Enlighten Loveland

"All On Board"

Thursday, March 29, 2012

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All On Board

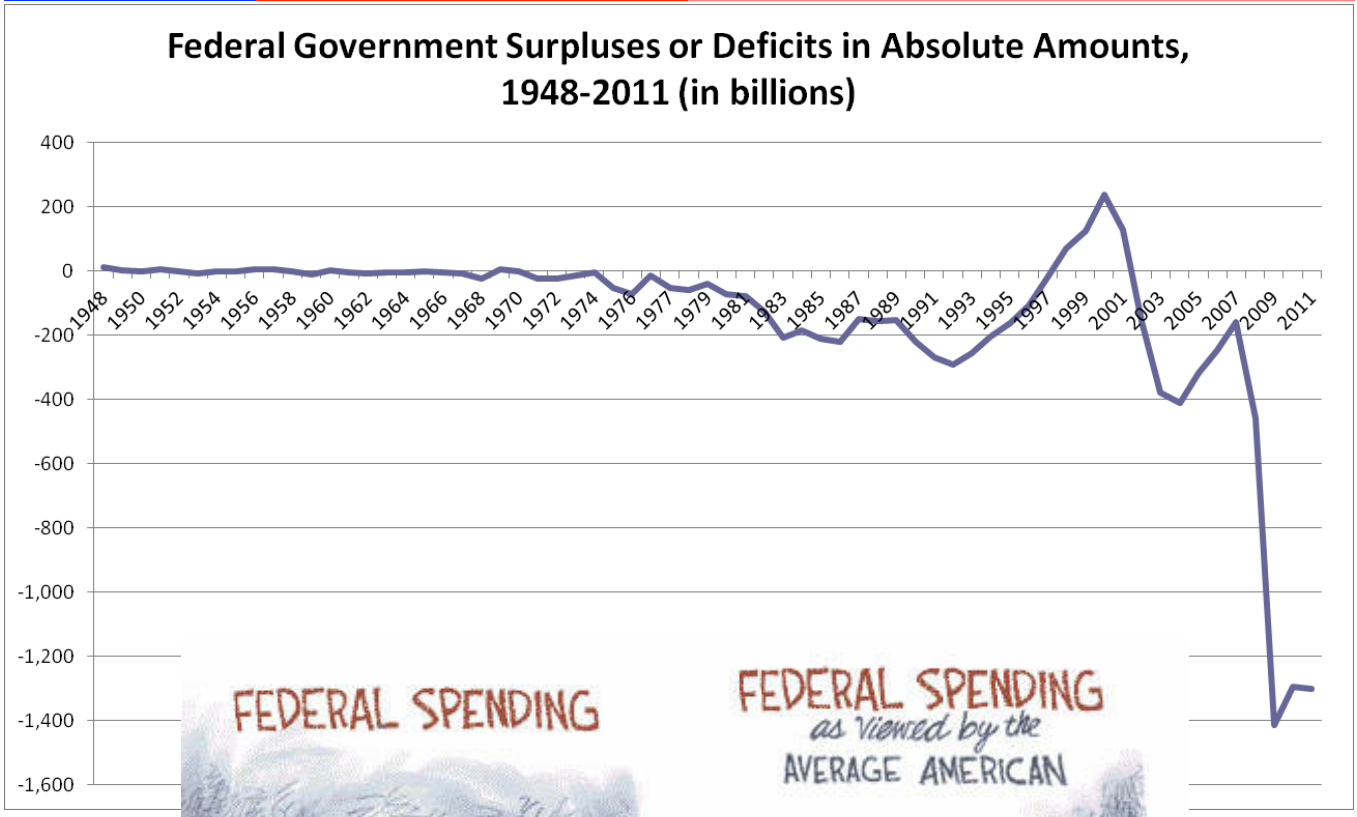
Narrative

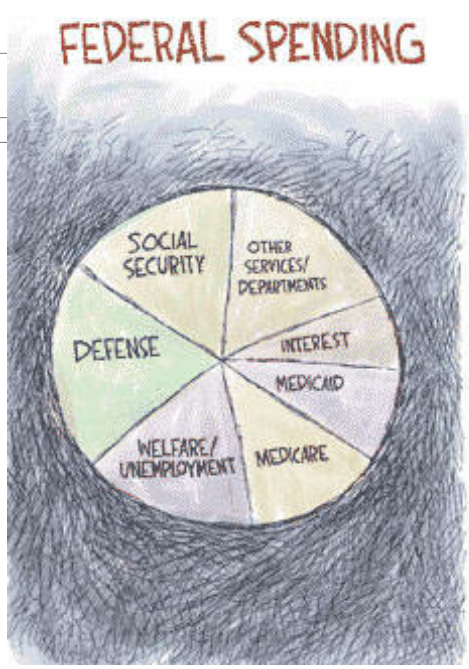
Depicted on the previous slide are some of the services which will be reduced or eliminated if the City absorbs between $950,000 and $1.1 million of revenue losses which are a result of decisions made in Columbus. (The State of Ohio has eliminated tangible personal property tax, estate tax and reduced the Local Government Fund by 50%. More cuts are expected.)

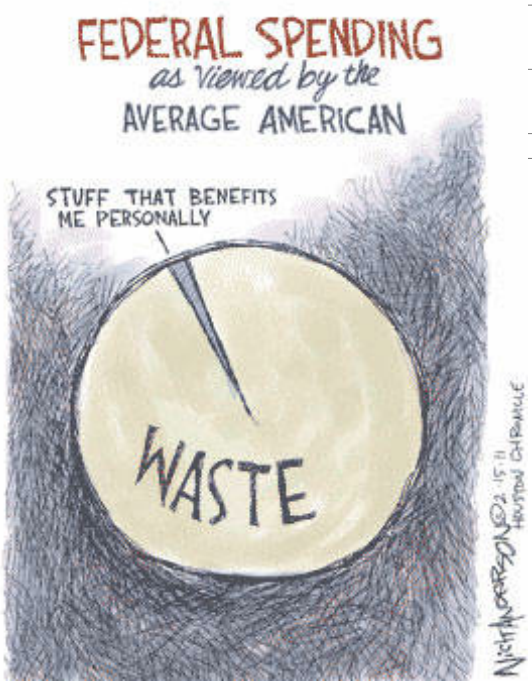
The City's award-winning Beautification program is slated for elimination in 2013. The Fourth of July Parade, Fireworks and Concert is also planned to be eliminated in 2013. The road rehabilitation program will be cut in 2013 and further cut in 2014. The Police Department will lose one full-time position and half of its part-time police in 2014. By 2015, the Police Department is projected to lose the equivalent of four officers, or 20% of its force. The Fire Department will lose the equivalent of five firefighters. Parks services will be cut, impacting services to youth leagues.

Cuts will be deep, sustained and will be very noticeable to the residents, businesses and visitors to the community.

Federal Government Deficit







Source: CNN

Federal Government Deficit

Narrative

Nationally and locally, voter anger is high and is continuing to grow.

It is no wonder. Pictured on the prior slide is the Federal Government's annual budget deficits and surpluses since 1948. I was born in 1970 and am 42 years old. In my entire life, the Federal Government has lived within its means only four of those fiscal years. This obviously cannot continue. Yet neither political party has the power, ability, or apparent willingness to solve it.

Federal spending is simply unsustainable, has been for some time, but the response to the Great Recession has highlighted in clear terms that Federal deficit spending is an existential problem.

State and Local Government Employment

State and Local Government Employment

Narrative

The Federal government balances its budget by printing money and borrowing. All states except Vermont and all local governments have to balance their budgets by law. In response to the Great Recession, states and local governments have been shedding jobs. Loveland is no exception, though we have done so through attrition instead of layoffs. Loveland's workforce is down 10% since 2008. This is consistent with national, state and regional trends as well.

