

---

# OFFICE OF THE CITY MANAGER

---

TO: HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL  
FROM: DAVE RULLER, CITY MANAGER  
DATE: FEBRUARY 8, 2010  
SUBJECT: PROPOSED 2010 CITY BUDGET

---

I am pleased to submit the 2010 Proposed City Budget for Council's consideration.

## 2010 Budget Development

Heading into the 2010 budget season the staff requested Council's authorization to delay the budget presentation (typically presented in November) in order to have time to develop the proposed budget based on a full year of revenue and expense numbers for 2009 rather than mid-year estimates. While the delay has put us on a tight time schedule for approval, the time was well spent as we have been able to tighten our budget numbers for Council's consideration in this challenging financial climate.

Budget Presentation  
November 2009  
December 2009  
January 2010  
February 2010

City Council asked the staff to develop 2 budget proposals for 2010. The first was based on a no-net growth proposal (allow up to 1% increase to match inflation) and the second was a budget that reflected a 2% decrease in discretionary expenses.

In the fall of 2009, Council approved a formula for determining what could be designated as discretionary within the City budget. Using the assumptions of that formula staff proceeded to deduct those items of the budget that were self-funded and non-discretionary, e.g., contractually committed pay increases, approved capital plan costs, water/sewer funds, parks and recreation funds, pre-committed debt payments, etc., in order to define the baseline discretionary budget upon which the 1% and -2% scenarios would be based.

### **Calculating Discretionary Funds**

Total 2009 Budget      \$40,548,478

### Minus Non Discretionary Exclusions

- Self Funded Funds    \$10,090,880  
  (water, sewer, etc.)  
- Personnel            \$14,106,448  
- Capital                \$13,384,488  
- Debt                    \$ 319,482

### Discretionary Baseline Budget

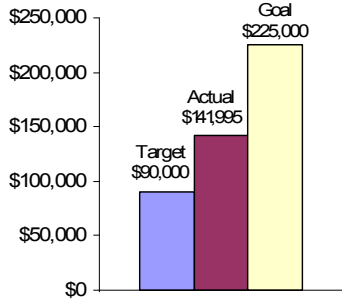
Total    \$2,647,180

Budget Reduction Rate    x 2%

2010 Reduction Target = \$52,944

At the time of the adoption of the reduction formula Council agreed to a baseline discretionary budget of \$2.6 million which produced a 2% target reduction figure of \$53,000 for 2010 (see formula to the left). In order to compare the 2009 and 2010 figures on an equal basis the staff had to modify the original 2009 calculation, increasing the 2009 baseline discretionary budget to \$4,491,580 and raising the 2% reduction target to \$90,000. (See Reduction Calculation Pages for details at end of this section).

### 2010 Budget Reduction Results



I am pleased to report that the proposed 2010 budget exceeds the Council target and reflects a 3.16% reduction in discretionary expenses amounting to \$141,000. Furthermore, consistent with our past practice the staff and I are committed to pursue more aggressive cost cutting and productivity improvements which we think can push our reduction measure over 5% before the year is out.

## Tumultuous Financial Climate

We were motivated to take the unusual step of requesting a delay – essentially doubling the administrative work required for budget preparation – because we considered these budget times extraordinarily difficult. City revenues are down in 17 out of 24 categories and despite significant cost savings from productivity initiatives (approaching \$5 million in permanent and one-time savings over the last 5 years), City expenses continue to climb with no sign of relief from an economic recovery in traditional business sectors on the horizon.

*Only twice in the last 25 years have income taxes dropped from the prior year*

2004 -1.35% = \$132,774  
 2009 -2.15% = \$230,588

### Kent...Less Worse in 2009

State of Ohio Income Tax -14%  
 US Income Tax -11%  
 Kent Income Tax -2.15%

Like most of the cities around Kent the downturn in the economy has been hard on City revenues. While our revenues have not fallen off the edge of a cliff like some cities we are looking at less property taxes, less permit fees, less state shared taxes, less interest on our investments, and for the first time in years our income taxes dropped 2.15% at year's end. When we look at our revenue numbers we are less worse than many – but we are still significantly worse-off heading into 2010 than we were in 2009.

