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CITY CLERK

Members of Council

I wanted to get this information out to you ahead of our Special Call meeting on the City's financial plight. The more you know and understand about the situation, the more comfortable you will be as we study this and eventually come up with best recommendations we arrive at.

SETTING CASH BALANCE TARGETS AND RELATED TIMELINES

One of the first things we should address, in my opinion, is the setting of cash balance targets and timelines for hitting the targets. Simply put, we need to know what the cash balance should get to by when so we can measure and monitor the progress. The best place to start is with an understanding of the November 30, 2015 Preliminary Cash Statement that was emailed to you by the City Controller. What does it tell us? The report total is \$15,240,600.51. That may seem like a lot but subtract four groups of funds from the \$15 million and you see a different and perhaps alarming story:

Report total	\$ 15,240,601
Less: TIF funds 405, 407, 410, 471	- 6,038,682
SRF bond funds 612, 613, 617, 618, 619	- 14,434,757
Other bond funds 413, 423, 472, 473	- 2,097,299
Sewer and WWU funds 298, 330, 610, 620	- <u>1,407,144</u>
All remaining balances	\$ <u>(8,737,281)</u>

A lot of our cash is pooled into two bank accounts. That means for pooling purposes, a lot of the money in the four groups of funds that are subtracted above must be in the pooled bank accounts to avoid overdrawn bank balances.

Cash balances are the lowest at May 31st and November 30th which are the month ends just prior to when property tax distributions are received.

Using December 31 cash balance data to determine cash balance targets would be preferable, however, the December 31, 2015 balances are not available today.

Setting cash balance targets for all major funds that are in the pooled cash would be preferable than just looking at the general fund. We can't do that because we do not receive details of the pooled cash balances. The Umbaugh plan was long on narrative but short on numbers behind the narrative. My requests for more information on these two topics remain unanswered.

Using the November 30, 2015 cash balance plus other details (some I have, some I don't) I can come up with an adjusted November 30, 2015 cash balance and compare it to my November 30, 2015 cash balance target of \$0.

A cash balance target at November 30th (and May 31st) of \$0 for the general fund is reasonable to me because the June and December property tax receipts would restore the general fund cash balances to around \$8,000,000 at December 31st and June 30th. This \$8,000,000 plus the revenue expected in January through May (and July through November) should be enough to pay the general fund bills of about \$2,750,000 per month.

I calculate the November 30, 2015 general fund adjusted cash balance as follows:

Deficit balance per November 30, 2015 preliminary cash statement	\$ (12,714,633)
Tax Anticipation Warrant Loan balance at 11/30/15	(2,745,000)
Upcoming major disbursements and existing accounts payable at 11/30/15:	
3 months trash fee past due	(655,000)
City election cost to be paid in January	(450,000)
Ft. Harrison bond payoff late December	(600,000)
Golf course non-reverting fund balances:	
Hulman Links	(3,438,421)
Rea Park	<u>(855,657)</u>
	\$ <u>(21,458,711)</u>

This calculation indicates we need \$21,458,711 more to get to a reasonable general fund cash balance. Some will question why I included the golf course fund deficits. Why not? Anybody hear of a plan to address those deficits? Some may question why I didn't include the November 30, 2015 deficits in the Parks & Recreation, Cemetery and Transit funds that total \$1,526,153.

If we want the \$(21,458,711) to be rebuilt in 5 years, \$4,291,742 would be needed per year. In 7 years, \$3,065,530 per year. In 10 years, \$2,145,871 per year. What is our pleasure?

Before I move to the next piece, let me ask this question. Why do you suppose the City is three months behind paying the trash removal bill at November 30, 2015?

Understand the Controller and her staff and consultants must be projecting and monitoring future cash in-flows and outflows for all funds that are in the pooled bank accounts to be sure money is available to pay payroll and fringe benefits when due. This tells City Administration how much money is available to pay vendors and when they can be paid. We know many vendors are not paid timely but we have no idea what is owed to vendors despite repeated requests from Council members for those details.

Page 22 of the Umbaugh financial plan that we recently received indicates a projected budget deficit in 2017 without new revenue or further budget reductions of \$3,000,000. How did they arrive at \$3,000,000? We should demand those details. I thought a balanced 2016 budget at about \$34,000,000 was passed last October and City Council and City Administration were happy. Now we are \$3,000,000 short (nearly 9%) looking forward to 2017. How can this be? Are there budgeted increases in expenses or budgeted reductions in revenue?

Page 22 of the Umbaugh financial plan indicates that \$2,0 million of revenue is needed per year to restore recommended cash balances in all governmental funds to \$6.7 million over 5 years (excludes Sanitary and Redevelopment funds). Mr. Malone mentioned total governmental funds were projected to be a negative \$3.3 million at December 31, 2015. I have requested details of the negative \$3.3 million and have not received them. These details are needed to reconcile the \$2.0 million per year for five years per Umbaugh to the \$4.3 million per year that appears above.

