

**Minutes of the Meeting of the Finance Committee of Council
Held in the Council Chambers of the Municipal Building
On Monday, July 13, 2020**

The Chairman, Ward 1 Councilman Bob Butkowski, called the meeting to order at 6:01 P.M.

Committee Members Present:

Chairman, Ward 1 Councilman Bob Butkowski

Councilwoman-at-Large Tammy Holtzmeier; Ward 2 Councilman Dennis McBride

Others in Attendance:

Law Director John Gasior; Ward 4 Councilman Scott Radcliffe; Councilman-at-Large Craig Witherspoon; Mayor Bryan Jensen; Finance Director Bill Logan; Service Director Mike Farmer; Safety Director Duane Streater; Kevin Martin, Morning Journal; Dylan Reynolds, Chronicle; Utilities Supt. Brian Bruce; Council President Brian Fischer; City Engineer Ryan Cummins

2021 Preliminary Budget

Mr. Logan stated that the Preliminary Budget, called the Tax Budget, is due in the County Budget Commission Office on July 20, 2020, and that is why he hopes that Council will consider passing it tonight on a third reading. It is very preliminary; we do not spend a lot of time digging into each Department and what they have planned for next year. We did put in \$2 million dollars for the road program and capital infrastructure improvements. This year being what it is, we have made some assumptions that revenues are not going to increase drastically, although we are seeing this year that we are not as far out of line as we had first anticipated. So we are hopeful that we will end up this year better than what we are forecasting right now. Income tax is the largest revenue that the City has and right now we are down about 5% or 6% from the budget for this current year of 2020 but of course the bulk of that is individual income tax and with the filing date extended to July 15, 2020, we expect to see a lot of that come back over the next three months. A couple of the assumptions in that budget for next year that we can talk about next are the water and sewer rates. In our current forecast we have a 4% water rate increase that would be effective in August of this year and then 3% in August of 2021. For sanitary sewer, we have a 3% increase in August of this year and then 3% in August of 2021. We are going to be reviewing the budget again in September/October and finalizing it for next year, so unless anybody has anything glaring that they want to include or change in the Preliminary Budget he said he is good with where it is. It does reflect the 2021 General Fund going down by \$1.8 million dollars from where we think it will end up at the end of this year, which is still six months off. So it is kind of hard to predict but again, he thinks that we are going to end up this year better than what we had forecast.

Mr. McBride stated that he thought that Mr. Logan's assumption that we will be down from this year is correct and it is better to project down than be overly confident at this point. Mr. Radcliffe said that he knew that we are going to have to revise this again in September but he asked Mr. Logan if, just in general, he felt confident that his projected decreases are good numbers for right now and Mr. Logan answered, yes, and as he said, we might be better than what these results are indicating now. Mr. Radcliffe said, but in general right now, we should be on the safe side of the forecasting and Mr. Logan said, yes.

Mr. Butkowski stated that he was ok with the Preliminary Budget the way it is, understanding there are things that can change between now and September. In one of the initial meetings a few months ago, Mr. Logan had shown a potential shortfall of about \$4.5 million dollars based on the data at that time.

Mr. Logan said, yes, maybe 7% or 8% as far as a total revenue reduction. Mr. Butkowski asked, now with this almost 3% shortfall so far from the 2020 budget vs. the 2021 budget estimates, would that be due primarily to the fact that the income tax has not come in as of yet for the City? Mr. Logan responded that we are seeing our withholding income tax, which is the payroll tax that all the businesses pay and is the largest piece of our income tax (about 2/3 of our total income tax collection), that is only down about 1% from a year ago or from budget, either way you want to look at it. It is not down much; in other words, the businesses in Avon are holding steady right now. There are some businesses that are not operating and are probably not going to reopen but there are others that are more than making up for it. Where we are down is individual income tax, which is true for everybody across the State and probably the nation. We are down about \$1.6 million in individual income tax collections but with July 15th being the filing deadline, you have to believe that they are going to get paid, at least the bulk of them. There could be a little higher number of delinquencies and it may be until October before we see all that come back as far as individual income tax. Now next year is where we are going to see a drop in individual income tax because of this year with people not working, companies that have shut down, or companies laying people off. So next year individual income tax collections and maybe even payroll withholding, could be down.

