

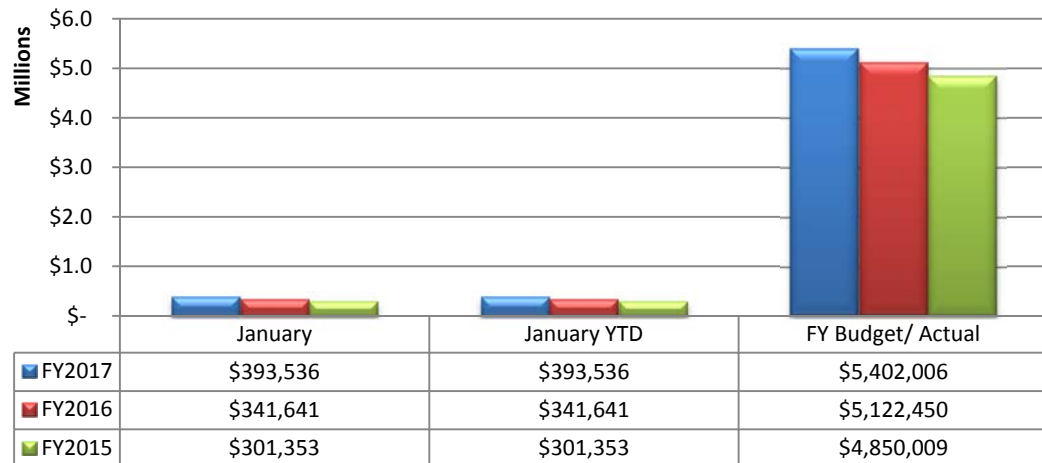


City of Pataskala Finance Department
James M. Nicholson, Finance Director
Finance Director's Report to Council

Current Projects & Issues

- **January 2017** – The financial results through January 31st have been compiled and summarized in the Financial Condition Report, which was previously distributed and is currently available on the city's website. Here are some highlights from that report:
 - **Income Tax Revenue** - Collections for the month of January were \$393,536 and are \$51,895 (15.19%) higher than the January 2016 collections. This amount equates to 7.28% of the full-year budget, slightly below the 8.33% straight-line rate if revenues were collected evenly throughout the year. In 2016, the January collections amount equated to 6.67% of full-year collections, and the rate was 6.22% in 2015. Although it is too early in the year to modify our projections, collections in January 2016 appear to be performing better than expectations. We will monitor this trend closely over the next 3-4 months to determine whether or not an improved trend exists, and if the forecast should be updated to reflect the new trend.

Income Tax Collections - All Funds



- **Utility Billing Receipts** – During the month of January, a total of \$321,245 in utility billing revenue was received, with \$160,114 in water utility revenues and \$161,130 in sewer utility charges. On a combined basis, the total is \$56,858 (21.51%) higher than last year at this point in time, and is equal to 9.4% of the 2017 budget. In comparison, January 2016 collections were equal to 6.45% of full-year collections, and the rate was 6.24% in 2015. We'll closely monitor the collections rate over the next several months to determine if and when an adjustment might be required.
- **Spending** – Spending through the first month of the year is equal to 6.74% the full-year 2017 budget, and is well below the straight-line rate of 8.33%. Fund transfers between

various city funds result in duplicate revenue and expenditure entries on the general ledger, which has the effect of overstating total spending. If we eliminate the \$2,138,754 in interfund transfers from the calculation, adjusted total spending would be equal to 7.39% of budget. This is below the 8.33% rate that would be expected if spending was done in a straight-line basis (e.g. equal spending each month). In addition to the spending to-date, purchase orders (encumbrances) of \$6,068,675 have also been issued and are outstanding. This encumbered balance represents either: (1) legal commitments to pay (such as construction projects); or (2) estimated full-year spending on routine items such as employee health insurance, natural gas/electric utilities, fuel or office supplies. Including the outstanding purchase orders in the calculation tends to overstate current spending, and results in a year to-date spending rate equal to 34.86% of budget.

- **Investments** – As of January 31, the city’s investment portfolio (excluding overnight sweep) had a market value of \$8,613,211 and an average portfolio yield of 1.27%. The portfolio had an unrealized gain at the end of January of \$5,386 when compared against the original cost basis of the securities in the portfolio. It is important to note that any unrealized gain or loss on the portfolio is simply a hypothetical gain or loss, and would only become a realized gain/loss if we were to liquidate the investment portfolio. Individual securities typically return the par amount (e.g. 100% of the face value of the bonds or CDs) at maturity, where no gain or loss would be realized. During January, we had a \$245,000 CD (GE Capital Financial) mature, which was purchased in February 2014, and which was earning 1.0%. The proceeds of the maturity, however, were quickly reinvested in a callable Federal Home Loan Bank (FHLMC) bond with a 1.5% coupon rate, which matures in February 2022, but is also subject to being called by the issuer in August 2017.
- **2016 Financial Reporting & Audit** – Over the next 2-3 months, we will continue working to create all of the schedules and documents required to support the development of the 2016 GAAP accrual-based financial statements for the city, as well as the development of the 2016 Comprehensive Annual Financial Report (CAFR). Many of these schedules involve accrued wages, accounts payable and accounts receivable. In addition, we will also be updating the fixed asset inventory with all purchases and disposals during 2016, and supporting the audit of the 2016 financial statements. A significant number of these schedules have already been prepared and sent to the city’s auditor, with most of those still outstanding requiring the month of February 2017 to be closed prior to completing them. Fraud and related-party questionnaires have been prepared and sent to the auditors. Every elected official (as of 12/31/16) should expect to receive a copy of this form in the mail. In order to keep the audit process moving forward, I would respectfully request that you respond to this request as promptly as possible.
- **Business Resumption/Disaster Recovery Planning** – We have been working over the past several years to improve the strength and security of our internal network and email systems. The first step was to eliminate the in-house email server; rather, to transition our Outlook email account to Microsoft’s Office 365 online product. This approach enables employees to access their email accounts both at and away from work. In addition, Microsoft manages the data security and backup for the city. The most recent step was to transition our general file server, the accounting SSI VIP server, the Mayor’s Court server and the utility billing server to a virtualized server managed by Keytel (the city’s contracted information technology provider). This server is housed in a secure data facility, which provides a more secure environment for the equipment with fiberoptic connectivity and backup power supply. Keytel manages the firewalls and antivirus

