



Report of Citizens' Financial Review Advisory Committee

March 16, 2016

Citizens' Financial Review Advisory Committee

- Committee's role and mission was not to propose policy
- Mission was to:
 - Investigate the facts of the Village's financial position
 - Report our findings on the Village's financial position
 - Identify opportunities for cost reductions and possible revenue expansion
- Committee makes no recommendations and does not opine on the merits of any cost or revenue actions identified

The Committee

- Committee consisted of members with extensive financial, operating and human resources experience

John P. O'Brien (Co-Chairman)

Michael Corkran (Co-Chairman)

William Bryan

Thomas Florkiewicz

Richard Kaplan

Dwight Milko

Elizabeth Towns

John H. Wilharm, Jr.

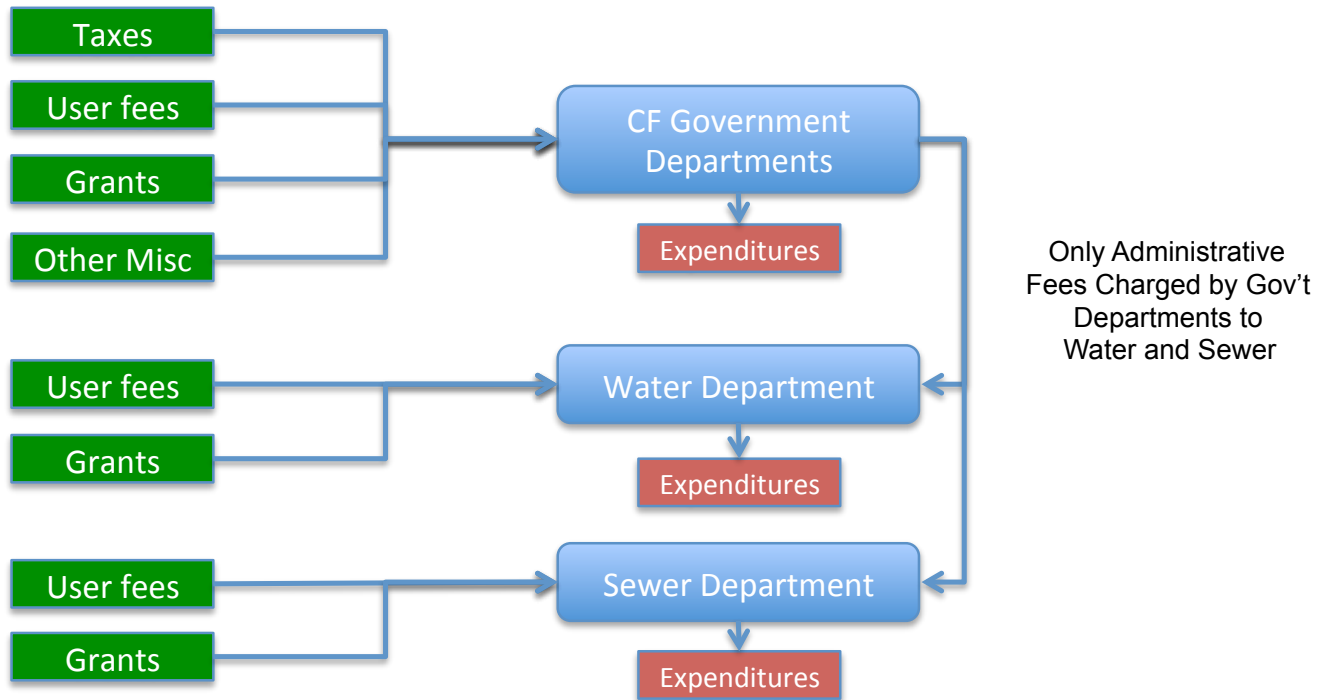
Thomas Wirbel

Committee Process

- The Committee interviewed:
 - All current sitting Village Council members;
 - All four immediately past former Village Council members;
 - Five former Mayors;
 - All Village Department Managers – detailed functional interviews
- The Committee conducted detailed physical tours of:
 - Water, Sewer, Streets/Service, Police, Fire facilities
- The Committee had unrestricted access to Village financial records and received complete cooperation from all staff
- The Committee assessed budgets, existing revenue streams, existing operations, opportunities for improvement

Structure of Village Finances

- Three separate pools of receipts and expenditures that may not co-mingled – by law



