

## **UA SNAPSHOT**

### **A Summary of Upper Arlington Demographics, Financial History, Trends & Expenditures & Comparative Data for Central Ohio Communities**

## **INTRODUCTION**

First created for the 2014 Citizen Financial Review Task Force, this UA Snapshot document has been updated to provide the 2019 task force with a summary of the City's makeup, its financial history, some insight into trends and expenditures and, where appropriate, comparisons to other Central Ohio communities.

Financial data is presented to provide an overview of the City's primary revenue sources and some insightful comparisons to other communities. We see an increasing reliance on income tax in light of the changes at the state level and that the vast majority of income taxes paid by Upper Arlington residents is actually paid to other jurisdictions. Property tax data demonstrates that while this represents an important and stable source of revenue for the City, the majority of property taxes are directed elsewhere (UA Schools, UA Library, Franklin County).

Expenditure trends show that in the last decade total City operating expenditures have only increased on average by 2% per year as a result of efforts to control staffing and compensation as well as efforts to contain healthcare costs and to increase employees' share of benefits responsibilities.



## COMPARATIVE DEMOGRAPHIC TRENDS

The first part focuses on the change in demographics within the City. Data from the 2017 Census estimates allows us to show how the population characteristics of Upper Arlington have changed over time and to compare these to other Central Ohio suburban communities. Analyzing general demographic trends affords the City an opportunity to plan for changing attributes and to anticipate new changes to household economic conditions. Overall, Upper Arlington has seen growth and economic advancement in similar fashion to its surrounding neighbors and has outpaced most surrounding municipalities in the area of housing value.

### General Area Population

Prior to 2000, the general population trends for Upper Arlington essentially held steady for a number of years. From 2000 to 2010 we experienced a very slight increase in population (.2%), the equivalent to an increase of 85 residents. Since 2010 the population is estimated to have increased by 3.7%, the equivalent of 1,298 residents. This upward trend is expected to continue—albeit on a somewhat restricted scale since Upper Arlington is a built-out community—as the Central Ohio region prepares for a population increase of up to one million citizens by the year 2050, based on projects of the Mid-Ohio Regional Planning Commission (MORPC).

### Population over Age 65

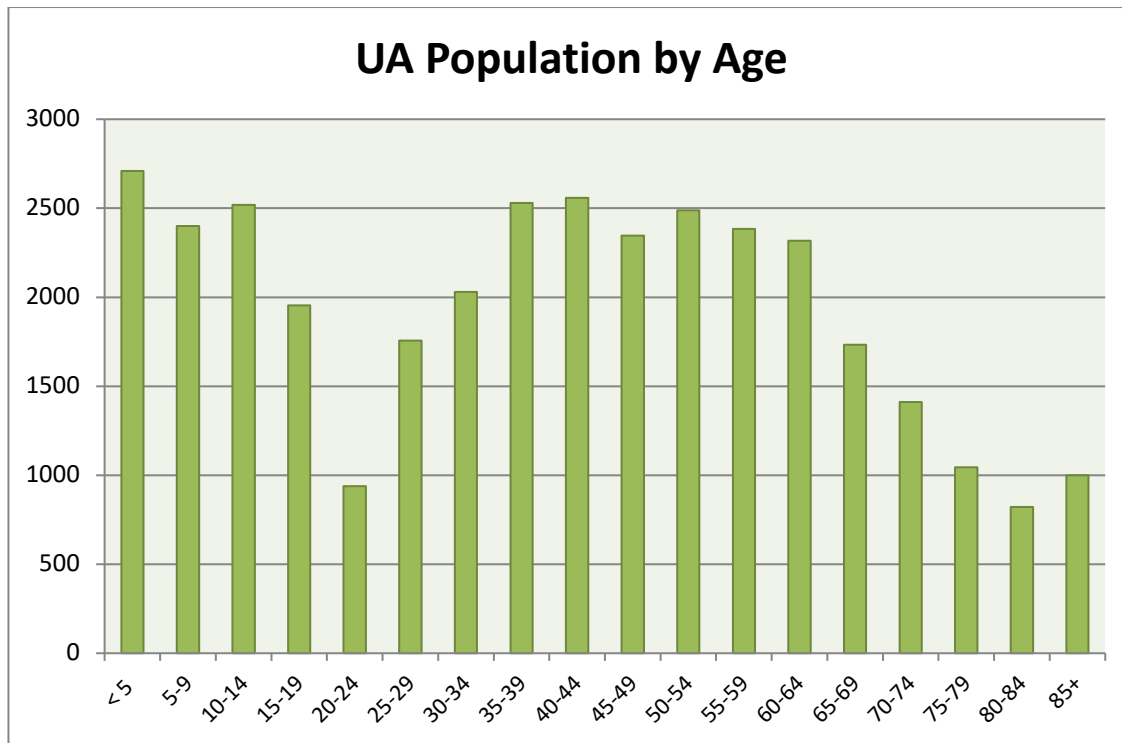
The number of Upper Arlington residents age 65+ increased from 2010 to 2017, with approximately 17% of the population falling into this age bracket. Upper Arlington has a high percentage of this demographic compared to other cities in the area. The only city with a higher percentage is Worthington, where approximately 20.8% of the population falls into this age group. In cities like Dublin, where the general population has been increasing rapidly, the percentage of residents age 65+ is typically approximately 10.5%.

When looking at the breakdown in the population of Upper Arlington by age, it is apparent that within the next 10-15 years, the City faces a significant increase in the number of residents age 65+ (see Table 1). If a majority of the current 50-54 population remains in Upper Arlington into their retirement years, the City will experience a significant number of residents moving into the 65+ category.

The 65+ age group has a unique set of service demands that include healthcare, housing preferences and other safety and social service needs. It is also important to note that the income of retirees is generally not subject to municipal income taxes - assuming they have not obtained employment after retirement. Acknowledging this now will allow the City to position itself to accommodate the pending changes in service needs and the accompanying financial constraints that will arise as a result of an aging population.



