

APPROPRIATION AND AMENDED CERTIFICATE UPDATES

Fund 200 Street Levy Increase Exp \$98,700 engineering Portage/Frederick
 Fund 217 Playground Fund Increase Rev/Exp \$350,000 Sherod Park project

I anticipate some changes to reflect the Capital Budget funding, etc. before the end of the month, so approving this on the second reading on the 13th is requested.

PROJECT PLANNING SUMMARY

Fund	YE Cash	Est. Rev	Available	Est. Exp*	ARPA \$ Rev Repl	Remaining	Current Yr. +/-
101 Operating	\$4,104,713	\$7,046,441	\$11,151,153	\$6,752,600	\$247,450	\$4,646,003	\$541,291
200 Road Levy	\$2,231,736	\$1,704,200	\$3,935,936	\$2,589,170	\$0	\$1,346,766	UrbanPavingInc. Portage/Frederick
201 Street M&R	\$151,777	\$733,500	\$885,277	\$771,341	\$0	\$113,936	
203 Permissive Use	\$432,625	\$242,500	\$675,125	\$297,380	\$0	\$377,745	
601 Water	\$1,521,218	\$3,082,250	\$4,603,468	\$4,235,189	\$0	\$368,279	Liberty Ph 2
602 Waste Water	\$639,419	\$2,333,700	\$2,973,119	\$2,532,701		\$440,418	
605 EPA	\$253,349	\$408,200	\$661,549	\$544,606		\$116,943	
*Includes 2021 C/O encumbrances							

TAX BUDGET

Resolution 2022R-8 is on the agenda for the initial reading of the 2023 Tax Budget. A public hearing is scheduled in advance of the June 13 Committee Meetings which was noticed in the Photojournal on June 2 in compliance with ORC.

Approval of the Tax Budget does not grant any spending authority 2023 by Council or the administration. The function of the Tax Budget is an “asking budget” submitted to the Erie County Budget Commission as evidence of the need to collect property taxes that are levied on behalf of the City of Vermilion. Each county has the authority to determine whether or not they require a Tax Budget to be submitted and the form prescribed may also vary.

INCOME TAX UPDATE

The first reading on the ordinance to waive the forgiveness of the final .5% of income tax to those working outside the city, is on the agenda this evening. RITA estimates approximately \$600,000 in additional income once a full collection takes place in approximately 3 years. Of this amount, \$400,000 would go to the General Fund and the remaining \$200,000 would be to the Street Maintenance Fund.

Discussion was raised at the May 9 meeting regarding increasing the overall income tax rate for the City of Vermilion to 2%. To raise the rate, it would require Council action to meet the deadline in August to place an issue on the November ballot, then a majority vote in the November election.

The estimate from RITA for the amount generated would be \$3.1 million at 2% for all residents regardless of work location.

ARPA 2ND PAYMENT APPROVED HB 377

The State has approved HB 377 that authorizes disbursement to non-entitlement units (NEUs) such as Vermilion the balance of the ARPA funding previously awarded. The total awarded to the City over this two-year period will be \$1,093,129 and is slated to be spent as initially proposed:

ARPA ALLOCATION										
Total Allocation				\$ 1,088,782.51						
				\$ 2,173.33			Additional allocation 03.2022			
Projects				\$ 2,173.16			Additional allocation 06.2022			
General Fund Revenue Replacement				\$ 247,450.00			(Bldg Dept Scanner \$13,421, Granicus \$9677)			
	238101									
LifeCare EMS Equipment Request				\$ 27,558.71			(\$32221.10 less Brownhelm Twp Share)			
	238102									
Sewer/Water Infrastructure Main St. Beach Proj				\$ 100,000.00						
	238103									
Water Plant Improvements (sludge tube)				\$ 158,750.00			(Orig. \$200,000)			
	238104									
Waste Water Treatment Plan Improvements				\$ 559,370.29			(Orig. \$509,000)			
	(Study, pumps, tanks, needs based on									
	assessment)									
	238105									
Total				\$ 1,093,129.00						

AUDIT UPDATES

Our Financial Statements were filed with AOS on May 17 (14 days to spare!) The required public notice for both the City and the Port Authority appeared in the Photojournal on May 26. The staff from CE Harris were on site the week of May 23 to finish up the compliance review.

FINANCIAL HEALTH INDICATORS

Beginning in 2015, the Auditor of State implemented a set of Financial Health Indicators (FHI) for City and County governments in Ohio. This is a set of benchmarks that may signal the fiscal health of these entities under a uniform set of standards.

Our preliminary report for 2021 has been provided showing each of the indicators. Vermilion has shown steady improvement in recent years. In fact, we are down to a single indicator that we do not reflect solid financial status. That indicator is the percentage of capital assets that are likely to need repaired or replaced. Vermilion's percentage is over 70%. Anything over 70% is considered critical due to delays improving or replacing capital assets in order to maintain cash flow for other purposes. This means that repairs and replacements are now absolutely necessary and have the potential to cause significant strain on the City's budget.

Vermilion had been hanging out in the Cautionary level for a number of years in part due not keeping the age and depreciation of assets updated in financial reporting. So, when this task was ultimately completed in 2020, our financial statements were no longer given a "qualified opinion" from the State, but the reality became clear.

At a glance, our FHI since 2015 is shown below:

Vermillion	City	Erie	2015 GAAP																Red: 1 Yellow: 6
Vermillion	City	Erie	2016 GAAP																Red: 1 Yellow: 5
Vermillion	City	Erie	2017 GAAP																Red: 3 Yellow: 4
Vermillion	City	Erie	2018 GAAP																Red: 1 Yellow: 1
Vermillion	City	Erie	2019 GAAP																Red: 0 Yellow: 2
Vermillion	City	Erie	2020 GAAP																Red: 1 Yellow: 2
Vermillion	City	Erie	2021 GAAP																Red: 1 Yellow: 0

CYBER SECURITY UPDATE

On Sunday, May 22, the city network was subject to a malware outbreak. A plan was put in place to quarantine machines and stop the spread. Secure Sight, a cyber security firm, was engaged by Lifecare IT to assist in resolution along with local staff. The attack was performed by a known ransomware group and FBI and CISA protocols for this specific group have been followed. No ransom was paid.