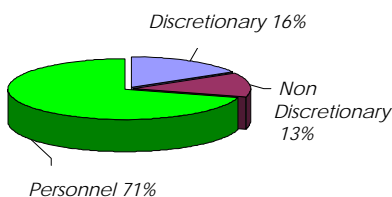
*For the first time in 25 years total City revenues decreased in back to back years:*

2009 dropped 2.81%  
 2008 dropped 2.21%  
 Cumulative drop 5.02%

As the City has struggled to make ends meet, Kent businesses and residents have faced unprecedented financial challenges of their own, making the prospect of new tax or fee revenues incompatible with the economic realities of the day. At the same time, to propose slashing programs when the people need City services more than ever seems counter to our service mission.

At the intersection of the current economic circumstances the City is left in the untenable position of preparing a budget that must balance the financial commitments of contractual pay and health care increases in 2010 with a revenue stream that is running at 2006 levels and falling.

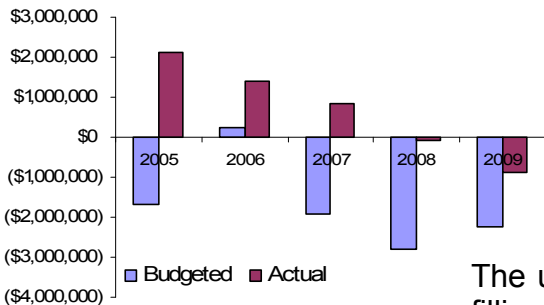
### 2010 Operating Budget



Without growth in the tax base, we're faced with trying to fund increases committed on 71% of the operating budget (personnel costs) from whatever cuts can be generated from approximately 16% of the O&M budget that is not already committed and could be considered discretionary.

Realistically, cuts from 16% of the budget will be hard pressed to support increases in the other 71% of the O&M budget yet with revenues in decline that is the position that this budget has been put in. The math is not sustainable which is why for the 7<sup>th</sup> straight year the budget anticipates using undesignated fund balance to fill the gap between revenues and expenses.

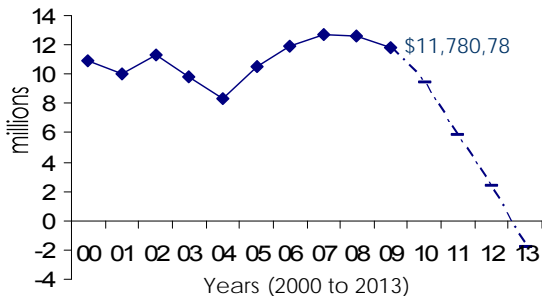
*Undesignated Fund Balance Growth/Decline  
Budgeted Projections vs. Actuals*



However it's important to note that over the last 5 years a budget projection to use undesignated funds has not equated with actual use of those funds in a given year. As a matter of fact the average difference between the projected deficit and actual change in the fund balance has been roughly \$2 million a year to the favorable side in each of the last 5 years.

The undesignated fund balance was created for the purpose of filling budgetary gaps and we are fortunate that City Council and staff have been diligent in preserving that balance for use in times like this. We needed to use \$866,000 from the undesignated fund balance in 2009 which took our balance down to \$11,780,788 entering 2010.

**Fund Balance 2000 thru 2013**



Unfortunately we are projecting needing to use \$2,000,000 from the undesignated fund balance in 2010 which if realized will lower our balance below \$10,000,000 for the first time in 6 years. Falling below \$10 million is disconcerting since it signals the passage of another milestone towards fiscal distress. Clearly, our window of opportunity to remedy the revenue-expense gap using the undesignated fund balance is closing and if we are unable to adopt a recovery strategy soon we could find ourselves joining the other 16 cities in Ohio that have declared a state of fiscal emergency.

## 2010 Budget Reductions

The budget is about choices and decisions that will set the course for City operations next year and we were very sensitive to developing a budget that can deliver on the promises that it makes – even in these difficult times. One of the concerns for operating in a cut-back mode is the increased risk of making short-sighted decisions, which can force us into more short-sighted decisions later, and risk damaging our community in ways that we can't afford. The staff and I worked hard to avoid that trap with this budget.

