

**THE CITY OF KENT, OHIO
FINANCE COMMITTEE
WED, AUGUST 6, 2008**

This meeting of the Finance Committee of Kent City Council was called to order at 7:15 p.m. on Wed., August 6, 2008, by Wayne Wilson, Chair.

PRESENT: MR. DeLEONE, MR. HAWKSLEY, MR. KUCHAR, MS. SHAFFER, MR. TURNER, MS. WALLACH, AND MR. WILSON

ALSO PRESENT: J. FENDER, MAYOR; D. RULLER, CITY MANAGER; J. SILVER, LAW DIRECTOR; W. LILLICH, SAFETY DIRECTOR; G. ROBERTS, SERVICE DIRECTOR; B. RISSLAND, BUDGET & FINANCE DIRECTOR; J. BOWLING, CITY ENGINEER; D. SMITH, ECON. DEV. Dir.; AND L. COPLEY, CLERK OF COUNCIL

ABSENT: MR. AMRHEIN AND MR. FERRARA

Chair Wilson said the first item on their agenda was the annual review of the Five-Year Capital Improvement Plan, and introduced **Dave Ruller, City Manager**, at this time.

Mr. Ruller said he hoped they had a chance to read the Capital Improvement Plan update. He said Ms. Rissland would explain the spreadsheet that is included. Mr. Ruller said they have a Charter requirement that 25% of the income tax monies must go for capital, and income tax monies are what they use to run the City. He said income tax monies are their primary funding source.

Mr. Ruller said for clarification, that the capital monies are "one time monies." He said that some projects are financed and others, they pay as they go. He said the capital monies are monies made available for investment in infrastructure improvements and buildings. He said it is not part of their annual operating monies. Mr. Ruller said the capital budget only has a minor relationship to the shortfalls. He said in most other cities, it is a standalone process, adding they use it as a kickoff to their operating budget in Kent.

Mr. Ruller said they will see projects that have been in the pipeline, adding they have been leveraging state and federal monies, and that takes time. He said that 90% of the projects have been discussed previously. He said he is aware that the new members may not be familiar with the projects, adding that Mr. Roberts provided a narrative in the document, and was present to answer any questions. He said they did not plan to review each project individually, but that was up to the Committee. Mr. Ruller said they did anticipate more questions from the newer members, and told them that the critical year is 2009. He said this is a five-year financial plan, but the out years are placeholders and subject to change. He encouraged them to focus on 2009, adding that the latter years are more fluent.

Mr. Ruller said they planned a more detailed discussion in September on the municipal/courthouse complex. He said they are still trying to work on the numbers, as this is a significant investment. He said they think they have an opportunity to save costs by partnering with other agencies who have similar needs. He said multiple agencies working together gets complicated.

Mr. Ruller said the Safety Director met with the Sheriff's office who has now expressed a possible interest in partnering with them. He said that would be more savings of their money. He said they would try to give them more details in September.

Mr. Ruller said Ms. Rissland will run through her assumptions. He said they are making some assumptions on revenues and costs, but noted that most everything remains flat with a slight increase. He said they error on the side of being conservative for financial planning, adding it is good to have some left. He said Ms. Rissland will give more details on her assumptions.

Mr. Ruller said they are asking the Finance Committee to approve the plan, so they can start developing

their operating budget for 2009.

Chair Wilson asked if there are any questions. Mr. Kuhar said they are looking at a considerable amount of money for a police facility, adding he was unsure if he was for it or against it. He said that someone mentioned the TOPPs building for a lease purchase, and asked how that would stack up. He said they are putting a lot of money into the Fire Equipment replacement fund, and asked if this was totally justified. Mr. Kuhar said his third issue was the police radio replacements for \$250,000. He agreed they needed state of the art equipment, but questioned putting it in an antiquated building that they are going to knock down.

Mr. Ruller said he would like Mr. Lillich to deal with the specifics. He said this is a constrained capital budget, and there are unfunded items. He said the question is whether it is a wish list or a critical needs list. He said that **Gene Roberts, Service Director** and **William Lillich, Safety Director** would address all of the items. He said they are reviewing a constrained list, adding he would consider these critical items.

