

FINANCE COMMITTEE MINUTES

OF JULY 16, 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; Monica Stark, Council at Large; John Gabriel, Ward One; Frank Loucka, Ward Two; Steve Holovacs, Ward Three; Barb Brady, Ward Four. Absent: Brian Holmes, Ward Five*

**Administration:**  
*Jim Forthofer, Mayor; Chris Howard, City Engineer; Amy Hendricks, Finance Director; Tony Valerius, Service Director; Captain Graham*

**Call to Order:**            Frank Loucka, Vice Chairman, RESOLVED THAT this Finance Committee comprised of the committee of the whole does now come to order.

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**TOPIC ONE:**                **Mid-Year Financial Update**

Amy Hendricks reported starting in February they have gone through some financial growing pains and a learning process of where they were financially, and now that they are half way through the fiscal year she wanted to provide council with an analysis of where they are and to discuss a project sheet of some of the items that are left still unfunded for this year and for a couple years out. With regards to the city's general financial health for 2018, when they closed the 2017 calendar year they had a lower than anticipated cash balance in the General Fund, that left council and the administration with the difficult task of balancing the 2018 budget, which resulted in cuts in the General Fund alone of 8.5% on average across the board. In looking at where those cash balances have run historically, she was able to pull data and in 2014 the year was closed with a little over \$800,000 in the General Fund, which dropped to under \$300,000 in 2015. It jogged up a little bit in 2016, but at that point it met caution criteria with the Auditor of State for financial health for having less than 30 days operating cash for the General Fund. In 2017, that was probably 10-12 days in operating cash that was available in the General Fund. This would be in the more severe area of the caution category by the Auditor of State. They are probably looking at something in that range as far as the cash balance to end the current year. A challenge the city had when starting 2018 and trying to make budget cuts was that there were many contracts for services and projects to be done already in place, along with delayed maintenance in infrastructure, technology, and equipment city wide. There was a collective bargaining agreement in place and health insurance rate hikes that raised the cost of health care alone to \$1.6 million for 2018. One of the other areas they have run into is the debt ratio. Based on the Auditor of State's most recent report the city was in a very critical range at 30% in 2015 and 34% in 2016 of the city's revenue that is committed to debt service. The state recommends not more than 15%. Some of those specific funds outside of the General Fund get even more serious when they look at the street and road levy which is 78% of the annual revenue into that fund that is committed for debt service. The utility funds on average are about 25%.

The administration has been very busy since the first of February and later in her report she will review a project list for funding of necessary purchases of equipment, construction, and services that are necessary for not only the safety but the effective operations of the city. This is another area where the city climbed into the caution group with the Auditor of State's financial health

measures in that 2016 they measured the city had 60% of the capital investments that needed to be either replaced or improved, which includes equipment, facilities, infrastructure, and the caution range is between 50-70%. She doesn't have the results back from the 2017 Audit to give a report on. They are looking at the long term planning of those projects and equipment purchases so the city doesn't have as many surprises coming down the road. They also talked with financial advisors in April to help discuss restructuring the city's debt. She has been working on the updated official statements for those debt offerings to get the data up to date. This should be moving forward fairly quickly at this point.

Based on the 2017 data, the City spends 1.5 times the national average per employee for health care. As previously stated, this is \$1.6 million annually from the city budget. In an effort to control those costs and get a true understanding of where the city is, a benefit consulting firm has been hired to do a complete analysis of those costs on a performance basis and an insurance committee has been activated that includes employees and administrative personnel to educate everyone on the process.

Business expansion (new and existing) is a priority for the administration in assisting as needed. This has facilitated growth in 2018 that will contribute to the city's tax base (both real estate and income taxes) in future years.

She has been working on investments of available cash which is monitored regularly to assure investments are maximized. Monies have also been moved to higher interest rate accounts. Interest earnings in the first six months of 2018 already exceed the total for all 2017. This should create an additional \$37,000 in operating income going into 2019 and beyond.

Various fees for services are under review to assure that costs are covered. Examples include review of billings to the counties for municipal court costs to recover additional allowable expenses; and a schedule of revised building fees was presented to council in June which is the first time they have been looked at for about 15 years.

They are attempting to improve business practices overall. All financial transactions are being posted not later than the end of the following month so accurate financial reports can be issued to the administration and council regularly, so communication can be made with department heads on the current budget status.

Bank reconciliations are now completed monthly as had been recommended in prior audits.

She said over \$100,000 in outdated purchase orders were closed that put those amounts back in the active budget in 2018 to cover current needs that would not have been funded.

