

**CITY OF INDEPENDENCE  
FINANCE COMMITTEE MEETING  
MINUTES  
NOVEMBER 18, 2008 3:30 P.M.  
COUNCIL CONFERENCE ROOM**

Present: Chairman Jim Crooks  
Councilman Dave Grendel (arrived 3:33 p.m.)  
Vice Mayor Jim Riley

Also Present: Mayor Gregory Kurtz  
Councilman Jim Piteo  
Councilman George Klepacz  
Councilman Tom Narduzzi  
Finance Director John M. Veres  
Recreation Director Ed Kostyack  
Law Director Greg O'Brien  
Economic Development Director Ron White  
Engineer/Public Service Coordinator Don Ramm  
Vern Blaze, resident  
Laura Jensen, resident

Chairman Crooks called the meeting to order at 3:31 p.m.

**Moved by Crooks, seconded by Riley, to approve the minutes of the Finance Committee Meeting of October 7, 2008. Voice vote: 2 yes/0 no; motion carried.**

**Moved by Riley, seconded by Crooks, to approve the minutes of the Finance Committee Meeting of October 14, 2008. Voice vote: 2 yes/0 no; motion carried.**

Chairman Crooks stated, we have three items on the agenda. The first two items relate to the discussion of moving toward adopting the 2009 budget. The third item on the agenda is more topical so I'm asking the Committee if they have any objection to discussing that first.

There were no objections noted.

Chairman Crooks stated, this is an issue that I've dealt with specifically on and off over the last year and a half or two years. I know that others in the room have been involved with this topic a lot longer than that. Through the Mayor's Office I have asked Director Kostyack and the Finance Director to weigh in on the topic.

I want to get a handle on the process on how an organization that wants to rent a room goes through. What fee do they have to pay? Who collects that fee? What percentage does the City keep? Where does that money go? I want to get that discussion into the public record at this

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time although it may have been put into the record in the past. If I were an organization that would like to rent a room, what is the process that I would go through?

Director Kostyack replied you would have to call the Civic Center. If you're going to rent the Elmwood Rec, you call Recreation. If you're going to rent the field house, that's also Recreation. There is a form to be completed. The Rec fee is \$55 for the small room, plus \$5 for the kitchen. The gym would be \$75, or \$125 for both. Once the form is completed we collect the fee.

Vice Mayor Riley asked, they have to be a resident?

Director Kostyack replied, they have to be a resident.

Chairman Crooks asked, so whoever fill out the form and pays the fee has to be a resident?

Director Kostyack replied, yes.

Chairman Crooks asked, if I'm a resident and want to rent the room, what is the fee again?

Director Kostyack replied, \$75 for the gym, \$50 for the small room, plus \$5 for the kitchen.

Chairman Crooks asked, if I rent it for my organization for next Saturday, do I have to be there? Do I have to be in attendance?

Director Kostyack replied, it doesn't say that in the ordinance.

Chairman Crooks responded, it doesn't say that in the ordinance.

Vice Mayor Riley commented, for the Civic Center rentals it does state that.

Director Kostyack replied, yes.

Vice Mayor Riley stated, if you're having a function at the Civic Center, the resident has to be in attendance.

Councilman Piteo commented, my understanding is that you had to be there to pay for it, but people don't necessarily stay the entire time.

Vice Mayor Riley responded, they're supposed to according to the ordinance.

Chairman Crooks stated, if it's at the Civic Center?

Director Kostyack replied, yes.

Chairman Crooks asked, but not anywhere else where you can rent a room?

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Finance Director Veres replied, I believe at Historic Hall the resident has to be there.

Director Kostyack replied, I'm not sure. I don't have the ordinance in front of me. The field house doesn't have to be rented by a resident.

Chairman Crooks asked, so if I want to rent the Old Rec, I don't have to be there according to the ordinance?

Director Kostyack replied, right.

Chairman Crooks asked, when the fee is collected, who gets the money?

Director Kostyack replied, the City.

Chairman Crooks asked, it goes to the Finance Director?

Finance Director Veres replied, yes.

Director Kostyack stated, we collect the money and give a receipt. John Veres gets a report at the end of the month on all rentals. There is a weekly fee. If they rent it once a week, it's \$55.

Chairman Crooks asked, and that money goes into the general fund?

Finance Director Veres replied, yes.

Chairman Crooks asked, let's say I have an organization and I have to pay this \$55 every week, is there anywhere in some sort of City policy or legislated ordinance that says that I can charge admission to the people who attend that event?

Director Kostyack replied, no.

Chairman Crooks asked, so there isn't any ordinance that says you cannot charge? So it is permissible to charge admission if my organization is hosting an event and paid the \$55 rental fee? I can charge admission for that?

Director Kostyack replied, they do it at the field house now. You rent it out for a basketball tournament, volleyball tournaments and they collect an admission fee coming in. Plus, they sell concessions.

Vice Mayor Riley commented, I was never keen on renting the field house. So if I were to rent the field house for roughly two courts?

Director Kostyack replied, for you it's \$20 per hour per court.

Vice Mayor Riley asked, and if I held a tournament and I had 1,000 people come through the door and I charged them \$5, I put \$4,700 profit in my pocket?

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Director Kostyack replied, could be. You have the tournaments that the high school runs. When we rent the field house to them they make good money. They purchased all brand new weight equipment.

Chairman Crooks asked Law Director O'Brien, there is no legal recourse with the scenario that Vice Mayor Riley just outlined?

Law Director O'Brien replied, not unless you change the ordinance.

Chairman Crooks asked, so people can walk away with that money?

Finance Director Veres replied, we make the rental fee higher than \$300. They might have it the whole weekend.

Chairman Crooks stated, we've established two things then. One, you only have to only be in attendance of a room rental for your organization at the Civic Center, nowhere else? Correct?

Finance Director Veres replied, I wouldn't say anywhere else. We're renting the Historic Hall and it requires a resident to sign it out. And I've been told that it requires a resident to be there the entire time.

