

**Amberley Village**

**Final Report of the Ad Hoc  
Citizens' Advisory Committee**

**February 20, 2012**

**Amberley  
Village**

**This Report has not yet been formally presented to  
Village Council at a meeting of Village Council.**

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## Executive Summary

For many years, Amberley Village has spent far more than it has generated in revenue. In those few years when the Village had a budget surplus, it was only because of higher than expected inheritance tax receipts. In 2011, the Village spent approximately \$700,000 more than it brought in; an even greater shortfall is anticipated for 2012.

After 2012, the Ohio inheritance tax will be abolished and, with it, an average of nearly \$1 million per year in revenues to the Village will no longer be available. The Village must raise new revenue, at least temporarily, to balance its budget which, beginning in the 4<sup>th</sup> Quarter of 2013, will include the additional cost of long-term financing related to the purchase by the Village of Amberley Green.

Despite the Village's long-term deficit spending, the Village spends more on a per resident basis than other similar communities on police, fire, maintenance, administration and other government services. There is no dispute that Village employees, including its excellent Police/Fire Department, well-trained, veteran maintenance personnel, and extremely professional administrative staff, provide a very high level of important services. However, communities such as Mariemont, Glendale, Terrace Park, Montgomery and Wyoming pay *significantly less* per capita than Amberley for a similarly high level of services. Only Indian Hill residents pay more per capita for their services than Amberley's residents.<sup>1</sup>

The Village's long-standing practice of deficit spending and failing to keep costs in line with its peers must stop.

If the residents of Amberley Village approve the 10-Mill Police Levy during 2012, it is the recommendation of the Committee that Village Council should immediately enact a 5-year plan to reduce annual expenditures to a level that will eliminate the need to renew the levy after it expires in 2017 and to bring Amberley's expenses in-line with similar communities. A majority of the Committee believes that such a plan would not require a significant impact on Village services or current employees.

If Village residents do not approve the 10-Mill Policy Levy in 2012, Council will likely balance the 2013 budget by raising earnings taxes on a relatively small percentage of residents, reducing or eliminating some Village services, and imposing layoffs and salary and benefit reductions on Village employees. These actions may also eventually bring Village expenses in-line with similar communities, but at a greater cost to Village residents and employees.

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<sup>1</sup> It should be noted that approximately ten percent of Amberley Village property is exempt from property tax.

This report will provide an overview of relevant information about the Village's financial situation and a list of recommendations for Council to consider as it grapples with this critical issue.

## **Ad Hoc Committee Overview and Assumptions**

The Ad Hoc Citizens' Advisory Committee (the "Committee") was formed at the suggestion of Village Council Member Ed Hattenbach and was appointed in early November 2011 by outgoing Mayor Merrie Stillpass. The members of the Committee are Village residents who agreed to advise Council on ways to avoid an impending fiscal crisis. As explained in greater detail in this Report, during the ensuing four month period, the Committee performed an exhaustive analysis of the revenue and spending of Amberley Village in an effort to provide Village Council with recommendations on ways to balance the budget in a responsible and fair manner. During the course of the Committee's review, the Committee held approximately 14 formal meetings, including meetings of Revenue and Expense Subcommittees and spent hundreds of hours in the aggregate. All meetings were held in public. Our meetings were regularly attended by members of the Village staff, including Village Manager Scot Lahrmer, Police Chief Rich Wallace and Public Works Supervisor Steve Rasfeld, and many current members of Village council, as well as the public. The Committee is grateful for the assistance provided by these many dedicated employees and residents.

The Committee undertook to educate itself on the historical spending and revenue of the Village and reviewed hundreds of pages of documents, reports and other information specific to the Village. The Committee also obtained relevant information concerning the spending of other communities and the impact of changes in revenue as a result in changes in state and other funding sources (such as the elimination of Ohio's inheritance tax). Finally, the Committee solicited and received input and ideas from residents both formally (including through comments and statements made at our meetings) and informally. The Committee accepts as true and accurate the information provided to it by the many sources and contributors available to it, in particular the information provided by Messrs. Lahrmer, Wallace and Rasfeld. While in certain respects the Committee reached conclusions and prepared analyses that differed from those offered by others, the Committee does not challenge the integrity and truthfulness of the information provided to the Committee or those providing it.

It is an understatement to say that the challenges facing Amberley Village are difficult. Virtually no governmental entity in the United States, whether a state, county or local government or agency, has been able to continue business as usual during the last four years. All responsible governments have been or are currently engaged in efforts to

restore fiscal health to their constituents. No Village resident desires to pay more in taxes or fees and most Village resident have no desire to see any material reduction in the level of services provided to residents. We are blessed with the good fortune to live in a village that has historically provided the highest level of services in a highly professional and respected manner.

The Committee discovered, however, that for many years the expenses incurred by the Village to provide such services actually outpaced the reliable revenue on which the Village could depend. Rather, the overspending was masked by the receipt of inheritance taxes, an unreliable and unpredictable revenue source that will be eliminated after 2012.

The Committee has concluded that Amberley Village failed in the recent past to responsibly budget expenses and, in fact, has spent more than was reasonable based on a realistic assessment of available revenues. While “apples to apples” comparisons of Amberley Village to other “peer” communities such as Mariemont, Indian Hill, Terrace Park, Wyoming and Montgomery, among others, are difficult, the Committee concluded that Amberley Village spends more per resident than peer communities. And, in many cases, Amberley Village spends substantially more per resident without any apparent need or justification.

The Committee recognizes, as we also believe most residents understand, that at the current time, it is simply not fiscally responsible to continue to budget expenses on anything other than reliable, and unfortunately dwindling, sources of revenue. The fiscal management of the Village must change and become more responsible if the Village is to avoid a serious fiscal emergency that could result in a default on the Village’s obligations regarding the Amberley Green financing, and a potential for drastic remedies being imposed by the State of Ohio. The Committee believes strongly that the “pain” of demanding fiscal responsibility and accountability of Council and Village management should be shared by all residents and employees in a fair and sensitive manner. The fiscal problems facing the Village were not created overnight and they cannot be remedied overnight. Residents and employees must recognize that all must play a part in restoring the Village to fiscal health. The Committee is confident that if Council adopts the recommendations made by the Committee, fiscal health can be restored in due course and the potential for further damage to the Village can be avoided.

