

FitzGerald's Campaign Fiction vs. City of Lakewood Financial Facts

FitzGerald's Campaign Fiction:

Plan for Fiscal Responsibility

City of Lakewood Financial Facts

How can Mr. FitzGerald claim fiscal responsibility when he was invited to, but did not attend the following crucial meetings?

- ⌚ The 2005 Moody's Presentation while City Council Finance Committee Chair
- ⌚ The 2006 and 2007 Financial Audit Exit Conferences with the State Auditor's Office
- ⌚ The October 2006 Strategic Planning Retreat between City Council and the Administration

FitzGerald's Campaign Fiction:

Our City has many strengths, but we are also facing crucial challenges which must be addressed immediately

City of Lakewood Financial Facts

Actions Taken by George Administration since 2004:

Revenue Enhancements

- ⌚ **Property Taxes:** a significant building and reconstruction trend, such as Rosewood Place, Walgreens, Aldis, is occurring within the City that will have a significant impact on property tax revenues over the coming years.
- ⌚ **Municipal Income Taxes:** In 2005, the City of Lakewood ended its relationship with the Regional Income Tax Agency (RITA) as its vendor to collect municipal income taxes on behalf of the City. Therefore, 2006 was the first year that the City collected its municipal income taxes in-house through the expansion of the Division of Income Tax to accommodate the increase in processing and collection of tax returns. Municipal income tax revenue is projected to increase by over 6.0 percent in 2007 over the 2006 amount due to the increase in returns received and the aggressive auditing of net profit returns.
- ⌚ **License, Permit & Fees:** The estimated job costs for all building permits issued in 2006 was valued at \$73.4 million, which totaled 2,781 permits and fees

resulting in almost \$900,000 in revenue. During the course of FY 2006, building permit fees were reviewed and adjusted to the levels of comparable communities. Therefore, as the building and reconstruction trend continues, the City will experience higher permit revenue.

Expenditure Reductions

- ⌚ **Reduction in Staffing Levels:** The City's overall full-time employment continues to decrease through attrition. In 2005, the City of Lakewood brought its income tax collections in-house resulting in the hiring of five full-time positions, and in 2006, the Building and Housing Department added three new full-time positions. Despite the growth in these two divisions, there are 27 fewer positions Citywide since 2002, with most of the reductions occurring within the Public Works divisions
- ⌚ **Employee Health Care Contributions:** Employee contributions for health care were initiated in 2005. The increased employee contributions are expected to result in approximately \$70,000 in cost savings towards overall health care costs.

Operational Efficiencies

- ⌚ **CitiStat:** The City of Lakewood engaged the CitiStat process in August 2005 and implementation began in the first quarter of 2006. The CitiStat process helps to identify issues and create solutions to improve the collection and reporting of data in order to make sound management decisions and improve operations.

Cost Avoidance Mechanisms

- ⌚ **Labor Management Relations:** The City has experienced improved labor management relations since 2002 with its seven collective bargaining units. The administration holds quarterly meetings with each individual unit, and the City has experienced over a 50 percent decrease in grievances filed from 32 in 2002 to 14 in 2006.
- ⌚ **BWC Self-Insurance:** In 2006, the City of Lakewood became self-insured for its Bureau of Workers' Compensation Program. By switching from State's retroactive program to self-insurance, the City is expected to save approximately \$175,000 in 2007.
- ⌚ **Cost of Living Increases:** Union contracts began negotiations towards the end of 2006 incorporating cost of living pay increases of 2.0%, 2.5%, and 2.5% over the next three years. Previous contract cost of living increases were 0.0%, 3.0%, and 3.0% for 2004 through 2006, compared to 4.5%, 4.0%, 4.0% for 2001 through 2003.
- ⌚ **Healthcare Committee:** In 2006, the City of Lakewood formed a Healthcare Committee that consists of representatives from each collective bargaining unit, Human Resources Department employees, representatives from the Finance and Law Departments, as well as the City's healthcare consultant – Complete Personnel Logistics. The committee meets on a monthly basis to discuss healthcare issues such as costs, coverage, education and communication.

FitzGerald's Campaign Fiction:

Fiscal Responsibility

City of Lakewood Financial Facts

This year will mark the 25th consecutive year that the City of Lakewood will have received the Certificate of Achievement for Excellence in Financial Reporting, and the 3rd year for the Distinguished Budget Presentation Award from the Government Finance Officers Association. Lakewood is one of only ten suburban municipalities in Ohio that can boast of the honor of receiving both awards.

