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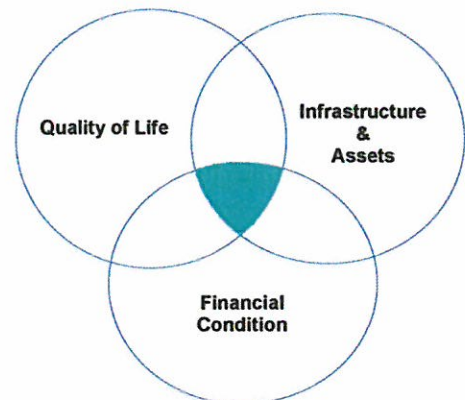
**DRAFT ONLY**  
**Income Tax Credit Reduction**  
**Frequently Asked Questions**

City Council has begun discussions on a proposed income tax credit reduction and is seeking citizen input before making a decision about whether or not to put the measure on the November ballot. The tax credit reduction is being considered to cover the funding gap between the improvements that citizens continue to request and the current level of funding available. Below is information about our finances and what makes a healthy community, what a tax credit reduction is, and answers to questions we've received during public meetings and from citizens.

**1) How is quality of life achieved and maintained in a healthy community?**

To maintain a healthy, successful community requires balance and interdependency among several factors. The three major elements create the rings of interdependency:

- **Quality of life:** Our strong schools, businesses, property values, open space, services, etc. are contributing to our high quality of life in Hudson
- **Infrastructure & Assets:** Maintain with level funding; invest and improve
- **Financial Condition:** Loss of State funding which requires new revenue growth and investment to create jobs and value.

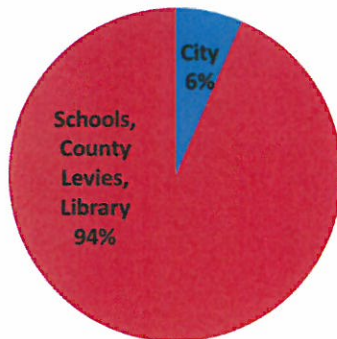


All are interconnected and we must stay somewhere near the middle to be a high performing city. If skewed in one direction either way, the health of a community declines. Maintaining this balance is the reason why Hudson is considering this action.

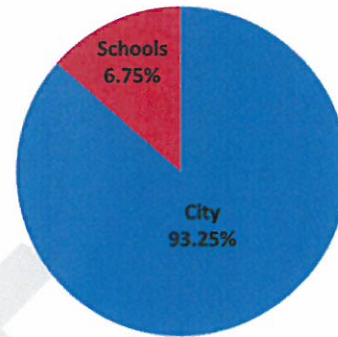
**2) What are the City's main revenue sources?**

Many residents think City services are funded through property tax, which really isn't the case. The City receives most of its revenue from income tax. Only a small percentage of property taxes goes to the City.

**Property Tax**



**Income Tax**



**3) Who pays income tax to the City of Hudson?**

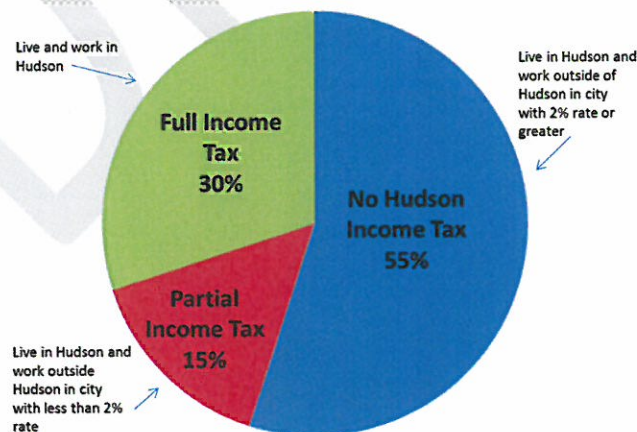
The City of Hudson has a 2% income tax rate that is payable on wages earned in the City. Residents who work outside of Hudson pay income taxes to the community in which they work. They currently receive a 100% credit for the taxes paid to their work community. Hudson residents who work in a City with an income tax rate of 2% or higher **pay no income taxes** to Hudson.

**4) What percentage of those paying income tax to Hudson actually live in Hudson?**

Approximately 30 percent who pay income tax live in Hudson, with 70% living outside of Hudson.

**5) Of those living in Hudson, who actually pays income taxes to Hudson?**

Due to the 100% tax credit, 55% of those who live in Hudson pay no income tax to the city for city services.



