

May 31st Financial Workshop

The fifth financial workshop was held on May 31, 2006. The participants included 8 of 9 members of City Council, and 5 out of 6 community experts serving on the Blue Ribbon Resource Team, the City Manager, the Budget and Finance Director, and lead staff from each city department.

Blue Ribbon Resource Team

John Thornton, Associate Professor Finance, KSU

Bill Hoover, Vice President, Key Bank

Brian Bialik, Vice President, Home Savings Bank

Joyce Harris, Wachovia Securities

Amy Gilliland, Director, Analysis and Budget University of Akron

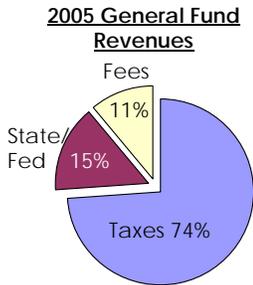
Matt Fajack, Director, Financial Affairs, KSU

Parking lot

No items from the parking lot were reviewed at this workshop.

Purpose of the meeting

- 1) To finish the fee analysis that began at the April 26th meeting for Community Development, Health Department and the Law Department.
- 2) To review the contribution of taxes to the city's revenue base and compare the effective tax rate in Kent with some of our regional peer cities.



Findings tax contributions

The City of Kent has three general sources of revenue:

- 1) Taxes (income and property)
- 2) State/Federal ("intergovernmental" funds)
- 3) Fees, Charges and Fines

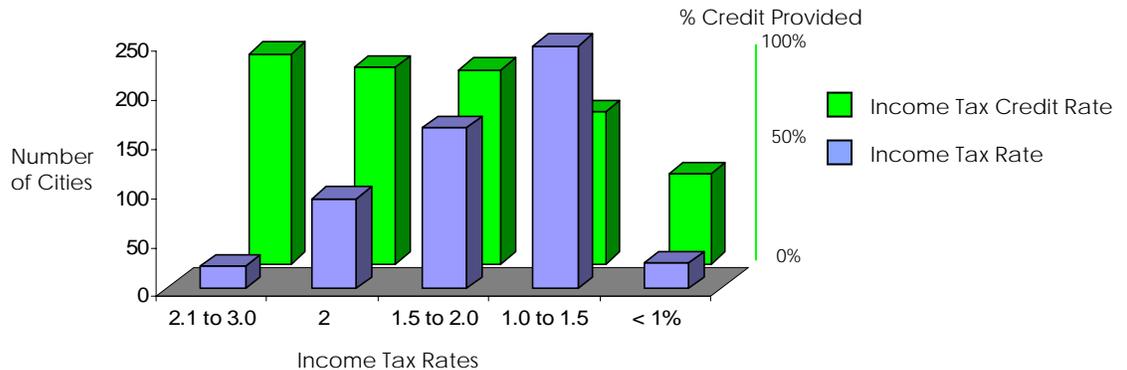
In total, taxes contribute close to three quarters of the revenues to the General Government fund, which is the fund in deficit.

Kent adopted a 2% income tax rate in 1984 and it has not changed in the last 22 years. A survey of 600 cities in Ohio reveals that 21% of the cities have an income tax rate between 2 and 3%, 74% have a rate between 1 and 2%, and 5% are under 1%. (see blue bars in chart below). Those cities with high income tax also have the highest credit rates. For example the cities with income tax rates between 2 and 3% give an average credit of 94%; cities between 1 and 2% give an average credit of 84%; and cities less than 1% credit an average of 42% (see green bars below).

Kent has a 100% income tax credit which means anyone that lives in Kent but works in a neighboring city is given 100% credit for any income taxes that they pay in the city where they are employed. Kent residents only have to pay Kent the difference between what they pay in their city of employment and their Kent income tax.

Over time the gap between what other cities charge and Kent charges has significantly narrowed as the other cities have raised their rates costing Kent \$250,000 a year in credited income tax revenues.

