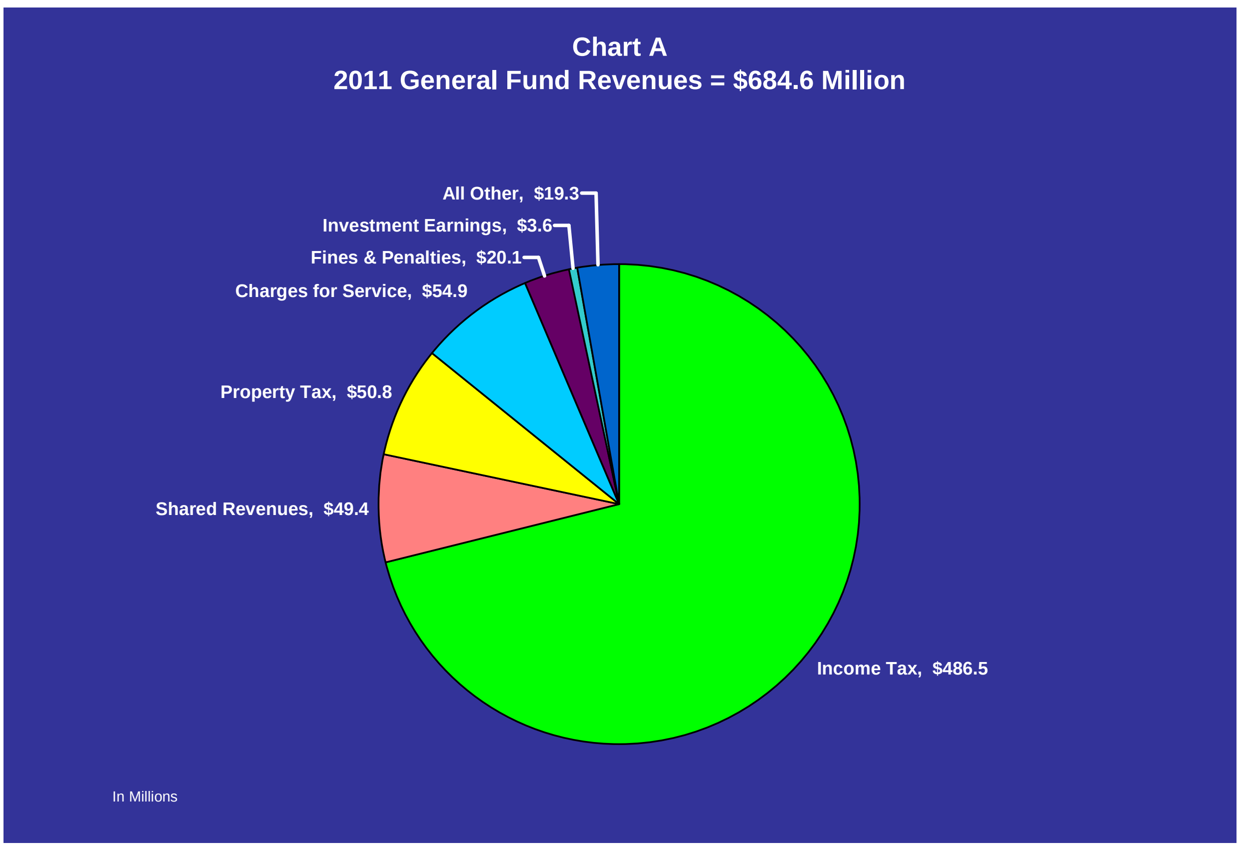
Financial Overview

Revenue

The financial health of the city's general fund hinges on the income tax, which comprises over 70 percent of the revenue supporting the general fund operating budget. Columbus voters approved a 0.5 percent increase to the income tax rate to 2.5 percent on August 4, 2009. While collections at the new rate began on October 1, 2009, 2010 marked the first full year of income tax collections at the 2.5 percent rate. Three quarters of income tax collections are deposited to the general fund for general government operations, while one quarter is earmarked for capital and debt service requirements.

The chart below shows the proportion of revenue expected to be received from each major source to the general fund in 2011. After the income tax, the next three largest revenue sources to the general fund are various charges for services at 8 percent, property taxes at 7.4 percent and shared revenues (various state taxes that are shared with local governments) at 7.2 percent.