## Background Events and Factors Relating to the Village Budget

In 1989, the Village enacted an earnings tax of 2% that applied to the wages of all Village residents and all employees working in the Village, as well as the net profits of all businesses operating in the Village. This tax was largely responsible for the Village accumulating a large budget surplus. After the Gibson Greeting Card Company closed in 2000, the accumulated surplus was often sufficient to cover annual deficits. In addition, the Village collected significant inheritance taxes which masked substantial, annual budget deficits.

In 2008, after several years of litigation, the Village agreed to purchase the former Crest Hills Country Club property for approximately \$6.2 million. At the time, the Village was making its final bond payment on the new Administration building and Council believed that payments on the Crest Hills property (now known as Amberley Green) would be equal to those payments and, therefore, that the Village's annual expenditures would not increase significantly as a result of the purchase. Also in 2008, the nationwide economic crisis struck and revenue cuts from the State of Ohio exacerbated the situation at the time the Village was seeking long-term financing. As a result, since that time the Village has had to rely on a series of one-year, interest-only bonds to finance the property.

The current one-year interest only bond will expire in October 2012, and must be renewed at that time. By law, the Village must find long-term financing to replace the interest only one-year financing by October 2013. If the Village is unable to balance its budget, the cost of this financing will be significantly higher than it would be if the Village's financial position was stable. It is certainly possible that, if the Village does not balance its budget, it will not be able to secure new financing for the property. If this occurs, the full \$6.2 million in principal could be due as early as October 2012. And, if there is no ability to refinance this debt on reasonable terms, the Village could default thereby causing an even greater fiscal emergency. Even assuming that the Village is able to obtain long-term financing for Amberley Green, the annual financing cost is expected to increase from the current financing cost by between \$250,000 to \$400,000 beginning in October 2013.

## Village Council's Efforts to Raise Revenues

By 2010, the need to refinance the debt incurred to acquire Amberley Green, combined with a nationwide recession, falling property values, and changes in state law, including the elimination of the Ohio inheritance tax, brought the Village's budget deficit into sharp focus. In response, Village Council proposed a series of measures to increase tax revenues.

In late 2010, Village Council proposed a plan to generate approximately \$900,000 in additional revenue annually. That plan would have reduced the credit given Village residents which allows them to offset earnings taxes paid to other municipalities against their Village earnings tax liability. Currently, Village residents may offset a maximum of 2% of their earnings tax liability to the Village by earnings tax payments made to other jurisdictions. The effect of this "reciprocity credit" is that Village residents who work in other taxing jurisdictions pay less in earnings taxes to the Village than they would otherwise; for example, a resident who works in the City of Cincinnati (which currently imposes a 2.1% tax on all earnings) pays no earnings taxes to the Village.

Village Council received a great deal of feedback in response to the 2010 plan. Much of it was negative. Many residents were concerned that lowering the reciprocity credit was discriminatory because it would impact some residents much more than others. The value of the credit was dependent upon whether and where the taxpayer worked. Those residents who did not have "earnings," were not affected at all. In contrast, residents who worked in the City of Cincinnati would have seen their total earnings tax liability increase by 50%. In addition, many residents believed that Council should reduce expenses rather than pursue revenue enhancement alternatives.

As a result of this negative feedback, Village Council agreed to table the ordinance that would have lowered the reciprocity credit. Council did impose a new "Sanitation Fee" that generates approximately \$200,000 in new revenue per year, roughly equal to the cost Rumpke charges the Village to collect garbage and recycling.

In late 2011, Village Council again attempted to address the budget shortfall by imposing higher taxes. Acting on the recommendation of new Village Manager Scot Lahrmer, Council proposed two new revenue-raising measures. The first was identical to the \$900,000 reciprocity credit reduction proposed one year earlier. In addition, Council proposed to increase residents' property taxes by a total of 10 mills; according to Hamilton County Auditor estimates, this "Police Levy" would generate approximately \$1.7 million annually. By law, those funds may only be used to fund the Village's Police Department.

Taken together, these proposed measures would have increased Village revenues by approximately \$2.6 million in 2013, 67% more than the \$3.9 million the Village expects to collect in 2012 without the additional taxes.

Again Village Council received feedback from residents unhappy about the prospect of paying higher taxes and the failure of Council to consider expense reductions and those that believed that the reciprocity credit reduction was discriminatory. A group of residents promised to place a referendum on the ballot designed to repeal any ordinance lowering the reciprocity credit, and promised a vocal campaign against the proposed Police Levy. The November 2011 election saw several new members of Village Council elected.

In response to this outcry, Ed Hattenbach suggested that the Committee be formed, the outgoing Mayor formed the Committee and Council tabled the reciprocity credit reduction ordinance. However, because the Police Levy must be presented to the voters, Council took the action required to place that issue on the March 6, 2012 primary ballot.

## **2011 - 2012 Expense Reductions**

In 2011, the Village hired a new Village Manager and a new Police Chief. Since their hiring, there have been meaningful and positive expense reductions. As outlined by Village Manager Lahrmer in his January 19 expense reduction report (discussed in greater detail below), many of these reductions related to personnel – personnel costs represent approximately 64% of the budget. Notably, these personnel cuts have been made without layoffs. These include a wage freeze in 2011 and 2012, an increase in the amount employees pay in health care premiums, a reduction in the benefits provided in the employee health care plan and leaving unfilled several vacant police, maintenance and administrative positions. Additional reductions were achieved by not purchasing certain equipment. These reductions were needed and provide a helpful start toward making the additional required reductions.

In addition to the expense reductions already achieved by Village management, Mr. Lahrmer identified even further reductions that could be taken in 2012 in his January 19 report. These reductions included \$35,250 in savings in Village Administration, \$71,550 in savings in the Services Department and \$39,050 in Police/Fire. The Committee believes that Council should consider and adopt these further reductions.

