



Office of the Mayor

City of Warren

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William Douglas Franklin
Mayor

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Director of Service-Safety

August 4, 2016

City of Warren, Ohio Income Tax Increase Presentation

Issue:

Due to a projected budgetary shortfall of between \$1.3 – \$1.6 million in the General Fund for 2017 and years afterward, caused by revenue losses and the loss of the Local Government Revenue Fund and the Estate Tax, the City of Warren is asking for a 0.5% local income tax increase.

Remedy:

The loss of funds totaling \$1.3 – \$1.6 million, as described above, as well as projected continuing losses in the years afterward, would be eliminated and supplemented by a 0.5% income tax increase. This increase will not only allow the City of Warren to provide existing core services, but also add approximately eight to twelve police officers and eight to twelve firefighters. Additionally, this revenue will enable the City of Warren to implement its first true Road Maintenance Program in more than fifteen years that will address our crumbling infrastructure.

Analysis:

In 2011, two significant changes occurred at the State level: the Estate Tax was abolished and the Local Government Fund was cut.

In 2011, the City of Warren collected about \$465,000.00 in Estate Taxes, which supplemented the General Fund. In 2016, the City of Warren received roughly \$40,000.00 in Estate Taxes. In 2017, it is anticipated that the City of Warren will collect \$0.00 in Estate Tax.

Next, the Local Government Fund was cut by 50%. This means that, in 2011, the City of Warren received back from the State \$1.5 million in Local Government Funds and approximately \$230,000.00 in State Government Funds. In 2016, the City of Warren is anticipated to receive \$870,000 in Local Government Funds and approximately \$47,000.00 in State Government Funds. It is expected that this trend will continue into 2017 and beyond.

At least 38 Cities and Villages in Ohio have increased their Local Income Tax rates in 2015 & 2016. Still others are seeking voter approval of Income Tax increases this fall, including: Athens, Cleveland, Newark, Springfield, and South Euclid. This trend is not unique to the City of Warren.

These aforementioned reductions always affect the General Fund of every city, including Warren, which translates to the funding of Police officers, Fire fighters, and road maintenance.

What an Increase Brings:

When the last Income Tax increase was passed fifteen years ago in 2001, the City of Warren spending levels practically mirror the spending levels of today. Spending, however, is not the problem. The problem is decreasing revenue.

- A \$1.3 – \$1.6 million shortfall in 2017 and years afterward can only be filled through the layoffs of Police officers and Fire fighters, and at the expense of infrastructure, especially roads. It is anticipated that the layoff of approximately 10 Police officers and 10 Fire fighters would fill that shortfall, unless this Income Tax increase is passed. It must be noted that the layoff of ten Police officers and ten Fire fighters carry with it an approximate cost of \$16,000 per man based on the anticipated payment of Unemployment Compensation Benefits and Accrued Severance.

The compromise in core Safety Services that the City will experience with 10 fewer Police and Fire personnel each is unfathomable. Response times will suffer, and lives will be placed at greater risk. This is unacceptable.

- In 2015, the City of Warren brought in approximately \$17 million in Income Tax. A 0.5% increase is anticipated to bring in between \$3.5 - \$4 million in additional revenues per year. That money will not only enable the city to avoid safety forces layoffs – which would be crippling - but the increase would also enable our Safety Forces to achieve adequate staffing levels for the first time in nearly ten years.

How Funds Will Be Allocated:

- As explained earlier, there is an anticipated \$1.3 – \$1.6 million General Fund shortfall, which would translate to Police and Fire layoffs. The tax increase expected to generate \$3.5 – \$4 million per year. Approximately \$1.3 million of those funds will be used to fill annual budget shortfalls. \$1 million will be dedicated to an annual Road Resurfacing program. Lastly, assuming a conservative estimate of the income taxes generated will bring in \$3.5 million, the remaining \$1.2 million will be used to hire eight to twelve Police officers, as well as eight to twelve Fire fighters, which will enable the Safety Forces to realize adequate staffing levels for the first time in ten years.
- The last Income Tax increase was passed in 2001 as a temporary measure. It was made permanent in 2006 - 2007. This means that the City of Warren has been operating its Safety Forces and Road Resurfacing Programs at or below Income Tax Revenue levels from 2001. In other words, there has been no new money requested by the City of Warren in excess of fifteen years.