The Office of the Auditor of State's staff spent hundreds of hours in a very thorough review of every detail of the City's finances that began in February of this year. The City of Lakewood received an unqualified audit opinion, which means the Auditor of State has no reservations concerning the financial statements presented. Therefore, no deficiencies were found in the financial statements or the accounting standards employed.

FitzGerald's Campaign Fiction:

There is a growing fiscal crisis with the 2007 budgeted fund balance at \$91,000.

City of Lakewood Financial Facts

- ⌚ “A growing fiscal crisis” is not accurate, and since 2004 the City's financial position has improved. On May 8, 2007 Moody's Investors Service, the City of Lakewood's credit rating agency, assigned the City an Aa3 rating. The Aa3 rating is considered a very good rating, as of September 2006 only 35 Ohio municipalities out of 177 ranked higher than Lakewood.

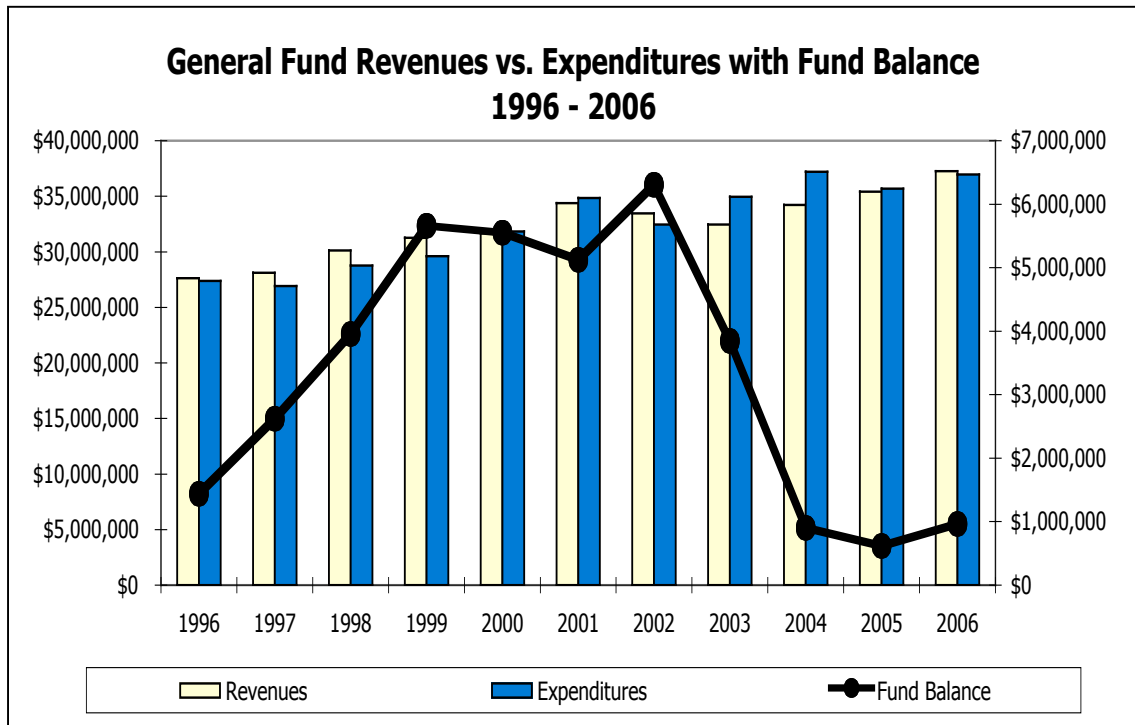
If the City was in “fiscal crisis,” the City would not have retained its rating. In fact, Moody's stated, “after three successive years (2002 to 2004) of sizable operating shortfalls due to softening of the city's primary revenues (namely, income taxes), the city reduced its workforce through attrition and achieved other operating efficiencies so as to restore structural balance, leading to modest surpluses in fiscal 2005 and fiscal 2006 (unaudited).” Structural balance means that revenues the City received during the year were higher than actual expenditures.

