

TO: COUNCIL, MAYOR, JUDGE, CLERK OF COURT  
FROM: KEITH H. DIRHAM, DIRECTOR OF FINANCE  
DATE: FRIDAY, OCTOBER 31, 2015  
RE: DISCUSSION OF 2016 BUDGET AND 2016-2020 FIVE YEAR PLAN

The Five Year Plan for 2016-2020 has been updated to reflect all of the revisions made during Council's review and to reflect an updated estimate of Healthcare costs. A paper copy has been placed in Council Chambers. Additionally, the entire plan is available on the City's website, Finance Department, Files and Information at [this link](#).

The 2016 figures for healthcare are based on the quote provided with an additional 2% added. The extra 2% is necessary for budget purposes because the 2016 budget will need to cover 11 months (February, 2016 through December, 2016) at the 2016 rate and one month (January, 2017) at the 2017 rate. For 2017 through 2020 annual increases of 18%, 15%, 12%, and 12% respectively have been added to the previous year's figures.

Some adjustments are required to be made before the 2016 budget is passed because appropriations may not exceed estimated resources (see ORC 5705.36 (A)(5)):

- 102 Streets Fund – The 2015 deficit appearing on the worksheet has already been corrected. However, the anticipated negative balance in 2016 must be corrected and the deficits after that should be addressed.
- 161 Municipal Court Probation Fund – The deficit in 2016 must be corrected. This is a temporary budgetary issue. 2016 appropriations can be reduced now and the amount can be replaced after 2016 begins provided that not all of 2015 appropriations are spent.
- 307 Fire Capital Fund – The 2016 through 2018 anticipated balances are in deficit. This can be alleviated either by amending appropriations for those years or by planning to advance (loan) money from the General Fund, Fire Special Fund, or the General Purpose Capital Fund to the Fire Capital Fund.

In addition, the following should be considered before the five year plan is passed either because the City's Fund Balance Policy will be violated or because deficits are anticipated in future years:

- 001 General Fund – The anticipated balance as of December 31, 2016 is less than 25% of annual revenues and the anticipated balance at the end of 2017 and for each year after that there is a deficit.
- 106 Police Special Fund – The anticipated balance is less than 25% of annual revenues starting in 2018 and a deficit is projected in 2020.

- 107 Fire Special Fund – The anticipated balance is less than 25% this year and for all future years and deficits are projected for 2018 and all years after that.
- 135 Emergency Medical Service Fund – The anticipated balance is in deficit beginning in 2017. This will need to be addressed either with an increased levy, an additional levy, or some other source.
- 165 Indigent Driver Alcohol Treatment Fund – The anticipated balances beginning in 2017 are negative. Most of this problem should work itself out over time because expenditures are typically well below appropriations in this fund.
- 513 Water Fund – The balance is already below 25% of annual revenues and is projected to be in deficit beginning in 2017 and for all years after that.
- 514 Sanitation – The balance is already below 25% of annual revenues and is projected to be in deficit beginning in 2017 and for all years after that.
- 546 Water Capital Fund – The anticipated balance is in deficit for 2017 and all years after that.
- 676 Automotive Mechanics Fund – The anticipated balance is in deficit for 2017 and for all years after that.

Most of the issues listed above are issues of compliance with Budgetary laws and can be addressed easily and harmlessly. There are two issues, however, that are more troubling and that deserve more thorough consideration.

**The Balance in the General Fund (#001):**

At the end of 2011 the City's General Fund had a balance of nearly \$7.9 Million. In 2012, 2013, and 2014 the City had General Fund expenditures in excess of revenues. These deficits averaged \$1.13 Million per year. At the beginning of 2015 the balance was down to \$4.5 Million. This is still a healthy fund balance and is well in excess of the amount required by our Fund Balance Policy. However, the annual deficits are not sustainable for more than a few years.

These deficits are, for the most part, the result of changes made by the State Legislature. For example:

- From 2007 through 2010 the City received an average of \$511,000 in Inheritance Tax. This has been eliminated by the State. The revenue still coming in is for settlement of estates of people who died prior to the elimination. This is a decrease of \$511,000 per year.
- From 2007 through 2010 the City received an average of \$749,000 in various local government assistance. For 2014 this was \$406,000. This is a decrease of \$343,000 per year.
- From 2007 through 2010 the City received an average of \$165,000 in Tangible Personal Property Tax. This has been eliminated. This is a decrease of \$165,000 per year.

These three changes have reduced the City's General Fund revenues by a little over \$1 Million per year. Thus, these three changes account for nearly all of the annual deficits that have occurred in the General Fund in the last three years.

This issue was not created locally, but it must be fixed locally. Annual deficits cannot be sustained indefinitely and must be rectified.

