

BLUE ASH CITY COUNCIL

December 1, 2008 – Budget Study Session

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A Budget Study Session of the Council of the City of Blue Ash, Ohio, was held on Monday, December 1, 2008. Mayor Robert J. Buckman, Jr. called the meeting to order in the Blue Ash Conference Room at 7:00 PM.

OPENING CEREMONIES

Mayor Buckman led those assembled in the Pledge of Allegiance.

ROLL CALL

MEMBERS PRESENT: Councilman Rick Bryan, Mayor Robert Buckman, Councilman Lee Czerwonka, Councilman Henry Stacey, Councilwoman Stephanie Stoller, Councilman James Sumner, and Vice Mayor Mark Weber

ALSO PRESENT: City Manager David Waltz, Clerk of Council Jamie Eifert, Treasurer/Administrative Services Director James Pfeffer, Parks & Recreation Director Chuck Funk, Public Works Director Mike Duncan, Assistant to the City Manager Kelly Osler, and an interested citizen

BUDGET STUDY SESSION -- REVIEW OF THE PROPOSED BUDGET FOR 2009

City Manager David Waltz opened the budget discussion with an overview of historical revenue and expense trends over the past 30 years, noting that revenues had climbed steadily from 1978 through 1998 with not only an increase in revenue each year, but a very strong average annual growth rate during that 20-year period of 12.5%. He then pointed out that while the overall trend was still upward from 1998-2008, the average annual growth rate has slowed considerably to 1.67% during the last ten years and the pattern of consecutive increases has not been maintained. Notably, over the past ten years the pattern has been more erratic with a mix of year-to-year increases and decreases. Importantly, his analysis did not include the additional revenue associated with the recent .25% earned income tax rate increase to keep the year-to-year comparisons comparable.

Mr. Waltz commented that these revenue trends are consistent with what is expected when a community moves from a growth phase, with a lot of open space and new development going on, into a mature phase where most of the land is developed and productive. In addition to the fact the city is essentially built out at this point, Mr. Waltz also mentioned that revenue trends and projections have been impacted by the phase out of personal property taxes and the flat valuation trends for real property. Mr. Waltz shared a chart comparing Blue Ash's revenue trends to those of the Dow Jones Industrial Average and noted how similar the overall trends were, though wouldn't rely on such for detail budget planning.

To the extent that the city's revenue mirrors the overall performance of the economy, Mr. Waltz underscored the need to continue to manage expenses carefully. He pointed out that if the city were to allow operating expenses to increase 4%-5% each year, it wouldn't take long to create a problem since revenue increases are averaging less than 2% a year. He explained that this is why the staff has worked diligently the last several years to level operating expenses, in spite of steady increases in energy costs and medical insurance. He stated that the city actually employs fewer people now than it did than five years ago, and that all departments have worked to find efficiencies without cutting service levels. He emphasized that although Blue Ash is in a mature, slow-growth phase, the city also enjoys a very large and stable tax base. As a result, the city is in good shape for the next few years, although there will be a continued need to manage cautiously with due diligence and to carefully monitor the timing of projects to ensure continued stability.

In addressing a questions from Councilman Sumner about whether we will have a problem funding increases in the operating budget due to the expansion of the recreation center, it was explained that the incremental tax revenue associated with the .25% rate increase is

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expected to cover both the capital expenses of the expansion and other parks and recreation projects, as well as the incremental operating expenses that result from these projects. Mr. Waltz indicated that over time the ratio will shift from more capital spending to more operating spending as these projects get built and come on-line. Moreover, he noted that the revenue from the .25% increase should be sufficient to cover both the capital projects and the resulting increased operating expenses, but that the city's staff will continue to monitor it closely on an ongoing basis and that building projects will be carefully timed to ensure that both capital and operating expenses can be covered.

