

FINANCE COMMITTEE MEETING
held November 3, 2014
6:30 p.m. Conference Room

Present: Councilman Dwight Clark, Chair
Councilman Dave Tadych
Councilman Tom Henderson

Also Present: Mayor Sutherland, Finance Director Mahoney, Law Director Ebert,
President of Council Koomar, Councilman Lee, Councilwoman Lieske,
Councilman Vincent, Service Director Thomas, Community Services
Director Selig, Operations Manager Landers, Assistant Finance Director
Popovich

Audience: Conda Boyd, Marty Mace

Mr. Clark opened the meeting at 6:30 p.m. He thanked everyone for their attendance this evening.

2015 Capital and Operating Budget Review

Debt Service Schedules (Exhibit A attached)

Finance Director Mahoney advised that her goal for the Finance Committee is to be comfortable with whatever debt levels for the City that is decided upon by the Finance Committee. If the Finance Committee should decide that the debt should be less than that proposed by Mrs. Mahoney, she will go back to the Directors for cuts in their budgets.

Mrs. Mahoney expressed agreement with Mr. Clark's email that going into 2016, the City's proposed debt issue will be a little over \$3.5 million. If the City takes out \$1.7 million in debt this year, the total note payments for 2016 will be \$250,000 more than the projected amount of incoming property tax revenue. Mr. Clark stated that \$1.7 million is the initial number that Mrs. Mahoney reported needed in terms of capital equipment needs for the year. If we did nothing other than debt to finance it, and not take money from Reserve Funds or cut back from some of the expenditures, we have a target for 2016 of \$2,185,000 in debt service. That would include the debt service that is on the schedule for 2016, which is about \$1,330,000, plus the yearly scheduled payments from the Bond Anticipation Note, for 2013, 2014, and 2015 years. Property tax collections are anticipated at \$1,933,000 for 2016, about \$250,000 short of our capacity. Mrs. Mahoney stated that we do have that in our fund balance (General Bond Retirement). The only thing that can be spent in that fund balance is for debt. Mrs. Mahoney stated that she feels comfortable with the \$1.7 million in debt this year, but the far reaching-out question is how do we fund our future capital projects. Is our protocol going to be to borrow for all of them?

The \$25.00 increased sewer fee proposed will bring in about \$155,000. This will be a start to coming up with capital money for sewers, but the question is where else do we get the money?

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Mr. Clark stated that in 2014 the debt service is about \$1,835,000 versus inflows of \$1,933,000. There is a cushion there of about \$90,000. In 2015, the debt service is about \$1,945,000, which is close to what we anticipate for the property tax proceeds. If we stay to what we did, we will be overspending by about \$250,000. That could be good; it could be bad. There are still some things to play out. We have to be sure we go through all the capital requests. The directors should be reminded to prioritize what they are going to need.

The good news on the debt schedule is all the 2007 and 2008 debts, which are payable this year on December 1, (the principal payment date for debt) will be paid off in full. We are going to pay down about \$530,000 in Treasury Debt this year, which is additional good news. Mr. Clark expressed agreement that the long term strategy will have to be reviewed going forward. The goal is to get away from buying our own debt, which we did for good reasons when it was done in 2009, 2010, and 2012, and go more toward the outside market as long as the interest rate market is favorable. We are taking a fairly aggressive stance on new debt and amortizing it over five years, as opposed to seven or ten years. We could slow the burn on some of that debt, taking street improvement debt over seven years as we have done in the past.

Mrs. Mahoney has included the Ohio Public Works Commission (OPWC) debt on the balance sheet as it relates to the Cahoon Sewer Project, the Cahoon Creek Aerial Sewer and the remaining debt from Bradley/Naigle Intersection Project. There is a remainder OPWC Sanitary Sewer Rehab Project (CA21B) that is paid from the Sewer Fund. Mrs. Mahoney will investigate to see what that relates to specifically. The amount is \$238,000. A line on the debt schedule indicates the amounts payable from the Sewer Fund.

