

CITY OF KENT, OHIO
2017 RECOMMENDED BUDGET

CITY OF KENT
2017 RECOMMENDED BUDGET
TABLE OF CONTENTS

LETTER OF TRANSMITTAL

2017 BUDGET ASSUMPTIONS AND NOTES

DEFINITIONS OF EXPENDITURE CATEGORY

ELECTED AND APPOINTED OFFICIALS

CITY OF KENT ORGANIZATIONAL CHART

2017 RECOMMENDED BUDGET OVERVIEW

Major Revenue Category Comparison - Table and Graph Chart	1 -	1,2
Use of Municipal Income Tax Dollars - Table and Pie Chart	1 -	3,4
Summary of Major Appropriation Types - Table and Graph Chart	1 -	5,6
Program Area Comparison - Table and Pie Chart	1 -	7,8

EXPENDITURES BY PROGRAM AREA

GENERAL GOVERNMENT

City Council	2 -	1,2
Mayor	2 -	3,4
Community Support	2 -	5,6
City Manager	2 -	7,8
Human Resources	2 -	9-12
Civil Service Commission	2 -	13,14
Law	2 -	15,16
Financial Administration	2 -	17-20
Income Tax Administration	2 -	21,22
Service Administration	2 -	23-26
Engineering	2 -	27-30
Adjunct Facilities	2 -	31,32
Miscellaneous & Sundry	2 -	34
New City Hall Facility	2 -	35,36
Information Technology	2 -	37-40

PUBLIC SAFETY

Police Services	3 -	1,2
Records & Communications	3 -	3,4
Juvenile Services	3 -	5,6
Support Services	3 -	7,8
Trust Funds	3 -	9-12
Police Pension	3 -	13,14
Fire Services	3 -	15-18
Community Services	3 -	19,20

Table of Contents (continued)

Technical Rescue	3 -	21,22
Hazmat	3 -	23,24
Confined Space	3 -	25,26
Fire Pension	3 -	27,28
Wireless 911	3 -	29,30
Capital Projects	3 -	31,32
Capital-Police Facility	3 -	33,34
TRANSPORTATION		
Central Maintenance	4 -	1-4
Vehicle Maintenance	4 -	5-8
State Highway	4 -	9,10
Capital Facilities Management	4 -	11,12
BASIC UTILITY SERVICE		
Water Production	5 -	1,2
Water Reclamation	5 -	3,4
Capital Facilities Management	5 -	5-8
HEALTH SERVICES	6 -	1-4
LEISURE TIME ACTIVITIES		
Leisure Time Activities-Parks&Rec	7 -	1,2
KABC	7 -	3,4
K-6 Child Care	7 -	5,6
Fitness Center	7 -	7,8
COMMUNITY AND ENVIRONMENT		
Community Development	8 -	1-3
Building	8 -	5-8
Land Banking	8 -	9,10
Shade Tree	8 -	11,12
Urban Renewal	8 -	13,14
Public Parking	8 -	15,16
Main Street Program	8 -	17,18
Economic Development	8 -	19-22
MPITIE Capital 302	8 -	23,24
DEBT SERVICE & CONTINGENCY	9 -	1,2
APPENDICES		
2017 Recommended Capital Appropriations by Fund	10 -	1,2
Comparison of Positions Funded by Budget Divisions	10 -	3-7
Managed Reserve Fund	10 -	8

City Manager's Budget Message

2017 Proposed Operating Budget

October 26, 2016



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 2017 Proposed Operating Budget for City Council's consideration.

Overview

The 2017 proposed City budget contains the budgetary line items that the staff recommends for sustaining the levels of services for our community in 2017. 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 2017, as it governs the pace of progress towards our strategic priorities through the resource allocation decisions contained within it.

Across a range of economic indicators -- including unemployment, private investment, new jobs, University spending, manufacturing production, corporate profit and retail sales -- the Kent economy has demonstrated improved resiliency coming out of the recession with 5 straight years of growth. The pace of expansion has slowed but City revenues have still managed to keep pace with inflation, settling in at a 1-2% growth rate.

The 2017 budget remains tight but thanks to sustained revenues and the impact of 10 years of aggressive expense management, we have made progress in chipping away at the gap between our resource availability and resource needs. We're still not where we'd like to be financially -- but we're closer to where we need to be to sustain, improve, and for the first time in a decade expand City service capabilities.

