

December 8, 2014

Dear Members of City Council:

I present to you our 2015 Oakwood City Budget. This is my 13<sup>th</sup> budget as your city manager. As in previous years, many people assisted in the preparation of this document, most notably our department heads and our finance department, led by Finance Director Cindy Stafford, CPA. The budget also reflects input and advice from our 35-member citizen Budget Review Committee (BRC). The BRC met four times during 2014.

I am not recommending any tax or utility rate increases in 2015. As a result, this budget does not include any new tax revenue nor does it include any new revenue generated by our water, sewer, stormwater or refuse utilities. We last raised taxes and fees as follows:

Income Taxes:	1984
Property Taxes:	2013
Water Rates:	1994
Sewer Rates:	2009
Stormwater Rates:	2013
Refuse Rates:	2013

Public Services: Oakwood is the premier residential community in the Miami Valley. We have this distinction because of our beautiful neighborhoods, unmatched public safety, public works, recreation and leisure offerings, excellent schools and library, and, most importantly, because of our citizens. We take pride in and understand what it takes to keep Oakwood unique. The following qualities of Oakwood are a few examples of the benefits of living in this city.

- We have the safest community in the region, with very low crime and very low fire loss. We have an extremely fast police and fire response time and we answer every call with highly trained professionals.
- We have qualified paramedics and EMTs on-duty at all times to respond to all medical emergencies. On average, help arrives in less than two minutes – unparalleled in the area.
- We have the best maintained streets, sidewalks, public trees and landscaped boulevards anywhere.
- Although most of our housing stock is over 70 years old, our homes and properties are better maintained than in any other city around and our home values prove it.
- Our city parks, public pool, community center and public natural areas are first-class.
- Our overall community ambiance is second to none.

Decade after decade, Oakwood citizens have provided the resources needed to pay for the comprehensive and first-class city services and for the other features that distinguish our community from all others.

Following are the budget highlights.

## **NON-ENTERPRISE FUNDS**

The 2015 Non-Enterprise Funds reflect budgeted expenses about \$130,000 more than 2014 Budget, a 1% growth. This is the first time since 2008 that we are budgeting to spend more than the previous year, and it is a very small amount. Our actual annual expenses went down in each year between 2009 and 2013. Our 2014 actual spending is projected to be just 2.1% more than in 2013.

The “Non-Enterprise Funds” account for all city services and operations except the Water, Sewer and Stormwater utilities. From the standpoint of paying for our primary non-enterprise operations (excluding refuse services which are now paid entirely through user fees), the eight funds under the bullet points below provide the financial resources.

- General Fund (administration, planning & zoning, law, municipal court, regional programs & operations, government buildings & grounds, police, fire, EMS, engineering, beautification, gardens)
- Street Maintenance and Repair (roadway repairs, traffic signals)
- Leisure Activity (OCC, pool, parks, athletic facilities, recreation programs)
- Health (property inspections & maintenance, senior programs, health department)
- General Equipment Replacement (police cars, dump trucks, utility vehicles, tractors)
- Capital Improvement (roadway repaving, park upgrades, facility improvements)
- Sidewalk Repair (sidewalk, curb and driveway apron repairs)
- Service Center Operating (maintenance shop, vehicle & equipment repair, fuels)

Revenues for these funds are derived primarily through income taxes, property taxes, fees and assessments. In terms of *minimum* acceptable beginning year cash balances, six months of operating expense is the generally accepted standard for cities. Our actual 2014 expenses in these eight funds are estimated at approximately \$10.65M, so around \$5.3M is our desired *minimum* beginning year figure. Within these eight funds, we are currently projecting to start 2015 with cash balances at \$6.5M.

Loss of the Ohio Estate/Inheritance Tax: The Ohio estate/inheritance tax had been a significant and relied upon source of revenue to pay for local government services for well over a century. The tax was first enacted in 1893. Effective January 1, 2013, the Ohio Estate tax was repealed. This action drastically reduced financial resources for Oakwood and for hundreds of other Ohio cities, villages and townships. Looking back at a 10-year average, elimination of the estate tax, major cuts in the Local Government Fund (a portion of state sales tax receipts returned to local governments to pay for local

public services) and other state funding cuts created a \$3 million annual shortfall for our city.

