

THE TAX ATTACK

Chapter IV

Over the past several months, in an effort to update Village residents about the ways in which their tax dollars are spent, I've written about the cost of conducting the business of Gates Mills. While total operating costs of \$4 million are considerable, they are not extraordinary. Among the 14 communities we look to for comparative data, there are nine whose operating budget exceeds ours. (Please remember my earlier comments concerning the difficulty of meaningful comparisons.) More important and most significant, the Village consistently operates within its Council approved and statutorily mandated balanced budget. All of which leads to questions regarding the sources of revenue that fund that budget.

Broadly, the categories of revenue, in no particular order, are fines and costs, licenses and rentals, interest, income and other taxes, inheritance taxes and real estate taxes. The first three of those are not significant in the big picture and so I shall not dwell on them, although I'd be happy to answer any questions concerning them. Income and other taxes and real estate taxes constitute 91% of the Village revenue budget.

The least predictable of the significant revenue sources is inheritance tax. Over the last 26 years these have averaged almost \$460,000, but in several years the actual amount was \$200,000 or less. Simply said, annual State inheritance tax income, which is transmitted through County government, is unknown until the check arrives. Historically, all inheritance taxes are placed in the capital improvement fund and thus do not offset operating costs. The same is true for gas well revenue. That fund currently has a balance of \$1.5 million. It represents the vast majority of the Village's funds available for emergencies such as repairs to and replacement of roads, culverts, the Village Hall and the Community Building. Planned expenditures for those purposes will soon deplete that balance.

Municipal income taxes and our share of State sales and other taxes approximate 37% of the budget. The only control available to Council for these items is the rate of tax and the rate of credit against Village income tax for employment taxes paid by residents to the community in which they are employed, both of which have been unchanged since our tax was enacted in 1968. Today other communities are considering increases in income taxes to levels greater than our current one. Because there are only a few businesses operating in the Village, this income is unlikely to change in a meaningful way, short of a tax increase or credit decrease.

The remaining 54%, or \$2.35 million, of revenue is from real estate taxes. You may think that total small in relation to the real estate tax each of our almost 1,000 homeowners pays, but we must remember that the Village portion of our current real estate tax rate is only 20%, the balance being for State, Countywide and Mayfield School District levies. While we periodically vote on those "other" tax issues, our limited number of voters means that we have very little impact on the outcome of the vote to enact those taxes. Gates Mills does not have a lot of new residential development and so tax growth is only incremental, even though total taxable property value continues to rise. Real estate tax revenue can only rise as new taxes are voted. Renewals of existing tax levies by law do not raise more money from current homeowners. The total dollar value of a tax levy is fixed at the time it is approved. Only through additional construction can taxes increase unless new levies are voted.

With regard to these levies, each mill of taxation (.0001) produces about \$221,500 of revenue. Existing levies are for 3 mill, 3.5 mill and 3.42 mill and expire in 2008, 2010 and 2011 respectively. Altogether the levies provide slightly more than half of the Village operating budget. In addition, the Village has a 1 mill levy dedicated to land conservation and administered currently by the Gates Mills Land Conservancy that has used the funds to protect vulnerable parcels in our community.

The question continually examined by those of us volunteering in Village governance is, given inflation and modest revenue growth, how do we fund ongoing service levels and, if we cannot, which services are to be cut. Next month I'll share information concerning the use of borrowing to fund some of our costs. In the interim, I invite you to visit the Village web site (www.gatesmillsvillage.com) or to contact me at rsrform@core.com. For those of you without internet access, you may call me at 440-423-0792. Please feel free to ask your questions. Only through information can we make good decisions about a very special village.

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