FINANCE COMMITTEE MEETING
held October 16, 2023
5:45 p.m.

Vice President of Council David L. Tadych, Chair
President of Council Dwight Clark
Councilman Thomas J. Kelly
Councilman Peter Winzig

Also Present: Mayor Koomar, Law Director Barbour, Councilwoman DeGeorge, Finance Director Mahoney, Councilman Greco, Human Resource Director Demaline, Police Chief Gillespie accompanied by Sean Deranzo (Independent Contractor who performs police vehicle maintenance for the City of Bay Village), Carl Cultrona, Enterprise Rentals, Clerk of Council Kemper.

Audience: Mr. David Florez

Mr. Tadych called the fourth meeting of the Finance Committee of 2023 to order in the Committee Room of Bay Village City Hall at 5:45 p.m. and thanked everyone for their attendance.

Jefferson Health Care Contract Renewal Review

Human Resource Director Demaline was present this evening to discuss the Jefferson Health Care Contract Renewal for 2024. There is a 3.92% increase on rates for 2024, with which the administration is pleased due to the trend in the industry of about 7%. The City has been with the Jefferson Health Plan since 2016 and often looks at other options, but continues to feel Jefferson Health Care is where the City is best situated.

Mr. Tadych asked what the 3.92% represents in dollars. The 2023 healthcare accrual rate amount is $1,562,848, and the 2024 projected healthcare accrual amount is $1,624,113. This is an increase of $61,265.00.

Ms. Demaline stated that the 3.92% increase for a family plan will represent an increase of approximately $10.00 per month per employee contribution, and $4.00 per month employee contribution in the traditional single plan. For those in the high deductible health plan, it will be $10.00 per month employee contribution for those enrolled in the family plan, and $3.00 per month for the single plan. Open enrollment is November 1 through November 15, with an effective date of January 1.

Mr. Clark asked if the 3.92% increase is for health care and prescriptions. Ms. Demaline stated that it is a blended rate, covering prescriptions and health care claims. A moratorium on funding the Jefferson Health Care Fund will be in place for the month of November, 2023, due to a large accumulation of funds. A higher increase is expected on the prescription side for 2024.

Mr. Tadych asked if the tobacco surcharge will be increased.

Ms. Demaline stated that six employees are paying the tobacco surcharge of $50 per month for employees and covered dependents that use nicotine products. The spousal surcharge is for employees who have working spouses who are offered healthcare through their employers, but still choose to enroll in the City's healthcare plan. There are 21 employees of the 91 covered employees currently paying the spousal surcharge. The number has been bargained through their union contract. The amount is $100 per month for single healthcare, and $250 for family coverage.

The Stop Loss ceiling is $75,000. Jefferson Health Care financials are based on a fiscal year, from July 1 through June 30 annually. For the year ending June 30, 2023, two members exceeded the $75,000 Stop Loss for a total of $60,619 in claims above and beyond the $75,000. One person had $46,700, and the other had $13,800.

Opting out incentives of $100 single, $250 per family per month for employees that opt out of the City's healthcare coverage will remain the same until the next collective bargaining contract.

Regarding prescription benefits, Ms. Demaline reported that at the last bargaining it was agreed to implement Prudent RX, a Co-pay sharing program for specialty medications. This was implemented on July 1, 2022 resulting in a net savings from January 1, 2023 to July 31, 2023 in the amount of $11,262 to the City. At the end of 2022, from July 1 through the end of the year, the net savings was $6,718 to the City. There currently is only one special user.

The City's plan does exclude anti-obesity, anorexiants and appetite suppressants.

Mr. Clark noted the significant build-up of reserves in the Jefferson Health Care fund for claim payments. Mrs. Mahoney stated that the weighted average of their investments and the City investments are very similar short term. A one-month moratorium on payment to the Jefferson Health Care fund is being taken by the City. The amount that is paid to the Jefferson Health Care fund is based on the City's experience. The City of Bay Village is required to keep $350,000 in the Jefferson Health Care reserve fund.

Mr. Clark noted that the City currently has about $400,000 in the Jefferson fund. He asked how much the City is earning on that amount. Mrs. Mahoney stated that she has not asked recently. It is a weighted average. The City has multiple not-very-good rates from years ago, and now better rates with the money market and Star Ohio. Jefferson has the same; their weighted average and the City's weighted average are similar. A few months ago, it was 2.6%.

The Mayor noted that Ms. Demaline will be attending a conference at the end of this month. It is expected to get information back to Mrs. Mahoney regarding options.

