

TO: HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: DAVE RULLER, CITY MANAGER

DATE: NOVEMBER 2, 2007

SUBJECT: PROPOSED 2008 CITY BUDGET

---

I am pleased to present to you and to the residents of the City of Kent, the Proposed 2008 City Operating Budget. All Funds in the Proposed Budget are balanced using a combination of ongoing revenues and available reserves, and each Fund reflects our continued commitment to fiscal discipline, efficient customer service delivery, and attention to community priorities such as public safety, public infrastructure, and neighborhood improvement.

Like the budgets before, the Proposed 2008 Budget serves as our fiscal roadmap for next year, sustaining resources for key City Council priority areas, while also laying the groundwork to begin addressing the long-term structural deficit that has been much-discussed and studied over the last 2 years.

Unlike the previous budgets, this is the first budget to be prepared since Council endorsed the financial principles presented by the Blue Ribbon Panel – so although there are no significant changes proposed in this budget, the staff have sought to align the budget recommendations with the priorities identified during the Blue Ribbon Study.

## Blue Ribbon Framework

By design, the Blue Ribbon Study afforded us an opportunity to obtain a significant amount of input from Council, City staff, and the community regarding the City's financial choices. That process gave us a lot of good ideas, but most importantly, the process led to a new financial framework that makes it possible to align the City's budgetary activities with community and Council priorities, while continuing our progress towards restoring fiscal balance in the General Fund.

Although Council has not chosen to adopt all of the elements of the Blue Ribbon Recommendation, Council's endorsement in principle has provided staff with a framework for financial planning that is flexible, assists in budgetary decision-making, and serves to guide our financial management and operations. With a conceptual basis in place, staff was able to prepare a financial plan in the form of the Budget for 2008, and we will work that plan during the year to make sure we are taking deliberate, incremental steps towards restoring fiscal balance.

It's important to note that none of the revenue enhancements recommended by the Blue Ribbon Panel will produce any new revenues in 2008. But regardless of the revenue situation, the Proposed 2008 Budget does seek to realign expense decisions around the strategy of leveraging economic development investments to expand the tax base in order to honor the City Council's stated desire to not cut City service levels and to actually expand service levels in areas of public safety and neighborhood services. That translates into recommendations to fill vacant public safety positions, to honor higher minimum staffing levels in emergency response operations, to increase code enforcement capabilities, and to continue to support economic revitalization through program areas like Main Street Kent, urban redevelopment, and land banking.

## Proposed 2008 Budget Strategy

A careful reading of the 2008 Proposed Operating Budget will reveal few changes from the previously approved City budgets. With no new revenue sources identified for 2008, and with little expectation for growth in the tax base, the staff have done their best to keep resources focused on critical service and safety needs. This means that once again, this budget is full of difficult decisions that were made to help assure the long-term financial viability of the City while protecting core City services and top community priorities for 2008.

### Key Priority Areas

### Key Proposed 2008 Budget Action Items

#### Public Safety

- Fill Vacant Police Officer Positions (\$150,000)
- Higher Minimum Staffing in Fire/EMS (up to \$200,000)
- Wireless 911 System (\$25,000)

#### Economic Development

- Maintain Support for Main Street Kent (\$81,000)
- Sustain \$100,000 in Urban Redevelopment
- Support Continued Use of Land Banking (\$126,000)

#### Neighborhood Enrichment

- Upgrade Part Time Inspector to Full Time (\$30,000)
- New Inter-Agency Activity Tracking Software (\$7,000)

Shifting resources to these key priority areas was not accomplished without some cost. Department requests for new staffing were denied and new purchases were deferred. Even in priority areas, like public safety, requests for new staff (Assistant Chief, Police Officers, Firefighters) had to be declined. The City continues to face long-term fiscal challenges and without the benefit of new revenue sources most of the unmet needs will remain largely unaddressed for another year.

If Council acts on any of the other Panel Recommendations for new revenues during 2008, I would strongly recommend reevaluating the Budget with specific consideration given for additional public safety positions and expanded neighborhood initiatives. Many of the economic development initiatives planned

for 2008 will likely require one-time injections of cash, and given our relatively favorable Fund Balance, I think we are in a position to be able to support economic development needs through Fund Balance.

