City of Springfield: Financial Trend Analysis

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Answering three questions

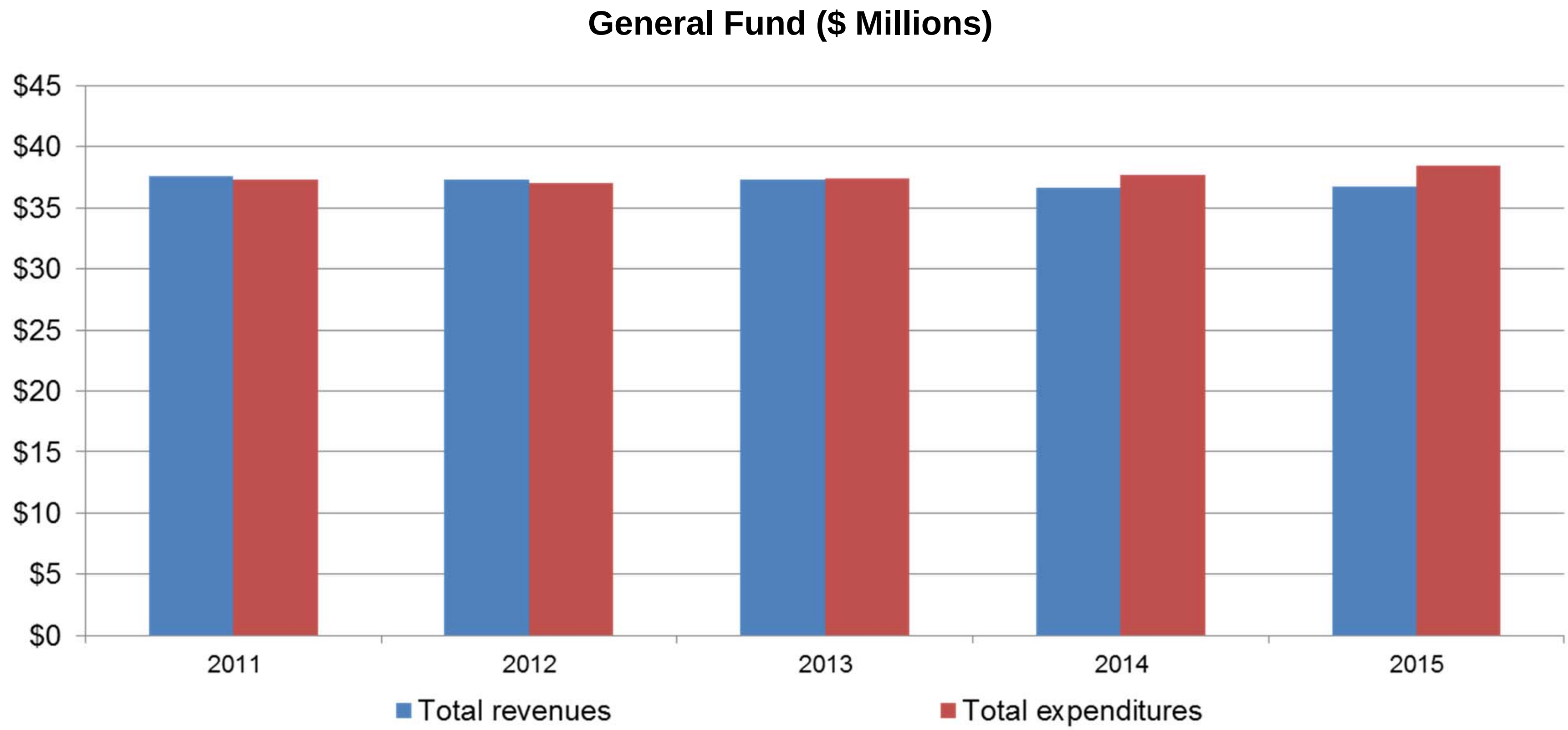
Today's report is focused on three questions

- What is Springfield City government's current financial condition?
- What is the City's baseline financial projection?
- What are the key trends driving that trajectory?

We'll use the financial projection model to do some initial scenario analysis and then close by discussing our next steps.

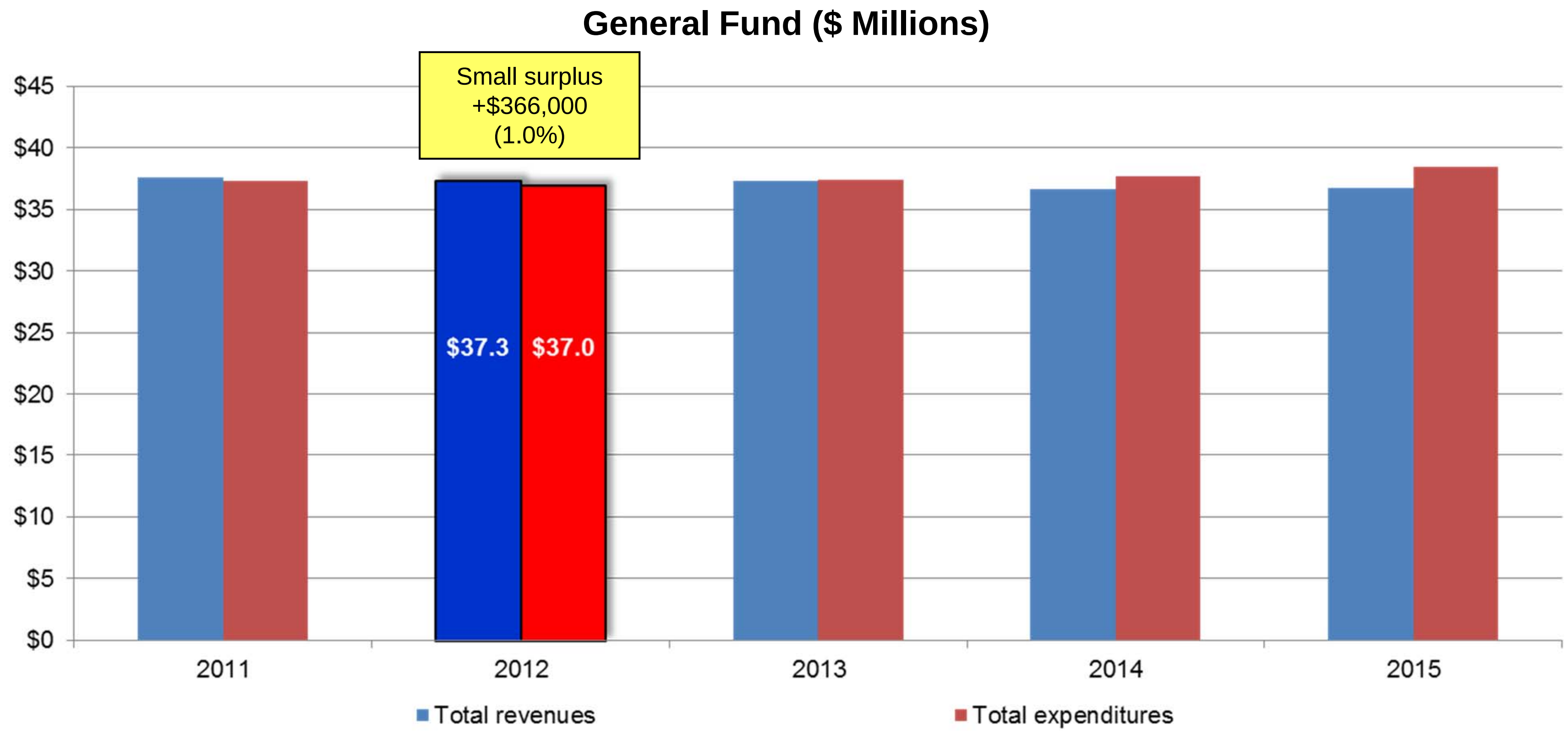
What is Springfield City government’s current financial condition?

Review period: 2011 - 2015



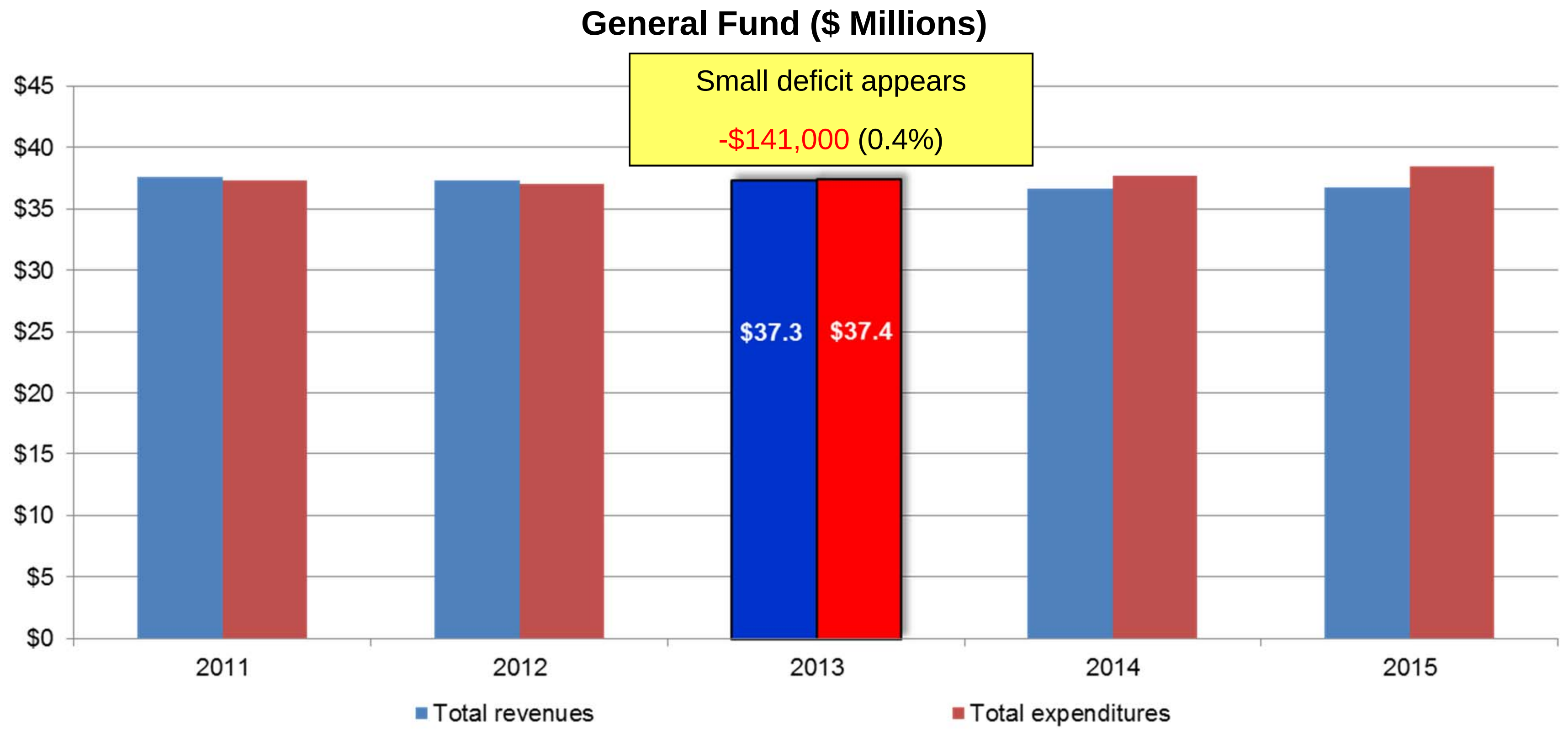
We reviewed the City's revenue and expenditures on a cash basis for the General Fund, Special Police Levy Fund and Fire Division Service Enhancement Fund for the prior five years. The graph above focuses on the General Fund because the deficits in the other two funds practically are also General Fund burdens. Note that the changes in individual years are relatively small. The largest year-to-year changes during this period were just $0.7 million (1.8 percent) for revenue and $0.8 million (2.1 percent) for expenditures. **The deficit is the result of gradual negative trends over several years more than it is the result of any particular event.** Undoubtedly some of these trends predate 2012 and involve factors beyond City government's control.

2012: Less revenue, less spending



Total revenues dropped by 1.0 percent relative to 2011. Income tax revenue, which accounted for 71 percent of the total, grew by $0.8 million but state shared tax revenues dropped by $0.9 million. Total expenditures also dropped by 0.8 percent with the City spending a little less on salaries and worker's compensation than in 2011. The small surplus in 2012 is similar to the one in 2011.

