2016 Financial Sustainability Update/Police Levy Options

1. Based on projections made in the 2013 Financial Sustainability Report, the Village "Best Case/Best Case" final General Fund balance for 2015 should have been $3,599,409. Thanks to higher than anticipated revenue and keeping expenditures in check, our actual fund balance at the end of 2015 was more than $880,000 higher.

2. General Fund and Police Levy together fund Police Department. **Exhibit A.**

3. With even modest revenue increases each year, the Village could begin to address our capital and infrastructure needs more aggressively. Going forward we are in an excellent position, as long as the Police Levy remains at 10 mills.

4. With the demise of the inheritance tax, the majority of capital projects and infrastructure improvements will need to be funded from the General Fund. Currently the Village is budgeting $350,000 a year to be transferred to these funds. Over the next seven years, if we continue this practice, the Village will transfer $2,450,000 to these funds—11% of what is needed.

5. All projections made in the 2013 Financial Sustainability Report for years up to 2020 were dependent on keeping the current 10 mills in place. One mill equals $160,000. **Exhibit B**.

What is happening with our major sources of revenue?

Earnings Tax

1. Local government funds no longer play a major role in our finances in that they provide only about $60,000 in revenue a year. **Exhibit C.** With the demise of the inheritance tax, that leaves two major sources of revenue—income tax and property tax.

2. The Village has seen a significant rise in income tax collections over the last four years. Average tax collections since 2012 are $2,691,326, while the average in the previous six years was $2,282,673. **Exhibit D.**

3. Unfortunately, earnings tax is not always a consistent source of income. In the last 9 years, income tax has gone down from the previous year three times -13% in 2009; -9% in 2011; and -11% in 2015.

4. With the makeup of the Village, the majority of our earnings tax revenue comes from residents as opposed to most municipalities that have a large commercial tax base as well.

5. In the last 10 years of the total earnings tax collected, 42% was from withholding, 7% from business profits and 52% was from individual tax payers. Even when looking at withholding tax collected, more than 35% comes from courtesy withholding on behalf of residents.

6. With so many Village residents working in the city of Cincinnati and other cities taxing at 2% or above, our potential revenue is greatly decreased.($56,735,589 x 2% = $1,134,711 or 44% of all wage income reported) This emphasizes the need to attract significant businesses to the few locations available in the Village or consider reducing the credit.

<u>Property Tax</u>

7. Property tax, including the state rollback, is the other major source of revenue in the Village. While property tax provides more than $1million in revenue each year, it has been stagnating over the last several years. **Exhibit E.**

8. Real estate valuations peaked in 2009 at $188,674,420. Real estate values fell more than 10% with the 2011 sexennial revaluation and hit bottom in 2012 which translated into corresponding revenue reductions in 2012 and 2013. **Exhibit F.**

9. The valuations have remained close to flat since that time with an average increase of .3% per year since 2013. It tracks very similar to Hamilton County as a whole, but falls behind many neighboring communities.

10. Home buyers seem to be trending away from large homes with large yards which is the trademark of Amberley. Since the collapse in the real estate market, the Village has seen a higher level of foreclosures which have hurt values.

11. It appears we may be turning a corner in 2016. Days on the market are greatly reduced for properties sold. Homes across most price ranges are selling and most are selling for 95-100% or more of asking price. Sales of foreclosed property have all but disappeared. **Exhibit G.**

12. This upturn should help values rebound and should be helped further by the next sexennial revaluation in 2017, thus giving the Village hope for a boost in revenues in 2018.

Where are we in terms of projections & predictions?

1. In the 2013 Financial Sustainability Report, there was a real concern about revenues keeping pace with inflation (buying power of revenue) using the revenue received in 2006 as a base. While our estimated revenue for the year showed the Village failed to keep pace with inflation in 2013, when using the actual final data the Village exceeded the inflation figure by $390,000. In 2014 the Village exceeded the inflation figure by more than $729,000. In 2015 the

Village missed the inflation figure by $328,304, but appears the Village is on pace to at least meet the inflation figure in 2016.

2. The Village lost Silverton Dispatch which was to provide $245,000 in revenue over three years but we also had expenses associated with additional dispatch. We have managed to replace that income with the Kenwood Southwest JEDZ which has provided $296,864 from 2014 through August, 2016. While the amount may fluctuate from year to year, it appears we can count on yearly revenue of at least $100,000.

