



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 A. VanMeter, Clerk of Council

Monday, February 13, 2023

City Hall, Council Chambers

Immediately following Committee of the Whole meeting on February 13, 2023

A. CALL TO ORDER:

Councilmember Michael Schnetzer, Chair, called the meeting to order at 8:45 p.m. The agenda for the meeting was published on February 10, 2023. All members were present. There were no additions or corrections to the agenda.

B. DISCUSSIONS:

1. Update from the Director of Finance

2023-0031

City of Gahanna FY 2022 Year End Report to Council

Director Bury presented the 2022 Year End report to Council, which included the year-end results for the General Fund, Special Funds that received income tax, and the Capital Improvement Fund. The General Fund revenue is similar to the first three quarters. Revenue is coming in at about nine percent more than planned with about an 11 percent increase over last year. A big part of the increase is income tax. Then, there are fines and fees which has to do with moving Public Service General Administration back to the General Fund. The city meets the target for charges for services. The 23 percent increase shown is from the first year of billing for the New Albany Mayor's Court services and the recreation division also moved back from the special fund. Intergovernmental is at 30 percent more than planned, which is a local government fund. The state's health is doing very well. Since local government funding comes from the General Fund resources of the state, when they do well, local government also increases. We are at a six percent increase over last year and 30 percent higher than planned. Due to the feds increasing interest rates to try to weigh down inflation, the city has been able to take advantage of those increasing interest rates with strategic investment decisions. The city is at about three times what was planned to bring in at \$1.1 million and about 152 percent increase over last year, bringing in about

\$673,000 more. License and permits revenue have increased with all the construction throughout the city.

Bury said that expenditures are like the previous three quarters. The city is spending less than planned at 86 percent at the end of the year. Encumbrances are about 92 percent, and there is about a 13 percent increase, with the largest part of that increase related to salaries and benefits as planned. Contract services and materials and supplies spending is less than planned. There is an increase from last year due to inflation and some one-time projects for contract services, such as the Capital Improvement Plan, and the Creekside Redevelopment. The fund balance is at about \$4.5 million of revenue over expenses. When taking other financing sources into account, the city has a net change and fund balance where it is adding about \$4.2 million back, with an ending fund balance for the General Fund of about \$28.5 million. There is \$1.7 million reserved for encumbrances and \$6.7 million is the full emergency reserve. That leaves the city with about \$20.1 million of unreserved fund balance which is equivalent to about 10 months of operations. This is more than the two months minimum required by policy.

Bury shared that in most cases the special funds are bringing in more revenue than anticipated, and the city is spending less than planned. There are some increases over the previous year. The public safety fund had a change in the allocation. That is why there is a zero percent increase compared to 2021. The special funds are based on what gets allocated based on what their net spend is projected to be. The allocation was changed a bit from 2021 to 2022. It did overproduce what was planned. That is why you are seeing an increase. In looking at expenses, it is a little shy of where it should be for the end of the year. Revenues exceeded expenditures by a little over a million. Of that, \$917,000 went to the police pension fund as planned. This adds back about \$96,000 to the fund balance bringing it to \$703,000 and an unreserved balance of about \$696,000.

Parks & Recreation had a change in allocation. That is the reason for the large percentage increase when it comes to income tax. Overall, the city brought in 21 percent more than planned and had a 17 percent increase. Charges for services increase was 26 percent more than planned with a six percent increase compared to 2021. Expenditures are about 93 percent for salaries and benefits. Materials and supplies, and contract services are a little lower but there is some reserve for encumbrances for the end of the year. The revenues are in excess of expenditures of about \$390,000. The ending fund balance is at about \$1.4 million and unreserved to about \$1.4 million.

Public Service had a change in allocation for income tax, but the city received more than planned. There were a lot of vacancies in 2022 which caused a delay in projects. The overall expenditures based on planned were low. The revenues in excess of expenditures were about \$559,000 with an ending fund balance of about \$1.6 million, with \$203,000 reserved for encumbrance for an unreserved fund balance of \$1.4 million.