Income tax collections are projected at $477 million in 2010 and $486.5 million in 2011. The City Auditor's 2011 estimate assumes a two percent growth in income tax receipts in 2011, or an additional $9.5 million. Unfortunately, flat and/or declining revenues are projected for the general fund's other major revenue sources.

State budget difficulties have reduced the portions of state revenue shared with local governments over the past decade, with shared revenues to the City of Columbus declining from $51 million in 2001 to a projected $39.93 million in 2010, a 21.7 percent decline. The City Auditor's estimate for 2011 is $41.25 million.

Estate taxes, the only portion of state revenue that is not distributed by a formula, have been as high as $12 million in past years. However, in recent years, these receipts have declined as well. Estate tax collections were $10.3 million in 2008, $8.2 million in 2009, a projected $6.4 million in 2010 and $7.0 million in 2011.

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 saw 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 0.16 in 2009, and are expected to decline by another 0.3 percent in 2010, reflecting continuing problems in the housing market, including ongoing foreclosures and reassessment requests stemming from declines in sales prices. The City Auditor is projecting that property tax receipts will decline by 0.75 percent in 2011.

Investment earnings are a highly volatile source of revenue and have varied tremendously, from a high of $29 million in 2001 to a low of $5.5 million in 2004, after the last recession. After that 2004 low, earnings rebounded to $10.2 million in 2005, $20.4 million in 2006, $30.9 million in 2007, and $24.9 million in 2008. However, investment earnings plummeted to $6.4 million in 2009 and are projected at an all-time low of $3.6 million in both 2010 and 2011, reflecting record low interest rates.

Structural Balance

2010 marked the first year 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.

In the years leading up to 2001, income tax growth was quite robust, averaging 6.2 percent per year from 1991-2000. For the years 2001-2009, that rate of growth had declined to an average of 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 unit contracts and, because personnel costs comprise over 83 percent of general fund expenses, 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 from 2000 to 2009, a 34 percent reduction. 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, severe cuts were necessary. Those included additional layoffs, mandatory unpaid leave days, closing 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.

Projected revenues will allow the continuation of basic city services in 2011. Police and fire classes will be held such that the force levels can be maintained in each division. Other city services will continue to be provided at 2010 levels, with selected services being restored to pre-recession levels, primarily code enforcement and food inspection services. Inroads will be made in replacing the city's worn fleet, with $2 million set aside for vehicle replacement in 2011. And the city will continue to replenish the economic stabilization fund, with a deposit of $7.5 million in 2010 and another $10 million in 2011 to keep its commitment to rebuilding the fund to a $50 million balance by the end of 2014.

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. Columbus is the only large city in the nation with the highest possible credit ranking 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 has two general reserve funds: the economic stabilization fund (AKA the rainy day fund) and the anticipated expenditure fund (formerly known as the 27th pay period fund).

The rainy day fund was created in 1988 with a deposit of $4 million to create a reserve for unforeseen future events that could disrupt basic city services. The goal of the fund was to reach five percent of general fund expenditures. Annual deposits of $1 million were made to the fund until 1998, when the fund received an infusion of $7 million from an Ohio Bureau of Workers Compensation refund.

The first use of the fund was in 2003, when $10.2 million was needed in order to balance the general fund budget. An additional $25 million was used in 2004. On May 4, 2004, the city deposited to the fund $55.1 million received from the Solid Waste Authority of Central Ohio (SWACO) in partial satisfaction of lease payments due the city. Transfers to the general fund were again made in 2005 ($13 million) and 2006 ($12 million) to ensure that basic city services were continued. In 2006, the city received nearly $10 million for pollution credits from SWACO, which, along with investment earnings, enabled the fund to end 2007 at $44.5 million, 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. And, in order to avoid drastic reductions in basic city services in 2009, it was necessary to transfer $30.4 million to the general fund. After a fourth quarter 2010 transfer of $7.5 million, the fund will end 2010 with $22.8 million. A deposit of another $10 million in 2011 will put the city in good stead towards the goal of rebuilding the fund to a $50 million balance by the end of 2014.

The planned replenishment schedule is illustrated in the chart below.

