RECAP

April 26th Financial Workshop

The fourth financial workshop was held on April 26, 2006. The participants included all members of City Council, and 5 out of 6 community experts serving on the Blue Ribbon Resource Team, the City Manager, the Budget and Finance Director, and lead staff from each city department.
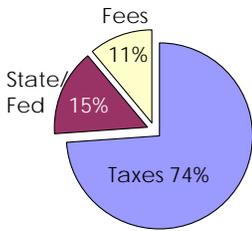
Parking lot

No items from the parking lot were reviewed at this workshop.

Purpose of the meeting

1) To review existing city fees, identify fee enhancement opportunities and offer some comparative data to benchmark city fees against peer cities. We defined the contribution of fees to the city's overall revenue base and staff tried to indicate possible impacts resulting from fee increases.

2) To discuss possible one-time revenue sources, e.g., sale of surplus city property, recognizing that one-time revenue supplements can help extend the life of the reserve fund balance, but it does not fix the annual cash flow shortfall that the city has experienced for the last 3 years.

> **Blue Ribbon Resource Team**
>
> John Thornton, Associate Professor Finance, KSU
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> Bill Hoover, Vice President, Key Bank
>
> Brian Bialik, Vice President, Home Savings Bank
>
> Joyce Harris, Wachovia Securities
>
> Amy Gilliland, Director, Analysis and Budget University of Akron
>
> Matt Fajack, Director, Financial Affairs, KSU

2005 City Revenues

Fees 11%
State/Fed 15%
Taxes 74%

Findings fee contributions
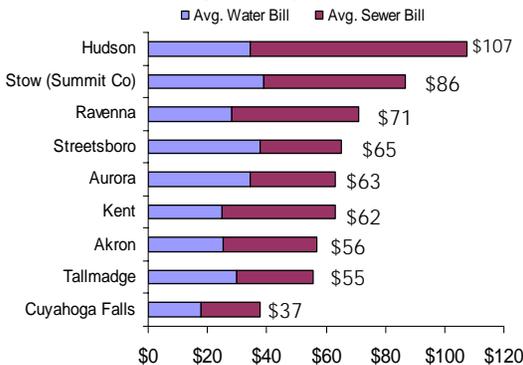
The City of Kent has three general sources of revenue:
1) Taxes (income and property)
2) State/Federal ("intergovernmental" funds)
3) Fees, Charges and Fines

In total, fees, charges and fines contribute between 8 to 12% of the revenues to the General Government fund, which is the fund in deficit.

The mobility of residents and employees in today's economy requires cities to compete not only on quality of life and services but also on cost. With that in mind, staff presented fee data for each department and the services they provide.
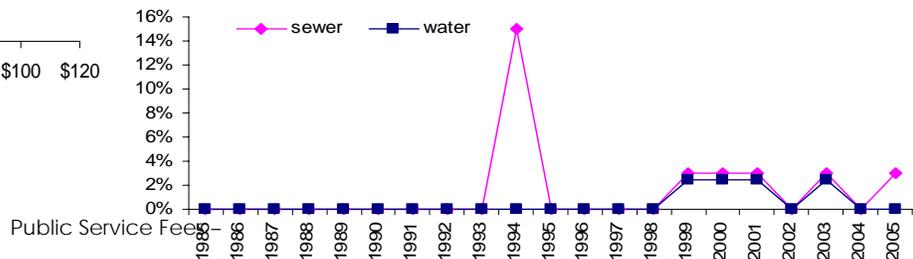
Water and Sewer Rates –

Kent's water and sewer rates are competitive with the region. Overall, Kent's water bill is the second lowest in the region and the sewer is right about at the average. The "effective" utility burden on the average Kent family is approximately $5 less per household than the regional average.

The history of rate increases for Kent Water and Sewer shows relatively little change over the last 20 years with the exception of a large sewer increase in 1994. Over a 20 year period when inflation rose annually around 2% to 3%, the city's rates averaged an annualized 1.5% rise in sewer and .5% rise in water; well below the consumer price index.

Peer City Monthly Utility Bill Comparisons
(based on average monthly consumption)

■ Avg. Water Bill   ■ Avg. Sewer Bill

City	Bill
Hudson	$107
Stow (Summit Co)	$86
Ravenna	$71
Streetsboro	$65
Aurora	$63
Kent	$62
Akron	$56
Tallmadge	$55
Cuyahoga Falls	$37

Kent Water and Sewer Rate Increases

◆ sewer   ■ water

Public Service Fees –

There were no obvious gaps in the city's fee structure and the rates charged by the city for typical public services are consistent with regional peers. The only exception noted was for animal trapping which is only recovering about 25% of the actual costs through the $20 fee.

Public Safety Fees –
Emergency medical service fees and township fire contracts were reviewed and discussed in a fair amount of detail. The cost/revenue numbers for these services indicate that the city is not fully recovering its costs at existing fee rates. Parking fines, permits, false alarm fees, speed enforcement, and police fees for responses were also discussed.

Surplus City Property –
A list was provided by Gene Roberts that identified all the city properties with reference to the current use. This list will continue to be updated to capture additional information and determine whether it needs to stay in the city inventory and what could be sold.
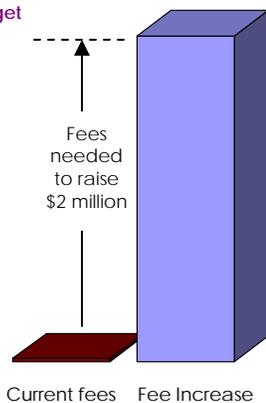
Conclusions on fees, charges and fines

Fee Increase of 1,000% to Balance Budget

Fees needed to raise $2 million

Current fees   Fee Increase

Nationally, more and more cities are trying to increase the transparency of public service costs and introduce user fees as much as possible rather than having residents pay for services in a one-lump sum general tax base. User fees are generally considered a more equitable method of allocating service costs to those that actually consume the service and as a result they provide a price signal that typically allows more efficient consumption. In other words, if you pay based on how much you use a service you are more inclined to be more frugal in your use of that service; whereas if you pay one lump sum a year you are more inclined to apply an "all you can eat" mentality and actually use more of the service than you need which drives up service costs higher than perhaps is necessary.

When it comes to the protecting the "public good" there are limits to the market based pricing model but it has been used for years in public utilities and likely has relevant application in other service areas as well. How much those fees can be used to make up the $2 million budget gap will require some discussion of pricing philosophy and whether the city leans towards a "cost led pricing" model (where you add up all your costs to deliver the service and set your price accordingly) or a "price led costing" approach (where you look at market prices and set your prices accordingly).

Given the fact that it would take a 1,000% increase in all city general fund fees to make up the $2 million deficit, fees are likely to only be a small part of a larger financial strategy.

Parking Lot follow-up items   Status

1)	Compare City Department OT to peer cities	Data proven unavailable/uncomparable
2)	Calculate service demand vs. revenue contributions from Kent State University	Data collection in progress
3)	Discuss legal costs and use of professional services for legal work	Presentation at 2/22/06 workshop
4)	Calculate effective tax rate for Kent residents and compare with peer cities	Data presentation at May 31 workshop
5)	Investigate the use of seasonal Solid Waste fees, e.g., leaf service, spring clean up	Analysis in progress