



Temporary Income Tax Rollback Information

On May 3, 2010 City Council voted for the temporary repeal of the South Euclid Income Tax Credit of 0.75%. Per the Ordinance, the credit will be restored on January 1, 2012 or sooner depending on the economic recovery.

Council's action was the result of nearly two-months of public discussion regarding budgetary challenges that have resulted in a dramatic decrease in income and property tax revenues, as a result of the national economic recession and housing foreclosure crisis. In addition, the City has made significant cuts in expenses as proactive measures to weather the recessionary storm. The rollback is meant to be temporary to get us through these unprecedented times – and it states so specifically in the ordinance.

When was the rollback discussed and were there opportunities for public discussion?

City Council discussed the issue numerous times as part of the public process and the legislation was read for three full readings. Below is a timeline of meetings and activities:

- City Council was made aware of the proposed temporary rollback prior to the first Budget Hearings, which were open to and attended by members of the public on March 10 and 11, 2010. At these meetings the challenges we are facing were discussed.
- The Legislation was introduced at the March 22, 2010 Regular Meeting of Council and public comment was made available.
- The Legislation was placed on 2nd Reading at the March 27th Meeting of Council where members of Council openly debated the issue and public comment was made available.
- Opportunities for public comment and input were made available at the April 12, 2010 Regular Meeting of City Council.
- A Public Hearing specifically concerning this Ordinance was held on April 19, 2010 to allow for additional public comment and Council discussion.
- Opportunities for public comment and input were made available at the April 26th Regular Meeting of City Council.
- City Council considered the Ordinance on Third Reading on May 3, 2010 at a public meeting of City Council.
- Council Members have done their due diligence by reaching out to their constituents via phone, email and at Ward Meetings and other events to gain opinion regarding this issue.
- All meeting notices were posted at City Hall and on the City's website and City Calendar. An article regarding the rollback appeared in the March 26, 2010 Sun Messenger and on Cleveland.com.

Our Municipal Income Tax

The municipal income tax exists to provide services that benefit the greater good of our community. They are the City's primary source of income for those services that fund basic & vital services including Police, Fire, EMS, and other public services including trash collection, recycling, road repair, snow plowing, public parks and community services. Providing these critical services to residents is approximately 80% of the City's General Fund Budget.

What about our Property Tax?

Only about 17% of your property taxes go to the City for services. Over 70% go to our public schools, with the remainder to Cuyahoga County for the libraries and other health and human services. In addition, property values have been reduced by a minimum of 12% on all homes in South Euclid.

What is the Income Tax Credit?

The income tax credit is a resource that in good economic times, cities can afford to offer their residents the credit if they live in one community and work in another. However, in times of economic challenges, we have an obligation to maintain the health, safety and welfare for all of South Euclid's residents – while ensuring that progress does not stop and quality-of-life services continue for our residents during these difficult times. These actions will also help to ensure that South Euclid remains a safe and vital community today and for future generations of residents.

Did our Income Tax Rate Increase?

No. The Income Tax Rate remains at the resident-voted rate of 2%.

Why the temporary rollback option?

The budgetary challenges before us are not uncommon during these unprecedented economic times. Many of our neighbors in Greater Cleveland have acted with similar measures, or increased monthly fees for trash collection and lighting assessments. These fees cost all residents, regardless of their income or employment status (including senior citizens), an additional \$10-\$15 a month.

The problem with assessing these fees is that they affect all residents, including seniors and unemployed – and in addition – they are most likely permanent, will remain in place and not go away.

The temporary rollback of the tax credit ensures that critical services will continue to be provided as our region recovers from the economic recession and foreclosure crisis. By taking these temporary actions, it is hoped that long-term, more permanent fees can be avoided.

Could these economic challenges been avoided?

The temporary rollback of the credit is not because of inaction on the City's part. Every year, for at least the past six years, the City has maintained a very healthy general fund balance of between \$3 to \$4 million dollars. As a matter of fact, the City ended the 2009 fiscal year with a general fund balance of \$3.7 million dollars. In addition, the City has taken proactive steps in the last few years to reduce personnel and expenses.

The challenges we are facing today are the result of increasing costs to provide residential services, in addition to the national housing, foreclosure crisis and economic recession that has devastated communities across the nation.

The primary causes of the fiscal challenges are the result of the unprecedented economic recession. In 2010, RITA estimates income tax revenue to the City will decrease by \$700,000. In addition, the Auditor's across-the-board 12% reduction in property tax values will decrease the City's revenue by an estimated additional \$800,000. In addition State of Ohio Local Government Funds have also been reduced and we could see another 600-800 possible foreclosures as the housing crisis continues. All of these factors have created the economic challenges we have today.

So while the City has reduced personnel and expenses – the burden has been placed on us to keep vital services and take action proactively and responsively to manage the negative effects of the housing crisis and economic downturn that are visible on every street in South Euclid. We are providing increased City Services with less human resources. There is little help from any other funding sources – including the State, County and Federal Government.

What has the City done to reduce expenses?

