Hamilton County

County Administrator

BOARD OF COMMISSIONERS
Gregory Hartmann
David Pepper
Todd Portune

County Administration Building, Room 603
138 East Court Street, Cincinnati, OH 45202-1226

Phone: (513) 946-4400
Fax: (513) 946-4330
TDD/TTY: (513) 946-4719
www.hamiltoncountyohio.gov

ADMINISTRATOR
Patrick J. Thompson
Phone: (513) 946-4420

To: Board of County Commissioners
Patrick Thompson, County Administrator

From: Christian Sigman, Assistant County Administrator

Subject: Sales Tax Fund: Options to Address Pending Deficit

Date: November 10, 2009

The purpose of this report is to provide short and long term options for Board consideration in addressing the potential deficit in the Undivided Sales Tax Fund 960-300 ("Sales Tax Fund ") beginning in 2010. The growth or decrease in the sales tax rate is sensitive to the rate of inflation or deflation in the local economy. Enclosed within this report are various sales tax scenarios for modeling purposes with various sales tax growth rate assumptions. For example, based on an assumption in which sales tax collections decrease 3.4% in 2010 from 2009, and assuming no interim policy changes, the fund will potentially end with a $13.8 million deficit in 2010. The potential for this deficit to compound significantly and lead to even greater annual deficits is dependent on several factors, including: (a) the actual sales tax growth rate; (b) development of alternative funding sources; and (c) interim and long term Board policy modifications that mitigate the potential deficits.

The report is organized in the following sections:

I. Sales Tax Fund Introduction - Sources and Uses to Date
II. Financial Models
III. Model Components
IV. 5-year Forecast
V. Property Tax Rebate
VI. Options Considered
VII. Recommendation
VIII. Schedule

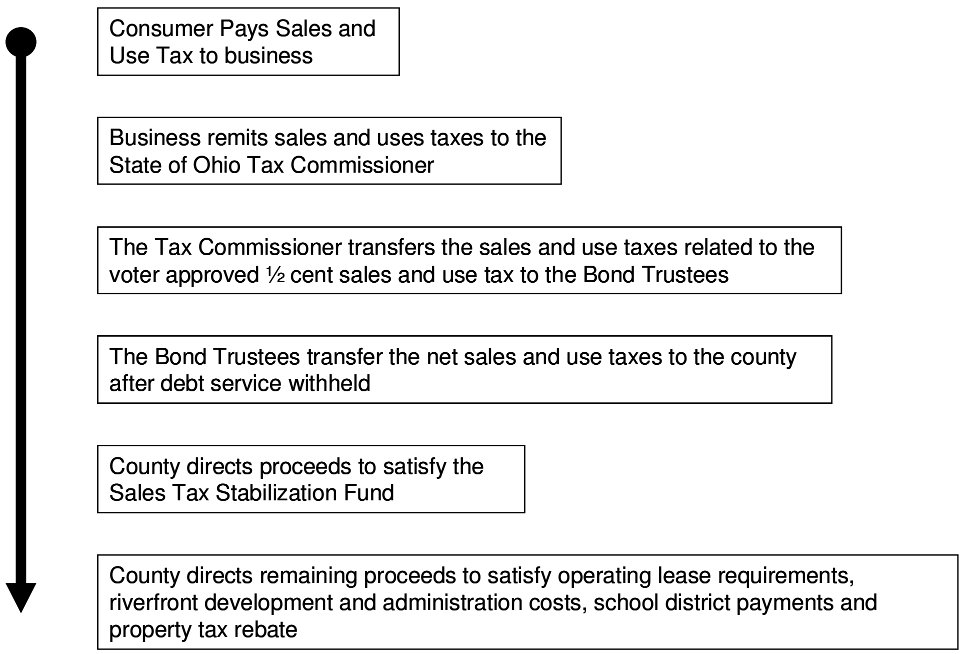
Given the number and size of the attachments included with this report a directory has been created within County Commission shared drive to locate the referenced documents.

N:\BOCC\Sales Tax Fund Memo Nov 2009

I. SALES TAX FUND INTRODUCTION - SOURCES AND USES TO DATE

The Sales Tax Fund was created to deposit revenues from the 0.5% increase in the County's sales and use tax as approved by Hamilton County voters on March 19, 1996. The 1996 vote increased the sales tax rate from 6% to 6.5%. Of the 6.5%, the first 5.5% goes to the state government, 0.5% to the County general fund and 0.5% to the Sales Tax Fund. Attachment A includes the ballot language and certified election results for this dedicated sales tax.
The flow of the sales tax revenue associated with 1996 increase is detailed in Graphic I.

