

Council of the Whole Presentation – City Finances as they relate to Lakewood Hospital April 20, 2015

What is the City's and What is Not?

- The City is an incorporated municipal government entity as allowed by the Ohio Revised Code, has adopted a Charter as allowed by Ohio law, and operates under a Mayor-Council form of government pursuant to the Charter.
- When I say “City,” this is what I mean. The City has its own financial set of accounts based on the types of revenues it receives, and the legislative body, City Council, approves a budget or an estimate of expenditures each year for the services the City provides.
- The City owns assets: streets, sewers, police cars, garbage trucks, parks, municipal buildings.
- The City owes money: debt service, payroll of employees, money owed to vendors for services rendered.
- What is “not” the City's: private homes, private businesses, things considered “community assets” like the schools, the library, non-profits, etc.

Importance of the City of Lakewood's Financial Condition and Strength

- Reserves and Unencumbered Fund Balances
- Bond Rating
- Ability to pay bond/note holders, employees, vendors (in that order)
- Reduce potential risk and exposure

History of Reporting Lakewood Hospital Finance's as part of the City's Finances - The CAFR Story

- City has been issuing Comprehensive Annual Financial Reports (CAFRs) in 1981.
- These are a presentation of the City's Audit Financial Statements, but also tell the story of what happened in the prior year.
- They are not a look forward or a projection of the City's finances.
- 1907 – 1986: Lakewood Hospital Finances are reported as part of the City's finances as an enterprise fund
- 1987 - 1996: No Lakewood Hospital mention in City finances other than it as an employer, and the description of the 1987 Lease Agreement with the Lakewood Hospital Association. City now receives \$200 in annual rent from the Lakewood Hospital Association per lease terms. And from 1987 - 1992 the City of Lakewood referenced the Hospital debt in the notes to the combined financial statements of the CAFR because they were issued using the City's full faith, credit and general revenues of the City, which was the 1971 GO Debt.
- 1997-Present: Lakewood Hospital Special Revenue fund was created in 1997 for the purpose: “To account for revenues and expenditures related to providing emergency medical service and other health and safety services.” Initial revenues were from the \$1.0+ million in annual rent from LHA, and beginning in 1999, transport fees from EMS runs.

CAFR Data 1981-1987 and Notes as Related to Lakewood Hospital Finances

	1981	1982	1983	1984	1985	1986	1987
Mayor	Sinagra	Sinagra	Sinagra	Sinagra	Sinagra	Sinagra	Sinagra
President of City Council	McBride	Chinnock	Chinnock	Chinnock	Chinnock	Gallagher	Gallagher
Finance Director	Golem	Golem	Mikula	Mikula	Mikula	Mikula	Mikula
Total Hospital Gross Revenues	\$ 40,627,826	\$ 47,386,713	\$ 48,716,075	\$ 49,692,551	\$ 48,573,327	\$ 52,411,561	
Total Hospital Direct Operating Expenses	\$ 37,458,836	\$ 42,264,581	\$ 44,108,852	\$ 45,048,946	\$ 44,098,947	\$ 46,626,107	
Hospital Net Revenue Available for Debt Service	\$ 3,168,990	\$ 5,122,132	\$ 4,607,223	\$ 4,643,605	\$ 4,474,380	\$ 5,785,454	
Total Hospital Related Outstanding Debt	\$ 5,910,000	\$ 29,165,000	\$ 36,995,000	\$ 36,765,000	\$ 36,280,000	\$ 35,870,000	
Total Hospital Annual Revenue Bond Debt Service Paid	\$ 779,456	\$ 1,065,280	\$ 1,158,170	\$ 1,946,867	\$ 3,555,382	\$ 3,556,248	
Hospital Debt Service Coverage Calculation	\$ 4.07	\$ 4.81	\$ 3.98	\$ 2.39	\$ 1.26	\$ 1.63	
Approx. Number of Patients Annually	12,000	11,200	10,750	9,500	9,300	9,300	9,100
Approx. Number of Hospital Employees	1,100	1,235	1,100	1,000	960	960	997

1983 CAFR

- Hospital renovation and remodeling project of approx. \$26.4 million.
- All bonds payable, except the 1983 hospital bonds, are general obligation bonds in which the full faith, credit, and general revenue of the City are irrevocably pledged.
- The City issued \$31.695 million to advance refund the Series 1982 Bonds and 1970 Hospital Improvement Revenues Bonds.
- In conjunction with this advance refunding, the Hospital has placed the net proceeds from the issuance of the Refunding Bonds along with certain Funds held by Trustee related to the Series 1982 and 1970 Bonds in an irrevocable trust for the purpose of retiring the existing obligation of the refunded debt.
- The Hospital completed a transaction for the purchase of a medical office building. Financing for this purchase was accomplished through the issuance by the City of \$3.850 million in Series 1983 bonds. The Bonds are secured by a letter of credit issued by National City Bank which extends until Dec. 1, 1988.

