

BLUE RIBBON COMMITTEE REPORT

A PATH TO FISCAL STABILITY

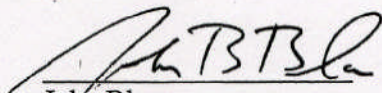
November 16, 2004

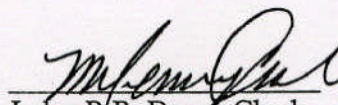
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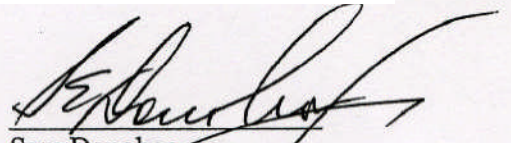
Honorable Toni E. Middleton
and Members of City Council
Alliance, Ohio 44601


Transmittal Letter

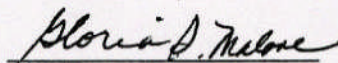
The members of the Blue Ribbon Committee, chosen to examine the City of Alliance's general fund finances, would like to thank all those individuals who provided comments and input in recent months to help us better understand governmental operations and assist in formulating a plan to address the looming financial crisis. It is evident that concerns about rising expenditures and decreasing revenues facing the City of Alliance are well founded and the Administration and City Council should be concerned about their impact on the future of the city and the ability to maintain its level of services which are presently being offered to residents. The opinions, suggestions and recommendations voiced throughout the fall have been extremely important and we have carefully reviewed and considered each one. We as a committee *have* reviewed the City of Alliance's operations and financial position to determine a plan to recommend improvements to the current fiscal situation and provide for future fiscal stability. The Blue Ribbon Committee is pleased to present to you the following report.



John Blaser,
Safety/Service Director

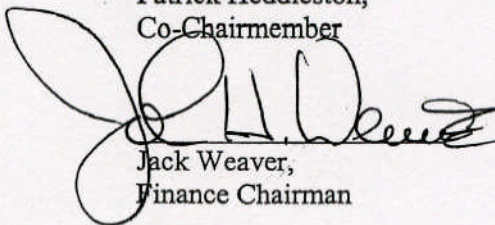

Judge R.R. Denny Clunk
Member

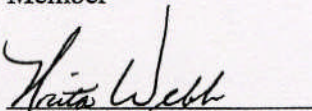

Sam Donohoe,
Co-Chairmember

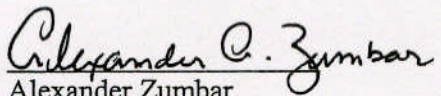

Patrick Heddleston,
Co-Chairmember


Dr. Gloria Malone
Member


Jim McCready
Member


Jack Weaver,
Finance Chairman


Norita Webb
Member


Alexander Q. Zumbar,
City Auditor

Committee Background

The Blue Ribbon Committee was formed by Mayor Middleton in July 2004 to examine the City of Alliance's finances through a study of all areas of the city's operations, including revenues and expenditures. A group of nine individuals was formed, consisting of the following:

- From city government: John Blaser, Jack Weaver, and Alex Zumbar
- From business: Sam Donohoe and Pat Heddleston
- From finance: Jim McCready and Norita Webb
- From community: Hon. R.R. Denny Clunk and Dr. Gloria Malone

The committee met 12 times throughout mid-August through mid-November on a weekly basis. Significant hours were spent in committee meetings as well as in outside sessions with city officials to review current information. The committee's primary focus was to review the city's general fund, used for ordinary day-to-day operations. Six (6) other funds exist as part of the finances related to city government and were reviewed on a limited basis based on their impact to the general fund.

The general fund consists of over \$9 Million in revenues and expenses. Over 80% of the city's revenues are generated through income tax collections, as well as property taxes and state distributions. The city's operating expenses consist of the police and fire departments, as well as several other government offices, but not water and sewer distribution, which is part of another fund. It is important to note that over 80% of the city's expenditures are made of up city employees' payroll and fringe benefits, with the other 20% consisting of all other expenses, such as utilities, maintenance, snow removal, and legal and auditing expenses, to name a few.

