

Dublin City Council Work Session
Wednesday, April 3, 2019
Council Chambers

Minutes of Meeting

Mayor Peterson called the Wednesday, April 3, 2019 Work Session of Dublin City Council to order at 6:11 p.m. at Dublin City Hall.

Members present were: Mayor Peterson, Vice Mayor Amorose Groomes, Ms. De Rosa and Ms. Fox. Mr. Keenan, Mr. Reiner and Ms. Alutto were absent.

Staff members present: Mr. McDaniel, Ms. Mumma, Mr. Stiffler, Ms. Crandall, and Mr. Plouck.

Capital Financing/Debt Management (Presentation attached and included as Exhibit A)

Ms. Mumma referred to two topics that emerged as discussion items during Council's retreat in February – debt policy and the concept of a balanced budget.

She stated the importance of having consensus from Council regarding the debt policy as preparations for the 2020-2024 CIP begin.

Ms. Mumma introduced Brian Cooper, Director, and Tom Ricchiuto, Senior Consultant, both with Baker Tilly Municipal Advisors, LLC., who assist the City as municipal advisors and also represent the City in bond issues. Ms. Mumma referenced the slide presentation (Exhibit A) regarding debt and stated that it focuses on Dublin's debt policy and not those restrictions that are statutory in nature. She explained that of the 25% of revenue set aside for capital, 60% of that amount is reserved to retire debt. In order to protect the City from any declines in revenue, the City imposed a limit, 90%, of that reserved amount will be available for debt service.

Ms. Mumma explained the two "buckets" of debt service:

- Income tax supported debt have no other sources of revenue that can be used, such as city facilities and roadways. If TIF revenues are insufficient to meet the debt service, then income tax revenues can also be used; and
- TIF Supported Debt.

In response to Ms. De Rosa, Ms. Mumma stated that it is backed by the full faith and credit of the City. All of the City's debt is considered general obligation debt, which means the City's full faith and credit is pushed against it.

Ms. Mumma shared a list of existing income tax supported debt projects (Exhibit A). The debt capacity limitations was the next table provided. She summarized that between 2019 and 2025 -- with no growth in revenue -- the City utilizes between 33-45% of the debt capacity.

Ms. Mumma responded to a question asked by Vice Mayor Amorose Groomes, which centered on what would happen to our ability to pay our debt if income tax revenues declined. Ms. Mumma provided a sensitivity analysis (Exhibit A) that reflected the impact of a 10%, 20%, 30% and 50% decline in income tax revenue measured against the City's debt service between now and 2029.

The analysis shows the City could still make debt service payments for those projects solely funded by income tax revenues, even if those revenues declined 50%.

Ms. Mumma stated that TIF supported debt does fluctuate as property values change. Reserve income tax funding is used if 110% of the annual debt service payment is not available between annual TIF revenues and TIF fund balances. She explained the different considerations when looking at TIF supported debt, such as values increasing to minimize any shortage or the addition of new TIFs that projects could be added to.

Ms. De Rosa asked about the Riverside Drive Realignment/Roundabout/Park Project (debt retired

in 2035). The chart shows a shortage of \$925,000 average a year and she wanted to know why, if we knew it would not be sufficient to cover that cost, it would not be included in the 90%.

Ms. Mumma stated that staff never intended for this project to be covered with anything other than income tax revenues. She included it on this slide because it is expected that as TIFs are added to Bridge Street, this project would be an acceptable use of the TIF dollars.

In response to Mayor Peterson's question, Ms. Mumma stated that TIF dollars can be used if you can show that the property benefits from any improvement that the funding is being utilized for.

Ms. De Rosa suggested that the policy should include more language about the vulnerability of TIF funding. She suggested that it should be stated in the policy that income tax revenues will cover any gap in the TIF funded projects if it is known that is the case. She stated the percentages that the current policy covers are income tax financed. But if it is known that TIF funding will be insufficient, why wouldn't the policy be expanded to include the coverage for those also.

Ms. Mumma stated that the policy doesn't exclude using the funding in this way, but for illustration purposes she was putting things into "buckets." She does account for those coverages where the TIF funding is insufficient. Ms. De Rosa stated that language should be clarified and added to the policy.

In response to Mayor Peterson's question regarding whether or not a TIF has ever failed, Ms. Mumma stated that the Wendy's parcel is a good example of value being established at the time the TIF is put in place, but there was a reduction in the value of the property. The county can take back revenues if it is determined that the property's value is reduced.