Excerpt from *The Wall Street Journal*, March 5, 2011

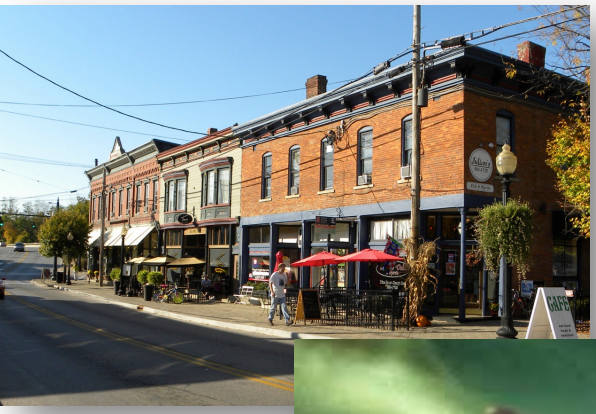
Local Governments Keep on Paring Payrolls

State and local governments, aiming to reduce their budget deficits, cut jobs at an accelerating pace in February.

Even as private employment climbed for the 12th consecutive month in February, states and localities shed a combined 30,000 jobs after cutting 8,000 positions a month earlier, the Labor Department said Friday. The trend is likely to continue as states and cities keep trimming services and payrolls to mend their budget shortfalls.

States reduced payrolls by 12,000 last month and local governments shed 18,000 workers. Federal employment was steady in February. States have cut 82,000 jobs since their payrolls peaked in August 2008. Localities have eliminated 377,000 jobs since their high point in September 2008. Federal government employment has fluctuated in recent years but has risen by 99,000 workers since the recession began in December 2007.

Loveland's Four-Part Strategy



Loveland's Four-Part Strategy

- This City Council has been proactive in preparing for these changes, using a four-pronged approach to the looming challenges. Council's approach includes:

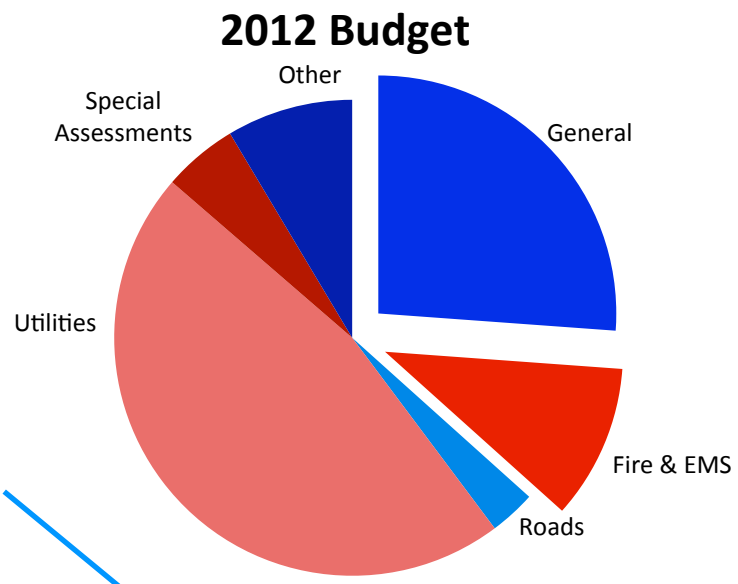
1. Growing the City's tax base by leading the redevelopment of the historic district, recruiting new companies (such as Loveland Station), and positioning the City for the revitalization of the Loveland Madeira Road business district.

2. Pro-actively cutting costs through addressing employee benefits, holding open positions when possible, and saving taxpayer dollars through collaboration whenever sensible. The 2012 Budget continues this work by reducing base budget expenses by an additional $257,500.

3. Engage our residents about what the City does, what residents wish for the City's service levels to be, and to seek out resident input on what they wish for the City to discontinue or reduce, and if necessary, how to raise taxes.

4. Represent our interests in Columbus and advocate on the importance of the City's basic services and the revenues which support these services to our legislative delegation in Columbus.