The initial report to the FBI was submitted on May 24, a phone conference for follow up was held May 27, and Lifecare IT has continued communication as appropriate.

The City's data was backed up safely offsite so there are no known losses or breaches at this time. The virus has been removed from the system. Security changes and additions have been made to prevent reinfection as the two-week period following an initial infection are more likely to follow with additional attempts.

The network and devices have been cautiously brought back online with priority placed on first responders and utility operations. Other city functions such as courts, payroll processing utility billing, etc. have followed. There have been limited devices that due to age, etc. have not been able to be updated to the new "normal" standards so will need replaced. IT is collecting that list for me with cost estimates. Fortunately, we had initiated the process of upgrading key components in the last couple of years that has facilitated the recovery process. A few pcs had to be wiped clean and reconfigured which caused loss of some items only saved on desktop or local drives. The loss was unavoidable during that recovery process, but the data did not fall in the wrong hands.

Once systems stabilized, we have attempted to keep communications going to all staff on progress made, what to expect in the "new normal" as well as how to get communication to IT about any problems that are lingering in their departments.

Due to delays in processing utility bills, no penalties will be assessed this billing cycle.

City of Vermilion
Erie County
Year Ended: December 31, 2021
Accounting Basis: GAAP

Preliminary 2021 Report

2021 Financial Health Indicators at a Glance:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17

Critical Outlook Financial Health Indicators: 1 Cautionary Outlook Financial Health Indicators: 0

Critical Outlook	Cautionary Outlook	Positive Outlook	Not Applicable
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(Please refer to the last page for definitions)

STATUTORY REQUIREMENT Ohio Revised Code Section 118.025 requires the Auditor of State to “develop guidelines for identifying fiscal practices and budgetary conditions, amongst municipal corporations, counties, and townships that, if uncorrected, could result in a future declaration of fiscal watch or emergency.” In addition to these fiscal caution guidelines, the Auditor of State has developed Financial Health Indicators (FHI).

FINANCIAL HEALTH INDICATORS (FHI) are a series of financial information, percentages, and ratios gathered from annual financial statements, filed by the local governments, which are useful in predicting financial stability. FHI will be used to recognize early signs of fiscal stress at specific local governments and take a proactive approach to monitoring or assisting these local governments, rather than only a reactive approach after declaration of fiscal caution, watch, or emergency.

Seventeen (17) FHI have been identified as useful in determining signs of fiscal stress. In the preliminary report, 16 of the indicators are based on information derived from the entity's prior audited and current unaudited financial statements submitted to the Auditor of State's office. Indicator 17 is based on the results of the audit of the current financial statements and is; therefore, not considered in this preliminary report.

HOW TO ANALYZE FHI No individual FHI is of use in identifying overall fiscal stress. These indicators must be considered together to obtain insight as to whether or not an entity is experiencing the signs of fiscal stress. The entity should review, in detail, any individual FHI identified as having a critical or cautionary outlook to determine areas of potential concern that would require evaluation of goals/objectives in order to ensure fiscal stability is maintained.

Important! Historically, based on entities that have been placed in fiscal distress (fiscal caution, fiscal watch or fiscal emergency) reporting under the **Generally Accepted Accounting Principles (GAAP)** basis of accounting:

- Entities may experience fiscal stress when at least **six (6)** critical (red) FHIs are reflected.
- Entities may experience fiscal stress in two to three years when at least **eight (8)** critical (red) and/or cautionary (yellow) FHIs are reflected.

The effects of implementation of GASB 68/75 for pensions/other post employment benefits have been removed from the applicable line items for consideration of Financial Health Indicators 1, 3, 13 and 16.

Please refer to the accompanying spreadsheet for calculation of the each Financial Health Indicator, the Financial Statement Data used in those calculations, and the type of audit opinion issued for audited financial statements.

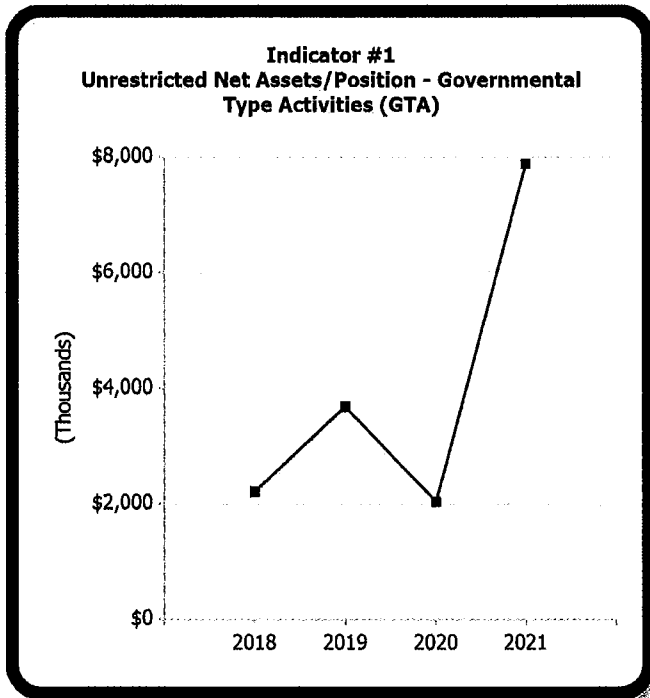
Note: The audit opinion issued for one or more of the years used in the Financial Health Indicator analysis for this entity was other than unmodified. Please refer to the accompanying spreadsheet to identify the year(s) affected. The audit report can be obtained via the Audit Search link below:

<https://www.ohioauditor.gov/auditsearch/Search.aspx>

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Indicator #1 - Positive Outlook



Unrestricted Net Assets/Position of Governmental Type Activities (GTA)

Unrestricted net assets/position represents the portion of net position that has no related liabilities or restriction as to use.

