



CITY OF | **UPPER  
ARLINGTON**

**2014 Citizen Financial Review Task Force**

**REPORT TO CITY COUNCIL**

**June 2014**

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*The Task Force met for the first time on December 16, 2013 and completed its work by presenting this report to City Council on June 5, 2014.*

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**On November 25, 2013 Upper Arlington City Council appointed 13 residents of the City to serve on a Citizen Financial Review Task Force to study the City’s financial condition in light of reduced revenues flowing to the City, primarily as a result of changes in the Ohio estate tax and the local government fund.**

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*The members of the Task Force were:*

Ted Bernert	Dennis Concilla (replacing Peggy Concilla)
Kris Devine	Bill Gabel
Chris Guglielmi	Jack Hershey
Michele Hoyle	Marianne Mitchell
Dan McCormick	John Ness
Rich Simpson (Chair)	Lori Trent
Ron Wigington	

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*Substantial support was provided by City staff including:*

Theodore J. Staton, City Manager  
Catherine M. Armstrong, Finance & Administrative Services Director  
Molly Hildebrand, (former) City Clerk  
Brent Lewis, Assistant Finance Director  
Bob Lamb, Community & Economic Development Manager  
Emma Speight, Community Affairs Director  
Jeff Young, Fire Chief  
Brian Quinn, Police Chief  
David Parkinson, (former) City Engineer  
Darryl Hughes, Public Services Director

*Note: The statements and conclusions included within this report to City Council vary slightly from the prior version of the report included in the Summer 2014 UA Insight newsletter.*

**Based on an in-depth study of financial information, interviews with many City officials, a comparison of costs and services in similar communities, a review of infrastructure and other capital improvement needs, vigorous debate and extensive discussion at multiple public meetings of the Task Force and its various subcommittees, the Upper Arlington Citizen Financial Review Task Force reached consensus on the following conclusions:**

- City revenues have declined due to elimination of the Ohio estate tax effective January 1, 2013 and reduced distributions of local government funds. Revenues from the estate tax averaged \$4.7 million per year from 2008-2012 and revenues from the Local Government Fund declined from \$2.6 million in 2005 to \$1.0 million in 2013.
- Much of the City's aging infrastructure (water and sewer lines, curbs, gutters and streets, etc.) is in poor condition and extensive capital investment is needed to restore the infrastructure to serviceable condition.
- City officials have been diligent and have acted aggressively to reduce costs of operation. Examples of cost-cutting measures include:
  - Reorganizing the Fire Division and eliminating four positions.
  - Reducing staffing in the Police Division from 63 to 60.
  - Obtaining alternative funding to support two police officers
  - Generating additional non-tax revenue to support 51% of the Parks & Recreation Department budget.
  - Reducing staff in the Public Services Department by eight positions.
  - Contracting with Grandview Heights and Norwich Township to provide fleet maintenance services.
- Despite sound management and noteworthy cost-cutting efforts by City officials, projected revenues will not be sufficient to pay for infrastructure needs while maintaining City services and programs at the level expected by residents in our community.
- City Council is urged to place before the voters of Upper Arlington at the November, 2014 election the question of raising the municipal income tax from 2.0% to 2.5%, in line with the rate charged by some neighboring communities. New revenues resulting from the tax rate increase (approximately \$3.5 million per year) should be allocated primarily to fund the City's capital improvement program.

**On November 25, 2013, Upper Arlington City Council adopted Resolution No. 13-2013, which contained the following charge to the Citizen Financial Review Task Force:**

1. Undertake a high level review of the City's cost reduction efforts to date, compare service levels and costs to other jurisdictions, consider best practices, and identify possible near-term strategies for additional savings;
2. Determine the long-range financial impacts of revenue losses and reductions, structural changes to the overall revenue stream as a result of these reductions, and their impacts to operating and capital improvement budgets looking forward;
3. Assess the potential for strengthening long-term revenue prospects through approaches such as (but not limited to): adjusting user fees, including indirect costs in cost recovery efforts, increasing the income tax rate, reducing the income tax credit or increasing property taxes, and economic development;
4. Review near-term and long-term capital needs. Identify potential funding sources;
5. Report findings and provide viable options for City Council to consider.

**In order to create a framework for evaluating possible recommendations to City Council, the Task Force unanimously agreed upon the following statements of shared values:**

- We believe that Upper Arlington offers a superior quality of life to its citizens of all ages by emphasizing public safety, innovative public services and high quality amenities. We intend to continue that tradition for future generations.
- We want to live in a community that carefully maintains the assets in which it invests, such as streets, parks and other municipal facilities.
- Recent changes to State law have substantially reduced the amount of money available to the City to cover necessary expenses.
- We recognize that in order to maintain the high quality of City services our community has come to expect, we need to ensure that our City is well managed and uses its available resources prudently, efficiently and effectively.
- We understand that our community has limited options to generate additional revenues and we should carefully weigh all appropriate and available means of raising the necessary revenue while insuring that any plan is done in a fair and equitable manner.

