FINANCIAL SUSTAINABILITY REPORT

General Fund
2013 - 2020

June 10, 2013

FINANCIAL SUSTAINABILITY REPORT
General Fund

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INTRODUCTION

In any local city or village in America, imagine if you were to ask the following question of your local government officials:

> **We live in an exceptional community having a unique and special quality of life. What are you doing as our government officials to ensure that our community and my property value is not only maintained but enhanced ten years from now and beyond?**

What would you want to hear from your government administration and elected officials? We'll come back to a possible answer at the end of this introduction. Perhaps the broader issue is this: The question addresses both the fundamental goal of government leadership, and the challenge of our day. It's the root of why we serve in government. It's also a theme of this report: the dual fiduciary duty to both provide excellent services and at the same time to meet the responsibility to reinvest to maintain and improve the community for future generations to come.

I. <u>The intent of this report is to establish a framework for this answer in order to preserve and enhance Amberley as the unique, special community in which it is.</u>

This report will provide:

1) **<u>Amberley's current financial position - that is, cash-flow position</u>** including a brief recap of the fiscal discipline actions recently taken to balance the budget for 2013.
2) **<u>A financial forecast to year 2020 for the General Fund</u>** framing the expected range of outcomes from best-to-worst-case basis (i.e. net positive or negative cash-flow: operating revenues minus expenses).
3) **<u>A summary of capital investment needs</u>**, including an analysis of the present financial capacity for funding these needs, an identification of where shortfalls exist, and the opportunities for closing the funding gap.
4) **<u>Strategies</u>** for addressing all needs in order to preserve Amberley as a financially sustainable community.

II. <u>The principal findings of this report are as follows:</u>

1) **Like many other local governments, Amberley will not have enough revenue to fully fund two categories of needs:**
    a. **Operating expenses – The annual costs of delivering services.**
    b. **Capital investments - Systematic annual transfers from the General Fund to the Capital Funds to ensure funding for street and facilities improvements as well as future replacements of equipment, vehicles and facilities improvements.**
2) **This report is merely Phase I – the Identification Phase. The next step is Phase II – the Implementation phase.**
    a. There are two phases for financial planning. This report satisfies Phase I – Identification of the current financial condition, future funding needs, and an identification of the funding gap. The report includes strategies on how to resolve the funding gap.
    b. Phase II, the Implementation phase, will require Amberley officials to carefully investigate options and develop a plan for both implementing operating budget changes and a time frame for capital improvements and vehicle and equipment replacement. This phase is the next step in the process requiring decision makers to address difficult choices (which is beyond the scope of this report). This entails the development of a Long-Term Financial Sustainability <u>Action</u> Plan.

3) Successfully navigating this challenge will require policy discussions and difficult priority choices annually as part of a systematic and methodical **Long-Term Sustainability *Action* Plan.**

Amberley faces significant financial challenges in the coming decade and beyond to address increasing demands that are competing for scarce resources. Strategies are provided in this report but they are not the ultimate solutions - that will require policy discussions, decisions, and actions that will be an ongoing Phase II process for Council and management. The goal of this document is to provide compelling financial evidence of the need for a **Long-Term Sustainability Action Plan.** It is hoped that this report can serve as a resource document which can be referred to periodically in the future to provide a foundation for updating and refining a long-term structured approach for solving the fiscal challenges ahead.

Regarding the question posed at the beginning, if you were to be asked:

> **We live in an exceptional community having a unique and special quality of life. What are you doing as our government officials to ensure that our community and my property value is not only maintained but enhanced ten years from now and beyond?**

Perhaps this might be what you'd want to hear from your officials:

Our plan is rooted in three fundamental principles:

1) **Our goal is to balance our operating budget annually.**

   We maintain the fiscal discipline to balance our operating budget annually. We don't budget an operating deficit because that could lead to larger deficits in subsequent years[1].

2) **We have a capital investment plan that provides for regular maintenance and improvements of roads and facilities and for replacement of equipment and vehicles. We update our plan annually to ensure that we preserve and enhance the community for coming generations**.

   Our capital improvement schedules are carefully prioritized and updated every year. We seek grant funding for improvements by leveraging our cash and debt issuance where appropriate to secure the maximum available grant funding. Our goal is to ensure that we reinvest sufficiently to achieve the goal of maintaining and preserving our streets, vehicles, equipment, parks and facilities, and to invest in economic development opportunities for future economic growth and prosperity in Amberley.

3) **Our fiscal discipline is rooted in the principles of Productivity, Efficiency, and Effectiveness.**

   Our daily focus is continuous improvement, asking how we can provide the same or improved services at equal or lesser cost. In doing so, cost restraint is achieved to provide savings to offset where other costs imposed by circumstances outside of our control cannot be restricted. In this way, we help achieve a balanced operating budget annually and we are able fund capital transfers.

* * * * *

This report would not be possible without the vision of, and collective assistance from, the following persons who contributed toward its preparation: Amberley Village Council members, Amberley Finance Committee Members: Chair Ed Hattenbach, and members Bill Doering, and Tom Muething; Village Manager Scot Lahrmer; Financial Administrator Kathleen Harcourt; Police/Fire Chief Rich Wallace, Public Works Supervisor Steve Rasfeld and staff members Wes Brown and Tony Chesney, and Village Engineer John Eisenmann and the staff of CDS Associates, Inc. I express thanks and appreciation to each of them for the opportunity and privilege to assist them and the citizens of this very special community.

Thomas R. Peterson, CPA
Finance Director, Village of Silverton
June 10, 2013

[1] The term 'Operating Budget' in this context means the costs of annual operations before transfers to the capital funds.

EXECUTIVE SUMMARY
FINANCIAL SUSTAINABILITY REPORT

This Executive Summary is intended to provide a brief introduction to the report. Detailed explanations and further questions will be both addressed in the accompanying full report.

Amberley Village should consider developing

a Long-Term Financial Sustainability Action Plan.

Generally, the first rule for most every for-profit business entity is to ensure its ability to continue to operate successfully. This is true for most all governments as well[2]. **Financial Sustainability,** as defined for the purposes of this report for governments, is the continued financial ability to deliver services and to maintain the community environment (roads, parks, facilities, etc.) in the future.

Central to this report is the distinction between two fundamentally important concepts: Operating Cash-Flow Position, and Economic Condition. Both directly determine the future financial sustainability of any entity, including governments, which is why they are being addressed at the beginning of this Executive Summary.

1) **Operating Cash-flow Position and Economic Condition**

- In short, think of **positive cash-flow** simply as having annual income sufficient to pay annual operating expenses (before considering major capital expenditures).
- Think of **economic condition** as having sufficient revenue to **maintain all assets and to make continued capital investments in the community.**

Operating Cash-Flow asks the question:

Can Amberley generate revenues sufficient to fully pay the annual costs to fund operating costs, that is, to deliver program services? This report will use the term 'operations' to mean the annual costs for delivering program services such as police, fire, service department, and administrative costs.

Economic Condition asks the question:

After funding operating expenses, can the government continue to generate additional annual cash-flow to transfer funds to the capital funds to invest in street and facilities improvements and replacement of vehicles and equipment?

In government, because the day-to-day budget and financial discussions focus on current cash-flow needs for operations, the cash-flow needed for annual capital investment and replacement is often overlooked. During the spring of 2013, Amberley Village updated its projected capital asset funding requirements, and those needs are central to Amberley if it is to continue as a sustainable government, as will be further addressed in this report.

[2] Other than an entity established for a single-purpose event (for example, a1976 bicentennial commission).

Governments may confuse positive operating cash-flow position to be the same as economic condition, and may not recognize the **annual** funding obligations essential to maintaining capital investments on an ongoing basis. Failing to recognize and fund capital investments annually results in a short-term gain at a long-term cost to a community's health. Maintaining roads, facilities, and equipment is no less critical to the economic vitality and prosperity of a community than is maintaining current program services.

2) **<u>Amberley Village's current Operating Cash-Flow Position (financial position) is very good.</u>**

Amberley Village begins year 2013 with a General Fund balance of $1,626,000, nearly half (49.4%) of its 2013 appropriations. Its 2013 budgeted expenses were reduced 11.5% from the 2012 budget, projecting a positive cash-flow from operations of $580,000 for the year. As will be discussed in greater detail in the report, this is the result of significant cost cuts as well as revenue increases (including the 10 mill real estate tax levy approved in 2012 with receipt of revenue beginning in 2013). Additionally, it's important to recognize that a number of other expenditures which were initially considered for the 2013 were ultimately cut from the final budget. These cuts helped achieve a positive cash-flow budget for 2013, but did so in some cases by merely postponing the expenditures to a future year.

3) **<u>In year 2020, Amberley Village's General Fund operating cash-flow is projected to range between a positive $797,486 and a deficit of ($448,415) with the medium-case being a positive $184,287.</u>**

As used throughout this report for describing the financial forecast ranges, the <u>best-case basis</u> is the result of using the high end range of the annual growth percentage rates (hence higher revenues) and the low end of the range for expenses, resulting in a higher net cash-flow amount. The <u>worst-case basis</u> is just the opposite: it uses the lower rates of growth for revenues and the higher rates of growth for expenses, resulting in a lower net cash-flow amount (in some cases, a projected annual deficit).

It is important to emphasize that operating cash-flow reflects program service expense: It does not reflect any funding for capital improvements[3]. The financial forecast was based on reasonable assumptions for growth of revenues and expenses based on an analysis of historical trends, the current environment, and expected reasonable future trends. This raises two questions:

a) How can the range vary by so much between the best and worst amounts ($1.3M)?

First, note that the forecast assumptions for best-to-worst ranged between 0%-3% for most income and expense items. (The primary exceptions were for health care costs, 6%-10%, and repair and maintenance expenses, 2%-5%, the basis for which is discussed in substantial detail in the assumptions section of the accompanying exhibits). Second, the length of the forecast time period beyond the baseline of 2013 is seven years, to 2020. The important point this demonstrates is that over seven years even an incremental increase in growth rates can have a pronounced long-term impact because of the effect of compounding over that length of time.

a. The forecast also reflects the continued receipt of $1.6M of revenues into 2020 from the 10 mill property tax levy, approved by voters in 2012.

[3] More specifically, there were no major capital funding transfers budgeted in 2013 to the various capital funds, except for $28,000 to cover the remaining amount needed to be added to existing balance in the Capital Improvement Fund to purchase a dump truck and chipper, initially planned in 2010. By virtue of it being included in the 2013 baseline budget, it is also included in the financial forecast to year 2020.

b. The forecast projects a **range** of outcomes because of the inherent limitation of projecting a single outcome. A range provides the **bookends** for the likely best-case and worst-case basis outcomes, with the expectation being that the actual results are likely to end up somewhere in-between[4].

b) What would it take in year 2020 to achieve the best-case basis, and conversely, the worst-case basis?

Both the best-case and worst-case bases represent the reasonably expected bookends of the likely range of outcomes based on the following annual rates of increase.

Best-case basis: (Revenues at the high end and expenses at the low end of the ranges).

Revenue: Income taxes, 2.5%; Real Estate taxes, 2.5%; most all other revenues, 0.0% - 3.0%.
Expense: Wages, 1.0%; Health care, 6.0%; most other expenses, 1.0%.

As explained in greater detail in this report, the historic trend since 2006 for income and real estate tax revenues shows a <u>decrease</u> in income from 2006 to 2013 as opposed to an average annual. Therefore, for this financial projection, we conservatively used lower annual increase percentages. Should actual revenues be higher, that is a high-quality problem that can be addressed.

Worst-case basis: (Revenues at the low end and expenses at the high end of the ranges).

Revenue: Income taxes, 1.0%; Real Estate taxes, 1.0%; most all other revenues 0.0% - 1.0%.
Expense: Wages, 3.0%; Health care, 10.0%; most other expenses, 3.0%-5.0%.

As explained in greater detail in this report, the recent historic trend of repair and maintenance annual increases have averaged 3.0%-5.0%) given that capital replacement and improvements have been deferred. The worst-case basis considers that this could continue.

Realistically, it's highly unlikely from now to year 2020 that all conditions listed above under either the best-case or the worst-case basis would occur the same time. Hence they form the bookends to demonstrate that Amberley will likely end up somewhere in-between.

4) **<u>Amberley Village's future Economic Condition[5] faces significant challenges. Amberley's t Capital Investments requirements through year 2020 are estimated at $12,959,899 ($13M).</u>**

The $13M capital investment amount reflects the best current estimate today of the amount that Amberley needs in the future to replace vehicles and equipment and for major improvements to maintain streets and facilities. **<u>It is important to recognize that this will be paid out over time and is not meant to represent the amount of funding that is needed right now.</u>** As part of the next step in this process (Phase II), management will conduct further evaluations to determent how long the present capital assets can be maintained, and then can develop a systematic and methodical replacement and funding forecast for how much will be required <u>annually</u> in coming years for capital asset improvements and replacements.

[4] If conditions deteriorate beyond the worst-case basis in future years, it is presumed leaders will take responsible action to resolve the situation.

[5] A Governmental Accounting Standards Board (GASB) term: "Economic condition is a composite of a government's financial health and its ability and willingness to meet its financial obligations and commitments to provide services." http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176156742174

The $13M represents the amount of investment necessary in the future for Amberley to continue to be sustainable: That is, to continue to maintain the existing high-quality level of program services and street and storm sewer maintenance and conditions that residents have come to expect. The amount is based on best estimates of future inflation-based costs, except for road improvements which are stated in today's dollars. Also recognize that annually as this is updated, adjustments will be made to the estimated amounts and hence the figures used today may be refined in future years. The $13M figure includes estimated investments necessary for future continued capital investments in street improvements, parks and facilities, and equipment including Public Works, Police, and Fire vehicles. These represent essential and important capital investments necessary for Amberley's continued sustainability.

It's important to note that the Capital Investment estimate of $13M does not reflect the amount necessary for potential investments in economic development and related infrastructure at the Amberley Green location. To the degree Amberley Village officials deem it important to grow business and job opportunities and to expand the tax base (hence tax revenues), additional funding will need to be identified to invest in development opportunities to attract high-quality businesses.

SUMMARY

The challenge for Amberley Village is to identify funding for annual capital transfers in order to maintain and improve streets, facilities, equipment and vehicles as well as for economic development investments. As the preceding summary reflects under 3) above, after paying for annual operating costs there may be little or no remaining positive cash-flow for transferring to fund capital expenditures as identified under 4) above. The bottom line is that taxes and other revenues will have to increase, program expenditures may have to be cut, and capital improvements and vehicle and equipment replacements may have to be deferred until new revenues are identified or expenditures are cut. Additionally, economic development efforts will be important in order to grow the tax base.

In order to preserve its unique character and enhance it in future years, Amberley Village should consider developing a **Long-Term Sustainability Action Plan** and revisit it periodically, as follows:

1) Continue the fiscal discipline to maintain a balanced General Fund operating budget every year to maintain and improve the delivery of program services.

2) Annually update the capital investment plan to develop a program for regular maintenance and improvements of roads and facilities and for replacement of equipment and vehicles.

3) Continue its program of seeking productivity, efficiencies, and of evaluating the effectiveness of its operations. To achieve the first two goals above, this step is essential in order to restrain cost growth and to ensure positive General Fund cash-flow for continued sustainability of excellent services and capital investments.

Amberley is currently blessed with a sound General Fund operating cash-flow position and currently has a high quality inventory of capital assets including roads, facilities, and equipment. However, Amberley Village is at a pivotal turning point regarding its business model. Difficult policy choices must be made regarding the allocation of limited financial resources to meet competing operating and capital needs. Amberley Village will likely never have a more advantageous time than today to develop a Long-Term Sustainability Action Plan.

2013–2020 FINANCIAL PROJECTIONS
(GENERAL FUND)

This report is presented in three sections:

I. Current Operating Cash-Flow Position

II. 2013-2020 Financial Projections, General Fund Operations

III. Capital Investment Needs

I. CURRENT OPERATING CASH-FLOW POSITION

Revenue and Expense Growth since 2006

Amberley ended the year 2012 with a General Fund balance of $1,626,000[6]. This represents nearly half (49.4%) of the 2013 initial budget appropriation expenditures. Compared with 2012, for the 2013 budget Council and Management took actions to the 2013 to make substantial cost reductions combined with additional revenues (both discussed later), resulting in a net positive cash-flow of $580,000. Note that the Finance Committee has discussed considering transferring some of this net cash-flow to the capital funds. As will be address later in this memo, Amberley will need to maintain a business model that will generate annual net cash-flow in excess of operating costs to annually fund transfers for capital improvements and equipment and vehicles. The graph and table below reflect the amount of revenues and expenses from 2006 actual to 2013 budget.

GENERAL FUND OPERATING RESULTS: 2006-2012 ACTUAL AND 2013 BUDGET

(in $1000's)

	2006	2007	2008	2009	2010	2011	2012	2013 Budget
Operating Revenue	5,118	7,767	4,619	4,974	4,355	4,450	9,928	3,871
Operating Expense	4,501	5,032	5,445	5,394	5,354	5,152	11,096	3,291
Net cash-flow	618	2,735	(826)	(419)	(998)	(702)	(1,168)	580

NOTES:

1) The 2013 Budget represents the General fund only and does not reflect the revenues and expenditures of the separate $1.6M Police Safety Levy fund. This is because the 10 mill tax levy revenue is dedicated for a specific purpose and therefore under State law must be accounted for in a separate fund[7]. Hence the $1.6M revenues from the tax levy and the related expenditures are not included in the General Fund 2013 Budget figures shown above. (Add $1.6M to the 2013 revenues and expenses as shown above to be comparable to prior years).

