

CITY OF KENT, OHIO
2016 RECOMMENDED BUDGET

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City Manager's Budget Message

2016 Proposed Operating Budget

November 12, 2015



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 2016 Proposed Operating Budget for City Council's consideration.

Overview

The 2016 proposed City budget contains the budgetary line items that the staff recommends for sustaining the levels of services for our community in 2016. 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 2016, as it governs the pace of progress towards our strategic priorities through the resource allocation decisions contained within it.

In preparing the 2016 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 2016.

Across a wide range of economic indicators -- including unemployment, private investment, new jobs, University spending, manufacturing production, corporate profit and retail sales -- the Kent economy has mounting evidence of a sustainable economic recovery. However, it is still early in the recovery and City revenues have ground to make up before we can declare a financial victory.

The 2016 budget remains tight but where possible we have found ways to begin to incrementally close the gap between our resource allocations and our resource needs. We're still not where we'd like to be financially but we're closer to where we need to be to adequately sustain the level of services that we currently offer.

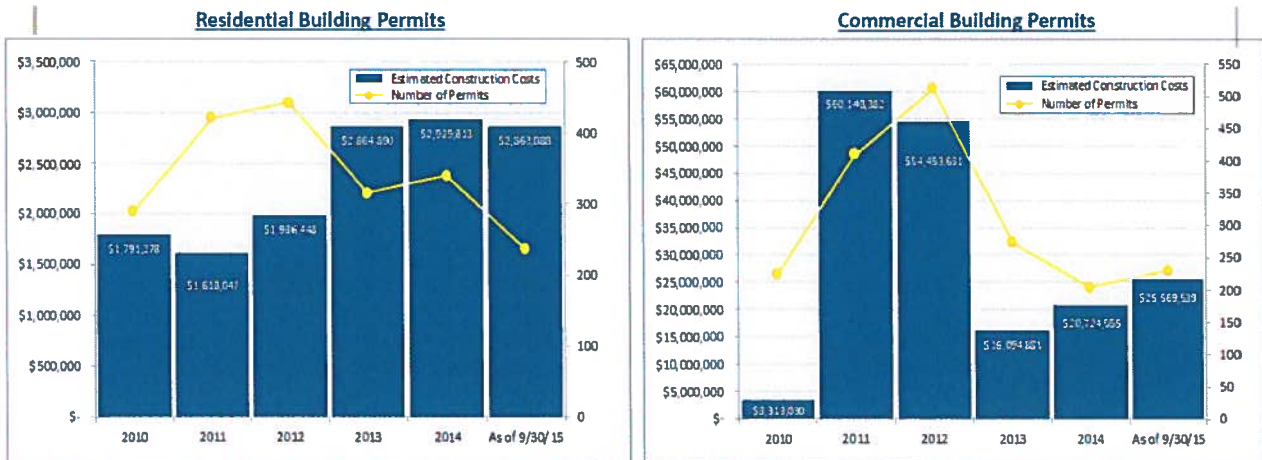
To that end, the proposed 2016 Operating Budget introduces no new programs, choosing instead to focus on continued support for funding levels in existing services areas.

It's worth noting that our financial conditions have shown enough improvement that we've had a little more flexibility to bring forward "pilot" initiatives outside of the base budget, e.g., supplemental funding of \$364,000 in 2014 and \$620,000 in 2015 for streets and sidewalks, \$130,000 in supplemental funding for sewer lateral maintenance, and \$50,000 in sidewalk snow removal. These new initiatives were adopted as "pilot" projects in order to limit the City's financial exposure in future budget years where revenues are less certain.

Local Economic Conditions

The City's 2016 budget reflects the strengths and weaknesses of the City's economy. The construction rebound that began in 2009 continued in 2014, adding depth to the City's economic recovery. From the years 1999 thru 2010 commercial construction investment in Kent averaged \$6.5 million a year. Then for 2011 and 2012 commercial investment skyrocketed to an average of \$55 million each year; an increase of 745 percent.

In 2014, residential investment (multi-family, single-family) was the highest it's been in 10 years, commercial construction (\$25 million) remained at more than 4 times the previous 10 year average, and the combined investment reached the 3rd highest level in the last 20 years.



In 2014 single family residential construction continued to show signs of recovery with a new phase of home development in the Lakes of Franklin Mills, a second phase of senior housing at Maplebrook II, and re-investment and re-branding of the former Silver Meadows apartment complex. Two older shopping plazas saw significant reinvestment, leading to the opening of a new full service Marc's Grocery store in Kent. And even with the construction of 4,000 new student rental beds in 2012, student housing units were running at 99 percent occupancy in 2014 which led to the proposal of 3 new prospective apartment complexes in Kent, including the purchase of the City hall property for a new \$18 million housing project.

