Enclosed you will find the 2019 Annual Budget submitted for Council's consideration. We are providing a balanced budget for 2019; however, as indicated in the Five-Year Budget, changes must be made to address long-term sustainability. The 2017 General Fund Expenditures and estimated 2018 General Fund Expenditures exceeded our General Fund Revenues by $1,033,305 (2017) and estimated $1,296,900 (2018), for a total of $2,330,205. We are estimating year-end 2019 that we will have a carryover of $686,952 going into 2020. A number the previous City Administrator worked toward was $1.5-$1.6 million dollars in carryover. Frankly speaking, a 10% General Fund carryover is preferred by the State Auditors of Ohio. We are nearly $1.3 million below that recommended number. We simply cannot continue the path we are on currently in that we are dropping in excess of a million dollars per year in Expenditures compared to Revenues.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>REVENUES</th>
<th>EXPENDITURES</th>
<th>DIFFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$16,385,289</td>
<td>$16,951,465</td>
<td>-$566,176</td>
</tr>
<tr>
<td>2011</td>
<td>$16,057,710</td>
<td>$15,149,836</td>
<td>$907,874</td>
</tr>
<tr>
<td>2012</td>
<td>$16,678,816</td>
<td>$16,451,780</td>
<td>$227,036</td>
</tr>
<tr>
<td>2013</td>
<td>$17,194,483</td>
<td>$17,534,306</td>
<td>-$339,823</td>
</tr>
<tr>
<td>2014</td>
<td>$16,457,957</td>
<td>$17,376,763</td>
<td>-$918,806</td>
</tr>
<tr>
<td>2015</td>
<td>$17,316,155</td>
<td>$17,720,292</td>
<td>-$404,137</td>
</tr>
<tr>
<td>2016</td>
<td>$20,577,939</td>
<td>$19,594,449</td>
<td>$983,490</td>
</tr>
<tr>
<td>2017</td>
<td>$18,526,332</td>
<td>$19,559,636</td>
<td>-$1,033,305</td>
</tr>
<tr>
<td>2018 (est.)</td>
<td>$18,090,447</td>
<td>$19,387,347</td>
<td>-$1,296,900</td>
</tr>
</tbody>
</table>

TOTAL: $-2,440,747

The 2016 figures for both Revenues and Expenditures include $1,950,000 for the Sheraton Hotel property purchase. Subtracting this amount from the Revenues and Expenditures figures provides a more consistent number to use when making comparisons from year to year.

In addition, the Earnings Tax in 2016 reflected 14 months of withholdings a result of HB5. The Earnings Tax in 2017 leveled out at 12 months of withholdings. In January 2017, a payment of $480,000 was received from a large employer. Had that been received in December 2016, as it had in the previous year, the Earnings Tax estimate for 2018 would have been different.
General Fund Revenues

Mayor Webster has pointed out to Council on a consistent basis that we are operating with General Fund Revenues today that are considerably lower than in 2006. In fact, our General Fund Revenues in 2006 were $21,133,610. We are estimating a 2018 ending number at $18,090,447. Our current General Fund Revenues are down ($3,043,163) from 2006. We are taking steps to reduce spending and increase revenues. Those will not be significant enough to truly address the expenditures. The areas that have affected the General Fund so strongly are essentially out of our control. I will list a few of the revenue sources that have impacted us since 2006; however, this is certainly not all-inclusive list.

