Audit/Finance Committee Meeting Minutes
October 23, 2020
8 AM City Commission Chambers

Committee Attendees: Reeder, Nickles, Stahl, Gardner, Wobser, Tomasula, Murray, and Brady.

Nickles began the meeting by asking Mike Sudsina of Sudsina & Associates to present the city's bond status and ratings. Mike began by noting what an interesting, challenging year we have been experiencing this year. He began by giving the committee an update on how the market has been progressing this year. You can see there were giant spikes up and down at the start of the Corona virus, but they have begun to normalize now. The important part to note was the lowest dip was right at the time we went out for bid on our Urban Renewal bonds and received a really good rate of 2.5% in a very difficult market. BBT came through for us on them and that will take us out until 2035 at 2.5%. Since then the market has slowly risen. Mike then reviewed with the committee the city's inventory of debt. There aren't really any refinancing opportunities at the moment. The only one that stands out is the 2008, but that is a Special Assessment bond and would require resetting the assessment rates to do so on all effected property owners. It wouldn't be callable though until June of next year. The one year notes are normally not callable. He then reviewed the annual toll of the debt service over the next few years and what notes will be rolling off of our books. The 2001 notes will be coming off the books in 2021 and the library bond will be coming off in 4 years. It also shows how principal is being paid down on each bond. As the principal is paid down it releases borrowing capacity for the city. Sudsina then reviewed the city's debt limitations as it stands today. It shows the city's ability to borrow and their ability to pay. The unvoted direct debt limitation of the city is approximately 12.8 million dollars. Now of the 10 mil indirect debt limit imposed by the state the city has 2.788 mils remaining there. He usually suggests leaving 1 mil of indirect debt available for emergency type situations. With 1.78 mils remaining that would afford the city with $840,000 annual debt service, which means the city would be able to fund an $11,325,000 project over the next 20 years at a rate of 4%. So, that would be the most restrictive limitation of the two. The limits are always changing as debt is paid off and assessment valuation are adjusted. Sudsina then explained the rating process done by Moody's. In the past, our debt issuances had been at lower amounts and didn't really warrant a Moody's review because the cost of it would out weight the savings. This year since we were requesting larger amounts of debt, there was a potential cost benefit in the review. Moody's would have requested the review this year anyways, since we have such a heavy reliance on tourism and that was one of their main rating focuses due to the pandemic. It was happening across the country. He advised that Reeder had explained to Moody's the impact to the city by the decrease in revenues received from Cedar Point and what actions the city had taken to counter act these shortfalls. Sudsina was a bit disappointed that Moody's had taken action so quickly to reduce our rating, since Cedar Point has been doing everything right when it comes to this pandemic and the future is still a bit blurry as to how it all will fully play out. He had hoped they would have given us sometime to see where things really ended up. He then explained Moody's thinking on where our fund balances should be. He explained that it has been a moving target, because over the last few years everyone has been doing pretty well, until Covid hit. Everyone was building their reserve balances up, so they had moved there standard up as well. Now an A level rating requires 10 to 30% of revenue/expenditures, before it used to be 10 to 20%. The rating though is not completely based on your fund balance, there are many other factors and this year's rating decrease is based more on our reliance on tourism dollars. He recommended that we keep an eye on our fund balances though because it is very important. He believes we want to keep them above 15% to avoid another call from Moody's, they would consider us vulnerable below that. Wobser then asked Sudsina how he would suggest the city try and budget next year to keep above that 15% mark and not lay off any more employees. He wondered if there are short term sacrifices that could be made to keep the city running. Sudsina reminded the committee that the Moody's rating is just to help get better rates for your borrowing. Just as important is to keep the city running on a day to day basis. You don't want this rating to effect the city's stability. The rating will not affect your rates on short term notes that you need to do smaller projects. It effects more of your larger projects. So in the short term, you need to do what is necessary to keep the city running and then adjust as things get better. Brady noted we do not want to overweight the value of the Moody's rating. We have to keep the city going first and then worry about the rating. Sudsina explained that Moody's rate are usually good for a couple years, so we should be ok for the next two years and that will give the economy time to recover. Reeder explained to the committee that as of right now the city is looking at a 2.1 million dollar shortfall for next year, so our reserve balance will take a hit. If we looked at a 20 million dollar budget at a reserve rate of 15% we would need to have a reserve at 3 million dollars. Nickles then thanked Sudsina for his excellent presentation.

