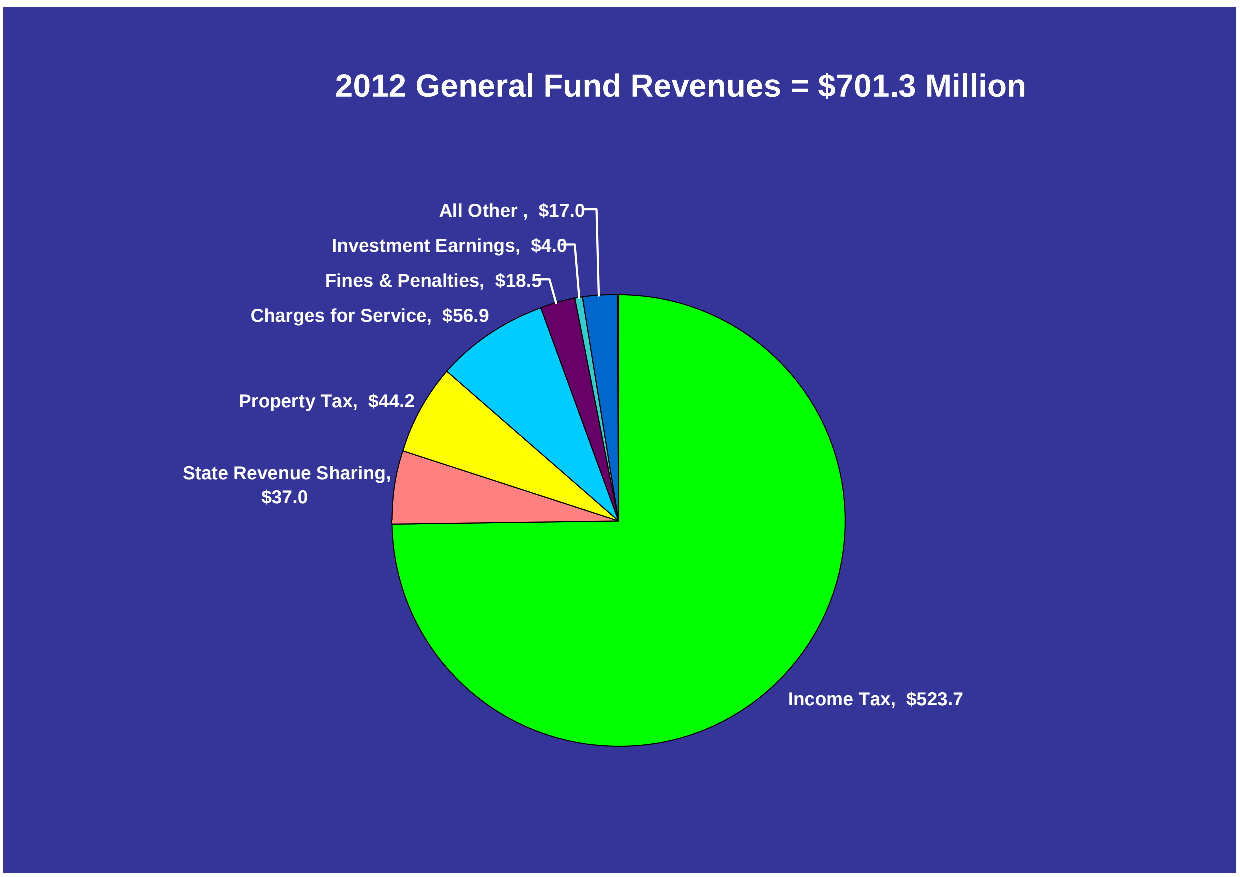
Financial Overview

Revenue

The financial health of the city's general fund hinges on the income tax, which comprises over 74 percent of the revenue supporting the general fund operating budget. Columbus voters approved a 0.5 percent increase to the income tax rate, raising it to 2.5 percent on August 4, 2009. While the new rate went into affect on October 1, 2009, 2010 was the first full year of collections at the 2.5 percent rate. Three quarters of income tax collections are deposited into the general fund for general government operations, with the balance being set aside for capital and debt service requirements.

The following chart illustrates the projected amount of revenue expected from each major general fund source in 2012. After the income tax, the next three largest revenue sources to the general fund are various charges for services at eight percent, property taxes at six percent and shared revenues (various state taxes that are shared with local governments) at five percent.



