



THE HEART OF CUYAHOGA COUNTY

**6800 Brecksville Road
Independence, Ohio 44131
216.524.4131**

MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, December 30, 2022

Re: Finance Office and Related Topic Updates

November Financial “Abbreviated-Summary”

Both the final 2022 Annual Appropriations Ordinance and the 2023 Annual Appropriations Ordinance have been put together and adopted, and the work put into the Moddy’s Ratings Call this month is now in the rear-view mirror. Therefore, the books for the month of November were now able to get closed.

Following is a very brief, “Cash Summary” for the first 11 months of 2022. Further year-to-date financial details will soon be forthcoming.

Cash Balance, November 30, 2022	\$40,741,207
Encumbrances (Purchase Orders)	<u>25,454,414</u>
Unencumbered Cash Balance, 11/30/22	\$15,286,793

Note too that the final 2022 Debt Service payments were paid in November, for an almost \$2.2 million annual total. So the \$40.7 million Total Cash and the \$15.3 million of Unencumbered Cash are net of those debt service payments.

Municipal Income Tax Revenue

December's income tax numbers have been received, and after a real solid October and November, income tax receipts for December fell through the floor.

It may be a coincidence that the last month on record with a lower income tax receipt level was also in December – of 2017. Following are the December income tax receipt amounts dating back to 2016:

<u>December</u>	<u>Income Tax Receipts</u>
2022	\$2,072,459
2021	\$2,486,846
2020	\$2,673,922
2019	\$2,377,704
2018	\$2,279,574
2017	\$2,017,435
2016	\$2,151,961

Regular readers of this Memorandum know that the Finance Office always cautions about getting overly excited about a single “high” month or overly depressed about a single “low” month. The longer-term trends are more meaningful and provide the better data from which to make good policy decisions from.

Following are the Fourth Quarter income tax receipts dating back to 2018:

<u>4th Quarter</u>	<u>Income Tax Receipts</u>
2022	\$8,074,946
2021	\$8,059,371
2020	\$8,095,416
2019	\$8,374,646
2018	\$7,947,775

Finally, following are the Annual income tax receipts dating back to 2018:

Municipal Income Tax Revenue - Continued

<u>Annual Income Tax Receipts</u>	<u>+/- Previous Year</u>	<u>+/- %</u>
2022	\$34,295,599	(\$ 765,828) -2.2%

2021	\$35,061,427	\$1,188,306	+3.5%
2020	\$33,873,121	\$ 232,820	+0.7%
2019	\$33,640,301	(\$ 16,299)	<u>-0.05%</u>
2018	\$33,656,600	Cumulative %	+1.95%

What is observed from the above December, 4th Quarter and Annual Figures?

- Although December itself was very weak, the strong October and November this year allowed the 4th Quarter of 2022 to be what can still be described as “solid”
- On an annual basis, although experiencing what may be the largest one-year drop in income tax receipts ever, 2022’s income tax receipts did not “fall of the cliff,” being down 2.2% from 2021
- Although 2022 income tax receipts did not “fall of the cliff” from 2021, being down at all in 2022 is somewhat concerning in a year where wage growth in the private sector has been about as strong as it’s been in recent memory
 - If any year should have seen an increase in income tax receipts based on wage growth alone, it would have been 2022
- The most “problematic” trend for Independence policy makers and municipal leaders is the annual income tax receipt level being bracketed in the \$33.6 - \$35.1 million range for five straight years now
 - On a cumulate basis, income tax receipts are up a total of only 1.95% during the above-noted time-period
 - Inflation during that time-period has cumulatively, well, well exceeded, 1.95%
 - This flattening income-tax trend, if it continues, will have negative financial ramifications for the City – namely, reducing the amount of “discretionary” cash that can be allocated (appropriated) for capital and infrastructure purposes
 - If the City’s largest revenue source by far has somewhat “flat-lined” while operating expenses and the operating budget continues to increase, by definition, that squeezes
- **Municipal Income Tax Revenue - Continued**

and lessens the amount of money available to internally finance capital acquisitions and infrastructure projects

What can be done to address this flattening income-tax receipts trend?

There are another three pages of actions, tactics and strategies that the Finance Office came up with that can be implemented and employed by the City to address this flattening income-tax receipts trend.

Perhaps that discussion is better left for the Saturday, January 21 Strategic Planning Meeting.

So for now, the Finance Office will sign off here in 2022 wishing everyone a blessed, safe, happy and healthy 2023!