Nickles then asked for a motion to approve the Sept 18, 2020 minutes, because he forgot to do so at the beginning of the meeting. Gardner made the motion, with a second from Stahl. **All aye – motion carried.**

Nickles then moved on to discuss the requests for qualifications the city had sent out for a new investment provider. Reeder explained that an RFQ was sent out for this position and we received five proposals back. She is now looking for volunteers to be part of a selection committee to review the qualifications and select a new advisor. Nickles volunteered himself and Moncher to assist in this process. He explained that Moncher has gone through this process many times at the hospital and is very experience with it. Tomasula also volunteered to assist in the selection process. It was agreed and Reeder would schedule sometime for everyone to discuss.

Nickles then began with the budget discussion. He loved the new setup. Reeder explained that she had sent out the most recent financials yesterday and reminded the committee that we had started out the year with a 4.9 million dollar general fund cash balance and we are now at 3.5 million dollars. Many of the cuts the city has been making has helped to keep this balance up. Nickles then asked her the balance of the payroll stabilization fund, because he knows that it has been hit with several retirements. Reeder advised that we had just over a million dollars in the fund at the beginning of the year. So far we have reduced it by the extra 27th pay period which has taken the balance down to $640,000. With the estimated payouts of those who have left and anticipate leaving by year-end it will go down to around $193,000 balance at the end of the year. We had 253 full time employees at the beginning of the year, we are now at 225 full time employees. Nickles ask what Wobser thought he would do when it comes to rehiring some of the higher paid positions that have become vacant. Wobser explained that they are looking at them on a case by case basis. So far we have replaced both the Law Director position and the Police Chief position. We will probably need to replace Matt Lasko's position, just because of some of the transactional responsibilities he had but most of the other positions we are hoping to take some time before refilling those positions. He is hoping to have a better idea of how far we are going to need to go by year-end. He explained that he and Reeder are trying to be as conservative as we can be and give ourselves flexibility and time to make these decisions. Reeder then reviewed the year-end projections for 2020 for both revenue and expenditures. We are projecting 18.1 million dollars to come in by year-end and we had originally budgeted about 24.5 million dollars for the year, so we are seeing a major shortfall there. On the expenditure side, we still have 4.2 million dollars to be paid out by year-end. With these projections we are expecting a year-end cash balance of 3.3 million dollars. Nickles reminds the committee that with that 3.3 million dollar balance we are coming close to the 15% reserve rate that we didn't want to go below. Wobser explained that is one of the biggest things being discussed for next year. They are trying to figure out at what percent we feel comfortable going down to next year. Gardner then asked if we know what percent of our income tax revenue comes from jobs that are in the hospitality/entertainment community. Wobser explained that back in 2014 Solowiej had estimated that 10 to 12% of our income tax withholdings come from the entertainment industries. He explained that if you look at our current RITA reports we find that withholdings are remaining pretty consistent, it our corporate gross profits revenue that is taking the major hit. Reeder agreed with Wobser. The RITA report through September 30, 2020 shows our net profit returns were down around 1.5 million dollars. Individual returns are only down $19,000 from last year at this time and withholdings are down $14,000 this year compared to last. Reeder explained the numbers that she presented do not included any additional stimulus money being received at this time. There have been talks of additional money coming in but we are not banking on them at this time. Reeder then began with next years projected revenues. She is projecting revenue in the general fund to be around 17.8 million dollars in 2021 and expenses to be around 20 million dollars. She reminds the committee that this is just the first draft of the budget that is due by November 1, 2020. They are continuing to make cuts to the budget to bring the 2.1 million dollar shortfall down. Reeder explained that they are still out having talks with the three city unions to see if we can get any relief there. We also have our property casualty insurance out to bid at the moment and we are hoping to see some reductions there. Nickles thanked Reeder for all of her hard work with the budget. Brady noted how conservative Reeder had been on her revenue projections for next year, which he appreciated. He then asked if the upcoming $440,000 BWC refund dollars were included in her numbers and Reeder explained that they were included in the 2020 numbers under refunds/reimbursements. Nickles thanked the committee again for attending the monthly meetings and reminded the committee of their importance. The next meeting will be on November 20, 2020 at 8:00 a.m. Gardner made the motion to adjourn the meeting with a second from Stahl.