

Lorain Port Authority
Board of Directors
Financial Planning & Audit Committee Meeting
Wednesday, February 27, 2019, at 5:15 p.m.

Committee: Messrs. Davila, Kuzsnir and Nielsen

Board Members: Mr. Sommers

Staff: Tom Brown, Executive Director
Yvonne Smith, Accountant
Tiffany McClelland, Economic Development Specialist
Kelsey Leyva, Office Manager
Lil, Goose Dog

Guests: None

I. Roll Call

- A. The committee meeting was called to order at 5:28 p.m. by Chairman Roberto Davila. Roll call indicated a quorum present.

II. Report of Chairman

- A. 2019 Permanent Budget: Mr. Davila said he noticed a pattern in the handout Mrs. Smith provided. On page two, under total revenues. In 2015 we received about \$60,000 less than projected. Mr. Nielsen and Mr. Kuzsnir noted we received more than projected in the next three years. Mr. Davila said in 2016 we went down about \$20,000 in revenue. In 2017, we were down by about \$300,000. Mr. Nielsen said our revenue fluctuates from year to year because of the real estate taxes. When we get delinquent taxes, we get an up year. When people don't pay their taxes, we have a low year. We're given a number by the county auditor on what they anticipate collecting. The shortage is what they're unable to collect in that year. Mrs. Smith said if a person doesn't pay for several years, we sometimes experience an uptick or receive more than the county projected. Mr. Nielsen asked how you come up with a number when we don't create it. Mr. Davila said the only year we came close

to what was projected was 2018. Revenue has typically been less than we projected. Expenses are the opposite. For example, in 2015 we projected spending about \$1,151,000. We only spent about \$860,000. Encumbrance throws it off a little bit. Mr. Davila said although our revenue is often less than projected, what has helped us is the projection of expenses was higher than what we ended up spending. Mrs. Smith said we try to be conservative when creating the budget as far as revenues. One the handout, the green is the actual carryover. The average we have in additional carryover each year is \$175,596.68. Mr. Nielsen said Mr. Rick Novak was incredibly frugal. He could find dollars at critical times. Mr. Brown said any report is very illustrative of trends. What you don't identify is windfalls or projects. 2014 was the year of the new pavilion. We had extra expenses and extra grant monies coming in. That was a one-time project. Some things you can trend and some you can't. In 2017 we had a tax settlement, making the revenues appear higher. Ms. McClelland said Kelley's Island was also in 2017. Mr. Nielsen said financing projects have created additional revenues and the last two years have also heavily focused on getting caught up on maintenance. Mr. Davila said on page three, in 2019, the current total revenue is \$982,500.00 and on page four the total expenditures is \$1,110,817.79. That's negative \$128,317, not including the carryover. Ms. Smith said what's highlighted in yellow is new and related to the CDFA strategic plan. Economic development is now broken out. Ms. McClelland clarified that line items such as "planning and consulting" aren't new. We've always had a financial advisor. Some accounts have additional dollars programed into them. Mrs. Smith said planning consultant is still in the general fund. Mr. Brown said we don't need two of some, so the one in the general fund can be closed. Mr. Davila wants to make sure the board is okay with spending more than it brings in. Mr. Nielsen asked which line items increased or where is additional money being spent? Mr. Brown said off the top is salary increases. We put money in capital for pavilions and possible land or building acquisitions. Those are the big three. Mr. Nielsen asked how the state auditor's office would look at the budget. Mrs. Smith said

as long as you can afford it and have additional carryover going into the new year, we're fine. Ms. McClelland said we're doing what we've done for the last five years. We always project we'll spend more than we bring in and we always have a carryover larger than projected. Mr. Brown said if the board isn't comfortable budgeting expenses higher than revenues increased, we can adjust how we formulate the budget, however that would give staff little to no wiggle room or flexibility for emergencies. Mr. Davila asked if the board is comfortable with the pattern of projecting more revenue than we actually bring in? Mr. Brown said this is his second budget and last year we were within \$20,000 of our projected revenues. We're being very conservative for 2019. There are two term sheets out right now. If those two are signed that's \$150,000 in revenue. If the Kelley's Island project goes to bid, we could see even more this year. He said he doesn't want to see deficit spending, but he also understands the flipside. We aren't addressing a number of other projects, including the boardwalk at Riverside Park. Having \$500,000 in the bank is good, but we don't get any extra benefit from having a large carryover. Mr. Nielsen said Mr. Novak ignored general maintenance being frugal and we're catching up on that now. Mr. Kuszniir said the cost will only go up if we continue to neglect any of our properties. Mr. Nielsen said he understands we need to spend money to make money. The goal is to not be so reliant on our levy. Mr. Davila asked how much of the revenue was from the levy. Mrs. Smith said about 90 percent. Mr. Nielsen said the goal should be to get it down to 50 percent or less. Mr. Brown said he noticed where planning consultants was left as a line item in both the general fund and economic development and said one could be eliminated. Mrs. Smith said we may need a planning consultant for something unrelated to economic development. Ms. McClelland said this was a perfect example of how this isn't "new money." Instead of keeping the budget at \$30,000 for each line item, we slip that amount to break out the economic development portion. Mr. Davila asked what the net income is from a deal worth \$150,000. Ms. McClelland said it would be the full amount. That would be what we charge in fees. Mr.

