

Minutes for the April 27, 2012 Special Council Meeting
10:00 am at the Town Hall on Division Street

1. Mayor Paine calls council to order and roll call is taken. Present are G. Ritchie, P. Seeholzer, M. Feyedelem, G. Finger, D. Kaminski, L. Marchky.
2. All rise and recite the Pledge of Allegiance to the Flag.
9. First Readings - none
10. Second Readings - none
11. Third Readings & Emergencies

Mayor Paine addresses council: He indicates that one of the most important agenda items today is the decision about putting a levy on the special election ballot. Paine mentions that funds have been cut by the state while costs have increased. He continues that to keep services to the public and to keep the village solvent, more money is needed. Mayor Paine adds that he wants to do road work and he will look for grants for projects. However, the General Fund is important as the General Fund can provide money to start infrastructure projects. One of the positive things about a levy is that the money will come back directly to the village. The Village of Kelleys Island only receives about 24% of the property taxes. The 1 ¼ mill levy would cost about \$87 for a \$250,000 home, and it would bring in over \$100,000 to the village. Claudia also handed out some paperwork for council and I would like her to go over that.

Council discusses the revenue they need to generate for the General Fund:

Clerk-Treasurer Brown has included a packet of information with the council agendas that includes the two relevant responses from the Erie County Auditor for the ballot language. She asks council if they would like her to go over the information as quickly as she can, since the Mayor has indicated he does not want to spend a lot of time on this. Several council members ask that she continue and Brown continues that the responses from the Erie County Auditor have been re-copied from the last meeting and they are for 1 mill and 1.25 mills. Summaries of estimated expenses and revenue for 2012 and 2013 are also included, which has some minor revisions from last council. There is a correction also on that page from the March handout to council members. The correction is shown in an obvious manner so that council members can see easily what has changed in the information since March. Several hours later, after revising the figures, an envelope arrived that had a check in it for the General Fund, making the summary less current, but the summary was not re-written. Things can change quickly and unpredictably sometimes. She asks council to look at the second page which compares revenues for the two years and to especially look at the areas that have lines in them for 2013. The lines represent revenues that are no longer available due to State cutbacks and changes in laws. Brown explains revenue items not included in the 2013 estimate: the grant for the boat which requires an annual application, the end of the public restroom grant, and the end of the tangible personal property tax and inheritance tax, which was not a dependable source of revenue in any case. Brown mentions that the figure for the local government funds is one of the larger items cut by the state, it is at about half of what the village received in the recent past. At first the State said they would cut the Local Government Funds by 10% a year, then briefly it was revised downward, then when the budget bill was passed the State cut the funds by 25%. The next year they decided also to cut the funds by another 25%. The figures for the local government funds are from the Erie County Auditor and he does not yet have a projection from the State for all of 2013. In the past two years local governments have seen drastic changes with each state budget bill. In 2012, if departments hold to their budget appropriations and if the revenue streams do not decrease, the year is projected to end with about \$30,000 more than the 2011 year-end balance. Brown asked the council to create new revenue streams and both council and the solicitor are working on that, but we're running out of time. Brown is hopeful that once the casinos get going, some of the money will come back to local governments since there is already some talk of that on the State level. However, that is not happening yet and cannot be depended upon at this time. There is no available money for expansion in any department of the General Fund in 2012 or 2013 without changes to this plan. If there are increases in expenses in departments, there will have to be cost cutting unless more revenue is generated to support the increase. Brown says that she has given the worst case scenario, as of this point in time, and that she thinks that will be the reality for next year. She adds that in the past years, some funds have been living off what the General Fund has provided for them and that now the State is saying it is time for funds to pay more for themselves, time to even it out and have funds pay for the services they receive. That is part of what is going on now to try to stabilize the General Fund.

Brown indicates that after talking to the Water Department, and with a review of the water department financials, she believes that the Water Dept. will be Ok this year. However, even if there are no surprises, Brown still thinks that there should be a modest annual increase in Water Dept. rates just to keep abreast of operational costs.

