

CITY OF BLUE ASH

Interoffice Memo – City Manager's Office

TO: City Council
FROM: City Manager and Department Directors
SUBJECT: Agenda Items for the July 14 Council Meeting
DATE: July 12, 2011
COPIES: Department Directors, Press, Clerk of Council, Solicitor

This memo offers a brief description of the topics included on the July 14 Council agenda.

Items 4 and 10.a.1. – Public Hearing and consideration of the 2012 Tax Budget (Resolution No. 2011-4)

In keeping with the requirements of the State of Ohio and the Hamilton County Auditor's Office, it is necessary for the City of Blue Ash to prepare a Tax Budget for 2012.

A number of years ago, the outcome of this annual process would have been utilized by Hamilton County to apportion how much of the State-funded Local Government Fund each of the entities would have received. That allocation process is now governed by an alternative formula directing the distribution of these funds without reliance on Tax Budget info, and future allocations may change under the new State of Ohio budget bill HB5. Hamilton County still requires the annual preparation of a Tax Budget, as the financial information contained within each budget is utilized by the Hamilton County Auditor's Office (Budget & Settlement Division) to assure that cities, villages, and townships are planning appropriately for the upcoming year, and that the revenue and expenditure projections are within reasonable limits based upon the information available at the time the budget is prepared.

As required, a legal notice appeared on June 1 advertising the availability of the Tax Budget for public inspection at the Municipal & Safety Center starting July 5, and a public hearing regarding the Tax Budget will be held towards the beginning of the July 14 Council meeting. Following consideration and acceptance of the Budget by City Council, certified copies must be delivered to the County no later than July 20. Although this process is of some benefit to the City in defining the broad parameters anticipated for the upcoming year, the Tax Budget format does not serve as a substitute for the preparation of a more detailed Proposed Budget for 2012.

A copy of the 2012 Tax Budget is included in Council packets (attached to the resolution). The format is determined by the County Auditor's Office, and includes actual "cash basis" performance or historical data for the accounting years 2009 and 2010. The estimates used for 2011 generally match the City's adopted 2011 Final Budget, with some increase necessary as to recent estimates of earnings tax collections, and the expected loss of approximately \$350,000 in 2011 State funding. Although our 2011 Budget contained an earnings tax estimate "level" with 2010, we plan on a conservative 2% increase over 2010.

As Council is aware, the City Manager and Administration have been evaluating and monitoring operational results, and working toward a more "sustainable" level of operational expense given the City's maturing status and the leveling of incoming revenues. The process involved capturing historical data for comparative purposes and utilizing said data in the preparation of the proposed budget each year and in evaluating the City's operational status in advance of each upcoming budget year. As the ongoing economic situation became "stagnated", the focus shifted from an annual recap to a monthly or quarterly determination of our progress in monitoring operational costs.

The Tax Budget, which truly is the focus of the legislation and public hearing described on the agenda, utilizes the information contained in the existing 2011 budgetary appropriations, allowing for a minor increase in earnings tax collection projections, and the 2011 negative impact in the distribution of certain State funds. Included within the presentation are actual results for 2009 & 2010, to assist in evaluating the direction anticipated in 2011 and 2012.

Because the tax budget closely parallels the 2011 budget as to revenue, and reflects the expenditure of all costs and expenses contained in the final 2011 budget, it has the tendency to distort the expected end-of-year outcome. As a result, an accurate estimate of Issue 15 and General Fund balances as of December 31, 2011 is difficult.

