



Financial Strategy Development

Progress Report

July 29, 2007

Financial Study Timeline

2004 City Budget

Former City Manager Steinbacher warns of growing imbalance between city revenues and expenses in his budget message.

2000 thru 2005

City reduces workforce by 10%, saving \$1.2 million in personnel costs;

City cuts spending by another \$1.4 million in materials, supplies and contracts;

City implements new productivity improvements saving \$200,000.

2006 City Budget

New City Manager Ruller notes concern for "structural imbalance" in City budget message and commits to a year long study to solve the problem.

The City saves another \$1.2 million by holding as many as 20 positions vacant.

January 2006 thru August 2006

City Council forms a Blue Ribbon Panel of financial experts to study the City's finances and assist in developing a long term financial strategy.

Blue Ribbon Panel holds 8 study sessions, reviews hundreds of pages of budget data, and spends nearly 100 hours formulating a financial strategy recommendation.

September 2006

Blue Ribbon Panel presents its recommendation to fix the structural imbalance and generate \$1 million for economic development.

2007 City Budget

City Manager holds department budgets to "no net increase" with vacant positions frozen and no adjustments for inflation.

November 2006 thru June 2007

Blue Ribbon Panel members, with assistance from City staff, hold 10 public meetings to present the Panel's recommendation and answer questions.

August 2007

City Council scheduled to deliberate on Panel recommendation and give staff direction for 2008 City Budget preparation.

For the past 18 months, the City of Kent has been engaged in an unprecedented review of its financial condition. City staff, working with City Council and a Blue Ribbon panel of financial experts studied, analyzed and evaluated the economic trends, costs, revenues, and service levels that affect the City's financial health.

From this review, the Blue Ribbon Panel developed a recommendation for fixing the structural imbalance and creating \$1 million in new funds for economic development to grow the tax base.

The Panel's short term goal was to balance the budget, but that was part of a long term strategy to spur economic renewal and reinvestment using an injection of City dollars as a catalyst. As the impact of these dollars spread, the tax base would expand, which would give the City the revenues it needed to continue City services, while lessening the individual tax burden. To prove their point, the Panel's recommendation included a 7 year sunset clause for their proposed tax increases.

City Council is scheduled to review the Panel's recommendation in August in order to give City staff guidance on developing the 2008 budget.

It's All About the People – *city employees and the people they serve*

The City of Kent is a service organization. From emergency services provided by Police and Fire employees, to the routine customer services provided by the Planning, Public Safety and Health departments – the City is in the business of serving the Kent community.

As a service organization, City employees are the means by which the City adds value to Kent. City employees drive the trucks, patrol the streets, fix the problems, plan ahead and are ready in case of emergency.

As our greatest resource, City employees are also the largest cost center in the City budget. Over 72% of the City's General Fund budget is allocated to people costs, e.g., salary, health insurance, retirement, social security, etc.

Budget Points To Remember

Personnel Costs

Average Fully Allocated Cost
Per Employee = \$80,000/year

1 vacancy saves \$80,000/year
10 vacancies saves \$800,000/year

In just the last two years, position
vacancies have saved \$2 million.

Charter Capital Requirement

The City Charter requires 25% of
Income Tax be dedicated to capital,
so capital savings have to go back
into new capital projects, not
personnel or operations where we
need it.

For example, more federal funds
available for the Fairchild Bridge frees
up cash for more capital projects --
unless we are already planning to
spend more than 25% of our income
tax in a given year – if we are, then
we can re-allocate anything over the
25% for a one-time supplement to
operations. But once we spend it, it's
gone so it's not a good source to pay
salaries or other personnel costs.

JEDD Dollars

For our first year of JEDD operations,
we were uncertain how much to
budget for shared income tax
receipts. The Brimfield JEDD is
projected to be in the \$20 to \$30,000
range but after six months of
collections, the Franklin JEDD is
projected to generate \$300,000 a
year which will double in 4 years as
the rate doubles. This is a significant
new source of revenues that
represents real growth to the City's
tax base.

State Tax Changes

Taxes in Ohio are going down. Over
a 5 year period state taxes will
decline by \$254 for the "average"
Ohio household.

By comparison, if the Blue Ribbon
Panel proposal was adopted in its
entirety, the average local tax bill
would rise by \$250 a year, or \$4 less
than the drop in state taxes.

Local Revenue Equivalents

1) Increase Income Tax - .25 increase in
income tax rate raises \$1.7 million

2) Reduce Income Tax Credit – reduce
from 100% to 50% credit raises \$2.1
million

3) Reduce 25% Charter Requirement –
every 1% reduction creates \$100,000 in
cash

4) Increase Property Tax – a 1 mil
increase generates \$320,000

5) Increase Vehicle License Fee – a \$5
increase generates \$125,000

That means if you want to impact the City budget, you have to address the costs of employees. You have to get employees to do more with less, combining service innovations with technology to improve productivity. The City did that, and is saving \$1.2 million a year as a result.

Next you have to look at consolidations, forming new partnerships and outsourcing. The City did that too, to the tune of another \$500,000 in savings a year.

