CITY OF LAKEWOOD FINANCIAL REVIEW

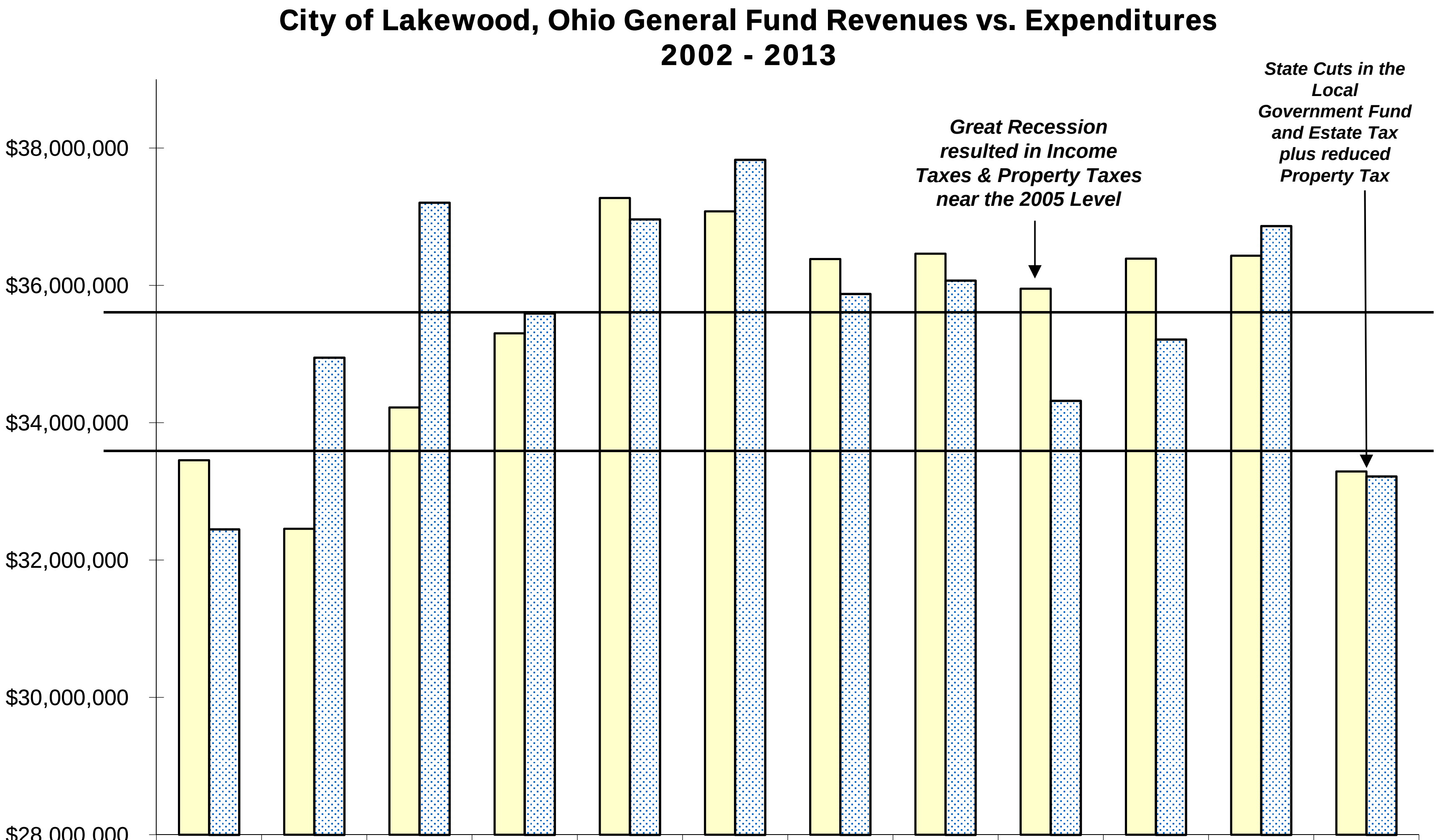
February 25, 2013

Government Finance 101

Importance of Fund Accounting

- Laws that govern how governments record and report their finances.
- Appropriate use and accounting of funds restricted by revenue source.
- Debt Service Fund can only be used for debt service expenditures, Water & Sewer Funds can only be used for water & sewer expenditures respectively, etc.
- The City currently has over 60 active funds with specific revenue streams and purposes.
- Only General Fund can be used for all purposes.
- Therefore, the City can have sufficient funds in one fund, but another fund can be stressed.