The proposed 2017 Operating Budget not only fully funds our core City services, it continues the pilot initiatives that were introduced in 2016, and more significantly it recommends the permanent addition of the new IT Manager and 3 new firefighter/paramedic positions to meet longstanding staffing shortfalls.

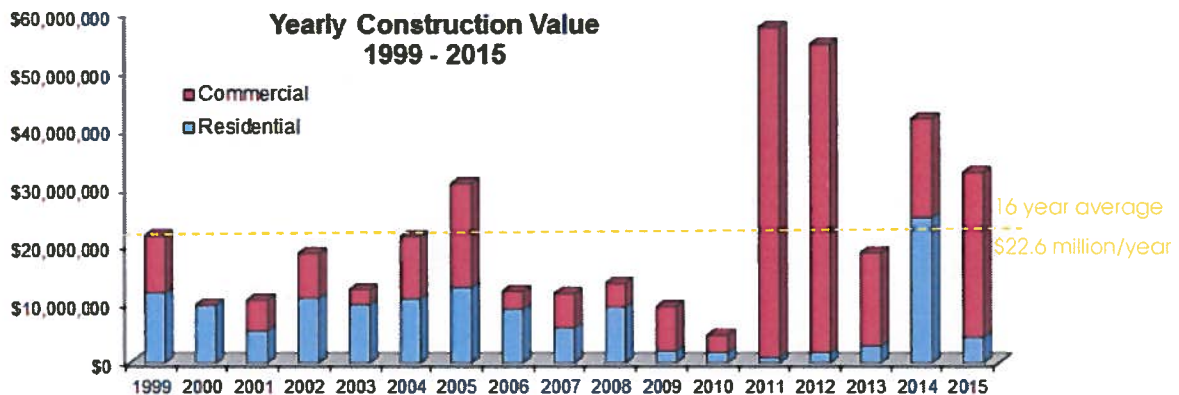
In that respect, the proposed 2017 Operating Budget marks a turning point in the City's financial position. After 10 years of budgetary contraction, the staff believes the City's finances are capable of supporting modest growth in recurring expenses.

In the last 4 years the City has been able to apply financial gains to select non-recurring needs, e.g., \$1.4 million in extra street repair funds, \$125,000 in sewer lateral & sidewalk snow clearing pilots. In 2017 the proposed Operating Budget recommends adding \$300,000 for new recurring personnel costs. From where we were in 2008, 2009 and 2010, that's a notable budgetary accomplishment that reflects years of hard work and financial discipline.

Local Economic Conditions

The proposed 2017 budget reflects the strengths and weaknesses of the City's economy. The construction rebound that peaked in 2011 continued into 2016, extending the City's economic recovery another year. From the years 1999 thru 2010 commercial construction investment in Kent averaged \$6.5 million a year. Then for 2011 and 2012 commercial investment jumped to an average of \$55 million each year; an increase of 745%.

In 2014, residential investment (multi-family, single-family) was the highest it's been in 10 years. In 2015 commercial construction (\$28 million) remained at more than 4 times the previous 10 year average, and the combined investment in 2015 reached the 4th highest level in the last 20 years.



In 2015 residential construction slowed after a record year in 2014 but it still managed to hit the 2nd highest level of investment in the last 7 years. In 2015 construction began on Parcel D, the final property in the downtown College Town Kent Project. Commercial investment activity spread beyond the downtown featuring properties on SR43 and SR 59 that welcomed the opening of two new Asian markets, Asian restaurants, a new O'Reilly's retail store, and the expansion of the Portage Community Bank.

