

The City of Portsmouth

"Where the Ohio and Scioto Meet"

Department of Finance

Municipal Building, Room 3

728 Second Street, P.O. Box 1323
Portsmouth, OH 45662

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M. Trent Williams
City Auditor



TO: HONORABLE HOWARD BAUGHMAN, PRESIDENT
HONORABLE MEMBERS OF PORTSMOUTH CITY COUNCIL

FROM: M. TRENT WILLIAMS, PORTSMOUTH CITY AUDITOR

DATE: MARCH 10, 2006

RE: YOUR REQUEST FOR INFORMATION REGARDING POSSIBLE
INCOME TAX REALLOCATIONS

COPY: MAYOR, CITY SOLICITOR

The following information is being submitted in response to your request for facts and figures in regard to a possible reallocation of city income tax revenue.

Currently the City has an income tax rate of 1.40% on the gross wages of people living and/or working inside the City of Portsmouth. This 1.40% rate is a result of three separate amendments to the Charter of the City of Portsmouth.

Section 47-C was adopted May 5, 1970 and provides for the levying of 0.50% income tax allocable as follows: 30% City Employee Compensation, 30% General Municipal Operations, 30% Capital Improvements and 10% Street Lighting.

Section 47-D amended June 8, 1976, further provides for the levying of 0.50% income tax allocable as follows: 40% City Employee Compensation, 30% General Municipal Operations and 30% Capital Improvements.

Section 47-E adopted November 3, 1987 provides an additional levy of 0.40% income tax for the purpose of Police and Fire Employee Compensation.

It has been discussed over the last few years that a way to generate additional operational revenue without an increase would be to submit a proposed amendment of the Charter to the voters to reallocate, on a temporary or permanent basis, all or a portion of the income tax revenue allocated currently to Capital Improvements to General Municipal Operations. Also attached is a copy of my previous memo of March 14, 2005 regarding the matter.

Your request to me was to provide an analysis of the effect this reallocation would have on General Municipal Operations and Capital Improvements, based on different given scenarios. The simplest way to break this down would be to think of the current Capital Improvements revenue as being approximately \$1,200,000 and from where that amount is generated. As shown in the three sections above, half of the reflected amount comes from 30% of the 0.50% in §47-C with the other half coming from 30% of the 0.50% in §47-D. As it has been suggested, and I think you would agree, it would be unwise to eliminate the entire Capital Improvement revenue.

Therefore, I would suggest that only §47-D would even be considered for further amendment. Given that each section generates half of the total Capital Improvement revenue, it is clear that the amount generated by the 30% of 0.5% in §47-D is approximately \$600,000.

As §47-D provides 30% of 0.5%, I would suggest any proposed modification to this section be simply made to change the 30% to any of the following 20%, 10% or 0%. Correspondingly, this would then increase the General Municipal Operations from 30% of 0.5% portion to 40%, 50% or 60%, respectively. The corresponding changes to dollar amounts would then be in increments of approximately \$200,000 for each 10% changed. For example, if the Capital Improvements allocation in §47-D were changed from 30% to 20%, the Capital Improvements revenue would be reduced from \$600,000 to \$400,000 adding \$200,000 to General Operations; to 10% reduced to \$200,000 adding \$400,000 to General Operations; to 0% reduced to \$0 adding \$600,000 to General Operations.

Keep in mind two things. First, the change would only be to §47-D, as §47-C would still be allocating approximately \$600,000 to Capital Improvements. Second, the City could always use General Operations money for operations as well as any needed improvements that may come up where Capital Improvement money can be used only for capital improvements and not for operating expenses.

I hope this answers any question you may have had on this issue, but I will be happy to supply you with any additional background details that you feel may be necessary. Please do not hesitate to contact my office or me if we may provide any further information. Thank you for your assistance and cooperation.

