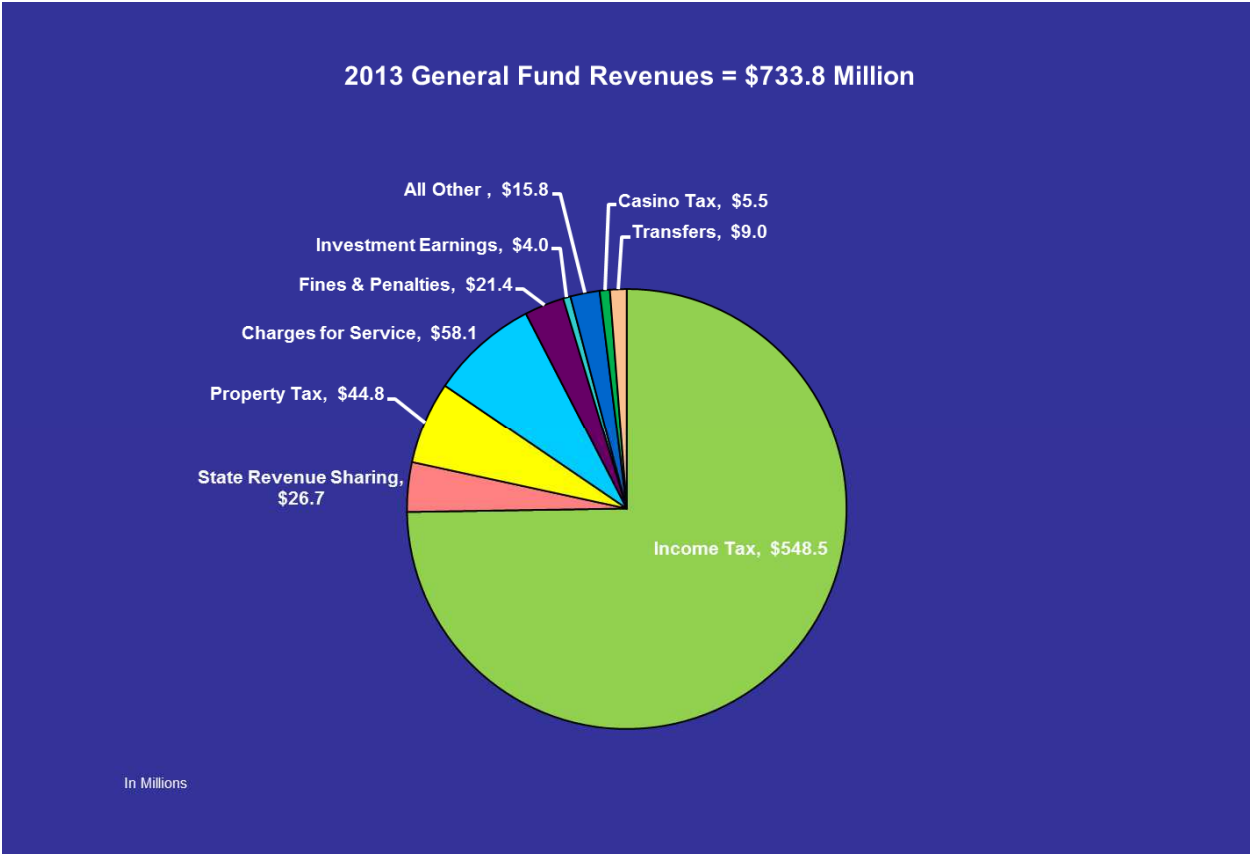


Financial Overview

Revenue

The financial health of the city’s general fund is directly tied to the income tax which comprises over 74 percent of the revenue supporting the general fund operating budget. In August, 2009, Columbus voters approved a 0.5 percent increase to the income tax rate, raising it to 2.5 percent effective 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 2013. 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 four percent.



Income tax collections are projected at \$532.4 million in 2012 and \$548.5 million in 2013. The City Auditor's 2013 estimate assumes a three percent growth in income tax receipts in 2013, or an additional \$16.1 million.

