



The City of Grove City, Ohio

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Richard L. "Ike" Stage, Mayor

Testimony before the Ohio House Ways and Means Committee

House Bill 49 (State Biennial Budget)

March 7, 2017

Chairman Schaffer, Vice Chair Scherer, Ranking Member Rogers, and Members of the House Ways and Means Committee, I am here today to share my perspective as Mayor of Grove City on certain proposals in the executive budget regarding municipal taxes.

As a five term Mayor of Grove City and a retired banker with 40 years of experience, I am acutely aware of the benefits of locally controlled tax collection. This awareness was amplified as my banking experience allowed me to work directly with more than 20 counties throughout Ohio. I am pleased I can bring more than 25 years as a public official including 18 years as Mayor and four additional years as City Administrator of the largest suburb entirely within Franklin County to this discussion.

The provisions of House Bill 49 affecting municipal income tax collection, if enacted, would create a radical change to our community's ability to administer our primary revenue source. Municipal income taxes are the "life blood" that fund basic services we provide our residents and businesses. Under the Home Rule provision in the Ohio Constitution, the City enacted a Charter giving us the legal right to assess municipal income taxes in Grove City. Our voters exercised this right by passing an additional one percent income tax levy November 8, 1983, but HB49 strikes at the very heart of this "home rule" power. House Bill 5 (HB5) passed by the 130th General Assembly in 2014 standardized municipal income tax, but as a local taxing authority we do not agree that the state should dictate major aspects of our future revenue streams. HB5, we estimate, will already cost the City \$209,000 annually through the implementation of the loss carry forward. Additional changes to our municipal income tax collection will only add to our financial challenges as a time when we seek to partner with the state to advance economic development efforts. As the state is the macro-economic development leader, local communities drive the micro-economic initiatives, but these latest tax proposals do not support those efforts.

Customer service is a guiding imperative for Grove City, and we work hard to attract and retain our more than 1,200 corporate citizens employing over 23,000 workers. Our businesses are exceptionally important to us. We staff a development department, create TIF's, fund grant programs, and invest millions of dollars in public improvements that serve businesses to accomplish our development goals.

Grove City is, by choice, a member municipality of the Regional Income Tax Agency (RITA). If we determine that RITA is not providing the level of customer service we demand for our businesses, we have recourse. We can leave RITA and collect the tax ourselves, or we can join another third party collector like the Central Collection Agency. The City has the option to contact other RITA member municipalities and replace the management of RITA. This legislation gives us no recourse if the Ohio Department of Taxation provides poor customer service to our businesses.

Of the 71,341 net profit returns received by RITA for 2015, only 197 of those returns were filed through the Ohio Business Gateway (OBG). Businesses are clearly not convinced that the OBG currently offers them a benefit. That is an approval rating for the OBG of less than 0.3%.

For 2015, RITA's member municipalities, and Grove City is one, paid RITA an average of 0.21% for processing net profit returns, far less than the 1% we will pay under the proposed legislation. That difference is one staff member at our Senior Citizens Center. The collection costs now quoted by the Ohio Tax Commissioner includes the fees for processing individual returns.

In addition to using RITA, we have our own tax administrator currently located in city hall. Just this year, we had a top 10 employer stop by our office to see our tax administrator for help in resolving an issue. That issue was quickly resolved and the employer left happy.

Our tax administrator fielded dozens of calls already this year from tax preparers and business owners. Is the Ohio Department of Taxation going to give calls from business owners concerning their Grove City taxes the same priority that it gives calls from citizens and businesses concerning their state taxes? Does the Ohio Department of Taxation even have the institutional knowledge to answer business taxpayers' municipal questions? How will the Ohio Department of Taxation have access to prior year municipal filings to answer questions on available credits?

In 2011, House Bill 153 made changes to reimbursements due municipalities for changes made to the personal property taxes on electric and gas companies. Those reimbursements were reduced to cover shortfalls in the State Budget. Once the Ohio Department of Taxation begins collecting a municipal tax, there is nothing to stop a future administration from asking the legislature to plug a state budget hole by raising the collection fee or imposing "one-time" fees that substantially impact Grove City.

A business headquartered in another state will more often than not list its Grove City location as its "Columbus" location. Past experience has shown us that the tax departments of those businesses sometimes report their Grove City tax liabilities to Columbus. It does not happen daily, but it does happen once or twice a year. The legislation removes our authority to audit business returns and catch those errors while there is still time to correct them. The Ohio Department of Taxation has no incentive to

catch or correct these unintentional errors. In fact, since Columbus has a higher tax rate than Grove City, the Ohio Department Taxation has a financial incentive not to correct such errors. The foreseeable result is the gradual shifting of Grove City tax dollars to Columbus that would continue to deteriorate with time.

This will be a slow bleed added to reductions in funding we've already taken to our budget from Local Government Fund allocations, the elimination of the Estate Tax and the mandated Net Operating Loss carryforwards. The past cuts to the Local Government Fund and the elimination of the Estate Tax cost the City \$922,000 annually, roughly the annual budget of our business Development Department.

In addition to centralized collection, we have concerns over the proposed elimination of the "throwback" rule as it will have major negative consequences to our net profit tax collections. Part of our long term strategy is to attract fulfillment facilities such as The Gap, and ending the "throwback" rule may actually make it difficult to attract such businesses to our community and Ohio. We believe it will actually increase reporting and compliance costs for businesses rather than reducing them.

For example, an online retailer with one location in Ohio that sells products throughout Ohio might find itself suddenly obligated to track its municipal tax obligations in several hundred Ohio municipalities rather than just the one in which it is located. In addition, we believe this will add reporting burdens to retailers who have stores in Ohio but also sell products online to Ohio consumers. It is no secret that Walmart has an e-commerce fulfillment center outside of Atlanta, Georgia. The Georgia center ships goods directly to Ohio customer homes. Under the current "throwback rule", Walmart does not have to source to Grove City any e-commerce sales shipped from Georgia to customers in Grove City. If the proposed change to the throwback rule is enacted, then Walmart will have to start tracking their e-commerce sales and report them to any municipality in Ohio in which they have a store. I cannot imagine they will be happy with that.

We have estimated the elimination of the throwback provision will be a \$105,000 annual revenue loss to Grove City. This is approximately the amount needed to fund one full time police officer.

This provision has a negative impact on Grove City and actually adds complexity for tax filers, so we respectfully ask that it be removed.

Thank you for the opportunity to express my concerns. I look forward to any further communications you may wish to have.

Richard L. "Ike" Stage
Mayor