**Table 1**



Source: 2017 U.S. Census 5-year Estimates

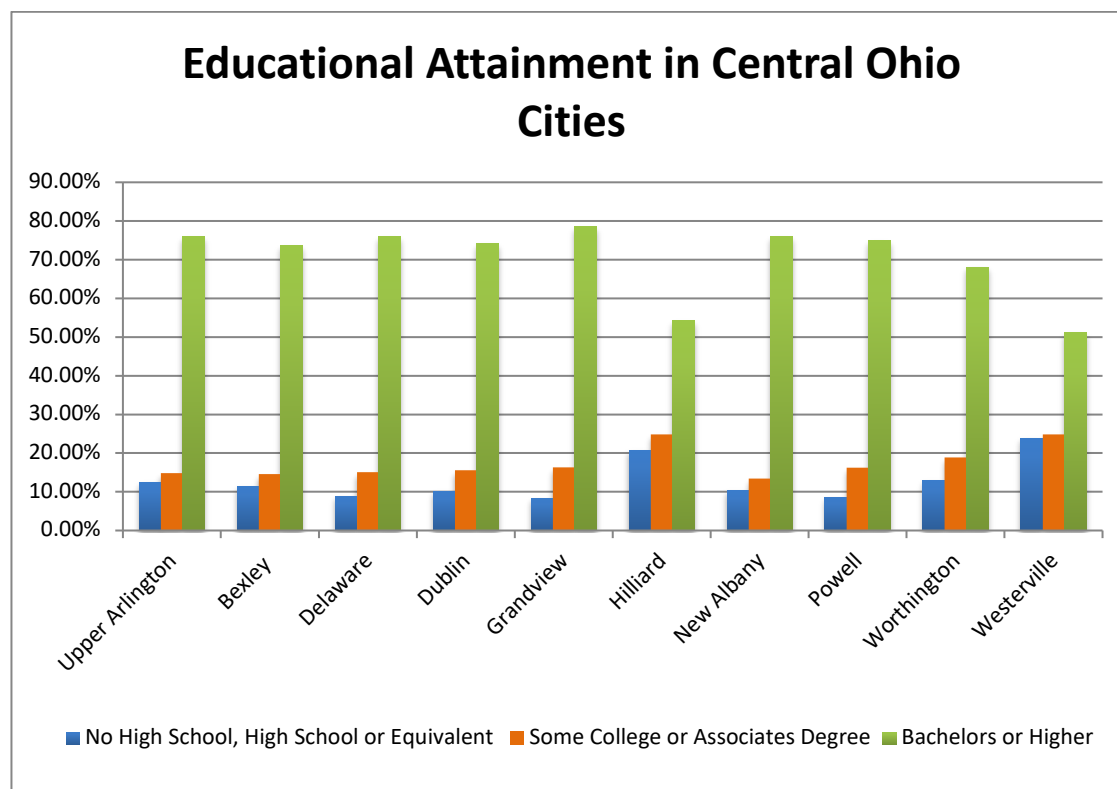


## Area Education Rates

Located adjacent to one of the world's largest research universities—The Ohio State University—and with multiple high quality K-12 education options within the City, one would expect Upper Arlington residents to be highly educated. High percentages of college educated residents can be seen as ways to improve the human capital of the City. The percentage of the City's population that has attained a bachelor's degree or higher—which stands at 76%—is much higher than state and national averages of 24.1% and 27.9% respectively. A large number of college graduates generate a pool of highly skilled workers who can entice businesses to the area.

Compared to neighboring cities, Upper Arlington is in the top tier for educational attainment (see Table 2). These levels of education could be a contributing factor to a strong local economy, and in particular, translate to high median home values and median household incomes, which are discussed in detail further in this report.

Table 2



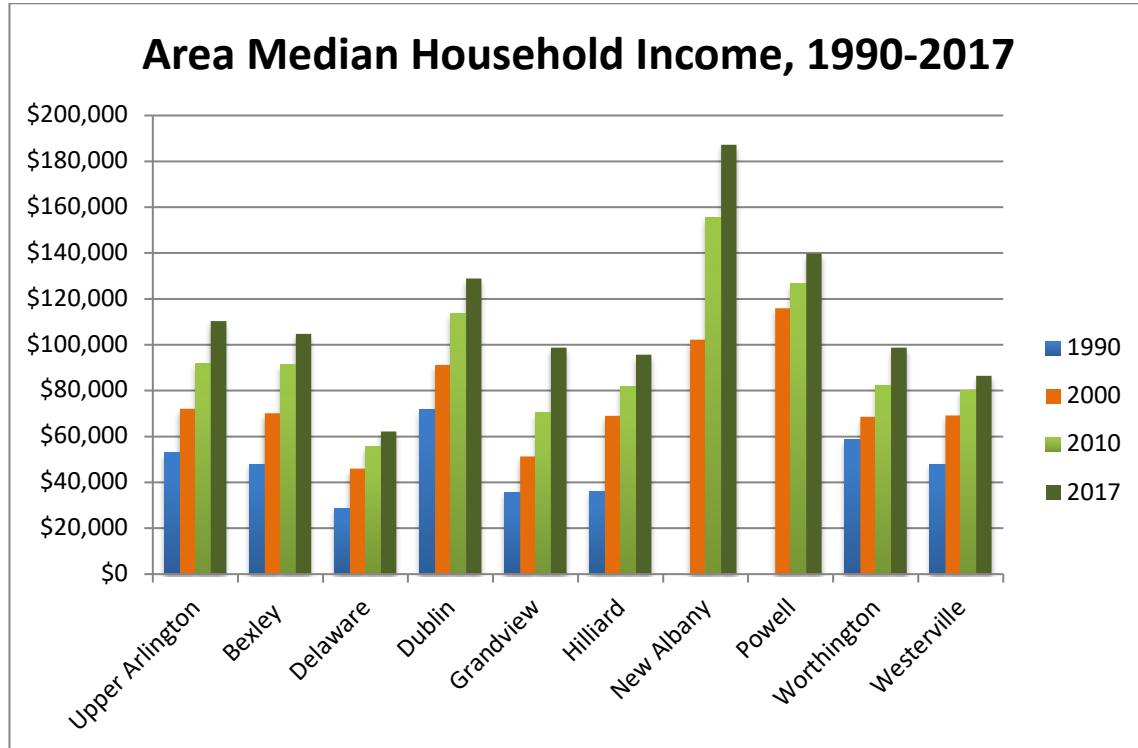
Source: 2017 U.S. Census 5-year Estimates



## Median Household Incomes

The median household income in Upper Arlington has risen at a steady pace over the last 20 years, growing by approximately \$19,000 per decade. Relative to other cities in the area, Upper Arlington has the fourth highest median household income. Bexley has shown similar growth over the same period.

