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To: City Council & Mayor

From: Jane Howington, City Manager
Jeff Knoblauch, Asst City Manager/Finance
Brian Griffith, Director of Management & Budget

Subject: 2019 – 2023 Five Year Plan Initial Capital Review

Date: July 26, 2018

Summary:

During the initial review of the 2019 – 2023 Five Year Capital Plan Council requested the Annual Road Program be funded at \$2,300,000 and \$500,000 in additional funding be allocated to the roads for 2018. Staff was tasked staff with coming up with options to make it possible. Staff looked at the following options to make the Annual Road Program increase feasible.

Option 1:

The City would issue ten year, \$10,000,000 General Obligation Bonds in 2019 and use the proceeds to complete road reconstruction/resurfacing over a shorter time frame. The annual program funds would then be used to pay the debt service of \$1,300,000. Staff did not view this as the best option as the City would pay \$3,000,000 in interest over the life of the bonds, the City's Debt Percent of General Fund Revenues would reach a peak of 18.55% which puts the City in the Critical Outlook category, and bonding the improvements takes away some of the City's flexibility to respond to potential issues in the future.

Option 2:

Through a series of cuts to expenses and an increase in income tax revenue staff was able to free up enough additional funds to allocate \$2,300,000 to the Annual Road Program and transfer an additional \$500,000 in 2018. A list of cuts and deferrals is presented on page 2 of the Initial 5 Year Capital Review. Staff also reviewed the current 2018 Income Tax estimate which included a 7% increase over 2017. Through July the Income Tax is up 14.3% over 2017. Based on this we feel increasing the assumption in the 5 Year Plan from 7% to 9% remains conservative. We did not increase the assumption that Income Tax would increase 2.5% in years 2019 – 2023 despite an average increase per year of 4% from 2012 – 2017. By making these changes the Annual Road Program was able to be increased to \$2,300,000 per year and the ending General Fund balance in 2023 has a ratio to expenses of 43.31%. This option also allows the City to retain its flexibility to respond to potential issues in the future.

Recommendation:

Staff recommends Council follow option 2 as it allows the City to increase its annual spending on roads while retaining its flexibility into the future.