By adopting this budget we will keep the City on course to preserve the pace of our financial reforms and prevent deep service cuts that could set the City's strategic priorities back for years to come. The proposed budget is premised on an understanding that the community and City Council would not support dismantling core public services, e.g., closing a fire station, laying off uniformed ranks of police and fire, closure of City offices, etc., as long as a prudent balance is maintained in the undesignated fund to cover shortfalls in a given year. If that assumption is wrong we should begin discussing which core service we could do without so that we can begin to take the appropriate steps to restructure City services immediately.

This budget protects the financial integrity we've worked hard to instill and it preserves our core services even as it makes cuts in all areas of City operations. Just as we have done in the last 5 successive budgets, we enabled the department heads to propose incremental and controlled cuts in those areas where they felt they would have the least impact on citizens and could be restored when revenue conditions permitted.

## **Financial Savings Summary**

### **2005**

City cut 5% of the workforce (saving \$650,000) and began freezing vacancies saving another \$586,000;

City had cut spending by \$1.4 million in materials, supplies and contracts;

City implemented new productivity improvements saving \$200,000.

### **January 2007**

The City saves another \$1,100,000 in 2006 by holding as many as 20 positions vacant.

### **January 2008**

City ends 2007 fiscal year with another \$990,000 in savings from vacant positions.

### **December 2009**

City saves \$400,000 from employee service efficiencies and improvements.

## **Personnel Reductions Permanent Cuts and Savings**

Planner to Part Time	\$ 38,500
Reduced 3 police positions	\$247,500
Reduced 1 secretary	\$ 58,000
Reduced 2 analysts	\$154,000
Reduced 1 tax auditor	\$ 60,000
Reduced 1 water specialist	\$ 92,000
Reduced Engineer to Part Time	\$ 20,000
<u>Eliminated 2 finance positions</u>	<u>\$120,000</u>

**TOTAL CUTS = \$ 790,000**

## **One Time Personnel Savings**

7 Frozen positions in 2005 =	\$ 586,000
19 Frozen positions in 2006 =	\$1,100,000
16 Frozen positions in 2007 =	\$ 990,000
9 Frozen positions in 2008 =	\$ 730,000
<u>2 Frozen positions in 2009 =</u>	<u>\$ 100,000</u>

**TOTAL SAVINGS = \$ 3,506,000**

Over the course of 2009 we've had more success in finding savings. Early in the year we shopped our life insurance around and ended up saving \$20,000 a year. At the end of 2009 we announced a consolidation of our health plans that should save the City about \$30,000 in fixed costs and up to \$150,000 in typical claim costs starting in 2010. We saved \$6,400 from workmen's compensation claims by being safer in the workplace.

Following a six month internal audit, the City is in the process of centralizing our print and copier functions which we anticipate will save at least \$10,000 a year. We refinanced City debt to take advantage of record low interest rates and we saved \$90,000 in annual interest payments. The City street crews have been able to find weather forecasting sources on the internet that will save about \$2,000 a year from a weather satellite subscription service. For three years running the City crews have expanded their street duties – taking on more and more work that used to be contracted out. As a result, City crews saved \$94,823 in street contractor work in 2009. Cumulatively these savings up add up to nearly \$400,000.

These are great examples of the kind of initiatives that City employees have been engaged in over the last 5 years to contain costs and save money. While other cities talk of the current condition of being financially strapped as the "new normal," the City of Kent has been practicing the new normal for

The "New Normal" is  
half a decade old in  
Kent financial  
management.

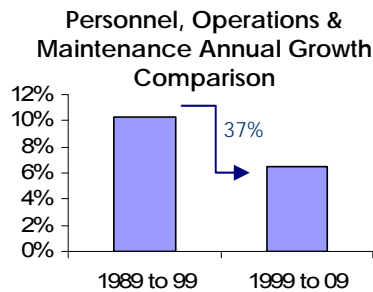
More with less,  
Same with less,  
Less with less.

half a decade and we will need to rely on that experience to get us through another tough budget year in 2010.

## City Service Expenses

Given available funding levels for 2010 City services will be severely tested. There will be areas of City services where we will be able to do more with less, and there will be areas where we will be doing the same with less, but we have reached a point where we will also be doing less with less and I think it is important to acknowledge that heading into the budget discussion.

