

Community Center Feasibility Task Force Finance Sub-Committee

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September 8, 2020



City of Upper
Arlington

Agenda

- *Financial Resources*
- *Basics of Governmental Accounting*
- *Financial Overview*
- *Key Financial Policies*
- *COVID Update*



Financial Resources

Monthly Finance Director Report /OpenGov

- Most current financial information – *most recent July 2020*
- Current year budget vs actual
- Uses budgetary basis of accounting

Municipal Program of Services (Budget)

- Bi-Annual Budget approved by Council – *most recent 2020*
- Presents history (actuals) and projections
- Updated annually
- Uses budgetary basis of accounting

Comprehensive Annual Financial Report (CAFR)

- Audited Annual Financial Statements – *most recent 2019*
- Uses Generally Accepted Accounting Principles (GAAP) basis of accounting

Popular Annual Financial Report (PAFR)

- Summary of Audited Financial Statements – readable format – *most recent 2019*
- Delivered to each resident's home



<https://upperarlingtonoh.gov/finance-department/>

Financial Resources - Basis of Accounting

ACCOUNTING BASIS	DESCRIPTION	REPORTING EXAMPLE
Cash Basis (<i>check book accounting</i>)	<ul style="list-style-type: none"> Revenues are recognized when received. Expenditures are recognized when they are paid out. Fund Balance = Cash and Investments 	Daily accounting and reporting.
Budgetary Basis	<ul style="list-style-type: none"> Revenues are recognized when received. “Budgetary” expenditures include <i>only</i> expenditures against the current year budget <i>plus</i> outstanding encumbrances (purchase orders). Fund Balance = Unencumbered Cash and Investments 	<ul style="list-style-type: none"> Municipal Program of Services (Budget Book) Budgetary Statements in CAFR
GAAP Basis - Accrual Basis - Modified Accrual Basis	<ul style="list-style-type: none"> Financial reporting similar to businesses. Balance Sheet reports Capital Assets and Debt and Other Long-Term Liabilities. Governmental financial reporting that essentially adds a full balance sheet with receivables, payables, etc. Does not report Capital Assets and Debt and Other Long-Term Liabilities. Fund Balance = Assets – Liabilities 	CAFR, PAFR



Basics of Governmental Accounting

What is Fund Accounting?

Fund accounting is the activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of governments.

What is a Fund?

A fund segregates the monies of the entity according to legal or purpose restrictions.

Why Fund Accounting?

- Fund accounting is the way governments track revenues with purpose restrictions against the expenditures made for those purposes.
- Fund accounting makes it easier to identify which monies are available for specific purposes.



Basics of Governmental Accounting (cont.)

Types of Funds

Governmental Funds

- Definition: Funds that account for the accumulation and spending of resources that provide the public with day-to-day operating services such as safety services, leisure time activities and highway maintenance.
- Types of Governmental Funds:

Fund Type	Description
General Fund	The operating fund of the government, used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the government for any purpose provided it is disbursed or transferred in accordance with Ohio law.
Special Revenue Funds	Used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
Debt Service Funds	Used to account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
Capital Project Funds	Used to account for financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of capital facilities and/or other capital assets.



Basics of Governmental Accounting (cont.)

Types of Funds (cont.)

Proprietary Funds

- Definition: Funds that focus on the determination of operating income, financial position and cash flows.
- Types of Proprietary Funds:

Fund Type	Description
Enterprise Funds	Used to account for any activity for which a fee is charged to external users for goods or services.
Internal Service Funds	Used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.

Fiduciary Funds

- Definition: Funds used to report assets held in a trustee capacity for others and cannot be used to support the government's own programs.
- City on has Agency Funds, which are purely custodial in nature.

❖ **Key Takeaway: The General Fund can be used for any public expenditure. Other Funds are restricted to their intended purpose.**



Financial Overview

Revenue Types

- General Operating Revenues
 - **Income tax (unless mandated elsewhere)**
 - **Property tax (property tax is also used for capital & debt)**
 - Other General Revenues
 - Local Government Fund
 - Investment earnings (unless mandated elsewhere)
 - *Charges for Services (unless mandated elsewhere)*
 - *Hotel Bed Tax (unless mandated elsewhere)*
 - Cable TV franchise fees
 - Fines and forfeitures
- Restricted Revenues
 - Gas Tax and Motor Vehicle License Fees
- Business Operating Revenues
 - Water, Sewer, Stormwater Fees
 - Solid Waste Fees
 - Swimming Pool Fees



Financial Overview (cont.)