Budget monitoring is done at the purchase level and the accounting system will not permit orders to be placed that exceed the available budget. Necessary budget adjustments are made regularly so resources are allocated in line items where needed.

Financial data is regularly monitored for accuracy of posting as well as monitoring estimated vs. actual expenses and revenue. This was not possible previously. They can generate reports that tell them they are on track with the General Fund budget as of June 30 and that revenue is running \$113,500 ahead of estimates. Timely information allows them to adjust plans quickly when needs arise.

She distributed to council an estimated project funding multi-year spreadsheet which gives the background on funding needs on various projects that are out there. There is a list of needs from road projects to tools to heavy equipment and mowers that are included in the streets. There are items that don't have firm numbers attached as they are 2019 projects. The running balance in the street levy has been exhausted.

She reported for the water department they have the Adams Street Water Main Project which is net of a matching grant and its split between the water department budget as well as EPA fees because of the EPA requirements that need to be met. Patching and paving due to main breaks is a 2018 need because it's covering for breaks that have been repaired recently. Site improvements are needed at the Service Center which was split across multiple funds. A 12" water line from Adams to Decatur is the Liberty portion. T. Valerius said this is number one on the list to continue the line from Decatur out to Adams which would help issues because everything jogs down Haber Road and up to Adams, and that is where they have issues with main breaks. A. Hendricks said there is also need for a pickup truck in the water department.

She reported for the Sewer Department the Bar Screen at the WWTP is estimated at \$200,000 which meets EPA requirements. Site Improvements are needed at the Service Center as well as a vehicle for that department.

Relative to Fund 605 (EPA Fees) they have a taken a portion of the Adams Street waterline project and there is a water tower stem that is being worked on. A pressure reduction valve at the Highbridge Water Tower is an urgent need to access the emergency water source from the City of Lorain, and Clear Well Maintenance as required.

In the Stormwater Fund 606 there are two relatively small projects that have a sense of urgency about them which include repairs on Sunnyside Road due to washouts and Catch Basin Replacements which is estimated at \$11,800.

In the operating budget Fund 101, the Police Department parking lot paving project slated for 2019 is roughly estimated at \$18,000. There is an upgrade need to the Digital Radio System for \$100,000 and 2020 laptop tablet upgrades for approximately \$60,000 (10@ \$6,000). Technology needs and network support for \$9,000 and a Microsoft Renewal coming up in September for \$15,230. Also, per the Auditor's recommendation is Offsite Data Storage which is estimated at \$13,000, but they will do more research on that. She said in the General fund right now there is about \$235,000 in additional needs.

Relative to long range planning, Fund 206 (Fire Operating Levy) expenses for operating have actually exceeded the levy revenue by \$100,000 the last couple of years. If they continue at that rate it would mean the reserves they have built up will probably be gone in six to eight years and there might be a need to get additional funding. This isn't an urgent need but it's something she noted in the analysis and they need to keep it on the radar.

B. Brady asked if these projects are above and beyond the budgeted amount for 2018. A. Hendricks said some of them that are marked 2018 they were able to work into the appropriations that were already set to get done, but there are some that have not been able to move forward. Anything beyond 2018 that is listed is not included in the budget as there is not additional money to go into those projects at this point. She said they used 2018 figures for their salary infringes for going into 2019 until they can complete the collective bargaining process later this fall. Increases in those costs would have to be dealt with either by reduction in staffing

or other areas. It's getting hard to find those spots and they have used current contract agreements for various services for other areas going into 2019. She said they have received news today that they will be looking for a new vendor for one of their key components of operations which may cause increased costs.

J. Gabriel said just in the red alone he is looking at over \$2.8 million. There are not enough revenue streams they can tap into to generate that kind of income. B. Brady said it's half the general fund income. J. Gabriel said the water fund has potential but the road fund, wow! These are big numbers. He said when they discussed redoing the debt service they had talked about a savings of maybe \$91,000 a year. A. Hendricks said this would save the city some interest and also help the city's cash flow. J. Gabriel is hoping they can at least get into six figures of health care savings somewhere.

S. Holovacs addressed Fund 605 (EPA Fees) as the EPA has come at the City for the water tower stem, but to do that they need the pressure reduction system coming from Lorain into Vermilion. He said the city engineer brought it to city council because it was under \$50,000, but not much lower and now the Finance Director has \$35,000 listed, so he asked if this was the correct number. C. Howard said in conversations with the Utility Director they are going a different route from the proposal he gave council previously. They are going to piecemeal that together and that is why the cost is different. S. Holovacs asked if the city was on schedule to meet the EPA requirements. C. Howard said from the information they received from Mr. Baker the pre-casts is a quicker timeframe. S. Holovacs said if they hired a contractor for the minimum of \$5,000 to \$10,000 and there was a problem, then at least they have a contractor they can look at. Now the EPA is going to look at the City for the whole responsibility if they don't meet their deadline.

