



City of Gahanna

Meeting Minutes

Finance Committee

200 South Hamilton Road
Gahanna, Ohio 43230

Michael Schnetzer, Chair
Karen J. Angelou
Merisa K. Bowers
Nancy R. McGregor
Kaylee Padova
Stephen A. Renner
Trenton I. Weaver

Jeremy VanMeter, Clerk of Council

Monday, August 8, 2022

City Hall, Council Chambers

Immediately following Committee of the Whole meeting on August 8, 2022

A. CALL TO ORDER:

Councilmember Michael Schnetzer, Chair, called the meeting to order at 8:36 p.m. All members were present for the meeting. There were no additions or corrections to the agenda.

B. DISCUSSIONS:

1. Quarterly Financial Report

2022-0245

2022 Quarter 2 Financial Report

Joann Bury, Director of Finance, introduced the review of the Quarter 2 financials with the General Fund statements. Revenues for Q2 were about \$15.1 Million (56 percent of planned). This is slightly higher than expected. Bury noted that the drivers of this included the income tax (54 percent of planned) and property tax (49 percent of planned). For property tax, the first distribution occurs in March and the second distribution in the third quarter. For other taxes (lodging tax), the City is at 38 percent of planned. Compared to pre-pandemic levels, this revenue is down about 34 percent, but Bury said some improvement is being shown compared to the previous year. Other revenue included the one-time reimbursement for the EV charging stations. Licenses and permits are up 97 percent, continuing from what Q1 showed with construction projects going on in the area. In comparison to 2021, she said that the City is looking at about a \$1.4 Million increase or 10 percent increase over 2021. A lot of this is coming from the income tax. Fines and Fees have increased by 97 percent and is related to movement previously discussed in Q1 of the general services division from the special revenue fund back to the general fund. Charges for Services is continuing to provide New Albany Mayor's Court services. Other taxes increased by 49 percent or

\$50,000. With Interest and Investment Income, the Department expected an increase for 2022. Bury noted there was a slight decrease here, but when compared to Q1 with a 43 percent decrease and now at a 14 percent decrease, this showed the revenue is tracking in the right direction now.

In terms of expenditures, Bury highlighted that the City was at \$11.4 Million in expenditures or 40 percent of the budget. This is lower than would be expected. When encumbrances are included, it becomes about 57 percent of planned. Compared to 2021, the City is looking at about a 13 percent increase of \$1.3 Million, which is mainly driven by salaries and benefits. As discussed in the Q1 report, this comes from the 2021 salary study, cost of living increases, moving public service back into the General Fund for the general services division and filling some positions that were vacant in 2021. Other increases that came into play were Materials and Supplies partially with the movement of the general services division back and with inflation causing an increase in some items. Bury noted the main area for this is with fleet services, car parts and such. Contract Services had some initiatives that moved forward this year keeping contract services up a little: the Capital Improvement Planning, Creekside Master Plan, Park Services Master Plan. Looking at Other Financing Sources and Uses, these are the transfers in and out and advances. These are a little higher compared to 2021 and is explained by timing. In 2021 there were the same transfers. They were made at different periods. In this case, the Department made all the transfers in the first quarter. The net impact on fund balance was an increase of \$3.4 Million, bringing the Q2 ending balance to \$27.6 Million. Of this amount, \$4.9 Million is reserved for encumbrance and the emergency reserve is intact at \$6.7 Million. Bury said this leaves the City with an unreserved fund balance of close to \$16 Million, equating to eight months of operating expenditures (well above two months required by policy).

Vice President Bowers asked whether Bury could speak on the debt that was retired in Q1. Bury said this was the interest payments on the judgment notes. Because they were judgment notes, they do not meet the definition of capital, so that is why the debt service is coming out of the General Fund. She said this is not a capital-related debt issuance. Bowers asked for clarification on the principal retired. Bury referred to the column headers on the statement and noted that the City will be retiring \$470,000 which is due in two installments (the first in June, representing half the interest due for the year, and the second in December, representing the principal and other half of the interest due for the year). Bowers confirmed this would be reflected in Q4. She asked whether this amount was included in the reserve for encumbrance of \$4.9 Million. Bury said this is correct.

