

CITY OF KENT, OHIO
2020 RECOMMENDED BUDGET

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City Manager's Budget Message

2020 Proposed Operating Budget

November 18, 2019



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 2020 Proposed Operating Budget for City Council's consideration.

Overview

The 2020 proposed City budget contains the budgetary line items that the staff recommends for sustaining the levels of services in our community for 2020. 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 2020, as it governs the pace of progress towards our strategic priorities through the resource allocation decisions contained within it.

Across a range of economic indicators -- including unemployment, private investment, new jobs, University spending, corporate profit and retail sales -- the Kent economy enjoyed nearly a decade of growth after bottoming-out in 2008, but the subsequent economic gains have slowed and revenue uncertainty has returned in the last few years.

Following a precipitous drop in income tax revenues in 2016, the City enjoyed a modest tax rebound in 2017, but those tax gains proved unsustainable in 2018 and 2019 reflecting the uncertainty of the current business cycle. Unfortunately as the pace of economic growth has normalized, cuts in State funding have not, leaving the City in the unusual position of revenue shortfalls despite a relatively productive local economy.

The magnitude of State funding cuts appears to have reached a tipping point that now surpasses the capacity of local economic growth to make up the losses. As a result, despite continued low unemployment in Kent, the City faces a revenue deficit that has led to a return of a more constrained spending strategy.

Each new wave of re-investment in Kent has yielded financial gain resulting from construction jobs and capital equity, and added to the economic base for the City's long term financial sustainability. Consumer, lender and investor confidence has grown with each announcement of new investment in Kent, adding to the City's reputation as being investment-worthy and poised for growth. These attributes have proven critical for weathering the continued cuts in State funding.

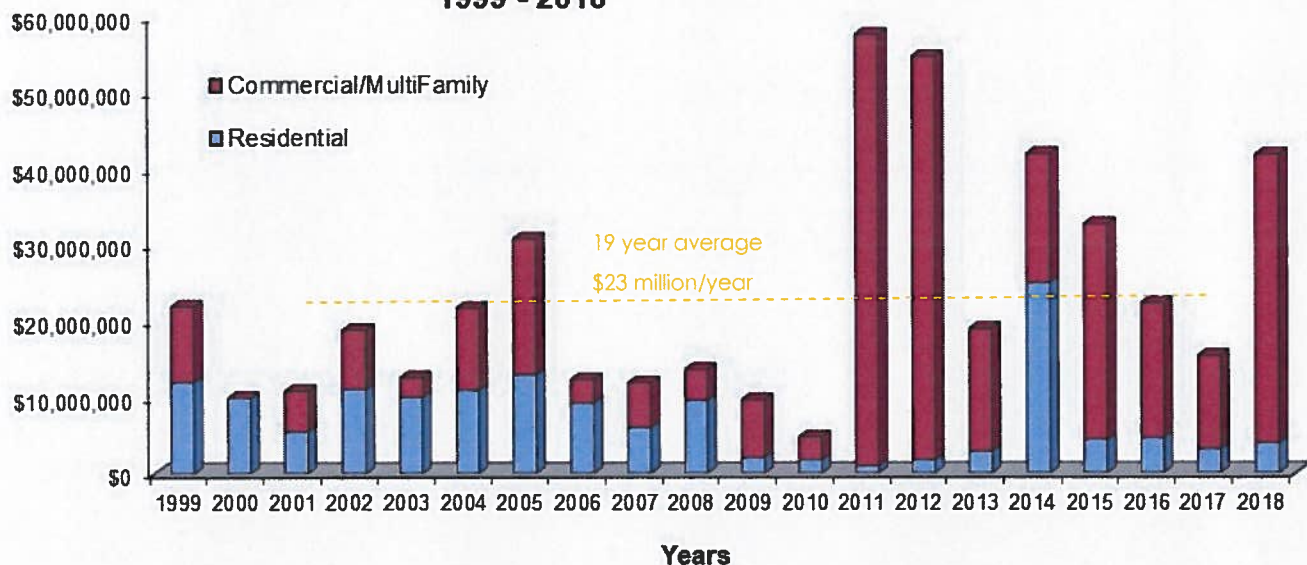
The 2020 budget will require limits on spending but fortunately the combination of revenue growth (2013 to 2015) and a decade of aggressive expense management enabled us to narrow the gap between our resource availability and service needs in the 2017, 2018 and 2019 Operating budgets.