## **Formation of the Ad Hoc Advisory Committee**

Following the meeting of the Finance Committee of the Amberley Village Council on November 3, 2011, Mayor Stillpass formed the Committee comprised of Village residents to make recommendations to Council on how to balance the Village's budget. The members of the Committee, all of whom are volunteers, are:

- Jim Bangel
- George Fisher
- Aaron Freed
- Eric Goering
- Connie Hinitz
- Rick Jones
- Michael Lake
- Rick Lauer
- Bill Lennard
- Stephen Lerner
- Jerry Morgan
- John Neyer
- Ron Regula
- Bill Schneiderman

## **Ad Hoc Advisory Committee Meetings and Information Gathering**

Prior to the initial meeting of the Committee, Village Manager Scot Lahrmer and others distributed to the Committee members a substantial number of documents and other information regarding the finances of the Village and other relevant matters. These documents include, among others:

- 2012 Budget
- 2012 Budget Appropriations
- General Fund Expenditure Reports for 2006 - 2011, and projections for 2012.
- Historical Village Salaries
- June 9, 2011 Memo from Village Manager Scot Lahrmer to Finance Committee regarding Financial Consideration
- July 18, 2011 Memo from Village Manager Scot Lahrmer to Finance Committee regarding Financial Options
- Income Tax Revenue Breakdowns for 2007, 2008, 2009 and 2010

- General Fund Revenue History and Projections Report for 2006 - 2011, and projections for 2012
- Comparison of Local Police and Fire Operating Costs
- Market and Feasibility Analysis dated June 1, 2006 prepared by Integra Realty Resources regarding the North Site
- Transaction and Finance Documents regarding Amberley Green
- Presentation by Village Manager Scot Lahrmer made at the Amberley Village Public Information Meeting on October 26, 2011
- General information regarding the cuts to Amberley Village revenue by the State of Ohio
- Assessed Property Valuations
- Analyses of Previous Budget Cuts

During the period November 7, 2011 to February 21, 2012, the Committee conducted 14 formal meetings, including subcommittee meetings (as described in greater detail below). Each of these meetings has been held in public at Amberley Village Hall with notice published in advance. A substantial majority of Committee members was present at every meeting and many members of Council and the public were in attendance at every meeting. All those present -- Committee members, Council members and the public -- were invited to participate at every meeting and no one was denied an opportunity to ask questions, make a statement or otherwise participate. Minutes of Committee and subcommittee meetings were taken and are posted publicly at <http://www.amberleyvillage.org/>. In lieu of repeating in this Report the details of each meeting of the Committee and subcommittees, readers are directed to the above website for the minutes and certain other materials reviewed by the Committee.

In addition to the formal meetings conducted by the Committee and the materials provided by Mr. Lahrmer, Police Chief Wallace and Public Works Supervisor Rasfeld to the Committee, the Committee and/or its members have received countless emails and other communications from members of Council and the public at large with information, opinions and suggestions regarding the work of, and recommendations to be made by, the Committee. Moreover, members of the Committee have had additional informal meetings and discussions with various Council committees, Council members, Police Chief Wallace, Mr. Lahrmer and other members of Village staff in order to further their understanding of the issues facing the Village and the various alternatives for tackling the issues.

The Committee held its first meeting on November 7, 2011. At this meeting, the Committee elected Rick Lauer and Stephen Lerner co-chairs. Village Manager Scot Lahrmer made a detailed presentation to the Committee regarding the historical

background of the Village's finances and the specifics of the deficit facing the Village. Mr. Lahrmer pledged the complete support of the Village staff in assisting the Committee to discharge its responsibilities.

The Committee discussed what its goals should be and when it should deliver its recommendations to Council. The Committee discussed a number of matters and asked a variety of questions of Mr. Lahrmer in connection with its consideration of the Committee's goals and timing of its recommendations. Members of the public expressed their opinions on the goals and timing for delivery of the Committee's recommendations. After extensive discussion, the Committee unanimously adopted the following resolution regarding its goals and timing:

“Through an open and collaborative process, the Committee shall make recommendations to the Council to achieve a balanced budget for 2013 and beyond and that such recommendations be made approximately 90 to 120 days from [November 7, 2011].”

By adopting this resolution, the Committee agreed to undertake as comprehensive an examination as possible, in a relatively short period of time, of the current financial condition of the Village and to recommend ways that a balanced budget could be achieved for 2013 and beyond. In recognition of the fact that (1) at best, insufficient additional revenue could be generated in 2012 and (2) balancing the budget simply by cutting expenses was politically challenging and, thus, unlikely to be achieved in one year, the Committee focused its efforts on 2013 and beyond. The Committee resolved to look at any and all reasonable ideas and alternatives for balancing the budget in 2013 and beyond. Notably, other than balancing the budget, the Committee did not express any pre-conceived ideas about how to balance the budget or make recommendations to Council. The Committee did its best to keep a completely open mind, gather all relevant information, ask pointed and tough questions of the Village staff and each other, all in an effort to reach the best and fairest possible outcome for the Village.

To further its efforts, the Committee established two subcommittees, with each Committee member serving on one subcommittee. A revenue subcommittee, chaired by Rick Lauer, was established to examine ways to increase the revenue of the Village. The members of the revenue subcommittee are: Aaron Freed, Connie Hinitz, Rick Lauer, Bill Lennard, Jerry Morgan and John Neyer. An expense subcommittee, chaired by Eric Goering, was established to examine ways to reduce the expenses of the Village. The members of the expense subcommittee are: Jim Bangel, George Fisher, Eric Goering, Rick Jones, Michael Lake, Stephen Lerner, Ron Regula and Bill Schneiderman.