Ohio Cities Income Tax Rate and Income Tax Credit Distribution



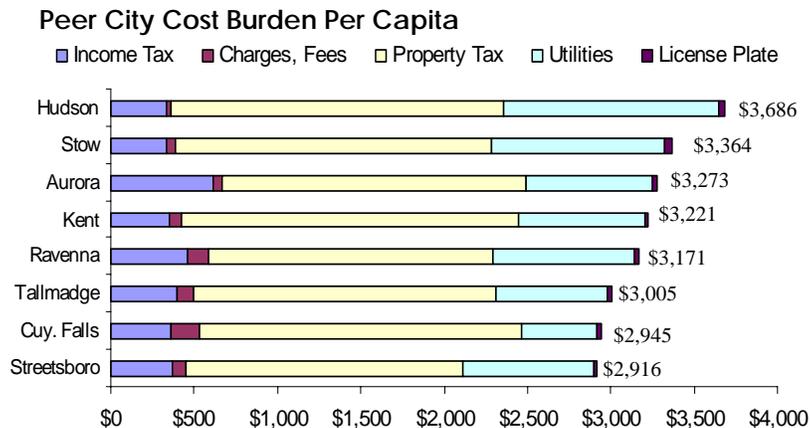
Kent's Comparative Tax Position

Of the regional peer cities, Cuyahoga Falls has the greatest annual revenues at nearly \$50 million a year. Kent has the fourth largest total revenues at \$20 million.

On a per capita basis, Kent is one of the lowest cost cities in the region. With a regional average of \$865 in revenues received per capita, Kent residents contribute \$133 less per year than the regional average.

Kent's effective millage rate is the highest in the region (even before the new 6 mils school levy) but only \$200 out of a \$1,400 average bill comes back to the general city government.

Kent is right at the average cost burden for all the regional cities at \$3,221 per capita per year.



Local Tax Options Discussed Included:

- 1) Increase Income Tax - .25 increase in income tax rate raises \$1.7 million
- 2) Reduce Income Tax Credit - reduce from 100% to 50% credit raises \$2.1 million
- 3) Reduce 25% Charter Requirement - every 1% reduction creates \$100,000 in cash
- 4) Increase Property Tax - a 1 mil increase generates \$320,000
- 5) Increase Vehicle License Fee - a \$5 increase generates \$125,000

Conclusions on taxes

When it comes to taxes there are no easy answers. However, given changes in state taxes there may be an opportunity to increase the city's tax rate without adding any more overall tax burden to Kent residents. Due to changes in the Ohio State Tax Code the average household state tax bill will decrease by 22% or \$254 per year. If the city chose to balance the budget through a .25 increase to the local income tax rate or through a tax credit reduction of 50%, the amount the average Kent homeowner pays in total taxes (state and local) would still be less than today.

Parking Lot follow-up items

Status

- | | |
|------------------------------------------------------------------------------------------|--------------------------------------|
| 1) Compare City Department OT to peer cities | Data proven unavailable/uncomparable |
| 2) Calculate service demand vs. revenue contributions from Kent State University | Data collection in progress |
| 3) Discuss legal costs and use of professional services for legal work | Presentation at 2/22/06 workshop |
| 4) Calculate effective tax rate for Kent residents and compare with peer cities | Data presentation at May 31 workshop |
| 5) Investigate the use of seasonal Solid Waste fees, e.g., leaf service, spring clean up | Analysis in progress |
| 6) Evaluate the impact of charging for parking | Under study |
| 7) Explore the use of using city inspection personnel in the JEDD area | Under evaluation |
| 8) Rate of unemployment and retirees from census data | Data collection in progress |
| 9) Further investigation into fees that can be charged, e.g., street lighting | In process |
| 10) Identification of a 10 year solution showing necessary cuts to balance budget | In process |
| 11) Report on the amount of outstanding fines for last 5 years | In process |
| 12) Report on feasibility of integrating KSU and City collection systems | In process |