Affected Services



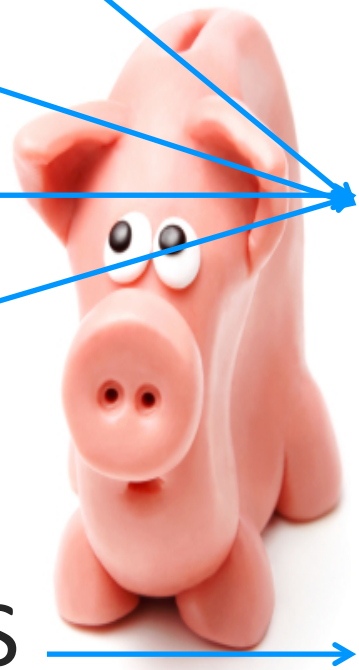
City Hall

Roads

Police

Parks

Fire & EMS



General Fund

Fire & EMS Fund

Affected Services

Narrative

In 2011, the City held focus groups of taxpayers and asked them what they thought should be reduced or cut to solve what was then a $600,000 General Fund problem.

Residents were asked to focus on the CHRPP acronym (pronounced "Chirp": City Hall, Roads, Police, Parks) because those services were the one's impacted by State cuts.

The City's fiscal condition has worsened since the summer of 2011 through the end of tangible personal property tax and reductions in assessed valuation.

Now, revenue cuts will impact the Fire and EMS area as well.

The City has other funds—such as the Water Fund, Sanitation Fund, etc.—which receive service charges from utility bills or other sources of revenue, which are in more solid financial shape. These other funds cannot provide financial assistance to the General Fund.

So, certain cost savings or service cut ideas—like reducing leaf and brush collection or scaling back recycling programs—might save the City money but do not help to avoid layoffs and General Fund service cuts.

Cuts Already Made, 2010-2012

Budget Cuts to General Fund	Year Cut Started/ Starts	Annual Savings
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

Cuts Already Made, 2010-2012

Narrative

The City knew cuts from the State were looming, and started to prepare in 2010. Between 2010 and 2012, the City cut its General Fund by $472,600, a figure which would have more than made up for the expected cuts from Columbus.

However, Columbus eliminated the Estate Tax and eliminated tangible personal property tax as well, so the cuts were far deeper than anticipated. Even though the City reduced its work force by 10% through attrition, reduced unsustainable benefits, outsourced income tax collection, eliminated cultural and recreational programs like the Concerts in the Park, and streamlined other operations, the savings to the General Fund have not been enough.

Additional Cuts, 2010-2014

Budget Cuts/Savings to Multiple Funds, Including the General Fund	Year Cut Started/ Starts	Annual Savings
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
Subtotal	2010-2012	$120,034
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 LSFD	2013	$82,500
Negotiate hold on contract increases for EMS and fire services with LSFD	2014	$82,500
Subtotal	2012-2014	$ 199,500
Total Annual Savings or Cost Reductions, All Funds	2010-2014	$932,134

Additional Cuts, 2010-2014

Narrative

The City's emphasis on savings was not limited to the General Fund.

The City has found ways to save money in the Water Fund, Sanitation, energy costs, and Fire and EMS.

Between 2010 and 2014, the City will have reduced its budget by close to $1 million, and more than half of these savings have gone to the General Fund.

City and Loveland Symmes Fire Department employees have reduced benefits to contribute towards a solution for this revenue problem stemming from decisions made by the State of Ohio.

Personnel Costs, 2008-2012

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

Personnel Costs, 2008-2012

Narrative

Local governments are people-intensive, and therefore personnel costs are the single biggest cost driver of government costs in general.

The City has reduced its payroll from 2008 levels, all without layoffs. This has been done through restructuring, outsourcing and holding up most (but not all) vacant positions. The City has tackled some benefits which would were unsustainable or unsupportable, such as gradually eliminating longevity pay.

The City has a high-deductible, consumer-driven healthcare program which includes an innovative wellness program and provides tools to help employees make better healthcare decisions. The City is part of a state-wide health insurance pool called The Ohio Plan.

Public sector benefits have been placed under tremendous scrutiny of late, especially with Senate Bill 5. The City's high-deductible health insurance plan has the highest deductible of any in the public sector in a recent Southwest Ohio survey. While the City's employees' share of premiums is below the average in the private sector, the City's overall plan design is very unconventional for local governments and has higher deductibles than most public or private sector plans. Comparing health insurance plan designs is difficult, but it is clear that the City's high deductible plan deviates from traditional models. Loveland employees have embraced wellness and utilized consumer tools to reduce their own costs and those of the City's. While some may point to relatively generous premium shares, Loveland's plan design is cutting edge and provides our employees market incentives to reduce costs while still meeting their family needs. Simply shifting greater premium costs to the employee does little to nothing to encourage better consumerism and lifestyle choices.

