

FINANCE COMMITTEE MINUTES

OF MARCH 12, 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; Steve Holoavacs, Ward Three; Barb Brady, Ward Four; Brian Holmes, Ward Five. Excused: Frank Loucka, Ward Two

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

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

TOPIC ONE: **Review of 2016 Audit**

Amy Hendricks provided the following information to City Council pursuant to the 2016 Audit review:

- 2016 Audit Review
 - Finding 2016-001 Material Weakness – Capital Assets
 - There was an update done through Industrial Appraisal in February, 2017, but nothing since. I was forwarded an email on March 2 notifying us that we were running late on the updates for the December 31, 2017, audit. This is one of the items to be addressed following the budget process, closing 2017 and bringing all transactions posted to current. I anticipate this item will recur on the 2017 audit in some form.
 - Finding 2016-002 Material Noncompliance – Appropriations Exceed Resources
 - This situation appears to continue in 2017. Monthly reviews will be implemented in 2018.
 - Finding 2016-003 Material Noncompliance – Expenditures Exceed Appropriations
 - This situation appears to continue in 2017. Monthly reviews will be implemented in 2018.
 - Finding 2016-004 Material Noncompliance – Expenditures Exceed Cash
 - This situation appears to continue in 2017. Monthly reviews will be implemented in 2018.
 - Finding 2016-005 Material Weakness – Lack of Timely Posting/Reconciliation

- This situation continued in 2017. Lennon has been engaged to complete a reconciliation of all fund balances. Procedures and software capabilities will be reviewed to increase timeliness of these tasks going forward.
 - Management Recommendation – Leave Tracking/Posting
 - Errors were noted in payroll system and manual paper system being maintained separately. Recommendation was to fully utilize software system to assure accuracy and prevent future errors. This was not addressed in 2017. This is on the implementation list for 2018 along with other measures to minimize opportunity for errors from manual entries.

- Water/Sewer Transfers

The amount charged to Water was 12.5% (\$17,940.98) and Sewer 12.5% (\$17,940.98) of the salary for Director of Finance and Director of Public Service. This accurately reflects the language of Ordinance 2014-59. Due to the limited cash available in the General Fund 101 projected for 2018, I recommend that this continue for the current year.

- EPA Fees

Information reported since the February committee meeting indicates that the EPA fees are not charged consistently to customers beyond city limits. This matter will require further review of billing practices as well as applicable agreements. An existing agreement with Erie County is through 2020.

- Budget

You will note the following in the report provided on March 9, 2018:

1. Updates for 2018 wage trends have been applied as well as impact of fringe benefits linked to payroll.
2. Health insurance premiums reflect current census and rates through 2018.
3. Most nonessential cash advances from the General Fund 101 to other funds have been eliminated for 2018. This is causing available funds to be reduced in those funds that have relied on advances for support.
4. The review of line item spending trends for 2018 have been done for many allocations with adjustments made and will continue.

I have been distributing reports to department heads showing purchase orders from 2017 that remain open in hopes of being able to close out encumbrances to make those funds

available for 2018. I had mentioned a variance of over \$300,000 in the reconciliation for 2017. The majority of this was due to the City's share of pensions not being posted to the accounting system since March, 2017. As you may imagine, any funds that have significant labor costs were adversely affected. Deficit spending in the General Fund nearing \$480,000 during 2017 limits what can be done in the current year. At this time, it is too soon to be able to predict any revenue updates for 2018, so I am limiting the available revenue to what is on the Certificate of Estimated Resources. I have adjusted budgets for those funds that will not have transfers-in approved at this time.

In brief, the following challenges must still be addressed prior to final adoption of the 2018 Permanent Appropriations:

1. An additional \$252,454 must be cut from the General Fund 101.
2. An additional \$98,718 must be cut from Street M & R or transfer additional monies from Permissive Use for qualifying expenditures.
3. The Recreation Department is estimated to have a deficit of \$9,273.
4. The Safety/Watercraft fund is estimated to have a deficit of \$13,015.
5. The Storm Water Fund was balanced by moving \$85,000 in expenses to the EPA Assessments Fund 605.