Mr. Clark stated that if we can make 250 basis points on $400,000 above the threshold baseline, that is money to the City. Mrs. Mahoney stated that $130,000 will be retained by the City for the November moratorium to Jefferson Health Care.

Mr. Tadych asked if everyone associated with the health care program receives the same increase, or is it based on claim experience.

Mrs. Demaline stated that it is a blended rate. Fifty percent of the rate is based on the client's experience and fifty percent is based on the experience of the consortium. This year the City of Bay Village averaged out close to what the consortium was averaging. The consortium was averaging just over a 4% increase overall; the City was at a high 3%, resulting in a blended rate of 3.9%.

Mr. Kelly asked the name of the consortium in which the City of Bay Village is included. Is the consortium similar-sized cities in northeast Ohio? In multiple states?

Ms. Demaline stated that it is composed of municipalities and school districts in the state of Ohio. The Jefferson Health Plan started out in Jefferson County and grew beyond. There is a strong base of school districts and that is often why you will see the fiscal year reporting. There is now being experienced large growth in northern Ohio. The consortium has now branched out to neighboring states.

Mr. Clark asked if the pharmacy rebates go back to Fund 600. Mrs. Mahoney stated that they do go back to Fund 600.

An ordinance to proceed with the renewal of the contract with Jefferson Health Care for year 2024 will be introduced at the Regular Meeting of Council this evening for first reading.

Carl J. Cultrona, Enterprise Rental. Rental of Vehicles.

Mr. Carl J. Cultrona of Enterprise Rental addressed the Finance Committee concerning the option of leasing certain vehicles versus the City's current policy of purchasing all vehicles.

Mr. Cultrona stated that for clarification, the proposal is for fleet management rather than leasing. He noted that he has been reviewing this now with Finance Director Mahoney for the last couple of months, which included a fleet analysis of the City. The purpose is to save the City money in their capital and operating budgets and look for efficiencies in fleet management, as well as to better serve the community. Mr. Cultrona noted that a lot of folks piggyback off the Sourcewell contract that Enterprise has been awarded now for two separate RFP's.

Mr. Cultrona stated that they work with almost 100 different agencies here in the state of Ohio. Locally, they work with the cities of Avon, Avon Lake, and recently partnered with Lorain County. They are also working with Avon Regional Water and the City of North Ridgeville. Enterprise is working with 100 agencies in the state of Ohio, and 2000 nationwide. Contact information will be provided for reference.

Mr. Cultrona stated that the vehicle market has been more challenging over the past couple of years, even more challenging for the government sector than for the commercial and retail side. A lot of that has to do with what the manufacturers are doing for the government sector. The Big Three: Ford, GM, Stellantis (which is Chrysler, Dodge Ram) are all restricting government ordering on all of their vehicle makes from the manufacturer. Vehicles can be obtained through local dealerships, but the best pricing and customized specifications come from ordering directly from the manufacturer. Ford and Chevrolet are both on full controlled allocation for their commercial type vehicles, i.e., trucks, cargo vans. Any time an order is placed with a manufacturer it has to be run before their government representative for approval. If the vehicle cannot be built the order is not placed. Many manufacturers are trying to prevent acceptance of orders and later cancelling the order. The police market, particularly with Police Interceptors, has had a very heavy year for orders and the 2024 model year is open for October and they are only allowing orders from those who have had cancellations in the prior model year. Next month they are opening orders for 2025 Police Interceptors, with production to start in the spring of 2024 with delivery in the fall of 2024. If the order base is missed, the next opportunity would not be until 2025. GM is similar on all of their vehicles. RAM, Stellantis, as a whole, is not offering any vehicles at government pricing. The mini-van segment is challenging and Stellantis, or Chrysler, is only offering a higher profit vehicle. Overall, the manufacturers have determined that in the government sector their profits on each vehicle are their thinnest margins, and they will put their resources toward the vehicles with the largest margins.

For Bay Village, Enterprise is considering only light and medium duty vehicles: basic sedans to a one-ton truck. Over ten years, they are estimating $750,000 in conservative savings, and $9,000 in annual sustainable savings once the program is fully implemented over all fifty vehicles. This will be achieved by the following:

- Reduce the average cycle time of light duty fleet from a holding period of ten years down to three and one-half years.
- Less down time and lower maintenance costs due to a shorter holding period.
- Higher resale value due to shorter holding period.
- Full staff accounting with review of the industry activity several times per year.
- Providing financial analysis and recommendations for vehicle holding or replacement.
- Determining appreciation and cost of retaining vehicles.

