

**DUBLIN CITY COUNCIL
FINANCE COMMITTEE MEETING
Monday, August 10, 2015
Council Chambers**

Minutes of Meeting

Ms. Chinnici-Zuercher, Chair, called the meeting to order at 5:45 p.m.

Finance Committee members present: Ms. Chinnici-Zuercher and Vice Mayor Gerber. Mr. Lecklider arrived later.

Also present were Mayor Keenan and Ms. Salay.

Staff present: Mr. McDaniel, Ms. Mumma, Ms. Crandall, Mr. Kridler, Chief von Eckartsberg, and Mr. Smith.

Vice Mayor Gerber moved approval of the minutes of the April 13, 2015 Finance Committee meeting.

Ms. Chinnici-Zuercher seconded the motion.

Motion carried unanimously.

New Deputy Finance Director

Ms. Mumma introduced Sean Smith, new Deputy Finance Director. He comes to Dublin from the Public Utilities Commission of Ohio, where he served as the Chief Financial Officer.

Financial Update – Second Quarter 2015

Ms. Mumma stated that the City continues to be in strong financial health. The advance done for the \$22.6 million contract for the Riverside Drive relocation and roundabout resulted in a General Fund balance of \$40 million, leaving it with a 60.8% balance for other General Fund expenditures for the year. Absent that advance, the City would have had a 95% reserve for General Fund expenditures. Those advanced funds will be reimbursed to the General Fund when the bonds are issued in late September. Even with that advance to the Construction Fund, the General Fund remained above the 50% reserve level that is required.

Revenues

Income tax revenue is the primary driver of revenue for the City, particularly for the General Fund balance. Income tax revenues through June were down almost three percent, or \$1.3 million, over the same period last year, but this was not unexpected. The City was aware there would be a loss due to the move of Verizon to Hilliard. However, withholdings were only down .4%. So, despite the loss of revenue from Verizon, the remaining businesses in Dublin are making up for that loss. Through the second quarter, the top ten taxpayers were actually up 1.24%. Year-to-date revenues (through July) are down 2.6% over the same period last year, which is an improvement from the 2.9% decrease through June. For August, month to date, the revenues were up 17%. It is important to note that this reduction in revenue was expected and was taken into account when income tax revenue projections were made for 2015 and forward. Because the revenues are exceeding those expectations, however, the income tax revenue projection for the year was increased two percent. It is still shown as a decline from last year, but based on what has occurred through the first half of the year, it appears that the revenues will not be down as much as anticipated. We remain conservative in our planning. Based on what has been seen and the activity, the revised projection has been used as the basis for planning the 2016-2020 CIP budget.

Expenses

Key changes in revenue and expenditures for the year are outlined in the memo. The property tax and service payments that have been received have actually been off the entire year, as there was a delay in the City's receipt of those payments through the first half of the year. Consequently, the other distributions received from Franklin County have made it very difficult to calculate an apples-to-apples comparison to other years. After the second half distribution, which should occur in August, staff will be able to report a more accurate picture of the City's real estate property tax revenues as well as service payments. From what has been seen so far, there is nothing out of the ordinary that was not expected. It is simply a matter of timing, when making comparisons quarter to quarter and year to year.

Revenue – Highlights

The income tax revenue decline caused a decline in the total General Fund revenues for the quarter, which were down \$1.2 million. Other areas in the City's governmental revenues were down about nine percent. That is a reflection of changes in the estate tax. There were some follow-up distributions last year through the second quarter that the City did not receive again this quarter. The phase-out of those revenues continues. There was a decline in Building Permits, which translates into a reduction in Licenses, Fines and Permits line item. Permit activity has decreased through June. Approximately 224 building permits were issued through June of this year, whereas the permits issued last year during this period of time was 331.

Expenses – Highlights

The City is running at four percent over the same period of time last year. Staff's memo contains the rationale for those increased expenditures. A portion of those were for Contractual Services, which includes Legal fees. There was also an increase in Personal Services, which for the most part, was due to higher health insurance costs, as discussed during the Operating Budget review last year.

Income tax revenues are ahead of what was budgeted, so staff believes the City is in a strong position as it enters the second half of this year.

