

BLUE ASH CITY COUNCIL

December 8, 2009 – Budget Study Session

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A Budget Study Session of the Council of the City of Blue Ash, Ohio, was held on December 8, 2009. Mayor Mark F. Weber called the meeting to order in the Blue Ash Conference Room at 6:30 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, Deputy Clerk of Council Sue Bennett, Treasurer/Administrative Services Director James Pfeffer, Parks & Recreation Director Chuck Funk, Fire Chief Rick Brown, Police Chief Chris Wallace, Assistant to the City Manager Kelly Osler, and interested citizens

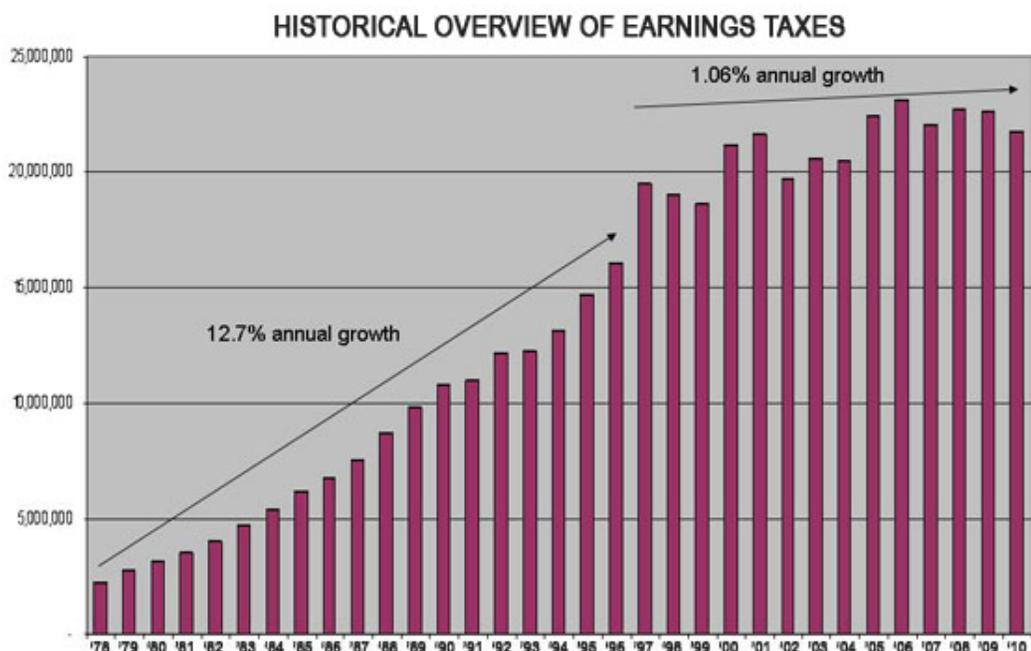
BUDGET STUDY SESSION – Review of the Proposed Interim Budget for 2010

City Manager Waltz explained that normally at this Budget Study session, specific details of the Budget are reviewed. However, the process this year will vary. He explained that in light of the revenue shortcomings this year, the goal for this meeting is to explain the long-term fiscal sustainability issues associated with the City’s overall financial situation.

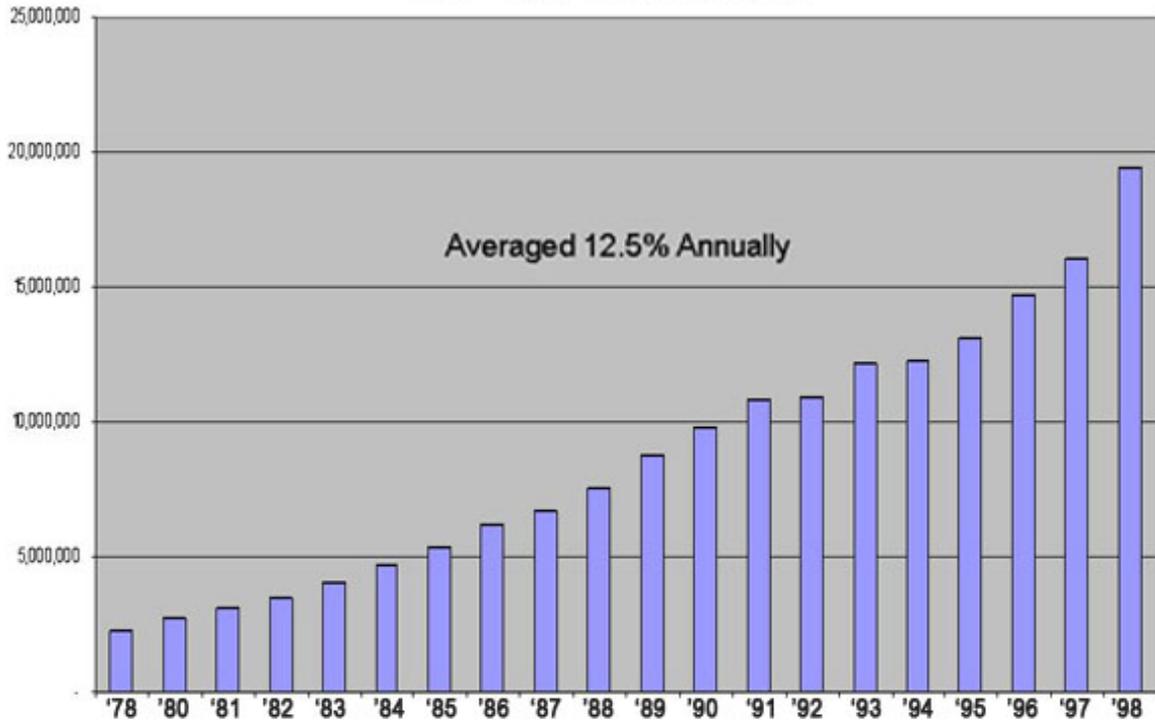
Mr. Waltz noted that the City’s revenues are down; although they are down much less than other nearby comparable communities. For example, Mason reports revenues down 8% to 9% and Forest Park and Springdale down at least 10%.

