

Madeira City Council

January 27, 2020

My name is David Holwadel and I live at 6022 Cherokee Dr. I have been a resident of Madeira for 28 years. I have an accounting degree from the Kelley School of Business at Indiana University and began my career as a CPA at KPMG. After 17 years in both public and private accounting/finance positions, I began my current career as a Financial Advisor. I have worked at Merrill Lynch and Raymond James for the last 22 years.

In October 2018 I wrote an opinion piece, which was published in the Suburban Press, opposing Madeira's proposed earnings tax increase as part of Issue 16. My opinion was based upon the fact that Madeira was enjoying significant organic growth in tax revenues without a rate increase and that the upward trend in revenues would continue into future years.

When combined with new sources of revenue, such as the Kenwood Country Club admissions tax, the increase in the state gasoline tax and operations beginning at The Traditions, the City generates ample cash flow to meet the required investment in its infrastructure. This position does recognize that the costs associated with the replacement of the city-owned water lines will require a special assessment as part of future water bills.

At the last council meeting, Councilman Mueller presented a lengthy and detailed report. His conclusion has been a consistent one. Despite factual evidence to the contrary, Mr. Mueller stated that the City of Madeira has a "strained budget" and that the city's excess cash reserves may be depleted in less than five years. And so, the Budget and Finance Committee will be recommending some form of tax increase for Council to act upon.

Mr. Mueller spent a great deal of time discussing the findings in the 2018 Financial Health Indicators Report as published by the Ohio Auditor's office. Mr. Mueller correctly pointed out Madeira's drop in ratings for certain categories, but his analysis failed to identify the cause of those rating reductions. If you look at the numbers which drive those ratings you will find that their cause was not due to the lack of revenues, but actually the mismanagement of assets.

I've provided a summary which highlights Madeira's financial trends over the last five years (Attachment 1). What you will see is that Madeira has had the resources to invest in its roads and other infrastructure needs. The Auditor's report correctly highlights the fact that Madeira did not make those investments when they should have. Madeira's City Council was effectively frozen by its irrational pessimism regarding its financial condition and Mr. Mueller has worked very hard to sustain that dire outlook.

In Mr. Mueller's opening comments for his committee report at the Jan 13th council meeting he stated, "For 2019-year budget recap, regarding revenues, we ended up **very close** to as forecasted at the beginning of 2019". Not true. For 2019, Madeira's "original" budget had \$7,351,000 in revenues. Actual revenues for 2019 were \$7,710,000. A difference of \$359,000 is not "very close".

Madeira City Council

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Page 2

The fact that Madeira's original budget underestimated future revenues is not an unusual occurrence and is in fact the typical practice. In 2018, actual revenues exceeded the original budgeted revenues by \$374,000. In 2017, actual revenues exceeded the original budgeted revenues by \$450,000. And so, over the last three years, Madeira has underestimated its revenues by an average of \$394,000.

I do not take issue with a conservative bias when preparing the annual budget. But I do have a major problem, as should each of you, when those conservative estimates are used as the justification for raising the taxes paid by Madeira's residents.

Regarding Mr. Mueller's statement that a tax increase is necessary to maintain Madeira's "Rainy Day Fund Reserve", I think it is important that you are aware that over \$1,000,000 was transferred out of Madeira's General Fund and into the Street Repair and Capital Improvement Funds last month. With additional fund transfers budgeted for 2020 and normal recurring revenues for the Street Repair Fund, Madeira has budgeted over \$1.6 million in capital projects for this year. The 2020 year-end cash balance in the Street Repair Fund is forecasted to exceed \$580,000. What Madeira has effectively done is to create a second "Rainy Day Reserve Fund".

I am not certain as to whether such year-end transfers are proper or not. But once again, if distorting the year-end General Fund cash balance is used as justification to raise taxes, I will be making inquiries with authorities outside of Madeira in order to ascertain the propriety of such accounting practices.

I think it is important for each of you to reflect on the fact that Madeira has the ability to make the amount of capital investments it has planned for this year and will be able to do so without having raised tax rates. How can this be when in 2018, Council promoted Issue 16 as if it was necessary to save Madeira from financial ruin? How is today's call for higher taxes any different from the narrative crafted around Issue 16?

To now use projections which understate future revenues and make "soft" estimates of future capital needs as a basis for raising tax rates or charging residents for trash collection would be irresponsible. I strongly encourage each of you to make thoughtful consideration of what I have shared with you this evening before pursuing a path that increases the costs to live in Madeira. Thank you.

David Holwadel
6022 Cherokee Dr.
Cincinnati, OH 45243