Table 3



Source: 2017 U.S. Census 5-year Estimates & 2010 U.S. Census

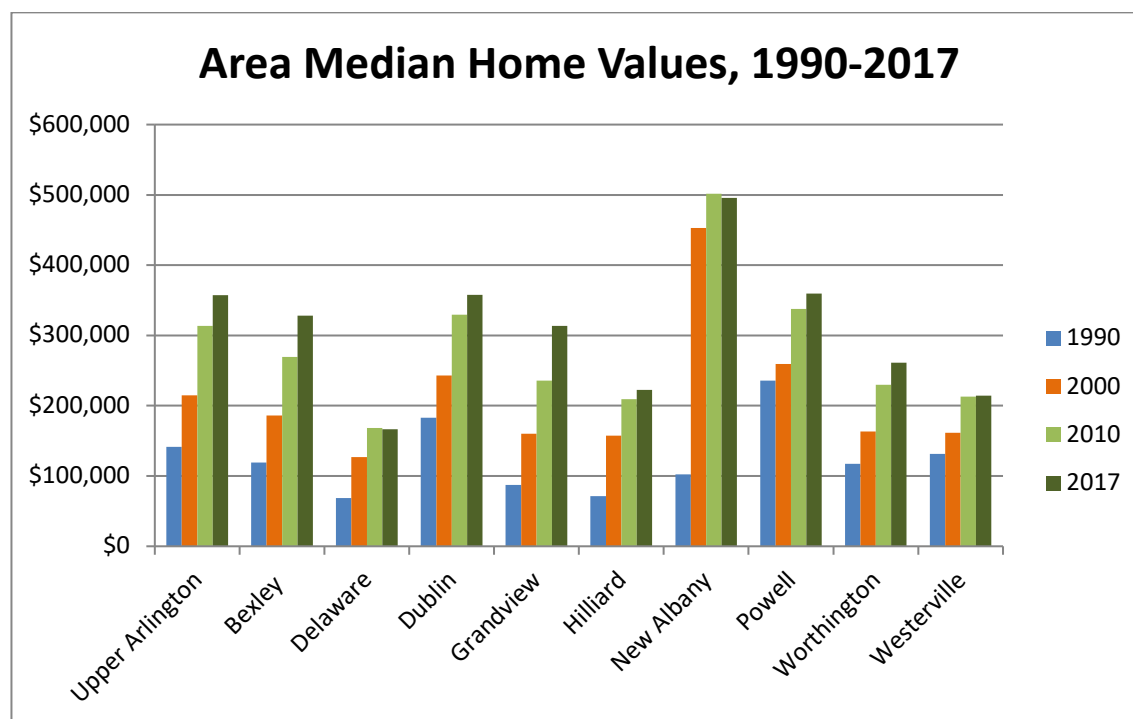


## Median Home Values

Upper Arlington has traditionally had one of the strongest real estate markets in both Central Ohio area and the state as a whole. This was no more evident than during the most recent recession where home values in Upper Arlington decrease an average 1%-2%, while other communities' values decreased by averages closer to 7%. In fact, the median home value in Upper Arlington has seen a nearly 66% increase since 2000. The median home value in Upper Arlington saw a 14% increase to \$357,200 from 2010 to 2017. The City also has the fourth highest median home value (behind New Albany, Powell and Dublin).

Bexley slightly exceeds the trends seen in Upper Arlington with an increase of 22% in median home values from 2010-2017. In comparison Dublin has a median home value of \$357,900, providing for a 9% increase in home value. The majority of cities in the area experienced growth similar to Dublin from 2010-2017 with increases of less than 10% their median home values. However, Grandview Heights experienced the largest increase in median home values at 33% from 2010-2017. The cities of New Albany and Delaware actually saw slight decreases (1%) in home values from 2010-2017.

**Table 4**



Source: 2017 U.S. Census 5-year Estimates & 2010 U.S. Census



## FINANCIAL TRENDS

The second part of our analysis focused on financial trends impacting the City. This includes history of municipal revenues and how the City's reliance on different forms of revenues has changed over time. The final section focuses the history of expenditure trends experienced by the City.

### Financial Picture

The table below reflects actual financial performance for the year prior to (2013) and the year of (2014) the initial task force's charge followed by the four most current years. The simple observation is that the increase in municipal income tax has solidified the City's financial position and allowed for a significant investment in capital infrastructure.

#### City of Upper Arlington Revenues & Expenditures (in millions) – All Funds

	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
<b>Revenues</b>						
Income Tax	\$ 16.79	\$ 16.91	\$ 21.49	\$ 25.26	\$ 26.11	\$ 28.74
Property Tax	10.40	10.53	11.23	11.17	11.30	11.78
Estate Tax	3.01	0.61	0.07	-	-	-
Local Gov. Fund	1.09	1.06	1.11	1.07	1.01	1.07
All Other	13.28	14.70	18.90	20.70	14.99	18.65
Total Revenues	44.57	43.81	52.80	58.20	53.41	60.24
<b>Other Resources</b>						
Proceeds of Debt	15.16	11.28	26.95	10.00	9.74	10.00
<b>Expenditures</b>						
Operating	34.29	34.05	35.32	38.51	39.89	41.79
Capital	6.71	12.63	18.18	21.98	18.11	17.24
Net Debt Payments	19.33	16.28	17.44	6.02	7.92	7.15
Total Expenditures	60.33	62.96	70.94	66.51	65.92	66.18
<b>Ending Fund Balance</b>	<b>\$ 54.81</b>	<b>\$ 47.86</b>	<b>\$ 57.38</b>	<b>\$ 59.87</b>	<b>\$ 57.97</b>	<b>\$ 63.19</b>

Source: Municipal Program of Services



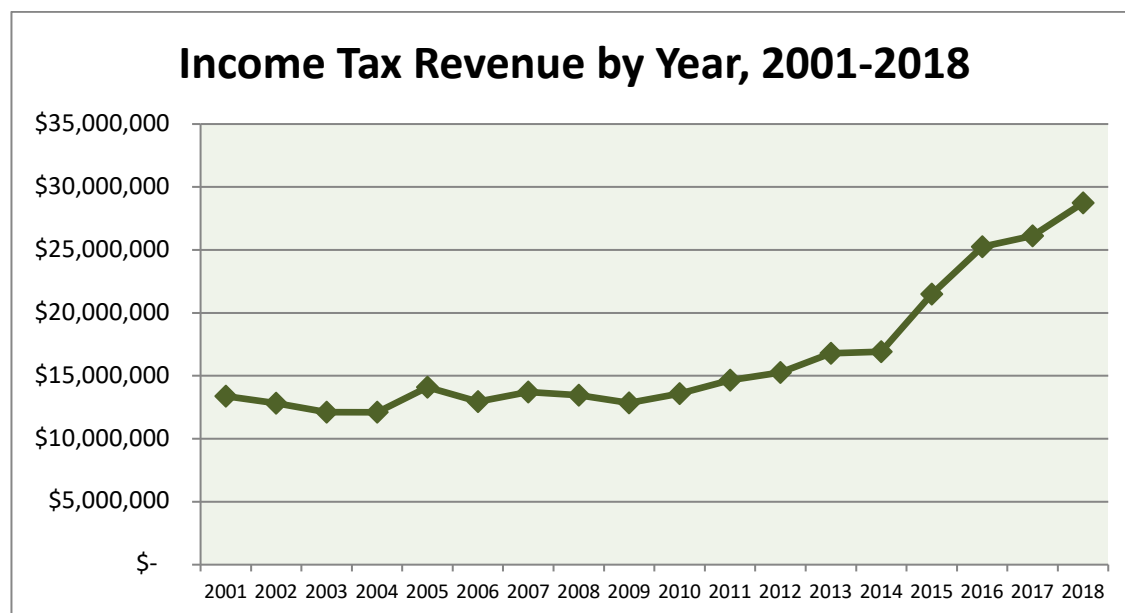
## The Tax Base – Municipal Income Tax

Every local government must rely on sources of revenue to deliver the services demanded by the residents it serves. These are usually taxes, but they also come in the form of fees and charges, and intergovernmental aid from higher levels of government. For the past 45 years, Upper Arlington has relied on a municipal income tax, which represents between 38% and 55% of general fund revenue.

Changes to the income tax rate require a vote of the people. Over the years, Upper Arlington City Councils have proposed increases to the 1% tax rate initially adopted in 1968. In November of 1975, the rate was successfully raised to 1.75% and it was raised again in 1983 to 2%. Attempts to raise the tax further were defeated by voters in 1990 and again in 1996. In 2014, following the work and recommendations of the 2014 Citizen Financial Review Task Force, a .5% increase to a 2.5% income tax rate was passed, with the funds raised dedicated to the City's Capital Improvement Program.