Brown said economic development was broken out to show how well it grows or to justify hiring new employees when we grow. It may not come in as \$100,000 lump sum. It may be more like \$20,000 each year over five years. We want to have long-term revenue as well. Mrs. Smith said once we have a signed term sheet, we can program that into the budget because we know the fee structure and amounts to expect. Mr. Sommers said the budget is an educated guess. He agreed with Mr. Brown that if you don't leave any wiggle room, when you get to an emergency you have a problem. Mr. Nielsen asked when the county informs us on what has actually been collected. Mrs. Smith said it's usually in August. It might fluctuate a little before the end of the year, but not by much. The checks typically come in mid-March and August. Delinquent comes at the same time. When the property sells, we get the back taxes. Mr. Brown said the staff works well together. No big reallocations have come to the board because we have some flexibility between line items. We're not outspending. Last year we did the LED lighting project and landscaping upgrades. We didn't anticipate getting the additional landscaping done, but we had it in the budget and were still able to have a large carryover. In October we projected somewhere around \$350,000 and when the year ended, we had \$502,000 as a carryover. It's a level of trust. Mr. Nielsen asked about the minimum carryover. Mrs. Smith said we normally need around \$180,000-\$200,000 to be able to sustain until the first check comes from the county. We need to have the money budgeted before we can enter any new contract. Mr. Nielsen questioned if a carryover above \$200,000 was necessary. Mr. Brown said he thinks it's good to have a carryover of \$300-\$350,000. Even if we spent every dollar in the budget as presented, we cannot spend anything more than what has been budgeted. We would still have a \$350,000 carryover. Mrs. Smith said the average carryover in the last five years is \$483,343. Mr. Davila said we're actually doing pretty good. Mr. Brown said on its face without any additional revenue this looks like a deficit spending year. That isn't a pattern we intend on continuing. We made a large investment in staff this year. We took on an aggressive strategic plan and we


programmed additional investments into marketing and travel. The strategic plan was ambitious, and this is year one. This is the tough year to get everything started. We have to take some calculated risks. We were becoming a glorified park service, and we decided to refocus toward economic development. Even without any additional revenue and we spend every dollar we planned; we'll still have a carryover of more than \$350,000. We're hoping to capture new revenue through economic development. Mr. Davila said we're here to move Lorain forward. In looking over the sheets and hearing that the other board members feel comfortable, he said he's starting to feel more comfortable too. The budget is not set in stone. We can always come back and adjust if needed. Mr. Nielsen said he thinks we're moving in the right direction. He still sees a need for catchup on maintenance. Expenses for the last 5-6 years have been low. Mr. Nielsen said Mr. Novak had a different approach and we're also going down a path of economic development that Mr. Novak did not. We're gambling on being successful. Mr. Davila said he agrees with that, as well as being proactive and aggressive, but having more insight he feels comfortable with the budget. Mr. Kuszniir said he's comfortable with the budget. The Port has always budgeted more expenses than revenue. It's nothing new. This is worst case scenario with the revenue. With more projects and term sheets, it'll pad the budget even more. Mr. Davila thanked everyone for coming and said he would report to the full board at the next meeting. Mr. Brown said when he was with the city, he was forced to pass a razor thin budget and it was tough. The Port is different. He doesn't think 2019 will be much different than 2018. He said it's his job to find additional dollars if it comes to that. Two years ago, we had an unexpected \$7,000 toilet bill. It's a living, breathing document. There are a lot of safeguards in place. It's not our intention to spend every penny. Mr. Davila recommended a financial planning and audit committee meeting in June to see where we're at after the taxes come in. Mr. Nielsen agreed on having a February and June meeting to review the budget. He then moved to present the budget to the full board. Mr. Kuszniir seconded. Motion carried.

III. Other Business

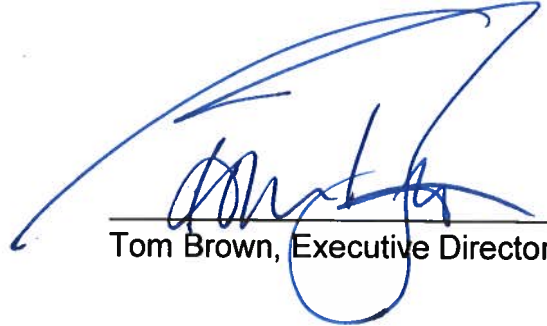
- A. None

IV. Adjournment

- A. There being no further business to come before the Financial Planning and Audit Committee, Mr. Nielsen moved to adjourn. Mr. Kuszniir seconded the motion. The motion carried and the meeting adjourned at 6:14 p.m.



Roberto Davila, Chairman



Tom Brown, Executive Director