



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, May 13, 2022

Re: Finance Office and Related Topic Updates

Income Tax Revenue

May's Income Tax Revenue has been received. The overall trend is still down.

On a simple monthly "snapshot" level, May's Income Tax Revenue for the last five years is as follows:

<u>May</u>	<u>Income Tax Revenue</u>	<u>+/-Previous</u>
2022	\$3,411,129	\$(232,751)
2021	\$3,643,880	\$ 1,369,454
2020	\$2,274,426	\$(1,236,813)
2019	\$3,511,239	\$(215,957)
2018	\$3,727,196	

There can be a lot of variability in one month's income tax levels, which is why the Finance Office implores interested parties to not get too worked up over a single month's revenue level, either on the positive or negative sides.

May of 2020 sticks out as abnormally low though, likely for at least two reasons:

- The IRS extended the tax filing deadline to July 15 in 2020 from the standard April 15 date
 - Therefore many 2019 tax bills were "squared up" much later that year
- The Regional Income Tax Agency (RITA) issued a large refund in May of 2020

That is why it is better to look at a number of months aggregated together to get a better handle on what the larger trends are.

Following are the Income Tax Revenue totals for the first five months of the year dating back to 2018:



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Income Tax Revenue - Continued

<u>1st Five Months</u>	<u>Income Tax Revenue</u>	<u>+/-Previous</u>
2022	\$14,511,932	\$ (545,873)
2021	\$15,057,805	\$ 1,576,851
2020	\$13,480,954	\$ (551,428)
2019	\$14,032,382	\$ (402,108)
2018	\$14,434,490	

Broken down by category, the first five months of the last three years are as follows (With the totals varying just slightly from those noted above and from what the columns add up to – all due to Excel rounding):

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Taxes from Withholding	\$12,066,069	\$12,427,199	\$12,402,959
Plus Penalties/Interest	60,952	26,000	26,424
Less Refunds/Adjustments	- 49,580	- 37,171	- 53,139
Plus Taxes from Individuals	455,481	431,320	467,999
Plus Penalties/Interest	31,656	38,400	38,383
Less Refunds/Adjustments	- 24,154	- 52,754	- 18,029
Plus Net Profit through RITA	1,860,690	1,651,563	1,183,502
Plus Penalties/Interest	71,042	57,794	26,225
Less Refunds/Adjustments	- 103,048	- 147,771	- 598,028
Plus Net Profit through the State	138,786	653,002	1,230
Plus Utilities through the State	<u>4,044</u>	<u>10,219</u>	<u>3,430</u>
Equals Total Income Tax 1 st 5 Months	\$14,511,936	\$15,057,802	\$13,480,956

- Taxes from Withholdings are stable-to-slightly declining.
- Taxes from Individuals are stable.
- Taxes from Net Profits paid through RITA are increasing steadily.

Negative short-term trends can be worked through if an entity has a strong financial position. But if the trend of flat-to-slightly declining income tax revenue continues for a few more years, since the cost to operate the City on a day-to-day basis is increasing due to a number of reasons, the day could come in a number of years where the cost to operate the City on a day-to-day basis consumes virtually all of the income tax revenue.



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Income Tax Revenue - Continued

If that were to happen, that would mean that all capital purchases, infrastructure projects and debt service requirements would have to be paid out of revenue sources other than income taxes.

This possible trend highlights the importance of economic development in Independence. Both in sparking new business growth on remaining vacant land (eg. NW Quadrant, the former Middle School and adjacent properties, remaining vacant land north and east of I-480, etc.) as well as determining if higher-and-better uses exist for currently improved properties.

Success in this would result in new businesses in Independence that would employ additional employees, and thusly, increased income tax revenue.

Note Investment

One of the investments the City has with Fifth Third is \$1.75 million in various purpose, one-year notes issued by Canal Winchester, Ohio, a city with a population of about 9,000 located southeast of Columbus.

The City acquired this tranche of notes in May of 2022, and the Yield-to-Maturity on them at that time was 0.20%.

The City was able to acquire a similar \$1.75 million tranche of these notes as they matured this month. The Yield-to-Maturity on these one-year notes that will mature in May of 2023? 2.3%!

That equates to an increase in the Yield-to-Maturity of over 1,000% $((2.3 / 0.20) - 1.0 \times 100)$ in one year.

This significant and quick increase in yields works to the benefit of municipalities on the investment side of the equation, but is obviously making borrowing costs much, much higher than they were just last year in 2021.

To someone that has just been in the workforce for a few years, current interest rates might seem exceedingly high already.

To someone that has been in the workforce since the late 1970's or early 1980's, today's interest rates might still seem exceedingly favorable – compared to what they remember them being 40 years ago.

Like a lot of things in life, it just depends on one's perspective!