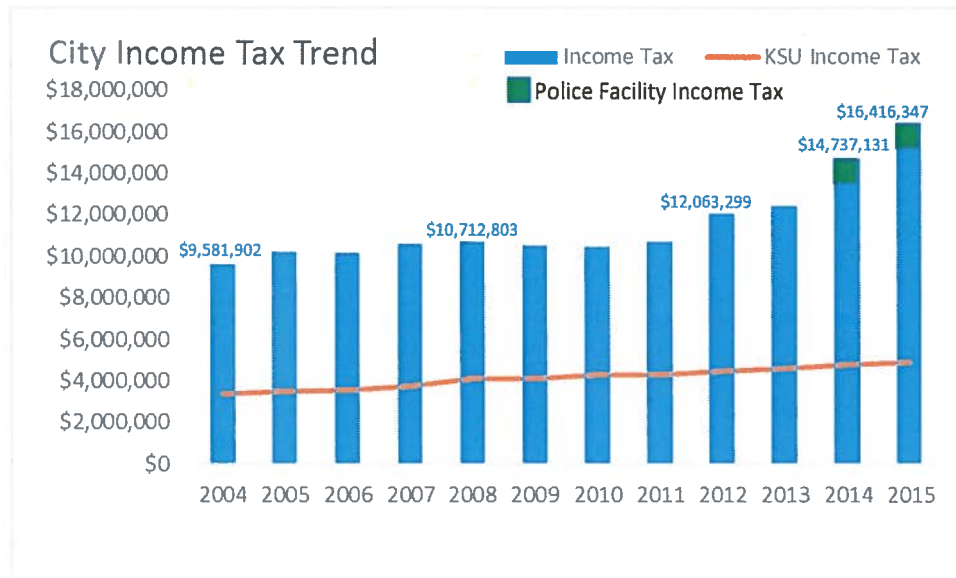
Despite the construction of 4,000 new student rental beds in 2012, student housing units were running above 95% occupancy in 2015 which led to the construction of the new 345 Flats project and Avant 220 micro-apartments. Additional housing projects (Horning Road, Summit Street) were under various stages of proposals in the City and in the Franklin and Brimfield Townships.

In 2015, Kent State University set a new all-time high enrollment record, adding 524 students to the previous hundred year enrollment record set in 2014. In 2015 Kent State University matched the highest retention rate in the history of the University at 81.2%. The Kent campus also welcomed the second largest freshman class in its history – 4,295 new students. For the first time, International student enrollment surpassed 3,000 students, a 384 increase since 2008, with 111 countries represented at Kent State.

In 2015, Kent State University continued the largest capital re-investment program in the history of the University, initiating major renovations at Lake and Olson Halls, MAC Center, Cunningham Hall, Williams Hall and the Integrated Science Building. The University finished construction on the new Institutional Advancement Building and was underway with construction on the \$48 million new College of Architecture building. These investments have transformed the campus and generated significant construction related jobs and tax revenues.

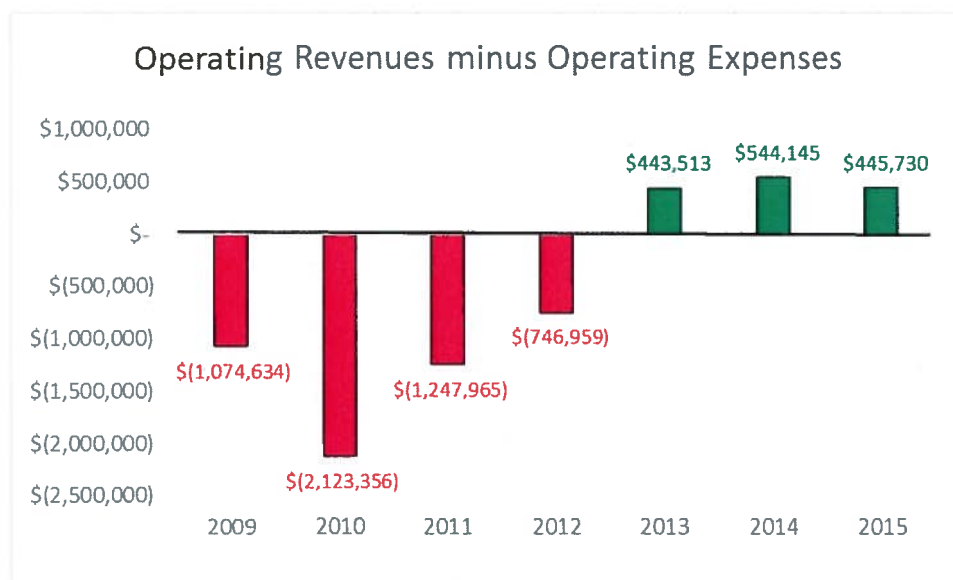
City Financial Profile

For year-end 2015, overall City income tax collections were up 11.39 percent (\$1,492,655) from December 2014 (above and beyond the new Police Facility income tax receipts), and Kent State University's collections thru the end of December were up 2.9 percent (\$138,780). The Police Facility income tax (.25%) generated \$1.6 million in 2014 and \$1.8 million in 2015 which is dedicated to paying the debt incurred on the new Police facility.