The revenue subcommittee held meetings on November 10, 2011; November 28, 2011; and December 15, 2011. The subcommittee received numerous reports and information at their meetings. At these meetings, the following matters were reviewed and discussed, among others:

- Review of current revenue sources and trends
- Review of expected revenue decreases as a result of changes in Ohio law and a reduction in real property values
- Fairness in implementation of possible revenue increases
- Brainstorming sessions on possible revenue sources
- Possible ways to move fees from dedicated funds to the General Fund
- Different forms of taxes and fees
- General philosophies regarding revenue enhancement

The expense subcommittee held meetings on November 17, 2011; November 29, 2011; and December 13, 2011. The subcommittee received numerous reports and information at their meetings. At these meetings, the following matters were reviewed and discussed, among others:

- Review of historical and current expenses
- Report from Chief Wallace on Public Safety Expenses
- Report from Steve Rasfeld on Maintenance Expenses
- Report from Scot Lahrmer on Administrative Expenses
- Review of possible ways to reduce expenses
- Comparisons with other communities

The full Committee had additional meetings on November 21, 2011, December 8, 2011, January 23, 2011, January 31, 2011, February 6, 2012 and February 15, 2012. The minutes of these meetings provide details of each meeting. Generally, at each meeting, the Committee received reports regarding any subcommittee meetings that occurred since the last full Committee meeting. Additionally, the Committee held discussions on the progress of information gathering and, when necessary, requested additional information from the Village staff. All meetings were open to the public and those present were actively engaged in asking questions and/or expressing opinions.

At the November 21, 2011 meeting, the full Committee discussed Amberley Green. The focus of the discussion was whether the Committee should address and make recommendations (1) concerning revenue opportunities, including disposition, for Amberley Green and/or (2) reducing the costs of maintaining and financing Amberley

Green. The Committee learned that the financing that was incurred in connection with the acquisition of Amberley Green includes the following features, among others:

- the financing is not tied, as in a mortgage, to the Amberley Green property
- the financing currently involves a one-year bond on which only interest is paid each year (until October 2013)
- the Village may refinance the bond with another one-year interest only bond (but only until October 2013)
- each year the new financing must be underwritten (the underwriter is Fifth Third Bank) and is based on the current financial condition of the Village
- if the financial condition of the Village deteriorates, it is possible that the Village will not be able to refinance the bond and the Village could default
- in October 2013, the Village will be required to replace the then one-year bond with longer term financing (likely for approximately 20 years) and such financing will require principal and interest payments
- while it is not yet known what the annual payments will be on such long term financing, there is likely to be an increase in total annual payments of between \$250,000 and \$400,000
- other factors present in October 2013 may also influence both the ability of the Village to refinance the one year bond and the terms and pricing of such refinancing

After much discussion and debate, the Committee decided to not include specific recommendations regarding Amberley Green or the bond financing. This decision was not taken lightly and did not reflect a lack of desire by the Committee members to address the Amberley Green situation. Rather, the decision was based on the reality that the Committee could not in a 120 day period make any recommendations that would, as a practical matter, be effective in dealing with Amberley Green. Amberley Green is a long-term matter that has already been the subject of intense examination by Council and other parties. The ability to generate revenue from and/or dispose of Amberley Green, to begin to make principal payments on, or refinance the debt, and to pursue other alternatives is dependent on a substantial number of factors, including the real estate market, which the Committee simply could not address in any serious or reasonable fashion within the time available to it. Thus, this Report does not address the specifics of Amberley Green. Nonetheless, the Committee believes that the long-term fiscal health of the Village requires thoughtful and immediate consideration of options for refinancing, selling or otherwise “monetizing” Amberley Green in a way that does not burden the Village financially or otherwise.

As of the December 8, 2011 meeting, the Committee had received reports by Mr. Lahrmer, Chief Wallace and Mr. Rasfeld concerning the current status of the budget and expense reduction for Village Administration, Public Safety and Maintenance, as well as the general proposals from each as to any further expense reductions. At the December 8, 2011 meeting, the Committee discussed the need for the Village staff to identify potentially greater expense reductions, beyond what each responsible staff member, might find advisable or recommend. The reason for this exploration is that the difference between 2012 estimated expenses of \$5,466,574 compared to 2012 estimated revenues of \$3,920,018 is \$1,546,556 or 28.3%. Thus, the Committee wanted to understand how the Village might, if asked by Council, cut as much as 30% of its current expenses and what impact, if any, such cuts would have on the services provided by the Village. The Committee was interested in this information not necessarily because that level of expense reduction would be necessary or advisable but because it wanted to understand the potential impact of this level of reduction as a means for analyzing various alternatives. Thus, Mr. Lahrmer was asked by the Committee to provide a report setting forth the ways in which the budget could be reduced by 30% and the ramifications of such cuts. Mr. Lahrmer agreed to provide such a report by mid-January. Subsequently, the Committee scheduled a meeting for January 19, 2012 at which Mr. Lahrmer agreed to present his report.

Mr. Lahrmer presented his report to the Committee at the January 19, 2012 meeting. A copy of the report is available on the Village website and, as a result, will not be discussed in great detail in this Report. The report contained a detailed list of expense reductions that would result in an approximately 30% overall reduction in 2012. The reductions included many that the Village has already instituted as well as other alternatives. While the Committee will not reiterate in this Report most of Mr. Lahrmer's 30% reduction alternatives, it is clear that according to Mr. Lahrmer, such a reduction would require the termination of several Village employees and would result in a rather drastic reduction in the level of services provided by the Village. Mr. Lahrmer also concluded that even with this level of expense reduction the Village's financial problems would not be solved because, among other things, there are capital expenditures, including for road repair and maintenance, that are not included in the 2012 budget and that have been postponed for several years. Mr. Lahrmer did not recommend that the Village implement the 30% expense reduction.

The Committee held a meeting on January 23, 2012 for the purpose of asking Mr. Lahrmer follow up questions regarding the expense reduction report, seeking clarification on many of the items addressed in the report and beginning to debate next steps toward formulating specific recommendations by the Committee. The Committee agreed to hold a meeting on January 31, 2012 to specifically discuss and vote on proposed recommendations.

The January 31, 2012 meeting lasted more than four hours and concluded after 11:00 pm. The Committee discussed and voted on several general recommendations but did not finish the discussion. Additional meetings to discuss and vote on recommendations took place on February 6 and 15, 2012. The final recommendations are set forth in the final section of this Report.

Prior, however, to stating the recommendations, the Committee believes it worthwhile to note certain additional observations and findings that the Committee reached that directly impacted its final recommendations.

