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A Budget Study Session of the Council of the City of Blue Ash, Ohio, was held on November 28, 2011. Mayor Mark F. Weber called the meeting to order in the Blue Ash Conference room at approximately 6:00 PM.

OPENING CEREMONIES

Mayor Weber led those assembled in the Pledge of Allegiance.

ROLL CALL

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

ALSO PRESENT: City Manager David Waltz, Treasurer/Administrative Services Director James Pfeffer, Parks & Recreation Director Chuck Funk, Public Works Director Gordon Perry, Lt. Rich Riley, Fire Chief Rick Brown, Deputy Treasurer Sherry Poppe, Assistant to the City Manager Kelly Osler, and Administrative Assistant Karla Plank

BUDGET STUDY SESSION – Review of the Proposed Interim Budget for 2012

The following information was distributed to Council (and posted to the website) prior to the meeting:

“November 22, 2011

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 in our earliest years, a consistent and committed City Council, a focus on excellent services, and a continuous investment in infrastructure and quality of life amenities for all citizens. A future commitment to these key values will serve the City well, but the need exists for flexibility and a willingness to adapt as conditions change locally, regionally and nationally. While embracing these changes can be a challenge, doing so is a necessity if the City of Blue Ash and the community is going to continue to thrive and remain a viable and attractive location for a home, school, or business. While an annual budget is a financial process, it is also a reflection of the intent and direction of the organization, and is inclusive of longer term planning towards objectives. The 2012 Proposed Budget, as presented herein, includes some reflection on the past, but is primarily directed toward where the City is today and what lies ahead for 2012 and beyond.

Although it has been discussed countless times, it is clear that the City of Blue Ash must remain focused on its goal of fiscal sustainability. Building upon our efforts to date, the years ahead will show a continuing commitment to economic development investment, the streamlining of operations, succession planning, building reserves, and enhancing the City’s financial capacity to rapidly respond to changing conditions. In recent years, significant progress has been made in the economic development arena, in planning for the transition of the City’s organization to one that is more streamlined and aligned with our maturing status as a City and in embracing greater efficiency. The challenge lies in being responsive to the desires of our citizens and delivering great services.

One could say that staying “on course” toward these goals would be challenging in itself, given the economic conditions that we have experienced in the recent past, and those which continue today. Over the last five years or so, the City has made substantial progress in streamlining costs, planning for succession and operational cost savings through attrition, examining the services it provides, and how those services might be prioritized and delivered in a more efficient manner. Offsetting a portion of those successes are recent efforts by the State legislature under HB 153, to eliminate sources of

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local government revenue, to withhold other funding historically and traditionally provided to local governments, and to essentially balance the State's budget at the expense of local entities and the citizens that live within them. The undermining of the financial stability of local government entities is unprecedented, and will create great hardships as the implementation of the funding cuts continue over the next few years.

Although the City of Blue Ash is better positioned to respond to these annual funding losses, certain townships, villages, and cities will suffer greatly without these revenues upon which they have depended upon for decades. The result of this appears to poise local government for many changes in future operating assumptions which may ultimately impact Blue Ash. At this time, it would appear that the City of Blue Ash will not receive approximately \$350,000 during 2011, will expect to see a further reduction of over \$700,000 in 2012, and even further reductions in 2013. By 2014, implementation of HB 153, as currently drafted, will deprive the City of Blue Ash of approximately \$2.6 million per year compared to what was received in 2010. Although the City has been favored with some rebound in earning's tax collections in 2011, the annual negative impact of HB 153 will first have to be overcome before any true benefit can be seen via investment in economic development, or a broad recovery in the economy.

