2013 Income Tax Restructuring --- Initial Conceptual Proposal

Submitted by: Councilman Matt Trafis

Concept / Goal

- To restructure the income tax paid to Seven Hills in order to obtain increased City revenues and pass on a lower net rate to approximately 85% - 90% of the income tax paying residents.

Financial Status (Past, Present, & Future)

- The City has achieved a balanced general fund budget in 2009 and 2010 primarily by using cash reserves. In 2011 the restructuring of debt (which elongated our "mortgage" and increased interest expense to allow more cash availability) was the main contributor to balancing the budget. In 2012 the positive effect of the Service Department employee buyout / retirement took effect and that along with improved expense controls and the debt restructuring cash available allowed for a balanced budget.
- In 2013, in all likelihood, a balance budget will be achieved both through continued expense control and the restructured debt cash available but mainly by selling off the City's leases on the cell towers to generate one time cash.
- For 2014 and forward, our backs are against the wall. Restructuring of debt and selling off of assets are very improbable and the reduction of non-safety functions (Engineering Department, Community Relations department, etc.) has been met with continued and significant resistance. Some smaller savings could be achieved by consolidation of Building, Service, and / or Engineering Departments.

My proposed major contributing solution

- Increase the income tax rate to between 2.25% - 2.50% with an increase to the credit limit allowed of between 1.40% - 1.70%. (Scenario 2 or Scenario 4 from attached chart.)

Advantages

- Increase revenues to City between $215,584 - $656,949 per year. (Scenario 1 – 4).
- Decrease income taxes paid by 5.60 – 11.1% for approximately 85% of our wage earning residents.
- No affect on our retired population except for a more financially secure City.

- No affect on individual real estate taxes, interest, dividends, social security, pensions, unemployment, etc.
- Creates a solution to not being able to change the tax credit contrary to what was previously mentioned.

<u>Disadvantages</u>

- Seven Hills residents working in Seven Hills will have an income tax increase of .25% - .50%. Approximately 7% - 10% of the Seven Hills population may have an average increase of $35 - $70 based on an average return. (Note: Nearly all residents working outside of Seven Hills are now paying a total of 2.9% income tax as opposed to the potentially proposed 2.25% - 2.50% for residents working in Seven Hills.)

- Companies wanting to locate to Seven Hills may use the reasoning of an income tax rate of 2.25% - 2.50% as a deterrent. This philosophy can be easily offset by an abatement of 2.25% - 2.50% if necessary. (Note: All surrounding competing communities have rates of 2.00% - 2.50%). This in reality should be a very low exposure.

<u>NOTES:</u>

- There are other alternatives besides the four scenarios that have been presented.

- All dollar and percentage figures are projections based on data available from the Regional Income Tax Agency. It is of course difficult to interpret all of this data and certainly can be subject to change or adjustments.

- I ask that you email me any questions, issues, or comments regarding this proposal to allow me adequate time to research answers as opposed to being bombarded with detailed questions at any meeting.

Submitted by: Councilman Matt Trafis
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