Note: Geauga County owns 22% of Sewer Facility and pays proportional to usage

Structure of Village Finances

- By law, General, Water and Sewer funds are separate and can not be co-mingled
 - Committee work focused on Gov't Funds where issues are concentrated
- In 2015, businesses paid 46% of total taxes:
 - 14.4% of Real Estate Taxes and 59.5% of Income Taxes received by the Village
- Village received 10.7% of total real estate tax receipts in 2015
 - Schools (62.3%); County (20.9%); Metroparks (3.2%); Library (2.9%)
 - Ohio House Bill 920 (1976) defines that increases in valuation do not result in proportionate increase in Village receipts
 - Effective millage rate actually declines to fix total village receipts on voted millage
 - Village "Voted" tax rate = 148.53 mills; Village "Effective" tax rate = 85.6 mills
 - In spite of valuation increases, Village total RE tax receipts have remained flat
- By Council ordinance (1985), 15% of income tax goes directly to Streets & Service department to partially fund maintenance

Structure of Village Finances

- Village accounting records are complex, requiring detailed analysis and understanding to reach any informed, fact-based conclusion
 - Accounting for government entities (fund-based) is very different from accounting in private enterprise
 - Example: Expense and 3rd party reimbursements reported separately
 - Ambulance Service “expenses” (\$322,955) reported in expenditures section
 - Ambulance Service “fees” (\$173,654) reported in receipts section
 - Nowhere is net Ambulance “cost” (\$149,301) reported – detailed analysis required
- Committee observed and investigated multiple publicly stated perceptions that proved false based upon fact-based analysis
- Two examples of many:
 - Perception: average Village compensation is >\$114,000 annually
 - Perception: that annual employee salary raises have exceeded inflation
 - The Committee investigated other public perceptions for the facts

Please refer to Committee full report for additional examples

Village Full Time Salary Profile

- By any measure, average 2015 compensation for only the 36 full-time Village employees was well-below perception

Employment Cost Element	Total Village Costs	Per Employee (36)
Total W-2 Reported Wages:	\$ 2,719,821.88	\$ 75,550.61
Pension	\$ 386,510.73	\$ 10,736.41
Healthcare (Village Cost)	\$ 544,421.13	\$ 15,122.81
Total 2015 Employment Cost:	\$ 3,650,753.74	\$ 101,409.83

Source: Village accounting and payroll records

Notes: (1) Employees pay ~10% of healthcare insurance premium;

(2) Gov't pensions controlled by State regulations: Police must individually contribute 14% of W-2 earnings to pension fund;

Other employees must contribute 10% of W-2 earnings to pension

- 2012 Hunting Valley study of community employment costs showed Chagrin Falls at/around the median for surrounding communities

Village Salary Increase Experience

- Since 2009, salary increases lagged cumulative CPI

Village Salary Increase "Experience"					
Year	CPI	CPI Index	Village Increase	Village Inc. Compounded	Diff
2009	-0.40%	99.600	2.00%	102.000	2.400
2010	1.60%	101.194	1.00%	103.020	1.826
2011	3.20%	104.432	1.50%	104.565	0.134
2012	2.10%	106.625	1.50%	106.134	-0.491
2013	1.50%	108.224	2.00%	108.256	0.032
2014	1.60%	109.956	0.00%	108.256	-1.699
2015	0.70%	110.726	1.50%	109.880	-0.845