The income tax is described by some economists as a tax with great *elasticity*—it rises and falls roughly parallel to changes in the national and regional economies. To put it simply, since the income tax is a percentage of income, historically, the income tax increases as salaries increase. This trend reverses during economic downturns as was the case during the last recession. Table 5 reflects income tax receipts for years 2001-2018. Table 6 shows Real GDP growth rates in the US for the same years. Tax receipts have increased since the adoption of a higher city income tax rate while the U.S. GDP has continued to increase over the same period.

**Table 5**

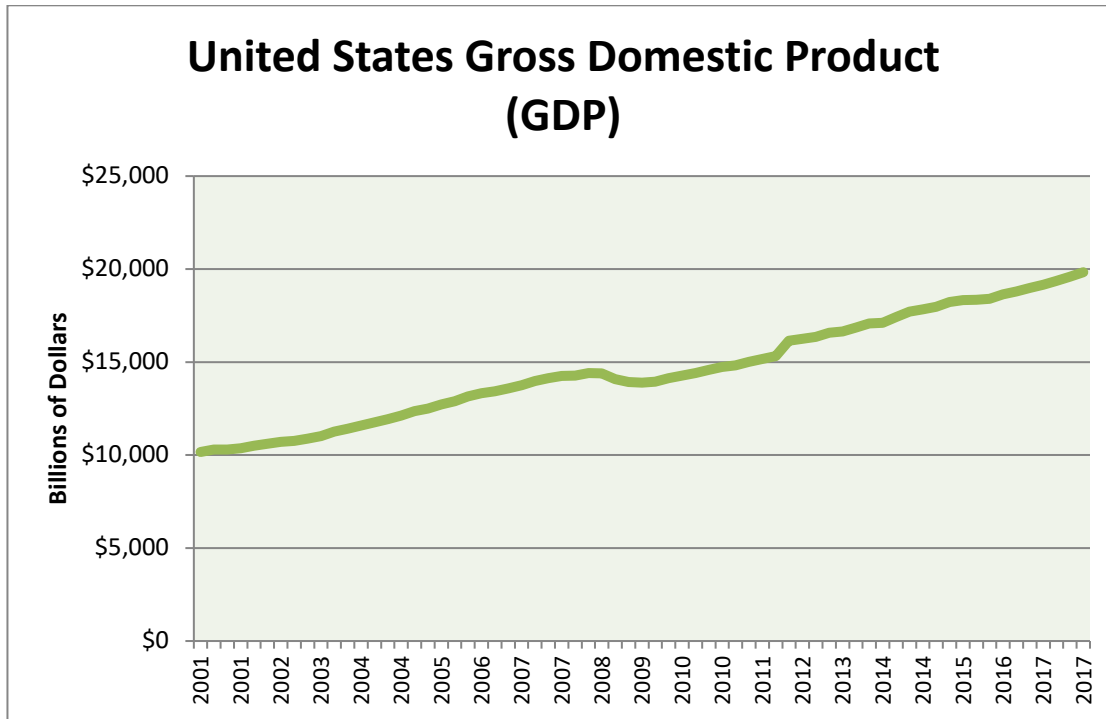


Source: 2017 Comprehensive Annual Financial Report





Table 6



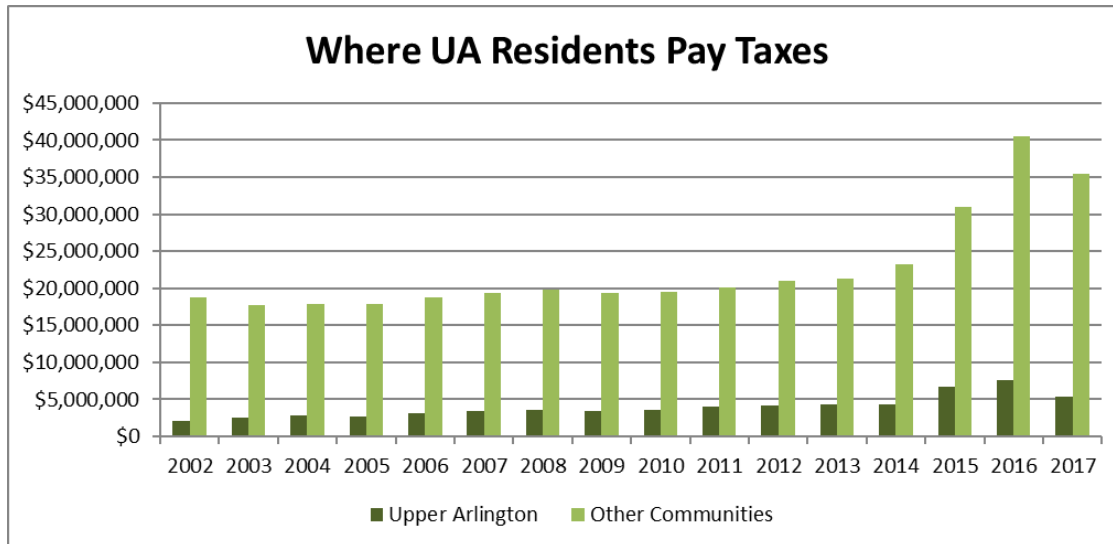
Source: Federal Reserve Economic Data

Local income tax is first paid to the city where the income is earned. If the rate in the taxpayer's jurisdiction of residence is higher than where the income was earned, the difference is paid to the jurisdiction of residence. Upper Arlington is overwhelmingly residential in its land use (approximately 95%) with most residents working outside its boundaries. And with limited space available for commercial activities, the number of non-residents coming into Upper Arlington to work does not make up that difference.

In fact, data from the Regional Income Tax Authority reflects that *approximately 80-90% of total income earned by Upper Arlington residents is taxed by other jurisdictions*. Thus, the City's actual income tax collections from residents are substantially less than what is paid by residents. This inequality can be seen in table 7. For example, for tax year 2016, Upper Arlington received only 15.9% of the income tax paid by residents.

In the wake of financial losses such as Local Government Fund reductions and the estate tax elimination, which took effect January 2013, many Central Ohio communities raised their rate of taxation to 2.5% (Upper Arlington, Bexley, Columbus, Grandview and Worthington) in order to address revenue shortfalls.



**Table 7**

Source: Regional Income Tax Authority (RITA)

**Table 8**

Central Ohio Income Tax Rates			
City	Income Tax Rate	Tax Credit	Tax Credit Limit
Bexley	2.50%	65.00%	2.50%
Columbus	2.50%	100.00%	2.50%
Dublin	2.00%	100.00%	2.00%
Gahanna	1.50%	83.33%	1.50%
Grandview	2.50%	100.00%	2.50%
Hilliard	2.00%	100.00%	2.00%
<b>Upper Arlington</b>	<b>2.50%</b>	<b>100.00%</b>	<b>2.50%</b>
Westerville	2.00%	100.00%	2.00%
Worthington	2.50%	100.00%	2.50%

Source: Office of the City Auditor, Columbus ([www.incometax.columbus.gov](http://www.incometax.columbus.gov))

And finally, municipal income tax is not paid on all forms of income. The municipal income tax in Ohio is a tax on earnings, not investments or retirement income. Retired residents of cities in Ohio do not pay any municipal income taxes provided they did not accept employment following retirement. As the population of a community ages, the number of its residents subject to income tax declines.



