

CITY OF FRANKLIN
1 Benjamin Franklin Way
Franklin, OH 45005
(937) 746-9921

July 23, 2010

To: All City of Franklin Residents
From: James Lukas, City Manager

Re: Proposed Income Tax Increase

Dear City of Franklin Residents,

On November 2, 2010, you will have the opportunity to vote for an income tax rate increase of one-half of one percent (1/2%) – the City’s first income tax increase since 1975. This letter is being sent to provide you with some preliminary information regarding that request.

Why an income tax and not a property tax?

An income tax increase was chosen because it impacts the smallest number of Franklin residents. Rather than pursuing a property tax increase that would impact all Franklin property owners, including those who may be unemployed or on fixed incomes, an income tax increase will only impact a minimal number of residents – and not those who may be unemployed or on a fixed income as explained below.

Who pays the Franklin Income Tax and what is taxed?

It is estimated that the vast majority of people – over 70% -- paying Franklin’s income tax are those who live in other communities.

The City’s income tax is paid by people: 1) who earn wages in Franklin, but may live elsewhere and 2) who work in another community that has a lower tax rate than Franklin. City residents who pay income tax to another municipality get a full credit for that local tax, up to the City’s rate.

Many City residents in the workforce will be unaffected by this proposed increase. Most cities in our region already have the same or larger income tax rate than what Franklin is proposing. For example, for those who work in Dayton or Cincinnati, which both have income tax rates over 2%, you are already paying more than Franklin’s proposed 2% rate; therefore, you would not have to pay Franklin anything at all with this increase (see chart below for other comparisons).

How would Retirees be affected by an income tax increase?

Only EARNED income is taxed. Traditional retirement income from pensions, Social Security, investments and interest are not subject to local income tax in Franklin. As a result, retirees would be unaffected by this rate increase.

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How does Franklin's Income Tax Rate compare to others?

Franklin's current 1.5% income tax rate is low compared to others in our region:

City	Tax Rate as of 01/01/11	Date of Most Recent Increase	Year of Previous Tax Increase	Credit for Tax Paid to Other Cities
Dayton	2.25	04/01/84	1974	Yes
Cincinnati	2.10	07/01/88	1973	Yes
Hamilton	2.00	06/01/90	1984	Yes
Kettering	2.25	01/01/06	1981	Yes
Miamisburg	2.25	05/04/10	1977	Yes
Englewood	1.75	12/01/78	1971	Yes
Centerville	1.75	10/01/81	1970	Yes
Oakwood	2.50	10/01/84	1975	Yes
Springboro	1.50	07/01/88	1978	1% - 2004
Troy	1.75	01/01/93	1989	Yes
Trotwood	2.25	07/01/93	Unknown	Yes
Riverside	1.50	07/01/00	1994	Yes
Fairborn	2.00	01/01/05	1976	Yes
Moraine	2.00	01/01/05	1992	Yes
W. Carrollton	2.00	01/01/05	1978	Yes
Vandalia	2.00	01/01/06	1983	Yes
Huber Hts.	2.00	01/01/09	2006	Yes
Middletown	1.75	01/01/08	1969	Yes
Average	1.98			

Franklin's ½ percent increase will put our rate at the average of all the cities above -- 16 of the 18 cities listed above currently have higher income tax rates than Franklin. The City of Springboro has the same rate, but they made a tax credit change in 2004, meaning they no longer provide a full credit, like Franklin does, to their residents who work outside their community.

How has Franklin lasted 35 years without an increase when others have needed one?

Seven items have contributed to not having to ask for an increase in so long – through the years, the City has had: the support and trust of the community; a conservative-spending approach on basic governmental services; fiscally-prudent staffing levels; minimum fund policies; a proactive grant application mindset; a proactive economic development approach; and significant budgetary cuts and changes/one-time only approaches to the annual budget.

What has prompted the City to ask for a rate increase at this time?

35 years is a long time. As shown above, most cities in our region have already raised their rates to a level that we are now proposing or even higher. The City has recently witnessed a significant decline in income tax revenue, which typically accounts for approximately 70-75% of the General Fund (see chart below).