Regarding the Public Safety Fund, Bury noted that revenue is about 57 percent of planned. This is a little more than expected. She said a lot of this is the income tax being slightly higher for the second quarter. Charges for Services is about halfway there for the year. This represents the first invoicing for the school resource officer (SRO) and some charges for permitting. Compared to 2021, the City is up about seven percent related to the timing of

the invoicing of the SROs. Also compared to 2021, income tax is down a little. Bury stated that when the allocation was set for the 25 percent, it is based on the expected budget for the three areas. Looking at allocations, the City adjusted what got allocated to each of those individual funds. She said that even though income tax is producing well, there is a slight increase based on the change in allocation to that fund. Looking at expenditures, they are at about 30 percent of planned. There are a couple reasons for this. The community liaison officer that was planned did not come on board until the end of Q1. There was a short amount of time that a SRO position was not filled, and now the positions are fully filled. While the City will see some savings, it will probably not hit the expenditures target due to the start of the dates for those positions. This explains why the City is shorter than what was expected. Bury added that there is an increase in expenditures compared to 2021, which is reflective of the addition of the community liaison officer coming on board in 2022. The overall impact on fund balance is an increase of \$127,000, bringing it up to about \$734,000, with a small reserve balance sitting in the fund.

For Parks & Recreation, Bury said revenues were high compared to planned. This is a little different. The City would expect revenues to be higher in this quarter and next quarter because it is the Department's season. The main driver of the revenue is Charges for Services. They are at about 83 percent of planned, which makes sense with the coinciding of their season. Income tax is similar at 59 percent of planned, which is a little higher but nothing significant. In this situation, there was more allocated to the Parks & Recreation Fund. Therefore, there is an increase in income tax from 2021 to 2022. On the expenditures side, the fund is 32 percent of planned. Even though the season is "back to normal," the City is still struggling with human capital right now. A lot of positions are needing to be filled. For Materials and Supplies and Contract Services, it is the beginning of the season in Q2, so it is expected to increase moving into Q3 and closer to what was budgeted for those items. Looking at Salaries & Benefits, there is a decrease from 2021. Part of this is staffing and part of this is movement of part of recreation back into the General Fund. In terms of overall impact on fund balance, there is an increase of about \$938,000, bringing the total fund balance to \$1.6 Million. Of that amount, there is \$318,000 reserved for encumbrance.

For Public Service Fund, Bury said there is a very similar story. The City is at 60 percent of planned revenue. Some is related to income tax and some related to fines and fees that are producing. Looking at 2021, the City is down about 33 percent. Partially, this is due to the change in allocation of the income tax and movement of the general services division back to the General Fund. On the expenditure side, the City is at about 32 percent of budget at about \$504,000. There is a decrease compared to 2021. As the City moved items around, Salaries & Benefits are showing an increase. Even though some activities moved, there was a look at how the Public Service department salaries and benefits were being allocated. It was determined there were additional positions that support engineering; therefore, part of these positions' salaries and benefits allocations should change. Overall,

there was about a \$751,000 increase in the fund balance, bringing it to \$1.2 Million, with about \$400,000 reserved for encumbrance.

Lastly, the Capital Improvement Fund revenues were at 58 percent of planned, or \$5.3 Million. Compared to 2021, the City is up about two percent all related to income tax. On the expenditure side, the City is at about seven percent, but most projects have all been encumbered. When including encumbrances, the City is about 99 percent of what was budgeted in the fund. There is a large increase compared to last year as the City continues to work on projects and expend the funds. Bury said the one important thing to note here is a net change in fund balance of about \$3.5 Million, bringing the fund balance to about \$21.4 Million. She noted there is more encumbered than there is fund balance because the projects are encumbered at the beginning of the year in anticipation of starting them. As income tax comes in, that will flip to positive. It is based on the resources the City predicts to collect for those projects, which is why the encumbrances are higher. Vice President Bowers asked whether this included the escrow for 825 Tech Center Drive that had been discussed in Committee of the Whole. Bury confirmed that this did include the escrow. Bury noted that on page five of the report shows a list of 2022 projects and what has been encumbered to date and spent. She added that a lot of this activity is multi-year projects.