The committee spent several hours evaluating significant issues affecting the operations of the city, including:

- A lower population base – fewer tax payers and a low median household income
- The loss of manufacturing jobs – approximately 1,650 were lost in the city from 2001 - 2003
 - Spiraling health care costs – a 20% increase in costs is projected in 2004
 - Union contracts and the city's continued efforts to meet the demands of the State Employees Relations Board (SERB)
 - Increasing utility and fuel costs
 - ecline in interest rates on investments and cash
 - Reduction in state-provided revenue through local government assistance funds

The city has not had to lay-off any full-time employees over the past five years. Through attrition, retirements, and reduction in expenditures, the city has reduced staffing levels and has stretched any carryover balance from previous years in order to balance its budget recently. However, the carryover balance is expected to be used up in its entirety at the end of 2004, leaving the general fund to be projected "in the red" by approximately \$1 Million in 2005.

The committee met with various city officials and received input from 12 city department heads, some of whom we met with personally. We also spent time with the city's labor attorney, Bob Tscholl, to understand the administration's preparation for labor negotiations with the ten different unions within the city's labor force.

The goal of this report is to provide the Mayor and the City Council with a document that contains recommendations to improve the city's overall financial position. We are suggesting alternative revenue generation as well as cost savings initiatives. Knowing that the city is not

permitted to adopt a deficit budget and that preliminary indications for 2005 show a possible \$1 Million deficit, we submit this document for your evaluation.

Financial Matters

The city's fiscal year corresponds with the calendar year. The responsibilities for the major financial functions of the city are divided among the Mayor, the Auditor and the City Council.

The Auditor is the city's fiscal and chief accounting officer. Among his duties are to maintain the financial records and provide accurate statements of all monies received and expended on behalf of the city. The Auditor is responsible for the collection of city income taxes and assessments at the end of each fiscal year or more often if requested by the Council. He is also required to examine all accounts within the city departments and not permit the amount set aside for any appropriation to be overdrawn or be drawn upon for any other purpose. He shall not allow a voucher to be paid unless sufficient funds are in the city treasury on which the voucher is drawn.

Investments and deposits of city funds are governed by the Uniform Depository Law (Chapter 135 of the Revised Code) applicable to all subdivisions. An investment board, comprised of the Mayor, the Auditor, the Law Director, the Treasurer and a member of the business community, is responsible for those investments and deposits. Under recent and current practices, investments are made in safe instruments, primarily in money market mutual funds, certificates of deposits and Star Ohio (State Treasury Asset Reserve of Ohio), an investment pool for all Ohio political subdivisions under the custody and management of the Treasurer of the State of Ohio. Since 2000, interest rates in investments have significantly declined – from over **\$200,000** in revenues to the general fund to under **\$80,000** per year at the current time.

Other important financial functions of the Mayor, the Auditor and the Director of Public Service and Safety include general financial recommendations and planning, budget preparation, and express approval of appropriations by the City Council. For property taxation purposes, assessment of real property is conducted by the Stark and Mahoning County Auditors subject to supervision by the State Tax Commissioner, and assessment of public utility and tangible personal property is conducted by the State Tax Commissioner.

Ohio law authorizes a municipal income tax on both corporate income and employee wages and salaries at a rate of up to 1% without, and above that with, voter authorization. In 1958, the City of Alliance electors authorized an income tax at a rate of 0.6%. The electors of the city approved increases in the rate of income tax in 1968 for an additional 0.4% and in 1981 for an additional 0.75%, taking us to our current tax, levied by City Council, at 1.75%.

The income tax which the city presently has in place is the primary source of the general fund's revenues. The present tax revenues are split to various funds via an income tax allocation method as follows:

- 79% of revenues generated go to the General Fund
- 10% go to the Master Capital Improvement Fund
- 7% go to the Street Fund
- 4% go to the Water Fund

The committee's opinion is that this allocation methodology has worked well for the city since 1981 and does not believe that it should be permanently changed. By law, these amounts must be distributed to their respective funds. As indicated, the general fund, the focus of the committee's study, is what primarily pays for the day to day operations of the city. The income tax revenue is estimated at approximately over \$7 million for 2004 based on the 1.75% income tax rate. Thus,

at 79% allocation to the general fund, approximately \$6 Million of the total \$9 Million in revenue is generated by city income tax. A 0.25% increase to the city income tax would generate approximately \$1 million in additional revenues. Despite the fact that taxes have not been raised in 23 years, the administration is concerned about doing so, as it is believed that not increasing the income tax rate serves as an economic development incentive for businesses to be attracted to locating in Alliance.