Local Economic Conditions

Kent's economic recovery began in 2011, peaked in 2012, and was followed by 4 successive years of above average rates of investment. From 1999 thru 2010 commercial construction investment averaged \$6.5 million a year. In 2011 and 2012, commercial investment jumped to an average of \$55 million, an increase of 745 percent.

In 2016-17 commercial and residential investments returned to pre-redevelopment investment averages but major investments in new apartment buildings in 2018 added \$28 million in new construction value, resulting in a rebound that led to the 2nd highest total construction investment value in the last 6 years following 4 consecutive years of investment decline.

**Yearly Construction Value
1999 - 2018**



Overall, Kent experienced a 24% uptick in commercial construction investment for 2018 (\$800,000) and a 300% increase (\$25.6 million jump) in apartment construction that led to the 2nd highest combined investment total in the last 6 years at \$41 million (compared to \$15 million in 2017).

Kent State University remains the City's largest employer, contributing 31.8 percent of total municipal income tax revenues in 2018. While the City's financial condition continues to benefit from the University's buffering effect on the City's tax base – private sector diversification has helped spread the financial risk across multiple industries and reduce the City's exposure to market disruptions in any one sector, including higher education.

In 2018, Kent State University experienced a 2% decline in enrollment (only the second decline in 10 years) with a drop of 898 students for a total of 27,143 students on the Kent campus. Changes in international relations has had a chilling effect on foreign student enrollment and over 34% of the decline in the student body is attributable to the loss of 425 international students. However, the 2018 freshman class was the largest at the Kent Campus in University history. With 4,363 students, this class has 100 more students than 2017 and topped the previous record high set in 2016.

In 2018, Kent State adopted its new 10 year Master Facilities Plan that includes over \$1 billion in new campus investments in Kent. The first phase includes 8 "transformational projects" and 9 "enabling" projects many of which focus on campus and community points of connection, including new roadway improvements on East Main Street

In 2018 a number of new small businesses opened in Kent including Cycle Tours, Handcrafted in Ohio, Kenko's and BarFlyy. These have proven to be popular additions to Kent's unique dining and entertainment options that form the core of downtown Kent's growing reputation as a regional destination.

In 2018 the completed renovation of the historic LN Gross building won a regional preservation award, Treno's historic train property added an outdoor patio for dining, and the work on the renovation of the historic 1930's era post office and county courthouse building was well underway.

Other business announcements in 2018 included the opening of the Starbucks on E. Main Street, Panini's expanded their patio dining area, and Raisin' Cains opened in the Kent-Franklin JEDD. The University Plaza movie theater also completed the first phase of their major upgrade to the seating and movie viewing experience.

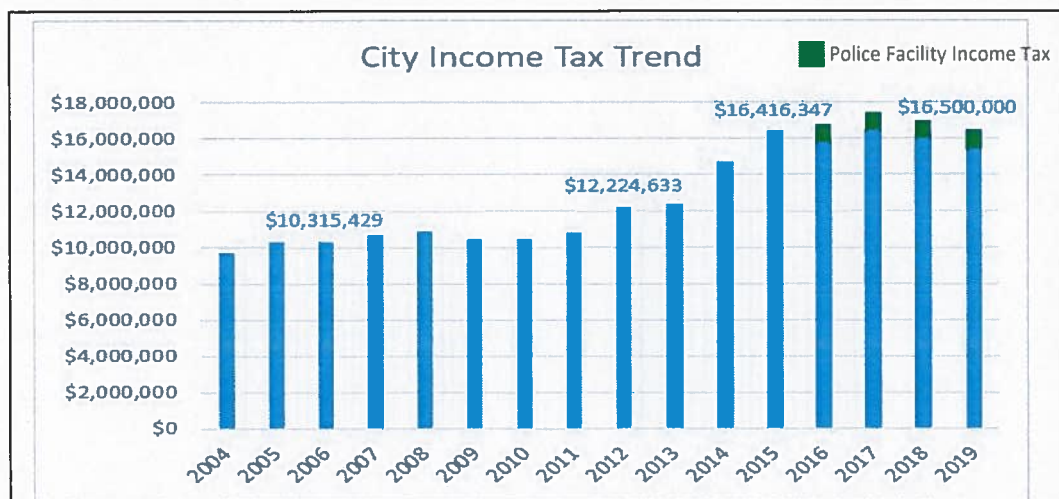
In 2018 the City of Kent was a finalist in the nation-wide "Strongest Town" competition that recognized cities for progressive place-making practices that feature walkability, cultural amenities, and adaptive reuse in their community.