Council Questions

Ms. Chinnici-Zuercher inquired the reason the Hidaka real estate valuation was decreased so substantially.

Ms. Mumma responded that they filed a request for a Board of Revision review and decision. She will learn the basis for that and report back to Council.

Ms. Chinnici-Zuercher stated that she would like that information as the valuation was reduced by over 60 percent.

Mr. McDaniel stated that it is possible that Hidaka is positioning to absorb additional improvements on their land. They are undertaking an expansion at the back, so some of that value may return.

Ms. Chinnici-Zuercher stated that there has been an increase in Hotel-Motel Tax revenue. When was the last time a new hotel came online?

Ms. Mumma responded that a new hotel came online in July, but it is not reflected in these numbers.

Ms. Chinnici-Zuercher stated that would seem to indicate the usage of hotel-motel rooms is up.

Ms. Mumma responded that there are more overnight stays as reflected in the hotel-motel tax numbers.

Ms. Chinnici-Zuercher stated that compared to other municipalities, Dublin has a large amount of income and a good reserve. However, she is concerned that while the City's income has decreased, yet expenditures have increased. If that trend were to continue, the result would not be positive. Is staff aware of any other companies that plan to move out of Dublin?

Ms. Mumma responded that the only other company staff is aware of is Nationwide. Staff is not anticipating a loss in revenue related to Nationwide to begin until the latter part of 2016, and that has been taken that into account in the 2016 and 2017 projections.

Mr. McDaniel stated that he is also not aware of any other companies with plans to leave. There may be some consolidation activity by one of the companies, but staff is hopeful that will take place within a building in Dublin. The Blackstone Group recently purchased three buildings in Dublin. Staff has a contact in New York for that group, and he has asked Ms. Goss and Ms. Gilger to reach out to them and attempt to develop that relationship to gain a better awareness of their intent with those buildings.

Mr. Lecklider inquired the location of the buildings.

Mr. McDaniel responded that they are in the Tuttle Crossing area. One is the Atrium Building.

Ms. Chinnici-Zuercher responded that they are the ones that were considered Duke buildings.

Mr. McDaniel stated that Blackstone has a history of investing in buildings, and the lease rates have been very competitive. He is hopeful for more of the same.

Ms. Mumma commented in regard to the concern expressed about revenue decline and increased expenditures. There are two things to keep in mind: first, staff monitors the income revenues daily, and apprises Mr. McDaniel daily and Council monthly about the status. When looking at the 2015 expenditures, a comparison is made with what was budgeted for the year. All that is budgeted is never spent. Therefore, from a comparative standpoint, expenses may be increased over the same period of time last year, but the fact that the City is ahead of where we budgeted helps take that into account. When staff presents the Operating Budget, there is a conservative approach to revenue estimates, and expenditures are estimated as higher than expected. The expenditures generally do not end up being what is appropriated in the budget. The gap exists because of conservative revenue estimates and the fact that the City does not spend all that is appropriated. However, the declining revenue environment due to the Verizon loss and upcoming Nationwide loss will certainly be taken into consideration in preparing the 2016 Operating Budget in order to avoid using General Fund reserves.

Ms. Chinnici-Zuercher stated that for several years, additional staff positions were not approved. Last year, several were approved, because it appeared that the City was in a financial position to do so. Now, with revenue decreasing, this is a concern.

Vice Mayor Gerber commented that the number of building permits issued has decreased. Does staff have a count on the number of people working in Dublin?

Ms. Mumma responded that she can obtain that number for Council.

Vice Mayor Gerber stated that Withholdings in 2014–2015 has remained even. Is that because there are more employees; or because the City been able to recoup the number of Verizon employees that left; or are wages increasing?

Ms. Gibson responded that it is all of the above. The top companies continue to pay out bonuses and their stock options are being exercised. Last year, one of Dublin's companies downsized much of their management staff and replaced them with younger, salaried employees. Although the previous management employees moved away, that income tax revenue continues to come to Dublin because they are exercising their stock options. There has also been a significant increase in the number of smaller businesses. With all the companies, there are significant increases in numbers of employees every year. The wages are increasing, but also the number of employees.