Director Kostyack asked, who is checking that out?

Finance Director Veres replied, I don't know about the legal. That's how they rent it. They tell you at the time of rental.

Chairman Crooks asked, but it's confirmed that you do not have to be in attendance at the Old Rec?

Finance Director Veres replied, right.

Chairman Crooks stated secondly, we have been able to establish the fact that if I want to charge an admission of some sort to offset that cost, I can do that for my organization and that's perfectly legal, permissible and it doesn't violate any City statute?

Law Director O'Brien replied, (inaudible).

Chairman Crooks stated, the reason why this is on the agenda is I fielded some inquiries from Mrs. Jensen who is here today. I'm going to ask her if she would be willing to explain the situation as she sees it right now to see if we can address her concerns, unless the Mayor or other members of Council has any commentary regarding the discussion we've had in the last ten minutes.

Mrs. Jensen has a concern about the way a room is being rented right now. I would like her to share that with the group.

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Mrs. Jensen stated, we have a Bridge game at the Old Rec that has been going on since 1994. The directors have passed it on over the years. They charge \$5 an hour because in the past three weeks they've been charged rent. Since 1994 they haven't been charged rent. They were charging people to play \$3. It's a game that is sanctioned by the ACBL. Everybody gets points if they win, not money. When we began having to pay, they charged everyone \$5. They have anywhere between seven and eleven or twelve tables. They even play out in the hall. My objection was that when I rent that place I have to pay \$50, but I'm not allowed to charge anything. I thought that was in the rules that when you rent a room you can't charge people. The people that are teaching classes don't collect the money. The City collects the money. I don't know why this one little room is altogether different from the rest of the rules. One person that rents it is from Broadview Heights and one is from Strongsville. The one from Broadview Heights was a resident of Florida.

Councilman Grendel asked, is this the one we've had for years?

Director Kostyack replied, they've been there probably from the late 70's.

Councilman Grendel asked, that's the one that Frodyma made a big issue of a few years ago?

Director Kostyack replied, they were playing there in the late 70's when Pete Wisnieski was still mayor.

Mrs. Jensen commented, Frodyma didn't start playing until 1994.

Councilman Grendel commented, I think he caused a ruckus.

Director Kostyack responded, he brought up the same subject about charging. Pete Wisnieski never charged them.

Mrs. Jensen commented because they weren't charging. Now they're charging \$5.

Councilman Grendel asked, that just started recently?

Director Kostyack replied I can't answer that. I have to check with the women. I'll ask them, but they do have fees. They have to pay for the cards. They bring refreshments, coffee, donuts, cakes.

Councilman Grendel asked, has the City changed their policy regarding that?

Director Kostyack replied, I don't charge for (inaudible).

Councilman Grendel asked, what has changed to cause a higher fee now to participate?

Director Kostyack replied, I think there was some conflict between the people, some disagreement.

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Councilman Grendel asked, has the City done anything regarding that?

Director Kostyack replied I haven't charged them in the past. About two months ago we began charging them, September.

Councilman Grendel stated, I know when I was chairman of the Community Services Committee we had this issue time and time again. In conjunction with the Mayor we decided not to charge.

Director Kostyack asked, specifically for this case?

Councilman Grendel replied, yes.

Vice Mayor Riley added, this was mentioned years ago.

Councilman Grendel stated, this has been ongoing for years. We had trouble from Mr. Frodyma. I wondered if it was the same issue.

Director Kostyack stated, the Mayor said charge, I charge.

Councilman Grendel asked, so that came from the Mayor's Office? I was wondering what changed because there was never a fee charged until this year.

Councilman Narduzzi asked, is this a City sponsored bridge club?

Director Kostyack replied, no.

Mrs. Jensen replied, the two ladies that run it sponsor the bridge club.

Councilman Narduzzi responded, well then they should be charged. If it is not City sponsored, why would the City not, and make an exception for one person?

Chairman Crooks replied I don't know. They're being charged right now.

Law Director O'Brien responded, the issue we were asked to look into was the issue of whether or not they were grandfathered, they weren't charged the normal room rate like everyone else.

Director Kostyack stated like I said, they use it on Wednesdays. Basically we put the tables up and the police themselves and clean up after themselves.

Law Director O'Brien stated, the issue was whether or not a resident was renting it. Apparently they came up with a resident.

Director Kostyack stated, back when it started there were probably residents running it.

Mrs. Jensen responded, there was never a resident running it.

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Director Kostyack responded, I disagree with that back in the 70's and 80's. I can't remember back then. I won't argue about it.

Mrs. Jensen stated, Lana Slivka is the one who started the bridge club when she lived here. She was not a director. She hired the director.

Chairman Crooks stated to Mrs. Jensen, so the issue that you would like us to look further into is whether or not the person who has rented for the organization is on hand at all times? Is that correct?

Mrs. Jensen replied, yes. I was there the last two weeks and nobody that rented the room from Independence was there.

Chairman Crooks stated, this is something that we plan to look into as soon as tomorrow. As we had discussed one on one, Mr. Kostyack and I are going to go to this bridge club and make sure that the person that rented the room is there. Does anyone have any other suggestions? Is there anything else we can look into that will put everyone on a level playing field?

Vice Mayor Riley stated, I think maybe we should look at that policy for all of our buildings. I think the resident rule with the Civic Center is because it is constantly rented for different functions. I've had a relative ask me to rent a room for them. If I'm not going to attend, I won't do that. If I'm a resident of Independence, I'm going to make sure to keep an eye on what is going on at that party. If I'm not even there, that's opening up the door to anyone renting that.

Chairman Crooks added, then you should be allowed to rent the room.

Vice Mayor Riley responded, I think you should have to be a resident. I like the idea of the resident being there.

Chairman Crooks stated to Director Kostyack, as far as you know, the person who is responsible for renting the room for this bridge club is an Independence resident?

