

FINANCE COMMITTEE MEETING
held May 4, 2015
6:30 p.m. Conference Room

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

Also Present: Finance Director Mahoney, Councilwoman Lieske, Councilman Lee

Audience: Richard Majewski, Jeff Gallatin

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

Review of Financial Reports of April, 2015

Variance Report

Finance Director Mahoney advised that Personal Services should be at 31% of funds used for year-to-date expenditures vs. annual appropriation amount. Mrs. Mahoney stated that everyone is where they should be at this point of the year.

In regard to non-personal services, Mrs. Mahoney reported that there are a couple of appropriation changes that she will bring forward within the next week. The Community Services Department will need additional funds for their programs, which is reimbursed by participant fees. Community Services Director Selig will address Council this evening regarding increased participation at the Dwyer Memorial Center. Mr. Clark thought that comments from Director Selig as to increased participation will be helpful.

Mrs. Mahoney stated that Fund 495 will require appropriation changes noting that they are not over-budgeted but the allocations for the "Other" line and the "Capital" line need to be addressed. The amount of \$40,000 is budgeted for the Bay Lodge renovations. Mr. Tadych stated that he heard that the amount to be spent is \$27,000. Mr. Clark stated that \$25,000 was approved.

Mr. Clark stated that sewer costs are higher than budgeted. He asked if this is being tracked compared to what was approved. There was a large increase in our costs this last year of about \$400,000 for the Rocky River Wastewater Treatment Plant. Mrs. Mahoney stated that we only pay ten months; the yearly amount is divided by ten. The last payment occurs in October. Mr. Clark stated that additional expense relates to the topic of the inflow and infiltration problem we have here in Bay, and in that 70% of the water going into the Rocky River Wastewater Treatment Plant is clean water, according to CT Consultants, consulting engineer. If we are going to retest the flow of water we would have to do the retesting next year at our cost for the full monitoring. Bay Village's share of the total cost of operations of the Rocky River

Wastewater Treatment Plant is now 24.5%. Mr. Henderson stated that it is a four year schedule. The last testing was done in 2013; the next would be 2017. Mr. Clark noted that one year of testing was used as the bellwether for four years' worth of payments. The cost for testing is estimated at \$40,000 to \$45,000. If the City of Bay Village chooses to do so on their own initiative and at their own cost, it would have to be done next spring. Mrs. Mahoney noted that the Mayors who are on the Board would have to agree to the new test results, which they may not do. Mr. Clark stated that you would also have to note any corrective action taken by Bay Village that would have helped the inflow and infiltration problems. Mrs. Mahoney stated that at this point she thinks it would be worse because the Cahoon Sewer is pushing new water to the Rocky River Wastewater Treatment Plant. Mr. Clark noted that he just wants to bring up this matter because it is a significant expense to the residents of Bay Village. With the increase in sewer rental fees last year, residents are now paying \$90.00 per quarter for sewer rental fees.

April 2015 Financial Statement Review

Mr. Clark stated that we have redeployed more cash into investments. This is generating an increase in interest receipts.

Mrs. Mahoney stated that previously Huntington Bank was giving the City of Bay Village a 1% earnings credit. They have reduced that to .02% so Mrs. Mahoney is investing more funds instead of having it in the Huntington account.

Mr. Clark advised that the next City Treasury payment will be on September 1, 2015 to retire some of the manuscript debt funded and owned by the City. Mrs. Mahoney explained that the money will come out of the Bond Retirement Fund and will be invested as cash. Mr. Clark explained that this method of issuing debt to ourselves was a practice that was established a few years ago when interest rates were higher. We had money available at that point in time and it was the prior Finance Director's thought to fund our own debt. We stopped doing that practice at the end of 2012. Mrs. Mahoney stated that the only reason she could see for doing this in the future would be if our debt service fund balance kept growing and growing. What self-funding our debt does would be to move it from the debt service fund into equipment replacement. Mr. Clark stated that two reasons for that to happen would be a better than anticipated property re-evaluation, hence more property tax dollars, or pay down more debt on a fairly accelerated basis without borrowing on the flip side to replace.

Mr. Tadych asked what kind of rates are expected for the \$1 million coming due in investments this year, starting this month. Mrs. Mahoney stated that the best rate she got recently was 1.15%.

