

# The City of Portsmouth

"Where the Ohio and Scioto Meet"

## Department of Finance

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*M. Trent Williams*  
City Auditor

TO: HONORABLE BOB MOLLETTE, 3<sup>RD</sup> WARD CITY COUNCILMAN

FROM: M. TRENT WILLIAMS, PORTSMOUTH CITY AUDITOR

DATE: FEBRUARY 19, 2008

RE: CORRESPONDENCE FROM COUNCILMAN MOLLETTE  
#08-003, 08-004 & 08-005  
BUDGETARY ISSUES

COPY: HONORABLE MAYOR JAMES D. KALB  
HONORABLE CITY SOLICITOR MICHAEL L. JONES  
HONORABLE HOWARD BAUGHMAN, PRESIDENT  
HONORABLE MEMBERS OF PORTSMOUTH CITY COUNCIL

This memo is to response to your memos numbered 08-003, 08-004 and 08-005 where each of those memos are addressed to and pertained to the City Auditor. As to the "Sunshine Law and Deliberations in Public Meetings" and your noting the PDT quoting me that I said "you need to put your questions (on the budget) in writing and call the Mayor with them", this was stated in my report at the end of the meeting because City Council had the opportunity to discuss the budget during a third reading and instead, by a 4-2 margin, chose to table the appropriations ordinance without allowing for any discussion whatsoever. As I recall, yours was a vote to table the ordinance. My statement directing questions, written or verbal, to the Mayor was because now you have left no choice by not allowing for discussion at the last meeting. City Council did a great disservice to itself and to us all by not allowing for any discussion at that time and instead put the City deeper into a crunch by possibly forcing itself to now pass a budget that may not be in its best interest at the end of this month without any time and opportunity for revision.

This ordinance did not necessarily need to be passed but did need to be discussed and deliberated in the "Sunshine" on Monday, February 11 and not shoved under the carpet until the last minute. I fail to see what was accomplished by tabling this time-sensitive appropriations ordinance or how this action helped to "create an environment dedicated to Sunshine that will encourage open communication" since this action resulted in no communication. Further, I ask you to clarify specifically which elected officials do you refer that discouraged open discussion by the legislative body of the City of Portsmouth. I came to this open meeting fully prepared to discuss and debate whatever issues of the budget may pertain to my office or to the City, as I would assume the Mayor did as well. Much time and effort goes into the preparation of 10 years of revenue data and various fund projection reports and is very frustrating to have this time and preparation be made all for naught. Yet due to a few comments from citizens regarding legality

of salary issues within the budget, the matter was not even allowed to be brought to the floor for deliberation by those who will ultimately decide its fate. The City Solicitor was present to give legal counsel regarding those issues and should he not have been able to opine at that time, the ordinance could have then been tabled to a later time after those open deliberations.

As for the ordinance itself, and to your comments within memo #08-003, I have documented to Council on at least three occasions since October that the proposed budget is over appropriated based on the estimate of available resources for this year and passage of such could create a deficit balance should the Mayor's unlikely estimate of revenue not reach fruition. I also agree, having stated such at the Council meeting of January 14, that the City needs to move toward a long range plan addressing its future ability to generate sufficient revenue to operate effectively.

The Mayor's proposed budget does include the transfer of \$300,000 from the Health Insurance Savings account as a current revenue and is only a temporary fix that once used will obviously be no longer available. As you correctly stated in your memo, it does provide a needed buffer leaving the question as to what happens next year when it is gone. That is why I have refused to reflect it in any of my projected revenue estimates. No different than using carryover balances or sale of assets to balance the budget, eventually you run out of balances and assets.

Although it appears to have additional salary/benefit amounts built into its budget for the eventual use of its own additional personnel, the Municipal Court budget definitely seems that it will run into a financial shortfall if it continues with an outside contract for court security without additional appropriations. The Police Special Duty expense should be budgeted at a much closer amount to its corresponding revenue. This program is not intended and does not function as a moneymaker. It is designed to provide a service to its users at a rate that covers its cost to provide. Therefore, the revenue should only reflect the amount of its salary and benefit costs to provide the service for the special duty. If the budgeted amount is reflected at \$82,000, and assuming its corresponding benefits have been included within the department's budget at an approximate additional 35%, or an additional \$29,000, then the estimated revenue should be at around \$111,000 not \$135,000. In other words, revenue is only generated when special duty is worked and then only the amount necessary to cover that expense is received.

As to salary and benefits of union and non-union employees and officials, there remain serious inconsistencies that should be addressed with long term planning. It would seem the collective bargaining agreements are negotiated and approved to affect a three-year period without much association with financial condition while non-union employee and official increases are determined on an annual basis and tied directly to current financial condition. For example, the majority of salary increases that Council approved two years ago are already guaranteed by those contracts regardless of this years' budget while a handful of others wait to see if the budget will allow for any wage increase whatsoever. I would further agree, as I attempted over the last few years to accomplish, that the salaries of the appointed directors and elected administration officials should not be subject to politics but rather a fair, systematic process that does not lend itself to questions of legality of those salaries in final readings of budget ordinances.