1984 CAFR

- The City completed two separate transactions for the purchases of a medical office building and a parking garage for the Hospital.
- The purchase price for the medical office building amounted to \$1.065 million and was paid from funds generated by Hospital Operations. The parking garage facility was purchased from the City's General Fixed Asset Account Group for an amount of \$3.350 million.

1985 CAFR

- On Nov. 5, 1985, the citizens of Lakewood approved a Charter Amendment, authorizing Lakewood City Council and the Lakewood Hospital Board of Trustees to enter into a lease agreement. The parties of the lease agreement would include the City of Lakewood and the Lakewood Hospital Association, a non-profit corp.
- The City's only GO Bond Debt issued in 1965 for hospital improvements is paid off.

1987 CAFR

- On Jan. 5, 1987, the City Council approved an agreement which resulted in the transfer of all real and personal property of the Hospital to the Lakewood Hospital Association. First reading of the ordinance 63-86 was on November 17, 1986. As part of the Whereas language included “. . . there are financial limitations upon the ability of this City to provide subsidies for the operation of Lakewood Hospital”
- Prior to June 26, 1987, Lakewood Hospital functioned as an operating unit of the City.
- The agreement became effective June 26, 1987 and resulted in the City transferring to the Association, all liabilities, debts, monies, accounts, and inventories of the Hospital, so that operations would continue as in the past
- All Lakewood Hospital Debt was reduced off of the City's Financial Statement totaling \$35.87 million. The Lakewood Hospital Association is now responsible for the principal and interest payments, which at the time of the lease was \$3,290,000 per year.
- LHA is also to pay the City \$200 a year in annual rent.
- The transfer of the debt trust indenture of 1983 is a major part of the lease agreement of 1987 and 1996. Reference to Trustees means National City Bank and Society Bank.

ESTIMATED FINANCIAL IMPACT OF THE LAKEWOOD HOSPITAL TRANSITION
ON THE CITY OF LAKEWOOD as of February 9, 2015

Overview

- **THIS IS NOT AN ECONOMIC IMPACT STUDY OF THE COMMUNITY. It the projected impact on City of Lakewood finances based on the LOI dated Jan. 15, 2015.**
- It is accurate to say that the 2016 financial impact of the Lakewood Hospital transition is approximately \$1.5 to \$1.7 million to the City's General Fund. This is approximately 4% of the General Fund Revenues. Although this amount may sound daunting, it is not insurmountable or devastating to the City.
- We are not a company town. The residential composition of the community makes it economically diverse. Lakewood Hospital potential job loss is a hit, but not catastrophic, think a Ford Plant or American Greetings, and is recoverable due to the nature of our economy because it is large, diverse and economic growth potential.
- To put this into context, in 2007 the City faced over a \$4.0 million projected deficit going into 2008, or 11% of General Fund revenues, and the 2007 year-end fund balance was a little over \$300,000 or a 2-day reserve. This was confirmed independently by the State of Ohio Auditor's Office in early 2008.
- The Administration and City Council in 2008 and ever since, worked to improve the City's financial position by passing structurally balanced budgets in that projected expenditures did not exceed projected revenues. This practice reversed decades old financial practices that led to the dismal fiscal situation the City faced at the end of 2007.
- In a mere eight years, the City's financial stability is the best that it has been in decades with a General Fund ending balance in excess of \$6.0 million or over 60 days in reserve. That amount does not include the \$1.7 million budget stabilization account created in 2014, and the over \$1.0 million currently in the economic development account.
- Since 2008, the City has overcome the following additional financial hits while maintaining / improving services and not raising taxes:
 - The housing crisis impact on General Fund = \$1.13 million in reduced property taxes
 - The 2012/2013 State Legislature impact on General Fund with the elimination of the Estate Taxes (\$1.5 million average a year) and CAT taxes (\$200,000), and the severe reduction of the Local Government Fund (\$1.82 million) disbursement by 50% = \$3.52 million reduction annually to the General Fund that began in 2013.
- The City of Lakewood is the strongest it has even been financially in decades, all the while weathering financial challenges, and it will definitely be able to successfully navigate the Lakewood Hospital Transition in the short-term, and will benefit greatly from the future investments and development that the Letter of Intent allows.