Income tax collections are projected at $508.4 million in 2011 and $523.7 million in 2012. The City Auditor's 2012 estimate assumes a three percent growth in income tax receipts in 2012, or an additional $15.25 million. Unfortunately, flat and/or declining revenues are projected for the general fund's other major revenue sources.

Over the past decade, budget reductions at the state level have led to incremental reductions of shared revenues to local governments. In 2001, the City of Columbus received $51 million in local government fund moneys, while the 2011 projection for these funds is $40.4 million, and in 2012 additional state cuts are estimated to reduce this revenue source to just $28.4 million.

Estate taxes, the only portion of state shared revenue that is not distributed by a formula, have been as high as $12 million in past years. However, these receipts have declined in recent years as well. Estate tax collections were $8.2 million in 2009, $7.7 million in 2010, a projected $7.9 million in 2011 and $7.5 million in 2012.

Property tax receipts fluctuate from year to year, due to reappraisals that occur every three years. In the off years, property tax revenue growth is typically less than one percent. Growth is normally expected in the reappraisal years. The city experienced a 10.3 percent increase in assessed valuation during the sexennial reappraisal in 2006, but in 2009, the triennial update year, the county applied a zero growth rate to all residential property values. Property tax collections actually declined by .26 percent in 2010 and are projected to decline again in 2011, though by a much greater margin, following the most recent property reappraisal. These declines are precipitated by ongoing challenges in the housing market, including foreclosures and reassessment requests stemming from declining sales prices. The City Auditor projects that 2011 property tax collections will be 7.2 percent less than those of 2010. Little improvement from that position is projected in 2012, with a negative growth rate of 7.0 percent.

Investment earnings are a highly volatile source of revenue and tend to reflect economic conditions. In 2001, the city posted $29 million in investment earnings but by 2004, these earnings had dropped to just $5.5 million. As the recession subsided, these revenues rebounded with earnings totaling $10.2 million in 2005, $20.4 million in 2006, $30.9 million in 2007, and $24.9 million in 2008. In 2009 and 2010 however, investment earnings again plummeted, totaling only $6.4 and $3.6 million, respectively. In 2011, projected earnings are at $3.9 million, and the 2012 projection is just $4.0 million.

Structural Balance

The year 2010 marked the first since 2000 in which general fund expenditures did not exceed revenues. Gaps that existed between revenues and expenditures in the years 2001-2009 were made up through several means, including the transfer of over $91 million of economic stabilization funds ("rainy day" funds), the use of surpluses in the employee benefits fund, and a spend-down of year-end balances in the general operating fund which had been up to nearly $38 million in 1998 and 1999.

From 1991 through 2000, income tax growth was robust, averaging 6.2 percent per year. In 2001, growth started to decline, with the average rate of income tax growth between 2001 and 2009 being only 2.2 percent. In three of those years, income tax collections actually declined. As the gap between revenues and expenditures necessary to maintain city service levels widened over the decade, expenditure reductions were necessary. Personnel costs in the city are largely determined by collective bargaining and memorialized in multi-year contracts. Since personnel costs comprised over 83 percent of general fund expenses at that time, the city was limited in its options to control expenditure growth. Strict hiring controls were enacted, spending on goods and services was closely scrutinized, and non-essential positions were slated for layoff. Through hiring controls and layoffs, the general fund civilian workforce was reduced by over 655 positions between 2000 and 2009, a 34 percent reduction. Additionally, employees were required to bear a greater share of their health insurance costs and wage increases were reduced. Where appropriate, operations were removed from the general fund and made self-sufficient or shifted to other sources of funding.

In late 2008 and early 2009, the city began feeling the effects of the national recession. In order to bring 2009 expenditures in line with revenues, deep cuts in services were necessary. Those included additional layoffs, mandatory unpaid leave days, the closing of recreation centers and pools, reducing and/or eliminating health care services, eliminating yard waste pick-up, reducing bulk trash pick-up, and eliminating police and fire fighter classes needed to replace retiring officers. Under this dire scenario, city leaders came to the conclusion in 2009 that the city had reached the breaking point and faced unprecedented sacrifice from city residents if corrective action was not taken. The city responded with a three-point plan to maintain core city services and preserve the city's quality of life. This plan included an aggressive job creation effort, a 10-year government reform plan, and a plan to raise new revenue. The passage of the 0.5 percent income tax increase on August 4, 2009 was the first step.

