

Willoughby
Fiscal Review
Task Force
2010

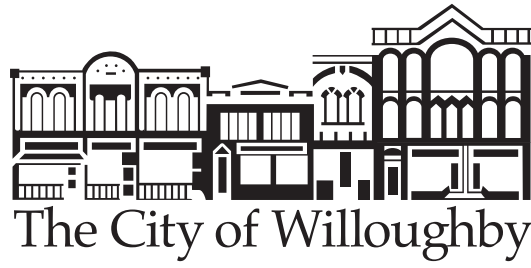


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Introduction — The Fiscal Review Task Force was convened to examine the current financial condition of the City of Willoughby, and to make recommendations to the Mayor and City Council for ways to reduce the City’s expenses and increase revenues. The Task Force was comprised of 10 members appointed by the Mayor and members of City Council. The Task Force was given unlimited access to the City’s financial management information. The City administration imposed no constraints on the Task Force about what findings it could or could not make.

The Task Force interviewed each of the City’s departmental directors, the Community Development Coordinator, the Chiefs of the Police and Fire Departments, members of City Council and the Mayor. Each department’s budget was reviewed and questioned. Each director and chief was asked to identify those functions within their purview where efficiencies could be improved or costs otherwise reduced. This report is the Task Force’s analysis of its fact finding.

The recommendations contained in this Report are made without regard to political ramifications. Some of the recommendations may not be well received; some may ultimately be unworkable. However, the Task Force has tried to look at all ways to reduce costs and increase revenues. The Task Force will defer to the City’s elected officials to determine to what level changes will be made or services affected.

Statement of the Problem — The City of

Willoughby's operating budget for Fiscal Year 2010 is approximately \$27,643,326.00. This represents an increase of \$1.6 Million over 2009 expenditures. The City has sufficient funds to operate at current levels through the end of Fiscal Year 2011. However, without reductions in expenses and/or increases in revenues, the City projects a General Fund deficit of \$2,144,000 by the end of 2012. Political subdivisions of the State of Ohio, such as the City, are prohibited by law from operating with negative General Fund balances. As a result, the City must act within the next twelve months to cure its deficit spending and to ensure a positive General Fund balance.

"The City projects a General Fund deficit of \$2,144,000 by the end of 2012."

Although the City has made huge strides in improving fiscal management since the Task Force on Fiscal Strategies report in 1992, the costs of delivering the high level of services provided by the City have risen at a rate greater than increases in revenue. Income taxes from the City's strong manufacturing base provide the largest portion of the City's revenues. Those revenues have not grown as much in recent years as they did in the past. In particular, the current recession has not only slowed the growth of revenues to the City, but the revenue stream from the City's 2% income tax has actually decreased to the same level as Fiscal Year 2000. Economic forecasts predict that many manufacturing jobs lost in the recession will never return, replaced by increased production efficiencies. Thus, the City cannot count on income taxes alone to restore it to fiscal health.

The City needs to act now in order to avoid incurring unallowable deficits. This report makes several suggestions to the Administration and City Council for ways to address the looming fiscal distress.

Format of the Report — The Task Force has looked at the operations of the City and determined that the most effective way to explain our suggestions and recommendations is by breaking them first into two general categories: Reductions in Expenses and Increases in Revenues. For each general category the Report will further break down the suggestions and recommendations into those that can be addressed in the Short, Intermediate and Long Terms. Short Term changes are those that can be implemented within the next twelve months. Intermediate Term changes are those that would be expected to take between one and five years. Long Term changes are those that would be expected to take more than five years to implement.

“Real long-term planning is essential to the City’s continued financial health.”

Real long-term planning is essential to the City’s continued financial health. City leaders will need to plan beyond current terms of office, and indeed perhaps beyond their own working lives, if Willoughby is to continue to be a desirable place to live and work in the future. Decisions that will need to be made in the next several years will be neither easy nor politically popular. What is done now, though, will directly affect Willoughby and its residents well into the decades to come.