Amy Hendricks said she has had many communications (email, phone, and face to face) with team members across the city to explain the challenges we are experiencing and how they may be impacted. She also extended the offer to Boards and Commissions that have had questions to attend a future meeting to increase their understanding of the 2018 planning and beyond. She let them know that this is not a "best practice" budget year due to the administrative changes and time constraints to comply with budget adoption requirements. It's her goal to provide ongoing updates on expenses and revenues during 2018 to allow time to react as needed.

S. Herron suggested the finance director review a quick rundown of the standings of the audit in another three months.

TOPIC TWO: Review of Ordinance 2018-14 (Section 1080.08(a) Deposit & Proceeds

J. Gabriel said council recommended a percentage of 40% to be directed to debt reduction for capital projects, but when looking back at this in 2010, the stormwater income was \$185,000 per year and they were allowed to borrow \$100,000 of it. However, the way is written back then they were allowed to borrow 54% and now the recommendation is 40%, which may be too low of a percentage, so he would recommend raising this to 50 – 55%. B. Brady said they had talked about looking at the health of the fund before they decided on this. J. Gabriel said the health of the fund is a donut, but moving forward they still can borrow 54% of a donut. B. Brady said from the year before there is already borrowed money they are paying interest on, so it's 54% of what number? J. Gabriel said it was the maximum amount allowed for debt service, so they

could borrow up to \$100,000 of the \$185,000 income they were taking in. B. Brady said if they borrow \$100,000 a year, the second year they are really borrowing more than \$100,000 because the debt service is on the year prior. J. Gabriel said no as long as the debt service doesn't exceed 54% of the annual income. M. Stark said for example if the current debt is 20% then this year they could take out another 34%, but next year they would have that 54% encumbered in their debt until that is paid down. B. Brady said it's an accumulative amount of money.

S. Herron said Ordinance 2018-14 as written states that a maximum of forty percent of the income collected based on the previous year will be directed to debt reduction for capital projects for stormwater drainage improvements. B. Brady asked if they would call this an encumbered amount if it was a debt. A. Hendricks explained the debt service is what it's speaking to in the ordinance, which would be the principal and interest due that specific year, so you have to keep your level of borrowing low enough that what you're paying in principal and interest each year didn't exceed that percentage of revenue. This would be anything you could borrow in that fund; it wouldn't be how much could be added each year.

B. Holmes asked J. Gabriel if he wanted to increase the 40% at this point. J. Gabriel said when looking back at the times the ordinance has been changed it was a higher percentage, so he didn't want to limit the stormwater committee with 40%. M. Stark suggested changing the percentage to 50%, so they have 50% for other things that come up. G. Fisher said when council gets to the third reading of the ordinance; they can make a motion to amend at that time to change the percentage to 50%.

TOPIC THREE: Water/Sewer Transfers (Account Totals)

Amy Hendricks said the transfers that were clarified to cover the administrative costs for the portion of the Finance Director and the Director of Public Service; 12 1/2% of the salary only is what was being charged from each of those funds. No percentage of the fringe benefits, so each fund was paying \$17,940 total, which accurately reflects the ordinance language. Due to the limited cash available in the general fund as projected for 2018, she would like to recommend for the current year they continue this transfer of revenue.

J. Gabriel withdrew his previous argument because of the income issues they find themselves in. In a normal year he would still fight over that, but now the general fund is strapped and they need to go with Plan B. S. Holovac suggested that maybe they could take exception this year by transferring the money out of the sewer fund only because the water fund is low. A. Hendricks said the numbers were already taken out of the balances they show for this year, so the reduction was already made. She said the water fund has \$350,000 in outstanding purchase orders and a negative balance of \$148. The sewer fund has \$630,000 encumbered for the current year. B. Brady asked how they can justify this because these are enterprise funds. She didn't see how they could burden one fund and not the other.

TOPIC FOUR: Water/Sewer Rates (Out of Town Customers)

Amy Hendricks said the EPA fees are not consistently being charged for customers outside of the city limits. It will require further review of billing practices and the applicable agreements. For example, the Erie County Agreement covers the area south of town and is set to expire in 2020. They need to be able to take time to review the language and see what some of their

options are within that agreement. T. Valerius said they don't charge EPA fees to those customers on Route 60 pursuant to the contract.