Mr. Sumner asked if there was anything in our projected budget or building plans that would negatively affect our bond rating. Mr. Pfeffer explained that our bond rating was impacted the most in 2002 when the city's reserves were deemed inadequate by the bond rating services. He added that since that time we have made it a priority to establish and more aggressively fund both an operating reserve (approximately \$3MM) and a capital reserve (approximately \$6.6MM) and that the negative watch has since been lifted as a result. Mr. Pfeffer emphasized that the city is not "poor," but is now very focused on controlling operating expenses. This has required a change of culture, because historically Blue Ash was accustomed to steady, double-digit growth in revenue and didn't have to be overly concerned with spending. With the change in growth patterns, there has been a corresponding change in spending patterns, but an ongoing commitment to maintaining a consistently high level of service to the city's residents and businesses.

Councilman Bryan asked how the county changes assessed values when real property declines in market value and how that may affect property tax revenues for the city. Mr. Pfeffer explained that although the county does adjust assessed values over time – either up or down, depending on the market – the changes in assessed values do not affect the absolute taxes, because the system is set up to adjust the effective tax rates as values change, in order to hold the tax dollars constant. This was established originally to protect property owners and ensure that taxes would not automatically increase as property values increased, but conversely, it also protects municipalities and other agencies/organizations that receive property tax funding when there is an overall decline in real estate values. Mr. Pfeffer also noted that it will take a few years before most property owners see their assessed values change due to the timing of the process. Mr. Waltz added that the city's revenue projections are based on property values staying relatively flat.

Councilman Bryan asked about the impact of the additional costs the County will be passing on to cities, townships and villages for 911 dispatching services and much discussion followed. It was noted that although the additional pass-through of approximately \$2/dispatch will not have a large impact on the city's 2009 budget, it is indicative of a trend where cities, like Blue Ash, are getting fewer and fewer services from the County, despite the fact that Blue Ash property owners continue to pay substantial County taxes. Councilman Sumner noted that this is an important precedent to consider.

Mr. Waltz then briefly reviewed a summary of the 2009 Budget Objectives:

1. Continue level of services (same level of employees, with some delay of replacement hires or restructure)
2. Continue level of ordinary capital equipment expenditures (albeit slightly reduced and timed)
3. Major Capital Objectives
 - a. Finish recreation center, equip and furnish
 - b. Hold off on clubhouse until 2010 but undertake phase 1 of significant golf maintenance improvements to 30-year old facility (paths, irrigation, and chemical building)

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- c. Enhance connectivity to airport property (Creek, Reed-Hartman Highway, Plainfield/Hunt, Cooper/Plainfield, and Mohler)
- d. Prepare for 2010 downtown streetscaping (new traffic lights/poles, new streetlights, new curbs)
- e. Fire Department SCBA (but no new pumpers/trucks)
- f. Ongoing street program – could be pared back if there is more of a financial crunch than anticipated
- g. Maintenance/energy savings and green initiatives, such as a consolidated heating control system. Councilman Sumner asked what payout guidelines the city uses, noting that some industry models are now looking for a 1-2 year payback. Mr. Waltz indicated that each potential project is evaluated on several merits, but in general the city will consider anything that pays out in under five years.
- h. Reserves (\$3MM operating, \$6.6MM capital)
- i. Airport land payment and possible lead removal by Cincinnati.

Mr. Waltz also reviewed the major capital improvement objectives for 2009-2019, noting that the first one, the recreation center expansion, was obviously substantially underway, and that the next likely projects were related to numbers two and three on the list, the new golf course clubhouse and downtown improvements including new traffic signals and poles, new street lights, streetscaping.