Income Tax Revenues

History

- The income tax rate was raised to 2% in 1983.
- In 1990 a ballot issue failed 60%/40% to raise the income tax to 2.25%.
- In 1996, a ballot issue failed 50.5%/49.5% to raise the income tax to 2.2% for 5 years for CIP.
- In 2014, a ballot issue passed to raise the income tax to 2.5%, with the additional .5% dedicated to City Infrastructure (effective January 1, 2015)

Basics

- Income Tax Rate: 2.5%.
- Applies to earned income and business net profits (tracked internally by three components: withholdings remitted by employers, filing by individuals, business net profits). Investment and retirement income is not taxable per ORC 718 and City Ordinance.
- Income tax is paid and remains where earned (i.e. UA Resident works in Columbus, income tax paid and remains with Columbus).
- Full credit (100%) given for taxes paid in other communities up to the 2.5% rate.
- Any increase in income tax rate or decrease in credit percentage requires a vote of the people.



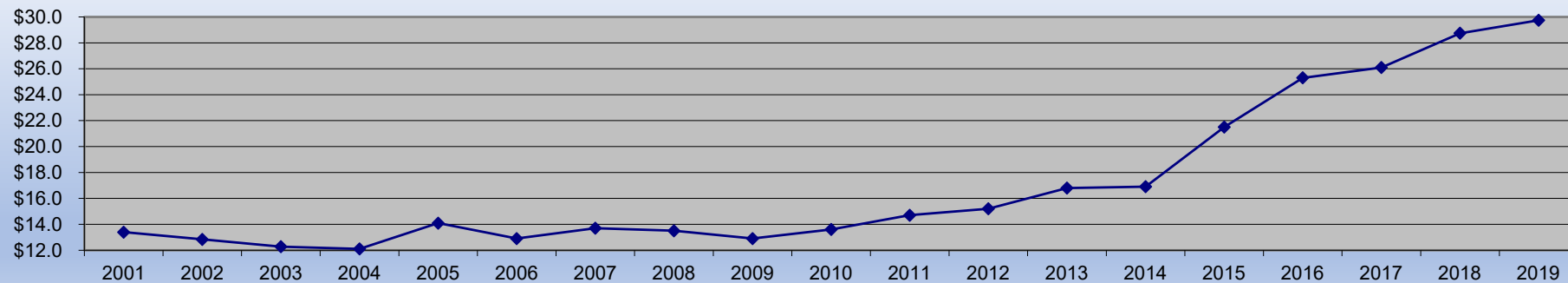
Revenue Sources and Uses (cont.)

Income Tax Revenues (cont.)

Accounting

- Largest revenue source: approximately 48% of total revenue and 55% of General Fund revenue.
- Fund Distribution:
 - 2015 and beyond: 72% allocated for general operations, 28% for capital-related debt and infrastructure. (*% set by Council*)
 - Prior to 2015: 86.7% general operations, 13.3% for capital-related debt and infrastructure.

Income Tax Collections by Year (in millions)



Financial Overview (cont.)

Property Tax Revenues

Basics

- Mill = Property tax is measured in mills. A mill means 1/1,000. Therefore, each mill generates \$1 of taxes for every \$1,000 of a property's assessed value.
- Two different ways property tax levies can be implemented:
 - Unvoted millage (inside millage) is approved by the county budget commission, but cannot exceed 10 mills for any taxpayer.
 - Voted millage (outside millage) is approved by popular vote.
- County appraisals every 6 years with update 3 years following appraisal. Last 6 year appraisal finalized for tax year 2017, currently going through the 3 year update (Note: taxes are one-year behind, thus 2017 tax year is distributed to the City in 2018)
- Homestead Provision - Allows qualifying low-income senior citizens and permanently and totally disabled Ohioans, to reduce their property tax bills by exempting up to \$25,000 of the market value of their homes.
- Rollback Provision - Requires each county auditor to reduce property taxes, for all qualifying levies, by a 10 percent Non-Business Credit and a 2.5 percent Owner Occupancy credit. Local governments are fully reimbursed from the state general revenue fund for these tax reductions.
 - As of November 2013, any levy that is not a renewal will no longer be subject to these rollbacks. The state has lifted these rollbacks for all new and replacement levies.