Mr. Lillich said the safety building is in the feasibility stage, adding he defined it that way because of the way it has blossomed in the last eighteen months. Mr. Lillich said they recognized the need to move into a new building thirteen years earlier when they did their first assessment. He said there are many problems with the existing building, with the most significant being that the jail is totally noncompliant. He said they have been grandfathered around some of the standards. Mr. Lillich said the State inspects annually, and sooner than later, they will tell the City to shut down the jail, and that is getting closer. He said they also have serious deterioration of the walls, plumbing, electrical, heating and air conditioning. He said they are hearing from the contractors that the building is too old.

Mr. Kuhar said he had no doubt that the building needed improvements, but was concerned whether they explored all possibilities. He suggested they may not need a \$15 million dollar debt paid by the residents. He asked if they did numbers on a lease structure for thirty years, and suggested that could be a \$5 million dollar debt. He said they tend to get carried away, sometimes, when they build new buildings. He said they tend to get a little extravagant.

Mr. Lillich said they have looked at seven different sites. He said they have to balance the available space with the needs of the police department and the court. He said they did look at the TOPPs building, and had to consider other concerns, in terms of locations and the value of those locations. He said they began to find more partners to participate in the building, sharing some of the space. Mr. Lillich said if they combine the City and the KSU Police Departments, they can save about 6700 square feet of space jointly, which would save between \$1.5 and \$2 million. He said the savings is not just with the construction of the facility, but also with the continued operation as they share operational expenses. He said the Sheriff now desires to participate, which will add to the streamlining. Mr. Lillich said they can join together some of their functions, sharing space and expensive equipment.

Mr. Lillich said a question was asked about radio equipment, adding it can be shared. He said they currently share their computer equipment, adding that their basic records for dispatch are on an AS-400 computer in Kent State University's police department. He said they communicate by microwave. He said they are always looking at ways to save.

Mr. Lillich said a question was asked about the Reserve Fund. He said this was structured based on the level of existing fire equipment that was projected for the natural life of that equipment. He said there is a Board of Control request currently for an ambulance to replace one that is twelve years old. He said that is a long useful life for an ambulance, especially since it was originally projected to last eight years. Mr. Lillich said that because of their maintenance, they extended its life. He said by doing that, they have reduced the amount of money needed in the Reserve Fund. He said by putting a little away annually, it will help them when they need to replace a ladder truck or an aerial truck, both of which cost more than \$1 million currently. He said they are always looking at ways to refurbish the equipment to extend its life. He said this saves the capital budget from having to provide \$1 million in any given year. Mr. Lillich said they are looking at some joint operations with other communities, adding that one of those would be more efficient use of the most expensive equipment. He said this will allow them to refine their replacement

schedule. Mr. Lillich said there is a replacement schedule in place that is not part of the five-year plan, and offered to forward it to them.

Mr. Kuhar asked Mr. Roberts about the street light renovations on Summit Street, and whether they were looking for co-op monies from Kent State. Mr. Roberts said that Kent State was funding it at 50% of the local share for design and construction. He said the figure in the plan is for the total costs. Mr. Roberts said the breakdown is \$1 million from Kent State and \$1 million from Kent City for the local match, and **Jim Bowling, City Engineer**, said that they are receiving about \$8 million in federal funds.

Mr. Roberts explained the new format used for the capital budget recap at this time. He said they used abbreviations, and reviewed them at this time. He said he would include a key in the future.

Ms. Shaffer asked about the sidewalks, and if the figures in the plan represented new developments, and Mr. Roberts said the City does not pay for new developments. He said the amount in the Capital Plan is strictly for maintenance. Mr. Roberts said they previously had a separate sidewalk program, and are now combining it with the street program. He said the paving contractors can offer better prices.

Mr. Ruller said he knows they often get questions about street maintenance and sidewalk maintenance issues. He said they have programmed about \$750,000 each year, adding they could spend more, if it was based on need. He said that ODOT has said their resurfacing cost is \$75,000 per mile for their streets, adding this is a "rule of thumb" number. He said that \$750,000 is a lot of money, adding it was great when ODOT did SR 59 and SR 43, as they are very visible locations. Mr. Roberts said they paid 20% while the State paid 80%. He said they also do not use \$750,000 for the streets, as it includes the sidewalk program.

Mr. Ruller said in the out years for water and sewer funds, they have to wrestle with the rates. He said they may look at rate increases in the next two or three years.

