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TO: City Council

FROM: Joe Denen, City Manager

RE: 2023 Budget Proposal

DATE: November 26, 2024

This letter is accompanied by the 2024 proposed budget of the City of Washington Court House. A letter that explains the budget in a succinct manner is difficult. This communication attempts to balance detail with an overall conceptualization of the 2024 proposed budget. To encourage understanding and continuity, the format of the letter is similar to the letter that accompanied the 2023 proposed budget.

2024 is the ninth year that Fund 101 will positively impact the budget of the City of Washington Court House. Fund 101, voted by the taxpayers of our community, made possible the elimination of five property tax levies and increased support for Fire, Police, Street, Street Lighting and Cemetery. Fund 101 reinforces stability in the General Fund. The strengthening of local services in a fiscally responsible manner is the purpose of Fund 101. Hence Fund 101 is used to provide resources to Fire, Police, Street, Cemetery and Street Lighting.

In function, Fund 101 works like a quasi-General Fund. While the purposes for which the resources of Fund 101 may be used are limited, the limitations of Fund 101 allow for the inclusion of significant areas traditionally supported by the General Fund. These areas are Fire, Police, Street, Cemetery and Street Lighting. Therefore, the support that Fund 101 provides to basic services is essential to the provision of those services by the City of Washington Court House.

In 2022, to the benefit of our community, the reserve resources of Fund 101 increased. However, in 2022 the reserves of Fund 100 declined slightly. Comfortingly, when considered from a combined perspective, the reserves of Funds 100 and 101 increased. The increased reserves of Fund 101 offsetting the losses of Fund 100.

In 2023, some reduction in reserve balances of Funds 100 and 101 in November/December of this year is expected. Therefore, in 2024 Fund 101 is used to Fund 101's full capacity. Assuming recent or improving economic conditions and reasonable stewarding of resources, Fund 101 will assume more of the burden of Fund 100. This action will inherently benefit Fund 100 and Fund 210 Street. The additional

calls upon Fund 101 in 2024's budget is an intentional redistribution of reserve balances between Fund 100 General and Fund 101.

The influence of inflation on expenses is notable and contributes considerably to calls upon Fund 100's resources and across the whole budget. The performance of the local economy in the past several years has been strong and continues to be robust, but headwinds should be acknowledged. These headwinds are namely shortages of materials, tightness of the labor market, volatility of energy costs, inflation and increasing interest rates.

Increased energy costs can negatively impact the general economy and the operational costs of the City of Washington Court House. However, the long-term outlook for energy price stability in North America is positive. Shortages of materials and labor can also negatively impact the operations of the City of Washington Court House, but the fundamental fear is damage to the economic life of our community.

October's continued strong demand for labor is excellent news. Demand for housing does not appear at this time strictly correlated with the increased costs of borrowing. Of continued concern is the stubborn persistence of inflation. A sharp fall in demand could negatively impact the economy and by extension the revenues of the City of Washington Court House. However, several local industries produce or supply goods or services that are somewhat insulated from cyclical economics.

The most complex area to consider is consumer confidence. From the inception of economics, most economists have attempted to analyze economic activity from an empirical viewpoint. Unfortunately, people don't make financial decisions in a strictly logical fashion. A great deal of emotion and psychology impact individual financial actions. Further, the performance of the local economy and the local outlook, while always influenced by national news and events, can differ from national performance.

Fear be it real or perceived from personal circumstances, social discord, political divergence, the environment, or other challenges impacts an individual's state of mind regardless of their actual material circumstances. Hence national or state actions to stimulate or dampen demand to achieve a desired macroeconomic outcome usually yield complex results with consequences even the most sophisticated financial system in the history of humankind cannot predict.

A reasonable goal of local government therefore becomes shaping the local impact of national or state actions to the best long-term benefit of our community. In large part this is what the 2024 Budget continues to attempt to do. The 2024 Budget maintains fiscal discipline. Non-recurring revenue is used to address issues compatible with local needs that have enduring benefits. The 2024 budget commits increased resources to safety services. This mirrors actions in 2021, 2022 and 2023. Resources provided to Fire and Police in terms of operational and capital funds are considerable. Expenses related to Police services remain the largest call upon resources.

The primary expenses of the General Fund are the Police Department, Fire Department, and the Municipal Court. The expenses of the General Fund are driven by personnel. The fiscal position of the General Fund is good, but small declines in reserve balances are a worry. Nevertheless, the reserves balances are by historic standards excellent and supplemented by Fund 101.

Of importance to remember is that the positions of Fund 100 and 101 are not so bolstered to permit reason to become a stranger. I believe the proposed budget for 2024 represents the absolute maximum investment effort or spending that can be made. Further investment or spending is not possible.

The position of the Water Fund is good. However, the wet weather of 2022 and 2023 depressed water revenues to the detriment of the Water Fund. Similar weather occurred in 2021 and had a similar influence on the Water Fund. Wet weather in spring and summer tends to depress water revenues. The current relatively dry conditions cloud our memory of the whole year. Nevertheless, the damage to revenues of wet weather remains.

Strength in the Water Fund is in part attributable to the retirement of debt payments related to the acquisition of the water system and the paydown of an interfund loan between the General Fund and the Water Fund. The 2022 Budget retired the interfund loan between the General Fund and the Water Fund. The relief of these debt payments has benefitted the Water Fund tremendously in 2023.

A notable accomplishment has been maintaining the current water rate structure of the City of Washington Court House while maintaining the water system and paying off the debt used to acquire the water system. The financial benefits to consumers of public ownership of the water system are considerable. This strategy of maintaining the water system, paying off debt and building Water Fund reserves to facilitate consideration of the fundamental long-term needs of water is a continued success.