To address this shortfall, we took the following actions:

**1) *Cut spending for five consecutive years.*** This was done primarily through cuts in capital spending and cuts in personnel spending. We are now operating with 13 fewer fulltime employees than we had a few years ago. This represents a 14% cut in staff. Also, 2014 is the second year in a row where all non-bargaining unit employees (administration and office staff) did not receive a pay increase. The unionized employees within the public works department, the public safety dispatchers and the public safety officers are also experiencing two consecutive years of no pay increase. We are currently negotiating with the public safety lieutenants and are asking them to also accept a second year of pay freeze.

**2) *Established a stormwater utility as an enterprise fund.*** In January 2013, we began billing all residential property owners a \$6 per month stormwater fee. Commercial and institutional properties pay a monthly fee based on the amount of impervious area included on their property. The monthly fee provides the revenue needed to cover all expenses related to operating and maintaining our stormwater system. These costs were previously paid from General Fund tax receipts.

**3) *Made our refuse services 100% fee based.*** In January 2013, we raised our monthly refuse fees to \$25 and over the past two years we cut refuse expenses by around \$200,000 annually. Through these two actions, we are now operating our refuse utility as a self-supporting operation. It is no longer subsidized with General Fund tax revenue. All refuse fees stay with the Refuse Fund and all dollars required to pay for the refuse services come from the Refuse Fund.

**4) *Approved a new 3.75 mill property tax.*** This 2013 tax levy generated about \$1,066,000 of new revenue in 2014. It was the first new city tax levy since 1992.

With these actions, we addressed a major portion of the financial shortfall created with the loss of the estate tax and other state funding cuts. However, we still need to take one more step to stabilize our budget. Our October 2012 newsletter sent to all Oakwood property owners outlined the actions we believed were necessary to fully address the problem. The only item we have not yet addressed is the income tax. There are two options regarding the income tax: 1) limit the tax credit; or 2) raise the tax rate.

Income Tax: Our local income tax continues to provide the single largest amount of money to pay for city services, about half of our total revenue. It is even more important now that the estate tax is gone. In 2015 we are budgeting to receive \$6.5 million. This is about \$100,000 more than we are projecting to receive in 2014. Unfortunately, the future growth of our income tax is at risk... for two reasons.

First, it is expected that the Ohio Legislature will pass Substitute House Bill 5 before the end of this year. SubHB5 is a very poorly written bill that changes the Ohio Municipal Income Tax Code. We estimate that it will result in a loss to Oakwood of around \$300,000 annually.

Second, because we give full credit for all local income taxes paid to the taxing jurisdictions where our citizens work, we lose revenue every time another community raises their tax rate. At present, about half of the total municipal taxes paid by our residents go to other cities. As an example of the problem, in May, 2014, the voters in Moraine approved a tax hike from 2.0% to 2.5%. With this increase, Moraine's tax rate is now the same as Oakwood's rate. This means that 100% of the municipal taxes paid by Oakwood residents working in Moraine go to the city of Moraine... and zero dollars come to Oakwood. In the case of an Oakwood resident working in Dayton or Kettering where the tax rates are 2.25%, Oakwood only receives 0.25% of the 2.5% total local taxes paid.

Over the past eight years, 17 jurisdictions in which Oakwood residents work have raised their income tax rates. The cumulative impact is that we lost about \$2.3 million in revenue over that time period... revenue that would have otherwise been paid to Oakwood. At present, our loss is about \$400,000 annually.

Property Tax: We have two outside millage (voted) levies that generate property taxes to pay for city services:

- In 2013, Oakwood voters approved a new 3.75 mill property tax. The levy generates about \$1,066,000 in total revenue annually. It costs the owner of a \$200,000 home about \$230 per year. This was the first new property tax to pay for city services approved since 1992.
- In 2011, Oakwood residents approved a five year renewal of a 2.72 mill property tax levy. That levy was first approved in November, 1992 and its effective mills are now 1.55. This levy generates about \$460,000 annually.

