

**CITY OF LOVELAND
MEMORANDUM**

TO: Mayor and City Council
FROM: Tom Carroll, City Manager 
RE: 2013-2014 Budget White Paper – Memorandum No. 127
DATE: December 9, 2011

This white paper describes the consequences to basic services if the City absorbs between \$950,000 and \$1,100,000 annually in state-imposed revenue losses through additional budget cuts only. By 2014, the City will have to lay off all part-time police officer positions which are the equivalent of three full-time police officers, one full-time police officer, one street maintenance worker position, the Management Analyst and the Assistant City Manager. The City will also lose the equivalent of five firefighters from the Loveland Symmes Fire Department.

Purpose Statement

As requested by City Council at the goal setting session on October 4, this white paper details how the City's services would adapt to the state-imposed structural deficits in and beyond 2013 through cuts only. This paper will present forecasts of deficits in 2013 and 2014 by building on the 2012 Budget and Capital Improvement Plan. The white paper will discuss the necessary layoffs and service reductions in these years. It is worth noting that, even after additional cuts are made, the City will not have achieved a structurally balanced budget by 2015.

Problem Statement

The State of Ohio has changed tax laws and long-standing revenue sharing arrangements which will reduce Loveland's annual General Government revenues by \$729,984 by 2013.¹ At the same time, declining property values will reduce property tax collections by an additional \$222,000 starting in 2012. Adding to this set of revenue problems, there is every reason to believe that what is left of the Local Government Fund will be eliminated in 2014 and 2015, reducing an additional \$150,000 of General Fund revenue annually by mid-2015. The City therefore will have between \$950,000 and \$1.1 million less in revenue to provide basic local government services.

The City's revenue picture has deteriorated even since this summer when randomly selected voters were asked for input on how the City should respond to the end of estate tax and known reductions in Local Government Fund revenue sharing. Falling property values have significantly reduced property tax collections starting in 2012. The steeper-than-expected decline in property tax revenue not only impacts the General Fund, but now also impacts the three funds which support EMS and fire services.

Declining revenue therefore impacts the full range of non-utility services provided by the City, including policing, firefighting, emergency medical services, parks and leisure, building and zoning, administration, finance, and street maintenance. While the utility services the City provides are not directly impacted, it should be noted that for several years the policy of the City has been to mitigate

¹ The City will lose an annual average of \$420,000 from the elimination of the estate tax, \$159,984 from the end of tangible personal property tax, and an additional \$150,000 from the State of Ohio keeping revenue which it shared for decades with local governments in the form of the Local Government Fund.

rate increases by drawing down enterprise fund working capital balances.² This means that the City's utility funds, while balanced and not facing structural deficits, have worse cash positions than in years past.

Budget Cuts Already Made

In preparation for looming State cuts, the City has already reduced spending or saved more than \$930,000 annually between 2010 and 2014. A list of these cuts is attached to this memorandum as Table 1. Not all of these cuts or savings accrue to the General Fund or the Fire and EMS funds which have the structural budget deficits. For example, holding open a vacant public works position saves money in Parks and Leisure in the General Fund, the Water Fund, the Sanitation and Environment Fund, the Stormwater Fund, and the Street Maintenance Fund. The net \$50,000 of savings reduces City expenses, but only about 20% of the savings accrue to the General Fund. Of the \$930,000 which has been or will be saved, \$472,600 is in the General Fund.³

Table 2 shows how the City has reduced personnel expenditures since 2008. The City will spend \$4.6 million on wages and benefits in 2012, which is almost \$300,000 less than the City spent in 2008. Pro-active steps have been taken, including leaving open 4.4 full-time vacant positions⁴, switching to a high deductible-health insurance plan, investing in wellness, and emphasizing a safe work environment. Income tax, building and zoning inspections, and property maintenance services have been contracted out, employee training reduced, employee benefits reduced, and a number of smaller programs or services eliminated. The Loveland Symmes Fire Department (LSFD) has agreed to forgo contractual increases in 2013 and 2014 for both the City and the Township. This in turn will have direct effects on our community's firefighters, including wage freezes and a likely reduction in force for the LSFD equivalent to the loss of five firefighters in 2013 and 2014.

In addition to direct cuts, the City has also deferred significant capital purchases. This includes not replacing an ambulance in 2012 (\$200,000), not replacing a dump truck in 2012 (\$95,000), and not replacing two public works pick-up trucks, also in 2012 (\$40,000 total). Fire and EMS related small equipment replacements will be deferred in 2012-2014, collectively deferring an additional \$175,000 over these three upcoming fiscal years. And a scheduled fire engine replacement and staff vehicle, both of which are scheduled for replacement in 2014 and which would have cost \$310,000 and \$30,000 respectively, will be delayed until after 2014. These deferments are necessary to balance the 2012-2014 budgets, yet delaying capital equipment replacements does not solve the structural deficits. Instead, this strategy means work crews have older and less reliable equipment which will over time negatively impact service levels. Older equipment will require more repair and will be

² There is a certain irony in this fact. As Councilwoman Leeper noted in her testimony before the Ohio House Ways and Means Committee in February, the State-imposed changes in tax policy and revenue sharing adversely impact the communities like Loveland which have deliberately tried to mitigate the effects of the recession on our residents more than on the communities that did not.