The passage of the income tax enabled the city to maintain service levels in 2010 in most areas, with some very modest restorations of certain services that were curtailed in 2009, such as a phased-in reopening of recreation centers closed in 2009 and the reinstatement of yard waste and bulk waste collection services. Police and fire classes were also held in 2010 to maintain police and fire staffing levels.

Revenues have been sufficient in 2011 to continue this level of service restoration. And, once again, in 2011, structural balance has been achieved in the general fund, with current year revenues exceeding expenditures by $6.4 million. More accurately, because $12 million in 2011 expenditures reflect transfers to reserve funds, the true surplus between revenues and expenditures is $18.4 million.

Projected 2012 revenues will again allow for the continuation of basic city services. Police and fire classes will be held, graduating a sufficient number of recruits such that uniformed force levels will not only be maintained, but will grow by year end. Other important city services will continue at 2011 levels, and a city-wide curbside recycling program will be implemented on a phased-in basis. Portions of the city's fleet will be updated, with funds set aside for vehicle replacement in 2012 in the special income tax fund. The city continues to replenish the economic stabilization fund, with a deposit of $10 million in 2011 and another $6.725 million in 2012 to keep its commitment to rebuilding the fund to a $50 million balance by the end of 2014. Finally, to ready the city for 2013 when further cuts to the Local Government Fund and the elimination of the estate tax are expected, the 2012 budget deposits $10 million into a second reserve fund to ensure that basic city services can continue in 2013.

Bond Ratings

The city continues to retain the highest bond ratings available for long-term debt by all three major rating agencies, Moody's Investors Service, Standard and Poor's Corporation and Fitch Ratings. Bond ratings of Aaa and AAA, respectively, were awarded to the city in 1995 by Moody's and Standard and Poor's, and have been maintained ever since. Fitch Ratings rated the city for the first time in 2006, also awarding Columbus an AAA rating. Of the twenty-five most populous cities, Columbus and Charlotte, North Carolina are the only two having the highest possible credit rankings from all three major rating agencies. These ratings afford Columbus the opportunity to realize savings in the cost of long-term financing, affirm investor's confidence in investment in Columbus, and help attract new businesses to the area.

Reserve Funds

The City of Columbus currently has two general reserve funds: the economic stabilization fund (i.e., the rainy day fund) and the anticipated expenditure fund (formerly known as the 27th pay period fund). In 2012, a third reserve fund, the "2013 Basic Neighborhood Services Fund" will be created.

The rainy day fund was created in 1988 with a deposit of $4 million as a reserve for unforeseen events that could disrupt basic city services. With the ultimate goal of reaching a fund balance of five percent of general fund expenditures, annual deposits of $1 million were made until 1998. In this year, the city received a $7 million refund from the Ohio Bureau of Workers Compensation and deposited into this fund.

The first withdrawal from the fund was in 2003, when $10.2 million was required to balance the general fund budget. An additional $25 million was used in 2004. On May 4, 2004, the city deposited $55.1 million into the fund that it received from the Solid Waste Authority of Central Ohio (SWACO) in partial satisfaction of lease payments due to the city. Transfers to the general fund were again made in 2005 ($13 million) and 2006 ($12 million) to ensure that basic city services could be continued. In 2006, the city received nearly $10 million for pollution credits from SWACO, which, along with investment earnings, resulted in a fund balance of $44.5 million by the end of 2007, or over 7 percent of general fund expenditures. In 2008, $900,000 was transferred to the general fund in order to end the year in balance. In 2009, $30.4 million was transferred to the general fund to avoid what would have been drastic reductions to basic city services. In 2010, however, the city made good on its promise to pay back this fund with a transfer of $7.5 million from the general fund. As such, by the end of 2010, the economic stabilization fund had a healthy balance of $22.8 million. A fourth quarter deposit of $10 million in 2011, and another totaling $6.7 million in 2012 will put the city in good stead towards the goal of rebuilding the fund such that it will have a $50 million balance by the end of 2014.

The planned replenishment schedule is illustrated in the chart on the following page.