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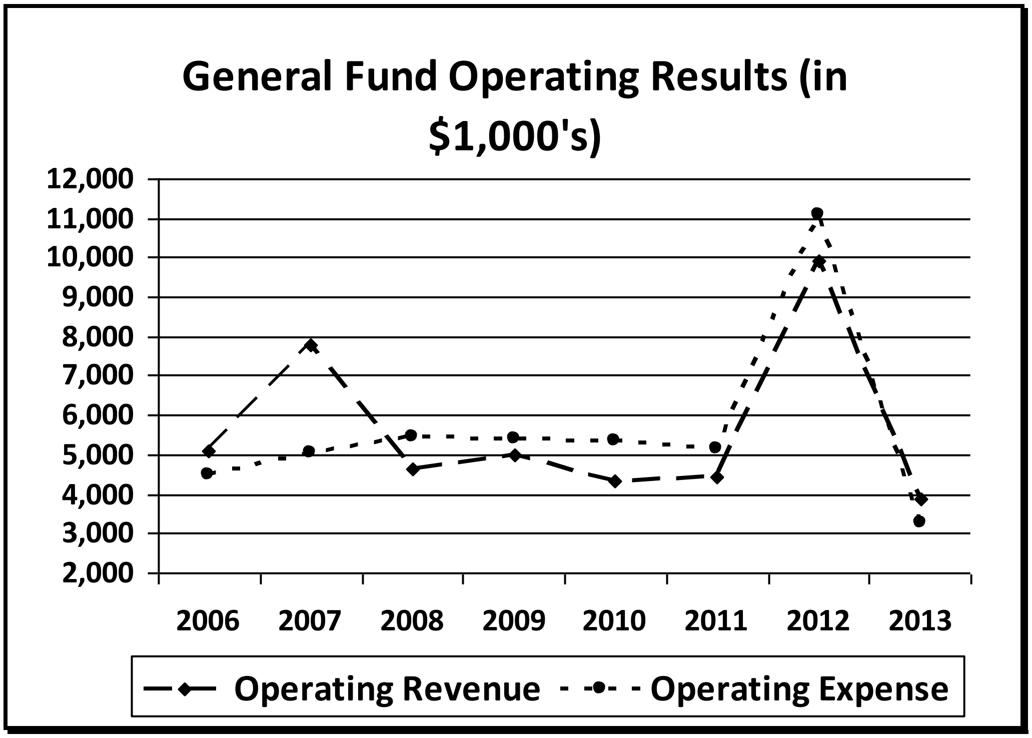
[6] Note that $256,000 received into the fund in 2012 as income taxes was subsequently determined to be an overpayment. This will be refunded in 2013 and will reduce the fund balance. The $1,626,000 fund balance figure is after deducting the $256,000 payment to be paid in 2013. This is an illustration of an unanticipated event, and emphasizes the need for margin of safety in the General Fund balance (and other funds) for anticipated events.

[7] To be specific regarding the 2013 budget, the receipt is booked directly into the separate safety services fund. The related expenditures are first booked in full in the General fund Police and Fire budgets to capture the full true cost of those services. They are then charged out to the safety fund, as deducted from the total in a separate budget line item in the General Fund. Hence,



2) 2006-2012 amounts reflect the actual revenues and expenses, including some one-time significant variances. This includes inheritance taxes of $3.4M in 2007 and $5.5M in 2012. The expenses for 2012 also reflect the $6.3M payoff of the Amberley Green debt and interest expense, funded by inheritance taxes plus an additional approximately $900,000 from the General Fund.

3) In year 2013, a refund was paid of income taxes of $256,000 received in 2012. The 2012 actual revenues above include the receipt of this revenue, to maintain consistency in the table to reflect the actual results for years 2012-2013.

4) 2013 budget comments:

   a. The 2013 income tax figure is not reduced to reflect the $256,000 refund of income taxes in 2013. This is because we want the 2013 amount to be the baseline for forecasting to 2020. The refund is a function of the erroneous receipt in 2012, and the trend going forward does take into account the fact that the $256,000 receipt is a one-time anomaly.

   b. The original budget was prepared in the fall of 2012 before the full results through December 2012 were known. Final 2012 results were examined, and in a few cases where actual results reflected variances, the 2013 original budget was adjusted to reflect those results (as explained in detail in the Assumptions schedules in the Exhibits). In most cases, the adjustments were not significant. For example: The cable TV franchise fee revenue budget for 2013 was increased roughly $5,000 to reflect past trend and the fact that the actual 2012 revenue was higher by that amount.

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the net 2013 General Fund results exclude the costs funded by the $1.6M Police Safety Levy and for that reason, so do the financial forecast results projected to year 2020.

It is important to recognize that the General Fund forecast to 2020 presumes the continuation of the $1.6M tax levy revenues into this separate fund and the related expenditures. To calculate the impact if the tax levy were to not be renewed, deduct another $1.6M of expenses from the 2018-2020 projected net cash-flow figures shown later in Section II. **Either a replacement revenue source will be required or equivalent cost reductions will be necessary to make up for the lost revenue.**

Note also that while the tax levy was approved by the voters in the election of March of 2012, the effective 'assessment' date of the new tax was December 31, 2012 for taxes payable beginning 2013. The new taxes were not received by Amberley (from the County) until April 1, 2013.

Revenues as shown in the table and graph reflect the increase from 2006's $5,118,000 to 2007's $7,767,000 due to higher inheritance taxes. But from that point forward, total revenues reflect a decreasing trend into year 2013's budget of $3,871,000.

REDUCTION IN MAJOR GENERAL FUND REVENUES

2013 budgeted revenue compared to 2006 actual revenue

Local Revenue Funds from the State		($91,260)
Income tax		($23,000)
Real Estate and Personal Property tax		($174,000)
	TOTAL	**($288,260)**
Inheritance tax revenues - varies by year (2006-2012)		($184k-$5.5m)

The key takeaway is, rather than to expect a normal increase annually during the years 2006-2013, Amberley's four revenue sources above will receive less income in 2013 than in 2006.

1) The State reduced Local Government Revenue Sharing 50%, which represents a revenue reduction of $91,260 from 2006 to 2013.

2) The State eliminated the inheritance tax beginning effective in 2013.

   a. Amberley received over **$12M** of inheritance tax from 2006-2012.

   b. During the years noted above, Amberley received between $184,000 and $5,478,000 (2012) of inheritance tax revenues. (The average was $1.7M/year, but it's important to note that of the $12M, $3.4M was received in 2007, and $5.5M in 2012.)

   c. Absent inheritance tax, operating revenues ranged from a high in 2008 of $4,334,000 to a low of $3,764,000 in 2009, the very next year. This reflects the impact the recession[8] had in the span of just one year alone.

3) The recession of 2007-2009 resulted in significant decreases to Income Tax and Real Estate tax revenues. Income tax reflected a $23,000 **decrease** from 2006-2013, and Real Estate tax a **decrease** of $174,000. (The latter includes the State's elimination of Tangible Personal Property taxes, amounting to $25,000.) Let's take a moment to weigh the significance of this data.

[8] This high and low determination is based on excluding the $256,000 of income tax overpayment received in 2012 which must be refunded in 2013.

a. For the 2013 budget, seven years after year 2006, Amberley experienced not merely a zero increase in income taxes, but a decrease in income taxes of $23k comparing 2013 (adjusted for the previously mentioned $256,000 refund) to 2006. Beyond this 'nominal' loss, there has been an even greater 'real' loss (using economic terms) because the income tax revenue has not kept pace with inflation.

b. The Real Estate tax decrease of $174k is the result of the collapse of housing valuation bubble.

c. Combining the income and property tax decreases, this is nearly $200,000 ($197k), or roughly a 5% (4.7%) decrease since 2006.

Since 2006, the CPI has increased 15.5% (per the inflation calculator on the Bureau of Labor Services web site). Had the 2006 normal recurring revenues (I.E. excluding inheritance tax) kept pace with inflation, Amberley's 2013 budgeted revenues would be $4,832,793, or **$962,000 higher than the budget of $3,871,000[9].**

Collectively, these revenue reductions since 2006 above have placed significant fiscal constraints on most local governments, including Amberley.[10] At the same time, a few expenses have continued to increase despite cost-containment efforts. This seven-year period since 2006 has witnessed the escalation of fuel and health care as well as the usual inflation-driven increases in most other expense line items. As capital replacements and improvements have been deferred, repair and maintenance costs have averaged 3.8% a year.

Management actions to address revenue cuts and expense increases

To address the reduction in revenues and increases in costs, Village Manager Scot Lahrmer and Village Council enacted the following fiscal discipline measures:

1) Submitted a ballot issue approved by the electorate in March of 2012 for a 5-year, 10 mill, real estate tax levy for funding Police Safety Services. This will annually raise an estimated $1.6M, to be received in years 2013-2017. The revenues will be recorded in a separate Public Safety Fund and safety service expenses will be charged to this fund from the General Fund. The $1.6M constitutes 64% of the total Police budget. It is also nearly a third (32%) of total general operations for Amberley (the combined total of both the General and Public Safety funds).

2) Implemented a refuse fee in 2011 to fully fund the cost paid to the third-party vendor (Rumpke) for providing hauling and recycling service.

3) Applied the total $5.5M inheritance received in 2012, combined with an approximately $900,000 of additional fund reserves, to pay off the debt in full on the Amberley Green property purchase, thus eliminating future interest expense. Amberley enters year 2013 completely debt-free.

4) Entered into a shared services agreement with the Village of Silverton to provide dispatching services beginning December 2012 through December 2015. Total revenues contributed to Amberley will be $245,000 over the term of the agreement. Because the increase in expenses will be much less than revenues, this arrangement will be net cash-flow positive.

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[9] Calculated as 15.5% times the 2006 actual revenues of $4,184,236. This figure excludes the 2006 inheritance tax of $933,948 because such tax was neither a steady amount nor a recurring revenue as are local government revenues.

[10] Additionally, as of this writing, the State is conducting hearings on a municipal uniformity tax bill which if passed may result in additional income tax revenue cuts. Because of the fluid nature of the bill and the uncertainty of whether it will be approved at all, such amounts have not been determined nor factored into this report.

5) Imposed a selective hiring freeze. For 2013, the staffing level reflects 31 full time positions, down four from 2011. This will result in no reduction in service levels by implementing increased efficiencies, but may leave the Village vulnerable at minimum staffing levels critical to maintaining current programs and services[11].

6) Deferred selective capital improvement and equipment expenditures, other than essential investments and those where grant funding was secured to leverage the cost of stormwater improvements. To illustrate, a dump truck and chipper encumbered originally in 2010 but deferred will be purchased in 2013. (Note that while the deferral of capital expenditures provides a temporary short-term savings, it usually results in longer-term higher costs due to continued aging of facilities, fleet, equipment and roads, inflation, and bunching of higher cash-outflows in future years. In the end, the short-term cash-flow benefit trade-off usually increases costs later, and therefore may be cash-rich but economic-poor by merely postponing the cash outflow, not in yielding true economic savings through greater efficiencies.)

7) Solicited bid costs for major expenditures including road salt (joining with Cincinnati's bid), electricity, and refuse costs. For the latter two expenses, Amberley joined with other government members of the local Center for Local Government (CLG) to jointly request electricity and refuse bids, thereby achieving economies of scale through shared service participation with other governments. Additionally, where possible Amberley utilizes the State of Ohio cooperative bid program to secure lower costs.

8) Enacted significant changes to the employee health care plan, scaling back from the highest level benefit plan to add a second, lower-cost, health care plan choice for employees. Amberley also instituted increased cost-sharing contributions by the employees. As a member of and in working with the CLG insurance pool, numerous changes were adopted since 2011 to control cost growth resulting in improved financial performance by the health consortium pool.

9) Implemented numerous cost reductions in various line items throughout the Village. Such reductions included savings in Police and Fire overtime, continuing a wage freeze for the third-straight year, and reducing other expense line items throughout the Village including repair and maintenance expenses. Additionally, Amberley purchased used police cruisers rather than new vehicles during 2013. Collectively, the cost cuts resulted in a combined 11.5%, $631,219 decrease in the 2013 expense budget from the 2012 operating budget[12].

Summary

Amberley begins 2013 with an adjusted beginning General Fund balance of $1,626,000 representing nearly half (49.4%) of 2013's operating expense budget of $3,291,000. Additionally, its 2013 budget reflects positive cash-flow results of $580,000. Both of these figures show that Amberley's present **cash-flow position** is very good. But, cash-flow position is all too often mistaken for **economic condition**, and hence represents only half of the story.

As will be addressed later under the Capital Investment section, Amberley will need to fund a substantial amount of future investments in capital equipment, rolling stock, facilities, and other expenditures necessary to maintain the current Village program services and the community environment. These represent presently existing unfunded liabilities and expenditures, many of which were deferred during the past ten years in an attempt to manage the annual budget (or in some cases, deficit).

While the current operating cash-flow position is very good, the economic condition reflects substantial unfunded investments and liabilities which, if not addressed, will only increase as roads, vehicles, equipment and facilities age. As these assets age, it is typical for maintenance costs to increase.

[11] Per the Village Manager's budget memo dated December 7, 2012.

[12] The 11.5% reduction was calculated using 2012 budget of $5,466,574 compared to 2013 budget of $4,835,355 before deducting the $1,544,000 Police/Fire expense transferred to the Public Safety Levy fund. Note that to be comparable, the $6.3M payoff of the Amberley Green debt and interest is not reflected in the 2012 budget which does otherwise include all other operating costs.

2013-2020 FINANCIAL PROJECTIONS, GENERAL FUND

A. Underlying Methodology, Terminology, and Financial Projection Bases

This report projects a range of the annual operating budget cash-flow outcomes for the General Fund through year 2020. For practical purposes we'll presume all expenditures are cash disbursements and not encumbrances at year-end. Therefore, the annual results of operations will be expressed as net cash-flow, either negative or positive. The financial projection provides a range of operating results from best to worst using assumptions for growth of key operating revenues and expenses. Using a range serves to bookend the best and worst extremes as the outliers, meaning it's probable that the actual may fall somewhere in-between. The goal is not to pinpoint a number but to flag potential problems in the future. This gives Amberley a starting point from which to implement a plan to target financial goals. For this forecast, by using the terms 'operations' and 'operating results', this report is referring to revenues and expenses for normal operations but <u>before</u> deducting the cost of major transfers to the capital funds.

1) The forecast starts with the 2013 operating budget[13] and presumes that Amberley intends to continue through 2020 the high level of program services provided to residents as they currently exist.

2) The forecast does not factor in risks or events beyond our ability to predict, including potential future national economic cycles or other risks.

3) The operating results reflect the <u>operating structure and program services currently in place,</u> and this means that the projections through year 2020 include the revenue from the voted 10 mill levy currently in place. (To envision the 2020 outcome without this income, deduct the levy revenues of $1.6M from the range of net cash-flow outcomes shown in section B which follows.)

4) The revenue and expense growth percentage assumptions were based on historical as well as recent trends. As an overview, the assumptions <u>generally</u> range between 0.0%-3.0%. (For greater detail, refer to the memo explaining assumptions in Exhibit section).

    a) For expected increases in revenues, the intent was to be conservative by choosing what is reasonable based on actual financial trends since year 2006 and recognizing the current global, national, state, and local economic environment[14]. While more aggressive revenue growth estimates could be applied, using higher percentages might result in 'pricing revenues to perfection', only to set up an unachievable revenue forecast. In reality, if Amberley does receive greater revenues in the future, priority decisions can be addressed at the time regarding the appropriate allocation of the funds.

    b) The two primary drivers of revenue are Income Tax and Real Estate Tax, which together comprise 90% of revenues[15].

	Growth %'s Low - High
1. Income tax	1.0%-2.5%
2. Real estate tax	1.0%-2.5%
3. All other revenues (the remaining 10%)	0.0%-3.0%

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[13] 2013 budget was adjusted where historical trend and final 2012 results warranted a slight adjustment.

[14] Specifically, coming off the 2007-2009 recession, current global growth in China is slowing, the Eurozone is in a recession, and the national economy is growing, but at a slow pace. We're now into an unprecedented fifth year of a zero-interest-rate policy by the Federal Reserve (since December, 2008) with no certainty from the Fed of expected higher growth (and hence interest rates) in the coming year.

[15] Source of the 90% figure: 2013 original budget. Note this excludes refuse revenues which offsets refuse expense and hence does not contribute toward other operating expenses.

Given that there was no increase in income tax revenue nor real estate tax revenue in year 2013 compared to 2006 (in fact, they decreased by approximately $197,000), the high end of these growth ranges was set conservatively at annual increases of 2.5% each. It was acknowledged that this period witnessed a severe recession and housing bubble collapse, both affecting the growth rates. Yet, using higher annual percentages could make the outcome better, but that may not be realistic. Absent strong reason for expecting seven years of housing increases and job growth, it is better to be conservative[16]. As future years come to pass, if more income is received than expected, the additional revenues can be directed to meet needs as determined at that time.

c) The two primary drivers of expenses are salaries/wages/employment taxes, and employee health care costs, which together constitute 70% of expenses.

	Growth %'s Low - High
1. Salaries and wages	1.0%- 3.0%
2. Employee health care	6.0%-10.0%
3. All other operating expenses (the remaining 30%)	2.0%- 5.0%

While it could be argued that higher expense percentages for growth could be used, it would make the worst-case basis annual deficits entirely unacceptable, something that Amberley leadership is not expected to permit in the first place by taking action to prevent it beforehand.