Director Kostyack replied, the name on the application is. I don't know if they're there all the time.

Chairman Crooks asked, but as far as you know, the person on the application is a resident?

Director Kostyack replied, I have to go look.

Finance Director Veres stated, I'm confused. Currently they don't have to be there, right, at the Old Rec?

Chairman Crooks replied, that's correct.

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Finance Director Veres responded, we're making an issue like they're already doing something wrong. We're saying we're renting it to a resident and they're not there.

Vice Mayor Riley replied, there might be a nonresident renting it.

Mrs. Jensen replied, that's who rented it all these years.

Finance Director Veres stated, a resident can rent it and not have to be there currently.

Chairman Crooks replied, right. And what Mrs. Jensen has asked us to look into is to consider whether or not changing that is a good idea, which I think we can do, unless there are any other suggestions from anyone else. We can look into it.

Mrs. Jensen stated, what I'm saying is they pay \$50 or \$55 for the room and they collect \$20 per table. They don't spend all that on food. I'll tell you that.

Councilman Grendel responded, so they took that opportunity to raise their fees.

Mrs. Jensen replied, right.

Councilman Grendel stated, and they make a little money off of it.

Mrs. Jensen stated, before when they weren't paying rent they collected \$12 per table. Now they're collecting \$20 per table. They have anywhere between seven tables to twelve tables.

Chairman Crooks responded, and according to the Law Director (inaudible).

Mrs. Jensen stated, I call that making money. That's running a business through the City.

Law Director O'Brien replied, we have contracts where we collect the money but those are where we've a revenue share with that particular business entity.

Director Kostyack responded, a 70/30 split on Jazzersize and other similar programs.

Mrs. Jensen asked, why isn't this run that way then?

Vice Mayor Riley asked, I would ask why isn't the field house run that way too?

Director Kostyack replied, because with the field house you opened it up to nonresidents to make money for special events.

Vice Mayor Riley responded, but the thing is the City isn't making money. I bet when you get down to it, we lose money on that.

Councilman Grendel replied, I beg to differ because it brings groups into the hotels, restaurants, the whole area.

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Vice Mayor Riley responded, I mean as the City making money.

Councilman Grendel responded, we benefit from the tax revenues.

Director Kostyack stated, up until this month at the field house for rentals, we've taken in \$68,988.50. That's just for rentals.

Finance Director Veres stated, so it's paying for the event.

Vice Mayor Riley responded, but I'll go back to my initial argument then. We built that because this community needed it. We needed those courts for our residents. We needed the courts for our teams and now we don't? We spent \$10 million on something we didn't need?

Councilman Grendel replied, I think all of our teams practice there.

Director Kostyack added, they still practice there everyday after school. Then we have it every night Monday through Friday 6 p.m. to 9 p.m. for Rec teams. Most of the rentals are on weekends. We try not to rent in January and February to keep that open for the baseball teams to come in and practice so they're ready for the spring. February, March and April are heavy rental months.

Councilman Grendel stated, I think it has worked.

Councilman Piteo asked, is there first refusal on that for residents during the week? If a resident group wants to use the gym, do they get first shot at it before somebody gets it from out of town?

Director Kostyack replied, it's who calls first. We can't hold it. Most of the rentals aren't during the week. Most of the time during the week, our basketball teams and CYO are there every night. We have travel basketball teams. We have travel baseball teams. We have Emerald Necklace girls in there. We have volleyball girls in there. The building is being used. You have to remember too that the schools have it from 8 a.m. to 6 p.m. We only use it from 6 p.m. to 9 p.m. and weekends, and we're paying the electric bill and the gas bill and the water bill for the place. So if we make \$68,000 to offset the cost, I think we're doing pretty good, unless you want to cover it all.

Chairman Crooks stated, I think what we can do is go and confirm that the person who is renting this room is in fact an Independence resident and take a look, as a body, changing the policy to make that person who signs up for the room be required to be there. That is one thing we can do.

Chairman Crooks asked Mrs. Jensen, if there was anything else she would like to add.

Mrs. Jensen replied no. I just wondered why the rules are different between one building and another. Anybody could come in and start a business in that building for \$50 a week, which they did. They're running a business. They're taking in \$20 per table.

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Councilman Grendel commented, if that's too much, I wouldn't be playing bridge. I'd go somewhere else to play my game.

Mrs. Jensen replied, this is the cheapest game in town.

Councilman Grendel responded, then you won't be wanting for players. We have had meetings and more meetings with Mr. Frodyma. I remember the whole thing.

Finance Director Veres responded, it's a nonprofit organization. They proved that five years ago.

Councilman Grendel stated, this has been going on since Pete Wisnieski was mayor.

Director Kostyack stated, we'll have a meeting with them tomorrow. We'll talk to these ladies and report back.

Several people speaking at once.

Chairman Crooks stated, this Committee will do it. We'll take a look at getting an answer as to why the rules are different and see if they need to be changed.

Mrs. Jensen stated, I assumed, wrongly I guess, that you couldn't rent anyplace in Independence unless you were a citizen.

Finance Director Veres responded, we're saying that's happening right now. The resident just isn't there during the time of the rental. They're not required to be there right now.

Mrs. Jensen stated, the last three weeks I was there. There was nobody there that rented the room.

Finance Director Veres replied, they don't have to be there right now. It sounds like you want them to be there.

Mrs. Jensen replied, everyplace else you have to be a resident to rent the room.

Finance Director Veres replied, you can't say that.

Chairman Crooks stated, she's suggesting that we take a look at that, and that is something that we can do. Does anyone else have anything to say on this topic?

There was nothing noted.

Chairman Crooks stated, to Mrs. Jensen, we will keep you posted.

Mrs. Jensen left the meeting.

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Chairman Crooks stated, moving on to the first item on the agenda, really items one and two go together.

Finance Director Veres commented, can we go ahead with No. 2?