Despite the setback caused by the revenue losses under HB 153, the City remains committed to our achievement of fiscal sustainability. Making progress toward that goal has many components, but the ultimate objective is to enhance revenue (primarily through economic development investment and business retentions), and to maintain a focus on reducing ongoing operational costs through gradual reorganization, planning for and through succession, transitioning responsibilities, examining and prioritizing services and costs, and planning well for capital acquisitions and projects, all the while maintaining payments on bonds issued for major projects. Even without the impact of HB 153, these transitional efforts take time, involve retirements, reshuffling of assignments and responsibilities, reorganization, and the eventual visibility of those efforts on the bottom line. The 2012 Proposed Budget includes not only the requirements that are necessary for the continued delivery of excellent services to our citizens, but also those components which will assist in moving closer to fiscal sustainability.

This budget also reflects a continued commitment to the "Issue 15" projects for quality of life improvements such as the new recreation center, the new golf course banquet center/pro shop, irrigation and golf path improvements, and the evolving master plan for improvements to the 130-acre park property along Glendale-Milford and Plainfield Roads. The recreation center project has been broadly embraced by the citizens as a successful venture, the new golf course facility (Cooper Creek Event Center) will be opening in the near future, and the annual payment for the acquisition of the park land and the multi-faceted park planning process continues along the timetable established shortly after of the passage of Issue 15.

Issue 15 funds will be used again this year for payment of the bonds issued for the construction of the recreation center, as will be the case for the new golf course facility. Issue 15 funding will also be utilized for the next land payment to the City of Cincinnati, for the confirmation/refinement of the master park plan, and for the first steps toward possession, site preparation and construction of new infrastructure. As mentioned later in this document, Issue 15 funds are also being utilized to supplement the CMAQ grant funding for the 2013 construction of the new bike path/sidewalk on the east side of Plainfield Road between Cooper and Glendale-Milford Roads.

As explained further in the Treasurer's comments that follow, even though 2011 was a decent year for earning tax collections, a significant component of the collections rest within the highly variable net profit area. The Proposed Budget projects a combined earnings tax collection level in 2012 which is less than the total expected this year, representing a decrease of 1.8%. While it is rational to count upon some consistency in withholding collections, it is not conservative to rely upon a stable level of collections in net profit given our historical patterns.

The 2012 revenues include income from the initial year of operation of the Cooper Creek Event Center, offset with a corresponding level of expense for events and operations of that facility. Such funding is shown in the golf course enterprise fund. However, the inclusion of that "new operational revenue" appears to conceal some of the damage caused by HB 153, which is not the case. HB 153 just takes resources away, and has no impact as to ongoing expenses. Fortunately, the City's financial performance during 2011 will allow for some investment in deferred capital purchases and project activity, but it is clearly understood by all supervisory staff that major acquisitions and projects need to be carefully prioritized so that we can respond appropriately should financial conditions deteriorate during the first or second quarters of 2012. If the upcoming year turns out as we anticipate, we should be able to move ahead with a number of capital purchases and projects, all the while providing our traditional services and addressing the Issue 15 commitments that remain

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(primarily lodged in the new park).

The highlights of the operational, capital, and project-related items funded in the 2012 budget are explained in greater detail later in this document. We also anticipate presenting further information regarding the City’s past, current, and expected results in our quest to move our operations toward fiscal sustainability in the Budget Study Session. Finally, the comments contained in the Executive Summary describe the City’s general fund balance status, as well as recap of Issue 15 balances, sources and uses of funds, and expected balances at the end of 2012.

I am looking forward to working with the City Council and the Administrative team on finalizing the 2012 budget in January. The national economic situation seems to have stagnated, and although we hope that things stabilize and improve – we must remain vigilant and aware so that necessary changes can be made if the need arises. We will still face challenges in achieving our intermediate and longer term goals, but remain confident that “by staying on track” and focusing on our core services, that we will continue to prosper in the coming years.

I am 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 and it is an honor to serve as a City Manager for such an outstanding community and organization.

