

**SPECIAL FINANCE COMMITTEE MINUTES
NOVEMBER 10, 2014**

The Special Finance Committee meeting was held on November 10, 2014 at North Royalton City Hall, 13834 Ridge Road. The meeting was called to order at 6:30 p.m.

PRESENT: Committee Members: Chairman Larry Antoskiewicz, Vice Chair Gary Petrusky, Paul Marnecheck; Council: John Nickell, Dan Langshaw, Steve Muller, Dan Kasaris; Administration: Mayor Robert Stefanik, Finance Director Eric Dean; Other: Jamie Anton.

1. 2015 Budget

Mr. Antoskiewicz said that Council has received the budget and has had time to review it prior to this meeting. He asked Mr. Dean to review. Mr. Dean said that each department has submitted their budget for consideration. He said that he and the Mayor have reviewed the budget requests against the monies projected to come in and put together the 2015 budget that has been presented to Council. Mr. Dean felt that we will be slightly under what was budgeted for income tax collections, but does not see us going back to the level we were at a few years ago. He said the one thing that will affect our revenue, especially in the General Fund, is the elimination of the estate tax. Mr. Dean reviewed the State Shared Taxes chart, a copy of which is attached to these minutes.

Mr. Antoskiewicz said that due to the fact that there are 27 payrolls in 2015 rather than 26, it was necessary to find an additional \$450,000. This was one of the biggest changes from 2014 to 2015. Mr. Antoskiewicz asked Mr. Dean to explain how they came up with this additional money. Mr. Dean explained that this scenario only happens every 11 years. Salaried employees are based on a full year, so there will not be an extra pay for them. Their salary will be divided accordingly. Hourly people will receive the extra paycheck because it is time they have worked. He said that we have some money set aside for special circumstances such as this and he is proposing to take some of the Accrued Balance Fund and use it to help pay for this extra payroll. He said that he is projecting, with two retirements already budgeted for, to have around \$650,000 in the Accrued Balance Fund at the end of the year. We also put in about \$100,000 every year into this fund through the cable TV allocation. If we took the \$450,000 out of this fund, we would still have \$300,000 at the end of the year and we would not have a big cut to our operating funds because of this extra pay. He said it would really hurt us if we took this out of our carry over balance at the end of the year. He doesn't want to see these funds depleted. This is what is looked at when we go to the bond market. Mr. Marnecheck asked what is the amount the future retirement costs will be; is \$300,000 an adequate amount for anticipated retirements. Mr. Dean said it should be sufficient. We are estimating that we will have a few policemen retire next year. He said that \$100,000 will be added to this fund every year and we are only looking for a one time release of these funds to cover the extra payroll. Mr. Marnecheck asked how much we have in accrued sick and vacation time that could be cashed in. Mr. Antoskiewicz said that this is always an unknown. All we can do is speculate. We believe that there will be a couple of retirements in the safety forces next year and Mr. Dean believes that there is enough money in the fund to cover these retirements should they occur. Mr. Kasaris said that we started putting money into this account in 2011 for a reason, and he feels that this would be a proper use of these funds. Mr. Kasaris asked Mr. Dean if he knew what it would cost us if everyone who was eligible for retirement decided to retire all at once. Mr. Dean said he will gather this information and provide it to Council. He said that we do a calculation every year on our financial statements showing accrued liability for retirements. Mr. Muller asked what our second choice would have been if we didn't take the funds from the Accrued Balance Fund. Mayor Stefanik said that options would have been to do less street repair in 2015. We could have also made a transfer from the Future Capital Improvement Fund. He said that when we created this fund in 2011 it was with the knowledge that we would be having this payroll scenario in the future and this would be another avenue for funding to cover this. Mr. Muller said if we were to take a distribution from the Future Capital Improvement Fund to pay for this, would we have had to pay this account back or was it actually something that this could be spent on. Mayor Stefanik said that Council can reallocate the money in the Future Capital Improvement Fund at any time. Mr. Dean said that there are certain funds that are restricted for certain purposes, and the Accrued Balances Fund is restricted for retirements. We might need to amend the Ordinance to specify that this fund can be used for unusual circumstances such as this extra payroll. Mr. Antoskiewicz reviewed the cable TV allocation documents, copies of which are attached to these minutes. He reviewed Ordinance 13-35

