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March 12, 2020

Christopher Hallum, President of City Council
Members of City Council
City of Willoughby Hills, Ohio
35405 Chardon Road
Willoughby Hills, Ohio 44094

Re: 2020 Proposed Operating Budget

Dear Council Members:

I am submitting for Council's review and consideration the 2020 Mayor's Budget Message and Proposed Operating Budget as required by Sections 2.24 and 2.25 of the City Charter. An ordinance adopting this budget was introduced on first reading at the February 27, 2020 Council meeting with the second reading of the proposed ordinance occurring at the regular Council meeting scheduled for March 12, 2020 and the third reading occurring at the regular Council meeting scheduled for March 26th, 2020. State law requires that the City adopt an operating budget by no later than the ninetieth day of the year which happens to March 30th of any year.

The 2020 proposed operating budget for the City's major governmental operating funds is summarized as follows:

	<u>Combined Total</u>	<u>General Fund</u>	<u>Safety Forces</u>	<u>Street Funds</u>
Estimated Revenue	\$11,309,800	\$7,263,800	\$2,056,700	\$1,989,300
Estimated Expenditures	<u>11,147,000</u>	<u>2,894,000</u>	<u>6,313,900</u>	<u>1,939,100</u>
Estimated Excess Revenues Over/(Under) Expenditures	\$162,800	\$4,369,800	(\$4,257,200)	\$50,200
General Fund Transfer to Safety Forces & Street Funds	0	(4,254,700)	4,254,700	0
<u>Unobligated Fund Balance as of</u>				
Actual January 1, 2020	<u>3,331,258</u>	<u>1,860,402</u>	<u>868,412</u>	<u>602,444</u>
Projected December 31, 2020	<u>\$3,494,058</u>	<u>\$1,975,502</u>	<u>\$865,912</u>	<u>\$652,644</u>

The General Fund is the City's chief operating fund. It accounts for all of the financial resources of the City except for those that are required to be accounted for in other funds. The General Fund also provides operating subsidies to the governmental activities (most notably the City's street maintenance programs, recreation program and safety forces) that receive restricted revenue and are required either

by law or by contractual agreement to be accounted for in special revenue or capital project funds. The fund groupings listed above account for the operating budgets of the City's basic governmental services.

The proposed 2020 Operating Budget incorporates the following changes:

- All Service Department Wages and Benefits excepting for expenses related to park and sewer maintenance are now accounted for in the City's General Fund. Prior to 2018, these expenses were allocated to the City's Street Maintenance Funds.
- No provision for note debt service. In 2018 the City retired its \$550,000 general obligation note which was originally issued to finance equipment for police, fire and public works equipment as well as street resurfacing projects.
- The full time staffing of the Fire Department was increased from nine to twelve firefighters. The remainder of the staffing continues to be supplemented by part-time firefighters.

The proposed 2020 Operating Budget is significantly impacted by the following items:

Revenue Items

- \$614,200 – Increase in anticipated City Income Tax revenue compared to the amount budgeted in 2019. This increase is based upon 2019 actual revenue exceeding the amount budgeted for 2019 by approximately \$423,700 and anticipating a 3% growth rate in 2020.
- No change in estimated revenue from the Mayor's Court versus the amount budgeted in 2019. Court revenue is anticipated to return to more normal levels based upon the increase in the number of cases filed with the Mayor's Court rather than the Willoughby Municipal Court as the Mayor's Court continues to recover from the impact of being shut down for eight months of 2018.
- \$30,500 – Decrease in Property Tax and related state reimbursements from the amount budgeted in 2019 resulting primarily from the elimination by the State of Ohio of the personal property tax.
- \$146,700 – Federal Emergency Management Agency (FEMA) Assistance to Firefighters Grant to finance 95% of the cost of replacing self-contained breathing apparatus (SCUBA) equipment used by the firefighters.
- \$79,700 – Department of Homeland Security Operation Stonegarden Grant to the Police Department to finance overtime related to homeland security patrols.
- (\$20,900) – Elimination of the Police Dispatch contract with Waite Hill resulting from the City now contracting with the County for Police Dispatching service.
- \$297,100 – Increase in State Gasoline Tax funding for street maintenance over the amount budgeted in 2019 resulting from the State's decision to increase the Cents-Per-Gallon Gasoline Tax from \$0.185 per gallon to \$0.285 per gallon effective July 1, 2019.
- (\$428,900) – Net decrease in County Storm Water Management Project funding. In 2019, the City received a one-time \$400,000 grant to finance the Dodd Road Stabilization Project.
- \$268,300 – Grant funding and loan funding received from the Ohio Public Works Commission (\$155,800 grant and \$50,000 interest free loan) and \$62,500 from Lake County for the Rockefeller Road improvement project.
- \$32,900 – NOPEC Energized Community Grant, Phase III, to finance City facility energy efficiency projects.
- UNKNOWN – Potential federal or state reimbursement of COVID-19/Novel Coronavirus Pandemic expenses.

Expense Items

- \$43,200 – Increase in estimated 2020 Workers Compensation expense over 2019
- \$20,100 – Increase in health care expense.
- \$31,100 – Increase in the amount budgeted in 2020 over the amount budgeted in 2019 for the operating cost of Police and Fire dispatching services.