- A newly hired Police officer or a Fire fighter, with wages and benefits, costs the City of Warren approximately \$68,000 per year, per Safety Force employee. Over time, those numbers rise as those members move up in rank and pay. If we assume that ten new Police and ten new Fire employees will cost \$680,000 per Department, the math is clear to see.
- With regard to the Road Resurfacing Program, primarily all of the funding received by the City of Warren from the Federal and State levels routinely requires a ten to twenty percent match. With every passing year, as revenues have shrunk, the match money has dwindled. Moreover, funding for roads that come from the Federal level can only be used in Low to Moderate Income areas of the City.

What Cost Saving Measures Have Been Taken To This Point Already:

- Since 2008, there are 81 fewer City employees on the payroll.
- Since 2008, City employees have agreed to concessionary bargaining and wage freezes.
- For the first time ever, Warren City employees contribute to their Health Care costs.
- Rank reductions / Permanent Eliminations in Safety Forces: (one less Captain, one less Lieutenant, one less Sergeant in Police; and six less Lieutenants in Fire).
- Merger of Dispatch Services with Trumbull County 911, realizing a savings of approximately \$500,000 per year.
- The Management Contract for Packard Music Hall greatly reduced the Operational City Obligation. Over five years, the obligation will trend down from approximately \$350,000 – \$100,000, a savings of \$250,000 per year. Additionally, there is a savings of \$70,000 per year in utilities.
- The Avalon South Golf Course carried a tax obligation of approximately \$34,000 per year and an ongoing maintenance obligation of \$60,000 per year when it sat idle. Both of these have been eliminated. It should be noted the idea of exploring the sale of the golf course was rejected by City Council. Also, the one-time sale of this asset is not a sound financial plan for years going forward.
- Refinancing of Police and Fire Pension Debt Obligation, which achieved a savings of \$1 million over the life of the debt service.

Why Further Department Consolidation with the County Will Not Achieve Any Real Value:

There has been discussion and questions asking whether the merger of multiple City Departments would achieve further cost savings necessary to fill the \$1.3 – \$1.6 million budget shortfall projected for 2017 and beyond.

For the following reasons, the answer is “No”:

The first department that has been suggested for possible merger with Trumbull County is the Warren City Health Department. The reason the Warren City Health Department is an extremely poor candidate for merger with Trumbull County is that its cost to the General Fund for an average of the last five years has been approximately \$40,000. However, that amount of expense to the General Fund enables the City of Warren to enjoy several services provided by our Health Department, which the County does not provide. Among those services included are:

- Health Department Housing Program
- City-Wide Mosquito Control
- Rat and Vermin Control
- Birth and Death Certificates
- Vacant Property Registration
- Indigent Burial Program
- Warren City Schools Free Dental Sealant Program
- Warren City Schools Free Head Lice Inspection Program
- Free Home Lead Visits
- Free Home Visits for Children with Mental Disabilities
- The Only Free Testing Site for STD’s and HIV in the County

Much like Trumbull County 911, should the Warren City Health Department be merged into Trumbull County, there would likely be a charge/expense to the City’s residents associated with merging, which could easily exceed \$40,000. Lastly, the largest loss associated with merging the Warren City Health Department with Trumbull County is the loss of local control for an expense that would not even hire one Police officer or one Fire fighter for even one year. As you can see, the City Health Department is not only a poor candidate for a merger and not a cause of the Budget Shortfall, but instead, an asset that should be fiercely protected.

The second department that has been mentioned as a possible candidate for merger with Trumbull County is the Information Technology Department. Again, this department is a poor candidate for merger because Trumbull County and the City of Warren operate on two entirely different digital technology platforms. It has been conservatively estimated that a merger of the IT Department with the County’s would cost between \$2 – 4 million, just to be able to get the two separate and distinct systems to be able to “talk” to one another. And, as in the case with merging the Health Department, there would be annual fees associated, creating an expense to the City. So, there is no likely savings.

