FRANKLIN COUNTY BUDGET ECONOMIC ADVISORY PANEL

MINUTES

May 3, 2013

PANEL MEMBERS PRESENT:

Ty Marsh, Chair; Bill LaFayette; Frederick Ransier; Martyn Redgrave; Timothy Robinson; William Shkurti

Absent: Pierre Bigby; Karen Morrison

OTHERS PRESENT: County Administrator Don Brown; Deputy County Administrators Bill Flaherty and Ken Wilson; Deputy Director of OMB, Zak Talarek; OMB Staff, Heidi Hallas Warren and Justin Nahvi

GUESTS: Shannon Cross; Josh Jarman

Materials in the order distributed:
- **General Fund Revenue Analysis: 1st Quarter - 2013**, Franklin County OMB, 14 pages.
- **Monthly Economic and Budget Reports**, Franklin County OMB, 17 pages.
- **Franklin County Impact of Not Expanding Medicaid Eligibility,** Franklin County OMB, 2 pages.
- **Bargaining Unit Agreement Summary,** Franklin County OMB, 1 page.
- **Franklin County Treasurer Investment and Depository Policy**, Franklin County OMB, 12 pages.
- **Summary of Documents Presenting the County's Fiscal Conditions,** Franklin County OMB, 4 pages.

Chair Ty Marsh convened the meeting at 2:09 P.M.

Mr. Talarek began by discussing the first document, *General Fund Revenue Analysis: 1st Quarter – 2013.* He stated this is an update, of what we presented at the first meeting based on the 4th Quarter, of the major revenue sources that support the General Fund. Beginning on page one, Sales Tax, you can see in Chart 1, Sales Tax revenue is usually in line with changes in the National Retail and Food Service Sales. Similarly on page two, in Chart 2, our Sales Tax Revenues follow along with the State Sales Tax. Chart 3 presents the Sales Tax revenue for the 1st Quarter of each year from 2008 to 2013. As you can see 2008-2009, there was the drop with the Recession where Sales Tax revenues fell. We've been steadily on an increase as the economy has improved.

Mr. Marsh asked Mr. Talarek to state if these figures are in line with OMB's expectations as he goes through the document.

Mr. Talarek agreed to do so, and continued on to page three. The page begins with the breakdown by month of what the estimates were of 2013, as well as the County's actual receipts for the year. In the 1st Quarter of 2013, we were about 1 million dollars ahead of our estimates, or 2.6%. Comparing that on a year-over-year basis, that was actually a 5.4% from the 1st Quarter of 2012.

Mr. Flaherty stated the County's Sales Tax collection runs three months late from the actual purchase at the cash register. Mr. Talarek explained a sale that occurs in October gets paid to the State in November. The County doesn't see those revenues until January. Mr. Flaherty and Talarek stated that for example, a March increase over January and February is due to the holiday season. Mr. Talarek stated that while March 2013 had a -0.7% variance, the positive variances in February and March make it a strong quarter. We usually base our estimates on the previous two to three years.

Mr. Marsh sought additional clarification on the timing between the purchases at cash registers and when the revenue makes its way to the County General Fund. Mr. Talarek stated money received in March was collected at the cash registers in December. Mr. Flaherty said that you cannot conclude that, for example a good March number is a forecaster of a great spring. It really means December was great.

Mr. Robinson asked if OMB has a good sense of what the quarter will look like based on the amount of known retail sales feeding into that quarter. Mr. Talarek stated it does help to see a trend in general. It's not really reported out in advance to forecast the next quarter. Mr. Talarek stated the Saint Louis Federal Reserve Bank reports those numbers, and there is maybe a month from the time sales are made until they're reported. The report falls in the middle of the waiting time for Franklin County.

Mr. Shkurti asked if there was a revised revenue estimate last month or the month before. Mr. Talarek stated it occurred at the end of April, and incorporated that 1 million dollar adjustment (in Table 1, 1st Quarter Monthly Variance is $1,034,206; which is a 2.7% variance). Mr. Shkurti asked if the variance is annualized moving forward. Mr. Talarek stated on the April estimate, we reflected a revenue increase based on that 1st Quarter variance, we left everything the same at this point; usually we look at it on a quarter by quarter basis. Mr. Shkurti stated he thinks that is a prudent approach compared to annualizing; it helps avoid greatly over or under estimating.

Mr. Redgrave asked, why does the chart on page 5 of the second document (*Monthly Economic and Budget Reports*) reflect only one month in arrears? Is it the receipts for February that are being reported in March, but would paid to Franklin County in April? Mr. Talarek explained the Monthly Report reflects when the State collects the money, the Quarterly Report reflects a month earlier when the sale occurs. Our monthly and quarterly reports use different time frames when we're reporting the data.