In looking at Other Funds in the report, the total fund balance for all the funds is available. Bury said that the detail that is provided is for the Committee's information. She said she was happy to answer any questions about these items, but that she was not going to go into detail on them.

With respect to the income tax, Bury reviewed that through the second quarter the income tax is a major funding source for the General Fund (72 percent). It makes up 99 percent of the Capital Improvement Fund revenue, and 66 percent of the Special Revenue Funds. To date, there has been \$17.9 Million collected. She showed the table on the allocations and percentages. The income tax is comprised of withholdings (75 percent for Q2), followed by individual (11 percent), and net profits (14 percent). She referenced the comparative income tax data between the 1.5 percent and the one percent. They have a very similar makeup in allocation and where there are increases and decreases. There is a significant increase in the withholding tax. Bury said, as had been noted by Director Strum, the City has many projects and is in an economic expansion right now. The City is seeing an uptick in withholding taxes. At the end of 2021, the driver was net profit taxes, but the City anticipated this to be an anomaly as it was based on COVID-19 and how businesses were operating. The net profit taxes were expected to come down and return to somewhat normal levels. The City felt that with enough projects in the pipeline, and growth to occur, that it would be offset by the withholding tax. She said we are seeing this play out in the second quarter. On the individual side, the City had been anticipating seeing a decrease in individual taxes because of the change in credit in 2019. When reduced credit was in place, individuals would file and would owe a tax and have to pay estimated taxes. When the City switched to 100 percent, this did away with most

estimated taxes coming in on a quarterly basis. Bury noted that there is still the "Work From Home" avenue that has not completely played out. There is still the 2020 lawsuit in the courts. We still do not know if those 2020 refunds will ever come about. RITA has been tracking what they are seeing in terms of refunds from the Work From Home issues related to COVID-19.

Councilmember Schnetzer asked whether the lawsuit was at the state level at this point. Bury said she thought it was at the state Supreme Court.

Schnetzer confirmed Gahanna was not a defendant in the case. Bury stated that was correct. Through the date of this report, and possibly a little bit after, there have been around \$158,000 in refunds related to Work From Home. On the flipside, she stated she has not received data as far as a possible increase in collections. So far, the reporting is on what refunds are coming in. She said she thought determining if someone is working from home to be very challenging and something that a lot of people are struggling with. The focus has just been on what refunds are coming in because of this. She thought it would be hard to extrapolate what is received specifically related to Work From Home and is possibly why there is focus just on the refund side.

Vice President Bowers referred to the Capital Improvement Fund budget. She thought the total rough revenue annually was around \$10 Million. Bury said that looking at the potential growth, she anticipates going into 2023 with closer to a little over \$11 Million. Bowers asked whether any of that is encumbered. Bury said, no, not future dollars, just what the City is anticipating bringing in this year.

For the investment portfolio, Bury noted that it is around \$99 Million. The graphic showed the diversification of the portfolio. She said very little in net cash was expected. Bury stated the average duration for the investment portfolio was 1.4 years and the average yield to maturity is about 1.2 percent. As a comparison, STAR Ohio was up to 1.15 percent. She said this is positive movement in both areas. For the two-year treasury, rates are up from June 2021 from 0.25 percent to 2.92 percent. Bury said this exceeds pre-pandemic levels, of which rates were about 1.75 percent. For a borrower, this hike is not so good, but for investors like the City, these are good returns. She said there should be additional increases beyond March and July. The Fed is using this, along with other policies, to bring down inflation a little bit. Investment earnings for the year are 61 percent of the amount planned with about a 14 percent decline. Bury said there is thought this growth is going to happen moving into the third and fourth quarters. The strategy now is keeping the investments short so the City can continue to take advantage of the rising interest rate environment. As short-term investments are maturing, the City will be looking at higher yield long-term investments. The majority will still be on the shorter end as the interest rates continue to rise.