Mr. Kuhar said this budget was passed for their capital improvements for water and sewer. He said earlier in the evening, they passed a resolution to provide water and sewer for the new industrial complex, and asked about its impact. Mr. Ruller said the good news is that is not a greenfield project. He said they have water and sewer available, and the Service Director has verified they have the capacity. He said they could do it now, without a lot of investment.

Chair Wilson thanked Mr. Roberts and Mr. Lillich for the new format, adding it was more understandable than in previous years.

Ms. Rissland said the spreadsheets are in the same format as previous years. She said they display actual totals for 2003-07, the revised budget for 2008, with projects for 2009 through 2013. She said a lot of the items, such as interest and fuel, are difficult to project. She said to keep consistent, she used 3% increases, adding that was optimistic. She said this year's impact from fuel is about \$75,000 or 33 1/3%. She said if they keep in mind that they have more than \$17 million in personnel and benefit costs, a 1% increase is \$170,000.

Ms. Rissland said they are projecting their income tax to grow by 1.5%. She said to date, they have an increase of more than 2%. She said the wage increases are not keeping up, and there has not been a lot of property tax increase. Ms. Rissland said they will lose tangible personal property taxes in 2010. Ms. Rissland said she is trying to base their expected interest income on the level of money they are projecting will be left at the end of the year, adding that amount is decreasing. She said the new budget does not add any positions.

Mr. Ruller said there was no change shown for the income tax credit reduction. He said the budget is "as is" today. Ms. Rissland said it does not reflect the 25% capital requirement that would go with the reduction decrease.

Ms. Rissland said there are no additional funds for the downtown redevelopment, although she anticipated

they will be returning with a project plan. She said they will be borrowing money for the police station, increasing their debt service by \$750,000. She said they estimate using \$2.7 million of the fund balance for 2008 and \$1.3 million for 2009.

Mr. Kuhar asked if this reflects recent real estate acquisitions, and Ms. Rissland said it is included in the revised figures. Mr. Kuhar asked about the new hires, and Ms. Rissland said they were already in the budget, with the differences being reflected in the actual totals.

Mr. Kuhar asked Ms. Rissland if she had any figures that show the total income of all Kent City residents, adding that everyone files an income tax return in Kent. He said where they pay taxes is a different story. Mr. Kuhar said several residents have asked for that information.

Ms. Rissland asked if he meant earned income, and Mr. Kuhar said he was asking for the figure that people base their taxes on when they pay. Ms. Rissland asked which taxes, and Mr. Kuhar said he meant the local city income tax. Ms. Rissland said she would try to get him a number, and Mr. Kuhar said he was asking for the taxable income of the residents. Ms. Rissland said they receive a lot of income tax from those who work in Kent, and do not live there, and Mr. Kuhar said he just wants the taxable income from the residents of Kent. He said he wants to know how much money is made by the residents of Kent. Ms. Rissland said she would get him some information as soon as possible.

Ms. Rissland said there is no rate increase included for the enterprise funds. She said the costs for the water plant and water reclamation plant were assumed to be 5%. She said they are more heavily impacted, adding that the cost of the fuel is also affecting the cost of the chemicals. She said she increased the costs by 5% in 2009; 4% in 2010; with a standard increase of 3% for subsequent years. She said they will be better able to do projections based on the economy and their negotiations.

Mr. Ruller said they can discuss details, adding there are no surprises in the budget. He said they try their best depending on their needs. He said that seeing Jim Bowling in the back of the room reminded him of something Mr. Bowling spoke about with respect to the bids for the Crain Avenue bridge project. He said that Mr. Bowling told them that they add \$1 million annually with delays. He said in the public works realm, they have said that saving \$1 today could be \$4 dollars deferred. Mr. Ruller said they do defer some things, but if they defer too much, it can double or triple their costs. He said they have had grant applications and AMATS resolutions all year long as they try to leverage the money. He said it is a real credit to the entire staff, adding it does not hurt to have Mr. Roberts as the AMATS' Technical Chair. He said Mr. Roberts and Mr. Bowling have both fought well for Kent's interests to supplement their monies.

Ms. Shaffer asked if the conservation activities would come from the capital fund, adding that some cost efficient lighting may be possible. She said that LED lighting is expensive now, but questioned if it can be worked into the capital plan in a few years. Mr. Ruller said they can do that, adding they have taken some small steps toward energy conservation. He said the schools have some state bonds that are issued for use in energy conservation, adding he wished they had that type of funding. He said they can do small pieces of conservation, some with capital monies and much being done with operating dollars.