Lastly, the Warren City Engineering, Building & Planning, with particular interest on the Building Department, has been suggested as a possible candidate for merger with Trumbull County. Since 2011, the Building Department costs the City of Warren approximately \$340,000 per year, and has brought in an average of \$325,000, leaving an annual deficit of approximately \$15,000. While it may seem that a merger of the Building Department with Trumbull County will be well served in order to save \$15,000 per year, what the City of Warren sacrifices for that potential savings is far more valuable. Specifically, loss of local control over all building projects within the City is the first such lost value, and that perceived savings could not return even one member of the City

Safety Forces back to work. Lastly and perhaps most significantly, much like the merger of 911 with the County, it is reasonable to presume that Trumbull County would likely require payment. Therefore, no real savings is achieved by this suggestion.

Who Will Pay This Tax and Who Will Not:

City Income Taxes, including those collected by the City of Warren, are only collected on earned income. What this means is that taxes are collected on salaries, wages, and other earned Compensation that is paid to an employed person. Additionally, City Income Tax is collected on the Net Profits of businesses and professions within the city.

City Income Tax is **NOT** collected on the following:

- Social Security
- Retirement Income
- Military Pay
- Income of Religious, Fraternal, and Charitable Organizations
- Income from Investments, Stocks, and Interest

The breakdown of what this increase means to a citizen earning \$40,000 per year totals approximately \$200 per year, or approximately \$0.55 per day to ensure the safety and prosperity of Warren.

Conclusion:

The City of Warren is at a turning point. We are at a cross roads of deciding what we want our City to look like. At no point was coming to the people for an increase ever the first option, or even the tenth option. It is, quite simply, the last option.

Our problems are not unique. Throughout an ever-growing number of Cities and Villages in Ohio, many people find themselves in the same position we are. We simply cannot cut any more without seriously compromising the safety and infrastructure of the City. That is not the Warren that anyone wants to see.

This request is reasonable and fair, and our last best choice. Everyone desires progress, but progress comes with a price. With the cuts we have experienced, coupled with having no new money for over 13 years, the only way to progress and safety is through this increase.

.5% Income Tax

How Did We Get Here

Revenue Eliminations

2011

INHERITANCE TAX

\$465,151.00

The Ohio Estate Tax was repealed by state legislatures effective January 1, 2013.

2016

INHERITANCE TAX

\$39,566.00

We are anticipating there to be little if any remaining revenue from inheritance beginning in 2017.

Revenue Reductions

2011

Local Government Funds

\$1,500,000.00

2016

Local Government Funds

\$868,000.00

**This is a reduction of
\$632,000.00**

Revenue Reductions

2011

State Government Funds

\$233,673.00

2016

State Government Funds

\$46,842.00

**This is a reduction of
\$186,831.00**



These changes alone made at the state level over the
past 5 years has reduced our yearly revenue
\$1,283,982.00

Ohio has built a rainy day fund of over \$2,000,000,000.00 by stripping local governments of their funding. Leaving cities holding an empty bag and citizens wondering what happened.



We are not alone

**OVER 70 OHIO CITIES AND
VILLAGES ARE DOWN AT LEAST
1 MILLION BECAUSE OF STATE TAX
DECISIONS SINCE 2011**

Other Revenue Reductions Over \$10,000.00

2008

- Rent \$60,013.00
- Cable \$830,708.00
- Building \$332,355.35
- Telecom \$58,539.00

2015

- Rent \$48,899.28
- Cable \$415,809.00
- Building \$197,828.00
- Telecom \$42,852.00

Total Difference

\$76,227.00

The Hard Facts

Balance Forward

2012 - \$1,619,197.76

2013 - \$798,944.78

2014 - \$745,070.02

2015 - \$48,944.02

2016 - **(\$427,795.21)**

2016 General Fund Budget

\$25,000,000.00

2017 ANTICIPATED CERTIFICATION

\$23,535,000.00

\$1,465,000.00

What has the City Done



81 less employees Since 2008



Packard Music Hall

**Annually Reduces Warrens General Fund Subsidy by
\$50,000.00**



Merged City Dispatch with Trumbull County

Approximate Annual Savings

\$450,000.00



Golf Anyone?