Source: Village financial records and U.S. Bureau of Labor Statistics

Committee Analysis and Findings

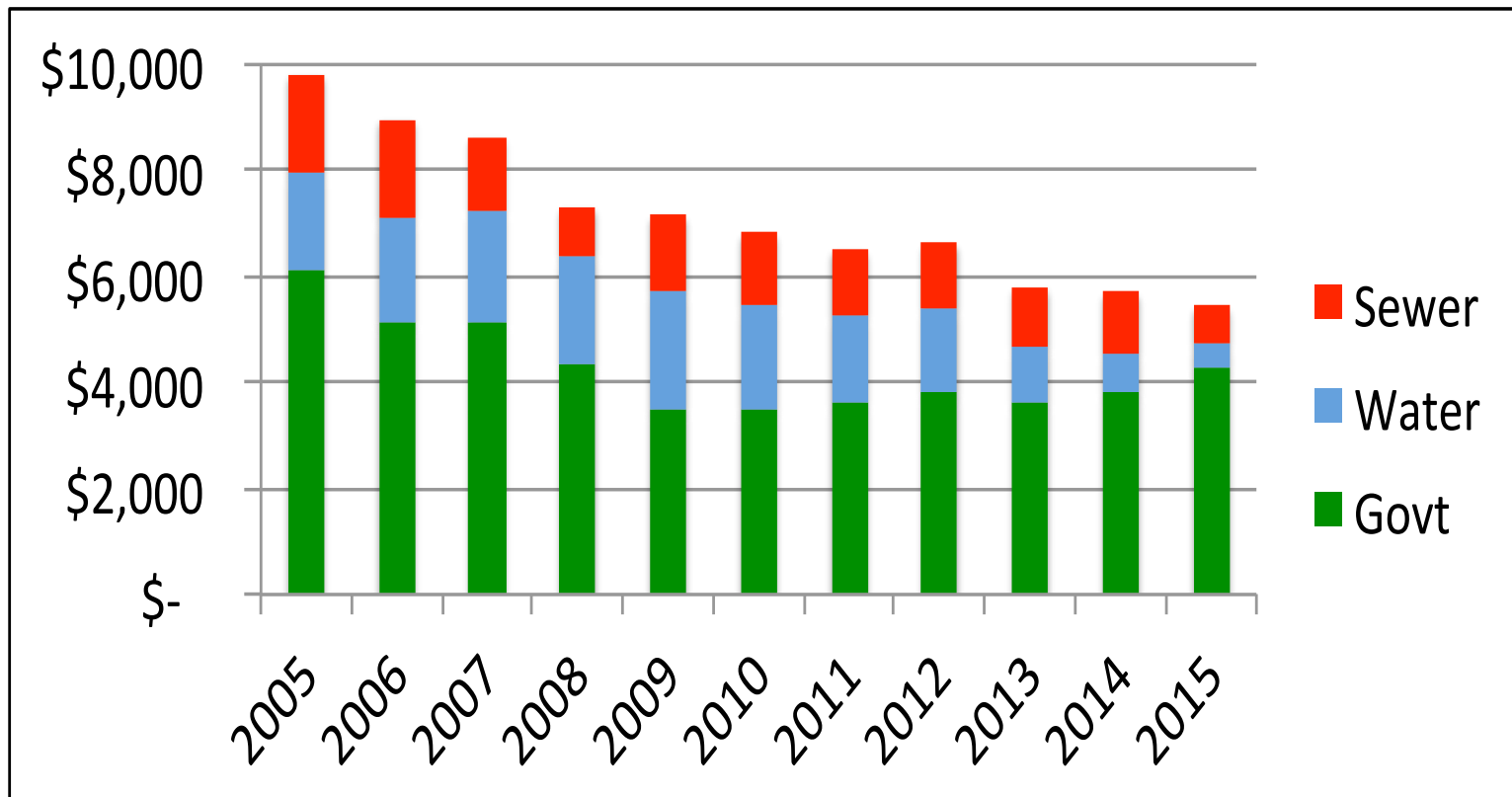
- Village financial condition has deteriorated rapidly since 2012
 - Village fund balances have been in decline for 10+ years
- Situation is not yet a crisis, but prompt action is necessary to avoid further serious deterioration of finances and infrastructure
 - Significant action judged necessary within 12-24 months to avoid crisis
- Village operations are well-managed and tightly controlled
 - Water, Sewer, Streets/Services facilities are very well maintained
 - Technology and equipment at Water and Sewer operations are generally 1-3 generations behind "state of art" but well maintained and effective
 - Departments are not over-staffed – actually judged thin in some areas
 - Part-time, seasonal employees utilized to minimize costs
 - Active cost reduction and control programs in place across all departments
 - 2015 Gen'l Fund (excluding Dispatch) spending 5.9% below 2011 level
 - Multi-community cost sharing programs are significant and on-going