Graphic I – Sales Tax Fund Flow of Revenue



The 1996 sales tax increase was approved under section 3905.021 of the Ohio Revised Code. As noted in the ballot language, an increase in the sales tax rate under section 3905.021 allows the use of the proceeds to supplement the general fund. The Board's intent was not to use the additional revenue generated by the increase in the sales tax for the general fund, but for the construction of two sports stadia and public improvements for the redevelopment of the central riverfront.

II. FINANCIAL MODELS

As with any project the size and complexity as the redevelopment of the central riverfront, several financial models were developed to establish a revenue and expenditure budget. One of the earliest models was developed in 1995 and totaled $520 million.[1] This model included the following:

- Demolition of existing stadium
- New football stadium

[1] Regional Stadium Task Force – Stadium Financing Presentation (1995)

– New baseball stadium
– Reconstructed parking facilities
– Additional land acquisition, infrastructure costs

In the following years a great deal of additional planning and design work was conducted that resulted in the conceptual plan for the redevelopment of the riverfront (Graphic II). Attachment B includes the Regional Stadium Task Force document as well as the following documents:

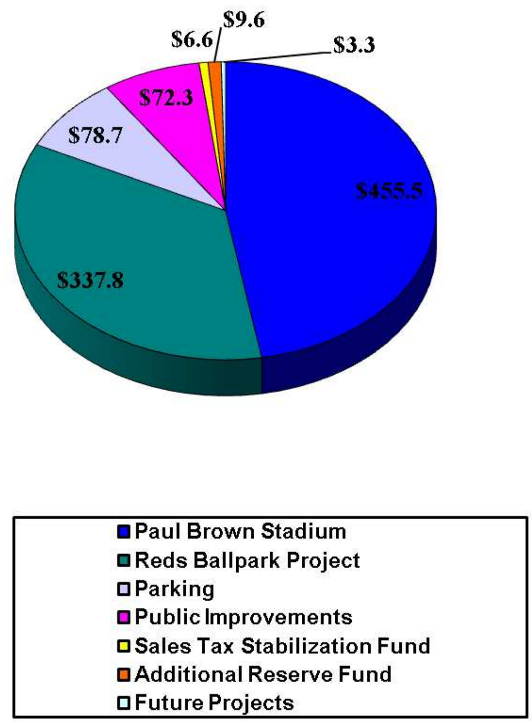
Regional Stadium Task Force – Stadium Financing Presentation (1995)
The Effects of the Construction, Operation and Financing of New Sports Stadia on Cincinnati Economic Growth (1996)
Central Riverfront Urban Design and Stadium Siting Concept Plan (1997)
Ohio Arts and Sports Facilities Commission – Review of Paul Brown (Hamilton County) Stadium State Funding Application (1998)
Report of the Riverfront Advisors Commission (1999)
Central Riverfront Urban Design Master Plan (2000)

Graphic II – Banks Riverfront Development – 1999 Conceptual Plan

Through July 2009, a total of $963.8 million was expended to construct Paul Brown Stadium, Great American Ball Park, Public Improvements supporting the stadia, inter-modal transit center, US Bank Arena deposit and other project costs. Graphic III shows the total spend on the central riverfront projects through July 2009.

Graphic III – Dedicated Sales Fund Uses to Date

TOTAL USES = $963.8 million



The second, and more important, model is the long-term financial model to address capital construction, debt service, on-going operating costs as well as the property tax rebate. This *Hamilton County Sports Facilities Project – Financial Planning Model* (referred to as the "model" hereafter) was developed in 1996 by the County's financial advisor, Public Financial Management, Inc. (PFM).

The model is periodically updated and summary briefings are provided to the Board. Attachment C to this report is a compendium of models from 1996 through July 2009. Based on sales tax revenue performance year to date, the model projects that the fund will experience a deficit in 2010.

III. MODEL COMPONENTS

The following section provides background information on major components of the model.

A. Dedicated Sales Tax
B. Debt Service
C. Football Operations
D. Baseball Operations
E. Parking Operations
F. Payment in Lieu of Taxes (PILOT) with Cincinnati Public Schools
G. Other Model Components

A. Dedicated Sales Tax

The dedicated 0.5% sales tax is the primary funding source to support the Sales Tax Fund. Through October 2009, a total of $800 million has been collected from the sales tax increase approved by the voters in 1996. It is important to note that the model has always assumed that the property tax rebate (30% of sales tax collected) would be approved by the Board annually. As such, the sales tax projection in the model reflects only 70% of anticipated sales tax collections.

A 3% annual growth rate was established in 1995 to determine financing capacity to issue debt to support the construction of the stadia and public improvements as well as operating costs prescribed in the leases with the Reds and Bengals. This growth rate was considered conservative at the time by the finance community including the County's financial advisors, credit rating agencies and tax exempt underwriters.