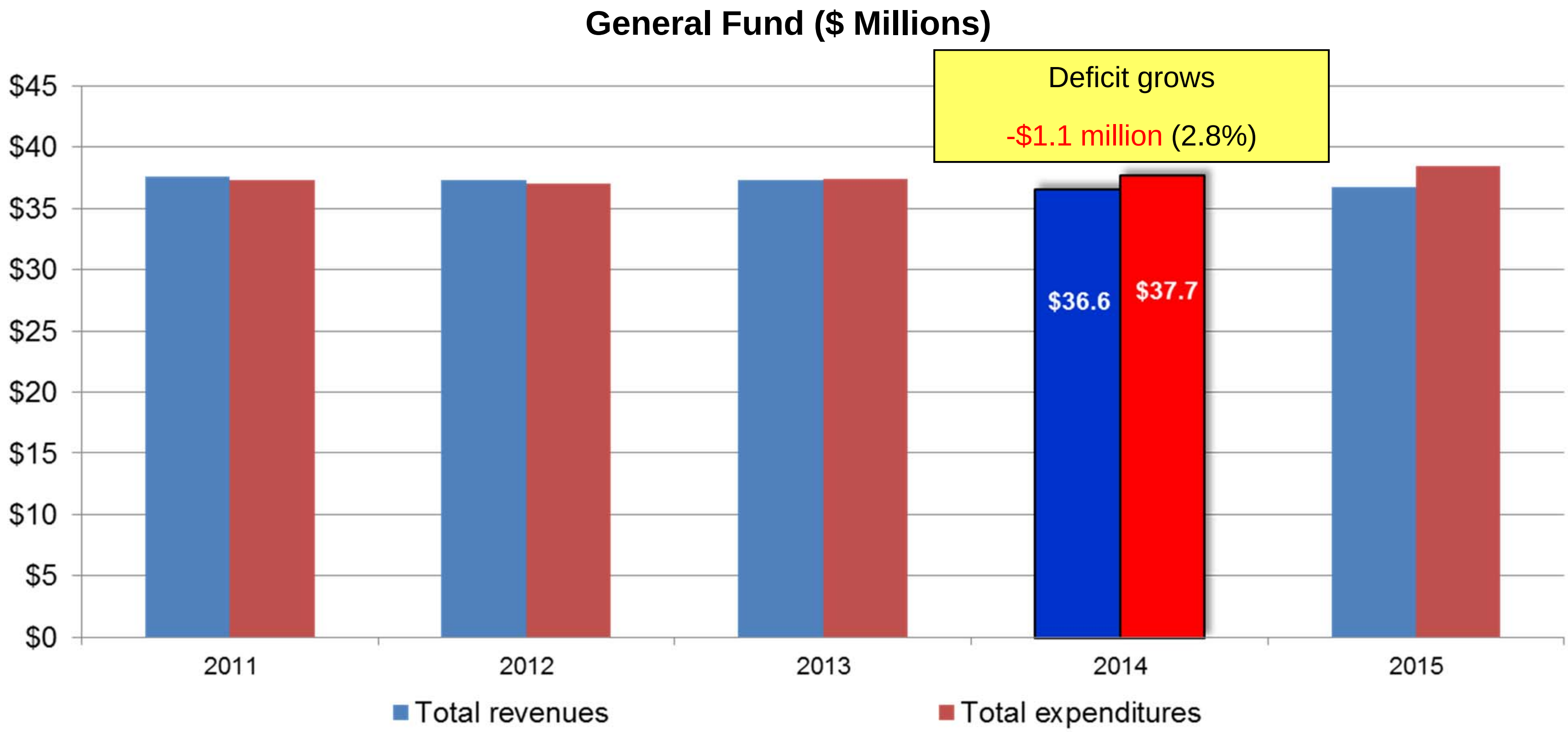
2013: Deficit appears



State shared tax revenue dropped by $0.5 million and revenue from court fines and reimbursements also fell. Total revenues were flat because of $0.8 million in one-time boosts from miscellaneous sources, including a $439,000 settlement from the long-contested Leffel Building demolition. Total spending rose 1.2 percent or $0.5 million. Most of that growth was personnel related, with health insurance ($0.3 million) accounting for much of it.

On its face the City had a small deficit at $141,000, or less than 0.5 percent. But without the $439,000 one-time payment, the deficit was closer to $0.5 million (or 1.6 percent) on a cash basis.

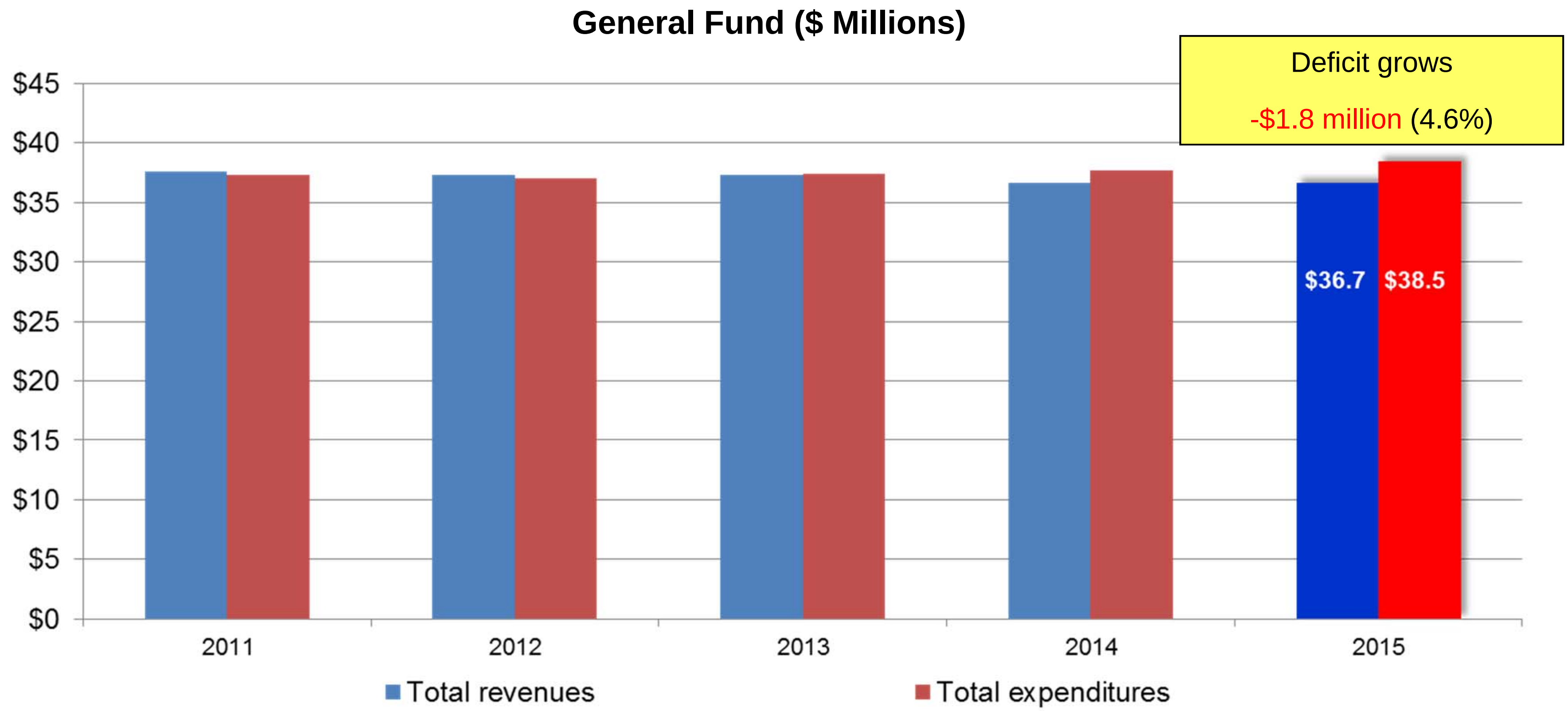
2014: Revenues drop without one-time help



Without the one-time revenue help from 2013, the City's deficit grew.

State shared tax revenue stayed level with 2013 and income tax revenue grew by $0.7 million. But the State repealed the estate tax in 2013, which dropped revenue by $0.4 million in 2014 and $0.9 million once fully phased in. Revenues from licenses/permits and miscellaneous sources dropped back to historic levels. Personnel spending grew faster than in 2013, this time by $0.7 million (2.3 percent), with much of the jump again in health insurance. The City reduced its General Fund contribution to the Parks District by $0.3 million relative to 2013 levels.

2015: Revenues stable, expenses grow

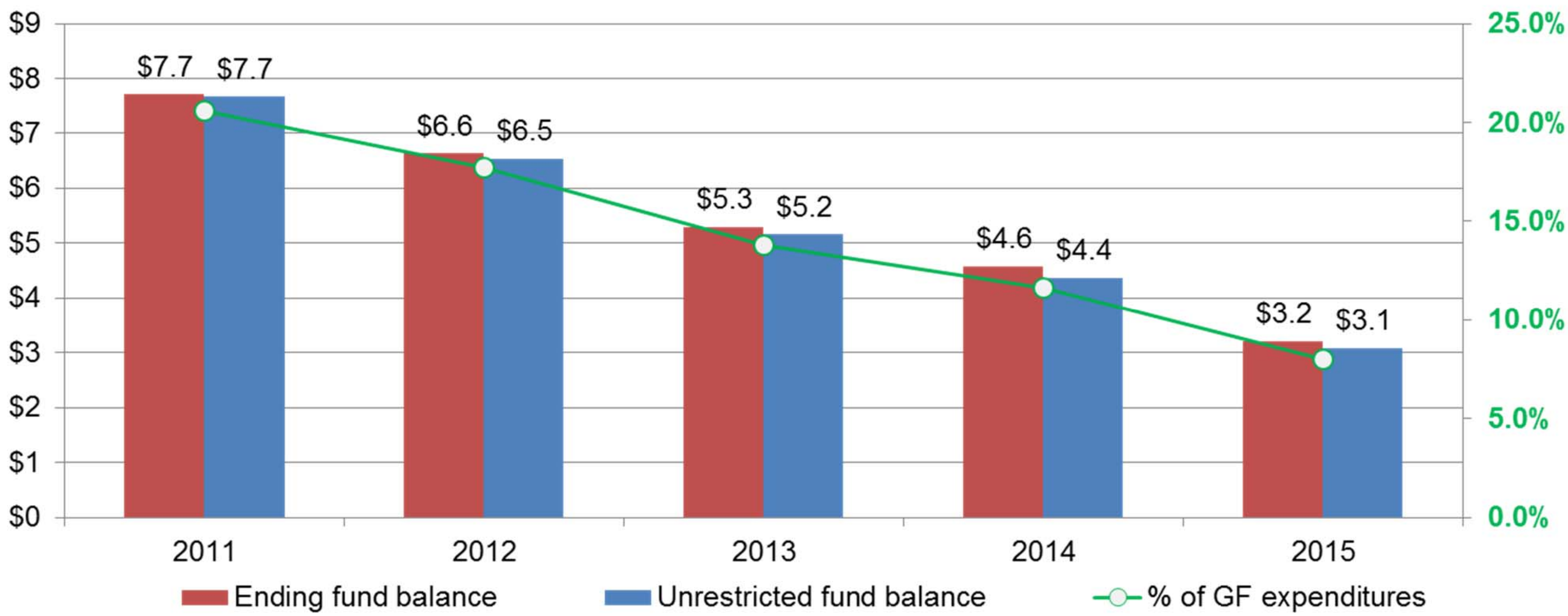


The deficit worsened as transfers to the Special Police and Fire Service Enhancement Funds grew and revenue stayed flat.

Total General Fund revenue stayed even with the prior year since higher income tax revenue offset reductions elsewhere. Total spending rose by $0.8 million, or 2.1 percent. Personnel spending stayed at 2014 levels but the City increased its transfers to the Special Police and Fire Enhancement Funds by $0.6 million.

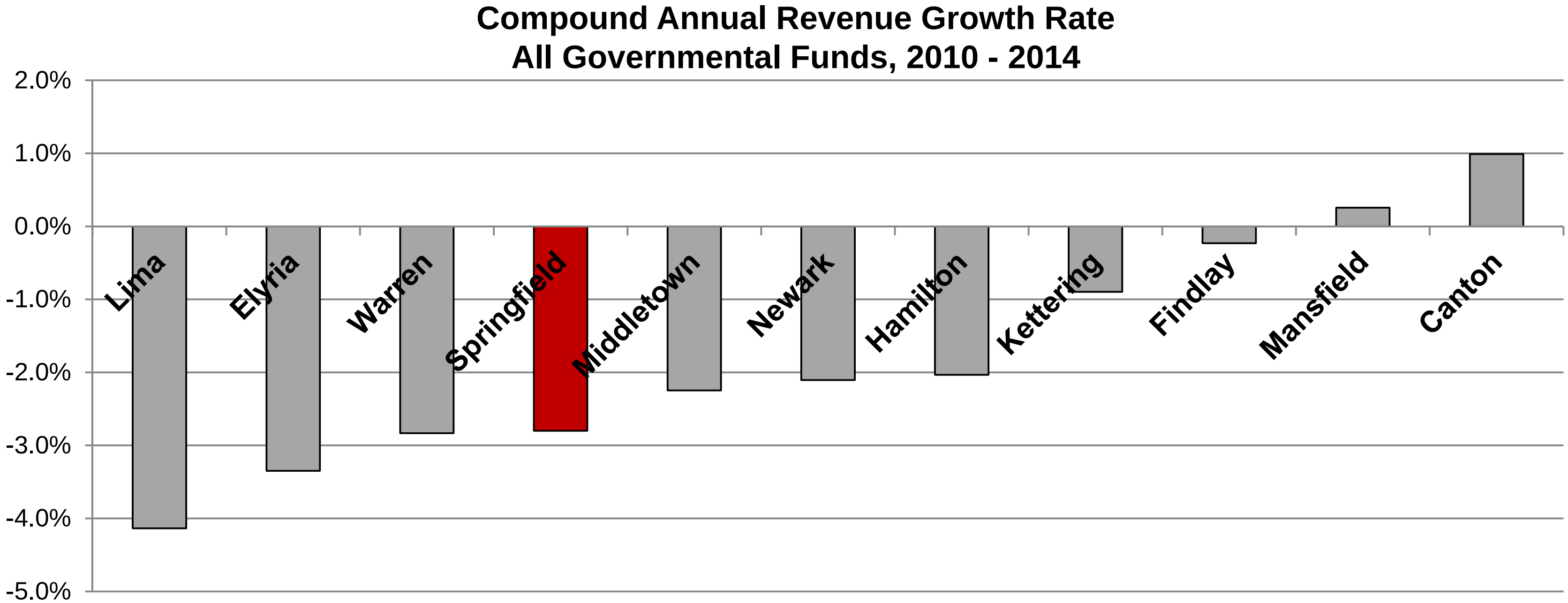
Where does that leave the General Fund?

General Fund Balance ($ Millions)



Fund balance is a common measure of a local government's financial position. It **includes more than cash on hand** since it includes payments that the auditor considers likely to be collected (receivables). The City's annual audits show a total fund balance figure (red bar above) and then separate that amount into different categories based on how much discretion City leaders have to use it in the future. The Government Finance Officers Association (GFOA) recommends that governments carry at least two months' worth of ***unrestricted fund balance*** in their General Fund (blue bar above). That translates to 16.7 percent and the City dipped below that threshold in 2013. The preliminary 2015 results show the City at less than half of the GFOA's target in 2015.