Committee Analysis and Findings

- Village budget has been balanced in recent years by deferring normal infrastructure maintenance and improvements
 - Example: Only emergency road resurfacing 2012-15
 - Engineering study states \$475K annually required to sustain a 15-year normal resurfacing cycle
 - Major project (e.g. North Street) completed with >75% outside funding and local funding committed years ago (LT average 50% outside funding)
 - **Outside funding generally always requires local matching of some %, requiring capital reserves**
 - Outside funding sources are declining, increasing need for local funding and reserves
 - >\$1 million cumulative deferred infrastructure maintenance/improvement over the 2013 to 2015 period
 - Unpredictable ~\$1Million 2015 summer storm effect:
 - Mill Street subsidence; Hickory Hill subsidence; River erosion at Water/Sewer facility
 - \$400 - \$600K residual effect not yet funded

Major Village Fund Trend

Village fund balances declined in total by 44.6% from 2005 to 2015



Recent News Reports on Ohio's Local Diminished Revenue Streams

Wall St. Journal (March 9, 2016) - ***“For Kasich, Fiscal Success Comes at Some Cost”***

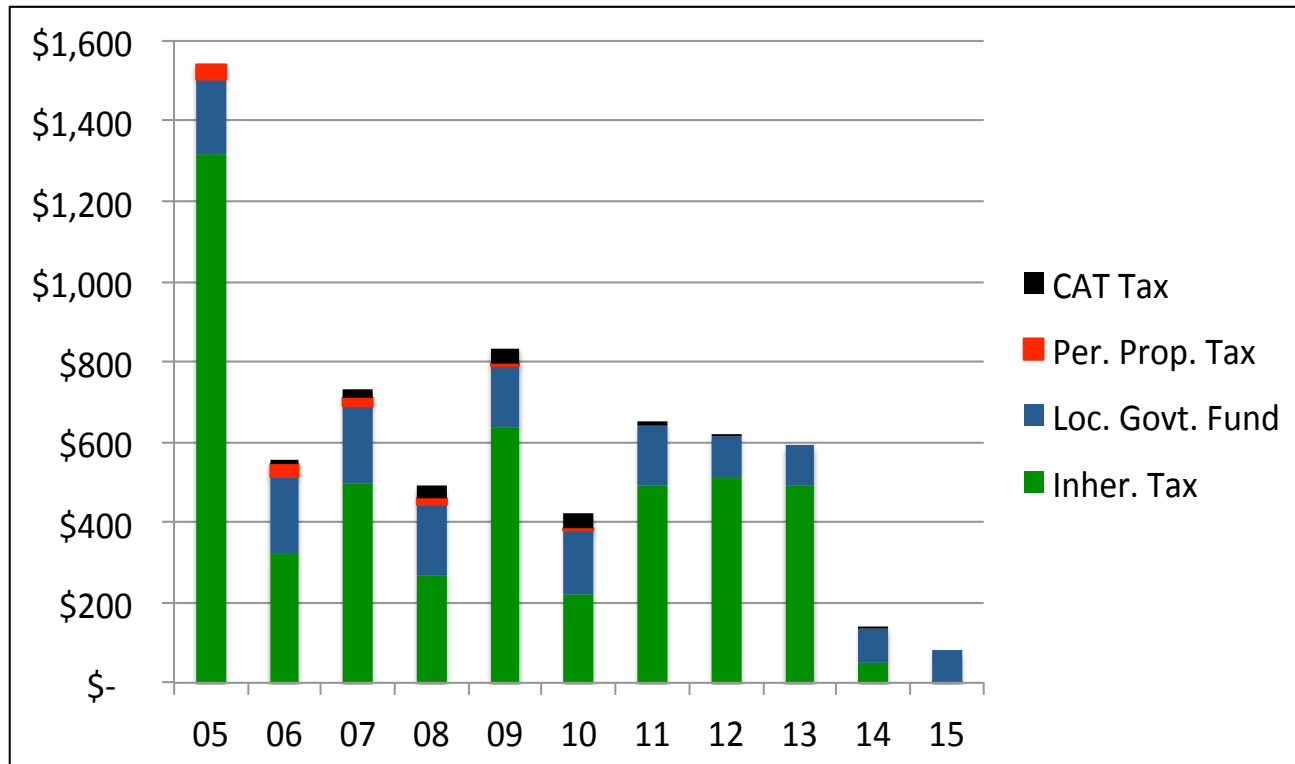
“In the aftermath of the recession he (Governor John Kasich) kept dollars that once flowed to localities. Then, he cut taxes and didn't replenish the local funds.” Ohio Budget Director Timothy Keen added - “Funding local governments won't grow Ohio's Economy. Cutting taxes will grow Ohio's economy, in the Governor's view.”

