

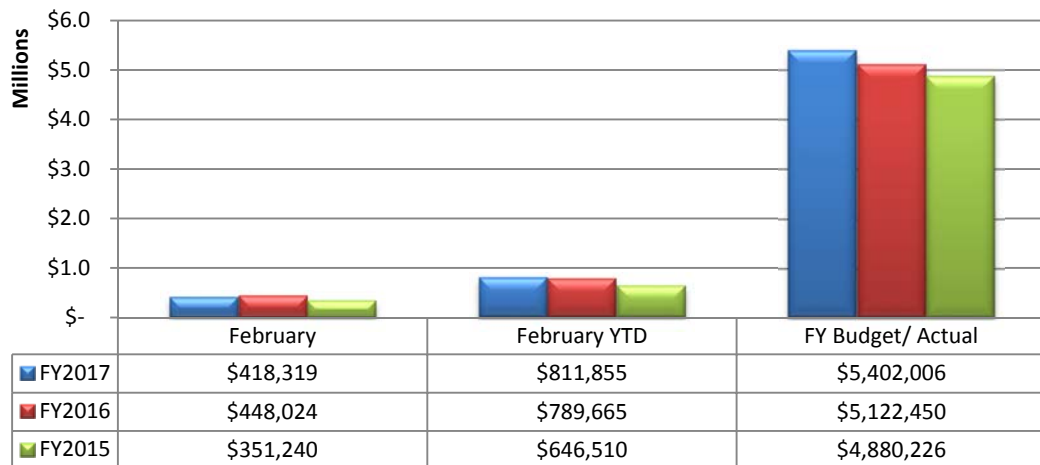


City of Pataskala Finance Department
James M. Nicholson, Finance Director
Finance Director's Report to Council

Current Projects & Issues

- **February 2017** – The financial results through February 28th have been compiled and summarized in the monthly 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 February were \$418,319 and are \$29,705 (6.63%) lower than the February 2016 collections. The decrease for the month was primarily due to accelerated collections in December of quarterly estimates resulting from changes required under HB 5. Total year to-date collections are \$811,855 (15.03% of budget) and, when compared to a February 2016 YTD total of \$789,665, are \$22,190 (2.81%) higher. Although it is too early in the year to consider modifying our projections, collections through February appear to be performing slightly better than expectations. We will monitor this trend closely over the next 3-4 months to determine whether or not a trend exists (positive or negative), and if the forecast should be updated to reflect the new trend.

Income Tax Collections - All Funds



- **Utility Billing Receipts** – On a year to-date basis, the city has received \$187,725 in water utility revenues, and \$212,564 in sewer utility revenues. On a combined basis, the total is \$8,806 (2.25%) higher than last year at this point in time, and is equal to 16.33% of the 2017 budget. In comparison, February 2016 YTD collections were equal to 16.0% of full-year collections, and the rate was 15.29% 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 two months of the year is equal to 15.86% the full-year 2017 budget, and is running slightly below expectations. 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 11.65% of budget. This is well below the 16.67% 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 \$5,620,776 have also been issued and are outstanding as of month-end. 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 36.87% of budget.

- **Investments** – As of February 28th, the city’s investment portfolio (excluding overnight sweep) had a market value of \$8,638,632 and an average portfolio yield of 1.301%. The portfolio had an unrealized loss at the end of February of \$7,952 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 February, we had no other investment activity beyond receiving \$29,025 in investment income.
- **2016 Financial Reporting & Audit** – The city’s auditors (Julian & Grube) were on-site the week of March 13th to perform their fieldwork (cash and compliance). The year-end financial reporting and audit process is running in line with where we were in 2016, which is still about 4-6 weeks ahead of where we were in 2015 and before. I still anticipate a mid-May release of the audited financial statements.
- **Income Tax Filing Support** – We continue to have resident walk-ins and phone calls to the Finance department requesting assistance with their annual Pataskala income tax returns. I am pleased to share that Finance Manager Janice Smith has provided an excellent level of service to these individuals, in many cases contacting RITA representatives on their behalf. To date, Janice has assisted 111 taxpayers, and collected more than \$19,000 in current and prior-period income tax revenues.
- **GFOA Magazine Article** – I co-authored an article in the national GFOA quarterly magazine, *Government Finance Review* which was recently published. The article was entitled ‘Liquidity Management Made Easy’, and addressed cash flow forecasting, core versus liquidity portfolio management, and associated investment portfolio design. A copy of the article accompanies this report for your information.
- **Collective Bargaining** – We met with the USW negotiating team on March 9th to address outstanding non-economic issues, and to begin addressing economic issues. We have our next negotiating session scheduled with their negotiating team on March 16th. We have been informed by the FOP that the next step in the process is fact-finding, and SERB has provided a list of potential fact-finders for us to review and evaluate.
- **Police Station Construction Funding** – The 30-day referendum period on the bond legislation shall be completed on March 23rd. As a result, we cannot begin the process of actually issuing the debt

until that time has passed. A 'touch base' call was held, however, on March 10th to discuss the issuance, market trends and the city's anticipated bidding/construction schedule. At the present time, it appears that may bifurcate the issuance, issuing the \$500,000 design note refunding amount in time to pay off the notes, and issuing the remaining estimated construction amount in mid-July.

- **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. I have worked with RITA and other agencies to propose suitable language in opposition that I have presented to Council for their consideration as Resolution 2017-022.