In 1991, City of Loveland employees took a 10% pay reduction in exchange for the City of Loveland "picking up" or paying the employee portion of the Ohio Public Employees Retirement System (OPERS) contribution. This practice is not common but does in fact save the City money because the employees' pay is thereby reduced. By reducing pay, the City's fringe benefit costs which are a function of pay are similarly reduced as well. So, this practice was started years ago to save the City money while not reducing the employees' net take-home pay and has been continued since. This practice would have been prohibited had Senate Bill 5 become law (even though it saves tax dollars). The City of Loveland's current plan is to maintain this practice but to offer below cost-of-living wage increases over the next several years to "reset" and "rebalance" real wages.

Overall, Loveland's personnel costs are lower in 2012 than they were in 2008, despite having given employees modest cost of living increases over this five year period.

Budget Gap Remains

Budget Gap Remains

Narrative

The City is at a policy cross roads.

Despite previous budget cuts, there is still a large and growing budget gap.

The City did not spend its way into this problem, but the City must address it nevertheless.

The Loveland community therefore has to choose between two bad options: endure serious cuts to services or raise taxes to maintain the service levels provided by the City today.

This problem is not unique to Loveland; cities and townships around Ohio are having the same conversations.

Status Quo Requires More Budget Cuts

2013 Budget Reductions	
Eliminate 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)	$41,350
Reduce the General Fund's contribution to the annual Road Rehabilitation Program	$25,000
Eliminate the Assistant City Manager position	$116,000
Subtotal	$182,350
2014 Budget Reductions (in addition to those made in 2013 which are continued)	
Eliminate one full-time police officer	$95,000
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
Reduce the General Fund's contribution to the annual Road Rehabilitation Program	$115,000
Reduce by 50% all part-time police officer hours (the equivalent of one and one-half full-time positions)	$100,000
Subtotal	$371,000
2013-2014 Cumulative Base Budget Cuts	**$553,350**

Status Quo Requires More Budget Cuts

Narrative

Despite previous cuts, more budget cuts are imminent in 2013 and 2014.

Even after these cuts are made, the City will not have obtained a structurally balanced budget by 2015, and more cuts will be necessary then.

In 2013, the City will eliminate several popular but non-essential services such as the Fourth of July celebration and the Beautification program. Cuts will be made to road repairs and the Assistant City Manager Position—the person charged with adding to the City's tax base through economic development—will be cut.

In 2014, all the 2013 cuts will be continued and the City will further reduce its road program, eliminate one police officer position, one street employee, cut snow removal services, and cut part-time police staffing in half.

Cuts will be palpable and tangible to all residents.

The City has already accomplished more with less. Without additional revenue, the City of Loveland will be in the more difficult era of doing less with less.

Tax Increase Options & Revenue Impact

Additional Annual Tax Revenue From City Residents Working Within City of Loveland

Option	Description	$50,000	$74,000 *Avg. Income	$100,000
3	1.25% (1.25% credit)	$125	$185	$250
5	1.20% (1.00% credit)	$100	$148	$200

Additional Annual Tax Revenue From City Residents Working in Another Municipality

Option	Description	$50,000	$74,000 *Avg. Income	$100,000
3	1.25% (1.25% credit)	$0 to $125	$0 to $185	$0 to $250
5	1.20% (1.00% credit)	$100	$148	$200

Tax Increase Options & Revenue Impact

Narrative

These two tables attempt to show what the annual costs will be for options 3 and 5 to different taxpayers.

The average household income in Loveland is $74,000, and for simplicity's sake, staff is showing what a person making $50,000 and $100,000 per year would have to pay.

As can be seen, the annual cost varies depending on income level and where one works.

Because municipalities tax earned income, retirees and the unemployed do not have to pay income tax to the City of Loveland.