### **The Balance in the Streets Fund (#102):**

At the end of 2008 the Streets Fund (#102) had a balance of more than \$1.1 Million. In five of the six years from 2009 through 2014 this fund had expenditures in excess of revenues. These five deficits totaled nearly \$600,000 and despite a surplus in 2012 the balance was down to less than \$700,000 at the beginning of 2015. This is still a healthy fund balance and is well in excess of the amount that would be required by our Fund Balance Policy if the policy applied to this fund. However, the annual deficits are not sustainable for more than a few years.

These deficits are primarily due to the fact that Motor Vehicle License Tax and Gas Tax revenues simply have not grown. Gas Tax revenue has been stagnant since about 2006. The last two years (2013-2014) the City collected about \$195,000 per year in Motor Vehicle License Tax and that is less than the City received annually in the late 1990's. Along with 3% of the discretionary portion of the Income Tax, those are the primary sources of revenue in this fund.

These two issues must be addressed. To assist you in addressing these issues I have provided an Income Tax Allocation Worksheet. This worksheet is available on the City's website, Finance Department, Files and Information at [this link](#). Please use rows 38 through 47 to insert any changes in the Income Tax allocation that you wish to consider. I have already included the change adopted in order to move the pool from the Parks Fund (#104) to the MCRC Fund (#574).

Note that all changes are assumed to be permanent. If you wish to consider a temporary change simply enter the change in one year then reverse it in a future year. This should go without saying, but please be aware that all changes must net to zero. If you wish to increase the allocation to a fund, you must reduce the allocation to another fund or funds in an equal amount. You cannot allocate more than 100% of the Income Tax.

I have placed a discussion of the City's outstanding debt issues on the City's website. This is available on the City's website, Finance Department, Files and Information at [this link](#). Please be aware of the requirements of our debt service payments when considering amendments to the allocation of the Income Tax. For example, the General Purpose Capital Fund currently receives 5% of the Income Tax. This is subject to Council's discretion but note that more than 2.5% is needed to pay annual debt service payments of approximately \$274,500 per year.

I also checked with the County Auditor's Office and a 1 Mill Levy would bring in approximately \$536,900 per year. A 1 Mill levy would cost the owner of a \$100,000 home \$35 per year. You can extrapolate from these figures to determine the revenue and cost of larger or smaller levies. For example, a 2 Mill levy would bring in approximately \$1,073,800 per year and cost the owner of a \$100,000 home \$70 per year.

The ORC has a list of purposes for which a Property Tax Levy may be requested at [ORC 5705.19](#). This list includes:

- A. General Purpose;
- B. Described Bond Debt Service;
- C. General Debt Service;
- D. Library;
- E. Municipal University;

- F. Capital Improvements;
- G. Road Construction;
- H. Parks and Recreation
- I. Fire
- J. Police

Please consult the full list if you wish to look for another purpose as I have only reproduced a portion of the list here.

You may wish to consider a reallocation of the income tax to be replaced from another source. For example, the city could ask for Parks levy under 5705.19 (H), a Fire levy under 5705.19 (I), or a Police levy under 5705.19 (J). These ORC references would have to be confirmed by Mr. Huber. Fire currently receives 8.5% of the discretionary portion of the Income Tax (7% for the Fire Fund and 1.5% for the Fire Capital Replacement Fund). Parks currently receives a total of 17.5% of the Income Tax (10% for Parks and 7.5% for MCRC). Police currently receives 45% of the Income Tax. These revenue sources could be partially or totally replaced by property tax levies which would free up the funds to be reallocated elsewhere. Another consideration is that a portion of the expenditures made from the Street Fund (#102) might be permitted to be paid out of the restricted fund (#108) instead. I have asked Mr. Huber to opine as to whether or not this would be permissible.

The City charges a number of fees for various services and could charge fees for other services. For example, there is a leaf collection account set up in the Sanitation Fund (#514). It has not been in use since the 1990's or prior, but leaf collection could be paid out of Sanitation and billed to residents if Council chose to do that. Other fees charged by the City could be altered by Council. A listing of revenue sources by fund is available on the City's website, Finance Department, Files and Information at [this link](#).

Council may also wish to consider reallocation of various costs. For example, the Service Director's Department is paid out of the General Fund but the Service Director's responsibilities include Sanitation and Water. A portion of this department could be allocated to those funds. Similarly, when the City negotiates with the Teamsters those costs are borne by the General Fund even though a portion of the Teamster employees are paid out of other funds including Water, Sanitation, Streets, and Parks. Those costs could be allocated accordingly. Similarly, the City does not allocate any of the costs of the Mayor, the Council, or the Finance Department to the Water or Sanitation Departments. Allocation of these costs could be justified on the basis that the Mayor, Council, and Finance Department serve as the equivalent of the private sector CEO, Board of Directors, and CFO of those operations. It should be noted, of course, that allocation of these costs would adversely impact the funds to which the costs were allocated and that would have to be dealt with.