brand new lighting in Hartman Field. We are trying to match our resources and expenditures accordingly.

The Police Chief, Fire Chief and Service Director have been asked to put forward a 5-year forecast of their capital budget so we know exactly what departments are going to be spending. It is looking at the total capital needs of the city in a more strategic way. If something needs to be moved ahead or deferred we can make those determinations accordingly.

Mr. Lee asked if the principal to be retired in 2014 is \$2.5 million and we are anticipating \$2.3 million in new debt. Mr. Clark stated that we will couple the \$1 million of the remaining balance from the 2013 note with \$1.3 million in new borrowings for 2014 capital needs as the way to handling our short term borrowing needs. It seems a little bit high because of the note. The schedule will be updated when we go to market with the \$1.3 million of new debt for all the various capital items that will be funded this year.

The Community Gym and Aquatic Facility bonds are at a high coupon rate (average 4.2%), but are not callable. They were done in 2002 and cannot be retired early. The Community Gym will be paid off in 4 years. There is 9 years left on the pool. Improvements made to the pool this year will come out of a balance in the existing pool fund.

Conda Boyd asked for comments on the anticipated property tax proceeds. Mrs. Mahoney stated that part of the property tax proceeds are set aside for debt payments (\$1.9 million). It may go up slightly. Mr. Clark stated that it depends on the assessed valuation of the city which will be reassessed in 2014. Every three years there are property reappraisals. The assessed valuation at this point in time for the City of Bay Village is \$494 million.

Mr. Clark stated that the city has been prudent on handling debt. We have capability to do more. Taking advantage of these infrastructure projects by borrowing money through the State of Ohio for 20-30 years at zero interest is the right way to go. There is still a little bit of room to do more on that with projects in front of us, for example, the pump station work.

Health Care

There was discussion at the last meeting regarding the administrative contract costs in the budget for 2014, and budgeting for health care expenses. There was a favorable experience this past year in health care which added to the corpus in our Health Care Insurance Fund. There will be a few more employees on the payroll this year, yet there is a significant increase in the health care budget for 2014.

Mrs. Mahoney stated that her discussion with Medical Mutual indicates that the expenses for 2014 might be \$1.3 million, based on 100 employees. Mrs. Mahoney noted that we must be careful to stay near 100 employees to retain our self-insured status. The city has 92 employees covered under health care now. The administrative costs are budget at \$240,000 per year which is about \$200 per month, per employee. This is the only fixed cost we have for employees. The budget for the Health Insurance Fund No. 600 has been increased from \$1,447 million in 2013 to \$1,577 million in 2014. Administrative costs for 2014 are expected to be \$262,000 according to Medical Mutual including stop loss premium, based on 100 employees. Mr. Clark noted that stop loss coverage was increased last year from \$60,000 to \$75,000. Mrs. Mahoney noted that the way she has to budget is based on the Cobra rate less 2%. Medical Mutual supplies that rate. That would be the rate we would pay for each employee if we were fully insured. Each department is charged that rate per employee and the offsetting revenue is the self-insurance fund. It is not hurting the city to budget \$1.4 million in the self-insurance fund. Medical Mutual suggests that we have at least one year's worth of claims fund balance in the fund which would be about \$1.2 million. Now we have about \$900,000. If we have another good year then the balance will increase. The balance is needed in the event of switching to fully insured because all the claims from prior years still have to be paid as well as going forward.

Mr. Clark stated that he understands the rationale of building something in the fund. He would be more in favor of showing the administrative contract at \$262,000, which we think, based on Medical Mutual's calculations, is going to be the number, and reducing the actual claims number down to something halfway between \$1.2 million and \$1.430 million. After further discussion it

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was agreed to increase the administrative contract on the budget to \$262,000 and reduce the contract to \$1.3 million. He noted that this is the only change to the budget in preparation for the third and final reading.

Mr. Clark asked if we were to no longer be self-insured, what would the cost of insurance be to the city. Mrs. Mahoney stated that it would be \$1.4 million. The Cobra rate is the number used to charge the employees their 9% share of the monthly premium rate which is \$564.00 for single coverage and \$1523 for the family rate. The assumption is made that new hires will have family coverage.