Sugar Camp and Pointe Oakwood: Sugar Camp and Pointe Oakwood are the single largest developments in our city in over 50 years. At Pointe Oakwood, we saw two new single-family homes and two 2-unit townhomes built over the past year. Construction on two additional townhomes is expected to begin before the end of 2014. Next spring, construction is expected to begin on an 88-unit assisted living facility to be built at the corner of Far Hills Avenue and Old River Trail. In addition, the Oakwood Investment Group is scheduled to begin construction next spring on the first of three condominium buildings to be built on the northwest corner of Far Hills Avenue and W. Schantz Avenue.

At Sugar Camp, Buildings A and B are fully leased and Building D, the office building closest to W. Schantz Avenue, has been designated exclusively for use as a medical professional building. Besides the two current tenants that moved in during the past 6

months, two additional medical groups have already signed leases for occupancy beginning in January, 2015.

Also in 2015, the Oakwood Investment Group intends to convert the former gate house at the entrance to Sugar Camp to an upscale New York style deli.

I mention the Sugar Camp and Pointe Oakwood projects for two reasons. First, because they represent important new construction in our nearly fully developed city, offering land uses that complement our community. Second, with each new job added to our city and each new building constructed, we realize new revenue.

Major 2015 Expenses: The 2015 Budget includes about \$1 million for capital improvements and capital equipment. This is consistent with the level of capital outlay over the past few years. A major portion of the money (\$570,000) is for street and sidewalk improvements. Each year we continue to make significant investments in our public infrastructure and replace capital equipment as needed. With those investments, we maintain our infrastructure and equipment required to provide the comprehensive and high quality services that our citizens expect. The “Capital Improvement Fund” and “Capital Improvement Program” tabs herein provide details on our budgeted 2015 investments and on our long range capital program.

## **WATER UTILITY FUNDS**

Our public water utility continues to serve the needs of the community. The 2015 Budget shows that our projected annual Water Utility revenue will be about \$280,000 less than budgeted expenses and includes about \$100,000 for capital items. Receipts can increase significantly, though, depending on summer weather and irrigation usage. If the shortfall occurs, we have adequate fund reserves to cover it. We last raised water rates in 1994 so will likely need to consider a rate increase sometime over the next couple of years. The 2014 regional rate survey shows Oakwood as having the 4<sup>th</sup> lowest water rate out of 66 jurisdictions in the greater Miami Valley area.

## **SEWER UTILITY FUNDS**

The 2015 Budget reflects sewer expenses at about \$65,000 more than revenues and about \$100,000 for capital items. Our Sanitary Sewer Funds also have adequate fund reserves. About 75% of our sewer utility costs pay sewage treatment charges from the city of Dayton and Montgomery County. Our last sewer rate increase was imposed in July, 2009. We will likely need to consider a rate increase in the next couple of years. The 2014 regional rate survey showed us as having the 35<sup>th</sup> lowest rate out of 63 jurisdictions.

## **STORMWATER UTILITY FUNDS**

2015 is the third year that we have operated our Stormwater Utility. The 2015 Budget projects that expenses will nearly match revenues. The 2015 Budget holds the stormwater fees at the initial rates set in 2013.

Those are the highlights. I thank the BRC members and my department heads for their assistance in preparing this budget.

As done each year, we include in this document the description of a few major goals and objectives. These are projects that are important in continuing to provide the finest possible service to our Oakwood community.

Oakwood remains the community of choice for those seeking the very best in residential living. It's a value proposition. Our citizens pay a premium to live in Oakwood, but do so because they realize the benefits of Oakwood living.

Thank you for the guidance and direction you provided as we developed this budget. I look forward to continuing my work with you in the upcoming year and beyond.

Respectfully,

A handwritten signature in black ink, appearing to read 'NSK', written in a cursive style.

Norbert S. Klopsch  
City Manager