



Q&A

How are we doing financially?

For 2005 the City ended \$1.5 million in the red with revenues failing to keep pace with expenses for the third straight year. The good news is that thanks to sound fiscal management in year's past the City had built a "reserve" fund that could be used to bridge the deficit in times like this. The bad news is that the reserve fund will only last 2-3 more years before it runs out.

How did this happen?

The City has struggled for the last 8 years to close the widening gap between the cost of doing business and our ability to pay for it. We have worked hard to bring expenditures in line with revenues – cutting 8 positions and saving \$1.5 million from the budget – but despite these efforts we've continued to lose ground. What was a \$300,000 gap in governmental funds in 2003 has grown to a nearly \$2,000,000 gap in the 2006 budget.

How big a gap is that?

The \$2 million gap is roughly 30% of our operations and maintenance (O&M) budget for City services. It's 12% of our workforce or an equivalent of 23 full-time city employees. It's a 6.25 mils increase on property tax or a 2.3% income tax rate. It's an \$80 per vehicle license tax. It's a 21% growth in new business development in Kent or roughly 2,500 new jobs. Obviously, a \$2 million gap is significant and it has pushed us into one of the most challenging periods in Kent's financial history.

How do we fix it?

There is no easy answer to a \$2 million problem. Filling the gap, either through more budget cuts or some form of increased revenue, means making hard choices; choices that will impact Kent for years to come. With stakes this high City Council is taking the unprecedented step of committing a year to analyze the problem before making any budget decisions. Council has also enlisted the help of 6 Kent financial experts to join them in a series of financial workshops that will focus on critical revenue and expense trends in search of a solution that balances the budget and ensures a vital future for Kent.

Is the problem due to expense growth or revenue shortfalls?

Both. Facing double digit increases in health care and labor costs, the City has cut positions but that hasn't been enough to offset the loss in income tax revenues that has occurred from the replacement of high paying manufacturing and professional jobs with low paying service jobs in Kent. With 63% of the City's revenues coming from income tax, the loss of these jobs has hurt the City's bottom line. Fortunately, income tax contributions from Kent State University have increased slightly and softened the losses.

Can't we just cut back on City projects?

We can and we have, but that doesn't fix the problem, it just helps buy some time. If we want to cut our way out of this we need to cut City services, e.g., streets, police, fire, planning, etc., that are funded in the operating budget. The money used for projects is one-time money that comes from the City's capital budget which is a separate pot of money altogether. So deferring capital projects may provide a little extra cash for one year but once you spend that capital cash it's gone; meanwhile the operating deficit will be right back the next year. And remember, you can only defer projects so long before things start to really break down which in the end drives the cost of repair higher than it would have been if you took care of it when it first needed attention.

How about selling surplus City property?

Again, that's another good way to buy some time and the City is looking at all of its properties to see if there are opportunities to generate some extra cash. That extra cash can help get us through another year but it's not a recurring source of money and once it's spent it's gone, so it can't cover the recurring expenses of City services needed after one year.

Does this mean the City is going to raise taxes?

It's been 20 years since Kent's last income tax increase but it's premature to guess at what the conclusion will be just yet. Now is the time to understand the problem and talk about what we want for our community, then we can decide what's the best way to get there. It will likely take a combination of further cuts and new revenues to get us there but this is too important to guess at, we need to take the time to get this right and chart a path towards financial sustainability for Kent that will fix the problem for good.