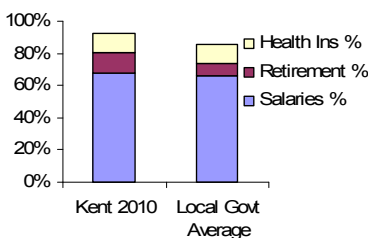
I'm not trying to be alarmist just practical. We run a service business and with increasing service demands, expanding service areas, and new duties placed on the same level of personnel with fewer resources to support them it is probably unrealistic to think that we can sustain the same levels of services indefinitely across the board.



In 2010 the City will be operating at a staffing level (full time) that is the same as we had 12 years ago. I'm proud to point out that the staff have reeled in spending at every turn – coming in under the expense budget in 2009 by 12.64% (\$5,124,637). The proposed 2010 budget assumes a continuation of aggressive cost containment that has defined the last decade of City operations. From 1989 to 1999 City expenses grew by 10.3% per year as compared to 6.48% a year from 1999 to 2009 – 37% less in this decade.

The 2010 budget shows a 3.3% increase in the Operating (Personnel + O&M) budget including those new service areas and new grant programs approved by City Council in 2009. However, if we back out the new program areas and grants the increase drops to 1.4% and then if we deduct the pre-approved pay raises, the O&M budget from 2009 to 2010 declines 3.16%.

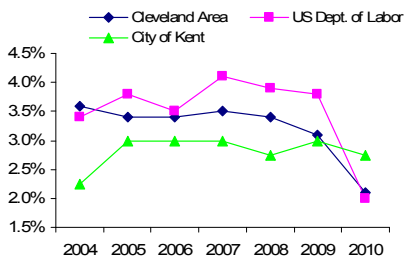
Compensation % Comparison



As a service provider the City's largest cost relates to personnel. In total, it costs about \$64,000 per day to perform City services – and 50% of those costs are attributed to Fire and Police functions. Wages represent 67% of the City's personnel costs, retirement 13% and health benefits 12%. By comparison the national averages for these same categories are 66% wages, 8% retirement and 12% health benefits – suggesting we are in line with industry standards.

When comparing wage increases over the last 8 years the City has lagged the Cleveland area business average by 3.35%

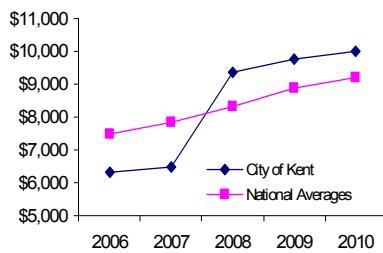
Annual Wage Increases Comparison



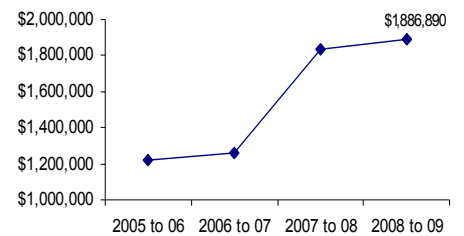
(cumulative) and lagged the public sector nationwide by 4.75%. For 2010 the Cleveland business increase will drop to 2.1% which is reported to be the lowest increase in the last 21 years. The City's union contracts (covering 76% of City employees) reflect a 2.75% pay raise in 2010.

The City's health insurance costs have increased at an average annual rate of 7.8% per year over the last 10 years versus 10.7% nationally. In 2010 it will cost the City \$5,000 more per employee per year than it cost to insure that same employee at the start of the decade.