Mr. McBride asked about RITA payments to the City and Mr. Logan said that we get collections from RITA twice a month. We get an advance at the first of the month, then we get what they call a reconciling distribution on or around the 15th of the month. What we get in July is what RITA collected in June, so we it will be the middle of August before we start to get an idea of what the individual income tax collections are. He said he does know this, though – with the advance that we got, we exceeded what we had forecast for July's income tax collections in total, and the advance is usually about 85% – 90% of what we get for the whole month.

Mrs. Holtzmeier stated that she was good with what Mr. Logan was showing for the 2021 budget projections. She said that Mr. Logan does a good job of showing them pretty regularly these days about where we stand overall. She said she would just ask, though, to get some more “drill- down” data from him, something that more readily compares us to previous months and year to date and time period for previous years just for a simple comparison. We know that the numbers are not going to be positive but to be able to compare to where we were inside those trends a little early on would be helpful. Mr. Logan said yes, he would provide that.

Mr. Butkowski asked if the Department Heads were aware of the budget impacts that are going to be coming their way with regard to requests and Mr. Logan said they are probably not as aware as we would like them to be but we will emphasize that when we start meeting on the budget. They all do know that revenues are down and that we put a number of projects on hold, and we would rather not go forward with certain major line items at the moment. We are not at a point where we have to tell them that they have to cut their budgets by 15% or do this or do that. We are just delaying projects until next year and holding off on certain purchases. If things get worse then, yes, we will have to go to those next steps. Mr. Butkowski asked if it would it be a good idea for them to not only consider next year's potential requests from the City but also to consider a couple years down the road of working from a lower number. Mr. Logan said that was a good point and one he definitely needs to make.

Mr. Logan said that, with regard to property tax revenue and TIF revenue, which comes through the property tax distributions and is collected the same way, we are really not taking those down per se. We believe there may be some higher delinquencies on those taxes than you would have seen in the past but

for the most part we do think we are still going to be alright, particularly with regard to TIF because that is obviously all commercial.

Mr. McBride asked if Mr. Logan anticipated or had heard that some of the retailers were going to seek to lower their property tax valuations and Mr. Logan said that we have not heard anything specific on Penney's. They have closed a number of stores around the country and if it came down to the Avon store closing, it would not shock us but beyond that we have not heard anything regarding the other retailers and smaller stores and restaurants.

Mr. Logan said that he thought that they had touched on the major revenues in what we are projecting. And then if you look at all the other different revenues, you will see that we have reduced a lot of things in the forecast but we are seeing the numbers come in better than what we had taken them down, such as motor vehicle registrations and even on hotel tax. We took that way down in the forecast but yet we are still seeing some decent dollars come through from the different hotels.

Water and Sewer Rates

Mr. Logan stated that he reviewed these numbers a few weeks ago with Brian Bruce, Utilities Superintendent. We are in the habit of making any rate changes effective with August. We have done this the last few years and it is because Avon Lake has been passing through their increases effective in July of each year which they just did. Mr. Logan said that the sheet he handed out is a summary of where we are as far as rates. Both the Water Fund and the Sanitary Sewer Fund are in very good shape financially. For the next two years the Water Fund will still be paying off the final note balances of the Mills Road water tower and that is about \$1.2 million dollars over those two years. Even with that, we project that at the end of this year, the Water Fund should have about \$2.5 million dollars in it, which is about eight months of expense coverage. The Sanitary Sewer Fund will have about \$1.5 million which is about five months coverage. The forecast sheets go back to 2008 and forward to 2028 and you can see the rate history. We have gradually been taking our rates up each year and we try to build a reserve. He said that his goal is to have reserves that at a minimum cover about six months of expense. Particularly the Water Fund, in the event of a major water break we want to be able to use these funds to make those repairs.

Mr. Logan said, addressing the water rates first, the current rate per month is \$5.00 per thousand gallons. There is a small reduction in rate when you exceed 25,000 gallons in a month and that is only going to pertain to some of the larger commercial or industrial users. Avon Lake just put a 3.15% increase in place. Now that is a blended rate because we take our water in through different sources: the Rt. 83 pump station, the Miller Road pump station, and what they call the Eastern Transmission Lines #1 and #2. So depending on where we are bringing that water in, those rates can vary but over the course of a year, that blended rate increase is about 3.15%. The City of Avon has in their Codified Ordinances, the authority to pass through any water rate increases. So if we just pass through that Avon Lake rate increase of 3.15%, that would take our rate from \$5.00 to \$5.16. If we put through a 4% rate increase, which is what we projected, that would be \$5.20. With a 4% increase, the average resident would pay an additional \$19.20 per year for water.