<table>
<thead>
<tr>
<th>General Fund Revenues</th>
<th>2006</th>
<th>2018 (est.)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Tax</td>
<td>$1,262,300</td>
<td>$900,128</td>
<td>($362,172)</td>
</tr>
<tr>
<td>Tangible Pers. Prop. Tax</td>
<td>$265,191</td>
<td>$0</td>
<td>($265,191)</td>
</tr>
<tr>
<td>Earnings Tax</td>
<td>$15,677,233</td>
<td>$14,800,000</td>
<td>($877,233)</td>
</tr>
<tr>
<td>Cinema Admission Tax</td>
<td>$149,858</td>
<td>$119,678</td>
<td>($30,180)</td>
</tr>
<tr>
<td>Tangible Pers. Prop. Reimb.</td>
<td>$73,110</td>
<td>$0</td>
<td>($73,110)</td>
</tr>
<tr>
<td>Estate Tax</td>
<td>$953,498</td>
<td>$0</td>
<td>($953,498)</td>
</tr>
<tr>
<td>Local Gov. – County</td>
<td>$339,274</td>
<td>$196,500</td>
<td>($142,774)</td>
</tr>
<tr>
<td>Local Gov. – State</td>
<td>$169,200</td>
<td>$0</td>
<td>($169,200)</td>
</tr>
<tr>
<td>Permits for Bldg. Dept.</td>
<td>$102,565</td>
<td>$78,178</td>
<td>($24,387)</td>
</tr>
<tr>
<td>Interest</td>
<td>$487,327</td>
<td>$59,300</td>
<td>($428,027)</td>
</tr>
</tbody>
</table>

The above 10 General Fund areas have greatly impacted us over the course of the 12 years. The total just in those categories equates to a loss of ($3,325,772). Looking at the above list, we can raise our Building Department permit fees to generate some additional revenues, however, nowhere close to what has been lost over time.

Revenues in 2017 were $18,526,332. Expenditures were $19,559,637 for a loss of ($1,033,305). Revenues in 2018 are estimated at $18,090,447. Expenditures are estimated at $19,387,347 for a loss of ($1,296,900). In 2019, we are anticipating Revenues in the amount of $18,839,962. Expenditures are expected to be $19,870,835 for a loss of an additional ($1,030,873). That equates to a total of ($3,361,078) in losses over a three-year period of time.

In last year’s Annual Budget Letter, excitement regarding the Earnings Tax was expounded upon in an encouraging light for companies like Humana, MediSync, Clarke Fire Protection, Cincinnati Bell Technology Solutions, Ultimus Fund Solutions, and the Council on Aging. In 2018, we find that with the exception of one of the aforementioned companies, the payroll withholdings have leveled off or actually decreased. Total withholdings from these companies alone show the following:

- 2016 - $1,521,183;
- 2017 - $1,326,605;
- Est. 2018 - $1,423,567

The change from 2017 to estimated 2018 is $96,962. While this appears as an increase, the effect of large companies moving in or out of the City is a negative $96,975, essentially eliminating the increase of the above referenced companies. Acendum was not mentioned, however, was factored in for an increase. This was not the case.
It was expected that the Earnings Tax would continue to grow with the addition of new companies. The Earnings Tax was estimated to be $15,964,332 for 2018. The Earnings Tax was estimated too high. It should have actually been estimated at $14,800,000; an amount ($1,164,332) lower than predicted. This is the 2nd year in a row that the numbers came in considerably lower than anticipated.

**General Fund Expenditures**

Expenditures in 2015 were $17,720,292. Expenditures were projected to be $17,644,449 in 2016. That was not the case. In fact, they climbed to $19,594,449. In 2017, they rose again and landed at $19,559,636. We have worked diligently to reduce Expenditures and are estimating a drop in 2018 to $19,387,347. A difference of $172,289. It is important to point out that our Revenues decreased in est. 2018 to $18,090,447. Last year, it was predicted that we would finish the end of 2018 at $1,904,085. We are now projecting that number to actually be $1,717,825. Continuing the downward spiral, we are projecting that 2019 will end with a $686,952 carryover going into 2020. This is $1.3 million under the State Auditor’s recommendation and grossly under our comfort level.

**Personnel**

In 2019, the City will hire three new employees at the Fire Department as part of the Federal Government’s program known as the “SAFER Grant.” The Government will cover 75% of wages for all three in the first two years and 35% the third year. The City is responsible for their pension, health care, and all other benefits. After three years, the City will be 100% responsible for those three employees. We are also hiring a Maintenance Worker in Public Works; however, in an effort to save money, we will not start that position until July 1, 2018. It is unfortunate that I must report that we denied positions for the 2019 Budget in the Police Department, Fire Department, Building Department, Health Department, and Public Works Department.