After this year there will be three years left on the Community Gym debt. The Community Gym and Aquatic Center debt is not callable. Mr. Tadych noted the high interest rates on the Street Improvement Debt of 2007 and 2008. The shaded areas on the debt service report represent Treasury Debt to which the City actually purchased for its own account in 2009, 2010, and 2012. After these are paid this year, the money will go into the Debt Service Fund.

Mr. Clark stated that after all payments are made on December 1, Finance Director Mahoney estimates about \$4.1 million in the Bond Retirement Fund at the end of this year.

Mr. Clark asked the Finance Committee and Administration if there are any particular thoughts about the \$1.7 million debt issuance this year. Mrs. Mahoney stated that the only other alternative is to use some of the Reserve Funds. Mr. Clark stated that it would be nice to be able to spend no more than what we are taking in, which would argue for cutting back by about \$250,000 or using some Reserve Funds. For example, we took some out to make improvements in the Community House. We took out \$215,000 last year for Public Improvements, including funds for the Transfer Station. That is another option for us. We will want to review with the Directors, and prioritize some of the equipment requests.

Mr. Tadych stated that he is wondering what the debt service is really going to be, what the debt will be that we will have to issue on streets, with Sunset area involved. There has been no mention of Sunset. Mayor Sutherland stated that it probably won't be next year. Mr. Tadych stated that we will close in December, probably, and not complete until spring because we can't

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issue the debt until it's complete, right? By September they are going to have streets to run on, but the project won't be completed until sometime in January or February. Mayor Sutherland stated that she thinks we are going to have to go out for engineering. There is still an awful lot of below ground work that is still proceeding and we are finding all kinds of interesting things. By the time they get the engineering done, you are looking at construction probably in 2016. Mr. Tadych stated that if you go into 2016, the residents are not going to like that. Mr. Koomar stated that he talked to Director Thomas and just their initial analysis of finding all the sanitary lines and the condition of them, we are looking at the end of November or December before they complete that work. Then they need to get that information to CT Consultants. Mr. Tadych stated that he hasn't had a report on what they found over there. Mayor Sutherland stated that they are still working on it and we are finding oddball things like 4 inch sanitary lines going behind houses that houses aren't hooked into. There is going to be some major rerouting and some work to be done. Mr. Tadych stated that if they are nowhere being done next year then it is not an issue as far as budget. Mayor Sutherland stated that our priority has to be still focused on the fact that we are under findings and orders by the U.S. EPA to close those last couple of overflows so that is going to be the Number 1 priority. It has to be. We would like to get going with engineering on that. Part of that construction will fall into 2015. It may not be completed but it will be started in 2015. We have Long Beach and Huntington that need work, but I am talking about the Bruce/Russell/Lake neighborhood. That is another one that there is not a simple fix, and there is still work going on there. But we will probably be ready with all the monitoring and be able to start engineering in 2015.

Mr. Clark stated that it is prudent if we are going to consider size in the debt issue, whatever it is, is that it is for identifiable assets and programs which we have all agreed upon. Sunset may not be as immediate. Mr. Tadych stated that it is immediate but if it is not going to be ready, if what the Mayor is saying is correct, and I am sure it is. Mayor Sutherland stated that if she could say it is lining up beautifully, we can get in there, she would do it. But it is not lining up beautifully.

Mr. Clark stated that there may be surprises such as those found on Walmar Road. That was \$95,000 from the General Fund that we had to expend. Mayor Sutherland stated that there may be even more there because of the extreme conditions they found there. Mr. Tadych added that they will pick up street costs too.

Director Mahoney stated that in 2012 and 2013 we did transfer over \$300,000 for Street Construction from the General Fund. I am looking at about a \$170,000 deficit balance in the General Fund right now, expenditures over what we are taking in. Mr. Clark stated that the past practice has been transferring \$250,000 to \$325,000 for Street Construction from the General Fund; the thought was to bond that out and reduce the transfer. The other thing we try to do is wait until we get into November to see if we get some of these awards for engineering on Lake Road and Wolf Road, because those were capital costs that would be in the borrowing base.

Mr. Tadych asked if the sewer grates/catch basins are being completed on Lake Road. Are they going to be done this year? Mr. Thomas stated that the ordering had to be done and it is scheduled to be completed this year. Each sewer grate is custom.