Description of indicator and what it means:
This indicator identifies when an entity has a declining or negative unrestricted net assets/position.

Why is it important?
This indicator identifies if net assets/position is available for unrestricted purposes. Although unrestricted net assets/position may not be in liquid form, it is important to have net assets/position available and unrestricted as to use. If an entity's unrestricted net assets/position is declining or is negative, it leaves little or no room for unexpected expenses; and therefore, is a sign of fiscal stress.

Critical Outlook– Zero or negative amount
Cautionary Outlook – Decline between the current and prior year by more than a 1%

Indicator #2 - Positive Outlook

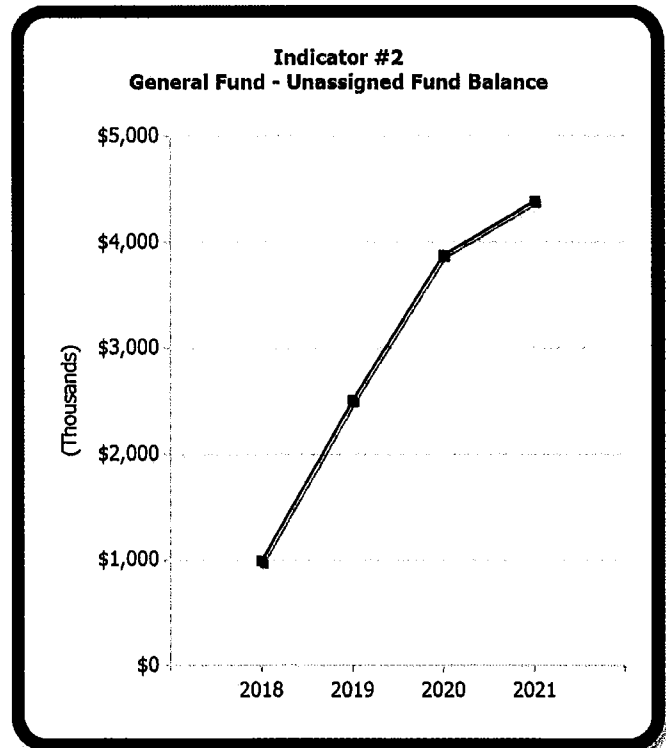
Unassigned Fund Balance of the General Fund

Unassigned fund balance is the portion of fund balance that has no related liabilities or has not otherwise been obligated.

Description of indicator and what it means:
This indicator identifies when an entity has a declining or negative unassigned fund balance.

Why is it important?
This indicator identifies if fund balance is available for unrestricted purposes. Although unassigned fund balance may not be in liquid form, it is important to have fund balance available without restrictions as to use. If an entity's unassigned fund balance is declining or is negative, it leaves little or no room for unexpected expenses; and therefore, is a sign of fiscal stress.

Critical Outlook – Zero or negative amount
Cautionary Outlook – Decline between the current and prior year by more than a 1%



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Indicator #3 - Positive Outlook

Change in Unrestricted Net Assets/Position - GTA

Description of indicator and what it means:

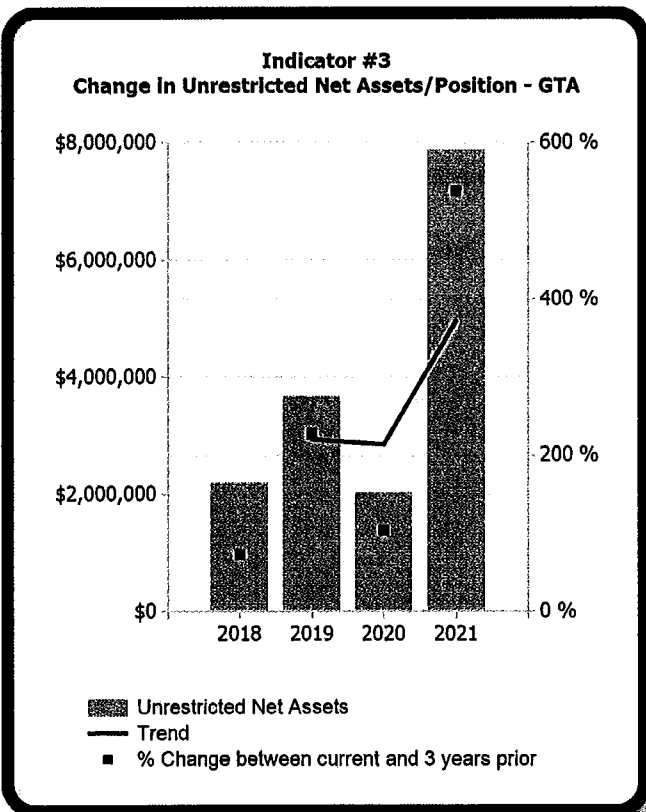
This indicator identifies changes (increases or decreases) in unrestricted net assets/position from the prior years to the current year and is useful in identifying local governments whose unrestricted net assets/position is deteriorating.

Why is it important?

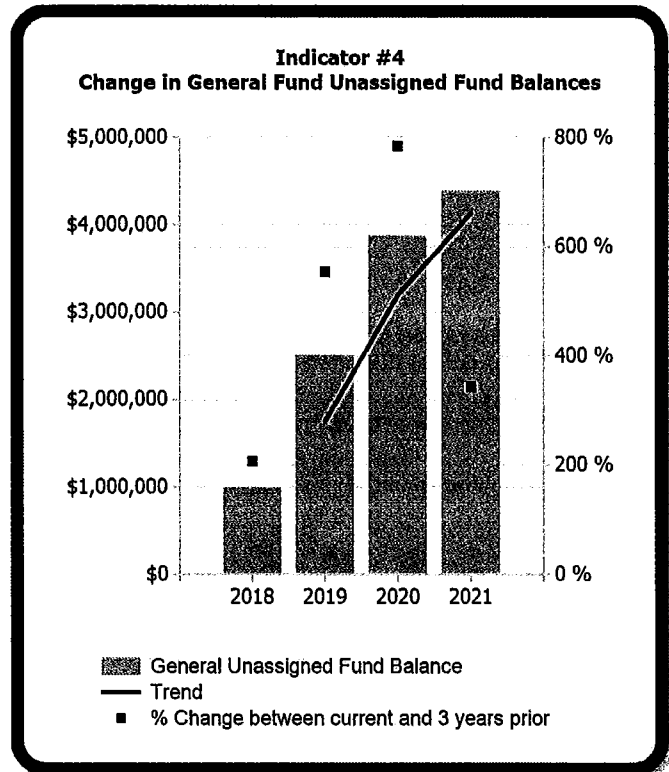
A declining unrestricted net assets/position can be a sign of fiscal stress. This indicator is important in identifying a trend of deteriorating unrestricted net assets/position as well as how rapidly it is deteriorating.

