

**CITY OF KENT, OHIO**  
**2013 RECOMMENDED BUDGET**

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# City Manager's Budget Message

## 2013 Proposed Operating Budget

October 25, 2012



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 2013 Proposed Operating Budget for City Council's consideration.

### Overview

The 2013 proposed City budget contains the budgetary line items that the staff recommends for sustaining the levels of services for our community in 2013. 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 2013, 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 2013, 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 2013 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 2013. With nearly a decade of budget cuts and savings behind us, we can predict expenses with a reasonably high degree of certainty – but for our revenues there are more questions than answers at this point.

The Kent economy is in the midst of significant change and there is a flurry of new business activity but it is still too early to discern lasting economic growth from temporary gain, e.g., construction wages. As a result, we are cautious in extrapolating revenue figures for 2013 that may over-state data trends at this early date. (refer to Appendix 10-9 for details)

There are reasons to be hopeful that the positive economic indicators we've seen in Kent will continue to trend favorably, but heading into 2013 following a national election and legislation pending in Ohio that proposes to create a uniform income tax code, we are guarded against making any premature assumptions on an economic recovery and our budget continues to reflect difficult financial circumstances.

### Budgetary Constraints

Reliability, stability and continuity are highly valued attributes in City services and our 2013 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 2013 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. In the shadow of economic uncertainty, many of our services have been put in positions where we document local needs and wait anxiously for an economic recovery to restore some flexibility in our finances to meet those needs. Until then, we hold the line knowing that doing something is better than nothing, and we accept small steps towards our community goals given our economic limitations.

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 2013. Kent is recognized as a city where economic development is working – the job count is up, existing businesses are expanding, and new businesses are opening up – all of which is reflected in rising income tax receipts.

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 2013 budget continues to impose conservative fiscal management in order to protect diminishing reserve balances and sustain City services without increasing taxes.

The City's commitment to aggressive cost cutting measures over the last 7 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 40.8% to 37.1% of total municipal income tax revenues in the last two years. The City is still heavily influenced by the University's tax revenues but the modest private sector job growth is a welcomed and notable step towards greater diversification.

In 2011, and again in 2012, 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. Kent State University international student enrollment is up 35% and graduate school enrollment is up 3%, securing Kent State University's position as the second largest public university in Ohio.

Kent State University reported record financial performance in 2011 and they began a \$150 million facility investment plan in 2012. Given the University's impact on our local economy we are optimistic that these positive financial indicators on campus should translate into positive impacts in the community as well.

While the City has not been immune to the broader economic downturn, fiscal year 2012 is on track to mark a second consecutive year of income tax rebound. Diversification of income tax revenues is a long term financial goal and the job creation resulting from the early phases of the downtown redevelopment have pushed the City's 2011 (and projected 2012) income tax receipts to the highest level since 2008. Total income tax receipts for the City in 2011 (not including the Franklin and Brimfield JEDDs), exceeded the prior year by 2.48%, or \$258,734, and the income tax receipts through September 2012 are up 7%, or \$514,000.

The City continued its work with Franklin and Brimfield townships during 2011 and 2012 to recruit new businesses and expand business development opportunities within the JEDD boundaries. As a result of these partnerships, the City received \$267,540 as its combined share of JEDD income taxes in 2011, which amounts to a 32.7% increase over 2010, and that rate of increase has continued to hold during the first 9 months of 2012.

### Investments in Kent

In 2011-12 Kent State University initiated the largest campus re-investment program in the history of the University. In addition to significant building improvements planned on-campus, Kent State made record levels of investment off campus to improve the connection between the University and the Central Business District. These investments will transform the campus and the campus-community connection, and has already begun generating significant temporary construction related jobs (\$250,000 to \$500,000/year in income taxes during construction) and when complete should produce between 300-400 new permanent jobs in the City.