Mr. Clark stated that on the table is consideration for a note issue of about \$3.5 million that is going to finance capital expenditures for the year. If nothing else changes, the \$1.7 million plus the refunding components of the 2013 and 2014 note issues comprise that amount. Questions in regard to the debt schedule should be referred to Mr. Clark or Director Mahoney.

Reserve Funds (Exhibit B attached)

The impetus to updating the Reserve Fund schedule is that we historically have had a lot of advances, now reimbursed and put in their rightful accounts.

The schedule shows the Infrastructure Improvement Fund already reflects the advance repayment of \$780,000 from the Cahoon Sewer Project, and \$250,000 from the Lake Road Street Construction Project. The ending number on the schedule shows the balances in those funds. There is about \$7.8 million in Reserve Funds. That \$4 million in Bond Retirement can only be used for bond retirement (debt) including notes. Building Improvements Fund can only be used for building improvements; Infrastructure Improvement Funds can only be used for infrastructure improvements. These funds cannot be transferred to the General Fund.

Mr. Clark explained that there was a high water mark balance for reserves in 2008. Although it seems that a lot of money was spent, eighty percent of it was spent on a couple of very large projects. We spent in 2011 about \$1,350,000 for the refund back to the County for an amended tax return due to an estate tax filing. The \$1,370,000 was spent out of the General Reserve during the tough economic times of 2010 and 2011. The Lake Road Interceptor Sanitary Sewer Cleaning Project took \$800,000. We also spent \$750,000 out of the Infrastructure Fund to put in the Cahoon Road Sanitary Sewer Projects. The total of these items is \$4.25 million. The remainder of \$800,000 is from the Public Improvements Fund: Bradley/Naigle Intersection, Tennis Courts, and Equipment Replacement. That sums up to \$5 million.

All of the advances have been repaid at this point in time. We have \$163,000 in the General Reserve Fund; most of that came from reimbursements received from FEMA and First Energy Corp. Under Municipal Buildings Improvement in 2014 we transferred \$215,000 out to help pay for some public improvements of the municipal buildings in the City.

Mr. Henderson asked if the General Reserve Fund was funded from 2004 to 2008, or was it typically around zero. Mayor Sutherland stated that it was very well funded but that is usually where we put estate tax proceeds. Mr. Koomar stated there was about \$500,000 to \$600,000 in it and when we had a lot of expenses due to the Service Garage going down a lot of that was covered by insurance but there were extraordinary costs. During the economic downturn it was hard to build it back up again. Mayor Sutherland noted that there are restrictions placed on the City by the State of Ohio that we can only keep 5% of the previous year's revenues in the Reserve Fund. We actually got nicked by the Auditor of State because we had too much money there.

Mrs. Mahoney stated that it is not anticipated that there will be a need to advance funds this year for extraordinary projects. Mayor Sutherland suggested that perhaps the Longbeach Lift Station may need some advance funds in the future.

Mr. Henderson asked Mrs. Mahoney if the debt issuance in 2015 were to exceed the tax revenues, would the excess come out of Fund 340. Mr. Clark stated that we have to issue debt first. Taking the excess out of Fund 340 would be one option; the second option is to curtail capital expenditures, and a third is to take it out of another fund, for example, if it is a municipal building improvement we can take it out of that fund.

Mr. Henderson asked if the sewer truck, a large capital item, could be considered part of the Infrastructure Improvement Fund. He was informed that only the actual construction of the sewers could be considered eligible for payment from the Infrastructure Improvement Fund.

Mayor Sutherland stated that the City's legal debt capacity is huge, say \$50 million, according to the State of Ohio. We would never do that, but there are some cities that bump up against that level.

Mr. Clark asked Mrs. Mahoney if she is in a position to run a second draft of the budget, revising some of the revenue and expense numbers the Finance Committee has reviewed. Mrs. Mahoney reported that she had double counted some of the Fire Pension Funds, as noted by Fire Chief Lyons. The amount will reduce the budget by \$180,000.

Mrs. Mahoney will send out new pages for the 2015 Budget book.