Mr. Brown brought the Panel's attention back to the third page of the *General Fund Revenue Analysis: 1st Quarter – 2013* document. The last paragraph indicates that a revenue adjustment was made to increase the General Fund revenue estimate by 1 million dollars, because of Sales Tax performance. Any further adjustments will be deferred to the end of the 2nd quarter; rather than adjusting it monthly, we'll adjust this one on a quarterly basis.

Mr. Shkurti stated this is a somewhat conservative way of dealing with the estimates, because you are only counting money that is in the bank. If revenues continue to increase at the existing rate, then the estimate looks conservative. If the trend down the other way, it looks brilliant. Mr. Robinson stated he knows from his business that one quarter is no indicator of what the next quarter will do.

Mr. Shkurti reiterated what was discussed at the last meeting was stopping at the end of 1st Quarter in making estimate changes. One of the things we have to be comfortable with is how much fluctuation we've got three to five years out; what the range of that is, because that will affect this Panel's recommendation.

Mr. Talarek in April of this year, we saw a positive variance of about a half million dollars higher than our projection. We have seen some continued growth going into the 2nd Quarter. We should have the receipt of May 2013 Sales Tax is around the week of the 10th. We should have these results for the Panel at the next meeting. Mr. Shkurti stated by June, the time when we are making decisions, we should have three (3) additional months.

Mr. Brown referred the Panel to the last page of the *Monthly Economic and Budget Reports* document. It shows the pattern of monthly collections for Sales and Use Tax for 2012, as well as the estimate for 2013. March is typically when the State does reconciliation and true-up. Therefore, March outperforms any of the other eleven (11) months. We would not want to make a projection for the other three (3) quarters based on this March bump.

Mr. Redgrave stated estimates the trend to be in the range of 2.5% to 3.5%, based on the information presented and his understanding of outside economic performance. He stated he believes this trend will be at least sustained, but it may not increase beyond.

Mr. Brown stated one other way we try to gauge the accuracy of projections is by looking at the peer set of other metro counties, and the collar counties around Franklin. We look at how Sales Tax is performing in them, and their relative growth rate or percentage change rate. We set aside Union County. Mr. Talarek stated Union County had an adjustment last April, it was almost a 90% increase variance, likely from a vendor that was not properly reporting. Therefore, there was a true-up that carried through the rest of the calendar year; I think the expectation will be that as the quarters progress through this year, we'll see that come down. Mr. Brown stated this Union County vendor was a big one relative to Union County's retail section size. Taking these comparative factors into account, Franklin County's growth rate and change in Sales Tax collection is outperforming the other counties, but they are all performing well year-over-year. That gives us confidence that we are not getting a false positive from our own performance.

Mr. Talarek refers the Panel back to the *General Fund Revenue Analysis: 1st Quarter – 2013* document, page 4. It shows Real Estate Tax collections since 2008. [Refer to the bar chart.] The decrease in 2012 was due to the reduction in property values, of about 6%, from the last appraisal. On page 5, the State Reimbursements show the same decline between 2011 and 2012. The state reimbursement is for the 10% rollback, the 2.5% rollback on every parcel that the State pays 12.5% of the property taxes, and the Homestead Exemption. Taxpayers that qualify for the Homestead Exemption do not pay that amount, but the State reimburses the County for that Real Estate Tax revenue offset.

Mr. Marsh asked, when someone buys a house or property, what revenues does the County derive from that transaction? Mr. Talarek explained the County receives conveyance fees. He refers the Panel to page 6 of the *1st Quarter…* document. He read from the page [refer to document]. The State fee is $1 per $1,000, the permissive fee that Franklin County charges is $1 per $1,000. The statute allows for a $3 per $1,000 permissive fee on top of the State mandated fee of $1 per $1,000; for a maximum total of $4 per $1,000. Chart 6 shows the revenue from the conveyance fees, and Mr. Talarek noted the drop between 2008 and 2009 due to the Recession. The amounts collected in the 1st Quarter of 2013 were about $600,000 ahead of last year's comparison for the 1st Quarter. The Auditor's Office has revised the revenue estimate, so that the new number for 2013 is the 2012 number plus about $600,000. When they did the budget last year, it was prior to the 4th Quarter; they were using a very low number that they weren't ready to revise at that time. However, following the 2013 1st Quarter they've incorporated a revenue adjustment to take into account the improvement in the real estate market, vis-à-vis the increased transactions.

Mr. Marsh asked when the reappraisals occurred. Mr. Talarek answered it was 2011, which was collection year 2012. Last year was the first year collecting under the new values. Mr. Marsh asked if the County gets a portion of the increase in property taxes. Mr. Talarek stated last time there was a decrease in property taxes, since the average was about a 6% decrease in property values.

