



City of Independence, Ohio

"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, April 23, 2021

Re: Finance Department Updates

Tuesday, April 27, 2021 Council Workshop Preparation

The three (3) finance related items on the Tuesday, April 27, 2021 Council Workshop Agenda are:

- Long-Term Debt Refunding (Refinancing) Opportunity
- American Rescue Plan Act Funding – Potential Use of Funds
- Local Municipal Income Taxing in Ohio – Contingency plans if future laws/court rulings result in an unfavorable taxing climate for Independence

Following is some prep material in advance of Tuesday's Workshop.

Long-Term Debt Refunding (Refinancing) Opportunity

The city has just under \$3.7 million of long-term debt that is eligible for refunding (refinancing) or paying off after December 1 of this year.

It had been discussed that the City basically has three options to consider this coming fall:

1. Do nothing, and continue to pay the existing debt at the existing interest rate (Average Coupon Rate of 3.67%) on the existing payback schedule
2. Refund, or refinance, the bonds at lower current market interest rates
3. Pay the outstanding bonds off

Given that interest rates achieved with the City's investment funds are all currently under 1.0% (with the highest return being the CD's on deposit with Independence Bank at 0.60%, and the remaining investment portfolio being invested at rates substantially under 0.60%), Option #1 is probably not the most advantageous for the City right now.



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Long-Term Debt Refunding (Refinancing) Opportunity Continued

It seems like the two most logical choices right now are either refund/refinance the outstanding bonds, or since the principal amount is just under \$3.7 million, consider just utilizing cash and paying them off that way.

That last option of paying them off does have some plausibility. Is the City better off continuing to pay an average coupon rate of 3.67% on \$3.7 million worth of bonds when it has some \$14 million in investments yielding in the 0.20% range or less? Or use some of that \$14 million in cash to pay debt off and save from not having to pay that 3.67% average coupon interest rate?

Now the decision is just a little more complicated than that given that there are millions of dollars of encumbrances restraining the use of all of that cash. But either refunding/refinancing these bonds or paying them off later this year seem to be the two most realistic options at this point.

American Rescue Plan Act Funding – Potential Use of Funds

The City is scheduled to receive approximately \$700,000 later this spring and another \$700,000+- sometime in 2022 from the American Rescue Plan Act.

Although local governments are still waiting for more specific guidance on the use of these funds, general guidance received thus far is focused on four areas:

1. Responding to or mitigating the public health emergency with respect to the COVID-19 emergency or its negative impacts;
2. Providing government services to the extent of the reduction in revenue;
3. Make necessary investments in water, sewer or broadband; and
4. Responding to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers that are performing such essential work.

Decisions don't have to be made quite yet on the use of the funds received, but Council and Mayor Kurtz might want to commence the discussion so that a decision can be made at some point in the near future as to the best application and use of them.

Local Municipal Income Taxing in Ohio

Two updates on this issue have been written about in this weekly Memorandum, but are provided once again:



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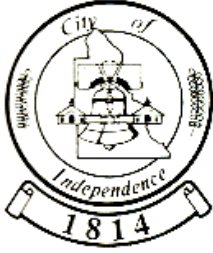
Local Municipal Income Taxing in Ohio Continued

- The City of Columbus settled with a Plaintiff who had challenged Columbus' withholding of municipal income taxes from the Plaintiff, who hadn't actually completed any work within Columbus in some time
 - Columbus agreed to pay a full refund to the Plaintiff, who was forced to have income taxes withheld for Columbus even though he was working outside of Columbus;
- The City of Cleveland was served with a law suit from a Plaintiff who alleges the same thing as the Columbus suit – that Cleveland continuing to withhold local income taxes from this Plaintiff, who also hasn't worked within the City of Cleveland in some time, is illegal.

Nothing will be decided on this issue on a legislative or constitutional basis anytime soon, but it does loom over the heads of all municipalities who rely on local income taxes for the majority of their annual funding.

Mayor Kurtz and Council may want to have at least a brief "What if" discussion sometime soon on this topic, with questions such as the following leading the way:

- "What if" Independence is someday soon required to issue refunds like in Columbus, to people whose employer is located in Independence but they themselves had not worked in Independence for a period of time?
 - Will the City alter any of its operations or functions if refunds total:
 - Up to 5% of Annual Income Tax Collections? (Approx. up to \$1.5 million)
 - If so, which operations or functions?
 - Between 5% and 10%? (Approx. \$1.5 million - \$3 million)
 - If so, which operations or functions?
 - Above 10%? (Approx. over \$3 million)
 - If so, which operations or functions?
- "What if" it is ultimately ruled by the Supreme Court that local income taxes cannot be withheld from someone who does not physically live in or work in a municipality, and at least some people continue to work remotely after the pandemic is over?
 - Will the City alter any of its operations or functions if Municipal Income Tax Revenue (MITR) declines annually by:
 - Up to 5% (Approx. up to \$1.5 million)
 - If so, which operations or functions?
 - Between 5% and 10%? (Approx. \$1.5 million - \$3 million)
 - If so, which operations or functions?



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Local Municipal Income Taxing in Ohio Continued

- Above 10%? (Approx. over \$3 million)
 - If so, which operations or functions?

With all of the City's debt in fixed-rate instruments, unless such debt is eligible for pre-payment (such as later this year – See first item discussed herein), debt-service payments are fixed. So there isn't much/any flexibility in this part of the City's annual expenditures.

That leaves the Operating Budget or Capital/Infrastructure Investments as the two areas where adjustments can be made should any of the above noted scenarios play out.

No specifics have to be decided just yet, but well managed organizations at least occasionally engage in some "*What if this worst case scenario actually happens*" planning.

It's better to have planned for the worst and not have that worst case scenario play out, than not have planned for it, have it happen, and then be forced into reacting and also possibly having to make a rather quick decision too.