The goal is to identify each point in every vehicle's life cycle that is the optimal time for replacement. The critical points are resale value and before the City is starting to incur higher cost of maintenance as the vehicle ages. Every vehicle will have a diminishing point of return. Factored in is the amount of equipment on the vehicles which will dictate how long the vehicle should be held. The total cost of ownership is the basis for determination for keeping or moving each vehicle. The City is doing about 5000 miles a year on their light duty fleet. Enterprise looked at a two, three, four, five-year lease term, compared to the City's current policy of keeping a vehicle for ten years. A five-year lease term would pay the vehicle to a reduced book value of $12,000 and at the end of the lease term Enterprise would sell the vehicle for the City, expecting it to sell for just under $30,000 with the City receiving $17,658 as equity back from the lease. The five-year term would also keep the City in the realm of preventive maintenance without unexpected high-cost repairs and mechanical breakdown.

Mileage is based on normal mileage patterns, without mileage limitations and no charge per mile after a mileage term.

Mr. Barbour asked if a maximum term is defined in the lease agreement.

Mr. Cultrona stated there is not a maximum term. The leases can be expended into perpetuity; once the reduced book value of the vehicle gets paid down to zero there is the option to take title as if the vehicle was financed.

Mr. Barbour asked who the vehicles are titled to during the term of the lease.

Mr. Cultrona stated that they are titled to Enterprise. They will still have government license plates. Everything will still be the same as if the City owns them. The only thing different is that Enterprise is the title holder.

Mr. Barbour asked how the expense is calculated on a five-year lease for a $47,000 vehicle.

Mr. Cultrona stated that the monthly payment would be $843.13.

Mr. Barbour asked if that would be adjusted if the lease is extended to a six-year lease.

Mr. Cultrona stated that there would be the option to continue to pay at the same rate or they can look at the depreciation and if the City is in a strong equity position consider changing the rate.

Mr. Barbour confirmed that the originating company is Sourcewell.

Mr. Cultrona stated that Sourcewell has gone to RFP's for fleet manager vendors now twice. They award five-year contracts. Enterprise has been awarded the last two contracts with the highest score of all fleet management companies.

Mr. Barbour asked what would happen if the City entered into a contract and Enterprise loses the contract.

Mr. Cultrona stated that they just renewed the contract last year so it is good for another four years. Mr. Cultrona expressed that he believes Enterprise will always be one of the options; the last two times they have been the highest scoring vendor. There are usually two or three to pick from.

Mr. Barbour stated that he would conclude that once the City was in a contract it would be good through the conclusion of the lease regardless of what happens with Sourcewell.

Mr. Cultrona stated that there is no set time limit for a partnership with Enterprise. Any time it is determined that the partnership is not working, the lease can be bought out, take title, and end the program. There is no contractual obligation to be part of the program for any period of time.

Mr. Clark asked the mileage allowance for the vehicles.

Mr. Cultrona stated that there are unlimited miles. For example, the $47,000 truck is paid down to $11,800. They are leaving a $17,000 cushion. If the vehicle comes back and instead of 25,000 miles it has 50,000 miles, instead of selling the vehicle for $29,500 they would only sell it for $25,000 but the City is still in the equity position at the end of the term. Enterprise is the lender on all these leases and if a vehicle is getting used far more than expected it can be adjusted to make sure the City is not going to be upside down by the end of the lease term.

Mr. Barbour stated that unlike leasing a car from a local dealer when the book value is agreed upon when signing the lease, this book value has some adjustment to it.

Mr. Cultrona stated that the book value itself on what is owed on the vehicle is always going to be the same, but as far what the vehicle is worth and what the equity position is will change over time as the market changes.

There are no over mileage charges, no wear and tear clause, no penalty to terminate the lease at any time, which is why it is called an open-ended lease. If it makes sense to end early they can do that, if it makes sense to extend, they extend the lease. The City gets all the equity at the end, all ownership rights. The flexibility helps the City reduce the amount of capital put toward the vehicles when they are replaced.

Enterprise takes the vehicles back when they are ready to be replaced and sells them. They achieve 12 to 15% above govdeals results. They gather three offers to satisfy state requirements. In their rental business, Enterprise buys and sells over 3 million vehicles every year. The fee for resale is negotiated through Sourcewell and is a flat $400 fee per vehicle which includes pick-up, de-lettering, and title transfer. They are now averaging under 10 days to sell a vehicle.

Any of the vehicles for the City that are going to require specialized equipment, they keep the vendors that the City has in place. With the leases there is the option of capitalizing the cost of the equipment into the monthly lease payment, or pay for the equipment up front, or some combination of the two. When the lease comes to term they will assist with the decision to either transfer some of the equipment or to sell with the equipment on.