Mayor Paine asks if there is any more discussion because council has to decide on passing the legislation for a levy, and before them is legislation for a 1 mill and a 1.25 mill levy. He adds that he thinks if people would pass a 1 mill levy, they would pass a 1.25 mill levy as it would not be a big difference in taxes for them between the two levy amounts. Mayor Paine continues that if we want to keep our services we have to have more money and he thinks that the 1.25 mill levy is the place to start. If the levy does not pass, we can try again in November. In either case the levy money will not be received until 2013.

Finger comments that he will go with the Mayor's assessment and support the 1.25 mill levy. Several other council members indicate they will support the Mayor. **Motion to vote on the 1.25 mill levy**, made by Finger, second by Seeholzer; In favor are 5 yeas- Seeholzer, Feyedelem, Finger, Kaminski, and Marchky; Ritchie is nay; motion passed.

11.1 ORDINANCE NO. 2012-O- 11 : AN ORDINANCE DECLARING THE NECESSITY FOR A TAX LEVY IN THE AMOUNT OF ONE AND 25/100 (1.25) MILLS FOR CURRENT OPERATING EXPENSE PURPOSES PURSUANT TO R.C. SECTION 5705.19 (A); CERTIFYING THE SAME TO THE BOARD OF ELECTIONS OF ERIE COUNTY, OHIO; AND DECLARING AN EMERGENCY. (INTRODUCED BY: MAYOR KYLE PAINE)

Motion to suspend the three reading rule, made by Finger, second by Kaminski;

RC: Ritchie- no, Seeholzer- yes, Feyedelem- yes, Finger- yes, Kaminski- yes, Marchky- yes; motion carried.

Motion to pass as an emergency, made by Finger, second by Kaminski;

RC: Ritchie- no, Seeholzer- yes, Feyedelem- yes, Finger- yes, Kaminski- yes, Marchky- yes; motion carried.

11.2 ORDINANCE NO. 2012-O- 12 : AN ORDINANCE AMENDING THE ANNUAL APPROPRIATIONS FOR THE VILLAGE OF KELLEYS ISLAND, STATE OF OHIO, DURING THE FISCAL YEAR ENDING DECEMBER 31, 2012, AND DECLARING AN EMERGENCY.

Brown says that she has spoken individually with many of the council members about this legislation when she has seen them. It is a repeat of something they already passed, but the Erie County Auditor changed part of the Estimated Resources and when she discussed it with them Brown thought that the easiest way to resolve the issue was just to re-pass the legislation.

Motion to suspend the three reading rule, made by Seeholzer, second by Kaminski; RC: Ritchie- yes, Seeholzer- yes, Feyedelem- yes, Finger- yes, Kaminski- yes, Marchky- yes; motion carried.

Motion to pass as an emergency, made by Seeholzer, second by Kaminski; RC: Ritchie- yes, Seeholzer- yes, Feyedelem- yes, Finger- yes, Kaminski- yes, Marchky- yes; motion carried.

G. Ritchie says that in February he asked for a meeting to review the General Fund and Water Dept. financials and it kind of morphed into a meeting for a levy, which it should, but he would still like to review the financials now. Mayor Paine says that if he wants to review them now to go ahead, but that he does not want to take a lot of time right now. The Mayor and Clerk-Treasurer spoke before the meeting about having a town hall meeting further along in the summer in a more casual format where the public can participate more.