Financial Overview (cont.)

Property Tax Revenues (cont.)

Current Taxes and Accounting

- General Operating levies can be used for any purpose.
- Pension, Capital, and Bond levies are restricted for those intended uses.
- .50 mills currently generates approximately \$976k (would service approximately \$14.5M of debt service @3% over 20 years).

City of Upper Arlington Property Tax Levies		
<u>Tax Levy</u>	<u>Current Millage</u>	<u>Millage Type</u>
General Operating Levy	3.90	1.40 Inside / 2.50 Outside (Charter)
Police Pension Levy	0.30	Inside
Fire Pension Levy	0.30	Inside
Capital Improvement	0.50	Outside (Charter)
Police and Fire Pension (Voted)	0.97	Outside (Voted) – expires 2022
Total	5.97	

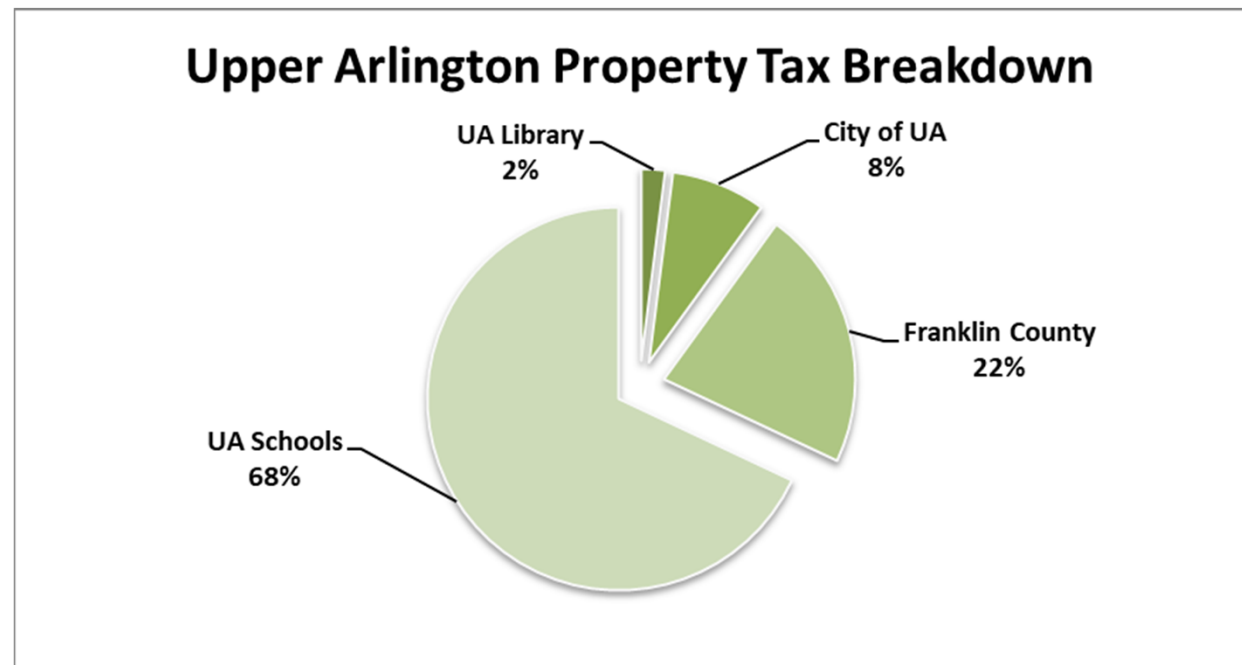


Financial Overview (cont.)

Property Tax Revenues (cont.)