- ⌚ The 2007 budgeted General Fund balance at \$91,000 is accurate, but taken out of context. The General Fund is the City's primary fund that supports the majority

of City services such as Police, Fire, Refuse, Parks & Public Property, and Building & Housing. The budgeted fund balance is result of trying to predict the worst case scenario if revenues came in lower than usual, and expenditures came in higher.

The reduction of the General Fund balance was foreseen back in 2001 in budget documents provided to City Council on an annual basis. For example, the 2003 budget document projected a General Fund deficit at the end of 2006 of \$7.8 million. In fact, 2006 was the first year since 2002 that year-end General Fund revenues exceeded expenditures, i.e. structural balance was obtained, and the year-end fund balance was \$971,747.

The following graph demonstrates actual, audited General Fund Revenues and Expenditures, and the resulting fund balance since 1996:



As noted, by Moody's the City's finances are improving, but there is a lot still that needs to be done to build fiscal flexibility.

FitzGerald's Campaign Fiction

This is down from approximately \$3.8 million when Mayor George took office.

City of Lakewood Financial Facts

The beginning, audited General Fund balance when Mayor George took office was \$3.64 million. However, in 2004, Mayor George inherited the budget prepared by the previous administration that had a \$6.316 million year-end General Fund balance in 2002. During 2002-2005, the following took place that impacted the City's General Fund:

Revenues

- ⌚ Losses of Federal and State aid such reduced Community Development Block Grand funds, the freezing of the Local Government Funds, and the phasing out of tangible personal property tax.
- ⌚ Municipal income tax revenue was flat in FY 2002, and then decreased in FY 2003 by \$240,000. However, Regional Income Tax Agency costs escalated from \$451,000 in FY 2002 to \$809,000 in FY 2005.
- ⌚ Estate tax revenue reached its lowest point in years with receipts of \$692,000 in FY 2004, whereas FY 2006 revenues were over \$900,000.

Expenditures

- ⌚ Rising hospitalization costs. In FY 1999, healthcare costs were \$2.46 million, whereas in FY 2006 the City experienced almost \$4.91 million in healthcare expenditures.
- ⌚ A 27th pay period in FY 2004 resulted in \$1.25 million in additional payroll expenses, which is a phenomena that occurs every 11 years.
- ⌚ Retroactive cost of living pay increases for negotiated collective bargaining agreements, and a 2% lump sum payment of FY 2004 wages issued on December 2005 for the newly formed AFSCME Administrative Unit.
- ⌚ A shifting of General Fund surpluses into one-time large capital expenditures, such as the FY 2005 Council request of over \$700,000 transferred for street construction projects

FitzGerald's Campaign Fiction:

The mayor's primary fiscal proposal is to raise income taxes 33% as soon as this election is over.

City of Lakewood Financial Facts

The Mayor of Lakewood cannot increase income taxes. It needs to be done by a vote of the people, something that City Council decided not to go forward with in the end of 2005. When faced with limited financial flexibility, and a community's desire to maintain the level of services it has grown to expect, an income tax increase is one means to restore that flexibility.

As a result, on March 26, 2007, the Mayor and all members of City Council signed Joint Resolution 8167-07 which calls for Council and the Mayor to work together to achieve a structural balance for the Fiscal Year 2008 General Fund Budget. This includes working toward General Fund revenues higher than expenditures during 2007, creating a structurally sound budget for 2008 and creating financial strength and flexibility for 2009 and beyond. The main areas of focus will include:

- ⌚ Committing to a core services identification exercise
- ⌚ Continuing to develop and act upon the fiscal strength strategies as presented by the Director of Finance and others that will be updated and reported on a monthly basis;
- ⌚ Agreeing to work with and use the expertise of community leaders and volunteers, such as, but not limited to, the Grow Lakewood Structural Balance Task Force, to employ strategies to
 - (i) increase municipal revenues,
 - (ii) reduce operating costs of City government,
 - (iii) create and promote efficiencies within City departments and divisions, and
 - (iv) reallocate existing resources, if necessary, to build and maintain a reliable infrastructure, both physical and technological, and ensure a standard of excellence for essential City services.

FitzGerald's Campaign Fiction:

This mayor's primary solution to our fiscal woes is to raise the city income tax by 33%.

