Office of the City Manager

January 30, 2012

The City Council
City of Worthington
Worthington, Ohio

Honorable Council President Goorey and Members of the City Council:

The enclosed Fiscal Year 2012 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 2012 was also adopted and will be distributed separately.

This budget message seeks to provide a summary of the budget document, bring attention to revenue and expenditure trends, highlight significant changes in the budget from the previous year and discuss how the budget supports 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 appropriating 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 2012.

BUDGET FORMAT

The FY 2012 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 preliminary budget, 2) hear from interested citizens and stakeholders, and 3) adopt formal legislation authorizing the FY 2012 Budget and Capital Improvements Program (CIP).

- Budget 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 5-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 2011 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 2011

Local governments, including Worthington, faced another interesting year in 2011. Shaky economic conditions combined with changes in financial and other policies at the state level fostered uncertainty about the future. The State of Ohio repealed the estate tax and significantly reduced funding from the Local Government Fund. Reductions will be phased in with the full-effect ($1 million in annual revenue) being felt beginning in FY 2013.

This uncertainty has necessitated that local governments make short-term financial and operational adjustments, while also trying to maintain a focus on long-term community objectives. I believe that Worthington has realistically balanced the short and the long-term. In fact, 2011 represented a year in which a remarkable number of long-term community objectives moved forward.

Economic development has been a major goal of the City for many years. City government's role in economic development is often to provide an environment that is attractive to investors. This requires us to progressively plan for future growth, invest in critical infrastructure, and work collaboratively with the private sector to spur activity. We marked some important milestones on several of Worthington's long-term planning, economic development and infrastructure goals during this past year.

In late 2010, the City Council and City staff made extensive efforts to complete a thirty (30) year tax increment financing (TIF) arrangement with the purchasers of the Worthington Square Mall (now Shops at Worthington Place). This was an important event, as it has been a long-term goal to foster a successful redevelopment of this facility. In 2011, the City saw the fruits of its TIF efforts as it reviewed development plans and earnest efforts began to renovate and lease the facility. We are hopeful that 2012 will mark the resurgence of this important retail facility in our community.

The City was able to hire its first full-time Economic Development Manager. This has allowed the City to increase its business outreach, marketing and technical capacity.

The City's input into the Ohio Department of Transportation (ODOT) North Central Outerbelt Project reached its climax when the City Council adopted consent legislation in support of the project. This massive re-work of the interstate at the SR 315/I-270 and US 23/I-270 interchanges will create a safer northern gateway to the Worthington community and, hopefully, encourage investment in the Wilson Bridge Road Corridor.

In recognition of the potential in this corridor, the City Council adopted the Wilson Bridge Road Corridor Plan in 2011. This extensive planning effort included market studies, a steering committee and extensive public input. Additional phases of this effort are now underway with regulatory strategies, such as an overlay, being developed to help guide and realize the vision adopted in the plan.

We learned that the United Methodist Children's Home will be selling their almost 40 acre property on High Street. Over the next couple of years, this – along with the projects and initiatives outlined above – will make a huge impact on the life and the future of Worthington.

The City Council funded an overhaul of the website in 2011. This extensive effort involved every City department and division, as we sought to take advantage of new information sharing and customer service tools available through our new website. We are excited about continuing in 2012 to enhance the citizen on-line experience with City government, as well as begin to build a strong internal intranet. In addition to enhancing our online presence, we fulfilled one of the City Council's objectives of unifying the City's brand. The City developed consistent usage of its logo and brand standards. This consistency carries through all of our communication pieces and presents a more polished and professional image of City government to citizens, businesses and visitors.

Our focus in this regard was not only related to City government. In 2011, the City helped fund a new Convention & Visitors Bureau (CVB)/downtown website to better promote our community. The online profile of the community has been enhanced significantly by both of these efforts.

Technological improvements have not only been made for the benefit of external (website) users or customers of City services. We have also working to enhance our technological capacity internally. Internal operating improvements that are implemented or ongoing include: utilizing the fiber optic connection of City facilities to create an online general ledger system, an online purchasing system, an upgraded and connected phone network, and an intranet site.

