

BLUE ASH CITY COUNCIL

November 26, 2018

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**1. MEETING CALLED TO ORDER**

A Budget Study Session of the Council of the City of Blue Ash, Ohio, was held on November 26, 2018. Mayor Tom Adamec called the meeting to order in the Blue Ash Conference Room at approximately 6:00 PM.

**2. OPENING CEREMONIES**

Mayor Adamec led those assembled in the Pledge of Allegiance.

**3. ROLL CALL**

MEMBERS PRESENT: Vice Mayor Marc Sirkin, Councilman Pramod Jhaveri, Councilman Lee Czerwonka, Councilman Joe Leet, Councilman Jeff Capell, and Mayor Tom Adamec

MEMBERS ABSENT: Councilwoman Linda Bauer

Councilman Czerwonka motioned, Vice Mayor Sirkin seconded to excuse Councilwoman Bauer from the meeting. A voice vote was taken. All members present voted yes. Motion carried.

ALSO PRESENT: City Manager David Waltz, Assistant City Manager Kelly Harrington, Treasurer Sherry Poppe, Parks & Recreation Director Chuck Funk, Public Works Director Gordon Perry, Assistant Fire Chief Chris Theders, Police Chief Scott Noel, and Assistant Parks & Recreation Director Brian Kruse

**4. BUDGET STUDY SESSION – Review of the Proposed Interim Budget for 2019**

The following information was distributed to Council prior to the meeting:

*November 26, 2018*

*Honorable Mayor and City Council Members  
City of Blue Ash  
4343 Cooper Road  
Blue Ash, Ohio 45242*

*Dear Mayor and Council:*

*The City of Blue Ash has prospered due to a variety of factors, including visionary planning and design, a consistent and committed City Council, a focus on excellent services, and a continuous investment in infrastructure and quality of life amenities. A future commitment to these key values will continue to serve the City well, while at the same time there will be a need to be flexible and adaptable as conditions change locally, regionally and nationally. While embracing these changes can be a challenge, doing so has and will be a necessity if the City of Blue Ash and the community are going to continue to thrive and remain a viable and attractive location for a home, school, or business.*

*Council and Administration have a duty to remain focused on fiscal sustainability and sound policy. The years ahead must demonstrate a continued commitment to economic development, improving operations, ensuring effective services, monitoring reserves, investing in capital improvements, and enhancing the City's overall financial capacity to respond to changing circumstances. The City has made advancements in all of these efforts towards fiscal sustainability, most notably, its success in improving General Fund reserves by approximately \$29M in the past ten years. However, offsetting a portion of this success has been the additional challenges of the State of Ohio's ongoing reform of various tax revenue streams for local governments as well as its intent to redefine policies and procedures directly impacting the City's ability to administer and collect its*

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*own local income tax. This will be a substantial concern in the future on top of local economic challenges.*

*The 2019 Proposed Budget is built around present expectations of income tax collections, operational costs, routine capital replacements and other capital improvements. In addition to the above-mentioned State funding and policy challenges, local income tax collections will be under duress for 2019. This stems from the loss of P&G and several other smaller companies. While the prospect of replacing said companies has already been favorable with the announcement of several new companies, there will still be a loss of revenue during the transition time in which said projects are redeveloped.*

*As provided in the attached overviews, 2018 financial outcomes will result in an increase of General Fund balance of approximately \$1,072,000. An estimated December 31, 2018 General Fund balance of \$37,236,488 will serve as the starting point for the 2019 Proposed Budget. Combined income tax collections for 2018 of \$35,700,000 will fall short of the City's 2017 collections by -1% or \$367,000. Given the aforementioned company loss, the estimate for total income tax revenue in 2019 was reduced by -5.9% to \$33,600,000.*

*Combined with conservative income tax estimates, operational cost, and capital needs, the Proposed Budget reflects the use of \$2M of General Fund reserves allocated towards the replacement of equipment needed for operations and other capital enhancement efforts in 2019. The Proposed Budget provides for a significant investment of \$9.7M for various capital related equipment, improvements, and projects. Highlights of these 2019 capital items include completion of the 5-year Downtown Improvement Project, several significant economic and redevelopment infrastructure projects, and municipal building improvements. Ongoing analysis of the City's operational position has permitted the City to remain on sound footing and Administration considers some use of our General Fund reserves for capital related items in 2019 as appropriate since they are earmarked for one-time capital expenses and will leverage future development resulting in income tax revenue growth.*