Most Significant Problems — In review of the City’s financial outlook, two areas of spending stood out as being the most problematic: (1) costs of maintaining the current level of City services, and (2) the costs of health care for City employees.

“Willoughby provides as many or more services to its residents than does any other city in Lake County.”

City Services

Willoughby provides as many or more services to its residents than does any other city in Lake County. The City administration has taken a number of steps to reduce the costs of providing those services. Most significantly, the City ceased using City employees and equipment for trash collection, and has contracted out that service. Additionally, in the last decade the City has reduced the number of employees on the City’s payroll by ten. Nonetheless, the costs of providing what residents consider “City services” have continued to rise. In 2010, the cost of trash collection alone rose to \$1,231,000. The City needs to determine the level of all services it will provide to residents in the future, and adjust tax and/or service fee revenues accordingly.

Employee Health Care

The City of Willoughby has lost control over employee health care costs. The City offers full time employees and members of City Council a more than generous health care benefit package at a time when the City is no longer able to pay the costs of such a plan. For Fiscal Year 2010, the City will pay \$2,980,000.00 for employee health care insurance, representing more than 10% of the City’s overall operating budget. Family coverage for employees is approximately \$19,000 per employee. At the same time, private sector employers pay in the range of \$9,000 to \$11,000 per employee, with the employees paying a larger portion of the overall coverage costs, such as co-pays, deductibles, and co-insurance rates.

The City's health care plan includes almost no co-pay or employee contribution. Anecdotally, one City employee recently underwent cardiac bypass surgery. The total out of pocket cost to that employee for the surgery was \$10.00, representing the employee's co-pay on a prescription. That level of coverage is unheard of in the private sector, and significantly increases the costs of insurance to the City. The City cannot responsibly continue to offer employees such unbounded coverage. As union contracts are negotiated, the City must include higher employee contribution levels and higher co-pay requirements, and must bring down its employee health care costs. To do otherwise is to leave the City at the mercy of skyrocketing health care costs.

"The City cannot responsibly continue to offer employees such unbounded coverage."

Short Term Spending Reductions

The Task Force has identified the following possible spending reductions that can be made within one year. Some of the reductions are concrete; that is, immediate savings can be pointed to. Others require closer examination of City operations and a determination by the Administration and Council of the level of service to be provided.

1. Eliminate Health Care Benefits for City Council. Providing health care benefits to members of City Council has been a practice of the City for many years, reaching back well before the current national health care cost crisis. When initiated, the costs were minimal. Not so any longer. City Council members are the only part-time employees of the City to receive health care benefits. Five members of City Council currently receive City health care. As stated above, the cost to the City for family coverage is approximately \$19,000 per employee. By eliminating health care coverage for City Council members, the City can reduce its health care costs by roughly \$95,000 per year.

“The City pays out well over \$1,000 per month per employee for health care.”

2. Offer City Employees Incentives to Opt Out of City Health Care. The City pays out well over \$1,000 per month per employee for health care. Employee contributions to the plan are negligible. At the same time, many City employees are eligible for coverage under a plan offered by a spouse’s employer.

The City should consider offering employees a financial incentive to opt out of the City’s health care plan. Some employees may find it advantageous to receive an additional \$200 or \$250 in their monthly pay rather receiving health care benefits. Even at \$250 per month, the City would still recognize savings of over \$750 per month per employee for each employee taking the option.

3. Create a Central Purchasing Function. This recommendation was included in the 1992 Task Force on Fiscal Strategies report. At that time, the Task Force recommended that the City tighten its controls over purchasing. The City has implemented many of those recommendations, but can go further.

In 2010, the City will purchase \$1,172,000 in materials and supplies. From interviews with Department Directors and Police and Fire Chiefs, it appears each Department still purchases its own supplies and materials. In many cases, departments such as Service and Recreation purchase the same materials, but purchases do not appear to be coordinated to obtain the best price or terms for the City. It may be a costly mistake to assume that an employee in any department knows better than a trained, experienced purchasing officer the best place to purchase needed materials or supplies.