Income Tax Receipts are down 4.47% from the same time last year. Most of that negative figure is caused by the City of Bay Village and the Bay Village Schools' payments. When we do not have as many employees and our payroll is lower, the income tax receipts are lower. Regional Income Tax Agency (RITA) reports show flat receipts. The schools and the City do not deposit to RITA. The City and the Schools deposit directly to the City. Mr. Henderson asked if there could have been a decline in the FTE's from April of this year back to April of last year. Mrs. Mahoney stated that she did not look at the FTE's. Mr. Tadych asked how much of the April payroll was not included in the April tax receipts. Was the payroll cut off prior to the report?

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Mrs. Mahoney noted that the last payroll was May 1. Mrs. Lieske noted that the Schools' numbers would not have changed much from September when the school year started. Mrs. Mahoney stated that we have been trending down throughout the school year. Mr. Clark noted that it is the second best April we have had in the last four years. There will be a better idea of the trend line after the May income tax receipts are in.

Health Insurance Costs have increased. There have been a couple of very high claims. We have reached the stop loss point on those claims, which should help. Mrs. Mahoney noted that normally one-week totals are \$4,000 to \$20,000. There was a week this month that was \$111,000. Members of the Finance Committee will be attending the Northeast Ohio City Council Association (NOCCA) forum regarding managing health care costs in a changing health care system on Thursday, May 14, 2015. Cuyahoga County has also talked about provisions of health care funding. Mr. Clark noted that our current program expires at the end of February in 2016. Labor contracts are coming due at the end of 2015. These factors force the City to look at other options that might be out there to at least level the costs of these trends if they continue to be adverse. It will make sense to do due diligence along these lines. Mrs. Mahoney noted that Jen Demaline, Human Resource Director, has talked to a few health insurance consultants and their response was that we can't do better than what we are doing. The only thing we have to pay each month is the stop loss and the administration fee, about \$220 per person. The extra, if you were paying a premium based policy, is kept by the insurance company. We are only paying for the claims our employees are actually incurring, plus the administration fee. Mr. Henderson noted that there are all sorts of levers in a plan design that can be switched one way or another to change utilization patterns. That would be the kind of thing we would expect as we go through the next iteration in 2016 to use some of those. There are newer ideas around such as wellness programs, different styles and trends in deductibles, and a number of other things. Mr. Clark stated that one of the things we did this last time around was change the deductible structure. We did not include a spousal exclusion or wellness program, but those are things we need to think about that are going to go into the decision process of the total compensation package for the City employees going forward. Mr. Henderson noted that the Cleveland Clinic has a spousal exclusion program, with the insurance cost much more expensive if your spouse has the option to buy health insurance from his or her employer. That is relatively common for health care trends. Mr. Clark stated that there is evidence that spousal exclusions will save an entity money. Mrs. Mahoney noted that the high claims we are experiencing now are not for spouses. Mr. Clark recommended that the Finance Committee review these alternatives over the summer time, whether it be looking at another plan, another self-insured plan, or the Cuyahoga County plan. It would make sense to work in tandem with Finance Director Mahoney to come up with a reasonable answer. It will come into play with negotiations this fall. Mr. Henderson asked who handles the negotiations on reimbursement rates that we pay to the health care providers when a claim comes up. Mrs. Mahoney stated that Medical Mutual of Ohio administers the program, but it is unsure how they handle negotiations with providers. Mr. Clark noted that it would be helpful to have a representative from Medical Mutual in to speak to the Finance Committee. Mrs. Lieske stated she would also be interested in hearing from the County. Dave Greenspan, County Council Representative of District 1, attended Mrs. Lieske's Town Hall meeting and talked about the health care they offer. Mr. Clark noted that the Schools are part of a consortium composed of 27 school systems, where they pool the risk. They have been doing that for years. Mrs. Lieske noted that this was started when she was on the School Board. John Cavalier was

the Treasurer of the Schools at that time and he was instrumental in getting the consortium started and it really made a difference. Mr. Clark noted that we have discussed before that Medical Mutual could say we are too small to be self-insured. We don't want to be caught in that position without options.