Elsewhere in the Kent community new construction values were heading in opposite directions. Single family residential construction remained at near record lows but interest in new multi-family properties were at all time highs with over 4,000 new housing units projected to come on line over the next 2-3 years. The majority of these housing projects are student oriented but at least one project is a new senior living facility. The proposed multi-family units will produce \$50-\$75 million in new investments with corresponding new construction related income taxes.

Likewise, the commercial construction rebound that began in 2009 continued in 2011-12, accelerating Kent's economic recovery. Construction permits in 2011 were up 94%, with a corresponding increase in permit revenues up 435%, representing \$788,000 in new revenues.

Over a dozen new small businesses opened or expanded in Kent in 2011 but the highlight of job growth in the last 12 months was the opening of the new MAC Trailer manufacturing facility, promising to bring in 100 to 250 good paying jobs to Kent over the next 2 years. MAC Trailer is the largest manufacturing investment in Kent in the last 30 years.

With the completion of the first new buildings in the downtown development area (buildings A and B) in 2012 the City has begun to see the results of our early land investments yield the kind of results that we anticipated, fueling a resurgence of economic activity in the downtown core.

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.

City investment has also included the continued demolition of blighted and vacant properties that will be replaced with new residential and commercial properties. For the residential properties, the City accessed Federal grant funds (for the second year in a row) to take down two condemned structures and replace them with affordable housing to help stabilize distressed City neighborhoods.

Our efforts to make strategic investments to spark a resurgence of business activity in Kent appears to be working, but they come at a cost, and our finances walk a tight-rope between being adequate enough to sustain the recovery without over-extending the City's limited fund balances. It's a challenge we will continue to face in 2013.

Financially we have much to be proud of in 2011-12 but unfortunately with unexpected cuts in State funding – in excess of a \$600,000 total reduction in local government funds and a \$200,000 annualized loss from the elimination of estate taxes beginning in 2013 and continuing in subsequent years -- the gains will likely get lost in the bottom line and we are anticipating needing to use \$1.4 million in undesignated fund balance to close the projected revenue gap by the end of 2012.

### 2013 Budget Strategy

The challenge for our organization is to prepare a budget for 2013 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.

Once again, the staff success in securing grant funds 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 over the last couple of years. 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 that approach in 2013.

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. In accordance with the terms of the multi-year plan the staff is recommending a 9% rate increase in both water and sewer rates effective in 2013.

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 solid evidence in our community that while we've braced ourselves for short term economic stress with a constrained Operating budget, the strategic investments of our one-time funds have made a difference in attracting new private investment. If the City, Kent State University, and the community continue partnering fully and enthusiastically, I believe we will be positioned to emerge from the great recession stronger than we've been in decades.

Even as our confidence has been tested, we can see evidence of a resilient entrepreneurial spirit that is alive and well in our community as business development continues in our downtown and in other pockets around the City. Businesses, community groups and citizens are looking for opportunities to partner with the City in efforts such as neighborhood planning, community policing, beautification, and code enforcement. These signs of renewed engagement hold promise for the future of our community that we create together.

It's worth noting that we projected a \$2.8 million contribution from the undesignated fund balance in the 2012 budget but it looks like we will actually end up needing something closer to \$1.4 million at year end. It's important to recognize that we do our best to estimate 18 months out for our budget and that we take a fiscally conservative approach, i.e., go low on revenues and figure higher on expenses. As a result, it is not unusual for actual budget figures to beat our estimates by as much as 30% to 40% at year end. We assume that it is always better to be prepared than to be surprised, and our budget figures continue to reflect that preference.

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 need to use undesignated funds in 2013 does not mean that we take them for granted. On the contrary, undesignated funds remain a revenue source of last resort. Below is a list of the types of fiscal vigilance that we will continue to use in 2013 to minimize any use of undesignated funds:

- 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 2012 we made changes in areas as small as City mowing contracts (saved \$7,000) and certified mail procedures (saved \$1,000) to such major initiatives as energy efficiency (saved \$30,000 in the first quarter after construction) and new partnerships with area cities for equipment renting, sharing and joint purchasing. Total savings in 2012 are projected at \$100,000.

