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To: Members of City Council and Mayor

From: Jeff Knoblauch, Finance Director

Workshop: July 25, 2017

2017 Mid-Year Financial Review

Overview:

The City had a \$7.7 million or 35.6% General Fund carryover balance going into 2017. We anticipated spending down the General Fund balance over the next few years by investing in projects that will enhance the City's tax base. These projects include Downtown Phase II which will be a mixed use development that will primarily include office and residential space and the expansion of Velocity Broadband, the City's high-speed internet service.

We projected continuation of capital improvements in our road and storm water management programs as well as develop plans to build a new public works facility, a significant portion of which will be offset by a decrease in rent payments. We projected conservative revenue growth in income taxes collections and anticipate significant increase in the broadband service.

Assumptions for Update:

General Fund Revenue:

1. Income Tax Revenue – through the July 2017 settlement, our income taxes are up 0.3%. We originally projected a 2% increase over 2016. We assumed that we will be flat for the remainder of 2017 and increase 2.5% per year through 2021.
2. Property Tax Revenue – updated for actual results in 2017. Increased 2018 at based on re-appraisal.
3. Local Government Revenue – reduced based on cuts passed by recent State budget.
4. Broadband Revenue – updated Five Year Plan to match most recent forecasts.
5. Moved estimated revenue from Phase II of downtown from 2018 to 2019.

General Fund Expenses:

1. Added debt service for new MSC building.
2. Moved first principal payment on Broadband back to 2019.
3. Added additional funding for 2019-2021 for annual road resurfacing program.

Items Not Included in Forecast:

1. City's matching share of S. Main St. grant
2. Debt service for \$4 million asphalt overlay of concrete streets in need of repair. Including the annual debt service payment of \$468,922 puts the General Fund balance below 25% and causes the debt payment to revenue ratio over 15%. The "Cautionary Outlook Benchmark" is between 12-15%; above 15% is considered "Critical".

In lieu of issuing debt to finance the overlay project, the City could consider earmarking a percentage of income tax growth toward addressing the issue. Additionally, the City could consider re-directing the funds currently earmarked for connectivity to the overlays.