## The Tax Base – Property Tax

Every jurisdiction within Franklin County levies property taxes. This source of income is the second most important revenue for the City of Upper Arlington. Property taxes are calculated in terms of mills. A mill is equivalent to \$1 per \$1,000 of assessed property value<sup>1</sup>. As an example, for a home with an assessed value of \$200,000, each mill of property tax generates \$200 in annual property taxes.

In accordance with the Ohio Substitute House Bill 920 of 1976, the effective rate, or rate of property tax paid by the resident, cannot be affected by an increase in valuation of the property. The voted millage, that is the rate residents approved, represents the maximum revenue a city may generate from property tax collections. If the City of Upper Arlington were to collect the voted rate of property tax, the amount would exceed the voted-upon revenue due to increases in property value over time. Because of this, the City instead collects an effective millage rate to ensure that payments do not exceed the millage voted on by residents. A portion of the property tax (inside millage) is allowed to benefit from growth in the assessed and market value of property. The balance of the millage levied (outside millage) raises a specific dollar amount and is not allowed to increase as the value of property increases.

**Table 9**

Central Ohio 2018 Property Tax Rates							
District	Library Effective Rate	County Effective Rate	Township Effective Rate	Schools Effective Rate	City/Village Effective Rate	Vocational School Effective Rate	Total Effective Rate
City of Columbus	2.50	16.84	0.00	45.76	3.14	0.00	68.24
City of Bexley	2.36	16.84	0.00	43.88	5.45	0.00	68.53
City of Grandview Heights	4.93	16.84	0.00	40.69	8.02	0.00	70.48
City of Grove City	0.89	16.84	11.41	42.62	3.50	0.00	75.26
<b>City of Upper Arlington</b>	<b>1.65</b>	<b>16.84</b>	<b>0.00</b>	<b>52.56</b>	<b>6.00</b>	<b>0.00</b>	<b>77.05</b>
City of Gahanna	2.50	16.84	12.67	43.91	2.40	2.00	80.32
City of Worthington	3.90	16.84	0.50	55.67	5.00	0.00	81.91
City of Westerville	1.79	16.84	0.00	53.24	14.65	0.00	86.52
City of Hilliard	2.50	16.84	11.82	56.26	1.60	1.60	90.62
City of Dublin	2.50	16.84	9.15	58.73	1.93	1.60	90.75

Source: Franklin County Auditor

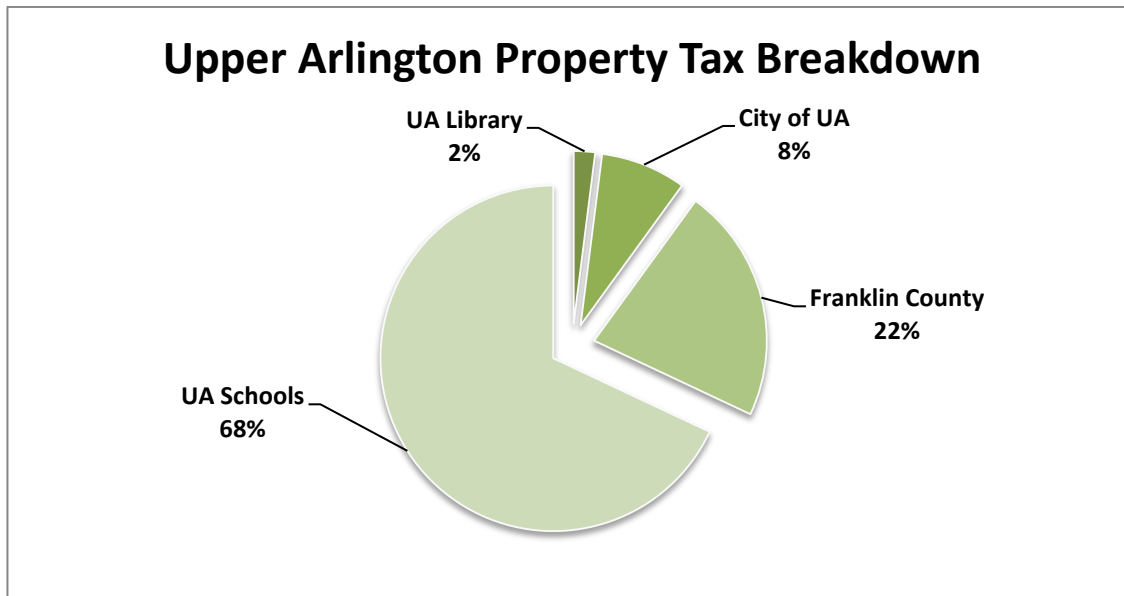
### Footnotes

(1) Effective rates shown applicable to Residential/Agricultural class properties.



When compared with other municipalities in Ohio, Upper Arlington faces a similar breakdown of property tax revenues. As Table 10 demonstrates, the majority of property taxes go to the Upper Arlington Schools, with a much smaller percentage channeled to the City. The breakdown of how Upper Arlington property taxes are divided by taxing jurisdiction can be seen below.

**Table 10**



Source: Franklin County Auditor

Because the City is nearly fully developed, there is virtually no growth in the tax base as a result of reappraisals and reinvestment in existing residential and commercial properties. The appraisals occur every six years, with an update three years following the appraisal. The good news for Upper Arlington is that the strong real estate market throughout most of the last decade has produced a steady increase in the median home value and this has resulted in increases in property tax proceeds. Since 2001, the average annual growth rate has been 3.3%. The most recent six year appraisal by the County took place in 2018. The City saw valuations increase approximately 12% from the previous year.



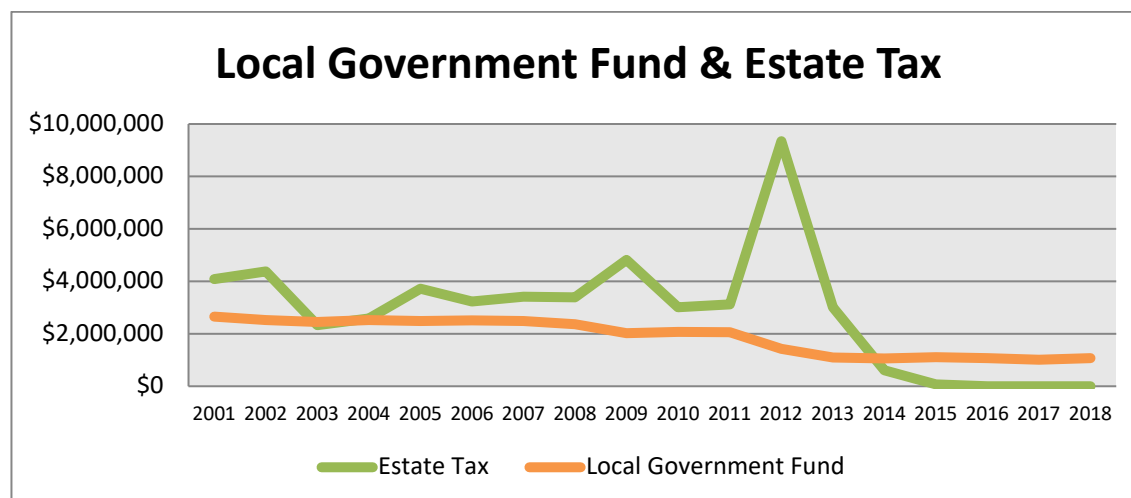
## The Tax Base-Intergovernmental Revenue

The largest sources of intergovernmental revenues for Upper Arlington were the Ohio estate tax followed by the Local Government Fund. That has clearly changed with the elimination of the Estate Tax beginning in 2013. An average of approximately *\$3.9 million* in Estate Tax proceeds were received annually from 2001 through 2012 (see Table 11). The loss of this tax was a budget “game changer” for us and other cities similarly situated. In its final year, the City collected a record amount of Estate Tax in 2012, at over \$9 million, and in 2013 we received approximately \$3 million, as 2012 year-end estates were settled

The variable nature of the Estate Tax assured that the revenues from this source fluctuated from year to year; however, Upper Arlington was consistently among the top cities in the state in terms of revenues generated through this tax source. In 2009 for example, Upper Arlington received the third highest proceeds from the Estate Tax in the state, behind only Columbus and Cincinnati, in terms of total dollar amount.