Ordinances that will be placed on reading will be the allocation of municipal income tax revenues and increase of the ambulance reimbursement fees.

Sewer Fees

The last three quarters of 2014 were amended to \$90.00 per quarter. That would go down to a lower amount at the end of 2014. The thought was whether we continue at the \$90.00 per quarter, effectively making the sewer rental fee \$360.00 per year per resident household. Of that, the \$25.00 difference would go toward seeding a Capital Sewer Fund which we have talked about for some time. We must do something soon because the next sewer bill mailing is January 1, 2015.

Mr. Henderson stated that his understanding is the sewer fee we charge our residents is due to the cost of the services we receive from the Rocky River Wastewater Treatment Plant (RRWTP). He asked if we were to keep the \$25.00 additional cost as a capital item, what are the thoughts about delineating it as a line item on the bills, to see the actual cost of the operations of the RRWTP directly subsidized as a capital improvements fee, the same way as we have a separate line item for the trash component on the bill.

Mayor Sutherland stated that Rocky River does something similar. It is the recommendation of the administration that the fee be kept at \$90.00 per quarter. It was passed that way; the original intention was that would be the new sewer fee. We are going to continue to have sewer projects that we are going to have to fund and we either fund it that way or we go to some type of assessment process. We are all equal owners in the system and it will help us with the EPA.

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They actually look at expenditures per household, and right now we are way below what they would recommend for sewer charges. They look at all the data from across the country. Once we get these overflows done there will be some other recommendation that we will have to deal with. It is a wise fiscal policy for the City to set up this type of fund that we can rely on.

Mr. Tadych asked if the bill would reflect \$6.25 on each quarterly bill for capital improvements.

Mrs. Mahoney stated that people have been paying \$102.00 now, and we will be telling them they are going to pay less? Mr. Tadych stated that we have been telling them they will pay less. In the past we talked about the fact that it would level itself this coming year. Mr. Henderson expressed agreement with Mr. Tadych, noting that his recollection at the Town Hall meeting was that the increase was for three quarters and it would sunset this year.

Mr. Clark stated that we have talked about a capital sewer charge for a couple of years. Rocky River charges \$25 per quarter, \$100 a year. He asked if we could find out if other communities charge for capital sewer charges. Mr. Clark stated he does not recall ever assessing for sewer projects. Mayor Sutherland stated that the Bassett Road project (2007) was partially for sewer improvements and it was assessed to the residents.

Mr. Tadych stated that he brought up at previous meetings the question of capital improvements that may be coming up this year at the RRWTP. Mrs. Mahoney has not yet heard back from the manager of the plant. Mr. Tadych stated that if we were going to have improvements at the plant, the \$6.25 per quarter becomes almost meaningless if the City is going to have another assessment from the plant added to it. The Mayor stated that they do go through the same process as municipalities in applying for OPWC funds, but they usually score very highly because they service so many residents. It is highly unusual for some type of improvement to be assessed to the cities. The RRWTP also has a capital fund that can be tapped in an emergency.

Mr. Clark suggested the sewer fee issue be brought up to the Council Committee of the Whole.

The next meeting of the Finance Committee will be Monday, November 10 at 6:30 p.m. Draft 2 of the 2015 budget will be prepared for review. The committee will also review some of the requests for capital items by departments.

Mr. Tadych asked how rusty the sewer truck actually is. Mr. Thomas stated that the components of the truck are in bad shape. The truck is usable, but the equipment inside is the most expensive part of the truck. Mr. Thomas will provide a breakdown of the costs of the truck and the equipment.

Mr. Henderson stated that his understanding is that the truck has two cameras. The company will supply, when necessary, visual equipment under a loan program. Consideration should be given whether to buy two new cameras or buy one and loan the other if necessary. Mr. Thomas will review the cost difference. Both cameras are needed.

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Mr. Clark asked if there will be information coming soon about the Lake Road and Wolf Road projects. Mr. Thomas stated that it may be too soon for information for Lake Road, Phase 5. He will ask to see where the City stands with the County on the Wolf Road project.

Meeting adjourned at 7:20 p.m.

Dwight Clark, Chairman

Joan T. Kemper, Secretary