



**City of Loveland**

# **Citizen's Budget Guide**

*Election Edition*



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# Budget Overview

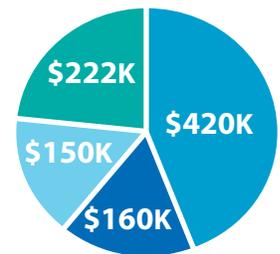
The City of Loveland faces budget deficits beginning in 2013, largely because of cuts imposed by the State of Ohio. Also, declining property values have contributed to the deficit. Loveland is not alone as many other municipalities find themselves in a similar financial situation.

By 2013, the City of Loveland will lose between \$950,000 and \$1,100,000 a year, creating a structural budget deficit for Loveland. This includes:

- The elimination of Estate Tax: \$420,000 per year
- A decline in property values: \$222,000 per year
- The reduction and probable elimination of Local Government Fund: \$150,000 to \$300,000 per year
- The elimination of Tangible Personal Property Tax: \$159,984 per year

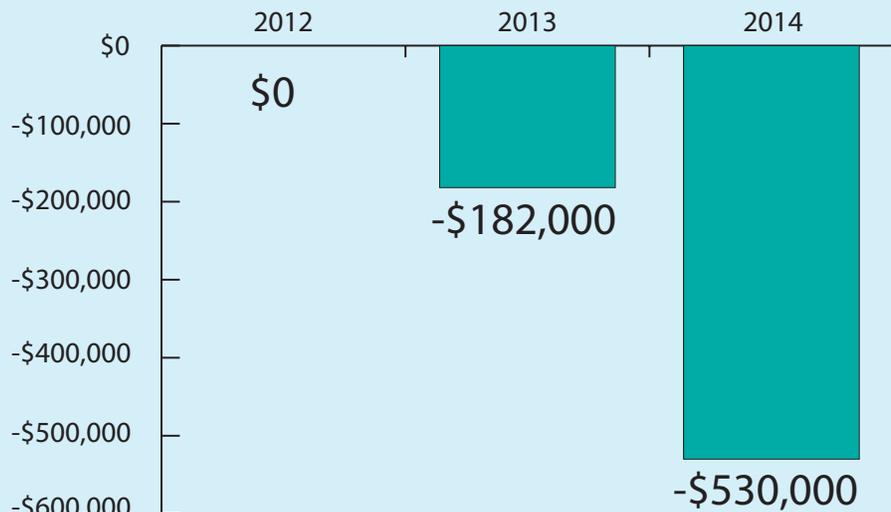
The loss of as much as \$1,100,000 in tax revenue per year means the City cannot continue to provide the level of services residents are used to because the City now has an ongoing structural budget deficit.

## ANNUAL REVENUE LOSSES DUE TO STATE CUTS



## LOVELAND'S ANTICIPATED STRUCTURAL BUDGET DEFICIT

A structural budget deficit occurs when the money the City receives in one fiscal year is less than the money it spends; a government can operate with a structural deficit for a while if it has cash reserves, but ultimately cuts in services have to be made or taxes raised to reset a structural balance. This graph shows Loveland's looming structural budget deficit, even after the City has cut more than 500,000 from its General Fund.



## Cuts Made to Date

The City of Loveland has been preparing for these looming budget challenges since 2010. Over the last three fiscal years, the City has cut more than \$500,000 from its General Fund, as detailed in the following table.