The descriptions above regarding the growth assumptions for revenues and expenses are merely intended to provide an overview in this report without delving into extensive detail. More detailed information regarding the research of historic trends dating to 2006, as well as more extensive trend analysis research, can be found in the Exhibit section.

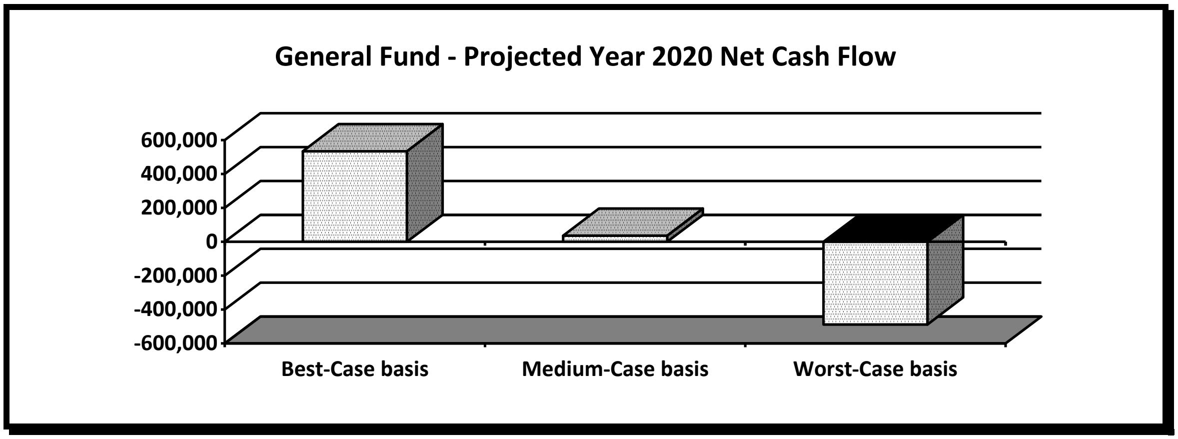
B. Financial Projection Results

Based on the assumptions used in this forecast for General Fund operating revenues and expenses, Amberley Village's General Fund net operating cash-flow in year 2020 will likely be within the following range:

	Growth Assumptions		Year 2020
	Revenue %	**Expense %***	**Net Cash-Flow**
Best-case basis	**1.5%-3.0%**	**1.0%-3.0%**	**$797,486**
Medium-case basis	**1.0%-1.5%**	**2.0%-4.0%**	**$184,287**
Worst-case basis	**0.0%-1.0%**	**3.0%-5.0%**	**($448,415)**

* (Health care range: best, medium, worst: 6%, 8%, and 10% respectively)

[16] This is a short summary explaining the basis for assumptions for income and real estate taxes. Greater detail regarding historical analysis of these and other income and expense items is provided in the exhibit attachments.



C. Summary

1) The results raise the question "If we have a 2013 General Fund budget with a positive cash-flow of $580,000, then how can the worst-case basis projection result in a deficit by 2020?" The reason is that for the worst-case basis forecast, the expenses are projected at the higher rates of 3.0%-5.0% and the revenues at lower, more conservative, 0.0%-1.0% growth rates. Hence the combination of low revenue growth with higher expense growth represents the worst-case basis resulting in a deficit in 2020.

2) By using reasonable assumptions for bracketing the projected best-case and worst-case bases we establish important **benchmark targets.** Should actual revenue results fall short, or should expense increases accelerate beyond the projected amounts, this forecast represents a **trigger for action** to prevent a smaller deficit from becoming a more severe and unmanageable one.

3) Knowing the projected best-case and worst-case bases gives Amberley officials the opportunity to set goals to target the upper half of the range.

THE KEY POINT

It is critical to note that the figures above generally reflect operating costs only, carrying forward only a minor transfer ($28,000) for capital improvements, equipment and vehicles which was in the baseline 2013 budget. The next section (Section III) of the report addresses the need for annually funding capital improvements and equipment and vehicle replacements.

Note that these projections reflect the continued receipt of revenue from both the $1.6M 10 mil tax levy and the Refuse fees of $203,000. Should a decision be made to decrease or discontinue these revenues, to estimate the financial impact either or both amounts (for a total of $1,803,000 plus inflation increases to 2020) should be deducted from the Net Cash-Flow amounts shown above. This would mean that the net cash-flow would range from a deficit in 2020 of ($1,005,514) to ($2,251,415) in year 2020 (before factoring-in inflation for these two items).

What This Means

A) **Amberley faces challenges just to maintain a balanced budget out to year 2020, given that the best and worst case bases <u>for operations</u> (and not capital investments) range between a positive and negative cash-flow (in year 2020).**

B) **This projection forecasts the continued receipt through year 2020 both the 10 mill levy proceeds and the refuse fees.**

C) **The forecast does not reflect any material amounts transferred to the capital funds*. Amberley still needs to identify a method for generating money to pay for capital needs (as addressed in the next section).**

∗ The 2013 budget includes $28,000 transferred to the capital fund, and thereby as a function of the forecast this amount is projected to future years, including 2020.

II. CAPITAL INVESTMENT NEEDS

Amberley has a number of separate capital funding needs. For this report, we have categorized the needs into following list. **The funding for these capital improvements generally comes from the net cash-flow remaining in the General fund after paying all operating expenses.** (Note that given the size of the street improvement costs, alternatives for funding them are identified later in this report). Therefore, it is essential that there is money generated in the annual General Fund budget (after paying operating expenses) for transfer to these capital funds.

Police vehicles and equipment	Street Improvements
Fire vehicles and equipment	Accrued time liability
Communication Equipment (dispatch)	Amberley Green Improvements
Service Department vehicles and equipment	Economic Development
Administrative equipment and Municipal Facilities maintenance and improvements	

Storm Sewer improvements are not listed because they are funded out of their own separately-dedicated revenue stream which is sufficient to fund such improvements. Should a decision be considered to eliminate the storm sewer charge, then the costs for such expenses will become entirely dependent on the General fund, in addition to the other capital investments listed above.

Additionally, Amberley as of December 31, 2012, has an unfunded liability of $155,000 as a member of the CLG Health Insurance Pool. This liability is the result of claims expense exceeding Pool revenue during the first two years of the pool's existence. To address this deficit the Pool instituted plan coverage modifications, for example contracting with a low-cost MRI provider to achieve claims cost savings. Additionally, monthly premiums were increased. This additional premium contribution is scheduled to pay the deficit and create a reserve for claims incurred but not reported (IBNR) within four years. Eventually once the deficit is paid and the IBNR reserve is in place, there will be no need to continue paying this additional amount. Therefore, because there is a funding mechanism built into the annual operating forecast within the annual health care expense line, there is no need to address it further in the section below.

Police Department Vehicles and Equipment

There are 10 police department vehicles: 6 cruisers and 4 administrative vehicles (among the latter, this includes Chief's vehicle, Detective's vehicle, on-call Supervisor's vehicle, and a vehicle that is used for court or to attend training). The 2013 acquisitions were two used 2010 Dodge Chargers, and the last time a new vehicle was purchased was in 2010, a Ford Explorer and a Crown Victoria. The year of the vehicles ranges from 2006-2010, and the total mileage on the vehicles ranges between 31,000-110,000.

Over the last four years, the total average annual mileage driven by all cruisers was 137,135. During year 2012, the average total mileage was lower, at 129,709 due to having fewer patrol officers. For 2012, for the six cruisers the average annual mileage driven per vehicle was 21,618. For a village of 3.5 square miles, that generally reflects the level of patrol enforcement conducted by the department during the daily work shifts. It is important to recognize that the police vehicles also serve as the Fire responder vehicles in addition to the 3 fire trucks identified below. Police officers also respond to Amberley EMT service calls to assist Deer Park Silverton Joint Fire District. Equipment includes body armor, investigative equipment (including camera systems), and firearms, for example.

Fire Department Vehicles and Equipment

The fleet consists of a 1965 Pirsch Fire Pumper, a 1988 Seagrave, and a 2001 Sutphen Quint. The first two have passed the general life expectancy of 15-20 years and the 2001 Sutphen has a stated 20-year life expectance to 2021 with an expected replacement cost of $900,000 (not reflected in the schedule that follows since it is beyond year 2020). Equipment needs consist of SCBAs, hoses, rescue equipment, and scheduled replacements of 5 hydrants per year, for example.

Communications Equipment

This category represents the dispatch communication equipment replacement needs such as the radio console and the handheld radios.

Service Department Vehicles and Equipment

The fleet includes four International two-ton dump trucks and two pickup trucks ranging in age from 1998-2008. The 1988 dump truck cost $67,566. The same truck purchased in 2008 cost $94,000 and the expected replacement cost is closer to $120,000. The overall average age (year) of the fleet dates to 2003. The equipment needs are varied in order for the Service department to carry out their extensive maintenance responsibilities and range from mowers to a backhoe, a bobcat, and chipper and leaf boxes.

Administrative Equipment and Municipal Facilities Maintenance and Improvements

Equipment and improvement needs range from the phone system and CAGIS software to the municipal building roof and HVAC systems.

Amberley Green

Amberley Green maintenance and improvements include the environmental abatements and demolition of the clubhouse, the parking lot and cart path, the dam, as well as tree removal and maintenance.

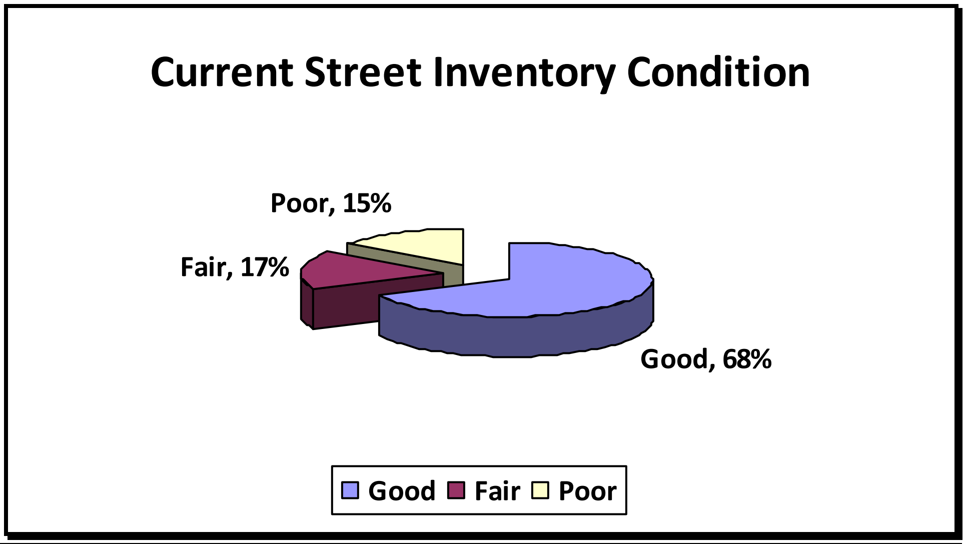
Street Improvements

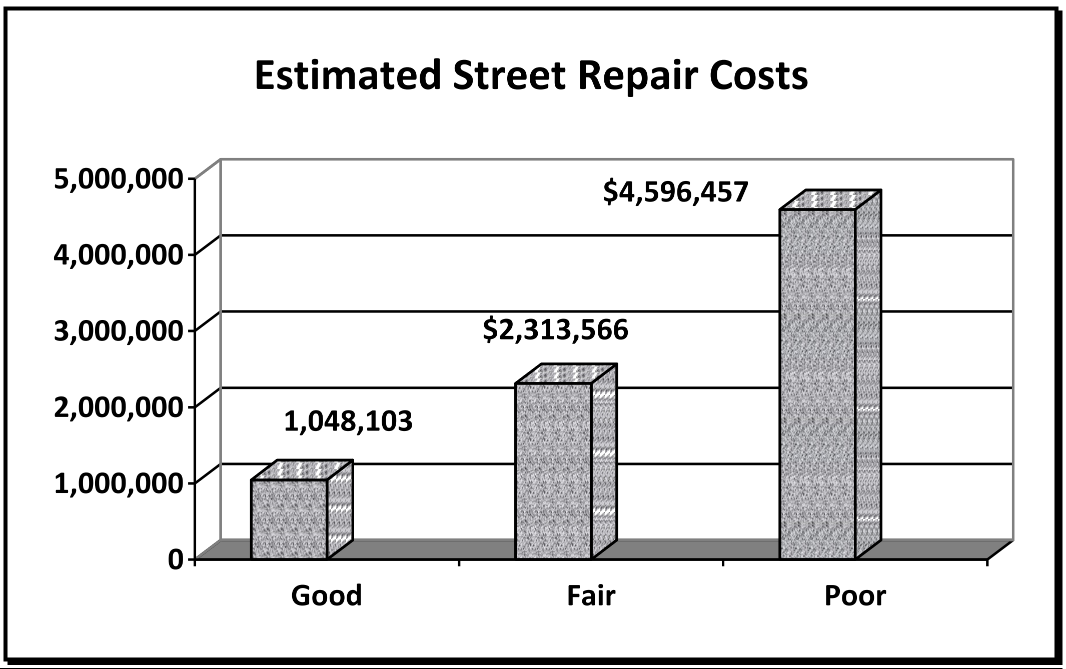
This spring CDS Associates, Inc. completed an analysis of road conditions and prepared a current opinion of projected repair and improvement costs (in current-year dollars).

			REPAIR COST		
CONDITION	**LANE MILES**		**PER LANE MILE**	**TOTAL**	
Good	45.5	**68%**	$ 23,048.00	$1,048,103	13%
Fair	11.7	17%	$ 197,622.00	$2,313,566	29%
Poor	10.0	15%	$ 460,382.00	$4,596,457	**58%**
Failed	0.0	0%			0%
TOTALS	**67.2**	**100%**		**$7,958,126**	**100%**

Note that Amberley annually receives gas tax and license plate fees in its Street Fund, and the Village has budgeted $174,000 of revenue to be received in 2013. As in the past, these annual receipts will continue to fund a portion of the cost of repairs shown above. However, given the $8M estimated road improvement costs, General Fund transfers will be required to subsidize the difference together with grants were available.

Additionally, while inheritance taxes were eliminated by the State, in 2013 Amberley received $436,846 as taxes paid for deaths occurring prior to 2013. These and future receipts will be used to fund capital improvements.





<u>Conclusions</u>

- **85%** of lane miles are in **fair-to-good condition**, and only **15%** are in **poor condition**. No roads are in failed condition.
- Of the total estimated costs, **58**% of the cost comes from the **15%** that are in **poor condition**. This evidences the importance of regular repair to prevent roads as long as possible from falling into the poor (or worse, the failed) category.
- The cost above does not reflect installing new curb and gutter where they presently do not exist.

Municipal Building, North Site, Amberley Green, and Administration facilities and equipment

Reflects the cost for building, grounds, facilities, and equipment at these sites, but does not reflect costs for the Municipal Building roof replacement (steel and membrane), Amberley Green Dam, economic development infrastructure or related improvements to the property, and other costs still in process of development as underlying capital schedules are being refined.

Accrued Time Liability

Calculations of estimated accrued time liability for unpaid leave time (vacation, comp, and sick time) have been prepared for employees who will be eligible for retirement between 2014 and 2020. They reflect estimated payouts calculated at current wage rates. This will require average annual funding estimated at $60,000 for 2014 and $40,000 for 2015, dropping to $35,000 thereafter. These calculations do reflect the changes to the benefit accrual programs recently adopted in order to contain payout benefits.

Economic Development Investments

Opportunities exist to develop Amberley Green for future economic development. To some degree, this may require investments in infrastructure to lure attractive business prospects. Options exist which may be explored further to recapture the up-front development costs via payments from the businesses that develop the properties (principally, Tax Increment Financing, or TIFs). Amberley officials may wish to evaluate the optimum mix of usage for the properties, recognizing in part the need for business income tax revenue growth. Absent revenue growth from these opportunities, there is otherwise a limited upside potential for substantial increase in the two primary tax sources constituting 90% of current revenues: income tax and real estate tax. Economic development costs are listed as a line item in the capital investments summary at the end of this section, but the amount is left blank subject to officials determining the appropriate level of investment opportunities in the future.

Capital Equipment Funds: 2013 Budget and Projected Fund Balances

The table below reflects the capital funds which are dependent upon the General fund, their respective 2013 budgets (in dollars), and the projected year-end fund balance available to help meet investment needs.

		Street Maint. & Repair (#200)	**Capital Projects (#400)**	**Capital Projects, Public Facilities (#410)**	**Capital Projects, Village Land (#420)**
Beginning Cash Balance 1/1/13, before deducting 2012 encumbrances		$633,226	$137,262	$24,104	$1,204
Revenues (budget)		174,000		-	-
Expense budget, includes encumbrances from 2012		(393,740)	(165,000)	-	-
Transfer-in from General Fund			28,000		
Ending Balance 12/31/13		**$413,486**	**$262**	**$24,104**	**$1,204**

Note that the table above reflects the original budget and does not include supplemental budget changes including the aforementioned $436,846 of 2013 inheritance tax revenues.

Beyond balancing its cash-flow from General Fund operations, Amberley should consider a plan to fund annually recurring General Fund transfers to capital funds to sufficiently maintain and replace its capital assets over time. For the first time in recent years, Amberley Village management has developed comprehensive capital improvement program schedules for each of its major categories of assets.[17] These supporting schedules itemize the existing and future vehicles, equipment, and stormwater or street improvements needs, item-by-item, and by estimated year in the future. The table below reflects the total projected asset replacement, maintenance, and improvement funding needs by category and Source Fund. Each of these categories will be addressed following the table.