³ Of the \$ 120,034 which is attributed to savings enjoyed by multiple funds, the General Fund is saving an estimated \$10,000 on parks wages, \$8,972 on reduced property and casualty insurance premiums, and \$13,300 on electrical costs. Thus, the General Fund can lay claim to an additional \$32,272 of savings which would bring the total savings to the General Fund already implemented to \$504,872.

⁴ In the case of the police officer and maintenance worker position, some of the hours these positions would have provided had the positions been filled have been replaced with less expensive part-time or seasonal employees. So, the savings from leaving open these positions which are listed in Table 1 are net savings, accounting for some of the continued expense of employing part-time or seasonal employees to partially fill some of the forgone hours.

unavailable due to breakages, so service levels will gradually, increasingly be impacted. The City is therefore deferring more than \$800,000 of equipment purchases between 2012 and 2014, and this decision is a postponement that cannot be maintained forever; eventually these purchases will have to be made and the costs incurred.

It is clear a deliberate, systematic cost cutting emphasis has been underway for some time, which will extend savings in the years ahead. Cost cuts have been made in every area of basic services the City of Loveland delivers. The City has cut employee benefits through the collective bargaining process, ordinances passed by Council, and the redesign of the City's health insurance model.

Strategic vs. Operational Choices

In an independent report undertaken by IBM in 2011 called *Smarter, Faster, Cheaper*, David Edwards provides a useful discussion of strategic choices and operational choices. The author, comparing the 100 largest cities in the United States, describes how the largest cities in the nation vary considerably on what service levels they elect to provide. Service level selection is a strategic choice. Once a service level has been established, cities make a number of operational choices about how they provide the service levels. Edwards notes both choices have significant implications and both are important to determine the cost of local government services.

Edwards's framework is, in staff's opinion, quite helpful to this white paper. A strategic policy decision is *what* service levels will be provided, and an operational decision is *how* the service levels will be provided. The loss of revenue to the City of Loveland forces City Council to make strategic choices to cut service levels. The loss of such a significant amount of revenue cannot be solved merely by "working smarter," finding efficiencies, trimming costs, collaborating, making different operational choices, and the like.

Loveland's loss of revenue, if addressed solely with expenditure cuts, requires strategic decisions about reducing service levels first, then reviewing operational choices.

Structural Deficit

In 2013, the City will have a structural deficit of \$402,326 in the General Fund assuming no change in service levels from the 2012 Budget. In 2014, the City will have a structural deficit of \$750,234 in the General Fund assuming no change in service levels from the 2012 budget. As will be discussed below, this deficit would be \$82,500 more in 2013 and \$165,000 more in 2014 if it had not been agreed by LSFd to forego a 5% increase built into the contracts LSFd has with both Loveland and Symmes. The deficit might therefore be more appropriately viewed as \$482,326 in 2013 and \$910,234 in 2014, although this analysis assumes the reductions in Fire and EMS spending take place in 2013 and 2014.

Assumptions for 2013-2014 Budget

The assumptions generating these deficit figures are discussed below. There is some sensitivity to these assumptions, and the deficits might therefore be higher or lower depending on what actually unfolds in the coming months. For instance, one-time estate tax revenue could be realized in 2012 and early 2013 (from the departed with taxable estates in 2012 which are settled in 2013). On the other hand, health insurance costs might increase more than 10% in 2013 and 2014—they usually have in recent years. Despite these possible sensitivities, this analysis makes reasonable assumptions which have historically served the City well. This analysis assumes a zero-based budget for revenues and expenditures unless noted below:

1. The City provides a 2% wage increase in 2013. No wage increase is assumed in 2014.
2. Healthcare premium costs rise 10% in 2013 and again in 2014.
3. The City repays \$100,000 from the Sewer Billing Fund to Special Projects Fund to continue repaying prior advances to Sewer Billing for litigation with MSD. This helps ensure the Special Projects Fund is essentially balanced without cuts.
4. This analysis assumes Loveland Station moves forward as approved by City Council on November 22. If the project were placed on hold or otherwise fails to proceed, the General Fund will have to advance the Downtown TIF \$150,000 in 2014 in addition to the advance required for cash flow reasons in 2013.
5. The Fire and EMS funds provide no Administrative Transfer in 2013 and 2014 (foregoing \$95,000 over 2012 levels each year).
6. The General Fund transfers \$75,000 to Fire and EMS Funds to cover its 2013 deficit. The General Fund transfers \$277,136 to Fire and EMS Funds in 2014 to cover its deficit.
7. The LSFDForegoes its contractual 5% increase in 2013 and in 2014.
8. The State of Ohio continues Local Government Fund revenue sharing in 2013 and 2014. This assumption is not likely to come true, we are told, but the State will still have to take actions to eliminate this funding in the next biannual budget process. If the State does eliminate LGF sharing, the deficits will be an additional \$150,000 per year.

