

March 26, 2012

Mayor Earl M. Leiken
City of Shaker Heights
3400 Lee Road
Shaker Heights, OH 44120

SUBJECT: Mayor's Financial Task Force

Dear Mayor Leiken,

As Chairman of the Mayor's Financial Task Force, I want to thank you for appointing this committee and charging us to study the City's financial challenges and propose solutions. We all felt honored to serve on this committee at your request and to participate in such an important and timely initiative.

Attached are the findings and specific recommendations of this committee. From the very start we wanted to undertake a credible and robust process for you, the City Council and our residents. We hoped we have achieved this. We are ready to assist you and to respond to your questions and the questions of the City Council, the Board of Education, the Library Trustees and Shaker residents.

Respectfully submitted,



Martin R. Kolb

Attachment

Cc: John J. Boyle
Todd Campbell
Paul H. Carleton
Christopher Hunter
Matthew D. Lehman
Carolyn Milter

Recommendations Of The Mayor's Financial Task Force

Martin R. Kolb, Chair

John J. Boyle

Todd Campbell

Paul H. Carleton

Christopher Hunter

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Introduction

The Mayor's Financial Task Force was initially appointed by Mayor Earl M. Leiken in October 2009. At that time the community was experiencing unprecedented challenges as it approached its centennial in 2012. These included a lack of economic growth in Cleveland and within the region, stiff competition for residents from outer ring suburbs and significant financial challenges in maintaining the quality of community life. The Task Force was asked to review financial challenges facing the Shaker Heights community and to make specific recommendations to address them. The Task Force jointly concentrated on both the City of Shaker Heights and the Shaker Heights School District. For the benefit of all Shaker residents and taxpayers, the financial challenges for both entities required a concerted and coordinated approach. After an extensive review and analysis the Task Force submitted their findings and recommendations to Mayor Leiken in October 2010. The full report is available on the Shaker Heights website at <http://shakeronline.com/>.

Despite the best efforts of the City and the School District to address these issues, unfortunately the fiscal challenges for Shaker Heights have continued to grow. With the approval of the State of Ohio 2011-2013 biennial budget, beginning in July 2011, State funding for cities and school districts has been significantly decreased or eliminated entirely. Specifically for the City, reductions in the Local Government Fund, reductions in the Commercial Activity Tax and the elimination of the State Estate Tax will reduce revenues by \$6.5 million annually, reaching the full impact by 2014. This equates to a 16% revenue loss for the City based on 2011 total revenue. The calculation is based on the average annual estate tax receipts over a 10 year period from 2002 to 2011, the loss of one-half of 2010 local government support and the loss of the commercial activity tax. For the School District, reductions in State foundation and other sources of fiscal support are already reducing annual revenues by \$4 million.

The fiscal implications of declining revenues and State funding reductions, together with continued regional economic challenges, have placed further pressure on the Shaker community. Because of this financial situation and its potential negative effect on quality of life in Shaker Heights, Mayor Leiken asked the Task Force to review these financial issues and propose solutions in late 2011.

The charter of this Task Force effort:

1. Evaluate City operations with a focus on
 - a. Improving department productivity and efficiency
 - b. Reducing operating costs, while minimizing impact on key services
 - c. Maintaining quality of services and quality of life for Shaker residents
2. Make fiscal recommendations to the School District and Library
3. Complete this evaluation before the end of the 1st quarter of 2012

City Cost Reduction Actions

The City of Shaker Heights has been very proactive in reducing costs and achieving operating efficiencies over the last several years. Three significant economic changes have mandated a need to address operating costs in Shaker Heights:

1. Population losses -- Since 1970 Shaker Heights population has declined by 21.6%. Cleveland population has declined by 47.1%. The Cuyahoga County population has declined by 25.6%. The result is a loss of the tax base.
2. Economic downturn -- The result is stagnant income tax revenues, reduced property tax values and reduced interest income on reserves and investments.
3. Collapse of the housing market -- The result is a reduction in property values and a reduction in property taxes.

To put the impact of these economic changes into perspective, since 2007 general fund operating revenue for Shaker Heights has declined from \$36.9 million to \$35.1 million in 2011 and \$34.3 million forecast for 2012.

