

MINUTES OF THE FINANCE COMMITTEE
November 18, 2019
Auditorium

Present: Councilmembers O'Malley, George, Bullock

Also Present: Finance Director Pae, Mayor Summers, Assistant Finance Director Schuster, Budget Manager Jessica Eddy, Councilmembers Rader, Anderson & Litten, Fire Chief Dunphy, Human Services Director Gelsomino, Human Resources Director Yousefi, Councilmember – elect Tess Neff, 3 members of the public

Call to Order: 6:07 p.m.

Councilmember O'Malley called the meeting to order and reviewed the evening's agenda. He invited Mayor Summers to make opening remarks regarding the budget.

Budget Highlights & Overview

Mayor Summers provided an overview of the budget, stating that it is structurally balanced. He noted that the City is currently in collective bargaining negotiations, which presents some unknowns. The City offered a 3% wage increase to the unions and that amount is included into the budget. He acknowledged that that could change. Mayor Summers remarked on the revenue assumptions in the budget. He stated that these assumptions are reasonable and conservative, and that the City prefers to budget conservatively. He expressed confidence in the estimated expenses provided by the City directors. He noted that the 3% salary increase is a bit of a stretch for the City. He noted that the budget is basically "break even," and stated that if Council wants to add things, it should be mindful that something will need to be taken away. He summarized the key take-aways of this budget as follows:

- Structurally balanced
- Break-even
- Maintains good reserves but not focused on building reserves
- Nothing fundamentally different from previous years

In response to a question from the Chair, Mayor Summers mentioned the City's thoughts on wage increases in 2021 & 2022, noting that they would likely be lower than 3%. He remarked on the importance of investing in human capital and noted that the City is projecting the best revenue forecast in 2022 due to property tax appreciation.

Chairman O'Malley reviewed the full schedule for the budget hearings.

Director Pae reviewed the executive summary of the comprehensive budget document. The budget represents \$125 million across all funds. She explained the difference between the General Fund and the special revenue funds and clarified that the budget is \$125 across all funds combined. She reviewed the City's strategy, mission, and priorities, including both administrative and Council priorities.

She explained changes to the use of the Lakewood Hospital Fund. Previously, the Lakewood Hospital Fund received revenues from EMS operation and Vital Statistics. The fund covered expenses in EMS, Vital Statistics and payments to the Cuyahoga County Board of Health. In 1999 when EMS services transferred from Lakewood Hospital to the City, the Hospital provided a lease payment of about \$1 million annually into the Lakewood Hospital Fund. These annual payments ceased upon the opening of the Family Health Center, as negotiated in the master agreement. Starting in 2020, these expenses that previously came from the Lakewood Hospital fund will now come out of the General Fund. All told, there is about a \$200,000 gap that the General Fund will have to absorb and this budget reflects that.

The Committee discussed the City's issuance of birth and death certificates. Assistant Finance Director Schuster explained that the Vital Statistics Division has seen a tripling of birth certificates issued due to the new state license requirements.

Director Pae stated that there is about \$12 million in proceeds remaining from the Master Agreement. There is also \$3.4 million in the land acquisition fund. She recommended that these one-time monies only be used for one-time expenditures going forward. She recollected that the City was holding some of these funds in anticipation of a possible detrimental impact on the tax revenues after the closing of New York Life and Lakewood Hospital. The city was able to weather that without dipping into those funds. She listed her recommendations for potential uses of these one-time funds as follows:

1. One Lakewood Place – She recommended that none of these one-time use funds be allocated until One Lakewood Place is fully built.
2. Cove Church – City has strong credit rating but has high debt compared to peers. It would be best to not go into debt for this project.

At the request of Chairman O'Malley, Mayor Summers explained how the City's budget reserves will be used for the Live Well Lakewood initiative he had flagged recently. Mayor Summers explained that this budget request \$225,000 in 2020 for this initiative. He recommended using \$6 million from the reserve and continuing to hold the other \$6 million until One Lakewood Place is completed.

The Committee discussed the tax impact of One Lakewood Place on the City and other options for the use of the City's one-time use funds.

In response to a question, Director Pae discussed requirements of Ohio Revised Code regarding the amount of reserves that can be held. ORC only limits the amount that can be reserved in a budget stabilization fund. There is also a recommendation that the City have 60 days of operating revenue reserved. Lakewood has achieved the 60-day fund balance. She discussed the role of other unencumbered funds.

Personnel

Director Pae announced that the 2020 budget increases headcount for the first time in a long time, adding an administrative captain position and community paramedic to the Fire Department. She also noted that collective bargaining is underway with the City's seven bargaining units.

Revenues

The City's largest sources of income are its income tax and property tax. Director Pae discussed these tax projections for 2020 and beyond. She also gave a historical perspective.

Director Pae stated that the City expects to receive \$77,000 from the Local Government Fund. This is an increase from last year but still much lower than the level of funding prior to 2011 when the fund was cut in half.

Director Pae noted that interest earnings are lower due to the decreasing interest rate.

Councilman Anderson asked for an explanation of the \$7 million in revenue not included in the executive summary's revenue highlights. Director Pae pointed to the following sources:

- Building & Housing permit fees
- Intergovernmental grants, tax revenues (liquor, cigarettes)
- Municipal Courts
- Transfers

Reserves

Director Pae discussed the City's budget reserves and its trends since 2007. She highlighted the importance of budgeting for a 27th pay every 11 years, for separation payments, economic development and maintaining 60 days of operating reserves.

Councilmember O'Malley suggested that the City and the bargaining units discuss a bi-monthly pay schedule.

She discusses the strategy to continue to build and hold these reserves. The Committee discussed the economic development fund and some of its recent uses.

Councilman Anderson asked about the relationship between the unencumbered fund balance and the days in reserve. He pointed out some swings in this relationship. Director Pae explained the formula, stating that it will vary each year based on the prior year's balance.

Mayor Summers pointed to the layoffs in 2008 and 2011 as examples of the City's decrease in daily operating costs. He stated that the City is very focused on maintaining its 410 full time employees but that there is pressure to get the work done to high standards for them.

Debt

Director Pae directed the Committee to the \$19 million Capital budget. The largest items are as follows:

- Waste water treatment plant
- Vehicles
- Streets
- Parks
- Building and facility improvements

She announced that Finance will introduce a \$28.4 million debt issuance at the Dec. 2nd Council meeting. There will be one-year notes to pay for new projects as well as a continuation of debt from prior years. These are for projects with a useful life of ten years or more.

She spoke about municipal capital leasing which is used for projects with a useful life of ten years or less.

Councilman Litten expressed agreement with the City's philosophy on debt, noting that the City has millage dedicated to the payment of debt that other cities do not have. He also noted that interest rates are at an all-time low and that if a project is to be enjoyed for 20 years that it is OK to spend 20 years paying for it. It was clarified that no General Fund dollars pay for debt.

Councilman Bullock expressed interest in investing in electric and/or clean fuel vehicles to save on diesel costs and other expenses in the long-term.

Director Pae directed the Committee to additional items in the executive summary and discussed the City's big picture financial position.

Chairman O'Malley noted that this overview corresponds to the budget ordinances introduced at tonight's General Meeting.

Mayor Summers concluded that this is a stretch budget due to the front loading of the 3% increase. He noted that the budget remains balanced and that the City can consciously do this because of its stable position. This year's budget does not focus on building reserves. Also, the reserves are typically encumbered at the end of the year once all other revenues are in place.

Finance Committee adjourned at 7:26 p.m.