### **Revenue and Expense Trends Since 2006**

As noted above, the Committee gathered a great deal of information about the Village's revenues and spending since 2006. This review revealed the following pertinent information:

1. Between 2006 and 2011, the Village's annual expenditures from the General Fund have ranged from a low of \$4.5 million in 2006 to a high \$5.4 million in 2008. In 2011, General Fund expenditures were \$5.1 million.
2. During this same six-year period, General Fund revenues have ranged from \$4.35 million in 2010 to \$7.7 million in 2007. However, these revenues include an average of more than \$1 million annually in inheritance tax receipts.
3. Despite these substantial inheritance tax receipts, the Village has run an annual deficit in three of the last six years; in 2010, that deficit was nearly \$1 million. Absent receipt of inheritance tax payments, the Village would have had a deficit every year since 2006.
4. The Village's practice of deficit spending has reduced the Village's reserve fund (its "rainy day fund") from nearly \$7 million in 2007 to \$3 million today. Despite these decreases, the reserve fund balance is approximately \$500,000 higher today than it was in 2006.<sup>2</sup>
5. The current budget for 2012 is approximately \$5.45 million. However, this budget was prepared in July 2011 and, due in part to measures taken by Village administration, actual spending in 2012 is expected to be less than \$5.2 million.

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<sup>2</sup> Village Manager Lahrmer has recommended that a reserve of at least 25% of the Village's expenses should be maintained. The Committee accepts this recommendation.

6. The 2012 budget also includes \$250,000 in "contingency" spending. This line item was viewed as necessary because of a potential inheritance tax refund the Village would be required to pay. The Village learned in late 2011 that such a refund would not be necessary. Since 2006, however, "contingent" expenses have generally been less than \$50,000 per year. In 2011, they were approximately \$25,000.

7. Revenues for 2012 are estimated to be \$3.9 million. This does not include any inheritance tax receipts which, as stated above, have averaged \$1 million annually for the last six years. Therefore, 2012 revenues are likely to be between \$4.2 million and \$4.6 million including anticipated inheritance tax receipts. Because of a change in state law, however, there will be no inheritance tax receipts after 2012.<sup>3</sup>

8. If the Police Levy is approved during 2012, total revenues in 2013 should exceed \$5.6 million. This would likely result in a budget *surplus* in 2013 of at least \$500,000. However, the additional costs of the long-term financing of Amberley Green are expected to add between \$250,000 and \$400,000 to the Village's budget beginning in 2014.<sup>4</sup> Additionally, the budget for 2012 does not provide funds for repair or replacement of rolling stock (e.g. police and other vehicles) which will have a negative impact on the 2013 or 2014 budgets.

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<sup>3</sup> The Ohio inheritance tax will not apply to residents whose death occurs in 2013 and beyond. The average inheritance tax receipts over the last six years is skewed by the fact that the Village received nearly \$3.4 million in 2007. The following year, it received less than \$200,000. Even after eliminating those two outliers, however, the Village has received an average of nearly \$700,000 per year in inheritance taxes since 2006.

<sup>4</sup> While the increase in financing costs will begin in October 2013, the full annual budget impact will not be experienced until 2014.

## Comparative Analysis of Expenses Between Amberley Village and Other Communities

The Committee has identified certain indicators that strongly suggest that the Village has "a spending problem," not "a revenue problem." Of course, there are as many ways to govern and to provide services as there are local governments; no two municipalities are alike. While Amberley has characteristics that are different from the comparable neighborhoods, sufficient similarities exist to draw reasonable conclusions.<sup>5</sup> The Committee considered the following data as recently provided by the Cincinnati Business Courier and by the financial administrators of the various municipalities with whom Committee members spoke:

	Amberley	Maricmont	Wyoming	Montgomery	Terrace Park	Indian Hill	Glendale
<b>Residents</b>	3,585	3,403	8,428	10,251	2,251	5,785	2,155
<b>Total Homes</b>	1,466	1,597	3,272	4,055	806	2,236	1,057
<b>Average Home Price</b>	\$243,900	\$240,800	\$242,800	\$259,700	\$332,100	\$800,100	\$177,700
<b>Gov't Annual Budget</b>	\$5,400,000	\$3,200,000	\$9,058,055	\$11,539,897	\$1,897,439	\$9,963,249	\$2,247,000

<sup>5</sup> The Committee presented this comparative analysis to Village Manager Lahrmer. Mr. Lahrmer has indicated that he does not agree that comparing municipalities on a "cost per resident" basis is the most appropriate basis for comparison. Mr. Lahrmer was asked to provide a more detailed and specific response or his own comparative analysis. Mr. Lahrmer did not provide any other or different analysis. Mr. Lahrmer has indicated, however, that he agrees that Amberley Village is in the highest 50% of the identified communities in terms of cost per resident. The Committee understands that Mr. Lahrmer does not agree with this comparison. The Committee believes, however, that the comparison provides a valid reference point and reasonable indication that Amberley Village spends more per resident than most, if not all, of its "peer" communities. As such, it is instructive and indicative of the need to change the way that the Village does business.

Given this basic information, the cost per resident for services provided by the local municipal government is as follows<sup>6</sup>:

	Amberley	Mariemont	Wyoming	Montgomery	Terrace Park	Indian Hill	Glendale
<b>Government Spending Per Resident</b>	\$1,506	\$940	\$1,075	\$1,126	\$843	\$1,722	\$1,043
<b>Amberley is Higher By</b>	0%	60%	40%	34%	79%	-13%	44%

Amberley Village spends between 34% and 79% more for similar services than all other comparable communities with the exception of Indian Hill. <sup>7</sup>

Based on the same basic information, the cost per household for services provided by the local municipal government is as follows:

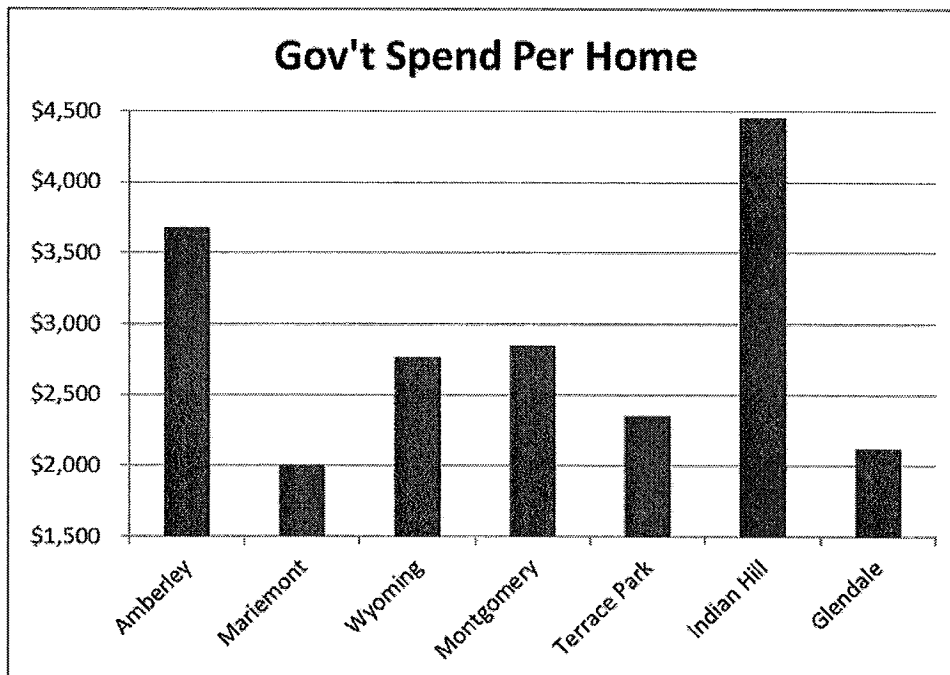
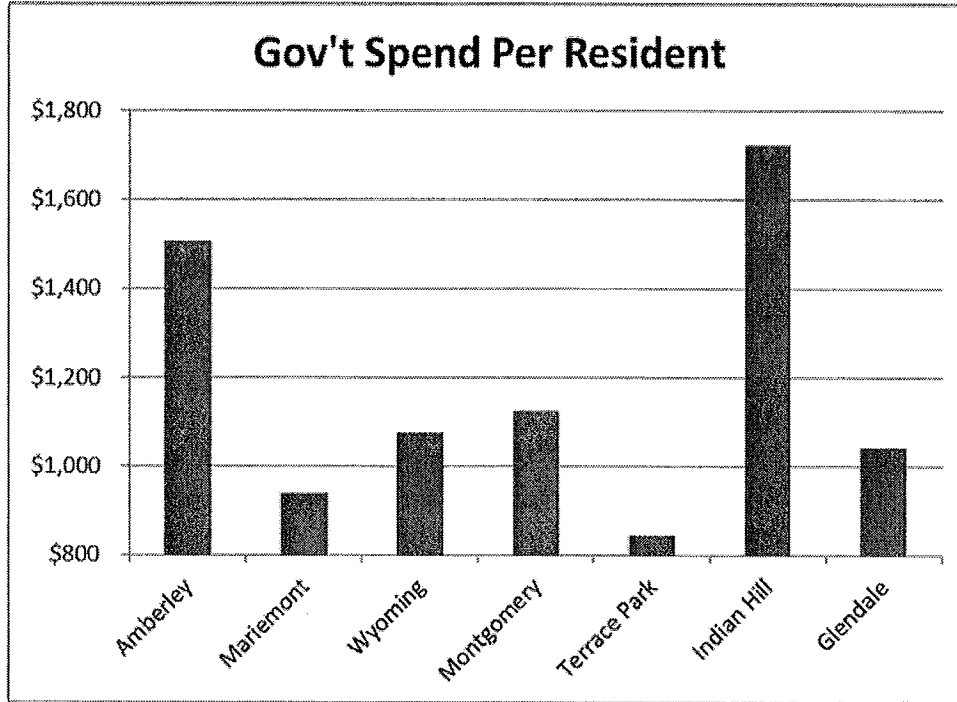
	Amberley	Mariemont	Wyoming	Montgomery	Terrace Park	Indian Hill	Glendale
<b>Gov't Spend Per Home</b>	\$3,683	\$2,004	\$2,768	\$2,846	\$2,354	\$4,456	\$2,126
<b>Government Spending As % of Average Home Price</b>	1.510%	0.832%	1.140%	1.096%	0.709%	0.557%	1.196%
<b>Amberley is Higher By</b>	0.00%	81.49%	32.46%	37.82%	113.05%	171.18%	26.24%

Amberley Village's expenses per household are, on average, 1.51% of the value of each household on an annual basis. Other communities pay between 26% and 171% less to provide services each year than Amberley as a percentage of home value.

<sup>6</sup> The comparisons are based on Amberley Village's approved 2012 budget.

<sup>7</sup> The Government Spending Per Resident in other communities, to which some might compare with Amberley Village, are as follows: Madeira - \$627.42; Silvertown - \$927.72; Green Hills - \$467.95; Golf Manor - \$702.63; Newtown - \$725.71; and Evendale - \$2,792.07. Amberley spends significantly more per resident than each of these communities, other than Evendale. However, Evendale's spending is skewed by the presence of General Electric Aircraft.

These spending comparisons are best illustrated by the following charts:



As previously mentioned, each community is faced with different challenges when it comes to the services it delivers. For example, differences in physical size, proximity to higher-crime areas, the presence or absence of industrial or commercial sites, and the need for specialized water rescue or other safety services impact the cost of providing basic services. Despite these differences, all the communities that the Committee observed, except Indian Hill and Amberley, provide similar services in a very tight range of costs of between \$843 and \$1126 per resident. The average spending per resident of these communities is \$1100 including Indian Hill and \$1000 excluding Indian Hill.

Amberley Village spends \$380 to \$500 more annually per resident than comparable communities.

In summary, it appears that many of these communities provide similar services as Amberley Village, safety and otherwise. While Amberley's Police Department is faced with specific challenges (crime rate in surrounding communities, large lot size, etc.), so are the other comparable communities. Mariemont, for example, is surrounded by several communities with substantially higher incidence of crime. Mariemont's officers must be trained to protect its business community (restaurants, movie theatres, hotels, industrial) as well as provide river safety. All of these communities also provide snow removal and leaf and brush collection. While differences most certainly can be identified in the types and quality of services across all municipalities, the Committee finds that Amberley consistently outspends these comparable communities under both approaches described above.