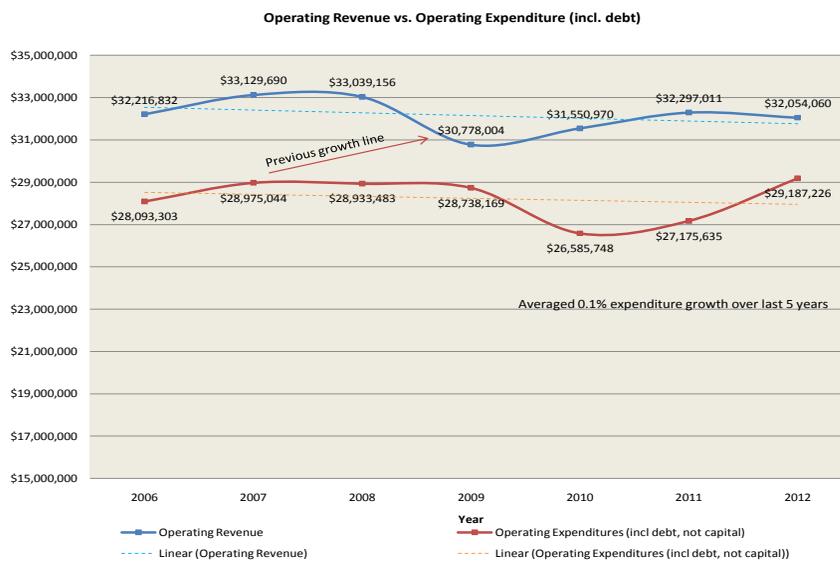
Sincerely,

CITY OF BLUE ASH

/s/

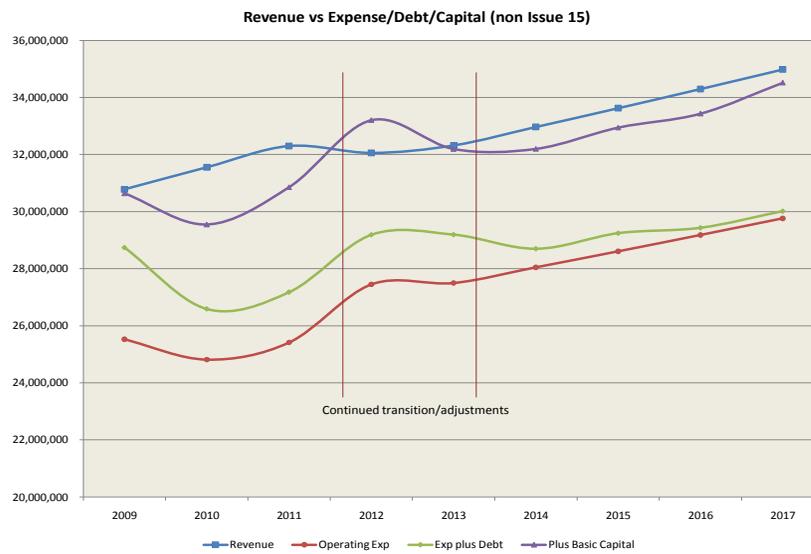
David M. Waltz
City Manager

City Manager David Waltz gave a presentation of the City’s overall financial picture via display and discussion of Powerpoint slides, with discussion summarized below.



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Budget Highlights

- **Basic Capital:** *cruisers, large fire engine, misc equipment, misc stormwater*
- **Major Stormwater:** *Glendale-Milford pipe, LSI basin*
- **Street Improvements:** *Ilmenau Way, Raven Ln, Edenton Ln, Boardwalk Ct, Fallsington Ct, Interstate Cr, Zig Zag, Crosier Ln, Twinbrook Ct.*
- **Sidewalks:** *RHH from Creek to Osborne, Osborne to Cornell, engineering on Plainfield Rd*
- **Other:** *Airport Park Engineering and Architect design*

Budget Overview

- Revenue is down**, appears flat due to offset by Cooper Creek revenue which is not additional net revenue
- Expenses up** due to Cooper Creek, some staff build up prior to retirement/attrition, misc cost increase and conservative budgeting
- Long term budget outlook** still on track for sustainable position PROVIDED additional cost reductions/attrition
- No major adjustments** needed at this time, but will need to be monitored on quarterly basis to remain ahead of possible future negative trends

