



# 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, November 5, 2021

Re: Finance Office Updates

### **Tuesday Results and Agenda Looking Forward Into January**

Congratulations to all of the returning Members of Council as well as to the new Council Member on their success this past Tuesday!

Administrative Directors are working with the Mayor's and Finance Office to draft 2022 budget proposals as well as making any needed/requested amendments to the 2021 – 2025 Capital Improvement Plan (CIP) and adding a new 5<sup>th</sup> year, 2026, to it.

The goal is to have the internal part of the process completed so that 2022 Annual Appropriations and 2022 – 2026 CIP discussions can commence later this month on through the first half of December. It would be desirous if Council Members Elect Togliatti and DiGeronimo can also be available to participate in those discussions to put the City in a good position to at least adopt the 2022 Annual Appropriations Ordinance at either the January 3, 2022 Organizational Meeting or the Regular Council Meeting on January 11, 2022.

According to the Cuyahoga County Board of Elections, Independence currently has 5,912 Registered Voters. Of those 5,912, 2,406 of them participated in this past Tuesday's election, resulting in a 41% overall voter participation/turnout city-wide.

The highest participation/turnout rate of 45% was in Precinct A, which encompasses a large area of the central part of Independence. The lowest participation/turnout rate of 35% was in Precinct C, which is the southwest corner of the City bordered by Pleasant Valley Road on the north, Brecksville Road on the east, Sprague Road on the south, and the Independence municipal border on the west.

Of the 2,406 people who cast ballots this election, 2,371 of them voted either "For" (67%) or "Against" (33%) the school district PI levy renewal issue. That means that only 35 people who cast ballots this past Tuesday did not vote either way on the PI levy issue.



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## **City Investments**

A \$2 million investment in a one-year note issued by Mayfield Heights that was made last fall, matured last week. As a result, almost \$15,000 of interest from that investment was deposited into the City's account with Fifth Third Securities.

The Finance Office is working with its Fifth Third rep to re-invest that \$2 million, as until it is re-invested, it is earning all of 0.03% in a money market account.

## **Rockside Corridor Office Market**

It is no secret that office-type employment has been the dominant historical driver of Municipal Income Tax Revenue (MITR) to the City (See the next section in this Memorandum for an additional discussion on this topic).

For this reason, a watchful eye is kept on the office market so that the Finance Office is on top of the latest trends in leasing, lease rates, space absorption, etc., which eventually translates into employment and employee count, and ultimately, MITR.

Colliers Cleveland recently put out its Third Quarter Office Report, and following are some of the statistics from it for the Rockside Corridor Submarket, which includes Independence and Seven Hills:

- Total Class A Office Space (Newer Buildings) 2,074,415 Square Feet
- Total Class B Office Space (Older Buildings) 1,705,472 Square Feet
- Total Office Space Rockside Submarket 3,779,887 Square Feet
  
- Total Class A Office Space Vacancy Rate 9.1%
- Total Class B Office Space Vacancy Rate 17.3%
- Total Office Space Vacancy Rate 12.6%
  
- Total Class A Office Space Available 14.3%
- Total Class B Office Space Available 30.0%
- Total Office Space Available 21.4%

The Total Office Space Available figure is much higher than the Total Office Space Vacancy Rate because there is quite a bit of office space out there that is either unoccupied but the rent is still being paid on that space until leases expire (Such as the Cleveland Clinic office space across the street from City Hall), or is still occupied, but current tenants are desirous or willing to leave if acceptable replacement tenants could be found.



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### **Rockside Corridor Office Market Continued**

That overall 21.4% Total Office Space Available Rate in the Rockside Corridor Submarket is something that the municipal leadership team needs to focus on going forward due to the work-from-home headwinds that many similar municipalities with a high preponderance of office buildings and office-type employment are facing right now (Again, see the next section in this Memorandum for an additional discussion on this topic).

It's clear that the older, Class B type office buildings are struggling more than the newer, Class A type buildings, with almost one-third of Class B Office Space in the Rockside Corridor Submarket being "Available."

One possible reason for this might be that the lease "premium" to occupy newer, Class A type office space is only 13.5%+- more than lease rates in older, Class B type office space. The Average Asking Rate for Class A office space in the Rockside Corridor Submarket is currently only \$20.21/square foot, vs. \$17.82/square foot for Class B office space.