## Revenue Forecast

While unemployment levels are relatively low in the area, the number of high paying professional jobs in our local economy has not kept pace with job loss, resulting in 15% fewer jobs in Kent today than in 1990. With income taxes generated from Kent based jobs comprising 90% of our General Fund revenues, our revenue challenges remain significant but there are a number of bright spots appearing on our economic horizon.

Many of the Kent industries who survived the manufacturing transition of the last 10 years are now enjoying exceptional profit performance, e.g., Davey Tree, ACS Industries, Kent Elastomer, Ametek. And in a number of cases this profit growth has led to expanded their employment in Kent. The announcement of the new Cambria Manufacturing Plant, the expansion of the Toyota Dealership, and the opening of the new Save A Lot grocery store, should bring between 70 to 100 new jobs to Kent in 2008 and affirms my belief that Kent is investment ready.

Our largest employer, Kent State University also reported a record year for enrollment and research funding in 2007, so the prospects for a financially strong 2008 would appear good. However, with mandated caps on tuition and the announcement of the Governor's Plan to re-engineer the Ohio higher education system, there is uncertainty over what impacts these may have on Kent State's finances in 2008. Kent State currently receives about 23% of its revenues from the State of Ohio, so depending upon how the Governor's Plan seeks to redistribute the State funds, Kent State could be facing unexpected revenue shortfalls despite otherwise strong indicators of fiscal health. With Kent State contributing 35% of total City income tax revenues, the Governor's Plan could have an adverse trickle-down impact on City tax collections as well.

Revenues from the City's JEDD agreements were surprisingly productive in 2007, bringing in upwards of \$300,000. As commercial development continues within the boundaries of the Brimfield and Franklin JEDDs, the staff expects these revenues to continue to grow as the JEDD tax rates are scheduled to rise incrementally from .5% (Brimfield) and 1% (Franklin) to 2%.

In its first year, Main Street Kent brought a significant number of new events downtown, which in turn generated record single-day sales figures for a number of downtown Kent businesses. With more cash in hand, and more confidence in the viability of downtown, property owners are accelerating reinvestment activities focused on restoring and/or expanding downtown buildings and facades, e.g., Ray's Place, the McKay Brickner Gallery, Water Street Tavern, Food Coop, Chamber Building.

The City's redevelopment project downtown, including the prospect of a hotel/conference center, is likely to be an area of significant activity in 2008, but it is unlikely to generate much by way of new revenues until at least 2009-10.

The national softening of the housing market has been evident in Kent in 2007 with new construction permits decreased from previous years. With only .10 cents on the dollar coming to the City from property taxes, declining property values have less of an immediate impact on City revenues but if the trend continues and valuations drop significantly, the City's ability to borrow against those property values will also drop accordingly.

## Expense Forecast

Despite the improving economic picture, we have a Proposed Budget for 2008 that projects a deficit of \$2 million. As discussed during our Blue Ribbon review, the cost of continuing the current levels of service will not continue to be sustainable absent new sources of revenue and/or a reduction in costs. The staff has been able to achieve \$2 million in cost savings, but realistically, any further cuts are going to require the elimination of certain City services.

The work of continuous improvement is never done and staff will continue to commit to expense management measures, but with 72% of our costs in personnel, we are faced with the prospect of cutting positions at a time when the Council and the community has been clear in its desire to see many services restored or expanded. It was this desire to not sacrifice City services for the sake of cost savings that led the Blue Ribbon Panel to recommend a more aggressive economic development strategy on the promise of growing the tax base to meet City service needs and expectations.

## The Numbers

The Proposed City Budget totals \$38.7 million, including all City funds, departments, and programs. The General Fund budget totals approximately \$8.9 million. The Proposed 2008 Utility Budgets do not require a sewer or water rate change in 2008, and like our other funds, the utilities have proposed a constrained status quo budget.