Economic Stabilization Fund Recommended Future Deposits (000's Omitted)

Year	Deposit	Investment Earnings*	Expended	Year-End Balance	% of GF Budget
1999		$ 1,224		$ 23,807	5.11%
2000		1,442		25,249	5.00%
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	300		22,800	3.48%
2011	10,000	300		33,100	4.75%
2012	5,500	497		39,097	5.49%
2013	5,000	586		44,683	6.07%
2014	5,000	670		50,353	6.63%

In 2008, investment earnings were deposited to the Anticipated Expenditures Fund. Assumes 1.5 percent investment rate in 2010-2014.

The anticipated expenditure fund was established in 1994 to plan for the next occurrence of a fiscal year 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 continue into the fund to ensure that there are sufficient funds to build the fund back up for the next occurrence, which is estimated to be in 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.			

2011 Budget Scenario

The 2011 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 the pension pick-up and increasing the employee share of health insurance premiums in those bargaining units with expired contracts and for employees that are not covered by the collective bargaining law
- Continue to implement performance management, working toward providing performance measures for all city programs, which will inform the budget process
- 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 other organizations
- 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 2011 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 2012 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 10 percent annually in 2012 and beyond; however, projections include offsets due to incremental increases in employee shares.
- Expenditure projections for 2012 and beyond are premised on maintaining 2011 levels of service.
- The pro forma projects $2 million in general fund vehicle expenditures in 2011 and $6 million in each year thereafter 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 $486.5 million in 2011, will grow by 2.5 percent in 2012 and then by 3 percent thereafter.
- Property taxes will decline by 0.75 percent in 2011, and then grow by 3 percent in 2012 (triennial update year) and by 2 percent in non triennial update years.
- Local government fund revenue is projected to increase by 3.3 percent in 2011 and then remain flat.
- Estate taxes are projected at $7.0 million in 2011 and are projected to increase by 2 percent per year thereafter.
- Investment earnings will be $3.6 million in 2011, $5 million in 2012, and are projected to increase by 3 percent per year thereafter.
- Hotel/motel tax revenue is projected to grow by 2.27 percent in 2011, and then by 4 percent in 2012 and beyond.
- Charges for services are expected to grow by 1.25 percent in 2011 and then by 3 percent thereafter.
- The kilowatt hour tax will be $1.65 million in 2011 and then grow by 1 percent thereafter.
- Fines and penalties will grow by 1.55 percent in 2011 and then increase by 3 percent.
- Licenses and permit fees are projected to grow by 0.1 percent in 2011, and then by 3 percent thereafter.

Division Specific Assumptions

- Two police recruit classes are funded in the general fund in 2011. 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.
- Two fire recruit classes are funded in 2011. 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 2012 and beyond include preliminary estimates for a curbside recycling program. Exact costs are unknown but will be refined during 2011.