MAJOR CAPITAL IMPROVEMENT OBJECTIVES - 2009 - 2019

- 1) COMPLETION OF RECREATION CENTER PROJECT
 - a) Completion, furnishing, equipment
- 2) DESIGN/CONSTRUCT NEW GOLF COURSE CLUBHOUSE
 - a) Architectural & engineering timing
 - b) Plan to include family golf and driving range as part of Airport Park plan, financing, and construction
 - c) Other Golf Course Improvements (double row irrigation, cart path replacement, golf maintenance facility)
- 3) UPDATE DOWNTOWN STREETSCAPE
 - a) Streetscaping, traffic lights, streetlights
 - b) Ronald Reagan Highway Landscaping (Kenwood/Blue Ash Roads)
- 4) AIRPORT LAND PURCHASE/RELATED PARK DEVELOPMENT PLAN AND CONSTRUCTION (PACC, amenities, open space development)
 - a) "Connectivity" preparation for Airport Park opening
 - b) Lead Removal
 - c) Architectural & engineering on Airport Park plan
 - d) Define pads/supporting retail/hotel etc.
 - e) Architectural & engineering on PACC
- 5) TRAFFIC IMPROVEMENTS
 - a) Improve Hunt and Plainfield Intersection and controls (including Ronald Reagan bridge)
 - b) CDS-Carver/Malsbary/Citigroup traffic study
 - c) I-71 and Pfeiffer Road (in Montgomery)
 - d) 5 Year "Connectivity" Plan

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- 6) ECONOMIC DEVELOPMENT
 - a) Completion of Landings
 - b) Osborne Blvd, other commercial/office redevelopment areas
 - c) Downtown
 - d) Retail district on Hunt and Plainfield Roads (Kmart, bowling alley)
 - e) Other redevelopment on Reed Hartman, M-4 District, and older commercial areas
- 7) AIRPORT RELOCATION/PRESERVATION PROCESS AND ASSISTANCE (with Cincinnati)
 - a) Cincinnati/Grants/FAA funding
- 8) CONTINUED RENOVATION/REPLACEMENT OF OLDER FACILITIES AND EQUIPMENT
- 9) MASTER PLAN FOR MUNICIPAL & SAFETY CENTER RENOVATION/REPLACEMENT (all-Police Department, South Fire Station/Fire Department, Administration, Tax, Finance, Community Development, Service, etc.)

Updated Dec, 2008

SKB/Winword/CIP-2006/CIPObjectives-2009-2019

In addressing a question from Councilman Bryan about how big the city's reserve should be, Mr. Waltz reviewed the city's current guideline of holding approximately 10% of projected earnings tax collections in an operating reserve, which means about a \$3MM reserve in 2009 given the projection of \$30.2MM in earnings tax revenue. He added, however, that the city might want to consider increasing the targeted percentage going forward, perhaps to 15% of earnings tax collections, given the volatility that the general economy and Blue Ash have experienced in recent years. This would provide a greater cushion to protect against cuts in down years. He also reminded council that the city is scheduled to retire existing bonds in both 2010 and 2013, and that this will reduce commitments/spending accordingly in the future. Mr. Waltz added that bond rates are particularly low currently, but that we are not close enough to beginning the golf course clubhouse project to secure bond funding at this time since regulatory restrictions require projects to begin very soon after the bonds are in place. The city will continue monitoring the economy and the revenue stream to ensure that the city is in a position to move ahead, and hopefully take advantage of good rates, if the economy is stronger than anticipated.

In addressing a question from Councilman Bryan, it was explained that the city's rental income of approximately \$181K is generated by city-owned property rented to local businesses, including the Remax building and the Ethicon warehouse at 4391 Creek Road.

In addressing a question from Councilman Stacy concerning the impact of storm sewer repair/replacement on the budget, Mr. Duncan indicated that there is \$100,000 budgeted in 2009 for storm sewer repairs on the Reed Hartman drainage channel. He noted that there is also deterioration in channels near the airport, but that the current plan is to address those needs in conjunction with the airport park project. Councilwoman Stoller asked what is included in the budget for general storm water issues and it was explained that there is \$80,000 in the budget to address such issues. A discussion followed concerning whether this would be sufficient to address existing problems. Mr. Duncan indicated that the city will be finishing a complete evaluation with CDS, the city's engineers, over the winter and will have a better understanding when it is finished as to whether there are any other major projects that fall under the city's responsibility that need to be addressed. It was reiterated that the city takes responsibility for storm water issues in the right of way, as well as those that result from projects that the city constructed or had a substantial role in constructing.