This revenue decline necessitated an aggressive review and reduction in operating expenditures. During the period 2008 through 2011, total full-time and part-time personnel across all City departments were reduced from 360 to 312 employees. This is a reduction of 48 employees or 13% of the employee level in place at the beginning of 2008. The savings from these workforce reductions equate to over \$3.9 million in 2012 dollars. In addition, several other cost-savings initiatives have yielded an additional \$1.6 million in benefits. These include self-insurance of worker's compensation, renegotiation of union contracts to eliminate wage increases, lower non-bargaining employee wage increases, increased employee health care contributions and the elimination of directors' bonuses. The total of these combined savings from reduced

employment and lower compensation/benefits is over \$5.5 million since the beginning of 2008.

These reductions were achieved with little noticeable impact on services to residents. While these cost reduction actions are very significant, the recent reduction in State funding of \$6.5 million together with ongoing operating pressures result in an unacceptable and unsustainable financial outlook for the City of Shaker Heights. The 2012 Shaker Heights City general fund budget shows an operating deficit of \$2.4 million (compared to a \$0.1 operating surplus in 2011). If unchecked, this deficit grows to \$4.0 million in 2013, \$6.3 million in 2014 and \$7.2 million in 2015. The financial forecast clearly shows that the current reduced revenue projection cannot cover expenditures, resulting in an operating deficit. In addition to completely eliminating Shaker's operating reserve, this forecast will lead to a severe reduction in City services and the community's quality of life, and have serious and negative implications on the City's bond rating and ability to attract new commercial and growth investment.

Financial Task Force Process

Beginning in December 2011 and continuing through February 2012, this Task Force reviewed all 15 City operating departments. The goal, as outlined earlier in this report, was to evaluate further opportunities for improving department productivity and reducing operating costs, while minimizing any impact on essential services. The discussions with each department director focused on the role of the department, cost reduction actions over the last 4 years, opportunities and recommendations for additional cost reduction actions, together with the resulting service implications of these potential actions to residents. A large amount of operating data and financial information was presented by each department to facilitate the evaluation and ultimate recommendations. The Shaker Heights Mayor, Chief Administrative Officer, Chief Financial Officer together with the department director participated in these meetings. It should be noted that this cooperative process with department directors and the opportunity to dissect department operations in this manner proved very valuable to all involved, particularly given the financial challenges facing City operations.

Because of the previous aggressive cost reduction actions by the City highlighted earlier in this report, the opportunities to further reduce costs without compromising current

services or quality of life for Shaker residents was challenging. However, this Task Force believes that immediate, although limited, cost savings opportunities are available and further opportunities for future savings also exist.

Financial Task Force Cost Reduction Recommendations

| <u>Department</u> | <u>Annual Savings (\$000)</u> | <u>Rationale</u> |
|-----------------------|-------------------------------|--|
| Police | \$130 | Eliminate open position, reclassify another |
| Fire | \$195 | Eliminate open positions, backfill with overtime |
| Neigh. Revitalization | \$139 | Remove some work, do not fill open positions |
| Law | \$69 | Reconfigure outside counsel role |
| Community Life | \$208 | New lighting, contracted savings, reassign roles |
| Public Works | <u>\$62</u> | Eliminate apartment bldg. dumpster pick-up |
| Total | \$803 | |

These recommendations total \$803,000 annually or 2.5% of 2011 operating expenditures for the City. It is our strong belief that essential services will not be impacted by these cost actions.

Combining these cost reduction recommendations with the cost saving actions the City has previously undertaken totals nearly \$6.4 million in expenditure reductions since 2008. This enormous amount of cost actions by the City indicates strong fiscal management and accountability. Nonetheless, the significant immediate and long term operating deficit problem continues, which will erode the quality of services and community life, unless further dramatic actions to reduce costs and services and/or increase the revenue base are taken.

