

CITY OF KENT, OHIO
2014 RECOMMENDED BUDGET

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City Manager's Budget Message

2014 Proposed Operating Budget

November 5, 2013



To: Honorable Mayor and Members of City Council

The City Charter [Section 42. e] requires the development of an annual budget that provides a financial plan for all City funds and activities for the ensuing fiscal year, and I am pleased to fulfill that obligation with the submission of this draft 2014 Proposed Operating Budget for City Council's consideration.

Overview

The 2014 proposed City budget contains the budgetary line items that the staff recommends for sustaining the levels of services for our community in 2014. We submit this budget believing that it represents the best balance between what we can afford and what Kent residents and businesses expect from their City government.

In asking for your approval of the budget, we are seeking confirmation that the funding decisions contained in this budget are aligned with the goals and priorities of City Council and the Kent community.

The budget that you adopt will set the stage for what we are capable of achieving in 2014, as it governs the pace of progress towards our strategic priorities through the resource allocation decisions contained within it.

Our budget process is designed to produce a set of numbers that will guide us in fulfilling our mission in 2014, but those numbers must also be dynamic enough to absorb unexpected challenges and take advantage of timely opportunities. Even in difficult economic times we should expect nothing less from our budget and I believe this budget provides the resiliency needed to serve those purposes.

One of the greatest challenges for producing a budget is trying to forecast what the future holds for our local economy. We study, plan, and anticipate, but a lot can change in the 12 to 16 months between when the budget is proposed and when its term expires.

In preparing the 2014 budget we've done our due diligence and run the numbers to produce a budget that we think will most accurately reflect the economic conditions in 2014. With nearly a decade of budget cuts and savings behind us, we can predict expenses with a reasonably high degree of certainty. Revenues remain less predictable but we are cautiously optimistic heading into 2014 thanks to 2 successive years of income tax growth.

Income tax growth, rising private investment, and new jobs are indicators of the economic recovery that is underway in Kent but it is still too soon to clearly distinguish between the temporary business gains and permanent economic growth. As a result, we are judicious in extrapolating revenue figures for 2014 in order to guard against overstating data trends based on early results.

There are many reasons to be hopeful that the positive economic indicators suggest the beginning of a permanent economic recovery in Kent but the lingering impacts of the unexpected state funding cuts continues to put the City's 2014 Budget in a constrained position.

Budgetary Constraints

Reliability, stability and continuity are highly valued attributes in City services and our 2014 budget upholds those commitments to our residents. Innovation and progress are equally important City service values yet until the dust settles and an economic recovery is certain, the proposed 2014 Operating Budget has few new programs, choosing instead to focus on refining existing services with incremental gains wherever possible.

The economic reality of the last five years has slowed the pace of new initiatives but not the desire of staff to improve the services we offer Kent residents. Coming out of an extended period of economic uncertainty, many of our services have been put in positions where they are under-funded and we wait anxiously for clear evidence of a sustained economic recovery that will enable us to reinvest to meet those needs. Until then, we remain tight-fisted in our budget, holding the line as we incrementally work our way back to solid financial ground.

The budget message over the last couple of years has described Kent as "less worse" than our peer cities, and thanks to a string of unprecedented public and private investments, Kent has maintained that leadership position heading into 2014. Kent is recognized as an award winning city where economic development is working – the job count is up, existing businesses are expanding, and new businesses are opening up.

The economic restructuring that is underway in northeast Ohio favors entrepreneurship, collaboration, and close ties between the business community and academic research and development. We've made these guiding principles in our budget strategy, investing in building the resource networks and physical infrastructure to leverage our assets and position Kent for success in the new economy.

Local Economic Conditions

Although the local economy has shown signs of a recovery, the proposed 2014 budget continues to impose conservative fiscal management in order to protect diminished reserve balances and sustain City services without increasing taxes.

The City's commitment to aggressive cost cutting measures over the last 8 years, along with revenue stabilization derived from Kent State University, and the new economic initiatives in downtown Kent, have enabled the City to hold the line on our budget and emerge from the economic recession in a comparatively stable financial position.

While Kent State University remains the City's largest employer, job growth occurring in the private sector resulted in Kent State University's income tax contributions dropping from 39.6% to 36.7% of total municipal income tax revenues from 2011 to 2012 -- and that trend has continued in 2013 with the University share at 36% through the end of September. The City is still heavily influenced by the University's tax revenues but the modest private sector job growth is a welcomed step towards greater diversification.

In 2011, 2012 and again in 2013, Kent State University set new student enrollment records, adding more students in each academic year to top the previous hundred year enrollment record set in 2010. Strong university enrollment has proven to be a driver in the revival of Kent's local economy and the rising enrollment trends are favorable for Kent's short term economic future.