City-wide Property Tax (Key Takeaways)

- Property Tax is largest income source for the UA School District.
- Inside millage (10 mills) has been exhausted; all new property tax increases requires a vote of the people.
- All levies, with the exception of the Police/Fire Pension voted levy, are designed to grow with increased property valuation



Financial Overview (cont.)

Property Tax Revenues (cont.)

Tax Increment Financing (TIF) – Payments in Lieu of Taxes

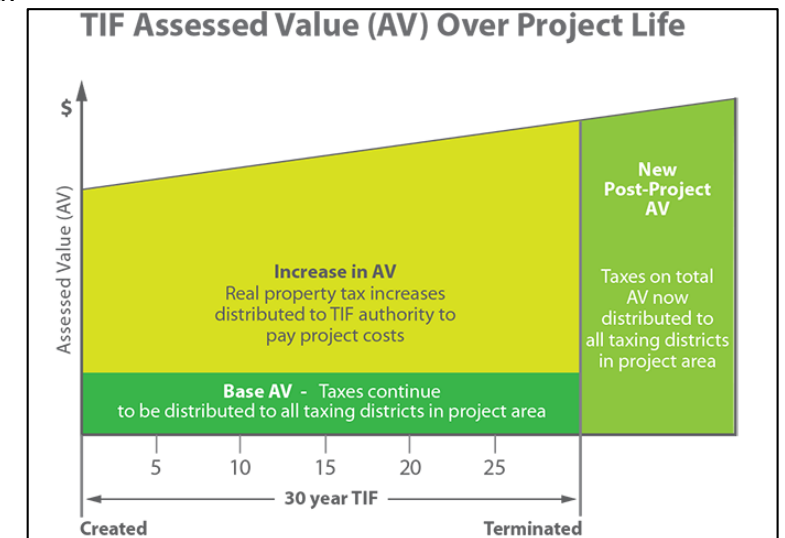
An economic development mechanism available to local governments in Ohio to finance public infrastructure improvements and, in certain circumstances, residential rehabilitation. Payments derived from the increased assessed value of any improvement to real property beyond the original value are directed towards a separate fund to finance the construction of public infrastructure defined within the TIF legislation.

What are the advantages of TIFs?

One key benefit of TIFs is the projects being assisted continue to be responsible for making payment equivalent to all of the required property taxes. Instead of property taxes, however, the property owner makes “payments in lieu of taxes”, which equal the property taxes that would have been collected had a TIF not been in place. The revenue from the payments in lieu of taxes is used by municipalities to provide the public infrastructure improvements needed by these new development projects, thus benefiting the TIF area.

How do TIFs differ from tax abatements?

As compared to another economic development tool utilized by many municipalities, tax abatements, TIFs are not a forgiveness of the normal real estate tax payment obligation. When an abatement is granted some or all of the property taxes are abated, meaning the property owners pay a lessor, or no property taxes for a specified time period.



Financial Overview (cont.)

Other General Operating Revenues

Basics and Accounting

- General revenue sources are used to support operations
- Local Government Fund – Once \$2.5M; now approximately \$1M
- Investment Earnings – All allocated to the General Fund unless mandated by outside parties of City Ordinance (i.e. Street Maintenance and Repair Fund, Law Enforcement Fund, Bonded Improvement Fund)
- **Hotel Bed Tax** – 6% on all guests staying less than 30 days; generates approximately \$250k/hotel/year
- **Charges for Services** – Include charges for parks programs, EMS billing, development related items (permits, contractor registrations, etc.)