Chairman Crooks replied, we can begin with No. 2. Before we begin to talk about these things specifically, I'd like to put this discussion into context.

As the community knows and members of Council know, we just completed a Five Year Planned Capital Improvement Plan, which I think is an accomplishment that everyone here can be proud of, not just one person or one committee. We did meet a good number of times and most people here participated. Although I think that is a very good thing to do, I think there is a lot more than we can do proactively as it relates to our budget. Finance Director Veres wants to talk about item No. 2. But before we do that, let me continue with putting this into context.

As I said, we completed the Five Year Capital Improvement Plan. That is a good thing, but I think that there is more that we can do. We touched on these topics in the final round of the hearings for the Five Year Capital Improvement Plan and they include taking a five year look at our operations costs, a five year look at our revenues and a five year look at how much money we plan to use to pay down the debt.

I brought a couple of articles with me and I'm going to make reference to them. I'm sure you have all seen them in yesterday's Plain Dealer. On the front page there is an article that is titled, Fees Rise as Cities Look for Income. Instead of getting into the specifics of this, the article was more or less about steps that other communities have to take, specifically raising their fees after they've gone through the process of cutting out all the things they can cut out to help their budgets.

Chairman Crooks asked, are we ready to start now?

Vern Blaze replied, it was an appropriate time because it (inaudible) yesterday's Plain Dealer.

Chairman Crooks stated, if this is part of the presentation that you have, I'd love for you to just dive into it.

Councilman Grendel asked, on our Five Year Capital Improvement Plan, are we going to formally approve it at a Council meeting then?

Finance Director Veres replied, I don't think it was required to. It was supposed to be presented to Council on an annual basis.

Chairman Crooks added, the legislation didn't require it to be adopted.

Councilman Grendel stated, we'll look at it every three months or so to see if conditions or things have changed and modify that plan accordingly.

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Finance Director Veres, responded it might change today.

Chairman Crooks stated, the second article that appeared in today's Wall Street Journal is from a gentleman who works for the Manhattan Institute, which is an economic think tank in New York City, summarizes an article where it states in our country, specifically California, are running a \$15 billion deficit, Illinois running a \$2 billion deficit, are now lobbying the Federal government so that the states can now be the recipients of part of this federal bailout to go along with the financial industry and the auto industry. The theme of this gentleman's article, I thought was a very appropriate one to bring to this Committee today. It is one reason why these governmental entities are in the situation they're in is because many failed to address their deep structural budget problems during the good times. They preferred to use booming tax revenue to start or expand politically popular programs.

Now I'm not saying that every program that we have is a politically popular program and I'm not suggesting that our budget has problems, but I think the point here is something we tried to do with the capital improvement plan and what I think we need to do going forward – taking a look at the deep structural situation of our budget and seeing if we can apply the method to the madness of the capital plan to the operations and to our revenues.

The capital component is one component of many from my perspective, a complete comprehensive look at the budget. And that is the purpose of having these two items on the agenda today – taking a look at the 2009 Operations Budget and also debt retirement.

Now I see that there is a presentation here today. I learned earlier that we might have this presentation. Mayor, do you want to bring the Committee up to speed on what we have here?

Mayor Kurtz replied, I just want to thank you because you've touched upon a number of different issues and items. We've already done a comprehensive review of the capital portion of our proposed budget and our five year planning. I want to thank Council for fulfilling that commitment. We have to look at, and we've been looking at, our operating budget. We also have to look at our debt structure. We have two types of debt, scheduled debt reduction and then we have some optional BANs that we can pay down or extend year by year. I think John Veres will get into the depth of that further in the discussion.

At this mornings Staff Meeting where we meet and talk with department heads I asked Vern Blaze, who not only helped craft the origin, or the beginning of the Five Year Capital Improvement concept, but also was intimately involved with our operations and our financial forecasting, working hand in hand with the Finance Director. I asked him if he would help the City and look at our systems, look at the different systems that we have in place. In our Staff Meeting this morning we unveiled this presentation to department heads to have them understand, get a better idea of what we're dealing with in the economy today and how quickly things have changed since we began negotiating contracts earlier this year.

It would be great if Vern would like to replicate what he did for the department heads and staff.

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Vern Blaze stated to Chairman Crooks, your quote from the Wall Street Journal article was a good lead in because it ties into what the Mayor has asked me to present here. The Charter says the Mayor and the Finance Director has to prepare a budget, submit it to Council for their consideration, deliberation and final adoption. So before the Mayor and the Finance Director can do that, they have to meet with the department heads and get everyone on the same page for what 2009 is going to be looking like. We borrowed the first quote from Tim Scott last week at the State of the Cities Address, because I believe that with challenges come opportunities. There is no doubt that we're in some challenging economic times right now. If you listened to all six of the mayors' speeches, the Mayor talked to the organization there and focused on the one word being "prepared." I think with the economic challenges coming up that we're starting to face already with the flat revenue this year we have to be prepared for what is coming down the pike.

What we did was cite some articles. The news out there about the economy is not too positive right now as you can see. CitiGroup cut 53,000 employees. Dave Snyderburn was at the Staff Meeting this morning and said he thought it was 5,300 employees. One company cutting 53,000 is seven times the population of Independence. I don't throw that up there to say that the Mayor is going to be proposing a budget to Council for their consideration that includes layoffs or very punitive measures. Dave Snyderburn gets it because he said that you know if a company like CitiGroup is laying off 53,000 employees, eventually the negative impacts of occurrences like that will impact Independence. Independence is governed by the trickledown affect to the employment base on Rockside, Pleasant Valley and Old Rockside Road. Private sector is hurting. The State of Ohio, the budget hole is widening. The collections are falling. Northeast Ohio is being particularly hard hit because we're auto related. The latest unemployment claims from Washington say that the week of November 8<sup>th</sup> the most new claims were Ohio. So we've only felt it in Independence, thus far, as far as our revenue flattening. You'll see in a couple of slides here other communities whose budgets are being hurt a lot worse already.

