

# VALUE IN NORTHEAST OHIO

October 2009

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## Natural Gas: Fixed or Variable?

A friend asked me if I would lock in a fixed rate for natural gas this winter or go with a variable contract. First I will preface this by saying that this decision is similar to other financial decisions in that there is risk and reward. Fixed rate contracts are generally more expensive as the gas supplier is accepting the risk of changing supply prices. You should consider how tolerant you may be to an adverse result. If the fixed price is \$7.00/mcf can you tolerate being in a variable contract where the price may get to \$10 or more this winter? If you are comfortable with \$7/mcf and not worrying about changing gas prices then a fixed rate contract probably is better for you.

Until recently I thought I would stay with my variable rate contract. I am currently paying about \$5.00/mcf and a fixed rate contract will be about \$6.90/mcf.

I don't think that natural gas prices are going to spike up. Lately they have continued to decline even as oil prices have risen. There are several reasons for this. Natural gas is more of a localized energy commodity. Oil can be shipped in tankers. Gas has to be liquefied, which is more costly as it requires refrigeration and the ability to han-

dle the liquefied natural gas (LNG) is limited. Revolution in Iran or a boom in the Chinese economy will have a more immediate impact on oil than gas.

The major uses of gas are heating and electricity generation. With the economy down, demand for gas is lower than what it has been for several years. Even if there is a rapid pick up in the economy, demand will not be where it was last winter with GDP down about 2.5% from this time last year. As far as heating goes, I cannot predict the weather. We have had a cool summer (I think that was a Go Go's song). That has probably helped further suppress energy demand in this part of the country. If we have a long cold winter gas prices will rise.

The good news is that there is enormous gas inventory. The red line in the chart on the next page shows the current inventory levels and the grey band shows the inventory range for the previous five years. We have plenty. So the chances of a sharp run up in gas prices seem unlikely.

So why am I switching to fixed? The futures prices for December to February, the period in which I use about 80%- of my annual consumption, is currently \$5.80/



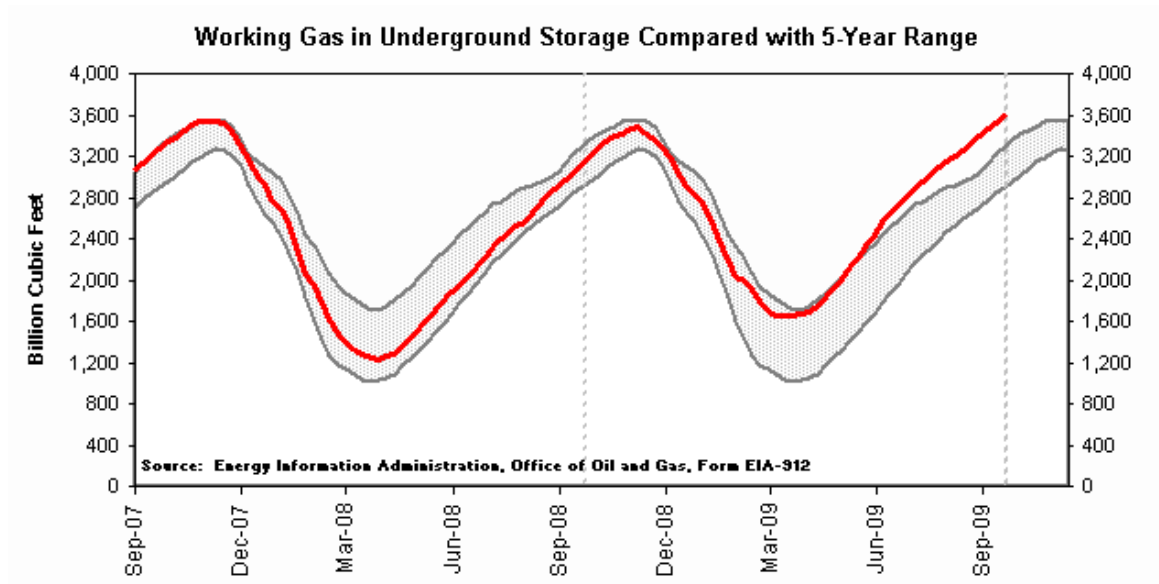
## Natural Gas, Continued

mcf. My gas provider will add another \$1.20 to that. Without the expectation of some significant savings, I will avoid the risk.