Economic Stabilization Fund Recommended Future Deposits (000's Omitted)					
Year	Deposit	Investment Earnings*	Expended	Year-End Balance	% of GF Budget
2001		1,621		26,870	5.06%
2002		1,136		28,006	5.39%
2003		608	10,243	18,371	3.49%
2004	59,406	791	25,000	53,568	10.15%
2005		1,169	13,000	41,737	7.49%
2006	9,964	2,111	12,000	41,812	7.02%
2007	348	2,000	-	44,480	7.04%
2008		-	900	43,580	6.68%
2009	720	739	30,039	15,000	2.43%
2010	7,500	224		22,724	3.47%
2011	10,000	300		33,024	4.74%
2012	6,725	495		40,244	5.65%
2013	3,775	604		44,623	6.06%
2014	5,000	669		50,292	6.06%
2015	5,000	754		56,047	7.16%
In 2008, investment earnings were deposited to the Anticipated Expenditures Fund. Assumes 1.5 percent investment rate in 2012-2015.					

The anticipated expenditure fund was established in 1994 to prepare for those fiscal years in which there are 27 pay periods rather than the standard 26. After payment of $17.8 million for the 27th pay period in 2008, this fund had a balance of $1.23 million. Annual deposits will be made into the fund to ensure that there are sufficient moneys for the next occurrence, which will be in the year 2020.

Anticipated Expenditure Fund Recommended Future Deposits (000's Omitted)			
Year	Deposit	Expended	Year-End Balance
2009	1,751		2,976
2010	1,786		4,762
2011	2,000		6,762
2012	2,060		8,822
2013	2,122		10,944
2014	2,185		13,129
2015	2,251		15,380
2016	2,319		17,699
2017	2,388		20,087
2018	2,460		22,547
2019	2,534		25,080
2020	2,610		27,690
Finance and Management projects the next occurrence of a year with 27 pay dates to be 2020. Escalating deposits are planned to meet a projected liability of $28 million in that year.			

An additional reserve fund will be created in 2012, to be named the 2013 Basic Neighborhood Services Fund. In response to cuts in the Local Government Fund and the elimination of the estate tax, this fund will ensure the continuation of basic city services in 2013. The city will deposit $10 million into this fund in 2012 for use in 2013, when the full impact of the state reductions will be felt in the city's General Operating Fund.

2012 Budget Scenario

The 2012 budget was balanced by employing certain key principles, as follows:

- Build a budget from the ground up which is keyed to the city's strategic plan and implementing the Columbus Covenant.
- Focus on maintaining basic city services for neighborhoods—police and fire protection, refuse collection, and basic public health services.
- Review all program areas to identify activities the city should no longer be engaged in, given limited resources.
- Review revenue sources to identify new revenues and opportunities for increased revenues.
- Continue implementation of the 10-year reform plan by reducing pension pick-up and increasing the employee share of health insurance premiums for all city employees.
- Institute new reforms and efficiency measures as recommended by the city and affirmed by the accountability committee.
- Establish a "2013 Basic Neighborhood Services Fund" to provide for additional carryover funding into 2013 to help mitigate funding reductions that will occur with the loss of state shared revenues in that year.
- Promote efficiencies in government through examination of opportunities to redeploy uniformed police and firefighters, expansion of energy efficiency measures, improvement in the efficiency of fleet and facilities management, expansion of online auctions for city asset sales, and partnering with various organizations and governmental entities.
- Continue diligent review of general fund hires and non-personnel spending to keep expenditures at the lowest level necessary to provide essential services to the citizens of Columbus.
- Continue the replenishment of the rainy day fund in order to achieve a balance of $50 million in the fund by the end of 2014 and to reach a level representing seven percent of general fund expenditures by the year 2019.

General Fund Pro Forma

A general fund pro forma operating statement is provided herein, which projects the city's future general fund financial outlook. The pro forma bases year 2012 revenues on the City Auditor's official Estimate of Available General Fund Resources, except as noted. The following assumptions were used in developing the pro forma.

Pro Forma Operating Statement Assumptions

Like all financial forecasting tools, pro forma projections are based on a series of assumptions that invariably do not prove totally accurate over time. Moreover, projections become less certain the further one extends the forecasting horizon. This pro forma statement assumes that year-end deficits, which are not permissible per state law, will be corrected through expenditure adjustments in order to force a positive year-end fund balance. The document presented herein represents the Finance and Management Department's best estimate of the city's financial status into the future, given the following assumptions.