Stress on Lakewood's General Fund



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Unaudited	2013 Estimated
Revenues	$33,453,162	$32,455,524	$34,222,193	$35,301,002	$37,271,283	$37,078,299	$36,383,736	$36,461,145	$35,950,904	$36,389,448	$36,432,060	$33,289,533
Expenditures	$32,448,511	$34,948,217	$37,203,926	$35,591,996	$36,960,228	$37,828,925	$35,875,703	$36,070,451	$34,318,571	$35,211,518	$36,863,988	$33,217,232

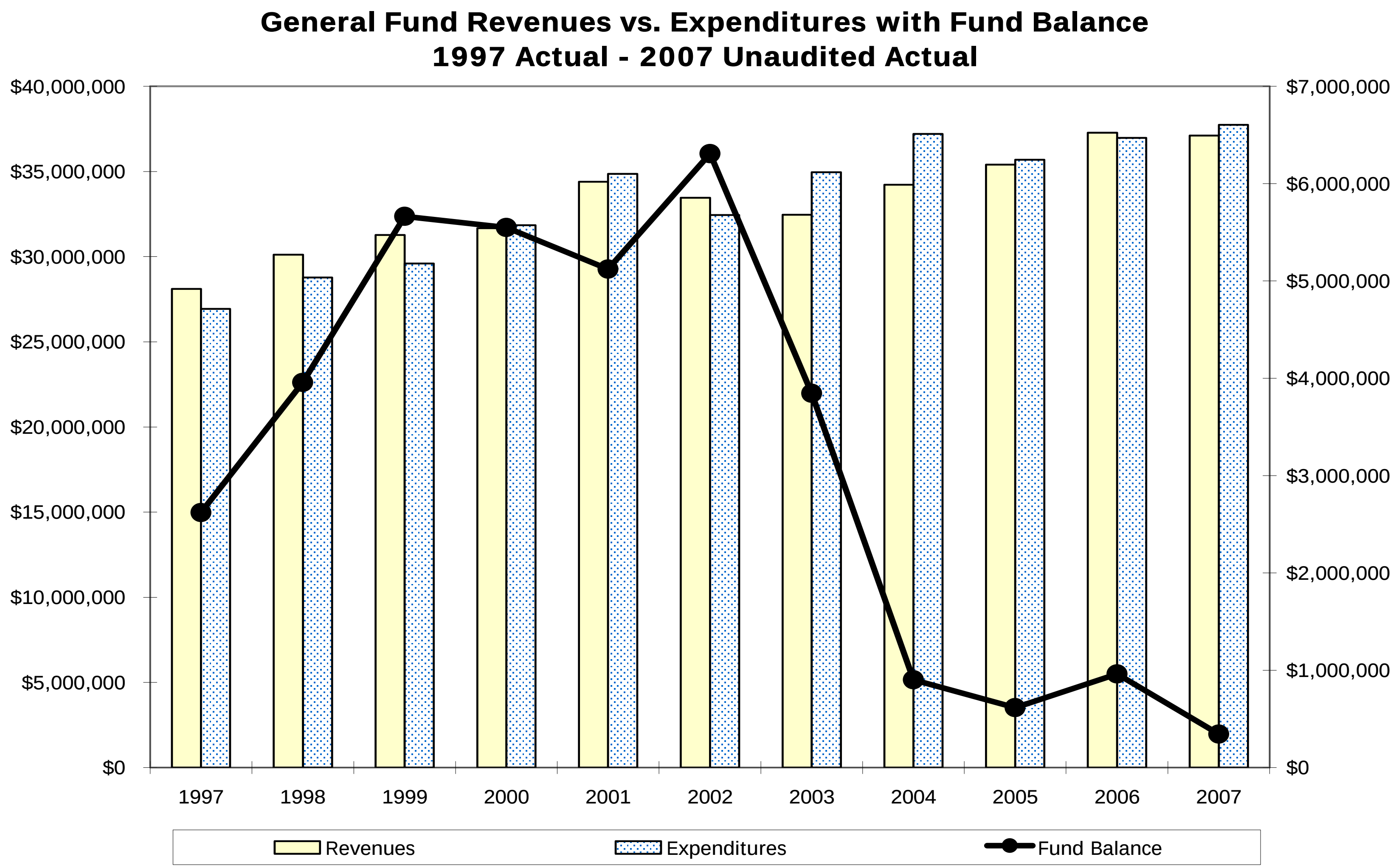
Why?

- How Did the City Get to this Financial Picture Going into 2013 and Beyond?
  - #1 Reason: Internal Stressors
  - #2 Reason: The Great Recession
  - #3 Reason: Governor Kasich & the State Legislature

Why?