Here are some other strategies to employ:

Find out the date you have to make a commitment. My gas contract runs through the October billing cycle. If you do purchase a fixed rate contract it can still be in your best interest to break it and pay the \$75-\$125 fee. That de-

pends on the quantity of gas you will typically use during the remainder of the contract period and the price differential. I might use 125 mcf of gas during the winter so changing in December to save more than \$1 per mcf merits consideration. Remember that if you change your gas contract, it will not go into effect until your next billing cycle. If you change in late December you won't see the effect until you receive your bill in February.



Source: Energy Information Administration

## Ballot Issues: Gambling in Ohio

I have stated that I will avoid partisan politics, which is relatively easy for me since I find significant flaws in both political parties. Since its my newsletter I will advocate for issues I think are important. The first issue I want to talk about is Issue 3 to allow casino gambling in Cleveland, Columbus, Cincinnati, and Toledo.

I am in favor of this issue. While I do not think that it will magically transform the state or region, it will enable job creation, particularly for lower skilled workers, which are in abundance in Ohio.

In the Cleveland area it will be particularly useful as we construct the Medical Mart and renovate the Convention Center. The addition of a casino should further

## Gambling in Ohio, Continued

improve the attractiveness of Cleveland as a convention destination.

I have seen some of the advertisements against the issue and take issue with their objections. They claim that 34,000 jobs will not be created and that there is no local preference. First, if its 25,000 jobs is that so bad? Second, there doesn't need to be a local preference as that is naturally occurring. Dealers, bartenders, etc. are much more likely to come from local applicants than out of the area. But even if there are people brought in, what's wrong with them buying houses in the area and shopping in our stores? Basically it is still economic growth. The Issue 3 opponents claim that it takes Ohio jobs from Ohioans, but if Issue 3 fails there will be no jobs for Ohioans or anybody else.

I recognize that there will be some increase in gambling by those who should not be doing so. I do not believe that government should be so paternalistic that reasonable activities should be pro-

hibited because a small minority cannot manage their vices. With casino gambling already present in most adjacent states, and the in-state presence of racetracks, charity bingo and poker tournaments, the incremental amount of gambling, particularly by those who probably should not, seems minimal.

It's ironic that many of the same voices that claim to be libertarians and want to keep government out of business espouse the most draconian interference with the ability of the gaming industry to develop. If someone finds gambling morally offensive there is a simple solution for them: don't go to the casinos.

The advertisements of the opponents of Issue 3 are attempting to appeal to people who are both narrow-minded and dim-witted with their parochial approach to job creation. I suspect it is their parochial attitude as to who should be benefitting from gaming in Ohio that is motivating this.



## Ballot Issues: Cuyahoga County Reform

There are two issues in Cuyahoga County for governmental reform. Issue 5 would establish a study group to recommend changes to the County's charter and select people to sit on the study group. Issue 6 would replace the current structure of electing 3 commissioners, recorder, auditor, coroner, engineer and treasurer on a countywide basis with an executive that would select the

other officers and a legislature that would be based on district representation and approve fiscal initiatives.

Issue 6 was developed out of a bipartisan group of public officials that could see how poorly the current form of government is serving the County. It will cease the elections of the Auditor, Recorder, Treasurer, Sheriff, Engineer



## Cuyahoga Reform, Continued

and Coroner. Instead a County Executive will be elected to appoint those people. A legislative body will be based on newly drawn districts and will serve to provide fiscal oversight and propose new rules and ordinances.

There are also several boards and committees specified that require bipartisan representation.

Issue 5 is an attempt by the current county commissioners to confuse the electorate and maintain the *status quo*. The study group will take a year to produce its findings delaying reform. The Machine then has selected a slate of individuals to sit on the committee that are strongly interested in maintaining their power base. They are opposed by a slate of individuals of whom I am not familiar with any.

I am pessimistic about the likely quality of charter review committee's recommendations or the probability of it be-

ing enacted.

To the right you can see the building formerly known as Ameritrust Tower, but now known as Cuyahoga's Monument to Bad Government. The County spends \$30 million to buy the building only then to decide it cannot use it. Then when two of the Commissioners come up for election both win, one unopposed!!!?

The corruption that is keeping the Plain Dealer in business is in no small measure the result of one party completely dominating county politics. There is little doubt that Republicans will be more relevant, though still a distinct minority in terms of power.

The proposed structure forces more light and air into the political structure than the current closed door system. This will help retard future growth of mold and mildew that is the result of single party domination.



*Joshua C. Feldman, CPA, CFE, CVA provides business valuations for Income, Gift and Estate tax planning and return preparation. Valuations are also performed for advisory purposes on business purchase and sales. Business process documentation, financial analysis, and interim financial management are other services provided.*

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