ANTICIPATED CAPITAL INVESTMENT EXPENDITURES YEARS 2013-2020[18]

CATEGORY	FUND	AMOUNT
Police Dept. Vehicles and Equipment	Capital Improvement, #400	$509,000
Fire Dept. Vehicles and Equipment	Capital Improvement, #400	757,400
Communications Equipment	Capital Improvement, #400	235,000
Service Dept. Vehicles and Equipment	Capital Improvement, #400	1,484,212
Administrative Equipment & Municipal Facilities Maintenance & Improvements	Capital Improvements, #400 and Capital Projects, Public Facilities, #410	693,610
Amberley Green	Capital Projects, Public Facilities, #410	1,015,883
Street Improvements	Street Maint. & Repair, #200	7,859,126
Accrued Time Liability	Employee Severance fund, #250	405,668
Economic Development	Capital Projects - Village Land, #420, Or a separate new fund	To be determined
	TOTAL	$12,959,899

The table above recaps the totals for each category of capital expenditure and the amounts are supported by separate detailed schedules explaining each expenditure.

[17] Note that transfers to a fund for accrued time liability a 'capital' item per se. But for purposes of this report it does represent a future cash outflow necessitating annual funding in order to meet these otherwise unfunded liabilities. Hence it is included above because of its need for annual funding transfers.

[18] Estimated capital expenditures shown in the table above are only through year 2020, except for street improvements which reflect the Village Engineer's total current estimated cost of repairs and improvements for the entire Village street inventory.

It is important to clarify that the Street Improvements reflect the total present cost to improve roads, but that this is not required to be spent and completed by 2020. For all other costs listed, the amounts represent a continuation of existing practices of the normal recurring cycle for maintenance and improvement of facilities as well as cycles for replacement of vehicles and equipment. Furthermore, the figures represent the best estimates available at this time. As proposed capital improvements continue to be evaluated, refinements will be made regularly as new information becomes available.

Amberley records gas tax and license plate fee receipts into the Street Fund, which are used to fund roads. Any residual inheritance tax revenue settlements received in 2013 for deaths occurring prior to the expiration of the estate tax law will also be dedicated to capital improvements. ($436,846 was received in the first half of 2013).

It's obvious that under its present business model that Amberley will not have $13M for capital investment and equipment and vehicles in the coming years. Three steps will be necessary to address this problem of insufficient funds for maintaining capital investments.

1) The capital expenditure program will have to be scaled back, and difficult trade-off decisions will be required. A sound, updated Capital Improvement and Investment Program (CIP) will have to be developed looking out to 2020 and beyond[19].

2) Maintenance budgets may need to increase because strategically the alternative to the capital investment plan above will necessarily require extending the existing lives of all assets because funding the full plan is beyond the financial capacity of the Village.

3) Additional funding mechanisms will have to be established if Amberley wishes to maintain its current equipment, and vehicles in order to maintain its level of program services, and to maintain its streets and other facilities. These options will be addressed further under the Strategies section which follows.

Essentially, the reduction of State revenues has had a much more profound impact on local governments (including Amberley) than may have previously been recognized. It has forced most governments to not only cut operations, but to defer capital expenditures. Many governments used the inheritance tax revenues to fund capital improvements as well as equipment and vehicle replacements. (Amberley received $12M of inheritance tax during 2006-2012.) Deferring the expenditures is merely a short-term cash-flow solution. To illustrate, if a scheduled major road repair is postponed one year, then essentially the entire street repair program is pushed back a year, leading to further deterioration of a government's complete street inventory for another year.

[19] The CIP program will need to look beyond year 2020. To illustrate, the stated life for the Seagrave Fire Truck shows it is scheduled for replacement in year as 2021, at an estimated cost of $900,000. Because it is scheduled for year 2021, it is not reflected in the preceding table which only reflects estimates through year 2020.

STRATEGIES

Based on the information presented in this report, the current financial business model will not enable Amberley Village to fund existing operations and also fund capital investment needs. Therefore, trade-off decisions will be necessary based on priorities. For most governments, this is the new reality. The next steps in implementing this Financial Sustainability Plan will be to begin strategizing various ways to provide for funding of priorities. While this will involve numerous options, Amberley realistically has only three categories where strategies will be focused.

I. **Operating Expenses**

II. **Operating Revenues**

III. **Capital Investments**

I. OPERATING EXPENSES

Focus on Effectiveness: Align Program and Line Item Costs with Priorities

It is sound management to evaluate all costs based on prioritization. This does not require complex bureaucratic systems but merely an analysis of, and statement in the budget addressing, how expenses and program service costs contribute toward achieving the defined the outcome goals of the Village. This is a productivity/effectiveness tool as well as a prioritization tool to direct Amberley's limited resources to the most important programs.

Examine All Expenses and Prioritize them on Both a Bottoms-Up and Top-Down Basis

Bottoms-up: Each individual line item and invoice paid.
Top-Down: By program service.

As Amberley has done in preceding years, continue to utilize priority-based budgeting. To standardize the process, consider using ranking terminology for expenditures that is both clear and distinctive. **Essential**, **Important**, and **Discretionary** are potential terms for labeling priorities because their meaning is both clear and distinctive. Not only should all invoice and line-item costs be prioritized on a bottoms-up basis, but so should the program services.

> **The key point is, in order to keep the most essential services, governments will need to cut the discretionary ones first and then scale back the important ones next**. For example, electricity and local policing may be considered essential whereas perhaps a park-like amenity may be considered discretionary.
>
> To reduce costs, only by comparing all costs at once can a government reduce or eliminate the least important in order to ensure retaining the most important.
>
> When proposals are made mid-year for single purchase items, recognize that in isolation, a case can be made for any reasonable proposal. Absent an emergency need, the relative importance of a newly proposed program or line item cost is better measured when weighed in comparison with all costs, for example during the annual budgetary process. To maintain a balanced budget, any increase in cost must be offset by a cost increase or a revenue increase.

When evaluating programs and expenses, focus on **targeted outcomes**, rather than becoming mired in inputs, outputs, and processes. Focusing on outcomes requires an ongoing evaluation of all program services to ensure that a government's resources are directed (spent) to achieve the most essential service goals, hence achieving the greatest **effectiveness**. In an era of restricted revenue resources, this is the logical and responsible leadership goal.

Focus on <u>Efficiency</u> and <u>Productivity</u>: Maintain a Culture of Continuous Improvement

Multi-tasking is one means to achieve efficiency and productivity, and Amberley has implemented multitasking for years. As just one example, Amberley is one of the very few leading governments in Ohio with a combined Police/Fire program service having a fully cross-trained workforce.

Additionally, governments will increase their sustainability by implementing a culture of continuous improvement. Specifically to illustrate: For all current and proposed expenditures in the future, consider applying these questions:

<u>Why do we carry out this project/function/task, or pay this cost?</u>

1) Does it help fulfill the most important goals and objectives of the Village?
2) Is it essential, important, discretionary?
3) Could we find a substitute to meet the objective that would cost less?
4) Is there another more important expense for which the money could be better spent?
5) Can we live with the downside if we did it less frequently, or didn't spend the money at all?

Facing a future lacking assurance of continued revenue stream increases, governments that do not focus on efficiency and productivity will struggle to fund essential services and capital needs (ie, to continue to be sustainable).

Explore Shared Services with Other Communities

Nearly every government faces similar financial constraints in the coming decade. Shared services are not new: Amberley has engaged in mutual aid for police and has outsourced for EMT services for years. For governments going forward this strategy is becoming more prevalent. Note, however, that there is a practical limit as to how much savings can realistically be gained through cost cuts.

In the coming decades, governments may face growing difficulty in funding increasing operating and capital costs. It can't be ruled out that 10-20 years or more from now, nationwide local governments may need to merge services, if not in legal form, then in substance by sharing departments on a regional scale. In fact, shared services have been in place for years on a regional scale because it just makes sense economically. For decades or longer, counties have served as regional centers for health care and property tax assessments and collections, just to name a few program functions. States have provided vehicle licensing as well as a host of other program centralized services. As another illustration, if the Regional Income Tax Agency can provide income tax processing to approximately 200 governments throughout Ohio, then it is reasonable that we may have regional processing centers for services which are much less sensitive to residents than their income taxes, such as accounting, human resources, IT (information technology), and similar services.

Because it's likely that tax rates cannot be perpetually raised in the future as costs increase, there may not be enough revenue at the local government level to fund all future cost demands. Shared service arrangements have been in place for years, and in the absence of new revenues, this trend is likely to increase. Cost efficiencies rather than perpetual tax increases will represent the primary option by which governments achieve sustainable balanced budgets.

Continue the Selective Hiring Freeze

The last resort for cost reduction by any employer is to layoff valued employees. Occasionally, staff members may leave for positions elsewhere. While no employer wants to see employees leave voluntarily, the silver lining is that it can be an opportunity for savings and a much better alternative to layoffs in order to save money by not filling the position. When vacancies occur, certain positions are essential and in some cases the job duties cannot be easily shifted. For these reasons, judgment is necessary and therefore it merits considering a selective hiring freeze rather than an across-the-board hiring freeze.

Continue to Solicit Competitive Bids for Major Costs to Ensure the Lowest and Best Value

Amberley presently utilizes competitive bids processes for major expenditures such as road salt, electricity, refuse fees and other costs either on its own or by participating in joint bids with local other local governments.

II. OPERATING REVENUES

Operating revenues fall into three categories: Income taxes, Real Estate Taxes, and All Other.

INCOME TAXES

Three options: The commercial tax base. The income tax rate, and the tax credit reciprocity. and

1) The Commercial tax base. Amberley is fortunate to own free and clear several undeveloped properties providing excellent opportunities for carefully-managed economic development. Both the Amberley Green and the North Sites provide close proximity to interstate access, with Amberley Green offering the greatest potential for development for new business growth. Given these site advantages, the optimal long-term sustainability plan would include a focus in growing the tax base to minimize the need for revenues or cost cuts from other sources.

2) Income tax rate. Amberley's current tax rate is 2.00%. In the Cincinnati area, 9 cities and villages have a rate of 2.0% (for example, Hamilton, Cheviot, and Norwood),and 4 have a higher rate, all at 2.1% (Arlington Heights, Cincinnati, Lockland, and St. Bernard).

Therefore, rather than being at the low end of the scale, Amberley is near the top rate. Just to illustrate, a 0.1% increase in the tax rate (to 2.1%) would mathematically generate an estimated additional $112,500 of revenue. A 0.25% rate increase (to 2.25%) would add $281,250 of revenue (both are mathematically based on 2013 revenue as projected in this forecast of $2,250,000).

3) Reciprocity tax credit. Amberley's reciprocity tax credit is a full tax credit up to the limit of the tax rate paid to other local governments, but not exceeding Amberley's 2.00%. As listed above, in the Cincinnati area ten other cities and villages have the same 2.00% tax and four area communities have a higher rate, 2.10%.

REAL ESTATE TAXES

Only one option: Ask voters to approve an increase in the millage rate

Amberley's total tax millage rate is 17 mills as shown below according to information downloaded from the Hamilton County Auditor's web site, and Amberley's Finance Department.

Inside millage:

3.14	General fund (general operations)
0.30	Police Pension fund, generates approximately $50,000 booked to the pension fund.

Outside millage (approved by taxpayer vote):

3.56	Per charter.
10.00	Public Safety, 5-year levy approved by the voters in 2012.Collection years: 2013-2017. Revenue is estimated at 1.6M and is booked to a separate public safety fund.

Note that Amberley's 17 mills ranks between Evendale's low of zero and Lincoln Heights' rate of 48.73. The Hamilton County Auditor's web site provides a document dated December 19, 2012 reflecting the total millage rate and annual tax cost for a residential property valued at $100,000. How does total real estate tax paid for an Amberley home with a market value of $100,000 compare to the rest of Hamilton County?

1) Amberley residents pay $2,441 of total tax per $100,000 of market value based on a total millage of 80.96.
2) The highest total, $3,248, is paid by Wyoming residents in the Finneytown School District. Of their total 107.73 mills, 96.88 mills is for the school district, one of the higher school rates in the County.
3) The lowest amount per $100,000 of market value is paid by Harrison township residents in the Southwest School district, $1,411.

ALL OTHER REVENUES

Fees

Fees can be looked to as another opportunity for ensuring revenues keep pace with related costs. Refuse fees were instituted in 2011 to recover the full cost of refuse expense, and hence do not contribute to net cash-flow. While all major fees could be examined[20], Amberley may want to start first by looking at the Alarm fee (60k, 2013 budget). However, even doubling this fee would generate only about 60k, insufficient to resolve the funding gap. One approach would be to gradually phase-in fee increases to eventually cover the full annual cost to provide the service (and then adjust annually accordingly).

SUMMARY

Perhaps the optimal revenue solution would be to develop Amberley Green and perhaps the North Site. This could generate new tax revenues by growing the tax base. The other tax options include addressing changes to the income tax, reciprocity income tax credit, or the real estate tax millage rate.

Regarding potential fee increases, even if all four major fees (Court fines and fees, Silverton Dispatch, Alarm, and Land Rent fees[21]) were increased 40%, it would only contributed revenues of slightly under $100,000 - insufficient to significantly resolve the funding gap. A 10% across-the-board increase of these four fees would contribute approximately $24,000 more revenue.

In the absence of material increases in revenues, the reality is the only remaining choices are cuts in program services and capital expenditures.

[20] Other fees include land rents, court fines and fees, and the Silverton dispatch fee.
[21] Based on the adjusted 2013 budget in this report, these four fees total $237,500, 40% of which is just shy of $100,000.

II. CAPITAL INVESTMENTS

There is a limited choice of strategies for capital investment funding and savings.

Grant Revenue Funding

Grant funding is often the first choice for capital funding, leveraged by the local government's portion of the payment. Grant opportunities may be more difficult to secure in the future given that Amberley has no state routes and that neighborhood streets rank much lower on the grantors' lists of priorities. For road improvements, Ohio Public Works Commission Grants and Hamilton County Municipal Road Grants are likely sources. As these grants become more competitive, a greater portion of contribution by governments for a share of the cost will be necessary to beat the competition for grants. As for Community Development Block Grants (CDBG), unlike some other communities, Amberley does not meet the low-to-moderate income national objectives to qualify for CDBG grants. As for equipment and operating cost grants, Police and Fire Equipment grants are possibilities and so are grants for three-year partial funding for new officer positions (the current one is titled CHP). However, some grants, such as those which fund officers, come with certain obligations including maintaining a minimum staffing force for a period of time once the grant period has ended. In coming years as the Federal Government continues to address its budget deficit and debt, funding of federal grants to local communities could be reduced.

Cash

Cash is the most common source for funding capital. But for Amberley, the current business model may provide little or no additional free cash-flow for capital investment funding.

Long-Term Debt

Debt is a routine and acceptable funding vehicle for meeting capital needs. Here's why: Long-term assets benefit future generations for 20, 30, (streets, stormwater), even 50+ years (land, buildings) or more. Funding them with debt is called <u>Intergenerational Equity</u> in the accounting world. To illustrate, if residents 20 or more years from now will reap the benefit of a current capital road improvement, it is fair for them to share in the cost. Their tax dollars paid in the out-years will provide the cash funding for the debt payments made during the years in which such taxpayer benefits from the use of the capital asset.

Because Amberley is debt free, which is uncommon among local governments, this represents a greater opportunity that for most other governments for funding long-term capital needs such as street improvements. Note that there is no authoritative accounting rule that states how much is the appropriate amount of debt for a government. That is left to the judgment of the local policy makers to determine. In the industry, the general rule of thumb is that no more than 5% of a government's annual revenues should be dedicated to debt payments. Additionally, State law limits the amount of outstanding debt without taxpayer vote to 5.5% of assessed real estate valuation, and to 10.5% with taxpayer vote.

Special Assessments Tax

In some cases, governments have considered asking residents of a given street or neighborhood for approval of a special tax assessment dedicated to funding repair of their streets. This methodology has been commonplace for funding sidewalk, curb and gutter improvements for decades. In doing so, those who pay the tax are assured of <u>directly</u> receiving the benefit, as opposed to a general tax increase. Special assessment improvements can be eligible in some cases for debt-funding which may be exempt from the State's debt limits applied to general obligation debt as described above.

Extend the Lives of the Existing Capital Assets

This has been the default choice for every government that may have been deferring its capital expenditures. Many local governments, like Amberley, have been deferring capital expenditures for years. However, this option can come with a high risk/reward ratio. The older the vehicles, equipment, streets and stormwater systems become the greater risk of deterioration or even failure. This puts at risk the safe delivery of program services such as fire and police services (i.e. vehicles and equipment). An additional negative consequence of deferring capital expenditures is the bunching of future costs for replacement, sometimes at much higher costs (example – regular and methodical street maintenance and repair vs. complete rebuilds).

Governments benefit by having a systematic capital improvement and replacement plan. Additionally, governments should establish a plan to extend asset lives by increasing the funding for periodic maintenance, and in some cases equipment needs could be selectively reduced. Sharing equipment among governments, for example a lift truck, is another option. in Increased funding for planned scheduling of maintenance and repairs can extend the lives of capital assets, hence reducing the frequency of more costly replacements and improvements.