2015 Debt Schedule

Mr. Clark suggested that given the revised borrowing amount under the 2016 column for our notes we should revise that to \$3,311,000 instead of \$3,276,000. The \$3,311,000 amount comprises our 2014 note issue of \$2,320,000, takes off \$514,000, which is the amount of debt we are paying down on existing notes of the previous two issues, and adds back the \$1,505,000 in new money we are approving for 2015 through the three-reading ordinances which gets us to a debt borrowing amount of \$3,311,000 for the year.

At the bottom of the page we have increased the property tax proceeds anticipated by a 2% number for the year beginning 2016, due to the reappraisal of and likely increase in property values. This has always been our bellwether as to how much revenue we are going to take in for debt service going out.

Mrs. Mahoney stated that she received today the last numbers from the Cahoon Road Sewer Replacement contract. We will not be spending \$26,000 this year. We did not quite borrow the entire \$781,063. The principal balance is \$729,000 and the payment is 1/60 of that amount. We will only have one payment this year, instead of two. The Finance Director will make revisions and circulate accordingly.

Continued Review of April, 2015 Financial Reports

Mr. Clark stated that concerns in the past have been about negative balances but each of these balances are triggered by encumbrances that have been noted before. The State Highway Fund has a small issue of receiving funds. This is the account where the road salt is charged.

Fund 270, Street Construction, Maintenance and Repair, the encumbrance is \$707,000. This includes what has been approved in terms of street resurfacing and the Walmar Road project. Mrs. Mahoney stated that this is correct and the debt money is still included.

The Sewer Fund encumbrances represent the monthly payments that we owe under our contract with the Rocky River Wastewater Treatment Plant.

General Fund Performance through April (4 months)

Property Tax and Roll Back Taxes are received by the City twice per year. Cable TV Franchise Fees are received quarterly. Refuse Collection Fees are received four times per year. Most line items are tracking as expected.

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Mr. Henderson noted that Compost expenses under Equipment Repair are exceeding appropriations. Mrs. Mahoney stated that the budget includes the facility rental and she will review that further.

Mr. Clark noted that the Finance Committee has discussed the cost of the refuse collection contract and ways to reduce the payments since we no longer pay with a credit card. Mrs. Mahoney stated that she has heard that a neighboring city received a discount because the company stopped taking credit card payments. Service Director Thomas has asked Republic if the City of Bay Village will be entitled to a discount as well. Mr. Tadych noted that the company paid a high fee for accepting American Express Card payment. The contract expires this year for the trash collection.

Account No., 282, Accrued Benefits for the Fire Department, shows an expense due to a Fire Department retirement at the end of last year. Accrued benefit payments were made this year for that retirement.

Under Contract Services we have funds set aside for fireworks and for the Cleveland Restoration Society for the Heritage Home Loan Program. We have not yet passed an ordinance for the fireworks contract this year. Mrs. Mahoney will check with the Fire Chief.

Mr. Henderson noted that President of Council Koomar has advised that the League of Women Voters will be making their donation for a microphone system relatively soon. Mr. Henderson asked if a change in the appropriation will be necessary if the amount is not the same as expected. Mrs. Mahoney stated that you never have to decrease an appropriation.

Borrowing Program

Mr. Clark stated that a concern in the past has been borrowing money to which we had still not spent the money on equipment. It is incumbent upon the Finance Committee to make sure that we speak to each of the ordinances. Has the money been expended? If not, when will it be expended? We are sitting on a borrowing for a composter in partnership with the City of Westlake, a significant amount of money that we borrowed, and still have not yet bought the equipment. The same is true of the phone system, which we have to spend this year.

Mrs. Mahoney stated that she has the list of the phones which she needs to review once more. Mrs. Mahoney will manage the phone system. It is hoped to work with the City of Westlake to purchase a phone system since they are looking to acquire one as well. The phone system must be purchased by the end of 2015. It does not have to be installed by the end of the year as long as the purchase agreement is in place and the funds are appropriated.

Mr. Henderson noted that if we have borrowed money and not spent it we are spending money on the interest expense that we could have waited potentially to incur. Mr. Clark agreed, and stated that is why we go through the capital budgeting process earlier than in the past.