Total revenue growth



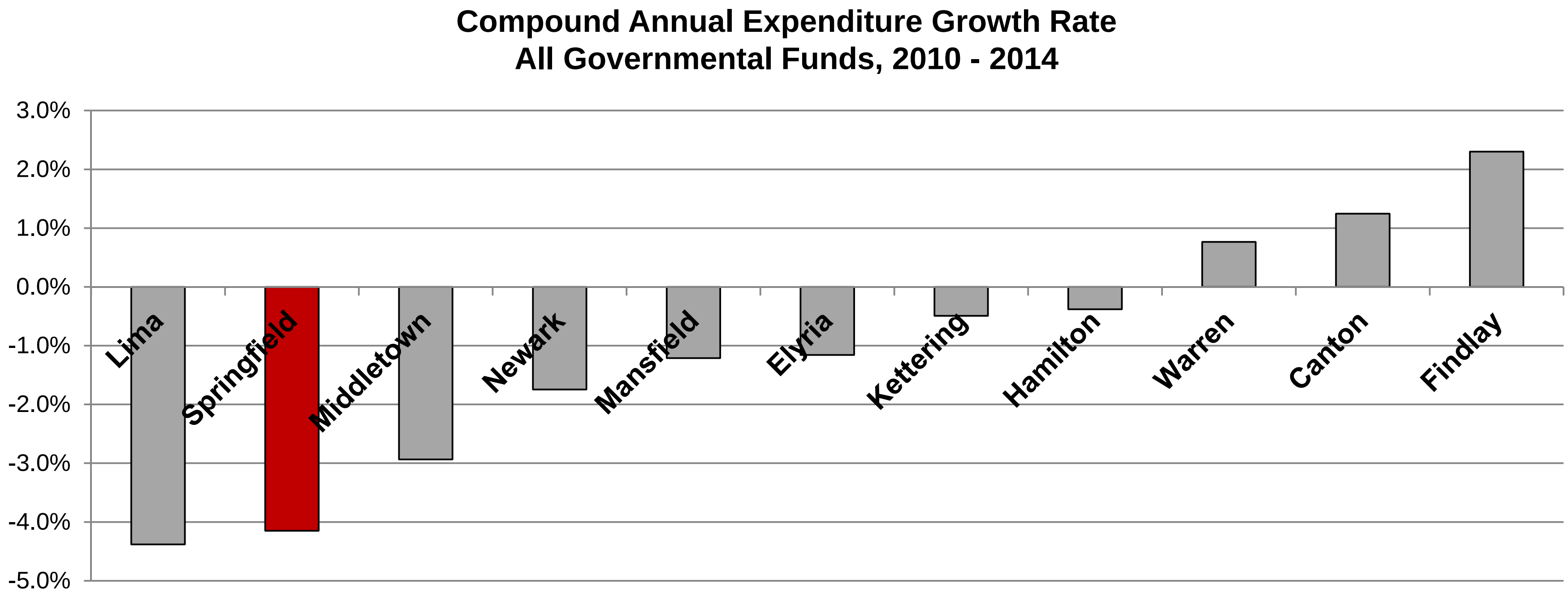
Source: Annual Financial Audits, 2010 and 2014

Throughout our analysis we'll compare Springfield to 11 other Ohio cities that are County seats with similar populations. Youngstown is excluded from this report because it had not published a 2014 audit at the time of analysis.

The graph above shows how total revenues across all governmental funds changed from 2010 through 2014. Along with the General Fund, this includes the Capital Improvement, Street Maintenance and other special revenue funds. It ***excludes*** internal service funds, enterprise funds (i.e. utilities) and other proprietary funds.

Springfield's negative growth rate (-2.8 percent) over this period was not unusual. Revenue declined for eight of the ten cities. **Mansfield's** positive growth is due in part to the City increasing the income tax from 1.75 to 2.00 effective 2014. Mansfield was also in fiscal emergency with State oversight from August 2011 through July 2014. **Canton's** growth was due in part to the City reducing the resident tax credit from 2.0 to 1.7 percent effective 2013. **Findlay** lowered its tax from 1.25 to 1.00 percent in 2013.

Total spending growth

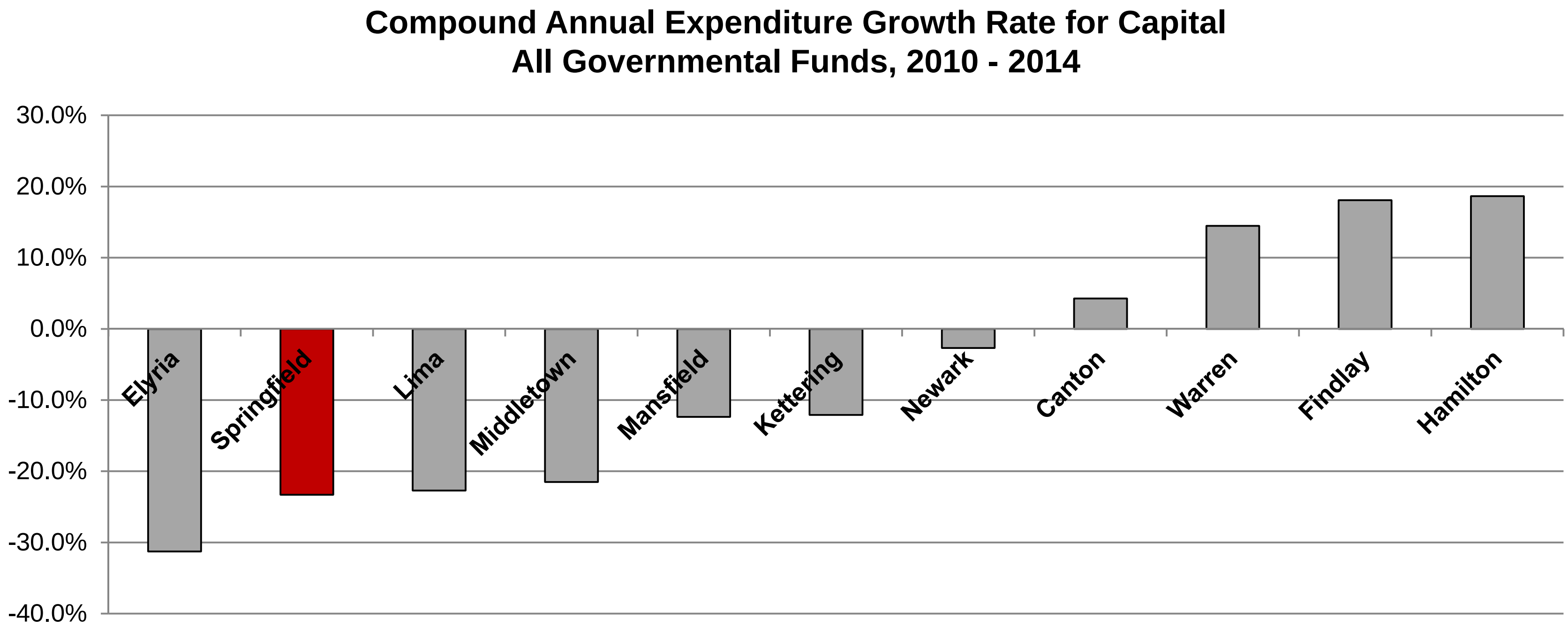


Source: Annual Financial Audits, 2010 and 2014

The graph above shows total expenditures across the same governmental funds. So, along with the General Fund, this generally includes the Capital Improvement, Street Maintenance and other special revenue funds. It ***excludes*** internal service funds, enterprise funds (i.e. utilities) and other proprietary funds. The utility funds do not support the General Fund other than through reimbursements for the cost of services received.

Eight of the 11 cities reduced spending over this period, and Springfield had the second largest drop at 4.1 percent. Lima had the largest reduction in spending (-4.4 percent), just as it had the largest reduction in revenues (-4.1 percent). Please note that reductions in total spending would include reductions in debt service capital outlays. It's possible for a city to reduce total spending without reducing spending on day-to-day operations (see next slide).

Spending on capital

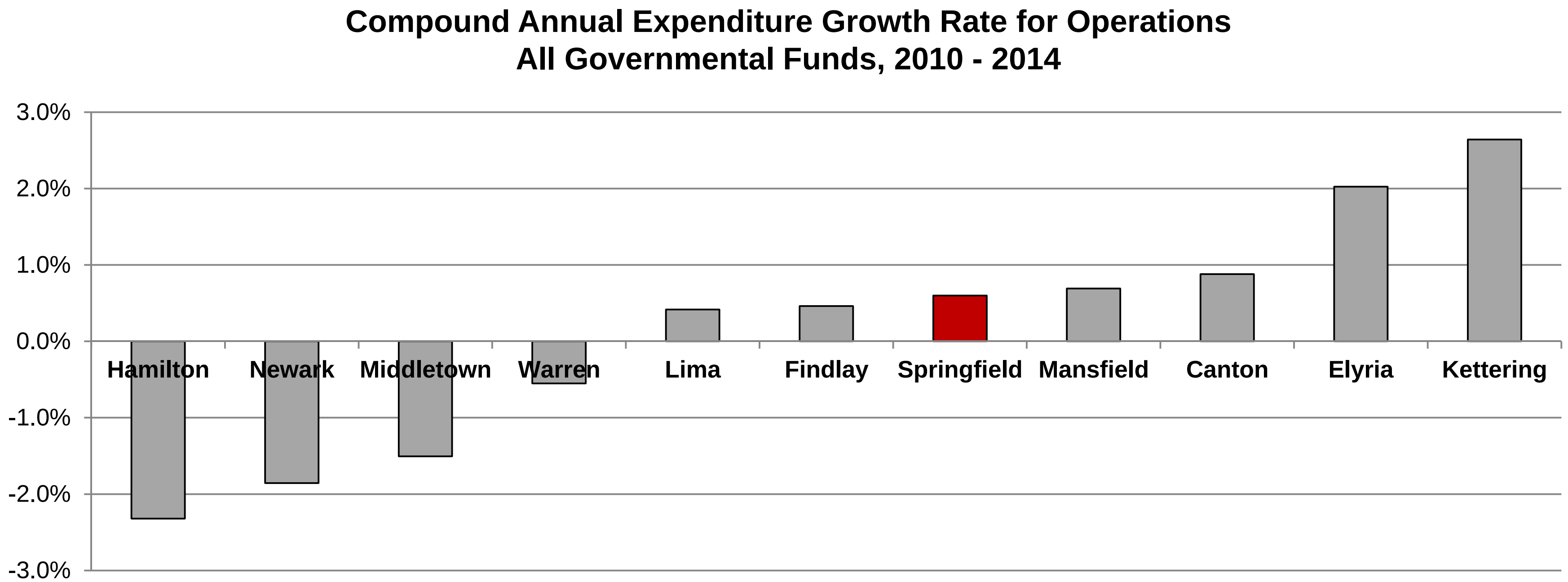


Source: Annual Financial Audits, 2010 and 2014

The graph above focuses on each city's capital outlay from its governmental funds. So utility spending is not included. Cities also define capital assets differently. Springfield's definition for capital ($10,000 cost with a five-year useful life) is more robust than Hamilton's (individual cost over $2,500), which could account for some of the difference shown above. This also does not account for differences in the types of capital assets, year-to-year fluctuations between 2010 and 2014 or differences in total budget size. For example, Findlay increased its capital outlay by 18.1 percent per year over this period, but its highest spending level ($5 million) was less than Springfield's lowest spending level ($6 million).

Nevertheless Springfield's trend here is generally a negative one with substantially less money spent on capital at the end of this period ($6 million per year for 2012 - 2014) than the beginning of it ($21 million per year in 2010 and 2011). Whatever caveats and factors explain the magnitude of this swing or how Springfield compares to other cities, City officials generally acknowledge that it has become increasingly difficult to invest in the City's core infrastructure, like roads and bridges.

Operations spending growth

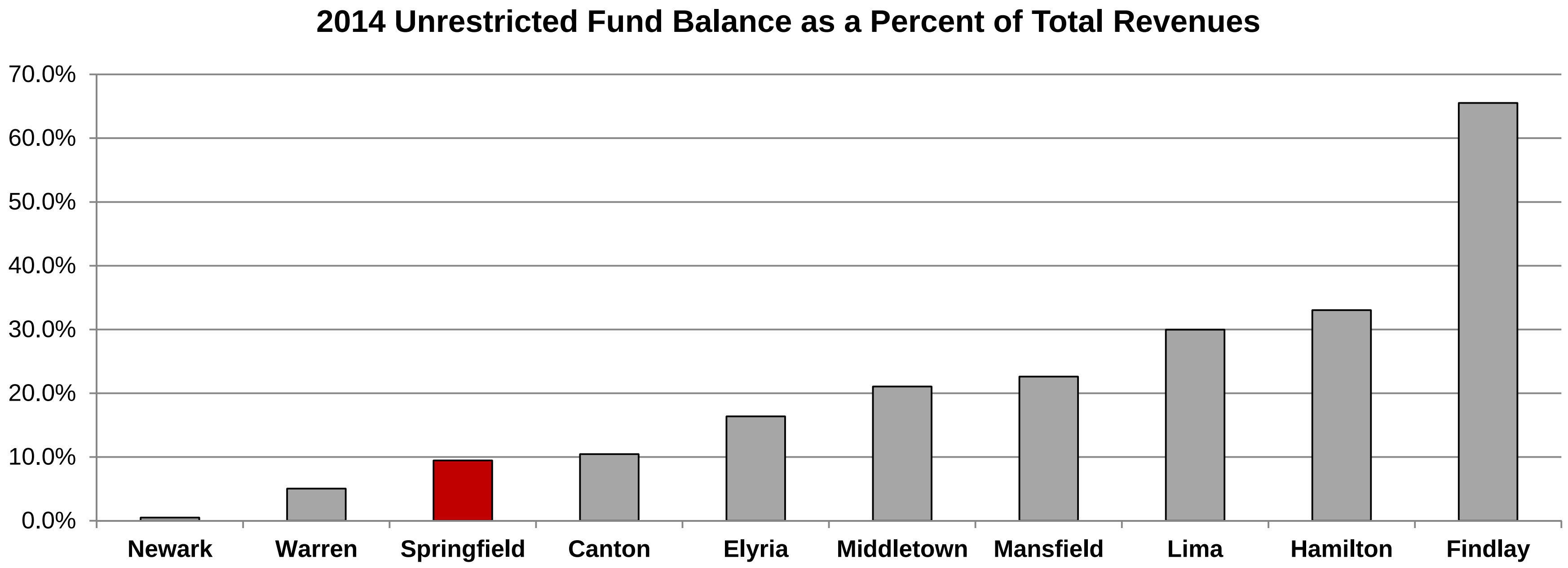


Source: Annual Financial Audits, 2010 and 2014

Setting aside spending on debt and capital, Springfield's growth in spending on day-to-day operations is more representative of the other Ohio cities. Springfield's spending on operations grew by 0.6 percent per year, which was very close to the median for the other 10 cities (0.4 percent). Springfield's spending on operations did not grow at an unusual level during this period.