General Fund Budget Cuts	Year Cut Started	Annual Savings
Cuts in City employee benefits	2012	\$172,500
Outsource collection of income taxes	2010	\$100,000
Hold open a vacant full-time maintenance worker and police officer position	2010	\$70,000
Reduce energy consumption	2010	\$13,300
Outsource many Building & Zoning functions	2011	\$40,000
Reduce City facilities maintenance costs	2011	\$10,000
Reduce liability insurance premiums	2011	\$8,972
Discontinue Code Red Notification System	2011	\$5,100
Discontinue live telecast of council meetings	2012	\$38,000
Discontinue tuition reimbursement program	2012	\$13,000
Discontinue the printed resident newsletter	2012	\$12,000
Reduce organizational training	2012	\$10,000
Eliminate summer concert series	2012	\$9,000
Eliminate neighborhood grants	2012	\$3,000
<b>Total</b>	<b>2010-2012</b>	<b>\$504,872</b>

### BUDGET CUTS SPREAD BEYOND THE GENERAL FUND

The City's budget cuts are not limited to the General Fund. Decisions made at the State level have also impacted the Loveland-Symmes Fire Department, which will forego contractual wage increases in 2013 and 2014 due to the budget issues. More cuts will be made to the funds that support the LSF and other funds as State support continues to dwindle.

Had the cuts made by the State of Ohio not been so severe, or had the reductions in property values not been so sharp, the cuts already made would have been sufficient to avoid a structural budget deficit. Unfortunately, this loss of revenue is deeper than expected.

## Despite Cuts, Future Deficits Exist

Even with more than half a million dollars in budget cuts made already, the City faces revenue losses that are worse than expected. Due to factors outside of the City's control, the Loveland community must now decide between two unfavorable alternatives: cut services significantly or pay more in taxes to maintain current service levels.

In 2013, the City forecasts a structural deficit of \$182,000 in the General Fund, which will grow to \$530,000 by 2014. Without additional revenue, the following cuts will be made between 2013 and 2014 to restore balance to the City's budget:

- Cut three part-time police officers, the equivalent of one and one-half full-time police officers in terms of staffing hours;
- Layoff one full-time police officer;
- Cut road resurfacing funding by 50%;
- Layoff one full-time street maintenance worker;
- Eliminate the Assistant City Manager position;
- Discontinue the summer internship program for Loveland High School alumni;
- Eliminate the City's beautification program, Veteran's Memorial planting, and employee training;
- Cut the Fourth of July fireworks and parade.



*Community Resource Officer Chad Caudell helps a child ensure his bike is safe for riding.*

Even after these cuts are made, further reductions will be necessary in 2015 and beyond to maintain a structural balance. Declining revenue therefore impacts the full range of Loveland services, including policing, parks and leisure, building and zoning, administration, finance, and street maintenance. Moreover, firefighting and emergency medical services are also indirectly affected, as these services have other planned cuts in 2013 and 2014.

## PROJECTING THE DEFICIT

The numerical figures contained throughout this guide are based on the following assumptions:

1. Healthcare premium costs rise 10% in 2013 and again in 2014.
2. The City provides a 2% wage increase in 2013 to match union and non-union employee wages. No wage increases are expected in 2014.
3. The Fire and EMS funds provide no administrative transfer in 2013 and 2014. An administrative transfer occurs when the Fire and EMS funds transfer money to the General Fund to support overhead benefitting Fire and EMS.
4. The General Fund transfers \$75,000 in 2013 and \$277,136 in 2014 to the Fire and EMS funds to cover their deficits.
5. The LSFDForegoes its 5% contractual increases in 2013 and 2014.

## HOW YOU HAVE HELPED

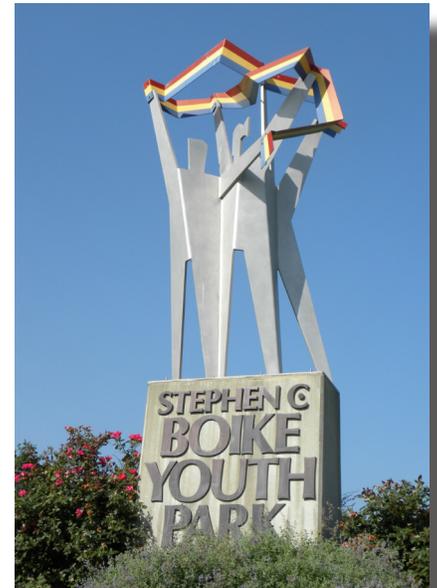
Last summer, the City asked residents to come up with solutions to deal with state revenue cuts. Randomly selected Loveland voters were chosen to participate in focus groups in which they discussed possible budget cuts to combat state-imposed cuts in revenue. By the end, however, residents found that budget cuts alone were not enough to structurally mend the budget deficits, but that an increase in revenue would be the best option.

