

CITY OF KENT, OHIO
2019 RECOMMENDED BUDGET

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City Manager's Budget Message

2019 Proposed Operating Budget

November 26, 2018



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 2019 Proposed Operating Budget for City Council's consideration.

Overview

The 2019 proposed City budget contains the budgetary line items that the staff recommends for sustaining the levels of services for our community in 2019. 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 2019, 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 enjoyed nearly a decade of growth after bottoming-out in the 2008 recession but the economic gains have slowed and revenue uncertainty has begun to return.

As the pace of economic expansion has slowed so has City's revenue growth. Based on actual 2018 revenue performance to date, staff projects that the year-end totals will end with some modest revenue contractions compared to 2017 and that 2019 will see only minimal revenue increases over the 2018 actuals. With inflation hovering around 2%, we are anxious to find ways to reignite economic growth to stay ahead of inflation in the years to come.

The 2019 budget is more fiscally constrained than 2018 but fortunately the combination of 4 successive years of revenue growth and a decade of aggressive expense management enabled us to narrow the gap between our resource availability and service needs in the 2017 and 2018 budgets.

Early indications suggest that we may be returning to a period of less financial flexibility so we're focusing on sustaining those gains in the proposed 2019 budget.

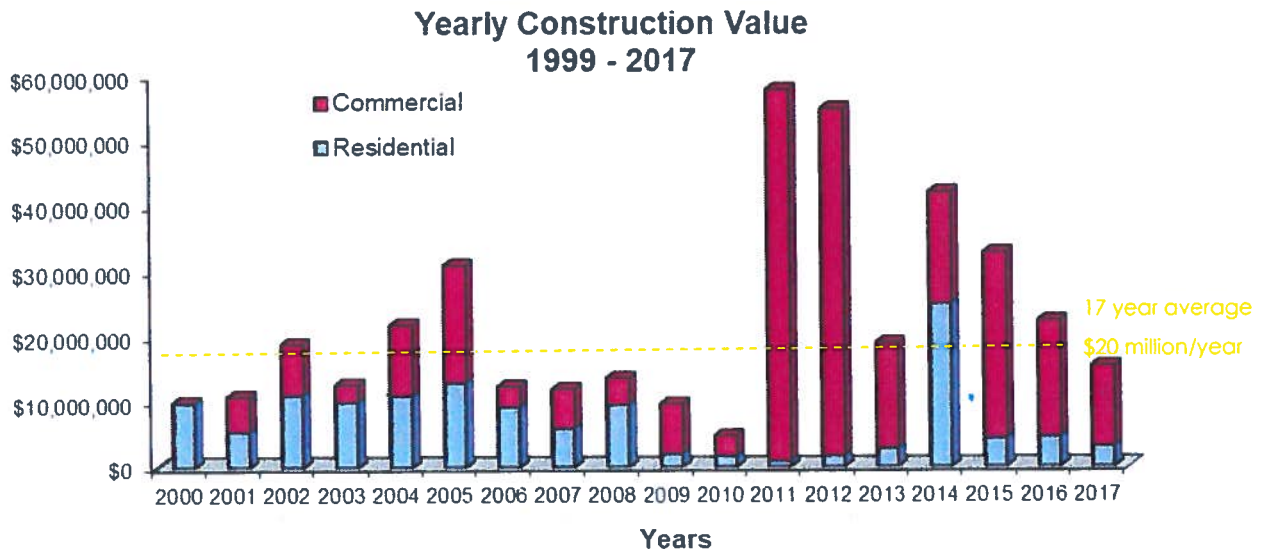
In 2019, we're asking Council's consideration for an additional payroll allocation of \$183,000 that would go towards personnel changes that had previously been deferred but are considered critical to the success of City services.

Local Economic Conditions

The proposed 2019 budget reflects the strengths and weaknesses of the City's economy. The construction rebound that peaked in 2011 continued to show another round of a slight decline heading into 2019.