New Directors in both the Police Division and Parks & Recreation launched creative new initiatives. The Police Division increased the number of Block Watches furthering our partnerships with our neighborhoods, increased outreach to civic and community organizations, increased cooperation with and presence in Thomas Worthington High School, and began development of the SALT (Seniors and Law Enforcement Together) program in collaboration with the Griswold Center. Similarly, Parks & Recreation launched a newly branded marketing strategy, increased outreach to community organizations, tested a bulk membership package with a local corporation, and tweaked programmatic offerings. This resulted in stabilization of Community Center membership and programmatic revenues.

The City continued its focus of maintaining a quality built environment. In addition to our on-going efforts to maintain sewers, stormwater, and streets in a quality fashion, a couple of significant

infrastructure projects have been completed or are substantially complete. All of the waterlines in the Davis Estates neighborhood were replaced. The entryway of the Community Center, for years a troublesome facilities issue, is nearing completion. Additionally, despite limited funding, the City has been able to invest in or facilitate the creation of a few park and recreational improvements. These include the Go Down Road Dog Park, with construction funded by the City of Columbus, but located on Worthington owned land, 10 bike racks throughout the community, and renovation of the Indianola Park playground. Each of these investments will add to an already great quality of life in our community.

As you know, early in 2011, the City was called upon – as the result of a unique petition by residents of the Village of Riverlea seeking annexation into Worthington – to appoint members to an Annexation Commission. This led to an intensive, statutorily time limited process in which Riverlea and Worthington Commissioners negotiated the terms of annexation. The City staff provided detailed analysis to both the City Council and the Annexation Commission during this important process. The residents of Worthington voted for the annexation, while Village residents rejected the measure. As a result, the annexation did not go into effect.

Looking back on 2011, I am proud of the many things that City government has accomplished. While times remain uncertain, as the narrative above illustrates, much progress can be seen in our community. The challenge of 2012 will be to sustain progress that has been made, continue and complete efforts already underway, and position City government to effectively respond to financial and other challenges ahead.

PRELIMINARY 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 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 2012 Annual Operating Budget was adopted with a total Operating Budget of $24,061,819. 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 full-time staffing.
3) Reduction of three (3) full-time positions. Savings is partially offset by part-time and overtime expense increases.
4) 13.6% allocation of income tax revenues ($2,750,000) to the Capital Improvement Program (CIP).
5) A contribution of 6.4% of income tax revenues ($1,326,852) to the Reserve fund with the anticipation that this will be utilized for operations through 2013.
6) A Preliminary Budget that is 2.30% over the FY 2011 Adopted Budget.

Revenue and Fund Balance Forecasts

Projected revenues for the 2012 Operating Budget total $25,225,307, which reflects an increase of 3.83% from 2011 revenue collections. Projected revenues account for a loss of State funding in both Local Government and Tangible Personal Property tax revenues totaling $287,435 for FY 2012. Income tax revenues are estimated to increase 2.5%, which includes the increased income tax revenue projections due to the income tax rate increase which was approved and effective July 1, 2010. The remaining projected State funding cuts will be realized in FY 2013 with the elimination of the Estate Tax.

We continue to strive toward building and maintaining the general fund balance in an amount equivalent to 15% of the prior year's operating expenditures, which is consistent with the approved General Fund Carryover Balance/Reserve Policy. The General Fund Five-Year Forecast presented with this budget reflects a general fund balance estimate of 15.9% at the end of FY 2012, in an amount of $3,939,184. 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.

Departmental Efforts to Reduce Expenditures

There are several Departmental changes and reductions included in the Annual Operating Budget which are important to highlight. These include the following:

Reduction of three (3) positions, Police Officer, Aquatics Assistant, and Communications Technician:

Reductions in the Police Division include a police officer and a Communications Technician (dispatcher). The patrol vacancy arose out of the promotion of an officer into a vacant Sergeant position. Previously, we also had an officer assigned to the regional Domestic Security (Terrorism) Task Force. The return of this officer, who is now assigned to the Detective Bureau, provides the City with a compliment of 32 sworn officers, including 22 assigned to the Patrol Bureau. This is consistent with "on the street" staffing levels of the last five (5) years. The estimated savings from keeping this position vacant is $75,350.