Mr. Waltz explained the above chart which reflects recurring annual operating revenue versus operating expenditures. A number of years ago, the City decided to look at the budget in terms of cash flow for its debt obligations, the salary, personnel, operation, and contractual costs separate from discretionary items which can ordinarily be set off on a given year. The reason this is done is to see how much discretionary income there is in a given year and how close or far away the gap between the lines is. Reviewing the chart timeline, the bottom red line shows operating expenses, and the top blue line is total operational revenue. This chart shows a lot of good news. The first really good news is, essentially since 2006 through 2011, the City achieved declining average expenditures. Staff has done a really good job at stretching costs for a number of years. It was important to keep base operating costs down so that a greater distance could be shown between the operating revenue and operating expenditures lines. This “gap” reflects resources generated by the City for discretionary funds for capital for fire trucks, roads, etc.

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Unfortunately, the average revenue has been on a very flat level as well. In 2011, Administration expects the year-end revenue to be \$32 million, almost \$3 million more than 2011 operating expenses. Earning taxes this year have gone up between 7 to 9%, offsetting the revenue loss from the State budget. It is important to note that while the City this year had a positive increase in earning taxes, it still represents total collection level almost equal to 2006. The operating expense level for 2012 appears to show a big jump, which is explained by the preliminary budget being conservative on the expenditure side and the actual expenditures expected to be lower. There are additional factors for the 2012 year in that the City has plugged into its overall operating revenues and expenses – Cooper Creek Event Center. While it is anticipated that Cooper Creek be a balanced operation next year, it does increase the overall expenditure base, which means operating expenditures would have actually been lower without the inclusion of Cooper Creek. Administration accounted for an additional \$700,000-\$800,000 in Cooper Creek revenue but also accounted for \$700,000-\$800,000 in Cooper Creek expenditures. It tends to show more of a jump than otherwise, but it is something that is going to be in the fixed operating budget from now, so it is necessary to build it in. An additional factor described in our preliminary 2012 budget is for succession planning. It is anticipated that some additional staffing will be needed that will eventually be balanced by attrition later on down the road. Administration will be backfilling some positions with promotions such as the Treasurer along with a number of other things which explains the build up this year but in coming years it will drop off. The bottom line is that the City is in relatively good shape and the overall trend is healthy. Projecting out, as shown on the second chart, before adjusting the base operating expenditures (red line), Administration did the future projections (purple line), which was consistently above the revenue (blue line). This includes base operating expenditures, the City's debt obligations which are expected, and its usual base capital (the trucks, mowers, etc.) Over the last two years – 2010 and 2011, reserve funds were built up which is reflected in the year end general fund balances. If everything was spent that was placed into the preliminary 2012 budget, the base operations would be less positive, but what it is doing is making up a little bit of ground on some of the deferred capital items, by using some of our "surplus" of 2011. There is a small portion of the chart that shows levels of expenditures over and above the anticipated revenue. However, during this period, it is expected in 2012-2013 to begin seeing the benefit of the next round of attritions. There are 5-7 positions that have been identified and targeted throughout the City that are expected to become vacant via retirement and we hope to accommodate them in a different way. If that holds, then if the revenue grows at a normal 2% per year, then long term, the City will be in a relatively healthy position. These graphs from the past two years and its projection is healthier than expected. Administration will continue to work on adjustments, but overall, it is better than a couple of years ago. Long term, the City looks fairly fiscally sustainable. Administration will do quarterly reviews to monitor operating expenditures. Some examples that will continue is the Fire Collaborative which has shown cost savings on equipment, etc.; merging of Facilities, Maintenance and Public Works; and preparation of a fleet analysis and inventory which are among the ways to reduce costs to allow the ability to generate more discretionary funds. This year's budget highlights are primarily in the way of capital items – police cruisers, miscellaneous equipment (tractors, trucks, etc.); a large fire engine (a \$500,000 purchase); major storm water projects (Glendale-Milford pipe - \$120,000); LSI basin (east of Kenwood Road); street improvements (the new Ilmenau Way) and other neighborhood streets that would be done as street resurfacing project; sidewalks (Reed Hartmann Highway from Creek Road to Osborne Boulevard and Osborne Boulevard to Cornell); and bikepath/sidewalk engineering on Plainfield Road which will be done in 2013. The City received notice of a 0% loan for 70% of the cost of the Carver Road project that will be a 2013 project with the engineering work being done in 2012; and the airport park project funds for engineering and architectural design has been budgeted.