Chairman Crooks mentioned, the article from the Plain Dealer about cities looking for fees. Again, not saying that anything is etched in stone, but I think the Mayor's attitude now is that everything should be on the table for discussion right now – discussion by Council, discussion by the department heads and discussion with their staff about how to go to business in this challenging economic times and try to do it in a way so that we don't get in the position of a city such as Cleveland Heights. Cleveland Heights is having to layoff employees and eliminate services. Columbus, a fairly white collar town, but an \$80 million budget gap for next year. MetroHealth General is another – it's not just the private sector and government, but there is a hospital organization out 112 jobs this week, after cutting 73 jobs earlier in the year to try to balance their budget. Nationwide, states, cities and counties – from an article earlier this year, by that time 45,000 layoffs had already occurred across the country with various states, cities and counties trying to fill their budget gaps with their current revenues falling and their expenses going up. You see that they're saying that Michigan and Ohio have the weakest at the local economies.

Yes, in Independence we're fortunate. We have Rockside Road and we've been blessed by that, but the attitude is going to be that we're stuck in the middle of this region, this Midwest that is being hit even harder by the economic realities than other parts of the country. That could only mean that the near future economically for us, if it filters down from national to state, to county.

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You'll see a slide coming up pretty soon about Cuyahoga County's budget woes. We will be impacted by everything going on and the time to take action is now. As Chairman Crooks quoted from the Wall Street Journal article today, *the drop in income taxes and job losses this year might not hit government revenue until next year*. I think that is the delay effect that you see – all the layoffs from all these companies and organizations in 2008 cutting back their staffs, is going to start happening on Rockside. We probably won't feel it on the revenue side until 2009. By being proactive and submitting and operating within budgets that are within reason for the economic realities, we can certainly avoid the condition that a city in California found themselves in. Because of rising costs, a booming budget deficit and too much debt they just filed for bankruptcy and walked away from their obligations. New York City – Wall Street hammered. Mayor Blumberg had to save \$1.5 billion. He cut 3,000 jobs and they still face a \$1.3 billion deficit by their estimates for the 2010 fiscal year. If you change the *New York City* to *Independence* and it's very applicable for all of you, as Council, and the Mayor to be able to deal with the budget challenges honestly and straightforwardly in order to protect the people of Independence. This is not the time for sugarcoating things. Mayor Blumberg says there are only two choices, and he's a business man, he knows. You either cut spending or generate more revenue. Each path is unpleasant and painful.

Our revenues have not started to fall off the cliff. All we've done to this point is stagnate from 2007 to 2008. We're hoping that's as bad as it gets.

Another tactic by GM, a couple of months ago they announced they're cutting out all unscheduled overtime and having an overtime ban.

Chairman Crooks asked, did you mention that Michael Blumberg is considering a tax increase now.

Vern Blaze replied, indirectly where he said, *generate more revenue or cut spending*. I think rather than trying to increase actual tax rates, if I read his article correctly, I think they were either trying to play around with the credits or not letting some tax cuts expire or the reverse of that, so that they could get the revenue without actually having to go to the residents of New York City to actually increase their taxes.

Chairman Crooks stated, I heard that he wants to tax the commuters.

Vern Blaze responded, that's not all that different from the State of Florida who taxes the tourists heavily to fill their budget with dollars.

Mayor Kurtz commented, we tax the employees that work here.

Vern Blaze responded, we do the same thing with people on Rockside Road. This is a very great concept. I think as the Finance Committee and Council as a whole gets ready to adopt their budget for 2009, some smart people on the West Coast have a number of companies in their investment portfolio. They went to each of them and said to redraw their business plan for next year. Cut your costs, leave a bigger cash cushion to weather what they're saying is going to be the worst recession in a quarter century. You hope they're estimating and erring on the

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conservative side, but this is what smart money sees happening going forward. We can't ignore that.

The National League of Cities surveyed their member communities and 79% reported that they expect financial trouble in 2009. How they define financial trouble, I'm not quite sure. That was the direct quote.

Garfield Heights – two cities away from us, we've seen what happened there. And the interesting thing that I didn't realize until revisiting this article, their revenue is actually up \$1 million. So we can't just look at revenue and say our revenue is up and everything is great in Independence. Their revenue is up by \$1 million but the suburb is still swimming in a \$3.5 million deficit. The expense side, the expenditure side of the equation is just as important as the revenue side.

The Gazette did an article and they featured Greg Kurtz as well as three other local mayors and their quotes. You can see all three of them are pulling in the reins. Jerry Hruby said in Brecksville that the 2009 budget is going to be very close to or slightly less than 2008's budget. Seven Hills already saw the handwriting on the wall evidently. They didn't talk about 2009, but said they trimmed \$1 million off the 2008 budget from 2007. Mayor Alai in Broadview Heights said he expects the 2009 budget to be less than the 2008 budget. Mayor Hruby in a Sun Newspaper article asked his department heads to tighten their belts. His quote was, *The 2009 general budget cannot be higher than the 2008 budget*. So their revenue in Brecksville must be flattening as well.

By us doing these kinds of things budget-wise, we're only doing the prudent thing in guarding the taxpayer's money and spending it judiciously.

Cuyahoga County has their own problems. They see a \$65 million revenue shortfall by 2010, their next fiscal year. The City of Lakewood and other older inner ring suburbs have felt it already, where again, we're only seeing flattening revenue and we haven't been in a deficit situation. John Veres makes sure that we're not spending more than we have. But you have other cities in Cuyahoga County – Lakewood with a \$3.2 million deficit they had to stave off this year. Rather than being proactive in previous years, Chairman Crooks noted in that article that when times were good and being judicious, I'm sure as the money was coming it was going out just as fast. Now the economy goes into a recession and they're only option at this point was to lay 50 city employees off to close their \$3.2 million deficit.