Critical Outlook – The current period and at least two of the previous three periods reflect a zero or negative amount OR a rapidly declining trend defined as a decline in each of the last 3 periods with a drop of greater than 20%

Cautionary Outlook – Declining trend defined as a decline in each of the last 3 periods with a drop of 10% to 20%



Indicator #4 - Positive Outlook



Change in General Fund Unassigned Fund Balances

Description of indicator and what it means:

This indicator identifies changes (increases or decreases) in unassigned general fund balance from the prior years to the current year and is useful in identifying local governments whose unassigned general fund balance is deteriorating.

Why is it important?

A declining unassigned general fund balance can be a sign of fiscal stress. This indicator is important in identifying a trend of deteriorating unassigned general fund balance as well as how rapidly it is deteriorating.

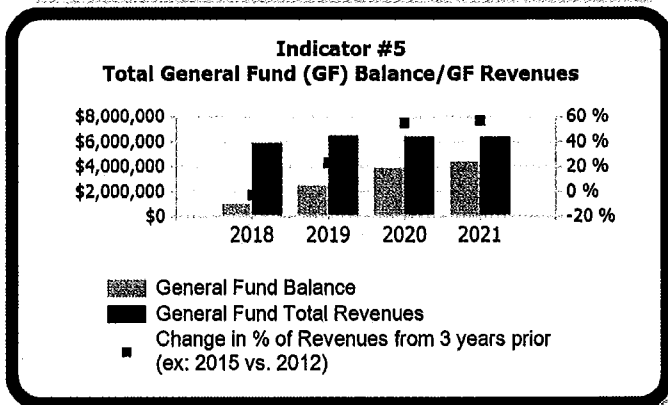
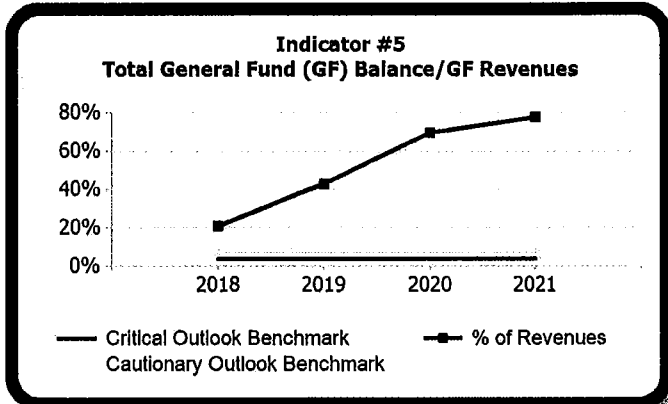
Critical Outlook – The current period and at least two of the previous three periods reflect a zero or negative amount OR a rapidly declining trend defined as a decline in each of the last 3 periods with a drop of greater than 20%

Cautionary Outlook – Declining trend defined as a decline in each of the last 3 periods with a drop of 10% to 20%

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Indicator #5 - Positive Outlook



Total General Fund (GF) Balance/GF Revenues

Description of indicator and what it means:

This indicator identifies reserves available in the General Fund. The larger the reserve the better the entity is able to absorb, in the short term, the impact of sudden revenue loss or significant increases in operating costs and begin planning financial adjustments.

Why is it important?

This indicator identifies a low reserve of fund balance even if Indicators 1 through 4 do not indicate negative unrestricted net assets/position or unassigned fund balance.

Critical Outlook – Negative percentage, very low percentage (<1/24th or 4%), OR if fund balance is less than a 2 month carryover (17%), a rapidly declining trend defined as a drop of 10% or greater over a 3 year period.

Cautionary Outlook – Low percentage (< 1/12th or 8%) OR if fund balance is less than a 2 month carryover (17%), a declining trend defined as a drop of 5% - 10% over a 3 year period OR if fund balance is less than 6 months (50%), a decline in each of the last 3 periods.

Indicator #6 - Positive Outlook

Decline in General Fund Property Tax Revenue

Description of indicator and what it means:

This indicator reflects the percentage change from year to year for property tax revenue.

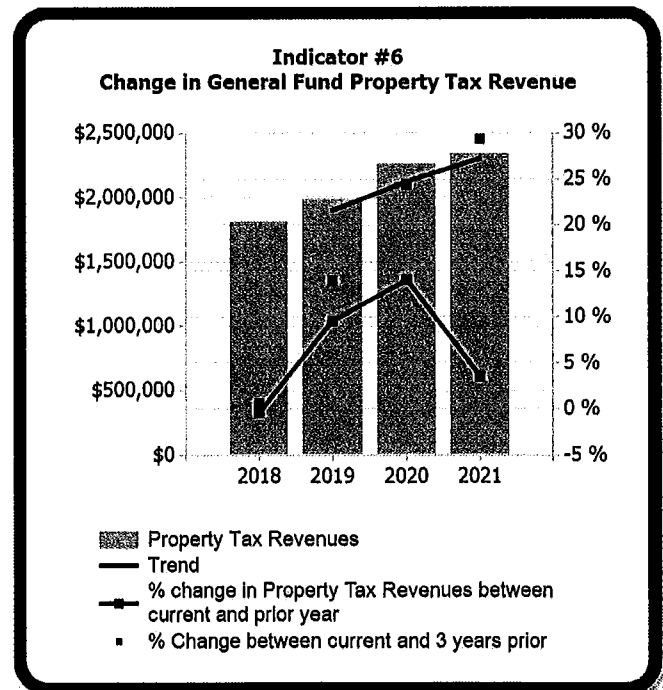
Why is it important?