The Finance Director should identify one person to act as the purchasing officer for the City for those goods and services purchased by the City. The purchasing officer could then use the City’s consolidated purchasing power to obtain better prices for materials and supplies, with resultant savings to the City.

4. Examine Contracting Out Landscaping Services.

Currently both the Service and Recreation Departments have responsibility for maintaining grass and landscaping on City-owned and leased property. The City pays full time workers to cut and trim grass, and maintains a wide array of landscaping equipment to perform those functions. It is not cost effective for the City to use full-time City workers or to purchase and maintain City-owned equipment to perform functions that could be done by private companies. The City pays not only salaries, but also PERS retirement, health care and unemployment benefits for employees. As well, the City has to buy and keep up the equipment those employees use.

“The City expects to spend \$226,000 for employee overtime pay in 2010.”

Many, many private landscaping companies do business in western Lake County. Those companies have their own equipment and their own personnel. Their services are available to the City.

The City should make a close examination of contracting out landscaping services. The potential exists for significant staff reductions and reduced equipment purchases, with concomitant expense reductions. At the same time, scrutiny should be given to cleaning and cemetery operation services to determine if the costs of those functions also could be reduced.

5. Control Employee Overtime Costs by Adjusting

Work Schedules. The City expects to spend \$226,000 for employee overtime pay in 2010. Much of that overtime pay will go to safety forces. Another large part, however, will go to Service and Recreation Department workers called in on weekends to maintain ball fields or to work during community activities.

Rather than pay overtime for weekend work, the City should examine adjusting work schedules so that employees who work weekends are given two other days off during the week, limiting their hours to forty hours per week.

“The types of work performed by the Service and Recreation Departments overlap in many areas, landscape and snow removal work being the most obvious.”

6. Consolidate Service and Recreation Department

Labor Pools. The types of work performed by the Service and Recreation Departments overlap in many areas, landscape and snow removal work being the most obvious. The City should examine whether a common labor pool might not make more effective use of City employees, and reduce non-productive time.

7. Eliminate the Police Department “Fourth Platoon.”

The City’s Police Department is organized into three regular platoons, each under the direction of a lieutenant and a sergeant. As well, the Department operates a “Fourth Platoon” comprised of a lieutenant and two or three patrolmen. The Fourth Platoon is used by the City for special law enforcement operations and as needed for unusual events or activities. The City should look at the cost effectiveness of continuing the Fourth Platoon.

8. Evaluate Administrative Staffing Levels. The City should look at administrative staffing levels to determine if office assistant positions are being fully utilized. In particular, the City should examine closely whether positions can be combined and shared among departments.

As well, the City should examine flattening the levels of management in all departments. For example, in the Vehicle Maintenance Department current City staffing calls for a Supervisor Grade I and a Super-

visor Grade II for three mechanics. One good, experienced person should be able to supervise three mechanics without an assistant.

9. Extend Vehicle Life. The City should conduct a comprehensive fleet analysis to determine whether vehicle life can be extended, particularly in the Police Department. Currently the Police Department purchases vehicles with 100,000 mile extended warranties, but retires those vehicles after 80,000 miles. Vehicle reliability has improved greatly in recent years. An extension of the life of each vehicle by even 5,000 miles could result in measured savings. It may be possible to get MBA graduate students to do such a fleet analysis, or hire experienced fleet consultants.

“The City should conduct a comprehensive fleet analysis to determine whether vehicle life can be extended, particularly in the Police Department.”