Although I believe that the City Charter is crystal clear that Portsmouth City Council has the authority to fix the salaries of city administrative officials at its discretion, another example of a

process for salary increases that seems to work just fine without any political controversy is that used by county government where those officials are given annual cost of living adjustments based on the Consumer Price Index rate of the preceding year or 3%, whichever is lower. Annual raises were given to City officials in the early 1990s, but did not seem to be based on any kind of planned out schedule. Raises were given in the range of 3% to 6% to some officials in some years and had apparently little to do with whether it was the beginning of a term. If, on the other hand, Council chose to give increases only at the beginning of terms that would be fine, but would require much larger increases at the beginning of each term to compensate for the three years in between in which no increases would be given. This seemed to be the direction Council was headed several years ago, but never came through at the beginning of any of those terms. It would seem a revision of salaries of officials and directors with systematic cost of living increases would be the most prudent direction requiring only simple legislation to implement.

In the following section, I want to give a bit of information regarding the different types of revenue generated and received each year by the City that are in dispute between the estimate given by the Mayor and that given by the Auditor. As I stated at the January 14<sup>th</sup> meeting, I sincerely hope that end of the year 2008 that we far exceed the Mayor's munificent estimate and that my more conservative estimate is not even close. Although I believe the city of Portsmouth is making great strides in some areas of development and attracting new businesses and that City revenue continues to benefit from these strides, I would be hesitant to base the operating budget of the City on what appears to be a "best case scenario".

According to the Mayor's estimate, Income Tax revenue is at \$120,000 more than received in our best year ever of 2005, at around the time of major construction and completion of new city school facilities, a jail, cinema and restaurants, churches and a bridge. Real and Personal property taxes are \$200,000 above the estimate given by the County Auditor in Schedule A of the 2008 tax budget. Granted, a 10% reassessment due to the triennial update was given since then, but at the same time, Personal Property tax revenue is being phased out at 25% per year until eliminated altogether.

Court collections are estimated at \$800,000. The Municipal Court has amplified its collections process for outstanding fines and costs; however, it has contributed over \$700K to the General Fund only once in 2006 at \$702K dropping to \$633K over the past year. Inheritance tax is one of the few revenues that cannot be guaranteed that we will even receive the first dollar. At an estimated \$350K for 2008, chances are that we will collect somewhere near that amount, give or take \$50K, especially given our average collections over the past 10 years of over \$400K per year. But keep in mind, that same ten year span included one year in which we collected over \$1 million (2000) and a more recent year in which only \$91,000 was received in 2006.

Interest Income is based on two important issues being market rates and cash on hand to invest. Even the Mayor at the January 14 meeting claimed that he thought some of the Ameresco project investment earnings would be captured as part of the General Fund interest earnings and be enhanced accordingly. That is simply not the case. The Ameresco project interest (from the lease proceed project investments) is all to be returned to the funds in which those lease proceeds are invested, thus helping to defray Ameresco project costs. In spite of a recent lowering of rates

by the federal government, I remain optimistic that my estimate will be exceeded and approach the less conservative projection of the Mayor.

Miscellaneous revenue are primarily made of many, many smaller amounts that in themselves do not warrant a specific revenue line within the budget, but in the aggregate do contribute to the budget as a whole. These could include rebates from purchases, jury duty checks, smaller workers' comp refunds and other sundry refunds and reimbursements. Another line that should not even be included as budgeted revenue would be any donations. As donations are many times given for specific purposes, such as for fire and police department training, they are sometimes brought to City Council for appropriation again, even though they may have already been included in the revenue estimate to cover operating expense.

As you can see, it is just a few significant revenue items that are in dispute, but these few represent the majority of any discrepancies. The other significant revenue items are generally all known to be static amounts set by the legislature such as local government funds or lines in which we generally agree as to the amount to be received and are significantly lesser amounts.

Finally, I address your memo numbered 08-004 concerning the CRA program and tax abatements. I speak to this issue as a member of the Tax Incentive Review Council. When this program was first introduced to me in 2000-2001, it was my understanding that the City's abatement process basically had no restrictions and was given in full (100%) for the full 15 year period, without regard to the dollar amount of the improvement, its residential or commercial application or any job creation/retention requirements. It was through the efforts of the Tax Incentive Review Council that the current guidelines were implemented. Abatement criteria were established for a program that previously had none.

As I further understand the program, it is intended to encourage renovation and new construction of underdeveloped or neglected City property as well job creation. Full abatement was permitted, but only for the largest amount of investment for a property and that then tied to additional job creation. Smaller abatement periods were given where less improvement or fewer jobs were created. The criteria developed by the Tax Incentive Review Council is far more restrictive than the old system that had been in place for many years while still providing incentives for and encouraging development and employment. Having stated this, and after the passage of several years since the initial restructuring of the program, I would think it wise and appropriate in the near future and would support convening the Tax Incentive Review Council to reconsider the current guidelines to evaluate the effectiveness of the results of these guidelines with any recommendations for revision made and reported to City Council.

I appreciate your comments and welcome any further questions or concerns in these important matters. Thank you for your assistance and cooperation.

Respectfully submitted,



M. TRENT WILLIAMS, CPFA  
PORTSMOUTH CITY AUDITOR