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January 28, 2016
Revised February 5, 2016

Nancy E. Fellows, President of City Council
City of Willoughby Hills, Ohio
35405 Chardon Road
Willoughby Hills, Ohio 44094

Re: 2016 Proposed Operating Budget

Dear Council President Fellows:

Submitted herewith for Council's review and consideration is the City's proposed 2016 Annual Operating Budget. We would request that an ordinance adopting this budget be introduced on first reading at the February 11, 2016 Council meeting with the second and third readings of the proposed ordinance occurring at the regular Council meetings scheduled for February 25th and March 10th, 2016. State law requires that the City adopt an operating budget by no later than March 31st of any year.

The 2016 General Fund proposed operating budget is summarized as follows:

\$ 6,457,200 – Estimated Revenue
\$ 6,512,100 – Estimated Expenditures
(\$ 54,900) – Estimated Excess of Expenditures over Revenues
\$ 1,476,634 – Unobligated Fund Balance January 1, 2016
\$ 1,421,734 – Projected General Fund Balance December 31, 2016

As in past years, every effort was made to eliminate the projected 2016 operating deficit while trying to maintain current operations at a high level. Unfortunately, three significant items have made it difficult to accomplish that goal:

1. **The State of Ohio's decision to reduce the amount of funding it provides to local governments.** It is projected that the City will receive approximately \$789,000 less in State funding in 2016 than it received in from the State in 2007.
2. **Income tax stagnation.** Income tax revenue is the City's primary funding source. Due to the combined impact of the overall economy combined with the loss of a major employer to another local community, the amount of income tax received in 2015 was only 2% higher (\$96,400) than was received by the City in 2012.
3. **Implementation of the Federal Affordable Care Act.** The City will be required to offer health insurance coverage to eight part-time employees who worked 30 or more hours per week during 2015. The 2016 budget has been increased by \$25,200 to provide for the cost of implementing this mandate effective for the last eight months of 2016. Annualized, this will add approximately

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\$38,000 to the City budget. The 2016 Budget assumes that only one of the eight eligible individuals will select health care coverage while the other seven have health insurance from other sources and will waive coverage and accept payment for waiving coverage. Should all eight elect coverage for themselves and their families, the additional cost to the City will be approximately \$146,000.

The proposed 2016 Revenue Budget was impacted by the following items:

- A slight decrease in property tax revenue and the related property tax credits and rollbacks received from the State of Ohio. During 2015 the Lake County Auditor completed his reassessment of current property values. The reassessment resulted in a decrease of approximately 3.5% (approximately \$8.9 million) from 2014 values.
- A projected overall decrease in income tax revenue of approximately \$26,800 (\$4,000 General Fund increase, \$30,800 Safety Forces Special Revenue Fund decrease) over the amount budgeted in 2015. The amount estimated for 2016 is \$94,500 over the amount of income tax revenue received by the City in 2015 (\$67,100 General Fund, \$27,400 Safety Forces Special Revenue Fund).
- A projected increase in revenue from the Mayor's Court of approximately \$114,000 over the amount budgeted for 2015. The anticipated 2016 revenue exceeds the amount of revenue actually received by the Mayor's Court in 2015 by approximately \$53,200.

The 2016 Expenditure Budget was impacted by the following items:

- Negotiated wage increases: The budget reflects wage adjustments for all union employees (Police and Service – 2%, Firefighters 0.50%) that were approved by City Council in 2013 and 2014.
- The budget includes a 2% adjustment for City Council and all other employees not covered by collective bargaining agreements. The Department of Labor had not yet released the January 2016 CPI. Once this figure is released, the actual wage adjustment for the City's elected officials will be computed and the budget adjusted accordingly.
- Health Care: The budget projects a 20% increase in the cost of health insurance, effective July 1. In addition, the first six months of 2016 reflect the rate increases which went into effect on July 1, 2015.
- Affordable Care Impact: As previously noted, the Affordable Care Act will require the City to offer health care coverage to eight part-time employees (four firefighters, three police officers and the Clerk of City Council) who worked an average of 30 hours a week during the 2015 test period. The budget anticipates that seven of the eight employees will waive coverage and instead accept the waiver payment (\$225 per month) when they become eligible for coverage provides \$25,200 for this expense covering eight months of 2016 (annualized expense \$38,000). However should these employees decide to accept coverage from the City, this expense could grow to as much as \$145,000 annually if all employees require family coverage.
- City Debt:
 - At this time, the budget does not anticipate any new borrowing however this may change depending upon the final cost of the SOM Center Road (Rt. 91) resurfacing project.
 - \$1,334,265 will be paid by the City against its existing debt total of \$12,741,310
 - Depending upon whether or not the SOM Center Road is debt financed, the 2016 Budget is projecting a long term debt balance of \$11,407,045 at the end of 2016.
 - The City will make its final payments on the 2001 Fire Station Improvement and the 2005 Fire Truck bonds and the Police Department's five year radio equipment lease.
- Other Items: The 2016 budget provides for the following significant operating and capital expenditures:
 - A \$38,000 reduction for the City's bi-annual audit by the State Auditor of the City's financial records as this will not take place until 2017.