The Local Government Fund (LGF) is a redistribution of tax revenues received by the state’s General Revenue Fund (GRF) to 88 counties and 500 local municipalities within the state. Prior to August 2011, the amount added to the LGF each month was 3.68% of the GRF tax revenues from the preceding month. Beginning in August 2011, the state budget temporarily replaced the percentage of overall state tax revenues with a percentage of the dollar amount received in the same month during fiscal year 2011. This method of calculation ended in July of 2013, and the percentage of GRF tax revenue went back into effect at a reduced percentage of 1.66%. This percentage currently remains intact.

**Table 11**



Source: Finance Department



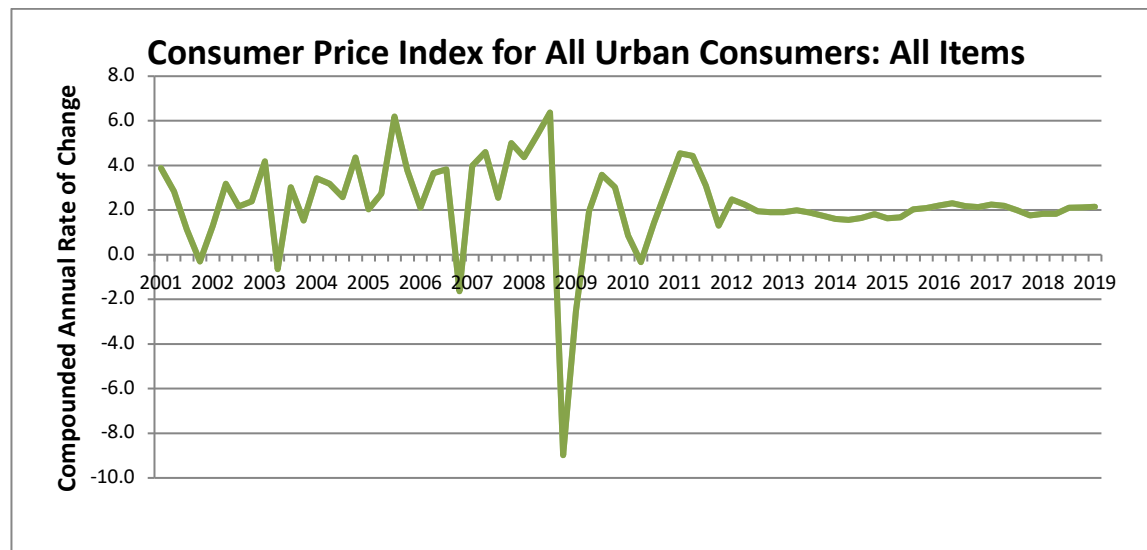
## EXPENDITURE TRENDS

The final portion of our look back focused on expenditures within the City. Like virtually every other employer, the City has been faced with rising costs for health care, energy, fuel and other commodities. While the City organization has done an admirable job holding most expenses at or below the Consumer Price Index (CPI), the rate of expenditure growth has outpaced the rate of revenue growth.

### Overall City Expenditures

Total City expenditures have increased year to year over the last decade. In recent years the City has taken steps to reduce expenditure growth to more closely resemble the rate of revenue growth, though with recent state budget cuts to local governments the issue has been exacerbated. Expenses for fuel and utilities increased by two and three times the CPI respectively. Total personnel and pension costs rose. Salary and wages increased at an annual average of 2.75% and health insurance and other fringe benefits increasing by 2.7%. The average annual CPI between 2010 and 2019 was 2%. With the exception of fuel, energy and health insurance, the average City expenditure growth was almost exactly in line with inflation (see Table 12).

Table 12



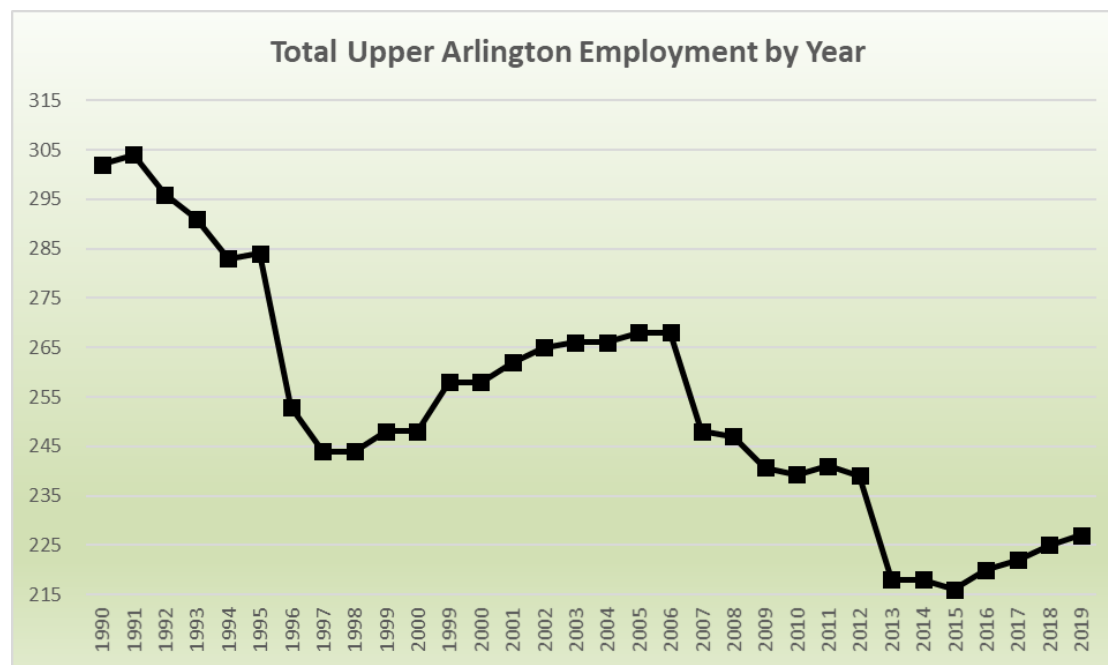
Source: Federal Reserve Economic Data FRED Graph Observations, Economic Research Division, Federal Reserve Bank of St. Louis



## City Employment Trends

Nothing impacts personnel expenses more than the total number of people employed by the City. There was a steady decline in the overall City full-time employment from 2006 to 2015. From a high of 304 employees in 1991 to the 216 employees in 2015, the *number of full-time employees fell by 28%*. A portion (24%) of this reduction in employees can be attributed to the privatization of solid waste services in 2008. Since 2015, there has been a slight increase to the current standing at 227 in the 2019 budget. The majority of the increase to the number of full-time employees is related to the hiring of additional police officers to be school resources officers (these costs are shared with the school district) and hiring additional parks and engineering staff to oversee and implement the increased level of capital projects resulting from an expanded Capital Improvement Program. Personnel levels for the total City organization can be seen in Table 13.