software for the city's onsite computers in order to ensure that only authorized individuals have access to the city's network and computers. The third phase of this project will be the development of plan documents for every department and process which address the 'how to' aspects associated with a potential business disruption. These could be as simple and innocent as a loss of facility power, fire or other natural disaster. However, they should also address more malevolent issues such as data hacking or workplace violence. We plan to kick-off this phase by holding a Directors' (including Police Chief) meeting with Keytel reps on Friday, February 17th.

- **Collective Bargaining** – We met with the OPBA and FOP negotiating teams on February 3rd, and have most likely reached the point where we may need to consider fact-finding. We met with United Steelworkers (USW) on February 1st. for our first-round of negotiations, and have our next negotiating session scheduled with the USW on February 22nd.
- **Police Station Construction Funding** – The city intends to issue debt to fund the construction of a new Police station in Pataskala. The bond legislation for the construction of a new Police station remains unchanged from its' 2nd reading, and is being presented to Council for a 3rd reading at the February 21st Council meeting. The plan is for Council to hold all 3 required readings, as well as waiting through the mandatory 30-day referendum period before going to the public funds market. This timetable enables us to go to the market and price the issue by the end of March or early-April. Based upon recent cost estimates from Horne & King, it is anticipated that the cost of construction of the facility will be around \$4.5 million. In addition to the construction funding amount, the city would also be issuing bonds to refinance the \$500,000 in design notes issued in 2016, and the costs of issuance (e.g. bond counsel, underwriter's discount, etc.) related to the 2017 bonds. The proposed \$5.5 million 'not to exceed' amount continues to be a maximum issuance amount, and is greater than the construction amount alone. We plan to borrow only the exact estimated amount of the construction costs (plus costs of issuance and payoff of the 2016 notes), and would anticipate borrowing approximately \$5.1 million – well below the 'Not to Exceed' amount. We would not agree to any borrowing in excess of that amount authorized by Council for the project (inclusive of costs and note refunding).
- **River Forest Lift Station** – In 2016, Council approved funding of approximately \$200,000 for construction of improvements to the River Forest lift station. A total of 6 bids for the project were received in mid-December, with the lowest bid being from Elite Excavating in the amount of \$189,850. Due to the timing of requesting Council authorization to proceed, a requisition to encumber the project funding was not submitted prior to year-end 2016 (and retain the budget for 2017 activity), and the 2016 appropriation lapsed at year-end. As a result, no appropriation authority exists at this time to award the contract. In order to be able to sign the 'Fiscal Officer's Certificate', we are requesting Council to approve a supplemental appropriation (Ord. 2017-4279) which would increase the Sewer Capital Improvements fund (652) budget by \$200,000 which would cover the contract amount and provide a 5% contingency amount for any additional work or change orders required once work commences. We do not anticipate needing the additional funds, however, and any unused (e.g., unspent) appropriations would revert back to the fund balance when the purchase order is closed. Due to the time-sensitive nature of this item, we are requesting that Council waive the 3rd reading, and approve the legislation at the February 21st Council meeting.
- **Centralized Collection** – In Governor Kasich's recently released proposed biennial budget (2018-2019), a proposal has been made to centralize the collection of a portion of municipal income tax

collections at the Ohio Department of Taxation. Specifically, he has proposed that the state serve as the tax administrator/collector for the net profits portion of the income tax. The city's income tax collection agent, the Regional Income Tax Agency (RITA), has begun its' outreach to notify all member communities of the proposal (see accompanying RITA notice). On its' face, this proposal doesn't seem to be an unreasonable approach, as they are proposing a significantly lower cost of collections. It is important to note that for Pataskala, the proportion of income tax revenues generated by business profits is dramatically lower than for most central Ohio communities that have larger business communities, and as such, the financial impact of such a shift is of lesser concern. The 'elephant in the room', however, is that the State of Ohio has a history of volunteering to serve as an efficient collector of municipal revenues, only to later renege on their initial promises and retain a greater and greater share of the revenues in order to support state-level operations. The Local Government Fund is one such example that supports that assertion. While the diversion of municipal income tax revenue is a very serious concern, the even greater concern is that it represents an encroachment into community home rule, and the primary tenet of that – the assessment of taxes to support municipal operations. It's not unreasonable to anticipate that the state would then use this base as the support for centralizing all municipal income taxes in the future. All of this comes on the heels of HB5 which has already served to eliminate a large portion of local control over municipal income tax regulations. During the legislative negotiation process, the supporters of HB5 pledged that it wasn't their intent to usurp local control over income taxes and centralize collections, but this is exactly what is happening right now. RITA is encouraging all Tax Administrators, Finance Directors and elected officials to reach out to their elected representatives to express their concern on this encroachment.