Eliminated \$90,000.00 Maintenance and Tax Liabilities at Avalon South Golf Course while preserving a valuable city asset.

Working Together

In cooperation with City Council and the city's bargaining units the city was able to make substantial rank reductions in our Police and Fire Departments.

Annual Savings

Police	Fire
\$418,025.00	\$709,857.00



Healthcare Contributions

Plan Design Changes:

Deductible and Out-of-Pocket Limit Increases

Office Visit Co-Pay Increases

Urgent Care & Emergency Room Co-Pay and Deductible Increases

Therapy Office Visits Co-Pay Increases and Limits on Usage

Prescription Co-Pay Increases:

Adding a 4th tier, Mandatory Mail-in for all Maintenance Drugs

Exclude Erectile Dysfunction Drug Coverage



Affordable Care Act Fees

Co-Pays Applying to OOP	\$53,000.00
PCORI Tax	\$ 2,300.00
Transitional Reinsurance Fee	\$72,000.00

Total Fees and Increases

\$127,000.00

Total Plan Design Change Savings --\$581,000.00

Total Fees and Increases -----\$127,000.00

Total Plan Savings-----\$454,000.00

X 3yr Contract -----\$1,362,000.00



No General Fund Road supported Program

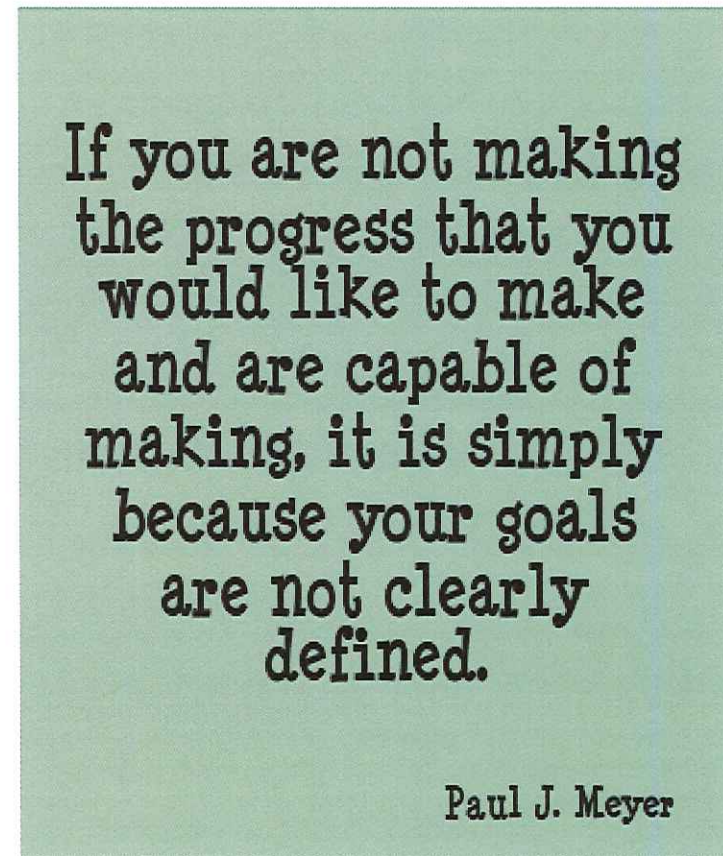
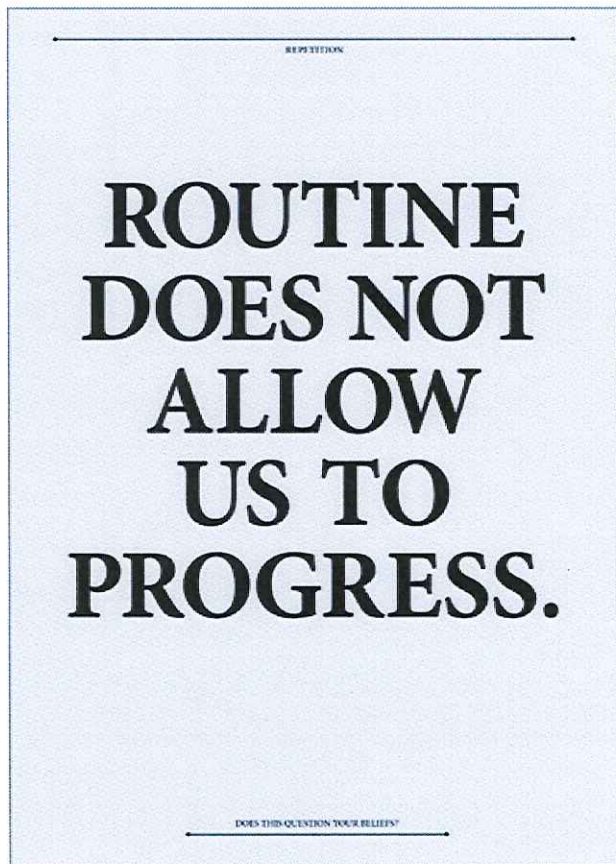
City council, the engineers office and the administration have worked hard and have been creative in finding ways to get many of our roads paved. However, there is currently no financial avenue to maintain what has recently been paved.