In addressing a question from Councilman Adamec, Mr. Waltz responded that a 2011 revenue loss of \$300,000 was due to State cuts. 2012 shows the accumulated effect of \$1.4 million loss into 2013.

In addressing a question from Councilman Bryan, Mr. Waltz responded that the impact of the state tax issue is a long term trend of not only specifically State funding but there also

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appears to be lots of talk from the State of restructuring the way government and local government is done. There are no specifics at this time but it appears to be an unsettling trend. If things change, it is uncertain what the impact could be. One of the things that happened with Local Government Fund is that, a number of years ago, townships successfully wrestled resources away from the City. That money, via reallocating a formula for distribution of funds, led to Blue Ash receiving lesser of a share and townships started receiving more of those funds. As a result, the reliance was a bigger percentage of their budget now that the Local Government Fund has been cut. It impacted all municipalities but certain townships are approaching a 50% reduction in their entire revenue.

After some discussion by Council concerning shared services, Mr. Waltz responded that it is a common discussion throughout the country and certainly throughout Ohio as more communities become desperate whereas before it would not have been an approached topic. There is interesting literature out lately by groups that have studied shared services and it found that in a number of those cases – 3 to 4 years later, the cost savings have not materialized. The reason is simple – cost of local government is 75-80% personnel. So in order to make a merger somewhat palatable, it has to appease both sides. In order to get a contract passed and approved by the voters, they have to go through this compromise only to find their cost is higher.

In addressing a question from Councilman Bryan, Mr. Waltz responded that with respect to 2012 projects, everyone internally was informed that the capital budgeted is not to be spent in the first quarter. Administration will monitor capital on a quarterly basis and will slowly release funds for projects. The caveat would be the fire truck. The good news is that if revenue catastrophically goes down, more than anticipated, the City has built up a healthy reserve over the last two years, despite the revenues being flat. Our general fund balance currently is \$26 million, with non-Issue 15 Fund at \$11,400,000. Three years ago, non-Issue 15 balance was in the \$7 million range. So the point is, the City really could go through a period where it doesn't have to make rash decisions and is in a position to where it can hold steady at this point in time.

In addressing a question from Councilwoman Stoller, Mr. Waltz commented that the State government has put money on the table asking to study "Metro Government". It is a regular topic of discussion by State leaders and combine that with the State collection of earning tax, etc. it is something to keep an eye on.

Vice Mayor Czerwonka asked if there was any updated information regarding centralized tax collection and noted that from the Ohio Municipality League's point of view, a letter is going to be sent to the Governor and they are recommending resolutions and letters from all the different municipalities.

Mr. Waltz commented that if Council wants to address it, the Mayor or he could express some concerns in a letter. Mr. Waltz further noted that Ms. Poppe and Mr. Pfeiffer have indicated the State will admit there is difficulty by CPAs in filing returns in all these different localities. It is not the rate that is the issue; it is simply different rules and requirements. If an agreement could be reached on a uniform tax ordinance, eligibility and deductions, then it is a simple matter in one form, put everything on it, and the last line is the Blue Ash rate, Cincinnati rate, etc. and enter in the rate. It is difficult to fill out multiple forms, so state the CPAs.