10. Conduct a Comprehensive Review of City Fleet Maintenance, Purchasing and Use Practices. The City should make a detailed examination of its vehicle maintenance, purchasing and use policies. Such an examination should include a look at where maintenance is performed and whether a single source for vehicle maintenance may be appropriate. As well, the City should continue to compare State vehicle purchasing program prices with local prices each time the City buys new vehicles. In some cases, local dealers can beat the “state bid,” especially when extended warranties are purchased. The City, too, should examine which employees are permitted to take vehicles home and how those vehicles are used. On “drive home” cars, the City should charge employees via a 1099 Form for personal use of City vehicles as per IRS regulations. IRS tables are readily available to compute the value of “personal use.”

Short Term Revenue Increases

“The City currently spends approximately \$1.3 Million annually for trash collection.”

1. Assess Fees to Residents for Trash Collection. The City currently spends approximately \$1.3 Million annually for trash collection. The costs are paid through General Fund revenues; primarily income taxes. The City expects that the costs of trash collection will continue to increase, at the same time that income tax revenues are declining, or at best flat. Willoughby is one of two cities in Lake County that provide trash collection to residents without charge (Wickliffe is the other). The other cities assess their residents a monthly or quarterly fee for trash. Willoughby also should consider offsetting the costs of trash collection with a fee to be determined by the actual cost of the service per household. An alternative to assessing a trash collection fee is to place a new real estate tax levy on the ballot, designated specifically for trash collection.

2. Reduce the Residence City Income Tax Credit.

Currently the City’s 2% income tax generates approximately \$14,000,000 per year for the City’s general operating expenses. The City gives residents who work outside of Willoughby full credit for taxes paid to their work city up to the same 2% assessed by Willoughby. It is estimated that reducing the credit to residents by ½% would increase revenues to the City by \$1,450,000 per year. For a resident with an Adjusted Gross Income of \$75,000, such a change in the tax credit would increase overall income tax liability by \$375 per year. A change in the credit would have no effect on residents who also earn all of their income in the City of Willoughby. It may, however, influence residents to move out of the City, or discourage any influx of new families. Principles of elementary economics will govern any change in tax structures.

3. Open Additional City Properties to Gas Well Leases.

Subject to restrictions by the Federal Aviation Administration, the City should consider opening Lost Nation Airport and the Municipal Golf Course for gas well development. Revenues from gas wells generally are not large, but would contribute to increasing the City's revenue stream.

4. Examine Recreation Department Fees. The City subsidizes the majority of the recreational programs and sports activities in the City. Fees for the use of the City's two swimming pools cover only 65% of the operating expenses. Sports fields are maintained at no cost to the players, and utilities such as lights for evening baseball games cost the City as much as \$18,000 per year.

The City should examine the schedule of fees it charges for recreational activities, and consider whether it is appropriate to increase those fees to pass on more of the expense to the end users.

5. Increase Efforts to Collect Unpaid Taxes. The City currently is owed about \$250,000 in unpaid taxes. While the number is not large, a one-time extra effort to collect amounts due should be implemented. Penalty amnesty could be considered as a tool for recovery of unpaid taxes.

"The City currently is owed about \$250,000 in unpaid taxes."

Intermediate Term Cost Reductions (1-5 years)

1. Reduce City Expenditures for Health Care Insurance.

The City needs to aggressively reduce its costs for employee health care. With the City approaching the point where it has no General Fund surplus, the City needs to insist in union negotiations that em-

employees begin paying a reasonable share of the costs of their health care benefits, and that employees begin absorbing higher co-pays requirements and deductibles. There no longer is any room for the City to yield on this point.

“The City needs to aggressively reduce its costs for employee health care.”

2. Investigate Joining in the County 911 Emergency

Call Service. The City currently employs a Supervisor, eight full time, and five part-time Dispatchers for police and fire services. In the past, justification for keeping dispatch services at the Willoughby Police Station was based in part on the need for the dispatcher to also take the role of jailer when jail cells were occupied. That justification no longer exists. As a result, the City should look at the cost of joining the County 911 system versus the real costs to the City.