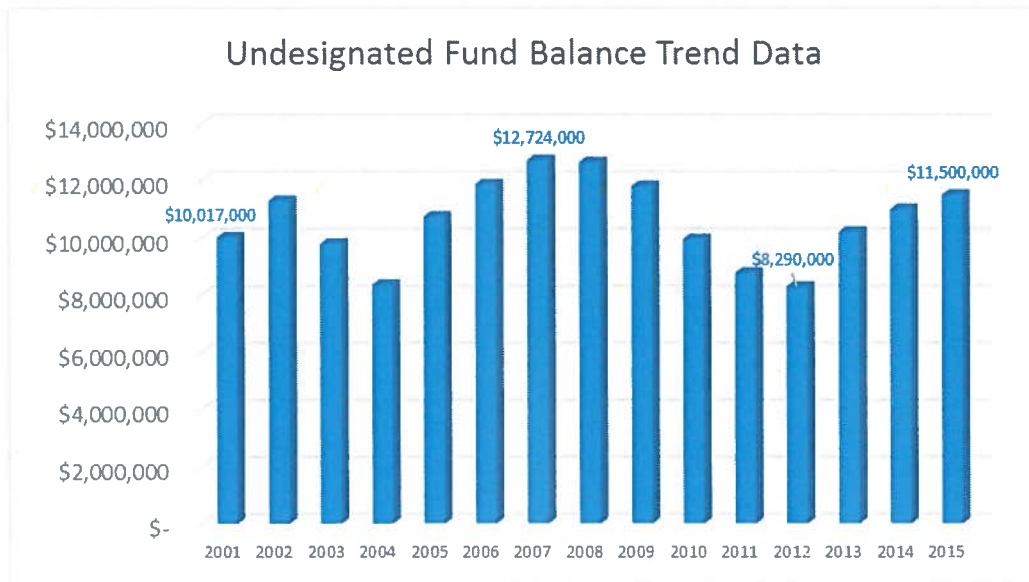


The City's financial condition is still heavily influenced by the University but private sector expansion is driving the majority of the City's income tax growth. In the last 12 years the total income taxes received increased by 52% -- with private sector increases responsible for nearly 70% of that increase. Kent State University remains the City's largest employer, but private sector job growth has resulted in Kent State University's income tax contributions dropping from 36.4 percent of total collections in 2014 to 33.6 percent of total municipal income tax revenues in 2015.

A comparison of revenues vs. expenses for the City's General Operating funds illustrates the important transition from 'operating deficits' to 'operating gains' over the last 5 years.



As the revenue vs. expense balance returned to a positive position, the City has been able to slowly replenish undesignated reserve balances to near pre-recessionary highs.



Income taxes from new construction should continue to provide a short term boost in revenues as construction will be underway on a number of University and private developer projects in 2016-17.

Maintaining a conservative fiscal philosophy, the proposed 2017 does not build the temporary construction income gains into the base budget so it is reasonable to assume that income tax revenues may exceed the budget projections for 2017 -- providing a buffer for unanticipated needs or unfunded mandates.

Despite many favorable economic indicators, a few financial shortcomings remain. The City's Utility rate plans have significantly helped relieve the financial burden carried by the General Fund but the General Fund remains somewhat at risk to projected deficits in the stormwater fund.

In 2016 Council authorized an increase of \$2/month in stormwater fees (from \$2.30 to \$4.30/month) which should allow the stormwater fund to remain solvent into 2018. In the interim, Council also authorized the staff to develop a new stormwater billing formula that would be based on the amount of impervious surface on individual properties in Kent. The goal of that new formula is to ensure the financial viability of the stormwater fund for the long term.

The proposed 2017 Budget reflects the temporary stormwater fee increase but it does not include a long term stormwater solution since that has not yet been developed. The temporary fee should allow stormwater maintenance and repair to continue at current levels through 2017 and into 2018.

2017 Budget Strategy

The challenge for our organization is to prepare a budget for 2017 that recognizes our financial limitations 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 strategically aligned Operating budget and Capital Plan.