- All City Employees, including all unions, took a 3.85% cut in pay and there are across-the-board wage freezes. A committee has been formed to review the current health care contract and propose changes to reduce costs in the coming months. Our unions have negotiated in good faith to keep our residents safe and ensure that quality, vital services remain.
- Finance Department: The Finance Department has reduced staffing by one position.
- Building & Housing Department: Has reduced staffing by two positions.
- Police Department: The Police Department has reduced staffing by one police officer, one dispatcher and one jailor. The department has implemented changes and worked with other criminal justice providers to reduce overtime from \$284,625 in 2006 to \$164,036 in 2009, a reduction of \$120,589. In addition, the implementation of 12-hour shifts in 2009 the department significantly reduced the usage of sick time by 85 days, saving over \$24,000. Since 2006 medical payments to prisoners have been reduced to \$187,934 and the department has not purchased new police vehicles in the last two budget cycles.
- Fire Department: Only \$9,300 has been budgeted for capital equipment in 2009 and the expenditure is necessary to provide mandatory testing and replacement of protective gear and equipment. This City is in the last year of a SAFER Grant that provides partial funding for five firefighters through February 2012.
- Service Department: Staffing has been reduced by two full-time employees in the last two years. A part-time arborist was replaced at a savings of over \$12,000 a year. In 2009 the Service Department implemented a new yard waste program that has resulted in a savings of over \$60,000, the new winter Sensible Salting Plan has saved over \$200,000, and contracted for janitorial services saving \$35,000 a year. In December 2009 the Service department initiated an early-morning shift that starts at 3:00 am and will decrease overtime costs.
- Community Services/Economic Development/Community Center: The Community Services & Economic Development divisions have been reduced by one person. The Community Center must remain open to provide services for our seniors. The annual Home Days & Fireworks events have been cancelled for two consecutive years.
- Capital Purchases: Costs have been reduced every year since 2008. The only expenditures budgeted in 2010 are for necessary vehicle leases, computer equipment, road repairs and the replacement of the 19 year-old roof at the Community Center.

How will the City monitor the economic situation during the financial crisis?

City Council has scheduled a monthly Meeting of the city's Finance Committee to review tax collections and the financial state of the city. The administration will continue to explore ways to reduce costs without negatively affecting the health, safety, welfare and future vitality of the City. All Finance Committee & city council meetings are posted on our website and open to the public.

CITY OF SOUTH EUCLID, OHIO

ORDINANCE NO.: 19-10
INTRODUCED BY: Miller
REQUESTED BY: Mayor

First Reading: March 22, 2010
Second Reading: March 27, 2010
Third Reading: May 3, 2010

AN ORDINANCE

TEMPORARILY REPEALING ORDINANCE 171.1901 "SOUTH EUCLID RESIDENT SUBJECT TO INCOME TAX IN OTHER MUNICIPALITY" OF SECTION 171, "MUNICIPAL INCOME TAX" OF PART ONE "ADMINISTRATIVE CODE" OF THE CODIFIED ORDINANCES OF THE CITY OF SOUTH EUCLID, OHIO; AND DECLARING AN EMERGENCY.

WHEREAS, the Council of the City of South Euclid, Ohio recognizes that the City is experiencing budgetary shortfalls effecting the financial stability of the City as a result of the national recession and housing crisis, which has resulted in significant declines in property tax, income tax, Local Government Fund and other revenue sources; and

WHEREAS, the City of South Euclid has an obligation to take temporary measures to protect the health, safety, welfare and future economic stability of the City; and

WHEREAS, the Council of the City of South Euclid can address any such shortfalls by temporarily repealing the income tax credit on taxable income earned in another municipality; and

WHEREAS, the Council of the City of South Euclid recognizes that the income tax credit is an incentive the city is able to offer residents during times of economic stability, however, during periods of severe economic instability, such incentives may not be feasible; and

WHEREAS, it is the intention of the Council of the City of South Euclid that the repeal of the income tax credit incentive is a temporary measure and shall be reinstated as of January 1, 2012.

NOW THEREFORE, the Council of the City of South Euclid declares as follows:

Section 1: That Ordinance 171.1901, "South Euclid Resident Subject to Income Tax in Other Municipality" is hereby temporarily repealed effective April 1, 2010 and shall be reinstated as of January 1, 2012.

Section 2:

"171.1901 SOUTH EUCLID RESIDENT SUBJECT TO INCOME TAX IN OTHER MUNICIPALITY.

(a) ~~When the taxable income of a resident of the City is subject to a municipal income tax in another municipality on the same income taxable under this chapter, such resident shall be allowed a credit of the amount of income tax paid on such taxable income to such other municipality, equal to seventy-five percent (75%) of the amount obtained by multiplying the lower of the tax rate of such other municipality or of the City of South Euclid by the taxable income earned in or attributable to the municipality of employment or business activity, but in any event, such credit shall not be applied to a rate in excess of one percent (1%) of the taxable income earned or attributable to the municipality of employment or business activity. For the purposes of this section, "taxable income", includes the distributive share of net profits of a resident partner or owner of an unincorporated business entity.~~

~~(b) A claim for credit or refund under this section shall be made in such manner as the Administrator may by regulation provide. In the event such City resident fails, neglects or refuses to file an annual return or declaration on a form prescribed by the Administrator, he shall not be entitled to such credit or refund and shall be considered in violation of this chapter for failure to file a return.”~~

(a) This Ordinance is temporarily repealed effective April 1, 2010 and shall be reinstated effective January 1, 2012 at which time the provisions hereunder shall once again become effective.

Section 3: That it is hereby found and determined that all formal actions of this Council concerning and relating to the passage of this Ordinance were adopted in an open meeting of this Council, and that all deliberations of this Council and any of its committees on or after November 25, 1975, that resulted in such formal action were in meetings open to the public in compliance with all legal requirements, including Section 121.22 of the Ohio Revised Code.

Section 4: That this Ordinance is deemed to be an emergency measure necessary for the immediate preservation of the public peace, health and safety. Wherefore, this Ordinance shall take effect and be in force upon passage by City Council and signature of the Mayor.