**6) What is the city's current financial situation?**

The State of Ohio reduced the amount of Local Government funding the City received from the state by \$400,000 annually. In addition, the State Legislature eliminated the estate tax, which reduced the City's revenue by an additional \$1.4 million per year. This permanent \$1.8 million loss reduced the City's annual General Fund revenue by approximately 10%. In addition, the City's General Fund investment income has declined more than \$650,000 per year due to historically low interest rates. Many cities have already either increased their income tax rate or reduced the credit due to the revenue reductions or are considering an increased income tax rate or a reduction in the tax credit.

**7) How has the City resolved this lost revenue?**

The City has absorbed these funding cuts through many savings measures including:

- Cut over \$2 million from operating budget in staffing through attrition and job consolidations and reorganization.
- Took advantage of low interest rates to refinance debt aided by AAA bond rating.
- Transferred our sanitary sewer system and its liability to Summit County.
- Controlled personnel costs through reorganization and attrition.
- Generated savings through re-evaluating and eliminating underutilized software.
- Implemented LEAN training to drive efficiencies.
- Building a brine well to produce our own brine, which will reduce the cost of water treatment as well as snow and ice control.

Through fiscally conservative management we overcame this funding challenge and were able to maintain current services levels without going to the voters for additional tax revenue.

**8) What is the current financial challenge?**

Through the Comprehensive Plan process, Ward Forums, public meetings, requests for service and citizen surveys, we have heard the public wants more infrastructure system sooner than the current funding levels will provide. Infrastructure needs identified by the public are connectivity through sidewalks, hike and bike trails; improved roads and increased work on the storm water system. While we can maintain our current levels of service due to cutting our budgets to meet the decrease in State funding, we cannot move forward with infrastructure projects at the pace that citizens are demanding.

**9) How would additional funding help achieve the level of infrastructure improvements that citizens are requesting?**

As an example, the City is currently under a 34-year road replacement cycle, even though we have already increased annual funding for these projects.



Optimum road conditions would require a 20-year replacement cycle. What would a 20-year replacement cycle mean?

Road Replacement

- A 20-year replacement cycle would cost \$2.5 million a year.
- Currently, we have the ability to pay \$1.25 million a year.
- That leaves a funding gap of \$1.25 million annually.

Connectivity (connecting the community with sidewalks, bike & hike trails)

- At the current rate, it will take 30 years to complete the Connectivity Plan.
- With additional funding, it could be completed in 5 to 10 years so that those paying for it can begin to enjoy it now.

Infrastructure	Current Annual Funding	Citizen-Driven Project Funding	Funding Gap
Roads	1,022,000	2,150,000	1,128,000
Connectivity Plan	100,000	1,760,000	1,660,000
Storm Water	1,000,000	1,850,000	850,000
<b>Total Annual</b>	<b>2,122,000</b>	<b>5,760,000</b>	<b>3,638,000</b>

**10) Where do we start to look for increased revenue sources?**

To meet the needs of our citizens to move ahead with infrastructure improvements requires not only seeking savings and cost efficiencies in the City's operations but also requires seeking new revenue sources. The City has recently made investments in forward-thinking projects that will bring a return on investment, increase Hudson's quality of life, and generate new revenue. These projects include Velocity Broadband, Downtown Phase II, the Youth Development Center (YDC) development and others. Those will reap future benefits for the City's finances, but will not address the citizens' desires for completing the City's Connectivity Plan, for example.

- **Velocity Broadband**

Bringing high-speed fiber Internet to the City was a priority for Hudson businesses and for the City's economic growth. The City invested in building a Gigabit speed Internet service for businesses, with the goal of expansion to residents. This investment in the business segment alone is expected to pay for itself in approximately 5 years and then will bring in new annual revenue.

- **Downtown Phase II**

The development of 26 acres west of First and Main into commercial office space and varied residential housing for young professionals and empty nesters puts two prime tax-exempt properties back on the property tax rolls generating additional revenue for the schools and for the City through income tax. It increases the value of the land, creates jobs and retains jobs in the community. When built out it will add

income tax revenue through new jobs and property tax revenue increases.

- **Youth Development Center (YDC)**

The City purchased the YDC property primarily to prevent additional residential development and to increase job creation opportunities. There was a restriction on the sale that we could not change the property for at least five years. We are using many acres on the north side as park land, adding to the City's park acreage. Now, we are moving forward to develop the remainder of the property, ideally for a corporate headquarters or commercial office. When built out, additional income tax revenue will be generated through the new, higher paying jobs.