Staff stated they would look at the existing policy language, but Ms. Mumma reiterated that even though it is not in the policy to account for any TIF coverage, it is the practice to do so.

Ms. Fox clarified that the amounts would be included in the financial statements that are provided to Council. Ms. Mumma stated that was correct.

In response to Ms. De Rosa's question regarding how the amounts are determined for future years, Ms. Mumma stated the City receives a listing of all the TIF values yearly and to determine projections they assume no growth. Generally speaking, Dublin properties do not decline in value. Ms. Mumma stated that the income tax information provided for past years, back to 2000, shows a five year average growth of 1.5%. It would take losing the top 18 employers to lose 30% of our income tax revenue. Ms. De Rosa asked that staff update the top 10 employers list and share with Council.

Ms. Mumma stated the City pays all debt service from one fund. Money is transferred into the fund and then it gets paid from one transaction from the fund.

Ms. Mumma explained that when the City issues debt, a premium can be generated when the coupon rate is higher than the yield on the bonds. The City is required by law to deposit that premium into the bond retirement fund and use it to pay interest on the bonds.

In response to Ms. De Rosa's question regarding if ratios change, Mr. Ricchiuto stated that the premium is generated at closing and the funds go into the debt retirement fund. Those funds are used to pay a portion of the interest. There is a maximum amount that is allowed to be generated per state law and the City is always within those boundaries.

Ms. Mumma pointed out that this is not the only amount available to pay debt service. She can't show TIF revenues because those revenues are not available for all of the City's debt service. The TIF revenues are very specific to a project or bond issue, whereas income tax revenue can be used for everything. The chart provided showing Debt Service Analysis 2000-2030 shows an amount in purple which represents the excess income tax revenue available to pay debt service. Vice Mayor Amorose Groomes clarified that the word "available" still means within the confines of the policy.

Ms. Mumma stated it is our capacity by our own policy. To the extent that the City has remaining

capacity at any given year, the City uses those funds to cash fund projects. This becomes a component of the revenues for the capital budget.

Ms. Mumma stated there are two ways to retire debt: through a call feature that is date specific or defeasance. Ms. Mumma provided a list of the call dates from 2019 to 2028.

Ms. Fox inquired about a policy regarding early retirement of debt. Ms. Mumma stated that there is not a policy, but every time the City goes to the bond market, they look to see if there is anything eligible to be refunded and if there are savings to be gained. By updating the CIP annually, staff has the opportunity to take a look at the financial information and make any adjustments.

Ms. Mumma provided a slide of comparable information to show how Dublin compared to other cities.

Ms. De Rosa stated that the City has a debt payment coverage policy. She wonders about the capacity number when looking at the ratio between total debt and revenue. Regarding the comparable information slide, she found the *Net Debt to General Fund Revenue* line interesting. The 2.4 multiple means our debt is 2.4 times our revenue. She doesn't know what the right number is, but Dublin is higher. It is prudent for the City to think about what coverage level we are comfortable with.

Mr. McDaniel stated that as Council looks at these numbers, it is important to keep in mind that we don't know where these other cities are in their life cycle.

Ms. De Rosa stated that she believes it is fiscally responsible to establish levels to coverage.

Ms. Mumma pointed out that many communities use the general fund balance to pay debt service, but Dublin does not.

Ms. De Rosa reiterated that it would be a worthwhile exercise to determine what number Council is comfortable with.

Mayor Peterson stated that some of the spikes can be explained, such as Bridge Street. We want to be able to take advantage of opportunities as they are available.

Ms. De Rosa stated that if the City were in a position where revenues were doubling, that would be one thing; however, they are not. She added there is also a debt level capacity number. It is prudent to have these levers in place and then, as a Council decide whether or not to take advantage of an opportunity that comes along.

Mayor Peterson stated that these economic development projects, such as Bridge Street, are designed to keep Dublin competitive.

Ms. De Rosa would like to have some metrics in place to help guide us.

Mayor Peterson commented he doesn't want to stifle future growth and opportunity, but agrees that metrics would be helpful.

Vice Mayor Amorose Groomes stated that a discussion point needs to be what will we do when our policies conflict with each other?

Ms. Fox stated that she agrees with having some parameters in place to help guide Council. These would be guardian parameters that help define where we are.

Mr. McDaniel stated that Council is suggesting an early warning system.

Ms. De Rosa stated that because this is so complicated, tools to help navigate would be helpful.

Mayor Peterson likened it to having financial core values.

Vice Mayor Amorose Groomes agreed having ratios that help guide are important and also to have some way of measuring when the ceiling is approaching.

