

Finance Committee Meeting
July 9, 2021 8:00 a.m.

Members Present: Chairman Berger, Councilman Carroll, Mayor Koons (phone),
Fiscal Officer Romanowski, Fiscal Auditor Lechman

Visitor: Greg Heilman

Berger called the meeting to order.

Berger addressed the five-year budget departmental goals. The Fiscal Officer acknowledged that she had received them, and they were distributed in the last Council packets. Berger asked if there were anything else to be done, and the Fiscal Officer advised she was working on the Tax Budget. She was able to use these goals in conjunction with compiling the Tax Budget, and it would be useful in working on the annual appropriations in the fall.

Berger asked if this included the American Rescue Plan Act (ARPA) funds, and the Fiscal Officer stated no and verified that would be a separate issue. The Fiscal Officer stated that it was initially thought that the Village would be getting \$734,000. However, it was determined that townships had not been included in the distribution, and the revised amount would be closer to \$392,000 spread over two years.

Berger asked if the Tax Budget projected a deficit or a surplus for next year. The Fiscal Officer explained that she was not at that point yet. Berger noted that for the current year, a deficit was projected when the budget was put together and asked if it would be a deficit or surplus. The Fiscal Officer explained that since Council amended the budget for the \$130,000, she had not looked at this but thought a deficit was projected. She added that the Lake Louise Bridge project must happen this year and thought a deficit would be projected. She further explained that the Village was on borrowed time with this project, which should have been completed last year. She hoped that the bills for this project would be paid within the current year.

Regarding 2017-2018 audit issues, the Fiscal Officer addressed the credit card policy and provided the committee with the Auditor's recommendations. She provided these to the committee along with House Bill 312 which identifies what is required, and the current Village Credit Card Policy. The recommendations included adding the authorized designated users of the Village Credit cards within the policy, the length of time the card is allowed to be out of the control of the Fiscal Officer, and itemized receipts for purchases. She added that an employee may be liable and required to reimburse the Village if an itemized receipt were not provided. Berger asked if the Village really had trouble with the credit cards and asked if the policy had been designed for the City of Cleveland and not for the Village of South Russell. Carroll stated that it sounded like the Auditor wanted to do it either way. The Fiscal Officer stated that the Village has a policy, and according to House Bill 312, these are items that should be in the policy. The Village amended it a few years ago to make it more stringent. However, more was wanted.

Berger asked what the next steps would be, and the Fiscal Officer asked the committee members to read the material before the next meeting so that it could be discussed.

The Fiscal Officer addressed the Auditor's issues with the blanket purchase orders. It will be necessary to put legislation in place pertaining to the maximum dollar amount for which blanket purchase orders may be written. The Auditor provided her with samples from other municipalities. The Fiscal Officer provided the committee with the Ohio Revised Code that lists the elements the Auditors require. She wanted to have a further discussion with the Auditor first since blanket purchase orders are new to the Village.

The Fiscal Officer provided the status of the audit and explained that she had to pause it to get the Tax Budget completed. She would resume it the following week and expected that it would be completed soon.