In the 11 years prior to the downtown redevelopment (1999 thru 2010) commercial construction investment in Kent averaged \$6.5 million a year. Coinciding with the downtown redevelopment in 2011 and 2012 commercial investment jumped to an average of \$55 million/year (an increase of 745%).

In 2017, the mix of new public and private investment kept construction investment levels approximately double the pre-downtown redevelopment 10 year average but well below our 2011 peak.



In 2017, Kent State University experienced its first decline in enrollment in over 10 years, with a drop of 1,067 students for a total of 28,041 students on the Kent campus. It is worth noting that over 72% of that decline is attributable to the loss of 772 international students stemming from changes in US-International government and university relations.

Although 1% smaller in size, the 2017 freshman class at the Kent campus had the highest academic profile in the history of the University, with an average incoming GPA of 3.4, and the freshman class broke the record for admission in the Kent State Honors College. In 2017, Kent State conferred a record breaking 10,000 degrees and certificates.

In 2017, Kent State unveiled its new 10 year Master Facilities Plan that includes over \$1 billion in new campus investments in Kent. The Master Plan is divided in 3-phases, with the first \$220 million phase having begun in 2018.

In 2017 the single family residential market continued to provide signs of recovery with existing home sales showing renewed strength in re-sale value and reduced time on the market. The student housing market seems to be showing early signs of oversupply as lease-up rates have declined from 90-95% occupied in the fall of 2017 to 75-80% occupied in the fall of 2018.

Despite their age, Kent's older shopping plazas continued to generate new investment and show signs of a sustained recovery as vacant spaces were back-filled with new tenants keeping Kent's retail vacancy rate one of the lowest in the region at 5%.

The award winning restoration of the 90 year old L.N. Gross building was one of the highlights of private sector investment in Kent in 2017. The historic property underwent a \$6 million renovation that included adapting the space for a new high-tech water bottling facility and creating a showcase headquarters for DS Architecture.

Adjacent to the L.N. Gross building, Kent's Family and Community Service partnered with Axess Point to complete a \$3 million expansion of their building to support new doctors, dentists and other health professionals working out of that location.

In 2017 University Hospitals completed the first phase (\$3 million) of their planned expansion of the Devon Place Medical Center, adding a new urgent care and medical emergency room.

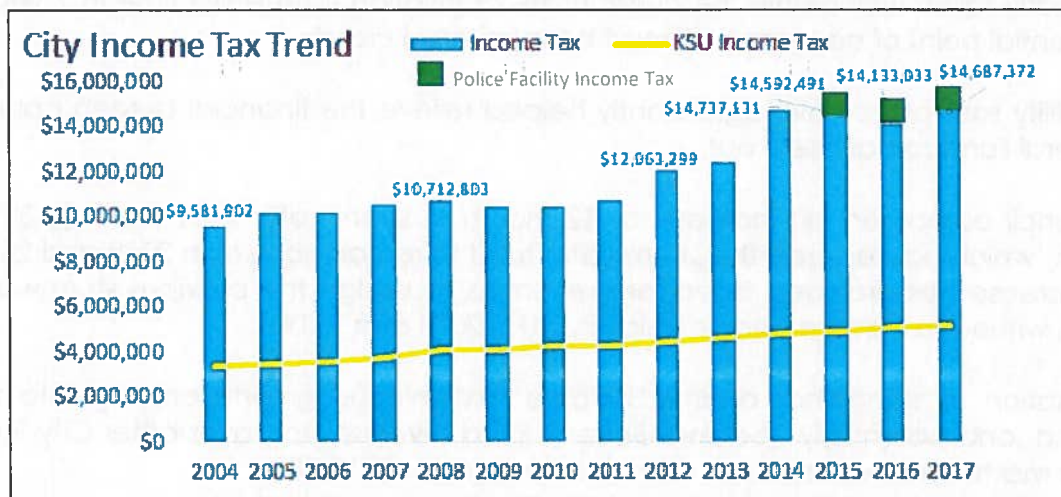
In downtown Kent, historic renovations were completed to the former train depot and County courthouse and new retail investments included the grand opening of Cracked escape room, Sugar Rush, Pacific East restaurant, Troppus, Red Letter Days, and Burnside Barbeque. On Main Street the former optometry office was remodeled and Woodsy's Music began an expansion into recently vacated retail space.