Highlights of Mr. Waltz’s presentation are summarized below:

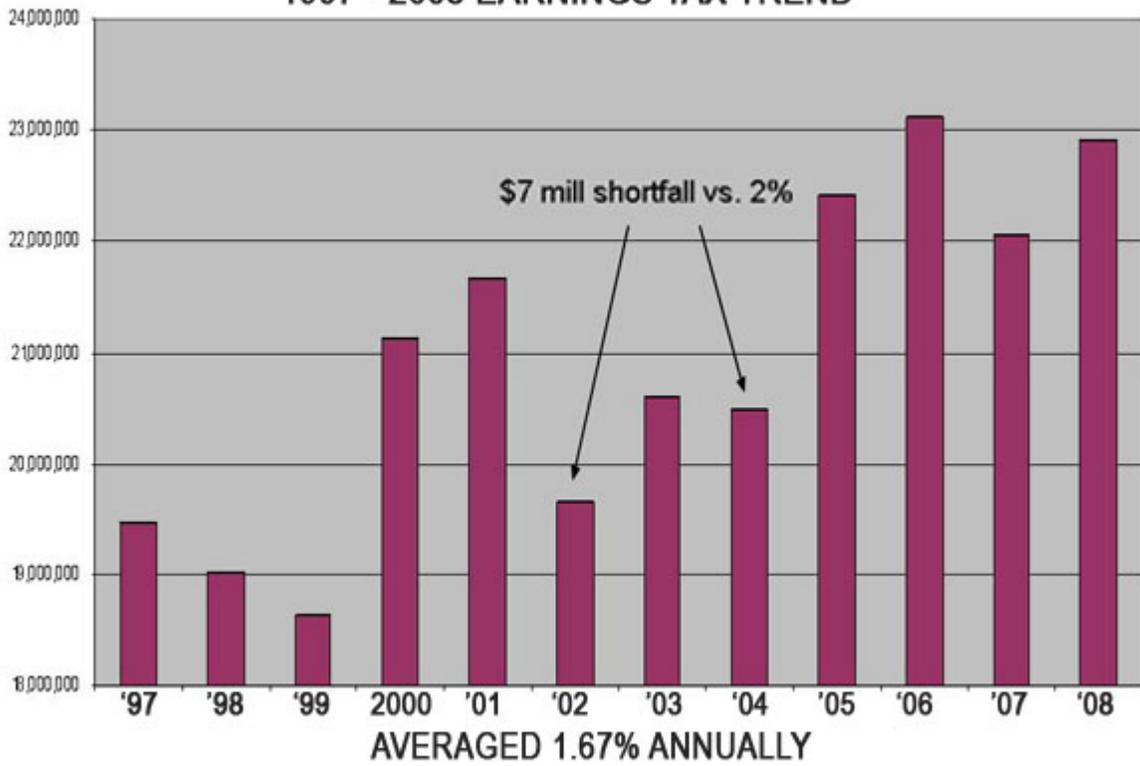
- A chart showing a historical overview of gross earnings tax from 1978 to current was shown. For the 20-year period from 1978 through 1997, the City’s revenues increased approximately 12.7% annually. From 1999 to 2009, the base has been healthy; however, the revenues have remained relatively flat, reflecting an approximate annual 1.06% increase.
- From 1978 to 1997, there were no dips in earnings tax revenue streams – there was an increase every year. However, from 1997 to 2008, there were several dips – including after 9-11. After 9-11, it took almost four years to get back to the pre 9-11 earnings tax levels, but lost forever was that approximate \$7 million shortfall over that down period (as compared to what “normally” could have been a 2% annual growth).