Parks and Recreation Division - General Fund						
	2015	2016	2017	2018	2019	Adopted
	Actual	Actual	Actual	Actual	Actual	2020
Charges for services	\$ 813,833	\$ 855,857	\$ 1,116,583	\$ 1,120,370	\$ 1,174,678	\$ 1,135,000
Total Revenues	813,833	855,857	1,116,583	1,120,370	1,174,678	1,135,000
Salaries and wages	1,502,152	1,755,149	1,790,870	1,820,940	1,935,700	2,110,400
Retirement	209,288	244,841	245,497	252,818	263,841	295,400
Fringe benefits	253,960	267,298	338,755	337,450	344,084	430,900
Total Personal Services	1,965,400	2,267,288	2,375,122	2,411,208	2,543,625	2,836,700
Materials and supplies	169,211	214,325	162,161	188,606	193,962	196,300
Non-capital assets	-	-	-	-	-	50,000
Uniforms and clothing	6,096	12,345	8,997	11,624	16,770	12,600
Rents and leases	48,051	52,387	62,074	58,911	65,802	103,100
Utilities	15,141	16,618	8,520	11,162	17,181	24,700
Maintenance and repairs	254,840	246,293	330,191	358,897	404,509	368,900
Professional development	16,678	29,312	35,411	38,111	44,262	36,400
Professional services	222,243	216,949	348,611	312,364	486,350	302,000
Other services	69,398	98,201	85,885	111,390	90,244	93,800
Miscellaneous expenditures	18,636	23,348	20,300	14,594	34,736	21,300
Total Supplies and Services	820,294	909,778	1,062,150	1,105,659	1,353,816	1,209,100
Grand Total	\$ 2,785,694	\$ 3,177,066	\$ 3,437,272	\$ 3,516,867	\$ 3,897,441	\$ 4,045,800
Revenues over/(under) operating expenditures	\$ (1,971,861)	\$ (2,321,209)	\$ (2,320,689)	\$ (2,396,497)	\$ (2,722,763)	\$ (2,910,800)



Key Financial Policies

General Fund Reserve Policy

A reserve will be maintained in the General Fund. The reserve shall be equal to 30% of the current year General Fund operating budget.

Projected General Fund Balances									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Actual	Actual	Actual	Actual	Actual	Amended	Projected	Projected	Projected
Revenues:									
Operating Revenue	28,781,037	31,184,274	31,331,592	34,164,141	36,871,209	34,992,500	35,275,200	35,882,400	36,502,600
Other Resources	3,451,923	3,775,687	2,596,425	2,582,496	2,943,918	3,774,000	3,700,770	3,428,100	3,206,500
Total revenue and other resources	32,232,960	34,959,961	33,928,017	36,746,637	39,815,127	38,766,500	38,975,970	39,310,500	39,709,100
Operating Expenditures:									
Operating Expenditures	27,761,393	30,192,203	32,442,409	32,700,342	34,493,733	37,676,075	37,237,600	38,075,600	38,932,300
<i>Net revenue over (under) operating expenditures</i>	<i>4,471,567</i>	<i>4,767,758</i>	<i>1,485,608</i>	<i>4,046,295</i>	<i>5,321,394</i>	<i>1,090,425</i>	<i>1,738,370</i>	<i>1,234,900</i>	<i>776,800</i>
Transfers/Advances to other funds	5,107,130	2,599,103	4,825,200	2,876,600	3,938,400	2,153,400	2,153,400	2,153,400	2,153,400
Total expenditures and transfers out	32,868,523	32,791,306	37,267,609	35,576,942	38,432,133	39,829,475	39,391,000	40,229,000	41,085,700
Excess (def) of revenues & transfers in over expenditures & transfers out	(635,563)	2,168,655	(3,339,592)	1,169,695	1,382,994	(1,062,975)	(415,030)	(918,500)	(1,376,600)
Fund balances at beginning of year	17,059,435	16,480,051	18,675,380	15,428,143	16,724,553	18,241,143	18,307,168	19,009,138	19,232,638
Lapsed encumbrances/appropriations	56,179	26,674	92,355	126,715	133,596	-	-	-	-
Anticipated appropriation lapses	-	-	-	-	-	1,129,000	1,117,000	1,142,000	1,168,000
Fund balance at end of year	\$ 16,480,051	\$ 18,675,380	\$ 15,428,143	\$ 16,724,553	\$ 18,241,143	\$ 18,307,168	\$ 19,009,138	\$ 19,232,638	\$ 19,024,038
Breakdown of fund balance:									
Required General Fund Reserve (Restricted)	8,328,418	9,057,661	9,732,723	9,810,103	10,348,120	11,302,823	11,171,280	11,422,680	11,679,690
Amount above Required Reserved (Unrestricted)	8,151,633	9,617,719	5,695,420	6,914,450	7,893,023	7,004,345	7,837,858	7,809,958	7,344,348
Fund balance to operating expenditures	59%	62%	48%	51%	53%	49%	51%	51%	49%



Key Financial Polices (cont.)