This indicator reflects declines in property tax revenues and is an indication that an entity may be facing financial hardship due to declines in significant revenue sources. It also will reflect the need for additional sources of revenue to maintain stability.

Critical Outlook – If Property Tax Revenues represent 7-20% of Total General Fund Revenues(#), a trend of declining tax revenue over the last 3 years in excess of 20% OR if Property Tax Revenues represent greater than 20% of Total General Fund Revenues(#), a trend of declining tax revenue over the last 3 years in excess of 10%.

Cautionary Outlook – Decline in property tax revenue from the current to the prior year by more than 1%

- Please refer the accompanying data sheet for the calculation of the % of total revenue



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Indicator #7 - Positive Outlook

Decline in General Fund Income Tax Revenue

Description of indicator and what it means:

This indicator reflects the percentage change from year to year for income tax revenues.

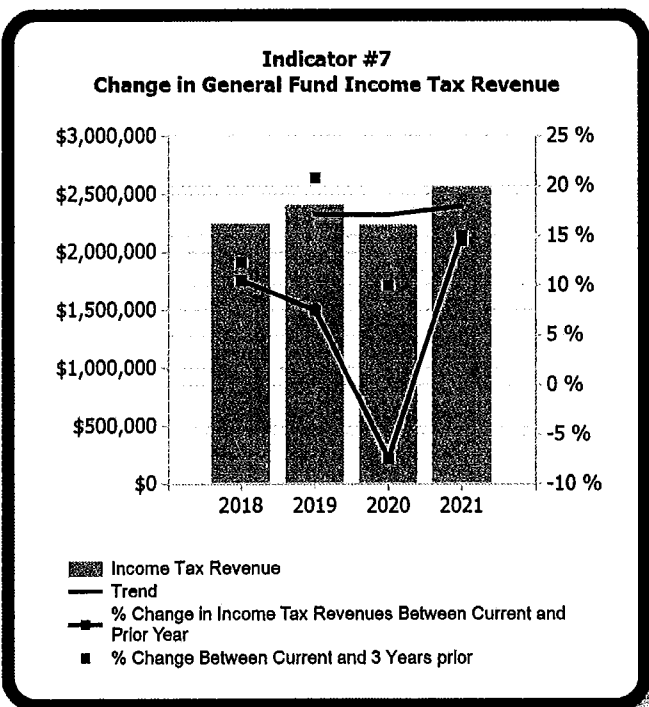
Why is it important?

This indicator reflects declines in this revenue type and is an indication that an entity may be facing financial hardship due to declines in significant revenue sources. It also will reflect the need for additional sources of revenue to maintain stability.

Critical Outlook – If Income Tax Revenues represent 7-20% of Total General Fund Revenues(#), a trend of declining tax revenue over the last 3 years in excess of 20% **OR** if Income Tax Revenues represent greater than 20% of Total General Fund Revenues(#), a trend of declining tax revenue over the last 3 years in excess of 10%

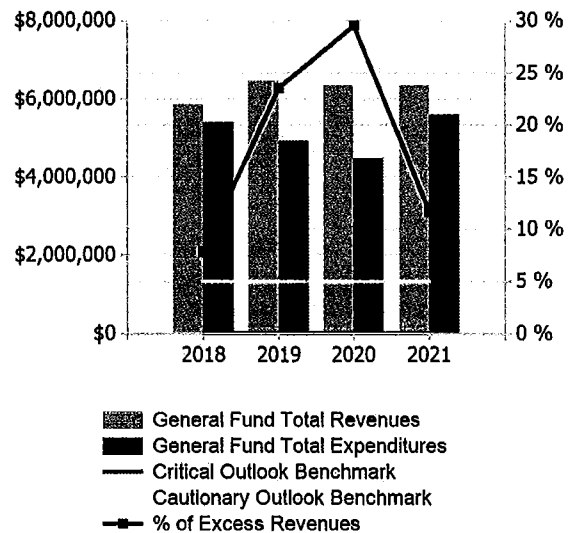
Cautionary Outlook – Decline in income tax revenue from the current to the prior year by more than 1%

- Please refer the accompanying data sheet for the calculation of the % of total revenue



Indicator #8 - Positive Outlook

**Indicator #8
 Percentage of General Fund Revenues that Exceed
 General Fund Expenditures**



**Percentage of General Fund Revenues that Exceed
 General Fund Expenditures**

Description of indicator and what it means:

This indicator is calculated as total General Fund revenues less total General Fund expenditures, divided by total General Fund revenues. It will provide an indication of operating deficits and the size of the operating deficit compared to the current year budget. An operating deficit is the difference between revenues and expenditures. If expenditures exceed revenues, an operating deficit exists.

Why is it important?

This indicator is important because it reflects if an operating deficit exists, but also emphasizes the size of the deficit as compared to the current year's budget. This is an indication of the shortage in the current budget. A trend of operating deficits indicates potential financial hardship.

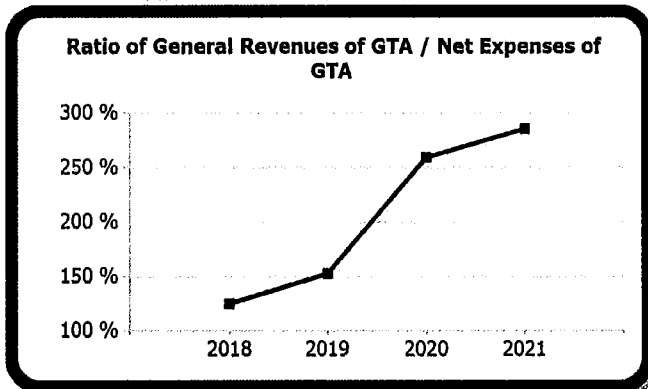
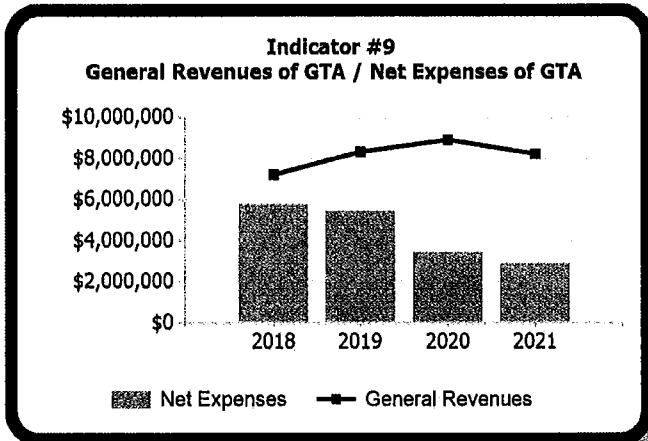
Critical Outlook – Negative percentage