Because of the complexity of the issues raised by City Council's Charge to the Task Force, the members of the Task Force divided into three subcommittees, each addressing one or more of City Council's charges:

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**Cost Reduction Subcommittee** (*studying the 1st and 2nd charges*)

- Jack Hershey, Chair
- Dennis Concilla
- Kris Devine
- Bill Gabel

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**Revenue Options Subcommittee** (*studying the 2nd and 3rd charges*)

- Michele Hoyle, Chair
- Ted Bernert
- Marianne Mitchell
- Ron Wigington

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**Capital Improvements Subcommittee** (*studying the 4th charge*)

- John Ness, Chair
- Chris Guglielmi
- Dan McCormick
- Lori Trent

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The Task Force as a whole met regularly on the second Tuesday of each month, at 7:00 pm in the Municipal Building. Each of the subcommittees met independently, typically once or twice between each regular meeting of the Task Force. Subcommittees reviewed information received from City staff and other sources and reported their findings back to the Task Force as a whole. All meetings of the subcommittees, like meetings of the Task Force itself, were conducted in sessions that were open to the public. Minutes were kept of each meeting and any information requested by one subcommittee was distributed to all members of the Task Force, so as to ensure that all members remained fully informed.

Early in the process City staff presented each of the Task Force members with a notebook containing detailed information about the City's financial situation. Among other materials, the notebooks contained copies of the City's most recent Comprehensive Annual Financial report (CAFR), financial policies, the most recent rating reports from Moody's Investors Service and Standard & Poors Ratings Services, the Official Statement relating to the City's most recent bond issuance, the City's 10-Year Capital Improvement Program (CIP), the City's 2011 Total Compensation Study, and the 2013 Community Survey. The Finance & Administrative Services Director and the City Manager led the Task Force through a review and explanation of the materials and answered questions raised by members of the Task Force.

In addition to the written materials provided by City officials, members of the Task Force requested supplemental information on various topics, which City staff promptly delivered. Various subcommittees of the Task Force also invited City officials (for example, the City Engineer, the Community & Economic Development Manager, the Fire Chief, the Police Chief, the Public Services Director, and the Parks & Recreation Director) to appear in person at various meetings to describe in detail operations of their particular department, with emphasis on an explanation of efforts that have been made to reduce costs and the consequences of further cost reductions at each departmental level.

As part of its work, the Cost Reduction Subcommittee asked the City Manager to go through an exercise of determining what types of further budget reductions would have to be made if the City's entire 10-year capital plan were to be funded out of existing revenues. Working with City Staff, the City Manager provided a report to the Task Force describing various cuts in staffing and programs that would be necessary to achieve the level of savings required. In addition to the City Manager's work, the subcommittee considered the overall reduction in staffing and expenditures that has already occurred over the last several years, the Task Force's commitment to maintaining a superior quality of life in our community, and the results of the 2013 community survey showing a strong preference by Upper Arlington residents against further reductions in fire services, police officers, infrastructure maintenance, leaf removal and snow plowing.

At the same time, the Revenue Subcommittee performed a comprehensive study of all existing City revenues, beginning with a review of non-tax revenues, specifically including user fees for City services (both program fees and utility charges). The subcommittee compared those fees with the costs associated with providing the specific programs and utility services.

The Revenue Subcommittee also studied the various forms of tax revenues available to municipal governments in Ohio. It focused on the primary sources of municipal tax revenue - the municipal income tax and the real property tax - and analyzed both of those revenue sources. It considered the advantages and disadvantages of alternatives including raising the City income tax rate, reducing the credit for taxes paid to other municipalities, increasing the property tax rate, and various combinations of these options.

The Capital Improvements Subcommittee examined the City's 10-Year CIP line-by-line independently and then discussed the major capital expenditures included in the plan. The CIP is a budget for capital infrastructure investments required to maintain the City's assets and meet community needs and expectations for the City's infrastructure. The CIP contemplates investments in streets, existing sidewalks and streetlights, utilities such as water, sanitary and storm water, and Parks & Recreation. It does not include capital equipment (motor vehicles, computers, etc.).

The Capital Improvements Subcommittee also reviewed the process City staff uses to assess the condition of the City's road, sewer, water and storm water infrastructure. With the help of the City's Finance & Administrative Services Director, the subcommittee created a model that examined the costs associated with funding the 10-year CIP and used this model to explore multiple funding sources that could be used to fund the plan.

Members of the Task Force were presented with many opportunities to question City officials at length and to obtain follow-up information where necessary. While all conversations with City officials were conducted in a cordial manner, members of the Task Force were never shy about asking tough questions and probing beneath the surface to search for a deeper understanding of the City's operations. Given the wealth of experience brought to the table by various members of the Task Force, the conversations were often quite specific with respect to City practices and procedures – with many productive exchanges of ideas about the pros and cons of various actions that could be taken to increase operating efficiency.

In general, members of the Task Force were very impressed with the lengthy list of actions that have been taken by City staff to reduce costs across all departments. The steps that have been taken to date have been appropriate and effective. Costs of operation have been reduced significantly yet there has not been a noticeable fall-off in the level of services provided to residents of the City, demonstrating prudent, cost-effective financial management by City staff.

Members of the Task Force were equally impressed with the high quality of services provided by the City's safety forces (police, fire, emergency responders) and recognized the high value placed by our community on the availability and performance of these forces.