The Task Force also considered further actions to reduce City expenditures. These included eliminating back yard trash pick-up (\$400,000 savings), eliminating the health department (\$100,000 net savings), eliminating crossing guards (\$190,000 savings),

eliminating senior transportation (\$90,000 savings), eliminating custodial support for the Shaker Family Center (\$120,000 savings), and eliminating operating support for the Shaker Youth Center (\$70,000 savings). While these combined actions might generate an additional \$970,000 in annual savings, our opinion is that eliminating these services would significantly impact residents' quality of life. We therefore do not recommend this because of the adverse effect they would cause, while still leaving Shaker with a massive budget gap of \$4.7 million (\$6.5 million lost State of Ohio revenue, less \$1.8 million in recommended and non-recommended cost reductions).

To further illustrate the magnitude of this problem, in order to close the lost revenue shortfall only through additional cost reductions, Shaker would need to eliminate at least 50 more employees, including a significant number of police officers, fire fighters and public works employees, as well as entire departments such as Housing Inspection and Neighborhood Revitalization. These drastic actions would imperil safety, EMS response time, snow removal, trash pick-up and quality of life throughout Shaker, especially in our most vulnerable neighborhoods. We do not recommend pursuing this extreme route which would seriously compromise or eliminate existing key services and programs.

In order to retain the quality of services and life in Shaker, it is essential to generate new revenue.

Actions to Restore Revenue Base: Income Tax Increase Essential

Although significant cost reduction opportunities are recommended in this report, Shaker's budget gap cannot be solved through these measures alone. This Task Force is very sensitive to the already high level of taxation in this community. Today in 2012, however, is an extraordinary time in Shaker's history due to the significant lost revenues from the State. To preserve Shaker, additional immediate sources of revenue are required. In order to recover the amount of lost revenues, we recommend a 0.5% income tax increase ballot issue for 2012. This level of income tax rate increase from 1.75% presently to 2.25% is estimated to generate \$6 million in new revenue annually. We believe the additional revenues provided from this tax increase are essential to maintain the quality of life in Shaker Heights. The last income tax increase in Shaker Heights was over 30 years ago in 1981.

However, to think that the City could undertake future periodic income tax increases to cover operating expenses is unrealistic and is not sustainable in Shaker Heights.

Therefore this recommended 2012 ballot issue must be a one-time event and solution, with no expectation of further increases for many years as a means to balance the City budget. Essential to this long term financial management plan are continued expense reductions and belt tightening. This is a way of life in the private sector and it must continue to be a way of life in Shaker as well.

We also recommend that the City not defer this income tax increase ballot initiative beyond 2012. Doing so would create a more troubling situation in Shaker during the next 3 years. Without immediate additional revenue the City will face an even deeper hole to recover from.

Financial Task Force Recommendations for Additional Revenue and Cost Savings

The City has benefited from strong leadership and management by the Mayor and City Council to address problems in the economy as noted above. This same proactive and strong leadership will continue to be just as critical in the future, even if the community passes a tax increase.

In that respect, the Task Force has additional recommendations for generating revenue and reducing costs:

Revenue Generating

1. The fee structures should be reevaluated and updated in all departments and especially in Community Life, Health, EMS, Building and Housing Inspection.
2. An active pursuit of gas drilling opportunities on City property can provide an additional source of income.
3. Continuing the impressive economic development initiatives currently underway in Shaker are essential to foster a vibrant commercial base. Recent examples like the Shaker LaunchHouse, the Van Aken district plan, together with improvements on Chagrin Boulevard and Shaker Towne Center all help enhance our commercial footprint. In addition, the vacated Office Max space, filled by University Hospitals, is a tremendous asset for our community. We recognize that it is a long term process to build successful businesses in the Shaker community,

including those owned and operated by Shaker residents, but these are essential to improving revenues and supplementing our homeowner's tax base.