## The Choice is Yours

On November 6, residents will vote on an income tax increase which would raise Loveland's income tax rate from 1% to 1.25%. Commuting residents would continue to get a full credit for taxes paid where they work and retirees who have no earned income would still not have to pay any municipal income tax.

If approved in November, this increase would bring in an additional \$857,309 annually, enough to cover the looming deficit. More than half of the additional tax revenue would be paid by non-residents who work in Loveland.

Without the additional revenue from income taxes, Loveland will be forced to make significant service cuts that will noticeably alter the level of public service that residents have become accustomed to receiving.



# Breaking Down The Cuts

Starting in 2010, the City of Loveland has made budget cuts to prepare for State-imposed decreases in local revenue. In the past three years, the City has managed to cut more than half a million dollars just from the General Fund. These cuts in revenue are not just in the City's General Fund, but they're also in the three property tax funds that support the Loveland-Symmes Fire Department.

*Unfortunately, these savings are not sufficient.*

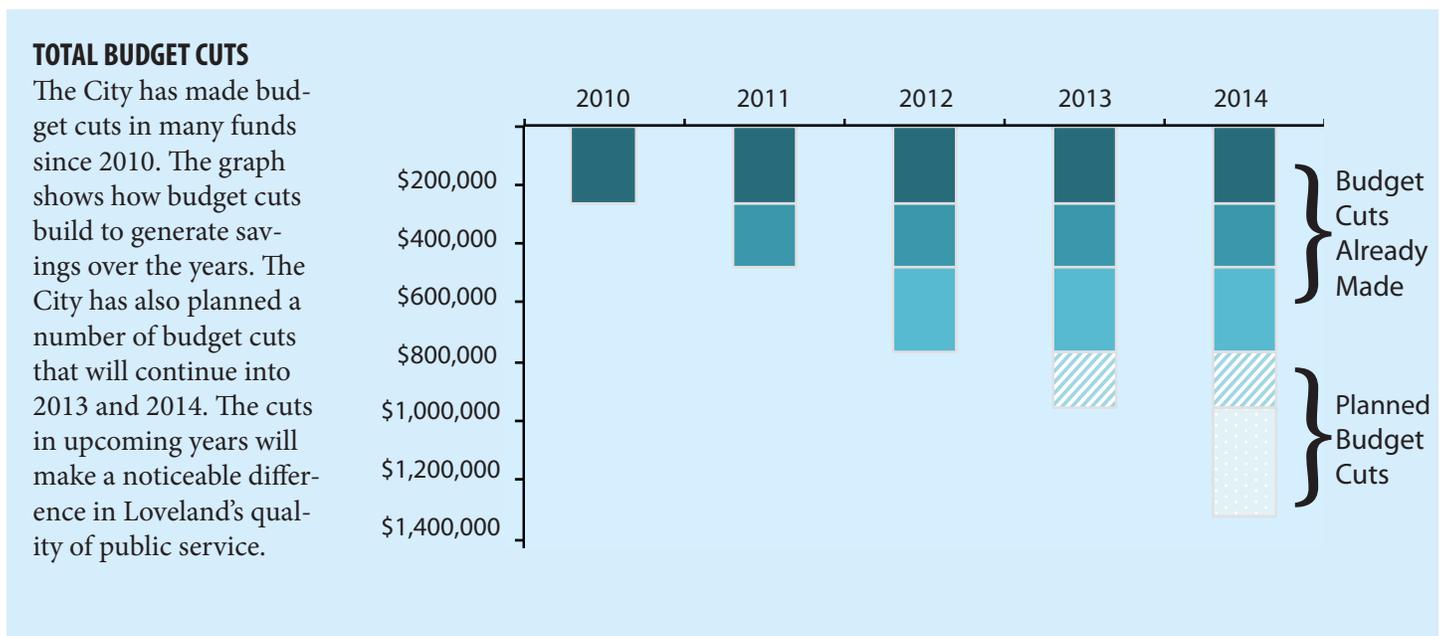
Without additional revenue, additional cuts will be necessary in 2013. Deeper cuts will happen in 2014, building upon budget reductions already made between 2010 and 2013.