I think the message that Greg Kurtz tried to give to the department heads this morning was we don't want to go the layoff route. We value our employees. We want them to know that they have a good, secure job. But we also know that in today's challenging economic times if we don't batten down the hatches, who knows, we could be in a situation like this in the future, if we don't take the prudent actions right now.

Vern Blaze continued, North Randall. We're a long way from there, but there is another Cuyahoga County city, village actually, had its whole economic future tied up in two assets,

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Randall Park Mall and Thistledown. Randal Park Mall virtually died and Thistledown is on life support.

Findley, a city in western Ohio, another example of a budget shortfall. I thought it was appropriate for this morning because the Mayor tried to tap into his department heads for expertise within the department. How can you become more efficient and effective in your individual departments, not us coming with all the answers, but actually tapping into the brainpower that exists there.

The last one is Ohio. Governor Strickland had to cut \$540 million this fall on top of a \$700+ million reduction in early January. Those two cuts alone totaled over \$1.2 billion that were cut out this year's budget in the State.

Rhetorically, I asked myself, had I not read that, I've never really felt any negative effects yet of that \$1.2 billion cutback. Then I asked, if the State of Ohio can cut \$1.2 billion out of their budget and I, for one, haven't felt it, certainly we could hold the line on spending in Independence in 2009, deliver the same level of services we always have, but do it so we don't have to be in the news for having big budget cutbacks and big layoffs like that.

The reality is we all know from following the income sheet that John Veres puts out every month. Income tax is flat this year. I don't know how the other revenue categories are. I told the staff this morning, there is one metric of how to measure performance, unencumbered cash balance. Don't get hung up just because of one metric up there. I've been away from the City since June. I only had what was available in the report that was put out by the Finance Director before that. When times are good we're still going through some cash.

Finance Director Veres asked, if he could interrupt in telling you why that happened. That was Council's action. I did not recommend that. It was because Council decided not to borrow to complete Rockside Road Phase 2. That is the only reason that happened.

Vern Blaze responded, that is a great point. That budgetary responsibility lies within the seven legislators in this room. The Mayor and Finance Director propose a budget to Council, but it's Council that actually adopts it and you can spend no more than what Council gives you the authority to spend. So what are the goals? You submit a budget to Council for their consideration that attempts to keep spending at 2008 levels. Try to live within that budget for the entire year. Even if we get lucky and we're not impacted by the recession and the economic realities and revenues go up in 2009, maybe we're not just spending that money because it comes in. Maybe we bank it for the rest of the year and use the fourth quarter of 2009 to then plan. Okay, we came out better than we thought. How can we go to business in 2010 judiciously with that money, rather than it coming in and going out just as fast?

Opportunities, this is for the staff this morning, but it's relevant to the legislators in this room too. It's the opportunity to become more efficient. Maybe because we've had all that money all those years, we've allowed ourselves to become a little lazy in certain areas and allowed ourselves to become a little inefficient. Now is the time when we can really sharpen the pencils and see, can we be better?

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That leads into No. 2. Can we become better managers now? It's easy when you have the money to just throw money at problems and people to solve all your problems. Now we have to be creative. We have to think. We have to become more creative in how we can go to business and become more efficient and effective. But, those processes that can take place over the next few months into 2009, if you think about it, you can really plant the seeds toward future greatness and this is from a financial standpoint. Planting the seeds of financial prosperity in the future by watching the pennies, nickels and dimes right now.

That is the message that I think Greg Kurtz tried to portray to the department heads this morning. He felt that it would be appropriate for the Finance Committee and I'm glad that most of Council who is here to see it.

This is basically what we went through this morning. Thank you for the opportunity to present it to the Finance Committee and to Council.

Mayor Kurtz thanked Vern Blaze for his presentation.

Mayor Kurtz stated, to go one step further and explain a little, traditionally, many of you have sat through these budget hearings. We almost always focus on the capital portion and we have meeting after meeting on the capital portion. That's done. That's pretty much framed for 2009 and beyond.

Now we've shifted our focus. Traditionally, I think from an operations standpoint the managers, department heads submit a budget, add a couple percent for the cost of inflation and go to work. This year, we've taken a different tactic. The fact that we've spent a lot of time on capital means we don't need to spend that much time on it during the budget hearings on capital. That is defined already. What we've done is ask our management team, who traditionally submits their budget for review, we've asked them now to move beyond their traditional means of announcing their budget, but going one step further. We are now attempting to educate the management team to the point where they can now look at each one of their line items in the budget, look at each one of the programs that they provide, look at the number of people they have to supply those programs, and review that from an efficiency standpoint and also having systems in place that make us more accountable. We have thrown everything on the table. As I said this morning, everybody here had a year now to have me look and see their performance, how well they perform, how well they manage. Now the economic times dictate that we go one step further in the process. They dictate that we look and see how well we can combine resources, meaning our talent pool, our management pool, to see about becoming more efficient financially.

Dave Snyderburn walked in late for the meeting because he was addressing his rank and file membership and explaining to them that we have to look at cutting overtime and managing our budget better. Hopefully we go from the bottom up, as well as the top down, to come to a happy medium of doing different types of shifts, eliminating overtime, doing a more comprehensive snowplowing program, which we're not going to have 22 people on call. We're going to have the number of people we need to bring in. We're going to have shifts that start at 3:30 p.m. and shifts that end at midnight, so that we have good coverage without overtime. By the way, we don't

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provide the level of service that we provide without some degree of overtime. I don't want anybody walking out of here saying well, we just eliminated overtime. That is not true. You're always going to have the unanticipated circumstance. You're going to have to address that. What we're trying to do is manage our overtime. And that's only one component of the budget, line item of each budget. The bottom line is that we're going to be analyzing every system in every department to come up with the best and most efficient system. We talked about potentially combining some of our resources. So, we're going to analyzing our systems. We're going to be looking at how we coordinate our finances so at the end of the day we have something that was workable, but has a long-term planning effect as part of the genesis of how we go into the future.