As show in Table I, in 1996, the average annual growth rate for sales tax revenues was 7.6% since the inception in 1971 of the 0.5% county sales tax for the general fund. Even today, the average annual growth rate since 1971 is 5.9% (Table II).

Table I – Average Annual Sales Tax Revenue Growth (1971-1996)

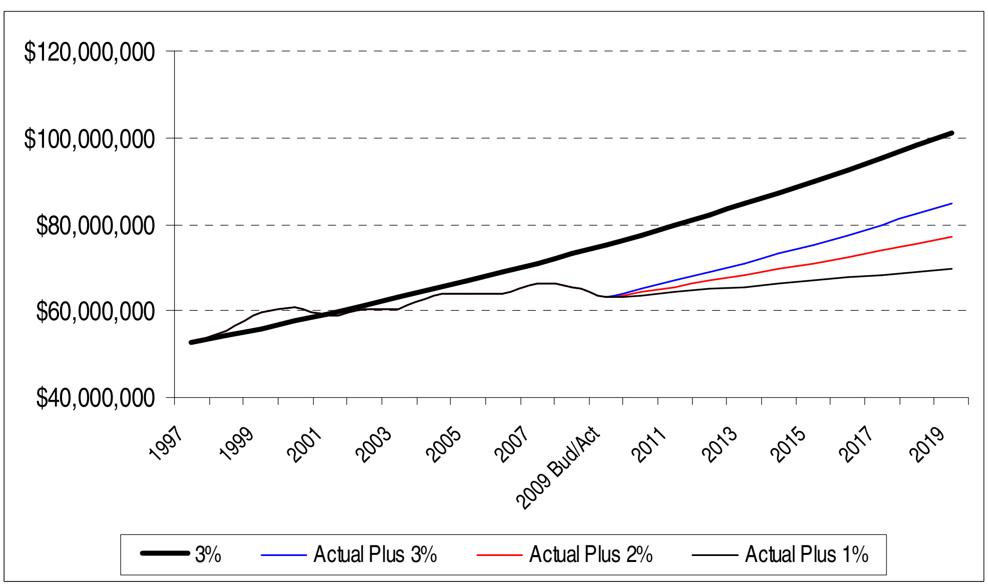
Year	Revenue	Percent Change	
1970	2,476,286		
1971	8,158,993		
1972	9,018,296	10.53%	
1973	10,090,617	11.89%	
1974	10,639,012	5.43%	
1975	11,473,571	7.84%	
1976	12,669,898	10.43%	
1977	14,627,742	15.45%	
1978	15,711,490	7.41%	
1979	17,209,948	9.54%	
1980	18,333,971	6.53%	
1981	19,848,336	8.26%	
1982	19,636,477	-1.07%	
1983	21,845,866	11.25%	
1984	25,083,507	14.82%	
1985	27,945,085	11.41%	
1986	30,879,723	10.50%	
1987	31,788,378	2.94%	
1988	35,211,708	10.77%	
1989	36,883,021	4.75%	
1990	38,799,671	5.20%	
1991	38,724,128	-0.19%	
1992	40,842,858	5.47%	
1993	43,165,292	5.69%	
1994	46,750,329	8.31%	
1995	47,517,841	1.64%	7.70% Average

Table II – Average Annual Sales Tax Revenue Growth (1971-2008)

Year	Revenue	Percent Change
1970	2,476,286	
1971	8,158,993	
1972-1995		
1996	51,120,044	7.58%
1997	53,604,045	4.86%
1998	57,112,015	6.54%
1999	59,630,657	4.41%
2000	60,902,478	2.13%
2001	59,283,176	-2.66%
2002	60,588,814	2.20%
2003	60,388,908	-0.33%
2004	63,502,701	5.16%
2005	64,094,932	0.93%
2006	64,047,553	-0.07%
2007	66,380,859	3.64%
2008	65,427,233	-1.44%
Average annual increase, '71-'08		5.89%
10 yr avg. 1999 -2008		1.40%
5 yr avg 2004 - 2008		1.64%

As noted in Table II, actual sales tax performance has averaged only 1.4% the past 10 years. This recent sales tax performance is well below the historical average of 7.7% experienced through 1995, 5.89% experienced through 2008 and the 3% assumed on the early years of the riverfront redevelopment project.

Graphic IV – Actual Sales Tax Performance Since 1997 as Compared to Various Growth Rates



As shown in Graphic IV, sales tax performance in the early years (1996-1999) of the central riverfront redevelopment easily exceeded the 3% model assumption and resulted in cash surpluses in the Sales Tax Fund. Calendar 2000 showed a modest increase of 2.13% and was then followed by a dramatic decrease of 2.66% in 2001 after the September terrorist attacks. The 2001 decrease was the largest decrease ever recorded in sales tax performance and only the third annual decrease recorded since 1972. Because these decreases occurred early in the financial model it is unlikely that the annual sales tax performance in the out-years will return to the levels planned in the early financial models (please see the 1%, 2% and 3% growth assumptions in Graphic IV).