Lakewood Hospital Fund

- Currently the biggest financial impact of the lease with Cleveland Clinic Foundation to run the hospital is the annual lease payment, which will be \$1.15 million in 2015, since there is a step up of \$25,000 every three years (2012-2014 the amount was \$1.125 million a year).
- However, the largest current revenue into the Lakewood Hospital Fund is EMS transport fees, which were nearly \$1.3 million in 2014. These will not go away, and will only increase over time.
- The largest expenditure out of this fund is the salaries and benefits for the 9 Paramedics and 7 Firefighter/EMTs, which totaled approximately \$1.4 million in 2014.
- In order for this fund to be sustainable (expenditures do not exceed revenues), the salaries and benefits of the 7 Firefighters/EMTs will be shifted to the General Fund (approximately a \$750,000 impact) and move the City's annual Cuyahoga County Health Department payment to the General Fund (\$205,000).
- All being said, the changes in the Lakewood Hospital Fund should have an approximately \$955,000 impact on the General Fund beginning in 2016

General Fund

- Income Tax Withholding from the Hospital has been approximately \$950,000 annually for the past 3 years. This is almost 5% of all Income Tax Revenues, and about 1% of All General Fund Revenues. With approximately 1,100 employees currently at Lakewood Hospital, that means the average withholding tax paid per employee is around \$863 a year. It has been projected (although loosely, with nothing definitive at this point) that there will be approximately 250 employees at the new Cleveland Clinic facility. If that is the case, and those employees have the same amount of withholding, the projected withholding revenue will be \$215,000. This is a reduction of approximately \$735,000.

Proposed Financial Handling of the Terms of the Letter of Intent

- Sale of 850 Columbia Road proceeds of \$8.2 million - This would go into the Fund Balance of the Lakewood Hospital Fund. This would give the City leverage for site development, and maintenance and improvement of the parcels/buildings/homes the City would acquire. The City would strive not to use these revenues for operating costs.
- Sale of the property for the construction of the new Family Health Center (amount to be determined) – This would go into the Fund Balance of the Lakewood Hospital Fund. This would give the City leverage for site development, and maintenance and improvement of the parcels/buildings/homes the City would acquire. The City would strive not to use these revenues for operating costs.
- The City would hopefully have a 3rd party that the City would Lease the parcels/buildings/homes to operate (amount to be determined) - This would go into the Fund Balance of the Lakewood Hospital Fund. This would give the City leverage for site development, and maintenance and improvement of the parcels/buildings/homes the City would acquire. The City would strive not to use these revenues for operating costs.
- Any sale of the parcels/buildings/homes the City would acquire would go to the Land Acquisition Fund to capitalize on any future development / investments. No sales of these properties are currently being considered.
- If a municipal tax sharing agreement is made with the City of Avon (amount to be determined), these funds would go to the General Fund.

- Any property taxes realized from the transition of property from non-taxable to taxable would go to the respective funds that receive property tax per the City Charter.

How will the City manage the Financial Impact in 2016 and Beyond?

- The potential loss of \$735,000 in income tax and \$955,000 in additional expenditures in the City of Lakewood's General Fund will have to be carefully navigated, and will be included in the 2016 Appropriation Ordinance that will be introduced to City Council on November 16, 2015.
- The City has recently successfully addressed larger financial challenges of reduced revenues and increased expenditures, while maintaining/improving services, not raising any taxes, and improving the City's financial position.
- Please note that 2016 is a year when the City will realize adjusted property taxes values. Median home sale prices are nearly at the same level they were at their highest in 2007 before the housing crisis hit. The City will find out if that translates into higher values and taxes in early December 2015 when Cuyahoga County releases its projections.
- Economic Development needs to be our highest priority. Filling those office buildings with quality tenants and best and highest use of the 4 acres will have a significant impact on tax revenues. The construction of robust fiber optic infrastructure will be part of the City's strategy to attract development.
- Continue to explore and realize reductions in expenditures through means such as:
 - Continued Lean Six Sigma implementation,
 - Health care cost reductions primarily through wellness and prevention,
 - Maintaining current headcount or reducing headcount via attrition when appropriate, and
 - Energy cost reductions.