Respectfully submitted,


M. TRENT WILLIAMS, AUDITOR

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State of Ohio

TO: HONORABLE MEMBERS OF PORTSMOUTH CITY COUNCIL
PER REQUEST OF COUNCIL PRESIDENT BAUGHMAN

FROM: M. TRENT WILLIAMS, PORTSMOUTH CITY AUDITOR

DATE: MARCH 14, 2005

RE: ESTIMATE OF RE-ALLOCATION OF INCOME TAX REVENUE

COPY: MAYOR KALB

In December 2003, I suggested to City Council that one possible way to generate additional revenue to the General Fund would be to consider an amendment to the Charter, on a temporary or permanent basis in part or in whole, a re-allocation of the City income tax revenue. This proposal was not one that would increase the income tax rate in any way; merely a proposal to consider a re-allocation of funds already being received at the current rate in order to meet the budgetary needs of the City and continue the operations of the City in the most efficient way possible. President Baughman has recently requested that I provide Council with a summary of income tax revenue reflecting the current distribution along with an estimate of a possible reallocation of revenue.

Currently the City collects its 1.40% income tax with proceeds distributed as prescribed by Sections 47-C, 47-D and 47-E of the City Charter and three separate ordinances as follows:

Fund	Description	Ord. #100 (1970)	Ord. #110 (1976)	Ord. #84 (1987)
	Total of 1.40%	.50%	.50%	.40%
101	General Municipal Operations	30%	30%	0%
101	Municipal Employees Compensation	30%	40%	0%
301	Capital Improvements	30%	30%	0%
101	Street Lighting	10%	0%	0%
101	Police and Fire	0%	0%	100%

Per fund, this allocation amounts to an approximate ratio of 78-½ % of revenue to the General fund with the remaining amount of 21-½ % to the Capital Improvement fund. The following table represents the amounts collected from income tax revenue by the City for the last 5 years along with the distribution between the General and Capital Improvement funds.

Year	General Fund		CIP Fund		Total Revenue	
2000	\$4,272,307.51	78.57%	\$1,165,188.54	21.42%	\$5,437,496.05	100.00%
2001	\$4,276,189.10	78.57%	\$1,166,233.36	21.42%	\$5,442,422.46	100.00%
2002	\$4,351,458.27	78.58%	\$1,185,905.07	21.41%	\$5,537,363.34	100.00%
2003	\$4,459,291.36	78.57%	\$1,216,170.58	21.42%	\$5,675,461.94	100.00%
2004	\$4,599,168.47	78.57%	\$1,254,318.81	21.42%	\$5,853,487.28	100.00%

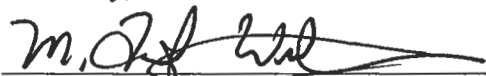
As you can see in the first table above, the amount generated by the tax and allocated to the Capital Improvement fund is a 30% of a half-percent tax approved in each of the years of 1970 and 1976. Any change that would be made would probably be as a result of a charter amendment to modify one of these two original allocations. There would be numerous ways to re-allocate the income tax, so I will simply give a sample of how a future year may look if re-allocated. Estimated total income tax revenue: \$6,000,000 could be divided between the two funds as follows:

City of Portsmouth, Ohio - Income Tax Revenues						General Fund Increased by: / CIP Fund Decreased by:
General Fund - Capital Improvement Fund Estimate of Re-Allocation						
Total Revenue		General Fund		CIP Fund		
\$6,000,000.00	100.00%	\$4,714,284.00	78.57%	\$1,285,716.00	21.43%	\$0.00
\$6,000,000.00	100.00%	\$4,800,000.00	80.00%	\$1,200,000.00	20.00%	\$85,716.00
\$6,000,000.00	100.00%	\$4,950,000.00	82.50%	\$1,050,000.00	17.50%	\$235,716.00
\$6,000,000.00	100.00%	\$5,100,000.00	85.00%	\$900,000.00	15.00%	\$385,716.00
\$6,000,000.00	100.00%	\$5,250,000.00	87.50%	\$750,000.00	12.50%	\$535,716.00
\$6,000,000.00	100.00%	\$5,400,000.00	90.00%	\$600,000.00	10.00%	\$685,716.00

There is no doubt that the City has many legitimate needs for the use of its Capital Improvement funds along with ever growing demands on its General funds. Also with upcoming needs for renovations or new construction for a municipal facility, and no specific financing plan in place, the allocation of income tax may hold even greater importance. Therefore any alteration to the allocation of these funds should be given the utmost of consideration and carefully weighed before any proposed re-allocation of these funds.

For your convenience and reference, I have attached copies of my December 12, 2003 and December 19, 2003 memos to then Mayor Bauer and City Council. Please do not hesitate to contact me if you have any questions or concerns with any of this submitted material. I will be glad to discuss this with you or provide any further information as necessary. Thank you for your assistance and cooperation.