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 2012 projection for these funds is \$28.3 million, and in 2013 additional state cuts are estimated to reduce this revenue source to just \$21.5 million. Additionally, the state has eliminated the estate tax effective January 1, 2013. The current 2012 projection for estate tax revenues is \$14 million. It is estimated that the city will receive a modest \$4 million in residual estate tax revenue in 2013.

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 declined by 7.14 percent in 2011 and are projected to decline again in 2012. 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 2012 property tax collections will be 8.02 percent less than those of 2011. Property taxes are expected to rebound in 2013, with a growth rate of 2.32 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. By 2004, these earnings had dropped to just \$5.5 million. As the recession subsided, investment earnings 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, 2010 and 2011 however, investment earnings again plummeted, totaling only \$6.4 million, \$3.6 million and \$3.0 million, respectively. In 2012, projected earnings are at \$4.0 million, and that same amount is being projected for 2013.

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 averaged a robust 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 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 and 2011 in most areas, with some very modest restorations of certain services that were curtailed in 2009, including reopening recreation centers and pools, reinstating yard waste and bulk collection services, and holding police and fire classes to replace retiring officers. Revenues in 2011 and 2012 were sufficient to continue this level of service restoration.

Structural balance was achieved in both 2011 and 2012. Current year revenues in 2011 exceeded current year expenditures (exclusive of transfers to reserve funds) by \$20.48 million. In 2012, expenditures are projected to be \$17.26 million lower than current year revenues.

Projected 2013 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 be maintained. Other important city services will continue at 2012 levels, and the city-wide curbside recycling program will be fully implemented.

The city continues to replenish the economic stabilization fund, with a deposit of \$6.7 million in 2012 and another \$10.0 million in 2013. With the 2013 payment, the city will have met its commitment to rebuilding the fund to a \$50 million balance a year earlier than originally promised.

In 2012, \$11 million was deposited into a basic city services fund to help offset the effect of cuts in local government fund revenues and the elimination of the estate tax in 2013. It is expected that only \$6 million will be needed in 2013; therefore \$5 million will remain in that fund until needed.

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 to maintain the highest possible credit rankings for both unlimited and limited general obligation debt from the 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 three general reserve funds: the economic stabilization fund (i.e., the rainy day fund), the anticipated expenditure fund (formerly known as the 27th pay period fund) and the basic city services fund.

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 it into this fund.

The first withdrawal was in 2003, when \$10.2 million was used to balance the general fund budget. An additional \$25 million was used in 2004 for the same purpose. In May of 2004, an unanticipated \$55.1 million from the Solid Waste Authority of Central Ohio (SWACO) in partial satisfaction of lease payments due to the city was deposited into the rainy day fund. Transfers to the general fund were again made in 2005 (\$13 million) and 2006 (\$12 million). In 2006, the city received nearly \$10 million for pollution credits from SWACO, which were also deposited into the fund. In 2008, \$900,000 was transferred to the general fund in order to end the year in balance. In 2009, \$30.04 million was transferred to the general fund to avoid what would have been drastic reductions to basic city services. Following passage of the 2009 income tax increase, the city made good on its promise to begin to replenish the fund, with a transfer of \$7.5 million from the general fund. Deposits of \$10 million in 2011 and \$6.7 million in 2012 will help the fund reach almost \$40 million by year-end 2012. With a budgeted 2013 payment of \$10 million, the city will have met its commitment to rebuild the fund to a \$50 million balance a year earlier than originally promised.

The city has established a new goal of \$75 million in the rainy day fund to further ensure that the city is able to withstand future unknown financial events. To that end, the city is committing to deposit an additional \$25 million to the fund over the next five years.

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
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	2,320	-	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	3.31%
2011	10,000	173	-	32,897	4.72%
2012	6,725	329	-	39,951	5.55%
2013	10,049	400	-	50,400	6.67%
2014	5,000	504	-	55,904	6.67%
2015	5,000	559	-	61,463	7.97%
2016	5,000	615	-	67,077	8.43%
2017	5,000	671	-	72,748	8.85%
2018	5,000	727	-	78,475	9.24%

* In 2008, investment earnings were deposited to the Anticipated Expenditures Fund. Assumes 1.0 percent investment rate in 2013-2018.