Increased Road Maintenance and Improvement Technology

Technological changes may extend the life of streets, equipment and vehicles, which may help resolve the challenge of funding capital costs. We can't rule out advancements in street repairs for major patchwork and complete rebuilds which may extend the life of roads. Additionally, with the lack of funding capacity for complete road rebuilds, major substrate patchwork fixes in for larger road segments could become the standard default for road maintenance.

Increased State Gas Tax and License Fees

It is possible that State governments may migrate over time toward higher gas and license taxes in order to fund road improvements including for local governments in the form of grant and loan funding[22]. Under its current business model, Amberley will be unable to fund all of its street improvements (as well as its other capital needs). As this financial challenge increases, eventually State of Ohio leaders may need to consider such a tax funding mechanism. The core question for local governments is to find the balance between funding near-term road improvements funded by local taxpayer burden, versus strategically extending road life and scheduling major improvements where possible to take advantage of potential future increases in gas tax road improvement funding.

Update the Road Conditions Study Periodically

It is important to update the engineer's road condition study periodically, say every 3-5 years. Only by doing so can the success in maintaining the road conditions be monitored and appropriate management decisions be made to continue to maintain roads to prevent falling behind.

[22] According to an NPR article, 19 states have or are considering increasing transportation funding. http://www.npr.org/blogs/itsallpolitics/2013/04/10/176811817/some-states-hike-gas-tax-va-tries-new-route-to-fund-roads.

III. <u>SUMMARY OF STRATEGIES</u>

OPERATING EXPENSES

1) **<u>Carefully manage the two primary cost-drivers: wages and employee health care.</u>**

   a. **<u>Wages</u>**: Where possible, carefully evaluate the trade-offs seizing the opportunity for savings when future attrition occurs: Selectively opt to consolidate employee functions by consider leaving unfilled selected vacancies resulting from attrition.

   Even in the best of times, Amberley has carefully controlled its level of staffing. Revenue reductions and cost increases have brought staff reductions to levels not seen in recent years. Governments can default to thinking merely in terms of staff reduction as a way to reduce costs without recognizing it necessitates a cut-back in program services. To otherwise expect the same level of service may be unrealistic and can put the safety of the staff and delivery of services at risk. The smart way to approach cost reductions is to rank program priorities (see step 8 below) and make cuts strategically choosing to cut the least important programs (i.e. the costs of personnel who carry them out, via attrition).

   b. **<u>Employee Health Care</u>**: Recognize the long-term impact of average annual increases, and consider the benefit of targeting an average annual limit for annual increases. To illustrate, under the math Rule of 72, if health care expense increases average 12% a year, the total cost will double from the current 2013 cost of $369,808 to $739,616 in 6 years, in 2019.

2) **<u>Continue to focus on productivity, efficiencies, and effectiveness</u>** to restrict or reduce expense growth. Note, however, there is a realistic limit to the annual gains from productivity of perhaps 1% - 3% annually. However, note that this strategy in concert with the strategy of attrition may not yield sufficient cost savings.

3) **<u>Continue to explore shared services</u>** to reduce expenses, including shared equipment/vehicles. Currently, Amberley is actively involved in the sharing of services and has pursued such opportunities for a number of years.

4) **<u>Prioritize expenses</u>**.

   Line item expenses – Reduce or eliminate expenses at the line item level starting first with discretionary costs and next, in selective cases where unavoidable, some important costs.

   Program Services - Reduce or eliminate the least important services in order to retain the most essential ones. Ultimately, Amberley may have no other choice but to forego some excellent program service levels in order to retain them at level the Village can afford.

OPERATING REVENUES

5) **<u>Income tax options.</u>** Perhaps the optimal revenue solution would be to develop Amberley Green and perhaps the North Site. This could generate new tax revenues by growing the tax base. The other tax options include examining the income tax rate, the reciprocity income tax credit, or the real estate tax millage rate

6) **Real Estate tax levy**. Evaluate whether to ask the voters during 2017 to renew the 10 mil tax levy (effective 2018), to revise it, or to not renew it at all. Currently in the 2013 budget, the levy funds $1.6M of operating costs – Public Safety Services (Police). Because the levy is a five-year levy, the 2017 will be the last year for receiving the revenues. If the levy is not renewed (or replaced),before 2018, it will require either locating a replacement revenue source or making an equivalent cuts in program services. Given that Amberley needs to identify more funding for capital investments, not renewing the $1.6M tax levy will impose substantial if not severe challenges for Amberley to sustain services and capital investments in the community (roads, facilities, etc.).

7) **Refuse fees.** Continue the program of billing the full cost of refuse services to the residents. Otherwise, cutting or eliminating the $203M refuse revenue stream will necessitate operating expenses cuts elsewhere (or require higher revenues).

8) **Other fees and taxes.** Where appropriate, raise fees so that they may contribute more toward and keep pace with the cost of services provided. Compare fees to other communities and make adjustments where warranted to be comparable with the current market rates. Evaluate fees periodically in the future as warranted to keep up with increasing costs.

CAPITAL INVESTMENTS

9) **Annually update the capital investment schedules**. Consider the cycle of an annual summer update of the CIP. That will enable the coming year's recommended capital expenditures to be incorporated into the operating budget.

10) **Defer capital improvements.** Eliminate replacements of non-essential vehicles and equipment including those pertaining to program services that are reduced or eliminated, and establish preventative maintenance programs to extend the lives of existing assets.

11) **Consider funding street improvements with General Obligation debt, and/or special assessment debt** by street or neighborhood.

FUND BALANCE

Governments may wish to consider a guideline for maintaining a minimum balance in the General Fund. There are two major reasons for doing so:

12) **Cash inflows and outflows are uneven from month-to-month**. Fund balance provides cash for managing these timing differences. Cash inflows vary due to semiannual payments of real estate taxes as well as for the periodic receipts of income taxes (the annual April 15th due date and the quarterly estimated payment due dates). Therefore, cash outflows can vary based on timing of major capital expenditures such as road or facilities improvements, or dump trucks, fire trucks, or major equipment items (backhoes, for example).

13) **Unforeseen emergencies could require reliance on fund reserves.** Risk management dictates that governments be prepared with available fund balance savings in the event of an unforeseen emergency that could either necessitate significant expenditures or should a major income stream be interrupted or eliminated. Examples could include a natural event such as a major storm (tornado, hurricane Ike in September 2008, or the level three snow emergency in December, 2004). Revenue streams could suddenly decrease or end, as in the case of closure of a major business, or, of a major recession.

There exist no State of Ohio laws or formal accounting pronouncements dictating a minimum level of fund balance, in part because of the deference afforded to each local government to determine the policy appropriate for its jurisdiction. However, the Government Finance Officers Association (GFOA) has issued formal recommended best practices[23] criteria for evaluating the appropriate level of minimum balance level. The general rule of thumb in the government finance industry for local governments run from a low of 16% to 33% and higher (two-to-four months of the next year's total expense budget).

However, some governments prefer to maintain higher reserves up to and beyond six months. One reason is would be because if the fund balance were tapped for an emergency need, in this economy there is limited ability to restore the balance for the next emergency need. For Amberley, another reason could occur in 2017 if government leaders place the 10 mill levy on the ballot for renewal (or similar). If the levy were to be defeated, fund balance reserves would provide a margin of time to address alternatives instead of requiring immediate action to offset the loss of the $1.6M of annual revenues. Additionally, the longer vehicle and equipment replacements are deferred, the more likely it may cause 'bunching up' costs to replace a larger amount when the fleet wears out in future years. In some cases, build up reserves in the General fund for later transfers to capital funds based on a CIP.

Given Amberley's $13M of future capital needs, officials may wish to consider some level of transfer from existing General Fund reserves in the near future to the capital funds. While such transfers can be returned to the General Fund, under Ohio Revised Code it requires Council approval of a resolution to a local court to grant such an approval (which is generally routine to obtain).

[23] GFOA best practices web site: http://www.gfoa.org/index.php?option=com_content&task=view&id=118&Itemid=130

CONCLUSION

THE BIG PICTURE

This report ends with the theme discussed in the introduction – Long-Term Sustainability. The bottom line is, we are in the midst of tectonic changes in the financial business model for local governments. For many if not most local governments nationally, all of the easier expenditure cuts have been made beginning with the initial round of reductions dating back to 2008 with the onset of the recession. State revenue funding cuts, including the elimination of the inheritance tax, have left local governments with no easy choices. Many governments have resorted to deferring funding of capital investments as the first step toward resolving their funding problems. This is a short-term cash-flow solution with significant long-term risks to the economic health to the community, and to the property values of its citizens and businesses. Many communities cannot afford the government they currently have, and some do not realize it yet. The reality is, governments will have to adapt to live within their means the same way citizens have had to cut back to adapt during the last six years beginning after 2007. No easy choices remain.

Addressing revenues and cutting expenses are only part of the solution for Long-Term Sustainability.

1) There is a limit of how much taxpayers can be asked to pay higher taxes for increased government expenses. Many governments may be at or near the limit, including possibly Amberley.
2) Essential local police, fire, and other public services delivered to the residents are part-and-parcel to building strong and vibrant communities, and there is a limit to how much they can be reduced.
3) The need to fund long-term capital investments - most importantly roads as well as replacement of essential vehicles and equipment - is vital to the economic health and prosperity of the community as a whole, and of the well-being, property values, and hence finances of its residents. Year-by-year decisions made to defer capital expenditures will merely postpone the problem, possibly making the problem worse (more costly). Decisions made over a period of successive years, unrelated to one another, are an inadequate substitute for a long-term comprehensive capital investment plan. It's reactive, not proactive.

Many governments have addressed financial constraints through a series of annual cost reductions and in some cases, selective revenue increases. What is needed is a long-term, more permanent solution. We may have to solve this problem by thinking differently. To truly achieve lasting, long-term sustainability, local governments may wish to consider the following two additional options**:**

1) **Consider appealing in unity with other local governments for an increase in the State road funding assistance, possible by raising the State gas tax (and/or license plate fees), with the revenues to be distributed to communities to fund local road improvements**.

Amberley received over $12M in inheritance tax from 2006-2012, and the State completely eliminated this revenue source for local governments beginning in 2013. Many governments had utilized these revenues for funding capital improvements. In the absence of this income, Amberley and other local governments would benefit from a dedicated revenue stream for funding roads. This would allow governments to direct local taxpayer dollars toward funding vital operating services and the related equipment and vehicles essential necessary to provide such services. **Because the State eliminated the inheritance tax revenue source, there is sound basis for asking the State to replace the revenue it cut to local governments, possibly in the form of increased gas and license plate taxes dedicated for local road improvements.**

Local governments might wish to consider that it will require continued and sustained long-term efforts in order to successfully appeal in unity to the State for a dedicated increase in revenues for road improvement funding. State leaders need to recognize the severe long-term risks to the economic prosperity to Ohio, and to the social fabric of communities resulting from the deterioration of roads over time. This is a long-term problem that cannot be solved with short-term patchwork budget fixes. While it's certainly far from probable that the State would immediately agree to increase local funding, across all of Ohio local taxpayers simply cannot be asked to continue to raise local tax rates to fill the revenue gap caused when the State legislators eliminated the estate tax (as well as the previously mentioned other state funding cuts).

2) **<u>Local governments may wish to discuss opportunities for serious and meaningful savings to be gained by sharing services on a regional basis, for example for common back-office administrative needs such as accounting and finance, human resources, and IT.</u>**

Admittedly this is a significant leap which local governments may not yet be prepared to consider. It is recognized that this represents strategic long-term thinking[24] and that this won't happen overnight but may take years if it is to occur. Yet it is becoming apparent that annually tinkering with smaller cost cuts and lesser fee increases won't solve the significant long-term funding shortfalls for local governments. As annual costs rise, perpetual tax increases are not the answer, and there is a limit to how much expenses can be cut before reaching bare minimum police and fire protection as well as public works services. Finding meaningful savings sufficient to fund ongoing operating and capital investment needs may require that local governments share services on a much broader scale.

* * * * *

Most governments have significantly reduced if not fully eliminated discretionary costs. Major cuts to essential and important services may yield greater funding for road improvements, but at a severe and unacceptable cost. Austerity is not the answer, and neither are higher taxes. Investing extensive effort to squeeze out minimal cuts, or to ask voters raise taxes further, may not achieve long-term sustainability. Worse, it could be a misdirection of limited time which would distract from focusing on more permanent solutions, such as those listed above.

If leaders of today do not act to solve this problem proactively, they may pass on this foreseeable and preventable problem to the leadership of tomorrow requiring them to address it in reactive mode, and possibly at a much higher cost to taxpayers.

Amberley officials may wish to consider what role to play toward a permanent long-term solution in collaboration with the memberships of First Suburbs and Hamilton County Municipal League. There will never be more time to solve the problem than by beginning now.

[24] Recently it's become common in the business vernacular to refer to some up-and-coming businesses as 'disruptors'. Using the positive meaning of the term, essentially the magnitude of the tectonic changes to the government funding model will require significant and disruptive changes to established government service delivery systems. Economist Joseph Schumpeter referred to this process as 'creative destruction', whereby new advancements disrupt (or destroy and replace) older established processes. (Think of it as the economic form of Darwin's theory of evolution. For example, how many Musicland record stores from 30-40 years ago still operate at the local mall?)

EXHIBITS

I. General Fund Revenues, Expenses, & Net Cash Flow

- **A. Best, Medium, and Worst-Case Bases**
- **B. All Nine Combinations of Best, Medium and Worst-cast bases**

AMBERLEY VILLAGE

EXHIBIT I. A.

GENERAL FUND
SUMMARY
PROJECTIONS FOR YEAR 2020

BEST, MEDIUM, AND WORST-CASE BASES FOR YEAR 2020*

The financial forecast projected three combinations of best, medium, and worst-case bases for revenues as well as for expenses. When all outcomes are matched up it results in nine possible combinations framing the expected outcome for General Fund operations in year 2020.

	Best	Medium	Worst
Net Operating Cash Flow	**$797,486**	**$184,287**	**($448,415)**

* 'Best' means highest revenues and lowest expenses, 'Worst' means the lowest revenues matched with the highest expenses, and 'Medium' means the medium case for both revenues and expenses.

AMBERLEY VILLAGE

EXHIBIT I. B.

GENERAL FUND
SUMMARY
ALL PROJECTIONS FOR YEAR 2020

COMBINATIONS OF BEST, MEDIUM, & WORST-CASE BASES (YEAR 2020)

Revenues	**Best**	**Best**	**Best**
Expenses	**Best**	**Medium**	**Worst**
Net Operating Cash Flow	**$797,486**	**$392,820**	**($40,522)**

Revenues	**Medium**	**Medium**	**Medium**
Expenses	**Best**	**Medium**	**Worst**
Net Operating Cash Flow	**$588,952**	**$184,287**	**($249,055)**

Revenues	**Worst**	**Worst**	**Worst**
Expenses	**Best**	**Medium**	**Worst**
Net Operating Cash Flow	**$389,592**	**($15,073)**	**($448,415)**

The table above combines the best, medium, and worst-case bases for revenues with the same for expenses to derive nine possible combinations. Those shown in the text box represent the best, medium, and worst-case bases as shown on the first page.

EXHIBITS

II. Key Assumption Bases

A. Revenues

B. Expenses

AMBERLEY VILLAGE
EXHIBIT II. A.

REVENUE ASSUMPTIONS

Actual 2012	Budget 2013	Incr/Decr 2012-2013	Factors to consider. Note, presumes no change in revenue programs unless otherwise indicated.	Average Annual increase: Worst	Med.	Best	UPDATED 2013 BUDGET FOR FORECAST
INCOME TAX							
2,665,947	2,250,000	(415,947)	2012 is high at 2,665,947 reflecting 256k received in error for withholding which must be returned in 2013. Backing this out, 2012 is adjusted to 2,409,947. 2006's was 2,273,000. The high for the period (2006-2012) was 2,413,000 (2010) and the low was 2,069,000 during the recession year of 2009. The median (middle) is 2,241,000, and the budget for 2013 is 2,250,000.	**1.00%**	**1.75%**	**2.50%**	**2,250,000** **no change to 2013 budget. See next pg, re 2014 income from the Sycamore Twp JEDZ**

A 2006-2012 trend analysis of composition of taxes from employee withholding, business profits, and individual payments reflects the following info:

	Low	Hi	change	mid	Conservative trend basis		%
Withholding (WH)	905,915	1,119,295	213,380	1,012,605	**1,012,605**		45%
Business Profits	132,438	371,197	238,759	251,818	**140,883**	< use 2012	6%
Individual payments	980,293	1,224,106	243,813	1,102,200	**1,102,200**		49%
				2,366,622	**2,255,688**		100%
				2013 budget	**2,250,000**		^ % reasonably reflects appropriate trend

Note that the analysis of tax revenues shows that 2010 was the high point as a rebound for individual estimate payments and business profits from the 2009 recession. The decrease to 2012 was due to the economy. The forecast gave more weight to the most recent actual figure from 2011 and 2012. Note also that the data for 2006-2012 is not skewed by the closure of Gibson Greetings because the closure occurred prior to 2006.

Note also that because there are so few businesses in the village, withholdings and business profits contribute lower relative %'s of total income taxes as compared to quarterly estimated payments by individuals who are not subject to withholdings.

Importantly, the relative % trend as shown reflects heavy reliance on estimated payments from individuals who do not work in Amberley but must pay via estimated and final payments. This figure can fluctuate significantly where an individual's pay may be based on bonuses and stock options, which are contingent somewhat on economic expansions or recessions.

