

Audit/Finance Committee Meeting Minutes

September 18, 2020

8 AM City Commission Chambers

Committee Attendees: Reeder, Tomasula, Wobser, Nickles, Stahl, Murray, Ruthsatz

Nickles began the meeting by congratulating Chief Orzech on his award and complimented both the police and fire departments. He then asked for the approval of the August 21st minutes. Stahl made the motion to approve them, with Tomasula seconding the motion. There was no discussion and an all aye vote taken.

Gordan Mann from Resource Network then presented the study they had worked on for the city. He began by explaining how the project had begun back in October, with several meetings with Wobser and Reeder during their assessment period. He explained that he will talk about the financial impact the Corona virus has had on the city in 2020 and then about what they are predicting for 2021 and our budget process. He then introduced two other team members that have been working on the project, Ashley Lewis and Meredith Britt.

Ohio State Resource Network was a follow up to a national initiative from 2013 where HUD setup this program to give cities the opportunity to get more value out of their money. The program provides small and medium size cities technical services to make better decisions. The process for this project was a little different than what normally happens. Normally, a city budgets money for the study, goes out for an RFP, and then selects a company. Here, it was kind of reversed. There is a local contribution but more than 75% of the cost was grant funded. Network Resources put out a list of services they could provide and asked for cities to request assistance. They received a good response from cities and then went through an interview process to select the cities they would assist. They selected Sandusky in hopes to build from their Bi-centennial plan.

A baseline assessment was done in January/February to determine what the city should do to sustain the development and progress they had going on. Then in March the Corona virus hit and everything changed. Cedar Fair having to open late had a giant impact on the city finances. So they pivoted there research to still included the development and progress of the city but to also figure out how the city can sustain services within the city for the remainder of 2020 due to this shortfall in revenue. The also wanted to look at how this shortfall will impact the budgets for 2021 and 2022.

Today he is going to discuss the baseline assessment, the impact of Covid-19, what are we going to do about it moving forward and what we have done already. While assessing the city they were impressed by the collaboration between the city and local business and the Bi-centennial plan coming out of Issue 8. Financially, they were impressed by the city's reserve balance especially after Issue 8. Nickles made a comment that our new notes were issued yesterday at an extremely good rate and that was due to the city having a good reserve balance. Network Resources were also impressed by the amount of investments the city had made in public infrastructure and community development.

The baseline assessment is done to identify challenges the city might face and help them to figure out how to overcome those challenges. The numbers you are going to see for the out years 2023, 2024, and 2025 are part of a diagnostic exercise, not a prediction, it's going to show deficits that will not happen and would not happen in Sandusky because the city manages their finances well and would make adjustments to avoid these deficits from happening. This exercise is designed to find the challenges and figure out the adjustments needed to prevent the deficits from happening.

The first trend impacting the city's budget is income tax. You can see the growth pre-Issue 8 and the jump in 2016 with Issue 8. The income tax base has remained fairly flat over the years.

The second trend impacting the city's budget is admissions tax. These dollars have been shrinking from 2016 to 2019 but not at a huge rate. We would like to see it rise though. They do not believe it's due to declining attendance, it just may be due to a change in how people are buying the tickets. Season passes verses individual tickets and how the tax is applied to them. 2020 was expected to be a big year due to their anniversary celebration and new attractions opening. Since we were counting on these additional revenues in our budgets it makes the Corona hit a little sharper.

On the spending side of the assessment, expenditures have steadily increased over the last few years. This is due to the addition of Issue 8 dollars that added additional services and payroll positions to the budget. The numbers may make you think employees were receiving a 6.1% increase to their wages per year, but that is not what has happened. The increase was due more to the fact that additional employees were added to the staff. The city has gone from 155 employees in 2014 to 194 in 2018, so salary spending has gone up.

The second thing effecting the city on the expenditure side is health insurance. The general fund has to make payments to the city's insurance fund to cover the cost of their employee's health insurance benefits. When the city went to a self-insured program they had to begin by building the program up and then once developed, you could cut back on the funding of the program. The city is projecting to increase funding in 2021 to build the balance back up.

Mann then moved on to what effect the Corona virus has had on the city's budget. The majority of the city's revenue comes from income tax and admissions tax, which are substantially tied to Cedar Fair. Reeder had provided Network Resources with three scenarios. One was revenue projections if Cedar Fair was to open 7/1/2020, which was the optimistic approach. One was if Cedar Fair did not open at all, which was the pessimistic approach. Then one final scenario that fell in the middle of the other two approaches, which is where we are currently at. So, the current projected loss is around \$7.1 million dollars for 2020. Stahl requested of Mann a copy of his educational background so that the committee can have that on file and Mann agreed. He then asked Mann how current these numbers were. Mann replied that these numbers are through the beginning of September 2020 and correlate to the way the city has been trending over the last 8 months of the year. Stahl then asked if Reeder had crunched these numbers with Cedar Point. Nickles explained that he had meet with Reeder a couple weeks ago and discussed these numbers and he feels that she has a good grasp on these numbers. Reeder explained that we are looking at these numbers on an ongoing basis. Nickles explained that we will hopefully receive some Cares Act money from Erie County and the plan is to apply them to police and fire wages. Mann explained that the big question now is when will things get back to normal. We look at projections from economist to get a feel for what they are estimating. They are projecting the national job rate will not recover until at least 2023 and could be 2026 in a worst case scenario. Sandusky will depend on how quickly tourism comes back. During the last recession, it took us about 4 years to get back to normal. The one thing we know is that it won't be in 2021. So, if we take the baseline deficit for 2020 and add then to the post-pandemic deficit we will be around \$6.6 million dollars.