Combining the tax budget process with the ongoing "performance monitoring" as to the City's operational results does provide the opportunity for several observations:

1. The efforts of Council and the Administration have been successful in recapturing some of the earnings tax revenue "lost" in 2009, and in controlling operational costs. The City is making progress toward fiscal sustainability
2. Past successes in moving closer to fiscal sustainability are being "eroded" by recent efforts by the State of Ohio via passage of the recent budget bill. Blue Ash will see a loss of \$350,000 in traditional funding from the State in 2011. 2012 will reflect the loss of another \$325,000, \$475,000 in 2013, and \$500,000 in 2014. Simply put, Blue Ash's revenues from the State were \$2,136,554 during 2010. They will steadily be reduced to ZERO in 2015. Replacing this revenue taken by the State to balance their budget will require a 2.5% increase every year in non-Issue 15 earnings tax collections. As such, our pathway to fiscal sustainability has been presented a significant hurdle that "offsets" 2.5% of every year's efforts to improve tax collections through economic development.
3. Although earnings tax collections are in decent shape through June 30, 2011, we are "bouncing back" from the lows of 2009 and 2010. Such performance is not assured, and given the annual impact of the shift in State of Ohio funding, our efforts at operational cost containment must continue and be reinforced. We must stay on course, try to adapt to this setback, and remain true to our commitment to enhance revenues, contain costs, provide excellent services, build reserves for major capital items or projects, and continue our efforts on Issue 15 commitments.
4. The 2012 Tax Budget reflects a 1.6% increase in earnings tax collections based on reaching our 2011 estimate +2%. Other operational revenue is based on past collections (except from the State), with \$700,000 shown as income from the Cooper Creek Event Center. Salary and benefit costs reflect an overall 3% increase, with other costs kept at no increase. Basic capital is partially covered, paving and sidewalk construction is shown at its \$790,000 range, and expenses of \$700,000 are shown for the Cooper Creek Event Center. Major Issue 15 projects include phased 130-acre park efforts, the Plainfield Road bike path/sidewalk, and final Cooper Creek Event Center construction close out.
5. We expect that our General Fund reserves will not be seriously eroded in 2012, and that our Issue 15 reserves will increase.

Collectively, we are working to more closely examine our position as of June 30, 2011, and what will most likely happen in the remainder of 2011. This process, being done well in advance of the "traditional" fall budget, will keep us ahead of the game and prepared to respond quickly should the "economic recovery" not remain stable. By using past operational revenue and expense "outcomes" on past actual performance, we can quantify our ability to generate adequate "gain" to retire debt, and to fully fund annual routine capital without drawing down reserves. Thus, we should be able to model 2012 projections to see how much additional revenue, or reduced operational expense, would be needed. Subsequent efforts would then

have to be found on not only covering all operating expenses and capital routine capital, but rebuilding non-Issue 15 reserves.

Please direct questions regarding the Tax Budget to the Treasurer.

10.a.2. Ordinance No. 2011-44 – Authorizing contract with the Hamilton County Public Health Department for public health services in 2012

Ordinance No. 2011-44 authorizes the City Manager to renew a contractual agreement with the Health District Advisory Council of the Hamilton County, Ohio, in order to provide for public health services through the Hamilton County Board of Health for calendar year 2012 for an amount not to exceed \$42,250.88. This figure represents an approximate \$658 decrease from the previous year's expense.

The City of Blue Ash is one of twelve contracting cities that work through the Board of Health in addition to all villages and townships. The City of Blue Ash is annually assessed based upon a formula that takes into consideration the overall budget of the district and property valuation of each jurisdiction. Over the last 23 years, the City has experienced 12 annual decreases in the assessment and 11 increases.

The City of Blue Ash has been satisfied with the services offered by the Hamilton County Board of Health and the City Administration recommends renewal of the contract. The City is required by law to provide public health services, and this contract enables the most cost-effective means as of this date for providing these services and satisfying the State of Ohio requirements.

Please direct any questions regarding the contract and administration of services to the City Manager.

10.a.3. Ordinance No. 2011-49 – Authorizing issuance and sale of Limited Tax General Obligation Bonds for Osborne Boulevard Connector Road Project (TIF related) and agreement for bond counsel

At the February 24, 2011 meeting, City Council approved Ordinance 2011-10 authorizing a Development Agreement between the City of Blue Ash and Duke Realty Limited Partnership relating to the potential for the first building project along Osborne Boulevard. That Development Agreement framed up the expectations and mutual obligations of the parties to move ahead with a process which would involve dividing up the 29-acre Duke property to create an 8-acre parcel for the new development, the creation of a TIF arrangement agreeable to the schools, the design/construction of a new access road bordering the new building parcel, utility relocations, and the issuance of a 20 year bond to pay for public improvements financed as part of the TIF process.