Vice Mayor Riley asked, do you have a goal as far as reducing the operating budget – 3%, 5%? We're already up 3 ½% with raises.

Mayor Kurtz replied, we talked about that. If negotiations were today, there isn't a person in this room that wouldn't have a different mindset of negotiating. But six months ago when we were finalizing the initial contracts, I have to tell you, nobody envisioned what has happened so quickly with the economy. So, that being said, we know that we have additional challenges to deal with. I'm not insensitive to what has happened over the years. A number of employees have designed their family budget around a certain degree of salary – base salary plus overtime. So as we have to look at our numbers, our budget, everyone individually is going to have to look at theirs and their lifestyle. We're trying to find a common ground, a happy medium for everyone so no one gets hurt. We're not talking about layoffs. We're not talking about drastic measures. We're talking about modifications that bring everybody into a reality check. But no one gets hurt.

To answer the question, there is no firm number realizing that there is roughly \$11 million of salary. If you take 3% of \$11 million and you start looking at that number and add 3% or 3 ½% to that, we need to be, and I have no problem paying a good salary. It's some of the dynamics of other built in roll up effect items that really compound the problem.

Chairman Crooks stated thank you Mayor and thanks to Vern Blaze for coming in. As it is always the case, these presentations are thorough and educational. Thanks for coming in and presenting.

We do have two specific items on the agenda and we're touching them on a broad level today. I am perfectly comfortable with that because I plan to meet again next Tuesday. I know that Dave Grendel is going to be unavailable but in light of this presentation, it sounds like this was presented this morning to the department heads and that you had had a discussion about this. Next Tuesday maybe the first step to really talking about what the 2009 operations budget might look like. Is that fair to say?

Mayor Kurtz replied that's fair.

Chairman Crooks stated I know that John Veres wants to speak to the debt retirement. But before we talk about this in the last couple of minutes here, one thing that I did not put on the

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agenda, I think it's very, very difficult to have the discussion about capital expenses, about operating expenses, about debt retirement if we don't even know what is coming in. And I think it's appropriate to try and project out what our revenues look like. I think it's great that we finalized on approximately a \$4 million capital budget and we're talking about \$11 million to \$12 million for our staffing costs. What can we expect is going to come in the door in 2009? What number can you project to us so that we can begin to back out these components of this budget as it relates to operating, debt and capital expenses?

Mayor Kurtz replied, I believe everyone received the income tax packet last week.

Finance Director Veres replied, optimistically?

Chairman Crooks replied conservatively.

Finance Director Veres responded, I'm being conservative and optimistic, but.

Chairman Crooks asked, what is that dollar amount?

Mayor Kurtz replied, \$23 million in income tax.

Finance Director Veres passed out a spreadsheet.

Mayor Kurtz stated, if I might interrupt, you got the income tax in your packet last weekend. If you look at the last couple of months, you'll see what is beginning to happen. You see that even the last couple of months have changed relative to the beginning of the year. So when the Finance Director says optimistically flat, if we get flat, that would be good.

Vice Mayor Riley commented I think if we sit here and say we're going to be flat from where we were this year, we're kidding ourselves. Why would we be the exception of not getting hit by the economy? Independence always takes a little longer than other areas to get hit because of our mixture of businesses on Rockside. Some of the service areas don't show it like the manufacturing does immediately.

Mayor Kurtz replied, we are acting now instead of reacting six months from now. We're taking steps now, rather than waiting six months and having that happen and then reacting to the situation. We're dealing with present day circumstances and that's how we're going forward.

Chairman Crooks stated I challenge the Committee and other members of Council here despite the potentially gloomy picture of information that Vern included in his presentation actually presents. I'm glad the last slide was titled Opportunity because I think there is some optimism in knowing that we're sitting here today discussing these things for the future. I know that John Veres wants to explain what he passed out so I want to make sure that he gets the floor before we conclude today.

Finance Director Veres stated, I was going to stop at the costume shop and get a grim reaper costume but Vern wore that for me on the way in. I'm glad he did because when I was working

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on this, this week, you have to remember when we started talking about our five year plan seven weeks ago, that was before October 15<sup>th</sup> when we knew October's numbers from RITA and that was before November 15<sup>th</sup> when we knew November's numbers. At that point, we were \$600,000 over last year. We are currently only \$80,000 over last year. So it has hit swiftly and it has hit hard and it will probably continue when we get December's numbers.

If you look at the debt service on the One Page Summary, the only variable, as the Mayor mentioned earlier, is the BANs. If you look at the Estimated Principal column for 2009, the outstanding notes, we're anticipating to reduce that principal by \$600,000. That is the only variable on this page for payments. Does that make sense? We can make a payment of \$600,000 or we can make a payment of zero, but everything else we have to make the payment.

Mayor Kurtz asked, does everyone understand that?

There were no questions noted.

Mayor Kurtz asked so if we don't touch that \$600,000 at all, then the obligated debt service.

Finance Director Veres responded our principal would remain the same, 7.7% on the BANs if we don't apply \$600,000 to the principal. Down below that, the Capital Improvement Fund 410, Street Resurfacing Fund 420 and the Drain Water Fund 430 were all numbers derived from the Five Year Capital Improvement Plan. So remember that prior to October and November 15<sup>th</sup>.

Vice Mayor Riley responded, so we're down to \$80,000 from \$600,000. So there is a good chance we're going to be under?

Finance Director Veres replied yes. There is a good chance we're going to be under. If we're the same, we'd be \$23,100,000 for 2008 in income tax.

Councilman Grendel asked about where the decrease was coming from.

Finance Director Veres replied, employee withholdings, which isn't a good sign. It's a combination of net income and employee withholdings, but the last couple have been employee withholdings.

Chairman Crooks stated so to bring this meeting to closure, I wanted to talk about things on a broad level. Can we work toward closure?