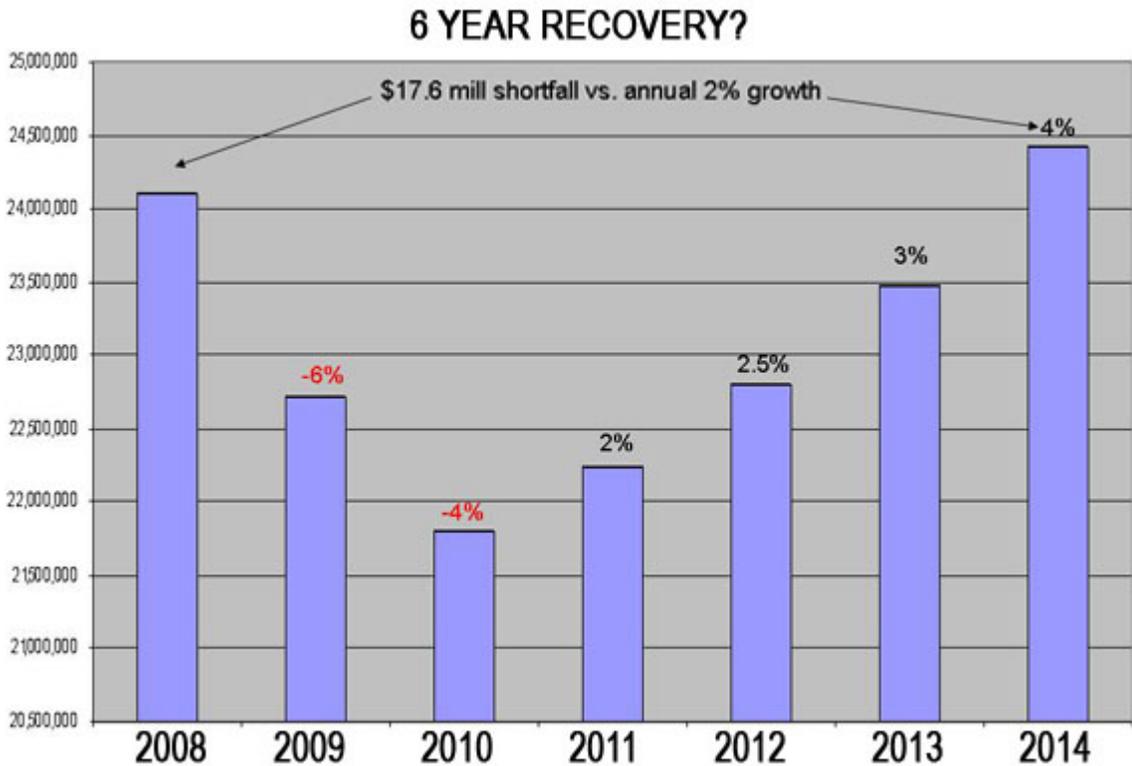
1978 - 1997 COLLECTIONS



1997 - 2008 EARNINGS TAX TREND



- The Administration estimates that 2009 and 2010 revenues will be down 6% and 4% respectively. Years afterwards show a modest rebound. Projected estimates for 2008 through 2014 show “lost” revenue of \$17.6 million (as compared to if that period would have shown a 2% annual growth).

