

**Minutes of the Meeting of the Finance Committee of Council  
Held in Council Chambers of the Municipal Building  
On Monday, May 16, 2016.**

Committee Members Present:

Chairman, Ward 2 Councilman Dennis McBride

Ward 1 Councilman Bob Butkowski (arrived after Roll Call); Councilwoman-at-Large Tammy Holtzmeier

Others in Attendance:

Law Director John Gasior; Fire Chief Frank Root; Ward 3 Councilwoman Mary Berges; Mayor Bryan Jensen; Council President Craig Witherspoon; Ward 4 Councilman Scott Radcliffe; Finance Director Bill Logan; Utilities Supt. Anthony Lorenzo; Service Director Mike Farmer; John Wysochanski, Chronicle-Telegram

Mr. McBride called the meeting to order at 6:17 P.M.

**Proposed Increases – Water and Sewer Rates**

Mr. Logan stated that he and Mr. Lorenzo and Mr. Farmer have met to review the water and sewer rates. The water rates were raised in March of 2015 and in August of 2015, both the water and the sanitary sewer rates were raised. The reasons for an increase this year: to create decent emergency reserves in these funds and also to pass along an increase from Avon Lake. We purchase all of the water from Avon Lake and our Ordinance states that we increase our water rate as they increase their rate to us. They are raising their rates roughly 5% in July. When we start to fill our new water tower in June, Avon Lake's rate will go up higher. The ETL rate (Eastern Transmission Line) rate will go up from about \$1.30 to about \$1.56 - \$1.58, in that range, although we do not intend to pass that along. That is a change in the way that we are distributing water, a big change in the way that Avon will handle its residential and commercial customers throughout the City.

Mr. Logan said that the water rates that we are proposing here, the 7% increase from \$3.98 to \$4.26, takes into account the normal Avon Lake rate increase that we are expecting of around 5%. We would follow this the next few years with moderate increases (4% to 5%) and then over time, build those reserves. By the end of 2024, we would roughly have \$8.5 million dollars sitting in that 611 Fund which would cover a number of different emergencies, and this is assuming that we do not get hit with large rate increases from our supplier or have a huge emergency item in those eight years. It assumes normal sort of capital outlay, and normal sort of operating expenses and growth. So for this year, we would propose that these rates become effective August 1st, after Avon Lake's increase goes through. We are proposing to go up to the \$4.26, which also is still well below the Ohio EPA State average. The State average is roughly \$573. a year and at our rate of \$4.26, our average Avon resident will pay just under \$400.00 a year for water, 31% below the State average. Mr. McBride asked when the next increase after this one would take place and Mr. Logan responded, a year from this August, when Avon Lake seems to increase their rate.

Ms. Holtzmeier asked Mr. Logan what he thought a goal amount would be for a reserve and Mr. Logan said he would be very happy getting up over \$6 million dollars, a year's worth of operating expenses. Mrs. Holtzmeier said, and then anything above and beyond that, we are still well capitalized and have funds in place to be able to undertake new projects without perhaps taking on any more debt. Mr. Logan said, right, and this does assume that the outstanding notes for the water tower, the transmission line, and the meter changeout are all paid off by 2021.

Mr. Logan stated that there is much less debt to pay off on the sanitary sewer side. The only note is the \$1.5 million of the water meter changeout notes. We discharge sewage to both North Ridgeville, which owns the French Creek Wastewater Treatment Plant, and to Avon Lake. About 80% of Avon's sewage goes to the French Creek Wastewater Treatment Plant and 20% goes to Avon Lake, and that is basically sewage from the northeast quadrant of the City. For this year, Avon Lake's rate is at \$3.99 and North Ridgeville is at about \$3.53 and that is per 1,000 gallons of discharge. Our current sanitary sewer rate throughout the City, regardless of which sewer system anybody is on, is \$6.08. Avon Lake is increasing their rate in July of this year and in July of next year. We can only assume that North Ridgeville will be increasing theirs also as they are overdue for an increase. Mr. Logan said that last year in August we took our rate up by 5% and that was the first increase in three years. We would like to take it up 5% this year which would take it to \$6.38 per 1,000 gallons, which would equate to about \$593. annually for normal use, compared to the State average of \$626. And by doing that, we stay on this path of building some reserve.

Mr. Logan stated that the tap in fees for sanitary sewer are recorded in the sanitary sewer operating fund but by Ordinance, we transfer 86.7% of those tap in fee revenues to what is called the Sanitary Sewer Replacement and Depreciation Fund 406. That fund right now is about \$1.2 million and it will continue to climb and it is there for emergency use.

Mr. Logan said that if these rate increases are acceptable, he would like to get them on the first Council Work Session in June because we will have a reduced number of meetings in July.

The Finance Committee was in agreement with the proposed rate increases for water and sanitary sewer and recommended them to Council.