These high level measures provide limited insight into why operations spending changed. Possible explanations, like changes in the level of service provided, are not evident here. For example, the graph above does not address whether Hamilton reduced employee headcount or Kettering added to it. Similarly, it is possible that these cities provide a different mix of services (e.g. more or less of public safety), which could explain some of the difference. We'll return to these issues as part of the public safety related benchmarking later in the process.

Fund balance as of 2014



Source: Annual Financial Audit, 2014

Let's return to unrestricted fund balance as a share of total revenues, which is a useful measure of a government's overall level of financial reserves. Springfield had $5.7 million in unrestricted fund balance across all governmental funds at the end of 2014, or 9.5 percent of total governmental fund revenues*. Please note that page 9 discusses the unrestricted balance in the General Fund only while this covers all governmental funds to account for differences in fund structures across cities.*

Springfield reserve level is low relative to other cities, including those that had similar reductions in revenue and capital spending (Elyria, Lima, Middletown). Springfield is one of four cities where the unrestricted fund balance dropped in 2013 and 2014, along with Newark, Warren and Canton. And Springfield's preliminary 2015 year-end results indicate the unrestricted fund balance across all funds dropped again last year.

Note: Kettering's fund balance ($98.3 million or 134 percent) is not shown to avoid skewing the graph. Kettering's fund balance grew from $49.4 million to $91.7 million in 2013 when the City received a $42 million estate tax settlement.

What is Springfield's baseline financial projection?

Setting the baseline

As described in our previous meetings, our multi-year planning process begins with a projection of the City's revenues and expenditures in a status quo or ***baseline scenario*** through 2021.

The baseline assumes no changes in the current tax rates so additional revenue from a 0.4 percent income tax increase is not included in the following projections. Any revenue growth is "natural growth," meaning it comes from projected changes in the tax base. Non-tax revenues grow at their historical level or an inflationary assumption, while properly adjusting for non-recurring events.

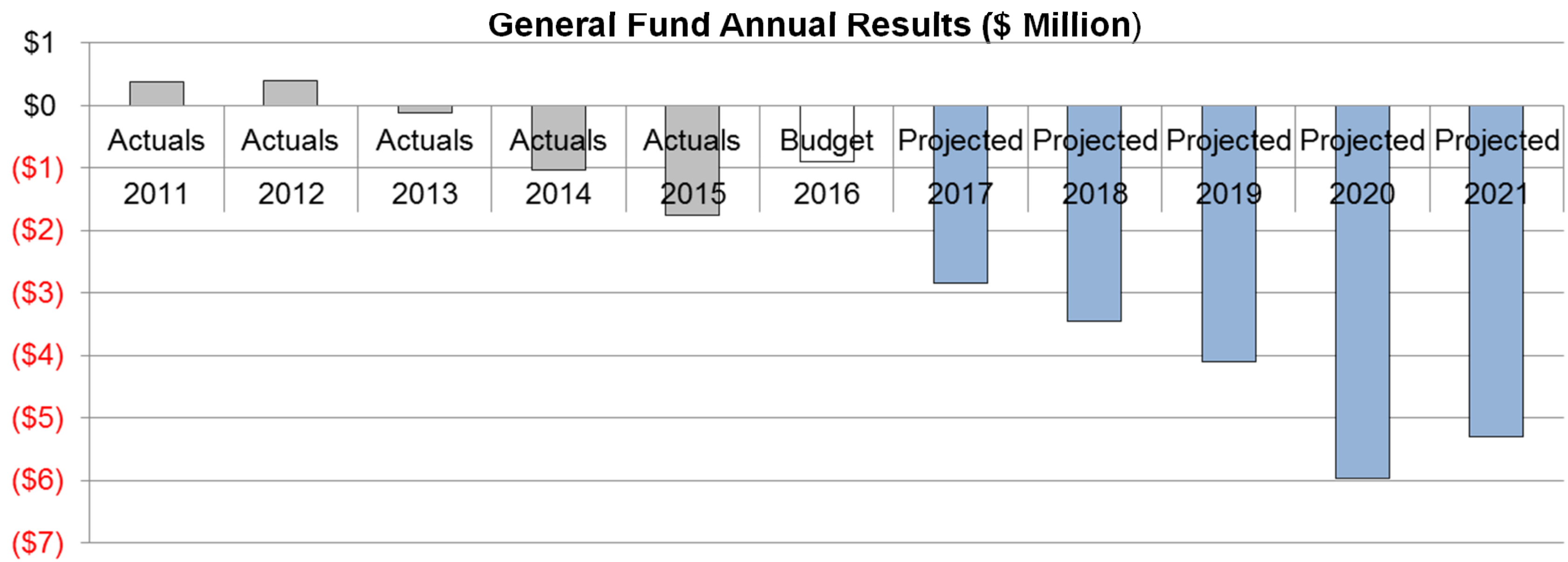
Similarly the baseline assumes no changes in the current mix or level of services provided. The baseline does not assume any changes in employee headcount, service cuts or service additions. So additional spending on a Safe Streets Task Force is not included. We will discuss the personnel related growth rate assumptions later. Non-personnel spending grows by inflation except where historic results recommend a different growth rate, spending is a fixed amount or national forecasts are lower (i.e. some utilities grow at the federally projected 0.85 percent annual rate).

Please note that the **baseline projections are not prescriptions for what should happen** with regard to tax rates, wage increases or other decisions. **They are not predictions of what will happen** since City government is not going to take no action for five years. Rather the baseline helps us answer the following questions:

- Is there a deficit? If so, is it structural or non-recurring? Does it get bigger, stay the same or shrink over time?
- What trends are driving the deficit? Is it a revenue problem, a spending problem or both?

Answering these questions will then help us focus on possible solutions that are appropriately sized, recurring in nature (if needed) and targeted to actual problems.

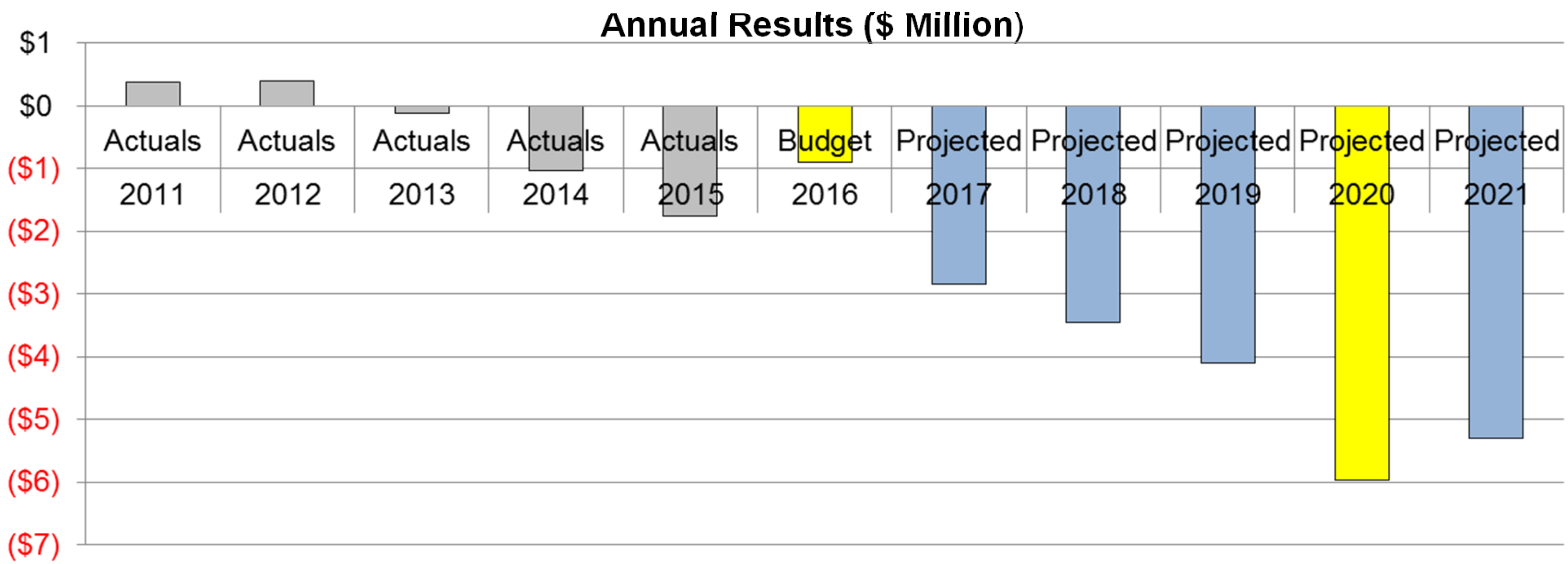
General Fund baseline projection



	2015 Actuals	2016 Budget	2017 Projected	2018 Projected	2019 Projected	2020 Projected	2021 Projected
General Fund Revenues	$36.7	$38.0	$38.0	$38.8	$39.7	$40.6	$41.5
General Fund Expenditures	$38.4	$38.9	$40.8	$42.3	$43.8	$46.5	$46.8
Annual result	**($1.8)**	**($0.9)**	**($2.8)**	**($3.5)**	**($4.1)**	**($6.0)**	**($5.3)**

The deficits shown above include the deficits in the Special Police Levy Fund and the Fire Division Service Enhancement Fund. Spending has outpaced revenues in those funds so the General Fund covers the difference through planned interfund transfers. Those General Fund transfers will grow without corrective action. In this presentation **the growing deficits in those funds are included in the General Fund numbers shown above**. We'll discuss the Special Police Levy Fund and Fire Division Service Enhancement Fund in more detail later.

What happens in 2016 and 2020?



At a high level the projections are intuitive – the City's financial results have declined each year since 2012 and they won't improve without corrective action. From that perspective the 2016 and 2020 results look unusual because they don't fit the trend.

The 2020 deficit is the result of a timing quirk that makes the deficit larger that year. The City's biweekly payroll usually equates to 26 pay periods per year. Since there are more than 364 days in a year (26 periods x 14 days), every 11th year the City has a 27th pay period. That will be the case in 2020 and cash compensation will be proportionally higher that year.

The 2016 result is a different case that merits a closer look.

2016: Budget versus projected

The baseline uses the City's 2016 budget as a starting point and then we apply calculated growth rates to project future results. The 2016 budget had a $0.9 million General Fund deficit, as reflected in the baseline result for 2016.

City Finance's mid-year revenue estimate anticipates that the General Fund will have $0.5 million less than budgeted this year. They also anticipate that EMS fees in the Fire Fund and real estate taxes in the Police Fund will each finish $300,000 below budget. All else being equal, that will also increase the General Fund transfers to those funds and make the General Fund deficit larger.

2016 Projection vs Budget (Plus or minus $100k)

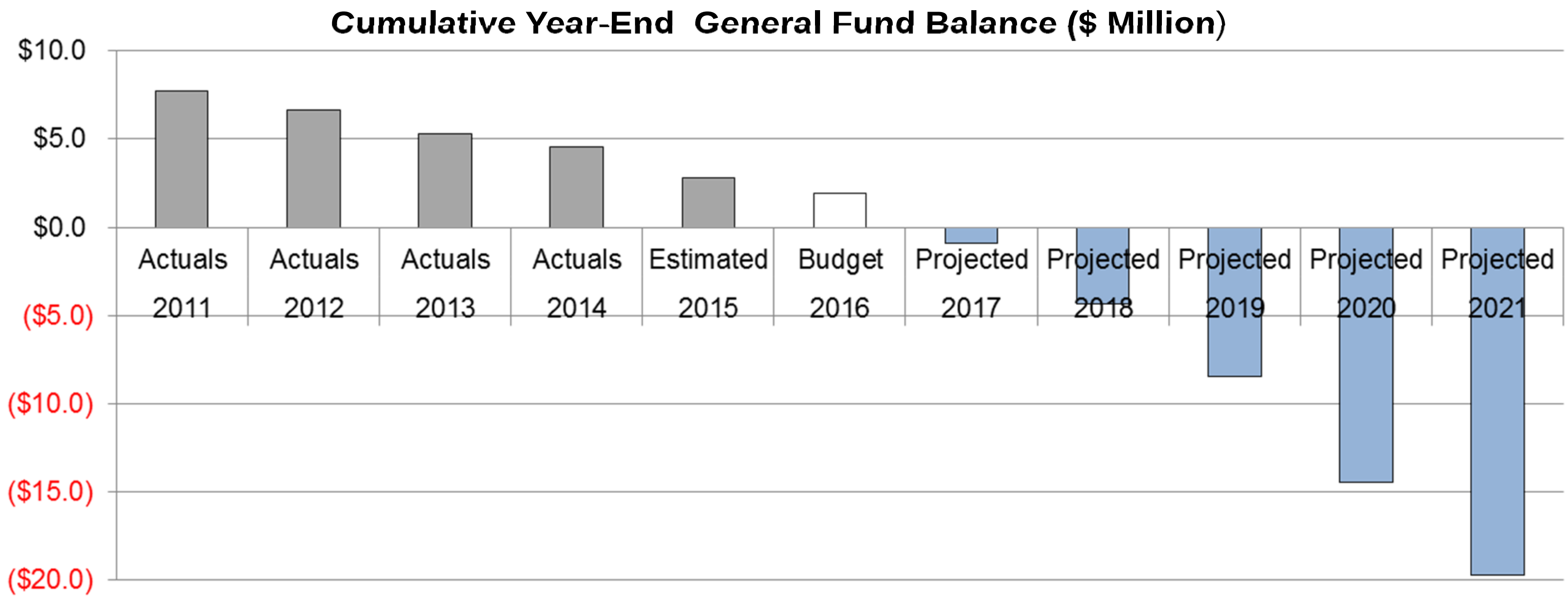
	Projected	Budget	Difference
Water/Sewer reimb	$715,000	$1,000,000	($285,000)
Reimb other direct costs	$435,000	$650,000	($215,000)
Direct salary reimb	$110,000	$253,000	($143,000)
Direct fringe reimb	$440,000	$560,000	($120,000)
Income tax	$29,061,000	$28,957,500	$103,500
Subtotal	**$30,761,000**	**$31,420,500**	**($659,500)**

In the instances shown above we used the 2016 budget figures in our projection so there is a consistent starting point and then adjusted our 2017 projections to account for the lower 2016 results.