Cleveland Plain Dealer (March 11, 2016) – ***“Ohio tax changes under Gov. John Kasich leave villages, cities scrambling to cope with less.”***

“At issue are three changes:

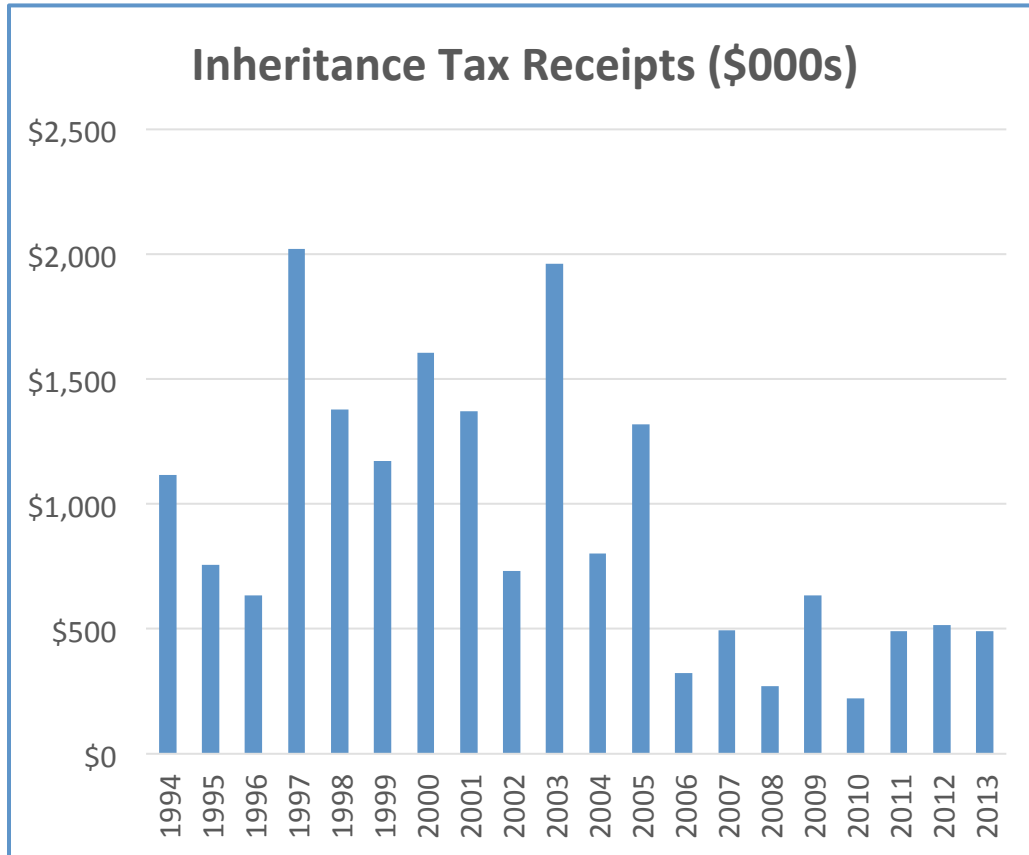
- 1. Elimination of the Ohio estate tax – eighty percent of this money had gone to local communities.*
- 2. Sharp reductions in the state's Local Government Fund, created during the depression to share sales tax with cities and villages.*
- 3. Stepped up phase outs of reimbursements that were designed to help communities replace money lost by a 2005 decision to eliminate local property taxes on business machinery and inventories.”*

4 Diminished “State” Revenue Streams



- 2015 receipts from these State revenue streams down 89%, \$635,000 annually from 2005-13 average receipts

20-Year Inheritance Tax Receipts



1994 - 2002 Avg.: \$1,274,000

2003 - 2013 Avg.: \$ 556,000

1994-2013 Avg.: \$ 915,000

Note: 100% of Inheritance Tax receipts directed to Village infrastructure improvement and maintenance

Compared to the last 20-year average, elimination of the Inheritance Tax represents a \$18.3 million revenue deficit over the next 20 years