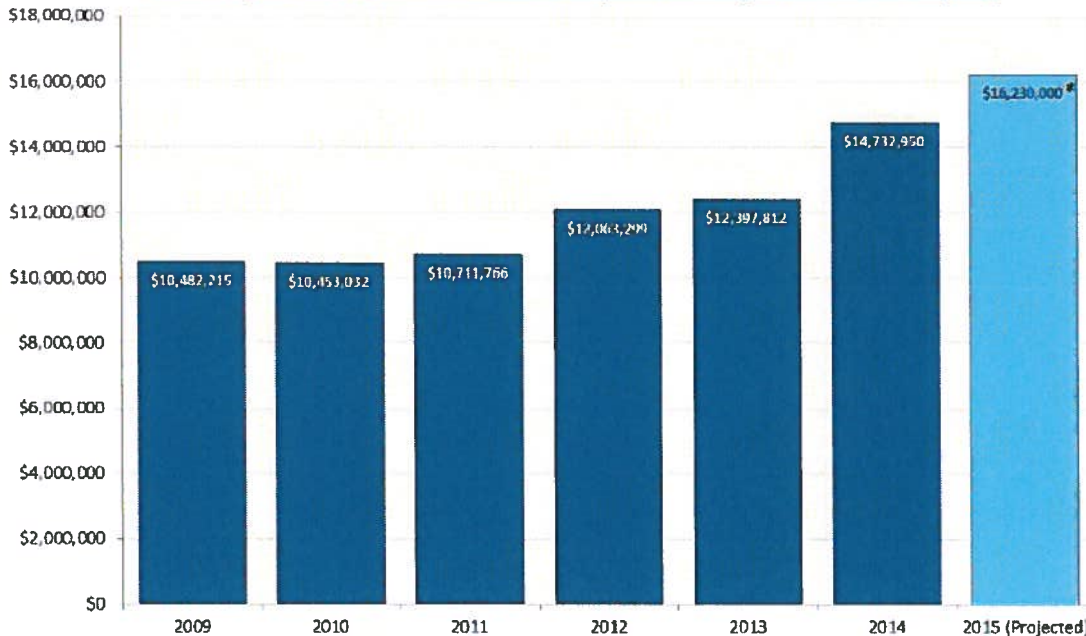
The historical role of Kent State University as the City's largest employer and largest consumer of local goods and services is critical to the City's revenue stabilization efforts. In 2014 Kent State University set a new enrollment record and achieved the highest retention rate (81%) in the history of the University. International student enrollment increased 9% with students from 103 countries attending Kent State in 2014. Record numbers of students translates into record sales for the Kent economy.

Kent State also continued the largest capital re-investment program in the history of the University, initiating major renovations at Twin Towers, Beall and McDowell Halls, Prentice Hall, Smith Hall, Williams Hall, Van Duesen Hall, Schwartz Center, Art Annex and the Olson Center. The University finished construction on the new Applied Engineering building and began construction on the \$48 million new College of Architecture and the new \$18 million Institutional Advancement buildings that will further strengthen the campus connection to the Central Business District. These investments have transformed the campus and the campus community connection, generating significant construction related jobs and tax revenues.

City Financial Profile

The City's economic transition is on-going but the sustainability of the initial results are encouraging. For year-end 2014, overall City income tax collections were up 5.66 percent (\$702,024) from 2013, and Kent State University's collections for 2014 were up 3.8 percent (\$174,999). 2015 is projected to mark the 4th successive year of net income tax growth (even after adjusting for the .25% tax rate increase).

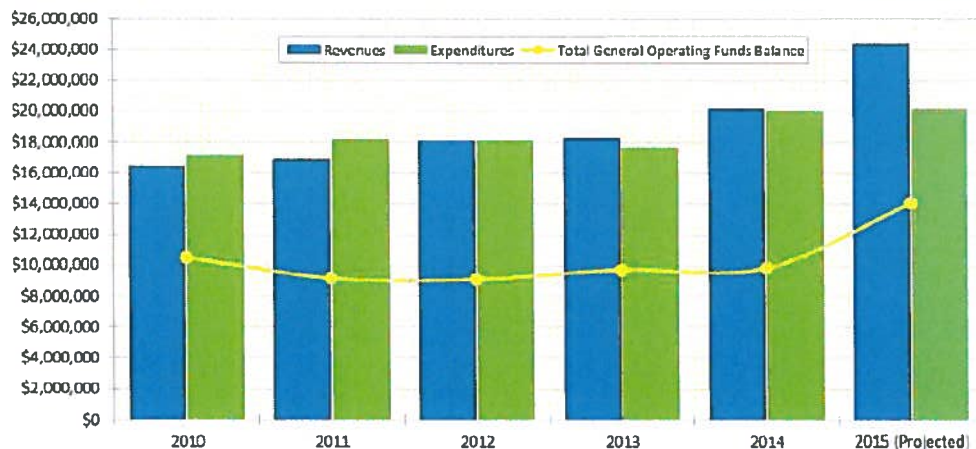
Municipal Income Tax Collections (Cash Basis) 2009 – 2015 (est)



