Office of the City Manager

January 2013

The City Council
City of Worthington
Worthington, Ohio

Honorable Council President Goorey and Members of the City Council:

The enclosed Fiscal Year 2013 Annual Operating Budget was adopted by the Worthington City Council in accordance with Article IV of the Worthington City Charter. Additionally, the Capital Improvements Program (CIP) for Fiscal Year 2013 was also adopted and will be distributed separately.

The budget message provided below summarizes the budget document, highlights revenue and expenditure trends, and overviews notable changes in the budget from the prior year. As always, it also seeks to connect how the City's budget helps achieve the goals and objectives of the community.

PURPOSE OF THE BUDGET

Section 4.02 of the Worthington City Charter requires "The City Manager, at least sixty days prior to the beginning of each budget year, shall submit to the Council an operating budget estimate and an explanatory budget message after consultation with the head of each department or agency who shall fully cooperate with the City Manager in assisting in the preparation of the budget estimate and message." The budget document serves several important purposes:

1) Serves as the policy document that guides the operational activities and capital investments of City government;
2) Sets the financial course for the City government by identifying funds to pay for services and personnel;
3) Is a tool for communicating to the citizens and others the priorities of the City, the cost of City government, what the City has accomplished in the prior year, and what it plans to accomplish in 2013.

BUDGET FORMAT

The FY 2013 Annual Operating Budget is organized into several areas. These include:

- The City Manager's Budget Message – This memorandum is intended to overview the budget and highlight major issues.

- Budget Schedule – This lists the workshops and public hearings the City Council held in order to 1) review the proposed budget, 2) hear from interested citizens and stakeholders, and 3) adopt formal legislation authorizing the FY 2013 Annual Operating Budget and Capital Improvements Program (CIP).

- Comparisons and Forecasts - These spreadsheets provide comparisons of expenditures over the prior year, summaries of major revenue and expenditure changes, and forecasts for the City's five-year financial planning horizon.

- Operating Budget by Department – Each Department/Division has a section that provides the purpose of the Department/Division, an organizational chart, a summary of the respective budget, line item detail for each account code, key accomplishments for 2012 and key objectives for the upcoming year. We have again provided a "Management Discussion" section to introduce key issues for each area.

- Non-Departmental Accounts – The City relies on revenues and expends monies from funds other than the General Fund. In addition, there are expenditure areas in the General Fund that do not relate to a specific City department. This section provides the line-item expenditure detail for the other funds and expenditure areas in the General Fund that are not tied to a department. Funds that are tied to an individual operating department have been combined in the previous section.

- Financial Policies – This section includes copies of the City's Investment Policy and the Carryover and Reserve Policy.

- Glossary – This section provides definitions to many of the terms used in the budget document.

CITY GOVERNMENT RETROSPECTIVE FOR 2012

We continue to manage this City government in interesting, exciting and uncertain times. Fiscal Year 2012 was a year in which the City made progress, internally and externally, on a wide variety of initiatives. There are many exciting things happening that indicate an improving local economy and a resurgence of our community.

We are fortunate to live in a region that has economically outperformed many areas of the Midwest and the country. As a result, Worthington did not have during the recession the scale of home foreclosures, business closures and unemployment seen in other parts of the state and country. But, we have not been immune from the economic decline and had to reduce positions by attrition, increase the income tax rate and shift dollars that would have normally been devoted to capital projects into the Reserve and General Fund in order to avoid noticeable service reductions. Some of these measures continue in FY 2013 as we deal with meager growth in overall revenue and begin to feel the full effects of cuts made by the State Legislature in funds and tax sources that have traditionally benefited local governments. Once again, however, I believe that Worthington has responsibly balanced the short and long term and made wise fiscal, operational and capital improvement decisions that are focused on maintaining our quality community.

In this message last year, I articulated hopefulness that 2012 would mark the resurgence of The Shops at Worthington Place (formerly the Worthington Square Mall) and noted the City's participation in its

redevelopment through a newly approved 30-year Tax Increment Financing (TIF) relationship with the developer. A year later, internal and external renovation, along with the addition of new restaurants and retailers has brought this critical retail shopping destination to life. The City continued to partner with the owner/developers with the creation of a Community Entertainment District (CED), which allows for additional full-service liquor permits on the site, and through the development review process. Additionally, Worthington Place has become a true community partner and the venue for many community activities (fundraisers, music, Winter Farmers Market, etc.). It is exciting to participate in this collaborative redevelopment effort and see such positive momentum for this project.