**11) What is an income tax credit reduction and what is being proposed?**

The City of Hudson has a 2% income tax rate that is payable on wages earned in the City. Residents who work outside of Hudson pay income taxes to the community in which they work. They currently receive a 100% credit for the taxes paid to their work community. If you work in a city with an income tax rate of 2% or higher, you pay no income taxes to the City of Hudson. The City is considering reducing the percentage of credit given for income taxes paid to other communities from 100% to 75% up to the city's 2% tax rate.

**12) Who will be impacted by the change?**

Residents who live and work in Hudson will not be affected, nor would those who are retired without earned income. Those who live in Hudson but work outside of Hudson will be impacted based on the current tax rate of the workplace city.

Examples based on an earned income of \$100,000 per year.

Scenario	Workplace Tax	Hudson Tax with current 100% credit	Hudson Tax with Proposed 75% credit
Live and Work in Hudson	\$2,000	\$0	\$0
Retired, No Earned Income	\$0	\$0	\$0
Workplace City has 1.5% rate	\$1,500	\$500	\$750
Workplace City has 2% rate	\$2,000	\$0	\$500

**13) Want to calculate how a 25% income tax credit reduction would impact you?**

Use the calculator below to determine the amount of additional income tax that would be due to the City of Hudson as a result of the reduced tax credit.

Enter your gross wages and the income tax rate for the community in which you work. The calculator should only be used by Hudson residents that work outside of Hudson. All other residents will not be impacted by the reduced tax credit.

*Note: The amount of tax credit you receive for taxes paid to your workplace community is limited to 2%. For example, if you work in the City of Akron you pay 2.25%. With the proposed reduced tax credit, Hudson would give you a credit for 75% of 2% of what you pay to Akron.*

**EMBED CODE:**

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<iframe src="http://gis.hudson.oh.us/TaxCreditCalculator/" style="border:
currentColor; width: 510px; height: 300px;"></iframe>
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**14) How was percent determined?**

The percent was determined based on infrastructure funding gaps in the citizen priority areas.

**15) How much additional funding will this generate for the City?**

Approximately \$3.6 million per year for a reduction from 100% credit to 75% credit.

**6) How will this additional revenue be used?**

The City's General Fund is the primary source for street construction and maintenance, sidewalks, bike and hike trails, and other needed infrastructure that impacts our quality of life. The additional funding from a tax credit change would be specifically allocated to infrastructure projects.

**16) What income tax credits do other cities give for residents who work outside the city?**

Approximately 52% percent of Regional Income Tax (RITA) cities have less than 100% tax credit. Citizens can visit the Regional Income Tax Agency (RITA) website and look at other city rates and credits. Some examples include

City	Tax Credit
Boston Heights	0%
Brecksville	87.5%
Chagrin Falls	75%
Chardon	50%
Cleveland Heights	50%
Orange	60%
Pepper Pike	50%

**17) Will this change require a vote of the people?**

Yes, our City Charter requires a change in income tax credit percentage to be approved by the voters of Hudson. If this initiative moves forward, we anticipate it being on the ballot in the November 2016 General Election.

**18) Why not consider an across the board income tax rate increase?**

A tax credit reduction was considered instead of an overall rate increase because we had a rate increase in 2004 which largely affected those residents who live and work in Hudson. Many of those who work outside of Hudson were not impacted by the previous rate increase. The reduction would help even out the increases to everyone across the board.

**19) How will the projects be prioritized?**

If Council decides to place the measure on the ballot, the revenue generated from the ballot measure would be set aside specifically for infrastructure projects.

**20) How many members on City Council will this tax increase affect?**

Over 50% of Council members and the Mayor and their families will be impacted by the change in the income tax credit.

**21) Why can't the City fix the roads with the money I already pay in income tax?**

If you live in Hudson and work outside of Hudson your income tax dollars are going to the City where you work, so essentially you are paying for that city's roads. The tax reduction will affect those who work outside, but use Hudson streets, parks, trails, and sidewalks.

Currently, the City can fix the roads at a current road replacement schedule of about 34 years and we will continue to do so. We also allocate approximately \$100,000 a year to sidewalks and trails. To get to the citizen requested 20-year road replacement schedule and to complete the City's Connectivity Plan in approximately 5 years instead of 30 years, the City will need additional funding.