Ritchie starts his review of the financials for the General Fund and Water Fund by handing out paperwork to the audience and members of council. Ritchie says that he will start with the easiest one first, the Water Dept. He will go page by page, making comments. His review starts in 2011, and he will comment on the revenue and expenses in 2011, when he was the Village Administrator. Ritchie compares the budget to the actuals. The revenue came in at about \$3,000 of the budget. The new rates started one quarter later than he had proposed. Expenses came in about on line. Stevenson's expenses are being expensed partially out of the Water Fund. Office expenses were higher because in 2011 almost \$12,000 was expensed from the General Fund to the Water Fund. He points out a foot note item that references a loan payment. Among other loan payments is one for about \$39,000, half of the annual payment, which was unable to be paid on time in 2009. In 2010, two payments were made for the loan, and in 2011 three payments were made to catch up with the payments. The surplus for the year was less than the projected surplus and everything pretty much worked except for the additional loan payment. On the back of the handout there is a lot of detail about how the money is being spent in major categories. Ritchie says that the water rate increase is doing what it was intended to do. He is concerned about not receiving \$14,000 in cell rent revenue. Marchky asks how much money is coming out of the Water Fund for Stevenson's salary. Brown responds that today the Water Fund pays 25% of the Village Administrator's salary because Stevenson told her he works 75% of the time on streets; in 2011 50% came from the Water Fund; when Mr. Ritchie was Village Administrator 100% of his salary was paid by the Water Fund. Marchky says that Krzynowek is supposed to work one day a week during the slack period, during the winter, fall, and spring, in road maintenance and that would decrease the salary expenses in the Water Dept. Fund. That hasn't happened. Council has pressed this and it only happened three times this year. Last year it was probably less than three times. Ritchie continues that the water tower was rented to a cell phone company and the \$13,800 in revenue was going to the Water Dept. In December, 2011 the lease was sold to a third party leasing company. In answer to a question from the audience, Ritchie reiterates that the Water Dept had been receiving \$1,350 a month. He continues to explain that last December the village sold the cell tower rights to a leasing company that is incentified to increase the cell tower leases. The village will get half of any new cell tower leases. The price that was paid for that income stream was \$105,000. That income went to the General Fund. Seeholzer says that the former mayor (Quinn) explained that Council allowed the money to go to the Water Dept. at that time because it was in bad shape financially and now the Water Fund is more viable financially. Council did not relinquish its authority over the cell tower lease. Ritchie says that the projection for the \$30,000 annual extra in the Water Fund was based on using that income stream and everybody on council knew that in 2010 when the Water Dept. financials were being discussed and the rates were voted on. Kaminski adds that Quinn said that the village would lose the money anyway, and the best thing to do was to sell it.

P. Hart in the audience asks why the one payment wasn't made on the Water Dept. loan. Clerk Brown responds that they didn't have enough money before the year end. Hart asks if there is a change in rate for a late payment, and Brown responds that there is no change in rate. Hart continues that she keeps hearing about free water taps and she wants to see a list of who got water taps, what year, and how much they paid. Ritchie says that when people told him that he asked for a name and no one would give him a name so that he could research it. Clerk-Treasurer Brown suggests that the Water Dept. could go back 5 or 7 years and look up customers and compare those names with the names of people who paid for water taps. Brown says that the Water Dept. has those records. Marchky also wants to see that list.

L. Korenko comments that with respect to the cell leases for the Water Tower, going back 12 or 14 years ago, the Water Dept. arranged for the contract. When it came up for renewal the Mayor did the negotiation and the policy changed.

L. Hostal in the audience says that she wants to know what the price for a larger water tap will be after the moratorium. Ritchie responds that the Village Administrator is doing a new commercial water rate. Mr. Ritchie says that he would be glad to take questions about the Water Fund or the General Fund after the meeting.

Seeholzer asks if the free water is still going on, where people come with jugs and fill them up themselves. There is no audible response. (everyone is talking at once)

Mayor Paine says that the village will have a meeting more like a town hall meeting in the summer before the vote is taken on the levy issue. The format could be more open and more people participate.

Ritchie says that he will go over the General Fund in a summary fashion, focusing on the numbers that he has highlighted in squares. He looked over a 5 year period from 2007 to 2011, the General Fund took in \$2,618,573 and spent \$3,234,652. Over 5 years the village spend \$616,079 more than it took in and Ritchie says that in his opinion that is why there is an issue in the General Fund now. Ritchie shows the General Fund as \$143,929, which is lower than it shows on the books because \$35,000 was expensed out of the General Fund to other funds. Page 2 contains revenue and expenses for the three years of 2009, 2010, and 2011. In 2009 the General Fund was down by \$171,381, in 2010 by \$17,113 and in 2011 by \$291,264. With the transfer of expenses out it was \$256,012. The General Fund balance on year end for 2009 was \$452,303, for 2010 was \$435,190, and for 2011 was \$143,926 without the expense allocations, which changed it to \$179,178. Page 3 shows the revenue for 2009, 2010, 2011. The Resort Area Tax in 2009 was \$148,556, in 2010 was \$140,486, and in 2011 was \$85,506. In 2010 there was an inheritance tax of \$27,010 and \$16,500 for the public restroom project. We are still waiting for an additional \$33,000 more for the restroom project. The point about the inheritance tax is that Claudia has told him that the village has already received over \$30,000 in inheritance tax for