#1 Reason: Internal Stressors

- In November 2007, the City of Lakewood Finance Department projected over a $4.5 million 2008 General Fund operating deficit and this was verified by the State Auditor's Office.
- This was due to years of not passing "Structurally Balanced" General Fund Budgets which spent down the City's unencumbered fund balance to a low of under $350,000 at the end of 2007.
- Structurally Balanced means that projected revenues do not exceed anticipated expenditures, and the unencumbered fund balance is not factored into the revenues for the upcoming year.



- Expenditure growth has outpaced revenue growth resulting in structural imbalance of the General Fund since 2000 for the City of Lakewood.
- In November 2007, the City of Lakewood Finance Department projected over a $4.5 million 2008 General Fund operating deficit.
- On January 31, 2008, the State Auditor's Office verified within 1.9% the reasonableness of the November estimated operating deficit

Why Should a Healthy Fund Balance Matter?

- It matters a lot. A healthy fund balance means that the City has funds available in the event an unforeseen expenditure occurs or anticipated revenues do not materialize. It means that the City is able to pay its creditors and employees in case of an unanticipated event.
- It is important to stress creditors, since the City has borrowed money through notes and bonds to pay for streets, parks and other infrastructure projects. This ability to pay investors is reflected in the City's bond rating.
- The better the rating, the less expensive it is to borrow.
- Also, the ability to pay expenditures early in the year before revenues are realized.

What is Considered a Healthy Fund Balance?

- The Government Finance Officers Association recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."

- City of Lakewood's 2013 Projected Revenues = $33.3 million.

- 60 Days = $5.47 million

- Current Projected 2013 General Fund Unencumbered Ending Balance = $5.07 million or about 55 days reserve.

- City has come along way, but still not more than the two month minimum.

- The 2007 Fund Balance was less that 1% of expenditures that year or a 3 day reserve.

Why?

#2 Reason: The Great Recession

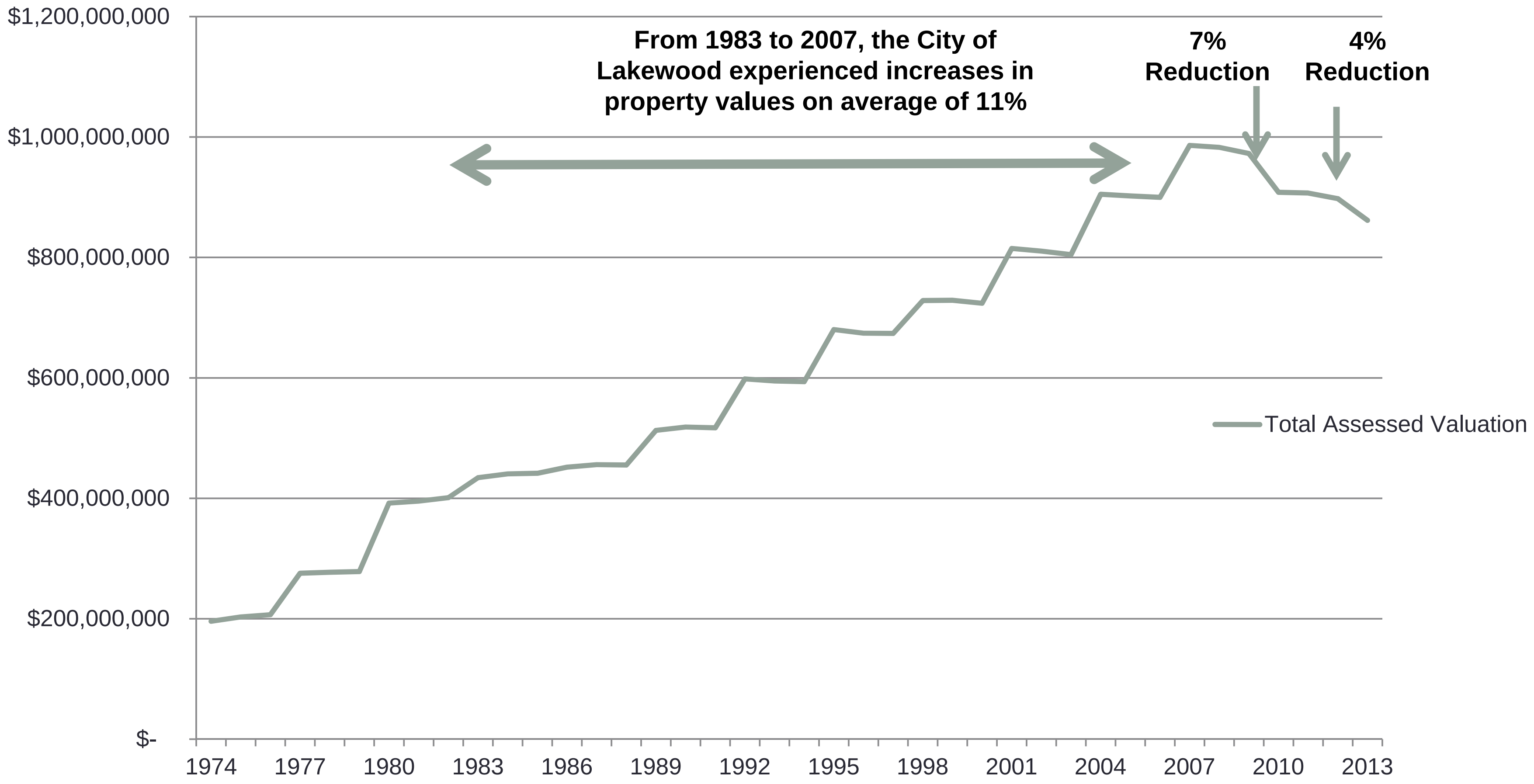
- Lakewood experienced the following decrease in Income Tax Revenues:
  - 2007 = $18,300,458
  - 2010 = $17,684,600