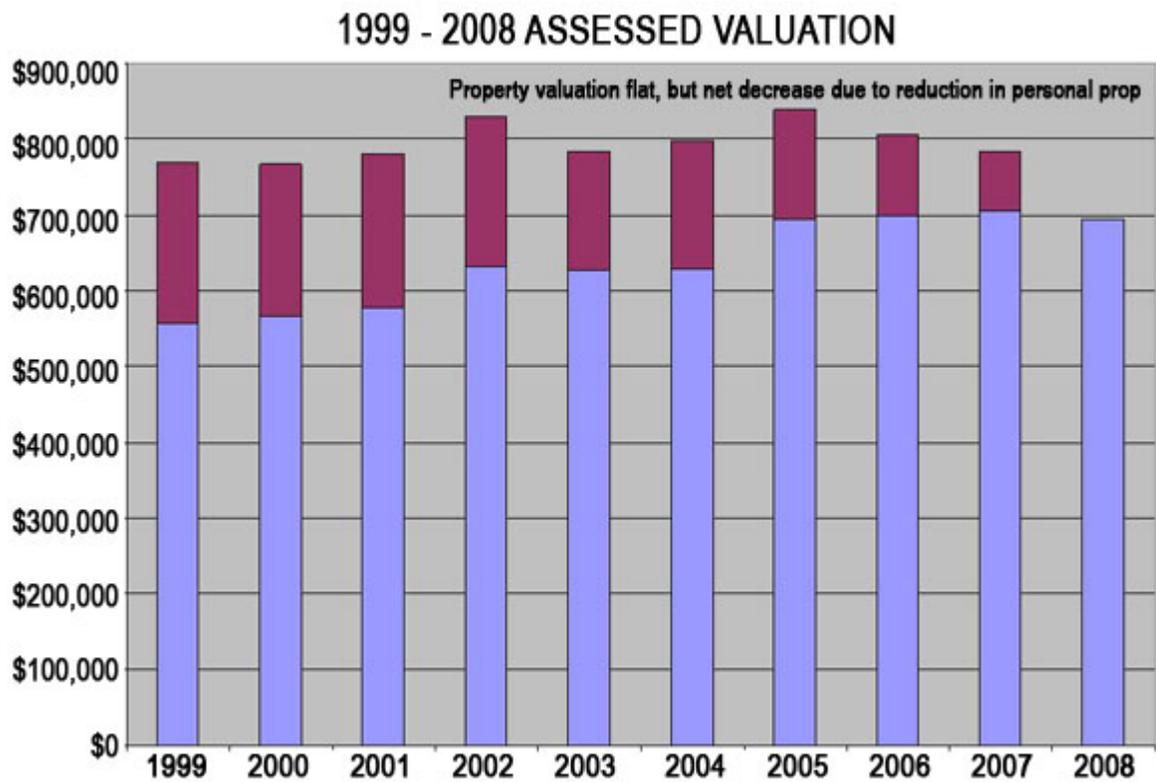
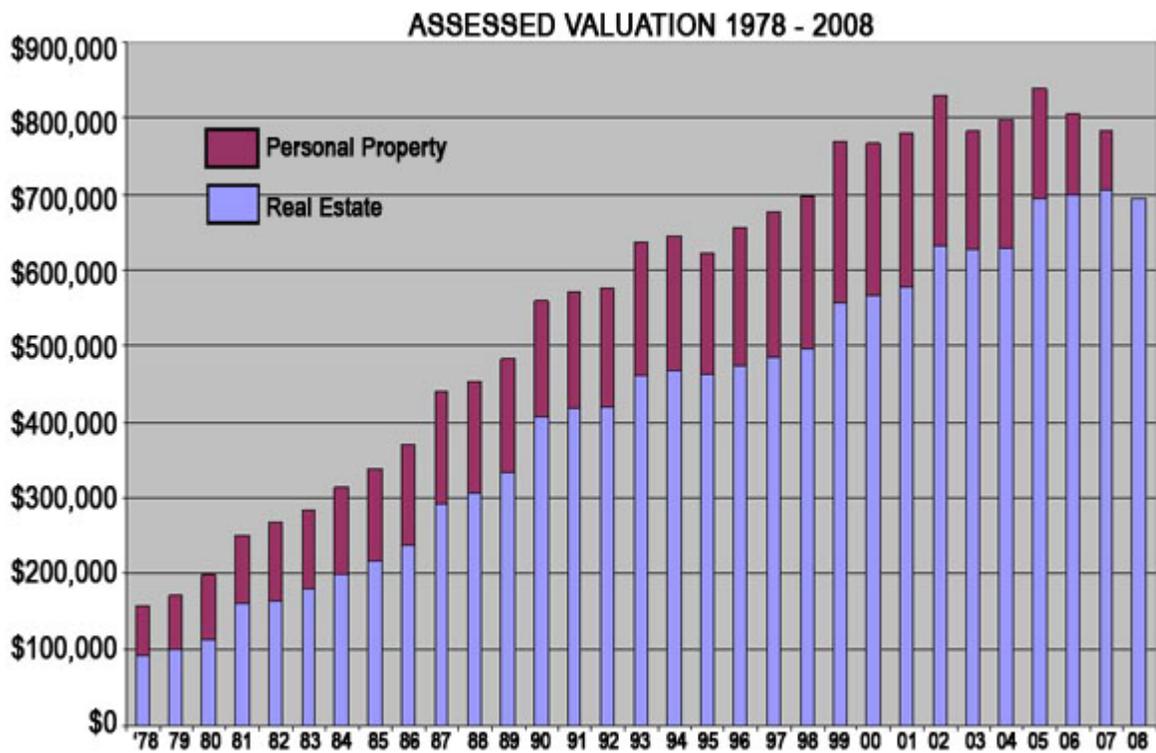


- Mr. Waltz explained that another major source of revenue for the City is property taxes (from the City’s Charter-established 3.08 mills). A chart showing assessed values from 1999 to 2008 was shown, with assessed values broken down into two sources: real property and personal property. Mr. Waltz explained that the State of Ohio has been gradually phasing out personal property taxes, and it is anticipated that in 2010 or 2011 it will be completely phased out. The State has committed to replacing that lost personal property tax revenue, and has done so through 2009. However, the permanence of that commitment is in question. The real property tax levels remain relatively constant. Therefore, in addition to revenues from earnings taxes being down, revenues from property taxes (including this reduction in the personal property tax component) will also likely be reduced.