During economic times when such significant developments are seemingly non-existent, progress has been made across all fronts on this project – including the execution of the Development Agreement; the formalization of the TIF strategy, as confirmed by both City Council and the Board of Education; the signing of a Purchase and Construction Agreement between itelligence (the Buyer) and Duke Realty Limited Partnership; the closing of the property; and the finalization of the subdivision plat that sets the “landscape” for the actual construction of the access road and the new facilities.

While efforts are underway between our Public Works Director, the roadway engineers (Kleingers), Duke Realty, and itelligence on the public and private improvements, the

City needs to set the stage for the issuance of the bonds under the tax increment financing (TIF) arrangement forged with the schools. The bonds, supplemented by a State of Ohio grant for \$250,000, will provide funding to build the access road, to relocate the utilities along Reed Hartman, and to live up to the other City obligations defined in the Development Agreement. This ordinance was drafted by Margaret Comey with Squire, Sanders & Dempsey LLP (bond counsel), who previously worked with the office of Fred Kiel. The legislation has been reviewed by the City's tax increment financing counsel, Arik Sherk of Thompson Hine LLP as well. This joint review is a necessity given the framework of this bond issue, as it includes supplemental "security" in the form of a pledge of earnings tax support from the City should there be inadequate PILOTs (payments in lieu of taxes) under the TIF from the assessed valuation of the new development. Such a mechanism, which carries minimal risk, permits a significantly lower interest rate on the bond issue, and thus provides a greater percentage of payment to the schools than under a traditional arrangement.

The ordinance is structured to permit the issuance of a principal amount of up to \$3,425,000 in TIF bonds, with the bonds having a maximum 20 year maturity, even though the TIF on the 8-acre project will run for 30 years. We expect the actual principal amount to be \$3,250,000. The repayment schedule of the bonds is structured so that interest-only payments are made during the first several years as the project is completed, and with steadily increasing principal amounts so that the annual amounts of principal and interest are synchronized with the expected level of PILOT payments from intelligence. Those initial interest payments are to be made with "capitalized interest", which is an amount included in the bond issue which is held by the City or the Trustee (Bank of New York Mellon) to keep the bonds current until the stream of PILOT payments begin.

The City intends to utilize an underwriter, Fifth Third Securities Inc., for the eventual placement of the bonds in the market, but it is important to note that the bonds may not be sold immediately. As we have done in the past, this legislation provides for Council's authorization of the bond issue, permits flexibility in the actual timing of the issuance of the bonds, and the rate of interest to be paid to be determined based upon market conditions. Once the City secures its rating on these bonds from Moody's, and everything is set from the underwriter's vantage point, the decision will be made based upon the conditions of the bond market to move ahead with the issuance of the bonds, closing, and the placement of the proceeds in the appropriate funds to pay for the construction of the Public Improvements, for the capitalized interest, the bond issuance fees, etc. The process for the actual "sale" of the bonds relies upon a Certificate of Determination executed by the City Manager, the Treasurer, and/or the Deputy/Treasurer, as detailed in the bond legislation.

As previously mentioned to City Council, and as contained in the Tax Incentive Agreement with the Sycamore Community School District permitted under Ordinance 2011-31, part of the compensation included to enhance the school's benefit from this development was the City's commitment to provide supplemental funding so that the school system is made 100% "whole" during the first five complete years following the development's completion. It is estimated that the City's annual contribution to that compensation will be in the \$160,000 range. Beginning with the sixth year, the schools receive only those PILOT funds that are considered surplus, following the timely payment of principal and interest on the bonds. After the bond issue is paid off in 20 years, then all of the PILOTs are targeted for distribution to the school system.