For year end 2012, overall City income tax collections were up 12.62% (\$1,351,532) from December 2011, and Kent State University's collections were up 4.48% (\$190,294). Fiscal year 2013 is on track to mark a third consecutive year of income tax rebound, with tax receipts through September 2013 up 7%, or \$615,000 from the same period in 2012.

The City continued its work with Franklin and Brimfield townships during 2013 to recruit new businesses and expand business development opportunities within the JEDD boundaries. As a result of these partnerships, the City received \$367,878 as its combined share of JEDD income taxes in 2012, and we are projecting a \$44,000 gain for 2013 which we expect to carry forward into 2014.

Investments in Kent

In 2011-12 Kent State University initiated the largest campus re-investment program in the history of the University and that continued in 2013 with the announcement of plans to build the new College of Architecture and the Institutional Advancement facilities in the vicinity of the esplanade. The temporary construction related jobs from these University investments are expected to yield \$250,000 to \$500,000/year in income taxes and more importantly these investments are transforming the physical environment to further integrate the university into the central business district in downtown Kent.

The commercial construction market rebound that began with the first phases of the Phoenix Project in 2009 has continued thru 2012-13, re-energizing Kent's economy along the way. Construction permits in 2012 were down slightly (8%) from the record number of permits pulled in 2011 but 2012 was the second highest level of permit activity in the last decade. New construction permit revenues were up \$268,441 and 19 new businesses opened or expanded in 2012. Total commercial investment in 2012 hit \$53 million.

New business investment in Kent has continued in 2013 at a near record pace. By comparison, for the years 1999 thru 2010 commercial construction investment in Kent averaged \$6.5 million a year. From 2011 thru 2013 commercial investment jumped to an average of \$55 million a year; an increase of 745%.

Thirty new business openings have been celebrated in Kent through the first 10 months of 2013 but the highlight of job growth for the year was the relocation of Smithers-Oasis world headquarters into downtown Kent that was accompanied by the opening of their \$3 million research greenhouse on Lake Street, \$500,000 worth of investments at their Stow Street distribution facility, and their purchase of the former Ametek property on Lake Street for future business expansion. Smithers-Oasis invested heavily in Kent in 2013 and those investments should pay dividends in Kent's economy for decades.

With the grand openings of the new Kent State University Hotel, the PARTA multi-modal center, and the esplanade in 2013 each of the major elements of downtown Kent's revitalization were complete and it is fueling a resurgence of economic activity in the downtown core. Construction of Building C in College Town Kent also began in 2013 and the new Brico's restaurant and apartments are on pace to be open in early 2014.

On the public side, the City continued to aggressively pursue Federal, State and Regional grant funds for infrastructure improvement projects. Over the last 5 years the City was awarded (or was a partner in grant awards) over \$50 million in stimulus/grant funds, which has enabled the City to leverage grant-to-City funds at an impressive 3:1 ratio.

For the first time in 15 years the City's finances were evaluated by Moody's Rating agency in 2013 and I am pleased to report that the City was able to achieve a AA2 bond rating that reflects a high degree of investor confidence in the stability and long term economic performance of the City of Kent. That favorable bond rating also translates into significant savings in interest rates to the City on our long term debt.

Financially we have much to be proud of in 2012-13. Our efforts to make strategic investments to spark a resurgence of business activity in Kent appears to be working and we began to see evidence that our finances have turned the corner. As a result, we were able to re-direct excess operating revenues to supplement the City's street maintenance program and get more streets paved in 2013.

That is an example of what we had in mind when we proposed to leverage our downtown capital investment to support City services. The goal is to ensure financial solvency for the long term so that we are in a position to restore and grow our operating services to meet the community's needs without raising taxes. In 2013 we took a few steps towards realizing that goal.

With a couple of approved economic development investments planned to be made in 2013 (a \$375,000 loan for the downtown project and a one-time \$200,000 Smithers-Oasis relocation assistance) the City will need to tap into undesignated funds for these one-time non-operating cash outlays but it marks the first time in a number of years that the overall operating cash-flow will essentially break-even at year end. That trend is projected to continue with a balanced budget projected for the City's operating cash flow in 2014.

This is a major milestone in the City's path to financial sustainability. Plus, the 5-year loan will be paid back at an interest rate that exceeds the interest rate on the City's certificate of deposit and the Smithers-Oasis investment will be paid off after 2.5 years from the new income taxes generated by their corporate relocation back to Kent. These are both examples of the sort of solid business investments the City has made to jump-start the local economy.

2014 Budget Strategy

The challenge for our organization is to prepare a budget for 2014 that recognizes the current stresses felt by many of our citizens without negatively impacting the organization's ability to serve the public now and in the future. We believe we've accomplished that objective through the combination of a very tightly constrained Operating Budget and Capital Plan.

