



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, December 17, 2021

Re: Finance Office Updates

Municipal Income Tax Revenue (MITR)

MITR is often written about here, as it is the primary revenue source by far for the City. No other revenue source even comes close to MITR as far as total dollars or as a percentage of all revenue sources. Therefore, its importance to Independence can never be underestimated or taken for granted.

It seems though that every bit of good news regarding MITR is oftentimes wrapped in a little cautionary news too.

The current good news is that MITR for December has been received, meaning that 2021 totals are now complete, and 2021 MITR was at a record level as follows:

<u>Year</u>	<u>MITR</u>	<u>+/- Previous Year</u>
2021	\$35,061,427	\$1,188,306
2020	\$33,873,121	\$ 232,820
2019	\$33,640,301	(\$ 16,299)
2018	\$33,656,600	\$2,855,100
2017	\$30,801,500	\$ 337,289
2016	\$30,464,211	

The cautionary news? MITR has softened here in the later part of 2021. MITR during the last four months of 2021 is less than it was during the last four months of 2019, and just a little over what it was in 2018 as follows:

<u>Last Four (4) Months</u>	<u>MITR</u>
2021	\$10,619,710
2020	\$11,099,028
2019	\$10,750,129
2018	\$10,271,096



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Municipal Income Tax Revenue (MITR)

The last four months of 2020 were an outlier since the deadline for filing income tax returns was extended to July 15 last year, and the filing deadline for tax payers who filed for an extension was October 15. Therefore, more MITR came in at the end of 2020 than it did in years with the more typical April 15 filing deadline.

So although that \$11.1 million MITR figure for the last four months of 2020 is artificially skewed high, it's still clear that MITR towards the end of 2021 has started to soften.

Two top tax payers have switched to remote work models and have also reduced operations in Independence, resulting in them paying a combined \$690,000 less in MITR to Independence in 2021 than in 2020.

If that trend continues and if challenges to current local income tax laws are successful, that \$35.0 million MITR amount here in 2021 could be under some pressure going forward. The Mayor and Council were told that the 2022 Budget (Annual Appropriations Ordinance) will estimate what is hopefully a very conservative 2022 MITR amount. The goal is that if there are any surprises in 2022 regarding MITR, that they are on the upside and not the downside.

Outstanding Debt

The City took advantage of low long-term interest rates in 2020 to convert all outstanding short-term (one year) notes into long-term (15 years) bonds, locking in an all-in interest rate of just under 1.60%.

The City also took advantage of a strong cash position in 2021 to retire some higher interest rate bonds that became eligible for prepayment (Callable) here in 2021. After ending 2020 with \$28.8 million of Debt, the City ends 2021 with \$23.2 million of Debt, broken down as follows:

<u>Type of Debt</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>12/31/2021 Principal Balance</u>
Bonds	06/01/2030	3.55 – 3.59%	\$ 5,690,000
Bonds	12/01/2035	1.6%	14,380,000
OPWC	01/01/2036	0.0%	3,019,017
OPWC	01/01/2032	0.0%	118,125
		Outstanding Debt	\$23,207,142

*OPWC = Ohio Public Works Commission



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Outstanding Debt Continued

It should be noted that the above listed Outstanding Debt amount is what is owed to bond holders and the Ohio Public Works Commission.

The City has advanced millions of dollars over the years from MITR to the various Tax Increment Financing (TIF) Districts in Independence to facilitate infrastructure projects. Advances are transfers of funds with the expectation that those funds will eventually be repaid, whereas the Transfer of funds is done when there is no expectation of those funds being repaid.

At the end of 2021 the City will "owe itself" just over \$36.1 million that it has advanced to the various TIF Funds over the years. This is a legitimate liability (an amount owed) as the City's Governmental Funds Balance Sheet (A statement listing what's owned and what's owed) in the Comprehensive Annual Financial Report lists these Advances as an Inter-fund Payable in the Liabilities section of it.

So when that \$36.1 million figure is added to the \$23.2 million owed to bond holders and the OPWC, it can be argued that the City's true total long-term debt is more in the \$59 million+ range. At least with money the City has advanced or "loaned" to itself, the terms of the repayment of those Advances can be very flexible and adaptable.

Closing Commentary

Love him, hate him, loathe him, or admire him, Tesla CEO Elon Musk certainly isn't bashful about stating his opinions on a wide range of subjects. Following are some interesting ones from him quoted in the December 13, 2021 edition of the *Wall Street Journal* taken from his virtual appearance at the Wall Street Journal's CEO Council Summit:

"U.S. federal spending is out of control. It (the Infrastructure Bill) might be better, honestly, if the bill doesn't pass because we've spent so much money. The federal budget deficit is insane. Something's got to give. You can't just spend \$3 trillion more than you earn every year and don't expect something bad to happen."

"I think the role of government should be that of a referee, not a player on the field. So generally, government should just try to get out of the way and not impede progress. I think there's a general problem, not just in the U.S., but in most countries, where the rules and regulations keep increasing every year."



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Closing Commentary Continued

"Rules and regulations are immortal. They don't die. And so if more rules and regulations are applied every year and it just keeps growing and growing, eventually it just takes longer and it's harder to do things."

And what might be the most important observation he made that could have far-reaching, long-term impacts on all of us going forward: *"The foundation of the economy is labor. And there aren't enough people. I can't emphasize this enough. One of the biggest risks to civilization is the low birthrate and the rapidly declining birthrate. If people don't have more children, civilization is going to crumble. Mark my words."*

Finally, on the subject of far-reaching impacts, one of the editorials in yesterday's *Wall Street Journal* cautioned about the growing and strengthening strategic alliance between Russia and China, saying that *"both see regional advantages from rolling back American power and prosperity."*

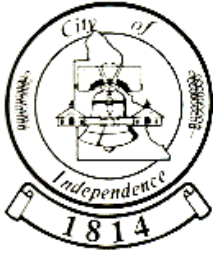
Low/declining birthrates. Strategic alliances between world super powers. What do those topics have to do with good local governance?

Successful managers and leaders at any level in any organization are usually the ones who not only are keeping their eye on the ball in front of them – the day-to-day grind of fulfilling their organization's mission – but are also keen students of the larger, macro trends happening in society, the impacts of which will eventually be felt closer and closer to home.

That's what makes for successful long-term, strategic type planning – taking that long view, looking at and learning about those larger, macro trends starting to germinate, deciphering which ones might impact the organization either positively or negatively, and then planning for and charting a course for the organization to take advantage of the positive ones and to attenuate as best as possible, the negative ones.

Small-Town Christmas Scene

Although there is no snow out now in Northeast Ohio and today features bright sun and blue skies, the closing image this week on the next page is an appropriate way to close this Memorandum on the last Friday before Christmas Eve!



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