The City may spend less than budgeted this year which would offset at least some of the anticipated revenue shortfall. The City should naturally spend less than budgeted since the budget assumes every position will be filled throughout the year. Given the size and nature of City government, there will naturally be turnover and position vacancies that result in lower spending on salaries and related forms of cash compensation. That "vacancy allowance" isn't explicitly shown in the budget but it provides the City with some contingency against revenue shortfalls or unanticipated expenditures. Our baseline projection also has this contingency since it assumes every position will be filled throughout the year.

Given the declining reserve levels, the City does **not** have any plans to use this vacancy allowance/contingency to fund additional spending, nor should it do so. As the next slide shows, the City's reserves are already at a precarious level.

When do we run out of fund balance?



As mentioned earlier, fund balance is a useful measure of City government's financial reserves, though it is not the same as cash on hand. Assuming fund balance drops from $4.6 million at the end of 2014 to about $3.0 million at the end of last year as the preliminary results show, the City will be at risk to exhaust its fund balance some time next year. The 2016 year-end fund balance could be lower than shown above if the 2016 results are worse than budgeted.

Exhausting fund balance does not necessarily mean that the City would run out of cash. Fund balance includes more than cash, so it is possible to have a negative fund balance with some cash on hand. However, please note the City's year-end level of cash in the General Fund has also fallen. The City increasingly negative results and projected absence of any fund balance just 16 months from now underscores the urgency of the City's situation.

What are the primary drivers for these results?

Key trends

The City has hundreds of lines of historical revenue and expenditure information for these three funds over five years, plus the 2016 budget. We've generated hundreds more for the 2017 through 2021 projection. To distill that information to a more manageable level, here are **seven key trends** that explain the City's performance and baseline projection. They are not listed by importance, but rather cover revenues first and then expenditures.

1) Income tax revenue is growing by 2 – 3 percent per year

2) State policies were a significant contributor to the City's recent deficits, but they aren't the only factor driving the need for action

3) Most non-tax revenues aren't growing. In some important instances, they're falling

4) The City is becoming more dependent on the income tax

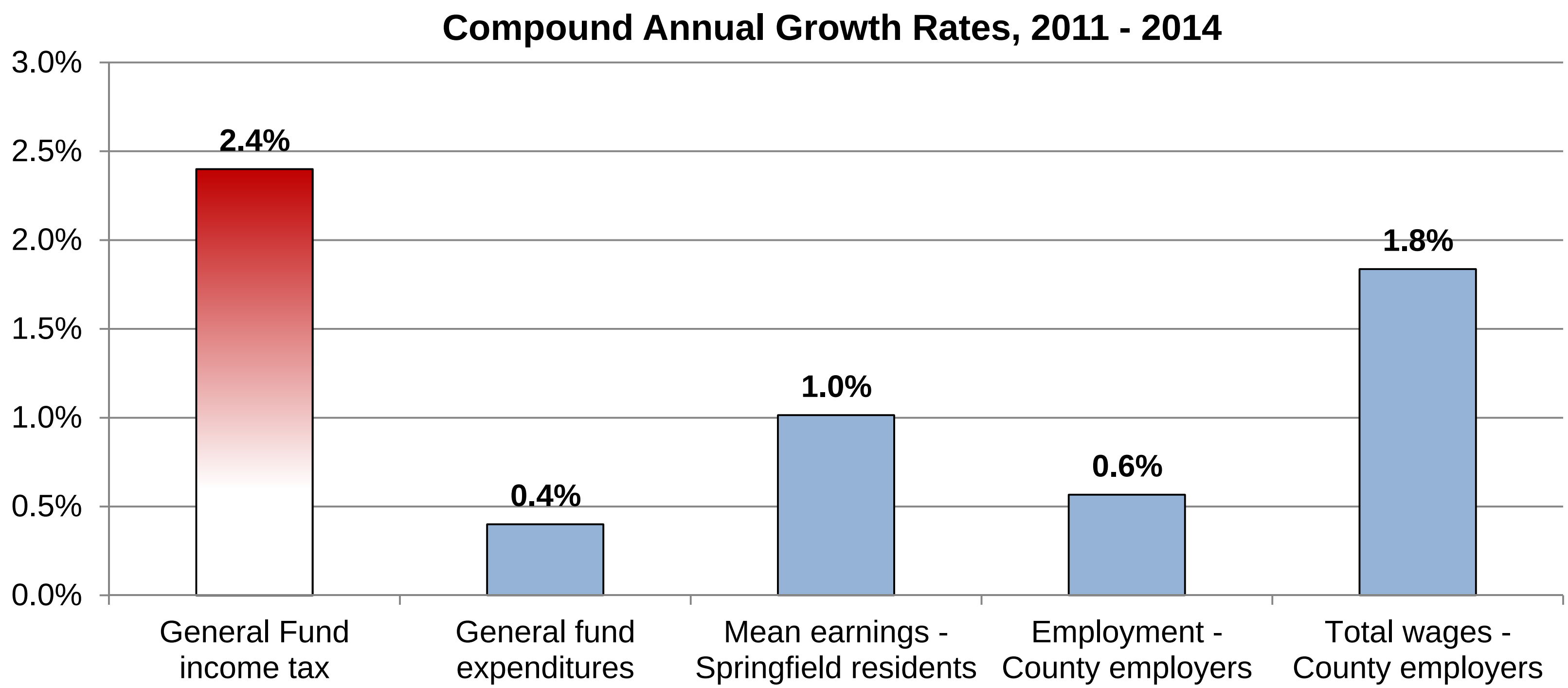
5) Spending on salaries and total recurring cash compensation has been flat

6) Insurance costs are growing faster than the national average, though the City and unions have taken steps to curb that growth

7) There are growing deficits in the Special Police Levy and Fire Division Service Enhancement Funds

#1: Income tax base is growing

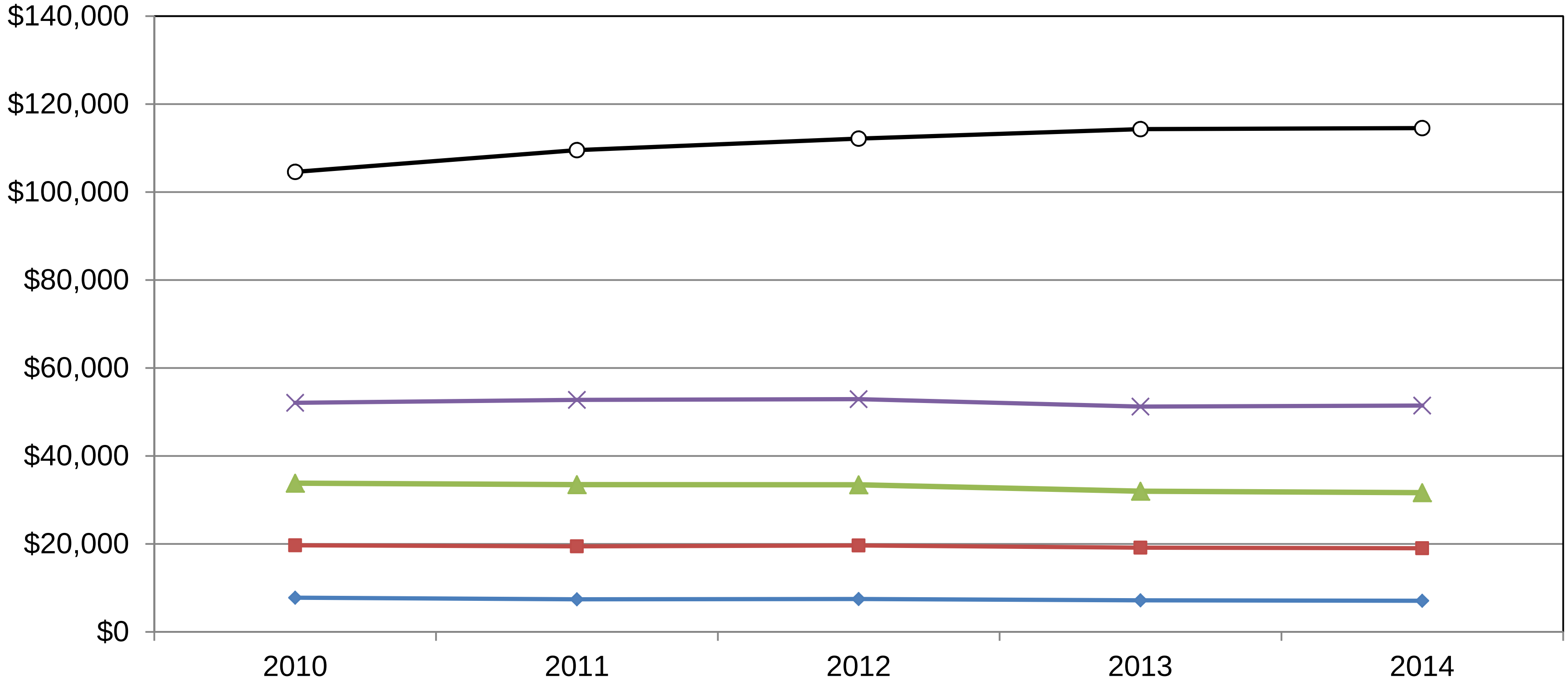
As with other Ohio cities, the income tax is Springfield's largest source of revenue. So its growth is critical to balancing the budget and achieving structural stability (i.e. recurring revenues cover recurring expenditures). Springfield's income tax revenues have grown steadily since 2011, with 1-3 percent growth each year and a compound annual growth rate of 2.4 percent from 2011 through 2014 (same for 2011 – 2015). That's more than the compound annual growth rate for total General Fund expenditures, which have been flat (0.4 percent). Springfield's income tax ***base*** is also growing, though data limitations prevent us from knowing exactly how much. Census data shows mean earnings for full-time employed City residents growing by 1.0 percent per year from 2011 - 2014. BLS data shows employment and total wages at County employers growing over this period. The baseline projection assumes 2.5 percent annual growth.



Whose income is growing?

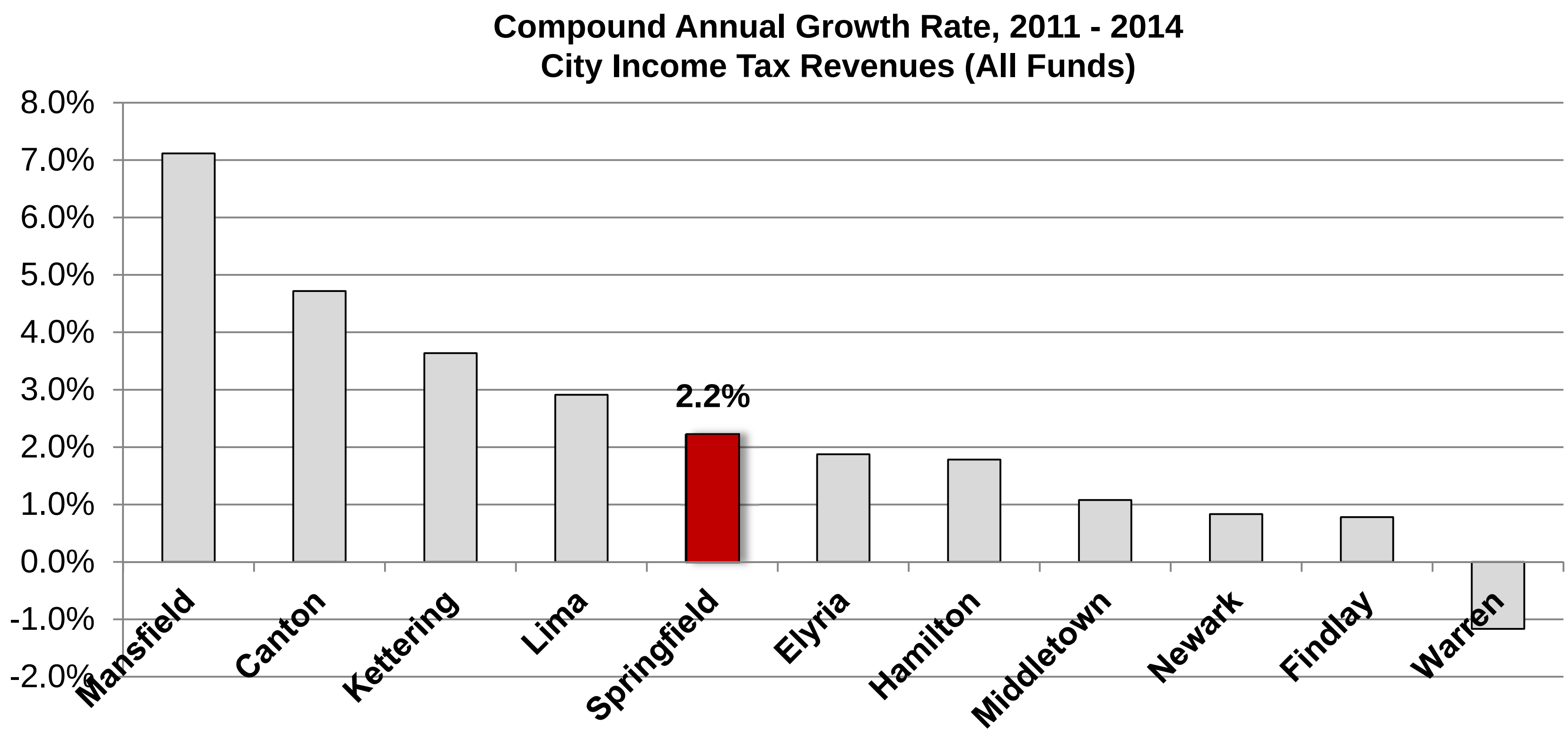
US Census Bureau data provides some insight on whose income is growing, at least for City residents. The American Community Survey (ACS) shows the mean household income for Springfield residents by quintile. Generally the lower a household's income has been, the less it has grown. On average income for households in the bottom quintile fell by 2.3 percent per year from 2010 through 2014. Households in the middle 60 percent had flat or slightly declining income, and households in the top 20 percent had income increase by 2.3 percent per year. This does not include income for Springfield's commuters. The stratification is similar, though less pronounced, for Clark County as a whole.

