

CITY OF NORTH CANTON
FINANCE DEPARTMENT

MEMORANDUM

Date: January 27, 2014

To: All Councilmembers

cc: David Held, Mayor
Mike Grimes, Director of Administration
Tim Fox, Director of Law

From: Karen Alger, Director of Finance

Re: General Fund Revenue Effect

The following summarizes the effects to the City of North Canton revenue.

The funding source of the City has continued to be cut while expenditures continue to increase. The City's 2013 General Fund revenue of \$7,266,777 was drawn from several sources: \$4,570,300 or 63% came from the income taxes; and \$822,591 or 11% from property taxes & homestead and rollbacks; and \$320,064 or 4% from Local Government and/or \$487,699 or 7% from Inheritance Tax (Chart A & Chart D).

The City's General Fund revenue collection from the various sources has changed over time and is expected to continue to change. In calendar year 2007, Income Tax made up 51% of the General Fund revenue source. Compared to calendar year 2013, Income Tax made up 63% of the revenue which indicates a more heavily reliance on Income Tax. (Chart A to D). In calendar year 2014 (Chart E), reflects the projection of the reliance on Income Tax to increase to 70%.

Income Tax revenue is vital to the financial stability of the City. (Chart F) Income Tax reflects revenues had dropped since the peak levels in 2000. Income Taxes are expected to gradually increase over the next few years.

The next two charts, (Chart G & H) reflect the three largest declining revenue source North Canton and all municipalities have encountered through cuts by the State or cuts do to property re-evaluation.

- Local Government:
 - For over 80 years, the state of Ohio has shared revenue with localities through the Local Government Fund. Established as a revenue sharing program to help counties with the diverse needs of their residents, the Local Government Fund was cut in half in the last budget. The reduced level of funding was made permanent in the new budget bill.
 - The City's estimate Local Government for 2014 is \$300,000 (estimate loss of 62%) which is a decrease of \$491,089 from the peak year of 2008 which was \$791,090.
 - This funding made up over 9.4% of General Fund total revenue in 2008 but by 2014 Local Government is now only 4.5% of General Fund revenue. Therefore, the City needs to rely more heavily on current and future revenues.

- Inheritance Tax:
 - In 2012 the State eliminated the Inheritance tax/Estate tax (still **CHART G**) which was 15% of the General Revenue funding in 2007 and almost 7% in 2013.
 - The average estate tax collected during the past 11 years was \$812,972 which is now a 100% revenue loss to the City.
 - 2013, the City did receive a residual amount of \$487,699. There is a potential the City may receive a residual as was previously received but there is no guarantee.

- Property Tax:
 - Although, the projected property tax is expected to be steady from 2013 with the Stark County Auditor's office 2012 reappraisal the City was impacted with a loss of 6% on top of a continuous decline since 2009. Per the Property Tax comparison (**CHART G**) a decline in property tax to the City of \$185,774 has been reported since the peak in year 2008. **CHART H** shows a cumulative of the three revenue source in Chart G into a bar

- Fund Carryover:
 - The City is relying more and more on the carryover balance. The General Fund cash balance, although it spiked in 2011 and 2012, it is a bit deceptive as the Inheritance Tax has been eliminated. The elimination of the Inheritance Tax will result in the General Fund declining significantly in 2013 and further in 2014 through 2015. (**CHART I**).

- Revenue vs. Expenditures:
 - The graph shows the relationship between General Fund Revenue and General Fund expenditures (**CHART J**) which reflects revenue exceeding expenditures or deficit spending in six of the past ten years.

- Number of Employees:
 - The graph shows the number of full time equivalents (FTE) has significantly dropped from the peak in 2002 at 182 FTE to 2013's 134 FTE (**CHART K**)

- Income Tax:
 - **Senate Bill 5:** The bill generally establishes a uniform tax base applicable to all municipal corporations levying an income tax by defining the forms of income that municipal corporations may tax and the forms that they may not tax. Per the Ohio Municipal League's web-site - The bill's provisions are likely to create, overall, a net revenue loss to municipalities, beginning with taxable years on or after January 1, 2015.
 - In 2015 it is estimated that North Canton will lose approximately \$300,000 - \$400,000 per year.

- Park:
 - **(CHART L)** The graph reflects the Operating Revenues and Operating Cost including Capital expenditures of the parks and recreation departments. As reflected on the charts the revenues do not sustain the costs. In addition, for a number of years there was no capital invested in the facilities. The park levy is calculated to be **\$532,043** per year for a period of five (5) years, tax years 2014, 2015, 2016, 2017 and 2018, commencing in 2014, first due in calendar year 2015.

- Conclusion:

Income Tax revenue is vital to the financial stability of the City. Income Tax revenues have dropped since their peak levels in 2005. Income Taxes are expected to gradually increase over the next few years. General Fund expenditures are anticipated to continue to increase. Without increased revenue the additional expenditures cannot continue if the City is to remain solvent. We must do all that we can to keep our expenditures in line; in particular, personnel. I appreciate Council & Administration on your efforts to provide tools and resources for the City. Should you have any questions or concerns about the items enclosed please contact me at 330-499-1409 or karen@northcantonohio.gov.

- Unfunded Compensated Absences:
 - The City currently has a liability for its compensated absences (i.e. vacation, sick leave) in the amount of over \$1,483 million.
 - Of this amount, the City has funded \$417,332. If everyone eligible to retire did, the City would face a major financial setback.
 - This unfunded liability is a huge burden on the City's shoulders. We have made only baby steps in relieving this burden. We still have a long ways to go in funding this liability.
 - costs, overtime, and insurance costs.