

Chairman Schaeffer, Vice-Chair Scherer, Ranking Member Rogers, and members of the House Ways and Means Committee, my name is Tammi Clements, Deputy City Manager for the City of Dayton. Accompanying me today are Bejoy John, Deputy Finance Director and Tax Administrator, and Carolyn Jordan, Financial Services Supervisor for Income Tax.

Thank you for the opportunity to testify today on two specific tax reform proposals that have been included in Governor John Kasich's Fiscal Year (FY) 2018-2019 budget.

The Governor's proposal to centralize collections of the net profits tax will not increase our effectiveness in collections or net some economical win for us administratively as many have claimed. It certainly will not save us money in the short or long term. It will not increase the businesses ease for filing their tax or somehow make it less cumbersome for them. In fact, the proposal will add cost to the city, delay or miss receiving revenue affecting our ability to manage cash, and create less service for businesses.

Several claims have been championed as legitimate reasons to accept the centralized collections proposal. One is that this centralized collection through the Ohio Business Gateway will save cities money. For Dayton that is simply not true and in fact, this proposal would very likely cost the city money, result in the loss of revenue and leave businesses inadequately served through a broke and antiquated state system.

- The City of Dayton currently collects and manages 67,000 taxpayer accounts which brought in gross collections of \$111 Million in local income taxes in 2016. Of those 67,000 accounts, about 9,800 file Net Profit tax returns and brought in \$11.5M of that \$111M total. It costs the City \$51,000 to collect, audit, and post that \$11.5M, while also providing high quality customer care to those account holders. We do not use a 3rd party administrator for tax collections.
- The centralized collection proposal would charge us 1% or \$115,000 to process all 9,800 returns now. However, the \$51,000 we spend doesn't go away because that same staff and resources are auditing other returns and ensuring that what comes from the OBG is current and accurate; that would not change. So we'd be paying an additional \$115,000 to do what we're already doing effectively for \$51,000. That is not wisdom or efficiency.
 - Additionally, the City of Dayton has invested in technology, enhancing our income tax operations to efficiently process income tax returns and payments. This allows us to be able to collect income tax at a cost less than the 1% rate the State is proposing to withhold from amounts collected under Governor Kasich's proposal.

- Dayton collects revenue and deposits it immediately in order to meet our expenditures on a day-to-day basis. The proposed quarterly distributions of state collected municipal revenues will interrupt and impede our ability to meet the daily challenges of typical financial obligations.
- The Ohio Business Gateway (OBG) currently serves as a central portal for businesses to file their Net Profit tax obligations to Dayton and other Ohio cities and Villages. In 2016, only 31 of the 9,800 business accounts filed their net profit tax return through OBG! Why? Currently, OBG is plagued with limited capacity and software shortcomings frustrating business filers who try and complete filing obligations and has been underfunded for years.
 - In Dayton, we have experienced processing issues that resulted in delayed release of reports and ACH files, inaccurate ACH files and return totals.
 - An example of the impact of this systemic issue is that in January of this year, we were delayed in being able to post \$500,000 in withholding and business tax payments for nearly a week, because a payment was cancelled from the reports yet was included in the ACH file. It took our staff several days to identify the error and work with OBG to get it corrected.
- The City of Dayton administers its own income tax and that of two Joint Economic Development Districts (JEDDs). The people we have on staff in the Income Tax Division provide personalized service to businesses and individuals alike, from helping with questions or concerns tax customers have regarding municipal income tax to reaching out to tax customers to inform them of their responsibility and assisting them in complying with the provisions of our income tax ordinance. Recently, the State Department of Taxation closed its local office in downtown Dayton, leaving tax customers without a local point of contact to address any issues they have.
- Forcing businesses to file through OBG means our business filers and tax preparers will no longer receive the benefit of free, easily accessible local assistance from our municipal tax administrators who currently provide a wide range of assistance to filers, including providing answers to technical issues to resolve filing challenges, verify the accuracy of calculations and alerting filers to incomplete submissions that may unnecessarily frustrate the customer.
 - The City Income Tax Administration staff carefully reviews, audits and evaluates each of the 9,800 business tax returns as they are processed. Refunds are closely scrutinized and undergo two levels of review before they are issued. This level of review is vital now that Dayton is required to allow net operating loss carryforwards. This level of service will not be provided by the state of Ohio. Some of these errors may never get

caught, and in the absence of having these returns in hand for review, we would have no recourse to dispute the accuracy of anything processed and collected by the State.

- Other political subdivisions that receive revenue back from the state through a central collection mechanism such as municipalities that receive revenue from the state by utilities in their limits, sales tax distributions to counties, school districts that receive revenue through the school district income tax, etc., have experienced uncertainty regarding the amounts of revenue returning to their communities and are provided no recourse to challenge or have the amounts verified as being accurate

A final yet most important concern is the loss of local control over our ability to administer the income tax our citizens have approved. Centralized collection is one more instance where the State would significantly erode local control. The municipal income tax is meant to be administered by the community which adopted the revenue generating mechanism, by the will of the residents and for their benefit in addition to the workers and visitors of Ohio's 613 taxing municipalities, where essentially services are delivered every day.

- The Home-Rule Amendment, found in Article XVIII, Section 3 of the Ohio Constitution, provides:

Municipalities shall have authority to exercise all power of self-government and to adopt and enforce within their limits such local police, sanitary, and other similar regulations, as are not in conflict with general laws.

This provision of the Ohio Constitution provides municipalities with "the exclusive power to govern themselves. . . ." The Ohio Constitution provides municipalities with the authority to adopt their own charters. Section 7, Article XVIII states: "Any municipality may frame and adopt or amend a charter for its government and may, subject to the provisions of section 3 of this article, exercise thereunder all powers of local self-government." The Supreme Court stated that "the object of the home rule amendment was to permit municipalities to use [their] intimate knowledge and determine for themselves in the exercise of all powers of self-government how . . . local affairs should be conducted."

- The City of Dayton Charter was adopted on August 12, 1913. As recently as November of 2016, voters amended the Charter to increase our income tax rate. Section 189 entitled "Income Tax Authorization" grants the authority to collect income tax "in order to provide for essential municipal services and necessary capital improvements". The collection of tax, at a rate our residents voted to approve just last year, falls within our powers of local self-government. The

Ohio Supreme Court, in defining matters of local self-government has stated: "If the result affects only the municipality itself, with no extraterritorial effects, the subject is clearly within the power of local self-government and is a matter for the determination of the municipality."

The loss of local control is particularly alarming to Ohio municipal leaders because it precludes local officials from having the ability to be good stewards of their communities' taxpayer's revenues. The City of Dayton enjoys some of the highest bond ratings in the country due in part to our being good stewards of our finances. Control of municipal income tax administration and collection at the state level would adversely affect our ability to provide services to those residing in and working in our city, not to mention our ability to meet our financial obligations.

Our Citizens AND business leaders voted their confidence in our local Dayton government by approving a .25% increase to our earning tax. We owe them the assurance that we will effectively and efficiently collect, administer, and use those resources for the benefit of their immediate community.

A resolution in opposition to these measures will be presented at our city commission meeting this week and is expected to receive the support of the entire commission. They see and understand the importance of municipal income tax collection remaining at the local level. I urge you today to stand with us and all municipalities by striking these proposed measures from Governor Kasich's budget bill.

Thank you.