When the \$100,000 reduction is added to the cuts and savings made over the last 6 years takes, the non-personnel savings total \$2.35 million – and personnel savings at \$3.5 million.



### Budgetary Assumptions

As noted, we have applied conservative budget principals to our draft 2013 Operating Budget. The most significant budgetary assumptions built into the budget include the following:

- Income Tax receipts show a respectable (4.59%) increase; Local Government Funds show a decrease of \$600,000 compared to 2011 and the Kent-Franklin JEDD will show an increase of \$80,000 reflecting continued growth in the JEDD.
- All authorized positions have been budgeted at actual salary expenses as of October, 2012, plus adjustments for contracted increases scheduled for late year 2012 and late year 2013. Additional adjustments have been made for some departments not to exceed 3% above actual adjusted levels.  
The resulting variance for adjusted actual salary expense for FY2013 is approximately \$370,000 citywide.
- 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 were increased 9%, or \$1,020 over 2012 levels to \$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 \$148,000 in additional funding
- Public Safety budget reflects additional \$189,000 for anticipated retirements.
- Operating Expenses in the Operations & Maintenance categories are to remain **at 2010 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 – unchanged cost of \$3.00/gal from 2012.
- Utilities – reflect decreases in multiple departments as a result of fully implemented energy conservation program enhancements.
- Insurance/Bonding – minimal increase over 2012 level.

The practice of utilizing conservative assumptions for personnel budgeting is to provide the City with a safety net for unanticipated and variable personnel expenses. One such unexpected variance has turned out to be health care. After 2 consecutive years (2009, 2010) of below average claim costs, 2011 health care claim costs doubled and so far in 2012 we have experienced claim costs that further exceed the 2011 level by \$552,655. As of September, 2011 the City had paid out \$1,976,717 in claim costs and for the same period in 2012 the City has paid out \$2,529,372.

## 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"

## 2013 Budget Numbers

The proposed 2013 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 to 0% growth unless increases were clearly justifiable.

Once again the staff rose to the budget challenge and the recommended total for 2013 Operations and Maintenance compared to the most recent 2012 Amended Budget reflects a **\$336,003 decrease**, or **4.21% overall reduction** in O&M -- \$7,639,194 in 2013 vs. \$7,975,197 in 2012.

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 14 years ago (192 employees) and the Proposed Operating Budget total for 2013 Personnel Expenses compared to the 2012 Amended Personnel Budget reflects a **\$85,987 decrease**, or **4.46% personnel expense reduction** -- \$19,176,659 in 2013 vs. \$19,262,646 in 2012.

It is important to note that the Personnel savings projected for 2013 are in large part a result of the concessions the employee unions took with their membership to accept a 0% wage benefit in 2012 and 1% for 2013. With every 1% increase in wages, the Personnel costs amount to approximately \$145,000 in increased pay citywide (excluding overtime pay), so I am grateful for the willingness of the unions to work with us to be a part of the financial solution.

From 2011 to 2012 total City operating revenues are projected to remain largely unchanged on a net basis, despite notable negative variances in specific revenue categories such as local government funds. As noted, there has been a trend of recovery in other revenue categories so for 2013 the staff is projecting a modest 2.13% increase in operating revenues (excluding capital/grants/bond revenues/user charges).

In Closing

We recognize that in times like these families work to stretch every dollar of income and the City government must also 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.

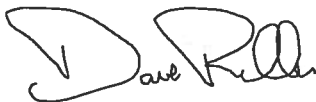
I would also like to specifically acknowledge David Coffee, Director of Finance and Budget, Brian Huff, City Controller, and the entire Finance Department team for the many hours required to produce a spending plan of this complexity and scope.

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 2013. 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 a mini-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 that reads "Dave Ruller". The signature is stylized, with the first letters of "Dave" and "Ruller" being significantly larger and more prominent than the rest of the letters.

Dave Ruller, Kent City Manager