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ESTIMATED FINANCIAL IMPACT OF THE LAKEWOOD HOSPITAL TRANSITION **ON THE CITY OF LAKEWOOD as of February 9, 2015**

Overview

- It is accurate to say that the 2016 financial impact of the Lakewood Hospital transition is approximately \$1.5 to \$1.7 million to the City's General Fund. This is approximately 4% of the General Fund Revenues. Although this amount may sound daunting, it is not insurmountable or devastating to the City.
- To put this into context, in 2007 the City faced over a \$4.0 million projected deficit going into 2008, or 11% of General Fund revenues, and the 2007 year-end fund balance was a little over \$300,000 or a 2- day reserve. This was confirmed independently by the State of Ohio Auditor's Office in early 2008.
- The Administration and City Council in 2008 and ever since, worked to improve the City's financial position by passing structurally balanced budgets in that projected expenditures did not exceed projected revenues. This practice reversed decades old financial practices that led to the dismal fiscal situation the City faced at the end of 2007.
- In a mere eight years, the City's financial stability is the best that it has been in decades with a General Fund ending balance in excess of \$6.0 million or over 60 days in reserve. That amount does not include the \$1.7 million budget stabilization account created in 2014, and the over \$1.0 million currently in the economic development account.
- Since 2008, the City has overcome the following additional financial hits while maintaining / improving services and not raising taxes:
 - The housing crisis impact on General Fund = \$1.13 million in reduced property taxes
 - The 2012/2013 State Legislature impact on General Fund with the elimination of the Estate Taxes (\$1.5 million average a year) and CAT taxes (\$200,000), and the severe reduction of the Local Government Fund (\$1.82 million) disbursement by 50% = \$3.52 million reduction annually to the General Fund that began in 2013.
- The City of Lakewood is the strongest it has even been financially in decades, all the while weathering financial challenges, and it will definitely be able to successfully navigate the Lakewood Hospital Transition in the short-term, and will benefit greatly from the future investments and development that the Letter of Intent allows.

Lakewood Hospital Fund

- Currently the biggest financial impact of the lease with Cleveland Clinic Foundation to run the hospital is the annual lease payment, which will be \$1.15 million in 2015, since there is a step up of \$25,000 every three years (2012-2014 the amount was \$1.125 million a year).
- However, the largest current revenue into the Lakewood Hospital Fund is EMS transport fees, which were nearly \$1.3 million in 2014. These will not go away, and will only increase over time.
- The largest expenditure out of this fund is the salaries and benefits for the 9 Paramedics and 7 Firefighter/EMTs, which totaled approximately \$1.4 million in 2014.
- In order for this fund to be sustainable (expenditures do not exceed revenues), the salaries and benefits of the 7 Firefighters/EMTs will be shifted to the General Fund (approximately a \$750,000 impact) and move the City's annual Cuyahoga County Health Department payment to the General Fund (\$205,000).
- All being said, the changes in the Lakewood Hospital Fund should have an approximately \$955,000 impact on the General Fund beginning in 2016.

General Fund

- Income Tax Withholding from the Hospital has been approximately \$950,000 annually for the past 3 years. This is almost 5% of all Income Tax Revenues, and about 1% of All General Fund Revenues. With approximately 1,100 employees currently at Lakewood Hospital, that means the average withholding tax paid per employee is around \$863 a year. It has been projected (although loosely, with nothing definitive at this point) that there will be approximately 250 employees at the new Cleveland Clinic facility. If that is the case, and those employees have the same amount of withholding, the projected withholding revenue will be \$215,000. This is a reduction of approximately \$735,000.

Proposed Financial Handling of the Terms of the Letter of Intent

- Sale of 850 Columbia Road proceeds of \$8.2 million - This would go into the Fund Balance of the Lakewood Hospital Fund. This would give the City leverage for site development, and maintenance and improvement of the parcels/buildings/homes the City would acquire. The City would strive not to use these revenues for operating costs.
- Sale of the property for the construction of the new Family Health Center (amount to be determined) – This would go into the Fund Balance of the Lakewood Hospital Fund. This would give the City leverage for site development, and maintenance and improvement of the parcels/buildings/homes the City would acquire. The City would strive not to use these revenues for operating costs.
- The City would hopefully have a 3rd party that the City would Lease the parcels/buildings/homes to operate (amount to be determined) - This would go into the Fund Balance of the Lakewood Hospital Fund. This would give the City leverage for site development, and maintenance and improvement of the parcels/buildings/homes the City would acquire. The City would strive not to use these revenues for operating costs.
- Any sale of the parcels/buildings/homes the City would acquire would go to the Land Acquisition Fund to capitalize on any future development / investments. No sales of these properties are currently being considered.
- If a municipal tax sharing agreement is made with the City of Avon (amount to be determined), these funds would go to the General Fund.
- Any property taxes realized from the transition of property from non-taxable to taxable would go to the respective funds that receive property tax per the City Charter.

How will the City manage the Financial Impact in 2016 and Beyond?

- The potential loss of \$735,000 in income tax and \$955,000 in additional expenditures in the City of Lakewood's General Fund will have to be carefully navigated, and will be included in the 2016 Appropriation Ordinance that will be introduced to City Council on November 16, 2015.
- The City has recently successfully addressed larger financial challenges of reduced revenues and increased expenditures, while maintaining/improving services, not raising any taxes, and improving the City's financial position.
- Please note that 2016 is a year when the City will realize adjusted property taxes values. Median home sale prices are nearly at the same level they were at their highest in 2007 before the housing crisis hit. The City will find out if that translates into higher values and taxes in early December 2015 when Cuyahoga County releases its projections.
- Economic Development needs to be our highest priority. Filling those office buildings with quality tenants and best and highest use of the 4 acres will have a significant impact on tax revenues. The construction of robust fiber optic infrastructure will be part of the City's strategy to attract development.
- Continue to explore and realize reductions in expenditures through means such as:
 - Continued Lean Six Sigma implementation,
 - Health care cost reductions primarily through wellness and prevention,
 - Maintaining current headcount or reducing headcount via attrition when appropriate, and
 - Energy cost reductions.