Early in the year, the City learned that the Ohio Department of Transportation (ODOT) would be delaying projects statewide, including the North Central Outerbelt Project at US 23/I-270 and SR 315/I-270 for over a decade because of insufficient revenues. Along with others, the City voiced concern over this delay and was ecstatic when ODOT recently announced that portions of this important project would move forward in 2013. This is an exciting announcement that marks the beginning of efforts to coordinate with ODOT on final design of the project, as well as with residents and businesses throughout construction of this massive project. We are optimistic that this transportation infrastructure investment will address serious safety and congestion concerns and be the catalyst for additional redevelopment in the Wilson Bridge Road Corridor.

The City continued efforts to review the City's regulations to identify ways they can be modified to help realize the redevelopment objectives set forth in the Wilson Bridge Road Corridor Plan adopted by the City Council in 2011 and the 2005 Comprehensive and Strategic Plan. The City has obtained grant funding for a multi-use trail and expects to select consultants to help identify and design additional public investments in the corridor in 2013.

Last year, we learned that the United Methodist Children's Home will be selling their almost 40-acre property on High Street. Ensuring that the development of this property is generally consistent with the City's Comprehensive and Strategic Plan and meets both the short and long term needs of this community will likely be the defining policy issue of 2013.

The City also finalized many projects in 2012 that were in their initial stages during the budget process last year. The Davis Estates Waterline project was completed with the streets in this neighborhood re-paved with the annual street program; numerous renovations were completed at the Community Center; the GoDown Road Dog Park was constructed in partnership with the City of Columbus and opened to the public; and the Indianola Playground was renovated.

The FY 2013 five-year CIP has numerous large sewer studies and projects that are the result of the Consent Order entered into with the Ohio Environmental Protection Agency (OEPA). Efforts continued this year to develop plans for projects identified in the Southeast Sewershed Study, including the Kenyonbrook Siphon Removal. This will continue to require significant portions of CIP funding and staff time as we work to study, design, competitively bid and manage the construction of these large, complex mandated projects.

The City has been aggressive in pursuing grants. We submitted and received a $1,000,000 Ohio Public Works Commission (OPWC) no-interest loan for a sewer project, received an OPWC Emergency Grant for $119,000 to replace the McCoy Avenue culvert, obtained $71,000 to furnish personal protective equipment for the Police Division, and have pursued other grant funds for the Wilson Bridge Road Multi-Use Trail and the reconfiguration of the Huntley/Worthington-Galena/Wilson Bridge Intersection.

We also partnered with several other jurisdictions in obtaining an Ohio Local Government Innovation Grant to study the feasibility of combining public safety dispatch services. This study is now underway. Given the soft economy and cuts in funding already made by the State Legislature, it is critical that we continue to evaluate opportunities for outside funding and carefully review and consider opportunities to share services with communities who share a similar service philosophy.
The City is known for its many community partnerships and outreach to its citizens. We always seek to identify ways that we can work with other community organizations to benefit our citizenry and businesses. Recently, the City staff worked alongside community volunteers to help the Old Worthington Business Association re-draft its internal documents (by-laws) and create a new 13 member Board of Directors. This has the potential – over a period of time – to strengthen the organization that has supported downtown merchants for many years.

The Police Division continued new efforts launched in 2011 with SALT (Seniors and Law Enforcement Together) and Drug Safe Worthington, while also creating the Citizens Police Academy Alumni Association and launching a very successful National Night Out Event.

The Parks and Recreation Department continued its marketing and community outreach initiatives, increasing their presence at community events and their partnerships with other community organizations. Along with new marketing and membership efforts, events like Touch a Truck, a bridal show, and a health fair have attracted new people to the Community Center. This is important because 2011 was the first year in several years where the Community Center revenues had stabilized and we are now seeing the financial rewards of these focused efforts with an increase in overall Community Center revenue in 2012.