The 2022 budget letter noted, "The 2023 budget provides increased resources to ensure a safe, clean, and reliable water supply. In 2024, the City of Washington Court House will be in position to effectively consider the long-term capital needs of water; metering improvements, increased raw water storage (reservoir) and water plant improvement or replacement are the areas of need. This will require reevaluation of the current rate structure for water.

Like the Water Fund, the Wastewater Fund was also negatively financially impacted by the wet weather of 2021, 2022 and 2023. Further, the scale, technical complexity and expense of the ongoing wastewater plant improvements are unprecedented. The only exception to the ambition of the current wastewater work being the wastewater improvements of the 1970s. Notable is the contrast between the current work and the improvements constructed in the 1970s; the City of Washington Court House's technical understanding of the wastewater issue is dramatically more sophisticated.

Wastewater's major capital improvements are winding down. Upon certification of those wastewater improvements, the Ohio Public Works Commission will calculate a repayment schedule for the essentially zero interest funds borrowed to fund the improvements. An assumption has been made in the 2024 budget concerning 2024's likely needs in that regard. However, that sum will need to double in 2025 for the next twenty-nine years. While a repayment schedule is not available at this time, it is suggested the wastewater rate increase be at least doubled to four percent.

While the current improvements to the wastewater plant are colossal in significance, wastewater systems never have a defined or permanent infrastructure solution. Maintenance of the wastewater plant is ongoing, improvements to the wastewater collection system are without end. The composition of the wastewater contributed to the wastewater system itself is changing with time and necessitates alteration of the wastewater treatment process. What does not change is that robust investment in capital needs benefits future generations and makes resolution of technical issues easier.

Clearly, changes in wastewater regulations may impact wastewater capital and operational needs. Further, once wastewater is addressed and water's needs are addressed or well on their way to being addressed, our community needs to consider stormwater management in a comprehensive manner. In the future, we will likely be compelled to create a separate utility for stormwater with separate dedicated funding and staff. The stormwater issue is beyond the scope of the 2024 budget, but nonetheless recognition of the issue is important.

The Tax Increment Financing (TIF) Funds of the community continue to yield resources. In 2023, resources from TIF Funds were used to support the Columbus/Court Street project. In 2024, TIF Funds, combined with those of Fund 402 will focus on path improvements and Market/Clinton Ave. After the expenses of 2024, at least two years will be required for the TIF funds to regain strength. TIF funds are not so plentiful to permit them to fund projects on a constant basis.

The 2024 budget provides funds for continued economic development efforts. Resources are allocated to continue work to encourage the attraction or expansion of industrial businesses and small businesses. Economic development is subject to forces beyond local influence, but continued consistent work in this realm is extremely important. Care should be taken to discern economic development activity from the distribution of public funds without a reasonable expectation of a meaningful contribution to the local economy.

Capital projects like cooperative projects with the Ohio Department of Transportation provide the community with opportunities to improve infrastructure that would otherwise be impossible. While work of this nature is unquestionably positive, our success in securing grant funds (typically with a local match required) has placed calls upon the resources of our community. While considerable reserve funds will remain in Fund 402, it should be remembered that prudence should not be abandoned. Fund 402 should not be asked to shoulder additional burden beyond what is contemplated in the 2024 budget.

The paving effort of the 2024 budget remains solid. However, inflationary impacts present challenges. The pavement supplement from Fund 402 for 2024 is \$350,000. Resources for paving are also drawn from several other sources that support street paving. The already mentioned Market/Clinton Ave. project will also contribute to the 2024 street efforts. The 2024 paving effort is ambitious. However, asphalt costs can be volatile. Therefore, estimating paving progress can be difficult.

Resources are made available to the Washington Cemetery in the proposed 2024 budget. The intent of the 2024 budget is to preserve the historic assets of the Washington Cemetery and perform the interment role of a cemetery professionally. The fee structure of the cemetery will never support the full financial costs of the institution. The current fee structure needs to be considered and increased. This will result in the cemetery freeing funds elsewhere in the budget that are required to support the cemetery's services.

The 2024 budget increases resources for the Police Department and the Fire Department. The intention of the 2024 budget is to continue to support the protection of life and property in a reasoned manner. However, the number of personnel of both departments must not expand beyond the planned staffing for the foreseeable future.

The proposed budget funds the operations of the City of Washington Court House in an adequate manner. Also, the investments proposed in infrastructure will serve the community well for many years. We have arrived at the current fiscal position by considering the long-term impact of decisions. We have survived the worst economic retraction since the great depression, a global pandemic and social discord. We have built upon the strengths of our community to provide increasing economic opportunity.

In the past twenty years, we have built a functional home for the Fire Department and the Police Department. We have invested in firefighting apparatus. We have put on the street increased numbers of police officers. We have rebuilt bridges, sewers, and roadways. We have essentially rebuilt a whole wastewater treatment plant. The list of infrastructure improvements is considerable and too long to list in this letter.

Resources, time, and effort address the physical needs of our community. While those physical needs are important, a realization must be made that infrastructure and fiscal discipline don't address all challenges. Further, the limitations of the City of Washington Court House financially and in terms of capacity to address all issues must be recognized.

Society does not require unanimity of thought locally or upon national matters to progress, but the possession of a basic level of confidence is essential. Please remember Kenneth Clark warning, "We can destroy ourselves by cynicism and disillusion, just as effectively as by bombs."