

CITY OF KENT, OHIO
2015 RECOMMENDED BUDGET

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City Manager's Budget Message

2015 Proposed Operating Budget

October 23, 2014



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 2015 Proposed Operating Budget for City Council's consideration.

Overview

The 2015 proposed City budget contains the budgetary line items that the staff recommends for sustaining the levels of services for our community in 2015. 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 2015, as it governs the pace of progress towards our strategic priorities through the resource allocation decisions contained within it.

Our budget process is designed to produce a set of numbers that will guide us in fulfilling our mission in 2015, but those numbers must also be dynamic enough to absorb unexpected challenges and take advantage of timely opportunities. Even in difficult economic times we should expect nothing less from our budget and I believe this budget provides the resiliency needed to serve those purposes.

One of the greatest challenges for producing a budget is trying to forecast what the future holds for our local economy. We study, plan, and anticipate, but a lot can change in the 12 to 16 months between when the budget is proposed and when its term expires.

In preparing the 2015 budget we've done our due diligence and run the numbers to produce a budget that we think will most accurately reflect the economic conditions in 2015. With nearly a decade of budget cuts and savings behind us, we can predict expenses with a reasonably high degree of certainty. Revenues remain less certain although we are cautiously optimistic following three successive years of income tax growth.

The Kent economy has many examples of an ongoing economic recovery and the corresponding revenue increases appear to be stabilizing at a 2-3% annualized growth rate. Temporary new construction revenues are likely to once again provide another short term boost in revenues as construction is scheduled to begin on a number of large new university projects in 2015-2016. With an intentional bias towards conservative budget forecasting, the proposed 2015 does not factor in the temporary new construction income gains that are likely for 2015 so it is reasonable to assume that income tax revenues will end up exceeding the preliminary projections for that reason.

Budgetary Constraints

Reliability, stability and continuity are highly valued attributes in City services and our 2015 budget upholds those commitments to our residents. Innovation and progress are equally important City service values yet until the dust settles and an economic recovery is certain, the proposed 2015 Operating Budget has few new programs, choosing instead to focus on refining existing services with incremental gains wherever possible.

The economic reality of the last five years has slowed the pace of new initiatives but not the desire of staff to improve the services we offer Kent residents. Coming out of an extended period of economic uncertainty, many of our services have spent years in positions where they are under-funded and we are only now beginning to have enough confidence in the prospect of a sustained economic recovery that we have begun to reinvest in our operating resources. The 2015 budget remains tight-fisted but where possible we have found ways to begin to incrementally work our way back and catch up our resource allocations with our resource needs.

The budget message over the last couple of years has described Kent as "less worse" than our peer cities, and thanks to a string of unprecedented public and private investments, Kent has maintained that leadership position heading into 2015. Kent is recognized as an award winning city where economic development is working – the job count is up, existing businesses are expanding, and new businesses are opening up – all of which is reflected in rising income tax receipts.

The economic restructuring that is underway in northeast Ohio favors entrepreneurship, collaboration, and close ties between the business community and academic research and development. We've made these guiding principles in our budget strategy, investing in building the resource networks and physical infrastructure to leverage our assets and position Kent for success in the new economy.

Local Economic Conditions

Across a wide range of economic indicators -- including unemployment, private investment, new jobs, University spending, manufacturing production, corporate profit and retail sales – the Kent economy has ample evidence of a sustainable economic recovery. However, it is still early in the recovery stage and City's revenues tend to lag a couple of years behind the private sector so the proposed 2015 budget continues to impose conservative fiscal management on spending in order to provide enough time for the private sector momentum to translate into public sector tax growth.

The City's fiscal distress and diminished reserve balances resulting from the economic contraction coming out of the "great recession" didn't happen overnight and the City's recovery won't catch up in one year either. I am hopeful that the 2015 budget continues to build on prior year gains and marks the beginning of a return to a more balanced approach to budgeting and the end of wholesale retrenchment of City services.