Mr. Brown stated with respect to Real Estate Tax and Conveyance Fees, there are two (2) revenue options available to the County that are not currently being used. There is not necessarily an intent to use them, but they are *options*. One of the points made at the end of the last Panel is that you wanted to know what the actionable items are. With respect to Conveyance Fees, the County currently levies a permissive fee of $1 per $1,000, and there is a State mandatory $1 per $1,000; for a total of $2 per $1,000. The County has the *option* of levying a third or fourth dollar per $1,000. It was reported in the paper this week that Licking County is considering levying a third dollar. What is the revenue potential with the option?

- $2 per $1,000 produces 7.5 million dollars in Franklin County.
- A maximum additional 7.5 million dollar potential exists if up to a fourth dollar is levied.

To pursue this option you would need to consider how it may impact demand for real estate. Is there elasticity? Will it drive demand away? Also, if we have a gap of 40 million dollars, then a 7.5 million dollar solution is only a partial fix. Mr. Robinson asked what type of vote is required for such a process. Mr. Brown explained a vote by the Board of Commissioners is required. It is in State law, it is permissive, it doesn't require a vote of the electorate.

Mr. Marsh asked for clarification on where the collected conveyance fees go. Mr. Brown explained both the mandatory $1 per $1,000 and the permissive fee (currently at $1 per $1,000) go to the County. State law requires that at least $1 per $1,000 be collected. The State permits an additional $1, $2, or $3 per $1,000 (for a maximum allowable total of $4 per $1,000) to be collected. In our credit ratings, Moody's and S&P have both noted that Franklin County has unused revenue capacity. This conveyance fee option is one of the things they are referring to.

Mr. Brown continued the second unused revenue capacity available to Franklin County relates back to real estate. The County, under the Ohio Constitution, may levy 10 mils against the property tax duplicate. The County rolled that rate back in early 1980s, when the Piggy Back Sales Tax was first levied. That has remained rolled back. The County Commissioners could raise the County's real estate rate up to that 10 mill limit. The difference from where we are currently is about 0.88 mills. Mr. Talarek stated that would yield 21.1 million dollars. That may not be a preferred choice, but it is an option. Both credit rating agencies look favorably at Franklin County because of that unused capacity.

Mr. LaFayette asked how important this unused capacity is to the rating agencies, if they put a heavy weight on it. Mr. Brown stated he thinks they do. Additionally, the fact that Franklin County is well below its Sales Tax rate cap reflects well in its unused capacity. We can contrast that will 45 of the 88 Ohio counties that are at their max on this and have no capacity.

Mr. Redgrave asked what the current mil rate is. Mr. Talarek stated for the County General Fund it is 1.47 mills. Mr. Redgrave stated that the County could go up by as much as 60% from the current rate; to the maximum difference of 0.88 mills. Mr. Brown stated that is correct.

Mr. Talarek continued to page 7 of the *1st Quarter…* document; Housing of Prisoners. The County receives revenues from the City of Columbus, other municipalities, and the U.S. Marshall's Office for the housing of prisoners. Currently, the County charges municipalities $79 per day, and the U.S. Marshall's Office $68 per day, for the housing of prisoners. The U.S. Marshall's rate was set on April 1, 2012, and will remain at this amount for a 42 month period. In Chart 7, revenue from the City of Columbus has declined since 2009. The number of prisoners housed at the jail has decreased over that time. Chart 8 reflects a recent increase in number of beds added to the U.S. Marshall's contract. However, overall the revenue from the U.S. Marshall's Office has declined in the last couple of years due to a decline in jail population.

Mr. Shkurti asked why the Marshall's rate is lower than the municipality rate. Mr. Brown stated the contract methodologies are different. The Federal method disallows some costs that are allowable in the local contract method. Mr. Redgrave asked what would need to be done to change the contract. Mr. Brown stated we could adopt the Federal method for local contracts to make it uniform. But we don't have any discretion over the Federal method. Mr. Redgrave stated, therefore you are not identifying this as a potential revenue increase area. Mr. Brown stated we are not. We try to true that rate up periodically, not annually. One of the disadvantages is, that while you may think the costs rise every year and therefore the rate would rise, the denominator effect (the fact that we house so many prisoners) of a formula based on the actual number of prisoner days, means that the unit rate may actually drop because the denominator rises faster than the numerator; the number of prisoner days rises faster than the costs. Mr. Robinson stated it is a cost-based reimbursement. Mr. Brown confirmed that and added if it is not in the County's best interest to pursue a rate change, we don't do it. Mr. Talarek stated we only receive the revenue if the prisoner had been charged under Municipal Ordinance. If they are charged under the State Code, then municipalities don't reimburse the County and the County has to absorb that cost. It is kind of a balancing act, where if you raise the rate too high, potentially the municipalities could charge the individuals under the State Code and the County would get the fee revenue, but bear the full expense for housing the prisoners. If the prisoner had been charged under the Municipal Code, the municipality would receive the fee revenue, but have to pay for the cost of the jail days.

