



**Finance and Administration Committee Minutes
Monday, June 17, 2019
7:30 A.M.
Conference Room B**

Members present: Council member Sean Malone, Chair
Council member Earl Williams, Jr.
Council member Nancy Moore
Council member Rob Zimmerman
Citizen member Martin Kolb
Citizen member Linda Lalley
Citizen member Anthony Moore
Citizen member Tom Cicarella

Others present: Mayor David E. Weiss
Chief Administrative Officer Jeri Chaikin
Robert H. Baker, Director of Finance
Cheryl Arslanian, Assistant Finance Director
John Cole, Police Commander
William Gruber, Director of Law
Frank Goforth, League of Women Voters

The meeting was called to order by Chair Sean Malone at 7:30 A.M.

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APPROVAL OF THE MAY 20, 2019 MEETING MINUTES

Chair Malone stated that the minutes of the May 20, 2019 meeting were approved as recorded.

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APPROVING A PROPOSED ORDINANCE FOR THE SALE OF A CITY-OWNED POLICE DOG.

John Cole, Police Commander, stated that for over thirty years the Shaker Heights Police Department’s K-9 Program has been in operation. Upon retirement of a City-owned K-9, it is the past practice of the City to allow the retired dog to live with its handler until the dog expires. During the time between retirement and death, the City can still be considered the owner of the dog as there is no official paperwork that transfers the ownership of the dog to the handler creating a liability issue for the City. Also during that time the handler assumes the costs for food and veterinarian care.

To fully address these issues, the Police Department is proposing that the City enact a Codified Ordinance Section 141.07 Sale of Police Dogs. The ordinance states that a police dog means a dog that has been trained to assist the City’s police officers in the performance of their official duties. It will also state that upon retirement, the City’s police officer handler at the time may purchase the dog

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for \$1.00. If the officer chooses not to purchase the dog, the disposition of the dog shall be determined by the Chief of Police and Finance Director. A City police officer who leaves the City's K-9 program forfeits the right to purchase.

This item was presented to the Safety and Public Works Committee on June 7, 2019 and unanimously approved.

The Finance and Administration Committee recommended approving a proposed ordinance for the sale of a City-owned Police Dog.

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AMENDING FISCAL POLICY STATEMENTS OF THE CITY RELATING TO GENERAL FUND AND GENERAL CAPITAL FUND CARRY — OVER BALANCES.

Robert Baker, Director of Finance, stated this item is a request to amend Resolution No. 03-158 which amended Resolution No. 95-163 which is the fiscal policy statements about the General Fund and General Capital Fund. The original and amended policy statements were not binding, but served as guides for the City. The 2003 amended resolution provided that the City, as a goal, should endeavor to carry forward at the beginning of each year a General Operating Fund balance of not less than 20% of the budgeted operating fund expenditures. Any amount in excess of 20% shall be available for transfer to the General Capital Fund. The resolution also stated that the City, as a goal, should begin the year with a General Capital Fund balance that, at a minimum, is equal to the current year's general capital debt funding requirement plus the total of all estate tax revenue received by the City and credited to the General Capital Fund in the prior year.

The Finance and Administration Committee indicated a desire to look at the policy in Resolution No. 03-158. The review of the policy should be for both the General Fund and the General Capital Fund. State law permits the creation of reserve balance accounts and funds. Section 5705.13(A) authorizes the creation of "reserve balance accounts" for budget stabilization, self-insurance programs and retrospective rating plans for worker's compensation. Section 5705.13(B) authorizes the creation of special revenue funds to accumulate cash for (i) payouts at the termination of employment and (ii) the 27th pay that occurs every eleven years. Section 5705.13(C) authorizes the creation of capital project funds to accumulate resources for the acquisition, construction of fixed assets, including motor vehicles. The legislation creating such a fund must identify the assets to be paid for by the fund, and the fund cannot last longer than 10 years.

State law does not require or prohibit formal policy statements like Resolution No. 03-158. The first question to be considered by the Finance and Administration Committee is whether funds or accounts should be created as authorized by state law or the existing non-binding policy should be amended. At the state level, most "Rainy Day Funds" are created pursuant to state statute and have provisions for required deposits into the fund, minimum fund balance and use of any fund balance above a maximum amount set out in the statute. Policies have been created, as in Shaker Heights, by Council action, administrative action or informally. In Westlake, the informal policy is a general fund balance equal to 90 days operating expenses. In Beachwood, the informal policy is 180 days of operating expenses of a combined general fund and capital improvement fund. Director Baker recommend that Shaker Heights not create state statute authorized funds, but revise the existing Resolution 03-158.

The existing policy is a target balance of 20% of budgeted operating expenditures in the General Fund. The City does not have a policy for a minimum or maximum balance in the General Fund. Policies which have minimums or maximums have to deal with what happens if the balance falls below the minimum. Some of these policies require either expenditure reductions or increased revenues. For those policies with maximums, the policy requires a transfer of money to another fund or a reduction in revenues. Director Baker recommend that the Shaker Heights policy have neither a minimum nor a maximum.