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- The paving of Worrell Road (\$173,200) 50% of this expense will be financed by a grant from the State.
- \$1,669,000 for Route 91 Paving Project construction expense. This design of this project was funded in 2015. The City received a Federal PTAM Grant in the amount of \$1,055,500 to partially finance this project leaving the City to finance \$613,500. In order for this project to go forward, the City will have to make a decision as how to finance its share of this project as the resources of the City's three road funds are not sufficient to fully fund this expense.
- A decrease of \$74,400 for the purchase of road salt over the amount actually expended in 2015. In 2015, the City paid an average of \$77 per ton for rock salt; the price for 2016 decreased to approximately \$51.00 per ton.
- \$115,000 for major maintenance work on the Pleasant Valley Bridge.
- \$74,100 for the purchase and equipping of two new Police vehicles.
- \$175,000 for the replacement by the Service Department of a 1 ton dump truck, a 1 ton pickup truck (both with snow plow packages) and a skid steer used for street maintenance. The skid steer will be financed by the City's Capital Fund. This will deplete the Capital Fund as, with the loss of revenue from the Estate Tax, this fund no longer has a funding source.
- \$48,000 for the restriping of City streets.
- \$48,100 to increase the staffing of the road crew by one position.
- \$109,000 for the estimated cost of retirement payouts to city employees who are expected to retire from the service of the City during 2016.

Potential Capital Requirements- 2017 Through 2019

The list that follows represents the Administration's current estimate of the City's capital needs for the years 2017 through 2019. These items will need to be incorporated into the operating budgets for each of these years along with funding for each of these items. In past years, the City had dedicated revenue that it received from the State of Ohio from the Estate Tax to finance its capital program. Since the State of Ohio eliminated the Estate Tax in 2013 and did not make provisions to replace this source of City capital funding revenue, the General Fund will most likely have to finance the bulk of the items listed.

2017 Potential Capital Needs

- \$100,000 – Dispatch – 911 system replacement
- 75,000 – Police Department – Replacement of two cars
- \$150,000 – Police Department – Replacement of radios
- \$300,000 – Service Department – Replacement of two snow plows
- \$50,000 – Service Department – Replacement of two pickup trucks
- \$10,000 – Service Department – Computerized scan tool for vehicle maintenance
- \$15,000 – Information Technology – Equipment replacement Citywide

2018 Potential Capital Needs

- \$75,000 – Police Department – Replacement of two cars
- \$125,000 – Fire Department – Ambulance Refurbishment
- \$15,000 – Information Technology – Equipment replacement Citywide
- \$10,000 – Service Department – One ton trailer for hauling
- \$10,000 – Service Department - 72" riding zero turn mower
- \$4,500 – Service Department – Hand blowers (2) chainsaws (2) and gas auger

2019 Potential Capital Needs

- \$75,000 – Police Department – Replacement of two cars
- \$50,000 – Service Department – Pickup truck replacement
- \$15,000 – Service Department – Garage doors replacement
- \$4,500 – Service Department – Sandblasting cabinet and air compressor

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As previously noted, like the 2014 and the 2015 budgets, the 2016 budget is very lean, to the point of being painful. The City's current funding sources require it to defer various capital projects and equipment replacement that it would otherwise like to perform. The Administration will continue to manage the City's operation very carefully as it did in 2015 which resulted in a General Fund operating surplus of approximately \$298,000. In an environment of reduced support from the State of Ohio and stagnant to declining property values, the Administration and Council will need to consider what service and funding levels are acceptable in 2016 and beyond. As the past as shown, we cannot continually balance budgets by deferring the replacement of equipment needed by the staff to operate or maintaining streets and infrastructure without paying a significant price in the future.

Sincerely,



Robert M. Weger
Mayor



Frank J. Brichacek
Director of Finance

Enclosures (1)

C: City Council