With the above assumptions, structural deficits are large each year and grow larger. Going beyond 2014, the deficits will continue to grow because of the end of the contract freeze by LSFDF and the resulting need for the General Fund to increase its advance to cover Fire & EMS deficits. Service cuts will continue beyond 2014, though this is outside the period of analysis, and even after the cuts below are made, the City will not have achieved a structurally balanced budget.

When facing a structural deficit and unable to grow its top line (as assumed in this white paper), a public or private organization must reduce its structural costs. One-time solutions such as further delaying equipment replacements will not solve structural deficits and can only be used as temporary measures. There is only one viable way to restore structural balance without growing the top line: a significant reduction in force. Eliminating positions will in turn have significant implications for the service levels the City of Loveland provides. A strategic choice must therefore be made to provide lower service levels if current and pending revenue losses are addressed only by service cuts.

Proposed Budget Cuts

The following is the recommended approach to resolve the \$402,326 in 2013 and \$750,234 in 2014.

2013 Budget Reductions		
Eliminate the Barfels-Waple Management Internship (\$5,000), fire memorial landscape services (\$500), eliminate Veteran's Memorial services (\$3,500), eliminate the Fourth of July celebration (\$9,000), eliminate Beautification support (\$7,500), eliminate flower watering expenses (\$8,350 reduction in Parks salary), eliminate employee administration relations (\$10,000) and reduce continuous training budget from 2012 levels (\$2,500)	\$46,350	2013
Reduce the General Fund's contribution to the annual Road Rehabilitation Program	\$180,000	2013
Eliminate the General Fund subsidy to the Street Maintenance Fund, laying off one maintenance worker position and reducing street maintenance and snow removal *	\$61,000	2013
Eliminate the Assistant City Manager position *	\$116,000	2013

2013 Subtotal	\$403,350	2013
2014 Budget Reductions (in addition to those made in 2013 which are continued)		
Eliminate all part-time police officer service hours (the equivalent of three full-time positions)	\$200,000	2014
Eliminate one additional full-time police officer *	\$95,000	2014
Eliminate the Management Analyst position in the City Manager's Office *	\$66,000	2014
Reduce Police training budget by 20% (\$4,000), accounting for reduced staffing levels	\$4,000	2014
Reduce City Manager's Office Training (\$2,000), Dues (\$1,500) and computer (\$1,500 in computer equipment line item) because of the elimination of CMO staffing	\$5,000	2014
2014 Subtotal	\$370,000	2014
2013-2014 Cumulative Base Budget Cuts	\$773,350	

* Savings generated from the elimination of these employees includes salary and benefits such as worker's compensation and health care costs. These figures were determined using 2011 data from *The Citizen's Budget Guide*.

Not accounted for in the table above are reductions which will need to be made by the Loveland Symmes Fire Department as a result of LSFDF foregoing contractual increases in 2013 and 2014 from both the City of Loveland and Symmes Township. LSFDF is planning to make these concessions in 2013 and 2014 because of the fiscal conditions of the City and the Township. LSFDF will in all likelihood have to lay off five firefighters, freeze firefighters' wages and reduce part-time peak staffing by half. These cuts are not to the City's budget, but nevertheless impact services received by our residents.

Analysis

Under the above approach, the City will eliminate one street maintenance worker position, one full-time police officer position, the equivalent of three full time police officer positions by ending the part-time police officer program, five firefighters, the Management Analyst and Assistant City Manager position. Additionally, the road rehabilitation program will be reduced to under \$150,000 per year and snow removal services will be cut.

It is difficult to fully articulate the impact the above approach will have on service levels. Residents will immediately experience the reductions in snow removal in 2013, potentially causing more school cancellations, traveler inconveniences, business disruptions and motor vehicle accidents. The City will move from a current level of service of rehabilitating streets about every fourteen years to rehabilitating streets about every forty-five years. This is not sustainable in the long term.

Policing services will be cut substantially, by as much as 20%. The dedicated detective position will in all likelihood be eliminated to replace in part reduced patrol coverage, and therefore cases will be solved only to the extent that patrol officers have time to work them. Response times will be longer (though this will vary and is therefore hard to predict), certain services will be ended altogether (e.g. vacation checks, lock-out assistance, community-oriented programs, etc.). Shift coverage will be reduced using statistical analysis. There will be many shifts with two instead of three officers on duty, and this will impact response time and tactics upon arrival at the scene.

Firefighting and EMS will be reduced, but again, it is difficult to fully assess the impact this will have on services. Response times will be longer, fewer personnel will be available to respond to critical incidents, and the Loveland-Symmes area will have increased periods of time when LSFDF personnel are out of district on transport to hospitals as a result of the loss of peak time staffing.

The City Manager's Office will become primarily a complaint response and resolution office overseeing the reduced basic service levels. Economic development, public information, the City's website, and various special projects will be discontinued. The City Manager's Office will go from an agent of change and continuous improvement in the organization to an agent of service maintenance only. Council's expectations about new programs and progressive changes will have to be tempered significantly.