Police Chief Gillespie and Sean Deranzo engaged Mr. Cultrona in a question-and-answer session. Chief Gillespie stated that since a lot of city driving is done by the police vehicles they gauge use on hours rather than miles.

Mr. Cultrona stated that when they deal with emergency response vehicles they have separate conversations because the hours, mileage and equipment is different than the use by the rest of the city. It is taken into consideration. Many of their police customers are cycling their marked units every three to five years based on that usage. The lease structure allows them to do it with a lot less cash. Summit Metroparks does their ranger vehicles through Enterprise. North Ridgeville has not done their police vehicles. They started with trucks and administrative vehicles. When the police strategy manager is assessing police units he is aware of the usage and takes that into account to determine fair market values. They have created a good relationship with a dealership out of Chicago who takes decommissioned police vehicles and remarkets them to smaller townships and villages that don't have the budget for brand new units. Typically, they see their mileage patterns. With a 30,000-mileage pattern per year they would look at a three- or four-year lease. Overtime they would determine total mileage or engine hours as what they need to look at, starting with a four-year lease or if there is more maintenance looking at a shorter lease.

Chief Gillespie noted the expense of the outfitting of the vehicles, and putting on equipment at a cost of $10,000 to $15,000 more often.

Mr. Cultrona stated that many clients offset new equipment cost with the proceeds of the sale of the used vehicles.

Mr. Derenzo noted that used police vehicles in Bay Village are repurposed for a detective's car if there is equipment left on the car, or for another purpose with the equipment removed.

Mr. Cultrona stated that he ran the numbers quite a bit and one of the mistakes a municipality can make is stepping down a police cruiser because you are passing on a vehicle that has been heavily used for four to six years, down to a lighter used application, but it still has all that history. Any point in time there could be a major mechanical issue. On the vehicles where it makes sense, possibly step down two and replace five in a given year. He noted that Enterprise has unmarked vehicles that are leased for two years with a break even after twelve months. In case that vehicle becomes recognizable by the community, that is where the flexibility of the lease is favorable. They represent all manufacturers and can supply a healthy mix so that everyone is unaware of the model of the undercover vehicle. If the step-down vehicle to the detective still needs to be a police rated vehicle, it is recommended stepping down a cruiser.

Mr. Derenzo stated that the City currently has three or four of the old Explorers with well over 100,000 miles. The Police Department currently has 8 marked units on patrol. Two are purchased every year.

Mr. Cultrona noted that Enterprise has leases that mirror cash purchases, if that is purchased from a budgetary standpoint to avoid interest. You can lease 4 ½ vehicles for the same amount of money used for paying cash for one vehicle.

Mr. Deranzo asked how the City benefits from the lease when it is over and the vehicle goes back to Enterprise.

Mr. Cultrona stated that when they sell the vehicle anything above what is paid down to goes back to the City. If it is paid down to its market value it is a break even.

Mr. Deranzo stated that the City takes very good care of its vehicles.

The Mayor discussed Service Department vehicles with Mr. Cultrona. He asked if Enterprise leases the five-ton vehicles to municipalities.

Mr. Cultrona stated that the five-ton truck rental doesn't always financially make sense. If the city needs the cash flow, put it on a lease. If the city has the cash, they should pay for it.

Chief Gillespie asked about insurance for the vehicles.

Mr. Cultrona stated that there is no change in the insurance. Enterprise would give the city the ability to order directly from Ford. Enterprise is significantly less than the state bid. State bid at this time on a half-ton truck is $61,000 because the manufacturer set it high. If you can find a half-ton truck at a dealership they will probably be under state bid. Enterprise is taking the dealership out of the game.

Mr. Cultrona will receive information regarding the City's most recent purchase to see how Enterprise compares.

Mr. Clark noted that there is a lot to digest from the presentation this evening. He noted it is an interesting concept.

Mr. Cultrona noted that at the end of the package he presented in paper this evening he put together a ten-year model for the City. Key objectives are to reduce the capital budget significantly, and reduce operating expenses. Over ten years they estimate a cash flow benefit of $725,000 and a sustainable savings once the program is implemented for fifty vehicles of $9,000.

References can be obtained from the City of Maumee, Summit Metroparks, Lucas County Sheriff, and Perrysburg Township.

Mr. Tadych asked about electric vehicles and the replacement of batteries. The mileage on the replacement of batteries is somewhere around 120,000 or 130,000 miles. We certainly don't want to have that cost.