  Approximately a $616,000 hit

- Income Taxes have recovered & the City had net receipts of $18.85 million in 2012

- Property Taxes have not . . .

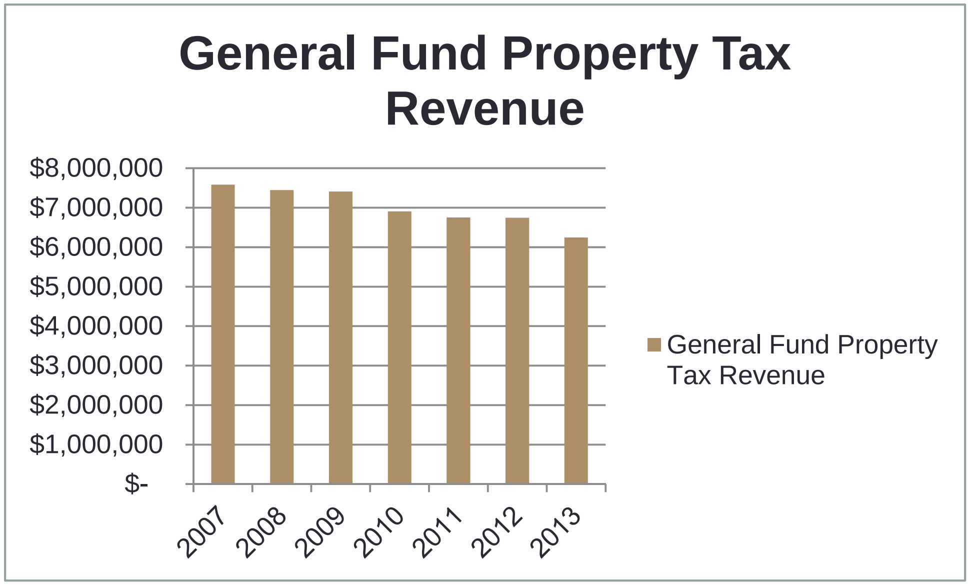
City of Lakewood Assessed Valuation or Property Value 1974 - 2013



Why?

#2 Reason: The Great Recession

- City of Lakewood General Fund Property Tax Revenue:



- Over a $1.0 million reduction in revenue since 2007.

Why?

#3 Reason: Governor Kasich & the State Legislature

- 2011-2013 State Biennial Budget
  - Cut Local Government Fund 50%
  - Eliminated the Estate Tax effective Jan. 1, 2013
  - Eliminated the CAT Tax