The Kent Area Chamber of Commerce business membership doubled over the last 7 years, hitting an all-time high of 381 members in 2017.

In 2017, the City and Kent State University began the final phase of the \$18 million Summit Street Transportation Project. City engineering and right-of-way work was completed on the \$3 million SR 43 Signal Upgrade project with construction starting in 2018. Construction was completed on the new \$12 million City Police Building and an architect was hired to begin the planning and design work for the new City Administrative building.

City Financial Profile

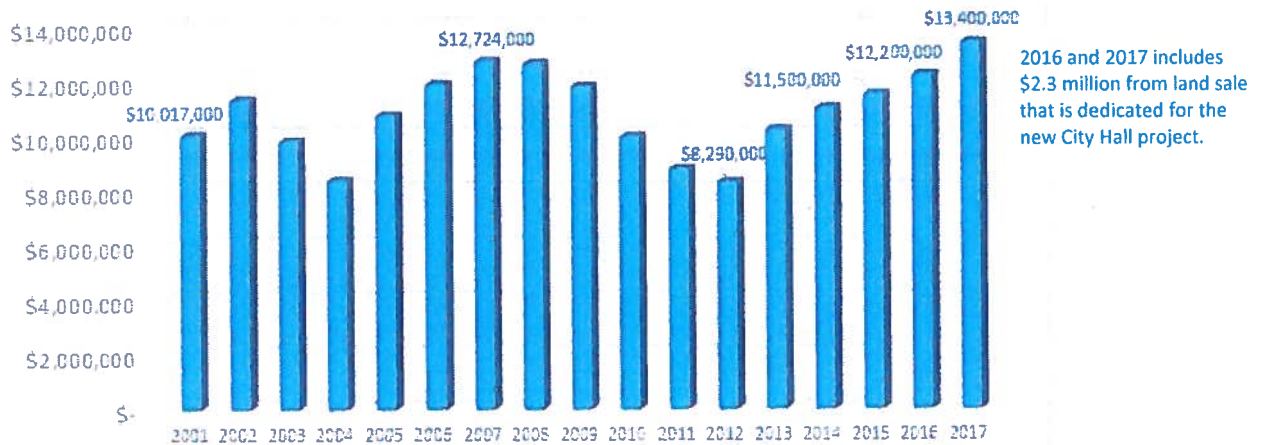
For year-end 2017, overall City income tax collections were up 3.92% (\$623,623) from 2016, while Kent State University's collections in 2017 were up 1.75% (\$88,427). Following a one-time downward correction in private sector income taxes from 2015 to 2016, 2017 income taxes figures rebounded with what appears to be a more normalized rate of growth of 3.92%.



Private sector job growth has resulted in Kent State University's income tax contributions dropping from a high of 40% in 2010 to 35% of total income tax revenues in 2017.

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.

Undesignated Fund Balance Trend Data



Income taxes from new construction continued to provide a modest revenue contribution in 2018 as construction was underway on a number of University, City, and private developer projects that have generated contractor income taxes.

Likewise, the proposed 2019 revenue forecast anticipates a similar level of contribution as 2018, attributable to several development projects currently planned. However, with construction activities slowly declining from their record highs, this buffer continues to thin.

Despite some favorable general economic indicators on the national and state levels, a few financial cautions remain.

Without question Income Taxes are the single most important factor to the City's financial well being and there appears to be a softening in the growth of this vital source of operating funds – to the point where the negative rate of growth in income taxes so far in 2018 has clearly fallen well below the current rate of inflation for the first time in 7 years. That's a potential point of concern that must be monitored closely.