Cost Savings and Productivity

1. Use the federally funded Energy Conservation Master Plan prepared in November 2011 as a benchmark and develop a detailed funding and operating model to gain the key energy savings opportunities highlighted.
2. Implement red light and speed control cameras from a public safety and police efficiency perspective. Placing cameras on Shaker streets will promote traffic safety and free up police officer time to focus on neighborhood safety. According to the Police Chief the number one complaint to the department from residents involves traffic violations.
3. Evaluate the use of computer desktop printers in the City (81 presently). Reducing the number of desktop printers and using building network printers saves paper and maintenance/service cost.
4. Evaluate the use of joint police dispatch possibilities with other communities.
5. Evaluate the cost of contracting for custodial service across all properties.
6. Arrange for an independent assessment of the Housing Inspection Department systems and operations, with a focus on improving productivity in this labor intensive and manual data input department. The City should also evaluate if there are some activities performed that can be eliminated or deferred.
7. Consider combining certain departments that have similar charter or roles, such as Neighborhood Revitalization and Housing Inspection, and Planning and Economic Development. While the cost saving opportunities may be very modest, if any, streamlining the organization will yield productivity gains.
8. Evaluate the use and cost of school crossing guards. Determine if there are feasible examples from other communities that may lessen the current \$190,000 annual cost without compromising student safety.
9. Explore opportunities for increased involvement between the Health Department and the Cuyahoga County Public Health Cooperative to reduce costs while maintaining vital services. Due to federal budget cuts, grants to local public health departments will almost certainly decline in future years.
10. With interest rates the lowest in several decades, we are pleased to note that the City Finance Department has begun the process to restructure and refinance the Tax Investment Funding bond payments. This will result in interest savings of

\$1.3 million through the 2031 bond maturity even after the cost of processing the refinancing package.

11. Evaluate opportunities for joint City-Schools facilities management (fields, parking lot snow plowing, etc.).
12. While the Municipal Court operates independently from the City of Shaker Heights, we encourage the Court to continue efforts to reduce operating costs.

Compensation and Benefits

1. An employee Wellness Plan has been developed and implemented with incentives for non-bargaining employee participation. This plan should be extended to bargaining employees as well. An effective Wellness Program will also likely achieve worker's compensation self-insurance program savings.
2. An independent audit of employee-dependents' medical insurance coverage should be undertaken, with significant consequences for any employee abusing this benefit.
3. The City should implement a new health care provision for working spouses of employees. Similar to what the School District has already enforced, if the working spouse has a health care insurance option offered by their employer, they must use it rather than be part of the City plan.
4. Employee payments for health care premiums should be set at 20% compared to the current 5% and 10% levels. Every 5% change in employee medical premium contributions amounts to a savings of \$225,000 annually.
5. Medical payment co-insurance should be increased to 20% from the current 10% level.
6. The City implemented a 2% wage increase for many employees in 2012, after employees had given up previous increases and accepted freezes and furloughs with reductions in pay. With a city-wide cost of \$300,000 annually for every 1% employee salary increase, the City should seek to avoid wage increases in collective bargaining contracts and for non-bargaining unit employees for the next several years. We appreciate that this is difficult for City employees; however Shaker Heights cannot support further wage increases and/or health care cost increases at this time.

A combination of additional cost savings and generating new revenue is very much a necessity for the long term financial health of Shaker Heights. Every effort to further

reduce operating expenses, including compensation/benefits and health care costs, must continue to be evaluated and implemented.

Greater Cleveland's Future: Regionalism

Shaker Heights is not alone in facing the economic challenges spelled out in this report. In order to hold down the cost of government, while maintaining essential services, communities throughout Cuyahoga and surrounding counties are exploring new ways of providing these services.

This Task Force has taken note of the fact that Shaker Heights has already joined regional initiatives including:

1. The Police Department participates in the Northern Ohio Law Enforcement Task Force and EDGE, an agreement in which five suburbs share personnel and resources in providing SWAT Team services.
2. The Fire Department has mutual aid and automatic response agreements with other communities, Joint Fire Dispatch, Chagrin Southeast Haz-Mat reciprocal agreement and Heights Area Special Rescue Team agreement.
3. Signed the county "no poaching" economic development agreement.
4. Through a grant from the Cleveland Foundation, a consulting firm is helping Shaker Heights and University Heights determine if a merger of fire departments is economically attractive and more efficient, while maintaining response time.
5. In addition, the Police Department is exploring joint dispatch opportunities with EDGE communities.

Undoubtedly, support for regional collaboration will be important for the long term future of Shaker Heights and the Greater Cleveland area. We encourage further participation in regional initiatives to improve efficiency and reduce government costs.