Committee Recommendations

1. Income Tax Split Reallocation

In reviewing the income tax split allocation, the committee proposes a **temporary** change to the allocation, to the following:

- 86% to the General Fund (a 7% increase)
- 6% to the Master Capital Improvement Fund (a 4% reduction)
- 4% go to the Street Fund (a 3% reduction)
- 4% go to the Water Fund (unchanged)

The last two years' income tax receipts were recalculated with this proposed formula and the general fund would collect an additional \$490,000 at the 86% level, funded by reductions to the Street Fund (\$210,000) and the Master Capital Improvement Fund (\$280,000).

The income tax split reallocation should be for a period of only two to three years, as both the master capital improvement fund and the street fund will be severely stretched and cannot sustain a reduction beyond a three year period. In addition, a sunset provision should be placed on this reallocation, reverting amounts back to the 2004 levels.

If all other recommended changes for 2006 are successfully implemented, it may be possible to return 1% income tax allocation each to the Master Capital Improvement and Street Funds for that year (General Fund 84%, MCI – 7%, Streets – 5%, and Water – 4%).

The committee hereby recommends that the city consider an immediate three-year reallocation of the income tax split among the funds, generating up to \$490,000 in additional revenues to the general fund

2. Reduction of the Income Tax Credit

Taxes paid to other cities by Alliance residents stay in that city of employment. No reciprocal agreement exists to return taxes to Alliance. Currently, the city offers a complete tax credit for those taxes paid to other cities at 1.75% or above, allowing city residents to not pay additional taxes, despite the fact that they use city services (police, fire, streets, parks and recreation, etc.) as a resident of the community. Those employees who work in cities with tax rates lower than 1.75% must pay the difference to Alliance; however, as those communities raise taxes, the city would lose revenue.

In reviewing information pertaining to a possible reduction of the income tax credit, the committee reviewed 540 Ohio communities. It was discovered that 53 communities do not offer an income tax credit, 100 communities offer a 0-1% income tax credit, 12 communities offer greater than a 1.00% income tax credit but not a complete credit, and 375 communities, including Alliance, offer a full income tax credit. Any income tax credit reduction can be approved by council and made effective January 1, 2005. It would require a full year before results materialize and could be fully measured. At a reduction of the credit to 1.0% (Alliance residents working elsewhere would pay up to 0.75% to the city), the projected number, based on a 10% sampling of 2003 income tax returns, shows the city would have

realized additional taxes of \$48,000 from those taxpayers. Extrapolated out, an income tax credit reduction to 1.0% may generate approximately \$400,000 in additional revenues to the city.

The committee recommends that the city consider enacting a reduction to the income tax credit to 1% effective January 1, 2005.

3. Sale of Capital Assets

The committee examined the possible sale of city-owned assets, especially land or other assets no longer needed for operations. Areas which received most of the focus were land on the south portion of Memorial Park, abutting East State Street, which might be attractive for commercial development, the area of land behind Wal-Mart, and the potential sale of the Water Plant to a private company. The sale of the Water Plant, however, is not recommended, as it should be used as an asset when the city looks to expand its corporate limits. Water and Sewer extensions will help the City to expand its overall size and should be retained if it intends to grow. Estimates from a real estate professional suggest that the market value of the Memorial Park and the Wal-Mart properties could range from \$400,000 to \$600,000.

The committee recommends that Proceeds from such sales should be set aside to fund employee retirement costs required by the Ohio Revised Code, which would save operational costs within the General Fund, or for the purchase of land for economic development opportunities.

4. Motor Vehicle Tax

The city currently levies a \$5 per motor vehicle license tax, the proceeds of which are required to be used for construction, maintenance and repair of streets and highways, including bridges. Stark County also currently levies a \$5 per vehicle tax. Motor vehicle license tax receipts are approximately \$96,000 on an annual basis to the city.

Ohio Revised code permits City Council to levy additional permissive taxes to motor vehicles. An additional tax to the residents of Alliance would go to support maintenance and repair of our infrastructure, allowing an easing of the burden of the Street Fund and ultimately, the General Fund. Currently, within Stark County, East Canton and Louisville levy two \$5 taxes per vehicle for their communities, in addition to the one levied by the county.

The committee recommends that City Council immediately enact an additional \$5 per motor vehicle tax to the residents of Alliance, the Proceeds of which should go to the construction, maintenance and repairs for the city's streets and highways.

5. Areas within the General fund identified for possible cost savings

Of the general fund's \$9 Million in operating expenses appropriated for 2004, \$8.0 Million is dedicated to payroll and fringe benefits. The committee has reviewed expenditures causing significant concern in 2004 and 2005, such as overtime and health care costs. In addition, costs related to fuel, utilities, and property and casualty insurance are all creating difficulties in maintaining balanced fiscal operations, with continued increases in those areas anticipated in 2005.