Cautionary Outlook – Low percentage (< 1/20th or 5%)

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Indicator #9 - Positive Outlook



General Revenues of GTA / Net Expenses of GTA

Description of indicator and what it means:

The ratio of this indicator reflects coverage of net expenses by general revenues. This indicator determines if, on a government-wide basis, expenses are exceeding revenues. For example, local taxes, unrestricted revenues (e.g. investment earnings) and unrestricted grants should be sufficient to meet expenses not covered by program revenues. Net Expense is total expense less program revenues. Program revenues include charges for services (e.g. fees and fines), operating grants and capital grants.

Why is it important?

This indicator is important to be aware if a shortage in revenues to cover expenses exists. A declining trend would indicate fiscal stress.

Critical Outlook – Ratio less than 100%

Cautionary Outlook – Declining trend of at least 3 years

Indicator #10 - Positive Outlook

General Fund Intergovernmental Revenues as a Percentage of Total General Fund Revenues

Description of indicator and what it means:

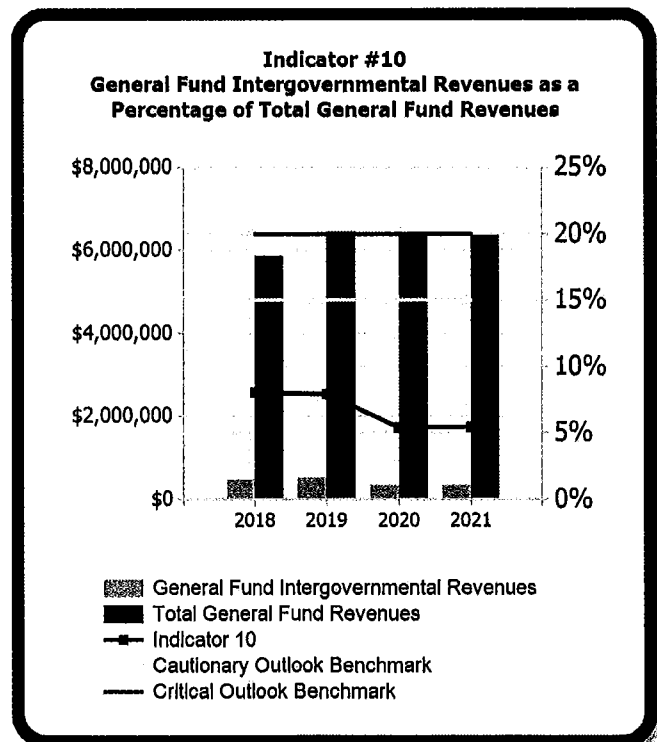
This indicator will reflect an over-reliance on intergovernmental revenues which are subject to state and federal budget cuts. A high percentage suggests the entity is heavily reliant on external governmental organizations for grants, entitlements, or shared revenues; and therefore, vulnerable to decreases in these revenue sources.

Why is it important?

It is important to be aware of the percentage of total revenues that are not considered "own-source," or local sources of revenue. Understanding the percentage of total revenues derived from intergovernmental sources is important when trying to maintain fiscal stability while dealing with an economic downturn.

Critical Outlook – Ratio greater than 20%

Cautionary Outlook – Ratio between 15% - 20%



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Indicator #11 - Critical Outlook

Condition of Capital Assets

Description of indicator and what it means:

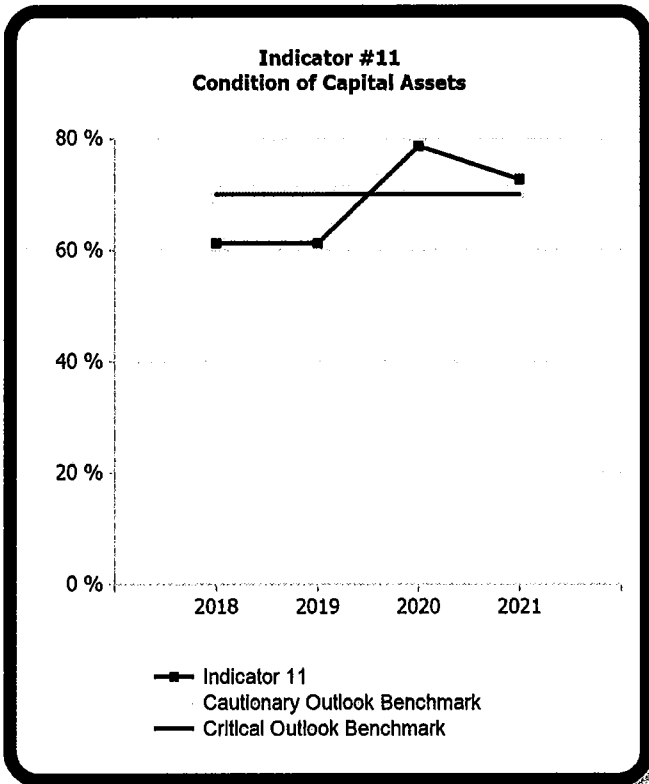
This indicator is accumulated depreciation as a percentage of depreciable capital assets. This indicator will identify apparent situations in which repair or replacement of the local government's capital assets will be necessary. A high percentage indicates capital assets replacement is imminent, and the entity may be delaying replacement of capital assets or significant repairs for cash flow purposes.

