

SPECIAL FINANCE COMMITTEE MINUTES
OF FEBRUARY 26, 2018

Municipal Council of the City of Vermilion
Municipal Complex, 685 Decatur Street, Vermilion, Ohio 44089

In Attendance: **Vermilion City Council:**
Steve Herron, President of Council; John Gabriel, Ward One; Frank Loucka, Ward Two; Steve Holovacs, Ward Three; Barb Brady, Ward Four; Brian Holmes, Ward Five. Absent: Monica Stark, Council at Large.

Administration:
Jim Forthofer, Mayor; Tony Valerius, Service Director; Chris Hartung, Police Chief; Amy Hendricks, Finance Director.

Call to Order: Brian Holmes, Chairman, RESOLVED THAT this Special Finance Committee comprised of the committee of the whole does now come to order.

TOPIC ONE: **Review of 2018 Budget**

J. Gabriel said the city has a low Certificate of Resource number to start with because the city has to work through some things from 2017 that is not yet complete. They need to close the books on 2017 before they can get an actual number for 2018. The budget discussion is centering on a general fund budget of \$5,498,007. In 2015 and 2016, they were around \$5.4 million in the general fund and they jumped up to a budget of \$6 million and he believed they spent slightly over that, and now they are coming down to what they are thinking is \$5.4 million. He asked the finance director if the carryover is around \$320,000. A. Hendricks said if they look at the carryover of \$320,000 with what has been posted through 2017; it would give the city about \$173,000 more than what the current certificate indicates. She hasn't spent enough time on the revenue estimates at this point, but for example it looks like the tax revenue is maybe \$100,000 lower than the previous year, but she needs to look to see if there were any one time exceptions.

J. Gabriel said tonight they are using the \$5.4 million as their number and with that they have some challenges. They have had discussions on health care and the fact they will be going into contract negotiations. After reviewing the current budget ordinance line by line there is no cutting. They actually spent more in water distribution on health care than they did on materials to fix water leaks. They spent \$55,000 on health care and \$50,000 on materials, but the health care is negotiated. He said stormwater has a starting zero balance. This is due to projects that are either underway or previous projects they borrowed on. This money has been put in the ground, but now they're at a point where they need to take some time off to get their ducks back in a row to formulate another plan and go from there.

B. Brady said from the Statement of Cash from Revenue and Expense worksheet it shows the Storm Water Drainage Fund as \$53,721.44 in the hole. J. Gabriel believed it would end up as a zero balance. He said the water department has a \$62,000 carryover and the sewer fund is the healthiest. These are challenges the city has and he doesn't see any areas they can pull from because this is a tight budget as its \$400,000 or so less than 2017. He commented that labor costs are going to increase and this year is the time they need to take time and get the finances in order. If they have a \$300,000 carryover in the general fund he would still ask to keep the \$17,000 in the water fund. He felt they need to do something about the health care costs in the budget because those amounts are increasing and the city's income is nowhere near keeping up

with the pace of those costs, and they have to go into labor negotiations. He doesn't see any solutions on cuts they can make to this budget that would make sense. He said the finance director is on the right track of taking excess money and investing it. They need to scrape dimes and nickels together and be very conservative in the spending. The road fund is also down to its last \$100,000+, and he recommends as a group they avoid borrowing any projects against that until they get other projects off the books. They still need money for patching and repairs.

S. Holovacs said with regards to the general fund they need to get to the actuals for 2018 because the wages don't reflect the two percent increases and the mayor's yearly wage of \$65,000 isn't correct and neither is council's salary. He said the health insurance budgeted for the Clerk of Council should be \$4,800 and the budget as it shows today is \$4,000. He said the last pay for 2017 was rolled into 2018, so they will either show 27 or 28 pays for 2018. He said they need to get the amounts to the actual numbers with all wage increases, etc. He said the police department needs to meet with the administration on their budget so the budget is balanced for council. It's not council's responsibility to sit down with them and negotiate their budget. He has no problem agreeing on the general fund if they stay within their limits.

B. Brady agrees they are in a deep hole but the one item in the budget that hurts the most is lowering the amount they are putting into street maintenance and repair. They don't have money to pave streets for a couple of years, but they need to fill potholes. This directly affects the residents and they need to be able to do this.