## Cost Reduction Subcommittee

- a. As a result of the economic downturn that began in 2007, public entities across Ohio began seeing reductions in the amount of tax revenues that they collected. As leaders at the state level worked both to balance their own budget and to jump start the state's economic recovery, decisions were made that further weakened Upper Arlington's revenue picture. The subcommittee's review found that unlike many other municipalities, Upper Arlington began addressing these revenue shortfalls in a proactive way by reducing operating expenditures and staffing levels throughout City government. The subcommittee found that most of the City's major departments have reimagined themselves and reorganized their operational structure. Today, the City is operating with 30 fewer employees than it was five years ago and all major areas of spending are operating at levels of efficiency that are models for similar communities around Ohio.
- b. The City's continued efforts to reduce costs have held expenditures below 2008 levels for five consecutive years and produced cumulative savings of \$3.4 million. The subcommittee reviewed the cost-reduction actions that have been taken at each of the City's main operating departments, and noted the following:

### *Police Division*

- In the past five years, the City has reduced the number of Police Division staff from 63 to 60. Over the same time period Upper Arlington has worked to find alternative funding sources outside of the General Fund to support two officers. The City's leadership is to be commended as Upper Arlington is the only suburb in the area using alternative funding sources to pay for officers.
- The organization of the Police Division has been reconfigured to eliminate the positions of management assistant, animal control officer, and a training officer. In addition, officer shifts have been re-aligned to reduce coverage during daytime patrols.
- Upper Arlington has the lowest number of officers per 1,000 residents paid out of the General Fund in the area. The General Fund in Upper Arlington supports 1.3 officers per 1,000 residents, as compared to Grandview Heights (2.5 officers), Columbus (2.3 officers), and Worthington (2.4 officers). The average city in the State of Ohio employs 2.12 officers per 1,000 residents.
- The Police Division has been working collaboratively with other communities in order to jointly work on specialized issues facing the broader community such as the Drug Task Force and the Internet Crimes against Children Task Force.

# Key Factual Findings & Analysis

- Annual Police Expenditures Per Capita<sup>1</sup> are low:

<i>Upper Arlington</i>	<i>\$207</i>
<i>Hamilton</i>	<i>\$218</i>
<i>Monroe</i>	<i>\$273</i>
<i>Worthington</i>	<i>\$320</i>
<i>Blue Ash</i>	<i>\$449</i>

## **Fire Division**

- The Fire Division currently serves the City with only one fire engine and one ladder truck. Among communities in the United States of similar size to Upper Arlington 94% have more than one fire engine. 70% of those communities have three or more fire engines.
- In 2011, the division changed the methodology for calculating overtime eligibility and reduced overtime staffing on medic vehicles, saving approximately \$200,000 per year in overtime costs.
- In 2012, the division reduced its staffing levels from 64 to 60 people by eliminating the positions of one administrative assistant and three firefighters.
- In 2014, the division reorganized its operational structure and began the process of eliminating an entire level of middle management, bringing total staffing down to 57 by 2015.
- Annual Fire Division Expenditures Per Capita<sup>2</sup> are low:

<i>Upper Arlington</i>	<i>\$247</i>
<i>Columbus</i>	<i>\$283</i>
<i>Hilliard (Norwich Twp)</i>	<i>\$348</i>
<i>Dublin (Washington Twp)</i>	<i>\$353</i>
<i>Worthington</i>	<i>\$427</i>

## **Parks & Recreation Department**

- The Parks & Recreation Department is implementing a plan to increase the revenue it generates for the services it provides. The department currently generates enough revenue to support 51% of its overall budget.
- Staffing for the department has been reduced to 19 employees during the current budget cycle by eliminating the positions of an administrative assistant, a parks maintenance worker, and a parks maintenance crew chief, saving more than \$200,000 annually.

<sup>1</sup> Data from participating ICMA Performance Management Survey

<sup>2</sup> Data from Columbus and NW metropolitan fire departments

# Key Factual Findings & Analysis

## Public Services Department

- The Public Services Department recently completed a structural reorganization designed to allow it to operate more efficiently.
- As a result of the reorganization, overall employment in the department was reduced by eight employees. The reorganization reduced the number of technicians on staff and reduced the number of individuals in management level positions.
- The department recently entered into contracts to provide fleet maintenance services for Grandview Heights and Norwich Township, providing the City with another, non-traditional revenue source to help address operating costs in this area.

One indicator of the success of Upper Arlington's cost-reduction efforts is the low level of total expenditures per capita, in comparison to similar communities:

City	General Government	Public Safety	Township Fire Department <sup>~~</sup>	Public Services (including basic utilities)	Parks and Recreation	Community Development	Total Expenses	Total Expense per Capita
Ottawa Hills*	\$ 828,245	\$ 2,345,266	\$ -	\$ 979,822	\$ 446,155	\$ -	\$ 4,599,488	\$ 1,020
<b>Upper Arlington</b>	<b>7,185,842</b>	<b>16,084,945</b>	<b>-</b>	<b>8,160,615</b>	<b>3,756,547</b>	<b>1,013,704</b>	<b>36,201,653</b>	<b>1,070</b>
Rocky River	5,294,037	10,169,648	-	7,233,040	3,657,902	760,476	27,115,103	1,340
Wyoming	2,805,362	2,950,051	-	3,680,369	1,619,481	229,910	11,285,173	1,340
Hudson	7,091,681	8,094,630	-	12,460,612	1,316,246	1,558,321	30,521,490	1,370
Bexley	2,904,428	6,422,577	-	6,954,513	1,511,908	192,907	17,986,333	1,380
Perrysburg	4,721,824	8,869,449	-	13,192,243	1,333,667	912,722	29,029,905	1,410
Montgomery	4,435,686	5,938,453	-	2,368,658	1,350,375	515,765	14,608,937	1,430
Sylvania/Sylvania Twp* <sup>^</sup>	5,302,586	6,018,056	6,656,653	9,847,748	1,131,731	650,434	29,607,208	1,560
Hilliard/Norwich Twp*	5,881,654	8,410,730	11,771,623	14,898,094	3,252,501	3,491,170	47,705,772	1,680
Oakwood	2,726,184	5,442,427	-	4,298,333	1,023,111	1,972,632	15,462,687	1,680
Grandview Heights	2,457,407	4,860,127	-	1,856,691	951,611	1,213,559	11,339,395	1,730
Shaker Heights	7,362,601	23,537,454	-	10,174,501	3,980,612	5,947,226	51,002,394	1,790
Worthington <sup>^</sup>	5,704,209	10,714,787	-	5,671,837	4,407,676	899,821	27,398,330	2,020
Powell/Liberty Twp* <sup>^</sup>	1,731,950	2,275,656	6,348,503	1,965,286	951,128	10,482,974	23,755,497	2,070
Westerville	1,283,310	27,255,863	-	34,936,918	9,969,402	2,838,362	76,283,855	2,110
Dublin/Washington Twp* <sup>^</sup>	24,396,568	11,814,809	15,996,963	22,254,113	20,328,826	5,813,759	100,605,038	2,410
New Albany/Plain Twp*	4,863,778	3,090,324	4,895,639	5,752,363	1,709,447	9,000,124	29,311,675	3,790

\* Ottawa Hills and the Township expenses are reported on the cash basis of accounting, which is the only available information.

<sup>^</sup> 2011 financial information used for Worthington and the noted Townships, which is the latest available information.

<sup>~~</sup> Amounts represent total township fire department expenses. The township fire department may cover multiple jurisdictions.

### Footnotes

(1) Expense data taken from 2012 audited financial statements and are presented on the accrual basis of accounting (in accordance with GAAP), unless otherwise noted. The accrual basis of accounting differs from the "cash basis" of accounting by recording revenues when earned and a liability when incurred. This method of accounting is more in line with private sector accounting.

(2) Debt and capital expenses (with the exception of depreciation) are not reflected in the expenses presented.

(3) Ottawa Hills is a Village, but is included under the title "City" for consistency purposes.

(4) Amounts exclude activities not applicable to the majority of the cities for comparison purposes (Hudson: electric system and golf course; Westerville: electric system, community data center; Sylvania: resource recovery; Dublin: merchandising).

# Key Factual Findings & Analysis

## Capital Improvements Subcommittee

- a. Much of the City of Upper Arlington's infrastructure is in very poor condition.
- i. Our roads and our sewer, water and storm water infrastructure are old, some assets approaching 100 years, and require extensive maintenance and in many cases total replacement.
  - ii. The City's Parks & Recreation facilities are also aging as very few capital funds have been invested in parks and recreation over the past decade. For example, the Tremont pool, a major asset, is nearly inoperable.
- b. The City staff has presented to City Council the CIP for FY2014-FY2023. The total capital investment presented in the plan is nearly \$113,000,000. It is important to note that, while this amount appears substantial, it in fact represents only the funding necessary to bring the City's current infrastructure assets up to an acceptable level of repair. Reductions in available funding to the City over recent years have forced the City to defer maintenance in many cases. Major components of the plan are presented in the table below:

Program / Department	Total 10 year CIP	Percent of CIP
<i>Streets</i>	<i>\$49,842,653</i>	<i>44.1%</i>
<i>Sidewalks (existing only)</i>	<i>\$743,080</i>	<i>0.7%</i>
<i>Streetlights</i>	<i>\$3,473,908</i>	<i>3.1%</i>
<i>Traffic Signals</i>	<i>\$134,000</i>	<i>0.1%</i>
<i>Water</i>	<i>\$13,464,380</i>	<i>11.9%</i>
<i>Bridges</i>	<i>\$1,965,100</i>	<i>1.7%</i>
<i>Storm water</i>	<i>\$1,183,600</i>	<i>1.0%</i>
<i>Sanitary</i>	<i>\$11,790,000</i>	<i>10.4%</i>
<i>Parks</i>	<i>\$18,479,188</i>	<i>16.4%</i>
<i>Miscellaneous</i>	<i>\$11,895,242</i>	<i>10.5%</i>
<b>Total</b>	<b>\$112,971,151</b>	<b>100.0%</b>