B. Brady said they consider them one customer and they bill them one minimum billing charge, so it's worse than not just charging EPA fees. The city residents pay the minimum billing, plus the value of the water. People outside the city limits are paying one minimum billing and the value of the water and it's getting spread out. A. Hendricks said this deserves further research.

M. Stark asked if the city has a number of how many homes are outside of the city that they are talking about. T. Valerius believed there are 113 customers for sewer only. He didn't have the number for outside of the city water customers.

S. Holovacs said he knows the previous service director physically counted the taps. He knows they are continuing to build in the township and wondered if they have taken in new people. He asked T. Valerius if he has gotten any updates and how they check to see if there are new customers. T. Valerius said he spoke with the Utilities Clerk today and she advised periodically every four to six months she asks Bob Kurtz at the township of any new permitted homes. B. Brady said the problem is they bill them on how much water they buy and they know from the sanitary system in the city this is probably not how much water they send us because they must have leakage the same as the city does. They should have a flow meter coming into the city and the city should bill them on what they send us. T. Valerius said there is a reading done by the county and they send the city the meter readings, and this is how the bill is generated. B. Brady said this is just for the water used and the city processes the sewage. T. Valerius said it's based on Erie County water readings. S. Herron said the City of Vermilion is really getting the short end of a situation. S. Holovacs said they should start negotiating within the next six months even though it expires in a couple years. They don't want to wait till the contract expires.

TOPIC FIVE: Review of 2018 Budget

Amy Hendricks said she distributed to council Friday afternoon an updated draft of the budget that included the updates for the 2018 wage increases and hourly trends, as well as the payroll linked fringe benefits, health insurance premiums reflecting the current census and the rates for 2018. Given the shortfalls that they are experiencing within the general fund; nonessential cash advances from the general fund; two other funds have been removed for 2018 causing in some cases available funds to be very limited in those other funds as well. She began looking through review of the individual line items for things that were not fixed expenses, such as utilities and things that like to see if there were large numbers in those areas last year and what actually comprised those; are they ongoing expenditures or were they at one time. She doesn't want to completely wipe out someone's budget if those are things that are supporting an essential system that she's not aware of. She has been distributing reports to department heads as well as asking them to close out encumbrances to make sure they have the maximum amounts available for 2018. She had mentioned that when they were closing out that they had a reconciliation difference of roughly \$300,000 that was due to the pension posting, which hit the available cash balances of those funds. Those postings are caught up and are being done monthly, so they shouldn't have this situation reoccur. The deficit spending also in 2017 for the general fund are just under \$480,000 which is limited to the cash reserves that are available to fund the current fiscal year. Unfortunately, it's a little too early to spot any revenue trends. They have only received one estimated advance from RITA and have not gotten anything from the state. B. Brady asked if the \$300,000 is included in the \$480,000. A. Hendricks said its part of the \$480,000. She said \$480,000 was spent more than what was taken in during 2017.

J. Gabriel asked what the revenue was for 2016 and A. Hendricks didn't have those figures available. J. Gabriel said this is usually an indicator of where the city will end up this year. A. Hendricks said the net revenue for the general fund for 2017 was \$5.6 million and net expenses, plus encumbrances at the end of the year are about \$6.1 million; leaving unencumbered cash balance in the general fund of just under \$180,000 to begin the year, which compares to the \$660,000 beginning cash balance for 2017. She said there have been discussions about areas such as Street, Maintenance and Repair because of not having the \$217,000 advance; like what went into the general fund is there to fund projects. Last year they tapped into the permitted use taxes to fund some of the projects and expenses for streets for the coming year, but they still are currently over budget by \$98,700. One of the things they are looking at for the street department is that they do have a mechanic in the department who actually spends time working on equipment and vehicles for other departments. They are keeping track of work orders for 2018, so they can charge off those wages to the funds where they go. Overtime is a challenge because of the conditions of the streets and infrastructure. It's coming on an emergency basis when there are breakdowns. So it's not necessarily practical to limit overtime. They are looking for other revenue sources and will be making sure they are billing for all the services they can to collect revenue, and making sure they are kept current.