## PROACTIVE COST-CUTTING

1. Control personnel expenditures
2. Outsource services where possible
3. Defer planned expenditures
4. Engage residents

## Controlling Personnel Costs

Local government is people-intensive, and the greatest single cost driver for expenditure growth is personnel costs. Since 2008, the City has reduced personnel costs by almost \$300,000, while continuing to give employees reasonable cost-of-living increases. Loveland's personnel savings have come from proactive cost-cutting.



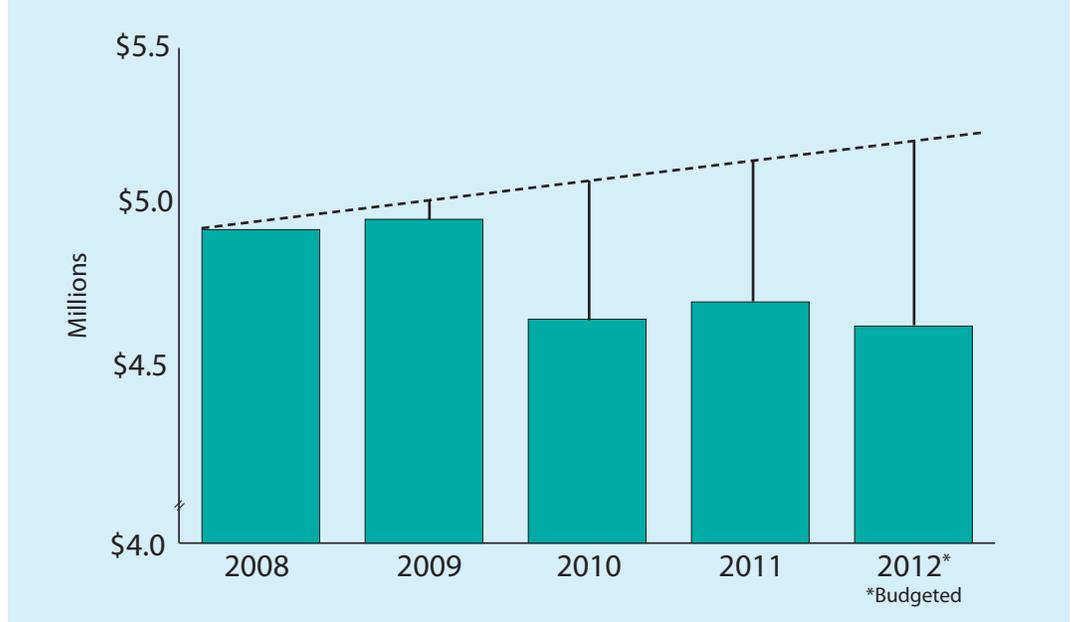
This deliberate cost-cutting strategy reduces City employee benefits and training. Over time, reduced training leads to decreased efficiency and effectiveness. Eventually, the City will notice the effects of these personnel cuts.

**PERSONNEL SAVINGS**

- Reducing the City’s workforce by 10% without layoffs
- Switching employees to a high-deductible health insurance plan
- Investing in wellness
- Emphasizing workplace safety
- Phasing out longevity pay

**PERSONNEL EXPENDITURES SINCE 2008**

Loveland has steadily reduced the costs of labor since 2008, realizing nearly \$300,000 in savings. If the City merely adjusted for inflation over the last few years, its personnel expenditures would be near \$5.2 million (shown with dashed line) in 2012 instead of \$4.6 million.