- c. **The City has a sound process to assess its most expensive assets—its streets.**
  - i. The subcommittee reviewed the seven-step Street Rating Process. The City Engineer explained the complex process in detail to the satisfaction of the subcommittee. Highlights of the process include:
    - 1. Every two years, each block of every City street is physically inspected.
    - 2. Four elements are evaluated: pavement; curb/gutter; crack sealing; pavement defects.
    - 3. Each block of pavement is scored on a one-five scale for each of the four elements.
    - 4. A weighted average of scores is calculated. Generally speaking, cracks and defects have twice the weighting of crack sealing and gutter/curb deterioration.
    - 5. The weighted average is entered into a formula that generates the Pavement Condition Rating (PCV). The values range from 0 to 100 (0 being the worst condition; 100 being the best condition).
    - 6. Streets scoring worst are candidates for full depth reconstruction while higher rated streets are candidates for street maintenance.
    - 7. Streets requiring reconstruction are prioritized in the 10-year CIP along with water, sewer and storm water projects also being considered so that the City addresses all major road and infrastructure needs in a coordinated manner.
  - ii. The City has two primary programs for fixing streets: the Street Maintenance Program (SMP) and the Street Reconstruction Program (SRP). The SMP, also referred to as “mill and fill,” removes the top two-three inches of asphalt and resurfaces the street. A mill and fill project should last between seven-12 years. The SRP is a much more involved process whereby the entire road is rebuilt to address issues at the base of the road. Street reconstruction is also typically completed when a new water or sewer line is installed. The SRP is modeled to reconstruct streets every 30 years with repaving occurring every 12 years. Upper Arlington has over 900,000 centerline feet of two-lane equivalent roads. To properly maintain all of the streets in the City under the SRP and SMP guidelines would cost over \$15 million per year.
  - iii. In addition to annual budget allocations for the street maintenance and street reconstruction programs, the CIP also proposes specific road construction (repaving or reconstruction) for the following arterial streets in UA: Tremont Road, Redding Road, Northwest Blvd, Fishinger Road, Kenny Road, McCoy Road, Reed Road, and Lane Road.

# Key Factual Findings & Analysis

- d. The Parks & Recreation capital budget includes a wide variety of projects ranging from small to large. The Parks & Recreation Department used a visual inspection of existing assets, programming needs, resident feedback, and master plan goals to develop the CIP budget and project list. The most notable projects include:
- Converting the Reed Road shelter house to year-round use
  - Enhancements to Northam Park hardscapes and landscaping
  - Miller Park connectivity paths
  - Improvements to Fancyburg Park
  - Replacement of Tremont Pool and ancillary facilities
  - Adding field lighting to Burbank Park
  - Relocation of clay tennis courts to Thompson Park
  - Mallway Arch replacement
  - Reconstruction of sports fields at Northam Park
  - Enhancements to Thompson Park (three phases)
  - Replace Northam Park playground equipment
  - Infield synthetic turf
  - Renovation of Devon Pool and ancillary facilities
  - Park sidewalk repairs
  - Fancyburg Park shelter replacement

Miscellaneous projects in the CIP represent just over 10% of the total plan. Major components of the Miscellaneous projects include the following:

Miscellaneous Projects	Amount
<i>Northam Park parking lot reconstruction</i>	<i>\$800,100</i>
<i>*Safe Routes to Schools (short, medium and long term improvements)</i>	<i>\$606,054</i>
<i>*Fiber Optic cabling (SONET) Phase I &amp; II</i>	<i>\$4,536,000</i>
<i>*Lane Avenue parking garage (planned for FY 2023)</i>	<i>\$4,325,000</i>
<b>Miscellaneous Total</b>	<b>\$11,895,242</b>

*\*Projects contingent upon securing additional funding via grants, TIF revenues, etc.*

- e. The Capital Improvements Subcommittee also reviewed what is not included in the CIP. Upper Arlington’s current financial state demands prudence and distinguishing between “wants” and “needs.” The CIP was crafted with the intent to make improvements to the City’s existing infrastructure, but it does not provide for adding major new amenities or assets to the City. Accordingly, the CIP does not include any of the following projects:
- i. Sidewalks for streets that do not currently have them (unless specified by the “Safe Routes to School” policy)
  - ii. Streetlights
  - iii. Community Center
  - iv. New or improved Senior Center
  - v. Buried utility lines
  - vi. New bike paths

# Key Factual Findings & Analysis

## Revenue Subcommittee

- a. The City's largest source of revenue is the municipal income tax, currently set at 2.0% of earned income (i.e. it does not apply to most investment income, pensions or social security). The income tax generated was approximately \$14 million in 2006, declined to less than \$13 million in 2009, recovered to \$14 million in 2011, and has since grown to \$16.8 million (of which \$14.6 million, representing 46% of General Fund revenue, was allocated to the General Fund). Future projections assume continued growth of 2.5% per year in this revenue source.
- b. The second largest source of revenue for the City is the property tax. Although the City receives only about 9% of the total property taxes paid by residents (approximately 65% of property taxes go to the school district and 25% to Franklin County), this tax represents a stable and important revenue source that generates approximately \$10 million per year for the City. Revenue from existing property taxes is not expected to increase significantly over time.
- c. The City's third largest source of revenue in recent years has been the estate tax. From 2008 through 2012 the City received an average of \$4.7 million per year from the estate tax, of which \$2.1 million (approximately 7% of General Fund revenues) was allocated by City Council to the General Fund and the balance (\$2.6 million) was used to pay for capital improvements. However, the Ohio legislature eliminated the estate tax effective January 1, 2013.
- d. The State of Ohio historically has returned some local tax revenue generated from municipalities back to cities through the Local Government Fund distribution. In order to balance its budget, the State reduced these distributions and continues to do so, with allocations to Upper Arlington declining from approximately \$2.5 million in 2005 (10% of the City's General Fund revenues) to \$1 million in 2013. These funds are a traditional target for State budget reductions and cannot be considered stable.
- e. The effect of the elimination of the estate tax and the reduction of Local Government Fund distributions is to reduce revenues available to the City's General Fund by approximately \$3.6 million per year (12% of operating revenues) and revenues available to support the City's capital improvement program by approximately \$2.6 million per year.
- f. Other revenue sources (interest received on City bank accounts, fees for services, etc.) represent smaller percentages of the City's total revenue stream and have fluctuated in recent years.