outlining the current cable franchise fee allocations and stated that the administration is proposing that instead of putting 50% (\$200,000) into the Future Capital Improvement Fund next year that we take that \$200,000 and put it into the General Fund which would help ease some of the burden with some of the expenses that have come up this year. He said that it has also been proposed to make the allocation for service vehicles a separate line item and keep it at 15% (\$60,000). He said that the YMCA Capital Project Fund is no longer needed because the construction is completed and needs to be changed to the YMCA Special Revenue Fund. We also have the Accrued Balance Fund at 25%. He asked Council if these newly proposed allocations are acceptable as presented. Mr. Langshaw said that with all of the cuts in state funding he thinks that this is a good move to help stabilize the General Fund. He asked Mr. Dean if this will put the General Fund in a good position. Mr. Dean said absolutely and this is why he thinks this is very important. We want to make sure that the money is there when we need it. Mr. Kasaris asked if the redistribution of these franchise fees will affect any ratings that we have such as bond ratings, or our ability to pay for the new City Hall. Mr. Dean said that he is projecting a \$2.5 million ending fund balance, so this will be drawn down by the debt payments for this building over 20 years. He said that we will finalize this debt next year when we go back to the markets. He said it is unusual to have the money set aside to pay for a project like this, which is nice. He said he is proposing to use the \$2.5 million to slowly pay that debt down through the years. It will tie up the money that we had but it is there and it won't hurt the operations of the city. Mr. Kasaris said in the past we would loan, on paper, a good portion of this money to the wastewater funds which had the affect of tying the money up as well. Mr. Dean said that is correct, and this year we will have a positive balance in the wastewater funds. Mr. Kasaris asked how this revenue stream is used for the YMCA. Mr. Dean said that YMCA is mostly paid through the YMCA and UH Parma, but we do have a small portion which is about \$40,000 per year. He said it could come from this revenue source, or it could come from the General Fund and not make a big dent. Mr. Kasaris asked if Mr. Dean feels that there is no appreciable effect on this fund by reallocating the monies that go into it. Mr. Dean said no. Mr. Muller asked if it was possible to just allocate 25% rather than the whole 50%. Mr. Antoskiewicz said yes, this is possible and this is why he brought this up for discussion. He said we can always do the 50% this year and address is again next year if we feel the percentages need to be adjusted. Mr. Muller said that he would personally prefer to just do 25% this year. He said he would like to see us keep the Capital Improvement Fund as a rainy day fund and have a decent percentage of the revenue that is coming in actually stay in that fund just in case there are other major expenditures or if we have a revenue shortfall in the future. Mr. Antoskiewicz asked for input from the rest of Council on this. He said that Mr. Muller is proposing that 25% be allocated to the General Fund and 25% remain in the Future Capital Improvement Fund, rather than 50% going into the General Fund. Mr. Dean explained that the General Fund is basically a "catch all" fund. Anything that is not paid through a specific revenue stream is paid out of the General Fund. It really is the most important fund in the city. Operations all get paid out of this fund. If there is a certain fund that is overdrawn, the General Fund would have to meet that obligation. He said the General Fund does transfer to certain funds such as the levy funds, but not enough to cover all expenses. The General Fund has no restriction on expenditures. The Future Capital Improvement Fund is obviously reserved for savings. Mr. Kasaris said that \$100,000 would then go into the General Fund to be dispersed as needed. Mr. Dean said yes, it will pay for operations and this will be needed because of the state funding cuts. Mayor Stefanik said he and Mr. Dean have talked extensively about these revenue allocations and he too agrees that the 25%/25% split works best, but they thought that they would present it to Council to see what they think. He said we are still trying to make up the shortfall from the local government funding. Some of the outsourcing we have done has helped, not hiring employees, being down 40 employees since 2008 has helped, but there is still a shortfall that we are having trouble making up for. Moving some of this money over to the General Fund will help and this is something we will have to revisit next year to see if we have to adjust these percentages again. Mr. Nickell asked if this franchise money will ever go away or is this amount guaranteed for awhile. Mr. Dean said the Ohio Revised Code allows cities to charge these fees, capped at 5%. He said at one time there was discussion regarding the elimination of these fees at the municipal level, but that did not happen. He said the bigger question would be if cable TV is going to be around in 10 years. Mr. Nickell said that it looks like our state revenue fund will go up this year, doesn't this help us. Mr. Dean said that this is factored into the equation and it did help a bit but it is still only half of what it was in 2010-2011 and is not enough to make up the difference. Mr. Marnecheck asked Mr. Dean if he feels that in 2016 he will need to take the \$200,000 again or is this a onetime allocation. Mr. Dean said we would not have the extra payroll in 2016, so we would have to wait and