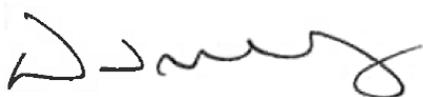
*Highlights of the operations, capital, and project-related items are explained in detail later in this document. We anticipate presenting further information regarding the City's past, present, and expected results at the Budget Study Session on November 26th. However, the comments contained in the Overview Summary describe the City's General Fund balance, sources and uses of funds, and expected ending balances.*

*We are looking forward to working with City Council and the Administrative team on finalizing the 2019 Budget. We face challenges in achieving our longer term goals but remain confident that by "staying on track" the City will continue to prosper in the coming years.*

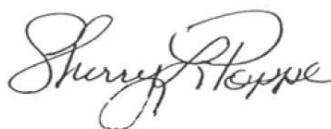
*We are proud to be working with such a dedicated team committed to maintaining and improving the quality of life of residents and businesses in the City of Blue Ash.*

Sincerely,

CITY OF BLUE ASH



David M. Waltz  
City Manager



Sherry L. Poppe  
City Treasurer

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Mr. Waltz provided a presentation of the City's financial and budget overview with discussions summarized below.

2019 Budget Study Agenda

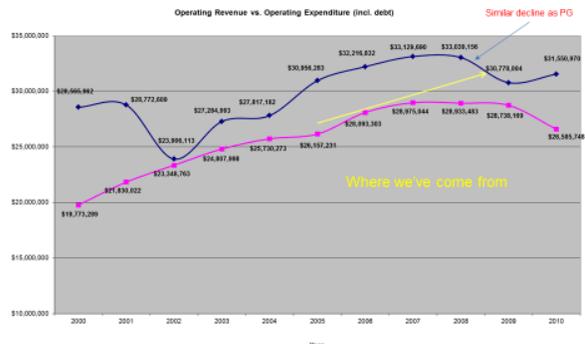
- Overview of fiscal health and direction
- Trend analysis, other considerations
- Overview of big ticket items
- Overview of fund balances
- Budget final approval in December



Mr. Waltz provided a historical overview of the City's earning tax. From the 1970s to the late 1990s the City's vacant land was being developed and the budget was growing at double-digit increases per year. Starting in 2000 the growth slowed due to lack of development. The City is now subject to the whims of the economy. The budget has averaged under 2% increases per year over the last two decades.

(Note: Properties are assessed at 90%)

TAX YEAR	REAL ESTATE TAX VALUATION (including Public Utilities)	PERSONAL PROPERTY TAX VALUATION	TOTAL VALUATION	% CHANGE FROM PREVIOUS YEAR
2017	\$ 770,315,550	\$ -	\$ 770,315,550	7.5% \$2,047,000 collected
2016	\$ 726,301,310	\$ -	\$ 726,301,310	0.9%
2015	\$ 719,004,462	\$ -	\$ 719,004,462	0.9%
2014	\$ 712,804,160	\$ -	\$ 712,804,160	-0.5%
2013	\$ 709,862,380	\$ -	\$ 709,862,380	0.5%
2012	\$ 706,406,110	\$ -	\$ 706,406,110	-0.5%
2011	\$ 705,440,350	\$ -	\$ 705,440,350	-7.0%
2010	\$ 758,327,730	\$ 1,063,558	\$ 759,391,288	-0.0%
2009	\$ 733,097,510	\$ 2,162,660	\$ 735,260,170	-2.5% \$2,247,000 collected
2008	\$ 677,632,110	\$ 35,305,440	\$ 712,937,550	2.9%
2007	\$ 739,704,990	\$ 76,612,10	\$ 816,317,090	-2.6%
2006	\$ 696,428,490	\$ 105,659,940	\$ 802,088,430	-4.2%
2005	\$ 605,710,860	\$ 143,869,280	\$ 749,580,140	5.1%
2004	\$ 630,200,090	\$ 168,853,640	\$ 799,053,730	2.1%
2003	\$ 627,297,150	\$ 165,522,640	\$ 792,819,790	-5.3%
2002	\$ 612,805,280	\$ 197,201,600	\$ 810,006,880	4.2%
2001	\$ 678,028,260	\$ 230,012,000	\$ 908,040,260	1.1%
2000	\$ 668,877,190	\$ 231,143,280	\$ 899,990,470	-0.9%
1999	\$ 677,632,110	\$ 212,265,540	\$ 889,897,650	10.5%
1998	\$ 495,038,590	\$ 231,120,000	\$ 726,158,590	2.9%
1997	\$ 486,754,710	\$ 192,007,660	\$ 678,762,370	2.1%
1996	\$ 474,383,980	\$ 181,950,770	\$ 656,334,750	6.9%
1995	\$ 462,855,270	\$ 159,459,290	\$ 622,314,560	-3.5%
1994	\$ 461,963,010	\$ 177,044,550	\$ 638,997,560	1.2%
1993	\$ 461,143,320	\$ 115,156,050	\$ 576,299,370	-0.9%
1992	\$ 419,036,300	\$ 150,683,940	\$ 569,720,240	0.6%
1991	\$ 411,987,540	\$ 152,863,050	\$ 564,850,590	7.1%
1990	\$ 409,125,030	\$ 153,341,900	\$ 562,466,930	-5.9%
1989	\$ 332,805,990	\$ 190,373,220	\$ 523,179,210	6.6%
1988	\$ 337,223,580	\$ 142,410,390	\$ 479,633,970	2.7%
1987	\$ 330,670,390	\$ 140,897,000	\$ 471,567,390	19.3%
1986	\$ 236,205,500	\$ 133,038,070	\$ 369,243,570	9.8%
1985	\$ 217,042,980	\$ 122,859,840	\$ 339,902,820	8.6%