The City's Utility rate plans have significantly helped relieve the financial burden carried by the General Fund to bail them out.

In 2016 Council authorized an increase of \$2/month in stormwater fees (from \$2.30 to \$4.30/month) which has restored the stormwater fund to remain solvent in 2018 and 2019. That rate increase has provided adequate revenues to bridge the previous stormwater funding gap without a General Fund subsidy in 2017, 2018 and 2019.

The combination of somewhat anemic income tax revenue growth coming into the General Fund, and potentially needing General Fund revenues to cover other City Fund shortfalls is a matter that will have our attention throughout 2019-20.

2019 Budget Strategy

The challenge for our organization is to prepare a budget for 2019 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 7 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 2019.

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, in 2017 Council authorized rate increases to make up a portion of the lost rates in 2017 (8%) and 2018 (9%) for the water fund only; the sewer fund was projected to be sustainable at the planned rate of 3%.

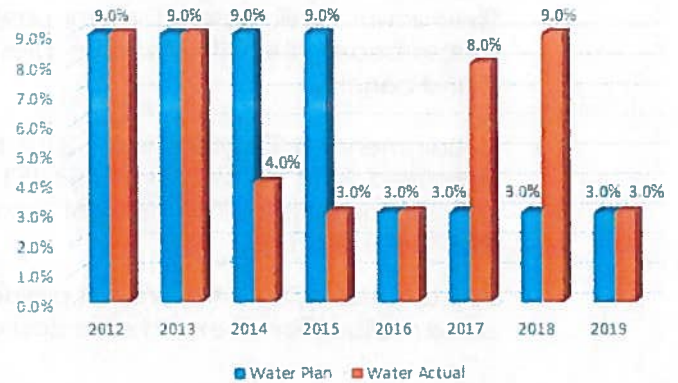
For 2019, the proposed rates are consistent with the rate plans, at 3% for water and sewer.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Sewer Plan	9.0%	9.0%	9.0%	9.0%	3.0%	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>	<u>3.0%</u>
Difference	0.0%	0.0%	5.0%	6.0%	0.0%	0.0%	0.0%	0.0%
Water Plan	9.0%	9.0%	9.0%	9.0%	3.0%	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>	<u>3.0%</u>
Difference	0.0%	0.0%	5.0%	6.0%	0.0%	-5.0%	-6.0%	0.0%

Sewer Rate Increases, Planned vs. Actual



Water Rate Increases, Planned vs. Actual



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 2019 Operating Budget. The most significant assumptions built into the budget include the following:

- Income Tax budget shows a very minimal (.5%) increase; Local Government Funds show a decrease, and the Kent JEDDs show a leveling off in annual tax receipts (\$585,000) with a slight increase projected for 2019.
- All authorized positions have been budgeted at actual salary expenses as of October, 2018, plus adjustments of 3% for contracted increases scheduled for late 2018.
- Revenues in Water and Sewer Funds will be adequate to cover operating expenses and required capital needs for 2019 after implementing rate increases of 3% in sewer and 3% 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 2019 this budget will increase from \$14,700 to \$15,600 per family for a total increase in City costs of \$180,000.
- Added 2 full-time dispatcher positions and 1 records clerk position for an added cost of approximately \$183,000 (including fringe benefits).
- 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, preserving budget savings in excess of \$100,000 in salary and benefits.
- Recommended O&M costs for 2019 reflects a \$24,364 increase (.3%) from the originally approved 2018 O&M budget (\$8,453,193 in 2018, \$8,477,577 in 2019); and a \$662,079 or 7.2% decrease below the most recent 2018 amended O&M budget (\$8,477,577 in 2019, \$9,139,656 in 2018).
- 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.

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"

2019 Budget Numbers

The proposed 2019 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.