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. (chart source: 2015 City Bond Rating Report)

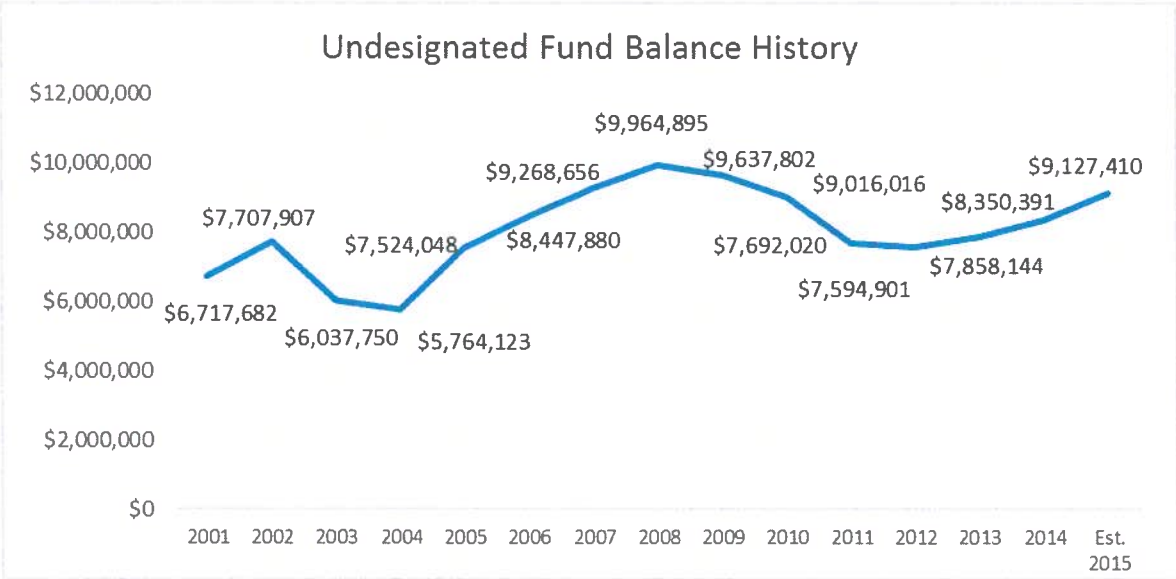
General Operating Funds – Cash Basis Revenues vs Expenditures (2010 – 2015)

	2010	2011	2012	2013	2014	2015 (Projected)
Revenues	16,387,195	16,856,476	18,054,824	18,256,903	20,158,091	24,420,950 ⁴
Expenditures ²	17,106,978	18,216,811	18,123,961	17,644,646	20,042,769	20,186,174
Total General Operating Funds Balance ²	10,546,452	9,186,116	9,116,979	9,738,236	9,853,558	14,088,334
% of Revenues	64.36%	54.50%	50.50%	53.34%	48.88%	57.69%



⁴ Increase includes a one-time revenue for the sale of the old city hall facility to a private developer for \$2.39MM

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



Proof of the City’s conservative approach to fiscal management is illustrated in the chart below, with the City finishing 2013 and 2014 under-budget on expenses and over-budget on revenues. The 2016 budget is based on that same conservative budgeting strategy. (source: City’s 2015 bond evaluation report)

General Operating Funds Budgetary Results				
	2013		2014	
	Budget	Actual	Budget	Actual
Revenues				
Taxes	\$12,791,450	\$14,005,101	\$15,109,800	\$16,501,901
Intergovernmental	1,445,260	1,842,262	1,659,991	1,617,935
Interest	102,947	127,397	177,400	188,207
Fees, Licenses & Permits	144,143	191,853	151,403	151,876
Fines & Fofeitures	154,278	205,343	196,000	195,893
Charges for Services	1,246,041	1,658,471	1,341,857	1,314,220
Miscellaneous	181,837	235,476	261,412	188,059
Total Revenues	16,065,956	18,265,903	18,897,863	20,158,091
Expenditures				
Security of Persons & Property	12,286,822	10,832,404	14,159,919	13,583,294
Public Health & Welfare	549,523	482,056	554,872	477,202
Community Development	2,073,498	1,564,462	2,017,936	1,797,060
General Government	3,123,959	2,918,970	2,855,364	2,486,759
Total Expenditures	18,033,802	15,797,892	19,588,091	18,344,315
Excess Revenues Over Expenditures	(1,967,846)	2,468,011	(690,228)	1,813,776

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.