The Capital Improvement Fund revenues are higher. There was an overall

two percent increase all generated by the income tax dollars. There was about \$15.7 million in capital expenditure. That is an \$8.8 million increase. The majority of that was the purchase of 825 Tech Center for \$8.5 million. There is an offset in other financing sources of \$8.5 million that represents the BANs that were issued to purchase 825 Tech Center. Even though the expenditures were about \$5.5 million higher, we were using fund balances where we had other finance sources. The BANs were issued to offset it. At the end of the year, about \$3 million was added back to the fund balance, bringing it to about \$20.9 million. There is \$17 million reserved, with \$3.7 million unreserved in the Capital Improvement Fund at the end of 2022.

Bury said that the income tax is not much different than the first three quarter of the year. The city knew there was going to be a steep decline in net profit taxes, and we knew that we had economic expansion. We did not know if it was going to be enough to fully offset the decline in net profit taxes, so we budgeted for zero percent growth for 2022. We have grown more than anticipated. The withholding came in about 12.3 percent higher, completely offsetting that steep decline in net profit taxes and ending the year with about a three percent increase overall in income tax revenue.

Bury shared that investments show some larger increases from the Federal Reserve. Interest rates for December 2021 are at 0.73 percent; at the end of 2022, they were at 4.41 percent basic interest rate for a two-year treasury. Star Ohio is in line with that at about 4.19 percent. The average duration of the city's investment portfolio is about 1.37 years at about a 2.35 percent return. As the city is reinvesting that is where those additional dollars are coming in and we are seeing the large increase in investment income from 2021 to 2022. The basic thought is that the interest rate hikes are probably going to continue through the first and second quarter of 2023. There has already been a tamp down of inflation going from the high of about 8.5 percent at the end of the year and going down to about 6.5 percent. They are thinking it is going to continue into the first and second quarter of 2023, and then there is a small recession that is going to hit right around the third quarter. The overall feeling is that for this area of Central Ohio, and the City of Gahanna, we probably will not feel the impacts of that recession. We have such large economic expansions going on. They are believing this will help pull that inflation down a little bit further and thinking we might be a little bit above two percent by the end of 2023.

Based on the results, we think that we are going to see the same trend continuing through 2023. We are going to see revenue stabilization with those economic growth dollars coming in. We expect to exceed some of our expectations as we are seeing that growth go up. We will probably see some expenditures that are a little lower than anticipated with the economics and the growth in the area. We plan on a three percent increase in income tax, mirroring 2022. We believe it will be two percent as we move into 2024. They are thinking this will bring a slowdown to the job growth, which will help the city to attract and retain individuals.

President Renner thanked Director Bury for the report. Renner said he remembers way back when some of the unreserved balances were getting

very paltry, and now looking at this with a \$20 million reserve is impressive. He asked Bury to speak about the future, about what we know, and about how much of that money will be used with coming stuff. Bury said she believes we are going to continue to see that with the economic expansion. It is going to offset some of the expenditure growth that we are going to see. The city has projected out to the future the inflation, and not knowing when we are going to see that back down a little bit, she believes our revenue base is going to continue to grow and hopefully reining in inflation will lower the cost of doing business. As the city gets more stabilized with employees, not having the retention problems that we are having, and we are able to attract the talent that we need, she sees this trend continuing as we move into the future. The city does anticipate using a little bit of the fund balance for 2023. It is a very little amount, maybe \$200,000. She does not anticipate dipping into the fund balance as has happened in the past. In earlier discussions, we talked about the sustainable operating model (SOM) and what it meant and why we were doing it. We did not have the capital dollars in place that we have now using unreserved General Fund balance for capital is what put a huge strain on the General Fund balance. That is what was pulling the fund balance down. As we continue to monitor the economic growth, she is seeing a continued trend of what we are seeing in 2022. Renner said he thinks he is hearing her say growth is going to slow down and that \$20 million is not really going to be \$20 million in the future. He is trying to understand if Bury has any projections about three and five years where this is going to go. He understands her argument about why we drained it for capital, but we are already draining our capital to some degree. Bury said we added three million back in the capital. She did a five-year projection as part of the 2023 budget, and she laid out what we were anticipating happening. She could supply the information again to Council. It shows what we were thinking over that five-year period. Bury said it is out of date now. It was based on what she knew in September 2022. Bury will do the same thing with the 2024 budget. She will do a five-year projection and outlook of what we are seeing based on the growth and what our anticipated needs are moving forward. She can supply what she did for the 2023 budget, and then as we are working towards the 2024 budget, Council will know that information will be forthcoming as we continue to project out. Renner said this will be very helpful. He continually hears that the city is sitting on tons of money, and that is not an accurate view. Anything that Bury can provide to help explain the cost would be helpful. Mayor Jadwin said that at the end of March when the city brings a draft of the Capital Improvement Plan forward to Council, they will see the list of projects.