Debt Coverage Policy

Debt is acceptable as long as the ratio of available capital fund dollars to debt payments, projected forward seven years, does not fall below 2 to 1.

Capital Asset Management Fund	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Projected Beginning Fund Balance (A)	\$ 11,890,998	\$ 12,075,798	\$ 12,481,598	\$ 13,101,398	\$ 13,633,598	\$ 14,250,298	\$ 14,833,398	\$ 15,607,398	\$ 15,607,598	\$ 15,835,398	\$ 16,050,898
PLUS: Projected Revenues (B)	8,302,700	8,406,500	8,595,600	8,789,000	8,986,800	9,189,000	9,395,800	9,607,200	9,823,400	10,044,400	10,270,400
LESS: Projected Debt Payments											
Current Debt Issuances (D)	6,117,900	6,350,700	6,325,800	5,334,000	5,597,300	4,692,100	4,708,000	4,664,000	4,652,600	4,334,600	3,652,400
Proposed Issues (E)	-	-	-	1,272,800	1,272,800	2,413,800	2,413,800	3,443,000	3,443,000	3,994,300	3,994,300
<i>General Bond Retirement Fund (proposed) - CAM Only</i>											
2023-2024 Issuance				1,272,800	1,272,800	1,272,800	1,272,800	1,272,800	1,272,800	1,272,800	1,272,800
2025-2026 Issuance						1,141,000	1,141,000	1,141,000	1,141,000	1,141,000	1,141,000
2027-2028 Issuance								1,029,200	1,029,200	1,029,200	1,029,200
2029 Issuance										551,300	551,300
LESS: Projected Transfers Out (Cash/Other Funding)	2,000,000	1,650,000	1,650,000	1,650,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Projected Ending Fund Balance	\$ 12,075,798	\$ 12,481,598	\$ 13,101,398	\$ 13,633,598	\$ 14,250,298	\$ 14,833,398	\$ 15,607,398	\$ 15,607,598	\$ 15,835,398	\$ 16,050,898	\$ 17,174,598
Debt Coverage Ratio [(A+B)/(D+E)]											
Current (w/o proposed issues)	3.30	3.23	3.33	4.10	4.27	5.54	6.20	6.99	7.79	9.26	12.20
Coverage (including all proposed issuances)	3.30	3.23	3.33	3.31	3.29	3.30	3.40	3.11	3.14	3.11	3.44
Coverage (current thru 2023 - 2024 Issuance)	3.30	3.23	3.33	3.31	3.29	3.93	4.24	4.63	5.04	5.80	7.24
Coverage (current thru 2025 - 2026 Issuance)	3.30	3.23	3.33	3.31	3.29	3.30	3.40	3.56	3.74	4.14	4.94
Coverage (current thru 2027 - 2028 Issuance)	3.30	3.23	3.33	3.31	3.29	3.30	3.40	3.11	3.14	3.33	3.79
Coverage (current thru 2029 Issuance)	3.30	3.23	3.33	3.31	3.29	3.30	3.40	3.11	3.14	3.11	3.44



** Items for consideration: (1) 5 mil charter limitation; (2) type of debt issuance

COVID Update

Revenues

- Through August, income tax receipts are UP 1.70%, or approximately \$350k
- Through August, most other revenues are within projections.
- Several revenue sources (i.e. parks and recreation charges for services) are offset by reduced expenditures.
- City allocated \$2.4 in federal CARES Act dollars for COVID related expenditures

Expenditures

- During peak of pandemic, the City implemented a “delay” of approximately \$3.7M expenditures (\$2.8M in General Fund)

Overall

- The City’s finances have not felt the impact that many other City’s have as a result of the COVID pandemic. This is in large part due to the City’s demographics and business composition. With this, the City has continued to move forward with planned goals and projects.



DISCUSSION AND QUESTIONS