Councilman Bryan noted that the budget reported a rather large increase of approximately 12% in 2009 for ammunition and asked how much the city typically spends in a year for ammunition. Mr. Pfeffer explained that Blue Ash spends about \$35,000 a year in

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ammunition, primarily for training purposes. There are fewer vendors currently making ammunition, and costs are increasing sharply, particularly for the lead-free, steel ammunition that is now required at many practice ranges.

Councilman Bryan complimented Fire Chief Brown on the planned re-structuring of the fire department.

In addressing a question from Councilman Bryan about the changes in the fund structure between the "Streets" fund and the public services fund, Mr. Duncan explained that the changes were being made to streamline the accounting of projects and the tracking of payroll.

Councilman Bryan asked if there was sufficient funding in the Judicial Services fund to cover the expenses of paying a magistrate if the city opts (or is required by change in state law) to replace Mayor's Court with a magistrate. Mr. Waltz said that the budgeted amount would likely be sufficient to cover such expenses. Councilman Sumner mentioned that the Mayor's salary is currently set at a level intended to compensate him for the additional work required to preside over Mayor's Court (50% more than a general Councilperson's salary). He asked if the Mayor's salary should be adjusted if Mayor's Court is replaced by a magistrate. The consensus was that it should be adjusted if the Mayor no longer has Mayor's Court responsibilities, but that the Mayor's compensation should remain higher than a general Councilperson's salary because there are a substantial number of additional duties and responsibilities involved with the Mayor's position. After discussion, it was agreed that an ordinance will be prepared for the next meeting to take effect as soon as permitted by law that would set the Mayor's salary at 25% more than a general Councilperson's salary in the event that Mayor's Court were to be eliminated, or if the Mayor opted for a magistrate.

Councilman Sumner also questioned whether Council salaries in general were set at an appropriate level. He recalled that prior to the beginning of the Council's most recent term, the city adopted a new salary process similar to that used by other elected municipal officials whereby the salary is pegged to the salary set by the State of Ohio for County Commissioners. Based on the process adopted prior to the term, current Blue Ash Council salaries are determined to be 65% of the Township Trustee salary, which is set by the State of Ohio to be a predetermined percentage of a County Commissioner's salary. The consensus of the discussion that ensued was that it was appropriate to take salary increases out of the hands of Council and instead, objectively tie the salary level to something that the State of Ohio's personnel experts studied and set. Further, the consensus was that a salary equal to 65% of the Township Trustees' salary level still seemed appropriate for the Blue Ash Council, particularly since there was no evidence presented to the contrary.

In addressing Councilman Sumner's question about the cost of the annual community calendar, it was explained that it cost approximately \$18,000 to print and distribute the calendar.

Councilwoman Stoller commented that the 2009 Proposed Annual Budget was very well written and very well explained.

In closing, Mr. Waltz added a few general comments:

- Given the deficit that the State of Ohio is projecting, there will likely be less state funding available for local projects.
- He reminded council that the Capital Improvement Plan/Maintenance Effort (CIP/ME) is a comprehensive list of major projects that the city would like to do over the next 5-10 years, but that the timing of various projects will be determined by the availability of funds.

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- He highlighted that fact that approximately 70% of the city's operating budget is personnel related. Although the city's financial outlook appears to be very stable at this time, he pointed out that given the current national economic instability and concerns, if a major economic or financial catastrophe occurred, the city may be faced with a decision between using reserves and reducing personnel.

ADJOURNMENT

All items on the agenda having been acted upon, Councilman Stacy moved and Vice Mayor Weber seconded to adjourn the meeting. A voice vote was taken. All members voted yes. The Council meeting was adjourned at approximately 8:41PM.

Robert J. Buckman, Jr., Mayor

Jamie K. Eifert, Clerk of Council