Performance Measurement and Benchmarking

	2008	2009	2010	2011	Forecasted 2012
Loveland Population	11,990	12,057	12,081	12,160	12,256
Police Department					
Total Police Budget	$2,771,297	$2,608,421	$2,594,306	$2,777,858	$2,638,811
Police Expenditures Per Capita	$231	$216	$215	$228	$215
ICMA Center for Performance Measurement Benchmark (Mean)					
All Jurisdictions:		$219	$219		
Cities under 25,000:		$243	$237		
Fire Department					
Total LSFD Budget	$4,051,037	$3,869,929	$3,982,218	$4,181,329	$4,390,395
Expenditures per Capita	$146	$139	$149	$156	$163
ICMA Center for Performance Measurement Benchmark (Mean)					
All Jurisdictions:		$192	$164		
Cities 25,000 - 100,000:		$147	$166		

Performance Measurement and Benchmarking

	2008	2009	2010	2011	Forecasted 2012
Loveland Population	11,990	12,057	12,081	12,160	12,256
Finance Department					
City Annual Yield on Treasury	3.07%	2.69%	0.91%	1.54%	0.73%
STAR Ohio Yield	2.26%	0.12%	0.11%	0.06%	0.03%
Basis Points Above/ Below LoveDEX *			0.32%	0.25%	0.21%

Narrative

* The LoveDEX is a customized benchmark to monitor outside investment services overtime. It consists of Star Ohio, multiplied by 125%, plus 18 basis points. This accounts for the notion that the City of Loveland has historically beaten Start Ohio by 125%, and the City is paying a total of 18 basis points to Fort Washington and US Bank (the custodian). If the LoveDEX is not outperformed over time, than the City would be better either to invest for itself rather than use Fort Washington or hire another firm.

Performance Measurement and Benchmarking

	2008	2009	2010	2011	Forecasted 2012
Risk Management					
Total Property Loss, Premiums, and Expenditures per $1,000	$0.95	$1.39	$0.68	$0.52	$1.00
ICMA Center for Performance Measurement Benchmark (Mean)					
All Jurisdictions:		$3.75	$3.10		
Cities under 25,000:		$3.10	$5.51		
Expenditures for Liability Claims Per Capita	$1.93	$0	$0	$0	$0
Workers Comp Claims per 100 FTEs	8	6	3	2	1
Expenditures for Workers Comp per $100 of Total Wages and Benefit	$0.62	$0.89	$0.78	$1.16	$0.94