She reported the Recreation department has an estimated deficit of \$9,300. Safety and Watercraft has a deficit of \$13,000, and Stormwater was able to be balanced by putting \$85,000 in expenses encumbered by the EPA Assessment Fund 605.

She has talked with various team members around the city and has a meeting with the courts on Tuesday to go over some of their billings and see how their finances work, and will look into the additional revenue the law director hinted at to recover costs for prosecution of state cases to assist with the general fund. She has had direct contact with officers from various boards and commissions and has provided them with reports. She also stressed this isn't a best practice year in how they do budgeting, but it's what they got.

Mayor Forthofer said there are a couple areas that he and the finance director have been talking about and one is they have OPWC grants that are being stretched into 2018 and maybe the 2019 budget for Hollyview and Adams. If they don't come up with money to be able to do the city's end of it, then the city will lose the grant money. Of course there is Main Street and it's a very public situation. He said giving back grant money would be a bad thing and leaving Main Street the way it is this summer would be an equally bad thing. Our budget is a bad thing, stated Forthofer. B. Holmes agreed it's hard to come back the following year and ask for grant money again when you don't use it.

J. Gabriel said even if the number is \$5.6 million the goal is to figure out the direction they go. He applauded Amy Hendricks for stepping into a very difficult job and was grateful she was with the city. It's not what any of them thought and they are in this together. One thing obvious to him looking forward is the actual income from the city in 2011, and its \$5.422 million, so today they found out 2017 was \$5.6 million. This growth is barely double digits and the expenses are just blowing through the roof, so they need to remedy both of these things. You don't dare ask for more money without doing something about the spending side of things. As they look at all the various lines and items in the budget, they need to keep in mind that the easiest thing is always to go to the voter. He wants to make sure before they do this, is that they have done everything possible. He said the city is in the middle of doom. He said they need to

recognize the city is just not growing; it's pretty flat especially for eight years and the economy has turned.

S. Holovacs agreed with J. Gabriel and when he served on council for 12 years he could pretty much tell them what the income was; \$5.3, 5.4, and \$5.5 million, and now \$5.6 million is not a lot. They continue to have contracts and maybe they need to negotiate. Before they go after and look at other money they need to see what else they have in the contracts that they can trim back, so they can say they have done everything they can and then go to the residents. He said there was a longevity freeze at one time and it's bad language to the employees of the city, but what do they pay in a year in longevity; \$160,000. They have buyouts on vacations and he would love to have it too. He said they need to look at health care as they are hearing its \$30,000 - \$40,000; the average for the rest of the world is about \$20,000 - \$25,000, so when they clean up house, then they can go the residents. He won't do this until they clean this up. In 2016, the forgiveness tax they had ran out. That half million dollars would look really good right now. They need to cut back on the spending they can control and they might have to take a bite. He doesn't want to see the police department with 12 officers. He wants to keep as many as they can as well as the finance department and the street department at 5. They need to do something to come back with a balanced budget and look at all the areas because there are things they give away. When the income doesn't grow they can't have free stuff.

Chief Hartung addressed the vacation buyouts and told council to keep in mind that when they take the vacation they get the time off and then they pay someone to cover their shift. If they do the buyout then they are just paying one person that rate they have, but they're not paying somebody to replace them, so it actually saves them money. He would encourage buyouts. S. Holovacs said they have to replace people in his work too but he doesn't get paid twice for it. C. Hartung said he doesn't get paid twice for it if it's a buyout. S. Holovacs said you get paid for the week you work and for the buyout. C. Hartung said no it would be the work you are off. He said you're entitled to the time and it's a contractual obligation. S. Holovacs said it's not in every department though as all other departments have buyouts; it's additional compensation for the rest of the city. C. Hartung said Andy White had similar issues with health care in Huron and he came up with a plan that was negotiated with the union. Essentially they went to higher deductibles in a different plan, but the City said they would do \$7,000 deductibles and would pay the first \$5,000 and they saved a fortune doing this. He has had these discussions with the unions in the past and they are aware of what the issues are, so they are prepared when they sit down and discuss this.