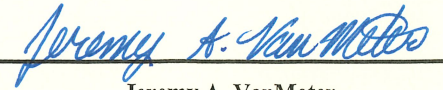
Chairman Schnetzer said that Bury mentioned in regard to investments that the city's weighted average duration is 1.37 years. He asked if that is inclusive or exclusive of the Star Ohio portion. Bury said it is exclusive, as Star Ohio is considered cash on hand and is very liquid. This is looking at the long-term investments, anything two years or greater. Schnetzer stated that inclusive of Star Ohio is shorter. Bury said it was. The city has a big percentage sitting in there right now because the interest rate is so good. Schnetzer asked if there were conversations with the city's asset advisor about extending the duration of that to maybe try and lock in some of those yields. Bury said they just had a conversation to talk about investment strategy for 2023. The yield curve is still kind of inverted, and we are still making more money on the short-term. It

is slowly leveling out. The plan is to still look at some shorter term until we see that yield curve change a little bit, but still capturing some of those longer investments. They are thinking that yield curve will normalize because what everybody is lacking in their portfolios is long-term investments. Everybody is doing short term. She feels that demand is going to cause that to go back and not be inverted as we move through 2023. The city is taking advantage of those short terms that are still producing a higher rate, but also looking to the future and seeing what beyond that two-year time frame. Schnetzer said it is nice to have a few million dollars coming in as investment earnings. He thinks that the yield curve is the most deeply inverted in 40 years. Schnetzer said that the unemployment rate is at a 50-year low of 3.4 percent. He asked if there is any insight into the local economy as to where that is primarily driven by. Is it an increase in the number of payrolls or is it an increase in the prevailing rate or the median salary rate? Is there any insight to as what the primary driver behind those revenues? Bury believes there are quite a few drivers. She thinks overall increases in payroll; everybody is having the same retention problems. Everybody is trying to do the most they can to hold onto the talent. Bury saw a report through the end of the year where there were 10 million jobs openings nationally, but only two million people actively looking for a job. She thinks it is a combination of overall growth as we are bringing new projects online but also an increase in basic payroll wages as people are struggling with the same retention problems.

Vice President Weaver asked how the city assesses this locally. Bury talks to Economic Development Director Strum and Mayor Jadwin about what projects are coming. Are they getting a feel for how different employers are handling things? She talks with Director Vollmer a lot about what people are looking for and what talent we are seeing and where we are seeing a lack of talent. Engineering has been a big struggle. She has been talking with other professionals in the city and trying to figure out what we are looking at for what we have online already and how are they tracking with payrolls and employment. Mayor Jadwin said when projects are tracked, we track the payroll that they are bringing, expected to have, and when it is expected to hit. So, we know how many jobs we are adding and what the average pay range. As an example, the CAPS project will bring in 40-50 medical jobs with a six-figure salary on average. Those are the mechanisms that the city uses to try to track. It is not only a mix of increased payroll but then also the growth that we are seeing in some of our sectors. Schnetzer asked if Regional Income Tax Agency (RITA) provides any sort of granularity, or does it just say company A and here is the payroll? Bury said she has access to various comparison reports, and she can see individual names. No one else is permitted to see those reports.

C. ADJOURNMENT:

With there being no further business before Finance Committee, the Chair adjourned the meeting at 9:11 p.m.



Jeremy A. VanMeter
Clerk of Council

APPROVED by the Finance Committee, this
6th day of *March* 2023.



Michael Schnetzer