Mr. Ransier asked what goes into the $79 rate and who is subsidizing the Marshall? Mr. Brown said here are the differences:

- In the municipal rate, all costs are included; not only operating cost, but capital investment costs as well; so the costs of facility construction, depreciation, financing any improvements are amortized and folded in.
- In the Marshall's contract, the cost of ownership, the cost of capital plant investment, is not included. The costs of the jail we built, or any improvements to it, are not included.
- In the Marshall's contract, the denominator we divide by is total rated capacity.
- In the local contract it is actual capacity, actual utilization, which may exceed rated capacity.

Mr. Redgrave asked if the rate covers room and board; meals, services, housing, etc. Mr. Talarek stated it covers those items along with security and medical.

Mr. Talarek refers the Panel to page 8 of the *1st Quarter…* document; Recorder Fees, another place with an impact with real estate transactions. [Refer to this page and its Charts.] You can see the decline during and resulting from the Recession, and that we are still not at pre-Recession levels on either Real Estate Sales or Building Permits. Page 9 shows the forecast for building permits, which are expected to go up for a few years, then flatten out and drop. In Chart 12, Recorder General Fees, you can see a big drop from 2008 to 2009 in the 1st Quarter revenues. The total amount of revenue collected on these fees is below 4.5 million dollars from 2008 to 2011. Then, 2012 exceeded 4.5 million dollars. We are looking at this for a potential revenue adjustment. At the time we did the Quarterly Review, there was no number on this. If you compare 1st Quarter 2012 to 1st Quarter 2013, the number was about $300,000 higher in 2013. We are seeing some growth in this revenue source due to increases in the real estate market and subsequent recording of documents.

Mr. Ransier asked given the different reasons for why people bought real property in 2005 and 2006, compared to why they buy today, how would we project out? Would we think we would reach 2005, 2006 levels; is that realistic? Mr. LaFayette stated that would not be realistic for a good many years. Mr. Talarek stated the Moody's Forecast on Chart 11, the peak at 2015 is about 1000 permits less than the high point in the early 2000s. Mr. LaFayette noted that new builds are only a small fraction of this.

Mr. Marsh asked if the bulk of X growth projection for the region occurs outside of Franklin County, does this reflect that while the region is growing, the growth of Franklin County is not growing as exponentially? Mr. Talarek stated in Chart 11 real estate is based on the Metro area, but building permits are within the County. Mr. LaFayette stated that while the rate of growth in Franklin County is slower, but numerically, Franklin County is still the lion's share of total growth.

Mr. Marsh stated his understanding of MORPC's population projections for the year 2035, 60% of that growth occurs outside of Franklin County; therefore reflecting that while Franklin County will grow, the other areas will grow at a higher rate. If Franklin County's numbers get to where they were, or not, would that be a reflection of a maturation of the growth within this County separate from the region? Mr. LaFayette stated the new State numbers that came out the week before last shows that Franklin becomes the largest county by 2025. Numerically it's still good a whole lot better than just about any other county. Mr. Shkurti stated it is hard to keep up large percentage growth, because the base grows, but in fact your numerical increases continue grow even though the percentage trend slows. Mr. LaFayette stated Delaware County has a much larger base than it did ten (10) years ago, so you expect the percentage growth to slow. Mr. Shkurti asked out of the surrounding counties, where is the biggest percent population growth currently? Mr. Talarek and Mr. LaFayette shared that it was Franklin County by a narrow margin. Mr. LaFayette said Delaware County was second. Mr. Talarek stated the growth from 2011 to 2012, Franklin County was 1.38% and Delaware County was 1.37%.

Mr. Talarek referred the Panel to page 10 of the *1st Quarter…* document; Clerk of Courts Fees. These fees have remained relatively stable since 2008.

Mr. Talarek continued on to page 11. The Local Government Fund allocation has not remained stable. In 2011, we were just over 22 million dollars. For this year, we are projecting only 12 million dollars; representing a 10 million dollar cut over the last two (2) years due to the 50% cut to the Local Government Fund.

Mr. Talarek continued on to page 12, Chart 15, the State Public Defender Reimbursement trend. The statute provides up to 50% of costs, however, the State is currently reimbursing at only 35.1% of those costs.