Why is it important?

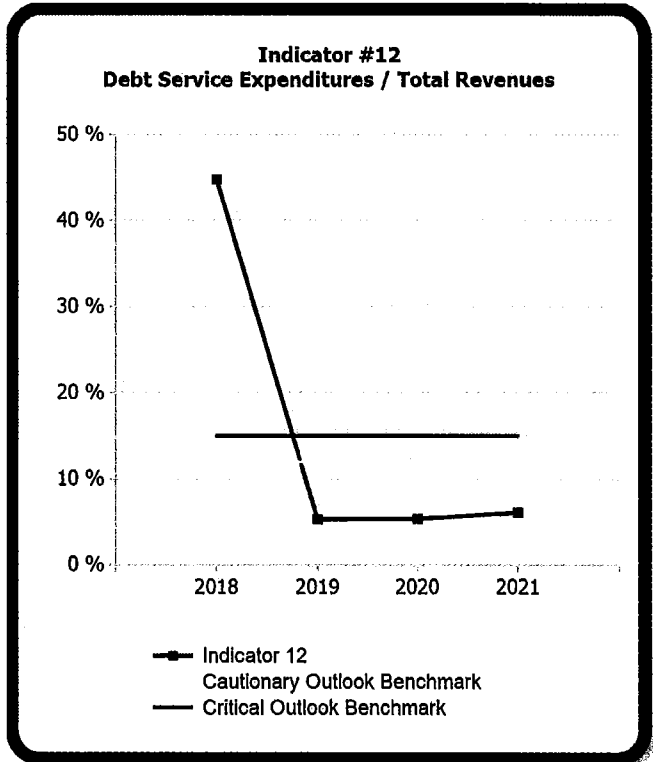
When an entity delays improving or replacing capital assets in order to maintain cash flows for other purposes, improvements and replacements become absolutely necessary and may contribute to financial hardship on an already strained budget.

Critical Outlook – Ratio greater than 70%

Cautionary Outlook – Ratio between 50% - 70%



Indicator #12 - Positive Outlook



Debt Service Expenditures / Total Revenues

Description of indicator and what it means:

This indicator is total debt service expenditures divided by total revenues (for all governmental funds). This indicator identifies the percentage of the budget used/needed for repayment of debt.

Why is it important?

Higher debt service expenditures to total revenues is unfavorable since the entity spends more of its current budget on debt repayment. An increasing trend of debt service expenditures to total revenues may mean the percentage of budget dedicated to debt payments is increasing; and therefore, less revenue will be available for capital asset repair/replacement or meeting current operating demands.

Critical Outlook – Ratio greater than 15%

Cautionary Outlook – Ratio between 12% - 15%

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Average Daily Expenses or Expenditures Ratio
(Indicators 13, 14 & 15)

Description of indicator and what it means:

Indicators 13, 14 and 15 identify the number of days the local government's unrestricted net assets/position, unassigned fund balance, and cash and investments will sustain the entity. The indicators are based on the daily average expenses/expenditures.

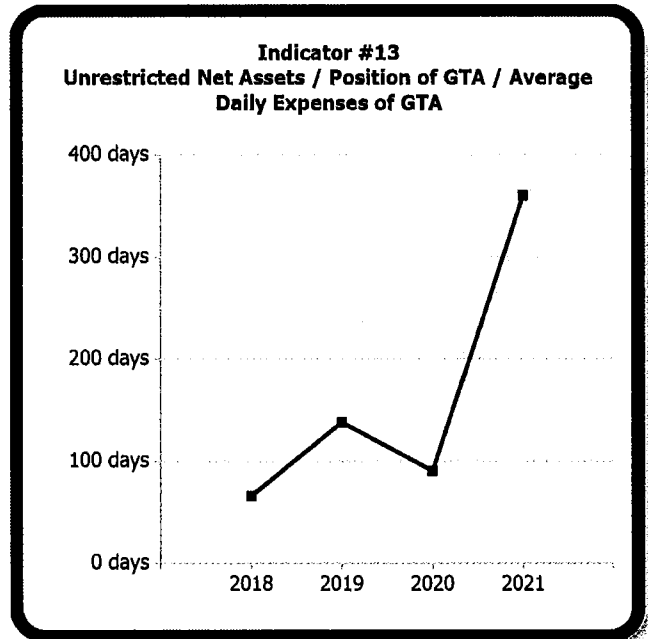
Why is it important?

These indicators are important because they identify the number of days the entity may operate using their unrestricted net assets/position, unassigned fund balance, and cash and investments. The fewer days the entity can operate, the more financial stress they are under. These indicators provide an early indication of an entity's need to adjust their financial/expenditure planning.