see how receipts come in and what expenses we will have. He said that we will have union contract negotiations in 2016 which drives a lot of our expenses. He said he is unsure if we will need it in two years, but he likes the flexibility to be able to use this for operations if needed. Mr. Langshaw asked Mr. Dean for his recommendation between the 25% or the 50% allocation for the General Fund, and if we were to do the 25%, would this be the bare minimum to shore up the General Fund. Mr. Dean said that he is proposing the 50%. He feels that we need the \$200,000. He said at the end of the day with the 50% in there we have a balanced budget in the General Fund and he wants to see our carry over to stay the same. He said that if we don't allocate the entire 50% we could see our fund balance decrease at the end of next year. Mr. Nickell said that he is comfortable at 25%, he is not ready to do the entire 50%. He asked if we could authorize a onetime transfer of the amount needed. Mr. Dean said we would have to follow the ordinance that establishes how to allocate this money so this would have to be written into the ordinance. Mayor Stefanik felt it would be cleaner if we went ahead and made the permanent change rather than a onetime allocation. He said we can revisit this at the end of next year. This is not set in stone; we could change this in 3 months if we wanted to. Mr. Antoskiewicz said that he is comfortable with the conservative approach of 25%. He said that we can look at these numbers every year and make adjustments as needed. He asked if a majority is in favor of 25% being placed in the Future Capital Improvement Fund, 25% into the General Fund and the rest of the funds remaining as is with the understanding that the YMCA Fund will be renamed to the YMCA Special Revenue Fund, and the other Future Capital Fund will be a new line item for Service Vehicles. Mr. Marnecheck asked where Mr. Dean will make up the \$100,000. Mr. Dean said that he does not have an answer for that right now but he will look at it again and see if we can find anything or worst case scenario we use the money from the prior year carry over. Mr. Marnecheck said that this is his concern. There has been no proposed alternative in terms of raising this money. He said it could be coming from a place that he is less comfortable with than Future Capital. Mr. Antoskiewicz said even if we don't allocate the \$200,000 for the General Fund, the budget is still balanced. He thinks what Mr. Dean is saying is that he would like to have some leeway in case something should come up. Even if we only put the \$100,000 in and something major comes up, we still have the ability to transfer Future Capital or other funds into the General Fund. Mr. Muller said that he would prefer it if we didn't have to make the change at all. He would prefer to have this money stay in the Future Capital Improvement Fund as a "rainy day" fund similar to a household savings account. If it would wind up that we would need additional funds time and time again, then we may have to begin to analyze if something else would need to be cut. He said that no one wants to make more cuts since we have already made a lot of cuts over the years, but it is something that would have to be analyzed at some point. He feels that the 25% should help the General Fund and we can revisit this next year, or even later this year, if an additional change needs to be made. Mr. Antoskiewicz said the important thing to keep in mind is that we have the additional payroll in 2015. Mr. Muller said it was his understanding that this additional payroll will be pulled from the Accrued Balances Fund, so he doesn't believe there should be a problem covering this expense. He said that he does not believe the need for the money from the Future Capital Improvement Fund has anything to do overall with the additional payroll. He said that the real reason for this is due to the reduction of the state shared revenue. Mr. Antoskiewicz said he agrees with Mr. Muller regarding the 25%, but does not agree with the reasoning he just brought up. He felt that the whole thing creates the situation. All the state cuts, no matter where you are taking the money from, makes a difference. If we had that additional \$1.5 million, we would not be talking about taking \$100,000 or \$200,000 from the Future Capital fund because those sources of revenues could be used in some of the areas we are talking about like the additional payroll. He feels that it is all one big pot. Mr. Marnecheck asked Mr. Dean that if the change goes from \$200,000 to the \$100,000, how will that impact the rest of the budget. Mr. Dean said that the only change is that it is going to show less money going to the General Fund. Mr. Kasaris asked what Mr. Dean thought the carryover would be at the end of this year. Mr. Dean said around \$1 million. He said we started the year at \$900,000 in the General Fund. Mr. Kasaris asked what Mr. Dean is projecting as a carryover for 2015 with this budget. Mr. Dean said he is expecting to keep it the same. Mr. Kasaris asked if Mr. Dean was relying on that extra \$100,000 to keep our carryover at around \$1 million. Mr. Dean said yes, he has included this in the budget numbers. Mr. Kasaris asked what advantage there is to having a \$1 million budgeted carryover. Mr. Dean said that when we go to the bond market, they are going to look at our budget. It may be an issue if it looks like we are spending a little more. This is one of the reasons we would want to keep it the same. He didn't think it would hurt our rating, but it will be a red flag. He said that this is one of the reasons he wants the allocation to stay at 50%. Mr. Nickell said that if we have to look into future cuts should