## Annual Net Cost Reduction Scenarios

As outlined in the sections above, the current gap between revenue and expenses is about \$1.5M. The Committee has agreed that attempting to close this gap by reducing spending 30% in one year is politically challenging and likely would be detrimental to the health of the Village and, thus, is not recommended. While increased revenue is needed in the short run to maintain Village operations, a sustained cost savings program is required so that if the proposed Police Levy is enacted, upon its expiration in five years, the Village can have a balanced budget and can provide services with a cost structure comparable to or better than our peer communities. Communities that had lower operating budgets than Amberley had structural differences in the way services are provided. Many of these structural changes cannot be implemented effectively in one year. They need a well thought out transition plan.

To achieve the goal of a sustainable cost savings program, a road map is needed that outlines revenue and spending targets, along with the key strategies that will drive the savings. The Village Council and the Village administration should develop this masterplan over a reasonable period – the Committee believes that a 5 year period is reasonable and feasible.

Below is an illustration of a five year masterplan for cash flow. Various assumptions on inflation, changes in revenue, and expenses can be plugged into the model. An annual review of progress against the masterplan will allow progress to be assessed and necessary revisions to the plan to be made. It also outlines the reduction in property taxes that would be enabled by implementing the cost savings plan.

*Scenario 1*

10% expense reduction current year versus base 5.2MM, 4 % each subsequent year.  
 2% annual increase in revenue due to increases in earnings and property taxes.  
 2% annual inflation in cost of living, supplies, labor, medical, etc.

	Expenses (\$million)	% Structural reduction in budget	Amberley Green financing	Total Expenses	Base revenue (million) without Levy	Incremental Revenue needed to balance budget (\$million)	Property Tax rate needed (mils)
<b>2012 Base</b>	5.20						
<b>2012</b>	4.68	10.00%	0.00	4.68	3.90	0.78	4.88
<b>2013</b>	4.58	4.00%	0.10	4.68	3.98	0.70	4.40
<b>2014</b>	4.49	4.00%	0.40	4.89	4.06	0.83	5.19
<b>2015</b>	4.39	4.00%	0.40	4.79	4.14	0.66	4.10
<b>2016</b>	4.30	4.00%	0.40	4.70	4.22	0.48	3.01
<b>2017</b>	4.39		0.40	4.79	4.31	0.48	3.02

*Scenario 2*

10% expense reduction current year versus base 5.2MM, 5.5 % each subsequent year.  
 2% annual increase in revenue due to increases in earnings and property taxes.  
 2% annual inflation in cost of living, supplies, labor, medical, etc.

	Expenses (\$million)	% Structural reduction in budget	Amberley Green financing (\$million)	Total Expenses (\$million)	Base revenue (million) without Levy (\$million)	Incremental Revenue needed to balance budget (\$million)	Property Tax rate needed (mils)
<b>2012 Base</b>	5.20						
<b>2012</b>	4.68	10.00%	0.00	4.68	3.90	0.78	4.88
<b>2013</b>	4.51	5.50%	0.10	4.61	3.98	0.63	3.96
<b>2014</b>	4.35	5.50%	0.40	4.75	4.06	0.69	4.32
<b>2015</b>	4.19	5.50%	0.40	4.59	4.14	0.45	2.83
<b>2016</b>	4.04	5.50%	0.40	4.44	4.22	0.22	1.37
<b>2017</b>	3.89	5.50%	0.40	4.29	4.31	-0.01	-0.07

These scenarios demonstrate that, with relatively minimal expense cuts over a five-year period, Council can eliminate or greatly reduce the need for the extra revenue generated by the Police Levy.

These expense cuts should be made over time, but as quickly as possible (and not to exceed 5 years) so as to achieve a reasonable balance between maintaining services, treating current employees fairly, and minimizing the burden on Village taxpayers.

The Committee's specific recommendations to Council are provided in the following section.

## General Recommendations

1. Beginning in 2012, Council and the Village Administration should reduce expenses in an orderly fashion with the twin goals of maintaining Village services without depleting the surplus account below recommended levels (i.e. 25% of the expense budget), and eliminating as soon as possible, but no later than 2018, the need for the additional revenue associated with the 10-Mill Police Levy. To accomplish the necessary level of expense reduction, the Committee recommends that Council immediately devise and implement a 5 year plan that will reduce the expense budget to a level that will eliminate the need to renew the 10-Mill Police Levy and that the 2012 budget be revised to reflect a 10% reduction in expenses from a \$5.2 million expense amount (which reflects reductions already achieved or identified by Village administration). The revised 2012 and future budgets should be accurate and complete and should be easily understood by Council and Village residents. Future known liabilities should be fully disclosed. The Village Manager and Department heads should be tasked with the responsibility to reduce spending in their respective departments to achieve the 5 year plan. *Approved 12-0-1.*
2. "Council should adopt a policy that appropriately recognizes Village employees and department heads for reasonable and responsible expense reductions within their departments." *Approved 7-6.*
3. "Expense reductions should be achieved through reorganization, increases in efficiency, eliminating non-critical positions and functions, and wage and benefit cuts rather than reducing priority Village services." *Approved 10-2-1.*
4. "Council and the Village Manager should review, at least annually, the Village's organizational chart, staffing levels and pay scale to ensure that: 1. staffing levels and promotions are based solely on Village service priorities; and 2. salaries and benefit levels are reasonable, consistent with the skill level required by the position, and the priorities of Village residents." *Approved 12-1.*
5. "Council must maintain a reserve account equal to an average of at least 25% of its annual expenditures." *Approved 12-1.*
6. "Starting in the fourth quarter of 2013, Council must anticipate substantially increased costs associated with the financing of Amberley Green. Budgets for

2013 and thereafter should account and provide a source to pay for this additional expense. Long-term financing costs are currently estimated to be between \$350,000 and \$500,000 annually; this represents an increase of between \$250,000 and \$400,000 per year from the short-term financing utilized currently." *Approved 13-0.*