**Personal Service Costs**

The 2019 Budget includes a 2% wage increase across the board for all full-time employees and part-time Firefighters. Employees with room to advance within their pay table are expected to receive an increase in pay. Longevity compensation will increase for some employees. In addition, sick, vacation, and compensatory time, for those that have reached the threshold, will also increase. We are in the middle of negotiations with the Firefighter’s Union as their contract is scheduled to expire on December 31, 2018. The Police contracts expire in December of 2019, and those negotiations will commence in late fall.

**Capital Improvements**

Multiple capital improvements were completed or substantially completed during 2018. Please note the totals listed next to each reflect only the amount paid during 2018, not the entire total.
1. Jake Sweeney Place for $908,105
2. Glensprings Drive Rehabilitation for $918,567
3. Cloverdale Area Pavement Rehabilitation for $712,680
4. Beacon Hills Subdivision/Kenn Road Rehabilitation for $2,349,780
5. West Kemper Road Resurface Project for $385,601
6. SR 747/North Mall Mast Arm Replacement for $50,344
7. Chesterdale Road Construction for $39,990
8. Traffic Signal Detection Devices for $82,710
9. Fire Engine Lease Payment for $224,668
10. Public Works Backhoe for $56,736
11. Municipal Building Parking Lot Resurfacing for $63,504

As a result of the anticipated budget carryover from 2019 to 2020, any capital improvements that could be cut or postponed, have been pushed back to later years.

**City Bonds and Notes**

**Community Center Bonds**

In 2002, the City issued $5,900,000 of General Obligation Bonds to pay the cost of expanding and renovating the Community Center. The interest rate on the bonds was 3.72%. In 2012, the City refinanced the bonds through U.S. Bank at a rate of 1.21%. These bonds were retired in 2017.

**Former Sheraton Hotel Note**

In January 2016, the City purchased the former Sheraton Hotel located at 11911 Sheraton Lane for $1,950,000. In April 2016, the City issued a note in the amount of $2,640,000 to reimburse the purchase of the hotel as well as have the hotel demolished. It was the intention that the hotel be demolished, the property sold, and the note paid off by December 31, 2016. Since the property has not been sold as anticipated, the note principal has been rolled annually with the City paying interest. For the 2017 note rollover, the City paid down half of the principal ($1,320,000). The most recent note rollover was dated November 30, 2018 for $1,320,000 at an interest rate of 4.11%.

**Street Improvement Bonds**

In March 2017, the City issued $8,200,000 of fifteen-year General Obligation Bonds to pay the cost of various road improvements under the Comprehensive Capital Improvement Program. The bonds were issued at an interest rate of 2.94% and mature in December 2031. Payments on the bonds are made twice a year in June and December (two interest payments and one principal payment). Bond payments from the Street Improvement Debt Fund are subsidized by a transfer from the General Fund. A portion of the bond interest ($225,000) in 2018 and 2019 is scheduled to be paid from the Street Maintenance Fund.
Tax Increment Financing (TIF) Funds

Northwest Business Center TIF

Phase I
In 2000, the City issued $3,040,000 of thirty-year bonds for Phase I of the NW Business Center for infrastructure improvements and professional service fees. The interest rate on the bonds is 6.7%, and the bonds mature in 2029. Phase I covers the IDI Building site, the General Advertising site, the restaurant sites, and the vacant fifteen acres. Service payments (payments in lieu of taxes) are generated for each parcel. Since the service payments do not cover the bond payments and other costs, a shortfall amount is collected annually from the developer. In 2018, the Post Office moved into the 230,000 square foot industrial building on the fifteen-acre site. Based on the value of this building, it is expected in 2020 that service payments will generate enough to no longer need the shortfall from the developer.