B. Debt Service

The construction of the stadia required the issuance of long term debt. The initial debt was issued in 1998 for land acquisition and construction of Paul Brown Stadium (PBS). There were two issuances in 1998. Two issuances occurred in 2000 for the construction of Great American Ball Park and cost increases for Paul Brown Stadium. The four issuances totaled $623.6M in gross bond proceeds. The 2000B issue refunded portions of earlier issues. The 1998 issues mature in 2027 and the remaining 2000 issue matures in 2032.

Due to favorable market conditions in late 2006 portions of the three outstanding issues were refinanced for a net present value savings of $26.5M. The issue was structured to realize the savings during 2010 through 2012. As detailed in Attachment D, debt service payments increase from $27.6M in 2012 to $39.7M in 2013.

C. Football Operations

On May 29, 1997, Hamilton County entered into a lease of Paul Brown Stadium with the Cincinnati Bengals National Football League franchise. The Lease has been amended three times with the latest amendment June 29, 2000. The Lease year is July 1 to June 30. The initial Lease term ends June 30, 2026, subject to the Bengals' right to renew for five two-year extensions on the same terms and conditions. Attachment E includes the current Lease in its entirety. This report does not assess specific elements of the Lease as it is a contractual agreement approved by the Commission in 1997.

For 2010, the estimated expenditure level in the Sales Tax Fund for football operations totals $9.7 million and provides the following:

- Base Rent – Paid by Team in Lease Years 1 – 9
- County receives $.25 Ticket Surtax for each ticket sold
- County is responsible for:
  1. Routine Maintenance as described in Section 13.2 of the Lease
  2. Capital Repairs as described in Section 13.3 of the Lease
  3. Capital Repair Reserve Account - $1,000,000 deposited annually on or before the first day of the Lease Year (July 1)
  4. Real Estate Taxes
  5. Insurance – General Liability and Property
  6. Level 1 Enhancements as described in Section 12.3 of the Lease (no expenditures programmed in 2010)

7. Future Enhancements as described in Section 12.4 of the Lease (no expenditures programmed in 2010)
8. Reimbursement of Team Expenses last nine (9) years of Initial Term Section 13.9

Finally, subject to the terms and condition of the Lease, the County shall make available 5,000 parking spaces within a defined area. The Bengals receive all Bengals Team-use Day Parking revenue net of 11% gross sales for operating expenses (Section 33 of the Lease).

D. Baseball Operations

In 2003, Hamilton County entered into a lease of Great American Ball Park with the Cincinnati Reds Major League Baseball franchise. Attachment F includes the current Lease. The Lease year is November 1 to October 31 and the Lease period is until October 31, 2037.

For 2010, the baseball operations will realize net operating income of $501,000.

The Lease includes the following:

- Base Rent – 1- 9 years $2,500,000 (Revised 1st Amendment years 1-6 $2.5MM – 7-9 $1.5MM) years 10-35 $1.00
- County receives $.25 Ticket Surtax for each ticket sold
- County is responsible for:
  1. Capital Repairs as described in Article 13.3 of the Lease
  2. Real Estate Taxes
  3. Insurance – General Liability and Property
  4. Payment towards Utilities – Starting in 2003 $612,500 plus 5% compounded annually (Revised 1st Amendment additional $625,000 per year for Lease Years 7, 8, 9)
  5. Capital Repair Reserve Account - $1,000,000 deposited annually on or before July 15

Finally, subject to the terms and conditions of the Lease, the County shall make available 3,500 parking spaces closest to the Ball Park and the revenue from those spaces net of Allocable Portion of expenses as described in Article 32 of the Lease.

E. Parking Operations

The central riverfront redevelopment includes the construction of an intermodal transit facility that interconnect the stadia, National Underground Railroad Freedom Center and Riverfront Transit Center. When fully constructed, the intermodal transit facility may provide approximately 5,500-6,000 parking spaces. The operation of these garages will result in net operating income to the Sales Tax Fund. Due to capitalized interest cost during the construction of the Banks Phase I public improvements, the parking operations will realize a deficit in operating income until 2027. For 2010, parking operations is projected to result in a $167,000 operating deficit.

F. Payment in Lieu of Taxes (PILOT) with Cincinnati Public Schools

On January 31, 1996 the County Commission approved an agreement with the Cincinnati Public Schools (CPS) to provide a payment in lieu of taxes (PILOT) concerning the removal of taxable property from the tax rolls to construct the professional sports stadia on the riverfront. At that time the PILOT was estimated at $5 million annually. In 2001, CPS and the County Commission agreed on the assessed value of the stadia and estimated the actual PILOT amount beginning in 2006.