Mr. McBride said that his recommendation would be to not just pass through the minimum of a 3.15% increase but to do the 4% and build a better reserve which gives service some flexibility to be a little more proactive with some projects. Mr. Logan said they thought that Avon Lake is not going to have a 3% increase next year unless something really changes. They are kind of projecting 2% next year and then

they are dropping it off a little bit as time goes on. So again we are looking at 3% next year but it may not need to be that as long as we have decent reserves in our fund. He said that Mr. Bruce may want to mention anything coming up where we need to commit some of these funds but Mr. Logan believes that a 4% rate increase would take care of it. Mr. Bruce agreed and added that he believed that we have plenty of money for what we are looking at in the near future. There are mostly some maintenance items but not a big capital project at the moment.

Mr. Fischer asked about the protection that was put in place in the last year or so for some of our seniors who do not use the minimum amount of water. Did that stay in place? Mr. Logan said that now it is \$1.00; if you do not use any water but you are tapped in, you are going to pay \$1.00 a month.

Mr. Butkowski stated that, with regard to the document that Mr. Logan gave them, he was talking about a 4% increase in 2020 and then a 3% increase in 2021, but asked if that was just a forecast of 3%? Mr. Logan said, yes, they were not asking Council to change the rates for August of 2021; they were asking to change them for August, 2020.

Mr. Logan stated that it is a little more complicated on the sanitary sewer side because we use both the Avon Lake sanitary sewer treatment plant and the N. Ridgeville treatment plant, which is the French Creek Wastewater Treatment Plant in Sheffield Village. Avon Lake has put through some pretty hefty increases in the last few years and will continue going forward for a couple years, as they have done some major projects and major repairs to their whole wastewater system. This year, effective July 1st, they raised the rate to \$8.03 per thousand gallons and that is a 15% increase. N. Ridgeville, who went for quite awhile without any rate increases, had a sewer and water rate study done a couple years ago. They are now in the middle of putting through 4% increases which happen at the beginning of each year. So they have already put a 4% increase into effect for this year and they are going to be putting in a 4% increase for next year in January. Avon Lake is looking at about another 12% increase for next July. As it is now about 25% of the City's sanitary sewer goes to Avon Lake and the other 75% goes to the N. Ridgeville sewer system. Those two rates blended together is about a 6.75% increase. Our current rate is \$7.38 per thousand gallons; if we raise it by 6.75% we would be at \$7.88. We are proposing a 3% rate increase which would bring it to \$7.60 and again that is a flat rate per thousand gallons across the entire City. We do not charge different rates for different sewer systems. We charge one consistent rate for residential and commercial, even though we are on two different sewer systems.

Mrs. Holtzmeier stated that every year when Mr. Logan shows them these rates, we also compare where Avon's rates stand with other communities in Ohio. Mr. Logan said, yes, he did not look at the Ohio EPA study yet; he was not sure that it is out for 2019 but he will do that. He was pretty confident, at least on the water side, that we are well below the average. We were just under the average last year for sanitary sewer but we can look and see where that is. Mrs. Holtzmeier said that she would like to see that. Historically we are not high as compared to other communities but at the same time, we were in a position where we were making up for years of keeping the rates steady. Mr. Logan said, yes, and as you can see, our suppliers are increasing their rates, one a lot more than the other and hopefully that settles down after a few more years. But he said that he will get that Ohio EPA rate study and he will show the comparisons.

Mr. McBride asked what the thought process was with only going with the 3% instead of passing through the full increase. Mr. Logan said that we have taken that rate up every year for a number of years. In 2018 we took it up 5%, and a year ago we took it up 5%. We are proposing 3% right now, 3% next year and going out the next three years, we are forecasting 3% each year, depending on what the suppliers do.

Mayor Jensen stated that one of the reasons, too, is the fact that this being just a crazy year, we wanted to try and take into consideration what some people are going through. We thought it was important not to get in the hole that we got in about 10 years back and have to make up a big difference so we wanted to make sure we did the minimum increase so we did not fall behind any farther, but we wanted to be cognizant of what some people in the community may be going through.