The City's commitment to aggressive cost cutting measures over the last 8 years, along with revenue stabilization derived from Kent State University, and the new economic initiatives in downtown Kent, enabled the City to hold the line on the budget long enough to actually emerge from the recession in a stronger competitive position financially than at any point in the last 2 decades.

For year end 2013, overall City income tax collections were up 2.7% (\$334,514) from December 2012, and Kent State University's collections for 2013 were up 3.75% (\$166,430). Those gains in 2013 come after an increase of 12% in 2012, which is being followed by a 2% increase in 2014 – totaling a near 18% jump in income taxes over a three year period.

While Kent State University remains the City's largest employer, job growth occurring in the private sector resulted in Kent State University's income tax contributions dropping from 39.6% in 2011 to 37.1% of total municipal income tax revenues from in 2013 -- and that trend has continued in 2014 with the University share at 36% through the end of July.

The City is still heavily influenced by the University's tax revenues but the modest private sector job growth is a welcomed step towards greater diversification.

In 2012, 2013 and again in 2014, Kent State University set new student enrollment records, adding more students in each academic year to top the previous hundred year enrollment record set in 2010. Strong university enrollment has proven to be a driver in the revival of Kent's local economy and the rising enrollment trends are favorable for Kent's short term economic future.

2013 marked another year of income tax rebound, largely from construction activity and newly emerging business sectors rather than Kent State University or the other top ten income tax contributors in Kent, who as a group remained relatively flat.

The diversification of income tax revenues is a long term financial goal and the job creation resulting from the early phases of the downtown redevelopment have pushed the City's 2014 income tax receipts to their highest recorded level in decades. Total income tax receipts for the City in 2013 (not including the Franklin and Brimfield JEDD) exceeded the prior year by 2.7 % or \$334,514.

The City continued its work with Franklin and Brimfield townships during 2014 to recruit new businesses and expand business development opportunities within the JEDD boundaries. As a result of these partnerships, the City received \$619,681 as its combined share of JEDD income taxes in 2013.

Investments in Kent

In 2013 Kent State University continued the largest capital re-investment program in the history of the University, initiating major renovations at Taylor Hall, Prentice Hall, Cartwright Hall, Music and Speech, Williams Hall, Tri-Towers, Heer Hall, and the Library building. The University began construction on the new Applied Engineering building, and announced the \$48 million new College of Architecture and the new \$18 million Institutional Advancement buildings that will further strengthen the campus connection to the Central Business District. These investments have transformed the campus and the campus community connection, generating significant construction related jobs and tax revenues.

Elsewhere in the Kent community new construction values were on the rise in 2013. Single family residential construction showed some signs of recovery; two aging shopping plazas were purchased and restored, and the second phase of a senior housing complex was completed in 2013. Even with the construction of 4,000 new student rental beds in 2012, student housing units were running at 99% full which explains the interest of private developers to invest another \$40 million in new student housing units in Kent in the upcoming years.

The commercial construction market rebound that began in 2009 continued in 2013, energizing Kent's economy. Construction permits and investments in 2013 declined from the records set in 2011-12 but commercial investment was still more than twice the average of the previous 20 years at \$16,094,881. Residential investment in 2013 was up 65% hitting a 5 year high of \$864,890.

On the public side, the City continued to aggressively pursue Federal, State and Regional grant funds for infrastructure improvement projects. As a result, the City has repaired more bridges, streets and sidewalks than it has in decades with additional projects in the pipeline for the next 2-4 years, e.g, \$18 million Summit Street Transportation Project, \$3 million SR 43 Signal Upgrade, Area Q Stormwater Project, and the new \$18 million City Police Building. Over the last 5 years the City was awarded (or was a partner in grant awards) amounting to over \$50 million in stimulus/grant funds, which has enabled the City to leverage grant funds to City funds at better than a 4:1 ratio.

For the first time in 15 years the City's financial position was evaluated by Moody's Rating agency in 2013 and I am pleased to report that the City was able to achieve a AA2 bond rating that reflects a high degree of investor confidence in the stability and long term economic performance of the City of Kent. That bond rating also translates into savings in interest rates to the City on our long term debt.