Expenditure Assumptions

- The standard inflation rate for non-personnel items is two percent in 2013 and thereafter.
- Personnel costs (excluding insurance costs) for employees that are covered by current collective bargaining agreements are projected at the wage rates in effect per those contracts. For those units that have contracts that are currently under negotiation, and for the years that follow the expiration date of contracts currently in place, a blended rate that represents the city's efforts to control pay increases and to reduce pension pick-ups over the next ten years is used.
- Insurance costs are projected to grow by 9 percent annually in 2013 and beyond; however, projections include offsets due to incremental increases in employee shares.
- Expenditure projections for 2013 and beyond are premised on maintaining 2012 levels of service.
- In 2012, no general fund expenditures for vehicle purchases are assumed, as special income tax funds will be used for this purpose. In 2013, $5 million is projected for general fund vehicle replacement, and in 2014 and beyond that amount plus inflation is projected in order to follow a recommended replacement schedule for the city's rolling fleet. The majority of expenditures will be for replacement of safety vehicles, primarily police cruisers.

Revenue Assumptions

- Income tax receipts will be $523.7 million in 2012 and will grow by 3 percent in all years thereafter.
- Property taxes will decline by 6.95 percent in 2012, remain flat in 2013 and increase by 2 percent thereafter.
- Local government fund revenue is projected to decrease by 25.24 percent in 2012, decrease another 39.74 percent in 2013 and then increase by 2 percent thereafter.
- Estate taxes are projected at $7.5 million in 2012 and will decrease to $0 in all years thereafter.
- Investment earnings will be $4 million in 2012 and are projected to remain at that level in 2013 and therafter.
- Hotel/motel tax revenue is projected to grow by 2.78 percent in 2012, and then remain flat in all years thereafter.

- Charges for services are expected to grow by 2.26 percent in 2012 and then by 3 percent thereafter.
- The kilowatt hour tax will be $1.65 million in 2012 and will remain flat in all years thereafter.
- Fines and penalties will decrease by 0.65 percent in 2012, remain flat in 2013 and increase by 2 percent thereafter.
- Licenses and permit fees are projected to grow by 2.06 percent in 2012, remain flat in 2013 and increase by 2 percent thereafter.
- Casino revenue will equal $12.8 million in its first year, 2013, and will remain flat thereafter.
- A transfer of $10 million from the 2013 Basic Neighborhood Services Fund will occur in 2013 only.

Division Specific Assumptions

- Two police recruit classes are funded in the general fund in 2012. Thereafter, recruit classes sufficient to replace retiring uniformed staff are projected. The 2010 class that is mostly funded with federal stimulus funds is projected to be picked up by the general fund in 2013.
- One fire recruit classes is funded in 2012. Thereafter, recruit classes sufficient to replace retiring uniformed staff are projected.
- Projections for the Refuse Collection Division presume that a portion of the bulk collection program will remain funded through the street construction, maintenance and repair fund.
- Projections for 2013 and beyond include continuing the curbside recycling program started in 2012.