Loveland Symmes Fire Department

Fire and EMS in Loveland is in fact a three-legged stool, supported by the City, the Township and LSFDF itself. Both the City and the Township contract with LSFDF for services, and the department responds to emergencies in both communities as one department. Loveland and Symmes each own two fire stations, and provide the equipment and operating resources for these fire houses. LSFDF staffs these four stations, maintains the equipment and responds as needed to various emergencies in and around Loveland and Symmes.

Reductions in service levels by any one of the three legs of the stool affect the stability of the entire stool. Neither Loveland nor Symmes can short-change their commitment to LSFDF without having effects on the overall level of service of the other, and the women and men who comprise LSFDF. While LSFDF has already agreed to forgo contractual increases in 2013 and 2014, the City cannot expect this to continue indefinitely. Both Loveland and Symmes will need to find the resources to ensure the extremely cost-effective, private LSFDF model is not jeopardized because of current economic conditions. Neither jurisdiction could operate its own department as cost-effectively as it does under the current model, and both communities enjoy highly ranked EMS and fire services.

In other words, discussions about strategic choices regarding service levels are not going to occur in a vacuum. Loveland's service level decisions impact Symmes Township and vice versa. Neither entity should unilaterally decide to cut service levels long term without the consent of the other, and without an agreed upon plan for how to do so. It is also important for both Loveland City Council and the Symmes Township Board of Trustees to realize that decisions merely made to contain costs in an already extremely cost effective service model may wind up ruining the service model entirely.

While this white paper assumes no new taxes, it should be noted this is a change in plans for the City's property tax supported EMS and fire services. As noted in the 2011 Budget message dated October 29, 2010—well before the state law changes and reduction in valuations—the City would have needed a property tax levy in 2013 or 2014 to make the fire and EMS funds solvent. It is probable that the City and Symmes Township will both need to ask voters for additional property tax funding in 2014 payable in 2015 under any circumstance.

Economic Development

This white paper has addressed the results of absorbing all the revenue reductions through budget cuts. This would include the elimination of the Assistant City Manager position, the person in the organization who—among other duties—is primarily responsible for bringing new businesses into our community. The elimination of this position is the equivalent of eating one's seed corn over the winter. It avoids starvation but leaves you with no hope of an improved position in the spring. Nevertheless, given the assumptions in this analysis, there is little other choice but to eliminate this position.

One of the statements often thrown out without data analysis is that if the City were more successful in filling its existing vacant space, the City's revenue problems would be solved. To analyze if this is feasible, staff conducted a vacancy study in November. The report is attached to this memorandum. This report identifies all the vacant or available land inside the City limits. It then calculates what tax revenue would be generated if all the vacant space were fully leased.

The analysis that if all vacant space were filled according to marketed and allowable land uses the City would add an upper limit of an additional 1,244 new employees paying an additional \$471,135 of additional local income tax. This scenario—while fantastical for the reasons discussed below—would not be sufficient to solve the City's 2014 deficit. Moreover, it is not in the least realistic.

First, a significant amount of the vacant space in Loveland is not presently in a turn-key condition today. Private investment in some of these spaces would not make sense today in the Cincinnati marketplace given the abundant supply of turn-key offices in the region. Second, this analysis assumes relatively high average wages and generous numbers of employees. Loveland would be essentially adding more than 1,000 professional jobs to our community overnight under this scenario. This is not likely under any circumstance and inconceivable today. Third, many small businesses are continuing to hold off on investments because of market ambiguities. However successful the City may be with economic development, the private sector will drive private investment and every indication is that many companies, large and small, are presently in a wait-and-see mode.

The intent of this analysis is to show that economic development, while still very important, is not alone going to allow the City to avoid strategic service reductions. This analysis assumes all vacant space could be filled at one time to attempt to establish the upper limit tax revenue generated from instantaneously successful economic development. This is unrealistic even in the best economic environment. Economists note that a natural vacancy rate exists for commercial space, and they often use 10% as the natural vacancy rate even in a healthy economic climate. This analysis disregards natural vacancy in an attempt to quantify the maximum potential if all existing space inside Loveland were fully occupied overnight. Economic development is therefore part of the City's solution, but not by itself a solution.

Consolidation

This white paper did not address the notion of consolidating services with other governments. It is *en vogue* today to aver that local governments need to consolidate despite the fact that studies consistently show consolidations do not generate savings in the short or even long run. Another fiscally conservative principle which is ignored in this rush to regionalism is that competition is better than government monopolies. For example, the City of Loveland and Symmes Township share a dispatch center rather than have dispatching services done by Hamilton County.⁵ The Northeast Communications Center is able to dispatch for less per call than Hamilton County can, and the fact that Loveland and Symmes have this alternative also helps suppress the ability of Hamilton County to dictate to all other communities what they will pay per call.

⁵ The Loveland Symmes Fire Department is itself an example of a consolidated service accomplished in this community long ago. LSFDD has taken this a step further already by forging the Northeast Fire Collaborative (NEFC) with the City of Blue Ash, the City of Sharonville, the City of Mason, and Sycamore Township. In other words, the City of Loveland has already accomplished the most commonly cited consolidation opportunity and is in fact modeling another path forward for sharing services which is short of consolidation through the NEFC.