Finance Director Veres replied the closure, the two key numbers to look at right now, the Beginning Unrestricted of \$428,000, which I bolded and the Ending Unrestricted, which cannot be negative so something has to be done, a negative of \$389,900. That's keeping the General Fund budget at this year's number and the SCM&R number budget at this year's number – no increase and no decrease either right now. That's keeping it flat as well. So something has to change within the budget whether it's a capital item, an infrastructure item, operating item.

Councilman Grendel asked and that's \$390,000?

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Finance Director Veres replied we're negative \$390,000 being projected.

Councilman Grendel asked so that has to be made up?

Finance Director Veres replied right.

Mayor Kurtz commented, everyone mark this "initial draft." Because if anyone speaks off this document next week without update, you're making a mistake and it's wrong.

Finance Director Veres replied right.

Mayor Kurtz continued this is an initial draft. This is purely for conversation.

Finance Director Veres replied right. Everything is in pencil.

Mayor Kurtz responded please make note of that.

Chairman Crooks stated to Finance Director Veres, you were going to make a suggestion.

Finance Director Veres replied you can't do much with the debt service other than the \$600,000. You have that as an option. You have the Five Year Capital Improvement Plan as an option, moving some of those items and you have the Operating Budget as an option. You also have the option of increasing fees.

Councilman Grendel commented the Operating Budget would be difficult because it's 85% salaries and benefits.

Finance Director Veres replied ours is about 75%.

Councilman Grendel replied so you have a small amount.

Mayor Kurtz stated there's only the 25% other than employees, but we're not to that point.

Chairman Crooks asked so, Mayor, if we call a Finance meeting for next Tuesday, do you think you'll be in a position to take another step with this?

Mayor Kurtz replied yes. I believe that if we take next week and possibly the following week, that we'll be prepared to present to Council in the packet for the December meeting our annual budget for 2009.

Councilman Grendel stated, it would be nice to pinpoint the areas we can really focus on. There is no use focusing on areas where we're pretty much set. You have to target the areas where you can really make some impact.

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Mayor Kurtz responded, I think in today's conclusion John Veres said the only area in the debt we have to touch would be that \$600,000. That's the debt. That's the one major component. So that answers that question. We will next week begin the analysis of the Operating Budget unlike we've ever done before, and we'll be able to see where there is room there.

Chairman Crooks responded, that is really only going to focus on that 25% though because you've already made it clear that the human resources is an important component.

Vern Blaze commented it's not to say that overtime can't be managed better.

Mayor Kurtz responded, we'll manage our time better but we won't eliminate anything. We'll try to put something together. Each department understands that they're being asked to educate in the future, not just deliver a perspective, but educate people on why they need this service or why they need this program, or why they need this number of people to provide the service. For example, right now we have an assistant chief position. We also have a new policeman position opened up from this year and funded positions that we haven't filled. So we're going to look at that item. Like you said, that 25% was not a large number where we are going to be able to – but that the point of that number is that we'll look as 2009 unfolds to watch the programs we put together, how elaborate and how we provide services. Keep in mind that 90% of the people are happy with the level of services they get.

Chairman Crooks stated, capital will be the final.

Mayor Kurtz responded, then capital. The review that we put together has some flexibility in it. If you said you only have \$1 but I can only spend \$.90, you're going to have to find the \$.10 to cut out. But you will make that decision. We will make recommendations or priorities and then take it from there. Again, those are the three major components.

So we already defined today that we have a \$600,000 opportunity to manage in debt, to change in debt. That's the window there.

Next week we'll begin to discuss the operating budget and at the same time everyone should again look at the capital portion.

Vice Mayor Riley stated, I caution when I see raising fees. I look at that as similar to increasing taxes. When you're area is in a downturn economically, the worst thing you can do to your people is tax them. The best way to stir an economy is to decrease taxes.

Finance Director Veres replied, that's my job to look at that.

Vice Mayor Riley replied yes, I know. Secondly, as the Administration is going to do, I think Council in the back of their minds needs to start thinking about where you're going to cut.

I've always fought for the Tree Program. If I had to say that we have to put that on hold for one year, suspend that program, I could stand in front of any resident and say that before I lay

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somebody off. We didn't have that program ten years ago. I know we're not to that point but I'm just saying.

Mayor Kurtz responded to show you what we're doing, and John Veres and I had a brief conversation, reducing that program. That's how we're looking at it. You nibble a little bit here and a little bit there. With some programs we're going to ask Council to weigh in on delivering certain programs for 2009.

Vice Mayor Riley stated, with the Tree Program I can say as far as nibbling away, go with the program as we originally designed it. I think that would reduce the cost.

Mayor Kurtz responded, we will but certain aspects of that program are for safety purposes. I believe that the genius of Council's perception of that program was delivered at the last storm when we didn't have the major catastrophes or major power outages that a number of communities did. I think, in part, we do go through the community and purge ourselves of some of those dangerous situations.

So that is the discussion. That is the dialogue that we anticipate having for the next couple of weeks. We're anticipating we're going to have something further to take to Council for 2009 at December's Council Meeting.

Chairman Crooks asked Mayor Kurtz, if there was anything else he'd like to discuss.

Mayor Kurtz replied, no.

The Committee and Council also had nothing further to discuss.

Chairman Crooks stated, before we adjourn the meeting, to your point Vice Mayor Riley, in this article from the Plain Dealer in the very first paragraph, *when income is down and cities have cut all they can fees may start creeping up*. It seems like the fees don't start creeping up until the cities have cut all that they can cut. We're not at the point yet where we have to cut human resources. We're still at the very early stages of cutting and I think as long as we stay proactive in that regard, we might not even have to address the issue of raising fees.

**Moved by Riley, seconded by Crooks, to adjourn the Finance Committee Meeting. Voice Vote: 3 yes/0 no; motion carried.**

There being no further business to discuss, the Finance Committee Meeting was adjourned at 4:36 p.m.