GENERAL FUND PRO FORMA OPERATING STATEMENT

Resources:	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Beginning Balance	$ 23,646,166	$ 31,773,497	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Income Tax	508,400,000	523,650,000	539,360,000	555,541,000	572,207,000	589,373,000	607,054,000	625,266,000	644,024,000	663,345,000	683,245,000
Property Tax	47,531,000	44,227,000	44,227,000	45,112,000	46,014,000	46,934,000	47,873,000	48,830,000	49,807,000	50,803,000	51,819,000
Kilowatt Hour Tax	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
Hotel/Motel Tax	3,600,000	3,700,000	3,700,000	3,700,000	3,700,000	3,700,000	3,700,000	3,700,000	3,700,000	3,700,000	3,700,000
Shared Revenues	49,567,000	37,056,000	22,330,000	22,777,000	23,233,000	23,698,000	24,172,000	24,655,000	25,148,000	25,651,000	26,164,000
License and Permit Fees	10,082,000	10,290,000	10,290,000	10,496,000	10,706,000	10,920,000	11,138,000	11,361,000	11,588,000	11,820,000	12,056,000
Fines and Penalties	18,579,000	18,459,000	18,459,000	18,828,000	19,205,000	19,589,000	19,981,000	20,381,000	20,789,000	21,205,000	21,629,000
Investment Earnings	3,900,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Charges for Service	55,616,000	56,871,000	58,577,000	60,334,000	62,144,000	64,008,000	65,928,000	67,906,000	69,943,000	72,041,000	74,202,000
All Other Revenue	4,928,834	4,598,503	4,598,503	4,598,503	4,598,503	4,598,503	4,598,503	4,598,503	4,598,503	4,598,503	4,598,503
2013 Basic Neighborhood Services Transfer			10,000,000	-	-	-	-	-	-	-	-
Casino Revenue	-	-	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000
Total Revenues	703,853,834	704,501,503	729,991,503	739,836,503	760,257,503	781,270,503	802,894,503	825,147,503	848,047,503	871,613,503	895,863,503
Total Available Resources	**727,500,000**	**736,275,000**	**729,991,503**	**739,836,503**	**760,257,503**	**781,270,503**	**802,894,503**	**825,147,503**	**848,047,503**	**871,613,503**	**895,863,503**
% Change in Revenues from Prior Yr.	4.32%	0.09%	3.62%	1.35%	2.76%	2.76%	2.77%	2.77%	2.78%	2.78%	2.78%
% Change in Resources from Prior Yr	7.30%	1.21%	-0.85%	1.35%	2.76%	2.76%	2.77%	2.77%	2.78%	2.78%	2.78%
Expenditures:	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Development	25,960,790	22,983,799	20,641,110	20,852,202	21,283,831	21,730,323	22,192,463	22,671,088	23,167,088	23,681,410	24,215,062
Fire	212,529,621	217,205,870	221,442,219	223,249,608	227,432,689	231,786,957	236,323,007	241,052,153	245,986,488	251,138,931	256,523,288
Governmental Services	69,571,955	81,088,329	83,762,459	84,620,962	86,374,832	88,189,479	90,068,130	92,014,224	94,031,416	96,123,602	98,294,930
Health	18,250,827	19,740,623	20,461,182	20,677,775	21,115,549	21,570,865	22,044,758	22,538,336	23,052,778	23,589,344	24,149,380
Judicial Services	25,097,233	25,903,754	26,779,172	27,135,211	27,789,403	28,475,928	29,196,895	29,954,558	30,751,327	31,589,779	32,472,670
Other Safety	12,145,182	14,849,884	15,165,789	15,317,082	15,629,287	15,951,185	16,283,242	16,625,952	16,979,839	17,345,462	17,723,412
Police	264,432,664	272,804,192	283,525,800	288,277,602	294,845,553	300,772,968	306,955,178	313,408,004	320,148,345	327,194,248	334,564,990
Recreation and Parks	26,435,884	30,321,376	31,012,108	31,324,201	31,970,425	32,642,057	33,340,591	34,067,620	34,824,844	35,614,076	36,437,254
Refuse Collection	23,860,293	27,025,846	27,757,639	28,077,748	28,697,438	29,340,342	30,007,748	30,701,032	31,421,656	32,171,180	32,951,266
Public Service	5,862,312	6,851,327	7,068,086	7,154,857	7,319,401	7,491,483	7,671,578	7,860,193	8,057,872	8,265,195	8,482,780
Fleet-Vehicles	1,579,741	-	5,000,000	5,150,000	5,304,500	5,463,635	5,627,544	5,796,370	5,970,261	6,149,369	6,333,850
Operating Expenditures	**685,726,502**	**718,775,000**	**742,615,563**	**751,837,248**	**767,762,908**	**783,415,222**	**799,711,135**	**816,689,531**	**834,391,915**	**852,862,596**	**872,148,881**
% Change/Previous Year	6.01%	4.82%	3.32%	1.24%	2.12%	2.04%	2.08%	2.12%	2.17%	2.21%	2.26%
Transfer to Economic Stabilization Fund	10,000,000	6,725,000	3,775,000	5,000,000	5,000,000	-	-	-	-	-	-
Transfer to 2013 Basic Neighborhood Services Fund	-	10,000,000	-	-	-	-	-	-	-	-	-
Required Expenditure Reductions and/or Revenue Increases	**31,773,497**	**775,000**	**(16,399,060)**	**(17,000,745)**	**(12,505,405)**	**(2,144,719)**	**-**	**-**	**-**	**-**	**-**

Footnotes:
Revenue estimates for 2013 and beyond are those of the Department of Finance & Management, and not the City Auditor.
Cumulative deficits are not possible since each budget year must be balanced. Balancing will be achieved through increased revenues, lowered expenditures, or a combination thereof.

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