Proposals to merge government services need to be analyzed on a case-by-case basis. It is possible cities like Loveland can find ways to save money through additional consolidations, though it is worth noting that there are no active efforts from our neighboring jurisdictions to approach Loveland about consolidating or contracting with Loveland for services. If it made sense for our potential suitors, we would expect them to be reaching out to Loveland. They are not. Loveland and any potential suitors for partnerships should be clear-eyed and thoughtful about any consolidation opportunities, but it is worth noting that none presently exist or has been identified.

Recreation Fees

Loveland does not operate a recreation center nor does the City have active recreation programming. Essentially, the City mows ball fields used by private leagues, cleans public restrooms, and maintains playground equipment and parking facilities at our parks. There is very little to cut or reduce here because the services are minimal today. Therefore, no cuts are contemplated to recreation spending in 2013 and 2014.

One of the suggestions is that private recreation leagues which use City fields and parks begin to pay fees for this privilege. This was done in the 1990's. Staff has had some discussion with the administration in Symmes and Miami townships to explore shared interest in this concept since all three jurisdictions provide fields to Loveland-area private leagues. At this point, Symmes Township has expressed reluctance to do so in 2013, which means Loveland and Miami Township could do so but participants would potentially be treated differently depending on where they live.

In 2010, City staff analyzed the equity of field provision among the City, Symmes Township and Miami Township. That study concluded the three local governments providing private leagues fields were roughly proportional to the number of participants from each jurisdiction, a surprising finding since historically the City of Loveland had oversupplied fields. Both townships have added more fields in recent years, evening out the provision of fields to participants.

This study determined that 1,000 City residents participated in the various recreation leagues over 2009 of the 3,000 or so overall participants. If the City imposed a \$10 per person fee, it would generate \$10,000, \$20 per person would generate \$20,000, etc. So, recreation fees may be a component of solving the budget problem, but recreation fees that are acceptable to City Council are not likely to generate large sums of revenue compared to the size of the City's 2013 and 2014 deficits. This option may be implemented, but is not by itself going to overcome the problem.

Summary and Conclusion

The City of Loveland faces severe structural deficits in 2013 and 2014 equal to \$402,326 and \$750,234, respectively. These deficits stem primarily from State-imposed changes to the tax code and revenue sharing agreements, and to a lesser extent from falling property valuations. Over the last three years, the City has already saved or reduced expenditures by more than \$930,000 between 2010 and 2014, more than \$500,000 of which is in the General Fund. The City will be deferring more than \$800,000 of equipment replacements between 2012 and 2014.

To respond to these deficits will require wholesale and strategic cuts in service levels. Employees will have to be let go, including police, firefighters, maintenance workers and senior staff in City Hall. Doing more with less has already been accomplished. The City will have to do less with less.

Residents will have direct impacts from these service cuts. Police services will be cut 20%. Snow removal will be cut by at least 30%. The road rehabilitation program, already falling behind investment requirements, will move to an unsustainable 45 year schedule. The City will lose staff dedicated to expanding our tax base, further reducing the City's ability to grow its top line. Public information, grant writing, information technology and other similar services performed by the City Manager's Office will need to be discontinued for want of human resources to provide them.

The City has already saved considerably through proactive cuts and savings opportunities, including over \$504,000 in annual base budget reductions in the General Fund between 2010 and 2012. There is little prospect that either successful economic development or consolidation offer a path forward in the short run or long run. Recreation fees, while necessary, will not generate large sums of revenue. The structural imbalance, absent additional tax revenue, requires wholesale reductions in force.

It is our hope that this white paper assists City Council with making the best policy decisions possible given the magnitude of the challenges City of Loveland faces. Closing the budget gap with cuts alone fundamentally changes the service levels the residents will receive from the City of Loveland.

Recommendation

Staff recommends City Council schedule a joint work session with the Finance Committee in January to review this report and discuss alternatives.

XC: Finance Committee

Attachments: Table 1: Budget Cuts and Savings, 2010-2014
Table 2: City of Loveland Wages and Benefit Costs, 2008-2012
Memorandum by Marc Kutylowski and Lindsey Riley

