

City of Hilshire Village Tax Rate for 2010 (finance FYE 2011)

28 SEP 10

What are Property Taxes for?

These monies are to run the City on a day-to-day basis; to provide basic services: police, fire protection, trash collection (these are referred to as health and safety requirements, the basis of government). To ensure the bills get paid, we have an office and small staff to handle utility billing, building permits and inspection fees, daily service requirements of the residents, maintenance of the Village records, ensuring the Village is in compliance with State regulations, and attendance at all Council sessions. The monies we are discussing for these particular tax purposes are the property taxes not used for debt service. These monies can be spent in any manner the Council directs, but are generally used as described unless surpluses exist that we can dedicate or transfer to capital projects. ***Keep in mind that our cost of fire, police and trash collection is currently \$555,000. Our rollback tax rate will furnish us with \$540,000 in revenue.***

How did we get here?

Since before 2000 HV enjoyed steadily rising tax valuations. For many years we adopted the minimum tax rate (the “effective rate”) which enabled us to say we were not raising tax RATES, although we were collecting significantly more money and we actually built surpluses. When we lost the Hilshire Building, we lost about 10% of our tax base. In an attempt to offset this 10% loss, the City began levying the not-quite 8% “rollback” tax rates, to collect additional operating funds. Looking back, one can see that chasing a loss of 10% with a gain of 8% is a challenging proposition. All the while our property valuations continued to rise, but our operating costs increased faster.

When I was elected Mayor in 2005 we changed the way we looked at the Budget so that Council could clearly see our GENERAL FUND activity and true revenues, unclouded by Metro funding or miscellaneous funds that were dedicated and unusable in the General Fund operations. It was a very eye-opening exercise for us to see the true financial situation of the City.

We have known, and those of you whom have read my first few years of “reports” published in the HV Newsletter and hand delivered to each residence have heard all this before,

that our Property Taxes are not great enough to pay for the most basic requirements of government: health and safety – police, fire and trash.

Last year we could no longer afford to let the trash cost be covered by taxes and we began charging part of our cost directly to the users in a “fee”. This year we will have to collect the full cost and still we will not have enough for the rest of the normal expenses we must cover.

Why did we not forestall this calamity earlier?

The answer is in tax law: that if we raised taxes more than the “rollback” rate we risked an election for an up-or-down vote on the tax rate. The larger calamity would come with a “failed” election.

Here’s how it could be envisioned: The tax rate would be set in October, taxes collected beginning in December, opponents of the rate would file for an election in January, taxes continue to be collected in January and February, and the election would occur in May. If the election produced an overturn of the tax rate, the City would then be forced to refund the difference. That would cost an undetermined amount of money and further reduce our bank balance.

The choice was onerous either way. The default answer is: that until the pot was empty the City didn’t HAVE to raise rates above the rollback limit. City Council knew this was coming. A tax raise was actually mentioned in the last two or three Budget years, but we did not take action on it primarily because of the risk of a failed tax election. Perhaps we also believed something would happen to future valuations to save us.

What about Expense Cuts?

Naturally the first things we look for to mitigate the deficit are expense cuts. Before I sent this Budget to Council, the City Secretary and I pulled out as much extraneous spending as we could without hard Council approval. In our Budget meetings we were able to make other cuts recommended by Council. We are still under water. To reestablish our operating safety net of about \$200,000, expense cuts alone cannot make a dent in the requirement.

We have decided that the minimum requirement of three months of operations funding is our goal for now. That amounts to almost \$200,000 that we need to raise. Part of what we are here for tonight is to determine if that amount should be collected in one, two or how many years? The longer it takes to raise the funds, the more perilous our fiscal standing is. Keep in mind that we will still have expenses that need to be paid for even as we continue to fund our safety net.

What can we do?

The true long-term issue underlying the “smallest of the Memorial Villages” is one of revenue generation, while remaining vigilant on expenses. We have established and developed a City with no significant means of revenue collection beyond Property Taxes. We can make massive expense cuts in controlled expenses and only effect about 8% of the total. Over 92% of our expenses are carefully outsourced, competitive and of fair value.

As this year closes, the nest egg is gone and we can see the bottom of the pot. We will have an unacceptably low “emergency fund” or “rainy day fund” at calendar year-end. Our fiscal situation is projected to be poor by any responsible homeowner’s standard. We must raise tax rates now, it is necessary and we believe our citizens will understand this; and vote to allow this rate to go forward if an election is called.

CAPITAL PROJECTS are coming our way...

Capital projects can be funded from the General Fund, but we seldom use that source (and certainly not now) because we have other, “restricted” or “dedicated” sources of funding. We have about \$1.5 million in Metro funds; around \$450,000 in the Utility Fund for water and sewer lines; and we are working on obtaining about \$3 million in grants primarily for street and drainage renovations. These projects move agonizingly slowly, but we are actually getting close to seeing something happen. Announcements will be made as projects are engineered and bid.

Robin S. Border, Mayor

City of Hilshire Village