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
2011	2,052	-	6,814
2012	2,060	-	8,874
2013	2,122	-	10,996
2014	2,185	-	13,181
2015	2,251	-	15,432
2016	2,319	-	17,751
2017	2,388	-	20,139
2018	2,460	-	22,599
2019	2,534	-	25,132
2020	2,610	-	27,742

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, the basic city services fund, was created in 2012, with a deposit of \$11 million to ensure the city was poised to address the reduction of revenue caused by cuts to the local government fund and the elimination of the estate tax. This fund will ensure the continuation of basic city services in 2013 and beyond. The city deposited \$11 million into this fund in 2012 and will use \$6 million in 2013. The \$5 million balance will be available for use, if necessary in 2014. If not needed, these funds may be transferred to the rainy day fund.

2013 Budget Scenario

The 2013 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.
- 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 2013 and to reach a level representing 9 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 2013 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 2014 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 2014 and beyond are premised on maintaining 2013 levels of service.
- In 2013, no general fund expenditures for vehicle purchases are assumed, as special income tax funds will be used for this purpose. In 2014 and beyond, \$5 million is projected for general fund vehicle replacement 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 \$548.5 million in 2013 and will grow by 3.5 percent in all years thereafter.
- Property taxes will increase by 2.32 percent in 2013, and increase by 2 percent thereafter, except for every third year, during the triennial review, when they will increase by 4 percent.
- Local government fund revenue is projected to decrease by 24.09 percent in 2013 and then increase by 2 percent thereafter.
- Estate taxes are projected at \$4.0 million in 2013 and will decrease to \$0 in all years thereafter.
- Investment earnings will be \$4 million in 2013 and are projected to remain at that level in 2013 and thereafter.
- Hotel/motel tax revenue is projected to decrease by 68.35 percent in 2013 and then will decrease to \$0 in all years thereafter.
- Charges for services are expected to grow by 1.49 percent in 2013 and then by 3 percent thereafter.
- The kilowatt hour tax will be \$1.53 million in 2013 and will remain flat in all years thereafter.

- Fines and penalties will increase by 1.06 percent in 2013 and increase by 2 percent thereafter.
- Licenses and permit fees are projected to grow by 0.15 percent in 2013 and increase by 2 percent thereafter.
- Casino revenue will equal \$5.5 million in its first year, 2013, will grow to \$7 million in 2014, and increase by 2 percent in all years thereafter.
- A transfer of \$6 million from the basic city services fund will occur in 2013 with another \$5 million in 2014.

Division Specific Assumptions

- Two police recruit classes are funded in the general fund in 2013. Thereafter, recruit classes sufficient to replace retiring uniformed staff are projected. The 2010 class that was mostly funded with federal stimulus funds is only partly funded by the general fund in 2013.
- One fire recruit class is funded in 2013. 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 2014 and beyond include continuing the curbside recycling program started in 2012.