3. The two primary drivers of revenue are still the Earnings Tax and Real Estate Tax, but there has been some growth in our other revenue sources in the past three years. While in the past, these other sources have contributed about 10% of General Fund revenue; in the last 3 years it has averaged 16%. JEDZ revenue, increased Mayor's Court, interest and cell tower revenue are the major contributors to this increase.

4. The Village now employs 32 full-time employees, up one from 2013 levels. In minimizing the number of employees, the police department, in particular, was vulnerable to very high levels of overtime to maintain minimum required staffing.

5. Current staffing levels include the elimination of one maintenance worker and two police positions.

6. Coming out of 2013, the deferral of capital expenditures, especially for vehicles and equipment, since 2010 was beginning to elevate repair expenses to unacceptable levels. The purchase of used cruisers in 2013 did not produce the desired savings. Service vehicles had been used for many years beyond their normal useful life.

7. The Village has managed to keep the primary drivers of expenses within the ranges recommended in the 2013 Financial Sustainability Report. The Village approved three years of 3% pay increases after the wage freeze years and the introduction of employee contributions to health care expenses. In 2016, the increase was 2%. Health care expenses have remained at the low end of acceptable growth with an average yearly increase of 6.25%.

8. All other expenses, after removing flood expenses from 2014, have stayed at the low end as well, averaging a 2.1% increase.

9. In the projections made in the 2013 report, a modest transfer amount of $28,000 for capital needs was included for each year. In 2013, the Village received $461,000 in inheritance that was transferred to Capital. In an effort to make up the years when infrastructure work and capital needs were put on hold, the Village has chosen to transfer a larger sum: $150,000 in 2014, $350,000 in 2015

and $350,000 in 2016 to cover both capital and infrastructure needs. The ongoing projections reflect a transfer of $350,000 each year. **Exhibit H.**

10. An analysis of road conditions was done for the 2013 report as well as an opinion of projected repair and improvement costs. While a new analysis was not completed, it has been updated to reflect road repairs that have been completed since 2013 and updated repair costs have been applied. While the percentage of “good” lane miles has increased, with the adjustment of costs to reflect current rates, the amount needed to get all Village roads to “good” condition has increased by almost $465,000 since 2013. **Exhibit I.**

11. To fulfill the Village capital needs over the next seven years, $13,000,000 is required. While maintaining roads is an ongoing process, at this point to bring all of our roads to “good” condition will require $8.4 million.

12. The problem: funding needed for capital and infrastructure expenditures.

13. Projected amounts needed for Accrued Time Liability through 2020 have held true, but looking forward to 2023 the annual contribution to the Employee Severance Fund needs to be increased from $35,000 each year to $40,000 beginning in 2017. **Exhibit J.**

14. While economic development costs are mentioned in the 2013 report, no amounts are mentioned and these costs do not figure into the projections made. With the development of the former Gibson property, the Village will incur expenses. With development on the North Site and Amberley Green, it’s likely expenses will be incurred.

15. In spite of more than $436,000 being added to the Capital Fund in 2013 from inheritance, capital resources are depleted and require more cash flow from the General Fund to meet needs.

16. Despite the attempt to take care of some needed capital purchases, the amount needed to satisfy capital needs through 2023 is very similar to the amount required in the 2013 report. In 2013 it was projected that $12,959,899 was needed for capital purchases through 2020. After updating the capital requirements through 2023, we find that satisfying these needs requires $13,105,245.

17. While not directly affecting the General Fund, storm water rates were decreased by 30% in the fall of 2015.

Police Levy Options

1. If the millage is reduced without significant increases in income from other sources, the Village will begin deficit spending in 2018. Three scenarios: 9,8 and 7 mills. **Exhibit K.**

2. Although contrary to municipal finance principles and our commitment not to deficit spend, due to the current General Fund balance, the Village could probably withstand this until a new source of revenue is in place like Gibson or other developments.

Timing for May 2, 2017 election

1. October 10 or November 14 council meeting: approve resolution submitting request to County Auditor for an estimate of what the millage will generate

2. November 14, December 12 or January 9, 2017 council meeting: approve resolution submitting request to the Board of Elections

3. Deadline to submit to Board of Elections is February 1, 2017 for May 2, 2017 ballot

How many mills for the Police levy?

1. Police levy (10 mills) funds approximately 60% of the Police Department expenses. In 2015, the General Fund provided $1,000,000 to fund police operations above and beyond the police levy.

2. Consideration of the effect of millage reduction

3. Consideration of additional expenses Police Department likely to incur

4. What additional information is needed?