It is important to note that the 2001 agreement increased the PILOT approximately 100% from what was originally contemplated in January 1996.

In 2006, the CPS and the County Commission revised the agreement to restructure the payments. Partial payment was made in 2006, and no payments were made in 2007-2009. Payments begin again in 2010. This action was taken to avoid a deficit in the stadium fund in 2006. While the net present value of the payments did not change, the payment term was increased eleven years for the Paul Brown PILOT and seven years for the Great American Ball Park PILOT. Attachment G includes the Board resolutions from 1996, 2001 and 2006 concerning the CPS PILOT. For 2010, the CPS PILOT totals $10.9 million. The agreement with CPS calls for payments until the year 2032 and totaling $255.7 million

G. Other Model Components

The model includes property taxes on the entire riverfront as well as other funding sources related to the central riverfront redevelopment. In 2010, property taxes will total $2.0 million. The model also accounts for County costs related to the continued redevelopment of the central riverfront. These include:

- County Match for $24 million in Stimulus Funding: $5 million
- Project Counsel: ~$1,000,000
- Debt service on the Build America Bonds issued in 2009: $747,389 in 2010
- County Administration costs: ~$130,000
- Financial advisory services of PFM: ~$245,000
- County Bond Counsel: ~$245,000

Except the debt service on the Build America Bonds, the aforementioned items end in 2014 with the completion of Phase I of the Banks Project.

Previous models included the assumption that the state would honor its funding commitment to the County concerning the stadium project. Beginning with HB 748, the State of Ohio periodically provided funding for the construction of professional sport stadia. The initial funding contribution was $22 million and was envisioned to ultimately total $81 million. The County has aggressively sought full payment on the State's commitment via the biennial capital bill process. In the 2009/2010 process the regional prioritization process included $7.65 million for stadium construction; however, this amount was reduced to $100,000 by the general assembly. Since 1998 a total of $73.45 million has been received from the state (Table III). The amount outstanding from the state totals $7.55 million.

Table III – State Funding Support of County Sports Stadia
($ in millions)

1998/2000	$37.0
2000/2002	$0.0
2002/2004	$30.0
2004/2006	$4.35
2006/2008	$2.0
2008/2010	$0.1
Total	$73.45

IV. 5-YEAR FORECAST

Attachment C includes all sales tax models from 1995. The latest model dated July 2009 is summarized for the 2010-2014 period in Table IV. The full model extends through the year 2037. Key assumptions in the July 2009 model include sales tax growth rates, expenditures related to the leases with the Bengals and Reds and riverfront parking operations. Concerning sales tax, the growth rate assumption for the next five years is a 3.43% decline in 2010 and 1% growth annually thereafter. The 2007 model showed the fund going negative in 2012, but continued sales tax decreases and the realization the state will not fulfill its capital commitment in 2010 as well as a lack of resolution concerning Reds construction claims and Bengals' back rent advanced the deficit to 2010.

As noted in Table IV, there will be a $13.8 million deficit in the fund by the end of 2010. As shown in Table V, a deficit still occurs, but not until 2014, even if the property tax rebate is eliminated. A permanent solution to the fund's structural deficit is necessary.

Table IV – Summary Sales Tax Fund Model (Updated July 2009 with PTR)

($ in $1,000's)	**2010**	**2011**	**2012**	**2013**	**2014**
January 1 Beginning Balance	(303)	(13,770)	(27,449)	(39,874)	(66,246)
Sales Tax Growth Rate	*-3.43%*	*1%*	*1%*	*1%*	*1%*
Net Sales Tax	40,200	40,723	41,131	41,541	41,957
Debt Service	(27,610)	(28,754)	(27,605)	(39,691)	(41,122)
Football Operations	(8,516)	(8,671)	(8,830)	(8,992)	(9,157)
Baseball Operations	417	359	(2,201)	(2,263)	(2,329)
Parking Operations	(167)	391	362	(1,623)	(1,095)
Cincinnati Public Schools PILOT	(10,920)	(10,918)	(10,916)	(10,913)	(10,909)
Riverfront Public Improvements (Banks)	(4,867)	(4,744)	(2,240)	(2,240)	(2,239)
Property Taxes	(2,004)	(2,065)	(2,126)	(2,191)	(2,256)
Sub-total Uses	(53,667)	(54,402)	(53,556)	(67,913)	(69,107)
December 31 Ending Balance	**(13,770)**	**(27,449)**	**(39,874)**	**(66,246)**	**(93,396)**

Table V – Summary Sales Tax Fund Model (Updated July 2009
Without Property Tax Rebate)