The staff exceeded that budget challenge and the recommended total for 2019 Operations and Maintenance compared to the 2018 Operating Budget reflects a .3% increase -- \$8,477,577 in 2019 from \$8,453,193 in 2018.

As a service provider the City's largest cost relates to its investment in personnel. In total, it costs about \$79,000 per workday to perform City services – with 50% of those costs are attributed to Fire and Police functions.

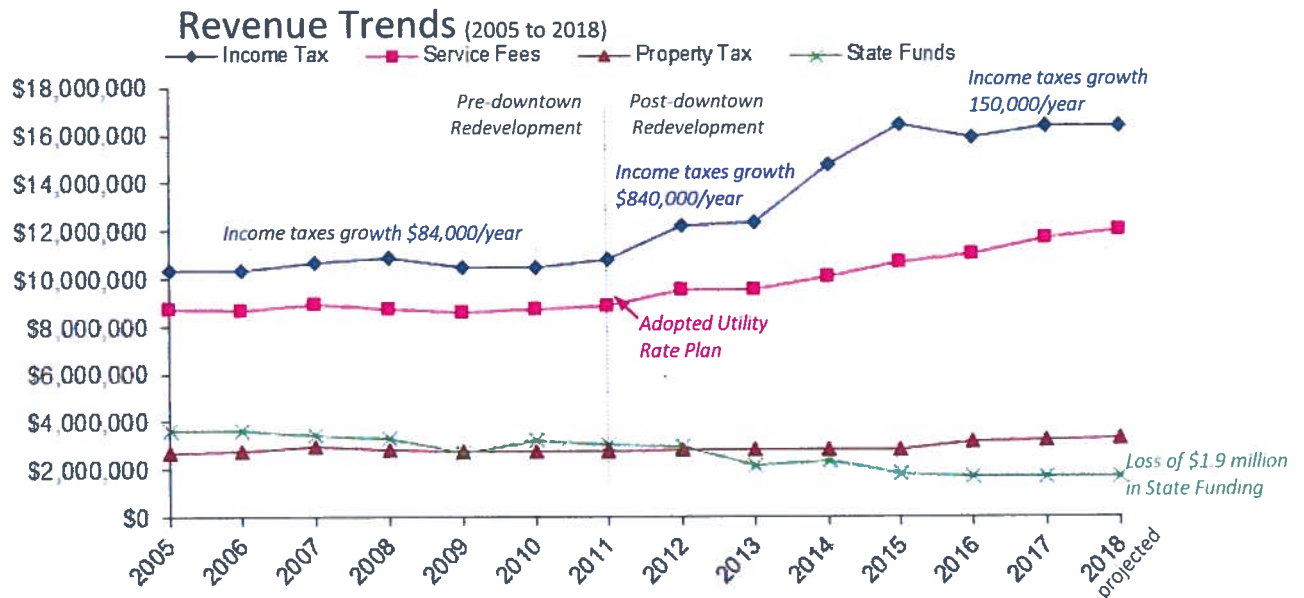
Most notably, the proposed 2019 Personnel budget includes the addition of 2 full-time dispatchers and 1 records clerk in the Police Department in addition to the upgrade and reclassification of a couple of positions that the staff feel are critical to the long term performance of the respective City operations. Those personnel changes will add \$183,000 annually to the City's operating costs.

It is important to note that the Personnel increases also reflect the union contract agreements of a 3% pay increase in 2019 (followed by 2.75% in 2020). With every 1% increase in wages, Personnel costs increase by approximately \$175,000 in increased pay.

With proposed personnel changes coupled with significant increases in health insurance and the contractual pay increases of 3% for 2019, the total Personnel Costs are projected to go up \$1,170,080 or 5.2% above 2018.

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

As noted, the trend of recovery in select revenue categories has flattened out in the current fiscal year leading staff to project only minimal revenue increases for 2019. (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.

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 2019. 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 to finish a few more critical staffing needs for the second year in a row after more than 10 years of deferral.

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