3. Contract Out Services. The City should examine contracting out certain traffic department, golf course and swimming pool management services. Private sector companies regularly compete to provide high quality, low cost services in each of those areas. In each instance, the City should compare the cost of performing the function with City employees versus the costs of hiring private sector firms to provide those services.

4. Examine Eliminating the City Building Department.

The City should look closely at whether maintaining its own building department is cost effective. The City should consider the costs of the department, its real importance to economic development in the City, and the costs to the City of transferring that function to the County Building Department.

Intermediate Term Revenue Increases (1-5 years)

1. Replacement tax levies. The City can no longer afford to renew real estate tax levies. The City should make a coordinated effort to explain to voters the concept of replacement vs. renewal of tax levies, and to replace all current levies as they come due. The City is well positioned to aggressively show voters how the City has been frugal with their money and how long it has been since the City had a replacement levy.

2. Non-emergency medical transportation. Nursing home and senior communities utilize a higher proportion of emergency squad service transportation than the remainder of City residents. This is often non-emergency, non-critical transportation. This puts a disproportionate cost burden on emergency services. In cities such as Beachwood, they require these facilities to contract with private ambulance services for this kind of service as a business expense of the organization. This concept is no different than other city services which are provided for individual residents but not for businesses. Waste collection would be an example.

Since the City has now instituted billing insurance companies for ambulance service, it would be prudent to first compare actual to reimbursed billed costs. It is possible the reimbursed cost could be higher than the actual cost of a squad run. These billings are currently referred to as “soft billings” meaning that few collection attempts are made on non-payers. Make collection of the charges more aggressive.

“The City should make a coordinated effort to explain to voters the concept of replacement vs. renewal of tax levies, and to replace all current levies as they come due”

“With continued, unabated decline in Federal and State support, local funds remain as the primary source of operating funds.”

3. Raising city income tax. One of the least desirable options reviewed by the Task Force, but one that has to be suggested, is to increase the City income tax. With continued, unabated decline in Federal and State support, local funds remain as the primary source of operating funds. This option could be explored with a number of possible options. Raising the basic 2% rate, or changing the amount of resident credit are two possibilities. An increase in the City income tax, however, would have a negative impact on retention and recruitment of businesses. The same economic theories apply as in Short Term Revenue Increases #2.

Long Term Cost Reductions (Longer than 5 years)

There are several possibilities for long term expense reductions, and they all have an impact on those employed by the city. Any possible changes such as these must be classified as long term because they can be disruptive if not phased in over a period of time and with the cooperation of those affected by the changes.

1. The cost of health care expenses is one possible long term expense reduction. Reducing, these can come from several areas:

A. Wellness programs to improve the overall health of those covered to reduce claims.

B. Preferred provider programs to limit the increase of costs.

C. Joining with other entities to benefit from a larger base.

D. Revisions to coverage: Higher deductibles, co-pays, and co-insurance (All of which have been implemented in the Private Sector One factor that complicates any attempt to reduce,

or even control the rate of increase of health care costs is the impact of federal legislation and policies, and predicting what such legislation and policies may be five or more years in the future is beyond the scope of this undertaking.

2. Some other possible long term expense reductions include:

A. Incentives for long term personnel to retire where it would result in the employment of replacements at a lower starting wage rate. This must be carefully evaluated, as such a program could have a negative effect if it results in the loss of personnel with abilities or knowledge that are not readily replaced. Such a program can have a limited benefit, as over time the replacements wage rates will increase.

“Incentives for long term personnel to retire where it would result in the employment of replacements at a lower starting wage rate.”

B. Ongoing review of staffing levels and adjusting work schedules to match seasonal requirements to limit overtime to handle routine or recurring tasks.

C. Continually evaluating the needs and expectations of residents with an eye to aligning city services to those needs and expectations in the most cost effective manner.

In addition, the items identified in both short term and midterm revenue enhancement and expense reduction must be continued as part of an ongoing long term process. There will always be a need to continually evaluate various options for providing city services and considering alternatives such as joint programs with other cities or with county programs.