C. Howard addressed the Vermilion Road Phase II Project as the \$917,000 is incorrect on the finance director's estimated project funding sheet. This is the total contract amount and it's an 80/20 split, so he'll provide the finance director with this information. He said the estimate they received for Haber Road is \$310,000 and they talked about a 50/50 split with the county. However, he is talking with the county about possibly going after OPWC money or Issue Two money next year to help defray some of these costs. The county is the applicant and they help the city with getting any additional funding. He said Vermilion Road Phase I is a 2019 project and the city's cost was \$296,554, but \$92,000 was the KS Associates design fee, so he thinks it has already been paid, so a majority of this project has been paid.

M. Stark thanked Amy Hendricks for putting together the project funding sheet as the format is easy to understand where the city is at. A. Hendricks said she is happy to amend the format going forward.

Mayor Forthofer said he and the Finance Director had the opportunity to take some time on the mid-year financials and he had asked where this is all going to end up. His question to the finance director was what kind of budget at this rate, with this income; with this projected expenses will they end up. The likelihood at this point is they will have a budget in 2019 that is similar to 2018, which is not good. One factor that they can control within their parameters to help the city get on a better budget is to control these runaway health care costs. If they take a pass this year in cooperation with their friends in the unions; with cooperation of the consultant they have contracted with, then the city could bring in another \$300,000 which could give the city some breathing room, but it will not fix everything.

S. Holovacs thanked Amy Hendricks for putting her hands on the budget and cleaning up things that he hasn't seen in a long time. He said the finances are not bright, but at least they understand where they are going and he wanted to thank her for that. S. Herron agreed with the finance director's aggressive effort to deal with this crisis. Amy Hendricks said they all want it to work out too. F. Loucka noted the Port Authority is very pleased with the finance director's input. J. Gabriel said some of the bigger numbers are related to the Vermilion Road Phase II Project and Hollyview project, but to combine those projects they are talking \$1.4 million, so looking forward they unfortunately will need to pick and choose. He told Amy Hendricks how much he appreciates her reporting and wishes she would have been in Vermilion earlier.

**TOPIC TWO: Parks Levy Discussion**

Amy Hendricks said the Parks Levy discussion surrounds planning for 2019 that started with the Tax Budget. Given the situation of the general fund, she had proposed moving a portion of parks operating funds into the revenue that is from the new parks levy that is going to be coming in. She understands this is definitely council's decision as to what to do, but feels this is discussion that needs to happen with ideas of what was discussed at the time the levy was placed on the ballot. She said even though being a former parks board member for 10 years this is tender to her heart.

B. Brady said the letter council received from the finance director says one change is the addition of the fund for the new parks levy operating levy that represents moving \$120,000 in operating expenses from the general fund to the levy. She asked what this means. A. Hendricks said in proposing the Tax Budget which is preliminary at this point and not a spending plan, the city was \$120,000 short of having a balanced budget. When she started to look at all the other needs there were and places that didn't have an additional source of revenue to make them up; the \$120,000 is monies that have been allocated from the general fund for parks operating historically. She said roughly it was \$150,000 - \$160,000 a year in the last five or six years. She said these are legitimate parks operating expenses and could be paid for from those new levy funds. She said this is one possible angle to approach the budget crunch; otherwise they are going to look at taking those funds from other line items, which in essence is already being cut from raising the level of expenditure for 2019.

Terry Parker, Chairman of the Parks Board, 315 Yorktown Place, said historically how they got to where they are currently with the new parks levy; last summer representatives of the parks board came to council with a vision of wanting to expand to a full time parks director and personnel for maintenance, and have additional money beyond what their half mill capital levy money provides every year. They can only buy things with that money that have a usable life of five years or more. They were behind on maintenance as well as programming, and taking advantage of their current part time person who volunteers full time and does a fantastic job! In the discussions in June and then at the Finance Committee of Council on July 10, 2017, the discussion was of how this would impact what's in the general fund. It was decided to be extremely transparent and to say to the voters, "Okay we are right now spending \$160,000 on parks maintenance from the general fund. Do you wish to keep that and add to it roughly another \$270,000 and it was decided that they need to be very transparent and let the voters decide which they did. He realizes they have to make cuts everywhere. He doesn't know that cutting 75% of what they get from the general fund is a fair cut. He doesn't know how they say to the voters and volunteers who worked hard to pass this levy that they are going to take 45% of that money and bail out the general fund. It seems like they went out and worked hard and the voters said yes, but now they are going to balance the general fund by moving the parks levy