Following back-to-back years of million dollar deficits (2003, 2004) that caused our fund balances of the major governmental funds to drop by 26% in just 2 years, we started the Blue Ribbon Study in 2005 with a commitment from the administration and staff to do whatever it takes to curb spending so as to allow Council, the Panel, and the community time to review our finances and come up with long term solutions. As difficult as it has been, we did it; we honored that commitment.

By freezing positions, deferring capital replacements, and having select revenues (estate tax) coming in unexpectedly high, the Fund Balance has had a reprieve

and we were actually able to close the City books on the positive side of the ledger during the years that Council was studying the finance issue. As a result, the Fund Balance is now projected to be back up to \$11.8 million in 2007.

As good as \$11.8 million sounds, it's important to remember that we cannot sustain services at current levels of spending, and after 2 years of significant deferrals it is time to get back to the business of city services. I have authorized staff to slowly begin to fill approved and budgeted positions, and staff will also be allowed to spend the dollars approved in their budgets. If we spend just what's approved by Council in our Proposed Budget, we will likely be looking at a deficit of over \$1 million in 2008.

The good news is that thanks to the extra efforts of the staff and good fortune on revenues, we bought ourselves more time. But unless we're willing to cut services to match the spending levels of the last couple of years, or raise new revenues, we will soon be watching the fund balance drop by 15% to 20% a year.

## Outlook for 2008 and Beyond

For Kent, the Proposed 2008 Budget represents the passage of an important financial milestone. After years of financial uncertainty, the Proposed 2008 Budget is significant because it is the first City budget built within a multi-year financial framework. The 2008 Budget doesn't try to solve all of our financial problems in one year, but it does represent a planned step-forward along a trajectory that should end in fiscal balance.

Two years ago we committed to an unprecedented level of budget analysis, and we did it. We committed to engaging the community to develop financial options, and we did it. We committed to finding a solution, and we did that too. Now, with the Proposed 2008 Budget, we are taking the first steps towards implementing that solution so that we can finish what we started.

The City cannot afford to do everything, nor can we afford to do nothing. In between those options the City has an opportunity to be a catalyst and we have worked hard to position Kent's services and investments to be that community catalyst, enriching quality of life in city neighborhoods and stimulating an economic renewal. And I believe it's working. The City has made targeted investments to turn the economic tide and these investments are yielding returns in new private investment, new jobs, and renewed confidence in Kent's future.

With the adoption of the 2008 Budget, the City Council reaffirms Kent's commitment to the community. We honor our neighborhoods by committing more resources to pursue problems of blight and derelict housing while seeking new ways to preserve Kent's distinct urban fabric. We take advantage of our natural and physical assets through park and infrastructure improvements. We

strengthen our police force with new equipment and additional patrol officers, and we make sure Fire and EMS personnel are available when we need them most.

I believe that these budget commitments will pay dividends over time through increased tax revenues, cleaner and safer streets on which residents and businesses can thrive, and economic opportunities that provide more resources and an improved quality of life for a growing workforce. Underlying all of this success is a unifying commitment across the organization to exercise fiscal discipline, deliver services with maximum efficiency and provide improved results to the entire community. We will undoubtedly be continually challenged to maintain a structurally balanced budget once it is achieved. However, as we grow our base of resources and continue to align our organization around core services with continued fiscal prudence, we will be able to better ourselves as a community for years to come.

## In Closing

With the conclusion of the Blue Ribbon Study, I am confident that we have the information and options we need to face the challenges of this and future City budgets. To get to this point, we invested a lot of time and energy, and we did it by working together facing the issue head on. We still have tough decisions to make, but this year I have a sense of optimism because we now have a framework that we can use to ensure the fiscal integrity and forward progress of this City. This situation is not ideal, nor is it easy, but it is something that we can accomplish and the results will be well worth the effort.

I wish to acknowledge the City's budget staff, our department directors, and the entire City workforce who serve this community with such dedication. Together, the City will continue to plan prudently by following the financial management principles established by the Mayor and City Council as we work towards implementing sound long-term fiscal solutions that will carry Kent into the future.

Respectfully yours,

A handwritten signature in black ink that reads "Dave Ruller". The signature is stylized with a large, looped "D" and "R".

Dave Ruller  
City Manager