



CITY OF OLMSTED FALLS
FINANCE COMMITTEE
MINUTES
FEBRUARY 13, 2018
6:45 PM
COUNCIL CHAMBERS

Chairman Lori Jones called the meeting to order at 6:48 p.m. Roll call was conducted. Councilmen Jim Haviland, Paul Stibich, Ed Gorski, Denise Nicolay, Terry Duncan and Kyle Miller.

Also Present: Andrew Bemer, Law Director, James Graven, Mayor, and Vic Nogalo, Finance Director.

Revenue and Expenditure Trends and City's Current Financial Position

Ms. Jones stated that the committee can review the Statement of Cash position. She asked Mr. Nogalo to give Council a history of revenue and expenditures for the last four years in order to see the trends and to get familiar with that so when the budget is presented Council can review trends.

Ms. Jones asked that on the Statement of Cash where there are ending negative balances are they offset with another fund. Mr. Nogalo stated that the actual cash balance is the third to last column that states unexpected balance. So in the general fund \$638,227, that is the actual cash balance. The next number 929 those are all the purchase orders that have been prepared for example for refuse. In order to be more efficient and to save paper he has asked Ms. Veloski to only use one PO for refuse and she completed a six month PO for refuse. It is a large amount occupying the budget, it acts as a budgetary expense, it is not cash out the door it is just holding the funds just for refuse. He asked her to do a 12 month purchase order and keep negotiating against it each time there is a monthly payment and at the end of the year that purchase order will be exhausted. You will see that negative balance at the end get lesser and lesser as the year moves on.

Ms. Jones asked if the community paramedicine line item is what the city is asking the county to reimburse. Mr. Nogalo stated that this is a negative receipt as this fund was advanced an amount in 2017. He knows that Ms. Veloski mentioned that sometimes the general fund advances to other funds at the end of the year to make sure no funds are in the negative balance and then immediately when January begins she immediately advances it back to the general fund. He would have to look at the revenues that are coming in to make up for amount, it is probably a grant that the city will be reimbursed. That is his educated guess.

Ms. Jones asked about the water/sewer debt project. Mr. Nogalo stated that he imagines the same sort of situation. The fund was advanced funds late in 2017. When we discuss the 2018 when we set the appropriations in each fund we have to make sure that the appropriations are backed up by beginning balance and the revenues to support the appropriation. You cannot put an appropriation in a fund if it is not going to receive any money or have a beginning balance to support that appropriation.

Mr. Nogalo stated that there is a lot of housekeeping as far as the end of 2017 with the advances. Ms. Jones asked once the budget is completed will she received months to date, year to date and variance reports. Mr. Nogalo stated that he will probably remove 2014 and 2015 from the report Ms. Jones has in her possession and add a 2018 budget column for the appropriations and estimated revenues and then you will see the actuals each month. Mr. Nogalo stated that he is not sure what Council received in the past but he is setting up the information on a fund basis, showing beginning balances, all major revenues, and then all the departmental expenditures. If Council would like more detailed reports, please contact him.

Mr. Stibich asked if there were any other purchase orders that would be added in six month increments like the refuse collections. Mr. Nogalo stated that he instructed Ms. Veloski to complete these type of purchase orders for those non-discretionary invoices for example utilities, health insurance, based on the full time employee enrollment. Again, his goal is to lessen the paper as well as move to paperless payments, ACH, but he will need to discuss that with Council as there is a protocol for signing checks. There is a lot of paper shuffling in the finance department.

Ms. Jones stated that regarding our general long term debt, is any of that debt coming due this year. Mr. Nogalo distributed information regarding the city's debt position. He indicated that this schedule runs from 2015. As of 12/31/17 the outstanding debt \$4,771,392.00. The outstanding notes are \$625,000, they were initially issued out a few years earlier at \$695,000 for the city building and the real estate acquisition. There was a payment down on the notes of \$55,000 on the building and \$15,000 on real estate. We will discuss in the budget how much of the note we will retire this year. These notes are one year in duration. We will discuss how much we will be able to retire of these notes and roll them over to next year or we can wrap it into a bond. There was \$1.7 million issued in general obligation bonds in 2016, the title of that was building improvement, we start paying down on the principal in 2017, the first \$105,000 and there is no discretion on the principal payments, it is established over a 20 year period and the first two years is \$105,000 and the interest. The report does not include the interest payments. Ms. Jones asked what the interest was on the bonds. Mr. Nogalo stated that he does not know but generally he does not believe it is more than 3%. Ms. Jones asked what the city's rating was. Mr. Nogalo indicated that he spoke with Squires today and he does not believe we have a bond rating. Usually you receive a bond rating if you put it out to the world to purchase the bonds, the \$1.7 million was not. Ms. Duncan stated that the \$1.7 million was self-financed. Mr. Nogalo asked what Ms. Duncan means by self-financed. Ms. Duncan stated that she does not believe the city has any backing as far as revenue stream coming in to pay for it, we did not put a bond issue on to finance. We did purchase bonds to finance but it is not being financed by tax receipts. Mr. Nogalo stated that he believes the \$1.7 million was purchased by a third party. He does believe they are general obligation bonds but will review the bond document. The \$500,000 that was issued in 2017 was purchased by the city so there need not be a bond rating, when he asked Squires what the city's bond rating was he replied that we do not have one. He is not sure if we ever had one and the only reason you would have a bond rating is if we were to put our debt out to the world to purchase. Mr. Haviland asked if that bond was for the roof. Mr. Nogalo replied the \$500,000 was for the roof and it is a 20 year bond. We purchased it so we pay the debt, we basically pay ourselves the interest and principal. Ms. Jones asked what we charge ourselves in interest. Mr. Nogalo stated that they are marketable, so if interest rates increases. Ms. Jones stated that if the interest rate