### **City of Avon Investment Policy**

Mr. Logan stated that Mr. Gasior was passing out the tentative Ordinance which reflects recommended changes in the City's investment policy as written in Section 238.05 of the Codified Ordinances. Suggestions are to add language to allow the City to use an investment advisor, to replace language dealing with eligible investments and investing in specific CDs, and to replace language regarding money market mutual funds and repurchase agreements. Mr. Logan said he is not recommending these changes for any specific investments that we are looking at. We are doing it to clean up our Section 238.05.

Mrs. Holtzmeier asked if we add that particular paragraph to the investment policy regarding the ability to retain an investment advisor, would that still allow this Committee or Council as a Whole to review the contract or agreement with that advisor? Mr. Logan answered, absolutely, and if she wanted language in there to that effect, he would be fine with it. Mrs. Holtzmeier said that she would just propose to add that language in Section 238.05(e) that should an advisor be hired, that Council review the agreement.

Mr. McBride asked Mr. Butkowski if he was good with all of this and Mr. Butkowski answered, yes. Mr. McBride said that Finance Committee would make the recommendation to Council to adopt the Ordinance subject to the amendment that Mrs. Holtzmeier has requested.

### **Property Tax Renewals for Fire Equipment Fund and Police Equipment Fund**

Mr. Logan stated that 2017 will be the last collection year for the Police Department Equipment Levy and the Fire Department Equipment Levy. Both levies began at .50 mills but the Police levy was

replaced somewhere along the line and kind of went back up there. So currently, with the Police, the current effective millage is about .46 whereas the Fire is about .38. Currently, the Police Equipment levy collects roughly \$362,000. a year and the Fire Equipment levy collects about \$288,000. That money from the levies is deposited into their own separate special revenue funds with the funds being used only for capital improvements/capital outlay type purchases such as vehicles, machinery and equipment, some of the equipment that goes on the fire trucks and the ambulances, etc.

Mr. Logan said that, at first, we looked at renewing both of these levies, meaning they would continue to collect what they are collecting now. If you replace the levy, it would go back to the .50 mills. So right now if we went back to the .50 on the Fire Equipment levy, we would begin collecting about \$408,000. annually, or about \$120,000. more than it collects now. For a \$100,000. evaluation, it would go from \$11.58 per \$100,000. evaluation to \$15.31 per \$100,000. Over the 5 year replacement, as values increase in the City, residential values primarily, that millage would start coming back down where you would pay less and less as there is more value in the City.

Mayor Jensen added that we also looked at trying to alternate with the levies. This year we will replace the Fire and renew the Police, and then the next time we will probably replace the Police and renew the Fire. We are in a pretty good spot with Police but Fire is to that point now where they will need another engine in a few years and then probably by the time you get the engine, you will need another squad.

Mr. Logan said that the timing would be good to put these levies on the ballot in November at the General Election. If for some reason we do not get them on in November, we can still put them on next year in May or November. He said that he checked with the schools and they have no levies on the November ballot and it is always good to try to time your levies with those of the school. If everybody has levies on, something is going to suffer.

Mr. Logan said, so there will be a renewal levy for the Police and a replacement levy for the fire and they are five-year levies. The first step, legislation wise, is to pass a Resolution , requesting the County Auditor to certify the tax rates. We want to do that soon because if we want to have anything on the ballot in November they have to have 90 days, which means we have to pass an Ordinance in early August or mid-July. Mr. Logan said that for the Resolution to certify tax rates, we can do a renewal, a replacement, or a replacement with an increase; you can do any combination. Mayor Jensen suggested putting it on the next Regular Meeting to vote on it. Mr. McBride asked Mrs. Holtzmeier and Mr. Butkowski if they were good with that and they said that they were. Mrs. Holtzmeier stated that she thought that fall is an appropriate time to put this on the ballot and she would like to see a commitment to get the levies passed by reappropriating even just a small amount of funds to help educate the residents to get that done. We all need to do a part to explain to everybody the difference between the two levies.

Mr. McBride asked Mr. Butkowski and Mrs. Holtzmeier if they were in favor of recommending to Council the placement of the two levies on the ballot in November and they responded, yes. Mr. McBride then made the recommendation.

### **Consideration of Addition of a Line Item to the 2017 Budget**

Mr. Butkowski stated that as we try to get higher on the bond rating system and as we continue to grow, we are going to be getting some extra revenues. He said that he would like to see the Departments have line item budgets where it calls out a reserve for those particular departments and we have a way to track where we are and how we are growing. It is just another way to keep an eye on what is going on. So he threw out the idea of potentially picking an arbitrary number of 10% and having it run

through Council. He said he knows that right now the Departments are putting together budgets for 2017 and so he wanted to try and stay ahead of that.