Performance Measurement and Benchmarking

Narrative

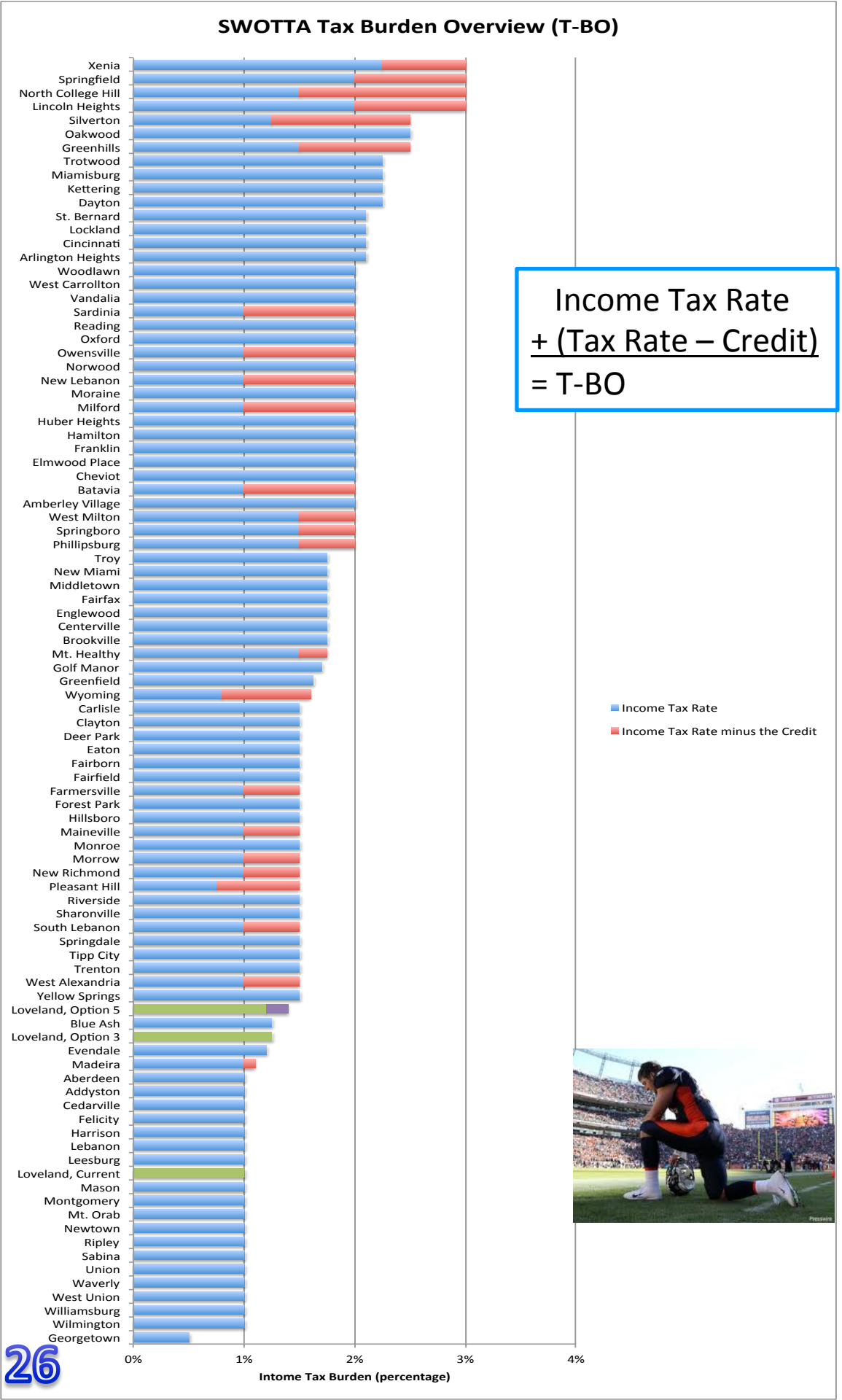
Performance measurement will be essential in the coming months because the City's conversation will ultimately boil down to a conversation about what service levels the residents wish to receive and at what cost.

Performance measurement will help City Council make informed decisions as to the policy ramifications stemming from service level cuts, and will allow for an informed discussion of the value residents receive for the taxes and fees paid. Benchmarking will also prove extremely valuable because it will allow our residents to compare our service levels and costs to peer communities.

Given that emotions around this conversation about layoffs, taxes, quality of life, and other related topics is likely to be passionate, performance metrics should help make that conversation a productive one.

For a better understanding of what the City of Loveland does and at what cost, there is no better place to look than the 2012 Performance Measurement section of the draft Budget and CIP.