### **The Impact Of Work From Home On Municipal Income Taxes In Ohio**

The Ohio Mayors Alliance, a bipartisan collation of mayors of Ohio's largest urban and suburban communities retained PFM Group Consulting LLC to study the impact of Work-From-Home on municipal income taxes in Ohio.

PFM recently issued its findings in a very detailed and comprehensive report. Some direct quotes from that report are as follows:

- *"The advent of work from home (WFH) will have significant impacts on municipal tax collections for Ohio's cities."*
- *"The vast majority of firms across the country and in Ohio have implemented or plan to implement some form of hybrid staffing for their office-type employees."*
- *"The potential impacts on Ohio's cities also depends upon a number of other factors, including:*
  - *The degree to which their budgets depend on income taxes (A significant degree for Independence)*
  - *The volume of workers who commute into the cities from their surrounding [cities]" (Also a significant number for Independence)*



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## **The Impact Of Work From Home On Municipal Income Taxes In Ohio Continued**

- *“It is highly likely that many Ohio cities will be negatively impacted by WFH under Ohio’s current municipal income tax laws.”*
- *“WFH will have significant economic impacts as fewer employees work at their companies’ offices during a typical workweek, thereby depressing their spending on goods and services proximate to their offices. This will reduce employment, incomes and business profits, further depressing municipal income tax collections.”*
- *“WFH has already caused a noticeable increase in office vacancy rates across the U.S. and in Ohio’s cities. Over time, office vacancy rates will continue to escalate, depressing the values of office buildings and reducing ad valorem tax revenues.”*
- *“Lower municipal income tax revenues will compromise the ability of cities to provide public services, eroding the attractiveness of living and working in cities causing additional economic harm.”*
- *“The municipal income tax is fundamental to local government finance and operations across Ohio, so any changes in how the tax is applied will have far reaching consequences for all Ohio residents.”*
- *“Most Ohio municipalities will soon start working on their 2022 budget, and that process starts by projecting how much revenue they will have available. Projecting how the largest revenue source could change in 2022 and beyond is critical to that question.”*
- *“As much revenue as the municipal income tax generates for cities’ General Funds, [most cities] designate a portion of the municipal income tax to pay for capital projects and associated debt.*
  - *Cities are obligated to make their full debt payments, even if the municipal income tax revenue intended to cover these debt payments drops.”*

If you have read this far, congratulations, as reading all of those bullet points can be pretty depressing. But effective leaders and managers live in “real-ville,” not in the world as they wish it was.

100 Meter Hurdle runners (women) and 110 Meter Hurdle runners (men) stand at a starting line and face ten (10) hurdles between them and the finish line. If they don’t want to acknowledge that the hurdles are there and if they don’t have the desire to get over them to reach the goal (the Finish Line), they probably should be running in other events!



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### **The Impact Of Work From Home On Municipal Income Taxes In Ohio Continued**

The same with community leaders - If we don't want to acknowledge the hurdles in front of us and don't have the desire to get over, under or around them (the second two options not being available to runners in a hurdle race!), we probably should be in another line of work.

So rather than just point out the employment/financial/economic development hurdles and headwinds that cities like Independence face, it is imperative that effective community leaders also prepare appropriate action plans to get over, under or around all of the "hurdles" that are thrown a city's way.

Some action-plan options available to Independence to address these hurdles/headwinds could include:

- Look to develop remaining commercial/industrial vacant land with the type of building improvements that require a majority of onsite employment
  - Uses and well-paid job functions that generally don't lend themselves to the remote work model
- Look to redevelop aging office buildings, or the land they sit on, into building improvements that require a majority of onsite employment
  - Same as above – Uses and well-paid job functions that generally don't lend themselves to the remote work model
- Utilize business attraction, retention and growth grants to target businesses in the above noted categories
  - Businesses that have well-paid workforces that generally can't work remotely
- Utilize selective business attraction, retention and growth grants targeted to those office-type employers who will guarantee a certain amount of Municipal Income Tax Revenue (MITR) to the city despite any future work-from-home or remote work arrangements
- Pay down debt and be judicious in the issuance of new debt so that more of the City's Cash Flow is available for Operating Expenses and Capital/Infrastructure investment, even if MITR decreases going forward
  - Limit the growth of the City's Operating Budget to conserve Cash

The Finance Office looks forward to meeting with Mayor Kurtz and Council-elect in January to review, discuss and agree on action-plan options to map out a viable path to ensure that Independence remains "*a premier community in which to live, work, visit and raise a family*" – The City's Vision Statement, which is what the desired future state of an organization is.