Mr. Butkowski asked if Mr. Bruce anticipated any large capital outlays in the next five to ten years to improve or upgrade sewer and/or water lines? Mr. Bruce said that they are looking at potentially upgrading the Miller Road pump station. We began the preliminary at the beginning of this year and then put it on hold, but we kind of have an idea. We could double the capacity out of there for a pretty reasonable budget. Then after that, probably more towards the ten-year, we are probably going to be looking at upgrading the old water tower as needed. But outside that, we are really fortunate to be more in a maintenance environment than anything else. Mr. Butkowski asked that they please let Council know with regard to those projects as we get closer as it will drive their decisions. It is always good for them to hear so they can be thinking five and ten years down the road when it comes to these things. Mr. Logan added, and the Utilities Department does have a long-term sort of capital budget.

Mr. Logan stated that the one thing they have not really mentioned here is our tap fees and as the growth continues, commercial growth in particular, we are taking in quite a bit of revenue on water and sewer taps. A lot of that revenue goes into capital funds, not these operating funds, but we have a Capital Water Fund and a Capital Sanitary Sewer Replacement and Depreciation Fund, which right now is basically paying for the French Creek/Briar Lakes Pump Station Abandonment Project. But that fund gets replenished and we will have a couple million dollars in there after another couple of years that can be set aside toward these capital projects. And once these notes get paid down over the next two years for the final amounts on the water tower, the Capital Water Fund will start to build up as well. But yes, we should look out further, and when we tighten up the budgets for next year and beyond, we can have more of those discussions.

Mrs. Holtzmeier said to Mr. Logan that as he looks up the Ohio EPA comparisons, she was also interested in the monthly surpluses that other communities hold in their accounts. Mr. Logan said that he did not think that survey is going to show us that but he could talk to some neighboring communities. Mrs. Holtzmeier said that those are the communities that she is most interested in. Mr. Logan said that he can certainly look at Avon Lake and North Ridgeville and other communities that are on the Moody's list but it is hard to determine; everybody has their own sort of parameters. One of the ones that he likes is that we have enough reserves to cover at least six months of expenses.

Mr. Logan said, just to recap and finalize the water/sewer rate discussion, Finance Committee was ok with a 4% increase on water rates and a 3% increase on sanitary sewer rates and that was affirmed.

Refunding of Bonds, YMCA Issue Debt Service

Mr. Logan stated that he just wanted to update everyone on the refunding; we are going to be doing that here very soon. Congress is looking at another measure to help businesses and that would be to allow tax exempt refinancings even in advance, which is what they used to do before tax reform of 2017. What that means to us is maybe another \$200,000 - \$300,000 of savings we could reap. Congress is out until next week but shortly after that, they think this bill is going to pass. It is another CARES Act bill but part of it would allow governments to issue bonds again even in advance of their call dates under a tax exempt status. Everything that we have been looking at other than that YMCA series, the 2012, 2013 and 2014

series, would be a taxable advance refunding. We would still save right now \$4.6 million dollars over the next 20 years doing that refunding so if for some reason this bill does not pass, we are still going to move forward. We are more than likely going to sell these bonds in early to mid-August. We are looking at about \$590,000 of savings with the 2011 YMCA series. That goes out 10 years. There is an operating agreement between the City and the YMCA. The YMCA pays their rent/debt service to us every month and that money goes right into a bond retirement fund. We use it to pay debt service on the 2011 bonds. So if we do this refunding and reap these savings and we have \$590,000 less of debt service to pay over the next 10 years, the YMCA is going to want to talk a little bit because they did some kind of a deal in N. Royalton where some of those savings went through to the YMCA so it is something to keep in mind. We are not obligated to do anything. Mr. Logan said he was not suggesting anything; he was just pointing it out. Another thing that we looked at with the YMCA bonds – our underwriter did research and pointed this out – we could structure that debt service where we capture about 90-95% of those savings in the first 3 years, meaning the debt service we owe for 2020, which is due in December, we could front-load those savings, still save little bits over the remaining 8-9 years, but basically capture 95% of those savings up front, which right now in the economic environment would not be a bad thing. We would get about \$40,000 less savings over the 10 years but we would get 95% of it up front in the first 3 years. It is another thing to consider and we can revisit that. We do not have to make a decision today on any of these things.