2012. Ohio has abolished the inheritance tax as of Jan 1st 2012; some revenue may come in 2013, but it is essentially going away. On page 4 the highlighted item is \$183,047 for the public restroom project and the police officers house. On page 5, Mr. Ritchie says he will focus on 2012 and 2013. If everything goes according to plan the General Fund should see a net change of \$30,000 in 2012. In 2013, if there is a 1 mill levy passed, there should be a net change of \$10,000. Without the levy income, there will be a negative \$70,000. On page 6, with the revenue line items, you see what Claudia was talking about earlier, the Local Government tax being down to the \$33,000 to \$34,000 range and the public restroom money of \$33,000. The Resort Area Excise Tax is shown at \$100,000 because we are not sure that we will get back up to the \$140,000 level that we received in 2010. On page 7 is an expense summary. One of the things that has been done to help the General Fund is that the village workers expenses in the past were partially expensed out of street money and now for 2011 all of his expenses will come out of street money. Mr. Ritchie does not like this form of accounting. He says that while we are trying to shore up the General Fund, we are weakening other funds. It will have a negative impact on other funds over a period of time. Mr. Ritchie says that this accounting change did not happen before 2011, and he wants to stop that accounting, and deal with the expenses that he thinks should remain in the General Fund, cut expenses, and make a plan for stability in the General Fund.

Mayor Paine comments that at the State Auditor's class they tell you to allocate expenses. Ritchie says that from his conversations with Claudia, he understands that it is a recommendation but that it is not mandatory.

Clerk-Treasurer Brown says that she would like to respond to a few things. Cost allocation did not begin in 2011. It began about six years ago. The State Auditor controls where, what funds you can spend money from. Before that time, traditionally, the General Fund paid the audit expenses. When the State increased its fees for audits, the village is audited every two years by the Auditor of State, when the fees increased, the State Auditor sent a bulletin saying that local governments could now spread the cost of the audit over all the funds that were included in the audit. Which was done here at the village. About a year later Brown said to Dave Lambros, the village solicitor, that the clerk's office spends a significant amount of time in the beginning of the year doing the billing and collection of the Transfer Station availability fees- 100% out of the General Fund. He said it was OK to charge those costs to the Transfer Station. So the Transfer Station started paying towards those costs. The Water Fund was in terrible shape. We all know that. The Water Fund was not charged for all the services that general administration was doing for them. Some examples are payroll and checks. For Brown to do the cost allocations, she has to categorize the services her department provides, and then assign a percentage of that service to the other departments/funds. Brown has counted up checks, purchase orders, meetings and other items, also to try to make a fair assessment. This has to be done at the minimum annually, because each year can be different. The year that the State government started the cutting of the Local Government Funds more than we had been told ahead of time, was the year the State started giving classes in cost allocation and then issued a bulletin about how to do cost allocation. The State defines different fund types. Money coming in from a levy is segregated and can only be used for the purposes expressed in the levy language. We have two funds that are classed by the State as enterprise funds. They are essentially the closest fund type to what we would call business. They are supposed to be run as a business in the sense that they are supposed to derive all their revenue to pay all their operational expenses from the charges for their services. We have two of those funds- the Water Fund and the Transfer Station Fund. The Water Fund has never paid for all of its services from its charges. Brown says that she did start the cost allocation to the Water Fund when it was felt that the fund could start bearing some of the expense. As to the cell tower lease. When the contract was re-negotiated, our solicitor said that the water tower is on village property and the council could choose how it wanted to direct that revenue. For some time council directed the revenue stream to the Water Dept., and now council has re-directed it. Brown summarizes that she does whatever she can do legally to keep the village as healthy as she can. The Clerk-Treasurer attends mandatory classes annually, given by the State of Ohio Auditor. Topics include changes to laws that happened through House and Senate bills, areas of focus for audits, and they train us in how they want us to be doing things. For two years in the training given by the State Auditor and the training given through an affiliate to the Treasurer's office, the treasurers have been told how to do cost allocations. It is true that it will decrease the balances in other funds, but only by the portion of service provided to the fund. It appears that the State takes away money and then gives local governments a new policy to deal with the decrease. Brown adds that she hopes the State starts giving back some money in a couple of years.