AMBERLEY VILLAGE
EXHIBIT II. A.

REVENUE ASSUMPTIONS

Actual 2012	Budget 2013	Incr/Decr 2012-2013	Factors to consider. Note, presumes no change in revenue programs unless otherwise indicated.	Average Annual increase: Worst	Med.	Best	UPDATED 2013 BUDGET FOR FORECAST
INCOME TAX (cont.)							
2,665,947	**2,250,000**	**(415,947)**					

We recognize that income taxes could be impacted by two future events: 1) The 2013 Ohio legislature is evaluating House Bill 5, which if passed will establish uniformity for most local tax laws, and 2) the net revenue retained from the Sycamore Township JEDZ. For the HB 5, we cannot estimate the eventual outcome of the bill's contents or even if it will be passed. Hence the forecast does not factor in changes that could result from the proposed bill. For the JEDZ, we cannot pinpoint the potential net revenue that Amberley may retain from the JEDZ. For the forecast, we have added $25,000 to the 2014 income figure as a placeholder beginning in 2014 to represent that we may receive income from this venture.

SUMMARY: 1) In the table on the preceding page, an estimated average of 49% of revenue is from individual estimated payments. Because of the heavy reliance on taxes from individuals working outside the Village, %'s of income from business profits and withholdings are lower than other governments. This makes Amberley subject to annual fluctuation in tax revenues. This can be particularly true during strong and weak economic years. Therefore, we need to set the projection more conservatively, and not 'price for perfection' for tax collections.
Note also the trend of the 2006-2012 decrease in business profits tax, offset by increases in withholding and payments from individuals.

2) For the period from 2006-2012, the estimate disregards the outlier high of 2010 (2,413,000) and low of 2009 (2,069,000).
Consider the trend analysis per the preceding page for the three components of taxes: withholding , business profits, and individual payments. This shows WH at 45%, business profits at 6% and individual payments at 49%. Next, note that the 3-component trend analysis (2,255,000) is nearly the same as the 2006 actual (2,273,000), a normal year prior to the recession of 2007-2009. Next note that both 2006 (2,273,000) and the composite figures (2,255,000) approximate and therefore validate the 2013 budget of 2,250,000 as conservative basis for the forecast.

3) Next, factor in that the 2012 economy did relatively well as compared to the recent recession, but has not fully recovered to pre-2009 levels. Therefore, the 2013 budget is considered a reasonble baseline for the forecast, rather than being either priced for perfection or estimated too low at past recession-year levels.

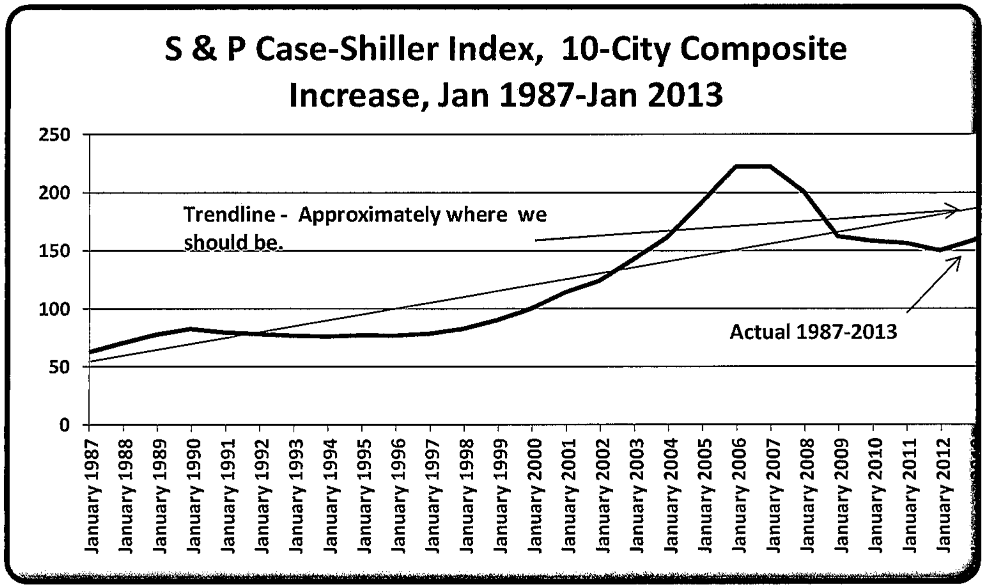
BOTTOM LINE: Realistically no one can forecast what the economy will do betwen now and 2020 and what impact it will have on annual wage increases, hence income tax revenues. While we could use varing ranges, for the purposes of this forecast, it was best felt that the range of 1% as the low and 2.5% as the high should be used to 'bookend' the lowest and highest ends, rather than use a range lower or higher.

AMBERLEY VILLAGE
EXHIBIT II. A.

REVENUE ASSUMPTIONS

Actual 2012	Budget 2013	Incr/Decr 2012-2013	Factors to consider. Note, presumes no change in revenue programs unless otherwise indicated.	Average Annual increase Worst	Med.	Best	UPDATED 2013 BUDGET FOR FORECAST
TOTAL RE TAX INCL STATE ROLLBACK							
1,124,853	1,066,707	(58,146)	Lower assessed values have resulted in reduced revenue. The change in valuations is what will result in increases in future real estate taxes. However, as addressed below, it is unrealistic to obtain reliable past trend data, and it is equally unrealistic to believe we can rely on any given expected annual percentage growth rate looking forward. For this reason, use conservative % rates as shown at right for a basis for increases in real estate taxes.	**1.0%**	**1.75%**	**2.5%**	**1,066,707 no change to 2013 budget**

1) The Case-Shiller home valuation index data was downloaded and the total 10-city national composite dating to 1987 was analyzed (January 2007-January 2013). The average annual increase from Jan 87-Jan 13 was 5.989% and from Dec 1999-Jan 2013 was 3.658% What this demonstrates is that given the bursting of housing bubble of 2007-2009, neither trend can be relied upon as a basis for Amberley's financial forecast. However, for info purposes, the annual data points were charted, as shown below.



While the graph shows that current prices may be below the trend from 1987, it does not provide an analytical basis from which to derive an estimated growth percentage range looking forward. All this is saying is that given the anomaly of housing prices of the last 20 years and in the last decade, we cannot rely on past price trends for forecasting future valuations

2) Various other sources were contacted for median sales price data and information on recent trends: Cincinnati Metropolitan Board of Realtors, Ohio and National Associations of Realtors. Data obtained dating to the 1980s was analyzed and provided various historical annual growth rates from 3%-5% approximately. However, as with the situation with Case-Shiller data, the housing bubble anomaly renders historic trends unreliable as predictors out to year 2020.

3) We do know that the recent trend shows an increase in housing values in many, but not all regions of the country. Yet we are mired in a slow growth enviromnent and as of May 2013 the unemployment rate nationally is 7.5%. Additionally, mortgage lending qualifications have tightened substantially restricting the number of eligible borrowers. Plus the lack of robust hiring has minimized relocations for new jobs, further reducing the increase in purchasing demand, hence housing prices.

AMBERLEY VILLAGE
EXHIBIT II. A.

REVENUE ASSUMPTIONS

Actual 2012	Budget 2013	Incr/Decr 2012-2013	Factors to consider. Note, presumes no change in revenue programs unless otherwise indicated.	Average Annual increase: Worst	Med.	Best	UPDATED 2013 BUDGET FOR FORECAST
TOTAL RE TAX INCL STATE ROLLBACK			(cont.)				
1,124,853	1,066,707	(58,146)	4) Amberley's assessed valuations were downloaded from the Hamilton County Auditor web site. Additionally, valuations were also analyzed for the following, all dating to 2004: Indian Hill, Montgomery, Wyoming, and the County as a whole.				

	Annual rate of increase, assessed valuation
Amberley	0.86%
Wyoming	0.81%
Montgomery	2.73%
Indian Hill	3.72%
Ham County	0.86%

Per discussion with the Indian Hill Finance Director, Nadine Weber, their rate was significantly skewed higher because a new subdivision was added. The overall conclusion is that given the period since 2004 which included both a major valuation increase as well as the housing bubble collapse, no reliable trend can be used from the Hamilton County valuation trends.

BOTTOM LINE: The Case-Shiller index announced May 28th showed an annual 12-month national increase of 10.9%. As the graph shows, this is rapid rebound is the result of coming off the lows from the 2007-2009 recesssion resulting in part from the bursting of the housing bubble. We are still below the highs preceding the recession and below the trendline shown above. For this reason it is fair to presume we could continue to see increases greater than normal average increases, which would generally be in the neighborhood of wage increases. Yet, it would be inappropriate for the forecast to count on out-sized annual gains to year 2020. Therefore, use 1.0%-2.5% to bookend the lowest-highest <u>annual</u> increases in RE tax revenue.

Actual 2012	Budget 2013	Incr/Decr 2012-2013	Factors to consider	Worst	Med.	Best	UPDATED 2013 BUDGET FOR FORECAST
WASTE/RECYCLING FEES							
214,734	180,000	(34,734)	Beginning mid-2011, Amberley adopted a policy of billing to cover the full cost of refuse pickup, including the 5% fee paid to Cincinnati Water Works. Therefore the forecast should reflect revenues to match the budgeted expenses. Note that a contract was entered into that will lock this cost in for the three years of 2013-2015. Rate increases shown to the right are forecasted to take effect beginning in year 2016.	**1.0%**	**1.3%**	**1.5%**	**203,000**

AMBERLEY VILLAGE
EXHIBIT II. A.

REVENUE ASSUMPTIONS

Actual 2012	Budget 2013	Incr/Decr 2012-2013	Factors to consider. Note, presumes no change in revenue programs unless otherwise indicated.	Average Annual increase: Worst	Med.	Best	UPDATED 2013 BUDGET FOR FORECAST

NOTE

FOR THE REMAINING TOP 10-ISH REVENUES, THE BOTTOM LINE IS THAT BECAUSE THEY ARE 70K EACH OR LESS, A DIFFERENCE OF A % IN THE FORECAST ASSUMPTIONS WILL NOT MAKE A SIGNIFICANT DIFFERENCE TO TOTAL REVENUES, PERHAPS 3K/YR PER 1%. SO, THERE IS NO NEED FOR DEEP ANALYSIS OF THESE ITEMS, ABSENT A KNOWN EXPECTATION OR INTENT TO SIGNIFICANTLY RAISE THE UNIT RATE OR AN EXPECTATION OF AN INCREASE IN UNIT QUANTITY.

Actual 2012	Budget 2013	Incr/Decr 2012-2013	Factors to consider	Worst	Med.	Best	UPDATED 2013 BUDGET FOR FORECAST
SILVERTON DISPATCHING FEE							
0	70,000	70,000	Per contract, fees for year 2014-85,000; 2015-87,550 (3% increase). Rates at right are estimated for years 2016 and thereafter.	0.0%	1.5%	3.0%	70,000 **no change to 2013 budget**
TOTAL STATE/COUNTY REVENUE SHARING							
100,431	69,909	(30,521)	The State's 2013-2015 budget has not been finalized as of this writing and is subject to change. As a result, the projection is based on 2013 estimated revenues.	1.0%	1.5%	2.0%	69,909 **no change to 2013 budget**
ALARM PERMITS/MONITORING							
60,954	60,000	(954)	There is a limit to how frequently and how much this fee can be increased between now and 2020. It is a small revenue amount, so a 1%-2% variance either direction will not have substantial impact. Note the modest historical rate of increase. Therefore, use a modest annual rate that might mathematically represent a single increase between now and 2020. Note that there may be the opportunity for increasing this fee in future years - a decision that policy makers can address.	0.00%	0.00%	0.00%	60,000 **no change to 2013 budget**
LAND RENTAL INCOME							
66,436	55,000	(11,436)	There is a limit to how frequently and how much this fee can be increased between now and 2020. It is a small revenue amount, so a 1%-2% variance either direction will not have substantial impact. Therefore, use a modest annual rate that might mathematically represent a single increase between now and 2020. **Increase the 2013 budget modestly to reflect the higher actual revenue in 2012.**	0.20%	0.20%	0.20%	60,000
FRANCHISE FEES-WARNER							
55,240	50,000	(5,240)	Conservatively plan for modest annual increases. Small revenue source, so a 1% variance either direction will not have substantial impact. **Increase the 2013 budget for the forecast to reflect the higher actual revenue of 2012.**	1.0%	1.5%	2.0%	55,000

AMBERLEY VILLAGE

EXHIBIT II. A.

REVENUE ASSUMPTIONS

Item	Actual 2012	Budget 2013	Incr/Decr 2012-2013	Factors to consider. Note, presumes no change in revenue programs unless otherwise indicated.	Average Annual increase Worst	Med.	Best	UPDATED 2013 BUDGET FOR FORECAST
COURT FINES	54,332	35,000	(19,332)	There is a limit to how frequently and how much this fee can be increased between now and 2020. It is a small revenue amount, so a 1%-2% variance either direction will not have substantial impact. **Amberley experienced a major 15k-20k increase in 2012 as a result of increased enforcement. But to be conservative, absent the certainty that for the next 7 years that this level of enforcement can continue, revert to the lower historic trend for the forecast, to be conservatively cautious.**	**0.20%**	**0.30%**	**0.40%**	**35,000**
INTEREST	8,738	20,000	11,262	The U.S. is at 50+yr lows in interest rates. Eventually they will rise, but no one can predict when, and by how much. Absent a reliable basis for increasing the revenue, leave it as flat-lined, especially since the amount of 20k is minor, and should deficits occur, less investable funds will further reduce interest income.	**0.0%**	**0.0%**	**0.0%**	**20,000**
Subtotal	**4,351,664**	**3,856,616**						3,889,616
MINOR RECURRING REVENUES	52,917	14,400		This revenue is relatively immaterial. Absent foreseeable increases on the horizon, use modest %'s.	**0.1%**	**0.2%**	**0.3%**	**14,400**
EMPLOYEE HEALTH INSURANCE	44,957	0	(44,957)	Beginning 2013, employee contributions withheld will be credited into a separate Employee health insurance fund as revenue. A portion of the invoice paid for insurance that matches the income will be charged to that fund. The General fund expenses for 2013 reflect the insurance expense net of the withholding. Therefore, those expenses will be the basis for projected costs.	NA, amount is no longer shown beginning 2013 as a General Fund % revenue. Booked directly to the Separate insurance fund.			**0**
INHERITANCE TAX (2012)	5,478,462			This revenue was eliminated by State law, effective 1/1/13.				**0**

GENERAL FUND REVENUE (2013 DOES NOT INCLUDE THE TAX LEVY REVENUE BOOKED DIRECTLY TO THE SAFETY SERVICES FUND).

	Actual 2012	Budget 2013	UPDATED 2013 BUDGET FOR FORECAST
Total	9,928,000	3,871,016	3,904,016

AMBERLEY VILLAGE

EXHIBIT II. B.

EXPENSE ASSUMPTIONS

Actual 2012	Budget 2013	Incr/Decr 2012-2013	Annual Rate 2006 to 2012	Factors to consider. Note, presumes no change in programs unless otherwise indicated.	Annual increase Best	Med.	Worst
Personnel							
Salaries, wages							
2,528,472	2,592,300	63,828	1.47%	Presumes no change in staffing positions, reflecting continuation of existing 2013 staff and programs.	**1.0%**	**2.0%**	**3.0%**
	this average is low due to a zero ^ increase in 2011 & 2012						
				For the low annual increase, presume that in general there is a base annual average increase % that is reasonable to provide, averaged over 7 years to 2020, of 1%/yr. This is a base average considered in order to retain and attract highly-skilled, efficient and effective employees.			
				The high end of range was based on analysis of base-level increases from 2001-2009. An analysis was performed of wage levels between years 2001-2009 to determine base level annual increases Base level was defined as the primary wage increase received by the majority of staff, notwithstanding that a few outliers received a lower or higher increase to reflect performance or one-time market wage adjustments. The base annual increase averaged roughly 3.5%. This average spanned years of both economic expansion and retrenchment during 2001 to 2009. Therefore, use 3% as the high rate.			
Pension, Medicare, Work Comp							
445,509.88	435,491	(10,019)	-0.68%	Presume no rate increases from pension organizations, nor the medicare rate, or work comp rate. Hence increase in these costs merely reflects wage increases.	**1.0%**	**2.0%**	**3.0%**

AMBERLEY VILLAGE

EXHIBIT II. B.

EXPENSE ASSUMPTIONS

Actual 2012	Budget 2013	Incr/Decr 2012-2013	Annual Rate 2006 to 2012	Factors to consider. Note, presumes no change in programs unless otherwise indicated.	Annual increase Best	Med.	Worst
Health Care							
441,164.83	369,808	(71,357)	0.40%	Monthly rate history dating to plan year ended 7/31/06 was analyzed. Note that the percent increases below reflect relative change in cost year-to-year even with changes to different benefit plans. Since 2009, Amberley has been a member of the CLG insurance pool with 14 other local governments.	**6.0%**	**8.0%**	**10.0%**

	Plan Year Beginning	Single		Family		Single	Family
	8/1/2005	359.08		1030.57			
decrease from prior year>	8/1/2006	322.15	**-10.3%**	924.57	**-10.3%**		
decrease from prior year>	8/1/2007	266.01	**-17.4%**	763.44	**-17.4%**	**266.01**	**763.44**
	8/1/2008	292.34	9.9%	839.02	9.9%		
	8/1/2009	266.41	-8.9%	808.89	-3.6%		
	8/1/2010	325.02	22.0%	986.85	22.0%		
Platinum B plan>	8/1/2011	372.26	14.5%	1130.29	14.5%		
Platinum B plan>	8/1/2012	423.41	13.7%	1285.59	13.7%	**423.41**	**1285.59**

		Single	Family
For calculation of the average annual increase, ignore years 2006 and 2007 which saw a decrease. Future trends indicate only increases, particularly given uncertainties resulting from the new health care law to be implemented in 2014.	net increase since 2008	157.4	522.15
	total % increase 2008-2013	59.2%	68.4%
	% per year average	11.8%	13.7%

Note that 2014 plan YE increase is expected to be approx 6.9% ^

It is important to note that there were a number of plan changes between 2005-2013 including the most recent steps taken to curtail the cost growth as implemented by the pool members themselves. Additionally, Amberley shifted to a two plan option whereby the employee pays more if they choose the higher-coverage/higher cost Platinum A plan.