Mr. Talarek continued to page 13, Chart 16, Actual Investment Earning Collected. The 2008 investment earnings level was almost 35 million dollars. For 2013, we project 7.9 million dollars. The Federal Reserve policy of keeping short term rates low is a big factor in the decline of the rates. The 5th document in this packet is the County's Investment Policy. It outlines what the O.R.C. allows the County to invest in. In most cases, counties are limited to short-term maturities of no more than five (5) years of either U.S. Treasuries, Federal Agencies, or certain investment vehicles can constitute a specific percentage of our portfolio. A 1% allocation can be used for foreign bonds denominated in U.S. dollars. We are at that maximum 1% roughly, through the purchase of State of Israel Bonds. There is a provision that allows for up to 25% of the portfolio to be in commercial paper, if it is rated at one of the two highest levels by S&P and Moody's. Another option they have been looked into recently are the purchase of the debt obligations of other political subdivisions. To try to keep some revenue for the investment earnings, they are looking at alternatives such as purchasing the bonds that were issued for the parking garage in the Arena District for the Convention Facility Authority. Those were purchased by the Treasurer's Office and added to the portfolio. Similarly, Columbus Metropolitan Library had a bond issuance, and there was a taxable portion of that debt which the Treasurer purchased. It benefits the County in that we see higher investment earnings. It also helps those subdivisions in the community, because they have lower cost of issuance; they don't have to through a lot of the market costs that they would have if they went in a public sale.

Mr. Redgrave asked how the principal balance has varied over the 2008 to 2013 timeframe. Mr. Talarek stated the principal balance has gone up. Currently, it is at between 850 and 900 million dollars in the portfolio. Mr. Redgrave asked if the principle was a contributor to the decline. Mr. Talarek said no it has not, the contributor has been the interest rate environment. Four to five years ago, we were earning 4% to

5%. Based on the last quarterly report, we are earning 85 basis points on the portfolio. Mr. Redgrave stated that will not change for a while. There was agreement on this point.

Mr. Talarek describes the last page of the *1st Quarter…* document. He stated this quarter we updated the budget to reflect the million dollar Sales Tax variance. This variance was included in the Baseline Forecast previously presented to the Panel. Similarly, the Conveyance Fee amount seen here is also basically consistent with what was in that Baseline Forecast. That is not new revenue. Likewise, the General Fees were counted in the Baseline, this is not new revenue to add into any forecasts at this point. Overall, revenue is about 0.9% ahead of what the budget is at this point. Even with the million dollar variance in Sales Tax, and the 1.4 million dollar variance in Conveyance Fees, we're not that much ahead of overall budget. In terms of percentage, it's less than 1%.

Mr. Talarek continued the lower half of this page shows the Expenditures. Overall, we're looking at about 2.5% of budget lapsing at the end of the year. Those are appropriations that will not occur. As we talked about regarding the Baseline Forecast, we've already assumed that 2.8% of appropriations are going to go unspent at the end of the year. These are factors we included in the Baseline and Rosy scenarios last month. So that positive variance of about 7.5 million dollars is already booked in the Baseline Forecast. Overall, when you consider both the variances in revenues and expenditures amounts to about 10 million dollars, it means that rather than utilizing the 26 million dollars in reserves, we would still have to utilize 16 million dollars in reserves to provide current service levels through the General Fund.

Mr. Robinson asked if the fact that under the revenue sources, other than those three (3) line items, everything is spot on, you don't make an adjustment because it is in a certain bandwidth. Mr. Talarek said at this point, yes. The casino tax revenue is a source we are continually keeping an eye on. We did receive, at the end of April, our 2nd Quarter's distribution of about 1.6 million dollars. For half the year, two (2) of the four (4) payments, we have only received 3 million dollars, and the budget is 9 million dollars. The fourth casino opened last month. Unless that one will bring in a lot more revenue along with the other three (3), that's a line item that at the end of the 2nd Quarter, I think June we will get the notice of the amount of the July deposit, and we will be able to come back with a good indication of what that casino tax revenue will be.

Mr. Ransier asked if the counties share in the slot machine revenue from race tracks. Mr. Talarek said no, those revenues are the Lottery's, so they go to the school districts.

Mr. Redgrave stated this budget could potentially be off by 3 million dollars on the casino revenues. Mr. Talarek agreed. If you just double what we have received this year, it would be 6 million dollars, so that would be a 3 million dollar variance. I know the 8.9 million dollar estimate the County had gotten from CCAO there was a notice that they stayed at those estimates. Due to the competition from racinos and internet cafes, there could be at least a 20% reduction. That would be about 1.8 million dollars, if you just take that 20% reduction.

Mr. Shkurti stated if the State Senate decided to close down the internet cafes, presumably, over time that could help casino revenues. Mr. Talarek agreed that was a potential.

Mr. Brown stated I think the results of the County's 1st Quarter budget performance reviews led us to conclude that we are pretty much on target for the first three (3) months of the year, with about a 3.3% positive/favorable variance. However, that is not much of a variance.