REDUCING EXPENSES VS. INCREASING REVENUE

Solely for the sake of conversation, let's assume we conclude we need a combination of additional revenue or expense reductions of \$5,000,000. How much should be in which category? Are you comfortable that all possible expense reductions have occurred? If yes, do you think the citizens of Terre Haute agree with that? How do you think the citizens of Terre Haute will accept \$5,000,000 of additional fees and taxes plus additional fees for the Sanitary District. The proposed 16% increase in sanitary fees on top of the current \$30,000,000 plus in WWU budget is another \$4,800,000.

Perhaps we should arbitrarily allocate the \$5,000,000 between expense reductions and revenue reductions and work towards that result. What do I mean? Here are three illustrations.

	<u>40% Cost 60% Revenue</u>	<u>33.3% Cost 67.7% Revenue</u>	<u>25% Cost 75% Revenue</u>
Cost reductions	\$ 2,000,000	\$ 1,666,666	\$ 1,250,000
Revenue increases	<u>3,000,000</u>	<u>3,333,000</u>	<u>3,750,000</u>
Total	\$ <u>5,000,000</u>	\$ <u>5,000,000</u>	\$ <u>5,000,000</u>

An agreed-upon allocation will enable us to focus on the two pieces to the puzzle.

REDUCING EXPENSES – THE PROCESS

The process for reducing expenses will take time but the process that I envision is pretty straightforward:

1. Council brainstorming session to accumulate all possible cost reduction ideas we can come up with.

2. Request cost reduction ideas from City Administration, department heads and any other individuals that may have a recommendation.
3. Determine the information that is needed to evaluate and quantify the suggestions that are received.
4. Study the information received and quantify the suggestion.
5. Reach Council consensus on cost reduction ideas that are deemed plausible.

INCREASING REVENUE – THE PROCESS

The process for identifying and evaluating potential new sources of revenue that I envision is also pretty straight-forward:

1. Accumulate all possible revenue increasing ideas.
2. Build a spreadsheet of the ideas that identify:
 - A. The fund or funds that would receive the new revenue.
 - B. The potential annual revenue from each idea.
 - C. Who pays the new revenue?
 - D. How the new revenue is collected.
 - E. Who controls/approves the new revenue?
 - F. The timeline for the new revenue.
3. Facilitate Council understanding of all the ideas that could increase revenue to enable the best ideas to bubble to the top so consensus can be reached.


I will get this spreadsheet started so it is available at our Special Call meeting.

OTHER THOUGHTS

We all knew or should have known of the City's financial challenges before we registered to run for City Council. Now that we are on Council, we need to educate ourselves further, identify our options, deliberate the options and reach a consensus that we believe works best for the citizens of Terre Haute. It's time to shake, rattle, roll and get it done. We must strive to get it done right the first time. We can and must positively impact the future of our community.

Very truly yours,

City Council Finance Chair


O. Earl Elliott, CPA

City of Terre Haute
January, 2016
Revenue Idea Analysis

Revenue Idea	Control/Approval	Potential Net Annual Revenue	Receiving Fund	Who Pays?	Collection Process	Timeline	Comments, Thoughts
Increase sewer rates	Sanitary Board/City Council	Depends on % of increase	Waste water utility	Sanitary District residents and businesses	Sewage bills		Rates increased in 2013, 2014 and 2015.
Storm water fee		Chuck Ennis to provide	Sanitary District	All property owners in Sanitary District			Funding source for sewer/CSO bond issues
Food and beverage tax	State legislature/County Council	\$2.0 million per Umbaugh (pg. 27)	Non-reverting fund for Hulman Center	Restaurant patrons	Restaurants/Indiana Department of Revenue	Short time line to get it in place	Bob Heaton to introduce, Senate approval will be a challenge
Local option income tax for public safety (.25%)	County Council	\$2.2 million per Umbaugh (pg. 26)	General fund	Residents that pay income taxes	Indiana income tax system-distributions to City	Short time line to get in place	Tax not paid on social security income
Local option income tax for property tax replacement	County Council	\$4.3 million per Umbaugh (pg. 26)	General fund	Residents that pay income taxes	Indiana income tax system-distributions to City	Short time line to get in place	Tax not paid on social security income
Trash fee	City Council	TBD, depends on rate	General fund	Residential property owners	Add to sewage bills?	City controls	Who pays how much?
Increase City filing and permit fees	City Council	TBD, not a lot but it helps	Mostly general fund	Those currently paying fees	City Hall offices	City controls	Comment heard they had not been increased in years
Sell the waste water utility	Sanitary Board?/City Council?	One-time windfall	General fund?	Purchaser of the assets	Not applicable	Not applicable	Potential one-time windfall to solve cash and other problems
Lease the waste water utility	Sanitary Board?/City Council?	TBD	Waste water utility?	Lessee of the assets	Not applicable	Not applicable	Reduce risk, future finances more predictable
Retain management company for City golf courses	Park board	Cost reductions TBD	Golf course non-reverting funds	Not applicable, expense reduction	Not applicable	Park board controls	Losses have been \$400,000 +/- per year
Direct more ambulance fees to general fund		TBD (not a lot)	General fund	Insurance companies, ambulance users			Depends on costs incurred by EMS N/R Fund