The Kent Area Chamber of Commerce business membership doubled over the last 10 years, growing from 176 members in 2009 to 359 in 2018. Coinciding with the downtown revitalization, the Kent Chamber membership experienced 8 straight years of membership growth.

In 2018 the City completed the \$18 million Summit Street Improvement project and was substantially complete with the \$3 million SR 43 Signal Upgrade project. The City also secured \$1.3 million in funding commitments to upgrade the N. Water Street corridor.

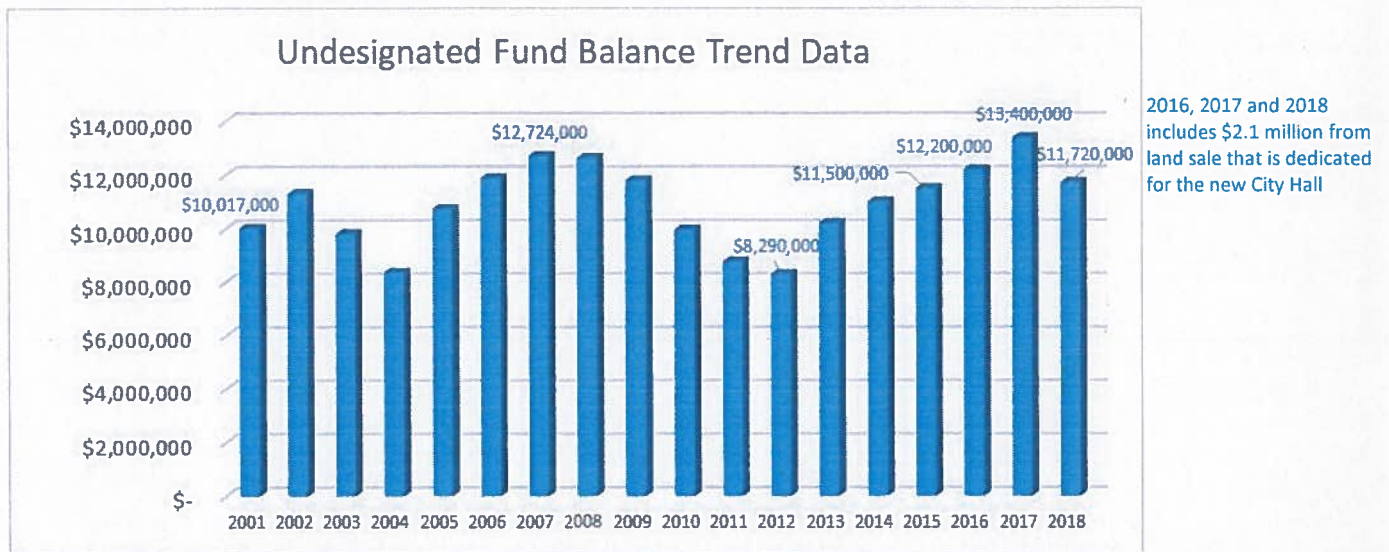
City Financial Profile

For year-end 2018, total City income tax collections were down 2.06% percent (\$340,212) and Kent State University's collections were up .15 percent (\$7,606) from 2017. Volatility in private sector income tax contributions is being monitored closely and although it seems to be correlated to fluctuations in business cycles nationally rather than a response to specific declining local conditions it's a point of concern if it proves to be more than an anomaly.



In 2018 the City's financial health rating received from the State Auditor's Office remained in the top quartile with a caution noted over concerns for the long term outlook of the General Fund as General Fund revenue declined.

As the revenue vs. expense balance trended in a positive direction, the City has been able to slowly replenish undesignated reserve balances to near pre-recessionary highs.