Mr. Marsh asked how does OMB think through the effects of the Sequester? How strong of a ripple can that have? Mr. Flaherty stated it is similar to looking at the casino revenues; there is no history, there is no real sense of when or how it will end. Mr. Redgrave asked if there would be likely cascading impacts from Federal budget cuts. Mr. Flaherty stated if there were cut backs at Defense Construction Supply Center (DCSC), if a large number of employees lost their jobs, we would lose their buying power in the community. Mr. Redgrave asked if there are situations in which a Federal budget cut would result in a Franklin County budget cut. Mr. Flaherty replied they could cut some programs; some economic development, or community development programs could be cut. Mr. Brown stated the County has tried to measure that, and in terms of County government operations we believe it has less than a $200,000 impact. However, in the broader community, it could have a significant impact. For example if Federal payrolls are cut back in DCSC, it would have huge impact on the City of Whitehall which levies an income tax on those payrolls. It also has an impact on Head Start slots, so we face a potential loss of some 10,000 Head Start slots in Franklin County. This impacts everyone with pre-school aged kids who are trying to place their children in quality early learning facilities. As those numbers of slots shrink, the number of available, quality classroom openings is affected. Mr. LaFayette stated there are multiplier impacts as well.

Mr. Brown stated the potential of greatest exposure is to the hospital community, in terms of Medicare and Medicaid reimbursements. However, I believe so far in the Sequester Medicare and Medicaid has been excluded from the across the board cuts. So we are different then Montgomery County, MD or Arlington County, VA with huge Federal payroll exposures, and the ripple effect that would result in those areas if the payroll buying power were lost.

Mr. Talarek stated the report we created around the time Sequestration took effect was that both the direct and indirect effect on all County operations, General and Non-general Fund supported, was just under 1 million dollars. We estimated the impact of potential furloughs at the DCSC, was about 60 to 90 thousand dollar loss in Sales Tax revenue. Mr. Flaherty stated that is an early look at it. If Sequestration went on for a long time, the impact would be much harder hit.

Mr. Talarek continued stating that in addition to the *General Fund Revenue Analysis: 1st Quarter - 2013,* we have also provided the *Monthly Economic and Budget Reports* document. We will continue to provide the monthly reports as they are updated. He read the Overview on page 2. [Refer to document.]

Mr. Ransier stated that job growth was pretty strong compared to March. Mr. LaFayette stated April's number was 165,000, and 50,000 was added to March as well as adding some to February's numbers. We're better than this overview stated. *The Wall Street Journal* forecast is saying 176,000 jobs, on average, for the next twelve (12) months. Mr. Ransier asked if that would change the unemployment rate. Mr. LaFayette stated I focus on payroll job growth over the unemployment rate.

Mr. Ransier asked what accounts for the foreclosure rate in Franklin County being the 2nd highest in the State? Mr. Brown explained that what we have been told is that there was a back log of foreclosures that were not processed by the large financial institutions because they had to verify all of the closing documents. Mr. Ransier stated I imagine that would be true across all 88 counties. How did Franklin end up as 2nd highest? Mr. Brown said OMB will work on understanding this better and report back. Mr. Talarek said it could be due to the timing of the different courts in the counties. If the Franklin County Court processed a number en mass, that could drive up the number. Realty Track, when they do foreclosure filings, there are three (3) different phases they track: the default notices, the scheduled auctions, and the bank repossessions. The numbers primarily in Franklin County fall in the tail end of the foreclosure process; scheduled auctions and bank repossessions.

Ms. Hallas Warren presented the *Franklin County Impact of Not Expanding Medicaid Eligibility*. [Refer to the document for information.]

Mr. Robinson stated the State is getting ready to bring on the aged, blind, and disabled pediatric population in to Medicaid Managed Care. Do you estimate the pick up on the Sales Tax component (3rd bullet point) is not immaterial? Not sure if you can capture those things or not. Mr. Brown stated I don't think we have an estimate of that yet.

Mr. Marsh asked Mr. Robinson if the Central Ohio Hospital Council is putting together an economic impact study. Mr. Robinson said the Ohio Hospital Association aggregates for the entire State. Then one can probably tool the OHA numbers and consolidate them for the region. Mr. Marsh stated it seems the impact would be pretty severe. Mr. Robinson said for the adult providers it's fairly material and there is a whole woodworking effect. I can quantify the affect and report to the Panel.

Mr. Redgrave asked what the latest news on this topic is from the State House. Ms. Hallas Warren stated there was a separate bill introduced; they will try to approach it outside of the budget.

