

Brian Mueller – January 13 Update on Budget and Finance Committee:

Thank you Madam Mayor – This is my first budget and finance committee report to council and it is also the new year so I prepared some of my numbers/some of my comments to make sure I get everything correctly and to try to be as efficient as possible for council (couldn't hear). Uh my committee report will include a recap of 2019, uh an introduction of what we're calling the 2020 budget and capital plan policy, an introduction to the 2020 budget. For 2019-year end budget recap, regarding revenues, we ended up very close to as forecasted at the beginning of 2019. Property tax revenue was up \$154,000 over 2018 or 6-1/2%. Similarly, the earnings tax revenue was up \$193,000 over 2018 or also about 6-1/2%, JEDZ revenue, not including the fees, is up \$26,000 or 5.8%, the admissions tax began partway thru 2019 bringing in a new \$147,000, uh as a side note, that will be \$190,000 in the full year of 2020 and interest income was up notably \$37,000 or 68%.

For expenses: Our total general fund expenses, not including transfers to the SR 21 street repair, were up \$710,000 from 2018 or 10%. Notable items include the fire division expenses, which was up \$263,000 over 2017, or 15.8%. I'm using the 2017 as the reference here because if you remember 2018 was an odd year with \$175,000 one-time refund in the joint fire district.

Back to the expenses, the solicitor expense was up \$53,000 over 2018, or 45%, the police department was up \$151,000 or 7%. Capital improvements expense was down to zero dollars in 2019 as we postponed or cancelled all projects as we evaluated how to proceed after the defeat of Issue 16, along with passing the interim appropriations before we passed the final appropriations in March of 2019. Keep in mind this was following a Spartan 2018 for capital improvements, having only completed a \$15,000 traffic signal at the intersection of Miami & Galbraith, \$10,000 for the police department's digital speed signs and \$65,000 for police radios. Technically, the last two items aren't really capital improvements, they're more police department expenses, but I mentioned them because they were categorized in the budget that way. In fact if you go all the way through 2015 and if you eliminate the police department expenses, you'll see an average annual capital improvement expense total of just \$40,000 per year. In a total of nine postponed or cancelled capital improvements projects such as the municipal plaza project or the McDonald Commons tennis and basketball courts.

Thus, I want to be clear for everyone that when you look at the end of 2019, and you see a general fund balance of \$2.5 million, which is about \$540,000 above the amount we need to satisfy the 27%, rainy day fund policy that this is not good news. It is not good news because it simply represents council choosing, year after year to prioritize maintaining the rainy day fund balance over maintenance of capital assets. Additionally, council over the years has not allocated any money to decreasing the age of our streets.

As part of the committee's 2019 review we also reviewed the city's performance on the recently released 2018 financial health indicators scorecard published by the Ohio Auditor's office. As expected, the city score worsened in 2018 from 2017, scoring poorly in four categories including again the condition of capital assets. The committee believes that this scorecard is one more tool that verifies our own internal conclusions for concern. Prior to 2016 when Ohio Auditor, Dave Yost, created this tool, there was no quick and easy way to determine the financial health of a town. And too many towns seem shocked to have ended up in fiscal emergency seemingly out of the blue. The scorecard uses our financial data that is sent to the Ohio auditor's office, and essentially subjects it to

a financial stress test to reveal good or bad trends. This can alert towns to financial problems at an early stage when they are much easier to solve. So as I mentioned already, it can be tempting to look at the Madeira – at Madeira’s historical approach to budgeting and conclude that everything is okay, but our scores on the financial health indicators scorecard tell us otherwise and rightfully so – because we’re balancing our budget historically by delaying maintenance of our streets and capital assets and the warning and scorecard is quite serious. I quote, “when a city delays improving or replacing capital assets in order to maintain cash flows for other purposes improvements and replacements, eventually become absolutely necessary and may contribute to financial hardship on an already strained budget,” end quote.

At the beginning of 2018, the Budget and Finance Committee and City Council determined that we did indeed have an already strained budget and overly-aging infrastructure on the Ohio auditor’s scorecard. The process continued by current Ohio Auditor, Keith Faber, agrees. So, this is why for the 2020 budget, it will be markedly different from previous budgets. The 2020 budget will show the level of investment needed to maintain our streets on a 20-year lifespan and prevent our capital assets from becoming dilapidated. This new but more realistic budget approach began in 2018 and became a council supported approach. On June 10, 2019, when City Council unanimously passed resolution 24-19 adopting the 2019 Capital Plan Policy. With this resolution City Council directed the Budget & Finance Committee to establish an annual general fund transfer to CI&R that would maintain our capital assets established with street repair cycle averaging 20 years and preserve the 27% rainy-day fund.