Judy DuShane, in the audience, asks how many funds the village has, she already knows about the cemetery fund and street fund. Brown responds that the village has a lot of funds, but now is probably not the time to explain all of them. Brown continues that the office is always open to the public and they can come in anytime to ask questions. She adds that some, but actually very few of those in the audience, has ever come in for information. Brown encourages them to do that as all the information is right there. They can come between 12:30 and 4:30 when there are less interruptions, or at any time. Brown has always said that if her car is there, the public is welcome. If there is something outside her area that she cannot answer, she will try to get the best answer she can. DuShane adds that to explain the need for the levy she thinks people will have to know what is included and what is not. DuShane suggests a pie chart showing the % of money that goes to Erie County, the school, the village, etc. Brown adds that as time goes on, if people ask questions, the village can prepare information for that meeting to address the questions.

P. Hart LeClair asks Ritchie why he voted "no" on the levy. Ritchie responds that he voted "no" because he does not think that the village is doing enough to contain costs.

Mayor Paine comments that one thing that has happened is that the current water rate structure has hurt year-round residents the most. He adds that what the village needs is year round residents and he doesn't think that is fair. Ritchie says that when he was Village Administrator it had been suggested that there be a differential rate structure for permanent and part-time residents and that would be opening up a big can of worms, and two rates might not even be legal. Mayor Paine says that he thinks the third quarter rate structure was more fair than the current one. Brown says that she believes there was more than one method that could have been used that did not involve different rates based on part-time and full time.

Finger mentions that the Transfer Station has two rates based on full time and part time and it is a pain to administer. Brown adds that the two tiered Transfer Station rate structure was imposed on the village by court action. There is a criteria to meet for part-time and it is working.

An audience member paraphrases and ask the Clerk-Treasurer if it has been her philosophy to, as much as it is legal, to use cost allocation to keep funds as healthy as possible. Brown responds that is part of the consideration. The audience member continues that she thinks that the business type funds, the Transfer Station Funds, should show all their expenses, to show that they are pulling their own weight. Keeping some of the costs out of them would give a false impression. She thinks that the emergency would have been clearer sooner if that was not done. Brown responds that she thinks there are two things to address in that question. One is that the Clerk-Treasurer doesn't pass the laws, the council does. The other is that the Village of Kelleys Island has gone through a change in government. When the village had an elected Board of Trustees of Public Affairs, the council could not do very much in oversight. It tried a few times, and Mayor Quinn tried, but was told that the elected Board of Trustees had all the authority for the most part. The change was to remove the elected Board over the utilities and to convert to the form of government that replaces the Board with the Village Administrator. That has really just occurred and that is why you are seeing

activity in the areas pertaining to water. Before the change in government, council could not act. The Board of Trustees of Public Affairs chose not to raise rates for water. Then they would raise them a lot because they were in trouble financially. Then they wouldn't raise the rates for five more years. Then they would get in trouble and raise the rates a lot again. She says that this has happened twice in her years in office. Now we have just raised the rates last year. We are already in another year of no raise in rates, the same pattern as before. Brown cannot change that, only council can. The audience member says that she understands cost accounting and she feels that it makes it clearer when a department is not making it financially and asks why there is no modest rate increase in place today. Brown responds because it is a political decision - elected officials have to make that decision and their constituents probably don't want higher rates. Today we can see that at the local level, the State level, and the federal level. Brown adds that she thinks it is also human nature to put off difficult decisions that you know will hurt some people.