Safer Grant

\$2,389,845.00 Per Year for 2 Years.

Allows for the hiring of 15 firefighters.



QuotePixel.com

General Fund Revenue Has Not Been This Low Since 2000

What are our Goals?

GOALS

- **To bring our police and fire departments back to adequate staffing levels to keep our city safe.**
- **To Implement a road maintenance program that enables the city to address its aging roads and continue the upkeep of our recently improved streets.**
- **To be fiscally responsible by allowing a percentage of the tax increase to regenerate our general fund and allow the city to be in the position of retaining the firefighters hired with the 2 year safer grant.**

5 Year Anticipated Additional Tax Budget

5 Year Anticipated Additional Tax Budget

	Allocation	Deficit	Balance	Police	Fire	Roads	Safer Fire Reserve
				13 Officers	15 firemen		
Year 1	3,750,000	1,600,000	2,150,000	850,287	Safer	741,000	558,713
Year 2	3,750,000	1,600,000	2,150,000	910,667	Safer	741,000	498,333
					10 Firemen		Total 1,057,046
Year 3	3,750,000	1,600,000	2,150,000	971,450	735,435	741,000	(-297,885)
							759,161
Year 4	3,750,000	1,600,000	2,150,000	1,031,830	781,224	741,000	(-404,054)
							355,107
Year 5	3,750,000	1,600,000	2,150,000	1,092,211	826,609	586,287	(-355,107)
							0
With Renewal							
Year 6	3,750,000	1,600,000	2,150,000	1,159,000	872,398	118,602	0

Does this affect me or my income?

City income tax is collected only on earned income. This is salaries, wages and other earned compensation paid to an employed person and net profits on businesses and professions within the city.

City income tax is NOT collected on: Social Security or Retirement income, Military Pay, Income on Religious, Fraternal and Charitable Organizations and Income from Investments, Stocks and Interest.

To the Honorable Mayor Doug Franklin and the Citizens of Warren:

Citizens Committee's findings regarding the City of Warren's General Fund:

Finding:

By any reasonable standard, the City's General Fund is in serious financial distress.

The following supporting facts were obtained by having reviewed the financial and budgetary details of Warren's General Fund from 2000 to present:

- 1) The General Fund is facing an operational deficit between \$1.4 million and \$1.8 million in 2016.
- 2) All cash reserves have been depleted and no excess funds remain to be utilized for future deficits or emergency expenses.
- 3) Since 2008, expenses have been cut by \$5.3 Million, a 17.4% decrease in spending. Some small opportunities may remain to cut expenses (which will continue to be sought) but in total they would be a fractional percentage of the amount needed to cover the shortfall.
- 4) Since 2008, revenues have dropped \$7 million, a 23% decrease.

Conclusion:

Warren's fundamental problem is declining revenue and the long term solution to Warren's budget problem is dependent upon economic growth.

Certainly managing expenses is critical and much has been done to address spending. Current projections to be certified by the Auditor show anticipated revenue for next year will decrease another \$1 million dollars (4%) to \$23.5 million. Revenues have not been this low since the year 2000. In this Committees' view, this amount is simply inadequate to provide for the health and safety of the citizens.