This evening I’m happy to report on behalf of the Budget & Finance Committee that we recommend City Council again adopt a 2020 budget capital plan policy. This is a memo the committee will publish annually in order to confirm council agreement and explain the reasoning behind the year’s budget. The 2020 memo is an update to the 2019 memo for the latest circumstances. The budget and finance committee hopes you will support this resolution when brought forth at the January 27 City Council meeting. Also at the January 27 city council meeting, you will be shown the final 2020 budget. This budget does a number of things, including allocation \$610,000 per year for non SCIP street repair, allocating \$120,000 per year for SCIP street repair funding and allocating an average of \$268,000 per year for capital maintenance and improvements. And as I mentioned previously, our current average is only \$40,000 per year. Implementing these changes, paying for the basic infrastructure cost of our day will cost the city run an average annual operating deficit of about \$350,000 per year. If we include the expected increases from the joint fire district next year, that operating deficit will increase to negative \$520,000 per year without additional revenue our approximate \$2 million. Rainy Day Fund Reserve will be depleted in less than five years. This is why at the January 27 City Council meeting and after City Council adopts the 2020 budget capital plan policy, the Budget & Finance Committee will make a recommendation for additional tax revenue in order to meet the objectives of resolution 24-19 while maintaining the 27% Rainy Day Fund Policy.

This comprises my report summarizing the 2019-year end, the Ohio Auditor State Scorecard, the 2020 Budget Capital Plan Policy introduction and the 2020 Budget introduction. Council will be provided a copy of the latter two documents in advance so the next city council meeting. And I’m happy to answer any questions or concerns from my colleagues. It is critical that we hear your

concerns prior to next meeting so that our committee can make a recommendation as applicable as possible to council's will. Thank you Madam Chair.

Mayor: Mr. Mueller I'd like to thank the committee for taking us again this detailed work analyzing our capital planning needs and budget shortfalls associated with trying to meet those goals... And in general, I would conclude my remarks by saying I support the efforts of the Budget & Finance Committee to continue down this path of not looking at what we can afford at the end of the year but what we can do to sustain the community improvements and maintenance that's required when we look forward to the future and what it will cost to do that.

Mr. Moorman – The question I have has to do with the projection of future revenue from some of our existing revenue sources Can you expound a little bit on some of the work the Budget & Finance Committee has done taking a look and kind of projecting revenue forward with the JEDZ, with the Earnings tax and with some of the existing revenue streams?

- A. Sure, umm you know the primary revenue streams are the property tax and the earnings tax and if you look at the 2020 budget document or any year's budget document, it forecasts 5 years out an increase based on a variety of factors, primarily economic and inflationary forecasts for how those funds will increase over time. There are some other factors that the administration will roll in for us such as with the Tradition development coming online, we expect them to have a payroll of \$2.5-3million a year. That will generate an additional \$25-30,000 a year in earnings tax revenue. The administration has accounted for that in the future 5-year projection. Beyond that there's the admissions tax that I mentioned, you know we only had it for approximately $\frac{3}{4}$ of the year last year that we will have for a full year this year. It will be a full \$190,000 in revenue. There's also a whole section in the street repair category that I did not touch on that I was going to save it for next week. But uh you know one of the primary ways or one component of the way that we are accomplishing the 20-year life cycle for the streets is not just in general fund money but is in new revenue money that is coming to us from the state which began last year. There's two components to that, uh one is the gasoline tax increase that was in the news that will bring us an additional \$190,000 per year on top of the current gasoline tax already coming in. And the second component to that is another \$20,000 per year, which will begin once City Council, passes the \$5 increase to the motor vehicle license fee money. That will be part of the Budget & Finance Committee's recommendation for new revenue. So those are the big ones unless Mr. Moeller thinks there is something I left out.

Moorman referred to "the problem that we have with deferred maintenance on our infrastructure".

Things not mentioned:

The roundabout expenses.

The litigation fees and projections of expenses incurred whether the case is won or lost.

The water line loans and the huge expenses there

The cost of McDonald Commons construction This council is plowing ahead with pet projects as if they have all the money in the world all the while the BM paints a picture of gloom and doom.