F. Loucka said his main concern is the fact that health insurance costs are out of sight. In 2015, they were at \$892,900 and now they are budgeting \$1.4 million which is almost up 57 percent in three years. He suggested to the administration that the money they have for Street M&R is to find more effective ways of using the money, so they can make patches that hold up instead of redoing the same thing all the time. He said this past winter a number of streets in Ward Two are crumbling before their eyes.

S. Herron said it's frustrating and some of the line items they can't control because they have been negotiated as part of a contract and obligations they have to employees. He agreed with Councilman Holovacs they need specific numbers as possible. He went line by line in the budget and there are things they can't cut.

J. Gabriel said he understands they are starting over with a new finance director and administration and some new members of council, but he didn't understand how in 2014, 2015 and 2016 the numbers were consistent, but he can't grasp where the income came from in 2017. It makes it difficult for them because they have to come back down to a number that is just like the numbers prior to that and they have to endure hardships. He wanted the public to understand this is an element of surprise and they are disappointed. He understands a majority of the money went into the ground in various ways and whether or not they received the right amount of information prior to making those decisions; the money is here and spent on projects. Unfortunately, they need to get their financial house in order and then hopefully they can turn around at the end of this year going into 2019, and solidify a plan and move forward with the resources they have. He said as a group they will be discussing cuts.

B. Brady commented that in looking through some old paperwork council received, nowhere are they showing \$6 million last year, they are down around \$5.6 million. She didn't think council ever saw the \$6 million as far as expenditures, so she doesn't know if they ever approved that kind of number. In the 2017 audit, it says that monies were not appropriated but spent, so she

wonders if this is why council wasn't aware the numbers were so high. S. Holovacs said he wasn't on council but was in the audience at the meetings and the last appropriations that were brought to council in November brought them to \$6.1 million because he has the paperwork. They did lose the forgiveness tax in the beginning of 2017.

Mayor Forthofer said the new financial reporting should help avoid surprises in the future. He assured council that transparency costs nothing and they have no problem with regular reporting. Amy Hendricks said she would like to have a multi-year forecasting which would be more meaningful.

S. Holovacs said he would like to keep up with appropriations as they come and not wait till the end of the year. This way it's done in a timely manner and it should help the administration keep their numbers straight.

B. Brady asked the finance director if she found the Johnson Controls settlement and A. Hendricks noted she hasn't had a chance to look for it. B. Brady said that would have helped increase the revenue last year by \$200,000. J. Gabriel felt this all comes down to a bookkeeping issue and fortunately they will start receiving cash and revenue statements which is something that will help them as they go along, and he thanked A. Hendricks for providing council with this as they can keep track of the encumbrances and balances on a month by month basis. Once they get 2017 closed, they can actually go back through the general fund budget line by line and maybe even the two enterprise funds and start looking a little more serious at their needs, as far as are there areas to cut. He said they need to look at the acorns on the tree and the biggest one is health insurance. He stressed this has nothing to do with the employees, but a management issue as they need to figure out the income and be able to provide a balance between what the working folks ask for and what they can afford to give them. In his opinion, this is where they really need to change gears because it won't keep up with the income.

B. Holmes summarized the following from above discussions:

- General fund actual numbers
- Levy street numbers
- Concerns about health care insurance and upcoming labor negotiations
- Inconsistency of the 2017 budget
- Possible cuts
- New reporting systems in place

G. Fisher noted the committees for March 12 will include Finance, Legislative, and Health & Safety, so she will put budget discussions on the agenda for March 12. Also, if further discussion is warranted on the budget they can put a special finance meeting on for March 19 and March 26.

S. Herron announced the following meeting dates for March:

March 5, 2018 – Vermilion City Council

March 12, 2018 – Finance, Legislative, & Health & Safety Committees

March 19, 2018 – Vermilion City Council w/ Special Finance meeting if warranted

March 26, 2018 – Utilities & Streets, Buildings & Grounds Committee; Special Finance if warranted, followed by Special Vermilion City Council meeting to adopt the 2018 budget.

After no further discussion came before the committee, Chairman Holmes adjourned the meeting.

Next Meeting: March 12, 2018 @ 7:00 p.m.

Gwen Fisher Certified Municipal Clerk