Vice Mayor Gerber noted that the net profit is way down -- \$1.6M. Is that due to the loss of Verizon?

Ms. Gibson confirmed that is correct.

Mr. McDaniel stated that the economic development strategy is attracting, retaining and expanding those smaller and medium-sized companies. That is where employment growth occurs. Staff is focusing on the technology jobs, which tend to be higher paying. They may not have the executive suites, etc., but the steady tech job is where the City's focus remains and will remain in the future. It is good to see growth in those businesses.

Ms. Chinnici-Zuercher requested a report for the September 8 Council meeting packet, looking at perhaps the last five years, providing an annual update on number of employees, gains and losses.

Vice Mayor Gerber noted that at some point, Amazon and Alcon will be on board, which will help with those numbers.

Ms. Gibson stated that the City anticipates seeing growth around them. More health care business expansions continue, and the OU area will continue to develop.

Vice Mayor Gerber noted that that the City has done a good job of planting seeds for the future.

Mr. Lecklider stated that it would be desirable to have the Verizon building filled again. He knows staff is working on that. He was glad that the question was raised about the Hidaka valuation reduction. That was such a substantial reduction, yet their operations do not appear to have diminished.

Vice Mayor Gerber stated that is not based on criteria, but on property value. Since 2008, many real estate owners have requested adjustments from the Board of Revision.

Ms. Mumma stated that there have been a couple of other requests within the City TIF areas – Wendy's corporate headquarters and the Nationwide building. It didn't seem rational that a building could be devalued to that degree. She will obtain as much information as possible on the basis for the Hidaka valuation reduction and forward that to Council.

Mr. Lecklider inquired about the process for the Auditor's valuation.

Vice Mayor Gerber stated that he does not believe the City has any standing in this matter. The School Board has standing to oppose the devaluation; they can attend the Board of Revision hearing and object to it, but the City cannot do so.

Ms. Mumma stated that often, the City is not aware of the request until a decision has been rendered. However, the School District has been aggressive in contesting Board of Revision requests for a reduction in valuation.

Mr. Lecklider stated that to the extent the Schools are successful, the City is successful. When is the next Auditor's valuation?

Ms. Mumma stated that reappraisals are conducted triennially, with a sixth year major reappraisal. She will check on the timing of the next cycle.

Mr. Lecklider inquired to what the net operating profit reduction was attributed.

Ms. Gibson responded that it is due to Verizon. The City has been receiving estimated payments on a regular basis from them, but the estimated payments have ceased this year because of their move.

Vice Mayor Gerber stated that the City's Economic Development Department has done a good job of bringing in other jobs to offset the loss.

Ms. Gibson responded that this is something to consider for the future. The State Legislature is reducing the municipal tax, but the net operating tax is the one they dislike most. If businesses succeed in having this addressed in the next House bill, that tax may be substantially reduced or eliminated.

Mr. Lecklider inquired the total amount of operating tax revenue received -- \$5-6M?

Ms. Gibson responded that she believes so, but does not have that exact amount – she has been focused on the withholding issue. However, the loss of the net operating tax would be a significant reduction, for City planning purposes. It took three years to complete the last SB5, so hopefully, it would take several years to do that, as well. She is more concerned about how the City continues to work on the withholding issue to ensure that remains steady for all municipalities in Ohio.

Income Tax Report

The July report indicates that the City is five percent over budget. The August report may be smaller since we are increasing our budget. Five percent is quite healthy, but two percent would be a good number, as well. Currently, August is looking healthy. That revenue is coming from the City's larger employers and is received at this time every year.

Ms. Gibson noted that she has been working with OML, RITA, CCA, the City of Columbus and Frost Brown Todd, and they have created a sample ordinance that they hope the majority of cities and villages within Ohio will adopt. The bulk of the issues in that ordinance would not go into effect until after 2017. The ordinance needs to be in place by the end of this year, so staff plans to have it ready for Council's first October meeting. The previous ordinance cannot be repealed; it must remain in place because it can be in effect for at least six more years. There will be a period of time in which, if a taxpayer files multiple year returns, there would be two different sets of rules. Because it would not go into effect until 2017, there is time to make certain Dublin staff is trained and able to assist in regional training.