The City Council authorized the conversion of a sworn Administrative Sergeant position into a Communications Supervisor over a year ago. This created approximately $20,000 in savings. The position was filled by promotion of a Communications Technician, thus creating a vacancy. We have held that position vacant and utilized overtime and part-time hours to maintain service levels. The

Preliminary Budget increases part-time by $2,000 and overtime by $5,000 in the Police Division's $4,132,051 total budget. However, this still reflects a savings of $62,472, while maintaining service levels and reducing our Communications Center staffing from ten (10) to nine (9).

The Parks and Recreation Department held an Aquatics Assistant position vacant for most of the year. The Preliminary Budget for 2012 eliminates this position, but increases various part-time lifeguard and support staff hours to help offset the workload loss of a full-time position. The FY 2012 budget anticipates $10,807 in savings as a result of the elimination of the Aquatics Assistant position.

Notable Expenses

Despite Departments continuing to reduce many line-items in order to help cope with the economy and increased costs, the budget is still impacted by escalating costs in several areas. Charts are included in the budget document to highlight Notable Expenditure Changes. As part of this message, I would like to highlight several important expenditure areas:

- Health Insurance – Health Insurance premiums have increased by an unprecedented 33% or $658,000. These expenditures are found in two (2) areas, Personnel and the Fire Department budget. The City is a long-time member of the Central Ohio Healthcare Consortium, a self-insured consortium of cities, townships and villages. As a member of the consortium, past increases have been moderate and usually at or lower than national trends. Premium rates are set by the consortium based on the 1) financial health of the consortium and the need to allocate sufficient reserve funds, and 2) based on the health insurance claims experience of the employer. Worthington's recent health insurance claim experience has not been good, resulting in a significant premium increase. In reaction to this premium increase, the City staff launched an effort to introduce a high-deductible plan option to our employees for 2012. During the open enrollment period in November, the City held five (5) informational sessions about this option with its employees and had over 50 employees (approximately 1/3 of the workforce) choose a high-deductible plan. This resulted in avoided premium costs of $102,210 when compared to the traditional plan. We also offered an opt-out incentive for employees who can receive health insurance through the employer of a spouse or other family member. Nine employees chose this option resulting in a savings of $108,810.

  The City is contractually obligated to one (1) more year (2012) in the consortium, as part of a trust agreement. Staff will be contracting with a 3rd party consultant to help the City evaluate it health insurance options for the long-term, with the goal of ensuring that a quality product is provided to our employees at a reasonable cost to all involved.

- Bank/Merchant fees – The fees are charged to the City by credit card companies when our customers utilize credit cards to pay the City. During the past year, the City experimented with accepting credit cards for payment in a few locations, including Mayor's Court and Engineering. Doing so has been well received by customers. Customers almost universally expect to be able to pay with credit or debit cards in any venue. We believe it is important to provide this service even though these fees are anticipated to be $15,000 in 2012. In fact, since our new website provides us the flexibility to begin accepting many payments on-line, we expect that such offerings will expand. Staff will be evaluating the benefits of this, as well as whether or not it is justifiable to increase certain fees to cover this transaction cost.

- Income Tax Collection fees – The City contracts with the Regional Income Tax Agency (RITA) to collect our income taxes. Fees for such services are 3% of the income taxes collected. Because the City increased its income tax by .5%, it is collecting more in income taxes. The 2012 Preliminary Budget includes $122,000 in corresponding increases in income tax collection fees.

- Part-time Firefighters and Fire Operations Overtime – The City of Worthington has increased its utilization of part-time firefighters in order to help manage fire/ems overtime costs. Given the significant challenges we have had with extended leaves in the Fire Department, this has been a successful strategy to help mitigate the costs of paying overtime. In order to make it attractive for someone to work as a part-time firefighter for Worthington, we schedule a part-time position for the first twelve (12) hours of every shift. This ensures steady work for part-timers, while also having them available for the time period that is most heavily impacted by full-time leaves. While this strategy has been effective, it necessitates increasing part-time funding by $35,000 in FY 2012.