Health Care Costs Per Employee/Year

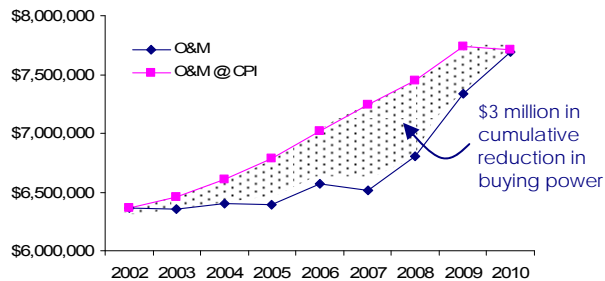


Total City Health Care Costs / Year



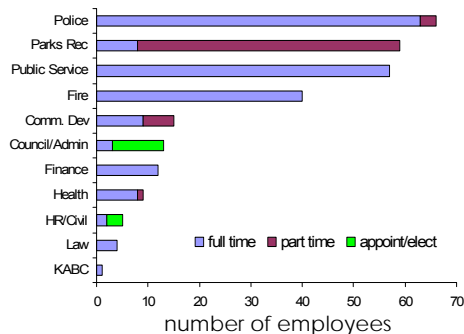
The staff have been able to hold O&M expenses (which make up roughly 25% of the operating budget) below the rate of inflation by an average of 5% from 2002 through 2009 – sustaining the same level of services with the equivalent of \$3 million less in real dollars when adjusted for inflation.

City O&M Costs Compared to Inflation Rate  
2002 thru 2010

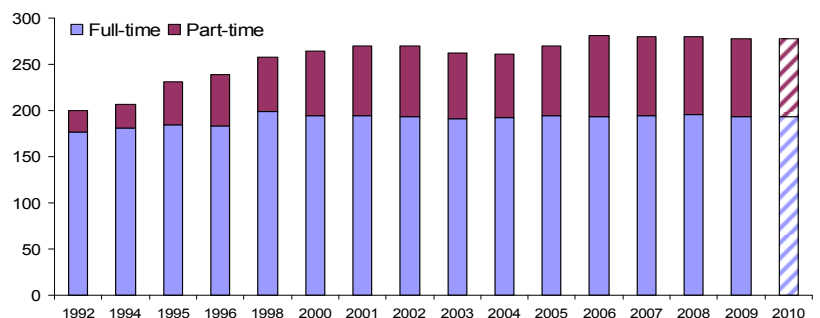


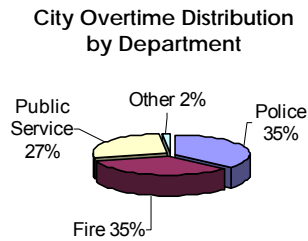
Staffing counts remain unchanged in the proposed 2010 budget. There are 2 frozen positions heading into 2010 but one of those may be recommended to fill as it is a much needed IT position.

City Positions Distribution



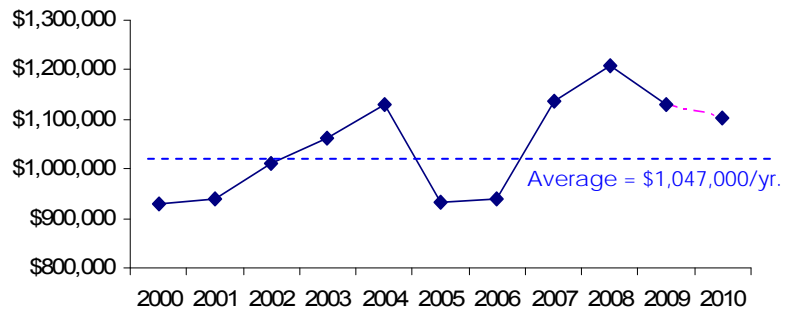
City Positions History





The staff have worked hard to hold the line on overtime costs which has been a real challenge given all the new events, duties and service expectations added to existing employees.

**Annual Overtime Costs Citywide**



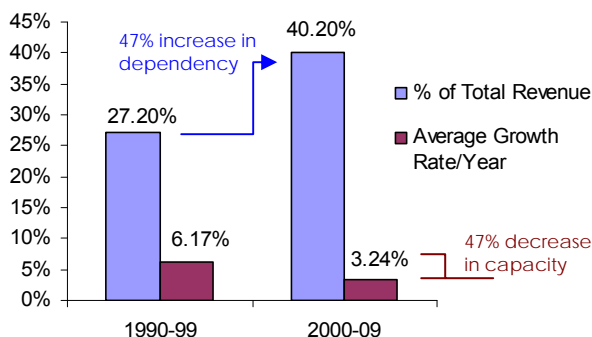
## City Service Revenues

The story of City revenues is very much a tale of 2 decades. From 1989 to 1999 total City revenues averaged 4% growth per year. From 1999 to 2009 that number dropped to 1% per year. That slide in revenues worsened in the last 2 years with back to back decline in total revenues in 2008 and 2009.