Mayor Paine says that he just went to a seminar given by the Ohio EPA about rate structures and what they said was that rates should go up a little each year. Mayor Paine adds that he thinks that is what Kelleys will have to do. He adds that there are a lot of things that still have to be straightened out. He believes that if the levy can be passed to help the General Fund, that will give the village more flexibility to meet its problems. Obviously the Water Dept. is going to have to support itself. A little while ago we had to bail them out, then they had to raise rates. Seeholzer adds that the General Fund had to bail out the Water Dept. twice. Paine says it is better to go up 3% to 4% a year than have huge raises in rates, but mean while, we have to keep everything headed in the right direction. He would like to close this part of the meeting to get to the rest of the agenda, especially since there will be another meeting later in the year. The audience member tries to summarize and says then, is it the direction from council to Claudia that smaller incremental annual rates are better than a huge rate increase- Brown interjects that she cannot raise or lower the rates for anything, that is a council activity. The audience member clarifies her question, and asks if it is council's direction to Claudia to not do cost accounting year to year to artificially inflate budgets. Mayor Paine responds that no one is artificially inflating budgets. Marchky says that he would like to raise the Transfer Station rates per pound, but he knows that everybody else sitting here does not want to do that. Most people don't want rate changes until the last minute.

At 11:10 the mayor says that we have had a good discourse and he would like to move on. Kaminski asks if Ritchie has completed his presentation and summation. Ritchie says yes, he will wait to add more until the town hall meeting and then he will discuss it further.

15. Old Business

15.1 water intake: Mayor Paine says that the old water intake line is rotted and in bad shape and the condition of the pipe is increasing the amount of sludge that is coming in with the water. The Mayor has been talking to granting agencies and it would be a couple of years before grant money would be available for the project. Some engineering was done in the past for a replacement of the water intake, but Mayor Paine thinks that it will have to be reviewed and possibly updated or modified. Mayor Paine comments that he thought the cost was low for the job. Twenty years ago Paine was the contractor that put in a new section of the line and replacement of the intake was discussed at that time, especially the section that is nearest to the shore. That never happened. The intake could collapse in the winter or when the draw for water is high. Mayor Paine wants to have an assessed project to replace the water intake pipe. Seeholzer asks the price of the intake replacement. Paine replies that the engineer's estimate is \$180,000 and that includes a 30% contingency. Village Administrator Stevenson adds that it would be about \$300 / user. Paine adds that if the assessment was over ten years, it would cost each user about \$30 to \$40 a year. Finger says that the condition of the water intake has been an issue all the years that he has been on council. Since Council has recently taken over the running of the Water Dept., he thinks that the problem should not continue to be ignored. Finger adds that the dirtier water being drawn in to the system might be increasing the cost of purifying the water. Mayor Paine adds that the village needs a licensed, bonded, and insured company to do the job. Village Administrator Stevenson adds that the \$180,000 estimate came from CT Consultants and he thinks it is higher than the actual cost will ultimately be. Stevenson thinks that the project will come in for about \$125,000.

Bruce Korenko is in the audience and he asks if the estimate includes trenching out the rock. Paine replies that it does and it also includes the use of river crossing ductile pipe from the clear well and that will make the intake last our life times. Mayor Paine adds that he wants to do the project before winter. **Motion to pursue as assessed project to replace the waterline intake**, made by Finger, second by Marchky; all in favor; none opposed; motion carried.

15.2 Huntington Road waterline replacement: Mayor Paine says that council has a letter from people on Huntington Road that they would like the village to seek grants for the Huntington Road waterline replacement. Mayor Paine also spoke with CT Consultants about moving the waterline from the east side of Huntington Road to the west side. Finger asks if CT had a clear reason to choose the east side of the street. Village Administrator Stevenson responds that CT said the east side of the street is less expensive because they don't have to mess up a lot of stuff and Tony also has the valve in already for going up the east side of the street. Mayor Paine says that he will have CT Consultants review the project. Paine adds that there are already new water lines on the west side of the street and they could run a temporary water line so that people don't lose use of water during the project. **Motion to apply for grants for the Huntington Road waterline replacement project**, made by Finger, second by Seeholzer; all in favor; motion carried. Clerk-Treasurer Brown says that she will begin looking for money, but that she really needs a good cost estimate before an application for a grant can be made.

17. Motion to adjourn, made by Finger, second by Kaminski; all in favor; motion carried.

(adjourned at 11:30 am)