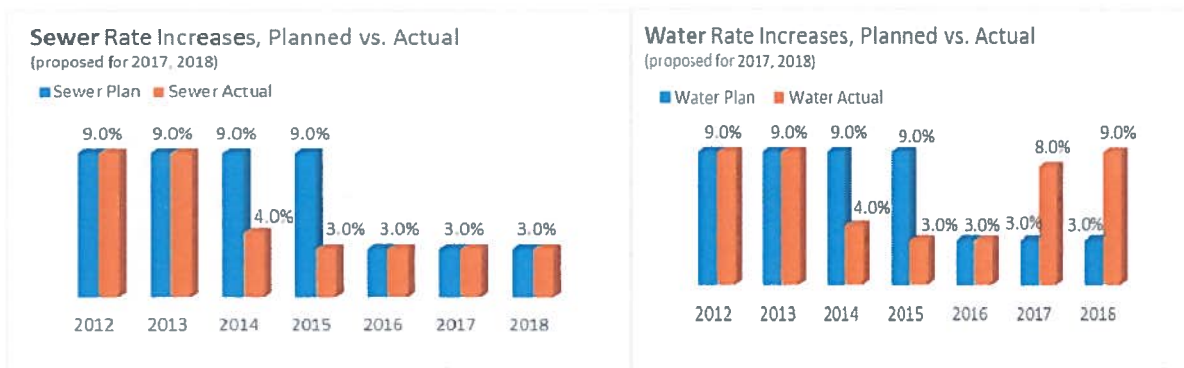
The staff success in securing grant funds over the last 6 years has created a degree of financial flexibility not otherwise available to us, which when combined with our cash balances in the undesignated fund, have enabled us to bridge operating budget gaps. We look to continue to leverage partnerships and grants in 2017.

Utility Rate Plans

Council approved the multi-year rate stabilization plans for the water and sewer funds in 2011. The approved rate plans included 4 years of 9% rate increases to “catch-up” with deferred maintenance and capital costs, followed by 3% rate increases in the out years of the plan to keep pace with inflation.

In the first 2 years (2012, 2013) of rate “catch up” the rates approved by Council matched the rate plans. However, in the subsequent following 2 years, the rates were less than half of what was originally projected in the plans. As a result, the staff is proposing to begin to make up a portion of the lost rates in 2017 (8%) and 2018 (9%) for the water fund only; the sewer fund is projected to be sustainable at the planned rate of 3%.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Sewer Plan	9.0%	9.0%	9.0%	9.0%	3.0%	3.0%	3.0%
<u>Sewer Actual</u>	<u>9.0%</u>	<u>9.0%</u>	<u>4.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>
Difference	0.0%	0.0%	5.0%	6.0%	0.0%	0.0%	0.0%
Water Plan	9.0%	9.0%	9.0%	9.0%	3.0%	3.0%	3.0%
<u>Water Actual</u>	<u>9.0%</u>	<u>9.0%</u>	<u>4.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>8.0%</u>	<u>9.0%</u>
Difference	0.0%	0.0%	5.0%	6.0%	0.0%	-5.0%	-6.0%



Even with the rate recovery increases proposed for the water fund of 8% in 2017 and 9% in 2018, the City’s utility customers will be paying an average of \$4.50 less per month, or around \$54 less per year, than what they would have been paying based on the original 2011 rate plan.

Although our dependency on undesignated reserves has diminished, we remain committed to improving our productivity and staying vigilant with our efficiency and effectiveness. We are committed to maintaining what we consider financial “best practices”:

- 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.

Budgetary Assumptions

As noted, we have applied conservative budget principals to our draft 2017 Operating Budget. The most significant assumptions built into the budget include the following:

- Income Tax budget shows a slight (1.3%) increase; Local Government Funds show a decrease of \$900,000, and the Kent JEDDs show a leveling off in annual tax receipts (\$550,000) with no increase projected for 2017.
- All authorized positions have been budgeted at actual salary expenses as of October, 2016, plus adjustments of 3% for contracted increases scheduled for late year 2016 or first pay of 2017.
- Revenues in Water and Sewer Funds will be adequate to cover operating expenses and required capital needs for 2017 after implementing rate increases of 3% in sewer and 8% in water to stabilize fund reserves.
- 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, for 2017 this budget will increase from \$13,500 to \$13,900 per family for a total increase in City costs of \$80,000.
- Further revised Central Maintenance staffing, reducing full time laborer positions by 1 position (for a new total of 4 laborers) and restored 1 Account Clerk position.
- Added 3 new full time Firefighter positions at an additional cost of \$265,000/year.
- Sellback expenses for sick and vacation time is based on prior two years activity.
- Overtime expense projections were provided by each department.
- The vacant Public Safety Director position is not budgeted to be replaced with the duties absorbed by the City Manager and staff, preserving budget savings in excess of \$100,000 in salary and benefits.
- Recommended O&M costs for 2017 reflects a \$291,094 decrease, or 3.25%, below the most recent 2016 **Amended** Operating budget (\$8,650,606 in 2017, \$8,941,700 in 2016).
- Insurance/Bonding – we are not projecting increases in insurance overall, however there is some reallocation of expenses to cost centers that have added new insurable assets.
- \$100,000 plus in additional O&M expenses are offset by program related revenues, e.g., bed tax, income tax collections, permit and fee revisions, etc.