Summary of Committee Findings

- Village operations departments are well-managed and controlled within the current profile of Village Services
 - Departments demonstrated effective on-going cost reduction activities
- Based on the current level of Village services, the normalized annual “*revenue to expenditure*” gap is judged to be ~\$700,000
- Closing the gap is simple math – some combination of:
 - Additional cost reductions within current Village service levels
 - New non-tax revenue sources –examples are identified in report
 - Reductions in current Village service levels
 - Tax increases
- The “correct” choice of solution is an appropriate policy debate and the Committee makes no recommendation of specific strategy
 - However, the status quo is a choice toward continued financial deterioration

The question to be debated and decided: “*What kind of future does the Village of Chagrin Falls want?*”



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Support Slides Follow

The following slides are provided as back-up to the formal presentation

Normalized “Modeled” Receipts & Expenditures

Element	Amount	Comment
<u>Receipts</u>		
Real Estate Taxes (Gen'l Fund)	\$ 1,450,000	RE taxes have been fairly steady the last three
Income Tax (Gen'l Fund)	\$ 2,890,000	Average of '14 &'15
Income Tax (Streets and Service Fund)	\$ 509,000	Average of '14 &'15
All Other Gen'l Fund Receipts	\$ 930,000	All other 2015 receipts except dispatch, no-recurring sale of fixed asset; Real Estate Taxes,
All Other Streets and Services Fund Receipts	\$ 285,000	All other 2015 receipts except "transfers in"and
Modelled Normalized Receipts	\$ 6,064,000	
<u>Expenditures</u>		
Gen'l Fund (Less Dispatch and Non-Govt Transfers)	\$ 4,265,000	2015 actual base (excluding dispatch and
Dispatch Contract	\$ 200,000	New annual cost of Regional Dispatch Center
Street Fund	\$ 860,000	Average of five years 2011-15
Capital Funds Transfer (Annual from Gen'l Fund)	\$ 1,000,000	Long term average requirements per Ben Himes
Capital Funds Transfer (Deferred projects)	\$ 200,000	4-5 years of catch-up on deferred projects
Fund Reserve Addition Component	\$ 250,000	Build a \$1.25M Capital Reserve/Emergency Fund
Modelled Normalized Expenditures	\$ 6,775,000	
Modelled "Revenue vs. Expenditure" Deficit	-\$ 711,000	

Chagrin Falls Department Staffing

Department	Full Time Headcount				
	2011	2012	2013	2014	2015
Police	12	12	12	12	12
Fire Fighting	1	1	1	1	1
Building Department	1	1	1	1	1
Finance	2	2	2	2	2
Chief Admin. Officer	3	3	3	3	3
Service Department	7	7	7	7	7
Utilities Department (Water/Sewer staff)	9	9	9	9	10
Total Employment (Excluding Dispatch)	35	35	35	35	36
Police/Fire Dispatch	6	7	6	7	9
Total FT Employment	41	42	41	42	45

Non-Tax Revenue Opportunities

Project Name	Project Description	Est. Cost (\$000)	Comments
Government Funds			
Parking – For Fee	Develop a plan with objectives, investment requirements, projected consequences to provide additional revenues and contribute to ease parking “stress” in the Village	>\$100K	Parking Commission and Mayor initiatives
Increase Parking Fines	Current fine is \$10 and may be insufficient deterrent; consider raising to \$25	\$50K- \$100K	Parking Commission review and recommendation for Council action
Hamlet Village	Explore alternative HV relationship to bridge loss of property tax due to conversion to tax exempt status		In conjunction with the Board of Education that is impacted far more than the Village
Fire Inspection Fee	Consider charging a fee for bi-annual inspections of all commercial buildings to protect the commercial district from “Garrettsville-like” fire exposure:	TBD	
“Hospitality Service Fee”	Explore options to generate some level of fees related to hospitality establishments, the patrons of which are predominantly not Village residents.	?	Several options considered and deemed not legal by CAO and Law Director; Have all options been considered?
Fees for Resident-requested Services	There is a significant list of services provided by fire, water/sewer and service department employees at the direct request of individual residents.	TBD	
Fee for Garbage, Leaf Collection	Consider charging a nominal fee for garbage collection.	>\$100K	
Cemetery Fee Changes			Current fees are market driven
Residential Rental Fee	Annual Fee for rentals and penalties to assure maintenance of rental properties		This has been previously considered by Village Council, but reconsider possibly
Property Tax Increase	Possibly consider extra millage for capital improvements and not to used for general operating expenses	?	
Income Tax Increase	Possibly consider directing 100% of any increase to Capital Fund	?	