Median Household Income in Springfield by Quintile



Income tax revenues up elsewhere

Income tax revenues increased in ten of the 11 Ohio cities. The highest growth was in Mansfield (7.1 percent) and Warren saw tax revenues fall. From this perspective, Springfield's experience was not unique. It was a little better than the median for the rest of the cities (1.8 percent). As noted earlier, Mansfield increased its income tax and Findlay decreased its income tax over this period. Canton reduced the resident income tax credit, generating more money for the City.



ote: These figures come from each city's annual audit so they use modified accrual accounting. The 2.4 percent growth shown for Springfield on Slide 22 uses cash accounting.

#2: State policy changes did hurt…

Changes in State policy contributed to a $2.5 million reduction in related revenues over a five-year period. The largest impact was on State-shared taxes, which dropped $1.4 million. Before 2012 the State shared 3.68 percent of State tax revenues with local governments through the Local Government Fund. In 2012 the State allocated 75 percent of the amount received during 2011 (plus a one-time $49 million supplement) and in 2013 the State allocated 50 percent of that same base period. In 2014 the State restored the percentage approach, but at 1.66 percent instead of 3.68. Ohio also repealed the estate tax in 2013. While the State reduced the subsidy ("rollback") for real estate tax increases enacted after 2013, the drop in that revenue line is more likely related to loss of assessed real estate tax value.

Changes in State-related Revenues, 2011 - 2015

	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	2015 Actuals	Total Change
State-shared taxes (Local Gov't Fund)	3,187,950	2,257,602	1,731,287	1,695,068	1,779,653	-44.2%
Estate Taxes	925,045	614,415	610,313	246,256	0	-100.0%
Other State Shared Taxes	89,460	84,752	89,526	85,639	91,004	1.7%
Subtotal	**4,202,455**	**2,956,769**	**2,431,126**	**2,026,963**	**1,870,657**	**-55.5%**
Year-to-year change	**N/A**	**-29.6%**	**-17.8%**	**-16.6%**	**-7.7%**	

…but the baseline projects some growth

The baseline projection does not restore the revenue lost from the estate tax repeal and the City's share of Local Government Fund revenue is not projected to reach pre-2013 levels. But the projected State Local Government Fund distribution to Clark County grows by 4.5 percent per year through 2017. We carry that growth forward with two important caveats:

- The City now receives most of its LGF revenue from the County and the revenue-sharing agreement expires after 2017. We aren't projecting any change in the existing arrangement.

- We aren't projecting any further changes in state laws that could increase or decrease revenues.

These revenues are vulnerable to factors beyond City government's control, but they are currently projected to grow at a stronger pace than other revenues (see next page).

Projected State-related Revenues

	2016 Budget	2017 Projected	2018 Projected	2019 Projected	2020 Projected	2021 Projected	2017-21 CAGR
State-shared taxes (Local Gov't Fund)	1,683,500	1,759,258	1,838,424	1,921,153	2,007,605	2,097,947	4.5%
Other State Shared Taxes	88,000	88,880	89,769	90,666	91,573	92,489	1.0%
Subtotal	**1,771,500**	**1,848,138**	**1,928,193**	**2,011,820**	**2,099,178**	**2,190,436**	**4.3%**
Year-to-year change	**N/A**	**4.3%**	**4.3%**	**4.3%**	**4.3%**	**4.3%**	

#3: Non-tax revenues aren't growing

The City has several user charges and fees for service in its General Fund and the Fire Division Service Enhancement Fund receives most of its revenue from emergency medical service (EMS) transport charges. While some understandably describe these charges as "just another type of tax," there is an important conceptual difference between the two. Taxes are generally levied across a broader base to fund services that produce a benefit that is harder to quantify and assign to specific individuals. Service charges are paid by the individual or organization that benefits most from the service. If service charge revenues fall while the cost of providing service rises or stays flat, then a larger burden of providing those services shifts to the broader population of tax payers.

The City's revenues from reimbursements (e.g. interfund charges, charges to grants) have dropped every year and will finish $700,000 under budget this year (see page 18). EMS charges have fallen each year since 2012. Service charge revenues have been basically flat, which may be appropriate given the City's overall spending trend and license and permit revenues are rising, which is a positive sign for the development.

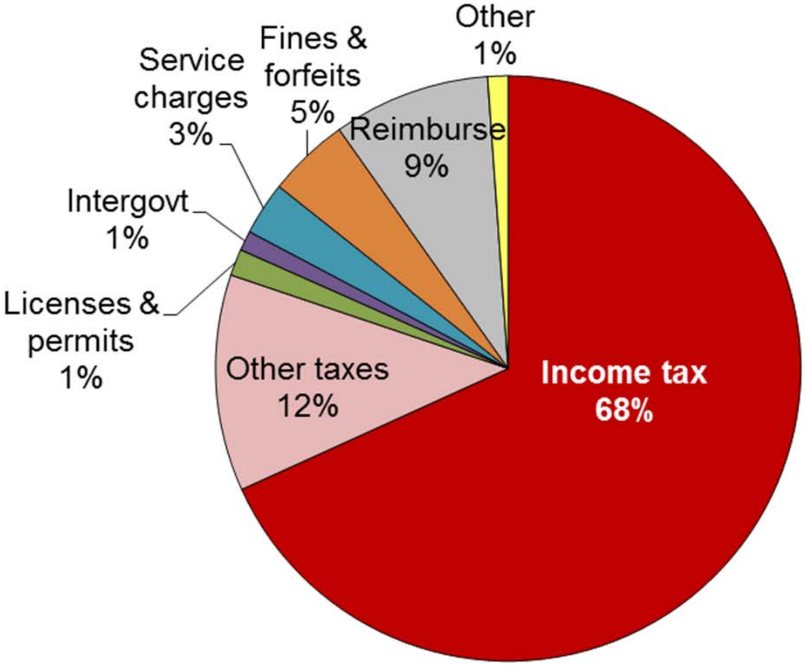
	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	2015 Actuals	% Change
Reimbursements	3,263,822	3,136,568	2,770,157	2,587,944	2,374,672	-27.2%
EMS Charges (Fire Division Fund)	2,669,682	3,275,883	2,880,934	2,363,166	2,185,217	-18.1%
Service charge subtotal	1,106,973	1,123,165	1,183,589	1,122,454	1,093,636	-1.2%
License, permits and fees subtotal	553,212	581,708	804,694	562,809	634,570	14.7%
Total	**7,593,689**	**8,117,324**	**7,639,374**	**6,636,373**	**6,288,095**	**-17.2%**

Given the historic trend, the baseline projection has annual reductions in reimbursements (~1 percent), though the City is taking action to hopefully change that trend. EMS revenues are held flat, though that's more positive than recent performance. The same is true for fines and forfeits, though they also dropped over the last five years. Other items are projected to grow at inflation.

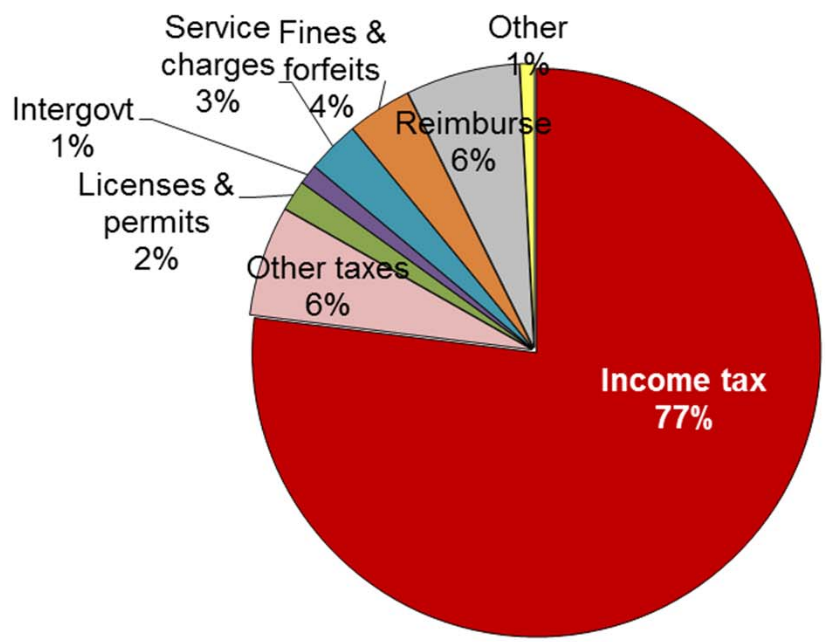
#4: Growing dependence on the income tax

The combination of the first three trends leads to a growing dependence on the income tax. Income tax revenue has grown while revenue from other sources has either dropped (Stated shared revenues grouped under other taxes) or been flat (fines and forfeits, service charges). The baseline projection continues this trend with income tax accounting for 79 percent of total General Fund revenues in 2021. An income tax increase would push that share higher.

2011 General Fund Revenues



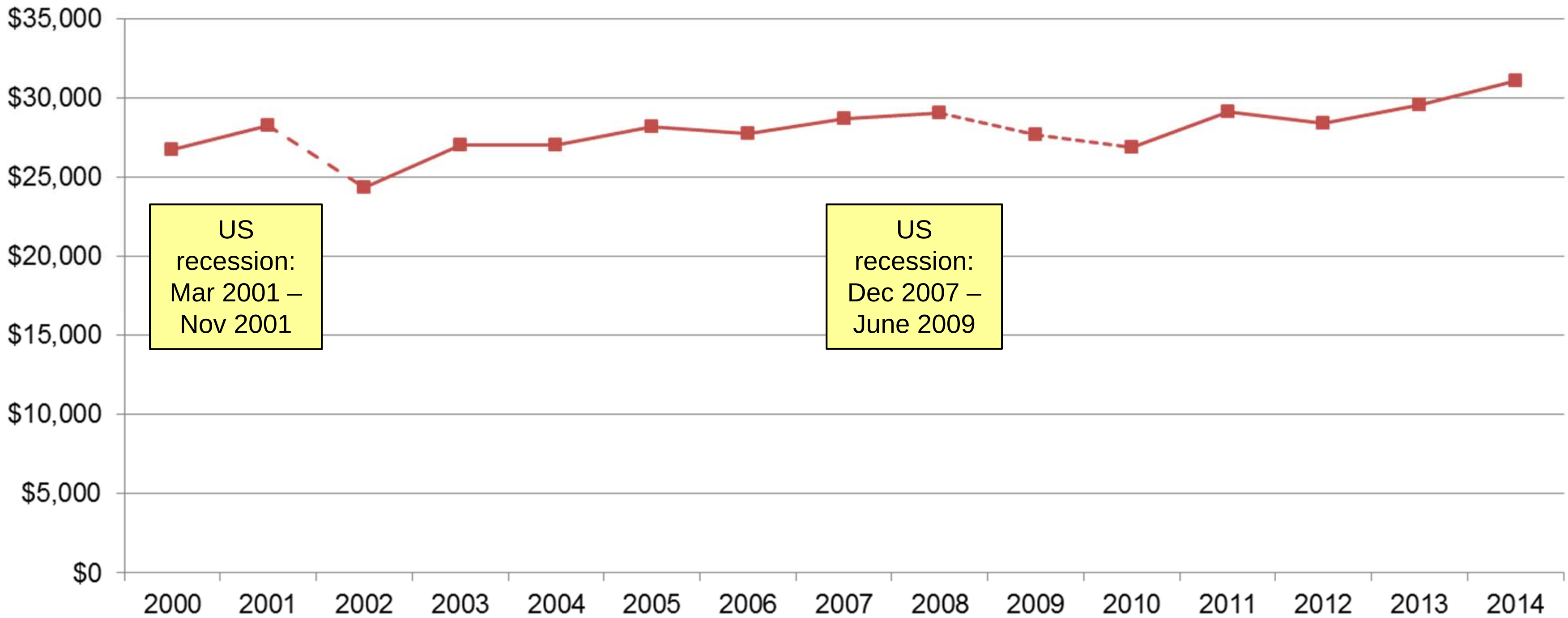
2015 General Fund Revenues



Is this a problem?