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 our investment plan for progress toward the vision we share for our community and for which Kent is proud to be known. 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"

2017 Budget Numbers

The proposed 2017 budget looks to ensure critical spending where it is most needed and maintain cost containment practices in everything we do. Where staff requested budget increases we asked them to look for cuts to offset those increases. The goal was to keep discretionary cost increases on par with inflation -- and we believe the overall 3% increase proposed for O&M in 2017 meets that goal.

The staff met that budget challenge and the recommended total for 2017 Operations and Maintenance compared to the original 2016 Operating Budget reflects a 3% increase -- \$8,740,792 in 2017 from \$8,487,265 in 2016.

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.

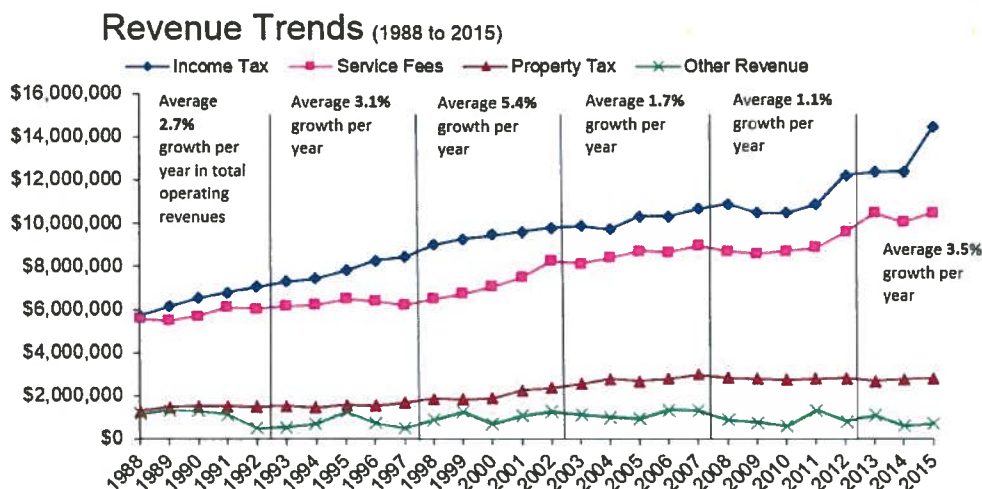
Most notably, the proposed 2017 Personnel budget includes the addition of an approved new full time IT Manager and 3 new Firefighter positions which have been "on-hold" for the last 15 years due to revenue shortcomings. Over the past 5 years we've been unsuccessful in grant submissions to underwrite these new positions but we now believe that City revenues have demonstrated enough sustainability to support filling those positions in 2017 using General Fund revenues.

The Proposed Operating Budget total for 2017 Personnel Expenses compared to the original Approved 2016 Personnel Budget reflects a \$1,438,500 increase, or 6.8% personnel expense increase -- \$22,469,474 in 2017 vs. \$21,030,974 in 2016.

Nearly every City department has legitimate new staffing needs but we had to prioritize and continue to defer those position needs until further revenue gains are achieved.

It is important to note that the Personnel increases reflect the union contract agreements of a 3% to 3.25% pay increase in 2017. With every 1% increase in wages, the Personnel costs amount to approximately \$150,000 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 2017 the staff is projecting a modest range of operating revenue growth from 1% to 3% (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.

Despite the stress of delivering public services under such constrained economic conditions, 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, 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 results for Kent in 2017. While we might not have all the funds we need to support City services at the level we desire, we have invested well and we have seen steady progress – to the point where we are now recommending expanding our staffing levels for the first time in over 10 years.

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,

Dave Ruller, Kent City Manager