It is important to point out that security of persons and property accounted for 63% of the total expenses for the city of Alliance. The committee has discussed staffing issues and has reviewed surrounding communities that are considering the disbanding of their fire

departments or at least considering some reorganization to them to save on costs. A review of the fire department's budget and discussion of a combination fire department (part paid/volunteer) could save the city conservatively between \$1 -1.5 million per year. Possibly shutting down one fire station would also save on operational costs. The committee recognizes the difficulty in reducing safety forces, both in fire and police, and certainly does not have the expertise to determine what appropriate steps should be taken to evaluate staffing levels or shift work throughout the city's departments.

The committee recommends that the city consider a feasibility study to evaluate the following:

- **Reorganization of the fire department to a part paid/volunteer or combination department**

Evaluation of staffing levels of safety forces and other city

As mentioned in the outset of the report, an area of significant expense to the city is in the area of providing health care costs. The city is currently self-insured for health care and does not require city employees to share in the cost of medical expense. In 2004, the cost of health care to the city is projected at \$1.67 Million, up \$270,000 over 2003. Health care costs have been rising at double-digit levels for several consecutive years and has become an issue of national concern. The committee recognizes that providing 100% coverage to city employees is a benefit that if reduced, must be negotiated with the various unions within the city. By asking them to share 10% of the premium costs, the city would save approximately \$160,000 annually.

The committee recommends that the city evaluate premium sharing with its employees in contract negotiations with the labor unions in 2005 for implementation in 2006.

Two areas examined and discussed for potential savings included the eventual reduction of school crossing guards and the eventual elimination of the Director of the Senior Citizen Center from the city's payroll over the next three years. Currently, the city provides these positions to the schools and to the Senior Center and although the committee recognizes the significant value and role that they play in the community, we are concerned about the possibility of continuing those relationships.

Members of the committee met with representatives from the Alliance Senior Center and found that the organization is very well managed both operationally and financially. We believe that the city should continue to provide support to both organizations but that the crossing guards and the director should not remain as city employees.

The committee recommends that the city negotiate a phased transition to the schools and to the Senior Center, removing the employees from the city Payroll yet providing support to fund their efforts.

In addition, the committee evaluated several other areas that should be examined for further review, such as better enforcement of traffic violators for additional ticket revenues, charging back non-residents for use of the fire department to respond to hazardous material spills or auto accidents, and charging residents labor and materials for ditch elimination work (installation of culverts is charged back currently at materials only). In addition, although the city is carefully watching expenditures, reduction of all non-essential spending should be considered, and the possibility of adding a centralized purchasing office should be reviewed and considered. All city departments should review fees charged to the public on an annual basis for competitiveness.

6. Economic Development

The committee met with the Economic Development Director, Vince Marion and the Alliance Area Development Foundation Director, Tom Pukys. Mr. Marion discussed incentives used to attract and/or keep businesses, such as property tax abatements and exemptions, low interest loans, and income tax rebates are currently used as economic development tools to secure new and existing businesses. The number one question asked by companies which are considering relocating to Alliance is in regard to the local income tax rate. This is a major concern to the company and ultimately to its employees.

The committee had re-occurring discussions in several sessions about complaints received by local businesses and contractors about the city's Engineering and Building Department. Much opinion has been expressed by members of the community that indicate a perception exists that the office is anti-business and that a continuation of current practices of excessive filing procedures and requirements add delays that could impact economic development and the potential growth of our tax base.

The committee strongly encourages the city to seek out ways to encourage businesses to relocate to the Alliance area through annexation of Property surrounding the community, various tax incentives, and the like to promote Alliance to relocating companies and expanded residential areas. In addition, the committee believes that the Engineering and Building Department should be evaluated to be more user-friendly and business-oriented.

7. Recommendations by Department Heads

The committee requested written recommendations from department heads on how the city could improve its revenues and decrease expenditures. Several department heads were invited to attend committee meetings for further discussion or to answer additional questions about their recommendations. Committee members also visited various departments and reviewed operations. A number of the recommendations offered by the department heads have been incorporated into this report.

The committee recognizes the efforts of the city administration in carefully scrutinizing expenditures and recommends that the city reduce all non-essential spending and overtime until fiscal improvements are in place.

8. Employee-per-capita survey

The committee reviewed and discussed a staffing level survey conducted by the Auditor comparing the number of city employees to that of other municipalities of similar size on a per capita basis. As previously stated, a detailed analysis of staffing levels in all departments should be considered.