**WHAT IS CONTRACTING OUT?**

Contracting out, also known as outsourcing or privatization, refers to when a third-party provides a service instead of city employees. These third-parties operate on a contractual basis.

**Contracting Out Services**

Income tax, building and zoning inspections, and property maintenance services have been contracted out, and a number of smaller programs and services eliminated. This selective method of moving labor outside of the City saves valuable time and labor, realizing great savings for Loveland.



*A nice summer day in downtown Loveland.*

For example, in 2010 the City switched to the Regional Income Tax Agency (RITA) to collect income taxes. In doing so, Loveland has saved almost \$100,000 annually in collection costs since 2009. Furthermore, the City has also realized more than \$40,000 in savings annually by outsourcing building and zoning inspections and property maintenance services. While these savings help fill gaps in the budget, they are only short-term solutions. Further outsourcing will be difficult to achieve; the low-hanging fruit has already been plucked.

## Deferment of Capital Purchases and Road Maintenance

In addition to direct cuts, the City has also delayed equipment purchases. While delaying the purchase of new equipment is necessary to balance the 2012-2014 budgets, this does not solve the structural deficit either. It merely fills in the gaps temporarily.

Instead, this strategy means crews have older and less reliable equipment, which over time will negatively impact service levels because older equipment will require more repairs and will be unavailable due to breakage. The purchase of more than \$800,000 in equipment purchases cannot be avoided forever; eventually these purchases will have to be made and the costs incurred.

The City has also deferred road maintenance. To maintain the 104 lane-miles of roads within the City of Loveland, the annual road program budget should be approximately \$700,000 to \$750,000 each year (at today's value). The City of Loveland only has \$353,000 in the budget for the 2012 annual road program, already deferring a significant portion of road maintenance this year.

The cost of deferred road maintenance does not just get carried forward year to year. The costs of future road work will increase, not just because of inflation, but as surface maintenance is delayed, additional damage spreads into and throughout the aging pavement. Cuts by the State and decreases in property tax revenues affect the City's ability to properly fund the annual road program.

Capital	Amount Deferred
Ambulance	\$200,000
Dump Truck	\$95,000
Two Public Works Pick-up Trucks	\$40,000
Fire/EMS Small Equipment	\$175,000
Fire Engine Replacement	\$310,000
LSFD Staff Vehicle	\$30,000
<b>Total</b>	<b>\$850,000</b>



*Children visit with the Loveland-Symmes Fire Department to learn about fire safety.*

# A Look Ahead

## *Planned Cuts for Future Deficits*

### **LOVELAND'S PERFORMANCE DIVIDEND**

The City of Loveland has been collecting performance measurement data for the last six years. Measuring dividends is increasingly important in guiding operational decisions due to budget constraints. The benefits that residents receive from Loveland's municipal services can be thought of as Loveland's performance dividend. More information on this topic can be found at [www.lovelandoh.com](http://www.lovelandoh.com).

When facing a structural deficit, a public or private organization must reduce its structural costs. One-time solutions such as further delaying equipment replacements will not solve structural deficits and can only be used as temporary measures. There is only one viable way to restore structural balance without structurally increasing revenues: a significant reduction in force.

Even with all of the savings to the General Fund outlined in the previous chapter, Loveland will still experience a structural budget deficit. Without additional revenue, the City will need to cut over \$550,000 of expenditures in the upcoming two years. However, plugging these holes still only temporarily fixes the City's budgetary problems, leaving Loveland with a growing structural deficit. Eliminating further positions will in turn have significant implications for the service levels the City of Loveland provides. A strategic choice must therefore be made to decrease service levels if current and pending revenue losses are addressed only by service cuts.