Property valuation increase has also slowed. Every five years, up to 2000, the City's real estate valuation doubled. It peaked in 2009 and then shrank and took until 2017 to exceed 2009 values. During the same time period, the State phased out personal property tax. However, with the County's property tax reappraisal and revaluation in 2017, Blue Ash property tax increased by 7.5% in 2018.

In response to Councilman Czerwonka's question about the reason for property tax increase, Mr. Waltz indicated that the base does grow through the addition of new developments, but that most of the increase was derived from increasing property value determined in the revaluation. Mr. Waltz also noted that the City receives only a small portion of the property tax bill. Mayor Adamec commented that property valuation is a good indicator of community health.

In terms of operating revenues, the blue line depicts the City's revenues of which approximately 70% comes from earnings tax. In the late 1990's and early 2000, the City's operational expenses were tracking with the growth of the City. Over time, the City's revenues began to decrease and operating expenses needed to be leveled off. Due to the loss of P&G, revenue in 2019 will look much like the drop in 2009. But on the bright side, the City has grown its reserves from \$3M to \$37M and can weather the decline.

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2018 Budget Recap

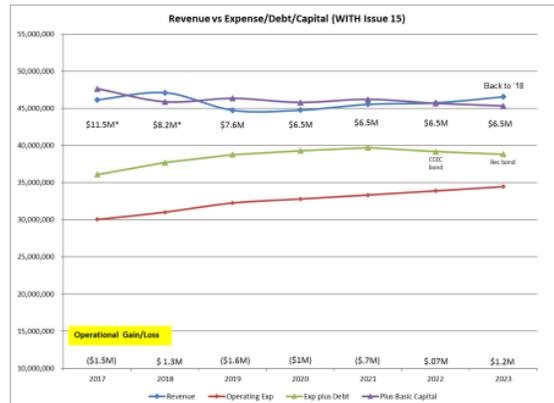
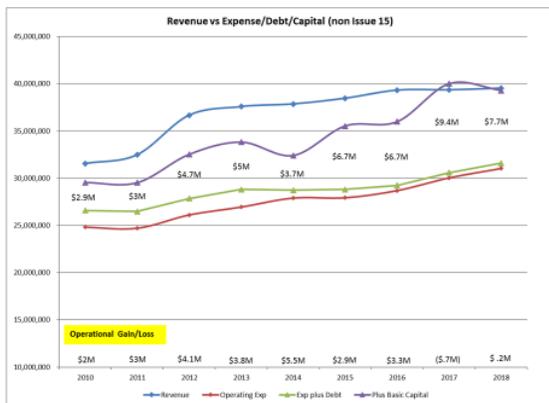
- Income Tax Revenue has slowed even prior to P&G loss. 0.6% in '17 and -1% in '18
- Expect -6% for '19 (-\$2.1 m)
- Though State funding and phase outs have harmed secondary revenues, property taxes and other one-time revenues increased in '18
- Fund balance increased by \$1 mill vs expected loss of due to one-time offsets, project timing, and cost cuts.
- '18 year end GF reserves of \$37 mill (9-10 months)
- 2018 operational expenses increased 3.3% (while not high, lower than revenue avg of <1%)
- Concern with P&G **and** the general economy in 2019