Vice Mayor Gerber inquired if Dublin has the requisite software system to accommodate these changes.

Ms. Gibson responded affirmatively. The software is from a Michigan-based company. They have another year to have the software ready for staff to test it, so staff will know how it will actually play out on January 1, 2017. The City's penalty fee will increase slightly, and the interest rate will decrease significantly. However, the penalty on withholdings escalates to 50% of the tax. A

late withholding payment would be very significant. The City does not have many delinquent withholding accounts, however, because staff works quickly and has a good rapport with the Dublin companies and the payroll companies. None of the changes will affect Dublin next year; the impact will be felt in 2017. Hopefully, next year the accountants will begin providing the City with the pass-through offset numbers. The City has not had them in the past because it did not allow them. Because the accountants have not given the City that information, the extent of the impact is not known.

Vice Mayor Gerber inquired when the Net Operating Loss (NOL) would occur and if it would be spread over various jurisdictions.

Ms. Gibson responded that it begins in 2018 – 2022.

Vice Mayor Gerber stated that infers that those companies that have a presence in multi jurisdictions might play with that somewhat. How many such companies might Dublin have?

Ms. Gibson responded that she does not anticipate Dublin will have a significant problem with the NOL, except with partnerships. The loss will be taken at the entity level, and the partners will not be reporting it.

Vice Mayor Gerber stated that for budgeting purposes, that revenue should be considered gone. Ms. Gibson agreed, adding that the City will know what that amount is – it is a number that can be identified. If a company has income in Dublin but a loss in Columbus, they can offset the two, and neither Columbus nor Dublin would receive the money. She and Ms. Mumma have discussed having a meeting in November with the tax preparers from whom Dublin receives significant returns, and asking them to give the City that information in 2016. That information would guide the City for 2017.

Mr. Lecklider inquired if HB 5 had passed.

Ms. Gibson responded that it did. Senate Bill 198 is still waiting; Kris Jordan is the sponsor. The information she is receiving from other legislators and lobbyists is that it is not moving. He was unable to obtain another sponsor. She noted that the coalition does not believe it is something that our senators support, and they have indicated that in 2016, they will re-visit the municipal tax issue.

Mr. Lecklider inquired what Senator Jordan's proposal includes.

Ms. Gibson responded that the proposal is that a municipality could only tax its residents.

Ms. Salay inquired about their motivation. Is it to make Ohio completely tax friendly?

Ms. Gibson responded that the majority of the legislators are either former township trustees or former county commissioners. Those who are from City governments become "big picture" people in the Legislature. They believe that it is unfair to tax people where they work because they do not receive any benefit from where they work. It is considered an issue of "taxation without representation." There are probably 10 cities in Ohio that would do very well with that, but the big cities would go down very quickly. She is not sure how they can believe that would make Ohio more business friendly.

Ms. Chinnici-Zuercher stated that those who work in a City benefit from the fire, police and road programs.

Vice Mayor Gerber noted that Ohio is one of the few states that has a Local Income Tax.

Ms. Gibson responded that is correct. In most of Pennsylvania, the tax is paid where the individual lives. However, both Indiana and Kentucky have been suggesting to their municipalities that they enact a municipal tax. There are some people that view Ohio as being progressive. In Ohio, this began in the 1940s. Today, it might be done differently, but those were the rules and they have been followed. Basically, Dublin was built on this tax system, and it isn't possible to "change the rules in the middle of the game." Staff will continue to monitor this.

Mr. McDaniel stated that recently, he attended a meeting with a couple area City Managers. Dave Collinsworth of Westerville has been driving an effort to bring together area city managers and mayors of strong mayor city governments to form a central Ohio coalition to take a more active role in addressing mutual concerns and issues. Mr. Collinsworth came to Westerville from western Ohio, and the Miami Valley City Managers in the Dayton-Cincinnati area are very strong in this regard. He is working to replicate that in central Ohio in order to have a stronger voice. Mr. McDaniel added that he will host the first breakfast meeting of that group in Dublin, to help move that effort forward.

Ms. Chinnici-Zuercher thanked everyone for the updates.

The meeting was adjourned at 6:20 p.m.

Clerk of Council