The proposed 2020 revenue forecast anticipates a similar level of contribution as 2019. However, with construction activities slowly declining from their record highs, the construction based revenues continue to thin.

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

Without question Income taxes are the single most important factor to the City's financial well being and there appears to be a softening in the growth of this vital source of operating funds – to the point where the negative rate of growth in income taxes in 2018-19 has pushed income growth below the rate of inflation for the first time in 7 years. That's a potential point of concern that must be monitored closely.

In 2018, City Council renewed their approval of the multi-year utility rate stabilization plan to ensure adequate long term funding for critical infrastructure investment needs while remaining sensitive to the ability of customers to pay for those needs. The City's Utility rate plans have significantly helped relieve the financial burden carried by the General Fund to bail them out. However, mounting sewer infrastructure costs will require a review of the sewer rate schedule in 2020.

City Council continues to use the fund balance policy and fiscal health index to track key financial indicators and to prepare contingency plans for a range of future revenue scenarios.

The combination of somewhat anemic income tax revenue growth coming into the General Fund, and potentially needing General Fund revenues to cover other City Fund shortfalls (e.g., sewer fund) is a matter that will have our attention throughout 2020-21.

2020 Budget Strategy

The challenge for our organization is to prepare a budget for 2020 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 8 years has created a degree of financial flexibility not otherwise available to us, which when combined with our cash balances in the undesignated fund, have enabled us to bridge operating budget gaps. We look to continue to leverage partnerships and grants in 2020.

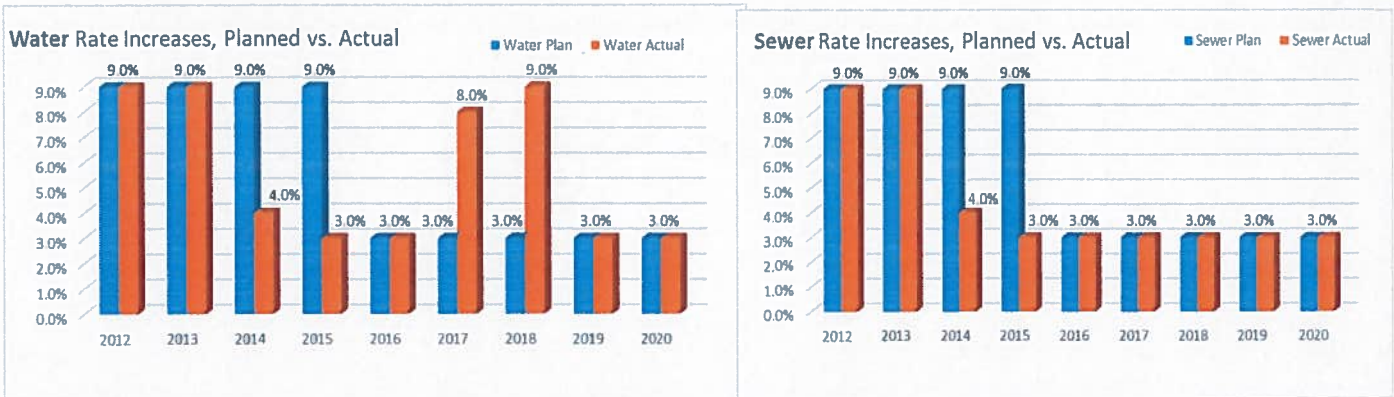
Utility Rate Plans

Council approved the multi-year rate stabilization plans for the water and sewer funds in 2011. The approved rate plans included 4 years of 9% rate increases to "catch-up" with deferred maintenance and capital costs, followed by 3% rate increases in the out years of the plan to keep pace with inflation.

In the first 2 years of rate "catch up" the rates approved by Council matched the rate plans. However, in the following 2 years, the rates were less than half of what was originally projected in the plans. As a result, a portion of the lost rates were "made-up" in 2017 and 2018 for the water fund; the sewer fund rate gap was not "made-up."