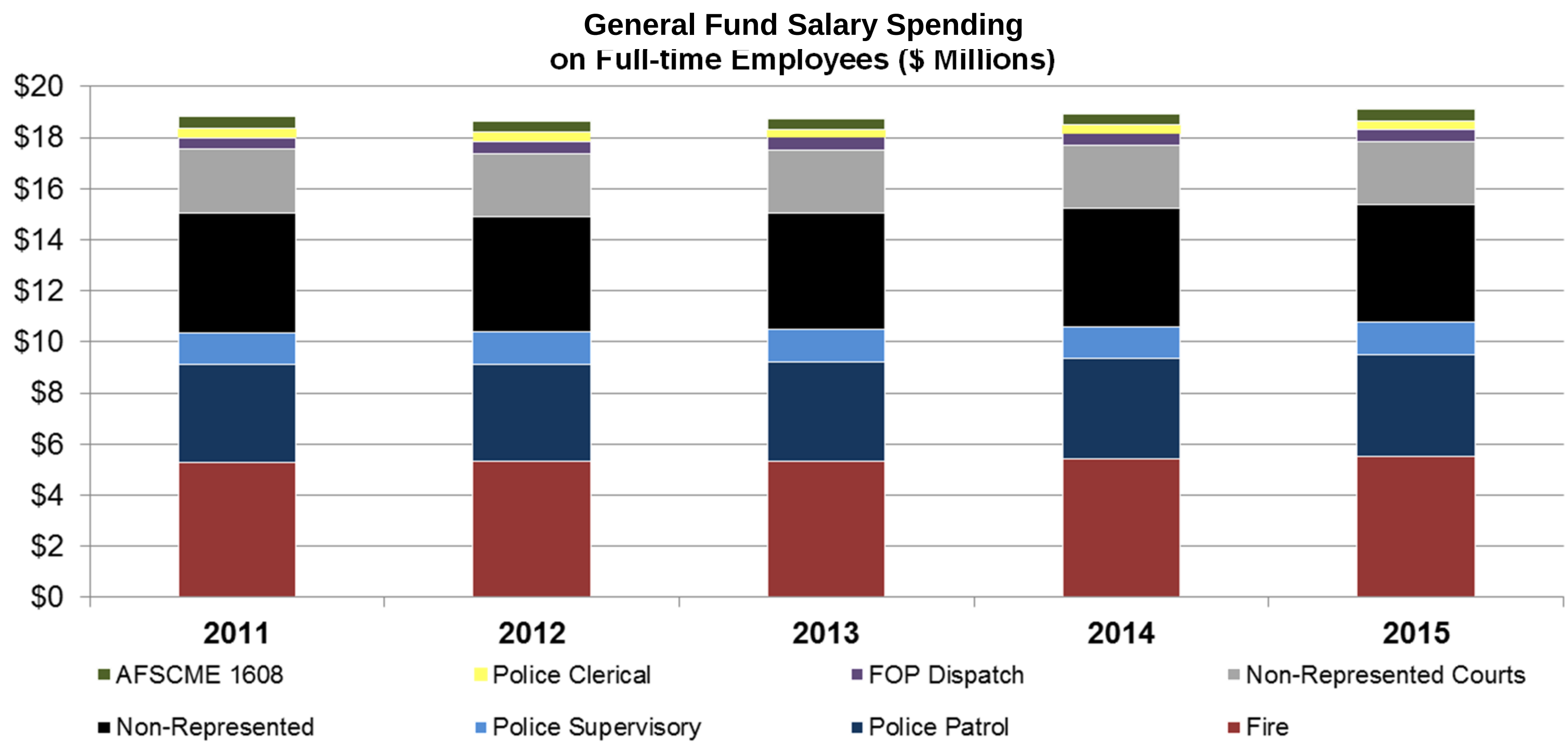
Springfield's dependence on the income tax isn't unusual. In 2014 the tax generated 51.5 percent of Springfield's revenue across all governmental funds, which was 6th among the 11 Ohio cities. Given the reduction in State revenues and the relatively small amount generated by the real estate tax, all 11 Ohio cities became more dependent on the income tax. But Springfield is becoming more dependent on the tax at a faster rate than the other cities. The tax's share of total revenues in Springfield jumped from 38.5 percent in 2011 to 51.5 percent in 2014 – a bigger jump than elsewhere. There is risk in becoming increasingly dependent on a revenue source that is sensitive to economic cycles. Note that revenues dropped 13.9 percent in 2002 following the 2001 recession and dropped 7.4 percent combined in 2009 and 2010 following the Great Recession.

Total Income Tax Revenues ($000s) – All Governmental Funds



#5: Salary spending has been flat

The City allocates most of its General Fund budget for employee compensation (80.5 percent in 2016) and base salaries account for almost two-thirds of that amount. Spending on employee base salaries has been very flat. Overall it has grown by only 0.4 percent per year and that flat trend applies across bargaining units (see below). Police division salary spending grew by 0.3 percent per year to $7.8 million (all employees, all unions) and fire division salary spending grew by 1.1 percent per year to $7.4 million (all employees, all unions). Wages for individual employees increased more over this period. In addition to across-the-board raises, employees are also generally eligible for tenure based (step) increases in their first six years and then again in their first two or three years upon promotion (e.g. three steps for police and fire lieutenants). But Citywide vacancies and turnover have countered those increases.



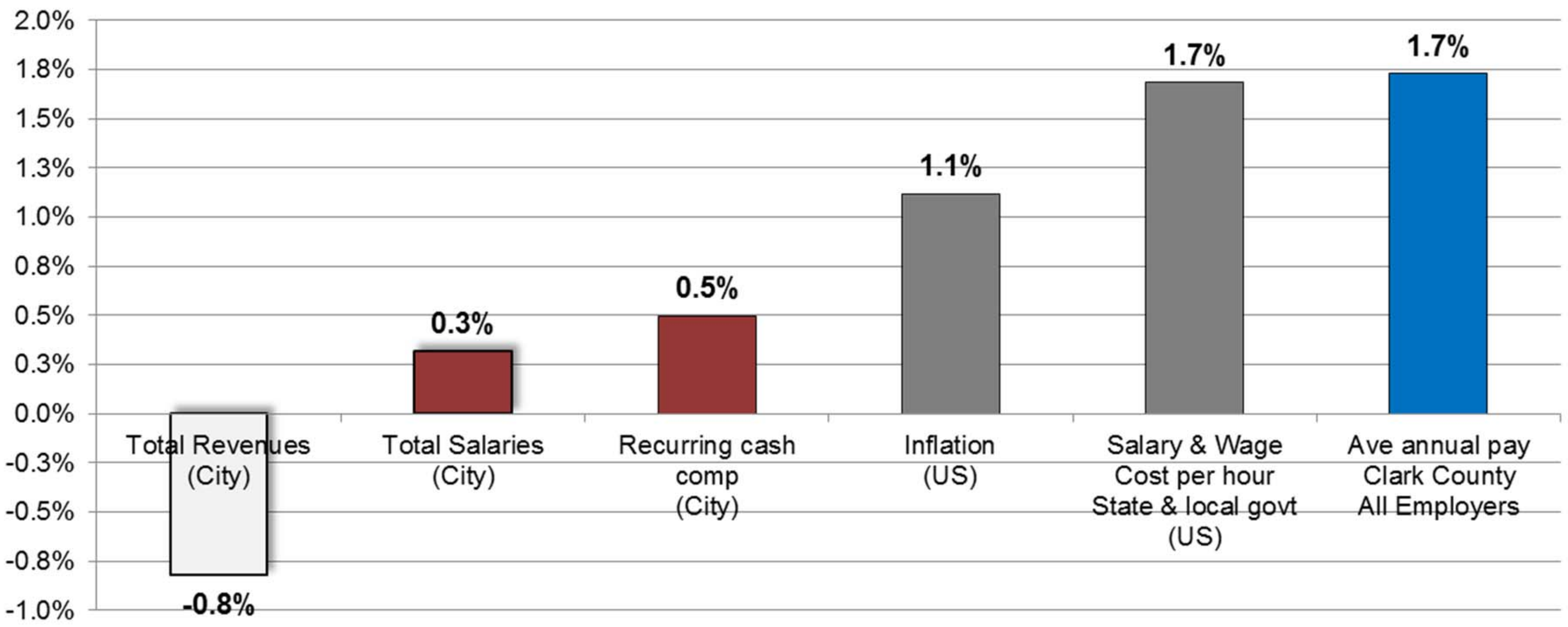
Flat spending on recurring cash compensation

City employees receive other types of cash compensation beyond their base salaries, including additional pay for working overtime, acting pay, longevity, uniform allowances and sick leave buyback. From 2011 through 2015 the growth in spending across these items (three-fund total) was a little higher than the growth in base salaries (0.5 percent versus 0.3 percent). But it was still low relative to the growth in the following external reference points:

- National inflation as measured by the chained consumer price index (C-CPI-U)
- Salary and wage cost per hour for state and local governments (BLS ECEC)
- Average annual pay for people employed in Clark County (all industries – not just government)

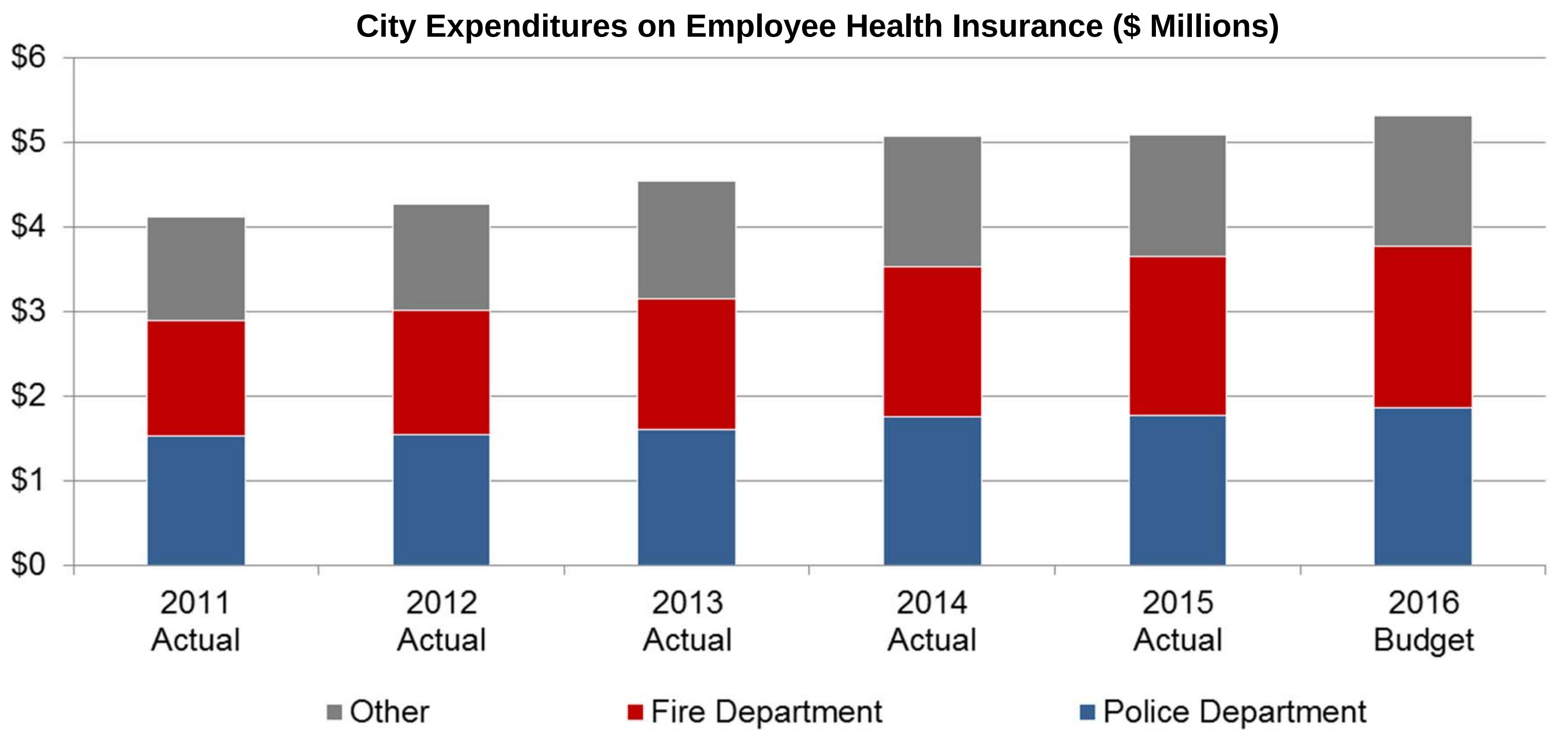
Unfortunately the City's total revenues across the three funds *shrunk* by 0.8 percent per year over this period. So the modest compensation growth rate contributed to the negative financial results.

Compound Annual Growth Rates, 2011 - 2015



#6: Insurance costs have grown

Spending on active employee health insurance costs across the General, Special Police Levy and Fire Division Service Enhancement Funds grew each year with a compound annual growth rate of 5.4 percent from 2011 through 2015. Spending across all employees in the fire department grew by 8.3 percent per year over this period while spending on police grew at 3.8 percent and spending on all other employees grew at 4.1 percent. The largest jump was in 2014 when spending increased by 14.4 percent. The numbers below are the City's contribution, net of employee contributions.



Growing more than national average

Traditionally Springfield employees could choose between two health plans -- a Preferred Provider Option (PPO) and a High Deductible Health Plan (HDHP). The City is fully insured, so it makes a monthly premium payment to the insurance company for each employee based on the plan selected and level of coverage (single or family). Under the current collective bargaining agreements the City covers 90 percent of the total premium and union employees cover the other 10 percent. The split is 85:15 for non-represented employees. Employees also make copayments when they receive care or prescription drugs.

Premiums for the City's plans have generally been higher and grown faster than the national averages for similar plans. For example, the annual premium for family coverage on the City's PPO grew by 27.4 percent from $14,681 in 2011 to $18,704 in 2014. The annual premium for family coverage on PPOs nationally grew by 12.5 percent from $15,404 in 2011 to $17,333 in 2014. The table below shows the percentage growth for the City's plans versus national averages over the last five years.

Please note that the available points of comparison are national averages (not just the local market) across all types of employers (not just government).

Health Insurance Plan Premium Cost Growth (Family Coverage)

	PPOs		HDHPs	
	City	National	City	National
2011 to 2012	4.9%	6.2%	5.0%	3.1%
2012 to 2013	5.0%	1.9%	5.0%	7.8%
2013 to 2014	15.6%	4.0%	15.6%	1.1%
2014 to 2015	10.7%	6.6%	15.1%	3.7%
2011 to 2015	**41.0%**	**19.9%**	**46.7%**	**16.5%**
CAGR	**9.0%**	**4.6%**	**10.1%**	**3.9%**

Source: City-provided summary of historical plan costs. National averages come from annual surveys by the Kaiser Family Foundation.

Efforts to curb cost growth

The City and unions have taken steps to curb health insurance cost growth including the following:

- All eligible employees are now enrolled in the lower cost HDHP with a health reimbursement account (HRA) or health savings account (HSA). Last year the HDHP premium for family coverage was $14,769 per year versus $20,701 for the PPO. The City's annual premium for family coverage on the HDHP was lower last year than the national average ($14,769 versus $15,970).