Mr. Ricchiuto stated that the City needs to manage the City. As the debt is going up, the income is growing. Bridge Park is generating TIF revenues that help offset the debt. From a rating perspective, as you become higher in credit rating, the bigger or better rated cities have more debt because there is more infrastructure and development. Dublin is at about 2.4, which is about

double the median. He stated that it is possible to hone in a specific number, but it may not be helpful in decision making on economic development projects.

Mayor Peterson stated it is important to put the practices into writing. Dublin is on the top end of every variable and what we are doing is working. However, we need to have the practices put into writing to reflect what is being done.

Mr. McDaniel stated that an early warning mechanism will require informed decision making -- not only at the staff level, but at the Council level. It doesn't stop or prevent anything, but it will be an informed decision.

Mr. Ricchiuto stated that this is a circular process. The City adopts a Capital Plan, part of the plan includes issuing debt, which will make the number/ratio go up. If the desire is to cap the number, Council will then have to make decisions about projects and how to fund them if they are not going to be funded from debt. There are some unknowns in this process because there is no way to know how the revenues could increase, which would offset the debt number.

Ms. De Rosa stated that focusing on ROI may be helpful.

In response to a question from Vice Mayor Amorose Groomes, Mr. Ricchiuto stated that he believes the net debt to general fund revenue is the best indicator to use. From his perspective, the key ingredient to debt is not what the ratio is, it is the identifiable revenue source that is going to be used to pay the debt. The City has been doing this as a practice. Dublin's debt policy is in the top 5% of municipalities in Ohio in terms of sophistication and thoughtfulness.

Ms. Fox stated that as City Councils change, it helps clarify and promote understanding of what makes Dublin so great. Identifying what we are doing right and understanding that sophistication of the policies is so important, especially to new members of Council.

Ms. De Rosa stated that if we look at the extremely unrealistic scenario of revenues falling by 50%, we see that debt will be paid, but services could suffer. She wants to make sure that not only debt is covered, but services as well. Revenues have been flat, so she wants to think about keeping everything covered -- not just the debt.

Ms. Mumma stated that income tax revenue is the City's primary source of revenue and that is why this is tied to it. If revenues did decline 50%, the City still would not be in a position to use the general fund balance, which is used to operate the day-to-day services.

Ms. De Rosa stated that she is watching out for the residential perspective.

Ms. Fox reiterated that it is important to understand the tipping point of what a municipality can take on and for future Councils to understand as well.

Vice Mayor Amorose Groomes stated that it is important not to handicap future Councils from being able to do projects for the betterment of the City. We want to continue to lean forward as a city, but be careful not to hit the ceiling.

In response to Ms. Fox, Ms. Mumma stated that she takes comfort that the City has capacity today and we are very healthy in terms of the general fund balance.

Mr. McDaniel suggested that staff could also look at other model policies.

In response to Ms. Fox, Mr. McDaniel stated there are policies that govern the general fund balance. Ms. Mumma stated that the adopted general fund policy states they will maintain a year-end balance of 50% of projected expenditures for the year.

Balanced Budget Discussion (presentation provided attached and included as Exhibit B)

Vice Mayor Amorose Groomes stated that it was surprising to her that as long as there is money in the fund, it is considered balanced. She understands it is the norm in government fund accounting.

Ms. De Rosa stated that the slide entitled, *Actual Operating Revenues versus Expenditures*, would meet her definition of a balanced budget because the revenues are staying above the

expenditures. She would prefer to see more realistic revenue numbers when drafting the budget. She would support passing a budget that looks more like actuals versus passing a budget where it appears that expenditures will surpass revenues.

In response to Ms. Mumma's request for clarity, Ms. De Rosa stated that it does not seem appropriate to approve a budget where it appears that expenditures will exceed revenues because that is what Council is authorizing the City to spend, regardless of whether or not all of the expenditures actually occur.

Ms. De Rosa stated that what is actually occurring feels good, but passing a budget that appears to have more expenditures than revenues does not. She asked if a budget could be brought forward that was more representative of the actuals.

Mr. McDaniel stated that he would not bring forward a budget that proposed actuals because he would not know what the actuals are at that point in time.

Ms. De Rosa stated she was uncomfortable with approving a budget that authorized the City to spend \$4 million more than the revenues brought in. She understands that this has been the practice. Her desire is to bring transparency to the budget discussions.