($ in $1,000's)	**2010**	**2011**	**2012**	**2013**	**2014**
January 1 Beginning Balance	(303)	3,630	7,404	12,606	4,038
Sales Tax Growth Rate	*-3.43%*	*1%*	*1%*	*1%*	*1%*
Net Sales Tax	57,600	58,176	58,758	59,345	59,939
Debt Service	(27,610)	(28,754)	(27,605)	(39,691)	(41,122)
Football Operations	(8,516)	(8,671)	(8,830)	(8,992)	(9,157)
Baseball Operations	417	359	(2,201)	(2,263)	(2,329)
Parking Operations	(167)	391	362	(1,623)	(1,095)
Cincinnati Public Schools PILOT	(10,920)	(10,918)	(10,916)	(10,913)	(10,909)
Riverfront Public Improvements (Banks)	(4,867)	(4,744)	(2,240)	(2,240)	(2,239)
Property Taxes	(2,004)	(2,065)	(2,126)	(2,191)	(2,256)
Sub-total Uses	(53,667)	(54,402)	(53,556)	(67,913)	(69,107)
December 31 Ending Balance	**3,630**	**7,404**	**12,606**	**4,038**	**(5,130)**
% of Expenditures	6.8%	13.6%	23.5%	5.9%	-7.4%

V. PROPERTY TAX REBATE

The property tax rebate (PTR) is a Commission policy to remit 30% of sales tax receipts associated with the 0.5% increase in the sales and use tax to be used for central riverfront redevelopment. The PTR must be voted on by the Commission annually by the third week of November to allow the County Auditor sufficient time to incorporate the rebate into the following year's tax bill.

Since its inception, a total of $234 million has been approved by the Commission for the PTR. Attachment H includes the 2008 resolution that provided a $19.3 million PTR payable in 2009 as well as the 1996 resolution that established the board policy for the PTR.

The 2010 PTR is estimated at $17.4 million. Based on the 2009 approved PTR amount of $19.3 million the 2009 PTR was approximately $123.72 per $100,000 market value on owner occupied residential properties up to four units. Using a comparative approach to the $17.4 million amount for 2010, the 2010 PTR will approximate $111.53 per $100,000 market value. The actual amount will be determined by the County Auditor once the Board approves a 2010 PTR amount.

The granting of the PTR was provided via legislative approval from the general assembly. If the Board ever chooses to not grant a PTR, the ability to provide a PTR going forward ends. As noted in the previous section, the fund at the end of 2010 will be in a deficit position of $13.8 million. Board action will be required in 2009 to continue the PTR as well as deciding on a course of action to avoid a deficit within the fund.

Table VI – Property Tax Rebate 1997 - 2009

PTR Payment Year		
	1997	$ 13,050,000
	1998	15,650,000
	1999	17,150,000
	2000	18,300,000
	2001	18,300,000
	2002	17,200,000
	2003	17,500,000
	2004	18,100,000
	2005	19,800,000
	2006	20,100,000
	2007	19,200,000
	2008	20,000,000
	2009	19,300,000
Total		$ 233,650,000

VI. OPTIONS CONSIDERED

In developing options to address the pending Sales Tax Fund deficit, the Administration recommends three distinct phases:

1. Immediate actions leading up to the 2009 property tax rebate decision in late November;
2. Intermediate actions to prepare for a long-term solution; and
3. Long-term actions to address the deficit.

In choosing a course of action the following guiding principles and assumptions are recommended:

1. Any course of action must be certain in its implementation.
2. The solution should incorporate a measure of conservative revenue estimates to guard against another deficit situation in future years.
3. The solution should result in recurring resources (either additional revenue and / or permanent reduction in expenditures). One-time cash inflows are not practical with the length of the stadia leases, debt service and the agreement with the Cincinnati Public Schools.
4. The solution does not include any funding or resources for Phase IIA of the Banks riverfront development beyond the previously noted match for federal stimulus funding.
5. Solutions should not rely on the use of the sales tax stabilization fund; and
6. The Sales Tax Fund should always maintain a year-end $6 million cash balance, or approximately 10% of 2009 sales tax collections.

General approaches to solving a deficit situation are either a reduction in expenses and/or increase in revenues. The discussion below of the options considered are grouped into these two categories, but the ultimate solution selected by the Board may include elements of both categories. As noted in Table IV, the Sales Tax Fund deficit will reach $93.4 million by 2014.

Reduction in Expense

The Sales Tax Fund includes five expense categories:

1. Debt Service on the two sports stadia and corresponding public improvements
2. Lease obligations with the Cincinnati Bengals
3. Lease obligations with the Cincinnati Reds
4. PILOT agreement with the Cincinnati Public Schools
5. Parking Operations

Also falling under the reduction in expense category is a general fund reduction to provide operating support to the Sales Tax Fund.