Since 2010, the City has already cut staffing by 10%, and further staff reductions will reduce the City's workforce by another 10%, thus doubling the overall reduction. Further cuts will be necessary in 2015 and beyond, including the elimination of the Management Analyst, reducing another police position, and more cuts to the road program. Even with these additional cuts, future deficits will exist.

## **Service Impact**

It is difficult to forecast all the consequences service cuts will have on Loveland residents and over Loveland's collective quality of life.

Police staffing will be decreased by as much as 20%, increasing response times to crimes and leaving fewer resources to prevent crime in Loveland. To make up for a loss of patrol officers, the dedicated detective position will be eliminated, meaning that cases would only be investigated as far as officers could while on patrol. Fewer crimes are likely to be solved without this dedicated detective assignment. The City of Loveland already spends less per capita on policing services than our benchmark cities, and even less than other communities under 25,000 in size.

Firefighting and Emergency Medical Services also will be reduced. Response times will be longer because fewer personnel will be available to respond to critical incidents. The Loveland-Symmes area will have increased periods of time when LSF

2013 Planned Budget Reductions	
Eliminate the Assistant City Manager position*	\$116,000
Reduce Road Rehabilitation Program	\$25,000
Eliminate the Beautification Program	\$19,850
Cut training budget from 2012 levels, which have already been reduced.	\$12,500
Eliminate Fourth of July event	\$9,000
2013 Subtotal	\$182,350
2014 Planned Budget Reductions	
Further cut Road Rehabilitation Program	\$115,000
Reduce by 50% all part-time police officer hours (the equivalent of 1.5 full-time positions)*	\$100,000
Eliminate one full-time police officer position*	\$95,000
Reduce road salt purchases	\$52,028
Eliminate one Street Maintenance position (portion of salary from the General Fund)	\$8,972
2014 Subtotal	\$371,000
<b>Total Planned Future Budget Cuts</b>	<b>\$553,350</b>

## PLANNED CUTS

Should residents opt to move forward with service cuts, the City of Loveland has outlined planned cuts and expenditures in 2013 and 2014.

\* Costs include wages and benefits

personnel are out of district on transport to hospitals as a result of the loss of peak time staffing. Having fewer firefighters ready to respond immediately puts the City of Loveland at higher risk for fire and medical incidents.

Residents will immediately experience the reductions in snow removal in 2013, potentially causing more school cancellations, traveler inconveniences, business disruptions, and motor vehicle accidents. Eventually, roads will begin to erode and deteriorate as road resurfacing frequency decreases. It is recommended that roads are resurfaced every 17 to 24 years. Over the last five years, Loveland has averaged a 32-year paving cycle, which means we are already falling behind.

The City Manager's Office will go from a proactive, performance measurement agent to a complaint response and resolution office. Services that set Loveland apart such as economic development, public information, neighborhood outreach program, website and e-news, and various special projects will be discontinued.

# The Choice is Yours

## WHAT IS A CREDIT?

A person pays income tax first where they work and second where they live. A credit insures a taxpayer against double taxation. This means that if you live in Loveland but commute to Blue Ash, you pay the City of Blue Ash 1.25% of your income and, since Loveland has a full 1% credit, you pay nothing to Loveland. Without the credit, a Loveland resident working in Blue Ash would pay 1.25% to Blue Ash and 1% to Loveland at today's tax rate.

## ADDITIONAL REVENUE

Loveland's median household income is \$68,801 according to the 2010 U.S. Census. This means that the average household in Loveland would pay an additional \$172 in income tax per year under the proposed increase.

The tax option on the ballot in November would increase the income tax rate from 1% to 1.25% and maintain a full credit of 1.25%. This increase would capture additional revenue from all people working in Loveland. Moreover, the increase would collect additional revenue from residents who work in a city with an income tax rate less than 1.25%.