Mr. Brown turned the Panel's attention to *Bargaining Unit Agreement Summary*. The sixteen (16) bargaining units represent 3,124 employees, which is about 45% of the County workforce. Mr. Brown noted the range of unit sizes. Additionally, the third column shows agreement expiration dates or negotiation status. There are five (5) that have not been ratified, two (2) of which are in active negotiations currently. The other three (3) went through negotiations, reached an impasse, went to a fact finder, a Fact Finder Report was issued and rejected by one side or the other, the parties went back to the table in an attempt to resolve those differences. The FOP Capital City Lodge has no strike rights, but it has the right of conciliation (or binding arbitration). All the other units have no right to binding arbitration, which in this State is called conciliation.

Mr. Ransier noted the FOP has three (3) bargaining units. Mr. Brown explained that civilian employees may not be in the same unit as sworn employees. Civilian employees in the Sheriff's Office are required to be organized in separate bargaining units from the sworn employees. The dispatchers or communications technicians are in one of those units, and all others (social workers, IT staff, chaplains) are in another unit. Mr. Talarek stated the FOP also represents two (2) other units, Court Security Officers under Public Facilities Management (they run the building detectors), and also the Coroner's Office unit is represented by the FOP. Mr. Brown explained that FOP, Ohio Labor Council units are not subject to conciliation. The only unit that is subject to conciliation is FOP, Capital City Lodge No. 9.

Mr. Ransier asked when the negotiations will begin with units that agreements expire 12/31/13. Mr. Brown started at the top of the page:

- Board of Developmental Disabilities, OEA: has been ratified already.
- Board of Developmental Disabilities, OAPSE/AFSME Local 4, AFL-CIO Local 330: has been ratified already.
- Clerk of Courts, AFSME: Mr. Brown believes it has been tentatively agreed to.
- Coroner, FOP Labor Council: Mr. Brown is not certain, but believes it is tentatively agreed to.
- Veterans Service Commission, CWA (the last one on the list): has been approved, tentatively agreed to, but not yet ratified.

Mr. Brown continued, at this time the only ones that are open and in active talks are the Sheriff's FOP units.

Mr. Marsh asked, what is the total number of County employees? Mr. Brown stated there are roughly 6,200. Mr. Marsh asked if this has been a steady percentage of those represented by a bargaining unit. Mr. Brown replied yes.

Mr. Brown also explained that employees of the Courts and the Prosecuting Attorney's Office are not permitted by law to form bargaining units. There are certain large employing agencies that are excluded from bargaining. In addition to that, there are management and fiduciary employees that are not in bargaining units. I believe the number in bargaining units will remain fairly constant.

Mr. Talarek asked if there were any additional questions related to the *Franklin County Treasurer Investment and Depository Policy* document.

Mr. Marsh asked Mr. Talarek to explain more about the State limitations on investments. Mr. Talarek stated that O.R.C. 135.35 details the limits on what the counties can invest their inactive monies in. Mr. Marsh asked if municipalities are under a different statute. Mr. Talarek stated that some municipalities with home rule would have more flexibility than a county, which only has the powers the statute authorizes. Mr. Marsh asked if the statute is considered restrictive or flexible. Mr. Brown stated it is a pretty conservative policy, both in terms of types of investments and the lengths we can hold them in the portfolio. In the 1970s, it was the Crofters Four Seasons scandal which prompted the State legislature to limit the governments' ability to invest public funds in equities or in stocks generally.

There was discussion about problematic debt financing in the New Albany school district. Mr. Brown explained that New Albany did a swap of debt they had issued (not investments made) on an assumption that rates would rise. When the rates didn't rise, New Albany experienced a loss. Mr. Redgrave stated this was a derivative instrument, Franklin County would not be allowed to do this under its investment policy. Mr. Talarek stated that is correct.

Mr. Redgrave asked, what is the debt outstanding for the County? Mr. Talarek stated for all funds, it is about 289 million dollars in principal at the start of the year. Mr. Redgrave asked if that encompasses all debt obligations. Mr. Talarek said there may be some debt with road projects or water projects, which are kept by the agencies. We can get the number from the financial reports. With the General Fund the total principal outstanding as of January 1, 2013 was 239 million dollars. Most of the debt is supported by the General Fund.

Mr. Redgrave asked, other than credit rating, why do we need that much money on the balance sheet? He clarified that he is referring to investment assets in this question; related to the about [850-900] million dollars of assets (principal) stated earlier. Mr. Brown explained not all investment assets are ours. Mr. Redgrave stated he is attempting to understand the situation, by way of analogy: If I was thinking of a corporate balance sheet, and I was holding that much money earning 0.9%, and I did not have (under my investment policies) anything to do about that (in a corporate setting there is more flexibility), and I only had 300 million of debt outstanding, I would think differently about the asset.