2019 Budget Highlights

- **Notable:** Final DT streetscape, new roof and windows Municipal Bldg and Ensemble street/light improvements
- **Economic Development:** Incentives for Ensemble and potential future projects
- **Basic Capital:** cruisers, Fire and PW equip, misc equipment (mowers, exercise, etc), misc facility improvements
- **Street Improvements:** Kenwood Rd (YMCA south), Peppermill Ln (portion), Tramwood Ct, Benchmark Ln and Berryhill Ln
- **Sidewalks/Stormsewers:** misc repairs
- **COLA:** 1.25%

Income tax revenue was down in 2018, even before the loss of P&G. However, some of this loss was offset through other taxes and other revenue increases. The 2018 budget called for the use of general fund reserves, but instead, the fund balance will grow by approximately \$1M. Operational expenses increased by 3.3% in 2018. Expenditure growth needs to be slowed as revenue isn't matching its pace. Due to the loss of P&G and concerns regarding the general economy, staff is projecting a 6% decrease in income tax in 2019.

Staff proposes using reserve funds in 2019 to complete a few large capital projects such as the downtown streetscaping and a new roof for City Hall. Decisions on these projects can be delayed until mid-year while staff monitors how the budget progresses. Other notable expenditures in 2019 include the incentives and roadwork associated with Ensemble Health Partners, routine basic capital items, and a 1.25% cost of living increase (COLA) for non-union employees. Of note, the COLA is lower than the general economy and lower than what union employees are receiving. However, the employment market is very competitive and it is important that the City be able to retain and attract talent.



On the "Non Issue 15" chart, the red line indicates the City's operating expenses, the green line indicates non-Issue 15 debt, the purple line indicates capital (also as depicted by the values), and the blue line indicates operating revenue. Capital expenditures were reduced in 2009-2014 to under \$5M per year. The area between the purple and blue line is what the City has gained in reserves. Beginning in 2015 capital expenditures were increased and a bit of fund balance was used in 2017 (\$.7M) to support capital.

In response to Mayor Adamec's question regarding typical capital requirements, Mr. Waltz responded that \$6-\$7M per year is a reasonable amount.

The "With Issue 15" chart shows the same analysis but includes Issue 15 revenue, expenditures, and debt. Moving forward, there will be no distinction between Issue 15 and non-Issue 15. When issue 15 debt gets paid off, those funds can be used on other capital projects. For instance, in 2022 the Cooper Creek Event Center bond will be paid off and those funds could be used to renovate the pool.

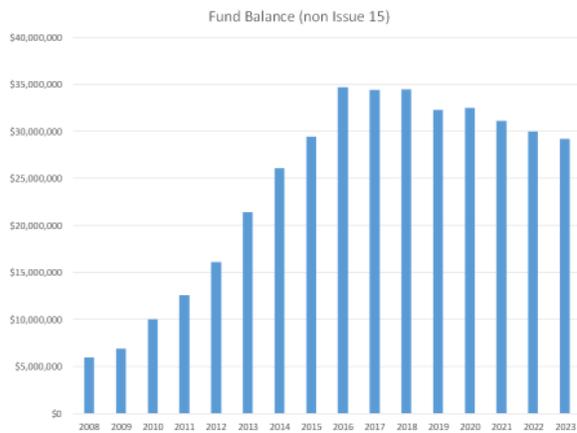
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The budget projects to use \$1.6M in reserves in 2019. Capital expenses could be cut so as not to use reserves in 2019, however, the plan is to use reserves for no more than 3 years. The budget will be back to healthy in 2022.

In response to Council comments about the amount of debt that a community can carry, Mr. Waltz stated that it depends on many factors including the term of the debt. Blue Ash bonds typically carry a 10-year term, not 30 like many other communities.