Ms. Mumma stated that as the budget is prepared and revenues have been flat, Mr. McDaniel's direction has been no growth in the expenditures. However, they also don't want to stop the momentum of being innovative and creative.

Mr. McDaniel stated that department heads were not spending about \$7 million of budgeted expenditures by the end of the year. Knowing that we were entering a period of flat revenues, he lowered the budget amounts for departments that were not spending what they were allocated. In response to Ms. De Rosa's comment proposing the budget based on actuals, Mr. McDaniel described the budget process that staff undertakes each year line by line prior to presentation to Council.

Vice Mayor Amorose Groomes inquired as to whether or not there would be value in making the actual budgets by department more reflective of actual expenditures, but then include a line item for opportunities.

Mr. McDaniel stated that there is a buffer included for those situations and there is movement ability within the operating budget. Staff tries to identify the opportunities up front.

Ms. De Rosa would like to pilot budgeting closer to actuals.

Ms. Mumma gave a few examples of how these actuals are not known, such as the economic development incentives. Staff has to budget as if every company that has an economic development agreement is going to meet their projection and receive their incentive, based on whatever the target is. Last year for economic development agreements, the amount budgeted was \$1.8 million, but only \$1.3 million was spent. In the year prior, there was \$720,000 that was not spent. There can be massive shifts in amounts just in one account. She stated that salt and fuel are two more examples of items that can fluctuate, based on unknowns at the time of budget preparation.

Ms. Mumma stated that to propose a budget closer to actuals, it would mean reducing the budget on the front end based on scenarios that may or may not occur. To what extent do we reduce a budget on the front end with the unknowns when the fund balance is so strong? She would never recommend living out of the "savings account" year after year.

Ms. De Rosa stated that the answer to making those cuts, but then having a need arise later is for staff to request additional funding from Council.

Vice Mayor Amorose Groomes suggested trying to budget as we have traditionally -- revenues low and expenditures high -- but then have a conversation based on actuals so they can measure if those targets have been achieved or not.

Mr. McDaniel reiterated Ms. Mumma's point that some expenses are fixed and others are not.

Vice Mayor Amorose Groomes stated that she is not suggesting cutting, but the goal is to have a parallel track of what we think will occur.

Ms. De Rosa stated that having these conversations helps Council.

Vice Mayor Amorose Groomes stated that it will help with understanding and the budget process.

Mr. McDaniel stated that he would think about it and brainstorm what that might look like.

Ms. Fox stated that if a citizen looks at the budget, there may be some explaining necessary about the expenditures being higher than the revenues. Balanced budgets may not be as important as sustainable budgets. She asked if there was a time when the City had to use the general balance fund to pay for any long-term liabilities.

Ms. Mumma stated that from a day-to-day perspective, expenditures are not exceeding the revenues brought in. Large purchases that are one-time purchases such as the Delta Building, the Thomas Property, etc. all have an impact on the budget that is not recurring.

Ms. Fox stated that it is important to understand how sustainable a budget is.

Ms. De Rosa stated that more definition and clarity will be helpful.

Mr. McDaniel asked Council to consider what a financial dashboard might look like. When you consider debt, picking a metric may not provide the whole picture. If we do a dashboard to show how all these things work together, that could be helpful.

Ms. De Rosa reiterated the need to have these things in a written policy to memorialize the intention.

Ms. Fox thanked staff for broadening her perspective on all these financial issues.

Budget Timelines

Staff provided a proposed timeline for the CIP and operating budget.

Ms. Mumma stated that staff heard Council's desire to have more advance discussion for the CIP, which is why these dates are being proposed. She asked if Council was comfortable with the committee structure that was used last year for review of the operating budget.

Mr. McDaniel stated that he plans to have a "map" exercise so Council can voice their priorities.

Ms. Fox stated that she would like to have the ability to comment on any issues that she may have -- regardless if she is on a committee or not. She stated that last year, there wasn't much discussion at Council and therefore no opportunity to voice concern or questions.

Ms. De Rosa stated that after the committees hold their meeting, information can be provided to Council for additional discussion if needed.

Mayor Peterson stated that he relies on his Council colleagues to ask questions and make recommendations.

Mr. McDaniel suggested having a standardized committee report that explains the recommendations and provides opportunity for comment.

Mayor Peterson moved to approve the proposed meeting schedule.

Vice Mayor Amorose Groomes seconded the motion.

Vote on the motion: Mayor Peterson, yes; Vice Mayor Amorose Groomes, yes; Ms. De Rosa, yes and Ms. Fox, yes.

The meeting was adjourned at 8:03 p.m.