Table 1: Quantifiable Budget Cuts and Savings Realized

Budget Cut	Year Cut Started/ or Starts	Annual Savings
General Fund Budget Cuts		
Eliminate health insurance for part-time employees, require spouses of employees who have access to affordable health insurance to take it from their own employers, and reduce (but not eliminate) investments in wellness. Non-union employees will pay 15% of their health insurance premiums in 2012 (instead of 11.5%), and all employees will pay 15% in 2013	2012	\$146,500
Phase out vacation and sick leave sellback for non-union employees and removing the top rung of the longevity ladder each year for all employees	2012	\$26,000
Discontinue ICRC in 2012 and replace it with SIRE	2012	\$38,000
Discontinue the print version of the resident newsletter	2012	\$12,000
Eliminate the neighborhood grant program	2012	\$3,000
Eliminate the Rhythm on the River Concert in the Park Series	2012	\$9,000
Discontinue the City's tuition reimbursement program	2012	\$13,000
Reduce organizational continuous improvement training	2012	\$10,000
Reduce General Operations City Facilities Maintenance	2011	\$10,000
Reorganize the Building and Zoning Division	2011	\$40,000
Outsource collection of income taxes to the Regional Income Tax Agency	2010	\$100,000
Discontinue Code Red Notification System	2011	\$5,100
Hold open a vacant full-time police officer position (net savings)	2010	\$60,000
General Fund Subtotal	2010-2012	\$ 472,600
Budget Cuts/Savings to Multiple Funds, Including the General Fund		
Reduce Property and Casualty Liability Insurance Premiums	2011	\$16,634
Contract with Duke Retail Sales for Energy rates, reduce energy consumption	2010	\$53,400
Hold Open a vacant full-time maintenance worker position (net savings)	2010	\$50,000
Multiple Funds Subtotal	2010-2012	\$ 120,034⁶
Bid Solid Waste and Recycling Contract with three other government entities	2011	\$140,000
Budget Cuts/Savings to Fire & EMS Funds		
Reduce Fire & EMS Training Budget	2012	\$4,500
Reduce EMS Peak Staffing by 50%	2012	\$30,000
Negotiate hold on contract increases for EMS and fire services with LSF	2013	\$82,500
Negotiate hold on contract increases for EMS and fire services with LSF	2014	\$82,500
Fire & EMS Funds Subtotal	2012-2014	\$ 199,500
Total Annual Savings or Cost Reductions, All Funds	2010-2014	\$ 932,134

⁶ Of the \$ 120,034 which is attributed to savings enjoyed by multiple funds, the General Fund is saving an estimated \$10,000 on parks wages, \$8,972 on reduced property and casualty insurance premiums, and \$13,300 on electrical costs. Thus, the General Fund can lay claim to an additional \$32,272 of savings which would bring the total savings to the General Fund already implemented between 2010 and 2012 to \$504,872.

Table 2: City of Loveland Personnel Costs, 2008 to 2012

	2008	2009	2010	2011 Budget	2011 Forecast	2012 Budget
Total Salary	3,218,713	3,330,135	3,131,704	3,079,525	3,063,692	3,146,149
Pension ¹	824,814	801,330	776,269	748,030	721,900	700,823
Health Insurance ²	515,994	519,761	481,027	529,459	535,800	356,949
Medicare	45,392	53,149	49,437	46,242	46,167	45,826
Life Insurance	12,800	13,008	12,350	15,567	14,759	15,567
HSA Contributions ³	264,533	161,881	138,274	317,972	257,923	228,002
Longevity & Vacation Sellback ⁴						67,522
Workers Compensation	30,683	59,072	59,250	55,497	64,777	61,300
Total Personnel Costs	\$4,912,929	\$4,938,336	\$4,648,311	\$4,792,292	\$4,705,018	\$4,622,137

1) Pension costs have a relationship to total salary, but can fluctuate year-to-year based on higher than average salaries due to retirements with vacation and sick leave cash out, benefits which are not pensionable.

2) For years prior to 2012, the health insurance line items included FSA, HSA and HRA reimbursements, plus premiums. In 2012, this line item includes only health insurance premiums.

3) For years prior to 2012, this line included longevity pay, vacation and sick leave sellback, and other cafeteria benefits. In 2012, this line item includes only health savings account premiums.

4) This line includes only longevity and leave sellback. Vacation sellback will end for non-bargaining employees after 2012, so this line item should include only longevity pay through 2023, when this benefit will end.

**CITY OF LOVELAND
MEMORANDUM**

TO: City Manager's Office
FROM: Marc Kutylowski, Management Intern and Lindsey Riley, P&Z Co-op
RE: Economic Development Impact Analysis via Vacant Business Inventory
DATE: December 1, 2011

Staff has been asked by City Council to conduct a study that examines the potential fiscal impact based on an influx of economic development inside the City of Loveland in preparation of the impending budget deficit. This fiscal impact analysis measures the direct effect that economic development would have on the income tax revenues within the City.

Methodology

The analytical methods used focused first on compiling a thorough inventory of all vacant retail, office, and industry/ warehouse space and also included all vacant land zoned for potential commercial development. Secondly, the study calculated the economic impact if the City were able to promote and fill these vacant spaces. These methods relied on common data sources and techniques. With the City of Loveland being relatively small, we were able to drive around and collect the majority of the data, contact realtors, and used the internet to identify vacant properties.

We then identified employment density rates for each vacant space based on widely accepted industry standards. Lastly we assumed a high end market analysis and a low end market analysis. According to these assumptions we then assigned income levels in the same manner to calculate a range of income tax revenues that the City would absorb.

Key Data

- Total Vacant Space = 316,275 sqft and 22.11 acres
- Employment Density Range = 1244 employees-1290.5 employees
- Income per Employee Range is provided in the table:

Employment Density Standards *	Income	
	High	Low
Office	\$57,000	\$40,000
Warehouse	\$45,000	\$30,000
Retail	\$36,000	\$20,000
Restaurant	\$30,000	\$15,000
Hotel	\$30,000	\$20,000
Mechanic	\$45,000	\$30,000

Key Findings

Total Fiscal impact based on the market analysis predicts a total new income tax of \$471,135.30 annually.