GENERAL FUND PRO FORMA OPERATING STATEMENT

Resources:	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Beginning Balance	$ 3,278,792	$ 21,745,706	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Income Tax	477,000,000	486,500,000	498,663,000	513,623,000	529,032,000	544,903,000	561,250,000	578,088,000	595,431,000	613,294,000	631,693,000
Property Tax	51,185,000	50,800,000	52,324,000	53,370,000	54,437,000	56,070,000	57,191,000	58,335,000	60,085,000	61,287,000	62,513,000
Kilowatt Hour Tax	3,300,000	1,650,000	1,667,000	1,684,000	1,701,000	1,718,000	1,735,000	1,752,000	1,770,000	1,788,000	1,806,000
Hotel/Motel Tax	3,300,000	3,375,000	3,510,000	3,650,000	3,796,000	3,948,000	4,106,000	4,270,000	4,441,000	4,619,000	4,804,000
Shared Revenues	47,466,000	49,370,000	49,510,000	49,653,000	49,799,000	49,948,000	50,100,000	50,255,000	50,413,000	50,574,000	50,738,000
License and Permit Fees	9,900,000	9,910,000	10,207,000	10,513,000	10,828,000	11,153,000	11,488,000	11,833,000	12,188,000	12,554,000	12,931,000
Fines and Penalties	19,789,000	20,095,000	20,698,000	21,319,000	21,959,000	22,618,000	23,297,000	23,996,000	24,716,000	25,457,000	26,221,000
Investment Earnings	3,600,000	3,600,000	5,000,000	5,150,000	5,305,000	5,464,000	5,628,000	5,797,000	5,971,000	6,150,000	6,335,000
Charges for Service	54,204,000	54,884,000	56,531,000	58,227,000	59,974,000	61,773,000	63,626,000	65,535,000	67,501,000	69,526,000	71,612,000
All Other Revenue	3,978,000	4,420,294	4,514,193	4,610,910	4,710,529	4,813,136	4,918,821	5,027,677	5,139,798	5,255,283	5,374,233
Total Revenues	673,722,000	684,604,294	702,624,193	721,799,910	741,541,529	762,408,136	783,339,821	804,888,677	827,655,798	850,504,283	874,027,233
Total Available Resources	**677,000,792**	**706,350,000**	**702,624,193**	**721,799,910**	**741,541,529**	**762,408,136**	**783,339,821**	**804,888,677**	**827,655,798**	**850,504,283**	**874,027,233**
% Change in Revenues from Prior Yr.	14.30%	1.62%	2.63%	2.73%	2.74%	2.81%	2.75%	2.75%	2.83%	2.76%	2.77%
% Change in Resources from Prior Yr.	9.14%	4.34%	-0.53%	2.73%	2.74%	2.81%	2.75%	2.75%	2.83%	2.76%	2.77%
Expenditures:	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Development	21,366,492	20,711,346	18,838,346	19,337,837	19,858,364	20,401,341	20,968,300	21,560,902	22,180,947	22,830,388	23,511,342
Fire	204,926,059	211,115,451	214,487,713	220,602,866	227,006,198	233,718,378	240,761,830	248,160,891	255,941,974	264,133,760	272,767,395
Governmental Services	66,194,031	79,822,662	80,131,063	82,405,428	84,437,542	86,893,054	89,118,490	91,780,511	94,226,746	97,125,057	99,824,379
Health	15,824,118	19,433,535	19,885,894	20,454,234	21,049,298	21,673,001	22,327,422	23,014,818	23,737,639	23,737,639	23,737,639
Judicial Services	24,304,160	25,416,707	25,874,216	26,764,891	27,706,968	28,704,496	29,761,879	30,883,907	32,075,786	33,343,181	34,692,253
Other Safety	11,001,308	13,847,805	14,142,681	14,495,362	14,861,382	15,241,573	15,636,834	16,048,139	16,476,541	16,923,180	17,389,293
Police	252,086,850	265,129,382	270,065,887	281,791,805	292,445,096	301,404,559	310,817,174	320,716,382	331,138,485	342,122,887	353,712,383
Recreation and Parks	23,382,410	28,304,025	28,599,443	29,419,690	30,278,685	31,179,214	32,124,300	33,117,222	34,161,542	34,161,542	34,161,542
Refuse Collection	22,645,507	24,076,099	27,395,295	28,157,544	28,954,328	29,788,076	30,661,417	31,577,208	32,538,545	33,548,790	34,611,593
Public Service	5,024,151	6,492,988	6,737,850	6,964,957	7,204,917	7,458,735	7,727,505	8,012,414	8,314,753	8,635,927	8,977,464
Fleet-Vehicles	1,000,000	2,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Operating Expenditures	**647,755,086**	**696,350,000**	**712,158,388**	**736,394,616**	**759,802,778**	**782,462,425**	**805,905,150**	**830,872,393**	**856,792,958**	**882,562,353**	**909,385,283**
% Change/Previous Year	4.98%	7.50%	2.27%	3.40%	3.18%	2.98%	3.00%	3.10%	3.12%	3.01%	3.04%
Transfer to Economic Stabilization Fund	7,500,000	10,000,000	5,500,000	5,000,000	5,000,000	5,000,000	-	-	-	-	-
Required Expenditure Reductions and/or Revenue Increases	**21,745,706**	**-**	**(15,034,195)**	**(19,594,706)**	**(23,261,249)**	**(25,054,290)**	**(22,565,330)**	**(25,983,717)**	**(29,137,160)**	**(32,058,069)**	**(35,358,050)**

Footnotes:

Revenue estimates for 2012 and beyond are those of the Department of Finance 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.

This page has been intentionally left blank.