7. "Before July 31, 2012, Council should hire a professional real estate broker or developer with a nationwide presence to aggressively market the North Site and Amberley Green properties with the goal to generate at least enough revenue from the properties to offset the cost of financing and maintaining them as well as the cost of replacing the Maintenance Building on the North Site." *Approved 12-1.*
8. "Council should not anticipate any income from Amberley Green or the North Site until such time as income-generating uses of the site are reasonably certain." *Approved 13-0.*
9. "Council should establish a permanent Village Fund Raising Committee to develop a program of annual giving and bequests from Village residents and other supporters with the goal of raising at least \$100,000 annually. Council should give serious consideration to retaining a paid professional to direct this committee if qualified volunteers are not available." *Approved 12-1.*
10. "Subject to the Village Manager's discretion, Council should aggressively seek volunteers from the community to perform non-critical Village services where reasonable and permitted by law." *Approved 13-0.*
11. "Council should reduce the Storm Water Fee to a level that generates only \$25,000 annually." *Approved 12-1.*
12. "Any effort to raise additional revenues should be based on sharing the burden as equally and equitably as possible by all residents of the Village." *Approved 11-2.*
13. "If Village residents approve the March 6, 2012 Police Levy, Council should pass a resolution barring any increase in the earnings tax rate or decrease in the reciprocity credit for as long as the Police Levy is in effect." *Approved 12-1.*
14. "In the event that the Village experiences a budget *surplus*, Council should use the surplus to reduce the taxes assessed against Village residents." *Approved 7-3.*

15. "Non-profit and religious institutions in Amberley hold title to more than 30 acres of property in the Village. Current tax law exempts such institutions from paying property taxes. These institutions, however, benefit from the same services provided by the Village to other residents. Council should approach these institutions and ask them to consider making a voluntary contribution in recognition of the services the Village provides to them and to help defray the expenses the Village incurs on their behalf. Even a payment of \$1000 per acre would result in \$30,000 in additional revenue to the Village." *Approved 12-0.*

The Committee also considered a possible recommendation to eliminate the Waste/Recycling Fee but that recommendation was rejected by a vote of 11-2.

### **SPENDING REDUCTIONS THAT COUNCIL SHOULD CONSIDER:**

In order to develop the recommended 5 year expense reduction plan, the Committee recommends that Village Council review and analyze all reasonable alternatives for expense reduction. Without limiting such review and analysis, the Committee urges Village Council to consider each of the following specific methods of expense reduction:

1. Reduce the "contingency" line item to \$50,000 from \$250,000 - \$200,000/yr. in "savings."
2. Reduce or eliminate Longevity Pay - up to \$24,800/yr. in savings.
3. Reduce annual paid sick time to 7 days for all employees - reduces overtime.
4. Cap the amount of paid time off, including accrued vacation and sick time, that is paid to employees upon their retirement. The Village should pay no more than 14 days of accrued paid time off upon an employee's retirement. This should be implemented either July 1, 2012 or January 1, 2013 to allow current employees who may be considering retirement to take advantage of the existing benefit (reduces "contingency" line item).
5. Reduce or eliminate the Village's contribution to employee Health Savings Accounts - up to \$76,700 in savings/yr.
6. Increase Village employees' contributions to their health/dental/life insurance premiums - each 1% in additional contributions results in \$2,100/yr. in savings.

7. Encourage eligible Village employees to retire early and, if necessary to maintain the current level of services, rehire those employees at a reduced salary level and without benefits.
8. Eliminate one supervisory/management position in the Maintenance Department - approximately \$100,000/yr. in savings.
9. Restructure the Police/Fire Department. Do not fill two positions left vacant by anticipated retirements - approximately \$230,000/yr. in savings.
10. Adopt the reductions that Mr. Lahrmer indicated in his January 19 report that could be taken in 2012. These reductions included \$35,250 in savings in Village Administration, \$71,550 in savings in the Services Department and \$39,050 in Police/Fire.
11. Reduce wages for all Village employees. Each 1% across the board reduction results in approximately \$24,000 in savings annually plus additional savings from reduced pension/tax costs.
12. Reduce wages only within the Maintenance Department. Each 1% cut in Maintenance Dept. wages results in approximately \$4,400 in savings annually plus additional savings from reduced pension/tax costs.

Notably, a majority of the Committee believes that, with respect to consideration by Village Council of potential employee termination and/or wage and benefit reductions, such items should have a lower priority compared to other methods of expense reduction and should be avoided if reasonably possible.

Finally, the Committee believes that Village Council should maintain the existence of the Committee to serve as a resource to the Village and Village Council and to monitor the progress of the development and implementation of the recommendations of the Committee in this Final Report. The Committee should be maintained for not less than two years and the Committee should meet not less frequently than once each calendar quarter beginning in the second quarter of 2012.

## CONCLUSION

Since its founding in 1940, Amberley Village has been a wonderful place to live and work characterized by a strong sense of community, respect for the environment, abundant natural beauty, and first rate public services. In part due to its focus on residential development and maintaining a rural ambiance, Amberley has never developed a significant commercial tax base. For much of the Village's history, earnings, property and inheritance taxes, were sufficient to fund the level of services Village residents had come to expect. With the loss of the Gibson Greeting Card Company and, more recently, the loss of the inheritance tax, however, the Village finds itself in uncharted budgetary waters.

Changes must be made. Village residents cannot be expected to permanently support an ever-increasing level of government spending. Amberley spends far more than its peers on basic services. The reasons for this are many, and the solutions will require Council to make difficult choices.

If residents vote to spend more of their hard earned dollars to support the Village in its time of need by approving the 10-Mill Police Levy, Council should repay that loyalty by making the tax increase temporary. The Committee believes that, working together, Council and the Administration can and should make the necessary cuts over time without impacting Village services or mistreating loyal employees.

If residents reject the 10-Mill Police Levy, Council should take that as a sign that residents are unwilling to pay higher taxes to maintain the current level of services. In that event, rather than attempt to reduce the reciprocity credit, Council should instead immediately enact a program to significantly reduce expenses. The Committee believes that, if such steps were taken first, Village residents would then be more likely to support a reduced levy request as early as November 2012.

Ultimately, as the economy improves and the North Site and Amberley Green are developed into income-generating properties, the Village will be able to depend on additional reliable sources of revenues. With a new dedication to spending no more than it takes in, Amberley can be the role model for other communities: an exceptional place to live providing the highest level of services and other amenities, with an overall tax burden that is equal to or less than its peers.