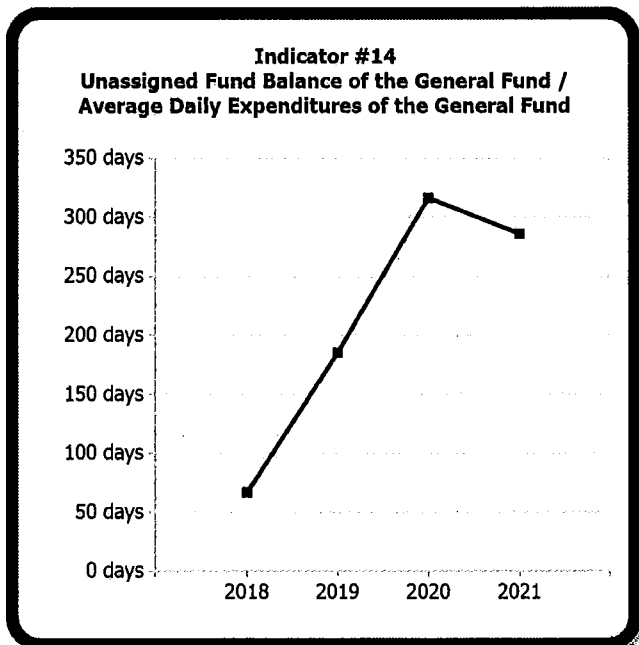
Critical Outlook— Zero days or below

Cautionary Outlook – Less than 30 days

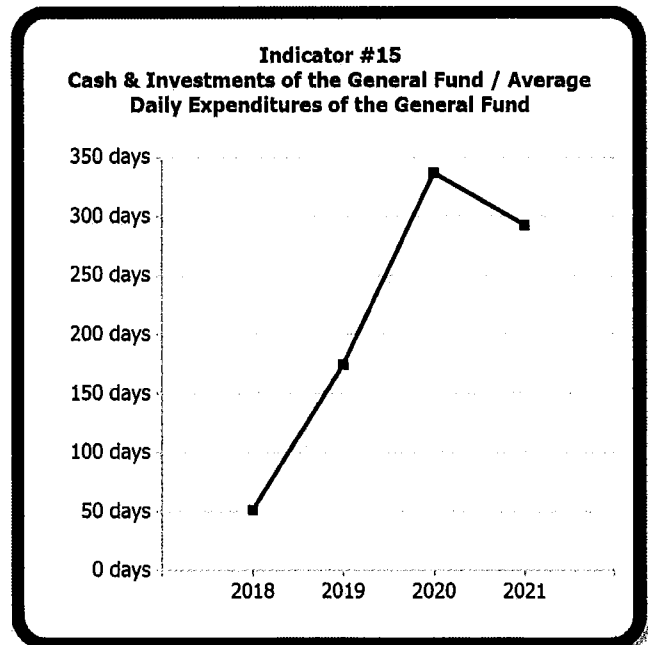
Indicator #13 - Positive Outlook



Indicator #14 - Positive Outlook



Indicator #15 - Positive Outlook



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Indicator #16 - Positive Outlook

Indicator #17 - Not Applicable (Preliminary Report)

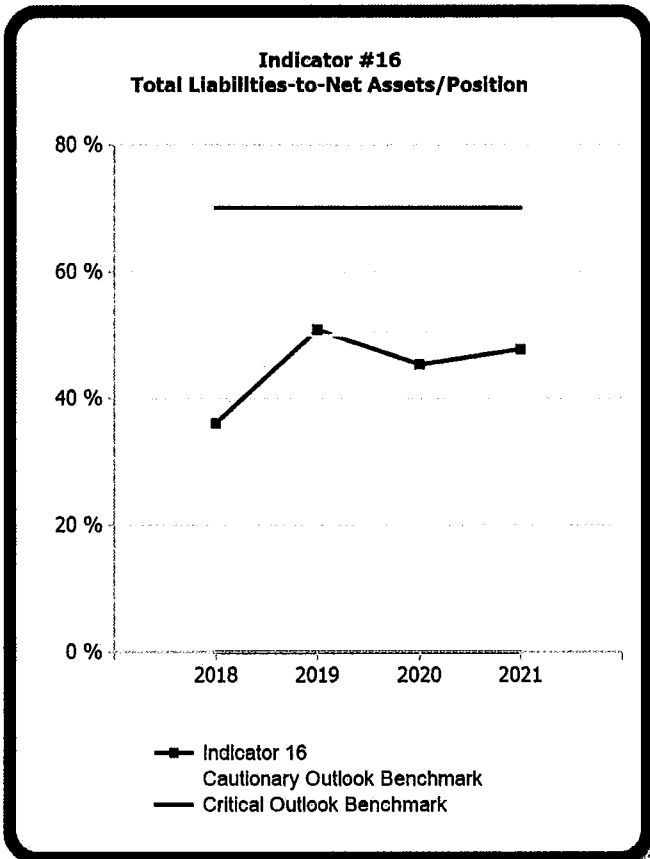
Budgetary Non-Compliance and/or Unreconciled/Unauditable Financial Records?

Description of indicator and what it means:
This indicator identifies if an entity's recent audit reports include budgetary non-compliance and/or unreconciled/unauditable financial records. Results are presented for the four (4) most recently audited years; however, the indicator #17 determination is only based on the current and prior two (2) audited years.

Why is it important?
This indicator will reflect if an entity is not complying with Ohio budgetary law and/or proper accounting methods. Maintaining accurate, reconciled accounting records and adherence to Ohio budgetary law is a significant factor in maintaining fiscal stability.

Critical Outlook – Direct and material audit finding(s) described above for the current and prior two audit years

Cautionary Outlook – Direct and material audit finding(s) described above for the current audited year



Total Liabilities-to-Net Assets/Position

Description of indicator and what it means:
This indicator is the ratio of total liabilities of GTA divided by total net assets/position of GTA and indicates the percentage of every dollar of resources available for providing public services that is owed by the entity.

Why is it important?
This indicator identifies entities that are overextended in terms of the percentage of every dollar which is owed to others.

Critical Outlook – Negative ratio (which indicates negative net assets) OR ratio greater than 70%

Cautionary Outlook – Ratio between 50% - 70%

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FHI Definitions

Critical Outlook:

The more serious of the outcomes of the FHI analysis. An indicator with a Critical Outlook signals a potential high risk of fiscal stress. The entity should review the cause of the Critical Outlook indicator and consider steps necessary to alleviate the condition.

Cautionary Outlook:

Although not as serious as an FHI with a Critical Outlook, an indicator with a Cautionary Outlook signals a situation of which the entity should be aware. The entity should review the cause of the Cautionary Outlook indicator since, left unchecked, it could develop into a Critical Outlook indicator.

Positive Outlook:

This entity does not meet a Critical or Cautionary Outlook as defined above.

Not Applicable:

This entity did not report data for this indicator or the data for determination of the indicator is unavailable.

QUESTIONS ?

More detailed information regarding the Financial Health Indicators can be found on our website at <https://ohioauditor.gov/FHI/default.html>

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If you have additional questions, please email: FHIndicators@ohioauditor.gov

or contact:

Ohio Auditor of State's Office
88 E. Broad St.
Columbus, Ohio 43215