City of Lakewood Financial Facts

As proposed to Council in late 2005, income tax increase would not have impacted the vast majority of Lakewood residents, since a credit would be given to citizens living in Lakewood, but working in another City. Instead it would impact the withholding tax of individuals working in Lakewood, but living in another city. It was estimated that such an increase, if approved by voters, would generate approximately \$2.0 million annually ensuring financial flexibility and maintaining quality services that Lakewood residents have grown to expect.

FitzGerald's Campaign Fiction:

As an alternative, Ed FitzGerald has proposed a 10 Point Plan for Fiscal Responsibility and Economic Growth

City of Lakewood Financial Facts

Each of the points in the "10 point plan for fiscal responsibility and economic growth" requires new expenditures to the City's General Fund.

How is Mr. FitzGerald proposing to pay for them? Is he going to raise revenues, i.e. income taxes, or what expenditures is he going to cut, i.e. eliminate City services, especially since he states that the City does not have the fund balance to support any of these new proposed expenditures?

FitzGerald's Campaign Fiction:

In 2006, it was revealed that the administration had "maxed out its credit cards" and couldn't borrow any more money.

City of Lakewood Financial Facts

This is an inaccurate statement. Currently, the City of Lakewood has a General Obligation borrowing capacity of approximately \$12 million, which means that the City can indeed borrow more money. Therefore, the City can continue its street and public facilities improvements in the future.

In an effort to improve the City's General Obligation borrowing capacity, the George Administration has implemented the following best financial practices:

- ⌚ Continue to identify expenditure reductions through efficiency and effectiveness processes like CitiStat, and reductions in staffing levels
- ⌚ Debt Service Reduction
- ⌚ Revenue Bond Financing
- ⌚ Municipal Capital Leasing for vehicles and equipment
- ⌚ Paying cash for smaller capital projects and equipment
- ⌚ Comprehensive Five-Year and Beyond Capital Improvement Planning
- ⌚ Linking Preventative Maintenance Schedules to Planned Capital Improvements
- ⌚ Identifying the need within departments for smaller capital items and equipment, and setting aside funds to pay cash at a later date.
- ⌚ Identify additional revenue enhancements

FitzGerald's Campaign Fiction:

It raised water rates by 30% to cover scheduled street repairs, giving us one of the highest water rates in the area.

City of Lakewood Financial Facts

A "30% water rate increase" is inaccurate. In fact, on January 17, 2006, Councilman FitzGerald, along with the majority of Council, approved increasing water rates from \$36.69 per one thousand cubic feet in 2005 to \$43.10 by 2008. This is an increase of 15%.

Water and sewer rates have been increasing all throughout Northeast Ohio. The City of Cleveland increased its rates to all of its customers in Northeast Ohio to record levels,

and the Northeast Ohio Regional Sewer District is doing the same. The City of Lakewood, which maintains its own water and sewer systems is not without exception.

Up until two years ago, the City of Lakewood has not experienced a water or sewer rate increase since 1996. A decade without incremental rate increases to support water and sewer line improvements caused the City to defer critical projects such as the Clifton Blvd. Watermain and Detroit Avenue Sewer. These are water and sewer projects that needed to coincide with the scheduled reconstruction of those two main streets by the County.

In mid-2006, Council authorized an additional rate increase beginning January 1, 2007 increase to support the revenue bonds for the 2006 & 2007 water line projects from \$40.80 to \$48.50. Therefore, the revised increase from 2006 to 2007 was 19%. In fact, in 2005 the rate was \$36.69 per hundred cubic feet, and the 2008 Council approved rate is \$49.90, an increase of 26% over four years.

Here are the current water rates and service charge fees for several communities throughout Cuyahoga County in 2006:

<u>City</u>	<u>Rate (1,000 cu.ft.)</u>
Lakewood *	\$47.50 with no monthly service charge
Cleveland Heights *	\$46.73 + \$4.00 monthly service charge
East Cleveland *	\$46.30 (service charge unkown)
Westlake	\$16.35/\$34.97* + \$7.00 quarterly service charge
Bay Village	\$16.35/\$34.97* + \$7.00 quarterly service charge
Fairview Park	\$16.35/\$34.97* + \$7.00 quarterly service charge
North Olmsted	\$18.76/\$40.11* + \$7.00 quarterly service charge
Rocky River	\$16.35/\$34.97* + \$7.00 quarterly service charge
Cleveland	\$9.62/\$20.57* + \$7.00 quarterly service charge

* Master Meter Community that buys in bulk from Cleveland
**First 1,000 cu. ft./every 1,000 cu. ft. thereafter

If one adds in customer service charges, which Lakewood no longer levies, the City of Lakewood is comparable to other communities in Cuyahoga County.