Although the City and Duke Realty have estimates of the likely construction costs of the Public Improvements, and the underwriter has provided estimates as to the amount of capitalized interest and issuance costs, the expenditure of funds for the actual design of the roadway and the other Public Improvements was not undertaken until itelligence actually purchased the 8-acre property. As a result, once those estimates firm up, there is a possibility that some adjustment may be necessary in the amount of the bonds to be issued, requiring a return to Council for a minor amendment to this legislation. However, that is considered unlikely given the maximum of \$3,425,000 included in the ordinance. The design of the roadway is well underway and efforts continue with the utilities involved as to that cost component of the Public Improvements.

Although not initially presented as a component of this project, the City Manager has been working with the Public Works Director on the inclusion of “connectivity” improvements via the installation of a sidewalk/bike path from the northeast corner of Creek Road and Reed Hartman Highway all the way north to Osborne Boulevard, with that item likely to be bid as an alternate should overall costs come in higher than anticipated. Also included is an option for five foot wide sidewalk on both sides of the new road. The City is committed to continuing its connectivity program at every opportunity, providing long-term benefits to both our residential and business citizens.

Clearly, there were numerous variables and milestones in this project which needed to be met. Most have been accomplished, and others remain to be finalized. Even so, a project of this importance and magnitude, in these times, represents a significant accomplishment for the City of Blue Ash. As explained below, relating to the acceptance of the subdivision plat for the Legacy Pointe development, having itelligence acquire acreage along Osborne Boulevard and Reed Hartman Highway, construct two new buildings, and move their North American headquarters to that location, is a great start on potential surrounding development, not only of the Duke Realty property that remains, but for the warehouse property owned by RREEF, on the north side of Osborne Boulevard.

Questions relating to the financing component of this project can be directed to the Treasurer, with those pertaining to the access road and public improvements directed to Public Works Director.

10.a.4. Resolution No. 2011-5 – Reappointing members to the Civil Service Commission and Board of Tax Review

As directed by the Mayor, Resolution No. 2011-5 reappoints members to the Civil Service Commission and Board of Tax Review (Sal Wertheim and David Rachmiel, respectively). Both positions expired July 1 due to the method of appointment outlined in the Charter. The term of said appointment shall commence retroactively on July 1, 2011 and shall expire on July 1, 2015. They have been contacted to confirm their interest in continuing to serve and the appointment to serve.

Please direct questions regarding this resolution to the Mayor.

10.b.1. Ordinance No. 2011-45 – Purchasing of Furnishings for the Cooper Creek Event Center from State Bid List

Ordinance No. 2011-45 authorizes the purchase of furnishings associated with the Cooper Creek Event Center Project through the State of Ohio's Cooperative Purchasing Program for an amount not to exceed \$65,000. A local vendor, the Office Furniture Source, offers quality items via the State process at reasonable prices. The amount would include any delivery and/or assembly/set up related work. Items intended to be purchased are various chairs and tables for the banquet room, bridal suite, café & bar, and the upper and lower common area.

Please direct questions regarding this ordinance to the Parks & Recreation Director.

10.b.2. Ordinance No. 2011-46 – Payment for professional engineering testing services to associated with the Cooper Creek Event Center

Ordinance No. 2011-46 authorizes payment to Alt and Witzig Engineering, Inc. for the provision of construction quality control testing and special inspection associated with the Cooper Creek Event Center Project. The work for these services was budgeted with the project in 2011; however, the ordinance threshold amount of \$25,000 will be exceeded. In order to comply with audit guidelines, an ordinance for professional services in an amount not to exceed \$32,000 is recommended.

Please direct questions regarding this ordinance to the Parks and Recreation Director.