Maintaining a conservative fiscal philosophy, the proposed 2016 does not build those temporary construction income gains into the base budget so it is reasonable to assume that income tax revenues may exceed the budget projections for 2016 -- providing a buffer for unanticipated needs or unfunded mandates.

Despite many favorable economic indicators, a few financial problem spots remain. The City's Utility rate plans have significantly helped relieve the financial burden carried by the General Fund but the General Fund remains at risk until some of the remaining structural shortcomings, like the stormwater operating deficit, can be resolved.

The proposed 2016 budget does not propose a means to solve those problems, choosing instead to aggressively constrain spending and stretch revenue gains to bridge the remaining financial gaps for another year.

2016 Budget Strategy

The challenge for our organization is to prepare a budget for 2016 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 5 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. 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 look to continue to leverage partnerships and grants in 2016.

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.

The approved rate plan projected the need for a 3% rate increase in both water and sewer rates in 2016 and those rate increases are included in the proposed 2016 water and sewer fund revenues.

The 2011 approved rate plan did not include stormwater and consequently the stormwater fund now faces the same sort of financial shortfalls that led Council to adopt the water and sewer rate plans four years ago.

Facing insufficient revenues, some stormwater projects are being put on-hold and maintenance costs are being carried through General Fund revenues. The General Fund and General Government Capital Fund have provided temporary relief but with the stormwater subsidy approaching \$500,000 a year the drain is no longer sustainable.

The staff have managed to reallocate funds and defer some stormwater projects to enable the General Fund and General Government Capital Fund to carry stormwater again in 2016, but it will be imperative for Council to decide the future of the stormwater fund before the 2017 budget.

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 2016 Operating Budget. The most significant assumptions built into the budget include the following:

- Income Tax budget shows a significant (9%) increase compared to 2015 budget, but will likely experience a slower rate of growth compared to 2015 actual collections; Local Government Funds remain at level decreased by \$900,000, and the Kent JEDDs show a combined increase of \$43,000 (7%) reflecting some leveling of projected growth.
- All authorized positions have been budgeted at actual salary expenses as of October, 2015, plus adjustments of 3% for contracted increases scheduled for late year 2015 or first pay of 2016.
- Revenues in Water and Sewer Funds will be adequate to cover operating expenses and required capital needs for 2016 while implementing rate increases of 3% to stabilize fund reserves.
- Employer Medicare (FICA) expenses calculated at 1.45% of salary
- Workers’ Compensation expenses calculated at 1.8% 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 2015 this budget will increase from \$13,050 to \$13,500 per family.
- One FT Equipment Technician position was added at the Wastewater Treatment Plant.
- Restructured Central Maintenance to add 5 full time Laborer positions and removed 3 (higher paid) Service Workers, and 1 Account Clerk.
- Added one part-time accreditation position to the Health Department.
- 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 \$170,000 in additional funding
- 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 2016 reflects an \$198,394 decrease, or 2.3% overall reduction over the most recent 2015 amended Operating budget (\$8,287,265 in 2016, \$8,485,659 in 2015).
- Insurance/Bonding – we are budgeting a citywide premium increase of \$4,210 over 2015 based on the acquisition of new assets with higher replacement costs.

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"

2016 Budget Numbers

The proposed 2016 budget looks to resume critical spending where it is most needed while maintaining cost containment practices in everything we do. We asked staff to propose more cuts where they saw opportunities to do so, and to hold their budgets to inflationary growth unless increases were clearly justifiable.

Once again the staff rose to the budget challenge and the recommended total for 2016 Operations and Maintenance compared to the most recent 2015 Amended Budget reflects a \$198,394 decrease, or 2.3% overall reduction in O&M -- \$8,287,265 in 2016 vs. \$8,485,659 in 2015.

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 2016 the City will be operating at a staffing level (full time) that is only slightly larger than we had 15 years ago (197 employees), and the Proposed Operating Budget total for 2016 Personnel Expenses compared to the 2015 Amended Personnel Budget reflects a \$541,254 increase, or 3% personnel expense increase -- \$21,030,974 in 2016 vs. \$20,489,720 in 2015.

It is important to note that the Personnel increases reflect the union contract agreements of a 3% pay increase in 2016. With every 1% increase in wages, the Personnel costs amount to approximately \$165,000 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 2016 the staff is projecting a range of operating revenue growth from 3% to 9% (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 just as we have in each of the budgets preceding it.

Despite the stress of delivering public services under such constrained economic conditions for as long as we have, 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 results for Kent in 2016. 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 slowly been able to use those early economic gains to restore funding in our core services areas and experiment with a few new pilot initiatives as well.

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 name "Dave" written in a cursive-like font and the last name "Ruller" in a more blocky, slightly cursive font.

Dave Ruller, Kent City Manager