Issue 15 Review

Item	Amount
Balance 1/1/2018	2,747,824
2019 Revenue (20% of Income Tax)	6,420,000
Rec Center Bond (payoff 2022)	(827,150)
CCEC Bond (payoff 2021)	(964,650)
Cincinnati	(1,250,000)
Summit Park Bond Phase 1	(1,101,650)
Summit Park Bond Phase 2	(805,325)
Summit Park Bond Phase 3	(1,094,700)
Grant Revenue – TOT Funds	600,000
Misc. Phase 3 costs and ongoing operations	(500,000)
Estimated Ending 2018 Balance	3,224,349

In 2005, the City had a \$3M reserve fund which was grown to \$30M in 2015. Today the City has \$35M in non-Issue 15 reserves. If \$1M per year through 2023 were spent, the City would still have a \$30M fund balance. As long as the City’s structural alignment is maintained, the budget will remain healthy.

Issue 15 was passed in 2006 and it increased the earnings tax from 1% to 1.25%. It generates approximately \$6.4M per year and is primarily used for debt retirement of the Issue 15 quality of life projects. As Issue-15 debt is retired, those funds will be available for additional projects.

Budget Conclusion

- Revenue is challenge, but manageable for now
- Add'l ordinary capital could be dialed back if need be
- Long term budget outlook still healthy, but will want to pay attention to operation trends vs one-times
- Issue 15 wrapped up in 2018 and ends the major campaign. 1<sup>st</sup> payoff is '21 freeing up \$1 mill for '22 capital item (pool?)
- Healthy reserves to deal with rainy day and still advance capital budget, but operation creep is a concern.
- Economic Development to offset budget challenges, but transition costs present short-term revenue challenge
- While Challenges Exist, looks like manageable 3 year transition

In conclusion, revenue and earnings tax remain challenges. No changes are needed right now, but Council should be thinking about the future. Issue 15 bonds will be paid off shortly, freeing up capital dollars for projects. Economic Development efforts will offset budget challenges. The P&G site is rebounding more quickly than expected, but the projects are expensive to win and we won't see the benefit for some time.

After Mr. Waltz’s presentation concluded, City Council discussed potential reasons for the City’s stagnant revenue including the State’s collection of business net profit tax, employees working from home, and competition for economic development projects.

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In response to Councilman Jhaveri's question regarding golf course revenue, Mr. Waltz responded that 2018 revenue is ahead of 2017 and that Cooper Creek Event Center is showing a slight profit. Golf has a slight subsidy of \$300K on \$4.5M operation. Blue Ash could close the golf course and save \$300K, but at the loss of a City asset and a negative impact on property taxes and values.

Councilman Capell noted that the budget projects \$420K in legal expenses plus \$15K for the magistrate. He inquired as to the reason for the amount of the expense and if the City is using the appropriate structure for legal services. In response, Mr. Waltz noted that the City is a \$40M organization and that it costs that much to defend lawsuits as well as provide a variety of daily legal services. He added that it would not be possible for one in-house attorney to handle all of the work and all of the legal specialties upon which the City relies. Working with Dinsmore affords the City access to a variety of lawyers specializing in various legal practices.

#### **5. MISCELLANEOUS BUSINESS**

City Council complimented staff for their budgetary efforts in projecting ahead and growing reserves in order to provide for a healthy budget during difficult times.

Sherry Poppe noted that this is the 20<sup>th</sup> budget which she has assisted in preparing for the City.

Mr. Waltz requested that City Council revise the agenda to add an Executive Session to discuss personnel matters. Councilman Capell moved, Vice Mayor Sirkin seconded to revise the agenda to add Personnel Matters – *to consider the appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or official*. A voice vote was taken. All Council members voted yes. Motion carried.

#### **6. EXECUTIVE SESSION**

After all items on the agenda were acted upon, Councilman Czerwonka moved, Councilman Jhaveri seconded to convene an Executive Session to discuss matters pertaining to Personnel. The Clerk called the roll. Councilpersons Jhaveri, Capell, Czerwonka, Sirkin, Leet, and Mayor Adamec voted yes. Six yeases. Motion carried.

After matters pertaining to Personnel were discussed, Vice Mayor Sirkin moved, Councilman Czerwonka seconded to convene to the regular meeting. A voice vote was taken. All Council members voted yes. Motion carried.

#### **7. ADJOURNMENT**

All items on the agenda having been acted upon, Vice Mayor Sirkin moved, Councilman Leet seconded to adjourn the meeting. A voice vote was taken. All members voted yes. The Council meeting was adjourned at approximately 7:16 PM.

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Thomas C. Adamec, Mayor

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Jamie K. Eifert, Clerk of Council

MINUTES RECORDED AND WRITTEN BY:

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Kelly Harrington, Acting Clerk