For 2020 the staff is recommending sticking with the planned 3% rate increases for water and sewer but sewer will likely need a rate "catch-up" in the next year or so.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Water Plan	9.0%	9.0%	9.0%	9.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Actual	9.0%	9.0%	4.0%	3.0%	3.0%	8.0%	9.0%	3.0%	3.0%
Difference	0.0%	0.0%	5.0%	6.0%	0.0%	-5.0%	-6.0%		
Sewer Plan	9.0%	9.0%	9.0%	9.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Sewer Actual	9.0%	9.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Difference	0.0%	0.0%	5.0%	6.0%	0.0%	0.0%	0.0%	0.0%	0.0%



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 2020 Operating Budget. The most significant assumptions built into the budget include the following:

- Income Tax performance is expected to grow a modest \$200,000 (1.2%) compared to the 2019 budgeted amount. The local private sector economy continues to moderate with an overall leveling of the tax base, plus an anticipated payroll contraction at KSU.
- Local Government Funds and Estate Taxes (which are now obsolete) will remain fully decreased by an annual average of \$900,000, attributable to changes imposed by the State, and in fact are projected to decrease further for the City of Kent in 2020 due to the impact of a change in allocation formula for Portage County entities.
- Kent-Franklin JEDD and Kent-Brimfield JEDD will show a leveling of projected revenues and remain comparable to 2019.
- All authorized positions have been budgeted at actual salary expenses as of October, 2019, plus adjustments of 2.75% for contracted increases scheduled for late 2019.
- Revenues in Water and Sewer Funds will be adequate to cover operating expenses and required capital needs for 2020 after implementing rate increases of 3% in sewer and 3% in water to stabilize fund reserves.
- Employer Medicare (FICA) expenses calculated at 1.45% of salary
- Workers' Compensation expenses calculated at 2.0% of salary
- Employer OPERS expenses calculated at 14.0% of salary
- Employer Police & Fire Pension expenses calculated at 19.5% and 24.0% respectively
- Employer Health Insurance expenses continue to be a concern, for 2020 this budget will increase from \$15,600 to \$16,500 per family for a total increase in City costs of \$182,700.
- Further revised staffing proposed for 2020 (including the creation of a new Utility Accounts Manager/Analyst position) accounts for an additional \$104,588 annually in the budget.
- Sellback expenses for sick and vacation time is based on prior two years activity.
- Overtime expense projections were provided by each department.
- Recommended O&M costs for 2020 compared to the most recent 2019 revised budget reflects a \$1,253,357 decrease, or 14.3% overall reduction (\$8,759,693 vs \$10,013,050).

Budgetary Objectives

The principle role of City Council in the budget adoption process is to ensure that the City's policy commitments are in alignment with budgetary allocations. The question for Council is have we appropriated the funds necessary in our budget to achieve our community priorities?

To that end, the budget is our investment plan for progress toward the vision we share for our community and for which Kent is proud to be known. We will look to partner with our citizen advisory boards, commissions, peer governments, and of course, the public to fulfill our strategic goals as noted below:

- Financial Health and Economic Development
"to be a prosperous and livable city for all citizens"
- Natural Resources
"to protect and promote the City's natural resources"
- Quality of Life
"to enhance lifestyle choices through physical and social environment"
- Community Safety
"to be an exceptionally safe city"
- Communities within the City
"to strengthen the quality and enhance the value of neighborhoods"
- City / University Synergy
"to expand collaborative opportunities that enrich the community experience"
- Governmental Performance
"to provide the best services at the lowest possible cost"

2020 Budget Numbers

The proposed 2020 budget looks to ensure critical spending where it is most needed and maintain cost containment practices in everything we do. Where staff requested budget increases we asked them to look for cuts to offset those increases. The goal was to keep discretionary cost increases on par with inflation.

The staff exceeded that budget challenge and the recommended total for 2020 Operations and Maintenance compared to the amended 2019 Operating Budget reflects a 14.3% decrease – \$8,759,693 vs \$10,013,050 in 2019.