The staff success in securing grant funds over the last 5 years has created a degree of financial flexibility not otherwise available to us, which when combined with our cash balances in the undesignated fund, have enabled us to temporarily bridge operating budget gaps. Our tactic has been to leverage our more liquid funds to fill the gaps and be a catalyst for the restoration of the Operating Budget sources. We have proposed to continue to leverage partnerships and grants but as noted above, we are not expecting to need to tap into our undesignated reserve fund in 2014.

In 2011 City Council approved a multi-year utility rate stabilization plan to ensure adequate long term funding for critical water/sewer infrastructure investment needs while remaining sensitive to the ability of customers to pay for those needs. This multi-year rate plan represents a significant commitment to preserving the long term viability of the utility infrastructure while gradually reducing the impacts of the utility funds on the General Fund. The original rate plan projected the need for a 9% rate increase in both water and sewer rates effective in 2014 but through cost savings and productivity improvements the staff have been able to reduce the rate increase to 4%.

We've worked hard to avoid letting our community goals be held hostage to the economic tide and it seems to be working. There is mounting evidence that we've successfully braced ourselves to withstand the short term economic crisis, we've deployed our strategic investments to leverage new private investment, and internally we've implemented multi-year stabilization plans and fund balance policies to ensure that the City will emerge from the financial crisis stronger than we've been in years.

It's worth noting that while we are projecting the 2014 cash flow to break even we intentionally take a fiscally conservative approach (go low on revenues and figure high on expenses) so it is not unusual for actual budget figures to beat our estimates by as much as 15% to 20% at year end. We assume that it is always better to be prepared than to be surprised, and our 2014 budget figures continue to reflect that preference. With this in mind, we are hopeful to close 2014 with perhaps a modest surplus so that we can begin replacing the undesignated funds that we have withdrawn over the last 5 years.

The undesignated fund balance is made up of previously budgeted funds that were approved by City Council to be spent in prior years but the staff was able to avoid those expenses, and in turn those savings are now available for unexpected needs that arise. Thankfully, previous City Councils and staff had the foresight to set aside those funds long before anyone had ever heard of the great recession and that act of fiscal responsibility is what has enabled Kent to avoid the kind of employee furloughs, layoffs, and dramatic cuts in services that so many of our peer cities are struggling with today.

Just because we are not projecting to need to use undesignated funds in 2014 that doesn't mean we'll be any less diligent with our finances. On the contrary, we have a lot of ground to make up financially from years of under-funding our services and below is a list of the types of fiscal tactics that we'll continue to use in 2014:

- We will track and forecast revenues and expenses utilizing historical and month-to-month trend analysis;
- We will monitor and work with our elected delegations to mitigate any legislative initiatives that could threaten our fiscal stability or impose more unfunded mandates on the City;
- We will research best practices in our industry and adopt productivity and cost savings measures wherever practical and affordable;
- We will collaborate and partner to lower our costs and take advantage of economies of scale;
- We will press for State and Federal funds for capital projects and available competitive grant processes.

Productivity improvements, efficiencies and cost savings remain a top priority at every level in the City organization. In 2013 we continued to take advantage of cost savings opportunities and as a result of those actions we are looking at saving \$250,000 from our 2014 budget.

When the \$250,000 reduction is added to the cuts and savings made over the last 7 years, the non-personnel savings have reached a new total \$2.5 million and personnel savings at \$3.6 million.

Budgetary Assumptions

As noted, we have applied conservative budget principals to our draft 2014 Operating Budget. The most significant budgetary assumptions built into the budget include the following:

- Income Tax receipts show a respectable (8.77%) increase; Local Government Funds show a decrease of \$600,000 and the Kent-Franklin JEDD will show an increase of \$44,000 reflecting continued growth in the JEDD.
- All authorized positions have been budgeted at actual salary expenses as of October, 2013, plus adjustments 2% for contracted increases scheduled for late year 2013 or first pay of 2014.
- Employer Medicare (FICA) expenses calculated at 1.45% of salary
- Workers' Compensation expenses calculated at 2.0% of salary
- Employer OPERS expenses calculated at 14.0% of salary
- Employer Police & Fire Pension expenses calculated at 19.5% and 24.0% respectively
- Employer Health Insurance expenses continue to be a concern but for 2014 we will hold to the 2013 allocations of \$12,300 per family.
- Sellback expenses for sick and vacation time is based on prior two years activity.
- Overtime expense projections were provided by each department.
- Budget authorizes 2 vacant firefighter positions, but does not fund for the positions
Vacant positions would have required approximately \$150,000 in additional funding
- Public Safety budget reflects additional \$86,000 for anticipated retirements.
- The vacant Public Safety Director position is not budgeted to be replaced, thereby reducing the budget in excess of \$100,000 in salary and benefits.
- Operating Expenses in the Operations & Maintenance categories are to remain at 2013 levels except where there is substantiated variance on essential materials or contracts.
- 68.9% of full time City positions are covered by a collective bargaining contract.
- 71.7% of salary/fringe expenses are covered by collective bargaining contracts.
- Fuel – mostly unchanged cost of \$3.00/gal from 2013.
- Utilities – reflect decreases in multiple departments as a result of fully implemented energy conservation program enhancements.
- Insurance/Bonding – we are budgeting an increase of \$38,178 or 14.1% over 2013 based on the acquisition of new assets with higher replacement costs.