Summary and Conclusion

The information provided here identifies and measures the full range of fiscal impact based on a one hundred percent occupancy rate throughout the city. Even though the numbers are broad, we can make certain assumptions about Loveland's fiscal vitality in the future when based solely on economic development initiatives. It should be noted that economic impacts assumed here are not synonymous with absolute fiscal impact. The income tax revenues generated by economic development will be offset in some capacity by new demands for public services. Therefore the City of Loveland cannot rely solely on economic development to grow itself out of the impending budget deficit.

Attachments: Economic Development Impact Spreadsheet

Zoning Type	Property Type	Sqft/ Acres	Property Address	Additional Details	Rating 1-5	# of Employees	Income	Comments
Business Retail	Tenant Space	2,200	403 Loveland Madeira	Next to Zapps- Being considered for Laundromat	3	3.0	\$60,000	Figures based on a retail use
Business Retail	Tenant Space	2,000	405 Loveland Madeira	Next to Zapps	3	3.0	\$60,000	Figures based on a retail use
Business Retail	Tenant Space	1,800	407 Loveland Madeira	Previously Hitches Deli	3	2.5	\$50,000	Figures based on a retail use
Business Retail	Tenant Space	1,720	920 B Loveland Madeira	Next to Veg Head	3	2.5	\$50,000	Figures based on a retail use
Business Retail	Tenant Space	4,200	807 A Loveland Madeira	Previously Loveland Rent-A-Tool	2	5.0	\$100,000	Figures based on a retail use
Business Retail	Tenant Space	960	807 D Loveland Madeira	Previously an Accounting Office	3	2.5	\$50,000	Figures based on a retail use
Business Retail	Tenant Space	920	807 F Loveland Madeira	Previously a Coffee Shop	3	2.5	\$50,000	Figures based on a retail use
Business Retail	Tenant Space	3,200	910 Loveland Madeira	Next to Laundromat- Will be vacant 12/1/11	4	12.0	\$480,000	Figures based on a retail use
Business Retail	Tenant Space	1,911	370 Loveland Madeira	In Goodwill Center	3	3.0	\$60,000	Figures based on a retail use
Business Retail	Tenant Space	1,749	400 Loveland Madeira	In Goodwill Center	3	2.5	\$50,000	Figures based on a retail use
Business Retail	Tenant Space	4,000	515 Loveland Madeira	Shoppers Haven, Next to Chase	2	5.0	\$100,000	Figures based on a retail use
Business Retail	Tenant Space	10,000	517 Loveland Madeira	Previously Joann's Fabric	2	11.0	\$220,000	Figures based on a retail use
Business Retail	Tenant Space	1,000	519 Loveland Madeira	Shoppers Haven	2	2.5	\$50,000	Figures based on a retail use
Business Retail	Tenant Space	900	525 Loveland Madeira	Shoppers Haven	2	2.5	\$50,000	Figures based on a retail use
Business Retail	Tenant Space	2,000	535 Loveland Madeira	Previously Rainsoft	2	3.0	\$60,000	Figures based on a retail use
Business Retail	Tenant Space	3,600	537 Loveland Madeira	Shoppers Haven, Previously a Gym/Studio	2	4.0	\$80,000	Figures based on a retail use
Business Retail	Tenant Space	3,600	649 Loveland Madeira	Shoppers Haven	2	4.0	\$80,000	Figures based on a retail use
Business Retail	Tenant Space	11,250	675 Loveland Madeira	Previously Hader Hardware	2	12.0	\$240,000	Figures based on a retail use
Business Retail	Building	16,000	421 Loveland Madeira	Previously Kings Ford	3	12.0	\$360,000	Figures based on a mechanic type use
Business Retail	Building	3,171	700 Loveland Madeira	Previously Patio Bar and Grill	3	15.0	\$225,000	Figures based on a restaurant use
Business Retail	Building	2,465	851 Loveland Madeira	Previously Lee's Famous Recipe	3	9.0	\$360,000	Figures based on a office use
Business Retail	Building	70,448	715 Riverside Dr.	Previously Webster Packaging	3	156.0	\$6,084,000	Figures based on 20% office, 80% warehouse use
Business Retail	Tenant Space	5,000	10657 Loveland Madeira	Previously Bike Shop, To the left of Raceotions	4	5.0	\$100,000	Figures based on retail use
Business Retail	Tenant Space	3,000	10671 Loveland Madeira	Previously Sprint/At&t, Next to Pilates Studio	4	3.0	\$60,000	Figures based on retail use
Business Retail	Tenant Space	1,600	10685 Loveland Madeira	Previously a Nail Salon- Next to Dry Cleaner	4	1.5	\$30,000	Figures based on retail use
Business Retail	Vacant land / 31,626 sqft	3.499 Acres	on Loveland Madeira	Between New Hope and Pet Nation		117.5	\$4,700,000	Figures based on a office use
Business Retail	Vacant land / 20,626 sqft	2.282 Acres	on Loveland Madeira	Next to New Hope Church		76.5	\$3,060,000	Figures based on a office use
Business Retail	Vacant land / 76,829 sqft	8.5 Acres	on Chestnut St.	City owned property		289.5	\$11,580,000	Figures based on a office use
Business Retail	Vacant Land / 18,014 sqft	1.993 Acres	on Loveland Madeira	On the corner of Loveland Madeira and Highridge		67.0	\$2,680,000	Figures based on a office use
LOVELAND MADEIRA RD. VACANT SPACE SUBTOTAL		158,694 Sqft & 16.272 Acres				834.5	\$31,129,000	
Downtown Historic	Building	10,000	128 Broadway Avenue	Across from Eads	1	4.5	\$162,000	Figures based on a retail use with residential above
Office-Residential	Tenant Space	300	401 W. Loveland Avenue	Corner of W. Loveland and Riverside	4	1.0	\$40,000	Figures based on a office use
Office-Residential	Tenant Space	1,100	420 W. Loveland Avenue	Clemons Nelson Building	4	4.0	\$160,000	Figures based on a office use
Office-Residential	Tenant Space	950	437 W. Loveland Avenue	Historic Home	4	4.0	\$160,000	Figures based on a office use
Office-Residential	Tenant Space	2,500	411 W. Loveland Avenue	Historic home, Next to Drycleaners	4	9.0	\$360,000	Figures based on a office use
Office- Retail	Tenant Space	1,438	600 W. Loveland Avenue	Corner of W. Loveland and Loveland Madeira	4	5.0	\$200,000	Figures based on a office use
Office- Retail	Tenant Space	1,143	600 W. Loveland Avenue	Corner of W. Loveland and Loveland Madeira	2	4.0	\$160,000	Figures based on a office use
Light Industrial	Tenant Space	88,200	119 Northeast Dr.	Commerce Park	4	195.5	\$7,633,500	Figures based on 20% office, 80% warehouse use
Light Industrial	Vacant Land / 30,275 sqft	5.836 acres	on Commerce Dr.	Commerce Park		67.5	\$2,633,030	Figures based on 20% office, 80% warehouse use
Light Industrial	Tenant Space	7000	131 Commerce Dr.	Commerce Park	4	15.5	\$600,000	Figures based on 20% office, 80% warehouse use
Light Industrial	Building	30,000	167 Commerce Dr.	Commerce Park	4	66.5	\$2,589,000	Figures based on 20% office, 80% warehouse use
Light Industrial	Building	15,000	1301 Mattec Dr.	Commerce Park	4	33.0	\$1,287,000	Figures based on 20% office, 80% warehouse use
ALL OTHER VACANT SPACE SUBTOTAL		157,631 Sqft & 5.836 Acres				409.5	\$15,984,530	
VACANT SPACE TOTAL		316275 Sqft & 22.11 Acres				1244.0	\$47,113,530	
TOTAL INCOME TAX REVENUE (1%)								\$471,135.30