Berger addressed the Parkland Dam project to try to determine whether the Village would move forward with having the Engineer obtain quotes and determine the expense. The Fiscal Auditor asked if the county would permit the Village to do this. His question related to discussing investments and the issue with investing in anything for over five years. The project required a 20-year loan. The Fiscal Auditor wanted to make sure it was permitted. The Fiscal Officer stated that she did not know that the Village could really give them a loan. She had heard of getting a bond for such projects. The Solicitor explained that at the July 12th Council meeting, Council could choose to move forward with doing the Engineering and design research to determine the cost. At the end of this process, the Village would decide on whether to move forward or not. She concluded that the Village could incur a lot of expenses before making the final decision. If Council decided to follow this process, none of it had been budgeted. The Fiscal Auditor concluded that the Village could spend money and then find out that it could not lend them anything without going through a bonding process. Berger stated that Solon did this. Carroll advised that Solon was a type one dam, which was a completely different situation. Carroll thought they needed to weigh all the factors. Solon had a class one dam that had different implications and Solon had a much different finance position than the Village. Berger said he was not there to argue the merits of the project one way or the other. Instead, he was asking what finance issues were that the committee needed to consider if the Village chose to move forward. He also questioned if the Village is technically allowed to do it. There are other communities that have done it, so it is permitted in some form. The Fiscal Officer asked if Solon just loaned the money. Berger understood that Solon did it out of pocket and did not get a bond. The Fiscal Auditor was concerned that there would be some sort of obstacle to the Village financing it. It would be a mishap to discover this after investing money to research the project. The Fiscal Officer said her concern was that if the Village had the money to loan a neighborhood \$500,000, the county could disallow the Village to bring more levies. The rationale was if there was money available to loan, then there was no need for levies. She added that Council must be aware of the big projects that are coming up to include Bell Road East at a minimal cost of \$860,000. There was also the Lake Louise Bridge project, Manor Brook, the proposed detention/retention pond next to Village Hall, culvert pipes, traffic lights, etc.

The Fiscal Auditor stated that 20% to 40% of the Village's money should be in sureties that are three to five years. The rule of thumb is that at the low point, December 31st, take that balance, set aside 20% of that and keep it in the bank and consider investing the rest. If the Village is

going to do a half million-dollar project and then with other expenditures, this would be the key to knowing if the Village should invest at all. Carroll agreed and added that the Village also has \$1.5-million in stormwater and infrastructure work identified that potentially needs to be done. This would impact the entire Village. The Fiscal Auditor asked that even if the Village can do it, would it feel comfortable locking up a half million dollars for 20 years.

Berger stated that in playing the devil's advocate, it might be locked up in the first year, and then decide to go out and do a bond to finance it from that point forward. The Fiscal Auditor said it is possible, but for the Village to get a bond would be a process. Berger stated that there were other options. Berger said he did not know why the Village would want to tie up any money for three to five years when interest rates are at historic lows. The Fiscal Auditor explained the investment strategy. Berger concluded that before the Treasury Investment Board could decide what it was going to do, it needed to know the requirements of the Village. The Fiscal Auditor said that the Village's balances have been consistent for the last few years. Absent Council finding that it would be used, it would seem the Village is not meeting its investment objectives of safety, liquidity, and yield. It is hitting the safety and liquidity objectives but not yield. But to increase yield, liquidity is the key. Input from Council would be necessary to determine what the Village expected to spend in the next year or two.

Berger stated that the Village had a surplus that had not been touched for two to three years. The Fiscal Auditor explained that this had built up since purchasing the park. The Village spent its excess money on the Village Park in 2006-2007. Since then, more attention was given to the budget to make sure it was not incurring expenses in excess of income. It was necessary to increase taxes. Over the years, it steadily grew to an average balance of about \$2.5 million. Carroll asked if it was best practice to keep a certain amount in reserve, and the Fiscal Auditor agreed and said the annual budget is about \$3 to \$3.5 million. Generally, one would want a full year in reserve. The Fiscal Officer explained that in the County Auditor's Tax Budget training, he said to reserve 40% of the budget. Berger stated that would be \$1 million as reserve. The Fiscal Officer explained it is 40% of the budget, not your cash reserves. Berger stated there would still be over \$2 million dollars that needs to be laddered in an investment strategy unless the Village decided to do \$1.5 million in stormwater projects. Berger advised that somebody should lay this out and say when the Village expected to spend money or it will do the Parkland dam and this was what the numbers look like. Then, the Treasury Investment Board could make a decision about how to structure investment policy. The Fiscal Auditor advised he certainly would not want to enter into an agreement with Meeder Investments to help the Village execute this, because there would be a cost involved. Why would the Village want to incur a cost if it could not invest anything.