Financially we have much to be proud of in 2014. Our efforts to make strategic investments to spark a resurgence of business activity in Kent appears to be working and for two successive years we were able to re-direct excess operating revenues to supplement the City's street maintenance program and get more streets paved.

That is an early example of our strategy to leverage our downtown capital investment to support City services with new sources of operating revenues. The goal is to ensure financial solvency for the long term so that we are in a position to restore and grow our operating services to meet the community's needs without new taxes. In 2013 we took our first steps down towards achieving that goal.

On paper the 2015 budget reflects a shortfall that would require the use of \$1 to \$2 million in undesignated funds to balance the budget but the staff remains optimistic that the conservative forecasts for revenues will out-perform projections and reduce that final figure to a manageable level that will allow us to resume some strategic operational spending with limited, if any, undesignated fund balance contribution.

2015 Budget Strategy

The challenge for our organization is to prepare a budget for 2015 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 thoughtfully constrained Operating budget and Capital Plan.

The staff success in securing grant funds over the last 5 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 continue to bridge operating budget gaps. Our tactic has been to leverage our more liquid funds to fill the gaps and be a catalyst for the restoration of the Operating budget sources. We have proposed to continue to leverage partnerships and grants.

In 2011 City Council approved a multi-year utility rate stabilization plan to ensure adequate long term funding for critical water/sewer infrastructure investment needs while remaining sensitive to the ability of customers to pay for those needs. This multi-year rate plan represents a significant commitment to preserving the long term viability of the utility infrastructure while gradually reducing the impacts of the utility funds on the General Fund. The original rate plan projected the need for a 9% rate increase in both water and sewer rates effective in 2015 but through cost savings and productivity improvements the staff have been able to reduce the rate increase to 3%.

Even during the hardest economic times we worked hard to avoid letting our community goals be held hostage to the economic tide and it seems to be working. There is solid evidence in our community that our short term cost cutting strategies combined with the strategic use of our one-time funds have made a difference in attracting new private investment -- and internally the implementation of multi-year stabilization plans and fund balance policies have enabled the City to emerge from the financial crisis stronger than we've been at any point in the last 15 years.

In a year when we are proposing to use undesignated fund balance to back-fill projected Operating revenue shortfalls, I think it's important to reference our fiscal resiliency. On paper, the City's undesignated fund balance will make an estimated \$1.9 million contribution to the Operating fund in 2015. At that level of investment, the undesignated fund balance is projected to drop to a new balance of approximately \$000 by year end 2015.

The \$1.9 million projected gap is the same size gap that on paper was projected for 2014. Historically we have beat our projections by a range of 30% to 40% and we are on pace to beat that gap forecast in 2014 so it is not unreasonable to expect the same for 2015. It's worth noting that our gap projection remains the same from 2014 to 2015 while our expenses for that same period has increased %.

Although our dependency on undesignated reserves has diminished and stabilized, we still have a lot of ground to make up financially from years of under-funding our services and below is a list of the types of fiscal vigilance that we will continue to use in 2015:

- 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.

Productivity improvements, efficiencies and cost savings remain a top priority at every level in the City organization. In 2014 we continued to take advantage of cost savings opportunities and as a result of those actions we are looking at saving \$200,000 from our 2015 budget.

When the \$200,000 reduction is added to the cuts and savings made over the last 8 years, the non-personnel savings have reached a new total \$2.6 million and personnel savings at \$3.7 million.