FitzGerald's Campaign Fiction:

"A 'million dollar mistake' in budget estimating"

City of Lakewood Financial Facts

This is an inaccurate claim. The budgeted amounts for the Clifton Blvd. Watermain and the Detroit Avenue Sewer did not change during the 2006 budget process.

The City is bound by law to issue General Obligation debt within its direct and indirect levels. It was the City's intent to finance these projects using General Obligation (G.O.) bonds, which are counted against the City's borrowing capacity. The City's of Lakewood's Bond Counsel at the time did not predict the impact of this issuance on the City's indirect debt limit. This has nothing to do with "budget estimating."

By going over the 10 mil indirect debt limit with the proposed \$39.674 million G.O. Note issuance for water and sewer projects in 2006 and 2007 quickly brought the debt capacity issue to light, but would have surfaced with more severity within the next year or so.

Issuing Revenue Bonds helped address the G.O. debt capacity issue, while financing future critical street projects. Revenue Bonds are the fiscally responsible method to fund water and sewer projects since it charges all users for the improvements, instead of solely burdening City property owners via G.O. debt, since revenue debt is not included in debt capacity calculations.

Bottom line: Critical, long-delayed water and sewer projects are being completed by allowing the City to borrow more money for future street projects.

FitzGerald's Campaign Fiction:

1. In the first 100 days in office, conduct an immediate and comprehensive fiscal audit of all of the City's spending practices.

City of Lakewood Financial Facts

The City of Lakewood already receives an annual fiscal audit as required by law that closely examines all of the City's spending practices. The City has received unqualified

opinions, which means the Auditor of State has had no reservations concerning the financial statements presented, and that there were no deficiencies found with the fiscal practices or the accounting standards employed by the City

FitzGerald's Campaign Fiction:

2. Adopt a "Rainy Day fund" ordinance which encourages City Hall to save and not just spend.

City of Lakewood Financial Facts

City Council was informed on March 30, 2007 that the State of Ohio Office of the Auditor would not permit the City of Lakewood to create a special revenue fund that restricts the City to use its General Fund balance in the manner as proposed by Councilman FitzGerald.

By proposing an ordinance to establish a "Rainy Day" Fund, and at the same time stating that the City has the lowest budget reserves in Cuyahoga County, how does Mr. FitzGerald propose to establish the fund? Is he going to increase revenues, i.e. income taxes, or cut expenditures, i.e. eliminate City services?

FitzGerald's Campaign Fiction:

The parks are not being maintained properly, with graffiti and disrepair now common.

City of Lakewood Financial Facts

During the 2007 Budget Hearing Process, Councilman FitzGerald and Councilman Demro recommended and adopted a reduction in the annual summer help budget. Summer help is crucial to the upkeep of the parks, and his and Councilman Demro's budget cut significantly impacted the 2007 summer park's maintenance.

FitzGerald's Campaign Fiction:

Many streets that are in need of repair have been waiting for years to be fixed.

City of Lakewood Financial Facts

Councilman FitzGerald was supportive of a Citizen's Committee to rate the condition of City streets, and to develop an equitable ranking system for street repair. Also, by proposing that the City needs to repair more streets than it already is (over 30 streets in 2007 alone), and at the same time stating that the City has the lowest budget reserves in Cuyahoga County, and that it can't borrow any more money, how does Mr. FitzGerald propose to repair these streets? Is he going to increase revenues, i.e. income taxes, or cut expenditures, i.e. eliminate City services?

FitzGerald's Campaign Fiction:

The return of the "Old Boys Network": Too many recent hirings have been based on who you know, not what you know. For instance, the mayor's "merit raise program", awarded 21 merit raises in the last 3 years- and 20 of the recipients were men. Unqualified personnel have been appointed to high positions for political reasons, causing the city to hire additional employees to actually get the job done.

City of Lakewood Financial Facts

This claim is very deceptive. The vast majority "merit" raises that have occurred in the City over the past three years have gone to part-time workers at Winterhurst, who went from minimum wage to slightly over minimum wage during that time.