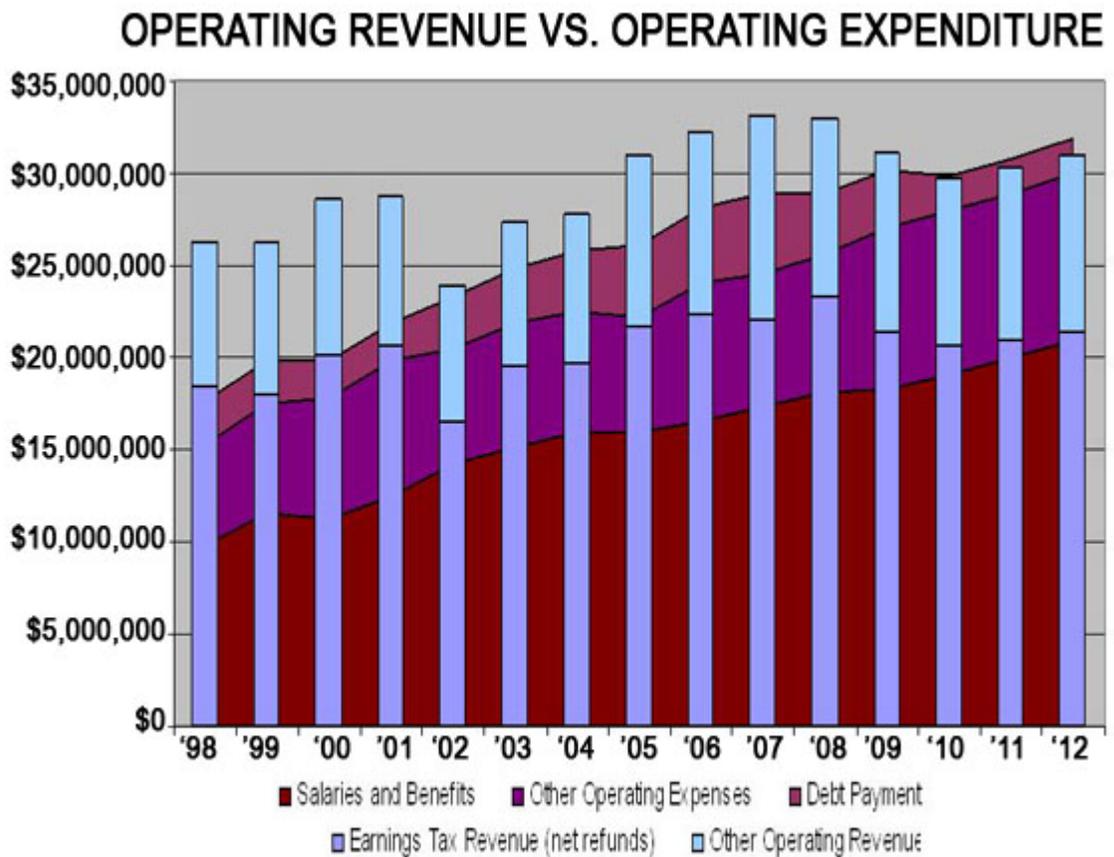
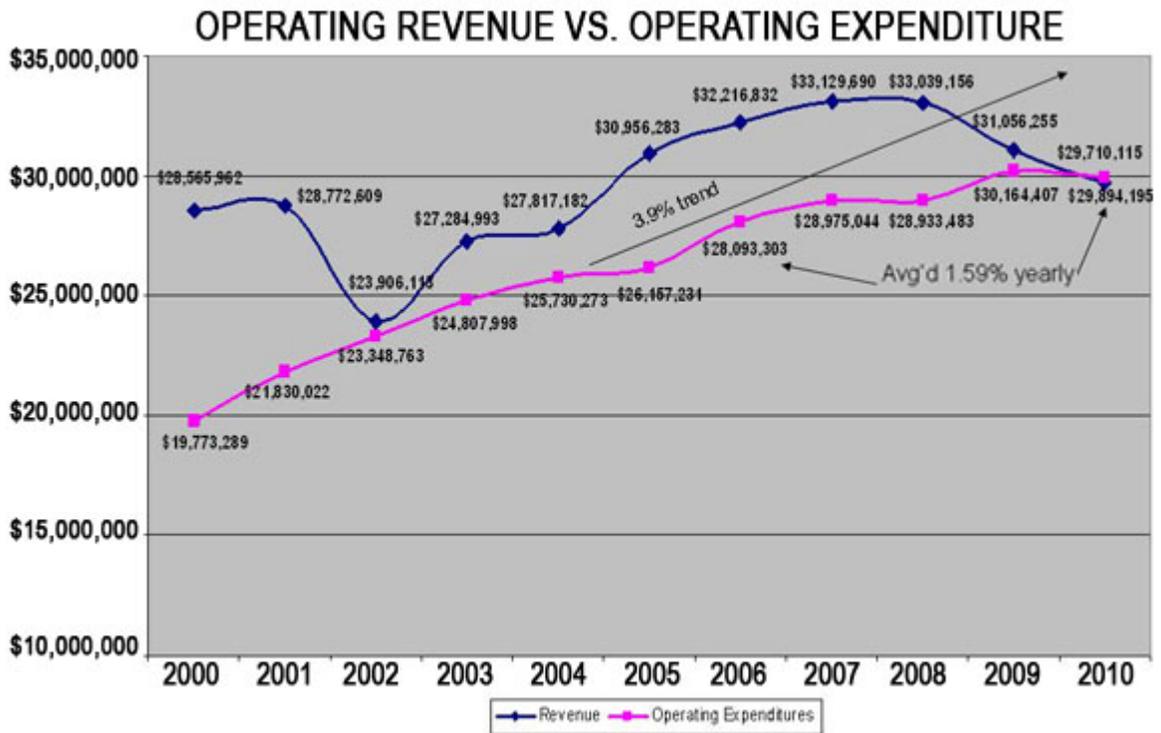
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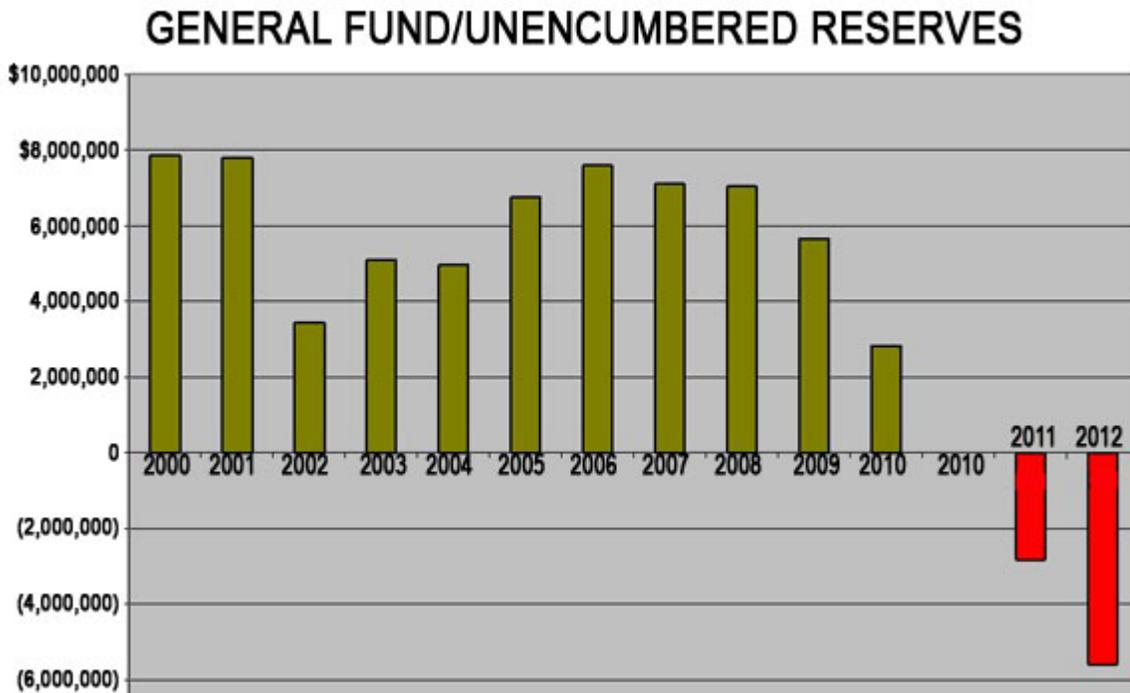
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- A chart was shown depicting annual operating revenues vs. operating expenses over the past ±20 years. Mr. Waltz explained that the space between the lines represents discretionary dollars available for various capital projects. The chart showed the rapidly diminishing amount of “space between the lines” depicting funds available for capital expenditures. Mr. Waltz noted that since approximately 2005, operating expenses have averaged an approximate 1.59% yearly increase – showing that the City’s operating expenses have been kept down, even given average yearly cost of living adjustments for employees well over 2% each year.