Budgetary Assumptions

As noted, we have applied conservative budget principals to our draft 2015 Operating Budget. The most significant budgetary assumptions built into the budget include the following:

- Income Tax receipts show a modest (4.03%) increase; Local Government Funds show a decrease of \$900,000 and the Kent-Franklin JEDD will show an increase of \$90,000 reflecting continued growth in the JEDD.
- All authorized positions have been budgeted at actual salary expenses as of October, 2014, plus adjustments of 3% for contracted increases scheduled for late year 2014 or first pay of 2015.
- Revenues in Water and Sewer Funds will replenish related capital investments use of reserve balances while allowing lower rate increases (3%) than what were approved (9%) in the original rate stabilization plan.
- Employer Medicare (FICA) expenses calculated at 1.45% of salary
- Workers' Compensation expenses calculated at 1.8% 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 2015 this budget will increase from \$12,300 to \$13,050 per family.
- One Compliance Officer position added at a cost of \$56,022 to Police Support Services for downtown parking enforcement.
- Possible part-time sanitarian position to be presented as a budget amendment in 2015 based on management determination/recommendation.
- Sellback expenses for sick and vacation time is based on prior two years activity.
- Overtime expense projections were provided by each department.
- Budget authorizes 2 vacant firefighter positions, but does not fund for the positions
Vacant positions would have required approximately \$160,000 in additional funding
- Public Safety budget reflects additional \$159,380 for anticipated retirements.
- The vacant Public Safety Director position is not budgeted to be replaced, thereby reducing the budget in excess of \$100,000 in salary and benefits.
- Operating Expenses in the Operations & Maintenance categories are to remain at 2014 levels except where there is substantiated variance on essential materials or contracts.
- Recommended O&M costs for 2015 reflects an \$81,023 decrease or 1.02% overall reduction over the most recent 2014 amendment.
- Insurance/Bonding – we are budgeting a citywide premium increase of \$9,000 over 2014 based on the acquisition of new assets with higher replacement costs.

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 the most important policy action that we will take all year long. It's our investment plan for progress toward the vision we share for our community and for which Kent is proud to be known. Despite diminished resources, this budget will still push for progress on the City's strategic priorities. 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"

2015 Budget Numbers

The proposed 2015 budget looks to resume critical spending where it is most needed while extending cost containment practices everywhere else. We asked staff to propose more cuts where they saw opportunities to do so, and to hold their budgets to 2% growth unless increases were clearly justifiable.

Once again the staff rose to the budget challenge and the recommended total for 2015 Operations and Maintenance compared to the most recent 2014 Amended Budget reflects a \$81,023 decrease, or 1.02% overall reduction in O&M -- \$7,922,267 in 2015 vs. \$8,003,290 in 2014.

As a service provider the City's largest cost relates to its investment in personnel. In total, it costs about \$70,000 per workday to perform City services – with 50% of those costs are attributed to Fire and Police functions.

Following the cuts in positions that occurred from 2005 to 2008, in 2015 the City will be operating at a staffing level (full time) that is essentially the same as we had 15 years ago (191 employees) and the Proposed Operating Budget total for 2015 Personnel Expenses compared to the 2012 Amended Personnel Budget reflects a \$473,066 increase, or 2.5% personnel expense increase -- \$19,649,725 in 2014 vs. \$19,176,659 in 2013.

It is important to note that the Personnel increases reflect the union contract agreements of a 3% pay increase in 2015. With every 1% increase in wages, the Personnel costs amount to approximately \$145,000 in increased pay citywide (excluding overtime pay).

As noted, there has been a trend of recovery in select revenue categories, particularly income taxes, so for 2015 the staff is projecting a modest 6% increase in operating revenues (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 just as we have in each of the budgets preceding it.

Despite the stress of delivering public services in such austere economic times, 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.

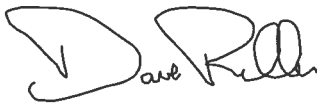
I would also like to specifically acknowledge David Coffee, Director of Finance and Budget, Brian Huff, City Controller, and the entire Finance Department team for the many hours required to produce a spending plan of this complexity and scope.

As the end of another fiscal year looms, like most citizens of Kent, 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 things for Kent in 2015. While we might not have all the funds we need to support City services at the level we desire, we have invested well and there is evidence of an economic recovery underway in Kent.

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,

A handwritten signature in black ink that reads "Dave Ruller". The signature is stylized, with the first name "Dave" written in a large, bold, cursive font, and the last name "Ruller" written in a smaller, more compact cursive font to the right.

Dave Ruller, Kent City Manager