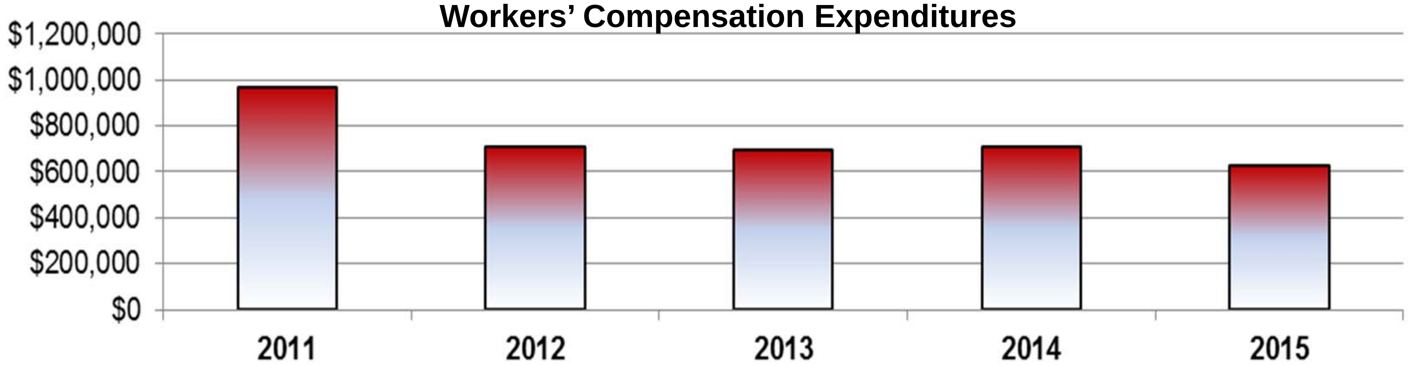
- There have been increases in employee co-payments for office visits ($20 to $35) and prescription drug coverage ($10/$25/$40 to $10/$35/$70).

- Non-represented employees now pay 15 percent of the monthly premium cost instead of 10 percent.

- In addition to the medical deductible (mostly covered by City through a contribution to the HSA), there is a now a separate deductible for prescription drug coverage.

The City has also successfully reduced its worker's compensation costs by 34.7 percent from $965,000 in 2011 to $630,000 in 2015. The City is fully insured and has a light duty program where employees can return to work in a less strenuous capacity while recovering from an injury.

Workers' Compensation Expenditures



Workforce projections

Here are the key workforce assumptions incorporated in the baseline projection. Again, please note that these are not prescriptions for what the City's position should be entering negotiation with its bargaining units.

- **Base salaries:** Employees would receive 2.0 percent across-the-board salary increases each year plus any applicable annual step increase. For most unions the cumulative impact is a 2 – 3 percent annual increase. The annual increases for 911 dispatch employees are 3.0 – 4.5 percent per year because a higher percentage of employees are in the early part of their career and eligible for step increases.

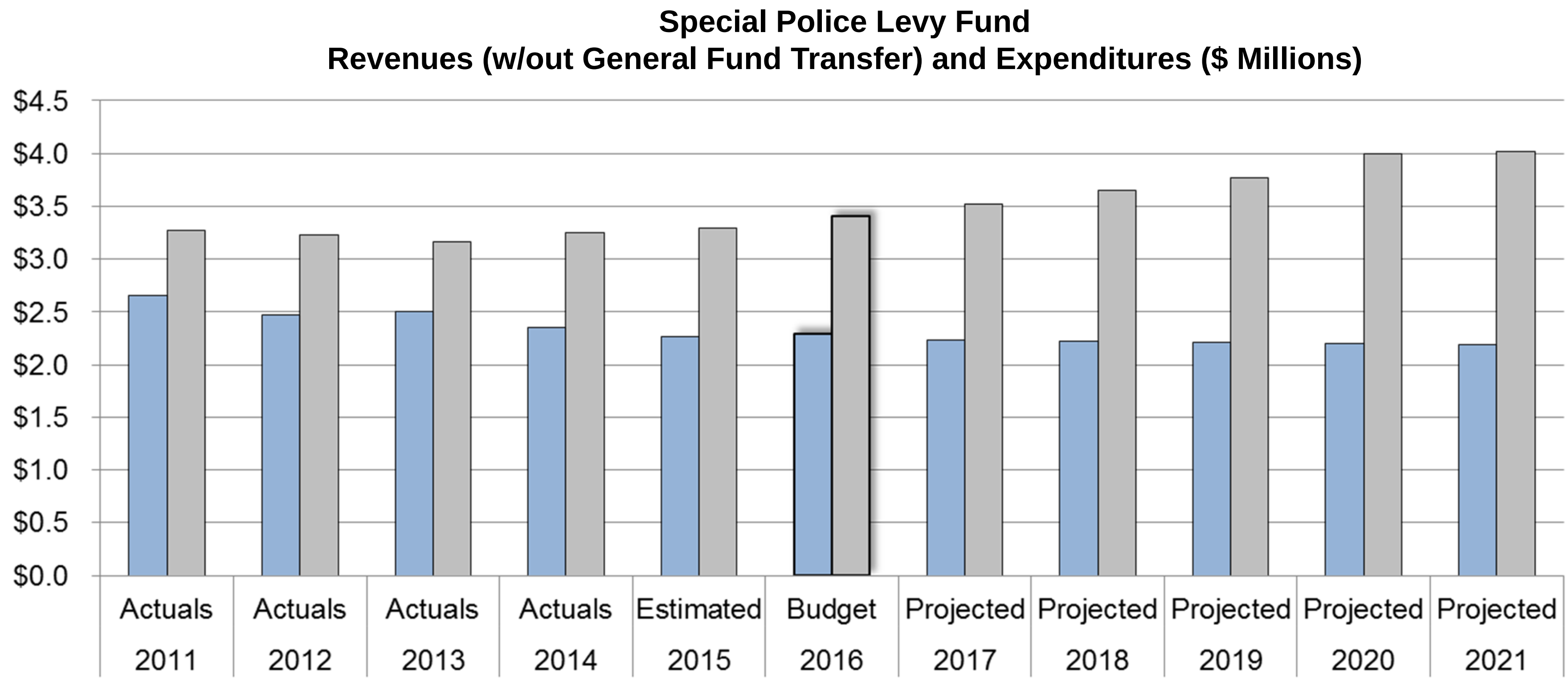
  Realistically the baseline projection would not allow the City to provide this level of wage increases. The projection model is dynamic so the user can change the wage growth assumptions in any year for any union and see the impact on salaries and associated forms of compensation.

- **Health insurance:** The City's spending on health insurance is projected to grow by 8.0 percent per year. This is at the low end of the range that the City uses for budgeting purposes (8 – 10 percent) but higher than the 5.4 percent compound annual growth rate for all health insurance spending for 2011 through 2015, inclusive of the corrective actions described on the prior page.

- **Pensions:** The City's contributions to employee pensions and retired employee health insurance generally follow growth in base salaries. So the OPERS contribution is tied to the salary growth rates for non-represented employees, the police pension fund contribution is tied to salary growth for the patrol officers and the fire pension fund contribution is tied to the salary growth for the IAFF.

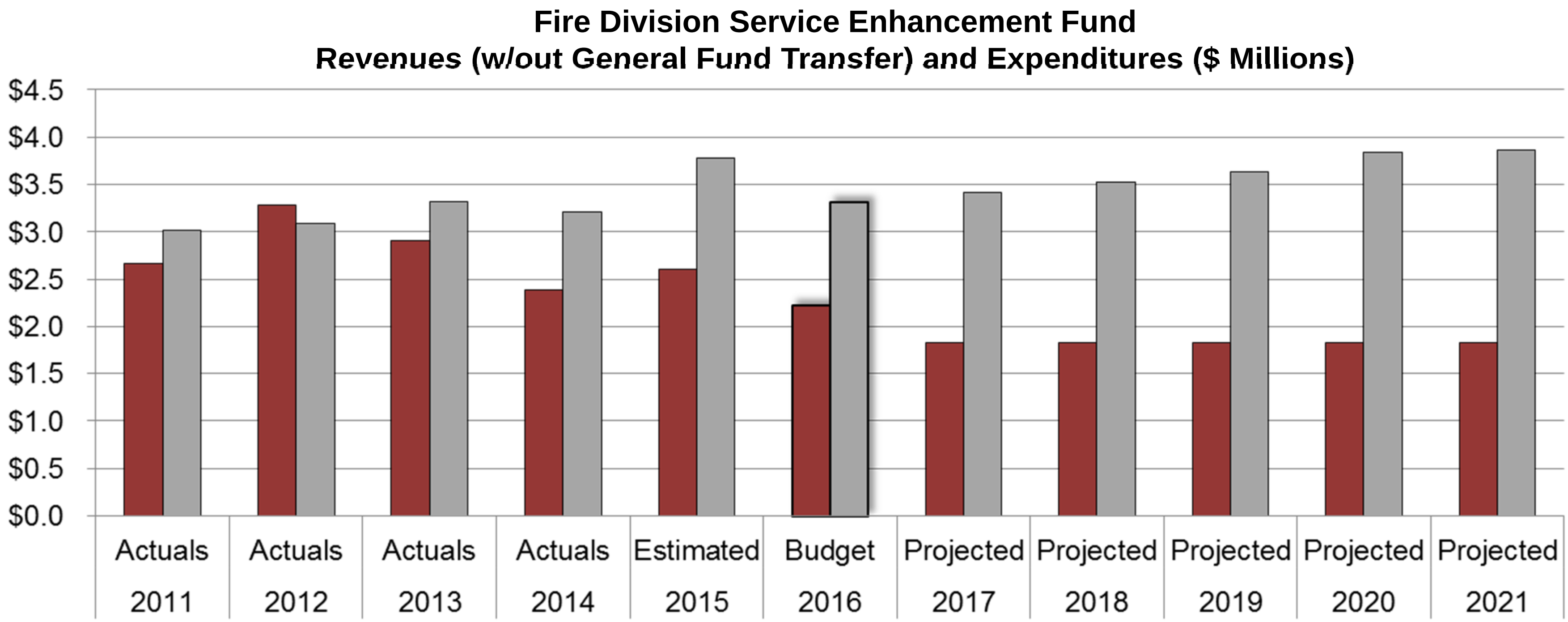
- **Headcount:** No additions or reductions are assumed. Again, turnover and attrition should naturally lower actual spending below the projected levels.

#7: Special Police Levy Fund deficit



The City originally established the Special Police Levy Fund by Charter amendment in 1990 for "hiring, training, and maintaining and supporting" a minimum of 24 police officer positions, six of which were assigned to a Narcotics unit. In 2016 the City budgeted $2.3 million in real estate tax and associated revenue. That is close to the estimated amount needed to cover the personnel costs for the 24 most junior police officers in the fund. The fund also supports three more police officers (27 total), three police clerks and four 911 dispatch positions. To cover all 34 positions, plus some non-personnel costs, the City transfers money from the General Fund. Without that transfer the fund would operate at a deficit ($900,000 in 2015). The deficit grows because real estate tax revenues are falling (-2.1 percent per year since 2011) and personnel costs are projected to rise.

Fire Service Fund deficit



The City originally established the Fire Division Service Enhancement Fund by ordinance in 2001 to collect emergency medical service transport fee revenues for "the enhancement of Fire Division services." Unlike the Special Police Levy Fund, this fund was not created by a charter amendment, nor is it tied to the 127-firefighter minimum staffing level.

Most of the fund's revenue comes from EMS transport fees, which have declined 21 percent since 2012. In 2012 the fees covered total fund spending. This year's budget anticipates fee revenue will cover about two-thirds of budgeted spending, most of which is associated with personnel costs for 29 firefighters. The City transferred $800,000 to this fund from the General Fund in 2014 and $1.0 million in 2015. Even if EMS transport fees are flat instead of falling, the baseline projects that the General Fund transfer will grow to $2.0 million by 2020 as personnel costs rise.

Appendix: Income tax rates

The tables on the next two pages show Springfield's income tax rate and maximum resident tax credit in comparison to the other 11 cities in comparability group. Elyria's voters approved a 0.50 percent income tax increase during the March 2016 primary election. Like Springfield, Newark and Warren will have income tax increase proposals on the November 2016 general election ballot.

	Income Tax Rate	Maximum Resident Credit	Notes/Recent changes
Springfield	2.00%	1.00%	Springfield residents can receive a credit of half the taxes paid to another municipality up to a maximum of 1.00 percent.
Canton	2.00%	1.70%	Canton lowered the income tax credit from 2.00 to 1.70 percent effective 2013.
Elyria	1.75% now 2.25% in 2017	1.75%	In March 2016 Elyria voted to increase its income tax rate from 1.75 to 2.25 percent to pay for police, roads and fiber optic infrastructure. The credit may also increase to 2.25 percent.
Findlay	1.00%	None	Findlay lowered the income tax rate from 1.25 to 1.00 percent effective 2013. It eliminated the resident credit in 2009.
Hamilton	2.00%	2.00%	Hamilton's resident income tax credit is equal to the maximum amount levied by the municipality where the resident is employed.
Kettering	2.25%	2.25%	Kettering increased its tax rate from 1.75 to 2.25 percent in 2007.

Appendix: Income tax rates (cont.)

	Income Tax Rate	Maximum Resident Credit	Notes/Recent changes
Springfield	2.00%	1.00%	Springfield residents can receive a credit of half the taxes paid to another municipality up to a maximum of 1.00 percent.
Lima	1.50%	1.50%	Lima's resident income tax credit is equal to the maximum amount levied by the municipality where the resident is employed.
Mansfield	2.00%	1.00%	Mansfield residents can receive a credit on the taxes paid to another municipality up to a maximum of 1.00 percent. Mansfield increased its income tax from 1.75 to 2.00 percent effective 2014.
Middletown	1.75%	1.75%	Middletown's resident income tax credit is equal to the maximum amount levied by the municipality where the resident is employed.
Newark (Increase on Nov. ballot)	1.75%	1.00%	Newark residents can receive a credit on the taxes paid to another municipality up to a maximum of 1.00 percent. In November Newark will vote on whether to raise the income tax to 2.00 percent for road repairs and police/fire equipment.
Warren (Increase on Nov. ballot)	2.00%	2.00%	Warren's resident income tax credit is equal to the maximum amount levied by the municipality where the resident is employed. In November Warren will vote on whether to raise the income tax to 2.5 percent to avoid a projected deficit in 2017.
Youngstown	2.75%	2.75%	Youngstown's resident income tax credit is equal to the maximum amount levied by the municipality where the resident is employed. The tax increased from 2.25 to 2.75 percent effective 2003.