- A chart showing the General Fund/Unencumbered Reserves was displayed. The conclusion from this chart is that the City will be forced to use reserves to pay for capital improvements given the rate of decreasing revenues. If the City continues on the same track it is on, by the year 2012 or 2013, those reserves will be used up.



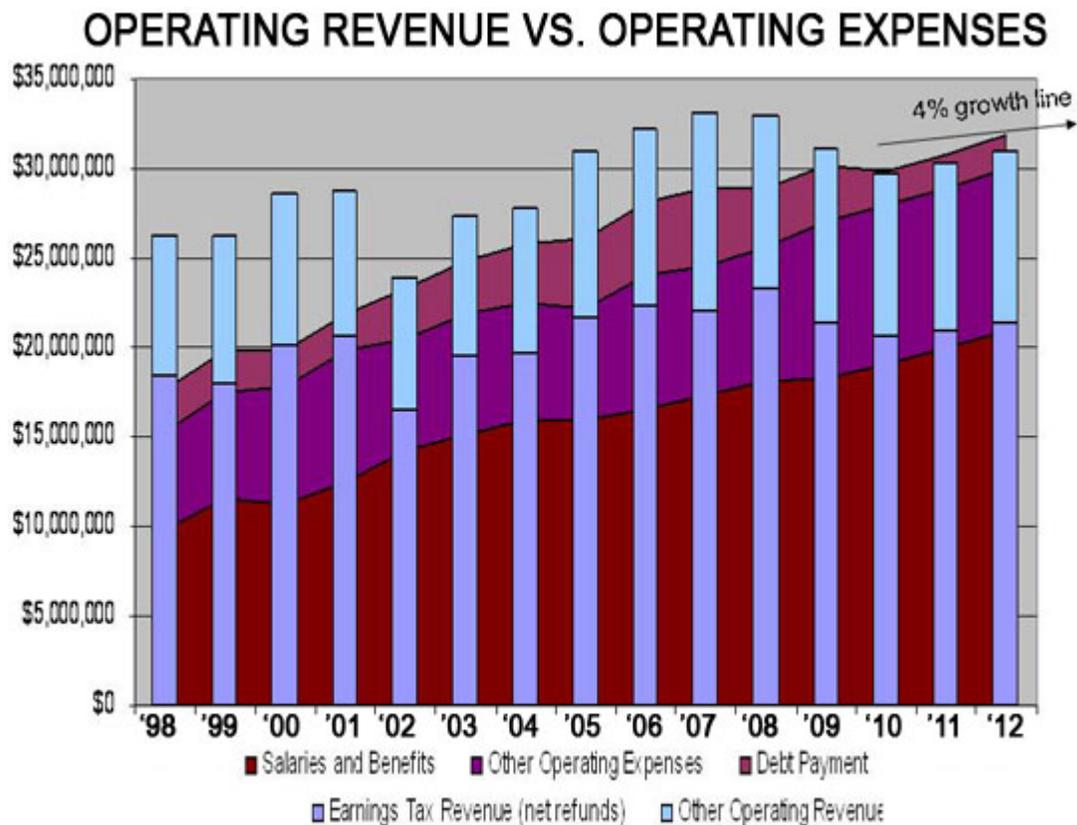
- Mr. Waltz reminded all that the above conversation and estimates of revenues do not include Issue 15 revenues within the estimates – i.e., it assumes revenue streams from 1% earnings tax levels. The Issue 15 reserves are estimated to be \$8.6 million at the end of 2010 (assuming some work on the golf course clubhouse and downtown streetscaping are performed in 2010). By the end of 2011 and 2012, Issue 15 reserves are estimated to be \$11 million and \$14 million respectively.