- \$1,016,800 – 2020 Street Resurfacing Program Budget financed by the Road Levy and \$268,300 in grant and loan funding (detailed above).
- \$107,500 – Increase in the Police Department staffing budget over the adjusted 2019 budget to provide for full staffing.
- \$79,700 – Police Operation Stonegarden expense to finance additional road patrols, financed by a grant from the Department of Homeland Security through the Lake County Sheriff (detailed above).
- \$154,200 – Replacement of the self-contained breathing apparatus units (SCBA) used by the City's firefighters, 95% funded by an Assistance to Firefighter's Grant from the Federal Emergency Management Agency (FEMA) (detailed above).
- \$35,300 – Purchase of a wood chipper for use by the Service Department for maintenance of City property and clearing roadways after storms.
- \$33,300 – To finance minor improvements to various City facilities (\$19,300) and the Community Center (\$14,000).
- \$28,000 – To finance the replacement of the Service Department's vehicle lift and tire mounting equipment.
- \$6,000 – Removal of an underground fuel tank.
- \$21,000 – Acquisition of a 20-ton air brake trailer for use by the Service Department to haul road and sewer equipment to job sites.
- \$35,300 – Replacement of a Service Department pickup truck.
- \$32,900 – Energy improvement projects to various city facilities finance by a NOPEC grant.
- \$241,500 – Relining of sanitary sewers throughout the City, financed by the Sewer Fund
- \$70,000 – To provide for unanticipated sanitary sewer repairs– financed by the Sewer Fund.
- UNKNOWN – Potential expenses related to City response to the COVID-19/Novel Coronavirus Pandemic.

Potential Capital Requirements- 2021 Through 2023

The list that follows represents the Administration's current estimate of the City's capital needs for the years 2021 through 2023. 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.

2021 Potential Capital Needs

- \$110,000 – Police Department – Replacement of two cars
- \$250,000 – Police Department – Replacement of radios
- \$190,000 - Service Department – Replacement of one snow plow
- \$125,000 – Fire Department – Ambulance Refurbishment
- \$148,500 – Chardon Road Resurfacing Project design and engineering.

2022 Potential Capital Needs

- \$378,000 – Chardon Rd. Resurfacing Project Construction – City 20% Share
- \$1,314,800 – Chardon Rd. Resurfacing Project – Federal Grant 80% Share
- \$450,000 to \$550,000– Fire Department – Replacement of 1997 Fire Truck
- \$165,000 – Police Department – Replacement of three cars
- \$15,000 – Information Technology – Equipment replacement Citywide
- \$75,000 – Service Department – Equipment
- \$15,000 – Information Technology – Equipment replacement Citywide

2023 Potential Capital Needs

- \$165,000 – Police Department – Replacement of three cars
- \$50,000 – Service Department – Pickup truck replacement
- \$75,000 – Service Department - Equipment

Road Maintenance Property Tax Levy

The City's five year, 2.5 mill levy to finance its street construction and maintenance program was last renewed by the voters in 2014. This is the primary source of financing for the City's annual road program, providing approximately \$616,500 in 2020 road maintenance funding. 2020 will be the fifth and final year of collection of this levy. During 2020, the City must make a decision on the amount it needs to finance its road maintenance program for the next five years and place the matter before the voters for approval.

Acknowledgement

The drafting of this budget would not be possible without the support and assistance of all parties, Mayor, Council and Staff. We would like to acknowledge the input received from the City Council and the Finance Committee Chairman regarding this budget during the last year. Without such support, preparation of such a comprehensive financial plan for 2020 would not have been possible. We look forward to working together with Council on future financial plans.

Conclusion

As previously noted, like the operating budgets of the last five years, the 2020 budget is very lean as the City's resources limit it from providing all the services and improvements that everyone would like. The City's current funding sources require it to defer various capital projects and equipment replacement that it would otherwise like to perform if additional resources were available. One encouraging note is the Governor's and State Legislature's recent decision to increase the State's Gasoline Tax and Motor Vehicle License fees. As this revenue source had not been adjusted in fifteen years, this change is now beginning to provide some badly needed new revenue to the City's annual road program.

The Administration will continue to manage the City's operation very carefully as it did in 2019. In addition, grant submissions are encouraged and have been extremely helpful in reducing our need for additional taxes. Careful budget management by the Administration resulted in 2019 General Fund obligations being approximately \$298,200 less than the \$6,831,700 budgeted. In fact, the City's General Fund has ended seven of the last ten years with an actual operating surplus while six of those ten years had budgeted operating deficits.

In an environment of reduced support from the State of Ohio combined with stagnant to declining property values, the Administration and Council will need to consider what service and funding levels are acceptable in 2020 and beyond. The same forward thinking and willingness to change by the Administration and City Council (both past and present) that took the City's General Fund Balance on January 1, 2008 from an un-auditable balance of \$19,694 to an unobligated balance of \$1,860,453 on December 31, 2019 is needed as much now as it was then.

Sincerely,



G. Andrew Gardner
Mayor



Frank J. Brichacek
Director of Finance

Enclosures (1)