

VILLAGE OF WAITE HILL

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Dear Village Resident,

It is hard to believe that we are almost two months into 2013 but, as we all know, time waits for no one.

As we have communicated many times this past year, Waite Hill is facing significant fiscal challenges in the years ahead. Stated succinctly, we are projecting that starting this year and continuing into the foreseeable future, our revenues will be reduced by over 30 percent due to circumstances discussed below. It is incumbent upon Council and me as stewards of the Village to thoroughly communicate those challenges so that thoughtful, considered decisions can be made by you. The purpose of this letter is to begin that communication and lay the groundwork for future information and decisions.

A. We Must Plan for Material Reductions in Future Revenues.

1. Overview. Aside from some minor receipts from items such as fines, permit fees, license fees and the like, the Village receives substantially all of its revenues from three primary sources: real estate taxes, the State of Ohio Local Government Fund, and investment returns on our Capital Fund balance. Average Village revenues for the years 2008 through 2012 were approximately \$1,484,000 per year.

2. Reduction in Real Estate Taxes. In mid-January we finally received from the Lake County Auditor our "Schedule A", the schedule of real estate values and projected property tax revenues for the Village for 2013 and thereafter. Since 2012 was a revaluation year, values established by the County Auditor for payment in 2013 and the next five years after will be the tax base for the Village.

Average revenues received by the Village from real estate tax collections for the years 2008 through 2012 were approximately \$729,000 per year. Based on the Auditor's Schedule A, the aggregate tax value of all properties in the Village has been reduced by approximately eight percent. In 2013, the reduction in real estate tax revenues will be approximately \$55,000 less than 2012 collections and \$83,000 less than average historical collections. Though this loss will be offset somewhat in future years by taxes from new residences currently being constructed, we still project a reduction in future revenues, the amount of which is difficult to compute at this time.

3. Elimination of the Local Government Fund. The Local Government Fund is established by the State of Ohio and historically has been used to return to municipalities a portion of revenues collected by the State from different earmarked sources. Essentially, the Fund helps subsidize municipal operating costs.

Between 2008 and 2011, we received proceeds from the Local Government Fund that averaged \$223,000 per year. As a part of the last bi-annual budget passed by the State of Ohio in 2011, we learned that the Local Government Fund proceeds would be phased out between July 1, 2011 and June 30, 2013, at which time these revenues would be completely eliminated. We expect to receive \$58,574 from the Local Government Fund in 2013 and nothing thereafter.

That said, the most recent budget proposed by Governor Kasich does hold out some hope in that it proposes a continuation of the annual subsidy, albeit at a materially reduced level. As proposed, the Village would continue to receive approximately \$117,000 per year from the Fund, but even at this level we will sustain a \$106,000 loss in annual revenues.

4. Diminished Investment Returns on Fund Investments; Reduction of our Capital Fund. The third primary source of Village revenues historically is the investment income on our Fund balances, particularly our Capital Fund which accounts for more than 83% of the Village's total funds. As many of you know, the Village's Capital Fund was established by Charter many years ago and has been funded with Waite Hill's share of Ohio estate taxes.

Our Funds have always been well managed, historically yielding annual returns of 4%-6%. Investment income on Fund balances is distributed to the General Fund throughout each year to help pay for operating expenses. From 2008 through 2012, investment income disbursed to the General Fund averaged approximately \$520,000 per year. This yield has been generated on a very conservative portfolio of "eligible investments" that is limited by the Ohio Revised Code.

Our future challenge is the same faced by all other investors, except that our challenge is compounded by investment restrictions and limitations imposed by Ohio law. Our investment counselor, Ancora Investment Advisors, has advised us that given the current investment climate and the restrictions on permitted investments imposed by Ohio law, we should prepare to see yields of 1-1/2%-2% on our portfolio as individual investments mature and the portfolio turns over (which is happening currently). This

adjustment results in projected annual investment income to the General Fund of \$260,000 per year after 2013, or a projected loss of revenue of \$260,000 per year in the future.

The reduction in investment income will be further eroded by the repeal of the Ohio estate tax which will eliminate the Capital Fund's sole source of revenue. While in past years the Capital Fund has historically been replenished by Waite Hill's share of the Ohio estate tax, the elimination of that tax this past January 1st also results in the elimination of new revenues to that Fund.

5. Summary. When you combine the projected revenue reductions caused by the factors discussed above, we project that in and after 2013, we will suffer a reduction in revenues from 2008-2012 levels of between \$450,000 and \$500,000 per year, or 30-35 percent of our average historic revenue base. It goes without saying that this will create problems if not properly and timely addressed.

B. Next Steps.

We intend to conduct a series of resident meetings in the spring to provide more detail on our financial forecast, projected revenues and expenses and revenue raising alternatives being considered. More importantly, we hope to gather valuable input from you on how best to proceed.

We have always tried to manage the Village's finances very conservatively and in a fiscally responsible fashion. To that end, we spent the better part of the past year scrubbing every line item of expense that the Village incurs in an effort to cut costs and do things more efficiently. We have implemented many changes that will relieve the Village's financial burden going forward, but we are still projecting deficits of \$400,000 to \$500,000 per year as things currently stand.

As a final thought, this was not a fun letter to write but ignoring the challenge that confronts us was not an acceptable alternative. Council and I are committed to keeping you informed on these issues and we encourage you to contact us with any thoughts or ideas you may have. On behalf of all of us, thank you for your interest and involvement and we look forward to discussing these issues with you.

Very truly yours,

Bob Ranallo

Robert A. Ranallo