The debt ordinances that will be placed on second reading this evening were reviewed. Mr. Clark stated that we do not necessarily, in the recent past, present resolutions to Council for the

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purchase of equipment. Mrs. Mahoney stated that if the amount is under \$50,000, or we use state purchasing agreements, we do not have to go to Council. We follow the Ohio Revised Code in that matter.

Mr. Clark stated that procedurally it would seem that there might be a certain point you would present a resolution; for example, the sewer camera truck would present an appropriate reason for a resolution, because there was a variance on the amount. Mrs. Mahoney stated that the only reason there was a variance is because instead of trading in the old truck we sold the old truck on Gov. Deals. Mr. Clark stated he does not think we should do a resolution on every piece of equipment we purchase, but there is a reasonable amount that we should set for the presentation of a resolution. Mr. Henderson stated that he remembers having all the numbers last year when working with the capital budget last year, but you forget as the year goes on what they were and what the plans are for the rest of the year. If we did do resolutions on some of the major capital items it would help all of us remember what we put in the budget, and when those get spent. The residents can see the individual resolutions in the event that they do not read every line item of the capital budget. There is value in having resolutions for material items.

Mr. Tadych added that it helps with openness for the residents. He asked if we are talking about individual items, or two items if we purchase two police cars. Mr. Clark stated that he would try to group them as much as possible. Mr. Tadych asked if outfitting the police cars would be contained in the same resolution, or in a separate resolution. Mrs. Mahoney stated that they are different vendors. Mr. Clark stated that this is a unique situation when it comes to equipment purchases. Mr. Tadych asked if you are going to move two items together you have to set a limit.

Mrs. Mahoney asked the point of approving a resolution. Is it to approve the vendor that we are purchasing from? The money has already been appropriated; what is your goal? Mr. Clark stated that the objective is to reconcile what was approved and what was actually purchased. The goal is not to create more paperwork, but there is a reasonable standard which we have to set to be accountable for what we do.

Mrs. Mahoney stated that the reason for a resolution is to approve the vendor we are purchasing from. Mr. Clark stated that the other reason is to have closure on the equipment purchase. The fact that it is a state bid should not exempt it from being part of the resolution process for capital items. The fact that we received \$50,000 from Gov. Deals for the old sewer truck should not exempt us from doing a resolution on a piece of equipment new that cost us \$20,000 more than what we approved. Mrs. Mahoney stated that this is part of the appropriation ordinance clean-up that she is going to send to Council. Mr. Clark noted that it is important for the rest of the Council to weigh-in on this matter of resolutions for capital purchases. Other cities do it and we should be doing it as well.

Review of the ordinances to be passed this evening for debt issuance include:

\$120,000 for the City Hall Parking Lot Resurfacing Project. The project is engineered and Director Thomas has advised that the project is due to begin in July. The City will expend

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the whole amount of \$240,000 for the project and be reimbursed for half of the project by a SWIF Grant.

\$26,000 for computers and office equipment. Mrs. Mahoney stated that the funds have been spent. The Assistant Director of Finance received a new computer of the three or four new computers that were purchased.

\$1,806,000 is the refunding debt. By law, we are required to do an ordinance for this.

\$90,000 for Fire Department Equipment. This includes fire suppression and chest compression equipment and a Fire Department SUV. Items have been received.

\$405,000 for the Service Department included the sewer camera truck purchase, and \$60,000 for a Super Heavy Duty Truck. A grooming mower is also included, as well as a Utility Body for \$50,000, and a fuel dispensing system for \$30,000 which has been installed.

\$622,000 Street Resurfacing Projects includes work being done on roads this year. A portion of Wolf Road has been resurfaced. Mr. Tadych noted that some paving in Ward 1 has been done.

\$166,000 is for engineering for the Huntington/Longbeach Lift Station project and the Sunset Area project engineering.

\$76,000 for the police Department includes a police vehicle and a portion of the Sundance System.

Mr. Lee asked for an update on the fiber optic cable for the Service Department. Mrs. Mahoney stated that there were problems between the provider and the utility company that are being resolved. Once CEI does what they need to do with the poles the remainder of the project will only take a few weeks.

The meeting adjourned at 7:25 p.m. A meeting will be held in June to review the May financial reports.

Dwight Clark, Chairman

Joan T. Kemper, Secretary