The Fiscal Auditor explained that there is a serious effort to do something more strategic than the Star Ohio plan. The Village was riding high with 2.5% interest and then all of a sudden COVID hit and the interest rate risk really came to fruition. To protect against that, it makes sense to look into it, but he thought it was critical to know how much the Village could invest. Berger said that even with the worst-case scenario, half of the \$2 million could be used to start an investment program with \$1 million and start looking at laddering with the first million. That

would give Council some time to come up with the true strategy on some of these projects and their costs. Berger indicated that the Fiscal Auditor was not going to go out and invest \$2 million tomorrow. Berger said that the Fiscal Auditor would feed it slowly into the process. The Fiscal Auditor advised that Council's approval would be required since the investments are not free. The Treasury Investment Board cannot spend money on behalf of the Village. Berger concurred that they could only make recommendations. The Fiscal Auditor explained the contractual requirements with the investment process and reiterated that nothing could be done without Council's involvement.

Berger asked if the Fiscal Auditor would be making a presentation to Council and the Fiscal Auditor said no, that the Treasury Investment Board would not be meeting until Monday. So far, he did not know if anything could be invested. He acknowledged that the Fiscal Auditor was working on this, and that the Village would be moving forward with a more sophisticated strategy. Berger stated it provided direction to the committee and Council that it needed to get its ducks in a row.

The Fiscal Auditor indicated it was necessary to determine whether more than 40% of the Village's budget should be set aside. If the County Auditor suggested 40%, which is conservative, that would be about \$1.4 million set aside. If this were enough for Council, then the Treasury Investment Board would have some direction. The Fiscal Officer stated that it is necessary to get a plan in place for the projects. Lake Louise was supposed to have been done last year and was not done. Manor Brook should have been started. There were outstanding projects which were not moving forward. The Fiscal Officer advised that the grant for the Lake Louise Bridge had technically expired, and the Village was on borrowed time. The Manor Brook grant expires in 2022, so the Village needed to get going on it. She added that the culverts must also be done before Chillicothe Rd. is paved. The Traffic Light replacement is getting approved this year, so there will be time with that. She concluded that they just cannot keep going out and getting grants and then not following through with the projects. The Fiscal Auditor explained that first, Council would need to decide if it wanted to go with the county guideline of 40% and secondly, Council would need to decide if there were any reason to think this amount would not enough.

Berger suggested starting with the revenue stream. There had not been a dip in revenues in the last six months against the expected revenues. The Fiscal Auditor said the Village's revenues had been extremely consistent. Berger said that it was not like some catastrophic downfall in revenue would be expected where the Village would need readily available reserves to meet current expenses. The Fiscal Auditor said this was correct. He explained Council budgeted a deficit this year of \$200,000, which needed to be taken into account. Berger said that the discussion was a driving point to tell Council that in order to invest the money, it would be necessary to know when it would be needed. The Fiscal Officer stated that the Village must have a strategic plan to understand the timeline. Berger said that part of the problem was that the committee put together a five-year budget or goals with all the expenses but did not go outside the operating entity to think about road and stormwater projects to budget in terms of a five-year

strategic plan. The Fiscal Officer explained this was just internal identification of what was due to be renewed, not the bigger picture. The Village needed a timeline map of expenses.

Berger said it would be wonderful if Council could provide the Fiscal Auditor a five-year lookout on what the funding requirements might be to identify excess cash, and a percentage of this would go into the investment program. Carroll addressed the cost of the Road Programs and noted the additional potential expense of the Bell Rd. east project. The Fiscal Auditor stated that this type of project would be what he would need to understand what the Village might need beyond the normal operating costs. Carroll would address Road Programs and Stormwater with the Engineer through Street Committee. \$1.5 million was projected for stormwater projects which had been identified by CT Consultants in the stormwater study update, and Carroll questioned how this would look over the next three years if it were to be expended. The original 2004 study identified issues, but only Chelsea Ct. was addressed. Carroll verified this with the Engineer. Chelsea Ct. was \$1,000,000. Part of the \$1.5 million may not have included the detention/retention on Village property which would be about \$500,000.