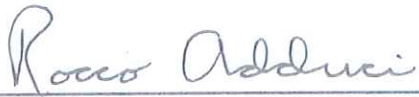
Recommendations regarding the Temporary Income Tax Increase:

If the Administration affirms the problems are as outlined above, this committee would strongly recommend passage of the income tax increase if the Administration also agrees to exercise all good faith efforts to implement the following recommendations upon passage of the proposed temporary income tax increase:

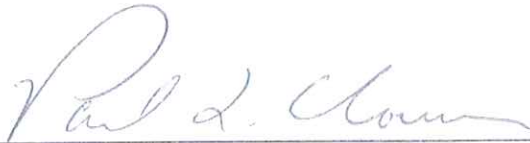
- 1) As soon as the Administration's required work is completed regarding civil service exams, etc., the City will hire 13 new police officers with emphasis to be placed on the current heroin epidemic and the collateral crime it generates.
- 2) Through the use of SAFER Grant monies, 15 new and additional fire fighters are to be hired. *Regarding the 2 year Safer Grant, it is in many ways a temporary God Send for the community but also dictates that no cuts can be made in the current fire department staff in order to collect the grant money to hire more firefighters. In fact, because of the grant, non-passage of the income tax increase will cause the police department and all other employees paid from the general fund to bear an increased burden in cuts all of which will result in an even larger decrease in police presence and cuts to other services.*
- 3) Depending upon the balance of new funds remaining, the city will spend a minimum of \$500,000 on road repairs and related items.
- 4) For a period of 5 years beginning in fiscal year 2017, \$200,000 in available funds will be placed and remain in a reasonable reserve fund as suggested by the Warren City Auditor and the Ohio State Auditor's Office. This is a critical best-management practice sorely needed in light of the City's recent Bond Rating decrease. The bond rating was down-graded based on declining operating reserves and given continual declining revenue levels, has also deemed Warren to have a "negative outlook". Reinstating a reasonable reserve policy will help to restore Warren's credit rating.
- 5) The Mayor and President of Council will publicly support and urge City Council to pass an ordinance to include in the yearly budget an amount equal to 0.75% of the general fund for a period of five years starting in fiscal year 2017 and the funds are to be used exclusively to promote economic development and growth. This legislation will recommend the funds be administered by a qualified, professional and non-governmental organization with management oversight by both city officials and private citizens.

- 6) Mayor to provide quarterly reports in open council to state the current economic development initiatives currently being pursued without violating non-disclosure requests.
- 7) Auditor to provide quarterly reports in open council to state the current financial trends of the city and details of spending from the new income tax. Auditor to also implement the Ohio Open Checkbook program.
- 8) The committee requests the Administration to agree to meet with this Committee at the conclusion of the November vote to create a forum to discuss City issues not directly related to the Police/Fire/Road Levy.
- 9) Lastly, but most importantly, the Committee requests that the Administration and Auditor's Office agree to meet with this committee not less than once a month (at the end of each month) for a period of not less than two years or more than five years, and continue to keep open all records and information to the Committee for their review and comment as required by Ohio Public Records law. This committee has additional topics which could not be reasonably examined under the current time constraints. The topics to be examined and reported include but are not limited to:
 - a) Review and recommendations for development of hiring and retention plans for the police and fire departments
 - b) Review and recommendations for financial impact reports currently required by council
 - c) Review and recommendations for the administrations current pursuit in selling the former public defender's office and 418 South Main.
 - d) Review and recommendations for the Avalon South Golf Course property
 - e) Review and recommendations for energy efficiency savings such as street lighting, etc.

On behalf of the Committee:



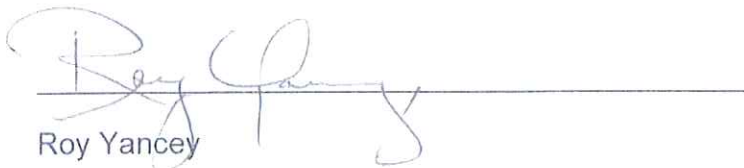
Rocco Adduci



Paul L. Clouser



R. W. Thomas Jr.



Roy Yancey

September 15, 2016