Long Term Revenue Increases (Longer than 5 years)

There is only one long term revenue enhancement that is practical, and that is to develop an aggressive economic development program and the structure to carry it out.

“The first part is a master plan for economic development that has specific, measurable goals”

The first part is a master plan for economic development that has specific, measurable goals. The master plan should take into consideration:

Any Federal or State programs for Enterprise and Foreign Trade Zones that may be available.

Any Federal or State Incentive Programs that may be available.

Collaboration with other local government units if possible.

An important component of the plan should be to have as complete an inventory as possible of properties that are available for development and properties that are under utilized or only partially utilized. Any properties that are brown fields should be identified. Realizing that vacant land is a scarce commodity in Willoughby – and due to this developable property may be priced higher than in other communities – a part of the plan should address packaging available incentives to help offset the costs of such property. Another possibility would be to establish a land bank program to accumulate properties suitable for development and redevelopment as industrial sites with the goal of having sites of appropriate size for future programs available. The City should look at the strategies used by Neighborhood Redevelopment Agencies such as Midtown Cleveland. They operate in a much more severe environment, and have been successful in attracting new businesses and convincing existing ones to expand. An example is the Pierre’s Ice Cream expansion.

The revenue value of a land bank would be increased property tax valuation due to better utilization of under utilized property, and increased employment which would have a positive impact on income tax collections.

There are several “blue sky” items that could result in increased revenues, but they are not likely to ever happen. One possibility is if State law were changed to allow cities to tax incomes of other types than wages earned, such as “unearned income.”

Conclusion

The City of Willoughby has made significant improvements in fiscal management since the 1992 Task Force on Fiscal Strategies report. However, more remains to be done. The City must regain control over employee health care costs. The City also needs to determine as a matter of policy the level of service to be provided to the residents, and then pursue revenues sufficient to fund that service level. Staffing levels need to be evaluated continually, and the purchasing and use of materials, supplies and equipment needs to be better controlled.

This report provides suggestions to the Mayor and the City Council for way to reduce costs and increase revenues. The decision about which, if any, of the recommendations to implement is theirs. With the City facing imminent deficits, those decisions will affect the residents of the City of Willoughby for years to come.

Summary

Short Term Spending Reductions

1. Eliminate Health Care Benefits for City Council.
2. Offer City Employees Incentives to Opt Out of City Health Care.
3. Create a Central Purchasing Function.
4. Examine Contracting Out Landscaping Services.
5. Control Employee Overtime Costs by Adjusting Work Schedules.
6. Consolidate Service and Recreation Department Labor Pools.
7. Eliminate the Police Department "Fourth Platoon."
8. Evaluate Administrative Staffing Levels.
9. Extend Vehicle Life.
10. Conduct a Comprehensive Review of City Fleet

Short Term Revenue Increases

1. Assess Fees to Residents for Trash Collection.
2. Reduce the Residence City Income Tax Credit.
3. Open Additional City Properties to Gas Well Leases.
4. Examine Recreation Department Fees.
5. Increase Efforts to Collect Unpaid Taxes

Intermediate Cost Reductions (1-5 years)

1. Reduce City Expenditures for Health Care Insurance.
2. Investigate Joining in the County 911 Emergency Call Service.
3. Contract Out Services.
4. Examine Eliminating the City Building Department.

Intermediate. Term Revenue Increase (1-5 years)

1. Replacement tax levies.
2. Non-emergency medical transportation
3. Raising city income tax.

Long Term Cost Reduction (Longer than 5 years)

1. Reducing Health Care Expenses
Wellness/Preferred Provider/Joining/Revisions
2. Other possibilities
Incentives for retirement/Staffing levels/Resident expectations

Long Term Revenue Increases (Longer than 5 Years)

1. Aggressive Economic Development
Federal/State programs/Property inventory/Land bank
2. Lobby for State tax law changes