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Year	Collection
2006	\$6,449,418
2007	\$5,469,939
2008	\$5,830,431
2009	\$4,954,227
2010	\$4,954,227 (\$16,000 short through June)

The amount of income taxes collected last year (\$4,954,227) was nearly \$1.5 million less than what was collected in 2006. To date, this year’s collection shows the same pattern. In fact, last year’s collection was only 3.3% higher than the amount collected in 2003 (\$4,796,455).

At this point, revenues are not keeping pace with the cost of providing services we believe residents deserve. The ongoing poor economy has only magnified this problem. Cash reserves have been used to bridge the gap between revenues and expenses, but the reserves will soon be depleted if corrective action is not taken. The primary reason to have a healthy reserve balance is the same reason individuals maintain savings accounts – to be used in case of an emergency. For a City, this might include the ability to manage a natural disaster, cope with the sudden loss of a major employer or overcome the elimination of a revenue source like state funding. In addition, a City bond rating is affected by its reserve level. This is very important because a bond rating influences a municipality’s credit rating and its ability to issue debt for major projects.

The City has two options: continue making cuts in services and needed infrastructure maintenance or ask residents for an increase that will restore and maintain our services and infrastructure, such as roadways, at a quality level. We do not want to be in the position that other area cities are in with deteriorating streets and other infrastructure. Once at that point, it is difficult, and costly, to recover.

How much will the proposed increase cost a resident earning \$50,000/year?

Depending on where residents work, most people will only be minimally impacted or not impacted at all.

City of Employment	Weekly Impact
Franklin	\$4.81
Dayton	\$0
Cincinnati	\$0
Kettering	\$0
Hamilton	\$0
Miamisburg	\$0
Centerville	\$2.41
Moraine	\$0
West Carrollton	\$0
Fairborn	\$0
Middletown	\$2.41
Springboro	\$4.81

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Any resident who works in another community and would like to learn the impact that this increase will have on their situation can contact me at 937-746-9921.

What are some of the things the City has done to control spending?

In the past few years, the City has significantly cut costs and mandated changes. For example, the employee's health care benefits have been reduced at the same time when their financial contributions to the coverage increases. We are the only City in Warren County that has mandated a High Deductible Health Insurance Plan/Health Savings Account for our employees. In addition, the City has eliminated or not replaced numerous full-time positions, limited overtime, and postponed or cancelled much-needed infrastructure and residential street paving projects. These efforts, however, have not been enough – revenue must be increased or significant service cuts (e.g., winter plowing and salting; police and fire response times; pool hours; leaf pick-up program; residential street-paving and infrastructure maintenance; park maintenance; property maintenance/high grass enforcement efforts; special events; office hours; and personnel cuts) will need to be considered.

My Commitment to you:

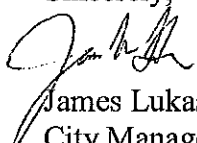
I have been your City Manager for nearly 14 years and love this community. Franklin truly is the hidden gem in the Dayton region, primarily because of our residents. We have always tried to keep our tax rates as affordable as possible, while continuing to provide you with the quality services that you deserve.

Given the impact that this economy has likely had on your household, it shouldn't come as much of a surprise that the City is also going through a challenging time. We have not had an income tax rate increase since 1975. This proposal was a difficult, but needed, decision -- it was chosen because it will impact the smallest number of City residents. Assuming the levy passes, the City will still have many tough decisions to make to achieve long-term financial viability. You have wonderful employees throughout the various City departments who are committed to providing you with quality services but, to do so, additional revenue – that many other cities have already been receiving for some time – is needed.

Due to the City's financial condition, I have already asked City Council to freeze my current salary for the next year. If the community passes this levy request, in addition to not accepting a salary increase, I will also be reducing my wages by 5% for each of the next two years. This will be my way of "giving back" to this great community!

Additional information regarding the income tax issue will be placed on the City's website and in future newsletters. As always, feel free to contact me at 937-746-9921 if you have any questions.

Sincerely,


James Lukas
City Manager