10.b.3. Ordinance No. 2011-47 – Purchase of Reel and Bed Knife Grinder for golf maintenance operations

Ordinance No. 2011-47 authorizes the City Manager to enter into an agreement with Jacobsen, A Textron Company in Charlotte, North Carolina for the purchase of a replacement reel grinder and bed knife grinder for an amount not to exceed \$53,000. The equipment is necessary for the proper maintenance of the lawn mower equipment used for the Golf Course. Requirements to follow formal bidding procedures, if any, are requested to be waived due to the fact that only three companies in the United States sell the required equipment. However, estimates from the three companies were received and Jacobsen provided the lowest and best proposal. Funding for this equipment was approved by City Council in the final budget.

Please direct questions regarding this ordinance to the Parks and Recreation Director.

10.c.1. Ordinance No. 2011-48 – Approving Final Legacy Point Subdivision Plat and Authorizing Acceptance by City of Real Estate Interests

As described earlier, it was necessary to "carve out" the approximate 8-acre parcel for itelligence from the 29-acres owned by Duke Realty Limited Partnership on the south side of Osborne Boulevard between Reed Hartman and Kenwood Road. The preliminary plat for that arrangement was approved by City Council under Resolution 2011-2, on April 14, 2011, and efforts have been underway among the City Engineer, the Public Works Director, the Community Development Department, and Duke Realty as to finalizing the subdivision plat for this project. That effort was completed through presentation of the Legacy Pointe subdivision plat to the Planning Commission on Monday, July 11, 2011. Prints have been provided in the packet, and also will be posted and available for inspection by the public at the Thursday, July 14, 2011 Council Meeting.

The final subdivision plat for Legacy Pointe reflects not only the location and dimension of the itelligence 8-acre parcel, but also the proposed alignment of the connector/access road between Osborne Boulevard and Reed Hartman Highway, and the creation of the residual development lots that will remain in the name of Duke

Realty. The plat, which involves several pages, includes the customary language for the creation and preservation of sanitary and storm water easements, elevations for storm water detention requirements, the establishment of easements for utilities and other public accommodations, establishes the access road as dedicated public right-of-way, and also grants title to the City of Blue Ash of a small strip of property (Lot 7) adjacent to the roadway that, while not dedicated, will be utilized at a later time for either utilities or future development interests. It is important to note that the roadway itself will be dedicated via this plat, but will not be accepted for public maintenance via Council action until a later date – in keeping with the City's procedures.

Other items contained on the plat, based on comments and suggestions from the Public Works Director and input from CDS Associates, are restrictions on left turns from the access road onto Reed Hartman Highway from a traffic safety standpoint, and other protective language for the benefit of the traveling public, pedestrians, utilities, and from a maintenance perspective.

This ordinance provides for the acceptance, by City Council, of this final subdivision plat for Legacy Pointe, authorizes the City of Blue Ash to accept the roadway "land" as public right-of-way, and also permits the City to accept ownership of the small parcel, measuring approximately .128 acres (Lot 7). However, an issue remains as to the naming of the new road (please refer to separate memo in the packet).

It is anticipated that engineering will be completed on the roadway and public improvements between now and early September, and the Public Works Director intends to bid the project this fall, so that construction can begin toward the expected (and necessary) completion of the public improvements no later than June 2012. Itelligence, the City of Blue Ash, and Duke are working diligently toward managing all of the components of this project so that it is completed on a timely basis and achieves the many benefits it offers to the City, Duke, itelligence, and the public.

Any questions relating to the plat can be directed to the Public Works Director or the City Manager.

10.c.2. Resolution No. 2011-6 – Reappointing members to the Planning Commission and Board of Site Arrangement/Zoning Appeals

As directed by the Mayor, Resolution No. 2011-6 reappoints members to the Planning Commission and Board of Site Arrangement/Zoning Appeals (John A. Moores and Marc Sirkin, respectively). Similar to Resolution No. 2011-5, these positions expired July 1 due to the method of appointment outlined in the Charter. The term of Mr. Moores' appointment shall commence retroactively on July 1, 2011 and shall expire on July 1, 2015, with Mr. Sirkin's term continuing to 2016. They have been contacted to confirm their interest in continuing to serve.

Please direct question regarding this resolution to the Mayor.