All of the above discussion relates to the General Fund. The provision in Resolution 03-158 about the General Capital Fund balance reflecting the estate tax collections in the prior year should be deleted. Director Baker suggested that the General Capital Fund test should be that the year-end balance (plus grants receivable) equal prior unspent capital appropriations plus current year capital appropriations.

In response to Council Member Williams regarding communities adopting policy versus ordinance; Director Baker stated that there were not a lot of mandatory provisions that he was aware of in the state.

Council member Moore stated that this brought back memories of living through economic threats and this policy is very reasonable. The success of this policy if it is adopted and the suggested changes will depend on the discipline of City Council and the administration not to spend down the cash reserve. Past history has shown the restraints and conservative spending used by City Council and administration to operate within the guidelines of this policy and sees no reason why a minimum, maximum or mandatory amount should be set. Understanding that the economic threats will continue, she believes this is a wise way to proceed and suggested possibly a higher minimum cash balance.

Citizen member Cicarella requested a brief explanation of a resolution that is aspirational versus the ordinance that is adopted.

Council member Malone stated that policy along with balance is discussed with some level of frequency particularly during the budget process and this policy is a very useful tool. He spoke of the alarm felt during the recession when going below the 20% was a possibility, but the City did not because of the guidelines set by this policy.

Council member Moore stated that the policy was useful especially considering all the different opinions of Council in regards to the spending down of the cash reserve and to what extent we should be spending it down. Given the difference of opinion having a policy and not an ordinance, if you believe that Council will proceed fairly consistently with past performance ensures the future of the City's financial management.

Citizen member Lalley stated her agreement with having a policy for all the reasons stated as well as keeping in mind government's theory that Council controls the budget and should be responsive to the citizens. An ordinance would restrict Council the ability to be responsive and Council is responsible for the finances of the City and a policy does allow for changes in the years to come and Council needs to recommend a reasonable percentage increase. Director Baker stated an example in his memo of an increase of 50% by a City and that is not what is considered a reasonable percentage.

Council member Williams stated that a capitals needs test should be considered, but not necessarily adopted in a policy. Using Van Aken and Warrensville project as an example, it showed the City that it needed to build a reserve that would attract capital. It could be one of the tools used and if it becomes part of the policy it would be a road map for future councils to figure out whether or not they need some reserve, a lot of reserve or depending on the planning whether to join other communities to develop a joint reserve.

Council member Moore asked what would be a sufficient reserve to retain our high bond rating.

Director Baker stated that Standard and Poor's had published a national number and an Ohio number and would provide that information to the Finance Committee.

In response to Council member Moore regarding why the difference in the numbers, Director Baker stated that there are really poor parts of the country.

Council member Moore questioned what effect the cash reserve could have on the bond rating.

Chair Malone stated that in terms of the value this resolution shows the rating agencies that the City has had a policy in place for fifteen years without any changes. If the City should increase to 25%, in theory this small amount of increase shows fiscal restraints and agreed with Citizen member Lalley that there are good reasons why the City should not go higher. The City's 20% is at the bottom of the Cities that have AAA rating.

Citizen member Kolb stated that this policy was in need of revisions and expressed agreement with a policy. He agreed with increasing it and believed it would allow the City to be responsive and provides more flexible to the changing economic environment facing the community. An example was the loss of estate tax and the local government fund. He believed this shows the bond agencies that Shaker continues to look at fiscal restraints and parameters of the community and this policy of 25% shows the interest of the City was used in making this decision.

Mayor Weiss stated that the updating the policy was needed and was in agreement that it remain a policy to allow for the flexibility in dealing with circumstances the City will be facing in the future.

In response to Citizen member Lalley regarding possibly including the capital needs testing in the policy, Council member Williams stated the City should be cautious, but not overly cautious and since the policy has worked for many years should not be changed.

Citizen member Moore stated the recommended changes in the policy would acknowledge the importance of maintaining a strong bond rating.

Citizen member Cicarella stated his agreement with the 25% and suggested that the policy be reviewed by the committee on a regular basis.

Council member Moore suggested that the policy be reviewed as part of the annual budget process and updated as needed.

Cheryl Arslanian, Assistant Finance Director suggested that possibly ranges should be on the policy.

Council member Moore stated that ranges are questionable in political circles and a percentage is more accurate.

Chair Malone stated that the City would lose accountability with ranges.

Citizen member Lalley questioned if there is a need to include language in this resolution that would cover union negotiations and the City's goal for the use of the reserves that would be different from wage increase.

Mayor Weiss stated that was the very reason a higher number was considered to allow for flexibility of unexpected circumstances and not having to change the policy each and every time.

Chair Malone recommended the changes be made and motioned the approval to this resolution to Council.

The Finance and Administration Committee recommended amending Fiscal Policy statements of the City relating to General Fund and General Capital Fund Carry-over balances.

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There being no further business, the meeting was adjourned at 8:18 a.m. The next meeting will be July 15, 2019.

Frank J. Brichacek
Finance and Administration Committee