## Principles behind the Increase

The City considered several options before deciding to ask voters to consider increasing the income tax rate. The City decided not to pursue any of the alternative options, favoring an option with only a relatively modest amount of additional revenue. The City had several principles behind this decision:

- The City's income tax rate is amongst the lowest in the region, and even if increased to 1.25%, it will be below most other tax rates in our region at the present time.
- The number one suggestion from last summer's citizen focus groups was to increase the City's income tax rate.
- The majority of the new tax burden will be paid by non-residents of Loveland who work inside the City.
- Since this increase only affects earned income, retired residents on fixed income will not pay any additional taxes.
- The revenue generated from the increase will be sufficient to meet the expected losses, known and anticipated, but not substantially more than is needed to maintain today's service levels.

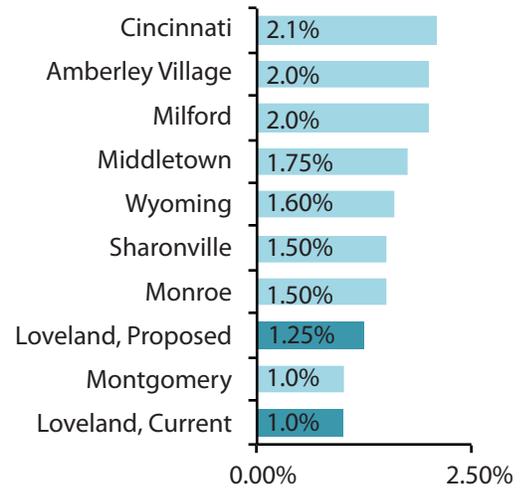
The City of Loveland has not altered its income tax rate of 1% since 1967 when an income tax was first established, and the revenue raising proposal will reset a structural balance to the City's budget.

## Tax Burden Relative to Comparable Cities

Today, the City of Loveland's 1% income tax rate places the City in the tenth percentile of tax burdens in southwest Ohio. This means that 90% of southwest Ohio cities have a higher tax burden than the City of Loveland. Most other cities in our region have a higher tax rate, do not offer a full credit for taxes paid elsewhere, or both.

If voters approve raising Loveland's tax rate to 1.25% in November, Loveland will still have a relatively low tax burden with 75% of southwest Ohio cities having a higher tax burden than Loveland.

There are some resident commuters who today enjoy the full 1% credit. If the Loveland income tax rate rises to 1.25%, the tax credit will automatically increase to 1.25%. Residents who pay 1% to their work communities (e.g. Mason or Montgomery) will continue to pay 1% there, but will pay the City of Loveland 0.25%, for a total tax rate of 1.25%. For those who work in communities with a 1.25% income tax rate or higher (e.g. Cincinnati = 2.1%, Sharonville = 1.5%, Blue Ash = 1.25%) they would not have a tax increase because they already pay 1.25% or more to the community where they work.



## The Choice is Yours

The City of Loveland has not raised its income tax rate since it first adopted an income tax in 1967. Any increase in the rate above 1% has to be approved by the Loveland voters. Therefore, this November, residents must make a tough decision: experience deep service cuts or pay more in income tax to maintain current service levels.

Loveland understands that this decision is not an easy one to make. With voter fatigue over state and federal spending, it is easy to lump the City in with distant, less responsive government entities. However, the City of Loveland does not need this revenue to make up for inefficiencies, but to maintain basic service levels that residents have become accustomed to receiving.

This November, the City is asking residents to consider the difference that lower service levels will have on Loveland's quality of life. Loveland urges residents to vote this November 6.

After all, the choice is yours.

### HOW DO YOU MEASURE TAX BURDEN?

It is difficult to make apples-to-apples comparisons of income tax rates because of variations in rates and credits. The City of Loveland created a metric called the Tax Burden Overview (T-BO). The T-BO combines the income tax rate and credit for one score. The higher this score, the higher the overall economic burden of the tax is in the community. A full chart showing all comparable cities can be found online at [www.lovelandoh.com](http://www.lovelandoh.com).