Budgetary Objectives

The principle role of City Council in the budget adoption process is to ensure that the City's policy commitments are in alignment with budgetary allocations. The question for Council is, have we appropriated the funds necessary in our budget to achieve our community priorities?

To that end, the budget is the most important policy action that we will take all year long. It's our investment plan for progress toward the vision we share for our community and for which Kent is proud to be known. Despite diminished resources, this budget will still push for progress on the City's strategic priorities. We will look to partner with our citizen advisory boards, commissions, peer governments, and of course, the public to fulfill our strategic goals as noted below:

- Financial Health and Economic Development
"to be a prosperous and livable city for all citizens"
- Natural Resources
"to protect and promote the City's natural resources"
- Quality of Life
"to enhance lifestyle choices through physical and social environment"
- Community Safety
"to be an exceptionally safe city"
- Communities within the City
"to strengthen the quality and enhance the value of neighborhoods"
- City / University Synergy
"to expand collaborative opportunities that enrich the community experience"
- Governmental Performance
"to provide the best services at the lowest possible cost"

2014 Budget Numbers

The proposed 2014 budget assumes a continuation of aggressive cost containment. We asked staff to propose more cuts where they saw opportunities to do so, and to hold their budgets once again to 0% growth unless increases were clearly justifiable.

Remarkably, the staff found ways to meet the budget challenges for 2014 and the recommended total for 2014 Operations and Maintenance compared to the most recent 2013 Amended Budget reflects a **\$730,639 decrease**, or **8.68% reduction** in O&M – \$7,685,933 in 2014 vs. \$8,416,572 in 2013.

As a service provider the City's largest cost relates to its investment in personnel. In total, it costs about \$70,000 per workday to perform City services – with 50% of those costs are attributed to Fire and Police functions.

Following the cuts in positions that occurred from 2005 to 2008, in 2013 the City will be operating at a staffing level (full time) that is the same as we had 15 years ago (191 employees). The Proposed Operating Budget total for 2014 Personnel Expenses compared to the 2013 Amended Personnel Budget reflects a \$473,066 increase (2.5%), rising to \$19,649,725 in 2014 from \$19,176,659 in 2013. It is important to note that most of the Personnel increases reflect the union contract agreements of a 2% pay increase in 2014. With every 1% increase in wages, the personnel costs amount to approximately \$145,000 in increased pay citywide (excluding overtime pay).

As noted, there has been a trend of recovery in select revenue categories, particularly income taxes, so for 2014 the staff is projecting a modest 6% increase in operating revenues (excluding capital/grants/bond revenues/user charges).

In Closing

We recognize that the City government must find ways of doing more with less. We continually review priorities, make decisions about what we can afford and what we cannot afford, and seek out better, less expensive ways to deliver essential services. We have done all of those things in preparing this budget just as we have in each of the budgets preceding it.

Despite the stress of delivering public services in such austere economic times, I am honored to work alongside our skilled City employees to implement our collective vision and I thank them for their hard work and dedication. I am particularly proud of the teamwork that Department Heads have exhibited with one another in charting new ways of going about our business.

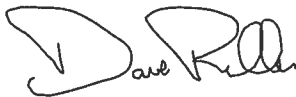
I would also like to specifically acknowledge David Coffee, Director of Finance and Budget, Brian Huff, City Controller, and the entire Finance Department team for the many hours required to produce a spending plan of this complexity and scope.

As the end of another fiscal year looms, like most citizens of Kent, I am grateful to you, our Council Members, for your many hours of service and dedication to our community.

I submit this budget anticipating good things for Kent in 2014. While we might not have all the funds we need to support City services at the level we desire, we have invested well and there is evidence of an economic recovery underway in Kent.

Whatever next year may bring, I look forward to working with the City Council, our staff and the citizenry to keep Kent strong and its future bright for generations to come.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Dave Ruller". The signature is stylized with a large, looped "D" and "R".

Dave Ruller, Kent City Manager