Sincerely,



M. TRENT WILLIAMS, AUDITOR

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TO: HONORABLE GREGORY A. BAUER, MAYOR
HONORABLE MEMBERS OF CITY COUNCIL

FROM: M. TRENT WILLIAMS, AUDITOR

DATE: DECEMBER 19, 2003

RE: 2004 CIP REALLOCATION CHARTER AMENDMENT ORDINANCE

COPY: CITY SOLICITOR



Please find attached a proposed piece of legislation I have drafted and forwarded on to the City Solicitor's office for review. The proposed ordinance is modeled exactly after previous charter amendment ordinances. I have asked the Solicitor's office to review this ordinance for proper content and function should City Council desire to take action based on the letter I sent Council in this matter dated December 12, 2003.

The specific function I have proposed with this legislation would be to modify section 47d of the City Charter to divert the portion of this tax previously allocated to the Capital Improvement fund to the General Fund. Currently, under the city charter, 30% of the 0.50% income tax enacted in 1970 per section 47c and 30% of the 0.50% income tax enacted in 1976 per section 47d is allocated to the Capital Improvement fund.

My previous letter suggested any of several options: a temporary or permanent reallocation of a portion or all of the current income tax. The attached proposed ordinance suggests a more specific, permanent reallocation of a portion of the current income tax for Council's consideration in that it would reallocate only 30% of the 0.50% income tax enacted in 1976 per section 47d. This action, if approved, would result in an increase to the General Fund of about \$575,000, or more annually, leaving the same amount in the Capital Improvement fund annually.

I realize this is a sensitive and important issue but I did want to give the Mayor and Council the opportunity to act on an ordinance since I did make this suggestion through my earlier letter. I know the CIP reallocation issue was discussed as an option back when we met to discuss the budgetary issues in November, but had seen no action taken toward the issue. Again, should Council desire to put this action on the primary ballot in March, it would be necessary to add the proposed ordinance to the legislative agenda of December 22, 2003.

Please contact me at your convenience if you have any questions or concerns regarding this matter. Thank you for your assistance and cooperation.

Sincerely,

M. TRENT WILLIAMS, AUDITOR

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TO: HONORABLE GREGORY A. BAUER, MAYOR
HONORABLE MEMBERS OF CITY COUNCIL

FROM: M. TRENT WILLIAMS, AUDITOR

DATE: DECEMBER 12, 2003

RE: 2004 CIP REALLOCATION

COPY: CITY SOLICITOR



One possibility that has been discussed throughout the current budget season has been the possibility of a reallocation of income tax revenues. Currently, under the city charter, 30% of the 0.50% income tax enacted in 1970 per section 47c and 30% of the 0.50% income tax enacted in 1976 per section 47d is allocated to the Capital Improvement fund, and therefore not readily available for employee salaries, benefits and general operations. These allocations total 21.43% of the total 1.4% income tax revenue collected, or around \$1,100,000 to \$1,200,000 annually.

Obviously, since the charter sets this allocation, any proposed reallocation would require a charter amendment. Given the budgetary dilemma the City is facing for this and coming years, a temporary or permanent reallocation of a portion or all of the current income tax may be advisable as a means of increasing general fund revenues without an increase of the tax rate itself. If the revenues currently designated for capital improvements were reallocated to the General fund, amounts necessary for current capital lease obligations and other capital projects would still be available for payment from then the General fund, and the remaining revenues would then be immediately available for general operations.

Approval of this alternative, combined with budgetary streamlining methods and efficiency measures currently being considered by the administration, may serve to eliminate, or drastically lessen, the need for any reduction in forces and possibly even foster opportunities for enhanced city services. Please be advised that if this option is desirable to the Mayor and/or Council, that immediate action must be taken. According to section 166 of the Charter, the last day to include a charter amendment, to be voted on at the March 2, 2003 primary election, would be 4:00 PM, Friday, January 2, 2004. This would require an emergency ordinance be prepared for Council's consideration at its next regular meeting of December 22, 2003 and approved for submission to the Board of Elections.

Please contact me at your convenience if you have any questions or concerns regarding this matter. Thank you for your assistance and cooperation.

Sincerely,

M. TRENT WILLIAMS, AUDITOR