Bury summarized that the second quarter was very similar to the first quarter. She thought there seemed to be some stabilization. There is still the struggle with human capital, which is keeping expenditures lower than expected. Over the past couple weeks, there has been a lot of speculation about a recession or a short or long decline. Some do not believe anything is going to happen

just based on the low unemployment rate and other factors. However, Bury said there are some indications that it could happen. In terms of the impact to the City, Bury did not think there would be anything immediate if this does happen. The City is in economic growth, as well as regionally.

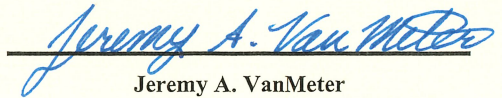
Councilmember Weaver said that with the Work From Home issue, *ThisWeek News* for Reynoldsburg had a story where they are anticipating a \$5 Million drop-off in income tax revenue this year. He wondered whether this was because of the Work From Home situation. Weaver said he gets the sense from Bury that the City is not anticipating a cliff like this. Bury said that based on the second quarter data, she is not anticipating this scenario for Gahanna. With \$158,000 through the second quarter, she would not consider this to be significant compared to total collections to date. She is not seeing where the City is going to see a huge uptick in the refund. This is based on basic understanding of local income tax. For example, Bury said that there might be some individuals that might be able to file for the refund but not know that they are eligible for it or know how to do it. There is a lot of misinformation about how local income tax works, when it should be withheld, and what entity withheld. Some people are not focusing on where the withholding is going. She concluded that had the numbers been a little bit higher or more significant, there would be cause for concern, but based upon what the activity was in the second quarter, she is not concerned that the refunds are going to increase. Weaver said that as it related to human capital and the City's workforce, there is some of the best and brightest in the city, including Bury. He thought Gahanna was not alone in trying to attract and retain talent. He asked whether there had been any thought on whether the Council needed to go back to the salary ordinance, so the City can ensure people are paid competitively and can continue to attract people. Miranda Vollmer, Director of Administrative Services, said that last year the HR consultants presented on a compensation study. This was done over two years due to the amount of money. The second phase [of the study] has been completed and report is currently under staff review. She hoped to bring this forward once the review is completed to make changes to the salary ordinance to stay competitive in the market. There is an applicant tracking system that the City uses that is nationwide (governmentjobs.com). Public sector jobs increased about 40 percent last year, while applications for those jobs decreased by 56 percent last year. Vollmer noted the City is receiving far fewer applications for many critical positions, which included not only unionized positions but also unclassified positions. She said the Department would present this at some point during budget discussions.

Councilmember Schnetzer said that regarding the special revenue funds, these seem to accrue fund balance, which at a high level is good. They are not the largest figures relative to the General Fund or Capital Improvement Fund. He asked whether Bury could comment on what is driving this revenue and fund balance. Is this being accrued for a reason? Bury responded that the revenue is just kind of happening. The City is seeing that increase in revenue through the second quarter, but the City is not seeing the outlay of cash as planned. With more revenue and less expenditures, the fund balances are

accumulating. She referenced some of this dealing with human capital. Per ORC, Bury said that what the City has available for appropriations is what is anticipated to be brought in with revenue, plus any on-reserve fund balance of that fund. The City looks at the on-reserve fund balance each year, along with what is anticipated to be brought in to see if there is capacity for doing anything else, such as moving additional services or come up with a way to fund certain positions that have been a struggle. In 2023, Bury said they will look at what would be a good plan for use of those funds for the purpose the funds were established. Schnetzer thanked Bury for the discussion.

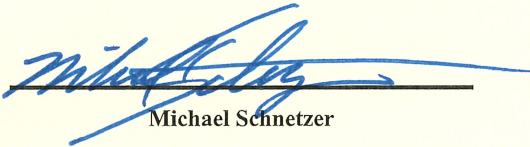
C. ADJOURNMENT:

With no further business before the Finance Committee, the Chair adjourned the meeting at 9:09 p.m.



Jeremy A. VanMeter
Clerk of Council

*APPROVED by the Finance Committee, this
6th day of Sept. 2022.*



Michael Schnetzer