Debt Service on the two sports stadia and corresponding public improvements

A financing option that is available for consideration is pushing the principal on remaining non-refinanced debt out into future years. To do this the debt would have to be issued as taxable to avoid the IRS rules that provide for only one refinancing for tax exempt debt. It also assumes that the maximum maturity of the debt could be extended beyond its current statutory limit. It is unclear at this time if taxable bonds would be subject to the current maximum maturity limit.

Pushing the debt out into future years results in significant interest costs. For each dollar of principal deferred the County would pay ultimately $5-$7 in additional interest costs. This type of “scoop and chuck” financing is not recommended in any fashion as a Hamilton County financial management policy. This approach does not provide a permanent solution; only a delay.

Included in the Sales Tax model is the recently issued Build America Bonds general obligation debt and loan with the State Infrastructure Bank (SIB) for the public improvements for Phase I of the Banks riverfront development. While the SIB loan will be repaid with incremental parking revenue generated by Phase I of the Banks project, the Sales Tax Fund is the pledged security for this loan if the parking revenue does not materialize.

The sales tax model includes $5.0 million ($2.5 million in 2010 and 2011) for the County’s portion of the associated soft costs (design, engineering, etc.) for the stimulus-funded Phase IIA of the Banks project. For purposed of the current model, potential County costs associated with Phase II of the Banks project will not rely on the Sales Tax Fund as a funding source or security pledge unless the Board decides to include these costs in the ultimate solution to address the Sales Tax Fund deficit.

Finally, the Sales Tax model includes $1.62 million in riverfront redevelopment costs for County project administration. These costs are described in section III-F. The Administration closely manages these costs that are necessary to protect the County’s interests on the billion dollar central riverfront redevelopment as well as to have the appropriate level of expertise involved in the project.

Lease obligations with the Cincinnati Bengals

As described in section III-C, the County entered into a long-term Lease with the Cincinnati Bengals for use of Paul Brown Stadium. County Administration has met with the Bengals concerning renegotiating the Lease and the Bengals organization is developing options to provide relief to the County. The entire Lease is included in Attachment D.

It should be noted that even eliminating the $9.7 million in 2010 expenditures related to the operation of Paul Brown Stadium will not erase the projected $13.8 million deficit in 2010.

Lease obligation with the Cincinnati Reds

As described in section III-D, the County entered into a long-term Lease with the Cincinnati Reds for use of Great American Ball Park (GABP). County Administration has met with the Reds concerning renegotiating the Lease and the Reds organization is developing options to provide relief to the County.

The County's operation of the GABP will realize a small net surplus in 2010 and 2011 (see Table IV) due to Lease payments from the Reds. These payments end in 2012 pursuant to the Lease and result in a net cost to County thereafter.

PILOT agreement with the Cincinnati Public Schools

As described in section III-E, the County entered into a Payment in Lieu of Taxes (PILOT) agreement with the Cincinnati Public Schools (CPS) in 1996 to address the loss of property tax revenue to CPS with the redevelopment of the central riverfront. The agreement was revised in 2006 to delay the PILOT until 2010. County Administration met with CPS and they are considering short-term relief concerning the 2010 PILOT. Long term relief from the PILOT is not feasible as CPS has pledged this revenue stream for its bond financing of the CPS capital program.

Parking Operations

The County contracts with Central Parking to operate the riverfront parking facilities. The operating contract with Central Parking ends in 2010. The parking rates are approved by the Commission and are comparable to market rates in the central business district. Increasing parking rates is not recommended.

General Fund Support

The Board could reduce general fund expenditures and provide a general fund transfer to the Sales Tax Fund. The Approved 2010 General Fund Budget totals $209 million. A $15 million general fund reduction would equate to a 7.2% decrease. Departmental percentage decreases would be higher due to exempting debt service, reimbursable works, etc.

Increase Revenues

Because counties are an extension of the state government, the County can only implement revenue enhancement pursuant to the Ohio Revised Code. The revenue options that follow are grouped by "permissive" revenue increases currently available to the Board and revenue increases that would require general assembly legislative approval. Only options that would generate sufficient revenues to address the Sales Tax Fund deficit are provided. This report does not comment on the progressive or regressive nature of taxes or the political considerations in establishing revenue policy.

"Permissive" Revenue Increases

Permissive revenue increases available to the Board at this time include an increase in the sales tax, voted property taxes and elimination of the Property Tax Rebate.

1. Sales Tax

The Ohio Revised Code allows counties to levy an additional sales tax up to 1.5% above the state-wide rate of 5.5% for a total of 7.0%. [In certain circumstances involving mass transit another 0.75% is permissable.] Hamilton County's rate is 6.5%. Hamilton County has 0.5% in sales tax rate available within the permissive sales tax. Table VII shows the distribution of sales tax rates for all 88 counties in Ohio. Sales tax rates for each county is provided in Attachment I. Any sales tax increase must be approved in 0.25% increments.