- Several years ago, the City eliminated a 2nd Fire prevention position. We currently have one (1) Lieutenant who serves as the Prevention Officer. However, approximately $40,000 was left in the prevention budget at the time. Once again, this was done to help manage overtime costs. It was intended to be used to offset the cost of firefighters' salaries when placed on light duty in prevention. In other words, we would pay their salary out of the prevention line, thus relieving the Fire Operations budget. This became administratively cumbersome, so we sought an end of the year transfer from the prevention line to the Fire Operations overtime line in order to accomplish the same thing. This became the recurring practice. Rather than make this transfer every year, the Preliminary Budget reduces the Prevention budget by $40,000 and increases Fire Operations overtime by amount $50,000.

- Arts Center, Convention & Visitors Bureau and Special Groups – The 2012 Operating Budget maintains funding at levels consistent with prior years in each of these areas. Each group made presentations to the City Council to outline their funding request. A summary of each area is as follows:

    - Funds have been included for a $220,000 Operating Grant to the McConnell Arts Center. Also included are funds for City maintenance obligations under the lease. The total FY 2012 Preliminary Budget amount is $244,550.
    - $100,000 in funding for the Convention & Visitors Bureau
    - $55,523 is allocated to nine (9) Special Groups that the City has historically provided funding to.

- The Annual Operating Budget for FY 2012 maintains a $300,000 transfer to the Economic Development fund. Additionally, this transfer is increased by $25,000 to $325,000 for purposes of properly allocating potential economic development related legal fees to this fund. Such work includes legal advice related tax abatements, venture grant agreements, tax increment financing negotiations, etc. Staff believes these legal expenses should be charged and tracked within this account rather than the legal budget for the general operations of City government. 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.

Comments on Other Funds and Non-Departmental Accounts

City services are paid for 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 FY 2012 request that $100,000 be transferred from the General Fund to the Street M&R and State Highway Funds so that revenues and expenses are closer to balancing. Vehicle license and gas tax revenues have hovered around $610,000 over the last three (3) years. Expenses in FY 2012 are estimated at $725,243.

- 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 2012 are anticipated to be $105,000, while expenses are $104,518.

- 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 2012 and expenses are $135,689.

NEW AND/OR CONTINUED INITIATIVES

Much of the budget is focused on continuing initiatives already underway and maintaining Worthington's outstanding service levels. With state budget cuts looming and the economy still soft, we will necessarily be focused on prudent fiscal and operational management and evaluating reductions in expenses.

With this in mind, we will continue to work on building the City's strategic plan with a focus on finalizing it for City Council adoption and, more importantly, inculcating this practice into the culture of the organization. We are continuing to build our experience with the ICMA Performance Measurement Consortium and working to better incorporate this best management practice into our operation. Lastly, we will have to identify additional opportunities for position attrition. With personnel representing 54 % of our operating costs, it will be necessary to continue – like this year – to incrementally reduce positions in order to face the challenges of reduced revenue. This will increase our reliance on part-time employees in some areas, result in expanded duties for some staff, and inevitably impact some facets of our service delivery to citizens. However, it will remain our goal to minimize this when at all possible.

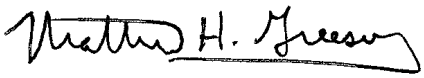
Additionally, much dialogue is occurring amongst the regions local governments regarding "shared services." This essentially means working together with other local governments – whether formally or informally – to provide more effective (cost and otherwise) services to our collective citizenry. This can take the form of contracts to provide service, merging of functions, sharing of equipment or personnel, or merely taking advantage of another governments pricing on a commodity. Regardless of what form it takes, I believe that it is our professional obligation to participate in these conversations and seek to identify opportunities where we can reduce operating expenses, while at the same time ensuring quality services to Worthington's citizens. I am reasonably optimistic that the fiscal challenges that we all face will not only create, but necessitate, new and unprecedented opportunities for collaboration.

Lastly, we will continue our efforts to improve the economic condition of this community. Further implementation of the Wilson Bridge Road Corridor Plan, support of the Shops at Worthington Place, increased marketing and business outreach, and a focused effort will undoubtedly yield results.

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 Annual Operating Budget. We all appreciate the opportunity to serve the City Council and the citizens of Worthington.

Sincerely,



Matthew H. Greeson
City Manager