GENERAL FUND PRO FORMA OPERATING STATEMENT

Resources:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	\$ 33,792,340	\$ 32,337,872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income Tax	532,375,000	548,500,000	567,698,000	587,567,000	608,132,000	629,417,000	651,447,000	674,248,000	697,847,000	722,272,000	747,552,000
Property Tax	43,754,000	44,768,000	45,663,000	47,490,000	48,440,000	49,409,000	51,385,000	52,413,000	53,461,000	54,530,000	56,711,000
Kilowatt Hour Tax	1,530,000	1,530,000	1,530,000	1,530,000	1,530,000	1,530,000	1,530,000	1,530,000	1,530,000	1,530,000	1,530,000
Hotel/Motel Tax	3,950,000	1,250,000	-	-	-	-	-	-	-	-	-
Shared Revenues	43,486,000	26,657,000	23,110,000	23,572,000	24,043,000	24,524,000	25,014,000	25,514,000	26,024,000	26,544,000	27,075,000
License and Permit Fees	10,330,000	10,345,000	10,552,000	10,763,000	10,978,000	11,198,000	11,422,000	11,650,000	11,883,000	12,121,000	12,363,000
Fines and Penalties	21,127,000	21,350,000	21,777,000	22,213,000	22,657,000	23,110,000	23,572,000	24,043,000	24,524,000	25,014,000	25,514,000
Investment Earnings	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	4,000,000
Charges for Service	57,258,000	58,113,000	59,856,000	61,652,000	63,502,000	65,407,000	67,369,000	69,390,000	71,472,000	73,616,000	75,824,000
All Other Revenue	7,232,690	5,703,615	5,703,615	5,703,615	5,703,615	5,703,615	5,703,615	5,703,615	5,703,615	5,703,615	5,703,615
Basic City Services Transfer	-	6,000,000	5,000,000	-	-	-	-	-	-	-	-
Casino Revenue	-	5,545,513	7,000,000	7,210,000	7,426,300	7,649,089	7,878,562	8,114,919	8,358,366	8,609,117	8,867,391
Total Revenues	725,042,690	733,762,128	751,889,615	771,700,615	796,411,915	821,947,704	849,321,177	876,606,534	904,802,981	933,939,732	965,140,006
Total Available Resources	758,835,030	766,100,000	751,889,615	771,700,615	796,411,915	821,947,704	849,321,177	876,606,534	904,802,981	933,939,732	965,140,006
% Change in Revenues from Prior Yr.	2.48%	1.20%	2.47%	2.63%	3.20%	3.21%	3.33%	3.21%	3.22%	3.22%	3.34%
% Change in Resources from Prior Yr	3.79%	0.96%	-1.85%	2.63%	3.20%	3.21%	3.33%	3.21%	3.22%	3.22%	3.34%
Expenditures:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Development	27,521,503	22,624,998	22,989,447	23,509,371	24,046,410	24,601,416	25,175,291	25,768,995	26,383,548	27,020,037	27,679,615
Fire	214,133,081	218,691,298	221,264,476	226,189,874	231,299,233	236,602,939	242,112,065	247,838,423	253,794,608	259,994,057	266,451,108
Governmental Services	74,698,336	97,607,114	99,135,458	101,321,857	103,576,463	105,902,509	108,303,423	110,782,844	113,344,637	115,992,908	118,732,017
Health	18,880,809	20,143,332	20,541,374	21,012,928	21,510,451	22,026,693	22,562,690	23,119,550	23,698,451	24,300,651	24,927,488
Judicial Services	25,638,199	26,995,057	27,663,145	28,408,874	29,188,358	30,003,673	30,857,033	31,750,805	32,687,514	33,669,860	34,700,724
Other Safety	13,101,443	14,839,827	15,028,026	15,358,855	15,699,884	16,051,591	16,414,482	16,789,092	17,175,993	17,575,789	17,989,123
Police	273,616,817	286,912,013	297,772,425	304,191,390	313,226,158	321,696,679	330,500,615	341,929,911	353,843,986	366,267,847	379,227,993
Recreation and Parks	28,028,912	33,884,074	34,412,021	35,214,134	36,045,777	36,908,568	37,804,231	38,734,600	39,701,632	40,707,412	41,754,163
Refuse Collection	26,574,992	28,145,540	28,677,538	29,368,814	30,085,245	30,828,171	31,599,022	32,399,318	33,230,679	34,094,830	34,993,607
Public Service	6,578,066	6,207,959	6,307,098	6,474,355	6,649,156	6,831,967	7,023,284	7,223,637	7,433,592	7,653,754	7,884,768
Fleet-Vehicles	-	-	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Operating Expenditures	708,772,158	756,051,212	778,791,009	796,050,450	816,327,136	836,454,205	857,352,135	881,337,174	906,294,641	932,277,145	959,340,606
% Change/Previous Year	3.12%	6.67%	3.01%	2.22%	2.55%	2.47%	2.50%	2.80%	2.83%	2.87%	2.90%
Transfer to Economic Stabilization Fund	6,725,000	10,048,788	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	-	-	-	-
Transfer to Basic City Services Fund	11,000,000	-	-	-	-	-	-	-	-	-	-
Required Expenditure Reductions and/or Revenue Increases	32,337,872	-	(31,901,394)	(29,349,835)	(24,915,221)	(19,506,501)	(13,030,959)	(4,730,641)	(1,491,660)	-	-

Footnotes:

Revenue estimates for 2014 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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