Table VII – Current Sales Tax Rates for Ohio Counties

Number of Counties	Total Rate
1	7.75%
42	7.00%
17	6.75%
24	6.50%
4	6.25%

Each 0.25% increase in the sales tax rates generates approximately $28-29 million. A 0.25% increase in the sales tax rate would address the Sales Tax Fund deficit.

There are three methods to increase the permissive sales tax:

- Submit to the voters in a general election (requires a majority vote of the Board);
- Increase the rate with a majority vote without submitting to voters, but is subject to referendum at the next election; and
- Increase the rate via the "emergency" process with a unanimous vote of the Board. This method is also subject to referendum, but only at the next general election and the rate increase still goes into effect until defeated in the next general election.

2. Voted Property Tax Levy

The County has fully utilized its inside millage for property taxes. Any increase in the property tax for Hamilton County governmental purposes will be have to be submitted to the voters. Per Board policy, the increase would be submitted to the Tax Levy Review Committee for assessment and recommendation. A voted property tax levy can be submitted to the voters in May, August and November. In a presidential primary year (2012) there is also a March election. A property tax levy to generate $30 million annually would cost the taxpayers $44.52 per $100,000 assessed market value.

3. Reduce or Eliminate the Property Tax Rebate

As discussed in section V of this report, the property tax rebate (PTR) is an annual policy decision by the Board. The estimated 2010 PTR totals $17.4 million. Ending the PTR would address the Sales Tax Fund deficit until the year 2013, but a permanent solution would be required there after.

The PTR applies to 204, 000 of the total 349,000 parcels in the tax duplicate. Based on the 2009 PTR, the value of the PTR for a $100,000 home is $123.72 per year. Each $1,000,000 in PTR is estimated at $6.41 per $100,000 home.

Increases Requiring General Assembly Approval

The following two revenue enhancements would require general assembly approval.

1. County-wide Sin Taxes

Until 2008, there was available to Ohio counties with populations over 1,000,000 (Cuyahoga County only) the ability to assess a county-wide tobacco and alcohol tax to finance the construction and operation of a professional sports stadium. The rates established in that legislation would have generated $6.3 million annually in Hamilton County. This taxing authority was narrowly crafted to benefit Cuyahoga County and included a 2008 sunset provision. Hamilton County could approach the state for similar authority. To generate $30 million annually an increase of $0.40 per pack and $0.32 per gallon of alcohol would be required.

2. Targeted Taxes for the Riverfront

The County could seek general assembly approval to impose taxes and fees specific to the economic activity of the central riverfront including the professional sports franchises that benefit from the County's construction of stadia. These taxes could include, but are not limited to, a per-ticket tax, concession sales tax and parking taxes.

The Ohio Revised Code (ORC), Chapter 349 provides for the authority of counties and its political sub-divisions to create New Community Authorities. In short, these authorities establish a geographic area for economic development purposes, appoint a government board and create taxing or fee structures to generate revenues to provide public infrastructure improvements and services. Establishing an NCA may require specific interaction with the Port Authority and the City of Cincinnati. The County could formally explore this option, but it should not be considered a near-term solution. Additionally, there are elements within the existing leases with the sport franchises that may prohibit levying additional taxes on the economic activity at the sports stadia. It is unknown at this time if these lease elements would preclude a NCA.

Other Revenue Sources

With the passage of casino gambling in Ohio and with Cincinnati being designated as an official site of a casino, Hamilton County is estimated to receive $12.2 million annually from gambling related revenues. This revenue would not be realized until 2012 or 2013. It is unknown when any revenue would commence associated with the construction and operation of a casino in Cincinnati.

VII. RECOMMENDATION

The initial Administration recommendation to address the Sales Tax Fund deficit is:

Near term (2010-2012)

- Reduce the PTR for 2010;
- Continue the dialogue with the sports franchises and the Cincinnati Public Schools;
- Continue to petition the state to fulfill its funding commitment to the stadium project;
- Seek state legislative approval to implement additional or increase taxes; and
- Dedicate any casino revenues to the Sales Tax Fund until legislative options have been exhausted and discussions with the sports franchises are complete.

VIII. SCHEDULE

As noted in Section V of this report, the Board must act annually concerning the PTR by the third week of November each year. For 2009, the last date is November 18, 2009. We have asked the County Auditor if the decision could be made the week of November 23. Any solutions to be submitted to the voters have prescribed schedules. The next election window would be May 4, 2010 with Board action required by February 18, 2010.

Please do not hesitate to contact me with any questions concerning this report.