Schools and Library Operations

Shaker Heights will celebrate its centennial this year. This unique community has enjoyed remarkable success in maintaining the quality of its homes and parks, attracting a highly educated, affluent and diverse population, providing excellent municipal services, maintaining high quality and nationally-recognized Schools, and supporting a high standard Library system. The City, School District and Library have a long history of working together to support our residents while following separate financial paths. From a citizen perspective however, Shaker Heights is one community with a tax cost structure that places it at the high end of this region and in the State of Ohio. The City provides municipal services with an annual budget of approximately \$40 million, the Schools provide public education service with a budget of approximately \$90 million, and the Library provides their service with a budget of approximately \$5 million. Never in our 100 year history has it been more important for each of the three taxing entities to be more cognizant of the unprecedented financial pressures facing this community and cautious with their financial planning and spending. As such, there is significant value in taking a coordinated approach to planning and evaluating spending options, particularly in times like the present which are extremely economically challenging for all three entities and for our residents. While this Task Force did not specifically examine the operations of the School District and the Library, we have included recommendations for both that support a coordinated city-wide financial and tax plan.

This Task Force encourages both the Schools and the Library to undertake a similar in-depth, independent and detailed financial analysis of their operations with the focus on reducing operating costs and improving productivity. Engaging the citizen resources of the community to evaluate the School and Library product and services, as the City has done, offers unique and non-political insights and instills confidence with Shaker residents.

We commend the School District for the significant cost savings that have previously been achieved. These difficult actions were important and will help our community. We are encouraged to learn that the School District is deferring their next operating levy until 2014, a full 4 years since the most recent tax levy in 2010. This interval between levy requests is a full year longer than their previous financial plan indicated. In the October 2010 Task Force report, a stated recommendation was that the Schools “develop a financial plan with clear goals which extend the period between levies well

beyond three years with millage under 10 mills for each levy.” We are pleased that the School District is attempting to address this recommendation. To this point we also recommend that the School District tie its strategic plan to a resource-based spending plan, so that priorities are established and expenses are based on available resources or those that can be reasonably expected in the future.

The Library should develop a financial forecast that seeks no additional tax increases. If the operational outlook with this constraint is not feasible within the present funding level, the Library should look at other options that reduce the tax burden on residents of Shaker Heights. One such alternative would be to evaluate a merger with the Cuyahoga County Library system, which is a more economical tax option for Shaker residents.

Community Outlook

While these recommended actions are difficult and may not be popular among all residents and stakeholders, the fiscal pressure in our community requires tough actions and adherence to a coordinated city-wide financial and tax plan. A key necessity for Shaker Heights is to attract and retain income and tax-producing residents and businesses to assure a funding level which supports top-quality City services and safety, high-quality Schools and a good Library system. The community’s ability to attract and retain these taxpayers is dependent on the perception that the City, the Schools and the Library have much to offer without unduly burdening residents financially.

Shaker has done a remarkable job of maintaining high quality City, School and Library operations in the face of significant challenges. This is a testament to our citizens and to the quality of people who have served in office in Shaker over a period of many years. Our community continues to have unique assets which make us optimistic about the future -- high quality housing stock, the physical beauty of our parks and walking trails, attractive neighborhoods and a highly educated and diverse population. These assets make us attractive and give promise to a bright future for Shaker. The best way to assure this future is by adjusting to our changing economic circumstances and by following a sound and disciplined financial approach. It is essential that all three taxing entities -- City, Schools and Library -- have a coordinated and connected financial plan that attempts to minimize the tax burden to residents, while preserving quality. Good fiscal management is the bedrock of any sound, sustainable community.

Summary of Recommendations

A. City

1. Immediately implement the cost reduction actions outlined in this report.
2. Prepare a 0.5% income tax increase ballot initiative for this year. The City's revenue and expenditure plan must eliminate the forecasted operating deficits and maintain a general fund operating reserve of at least 15% of annual expenditures.
3. There is a key necessity to continue the City's capital investments, formerly funded by the State estate tax. Investment in infrastructure, streets, parks and recreation facilities is critical to maintaining a vibrant Shaker Heights. Essential to this is a general fund budget that fully supports ongoing capital improvements and debt service of \$4.5 million annually.
4. Develop a detailed plan around the additional revenue generating, cost savings and employee compensation/benefit productivity opportunities presented in this report.