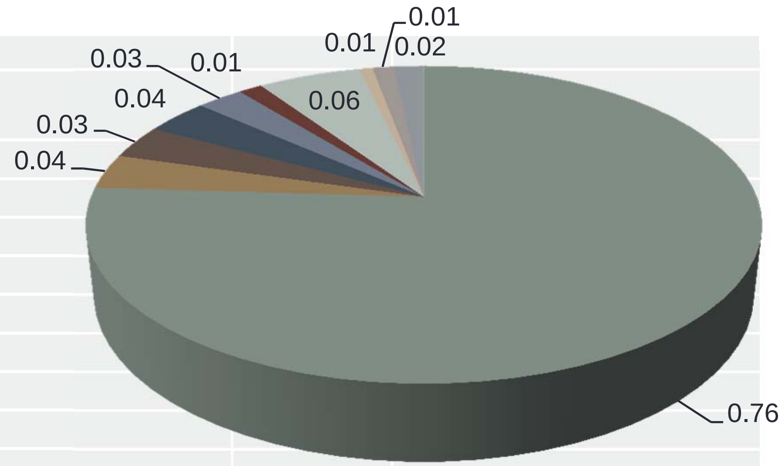
- Impact on City of Lakewood
  - Local Government Fund 2010 = $3.6 million
  - Local Government Fund 2013 Projected = $1.53 million
  - Average Estate Tax Revenues 2005 – 2012 = $1.2 million
    - Highest $1.7 million in 2010 & lowest $590,000 in 2008
    - Typically Budget $700,000
  - CAT Tax revenues approximately $200,000

- Big questions what the 2013-2015 State Budget will look like.
  - HB 5 is an indication of things to come.
  - Will know more Spring 2013 with passage probably in June 2013.

How Can the City Balance its Budget?

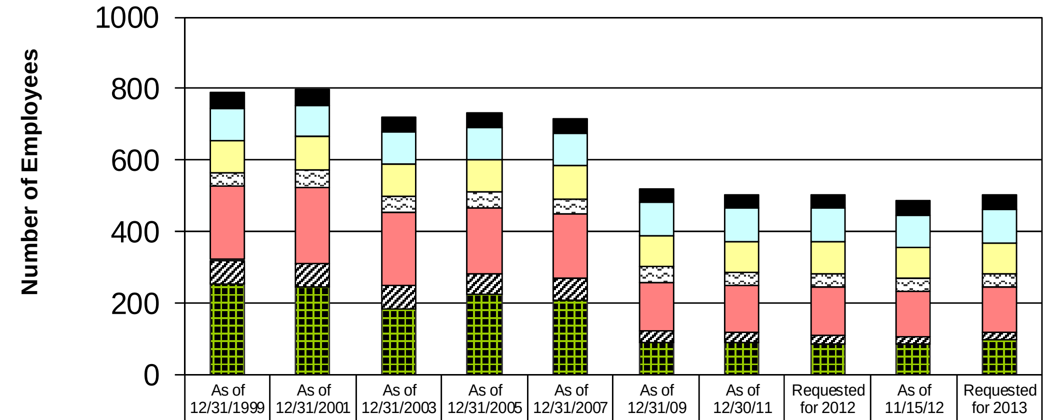
- Salaries & Benefits make up 76% of every General Fund Dollar Spent.

EXPENDITURE DOLLAR BY OBJECT			
What the money was spent on			
1	Salaries and Fringe Benefits	$25,151,007	$0.76
2	Contractual Services	1,506,060	0.04
3	Professional Services	1,131,120	0.03
4	Materials & Supplies	1,527,405	0.04
5	Utilities	873,800	0.03
6	Capital	446,500	0.01
7	Miscellaneous	1,928,530	0.06
8	Reserve Balance	250,000	0.01
9	Income Tax Refunds	400,000	0.01
10	Transfer & Advances Out	894,469	0.02
		$33,214,422	$1.00



How Can the City Balance its Budget?

- Staff Reductions of 210 full & part-time positions since 2007



	As of 12/31/1999	As of 12/31/2001	As of 12/31/2003	As of 12/31/2005	As of 12/31/2007	As of 12/31/09	As of 12/30/11	Requested for 2012	As of 11/15/12	Requested for 2013
General Government (Does Not Include Municipal Court Employees)	48	47	43	41	42	38	37	40	40	41
Uniform Police Officers (2013 does not include 4 Part-Time Officers)	87	84	86	87	90	94	94	94	90	94
Uniform Firefighters & EMS	90	93	93	93	93	88	87	87	87	87
Other Public Safety	38	49	45	42	42	42	37	38	36	36
Public Works	206	214	205	186	178	138	132	134	128	129
Human Services	65	66	63	59	61	31	27	24	21	21
Estimated Part-time / Seasonal (Does Not Include Municipal Court Employees)	257	245	185	223	209	90	90	88	85	97

Staffing Reduction Totals 2007 vs. 2013

	2007	2013	Reduction
Full - Time	506	408	98
Part-Time	209	97	112
Total	**715**	**505**	**210**

How Can the City Balance its Budget?

- Strategic navigation of replacing positions caused by attrition especially in light of changes in the State's Pension Systems.

- Appropriate and best use of City's existing and future workforce.

- Focus on the City's 2013 Objectives.

Thank you!

Questions?