Employment Density Standards *	Income
Office 1 job/269sqft	\$40,000
Warehouse 1 job/540sqft	\$30,000
Retail 1 job/1000sqft	\$20,000
Restaurant 1 job/ 210sqft	\$15,000
Hotel 1 job/ 3bedrooms	\$20,000
Mechanic 1 job/ 1300sqft	\$30,000

Employee Density: A Full Guide by Ove Arup & Partners International

Key - Rating 1-5	
Needs major renovations prior to occupancy	1
Needs minor renovations prior to occupancy	2
Needs cosmetic alterations prior to occupancy	3
Little, to no work needed prior to occupancy	4
Ready for occupancy, typically new construct	5

* For Vacant Land, the building square footage estimates are based on an average calculation of similar property (referenced below)

- Based on the our calculations/ averages, a retail space takes up 20.75% of the acreage and a Industrial space takes up 34.5% of acreage.
- Example (Retail) - 3.499 acres = 152,416 sqft ----- 152,416 sqft X 20.75% = 31,626 sqft Building
- Example (Industrial) - 5.836 acres = 87,730 sqft ----- 87,730 sqft X 34.51% = 30,275 sqft Building

Retail:

- <http://www.loopnet.com/Listing/16532026/10645-10689-Loveland-Madeira-Rd-Love>
- <http://www.loopnet.com/Listing/16671540/784-Loveland-Miamiville-Road-Loveland->
- <http://www.showcase.com/property/10554-10582-Loveland-Madeira-Road/Loveland>
- <http://www.loopnet.com/Listing/16140156/12137-Royal-Point-Drive-Cincinnati-OH/> Royal Point Shopping Center

Commerce Park Links:

- <http://www.everestrealstate.com/Industrial.htm> (119 Northeast Dr., & 100 Commerce)
- <http://www.loopnet.com/Listing/15947955/137-Commerce-Blvd-Loveland-OH/> (137 Commerce)
- <http://www.loopnet.com/Listing/16933796/124-Commerce-Boulevard-Loveland-OH/> (124 Commerce)