Mr. Logan said, well, we are putting together the preliminary budget. He will get the blessing of the Department heads on these budgets and add anything that they feel is major, but we are not going to go through, item by item, with these preliminary budgets. We will do that in September and October when we fine tune the budgets. There are schedules in the City's CAFR (Comprehensive Annual Financial Report) each year that show the comparisons on a cash basis and then as part of what they call a gap conversion on an accrual basis. These schedules just kind of show the expense budgets for the major departments and the General Fund, which includes a multitude of smaller departments. He said that he does not disagree with Mr. Butkowski; it makes sense. We have carried a reserve the last four or five years now for what we call compensated absences in the General Fund, a line item reserved for retirement payouts, basically, and we continue to carry that line in our budget.

Mr. Logan continued by saying, when Council approves the budget, that is Council appropriating the permanent budget for the year. We budget more than we believe we are going to spend from an operation standpoint. What we do not always budget are the various capital projects we know are going to be coming down the line because until we determine what the revenue source is, we do not want to put a bunch of things in the budget. We do not want to assume we are going to borrow money, or assume we are going to use tap-in fees from a fund for a project, etc. We would rather go through the process where we appropriate money at the time. He showed on the schedule for last year the operating budgets of the larger departments throughout the City and the General Fund. And out of the General Fund, they will see that he pulled out fund transfers, so out of the \$13.1 million that the General Fund spent last year, a little over \$8 million were fund transfers. Of that \$8 million, about \$1,965,000. came through reappropriations during the year, mainly for different capital projects. So when you pull that out and look at the other departments, which for the most part have very little in the way of fund transfers, for a lot of these departments, we actually spent 10% less than what we had budgeted. And if you look at the years before 2015, his guess would be that we have always been around this amount of variance. In other words, we are appropriating more than we think we are going to need to spend because if we do not, if we truly budget to the penny and are kind of tight with the budget, then he would be coming back for more reappropriations from an operating expense standpoint. So for governmental budgeting, where the legislative body basically authorizes every penny we spend, he wants to come in with a permanent budget that Council can accept. So we can easily put reserves into our budget schedules and we could even set up line items, expense lines, in different departments for reserves of some sort but he thinks that we are still not going to spend to within that 10%. Last year, other than the Water Department, all the other departments were under their original budgets.

Mr. Butkowski said that for him it was the concept of a person getting a bonus or a tax refund and deciding what to do with that money. Some people go out and buy a new car or something that is not something that they need, as opposed to deciding to put some of that money away in savings or for a reserve for a major incident that they did not plan for. He said he thought that the reserve is great for budgeting purposes because you have to have wiggle room because there are going to be variances.

Mr. Logan said, and that is where he thought that maybe we should look more at fund balances, unencumbered fund balances at the end of the year or at the end of a quarter. Technically, those are your reserves. Mr. Butkowski said that he wanted to spread that ownership out to the departments so they are also part of that process as opposed to the overall number and that way, everybody is more involved in deciding how extra money in their department is used. Mr. Logan said that we may need to educate our Department Heads a little more on the fund balances, and where we think they should be.

We would tell them that we would like to see them end up about 10% higher than that in their ending fund balance. We will budget what they want to budget and we will budget the revenues, but their goal is to go to the plus 10% or something like that. And that builds reserves.

Mr. Butkowski stated that the line item will be able to attract that. To be able to say we have increased reserves for whatever budget is recorded to the community that, yes, we are bringing in more revenue but look at where that revenue is going. We are spending more but we are also saving at the same time and we are setting that aside. Mr. Logan noted that that overall picture should be reflected in the fact that our General Fund at the end of this year should be substantially higher than it was at the beginning of the year.

Mayor Jensen said that he and Mr. Logan talk about this all the time. As we see revenue increasing, how do we make sure that we put that reserve away and we want to make sure our rating is up even though we had a lot of expenses last year. That is one thing that they look at for your ratings, how much is spent. So this year he and Mr. Logan made the commitment that, as they see revenue increasing, as much as we want to do something more and we see something that could use it, to instead use that revenue to build up reserves. Unfortunate things do come up; we have to put up the French Creek retaining wall on Jaycox Road for \$75,000. He said he did not want to cut into the reserve that we have right now but that is going to come out of it. He said he would like to find a way to give ownership to each department and ask them what they can do to save money in their departments, a way to make everybody responsible for their department to say how they can help. Mr. Butkowski said, and that line item just kind of reflects that and helps the departments to manage their teams and be able to track that. That is all he is looking at trying to do.

### **Popular Annual Finance Report**

Mr. Logan stated that as they are winding up their audit and getting the CAFR and the financial statements all together, he talked to the Mayor about putting out a simple booklet called a "Popular Annual Financial Report." This is actually Matt Stuczynski's idea and other cities do it. We are envisioning a 4 page report, almost like a newsletter. It would be very brief but a more colorful sort of description. Mayor Jensen added that it would be something that anybody can read and understand. Mr. Logan said, so we are going to give that a shot this year and it would follow the CAFR coming out. It would be based on the 2015 financials but more general information that the Mayor could hand out at different events or that people can pick up here at City Hall.

### **Adjourn**

The Meeting was adjourned by Dennis McBride at 7:29 P.M.

Transcribed by Gail Hayden, Assistant Clerk of Council