



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, October 14, 2022

Re: Finance Office and Related Topic Updates

Income Tax Revenue and General Economic Conditions

October's Income Tax receipts have been posted, so ten months of receipts are now known, or about 83% of 2022.

The softening trend of income tax receipts continues, as the July – October time-frame income tax receipts are at the lowest level since 2016 as follows:

| <u>July - October</u> | <u>Income Tax Receipts</u> |
|---------------------------|--------------------------------|
| 2022 | \$10,153,589 |
| 2021 | \$10,819,083 |
| 2020 | \$11,515,573 |
| 2019 | \$10,664,765 |
| 2018 | \$10,569,794 |
| 2017 | \$10,163,618 |
| 2016 | \$ 9,707,189 |

The news is a little better on an annual basis due to a few stronger months in the earlier part of 2022. But income tax receipts in 2022 are still on track to be lower than in 2021.

On a Year-to-Date basis (Ten Months), income tax receipts are still down almost \$800,000 from 2021 as follows:

Income Tax Receipts and General Economic Conditions Continued

| <u>Year</u> | <u>1st Ten Months Income Tax</u> |
|-------------|---|
| 2022 | \$29,189,394 |
| 2021 | \$29,960,514 |
| 2020 | \$28,705,151 |
| 2019 | \$28,340,316 |
| 2018 | \$28,566,415 |

A flat-to-declining trend in the most significant revenue source by far in the face of historically high inflation are two trends that cannot be maintained over the long-haul.

As the Finance Office works with Mayor Kurtz and Council these final months of 2022 preparing the 2023 Operating, Capital and Debt Service Budgets, seeing what some larger organizations are currently saying and doing in this economy would be prudent:

- Locally, University Hospitals posted a \$185 million net operating loss for the 1st eight months of 2022. With a desire to lower operating expenses by \$100 million, UH will:
 - Lay off 117 administrative employees
 - Eliminate 326 unfilled positions
- Regionally, even as Intel makes plans to invest billions in a new chip plant in Central Ohio, Bloomberg reported this week that Intel will lay off “thousands” of current employees as soon as this month due to softening chip demand
- JP Morgan Chase CEO Jamie Dimon was very forthright this week with his outlook on the economy:
 - Warned that “*a very, very serious*” mix of headwinds was likely to tip both the U.S. and global economy into recession by the middle of next year.
 - “Among the indicators ringing alarm bells, Dimon cited the impact of runaway inflation, interest rates going up more than expected, the unknown effects of quantitative tightening and Russia’s war in Ukraine.
 - “*These are very, very serious things which I think are likely to push the U.S. and the world...in some kind of recession six to nine months from now.*”
- “His comments come at a time of growing concern about the prospect of an economic recession as the Federal Reserve and other major central banks raise interest rates to combat soaring inflation.”
- Dimon said that “*While the Fed waited too long and did too little*” as inflation jumped to four-decade highs, the central bank is “*clearly catching up.*”

Income Tax Receipts and General Economic Conditions Continued

- “Dimon said he couldn’t be sure how long a recession in the U.S. might last, adding that market participants should assess a range of outcomes instead.”
 - *“It can go from very mild to quite hard...So, I think to guess is hard. **Be prepared.**”*
- “Dimon said that one guarantee he could be sure of was volatile markets. He also warned that this could coincide with disorderly financial condition.”
- And the statement that all should take heed of and mimic:
 - *“**JP Morgan is bracing ourselves and we’re going to be very conservative with our balance sheet.**”*

Note: A Balance Sheet is a financial statement that lists an organization’s Assets, subtracts off its Debts (Liabilities), leaving the difference as Equity, or in the public sector, Fund Balance.

When a statement is made regarding being “*conservative with our balance sheet,*” that is typically code for “*We’re not going to get too aggressive with our debt (liabilities) right now and we’re also going to ensure that we maintain a high level of liquidity*” (Meaning keeping a high level of cash and marketable securities readily available).

Note: Statistics, data and quotes cited on Pages 2 and 3 of this report are taken from various news sources, including cleveland.com, Bloomberg and CNBC.