



Dave Yost • Auditor of State

November 21, 2014

Commission Members
City of East Cleveland Financial
Planning and Supervision Commission
Columbus, Ohio 43215

Delivered via e-mail

Commission Members:

I write today to update you on developments regarding the financial status of East Cleveland and their impact on the ability to serve the people of that City. It is fair to say the City is on the verge of collapse.

For many months, our Local Government Services staff has monitored the City's bank account to determine whether it will even be able to meet payroll each pay period. During 2014, only sheer luck has kept it from that one unexpected expense that would jeopardize the payroll.

That luck is unlikely to continue, given the growing number of problems and expenses that have been deferred for a lack of money. For example:

- My staff has discovered that the City is not able to provide adequate street maintenance due to the lack of working equipment. The City's asphalt warmer, street roller, and two street sweepers are in need of repairs.
- The fire department does not have a working ladder truck, and the cities of University Heights and South Euclid have canceled their mutual aid agreements with the City due to this lack of working equipment.
- The City continues to receive notices from vendors threatening potential legal action for lack of payment of amounts due. Such vendors include FirstEnergy and AT&T. All City cell phones have been shut off due to lack of payment to the cell phone provider, Sprint.
- There is anecdotal evidence of doctors refusing treatment due to outstanding bills which they believe should have been covered by insurance. At least one employee has retained legal counsel for potential action against the City.

East Cleveland's recovery plan is inadequate to return it to fiscal health in this current environment. Subsequent events have overtaken the plan and made it unworkable -- erosion in the red-light camera revenue, limited savings available through shared-services elements of the plan, and unanticipated expenses (e.g., the judgment in Rhode Island, heavy equipment repairs, healthcare claims).

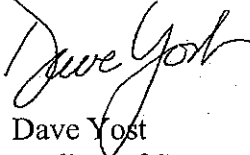
With these mounting challenges facing the City, the question of anticipated local government borrowing must be addressed with realistic expectations. The truth is that the City remains in a structural deficit, and the planned actions to balance it are not enough to fix it. There simply is not enough money to pay expenses as they become due. East Cleveland is insolvent.

I commend the Mayor and City Council for the many hard choices they have made to reduce spending. However, if the City were to borrow as planned, it would only be a temporary cure. Because of the structural deficit, the accounts payable would soon stack up again. We would be in the same position, with fewer resources.

This office cannot support borrowing without a clear plan that eliminates the structural deficit.

The 2015 budget preparation is underway, and that budget must reflect a greatly reduced spending pattern and eliminate the structural deficit. Accordingly, as the financial supervisor of the City, we recommend the Commission direct the City to immediately develop and submit a new recovery plan, with spending cuts or new revenue sufficient to create a structural balance.

Sincerely,



Dave Yost
Auditor of State

cc: Tim Keen, Director; OBM
Sharon Hanrahan, Financial Planning Commission Administrator; OBM