Ms. Poppe responded that the State would have to change State guidelines and Ohio Revised Codes which could be a massive amount of changes for some cities.

Mr. Pfeiffer commented that in the business returns, the State of Ohio no longer imposes a net profit tax. However, businesses still must compute net profit returns. They are 6 different ways to allocate what percentage of your business is in one place or another and not all municipalities use that same format. So, it can be confusing. If it could be standardized, it would be good for businesses and for residents. He further indicated that on the tax centralized side, it is not a simple process. The State has clearly said that it does not have the staff or the funding to administer it.

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Councilman Sumner complimented Administration and City staff on the budget. The City has collectively been visionary and is a much healthier community financially compared to a lot of other communities. There have been references to HB 153 which is the general revenue budget for the State. It appears that the City will not receive between \$300,000 and \$350,000 this year. He questioned whether this was anticipated in the budget.

Mr. Waltz responded that when Administration put the budget together at this time in 2010, it was anticipated that cut would happen and it did happen in July.

Councilman Sumner further commented that we will see that same impact of \$700,000 next year and more. Did the State zero out local government? Is it all local government?

Ms. Poppe commented that most of it is tangible personal property tax (which was about \$500,000). There is a small portion of the Local Government Fund that is not expected to be collected and that is what makes up the difference to the \$700,000. Administration has not yet accounted for elimination of the estate tax as it won't become effective until January 1, 2012 and we may receive a small residual collection in 2013.

In addressing a question from Councilman Sumner, Mr. Pfeffer commented that most of the Local Government Fund portion is divided up among Hamilton County and the City of Cincinnati. The City's portion is between \$530,000 - \$580,000 which has been capped since 1988. The State portion Ms. Poppe is referring to is close to \$800,000. The formula is applied at the County and the money has always arrived from the State of Ohio to Hamilton County. 43% went to the County, 43% went to the City of Cincinnati, and the remaining percentage was divided up. There will be millions of dollars that those entities are going to see as a loss and the City of Blue Ash also is impacted.

Mr. Pfeffer also responded to Councilman Sumner's question that Issue 15 funds should be 20% of total collections and the City takes out 20% of the refunds in that calculation.

Vice Mayor Czerwonka commented that he was impressed with the input from all the division heads and the administration considering all the variables such as the State, the economy, etc. It is a compliment to the Administration.

Mr. Waltz agreed 100%. In looking at the graph, which shows that costs have been flat, on average, in an environment where gas is going up, electric is going up, insurance has gone up, it shows that everyone has bunkered down in their respective departments and have taken a mandate that has been placed upon them and they have all done a good job.

Councilwoman Stoller commented that the report given was excellent. It shows the circumstances and shows the perfect reaction to the situation.

Councilman Adamec indicated that given the reductions in revenue from the State and in collections, where would the City like to be on capital, it varies depending on what major projects are coming about, but if the City is going to annually lose \$1.7 million or \$2 million in State revenue, how much does the City have to take out, even though there are some increases in operational revenue from costs increases from salaries, etc. How much does the City have to take out from efficiency improvements in 2013-2014.

Mr. Waltz commented that ideally the City would like the revenue to go even higher but given that scenario it would be between \$600,000-\$700,000 over the next two years.

A discussion took place regarding succession planning and the cost implications which could result in as much as \$700,000 in reductions in staffing costs in the future.

Mr. Waltz and Mr. Pfeffer noted that the December 8 Council meeting will include an interim budget, with the final budget, incorporating the actual year-end numbers, to be presented to Council in January.

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3`ADJOURNMENT

All items on the agenda having been acted upon, Councilman Adamec moved, Vice Mayor Czerwonka seconded to adjourn the meeting. A voice vote was taken. All members voted yes. The Council meeting was adjourned at approximately 6:50 PM.

Mark F. Weber, Mayor

MINUTES RECORDED AND WRITTEN BY:

Karla Plank, Administrative Assistant