Now we are going to look at what the city has done to date to help solve this problem. Unfortunately, the city's revenue is fairly seasonal, but their expenses are year round. Nickles explained that something that is missing from this conversation is the contribution the hospital makes to the communities finances. They are not as big as Cedar Fair, but are still a substantial part of the forecast and they seem to be ignored. Mann explained that during the assessment process many other stakeholders were included in the discussion and they were one of them. They are very important

when it comes to income tax. The city began reducing expenses by eliminating 17 positions, mostly in the general fund but not all of them. The assumption right now is that those positions will not come back until the crisis is over which is a savings of approximately \$700,000 to \$800,000 per year overtime. The city has also shifted the way some positions are being funded. They have also reduced salaries to admin personnel between 5 to 10%. Health insurance claims spending has dropped and could stay at lower levels until positions are filled again. They have reduced non-personnel expenses by about \$575,000 for operations and maintenance. They have also reduced \$720,000 from the neighborhood street paving project for 2020. They have also reduced the subsidy to Parks and Recreation by \$275,000. The city has acquired \$757,000 in Cares Act dollars to cover police and fire costs, as well as \$211,000 in 2020 and \$327,000 in 2021 to cover transit related costs. The general fund subsidy for capital projects will also drop due to the decrease in admissions, income, and lodging tax receipts.

So if we take the \$7.1 million dollar revenue deficit and take the reductions the city has made, we have decreased the deficit down to \$2.5 million dollars. If we go back and look at the city's current reserve balance of about \$6 million dollars, it can absorb the hit for this year. The main concern now should be 2021 and how we are going to cover that deficit. Some of what we have done already will help close next year's gap. Some will not, like the Cares Act dollars, but some will, as long as we don't hire employees back. The next step is to see if the \$2.5 million dollar deficit is a good number and what are your options for next year.

Stahl then asked the amount of the Cares Act dollars and Reeder advised it was around \$750,000 dollars and there is a possibility for a third round coming. Stahl believes there may not be another round coming, but we definitely do not want to bank on that. Nickles explained that they were not banking on that. Wobser agreed that we have not budgeted for any other stimulus money, so anything additional would just be a bonus and help the cause. Stahl asked if the chairman felt the committee needed to meet again to discuss these numbers or did he feel confident in the projections. Nickles believes this is a working blueprint to work off of and reiterated that he had met with Reeder and feels they are doing a good job monitoring and adjusting the numbers as needed. During the conversation they discussed casualty insurance and the fact that it is going through roof. He reminded the committee that the city had used Crain Langer in the past to help the city reduce their health insurance cost and they did an excellent job with it. He feels they may be a good resource to use to help us reduce our property and casualty insurance. They are a totally independent company that can offer an unbiased opinion. Brady then reminded the committee that our reserve balance varies up and down throughout the year. So as we reduce that balance, we want to make sure we factor that into our operations as we go forward so that we don't get caught in a low spot. Nickles agreed with Brady. Stahl reminded the committee of the monthly reports that has been developed over the years. It gives the committee a great snap shot of where the reserve is and the trends that effect it. Reeder explained that the departments are currently working on their 2021 budgets. The hope is to have them back to the committee in October to begin the review process. Nickles explained that the first round budget is at a high level and will definitely change before the final one is adopted. Reeder also advised that we are working on the property casualty insurance. The renewal date is December 1, so we are in the process of getting quotes and will have as many people as possible involved reviewing the quotes so that we are not leaving any rock unturned. She also noted that the State of Ohio had approved another clean audit for the City of Sandusky and she thanked the staff for their hard work in getting that audit completed. Nickles explained that there were just a couple housekeeping notes on the management letter that the city has already taken care of. Murray noted that even without the pandemic we were still going to have to make some adjustments to operations because with our revenue base, we do not have enough revenue coming in to cover the services we were providing. Some structural adjustments needed to be made. It would also be nice to see comparative data from other communities of our size to see how we compare. Nickles agreed these things would be good to know, since the population of

the city is not growing. Murray advised that there is a severe threat of a bill that could be passed for employees that work from home. It would allow them to have their income tax dollars paid to the city they are working in, as they work from home. This could greatly impact the city's revenue stream, given that only 20% of our income tax comes from city residents. Wobser explained that they are committed to looking at various options to see if there are other revenue streams that we can tap into. They are hoping to bring different revenue options back to the committee to review and advise on. Nickles believes this is a good blue print to work off of. Reeder reminded the committee that we issued \$8,070,000 worth of notes yesterday and the rate came in at .276 net interest. Our advisor advised this was the lowest rate they had seen in the state of Ohio. Again this goes back to our good Moody's rating and being financially sound. To be transparent, Moody's did down grade us slightly but that was due to the pandemic and our reliance on tourism, but it was the smallest down grade that they could make. She also advised the committee that she is working on a request for qualifications for an investment advisor. Once she gets them back in she will get them to the committee to review. She also wanted to note that the actual number of employees are currently around 170, so they have decreased from Mann's numbers. Nickles thanked everyone for their time and reminded them that the next meeting will be on October 23, 2020 at 8:00 a.m.