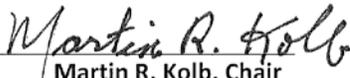
B. Schools

1. Using the City example, undertake a similar in-depth, independent analysis of operations with a focus on reducing costs, without compromising quality or the educational experience.
2. Develop a resource-based strategic plan so that priorities are established and expenses are based on available resources or those that can reasonably be expected in the future.
3. Barring an unforeseen elimination or depletion of a major funding source, defer any potential tax increases, whether for operating expenses or capital needs, until 2014 at the earliest and reduce requested millage below the 10 mil level.

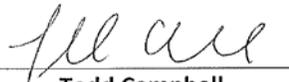
C. Library

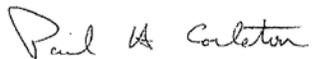
1. Using the City example, undertake a similar in-depth, independent analysis of operations with a focus on reducing costs and improving productivity.
2. Develop a financial plan that seeks no additional taxpayer funding.
3. Evaluate the tax savings to Shaker residents and the benefits of joining the Cuyahoga County Library system.

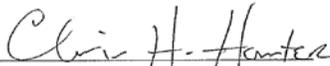
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Martin R. Kolb, Chair

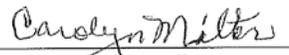

Jack Boyle


Todd Campbell


Paul Carleton


Christopher Hunter


Matt Lehman


Carolyn Milter

The Mayor's Financial Task Force

Martin R. Kolb, Chair:

- Chair, Mayor's Financial Task Force of 2010
- Retired General Manager, General Electric Company
- Past member, Shaker Heights Board of Education and Board President
- Member, City Council Finance Committee
- Member, Finance & Audit Committee Shaker Heights City School District
- Three adult sons, all Shaker City School graduates

Jack Boyle:

- Senior Fellow & Special Assistant to the President, Capital Planning, Maxine Goodman Levin College of Urban Affairs, Cleveland State University
- Retired VP Business Affairs & Finance, Cleveland State University
- Retired Chief Financial Officer, United Agencies, Inc.
- Former Mayor, City of Cleveland Heights
- Member, Shaker Planning & Zoning Appeals Board
- Master's degree, Urban Planning, Design & Development; BS Finance
- 4 adult children; 6 grandchildren in Shaker City Schools

Todd Campbell:

- Portfolio Administration Group Manager, KeyBank
- Past Board member, Fund for the Future of Shaker Heights
- Member, City Council Finance Committee
- Two children in Shaker City Schools

Paul Carleton:

- Managing Director, Carleton McKenna & Co., LLC, strategic & financial consulting firm
- Member, Business Advisory Council of Baldwin Wallace College
- Chair, Board of Trustees – Baldwin-Wallace College
- Chair, Executive Committee – Baldwin-Wallace College
- Member, Finance & Audit Committee Shaker Heights City School District
- Four adult children attended and/or graduated from Shaker City Schools

Christopher Hunter:

- Associate General Counsel – Intellectual Property, Parker-Hannifin Corporation
- Past member, Family Connections (previously Shaker Family Center), and Board President
- Past member, City Council Finance Committee and Neighborhood Revitalization Committee
- Three children in Shaker City Schools

Matt Lehman:

- Mobile Business Leader, Progressive Insurance
- Past Member, City Council Finance Committee
- Member, Board of Trustees, Shaker Schools Foundation
- Member, Board of Trustees, Shaker Youth Center
- Member, Board of Trustees, Shaker Youth Hockey Association
- Shaker City Schools graduate
- Two children in Shaker City Schools

Carolyn Milter:

- Retired Manager, Communications & Public Affairs, Cuyahoga County Department of Health and Nutrition
- Past member, Shaker Heights Board of Education and Board Vice President
- District Administrator for Cong. Dennis Eckart when he represented the Heights area
- 30-year Ludlow resident, former Ludlow PTA President, Board member Ludlow Community Association
- Three adult children, all Shaker City School graduates
- Now resides in Cleveland portion of Shaker School District