Cost Reduction Opportunities

- Committee identified a short list of potential “impact” projects
 - In addition to “normal course of activity cost reduction pursued routinely by departments

Project Name	Project Description	Est. Cost Impact (\$000)	Comments
“Hire/Retire”	A limited number of Village Employees qualify to retire from Village employment, begin to collect retirement benefits from the State fund and rehire to the Village at salary levels ~20% below current levels. It is believed that five employees qualify and if all five chose to participate, the net savings could be ~\$100K	~\$100K	This is a controversial approach that many people (including many Committee members) view as inappropriate. However, it is not illegal and given the reality of the Village’s situation, it should be at least considered
Employee Benefits	It is believed that options exist to achieve significant savings, even without benefit changes. Section 6.0 of the Committee Report details recommendations to develop a fact-based long term compensation plan that balances the needs to recruit, retain and reward Village employees with the financial reality of the Village situation	TBD	

North Street Project Profile Example

NORTH STREET PROJECT ELEMENT	AMOUNT
COSTS	
BASE BID AMOUNT	\$1,656,919.13
Est. ODOT CONSTRUCTION ADMINISTRATION (7.5%)	\$ 124,268.93
CONTINGENCY	\$100,000.00
TOTAL CONSTRUCTION COST	\$1,881,188.06
FUNDING	
NOACA	\$ 1,200,000.00
OPWC	\$ 280,620.00
OTHER	\$ 135,280.00
TOTAL OUTSIDE FUNDING	\$1,615,900.00
TOTAL OUTSIDE FUNDING % OF TOTAL COST	85.9%
ESTIMATED CHAGRIN FALLS TOTAL SHARE - BASE BID	\$265,288.06
ADDITIONAL PROJECT ITEMS:	
SIDEWALK	\$20,346.50
STORM SEWER LINING	\$95,321.65
ESTIMATED ADDITIONAL ITEM TOTAL	\$115,668.15
ESTIMATED TOTAL CHAGRIN FALLS TOTAL SHARE	\$380,956.21
ESTIMATED TOTAL CHAGRIN FALLS % OF TOTAL COST	20.3%

Operating Review and Assessment

- Committee's observations:
 - The Village staff is experienced, capable and dedicated;
 - Department staffing has been held stable over the last five years;
 - Village operations are “no-frills” and are generally well-maintained and managed;
 - Much of the Village's operating technology is 2-3 generations behind what would be judged “state of the art,” but delivers effective utility due to excellent maintenance;
 - Committee members with experience in such facilities observed that management and maintenance generally represented “best practices;”
 - Cross-community/department sharing programs are part of the operating culture;
 - Active department cost reduction efforts are many and effective;
 - Salary and benefits “appear” to be competitive with surrounding communities, but Financial Assessment identifies “potential” for improved compensation program
 - Additional cost opportunities available, but within current profile of Village services are judged insufficient to close the financial gap

Possible Consequences of Decline in Village Fund Balances

- *“Over time, increases or decreases in the Village’s cash position is one indicator of whether the Village’s financial health is improving or deteriorating.”*

Source: 2014 State Auditor’s report for the Village of Chagrin Falls

- Village credit rating could be impacted negatively
 - Current Moody’s rating of Aa2 is in the top 15% - declining fund balances could result in a rating downgrade and negatively impact future borrowings
- Excluding balances already committed to a limited number projects, very little emergency contingency funding remains
 - 2015 storm damage cost expected to be \$750,000 to \$1.1 million – all in – for Mill Street, Hickory Hill and river erosion remediation projects
- Inability to provide matching funds for outside grants
 - Historically, Village has attracted ~50% outside project funding (Federal, State, other) but these grants generally require Village matching funds

4 Diminished “State” Revenue Streams

- NOT just the “highly publicized” Inheritance Tax elimination
- Four different “state-driven” revenue sources have been eliminated entirely or dramatically curtailed:
 - Inheritance Taxes eliminated effective January 1, 2013
 - Personal Property Tax fully eliminated at the end of 2008
 - Local Government Fund phase-down 2012-2014
 - CAT tax sharing with local municipalities phased down 2011-2014
- 2005-13 average of all four was \$716,000
- 2015 receipts from all four was \$81,000 – a \$635, 000 reduction ... an 88.7% decline from historical average
- This is the major component of the “revenue” side of the Village financial challenge ... but not the whole story!