money over. They already moved the pool out and Parks Board members, volunteers, and generous people in the city saw to it that the city had the pool this year and most likely next year. He said if you give people an opportunity and you're honest with them that is what they do. It feels punitive and given the fact that when this ordinance was on a third reading last year, it was seven "yeas" from council. It seems like a bait-and-switch and he knows the city has to make some cuts and he knows the Tax Budget is not an appropriation, but to take that much from that one source seems unfair to the Parks Department and it feels like they are spitting in the faces of the voters. He said he isn't mad at anyone and agrees Amy Hendricks is doing a terrific job, but doesn't think it all needs to be done out of all that money.

B. Brady said she researched some history from what the finance director gave them and they are pretty stable between \$120,000 and \$140,000 for Parks. She said in 2007, the Parks Maintenance Levy was \$64,000 and in 2008 it went to \$121,000; it doubled and she doesn't know why or what it was based upon. Up until 2008, it had run 60,000 - \$80,000. She mentioned that former Mayor Bulan had made a comment at the June 5, 2018 meeting that, "It's just that they won't be taking as much money from the general fund." She agrees the resident's decided, but they should be aware of some of the other things that were said.

S. Holovacs said there was a time when the parks board did a joint venture with the city relative to the baseball fields, so he wasn't sure this is why they took such a jump from 2007 to 2008. B. Brady noted the jump happened in contract services. He said if they hire somebody that would be contract services.

J. Gabriel said he actually did the website for the parks levy and knows the message they put out. He didn't feel there is an effort by council or the previous body to mislead anybody; if anything folks in that position were misled. The spending in every corner of the city was well beyond the income and now fortunately they have the finance director telling them how far out of line things got, but with that being said this is what is happening. He didn't think it was a plot of having the parks board do all this hard work to garner levy support and then hit them with a hidden glove. He thinks the city is in tough straits and they all better come to a neutral ground because there is just one pot, and if they give them the entire \$160,000, then they will lose officers and the parks will be vandalized because of it. They will lose street crews in front of their homes. There is only so much and he understands they are saying this amount is excessive, but they have to figure out what they can and can't do. He doesn't want anyone to think that there are some secret dealings going on. This is his third time on council and for two terms they have been in a budget crisis and it blows his mind, but he has a job to do and he has to do it. They have to find compromise and ways where they can actually accommodate. The State says you have to balance your budget and that's a fact, so one way or another they are going to balance this budget.

Terry Parker said his characterization was not that there has been some secretive plot to do this. He was simply saying the average voter who thought they were getting this \$160,000 and this \$270,000, is going to feel like... He doesn't think the parks should be immune from having to contribute to balancing the budget, but it seemed like taking that much of it was excessive. With regards to the ballfield; when that venture was done there was an ordinance that entered into a partnership with the schools and then it was redone and they have been paying out of their parks levy debt service that continues to 2020 he believes. S. Holovacs said he was talking about the personnel. T. Parker said they pay one-third of the salary of the groundskeeper during the season when the fields are used by the City rec instead of the schools. A. Hendricks thought this started when she came to the school district in 2000.

M. Stark said this is just the beginning stages of trying to decide how this will work out. However, she doesn't think the average voter is going to feel that they got tricked. The average voter probably didn't realize they had general fund money that went to the parks. The average voter probably said the parks levy is going to help the parks and it's going to cost this much more every month and they would be willing to pay that every month. She said they are all let down that they have to make these decisions, but she thought it was pushing it a little bit to say the average voter is going to feel that way.

Amy Hendricks said in order to make the 2019 budget balance it could represent some significant reductions in operating resources across the board. B. Brady asked if there were other places to cut corners besides the parks fund. A. Hendricks said it will be painful wherever they take the money from at this point in time.

S. Herron said this makes him sick because as grateful he is for the efforts the administration has made, he personally feels like he is kicking someone in the gut. He put his own creditability on the line and pushed for that. He said he meant it when he said they will do anything they can to make a better community and he will do his best as a council member to vote in a way that is appropriate to make things better for families. Therefore, he gives his word that he will do all he can to minimize the impact. He will not avoid his responsibility to balance the budget because people elected them to do this. This discussion is not over as far as he is concerned and he will continue pushing and prodding. F. Loucka said it's still a work in progress.

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

Next Meeting: August 13, 2018 @ 7:00 p.m.

Gwen Fisher Certified Municipal Clerk