The Fiscal Officer said that the committee had the internal information for the next five years as far as what needed to be replaced. The committee knows that the Village is getting ready to invest money that will be locked up. Before locking it up, should there not be a meeting with all the elected officials to figure out a plan. The Fiscal Auditor suggested that perhaps this should be presented to Council as a first cut to identify the starting point instead of soliciting the information from them. Berger suggested coming up with this information in the next 60 days by September. The committee could suggest holding a strategic planning meeting based on the rough-cut draft to come up with a five-year plan to help guide investment decisions.

Berger stated that the Mayor sent him an email asking to add the Chagrin Falls Volunteer Suburban Fire Department's (CFVSFD) request to consider contributing \$69,767 to their building fund. The Fiscal Auditor stated the stumbling block would be that the Village would want this worked into its next contract. Berger suggested creating a five- or six-year program and adding \$10,000 per year to it. Carroll asked who owned the building, and the Mayor said he would imagine it was the Village of Chagrin Falls. Carroll asked who paid for the last renovation in the late 1980's. The Mayor had no idea. Berger guessed the Village of Chagrin Falls. The Fiscal Auditor stated that it was reasonable to build those costs into their budget and to try to recoup them from the communities that were benefitting. He had no problem with them wanting to charge out their renovations cost as far as overhead. Generally, it would be charged over a certain period through the contract. As stewards, he questioned just giving a \$60,000 check and then in a year, the Village might decide to go to Russell for services instead. It would make more sense if the Village was in a longer-term contract with them.

Berger verified with the Mayor that there would be a presentation about this matter at the July 12, 2021 Council meeting. The Mayor stated that it would be Mayor Dan Fritz and a representative from Chagrin Falls Council. He provided a hand-out that Fritz would explain at the meeting. Then Council could think about it and make a decision at the August 9th Council meeting. Berger asked with whom the Village would negotiate. The Mayor said he was not sure who would be the representative. Berger explained that the Village would want to discuss a

long-term contract in relation to the donation. If the Village had to make an upfront payment, ok, but a tie-in would be needed. The Mayor said he would find out and set something up before the next Council meeting in August. It would give the Village a month to see if they are willing to increase the contract. Berger asked if this sounded like a reasonable first step. The Fiscal Auditor said his point was that if they wanted to improve the building, they should consider doing it with a longer-term contract. Carroll stated he struggled with the fact that they are a private contractor. If it were a mechanic who wanted to put an addition on his garage, and the Fiscal Auditor interjected that the contractor would increase his rates to cover this for a period of time. Berger said the Village needed to discuss this with CFVSFD's Finance people. Berger added that he had been involved where he prepaid a capital investment for a vendor. He had bought equipment for a vendor and then amortized over the term of the contract. Berger was not so much against paying the money upfront but asked what the term of the contract on the back end was and what would be the commitment from South Russell and Chagrin Valley to continue to have the services.

The Fiscal Auditor presented a concept of providing the funds as a loan that potentially could be forgivable. Carroll stated that to this point, if the Village were to have an agreement with CFVSFD where the Village would give them the \$70,000, there would be a clause whereby CFVSFD must return a specified portion of the funds should the Village choose to obtain services elsewhere at the end of the contract. If the Village were to stay with CFVSFD, then at the end of the next contract period, the clause would expire. Berger said this was a discussion the committee needed to have with CFVSFD. Berger said there was negotiation in that the Village had alternatives, although they might not be great alternatives.

The committee discussed the previous renovations of the Chagrin Falls Fire Station. Carroll explained that this situation was different than with Chagrin Valley Dispatch where there was a Council of Government (COG) and everyone had a seat at the table.

The committee agreed to meet August 9th at 8:00 a.m.

Berger adjourned the meeting at 9:00 a.m.

Chris Berger, Chairman Finance