**Table 13**



Source: Finance Department

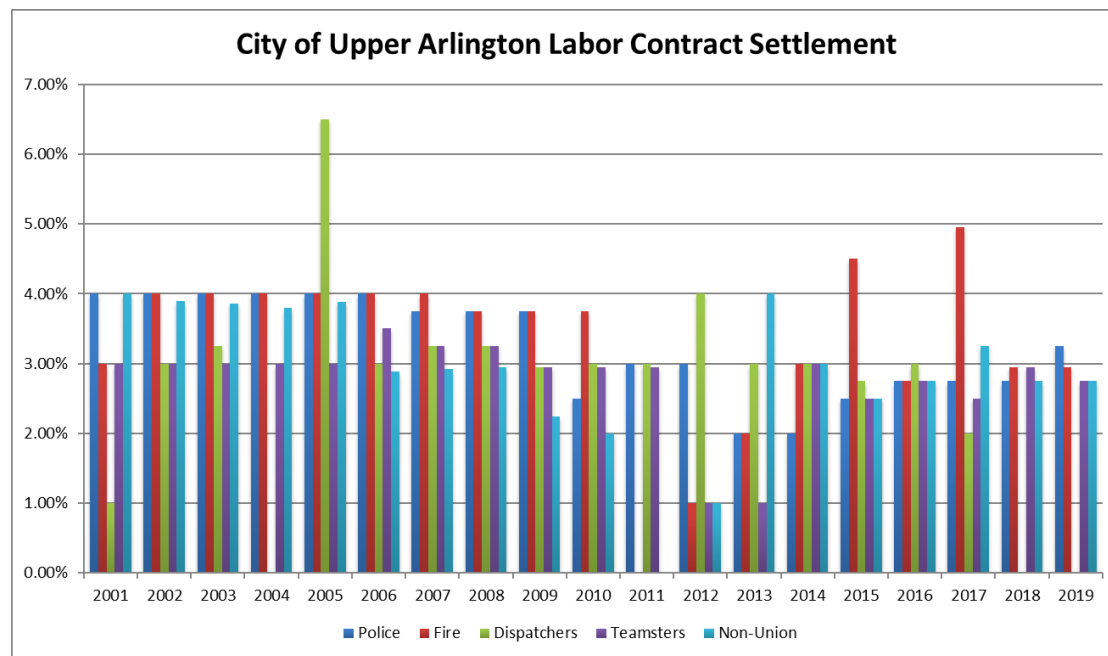


## Employee Related Expenditures

A large percentage of City employees (60%) work under the terms of labor contracts negotiated with one of the four City unions. Three of the four unions represent public safety employees. One of these unions, the Dispatchers union, was eliminated at the end of 2017 when the City transitioned dispatching services to the Northwest Regional Emergency Communications Center. Negotiations and the contracts that result from that process with these three unions are subject to binding arbitration from a disinterested, third party. An arbitrator can impose a settlement on the parties. The process of submitting unresolved issues to an arbitrator who then awards one party's position or the other, issue by issue, until all outstanding issues have been resolved is called interest arbitration; in Ohio the public sector interest arbitration method is called conciliation.

Upper Arlington has gone through the conciliation process in the past, most recently in 2013 with the Fraternal Order of Police (FOP). During this arbitration process wages, overtime calculation and insurance contributions were discussed. In 2008, the City and the International Association of Fire Fighters (IAFF) were scheduled to go into arbitration, but were able to settle before the process began. Labor contract settlements over the past decade can be seen in Table 14.

**Table 14**



Source: Finance Department

### Footnotes

- (1) The labor contract with the Dispatchers ended December 31, 2017 with the transfer dispatching services to the Northwest Regional Emergency Communications Center (NRECC).
- (2) The large increases related to the Fire labor contract after 2013 were related to the elimination of the City paying for the employee share of pension (pension pickup).



City of Upper Arlington

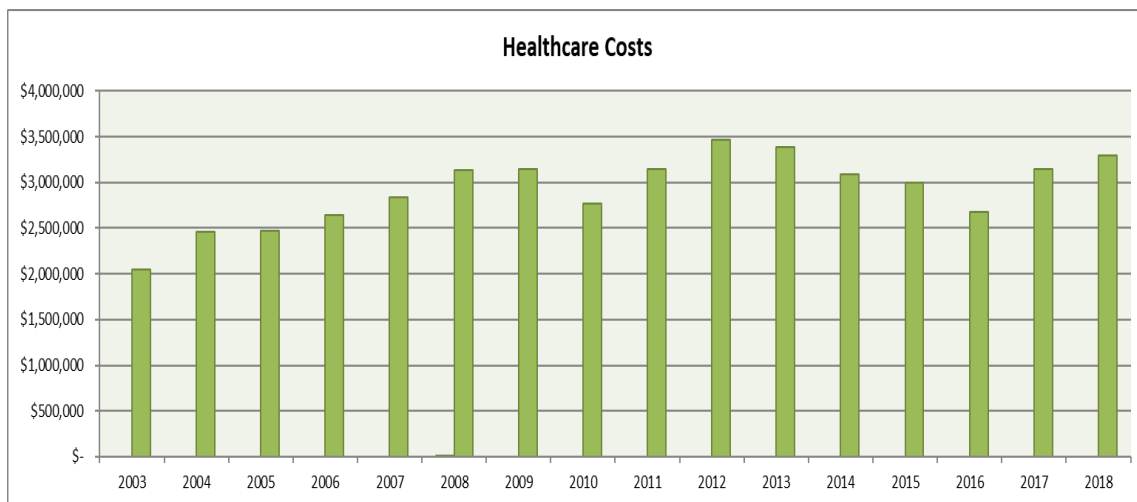


Increases reflected in Table 14 are in a relatively narrow range of between 0% and 6.5%. The un-weighted average of all union increases is 3%. The average for all non-union employees is 2.9% (note: for 2001-2010, non-union employees were graded and awarded increases under a merit system, whereby actual increases received by each employee varied based on performance).

City employees belong to one of two public retirement systems. Safety personnel belong to the Ohio Police and Fire Pension Fund (OPFPF). The City contributes the statutorily required amount of 19.5% of the annual salary for police officers and 24% for firefighters. The remainder of City employees belong to the Ohio Public Employee Retirement System (OPERS). The statutorily required contribution rate for these employees is 14%. Since pension expenses are a function of salary and wages, they grew at a rate similar to the rate of overall salary and wage growth.

Health care costs have shown moderation in recent years, following nearly double-digit increases through most of the last decade. The City has made modifications to the self-insured traditional plan and added a high deductible health plan to restrain costs. The table below illustrates the expenditures for health care from 2003-2018.