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

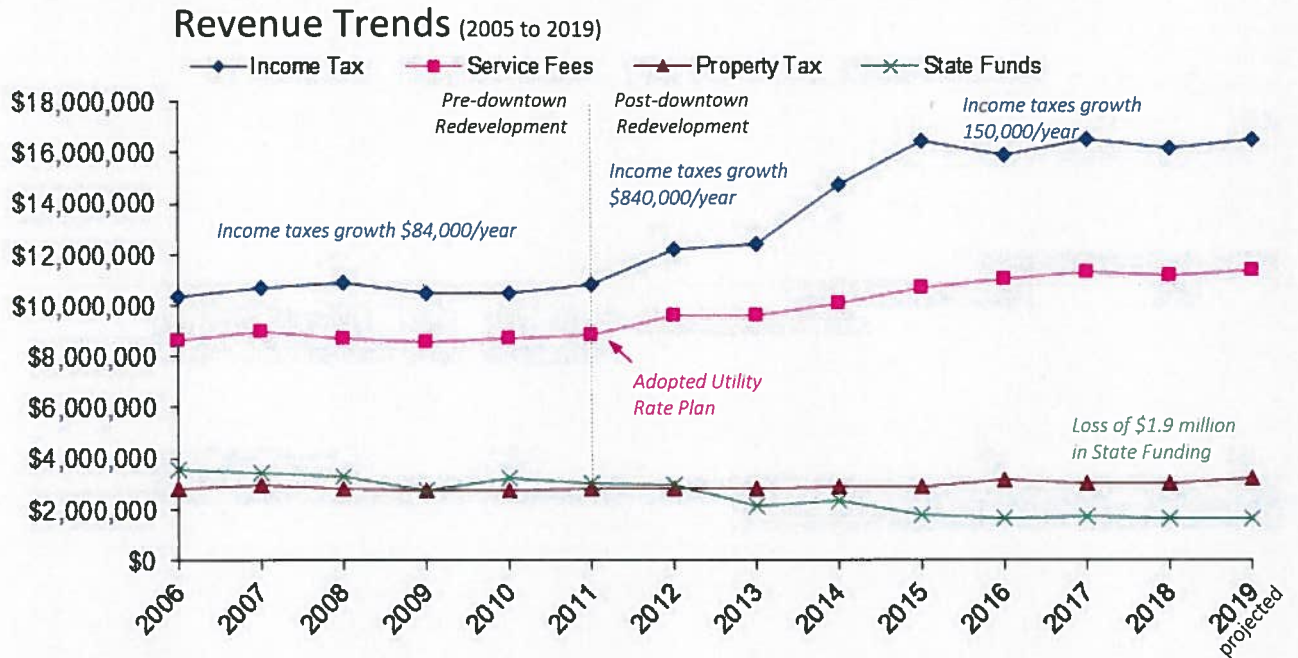
Most notably, the proposed 2020 Personnel budget includes the addition of a new full time revenue collections coordinator/utility account manager/analyst that we believe will be critical to managing and planning the utility funds. This addition along with some other minor personnel changes are anticipated to add \$104,588 annually to the City's operating costs.

It is important to note that the Personnel increases also reflect the union contract agreements of a 2.75% pay increase in 2020. With every 1% increase in wages, Personnel costs increase by approximately \$206,000 in increased pay.

With proposed personnel changes coupled with significant increases in health insurance and the contractual pay increases of 2.75% for 2020, the total Personnel Costs are projected to go up \$1,248,460 or 4.9% above 2019.

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

As noted, the trend of recovery in select revenue categories has flattened out in the current fiscal year leading staff to project only minimal revenue increases for 2020. (excluding capital/grants/bond revenues/user charges).



In Closing

We recognize that the City government must find ways of doing more with less. We continually review priorities, make decisions about what we can afford and what we cannot afford, and seek out better, less expensive ways to deliver essential services. We have done all of those things in preparing this budget.

I am honored to work alongside our skilled City employees to implement our collective vision and I thank them for their hard work and dedication. I am particularly proud of the teamwork that Department Heads have exhibited with one another in charting new ways of going about our business.

I would also like to specifically acknowledge David Coffee, Director of Finance and Budget, Brian Huff, City Controller, and the entire Finance Department team for the many hours required to produce a spending plan of this complexity and scope.

As the end of another fiscal year looms, I am grateful to you, our Council Members, for your many hours of service and dedication to our community.

I submit this budget anticipating good results for Kent in 2020. While we might not have all the funds we need to support City services at the level we desire, we have invested well and we have seen steady progress.

Whatever next year may bring, I look forward to working with the City Council, our staff and the citizenry to keep Kent strong and its future bright for generations to come.

Respectfully submitted,

Dave Ruller, Kent City Manager