In addition to collaborating with our community partners, Worthington has a history of participating – and in many cases leading – discussions about how we can improve the Central Ohio region. During the past year, we have engaged in two such discussions on Shared Services and Regional Economic Development. These have resulted in two separate pacts – one related to equipment sharing and fleet commodity purchases and the other on preventing the use of tax incentives to move jobs around the region. These discussions help foster professional relationships, expose us to the practices of other governments, and sometimes produce real policy breakthroughs or partnerships that help either save resources, create efficiencies or make for better governmental decision making.

The issues outlined above focus primarily on the development of the City and relationships with our community. However, much has occurred “internal” to City government in the last year. This includes reviewing our participation in the self-insured Central Ohio Health Care Consortium, finishing a number of technological enhancements (telephone upgrades, fiber optic connection of City facilities, an intranet etc.); finalizing a contract with a new union, the FOP-OLC, who represent our dispatchers; re-organization of responsibilities and titles at the Community Center; and updating a number of internal policies and procedures.

We continue to see a number of retirements each year due to age, years of service and, more recently, the impacts of pension reform. Retirement of key staff results in the loss of institutional knowledge, temporary disruption in workflow, and the challenges of hiring. More importantly, we say goodbye to friends and co-workers who have helped create and lead the service-oriented, highly ethical cultural of the City of Worthington.

Each year, we decide whether to fill such positions, eliminate the vacant positions and redistribute the duties, or re-organize. Some of this is proposed in the FY 2013 Proposed Budget. Expect this trend to continue as many in our long tenured workforce reach the retirement age.

You never really know what you may face in local government, but it is always the local City's responsibility to respond – first. This summer, for the second time in the last five years, we experienced a windstorm that knocked down large numbers of trees, blocked roads and left parts of the community without power for up to seven days. City crews from all Departments and Divisions responded with exceptional effectiveness, clearing roads, responding to emergencies, providing critical information to our citizens and businesses, and offering a place to get cool in the summer heat. I am extraordinarily proud of the job the City staff did both during the storm event and in the many weeks it took to clean up afterward. They helped ensure that this community was safe, clean and returned to normal as quickly as possible.

I am proud of the accomplishments of our City government in 2012 and deeply appreciative of the work of our employees, the dedicated citizen volunteers who serve on our advisory boards and commissions, and the support of the Worthington City Council. Many things are going well and I am confident that we can face and manage the challenges and opportunities that lie ahead in FY 2013.

PROPOSED BUDGET HIGHLIGHTS AND DISCUSSION

In 2010, the City presented financial objectives that supported the requested .5% increase in the income tax. The objectives included the following:

- Maintain existing City service levels
- Ensure financial stability and ability to respond to both cyclical and catastrophic events
- Maintain and invest in capital infrastructure
- Invest in economic development and redevelopment
- Provide funding to restore unsustainable reductions

These objectives were tied to and consistent with the City Council's previously established Key Performance Areas (KPAs), which are as follows:

- Fiscal Health
- Economic Development
- Quality City Services & Infrastructure
- Effective Governance
- Community Identity
- Healthy Neighborhoods
- Sustainability

The FY 2013 Annual Operating Budget was adopted at $24,315,352. It is intended to meet or pursue the objectives outlined above. The budget includes:

1) Maintenance of existing services
2) No request for increases in the number of full-time staffing.

3) Reduction of two (2) full-time positions.
4) 13.6% allocation of income tax revenues ($2,992,500) to the Capital Improvement Program (CIP). FY 2013 is proposed to be the last year at this level with the allocation returning to 20% in FY 2014.
5) A contribution of 6.4% of income tax revenues ($1,346,755) to the Reserve fund with the intent that this will continue to supplement the General Fund through 2013.
6) An adopted budget that is -1.37 % below the FY 2012 total appropriations and -3.13% below FY 2012 actual expenditures.

Revenue and Fund Balance Forecasts

Projected revenues for the 2013 Operating Budget total $25,364,410, which reflects an increase of .55% from 2012 projected revenues. Projected revenues account for a loss of State funding in Local Government Funds, Tangible Personal Property and Estate tax revenues totaling $466,584 for FY 2013. Income tax revenues are estimated to increase 1.5%.

The City has experienced success in achieving the goals of the General Fund Carryover Balance/Reserve Policy, which targets maintaining a minimum of 15% of the annual budget in the Carryover Fund Balance and $1.5 million in the Reserve. The General Fund Five-Year Forecast reflects a Carryover Fund Balance in the amount of $3,570,389 or 14.9%, less the Reserve balance of $1,500,000, at the end of FY 2012. The Reserve Fund allocation of 6.4% of income tax revenues is projected to continue through FY 2013 in an effort to further stabilize the general fund balance.