**Table 15**



Source: Finance Department



## Capital Expenditures

Capital expenditures allow the City to continue providing services to both residents and businesses. The capital equipment budget is adopted annually, and is comprised of additional or replacement equipment needed in the City's fleet, office, and technology areas along with other miscellaneous tools and equipment. The City dedicates .5-mill of permanent property tax to fund the majority of capital equipment purchases and deposits these receipts into the Capital Equipment Fund (CEF). Additionally, all cellular tower lease fees are used exclusively for technology or related capital equipment purchases. Whenever possible, the City participates in cooperative purchasing agreements with other jurisdictions. The average annual amount spent on capital equipment over the last 16 years has been \$1.3 million.

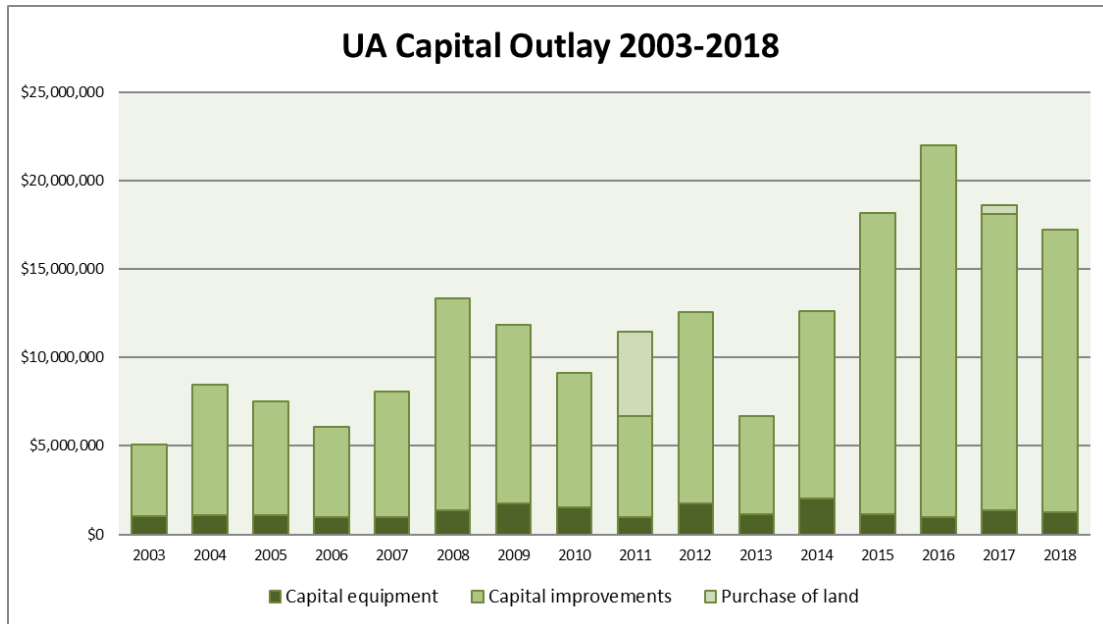
The Capital Improvement Program includes improvements to City infrastructure items such as streets, water, sewer and stormwater management, and other improvement initiatives such as buildings and parks. An expanded, \$113 million, 10-year Capital Improvement Program was received by City Council in December 2013 and subsequently adopted. This program was developed to enable the City to catch up on a backlog of needed infrastructure improvements. The expanded Capital Improvement Program, which is being updated annually with a new year "10" added as year "one" is completed, and has increased the City's annual investment substantially, from years prior.

Additionally, land purchased by the City is considered a capital expenditure. The City has had two such purchases since 2003. First, in 2011, the City purchased land at Kingsdale for \$4.8 million. This property has since been sold and is now the home to the Ohio State Outpatient Care Upper Arlington facility. The second purchase of land was in 2017 where the City purchased of 1615 Fishinger Road for approximately \$525,000 for economic development purposed. This property is still held by the City.

All capital expenditures from 2003-2018 can be viewed below in Table 16.



**Table 16**



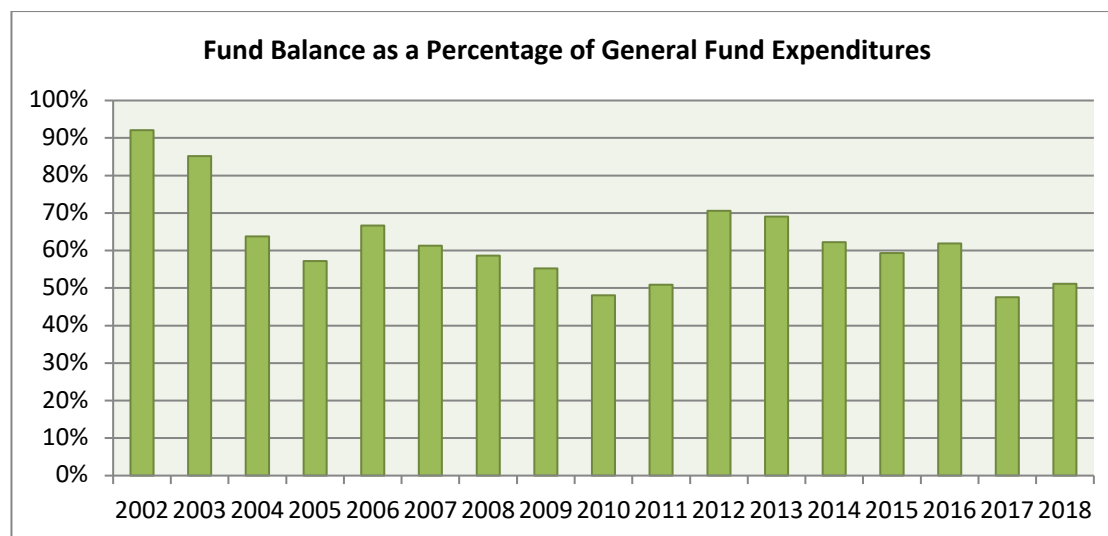
Source: Finance Department



## FUND BALANCE

Fund balances have fluctuated over the last decade but have been less unstable than from 2000-2010. Our largest category of expenditures – people, grew and since 2014 so has our largest source of revenue - the income tax. Prior to the income tax rate increase, revenues grew slower than the CPI and expenditures grew at a rate greater than the CPI for the same period. The fund balance, as a percentage of operating expenditures, has ranged from 40% to 57% since 2008; Fund balances for the last decade are shown in Table 16.

**Table 17**



Source: Finance Department

Upper Arlington is a vibrant city, and can continue to be so. In an era of little funding from the state, the City must work to establish and maintain sustainable financial practices to ensure the service needs of residents continue to be met. While the population has not changed drastically over the last 10 years, it is apparent that by the 2020 Census, we can expect the number of 65+ residents to grow. For the City, this means we must be ready to provide services for these individuals, all while not deriving much income tax revenue from them.

Our City continues to attract new businesses and residents, and continued reinvestment and redevelopment can protect strong property values and help raise additional revenues from income and property taxes. Each new job with a \$100,000 salary generates \$2,000 in new income tax revenue. While Upper Arlington has very limited ability to grow its physical size, we can continue to rethink how best to use the land that is available, and work to create an environment that encourages businesses to move here and grow here.