# Key Factual Findings & Analysis

- g. Increased revenues resulting from future economic development (new income taxes and, to some extent, real estate taxes) are not likely to offset the decline in revenue resulting from elimination of the estate tax and reduction in the Local Government Fund distributions. Only about 5% of the land in Upper Arlington is available for commercial development or re-development (compared to 30% in Grandview Heights and 10.5% in Dublin). Current indications do not suggest that development in Upper Arlington will generate significant additional revenues in the near term. Although promoting desirable economic development must continue to be a high priority for the City, it is unlikely that the City will be able to “develop” its way into new revenue sufficient to meet the City’s financial needs.
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- h. Ohio tax law strictly limits available sources of municipal tax revenue. (See e.g. R.C. 715.013.) Now that the estate tax has been phased out and the personal property tax has been repealed by the Ohio General Assembly for all general business taxpayers, in the judgment of the Subcommittee only two meaningful sources of tax revenue remain: the municipal income tax and the real property tax.
- 
- i. The City currently imposes a 2% municipal income tax and provides 100% credit to residents for taxes paid to the workplace municipality. Workplace municipalities in Ohio do not share any of this tax revenue with the municipalities of residence. Thus the Ohio municipal income tax functions as a commuter tax, directing income tax receipts into the city of employment regardless of where employees reside.
- 
- j. The 2.0% municipal income tax is problematic for Upper Arlington for several reasons:
- i. In 2012 UA residents reported wages of \$1.2 billion but only \$154 million (12.8%) of that amount was earned in UA.
  - ii. Only 17% of UA residents who file returns pay income tax to UA.
  - iii. 54% of UA filers work in a city where the income tax rate is already 2.5% or more.
  - iv. 67% of the income earned by residents is already being taxed at 2.5% or higher.
- 
- k. The City of Columbus raised its rate to 2.5% in 2009 and other Central Ohio municipalities (Bexley, Grandview Heights, Marble Cliff, Worthington, etc.) have since followed the lead of Columbus.
- 
- l. Keeping the rate in Upper Arlington at 2% while other municipalities raise their rates to 2.5% leads to distortions. For example, a resident of UA who works in Columbus pays a rate of 2.5%, all of which is retained by Columbus. However, while a Columbus resident working in UA also pays 2.5% (2% to UA and .5% to Columbus); only 2% of that total is retained by UA. Thus the effect of keeping the rate in UA at 2% is equivalent to UA “sending” the extra .5% to Columbus. Equalizing the tax rate in UA with the rate in other Central Ohio major work cities achieves a better allocation of revenue between municipalities without affecting the total tax for those who work in UA while living in municipalities with 2.5% rates.

# Key Factual Findings & Analysis

- m. Revenue from the City's income tax has recovered from the levels experienced during and immediately after the severe economic downturn. However, looking at the volatility of income tax collections over time we conclude that organic growth in the income tax base will not be sufficient to offset the revenue lost from the estate tax and reductions in the local government fund receipts.  
.....
- n. Real property tax revenues have been flat for the City. Although it appears that Upper Arlington property values have been less affected by the economic downturn than values in other communities, the outlook for real estate values in the Central Ohio market remains uncertain. Franklin County is undergoing a triennial readjustment as of January 1, 2014 but it cannot be assumed that growth in property values (especially considering the requirement under state law to automatically reduce the millage rate as appraised values increase) will enable the City to rely on increased property tax revenues to offset the reduced revenues available to the City from other sources.  
.....
- o. Upper Arlington has a history of identifying non-tax revenue sources to provide supplemental funding for City capital projects, for example state and federal grants and private donations (through the UA Community Foundation, etc.). Private donations were instrumental in development of the Amelita Mirolo Barn at Sunny 95 Park and could be an important source of funds for major parts of the redevelopment of Northam Park. Likewise a state grant has been received to create a City fiber optic network and one is expected to support a small part of the Northam Park project. These supplemental sources of funds should continue to be aggressively pursued.  
.....
- p. The City's "rainy day fund," a reserve to cover emergencies, has been important in allowing time for the City to develop a plan for responding to the current revenue challenges. This fund should not be considered "extra" money; rather, it should be thought of as an important part of a wise and fiscally-prudent financial management strategy and must be maintained.