Three things have allowed us to build carryover fund balances and reserves: a) reductions in operating costs (particularly position attrition), b) use of the Reserve Fund for General Fund purposes (which has meant a reduction from 20% to 13.6% of income tax revenues going to the CIP), and c) a voter approved .5% income tax increase. Without these collective measures, we would not have achieved this.

Now that we have reached 15%, what should be our continued goal or practice? Here are a few points that we must continue to keep in mind:

1) In the future, it is unlikely that we will be able to reduce significant numbers of additional positions without reducing service levels.
2) We are returning in FY 2014 to a 20% contribution of income taxes to the CIP. This revenue will no longer be available for General Fund purposes, without a change in City Council adopted strategy and a negative impact on our capital program.
3) We have increased our reliance on income tax revenue (see below).
4) The economy remains soft and we are projecting meager growth in income tax revenues (1.5% in FY 2013).

My point is that we are not “out of the woods” and it is necessary to try to maintain our carryover fund balance/reserves and limit programmatic growth in order to foster long-term fiscal stability. When the City Council originally set the 15% Carryover Fund Balance target in 2008, it had not increased the income tax and was not anticipating state cuts. The state cut the Local Government Funding in half and eliminated the Estate Tax and Tangible Personal Property Tax. These cuts began in 2012. With the Estate Tax eliminated completely in FY 2013, we will reach a total of $1 million annually in reduced revenues from these sources. These revenues went into the Operating Fund to support day-to-day operations. Because of how this revenue is allocated, the full impact of the cuts is felt on the operating

budget, not the CIP. As a result, the City's revenue mix has become less diverse and even more reliant than ever on income taxes to support operations. In the 2013 Proposed Budget, it is estimated that 71.68% of all revenues will come from income taxes, including the Reserve Allocation. Given the volatility of income (payroll) taxes and the previously stated objective to ensure financial stability and the ability to respond to both cyclical and catastrophic events, I recommend that we – at a minimum- maintain the current Carryover Fund Balance levels and consider, at some point, modification of the policy to establish a higher minimum balance.

Departmental Efforts to Reduce Expenditures

There are several Departmental changes included in the Proposed Budget which are important to highlight. These include the following:

Reorganization of the Fire Division, Prospect of Change in Service, Engineering and Law Departments:

At the beginning of FY 2012, two Battalion Chiefs retired. These positions have not been permanently filled and will be eliminated as part of a re-organization of the Fire Division for FY 2013. The highlights of the reorganization include: creating a 40-hour per week position, using part of the salary savings to enter into a contract for employee training services with Columbus State, promoting three firefighters to Lieutenant, and reducing the daily staffing assigned to fire apparatus from 11 to 10. This reorganization helps achieve several Division goals, which include: achieving budgetary savings, enhancing administrative leadership and support, providing a more consistent training program, addressing the need for succession planning and the desire for promotional opportunities, maintaining company officers on each piece of fire apparatus and continuing the City of Worthington's reputation for Fire/EMS excellence. The total anticipated savings in FY 2013 is $148,179.

The adopted budget also reflects the elimination of the Assistant City Engineer position and the reorganization of two departments. It merges several capital project management functions (City Engineer, GIS Manager, and Field Inspector) of the former Engineering Department into the new Service and Engineering Department. Additionally, it creates the Planning and Building Department, which includes the staff positions from the Engineering Department that have historically dealt with planning, land use, building regulations, permitting and building inspections.

These reorganizations do not create any net new positions. However, they more closely align the City's staff with the priorities of the City Council, particularly in land use planning. With the incumbent City Engineer becoming the Service and Engineering Director, a vacant Director position has been reallocated to lead the new Planning and Building Department. This results in our ability to add to our in-house planning capabilities during a time in which we see tremendous opportunities for redevelopment.

Notable Expenses

As part of this message, I would like to highlight several important expenditure areas. A larger list of Notable Expenditure Changes is included in the budget document under the Comparisons and Forecasts tab.