Tax Burden Overview, T-BO



Income Tax Rate
+ (Tax Rate – Credit)
= T-BO

Tax Burden Overview, T-BO

Income Tax Rate
+ (Tax Rate – Credit)
= T-BO

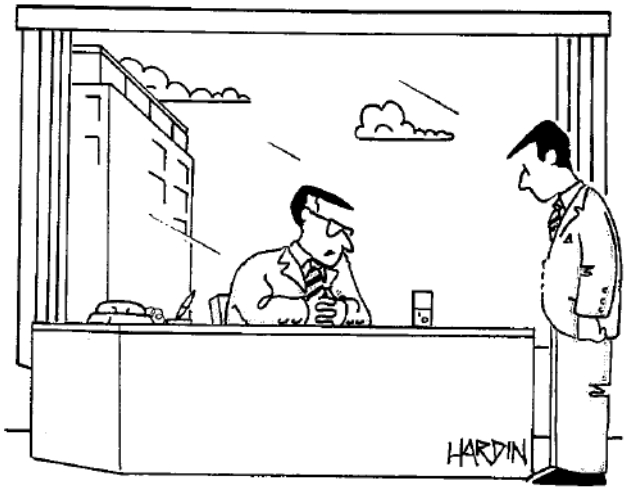
Narrative

To further inform the pros and cons of these options, staff has benchmarked the City's tax rate today and under all five options against the tax rates of other Southwest Ohio jurisdictions. The comparative data is from the Southwest Ohio Tax Administrators Association (SWOTAA) and was collected in November of 2011. Generally speaking, it is difficult to make "apples-to-apples" comparisons of municipal tax rates because two key variables differ from community to community: the income tax rate and the income tax credit. Some cities, like Loveland, have a 1% tax rate with a full credit. Other cities, like Milford, have a 1% tax rate but no credit. Thus, there are two similarly situated communities and both have a relatively low income tax rate, but the fact that Milford offers no income tax credit means the economic burden on a Milford commuter is in most instances higher than it is for the equivalent Loveland commuter.

Staff has generated a new metric which is referred to here as the Tax Base Overview (or T-BO, pronounced *Tebow*). This metric combines the municipal income tax rate and the income tax rate less the credit [Tax rate + (Tax Rate-Credit)]. This provides one measure for each community to show the combined economic burden stemming from variations in tax rate and credit. The higher the T-BO, the higher the overall tax burden is in that community from the combination of tax rate and tax credit.

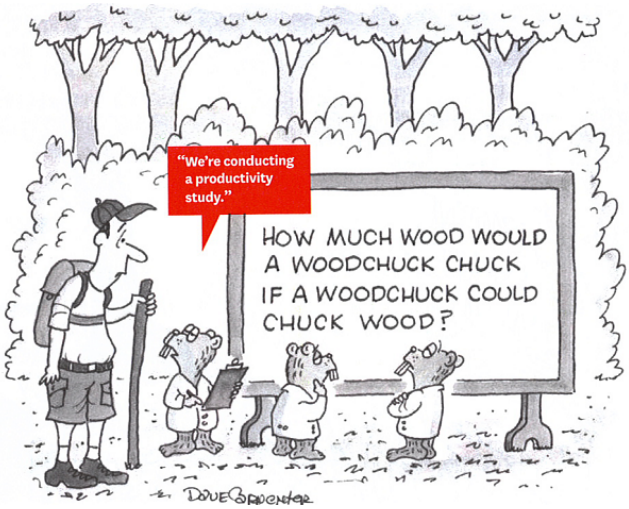
This analysis shows Loveland today has one of the lowest tax rates in the region, and will still have a tax rate in lowest quartile if either options 3 or 5 are approved by the voters.

Summation



"The glass is neither half empty nor half full, Hargrove.
The glass is too small."

"Remember, we're all in this – not together, but we're all in this."



"The numbers aren't working."

Summation

Principles Behind Staff's Recommendation to City Council

The following overarching principles were used by staff in the formulation of the preliminary policy recommendation:

Retired residents and those who are unemployed will not have any additional burden because residents who do not have earned income do not have to pay municipal income tax. This policy option therefore does not cost anything for those on a fixed income or who have endured a job loss.

The revenue generated from it will be sufficient to meet the expected losses, known and anticipated, but not substantially more than is needed to maintain today's service levels. The City of Loveland has not altered its income tax rate of 1% since 1967 when an income tax was first established, and the revenue raising proposal should reset a structural balance to the City's Budget.

The number one suggestion from all five focus groups in 2011 was that the City should increase its income tax rate. Staff's recommendation follows this resident feedback.

The City's income tax rate is amongst the lowest in the region, and even if increased to 1.25%, will be below most other tax rates in our region at the present time.

Raising the City's income tax rate and keeping a full credit will place the City at a lower overall T-BO than most other communities in Southwest Ohio.

The additional tax burden is shared by residents who live here and those who work here.

Residents have been asked for their input on what services they wish for the City to cut to close the budget gap. Many of these suggestions have been implemented already, and this proposal recognizes the logical conclusion from these focus groups: cut costs and then consider a tax increase to preserve quality services. This recommendation is therefore responsive to the citizen feedback the City received in 2011.

Enlighten Loveland

"All On Board"

Thursday, March 29, 2012

To read more, visit: www.lovelandoh.com/budget