In light of the factual findings, the Revenue Subcommittee identified several potentially viable alternatives that would raise additional revenue sufficient to fund the Capital Improvement Plan, and considered the advantages and disadvantages of each:

- a. ***Raising the municipal income tax rate from 2% to 2.5% would generate approximately \$3.5 million per year.***
  - i. *Advantages:*
    - a. Most of the revenue raised would come from taxes already being paid to another community that would simply be re-directed to Upper Arlington. While many individual taxpayers working in Upper Arlington would experience no increase in taxes, a portion of taxes paid by those taxpayers residing outside Upper Arlington would stay in Upper Arlington rather than being paid to Columbus or another 2.5% tax rate municipality.
    - b. Most Upper Arlington residents would see no increase in their tax bills.
    - c. It is easy to understand and presents no particular compliance issues.
    - d. It would equalize the tax rate for most taxpayers and ensure that no Upper Arlington resident pays more than 2.5%.
    - e. It would not apply to pensions or social security income for seniors.
  - ii. *Disadvantages:*
    - a. Less than half of Upper Arlington taxpayers would pay higher rates.
    - b. Upper Arlington businesses would pay higher rates on net profits.
- b. ***Reducing the credit for income taxes paid to another municipality from 100% to 80% would generate approximately \$3.6 million per year.***
  - i. *Advantages:*
    - a. Some residents would pay less tax compared with an increase to 2.5%.
    - b. It would broaden the revenue base by imposing a tax on all Upper Arlington resident taxpayers.
  - ii. *Disadvantages:*
    - a. It would be complicated and harder to administer.
    - b. It would have an uncertain impact on taxpayers whose income is derived from sources not covered by W-2 reporting.
    - c. Software packages frequently have problems dealing with local credits. Reducing the credit would require some taxpayers to engage accountants to prepare the returns to properly reflect the credits, with unacceptably high compliance costs for taxpayers relative to the revenue collected per return.
    - d. A majority of taxpaying residents would pay more than 2.5% in tax on their earned income.

# Analysis of Revenue Options

- c. Raising the municipal income tax rate to 2.25% and reducing the credit to 90% would generate approximately \$5 million per year.**
- i. Advantages: (see above).*
  - ii. Disadvantages: (see above) plus it would add an additional layer of complexity that would make voter approval problematic.*
- 
- d. Placing an additional 2.3 mills of property tax on the duplicate would generate approximately \$3.6 million per year.**
- i. Advantages:*
    - a. It would be easy to understand and administer.
    - b. It would broaden the City's revenue base to include most residents, including those who do not receive income from wages or net profits.
  - ii. Disadvantages:*
    - a. It would hit seniors and fixed-income homeowners.
    - b. It would tap a revenue stream that is traditionally associated with the public schools.
    - c. It may not impact renters.
    - d. It would raise property taxes in what is already considered by some to be a high-tax community.

1. Because further cuts would likely have a strong, negative impact on the quality of life in Upper Arlington, the Task Force is not able to recommend additional major cuts in staffing or programs as described in the cost-reduction exercise undertaken by the City Manager in response to the Task Force's request.  
.....
2. Given the work already undertaken by City leaders to reduce operating expenditures, plus the potential for additional cost savings that might be achieved through continued efforts moving forward, the Task Force believes that no additional tax revenues (beyond those needed to fund the CIP) should be pursued at this time to pay for the general operating expenses of the City. City Council should re-examine the need for replacement of expiring levy income and additional operating revenues at the time of a follow-up review of results, as described below in Paragraph 15.  
.....
3. The City Administration must continue its exemplary efforts to explore options for meeting service delivery needs in a more cost effective manner. Based on actions taken in recent years and work currently in progress, such as the exploration of partnership opportunities with the UA Schools and efforts to consolidate 9-1-1 dispatching services with other jurisdictions, the Task Force is confident that the City Administration is fully committed to the ongoing review of City operations with the goal of identifying ways to improve efficiency and cost-effectiveness. Although it was not possible, within the framework of the Task Force's charge and the time available, to undertake a detailed study of options for further privatization of public services, expanding shared service partnerships with other jurisdictions, or fundamentally reengineering how specific services are delivered (for example, merging safety forces), it is clear to the Task Force that continued focus in this area can produce additional savings.  
.....
4. In particular, the Task Force encourages the City to consider options such as:
  - a. Partnering with other regional police and fire protection agencies to consolidate dispatching operations.
  - b. Exploring further opportunities for the Fire Division to contract for emergency services with local townships and municipalities.
  - c. Raising the employee share of the cost of health insurance and other benefits to levels more closely aligned with private sector employers.
  - d. Carefully examining whether there are opportunities for further cost savings that could be achieved by contracting for legal services needed by the City. The review should examine the potential costs of obtaining legal services primarily by a staff of City employees, by contracting with one or more private law firms, or by a combination of both methods.