There are other budget areas that have been "tweaked" but those are on the periphery; the central issue to the City budget is – how many services do you offer and how many employees do you have on the City payroll to perform them?

Reducing the City workforce further will save money, but fewer employees also means less people around to provide services. Less service can mean longer delays between a service request and service response. It can mean fewer people available to wait on customers, return calls, and answer questions. It can mean less time to study, plan and anticipate future needs, which usually means more reaction than pro-active strategy.

The question then is what service area do we feel we can do with less of? Less Police? Less Fire? Less street maintenance? Less people to answer customer calls? Less administration to manage City operations?

Here's what we learned about the City workforce today:

- The Kent workforce is 10% smaller today than it was 8 years ago, saving \$1.2 million/year in personnel costs;
- Kent has fewer employees per capita than peer cities;
- Kent has higher service calls per capita than peer cities;
- Kent held 20 positions vacant in 2006, saving \$1.6 million;
- Kent has held 13 positions vacant in 2007, saving a projected \$1 million.

And here's what the reductions and prolonged vacancies have done to City services:

- We've heard complaints from residents that there are fewer Police Officers available to patrol City neighborhoods;
- More overtime is required to make sure the Fire Department has enough firefighters/paramedics on duty to handle multiple calls;
- There are fewer staff available to research and implement new initiatives or attract new businesses;
- Staff is having to 'catch up' rather than get out in front of critical issues;
- Existing employees are working harder and doing more than ever before, but fatigue and morale are becoming problems.

Staff have done a great job of holding services together while holding so many positions vacant, but the administration does not believe that we can fulfill the goals of Council at current staffing levels. The administration believes we are losing ground every day that we keep critical positions vacant, which is why we are looking to fill some of them now.

Blue Ribbon Panel Recommendation

The Panel provided Council with six ways to raise \$2.5 million in new revenues that would have some impact on everyone in Kent:

- reduce the city income tax credit from 100% to 90%, or 75% (raises \$400,000 or \$1 million);
- raise the city income tax rate from 2.0% to 2.1%, or 2.2% (raises \$680,000 or \$1.36 million);
- increase property tax by 1 mil (raises \$320,000);
- raise the vehicle license fee by \$5.00 (raises \$125,000);
- make sure all sewer/water costs are included in sewer/water rates (raises \$200,000);
- City service savings and cuts (raises \$200,000)

If all these tax changes were adopted, the average Kent household would pay about \$250 more per year.

The Panel assumed a \$1.5 million structural deficit for 2006 with an ending fund balance of \$8.5 million.

However, due to holding so many positions vacant for so long, there was no deficit in 2006, and the fund balance ended up at \$11.8 million.

And given current vacancy rates, the deficit could be as low as \$340,000 in 2007 which would put the fund balance at \$11.5 million.

The Panel recommended \$1 million for economic investment. If the land banking purchases continue on track in the downtown block, then the City will spend approximately \$1 million and will fulfill the Panel's economic development objective for 2007.

As we've seen by holding positions vacant, we can save a lot of money by cutting positions, but if we're serious about achieving our strategic objectives then we have to devote the resources necessary to reach them.

It is the administration's belief that at this point we have overcommitted our staff and we do a disservice by expecting more than can be reasonably delivered at current staffing levels.

The staff will not give up on their mission to serve, but if we are not going to select a way to supplement their resources through one of the means recommended by the Panel or otherwise, then I would suggest scaling back our expectations to match our current capacity. We need to be honest in communicating what level of service we can sustain and deliver to City residents.

Good News

We set out 18 months ago with a purpose to develop a financial strategy and we now have one from the Blue Ribbon Panel. Their recommendation is an aggressive and innovative approach that seeks to ensure long term sustainability in City finances.

The Panel's recommendation provides a solution framework for us to use, either in total or incrementally over time depending upon the severity of our financial conditions. In this way, the Panel has given us the means to take parts or pieces and assemble a strategy that is tailored to fit our needs. And just like physical health, fiscal health is constantly changing and evolving, so we need a dynamic framework that is capable of responding to unforeseeable events.

The recommendation is, by the Panel's own admission, a business solution to a political problem, which means we as the leadership of the City need to work towards translating those business priorities into the political realities of the community. Fortunately, as a result of favorable interest rates and surprisingly good JEDD revenues, and continued aggressive cost cutting measures, we appear to be in a position where we have bought time to make a thoughtful decision.

When Council agreed to undertake a year long study of City finances, the staff agreed to hold the line on all spending until a solution was forthcoming, and they have lived up to that promise. As a result of City employee efforts, the fund balance has temporarily stabilized.

Even after years of cuts, Kent's department heads didn't just stay within budget, they set their goal to come in under budget. And they've done that every year, which has granted the City leadership the time it needs to outline a path forward to financial stability.

It's time to make a decision on where we go from here. The staff have done their part, and the Panel members have done theirs. We've taken their ideas out into the community and now we're faced with making the decisions that need to be made that will guide the 2008 budget and years beyond. Our finances will always go up and down, but it is time for Kent to move forward.