Phase II
Phase II covers the Pictoria Office Tower and the public parking garage. In order to pay for the public improvements, $10,000,000 of bonds were issued by the Port Authority of Greater Cincinnati. When the bonds were issued, the value of the public parking garage was reduced to $0; therefore, special assessments on the Pictoria Tower were created to cover the shortfall on the bond payments. The City has no responsibility regarding the bond payments for Phase II. The City does receive service payments and special assessments but has to pay these to the bond trustee within fifteen days of receipt of the funds. The Pictoria Tower includes the following businesses in 2018: First Financial Bancorp, Northrop Grumman, Beckfield College, Ameriprise Financial, and Ultimus Fund Solutions.

Phase III
The site proposed for the six-story office tower continues to be vacant and owned by the Frederick's Steel family. At present, it is unclear if they will proceed with the second office tower and associated parking garage or pursue an alternate development. The property has been vacant since the development began in 2000.

Tri-County Mall TIF

The Tri-County Mall TIF (TCM TIF) was created in February 2005 to help finance public improvements and aid in the redevelopment of Tri-County Mall. The TCM TIF was established on one mall parcel that included J.C. Penney. The only project undertaken through the TCM TIF was in 2007 and involved the construction of a new signalized intersection on Kemper Road, with construction costs and professional services totaling $516,341. To cover the cost until the TCM TIF could generate service payments, the City advanced the funds from the General Fund to the TCM TIF Fund. It was anticipated that when the TCM TIF generated service payments, the General Fund would be paid back. Over the next two years, service payments were received at approximately $76,000. Unfortunately, in 2009, the value of the mall was reduced by the County Auditor at the request of the mall owners and as a result no service payments are generated. To date the amount owed to the General Fund is $492,379. At this time, it is unknown if the developments planned for the mall will increase property values enough to generate service payments.
Commerce Park TIF

In 2018, the Commerce Park TIF was created to further development at the former GEEAA Park. It is anticipated that four large warehouses will be constructed on the site. The City does not expect to receive service payments on the parcels until 2021.

Conclusion

In 2016, the General Fund Revenues were at the highest mark of any of the previous nine years, and coming in at $20,577,939. In 2017, that number dropped to $18,526,333. In 2018, the estimated number expected is $18,090,447. We are down ($2,487,492) in just a two-year period of time. Earnings Tax collections are down from 2016 at $15,542,072 to $14,800,000 in estimated 2018. This is a reduction of ($742,072) in the same two-year time frame.

In the aforementioned paragraphs found under General Fund, I indicated that we have lost over $3 million in the General Fund in just 10 revenue categories. Those losses along with the losses expected this year, make it very difficult to be optimistic going into 2019 and beyond. As Mayor Webster often states, we are operating a City on a budget that is over $2 million less than we were operating on in 2006.

It is unfortunate that I must report that the vehicle purchases have been greatly reduced, and the hiring of additional staff was cut drastically. Any capital improvement projects that could be postponed were pushed out to future years. We will manage as efficiently and effectively as possible based on the budget; however, we cannot continue to operate this way or the end result will be unsuccessful.

We are presenting you a balanced budget for 2019. Looking further down the road into 2020, the General Fund carryover is not favorable. We will work closely with the Mayor, Finance Committee, Council, and Department Directors to find alternative paths to increase revenues and reduce spending of more than we are taking in on a yearly basis. We will continue to effectively provide for our residents and business community, and our service will continue to be extraordinary.

A special thanks to the Department Directors for their assistance in getting the budget completed. They have worked conscientiously and in cooperation with your City Administrator. I would be remiss if I did not point out the tireless efforts contributed by Stephanie Morgan. Her due diligence, proof reading, putting the finished product together, verifying the accuracy of information provided, dealing with constant interruptions, and too many other things to list, are all highly appreciated. Thank you for the willingness to go above and beyond throughout this process. In addition, a special thanks to Jeff Williams, Amanda Zimmerlin, and Mayor Webster for their assistance and contributions. I recognize this has been a long process; however, I have received no complaints from staff members during this budget project.