# Recommendations to City Council

5. In order to restore and rebuild the City's deteriorated infrastructure, the City should proceed to implement and fund the 10-year CIP. Should the ballot issue (discussed below) be approved by the voters in November, we urge City Council to proceed with the identified projects without delay. Projects that will be enjoyed by all residents should be assigned a high priority for scheduling. Projects that will benefit fewer residents (such as neighborhood street reconstruction) should be assigned normal priority for scheduling.
6. The City should manage its capital improvement program in such a way as not to "fall behind" in the future, allocating sufficient funding to maintain the infrastructure at an appropriate level of repair in line with best practices for municipalities comparable to Upper Arlington.
7. Fees charged for programs for which the City has limited capacity or space or that are directed at a limited subgroup of residents should fully fund the costs associated with those programs. Where practical, these fees should cover both direct and indirect costs. Examples include recreation programs, development services, court services, and emergency medical transportation. The Task Force recognizes that City Council may determine that some programs and activities contribute to the City's quality of life and fulfill community needs and objectives, overriding the goal of full cost recovery. In those cases, City Council's specific intent to subsidize those programs and services should be clearly stated. Fairness to all residents should be a major factor in consideration of any subsidy of publicly provided programs and services.
8. Utility charges should be set at a level sufficient to cover both operating and capital improvement costs associated with those utilities. Examples include water, sewer, and stormwater, refuse collection and swimming pools. With respect to swimming pools, City Council is encouraged to consider a fee structure that would cover operating costs and begin to accumulate a fund balance that would help defray future costs of major replacements and repairs.
9. The City should make every practical effort to collect all income taxes currently due, including revenue from taxpayers difficult for the City to identify. Steps should be taken to evaluate and close any gap that may be found in collections.
10. The City should be open to new avenues of revenue to support City operations. Examples of such revenues include the siting of cellular towers within City parks and joint sponsorships of programs from private sources. These sources, while small, can contribute to the City's overall revenue generating capability.

# Recommendations to City Council

11. City Council should consider placing before the voters in November 2014 the question of increasing the municipal income tax to 2.5%. Such an increase would generate approximately \$3.5 million per year, which would be sufficient to support the proposed 10-year CIP and provide a small increase in funds available for general operations. It would also bring Upper Arlington into alignment with Columbus and other suburbs within the region. The Task Force considered the effect of such an increase on future commercial development in Upper Arlington, but concluded that the increase is unlikely to adversely affect future development in the City because the 2.5% rate is already being charged in many competing communities and the maintenance of the infrastructure is crucial to continued economic development.  
.....
12. City Council should adopt a new policy, similar to the existing policy allocating 13.3% of income tax revenues to capital improvements, making it clear that the revenues raised by the increased income tax will be used primarily to pay for capital improvements, including full implementation of the 10-year CIP. The policy could be based on a percentage of total income tax collections (e.g. 20%), or a fixed dollar amount (e.g. \$5,000,000 per year), or another formula that will assure adequate funding of capital improvements and restrict the usage of such revenue to fund general operations except in extraordinary circumstances.  
.....
13. The Task Force is not recommending a reduction in the credit for taxes paid to other municipalities, which would dramatically increase the number of Upper Arlington residents required to pay tax to multiple cities. The complexity of this approach, the impact on taxpayers who are already paying tax to other communities at the 2.5% level, and the administrative costs associated with implementing and enforcing such a tax cause this method of raising additional revenue to compare unfavorably with the alternative of increasing the rate.  
.....
14. The City currently collects approximately one-half mill of property tax to pay for bonds issued to fund capital improvements. Part of this bond levy will end in 2017 and the balance in 2020. Assuming no significant change in the financial condition of the City at that time, we recommend that the City consider putting before the voters a property tax for capital needs (either a bond issue or a long-term levy) to replace the current levies that will then be expiring.  
.....
15. Assuming a successful effort to increase the municipal income tax, a fresh review of the City's financial position should be done in three years to determine the effectiveness of actions taken and initiate new actions as necessary.

This report represents the strong consensus of the Upper Arlington Citizen Financial Review Task Force. On the issue of choosing among the various ways of raising additional revenues, a small minority of the Task Force members would have preferred not to make a specific recommendation to City Council. In their minority view, the role of the Task Force was only to present alternatives to City Council with a discussion of pros and cons but no recommendation. The overwhelming majority of Task Force members, however, preferred to inform Council that an increase in the municipal income tax rate is the recommended alternative and is the option that should be presented to the voters. Our Task Force confirmed UA faces a difficult financial challenge. The capital investments are needed and there are limited options for which to pay for them. As much as we hoped to avoid recommending a tax increase, the consensus of the Task Force is that it is the best alternative from a limited number of difficult choices.

One member of the Task Force also expressed dissenting views with respect to the characterization of certain points in the report.

All members of the Task Force wish to thank City Council for giving us the opportunity to serve the community on this project and for supporting us as we conducted our financial review. Having completed our work, we believe it has given each of us a thorough understanding of the financial challenges facing our City.

We wish to compliment the City Manager, the Finance & Administrative Services Director, and the other members of the City's management team for their hard work and professional approach toward dealing with declining revenues and deteriorating infrastructure. Operating costs have been cut while high-quality services have been maintained. Upper Arlington stands out as a model for effective local government.

We urge our fellow citizens to consider the information in this report carefully. We are confident that upon reflection our community will concur with the consensus we have reached (after much discussion and vigorous debate) and support our recommendations to City Council. We believe these actions will provide the resources Upper Arlington needs in order to be the residential community of choice for future generations.



CITY OF | **UPPER  
ARLINGTON**

3600 Tremont Road  
Upper Arlington, Ohio 43221  
Phone: 583-5000 | [www.uaoh.net](http://www.uaoh.net)