Mr. Brown explained that not all of the dollars referred to belongs to the County. The County Auditor and Treasurer serve as the tax assessment and collection agent for all districts (cities, villages, school districts, libraries, levy agencies) in the County in collecting Real Estate Taxes. So the County is entitled to the investment earnings on all property tax collections, while those taxes are *in* collection and prior to settlement or disbursement. A large portion of the existing [850-900] million dollars (principal) ultimately will be distributed to other districts. It is restricted. But while it is in the hands of the County Treasury, the investment earnings may be collected by the County. That is why it is invested by the County. Real Estate Taxes are collected and distributed twice a year. That is roughly two (2) six-month cycles. The County, rather than leave that cash idle, invests that money.

Mr. Shkurti asked what the General Fund cash balance is. He asked if the General Fund cash balance would exclude all that [investment dollars, etc.]. Mr. Brown said it would. Mr. Talarek stated, as of right now it is $122,341,238.45. Mr. Shkurti asked for clarification: Of what you showed as assets, of the 800-900 million dollars, only 12(2) is General Fund dollars? Mr. Talarek said yes.

Mr. Redgrave stated this was the understanding he was trying to reach. The General Fund balance is the only thing we can change.

Mr. Brown stated there is one other element, a large part of that is our Real Estate Taxes that in collection and prior to settling. But a portion of the assets is General Fund. Mr. Brown asked, what is the Board of Developmental Disabilities (BDD) Reserve? Mr. Talarek said the current BDD cash balance is 303 million dollars. Mr. Brown continued, the BDD has a Medicaid reserve which it holds to guarantee that the matching funds will be available for every client enrolled in the BDD program for their lifetime. This is included in the bigger number. There is 303 million dollars of County money, in additional to the 122 million dollars of General Fund money, which is permanently held.

There was discussion about the investment policy and it parameters.

Mr. Shkurti stated I think what the Panel will need to test is the impact of various decisions on the credit rating, the impact of the credit rating on debt and interest rates. Mr. Talarek stated, based on talking to the County's financial advisor, the historic spread between an AAA rating and a AA rating has been about 25 basis points. So if you take the roughly 300 million dollars in current debt, that would equate to about $750,000 annually in higher interest payments. Because interest rates have dropped, that spread has narrowed in the short term, but historically it's been about 25 basis points. Mr. Brown summarized this line of thought as exploring the value or cost of an AAA vs. an AA rating.

Mr. Shkurti said, I guess another question is how big of a General Fund balance is appropriate to deal with fluctuations. A third question is, even if a target is set, how quickly do you want to build up the reserves

Mr. Shkurti asked about a request for a comparison of the revenue assumptions based on theoretical changes. Mr. Talarek stated OMB is organizing that now.

Mr. Shkurti asked if, based on what was said today when we were talking about 1st Quarter revenues and changes, it is fair for me to assume, that from your point of view, you're comfortable with the revised Baseline Scenario. Mr. Talarek said yes. The 2013 base in the forecast matches where the 1st Quarter number is. Mr. Brown said we are comfortable at looking at the Rosy, Baseline, and original (Conservative) as a band, a range, rather than a single point estimate.

Mr. Redgrave said it's important that we base our action assessments off of status quo. Mr. Talarek agreed. It should be available for the next meeting. Mr. Redgrave stated he thinks it's important the Panel look over revenue and expense side options in their deliberations. Mr. Talarek and Mr. Brown agreed.

The Panel discussed if they will want to meet with the largest County departments to take a more in-depth look at them. Mr. Shkurti stated let's look at the most data provided more closely, and then make a determination. Mr. LaFayette stated he would have due diligence concerns if the Panel did not drill down to some degree. Mr. Shkurti stated we could think of a way to do it that is consistent with the mission of this Panel. Mr. Flaherty proposed that perhaps presentations by panels of categories of service may be an approach. Mr. LaFayette stated it would all depend on their materiality. Mr. Redgrave proposed an 80 20 Rule approach; let's cover 80% of the budget with a couple of drill downs. At the corporate level we go down to the department level, which might not be a fit here for the Panel, but the Panel should get a good sense of things in our role. Mr. Shkurti asked if the OMB Budget Analysts are assigned to specific groups of agencies. Mr. Talarek answered yes. Mr. Shkurti posited that perhaps the analysts could present to the Panel.

Mr. Talarek stated the last document, *Summary of Documents Presenting the County's Fiscal Conditions*, is a summary of all the documents presented to the Panel to date.

The meeting was adjourned at 3:47 P.M.

These minutes are a synopsis of the meeting of the Franklin County Budget and Economic Advisory Panel of Friday, May 3, 2013.

Submitted by: Shannon Zee Cross, Clerk to the Board of Commissioners