- Arts Center and Special Groups – The budget maintains funding at levels consistent with prior years in each of these areas. A summary of each area is as follows:

    - Funds have been included for a $220,000 Operating Grant to the McConnell Arts Center (MAC). Also included are funds for City maintenance obligations under the lease. The total FY 2013 Proposed Budget amount for the MAC is $244,550.
    - $55,523 is allocated to nine (9) Special Groups that have historically received City funding.

- Convention & Visitors Bureau (CVB) – The budget includes $114,000 for the CVB.

- Economic Venture Program - The budget includes a transfer to the Economic Development fund of $150,000, which is lower than in recent years. It should be remembered that unspent prior year funds in the Economic Development Fund carryover into the fund for the next year. They accrue to the Economic Development Fund balance, rather than the General Fund balance. When sufficient fund balance accrues to fund our average economic development expenditures, we reduce the amount of the transfer in the following year. The Five-year Financial Forecast anticipates two years of a lower allocation due to having an anticipated fund balance of $500,000 at the end of FY 2012.

- Legal Services – The budget includes an increase in $25,000 for Legal Services. This is to correct a historic under-budgeting in this line item and establish a budget amount that better reflects our average annual expenditures for Legal Services.

- MIS Services - The City has historically backed up electronic systems and files at alternate locations in or near Worthington. Audit recommendations and industry standards suggest that the City should develop a system for backing up critical systems and files outside the region and even the state. An additional $25,000 has been added to MIS Services for out-of-region and out-of-state backup of important systems and files.

- Police Contractual System Support - There is an increase in this line item by $9,000 to facilitate the procurement of services for an Emergency Notification System (sometimes called Reverse 911). Many cities in Central Ohio and the country have this capability and we have found instances in recent years where having such a system would have provided us the ability to more quickly notify residents in emergency situations.

- Utilities - Gas, Telephone, Electric and Water & Sewer appropriations are requested to be increased by $80,000 to better reflect actual expenditures and to deal with anticipated increases in various utility costs.

Comments on Other Funds and Non-Departmental Accounts

City services are supported through approximately eighteen (18) other funds, in addition to the General Fund. These funds are defined in the budget document glossary and line-item detail provided for fund expenditures. This budget message seeks; once again, to highlight only those funds where there are budgetary issues, such as flat revenues or fund subsidies.

- Street Maintenance and Repair Fund - Revenues from this fund come from the vehicle license and gasoline tax. The Service Department funds seven (7) positions out of these revenues. Revenues remain flat, resulting in a $100,000 transfer from the General Fund to the Street M&R and State Highway Funds (outlined below) so that revenues and expenses are closer to balancing. Vehicle license and gas tax revenues are estimated to be $740,000 in FY 2013. Expenses in FY 2013 are estimated at $750,577.

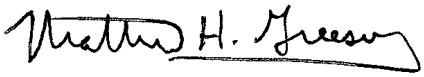
- State Highway Fund - The State Highway Improvement Fund is utilized to account for all transactions related to the maintenance and repair of those portions of state highways within our City. The revenue sources for this fund include 7.5 percent of the gas excise tax and motor vehicle license tax and investment earnings. Revenues in this fund are also flat. Revenues in FY 2013 are anticipated to be $55,000, while expenses are estimated at $105,841.

- Water and Sewer Funds - The Water Fund captures revenues from water surcharges and water permits. Likewise, the Sewer Fund utilizes revenues from sewer surcharges and sewer permits. There is one (1) position that is funded by these two funds combined. Revenues in these funds have stagnated. In fact, sewer revenues are so minimal that the position is now completely funded by the Water Fund. Expenses are expected to outstrip revenues for both funds combined within the next two (2) years. Combined revenues for these funds are $122,000 in FY 2013 and expenses are $140,410. The City maintains one of the lowest water and sewer surcharge rates in Central Ohio. While we have been reluctant to raise it in a recessionary economy, we should reevaluate this to ensure that we can effectively maintain services and reduce General Fund subsidy of this function.

CLOSING REMARKS

In closing, I would like to thank Molly Roberts, Finance Director, Robyn Stewart, Assistant City Manager, Department Directors and Division Chiefs and all City staff for their diligent, sincere and conscientious effort to develop this Proposed Budget. We all appreciate the opportunity to serve the City Council and the citizens of Worthington.

Sincerely,



Matthew H. Greeson
City Manager