There were no comments from the audience at this time.

MOTION TO AUTHORIZE THE FIVE-YEAR CAPITAL PLAN.

Motion made by Mr. Hawksley, seconded by Mr. DeLeone, and carried by a voice vote of 6-0-1, with Mr. Wilson abstaining.

Chair Wilson said the next issue deals with the revolving loan fund for Alpha Micron. Mr. Ruller said that **Dan Smith, Economic Development Director**, would speak to the next issue, which is a significant achievement. He said this is a small piece in keeping Alpha Micron a Kent company. He said they are poster children for speciality research at KSU with liquid crystal. He said they began in the R & D phase, supported by former Councils, with grant funds. He said the hope was they would continue to grow and be a Kent business. Mr. Ruller said they have graduated from their incubator, and are ready to fill up all of the University's Centennial Park, Phase I, sharing the building without liquid crystal company. He said in

the course of negotiating with Alpha Micron, they realized they were in great risk of losing them. He said they were looking outside of Kent to meet their needs. Mr. Ruller said they were able to rally the troops, including Kent State University's Yank Heisler, who met with him and Council members Wilson and Turner. He said they also had a representative from the governor's office. Mr. Ruller said they started a process that took about two to three months, adding that Kent State has stepped up to the plate. He said they put the right people in the right room, and Mr. Smith did a fine job. He said the facility that most met their need was the research park, and they negotiated an interesting financial arrangement. He said the broker representing Alpha Micron was delighted with the deal. Mr. Ruller credited Kent State for stepping up to the plate and being creative. He said Alpha Micron was exactly what they hoped when they started the incubator.

Mr. Smith said it was an incredibly exciting deal, and they are asking for authorization to their appropriations amendment. He said they do not do a lot of revolving loans, adding the monies are not from local tax revenues. He said the monies came from grants, with some going as far back as Land O'Lakes when it was built. He said they are asking for the balance of Fund #1, which are UDAG monies, and no longer available. He said it would be a low interest loan. Mr. Smith said they are asking Council's approval first, and then will go through the formal process. He said it appeared to be the most efficient way to handle the process.

Mr. Smith said Alpha Micron started off with 3 PhDs from Kent State, and now have thirty employees. He said it is mostly R & D, but there is tremendous potential on top of what they are doing now. He said every job is a high paying PhD R&D job in a clean industry. He said that Kent State has partnered with Kent to make this happen, setting a great precedent.

Mr. Hawksley asked what percentage of their business is military related, and Mr. Smith said that was a hard question to respond to, adding it is not a statistic they would release. He said that Alpha Micron started doing military work, but their latest products are ski goggles, motorcycle helmets, energy efficient windows, and fashion. He said he would guess that military related business is a small percentage of what they are now doing.

Ms. Shaffer asked if they would have manufacturing at the site, and Mr. Smith said that is the next component, adding they hoped to have it in Kent.

Mr. Fender asked if they knew how many new jobs would be created, and Mr. Smith said these men are very successful, adding they just got another \$5 million grant. He said success causes people to zero in and aggressively pursue them out of Kent. He said their expansion will create ten more jobs or better immediately. He said they were at risk of losing the existing thirty jobs and all future jobs. Mr. Fender asked how many businesses have graduated from the incubator, and Mr. Smith said that is a better job for KRBA. He said one company printed on golf balls and was not high tech. He said they had to go to Tallmadge, and took thirty-five jobs with them.

MOTION TO APPROVE THE REVOLVING LOAN FOR ALPHA MICRON.

Motion made by Mr. Hawksley, seconded by Ms. Shaffer, and carried by a voice vote of 5-0-1, with Mr. Wilson abstaining. Mr. Kuhar left at 8:02 p.m.

Hearing no further business before this Committee, Chair Wilson adjourned this meeting at 8:05 p.m.

Linda M. Copley, Clerk of Council

ACTION RECOMMENDED:

- 1) TO AUTHORIZE THE FIVE-YEAR CAPITAL PLAN UPDATE
- 2) TO AUTHORIZE THE REVOLVING LOAN FOR ALPHA MICRON