FUND BALANCE PROJECTIONS		
YEAR (ENDING)	GENERAL FUND/UNENCUMBERED RESERVE	ISSUE 15 RESERVE
2006	7,583,816	--
2007	7,120,746	4,628,881
2008	7,047,655	5,350,700
2009	5,678,272	6,720,500
2010 (-4%)	2,799,619*	8,620,948
2011 (2%)	0	11,000,000**
2012 (3%)	(2,800,000)	14,000,000**

*Would have been \$1.8 million but for \$1 million bond payoff

**2011-2012 Issue 15 Reserves assume clubhouse bond and misc. airport other

FUND BALANCE PROJECTIONS (Assume different growth)		
YEAR (ENDING)	GENERAL FUND/UNENCUMBERED RESERVE	ALT. GROWTH RESERVE
2009	5,678,272	--
2010 (0)	2,799,619	3,699,619
2011 (4%)	0	1,800,000
2012 (4%)	(2,800,000)	0



- Mr. Waltz explained that over the next two budget years (2010 and 2011), an estimated \$3.5 million must be cut from the City’s operating and to an extent, capital, budget. To accomplish this, Mr. Waltz presented three potential strategies, as summarized below:
 - Option A: Make the full adjustment of \$3.5 million reduction in the 2010 budget
 - Option B: Make a partial adjustment of \$1.75 million in the 2010 budget, and continue long-term analysis and study to decide how to best make the additional \$1.75 million cut needed. This is the option the Administration recommends.
 - Option C: Make no adjustment and absorb reserves in 2010.

He explained the need to “reset” the City’s operational expense base at a lower level. Internally – the City has to look at what we do and how we do it. Over the past three to four years, the department directors have done a good job at lowering the operational expenses (as noted previously, since 2005, operating expenses have leveled, rising only about 1.5% annually, despite salary increases and other costs greater than that level). Recent review has resulted in ideas to cut an additional \$1.5 to \$2 million in expenses – with part of these cuts coming from capital reductions and part from operational reductions.

Mr. Waltz has been in contact with the International City Management Association (ICMA) to discuss the potential of getting assistance from their budget consulting group. Mr. Waltz believes this organization could objectively help the City identify long-term answers to how operational expenses can best be reduced – perhaps through a restructuring/reprioritization of what the City does. ICMA reports that it has been called upon to work with many prosperous communities across the country such as Blue Ash to deal with similar budget situations.

In addressing a question from Councilman Adamec regarding the Recreation Center, Treasurer Jim Pfeffer explained that funding to pay for additional operational expenses

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associated with the newly renovated Recreation Center have come from the General Fund. Issue 15 funds have been used only for capital expenses – not operational expenses. Mr. Pfeffer explained that at some point, it does make sense that at least a portion of the additional expenses needed to operate that renovated and expanded facility could come from Issue 15 funds, but it is the Administration's belief that should not happen in the early years soon after completion of that capital expansion (except perhaps for energy costs). Based upon promises made to citizens during the Issue 15 campaign, the Administration believes that it is too early to use those Issue 15 monies to cover related increases in operational expenses. However, eventually, it may make sense to do so as more funds transition from capital to operating expenses.

In addressing a question from Councilwoman Stoller regarding proposed Option B, Mr. Waltz explained that if that is the direction Council decides to go, the Administration will submit that budget detail as to what is being expended probably at a January Council meeting. He explained that in general, out of the \$1.75 million in cuts with Option B, approximately half of that would be from capital projects, and the other half from reduction in various operating expenses.

In addressing a question from Councilman Adamec, Mr. Waltz commented that he cannot answer what "long-term" means tonight. He believes an ICMA consultant can help answer that and other questions for both the Administration and Council.

If Council agrees, the Administration would move forward with preparation of a final 2010 budget with \$1.75 million in reductions. In January through May of 2010, work would take place with the consultant. Approximately by the time of the 2011 tax budget preparation (required to be submitted in July), both the Administration and Council will have a better idea of the recommended direction.

Councilman Bryan commented that the current recession will not last forever. He commented on the need to resist temptation to overreact – however, he agreed there needs to be change. Regarding salary adjustments, when negotiations come up, the new "norm" will not be the curve that we are currently on (i.e., 2% to 3% increases). Councilman Bryan commented favorably on the thought to bring in experts to look at the City's operations and to find ways to reduce expenses without reducing services to residents.