The key here is that Amberley cannot afford the upper boundary of annual increases to exceed 10%/yr. This cost is the most critical cost to control to manage the budget, aside from staffing.

AMBERLEY VILLAGE

EXHIBIT II. B.

EXPENSE ASSUMPTIONS

	Actual 2012	Budget 2013	Incr/Decr 2012-2013	Annual Rate 2006 to 2012	Factors to consider. Note, presumes no change in programs unless otherwise indicated.	Annual increase Best	Med.	Worst
Utilities								
	93,441	96,400	2,959	1.78%	Duke rate increases are limited by PUCO. Amberley participates in the CLG bid pool. Gas heat usage is nominal. New supplies have been found in the U.S. However, they may not limit annual rate increases if rates are driven more by global market prices, noting that supplies are now being exported.	**1.0%**	**1.5%**	**2.0%**
Refuse								
	217,935	203,000	(14,935)	2.05%	Rate was lowered via CLG bidding consortium. Expect future benefit from bidding to cap increases. Expenses match revenue projections. Rate is locked in for 2013-2015. Increases to right are for years thereafter.	**1.0%**	**1.3%**	**1.5%**
Emergency Paramedic Contract								
	120,000	130,000	10,000	10.71%	Current EMT contract with the Fire District ends after 2013. Use same amount for 2014-2015 as 2013 Budget. Annual increase is a function of the the Fire District's cost increases and new technology and staffing skill training/requirements, plus number of runs. To the degree the population ages, EMT runs could increase. Final actual costs will be subject to negotiation between the Fire District and the Village Manager.	**1.0%**	**2.0%**	**3.0%**
Insurance and Bonding								
	79,745	80,620	875	-8.59%	Given a decrease from 2006 - 2013 from 257k to 80k, it is more likely that 2013 is near a bottom. in insurance costs. In the future, low insurance carrier investment returns and increased claim costs from catastrophic events could result in rate increases.	**1.0%**	**2.0%**	**3.0%**

AMBERLEY VILLAGE

EXHIBIT II. B.

EXPENSE ASSUMPTIONS

Actual 2012	Budget 2013	Incr/Decr 2012-2013	Annual Rate 2006 to 2012	Factors to consider. Note, presumes no change in programs unless otherwise indicated.	Annual increase Best	Med.	Worst
Operating supplies							
100,662	81,800	(18,862)	3.97%	Street cleaning & snow removal cost more than tripled, 2006-2013. Constitutes nearly half of total supplies. All other operating supply line items are lower for 2013 vs both 2006 & 2012. Road salt is the largest cost and there is no present reason to expect a higher annual rate of increase. There are no changes in the execution of snow removal or other programs which would affect the assumptions.	1.0%	2.0%	3.0%
Gasoline							
63,046	71,400	8,355	4.18%	Presume no major change in the quantity of fuel consumed. Per gal rates since 2007 show it is not possible to accurately project the cost of fuel per gallon. Therefore, in absence of a reliable basis, use growth rates as shown to the right. Note also that using 3% as the high, annualized for the next 7 years, results in 21% by year 2020 (ignoring compounding) raising per-gal rates for regular from the current $3.89 (5/2013) to $4.71. Given the trends toward electric vehicle use and the general flat-line or decrease in gallons consumed nationally in recent years, 3%/yr as the high annual rate of growth is reasonable absent a reason to use a higher figure. Should the annualized rate actually be higher for the next 7 years, miles driven may decrease as was seen when rates exceeded $4/gal, and sustained high rates would also accelerate the shift to electric vehicles. Both would presumably have restrained the cost due to decreased demand.	1.0%	2.0%	3.0%
Repair and Maintenance							
145,319	133,100	(12,219)	2.51%	Police 8k, Street-20k, Mechanical Equip-40k, & Land and Building-25k. All were cut substantially from 2012 budget. Total R&M was cut 44k, 25% vs 2012 budget. To the degree improvements or replacements for vehicles/equipment are not funded, R&M will rise.	2.0%	3.0%	4.0%
Rep & Maintenance- Equip/Facilities							
90,035	116,500	26,465	5.52%	Police -8k, Fire- 15k, Mgr/Admin -10k, Lands buildings -25k, Amberley Green- 37k, Earnings tax -13.5k. Nearly all were cut substantially from 2012 budget. Total R&M- Equip and Maint was cut 35k, 2 3% vs 2012 budget. To the degree improvements or replacements for vehicles/equipment are not funded R & M will increase as equip/facilities age. Therefore, use rates at right to reflect historic and expected trend.	3.0%	4.0%	5.0%

AMBERLEY VILLAGE

EXHIBIT II. B.

EXPENSE ASSUMPTIONS

	Actual 2012	Budget 2013	Incr/Decr 2012-2013	Annual Rate 2006 to 2012	Factors to consider. Note, presumes no change in programs unless otherwise indicated.	Annual increase Best	Med.	Worst
Legal, Litigation	68,458	60,000	(8,458)	2.89%	2013 budget is 21k less than 2011. The wild card is litigation costs - not expected to be a major factor in coming years.	1.0%	2.0%	3.0%
All Other costs	373,935	464,936	91,001	1.35%	Presume that Amberley will limit cost increases for all other expenses as shown to the right. Note also that the 2013 figure for all other does include $28k for transfer to the capital improvement fund to supplement fund balance to purchase vehicles. Hence, the 2013 budget, and therefore the forecast, does reflect a small amount for capital transfers, as opposed to reflecting none at all.	1.0%	2.0%	3.0%
Subtotal	4,767,722	4,835,355	67,633					
Add 2012 trsfrs, incl Amberley Green	6,328,445							
Less allocation of cost to Police Levy fund		(1,544,100)			The 2013 budget reflects in the wage line on the first page all costs of police enforement. The budget then deducts on this line the portion charged out to the separate Public Safety levy fund. Because the 10 mill levy tax is prohibited by law from increasing, neither will the revenues. Hence the allocation of costs to the separate fund cannot, either. What this means is, the annual inflation cost increase on the 1.6M levy allocation is reflected in the General fund cost projection because the wage line on the first expense page is at gross. This means that the General Fund will have to absorb the related cost increases in coming years.			
Tie to Net General Fund Expenses	**11,096,167**	**3,291,255**						

EXHIBITS

III. 2013-2020 Financial Projection Schedules

A.-I. All Nine Projected Outcomes under Best-Case to Worst-Case Bases

AMBERLEY VILLAGE

GENERAL FUND

EXHIBIT III. A.

REVENUES-BEST CASE
EXPENSES-BEST CASE

	Budget	PROJECTED						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
REVENUES	3,904,016	4,029,735	4,120,753	4,216,070	4,313,733	4,413,800	4,516,331	4,621,388
EXPENSES	3,291,255	3,359,730	3,430,096	3,504,470	3,580,937	3,659,594	3,740,546	3,823,902
NET CASH FLOW	**612,761**	**670,005**	**690,658**	**711,600**	**732,796**	**754,206**	**775,785**	**797,486**
BEGINNING FUND BALANCE (a)	1,625,984	2,238,745	2,908,751	3,599,409	4,311,009	5,043,805	5,798,010	6,573,795
ENDING FUND BALANCE	2,238,745	2,908,751	3,599,409	4,311,009	5,043,805	5,798,010	6,573,795	**7,371,281**

(a) 1/1/13 beginning balance is net of $256k income tax received in 2012, refunded in 2013.

AMBERLEY VILLAGE

GENERAL FUND

EXHIBIT III. B.

REVENUES-BEST CASE
EXPENSES-MEDIUM CASE

	Budget	PROJECTED						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
REVENUES	3,904,016	4,029,735	4,120,753	4,216,070	4,313,733	4,413,800	4,516,331	4,621,388
EXPENSES	3,291,255	3,409,270	3,531,545	3,660,852	3,794,932	3,934,051	4,078,495	4,228,567
NET CASH FLOW	**612,761**	**620,466**	**589,208**	**555,218**	**518,801**	**479,748**	**437,836**	**392,820**
BEGINNING FUND BALANCE (a)	1,625,984	2,238,745	2,859,211	3,448,419	4,003,637	4,522,438	5,002,186	5,440,022
ENDING FUND BALANCE	2,238,745	2,859,211	3,448,419	4,003,637	4,522,438	5,002,186	5,440,022	**5,832,842**

(a) 1/1/13 beginning balance is net of $256k income tax received in 2012, refunded in 2013.

AMBERLEY VILLAGE

GENERAL FUND

EXHIBIT III. C.

REVENUES-BEST CASE
EXPENSES-WORST CASE

	Budget	PROJECTED						
	2013	2014	2015	2016	2017	2018	2019	2020
REVENUES	3,904,016	4,029,735	4,120,753	4,216,070	4,313,733	4,413,800	4,516,331	4,621,388
EXPENSES	3,291,255	3,458,809	3,634,129	3,820,759	4,016,241	4,221,160	4,436,153	4,661,910
NET CASH FLOW	**612,761**	**570,926**	**486,624**	**395,311**	**297,492**	**192,639**	**80,178**	**(40,522)**
BEGINNING FUND BALANCE (a)	1,625,984	2,238,745	2,809,672	3,296,296	3,691,607	3,989,098	4,181,738	4,261,915
ENDING FUND BALANCE	2,238,745	2,809,672	3,296,296	3,691,607	3,989,098	4,181,738	4,261,915	**4,221,393**

(a) 1/1/13 beginning balance is net of $256k income tax received in 2012, refunded in 2013.

AMBERLEY VILLAGE

GENERAL FUND

EXHIBIT III. D.

REVENUES-MEDIUM CASE
EXPENSES-BEST CASE

	Budget	PROJECTED						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
REVENUES	3,904,016	4,004,186	4,068,388	4,134,961	4,202,674	4,271,547	4,341,601	4,412,854
EXPENSES	3,291,255	3,359,730	3,430,096	3,504,470	3,580,937	3,659,594	3,740,546	3,823,902
NET CASH FLOW	**612,761**	**644,456**	**638,292**	**630,491**	**621,737**	**611,953**	**601,055**	**588,952**
BEGINNING FUND BALANCE (a)	1,625,984	2,238,745	2,883,202	3,521,494	4,151,985	4,773,722	5,385,676	5,986,730
ENDING FUND BALANCE	2,238,745	2,883,202	3,521,494	4,151,985	4,773,722	5,385,676	5,986,730	6,575,682

(a) 1/1/13 beginning balance is net of $256k income tax received in 2012, refunded in 2013.

AMBERLEY VILLAGE

GENERAL FUND

EXHIBIT III. E.

REVENUES-MEDIUM CASE
EXPENSES-MEDIUM CASE

	Budget	PROJECTED						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
REVENUES	3,904,016	4,004,186	4,068,388	4,134,961	4,202,674	4,271,547	4,341,601	4,412,854
EXPENSES	3,291,255	3,409,270	3,531,545	3,660,852	3,794,932	3,934,051	4,078,495	4,228,567
NET CASH FLOW	**612,761**	**594,917**	**536,843**	**474,109**	**407,742**	**337,496**	**263,106**	**184,287**
BEGINNING FUND BALANCE (a)	1,625,984	2,238,745	2,833,662	3,370,504	3,844,613	4,252,355	4,589,851	4,852,957
ENDING FUND BALANCE	2,238,745	2,833,662	3,370,504	3,844,613	4,252,355	4,589,851	4,852,957	**5,037,244**

(a) 1/1/13 beginning balance is net of $256k income tax received in 2012, refunded in 2013.

AMBERLEY VILLAGE

GENERAL FUND

EXHIBIT III. F.

REVENUES-MEDIUM CASE
EXPENSES-WORST CASE

	Budget	PROJECTED						
	2013	2014	2015	2016	2017	2018	2019	2020
REVENUES	3,904,016	4,004,186	4,068,388	4,134,961	4,202,674	4,271,547	4,341,601	4,412,854
EXPENSES	3,291,255	3,458,809	3,634,129	3,820,759	4,016,241	4,221,160	4,436,153	4,661,910
NET CASH FLOW	**612,761**	**545,377**	**434,259**	**314,202**	**186,433**	**50,387**	**(94,553)**	**(249,055)**
BEGINNING FUND BALANCE (a)	1,625,984	2,238,745	2,784,122	3,218,381	3,532,583	3,719,016	3,769,403	3,674,850
ENDING FUND BALANCE	2,238,745	2,784,122	3,218,381	3,532,583	3,719,016	3,769,403	3,674,850	**3,425,795**

(a) 1/1/13 beginning balance is net of $256k income tax received in 2012, refunded in 2013.

AMBERLEY VILLAGE

GENERAL FUND

EXHIBIT III. G.

REVENUES-WORST CASE
EXPENSES-BEST CASE

	Budget	PROJECTED						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
REVENUES	3,904,016	3,978,637	4,016,402	4,055,013	4,094,023	4,133,437	4,173,260	4,213,494
EXPENSES	3,291,255	3,359,730	3,430,096	3,504,470	3,580,937	3,659,594	3,740,546	3,823,902
NET CASH FLOW	**612,761**	**618,907**	**586,306**	**550,543**	**513,086**	**473,843**	**432,714**	**389,592**
BEGINNING FUND BALANCE (a)	1,625,984	2,238,745	2,857,652	3,443,959	3,994,501	4,507,588	4,981,431	5,414,145
ENDING FUND BALANCE	2,238,745	2,857,652	3,443,959	3,994,501	4,507,588	4,981,431	5,414,145	5,803,737

(a) 1/1/13 beginning balance is net of $256k income tax received in 2012, refunded in 2013.

AMBERLEY VILLAGE

GENERAL FUND

EXHIBIT III. H.

REVENUES-WORST CASE
EXPENSES-MEDIUM CASE

	Budget	PROJECTED						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
REVENUES	3,904,016	3,978,637	4,016,402	4,055,013	4,094,023	4,133,437	4,173,260	4,213,494
EXPENSES	3,291,255	3,409,270	3,531,545	3,660,852	3,794,932	3,934,051	4,078,495	4,228,567
NET CASH FLOW	**612,761**	**569,367**	**484,857**	**394,161**	**299,091**	**199,386**	**94,765**	**(15,073)**
BEGINNING FUND BALANCE (a)	1,625,984	2,238,745	2,808,113	3,292,969	3,687,130	3,986,221	4,185,607	4,280,371
ENDING FUND BALANCE	2,238,745	2,808,113	3,292,969	3,687,130	3,986,221	4,185,607	4,280,371	**4,265,299**

(a) 1/1/13 beginning balance is net of $256k income tax received in 2012, refunded in 2013.

AMBERLEY VILLAGE

GENERAL FUND

EXHIBIT III. I.

REVENUES-WORST CASE

EXPENSES-WORST CASE

	Budget	PROJECTED						
	2013	2014	2015	2016	2017	2018	2019	2020
REVENUES	3,904,016	3,978,637	4,016,402	4,055,013	4,094,023	4,133,437	4,173,260	4,213,494
EXPENSES	3,291,255	3,458,809	3,634,129	3,820,759	4,016,241	4,221,160	4,436,153	4,661,910
NET CASH FLOW	**612,761**	**519,828**	**382,273**	**234,253**	**77,782**	**(87,723)**	**(262,894)**	**(448,415)**
BEGINNING FUND BALANCE (a)	1,625,984	2,238,745	2,758,573	3,140,846	3,375,099	3,452,882	3,365,158	3,102,265
ENDING FUND BALANCE	2,238,745	2,758,573	3,140,846	3,375,099	3,452,882	3,365,158	3,102,265	**2,653,849**

(a) 1/1/13 beginning balance is net of $256k income tax received in 2012, refunded in 2013.

EXHIBITS

IV. General Fund Summaries:

A. Major Revenues

B. Major Expenses

AMBERLEY VILLAGE

EXHIBIT IV. A. 1.