revenues keep getting cut by the state, he felt that one area we could look at would be Animal Control. He said we are spending \$150,000 on this program per year and he said we had 400 calls in 2013. He said that this may be a service that can be outsourced. Mr. Marnecheck said that we would still have to pay for the outsourcing so we wouldn't save the entire \$150,000. Mayor Stefanik said that we are still hoping to discuss merging with other communities with animal control departments. He said that we came close at one point with Broadview Hts. but the issue fell through when they decided that they wanted their own Animal Control Officer. He said that we are willing to work with surrounding communities to merge any type of service. He feels that we will see more and more of that as we go down the road, otherwise we won't survive. He said the last thing we want to do is to go back to our residents for more money so we will slash and cut wherever we can to avoid having to do this. Mr. Kasaris said that when we had that vicious dog attack a few years ago and had a Council Chamber full of people, we all saw the value of having our Animal Control person who is here and can speak to the people and who works for us. In his opinion, this alone showed the value of our own Animal Control Department. Mr. Nickell said he was just saying that at \$375 per call, this is a discussion we may need to have in the future if the budget continues to get tighter. Mr. Antoskiewicz said he hopes we don't have to have this discussion, but it is something that maybe we can regionalize with surrounding communities similar to what was done with dispatch. Mr. Antoskiewicz asked for a consensus on whether or not we want to stay with the 50% or reduce it to 25%. Mr. Antoskiewicz said he is in favor of the 25%. Mr. Marnecheck said he prefers that it stay at proposed 50%. Mr. Langshaw said that he is in favor of the 50%. Mr. Muller and Mr. Kasaris had both stated earlier that they are in favor of the 25%. Mr. Antoskiewicz said that we have another Finance Committee meeting on November 18, 2014 and we can discuss this issue further at that time.

At this time, Council reviewed the 2015 Budget Questions chart, a copy of which is attached to these minutes. Mr. Nickell asked about the Rt. 82 Fund. He said we had \$348,000 in this fund and asked if we want to keep building this fund. Mayor Stefanik said that when the county says it is the right time to do this project, we will apply for Issue 1 funding to help cover the gap on this project. These types of projects have traditionally scored very well for funding. We are also working with NOACA to get additional funding through them. This probably won't happen for 2-3 years. The Issue I application will be for our matching funds. Mr. Langshaw asked Mr. Dean if we were on track to get the Wastewater Department back in the black. Mr. Dean said that if we collect what we are budgeting and expend what we are budgeting we are going to have a slight increase in our fund balance for all funds of about \$200,000. He said that for next year he is looking at about \$170,000. It is improving; we had some significant deficits that are getting eliminated.

Mr. Langshaw asked when will we be where we need to be with the wastewater funds. Mr. Dean said that he is still showing a deficit in the maintenance fund and that has been the case for several years. It looks like we have the money in repair and replacement to offset this. He said that there are some significant capital improvements in this budget that were requested by Mr. Tighe and we are still showing a healthy balance at the end.

Mr. Nickell asked Mr. Dean to review the Unclaimed Funds document, a copy of which is attached to these minutes. Mr. Dean said that these funds represent vendors that we have cut a check for but they were never cashed. He said we have an obligation to hold this money and try to contact the vendor and get the check cashed. Mr. Nickell asked how long we hold the money. Mr. Dean said he is unsure of the state statute indicating how long to hold the money.