Mayor Forthofer said this is uncomfortable to say the least for 2018, but some of the work is being done by the Finance Director to rectify some previous omissions or things that weren't done, and this will not be the situation for 2019. Even though they feel bad about this, it's not forever or a perpetual situation. They have to be vigilant and it's a good exercise to reexamine everything.

M. Stark knows they have a new finance director so they have new eyes on things. However, at the school district they have new software and the city has new software, but at the school district they can't put requisitions in if there isn't money in that budget, so they can't create a purchase order. Therefore, does the city's new software have something like this in place so requisitions can't be put in without money in the budget, so they don't run into these types of circumstances? A. Hendricks said because of the fact that it's still relatively new to employees and the fact they are under temporary appropriations, she isn't sure it has been enabled in that

way, but once they get the permanent appropriations enabled this will definitely be put into play.

B. Brady asked if the transfers will be deducted and asked how much more will be coming. A. Hendricks said \$252,000 over the general fund. B. Brady asked if there will be anything left in Street M&R and A. Hendricks said they got it to \$98,000 additional that is needed to make it balance, which can come from permissive use. She would hate to make commitments to do big projects at this time. T. Valerius said this year they needed to do street striping because the paint really gets worn away and it's hard to see the center lines. Mayor Forthofer said they had talked about striping the Grand Division parking lot but he thinks they won't get to it this year. T. Valerius said they also do crack sealing every year and it comes down to priority.

B. Brady said when the finance director said she borrowed from the EPA fees....A. Hendricks said there were things they needed in the sewer department and they used some of the money from the EPA fees that were a part of that compliance. B. Brady asked if they could justify that and A. Hendricks confirmed yes. It was mentioned there was an EPA stormwater fee but B. Brady said they only had EPA in the sanitary and water, not stormwater. A. Hendricks said they will look more into this. B. Brady said the EPA fees were limited to projects like a pump station which the EPA told the city they had to do. J. Gabriel said because the West River lift station was an I/I catch this was the reason it was built, so if there wasn't a stormwater component to that then they need to look at the use of that fee.

B. Holmes said the third reading of the budget is scheduled for March 19 and they may need to table it until March 26. J. Gabriel asked the finance director if she wanted council to go line by line to balance the budget or does the administration have ideas. A. Hendricks said there are some general ideas but if anybody has suggestions or would want to bounce ideas with her then they can feel free to contact her. S. Holovacs said council used to hatch the budget for years and it was around \$20,000-\$30,000. Where the money is at is in contracted services in general government and the administration knows what it is. A. Hendricks said maybe they should look at the pool. J. Gabriel said they looked at this in the past and the mayor at that time had donated their salary in 2008 and Bob Cunicello donated his time which was an incredible giving, but he doesn't expect that from people in the community, but on the same token if they don't have the money, they may have to take a year off. S. Holovacs said he was assistant recreation director years ago and all the money came from the fees and sponsorships, which paid for the officials and the rentals of the gym, so he doesn't understand why they are in a deficit. A. Hendricks said she has messages out to the recreation director to talk about sponsorships for future years.

B. Holmes spoke on the telephone breakdown between departments, but questioned some of them when they don't even have an office that's in use. A. Hendricks thought this may be a pro-rated share of the city phone bill because it's part of the general fund. C. Hartung said they have so many different lines, modems, and costs that will get worse, so really professionalizing this and getting it locked down with somebody who can manage the entire system may help. A. Hendricks said they ran out of their Microsoft licenses and these are very expensive. She had discussions with Joe Pinter on what some options could be. J. Gabriel said there is open source software that could help.

M. Stark questioned the wages in the general fund as it seems as the increase is showing more than two percent. A. Hendricks said it may be due to some staffing levels in some of the departments and if people are still on the step schedules.

B. Holmes asked council to review and offer suggestions of areas to cut within the budget. A. Hendricks said ultimately it's her job to make the budget balance and she will, but if she can get input from others, that's helpful.

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

Next Meeting: Special Finance – March 19, 2018 @ 7:00 p.m.

Gwen Fisher Certified Municipal Clerk