In total, City revenues underwent a precipitous \$2.27 million drop from 2008 to 2009 – taking the total City receipts down to 2004 levels. There have been revenue troubles previously but it is the breadth of the current problems – with 17 out of 24 revenue categories down in 2009 – that differentiates the current fiscal condition from prior years.

One of the results of the erosion of City revenue sources has been an increasing dependency on the top 3 revenue categories of Income Tax, User/Service Fees (water, sewer, stormwater, EMS, contracts, etc.), and Property Tax at a time when those 3 categories are showing evidence of distress.

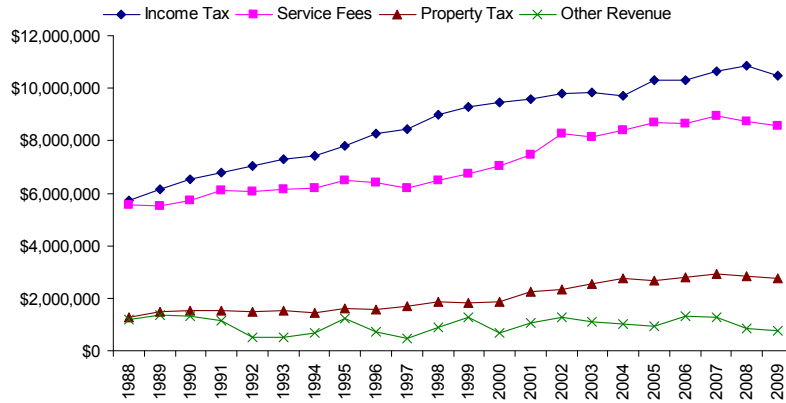
**Big Three Revenue Share and Growth**  
Income Tax, Service Fees, Property Tax



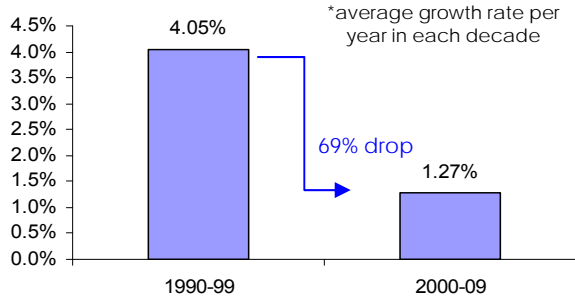
In the last 2 decades the top 3 revenue categories have increased their share of the total revenue stream from 17% in 1988 to a high of 47% in 2004. Yet in that same period the growth rate for these revenues has been reduced in half. This data suggests that as the City's dependency on the 3 main revenue categories has doubled, those same categories' ability to generate revenue has been cut in half. Independently each of these trends is a concern but the combination of the two occurring at the same time is particularly troubling.

Total City revenues in 2009 were 11% less than 2008. The decline is evident in each of the categories illustrated below:

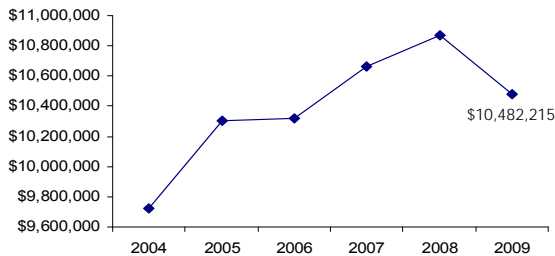
City Budget Revenues Historical Chart (1988 to 2009)



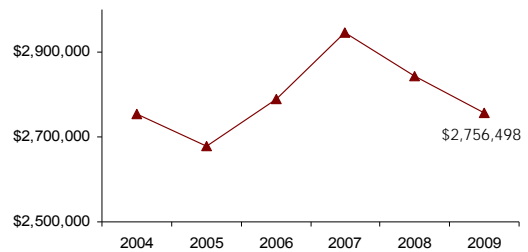
Income Tax Growth Rate By Decade



Income Tax Revenues 5 Year Trend



Property Tax Revenues 5 Year Trend



User Charges (water, sewer, stormwater, EMS, etc.)