9. Wage-benefit survey

The committee reviewed and discussed the Stark Development Board wage/benefit study for service organizations and for manufacturing companies. Each survey contained information on benefits offered and summary tables on compensation rates for various positions. In many cases, wages paid to city workers were not excessive. No changes in compensation are recommended by this committee.

The recommendations and their financial impact are listed below :

	<u>Est. Revenue/Savings</u>	
	<u>2005</u>	<u>2006</u>
Income tax split reallocation	\$ 490,000	\$ 350,000
Reduction of the income tax credit to 1.00%	\$ 200,000	\$ 400,000
Implement bed tax	\$ 70,000	\$ 70,000
Implement \$5.00 motor vehicle tax	\$ -	\$ 96,000
Reduce all overtime to essential overtime only	\$ 75,000	\$ 75,000
Evaluate staffing in all departments, reduce as necessary	\$ 100,000	\$ 100,000
Impose a hiring freeze	\$ -	\$ -
Negotiate a reduction in Fire Dept. min. manning (7 to 6)	\$ 40,000	\$ 40,000
Negotiate employee contributions to health care (10%)	\$ -	\$ 160,000
Charge residents for labor on ditch elimination work	\$ 5,000	\$ 5,000
Better enforcement of traffic violators	\$ 25,000	\$ 25,000
Eliminate all non-essential spending and review purchasing, leasing, fee increases, pooling of insurance, etc.	\$ 15,000	\$ 15,000
Charge non-residents for fire response to auto accidents and hazardous materials spills	<u>\$ TBD</u>	<u>\$ TBD</u>
	\$1,020,000	\$1,336,000

The Committee considers the recommendations listed above to be short-term modifications. The city must make a major long-term adjustment to remain fiscally sound; therefore, the Committee recommends contracting for outside consulting to accomplish one of the following:

Increase the income tax from 1.75% to 2.00%. In reviewing our overall 1.75% income tax rate, 566 other Ohio communities were evaluated. 120 cities had an income tax rate of 2% or higher, 189 cities had an income tax rate of 1-2%, 252 cities had an income tax of 0-1%, and five cities did not have an income tax rate. Many communities are faced with raising taxes to balance fiscal needs. The committee truly believes that in order for the residents of Alliance to continue to receive the services that are provided, we must seek an income tax increase. As stated earlier, it has been 23 years since the last change in the tax rate, with prior increases being imposed after ten years (1958-1968) and 13 years (1968-1981), respectively.

Evaluation of the transition to a combined safety force of police and fire or the transition to a volunteer or part-paid volunteer fire department. As stated previously in the report, the committee does not have the expertise in evaluating the possibility of reorganizing our safety forces. Although we understand that there is a cost to bring in a consulting firm to assist in this evaluation, we believe that it is essential to the fiscal operations of the city of Alliance to have the right type of safety service organization for our community.

Consider a safety forces levy to maintain the current levels of service in police and fire. Another alternative to a general tax increase is to impose a safety forces levy and have the voters affirm the levels of support needed within the areas of police and fire.

Other considerations:

- Evaluate and reduce staffing levels in water and sewer in conjunction with the current water and sewer rate study.
Eliminate the drive-up window in Water /Sewer Billing and Collection
Feasibility study to promote use of water and sewer capacity.
Consider shutting down the Number 3 (Union Avenue) fire station.
Aggressive annexation, especially commercial and industrial.
Eliminate compounded wage increases in labor contracts. Use lump sum payments when possible.
Invest in the use of technology to improve the city's overall infrastructure and efficiency. Although it has an initial capital cost requirement, it could provide for savings over time:
 - \$120,000 software investment, inclusive of a payroll/purchasing utility, income tax and financial management systems
On-line payments
Broader use of e-mail
Transcription system for police department to free up police officers and possibly reduce overtime requirements to file reports
\$125,000 phone system

We would like to thank the Mayor and the members of City Council for allowing us the opportunity to come together as the Blue Ribbon Committee. The members would like to compliment the very difficult work being done by the Mayor, his staff and the council for being fiscally responsible to the residents by stretching limited resources over the last several years. We recognize that the current and future state of the finances of the city of Alliance needs to be addressed for the long-term stability of our community. The members have discussed the possibility of continuing their service to the city on an as-needed basis to review these and other possible future recommendations. We hope that you find these recommendations to be worthwhile as you manage the city's fiscal operations into the future.