goes up and we sell it then we lose on the principal. Mr. Nogalo replied that was correct so, it would have to work the other way. He stated that there are Ohio OWDA loans, two came off the books. There is an OPWC loan in 2010 which is at 0%. There are capital lease obligations and we just paid off a snow plow in January and we have another lease but is not sure what that is for but there are two more payments due in 2019 and 2020. The last item the Ohio Rotary Loan he believes this is a loan that may or may not have to be repaid, it is listed on a conditional agreement and he will be more specific during the budget process regarding that loan.

Mr. Nogalo stated that the only discretionary item is how much we will pay down on our notes and the other item will be will the city issue out additional debt. He understands that there is a big sewer project and he is unclear if that will come to fruition this year. When we discuss the capital budget we will determine which funds are available, if there are not enough funds available we may have to issue debt for that.

Ms. Jones stated that she appreciates all the work that Mr. Nogalo put into the information and also thanked him. She also asked for the revenues and expenses and wanted to see a trend analysis. Mr. Nogalo stated that with the budget process we had a director or two on vacation so we are not ready for the budget as he has not received all the information from the department heads. Once he receives all the information he will assemble it, then the Mayor will review, he will meet with his department heads and after that he will present the budget to Council. He stated that he can estimate the income and property taxes which is not that difficult of a process and he can distribute some information.

Ms. Jones asked if there was a tax renewal this year. Mr. Nogalo replied no. He was approached by the Fire Chief regarding a fire levy expiring next year.

Mr. Nogalo distributed information regarding income tax collection. This report goes back to 2014. He had Ms. Radigan go back and pull payments received by RITA and they do break out by withholding, individual and business. There are three sources when you collect income taxes, the withholding which is basically payroll tax which covers all the employees working in the City of Olmsted Falls. Also, if you work outside of Olmsted Falls some employers do withhold income tax for Olmsted Falls. Every governmental entity in Ohio has to withhold not only for the work city tax but also for the resident tax. For example, if you work in Cleveland and you work for the city, county or school district, not only do they withhold 2 ½% for Cleveland they must withhold what you would owe Olmsted Falls which is another 1% and that is state law. The private businesses do not, they only have to withhold for the work city. He is unsure what the combination percentage is. It consists of all the businesses in Olmsted Falls and the portion that employers outside the city have to withhold for Olmsted Falls. He would say the majority are businesses or employers in Olmsted Falls. Your number one employer is the board of education and believes we receive \$100,000 annually. There is one company that is second and that is Blue Ridge Paper. The withholdings have been on an increase in the last couple of year. In 2017 there was a 2.5% increase over 2016.

Mr. Nogalo stated that in total RITA collects \$3 million on behalf of the city and \$1.7 million comes from individuals. That means all the individuals who complete an annual tax return or pay estimates on what they owe Olmsted Falls. He stated that 60% of the city's income tax is from individuals. All the businesses in the City of Olmsted Falls plus the temporary business,

for example a plumbing company working in Olmsted Falls. Some small companies have to file with numerous cities. If the businesses have a net profit they pay 1.5% to the city in income tax. He stated that there was a decrease between 2016 and 2017 of approximately \$220,000. That net profit amount was \$203,000 in 2016 to \$106,000 in 2017. He did pin point that decrease to one company which could have been estimated payments. The penalties and interest charged to the tax payer's annually are approximately \$200,000. The report also shows refunds. The net amount of tax collections in 2017 was \$3,055,000 and that was a decrease of \$220,000. He stated that he will be projecting for 2018 with the amount from 2017. Mayor Graven stated that it looks as if the city collects approximately \$3 million each year. Mr. Nogalo stated that there was a surge in 2016 of \$260,000. He stated that RITA takes out 3% on the collections, that does not mean our collections are 3% as they do reconcile every six months and after the year is over they perform an audit and if they determine that a refund is needed they will forward. It looks as if the city's collection rate is between 2% and 2 ½%. There are also certain adjustments made that are taken away for example delinquencies. In 2017 the city received \$2,951,000. RITA makes two distributions each month, one on the first day of the month and then the 15th, which is usually the smaller amount. What the city received in February 1st is January collections. Then there will be a run on of some January collections that the city will receive on the 15th of February.

MISCELLANEOUS - None

ADJOURNMENT

Mr. Gorski moved to adjourn; Mr. Stibich seconded. Poll: 7 ayes; 0 nays. Motion carried.

The meeting adjourned at 7:15 p.m.

Lori Jones, Chairman Finance Committee

Angela Mancini, Clerk of Council