Mr. Muller said that he had a question about the Police Department and the amount of money that comes from the General Fund. He said that he noticed that we are adding two officers and asked if this is fully necessary. He said that when he looks at 2013 and does a comparison of what we have for the 2015 budget, there is essentially an \$870,000 difference in the General Fund and \$497,000 of this is actually an increase in the Police Department. Do we foresee any further increases in this area over time. He said he wants to be sure that all of the expenditure that we are incurring will end at this point and wants to know if it is really necessary to add two more people. He said that this was the only other item he saw, other than what has already been discussed, that had such a large percentage of increase to the General Fund. Mayor Stefanik said that there are two new police officers coming on next year and there are two that will probably retire, but we cannot assume

they will retire so we have to budget for them. He said we are down to a level of police officers that we are comfortable with. When Chief Elek became Chief he made a lot of changes in the department. He took a couple officers out of the detective bureau and put them back on the streets. These two new officers will give us two people higher than we should have, but while we can't guarantee it, we know some people are going to retire. He said that this is where some of that cost is coming in. Mr. Muller said that there is a \$490,000 increase in a two year time period and he was just asking if there is something that can be reduced. Mayor Stefanik asked Mr. Dean if this had anything to do with the reclassification of the Lieutenants pay. Mr. Dean said that this increase includes the extra pay for 2015 as well as the 1.75% pay increase for 2015. Mr. Dean said that he will look into this. He agrees that it seems like a lot but everything ties out to the actual numbers. He said that he has the detail of where these numbers come from and he will double check to make sure everything is correct. Mr. Muller asked Mr. Dean what the amount of the extra payroll will be for this department. Mr. Kasaris said that most of the increase actually occurred between 2013 and 2014. The increase between 2014 and 2015 is only about \$100,000. Mr. Dean said that he will look at all these figures and advise Council.

Mr. Kasaris asked what the increase will be in healthcare for 2015. Mayor Stefanik said that we have budgeted for a 10% increase and we are currently in negotiations with several providers.

Mr. Marnecheck asked about Fund 217 for the recycling grant. He thought we were not getting the grant anymore and were out of this business. Mr. Dean said that we did get the grant this year. Mayor Stefanik said that this grant comes from the Cuyahoga County Solid Waste District. Mr. Kasaris asked if the option year with Rumpke was after 3 years or 5 years. Mayor Stefanik said that it was a 5 year contract and this is only our 3rd year with Rumpke.

Mr. Kasaris asked if the \$57,000 budgeted for building maintenance includes the old City Hall. How much money are we budgeting to maintain the former City Hall. Mr. Dean said that he carried forward last year's maintenance account. We don't yet know what the bills will be in the new building, but expects that they will be significantly less. He said that we had some higher than expected gas costs and lower than expected electric costs this year, so they canceled each other out. He said that we are not expecting an increase in 2015, but we will have to wait and see how the bills come in for the maintenance of this building. Mr. Kasaris asked if there is any way that we can separate out the costs for the old building and the new building so we know how much it is going to cost us to maintain the old building, including utility costs. Mr. Dean said that he will do this.

Mr. Dean said that we had a significant increase in ambulance billing collections since it was outsourced. He said it went up by about \$226,000 and we have about \$1.2 million in the Fire Capital Improvement Fund. He said that we are looking at using a portion of that money to help pay for fire operations. He asked if anyone had any questions or issues with this. Mr. Kasaris said that it makes sense to him.

Mr. Kasaris said that under Legislative Activity there is a fund for salaries and a fund for compensation and asked what the difference was between these funds. Mr. Dean said the compensation fund is for the Council pay, the salaries are for the Council Office staff.

To recap, Mayor Stefanik said we are going to look at is the questions raised tonight about the Police line items. Mr. Antoskiewicz said that we are also going to think about whether we are going to do 25% or 50% from the cable franchise fees into the General Fund. Mr. Antoskiewicz said if Council has any additional questions before our November 18, 2014 meeting, to please get them to Mr. Dean ahead of time so that he can have the answers ready for that meeting.

ADJOURNMENT

Moved by Mr. Marnecheck, seconded by Mr. Antoskiewicz to adjourn the meeting. Yeas: 3. Nays: 0. **Motion carried. Meeting adjourned at 7:45 p.m.**