REVENUE FORECAST

BEST CASE BASIS

	Best	2013 Budget as updated	2014	2015	2016	2017	2018	2019	2020
INCOME TAX									
	2.5%	2,250,000	2,331,250	2,389,531	2,449,270	2,510,501	2,573,264	2,637,595	2,703,535
TOTAL RE TAX INCL STATE ROLLBACK									
	2.5%	1,066,707	1,093,375	1,120,709	1,148,727	1,177,445	1,206,881	1,237,053	1,267,979
WASTE/RECYCLING FEES									
	1.5%	203,000	203,000	203,000	205,030	207,080	209,151	211,243	213,355
SILVERTON DISPATCHING FEE									
	3.0%	70,000	85,000	87,550	90,177	92,882	95,668	98,538	101,494
TOTAL STATE/COUNTY REVENUE SHARING									
	2.0%	69,909	71,308	72,734	74,188	75,672	77,186	78,729	80,304
ALARM PERMITS/MONITORING									
	0.00%	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
LAND RENTAL INCOME									
	0.20%	60,000	60,120	60,240	60,361	60,481	60,602	60,724	60,845
FRANCHISE FEES-WARNER									
	2.0%	55,000	56,100	57,222	58,366	59,534	60,724	61,939	63,178
COURT FINES									
	0.40%	35,000	35,140	35,281	35,422	35,563	35,706	35,848	35,992
INTEREST									
	0.0%	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
		3,889,616	4,015,292	4,106,267	4,201,540	4,299,159	4,399,182	4,501,670	4,606,683
MINOR RECURRING REVENUES									
	0.3%	14,400	14,443	14,487	14,530	14,574	14,617	14,661	14,705
		3,904,016	**4,029,735**	**4,120,753**	**4,216,070**	**4,313,733**	**4,413,800**	**4,516,331**	**4,621,388**
	% Annual		3.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
	% Cumulative		3.2%	5.5%	7.8%	10.1%	12.4%	14.8%	17.1%
	$ Annual		125,719	91,018	95,317	97,663	100,067	102,531	105,057
	$ Cumulative		125,719	216,737	312,054	409,716	509,783	612,314	$\boxed{717,371}$
						Increase of Best vs Medium forecast			208,533
						Increase of Best vs Worst forecast			407,893

AMBERLEY VILLAGE

EXHIBIT IV. A. 2.

REVENUE FORECAST

MEDIUM CASE BASIS

	Medium	2013 Budget as updated	2014	2015	2016	2017	2018	2019	2020
INCOME TAX									
	1.8%	2,250,000	2,314,375	2,354,877	2,396,087	2,438,018	2,480,684	2,524,096	2,568,267
TOTAL RE TAX INCL STATE ROLLBACK									
	1.8%	1,066,707	1,085,374	1,104,368	1,123,695	1,143,360	1,163,368	1,183,727	1,204,442
WASTE/RECYCLING FEES									
	1.3%	203,000	203,000	203,000	205,538	208,107	210,708	213,342	216,009
SILVERTON DISPATCHING FEE									
	1.5%	70,000	85,000	87,550	88,863	90,196	91,549	92,922	94,316
TOTAL STATE/COUNTY REVENUE SHARING									
	1.5%	69,909	70,958	72,022	73,103	74,199	75,312	76,442	77,589
ALARM PERMITS/MONITORING									
	0.00%	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
LAND RENTAL INCOME									
	0.20%	60,000	60,120	60,240	60,361	60,481	60,602	60,724	60,845
FRANCHISE FEES-WARNER									
	1.5%	55,000	55,825	56,662	57,512	58,375	59,251	60,139	61,041
COURT FINES									
	0.30%	35,000	35,105	35,210	35,316	35,422	35,528	35,635	35,742
INTEREST									
	0.0%	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
		3,889,616	3,989,757	4,053,930	4,120,474	4,188,158	4,257,003	4,327,027	4,398,252
MINOR RECURRING REVENUES									
	0.2%	14,400	14,429	14,458	14,487	14,516	14,545	14,574	14,603
		3,904,016	**4,004,186**	**4,068,388**	**4,134,961**	**4,202,674**	**4,271,547**	**4,341,601**	**4,412,854**
	% Annual		2.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
	% Cumulative		2.6%	4.2%	5.8%	7.4%	9.1%	10.7%	12.4%
	$ Annual		100,170	64,202	66,573	67,713	68,873	70,053	71,254
	$ Cumulative		100,170	164,372	230,944	298,658	367,531	437,584	**508,838**
								Increase of Medium vs Worst forecast	199,360

AMBERLEY VILLAGE

EXHIBIT IV. A. 3.

REVENUE FORECAST

WORST CASE BASIS

	Worst	2013 Budget as updated	2014	2015	2016	2017	2018	2019	2020
INCOME TAX									
	1.0%	2,250,000	2,297,500	2,320,475	2,343,680	2,367,117	2,390,788	2,414,696	2,438,843
TOTAL RE TAX INCL STATE ROLLBACK									
	1.0%	1,066,707	1,077,374	1,088,148	1,099,029	1,110,020	1,121,120	1,132,331	1,143,654
WASTE/RECYCLING FEES									
	1.0%	203,000	203,000	203,000	206,045	209,136	212,273	215,457	218,689
SILVERTON DISPATCHING FEE									
	0.0%	70,000	85,000	87,550	87,550	87,550	87,550	87,550	87,550
TOTAL STATE/COUNTY REVENUE SHARING									
	1.0%	69,909	70,608	71,315	72,028	72,748	73,475	74,210	74,952
ALARM PERMITS/MONITORING									
	0.00%	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
LAND RENTAL INCOME									
	0.20%	60,000	60,120	60,240	60,361	60,481	60,602	60,724	60,845
FRANCHISE FEES-WARNER									
	1.0%	55,000	55,550	56,106	56,667	57,233	57,806	58,384	58,967
COURT FINES									
	0.20%	35,000	35,070	35,140	35,210	35,281	35,351	35,422	35,493
INTEREST									
	0.0%	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
		3,889,616	3,964,223	4,001,973	4,040,569	4,079,565	4,118,965	4,158,773	4,198,993
MINOR RECURRING REVENUES									
	0.1%	14,400	14,414	14,429	14,443	14,458	14,472	14,487	14,501
		3,904,016	**3,978,637**	**4,016,402**	**4,055,013**	**4,094,023**	**4,133,437**	**4,173,260**	**4,213,494**
	% Annual		1.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
	% Cumulative		1.9%	2.9%	3.8%	4.8%	5.7%	6.7%	7.7%
	$ Annual		74,621	37,765	38,611	39,010	39,414	39,822	40,235
	$ Cumulative		74,621	112,386	150,996	190,007	229,421	269,243	**309,478**

AMBERLEY VILLAGE
EXHIBIT IV. B. 1.

EXPENSE FORECAST

BEST-CASE BASIS

	Best	2013 Budget	2014	2015	2016	2017	2018	2019	2020
Personnel									
Salaries, wages	**1.0%**	2,592,300	2,618,223	2,644,405	2,670,849	2,697,558	2,724,533	2,751,779	2,779,296
Pension, Medicare, Work Comp	**1.0%**	435,491	439,846	444,244	448,687	453,174	457,705	462,282	466,905
Health Care	**6.0%**	369,808	391,996	415,516	440,447	466,874	494,887	524,580	556,054
Utilities	**1.0%**	96,400	97,364	98,338	99,321	100,314	101,317	102,331	103,354
Refuse	**1.0%**	203,000	203,000	203,000	205,030	207,080	209,151	211,243	213,355
Emergency Paramedic Contract	**1.0%**	130,000	131,300	132,613	133,939	135,279	136,631	137,998	139,378
Insurance and Bonding	**1.0%**	80,620	81,426	82,240	83,063	83,893	84,732	85,580	86,436
Operating supplies	**1.0%**	81,800	82,618	83,444	84,279	85,121	85,973	86,832	87,701
Gasoline	**1.0%**	71,400	72,114	72,835	73,563	74,299	75,042	75,793	76,550
Repair and Maintenance	**2.0%**	133,100	135,762	138,477	141,247	144,072	146,953	149,892	152,890
Rep & Maintenance- Equip/Facilities	**3.0%**	116,500	119,995	123,595	127,303	131,122	135,055	139,107	143,280
Legal, Litigation	**1.0%**	60,000	60,600	61,206	61,818	62,436	63,061	63,691	64,328
All Other costs	**1.0%**	464,936	469,585	474,281	479,024	483,814	488,652	493,539	498,474
	Subtotal	4,835,355	4,903,830	4,974,196	5,048,570	5,125,037	5,203,694	5,284,646	5,368,002
Less allocation of cost to Police Levy fund		(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)
Tie to Net General Fund Expenses		**3,291,255**	**3,359,730**	**3,430,096**	**3,504,470**	**3,580,937**	**3,659,594**	**3,740,546**	**3,823,902**
	% Annual		2.1%	2.1%	2.2%	2.2%	2.2%	2.2%	2.2%
	% Cumulative		2.1%	4.2%	6.3%	8.5%	10.7%	12.9%	15.2%
	$ Annual		68,475	70,366	74,374	76,467	78,657	80,952	83,357
	$ Cumulative		68,475	138,841	213,215	289,682	368,339	449,291	532,647

AMBERLEY VILLAGE
EXHIBIT IV. B. 2.

EXPENSE FORECAST

MEDIUM-CASE BASIS

	Medium	2013 Budget	2014	2015	2016	2017	2018	2019	2020
Personnel									
Salaries, wages	**2.0%**	2,592,300	2,644,146	2,697,029	2,750,969	2,805,989	2,862,109	2,919,351	2,977,738
Pension, Medicare, Work Comp	**2.0%**	435,491	444,201	453,085	462,147	471,389	480,817	490,434	500,242
Health Care	**8.0%**	369,808	399,393	431,344	465,852	503,120	543,369	586,839	633,786
Utilities	**1.5%**	96,400	97,846	99,314	100,803	102,315	103,850	105,408	106,989
Refuse	**1.3%**	203,000	203,000	203,000	205,538	208,107	210,708	213,342	216,009
Emergency Paramedic Contract	**2.0%**	130,000	132,600	135,252	137,957	140,716	143,531	146,401	149,329
Insurance and Bonding	**2.0%**	80,620	82,232	83,877	85,555	87,266	89,011	90,791	92,607
Operating supplies	**2.0%**	81,800	83,436	85,105	86,807	88,543	90,314	92,120	93,962
Gasoline	**2.0%**	71,400	72,828	74,285	75,770	77,286	78,831	80,408	82,016
Repair and Maintenance	**3.0%**	133,100	137,093	141,206	145,442	149,805	154,299	158,928	163,696
Rep & Maintenance- Equip/Facilities	**4.0%**	116,500	121,160	126,006	131,047	136,289	141,740	147,410	153,306
Legal, Litigation	**2.0%**	60,000	61,200	62,424	63,672	64,946	66,245	67,570	68,921
All Other costs	**2.0%**	464,936	474,235	483,719	493,394	503,262	513,327	523,593	534,065
	Subtotal	4,835,355	4,953,370	5,075,645	5,204,952	5,339,032	5,478,151	5,622,595	5,772,667
Less allocation of cost to Police Levy fund		(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)
Tie to Net General Fund Expenses		**3,291,255**	**3,409,270**	**3,531,545**	**3,660,852**	**3,794,932**	**3,934,051**	**4,078,495**	**4,228,567**
	% Annual		3.6%	3.6%	3.7%	3.7%	3.7%	3.7%	3.7%
	% Cumulative		3.6%	7.2%	10.8%	14.5%	18.2%	21.8%	25.5%
	$ Annual		118,015	122,276	129,307	134,080	139,119	144,443	150,073
	$ Cumulative		118,015	240,290	369,597	503,677	642,796	787,240	937,312
						Increase of medium vs low forecast			404,665

AMBERLEY VILLAGE
EXHIBIT IV. B. 3.

EXPENSE FORECAST

WORST-CASE BASIS

	Worst	2013 Budget	2014	2015	2016	2017	2018	2019	2020
Personnel									
Salaries, wages	**3.0%**	2,592,300	2,670,069	2,750,171	2,832,676	2,917,656	3,005,186	3,095,342	3,188,202
Pension, Medicare, Work Comp	**3.0%**	435,491	448,556	462,012	475,873	490,149	504,853	519,999	535,599
Health Care	**10.0%**	369,808	406,789	447,468	492,214	541,436	595,579	655,137	720,651
Utilities	**2.0%**	96,400	98,328	100,295	102,300	104,346	106,433	108,562	110,733
Refuse	**1.5%**	203,000	203,000	203,000	206,045	209,136	212,273	215,457	218,689
Emergency Paramedic Contract	**3.0%**	130,000	133,900	137,917	142,055	146,316	150,706	155,227	159,884
Insurance and Bonding	**3.0%**	80,620	83,039	85,530	88,096	90,739	93,461	96,264	99,152
Operating supplies	**3.0%**	81,800	84,254	86,782	89,385	92,067	94,829	97,673	100,604
Gasoline	**3.0%**	71,400	73,542	75,748	78,021	80,361	82,772	85,255	87,813
Repair and Maintenance	**4.0%**	133,100	138,424	143,961	149,719	155,708	161,937	168,414	175,151
Rep & Maintenance- Equip/Facilities	**5.0%**	116,500	122,325	128,441	134,863	141,606	148,687	156,121	163,927
Legal, Litigation	**3.0%**	60,000	61,800	63,654	65,564	67,531	69,556	71,643	73,792
All Other costs	**3.0%**	464,936	478,884	493,251	508,048	523,290	538,988	555,158	571,813
	Subtotal	4,835,355	5,002,909	5,178,229	5,364,859	5,560,341	5,765,260	5,980,253	6,206,010
Less allocation of cost to Police Levy fund		(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)	(1,544,100)
Tie to Net General Fund Expenses		**3,291,255**	**3,458,809**	**3,634,129**	**3,820,759**	**4,016,241**	**4,221,160**	**4,436,153**	**4,661,910**
% Annual			5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
% Cumulative			5.1%	10.2%	15.3%	20.4%	25.5%	30.6%	35.7%
$ Annual			167,554	175,320	186,630	195,482	204,919	214,993	225,756
$ Cumulative			167,554	342,874	529,504	724,986	929,905	1,144,898	1,370,655
						Increase of High vs Medium forecast			433,342
						Increase of High vs low forecast			838,007

EXHIBITS

V. Long-Term Financial Sustainability Action Plan Checklist

AMBERLEY VILLAGE

LONG-TERM FINANCIAL SUSTAINABILTY
ACTION PLAN CHECKLIST

EXHIBIT V.

EXPENSES

______ 1) Focus on effectiveness
Establish Amberley government priorities and align program costs and line item costs with overall Village priorities.

______ 2) Update the financial forecast annually to assess achievement of financial sustainability, and make changes

______ 3) Rank both progams and line items as essential, important, or discretionary and eliminate discretionary costs to retain essential costs.

______ 4) Continue to explore shared services with other governments. Consider taking a leadership role for conducting a long-term study in Hamilton County for region-wide shared service and cost-savings opportunities.

______ 5) Focus on efficiency and productivity
Maintain a culture of continuous improvement. For expenditures, ask:

<u>Why do we carry out this project/function/task, or pay this cost?</u>

1) Does it help fulfill the most important goals and objectives of the Village?
2) Is it essential, important, discretionary?
3) Could we find a substitute to meet the objective that would cost less?
4) Is there another more important expense for which the money could be better spent?
5) Can we live with the downside if we did it less frequently, or didn't spend the money?

______ 6) Continue the selective hiring freeze.

______ 7) Continue to solicit competitive bids to ensure lowest and best value.

AMBERLEY VILLAGE

LONG-TERM FINANCIAL SUSTAINABILTY ACTION PLAN CHECKLIST

EXHIBIT V.

EXPENSES (cont.)

_______ 8) Carefully manage cost growth for the two largest costs contributing 70% of all operating expenses, wages and employee health care. Remember the Rule of 72 regarding how soon the cost doubles at what annual average rate. Annually measure the total increase since the date of the baseline year 2013 to determine the cumulative impact, given that these two largest expense items impact the total budget significantly.

_______ 9) Balance the operating budget annual while including adequate transfers to the Capital funds to maintain capital equipment and vehicles as well as roads and facilities.

REVENUES

_______ 10) Establish and implement managed-growth plans for economic development to grow the tax base, hence revenues. Consider the income tax rate and the reciprocity tax credit rate.

_______ 11) Consider the pros and cons of approving a ballot issue for renewing or replacing replacing the 10 mill RE tax levy when it expires.

_______ 12) Examine fees annually for potential increases.

_______ 13) Evaluate the impact of maintaining or reducing/eliminating the refuse and storm sewer fees. Weigh the loss or revenues against the overall shortfall of revenues required for financial sustainability. Consider substitute revenue options, or conversely, eqivalent cost costs to offset reduced or lost revenues if the fees are discontinued.

FUND BALANCE

_______ 14) Consider options for the appropriate level of General Fund Balance, and transfer amounts in excess of this level to the appropriate capital funds.

AMBERLEY VILLAGE

LONG-TERM FINANCIAL SUSTAINABILTY
ACTION PLAN CHECKLIST

EXHIBIT V.

CAPITAL INVESTMENTS

______ 15) Management should update the CIP annually in the summer, recommending decisions regarding the CIP and the following year's capital expenditure budget.

______ 16) Develop a proactive maintenance plan for capital assets to extend their functional lives because there will not be sufficient revenues to replace and improve assets under past practices.

______ 17) Consider grants, debt financing, and special assessment alternatives to match cash funding for capital investments.

______ 18) Address investments in economic development to grow the tax base, including where appropriate infrastructure investments and similar funded by tax increment financing.

______ 19) Update the Road Condition evaluation periodically and assess progress in maintaining the infrastructure.

FINANCIAL SUSTAINABILITY

______ 20) Annually evaluate the degree of success in achieving long-term financial sustainability. Prepare the following analysis, and measure the degree accomplishment of:

a) maintaining essential services
b) balancing the operating budget
c) limiting tax and other fee increases
d) seeking alternative revenue sources
e) reducing costs by increasing effectiveness, efficiency and productivity
f) adequately maintaining and increasing net annual cash-flow margin for transfer to the capital funds
g) appropriately maintaining capital assets and extending their lives.