Mr. Pfeffer explained that the Budget as presented to Council to date projects a 6.4% drop in earnings tax collections in 2009 (as compared to actual collections in 2008), and in 2010, an additional 4% reduction in earnings tax revenue from estimated 2009 levels. This drop in earnings tax revenues during 2009 and 2010 represents a "loss" of about \$4 million (in non Issue 15 resources). These losses will absorb approximately \$2.5 million of the City's working capital – which will bring us down only to our 12/31/10 reserves. He believes the middle option (requiring a \$1.75 million cut) is achievable.

Councilwoman Stoller commented that she sees nothing wrong with revisiting with a consultant what the City does – it's acceptable to question and re-examine "why are we doing that?" type issues.

Mr. Waltz commented that moving forward with Option B (a cut of \$1.75 million), we will still be using up about \$2 million of the City's general fund balance.

Mayor Weber commented that Blue Ash is a maturing community and our capacity for large growth periods is smaller. In addressing a question from Mayor Weber, Mr. Waltz commented that one of the things ICMA can help the City identify is fiscal sustainability as a mature community.

In addressing a question from Vice Mayor Czerwonka, Mr. Pfeffer explained that using the reserves as planned will already be "stretching." He reminded Council of the time that Moody's (the bond rater) gave the City a negative watch rating in the early 2000s when revenues slowed but operational expenses did not – resulting in the City utilizing a portion of its reserves.

Councilman Bryan commented that though Blue Ash may be maturing, we are not

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necessarily built out. He commented on the importance for economic development efforts to keep office buildings full and also the importance of projects such as Duke's Landings project (i.e., the third building yet to be constructed) to continue to move forward. We have to put as much effort into the revenue portion of the budget as the expense side.

Mr. Waltz agreed that the City still needs to invest in efforts that will create jobs. However, he explained that, for example, in the past, adding 1,000 jobs may have had a large affect on overall revenues since it was a lower base. However, given today's higher revenue base, adding 1,000 jobs will not have as much of an impact as it once may have. He agreed, however, that the City cannot stop investing in the business community as there would be major risk of decline.

In addressing a question from Councilman Sumner, Mr. Pfeffer explained that the major reason Blue Ash has been successful is that it has provided the type of community the people want – safety, good roads and infrastructure, etc. It's the place that people want to be. To encourage reinvestment in our community, we have to stress the core values – we need to preserve the things that make our community strong.

Councilman Sumner commented that he strongly supports efforts to reduce operating costs and suggested that perhaps some of the larger projects should be delayed. He believes an informed voter would understand the need to delay certain projects given these economic times. He expressed desire to not jeopardize public safety services. Mr. Waltz commented that the Administration would not recommend a budget that would jeopardize safety services; however, a budget which funds and identifies more efficient ways to provide those quality services is very likely.

In addressing a question from Councilman Adamec, Mr. Waltz commented that a community should always have some capital projects. The Administration would recommend continued investment in areas that have made Blue Ash unique and successful – including sound infrastructure, provision of quality services, and excellent community programming and assets.

Councilman Bryan commented that he agrees it makes sense that at some point for a portion of Issue 15 revenues to start moving from capital to cover the incremental operational expenses that the revenues paid for with those capital projects. After some discussion, it was agreed that Mr. Waltz and Mr. Pfeffer would provide some general modeling and projections of this concept.

Councilman Adamec commented that he believes using a consultant who has a broad knowledge of how other communities operate is a prudent strategy in assisting our community.

In addressing a question from Mr. Waltz, it was the consensus of Council that "Option B" should be the direction headed by the Administration.

Mr. Waltz commented that the Administration will continue work on presenting a revised budget to Council in January 2010. He noted that one noticeable change being considered by the Administration not yet discussed this evening would be the elimination of the SummerBration special event. It was noted that this would save approximately \$100,000 to \$125,000; however, revenues will also fall some because of sponsorship packages which will have to be renegotiated. In addressing a question from Councilman Sumner, Mr. Waltz commented that the reason SummerBration was chosen to be eliminated this year is because the other two major special events – Taste of Blue Ash and the July 4th celebration – are more established and "branded." The SummerBration event is the least historical event offered by the community. (No Council expressed concern in not offering this event in 2010.) Mr. Waltz commented also that, similar to what was done in 2009, in 2010, he would anticipate holding off certain capital projects and expenditures until later in the year when revenue levels are better known.

Brief discussion was had regarding timing of presentation of a revised budget. The Administration will advise Council of such recommendations in the near future.

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Mr. Pfeffer noted an interesting detail: the City is not “ballooning” with staff. He noted that the number of full-time equivalents in 1999 equals those estimated in 2008 (235 in 1999 vs. 233 in 2008). He reminded Council that for several years now, when vacancies have come up, they have not “automatically” been filled, and the departments have cut overtime significantly over recent years. He added that some operational expenses are simply increasing at no fault of the City – for example, Worker’s Compensation has increased 47% over the past three years. In the past, the City often received rebates.

ADJOURNMENT

All items on the agenda having been acted upon, Councilman Sumner moved, Councilman Buckman seconded to adjourn the meeting. A voice vote was taken. All members voted yes. The Council meeting was adjourned at approximately 7:57PM.

Mark F. Weber, Mayor

MINUTES WRITTEN BY:

Susan K. Bennett, Deputy Clerk of Council