Mr. Logan stated that we have our Preliminary Official Statement pretty much done. It does reference now our 2019 audit since that is complete and will be released on the State website. We have a rating call with Moody's this Wednesday morning. He does not expect the AA-2 rating to change. If anything, it should go up because the audit was very clean and General Fund balances increased quite a bit over 2019.

Mr. Logan said that was pretty much it on the refunding but he wanted to point out to Council that arrangement with the YMCA and also the idea of taking those savings on that YMCA debt service in those first couple of years. Mr. Butkowski asked if we could use that front-loading on some of our other debt and Mr. Logan said we can use what we have saved. In other words, we can use any monies in that General Obligation Bond Retirement Fund on any debt. So if we are saving money on this debt service and we have xxx number of dollars budgeted and we are not going to spend it because this debt service is going to be less, if there is enough money in that fund, yes, we can use it on any debt. Mr. Butkowski said he thought that is something we need to look at. Mr. Logan said, again, though, with this debt service with this Bond Series 2011, the YMCA is making the payments. They are basically making the payments to the City. You can call it rent but it is truly debt service that we are using to pay debt service. And they know that; they know the amortization schedules and they have their forecast so we just have to be cognizant of that situation.

Mrs. Holtzmeier asked if the YMCA has been up to date making their payments during this COVID time; have they missed any or been late? Mr. Logan responded, no, they skipped a couple months early on and he told them that was fine but they are caught up and have been making their payments.

Mr. Radcliffe asked, in terms of that front-loading the debt savings vs. keeping it out over the full 9 years, would that benefit the retirement of the debt service for the YMCA faster if we help them with that now by front-loading it or is it better to keep that spaced out even for them so there are no changes later on? Mr. Logan said that it is not going to shorten the period, it is just going to generate those savings now but after, call it after year 2022, then the debt service that we pay for those remaining 7 or 8 years, is roughly about what it is now, with a little bit of savings. Mr. Radcliffe stated so it comes down and then goes back up. It is almost like an adjustable vs. just keeping it constant for that time period. In terms of managing their cash flow, he was just wondering which one they might prefer so we would not have any problems.

Mr. Logan said, there again, there is an operating agreement between the City and the YMCA and that operating agreement does not address the refinancing or refunding of this debt, so all he was saying is we do not have to do anything. The YMCA would be still required to make their payments that they are making now unless we talk and have some sort of revised arrangement. Mayor Jensen said that he thought you have to keep in mind, too, the expense of that building. If we look at the amount of money we would save, we are probably putting in that much for expenses almost yearly anyway. Mr. Farmer can tell you that every week there is something going on in that building that we are taking care of. So the revised agreement would almost have to include a removal of some of the maintenance items. If there was a savings, we would give back to them but it is not an inexpensive building to maintain. There is considerable more cost to the building than just what the YMCA pays. Mr. McBride added, and as the building ages we are just going to be putting more and more money back into it. It is an asset and needs upkeep.

Investment Policy

Mr. Logan gave a recap of the investment policy. He said that the Charter requires that we that we review this every couple years. At this time, he does not have any new investments that he would like to add or anything like that. With the current interest rate environment, it sort of changed the way we have invested funds. We do not have any federal notes or agency notes at the moment because those rates are very low. We have about a dozen or so CDs and we have been investing some money in other one or two- year notes of Ohio municipalities with an AA-2 or better rating, and those are paying similar to the notes that we have issued recently, in the .50 yield range. We do keep a good amount of money in a couple of money market type accounts, one with First Federal of Lakewood, and the other with First National Bank. At the end of June, we have a little over \$13 million dollars with Huntington, which is our primary bank. They are paying some interest on that but there are just not a lot of good investments out there to buy right now. Mr. Logan said that, at this point, he does not have anything he wants to change with the investment policy. He wanted to say to Council that, Kathy Burns, the Council Treasurer, looks at this every month and really looks at other rates of other banks, etc. She does a good job of watching over this as well and does a very good job in reconciling the accounts every month. He sent the update in an email a couple weeks ago and attached our investment summary, and he thought that Council gets that each month from Ms. Burns. He said that if there is anything more that Council would like to see with regard to bank balances, investments, etc. he would be happy to provide it.

Adjourn

Mr. Butkowski adjourned the meeting at 6:54 P.M.

Transcribed by Gail Hayden, Assistant Clerk of Council