All Funds Budget Analysis (Exhibit C attached)

Fund 494 Infrastructure Improvement

Revenue in 2013 of \$830,000 did not include the increase in funding from the Ohio Public Works Commission (OPWC). Mr. Clark stated that he believes the number should be \$1,030,000 which would have been \$250,000 for the Lake Road Resurfacing Project, and additional sewer monies received in the amount of \$780,000. Mrs. Mahoney stated that those funds are reimbursements to the Infrastructure Fund, and she will make that change in the report. That will change the revenue number of \$1,030 million and add \$200,000 to the ending balance in the Infrastructure Improvement Fund.

Mr. Henderson asked for clarification regarding the Service/Salt Garage Fund No. 492. Mrs. Mahoney explained that the fund represents insurance money received in prior years, and is to pay for the replacement of the facility.

Mr. Clark noted that ultimately it would be good to have two full months of operating expenses in the General Fund.

Capital Requests 2014 (Exhibit D attached)

Mr. Clark reviewed the capital requests per department. The shaded areas on the report represent money where funds have been allocated for those projects. The money is in hand but has not yet been spent. These purchases were approved in 2012. Vehicle and equipment purchases total \$723,000 for all departments, including Police, Service, Administration, Community Service, and Fire. We are budgeting \$525,000 this year for road repair, primarily Osborn Road and Cahoon Road (to repave the road after the sanitary sewer installation), and, if funds are left over, repairs to Wolf Road. About \$344,000 has been budgeted for Public Improvements for a number of municipal buildings. The Service Garage and Aquatic Facility have also been budgeted at \$192,000 and \$85,000, respectively, for repairs. The total capital spending for the year is \$1,869,000 of which there is a balance in the funds of \$260,000. An additional \$85,000 is available from the Pool Fund for the Aquatic Facility repairs. The Municipal Buildings Fund No. 495 will release \$215,000 and \$1,309,000 will be provided by proceeds from our 2014 new tax-exempt note.

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Mrs. Mahoney reported that the fiber optics improvement will actually total between \$57,000 to \$62,000 rather than the \$50,000 budgeted. The budget amount will be increased to \$60,000. The debt principal amount will be changed to \$1,320,000. The remainder \$1 million balance from the 2013 note issue will be added to that amount making the total debt for issuance for 2014 \$2,320,000. Each of those issues will be paid down in 5 years equally. Mrs. Mahoney will seek information on whether it should be a one-year note issuance.

Mr. Clark noted that the earlier the budget is done the more appropriately we can release purchase orders and be a little smarter on purchasing. Mayor Sutherland added that this will help in getting state bid pricing.

Draft Revenue Budget 2014 (Exhibit E attached)

An ordinance will be introduced this evening to change the video provider franchise fees to 5%. Seven months increase in revenue has been built into the budget due to the notification time required to both cable companies and subscribers.

Draft Expenditure Budget 2014 (Exhibit F attached)

Election expenses to be paid in 2014 total \$39,642.00.

The General Insurance Fund No. 601 shows a reduction from \$198,000 budgeted in 2013 to \$163,000 in 2014. Mrs. Mahoney stated that the fund includes expenses and repairs not covered by insurance. Mrs. Mahoney will investigate further.

Leaf Collections Fund 100.321 is budgeted higher (\$130,000) than actual 2013 expenditures (\$104,744). It seems to be in line with the 2012 expenditures of \$123,815.46. Mrs. Mahoney explained her accounting process.

The Sewer Fund No. 580 will require a deeper discussion with a full hearing and consultation with the engineering consultants. There will have to be some changes to the sewer charges. Mr. Clark asked the Mayor and President of Council to schedule a date for this discussion and hearing on this topic. Mrs. Mahoney noted that we are looking at a \$500,000 deficit in the fund. The Mayor noted that since it is an enterprise fund by law there can be no deficit by the end of the year.

Mr. Clark expressed appreciation to all for their input, assistance, and attendance. Mr. Lee asked if we are comfortable with the numbers on salt and snow removal. Mayor Sutherland stated that the city is running about \$24,000 in overtime which is double what was spent on overtime at this time last year. There is a Northeast Ohio salt shortage. Bay Village had carry-over that they were able to protect. Lakewood, Rocky River and Westlake are having problems. Bay Village is very short and salting is only being done to the main streets.

There being no further business to discuss the meeting adjourned at 6:30 p.m.

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Dwight Clark, Chairman

Joan T. Kemper, Secretary