Even the utility funds have felt the brunt of economic uncertainty as water and sewer revenues have declined in consecutive years (3 years for sewer, 2 for water) and are now operating on revenues that are the same as 1998 and 2001 respectively, putting pressure on rates to sustain operations. The 2010 budget reflects the approved water and sewer rate increase of 3% to offset the revenue shortfall.



## Investment Decisions

The budget is the City's principle financial policy and managerial tool that becomes our service plan for delivering the results that matter most to our citizens during the course of the year. In this way it is our investment plan that we use to align day to day operational services with long term community priorities.

The reality of any budget is that it consists of a collection of purchasing decisions. The Council, working with our citizens, establishes the policy goals and the price community members are willing to pay for local government services. Staff guides the process, ranking and recommending purchasing and investment decisions pursuant to Council priorities.

The proposed 2010 budget has been developed based on the strategic framework outlined in the City's strategic planning documents. The strategy focus areas reflected in the budget include:

- 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"

Every element of the budget is tied to one or more of these strategic priorities. This helps staff, Council and the community sort through the many service demands we face by focusing on those elements which will help achieve our strategic goals.

## Workable Financial Plan

I believe this budget provides a workable financial plan while ensuring continuation of municipal services to our citizens. We feel confident the projections and estimates are conservative, yet reasonable and accurately reflect anticipated revenues and municipal needs.

We've accomplished this budget through a commitment across the organization to exercise fiscal discipline, deliver services with efficiency and provide improved results for the entire community. In 2010 we will continue to be diligent in reviewing all City expenses and we will look for more partnerships and regional collaborations to reduce ongoing costs anywhere we can. In addition, the senior staff and I have pledged to bring at least another \$100,000 worth of cost saving proposals to City Council in 2010.

*Unwavering  
commitment*

## Pushing Through To Progress

Amidst the stress of rising costs, increased service demands and fewer resources, the management team rallied and came up with a budget that reconciles basic needs with basic City services. This is an under-funded budget prepared by overachieving City employees. We may not be able to do as much as quickly as we used to but we will honor our mission and fulfill our duties as we always have. Our dedication to serve will not change.

*People matter*

As our financial plan the budget focuses on percentages, numbers and dollars but in the end it's City employees that make the difference in the lives of everyone that calls Kent home. The City's ability to provide the quality of public services expected by our citizens isn't found in a line item of the budget – it comes from the dedication, skills and talents of our employees.

I want to assure City Council that our employees will not let resource shortfalls stand in the way of public service. We understand that to effectively meet the needs of our citizens, innovation and continual improvements by the organization will have to be the norm.

*Real progress*

Despite the dire economic times, we had real results to point to in 2009 that stand as proof that our strategies were working. We witnessed progress on key community priorities. The Phoenix Project provided a glimpse of the future, showing what is possible from key investments – bringing new stores, new jobs, new products and services into downtown Kent. The City's collaborations with KSU are firing on all cylinders and our partnerships are paying off. For every City dollar spent we've leveraged close to \$7 more from public and private sources to spur growth. We've been resilient in the face of adversity, resourceful and persistent. As a result I think we've earned public confidence that comes from seeing results not just hearing promises.

# Fiscal Duty

*Sound fiscal policy*

There's no question that these hard times have tested our commitment to our ideals and strategies but I continue to see positive signs from the actions we have taken over the last couple of years that give me hope for the future. I believe we are turning the corner but we must continue to plan prudently by following sound financial management principles and continue to implement long-term fiscal solutions that will carry the City into the future.

*Thank you*

I want to thank the department heads for their work in preparing this budget, with a special thanks to all City employees who have work so hard to provide quality services to our citizens and who are committed to the success of our great City.

I also wish to extend my appreciation to the Mayor and Council members for their community leadership and financial stewardship in 2010. As the elected representatives of our community, your critical thought, collective voice and support for our budget is vital as we strive to move our city forward. Our success is a shared success and we invite the Council's participation in crafting our final 2010 budget.

With these acknowledgements, I present the 2010 proposed budget.

Respectfully,



Dave Ruller  
City Manager