Mr. Cultrona stated that at the Financial Officers' conference he actually gave a breakout session on electric vehicles. There are places where it makes sense, and places where it doesn't make sense. For a commercial use, they are not there, especially if you need to pull or plow. Where it does make sense is for an administrative vehicle. You also have to take into account the outsourcing of the maintenance. The City of Logan has two Pursuit Tesla's, that they do through Enterprise. The cost of operation is $30 per month. They have been in operation for 18 months now, and they have not had many issues. Chevrolet just came out with an EV Pursuit Blazer. Ford is coming out with a Mock G Pursuit. Cities in California are using the electric vehicles for their Police Departments. Enterprise is capturing the data so that when it does come to Ohio they will be prepared.

Review of changes to Municipal Income Tax by passage of HB 33 and how they affect Bay Village. (Amendment to C.. 182 as required by HB 33).

Finance Director Mahoney stated that the changes made include the following:

- Residents under the age of 18 years do not need to file.

- Location of Employment – Does not affect Bay Village because there are no large businesses in the City.
- Extension due date is changed from ten months to eleven months.
- No notices can be sent to taxpayers using an extension. If they are sent, the recipient can apply for penalties against R.I.T.A.
- Late filing penalty. Before 12-31-2022 the penalties were $25 for each failure to file per month, with a maximum of $150. After 1-1-23 the fine is $25 for each failure to file, period. They will be abated after the filing for the first failure.

Mr. Barbour stated that the changes by House Bill 33 will be reflected in an ordinance to be prepared for City Council's meeting on November 6, 2022 as an amendment to C.O. 182. The approved ordinance has to be to the Regional Income Tax Agency (R.I.T.A.) by December 31, 2023. Mr. Barbour suggested three readings.

Mr. Clark stated that Section 182.01 states that funds should be allocated as determined by Council. Council has discussed eliminating the 2% to the Accrued Benefits Fund because an $800,000 balance has accumulated in the Accrued Benefits Fund.

Budget for 2024

Mr. Tadych stated that the timeline for 2024 Budget Review by the Finance Committee will be November 6, November 13, and November 20 in accordance with the following schedule:

- November 6: Fire Department, Building Department, Police Department, Community Services Department
- November 13: Service Department and Capital Budget
- November 20: Law Department, Recreation Department, Mayor and Council

November 20 will mark the first reading of the Budget (Annual Appropriation Ordinance for 2024).

Mr. Clark stated that in the past the Capital Budget has been approved the first quarter of the year. He noted that there should not be a lot of change to the Operating Budget this year.

Mr. Tadych stated that there might be a problem with November 20 because it is the week of Thanksgiving.

Review of City Finances for first three quarters of 2023.

Mr. Tadych stated that under Key Bank Investments there are several that are coming due in 2023 and 2024 that have a .0 percent interest rate. He suggested Mrs. Mahoney investigate paying the penalty to release the funds and reinvest them for a higher interest rate.

Mrs. Mahoney stated that a few months ago she did a weighted average of all of these investments and it is 2.5%. It is a similar investment strategy that Jefferson Health Care uses.

Income Tax Receipt increases are not as far ahead as they were in previous months. The increase has dropped to 5% and is going at the rate to which the City might end even to last year.

Mrs. Mahoney stated that all cities have had higher returns from income tax receipts, but now are starting to level off.

Benefit Claims Payments

The insurance claim payments have gone from $585,000 to almost $800,000.

Mrs. Demaline stated that three children were born to employees during one week in July. There haven't been any catastrophic claims coming through that would cause concern. Mr. Tadych noted that the August 2022 comparison was down 14% over the prior year and the 2023 comparison is up 33%.

Mr. Clark noted that prescription drug costs have come down significantly. There are fewer covered lives (274 previously; now 240) but there are larger claims coming in. Mrs. Demaline noted that health care costs are rising.

Mr. Clark stated that the Fund Balance Report shows the American Rescue Plan balance as $1, 597,000. He asked if this is the money put aside for the Fire Station Project. Mrs. Mahoney stated that this is the money for the Fire Station Project. The $1,220,000 is the money from the county (also American Rescue Plan Funds) for the new lakefront renovation.

Mr. Tadych asked about Fund 340, the Bond Retirement Fund.

Mrs. Mahoney stated that they like to keep the $6 million balance for debt service. Debt payment is due December 1, 2023.

There being no further comments or discussion, the meeting adjourned at 7:01 p.m.

David L. Tadych, Chairman

Joan T. Kemper, Secretary