

# **House Bill 49 – Opposition Testimony for Centralized Collections**

## **Speaker Bio:**

Tom Vanderhorst has over 20-years of municipal finance experience and is currently the Finance Director for the City of Hamilton. He is a native Ohioan and has spent most of his life in the southwest quadrant of the State. He has a Bachelor's degree in Financial Services and a Master of Public Administration from Wright State University. His list of professional municipal finance experience is listed below:

City of Springfield, Ohio – Revenue Collections Administrator

Consultant – City of Dayton Dept of Taxation

City of Savannah, GA – Revenue Director

City of Loveland, Ohio – Finance Director

Currently the Finance Director with the City of Hamilton, Ohio

Scheduled to teach Master-level municipal budgeting in Wright State University's MPA program in the Fall of 2017

## **Thanks**

Before I begin with the body of my testimony I would like to thank Representative Rutherford as well as Senators Peterson and Coley for their assistance helping the City of Hamilton secure two separate grants totaling \$2.1M in 2015 and 2016. During my prior testimony in front of this body, in opposition of HB 5, in 2014, I testified the City needed capital money for infrastructure needs associated with a 1,500 job economic development project and Senator Peterson said he would assist. I am here today to tell you the City delivered and so did this group! The Ohio Development Services Agency (ODSA) awarded a \$1.1M grant in support of the \$30M South Hamilton Crossing. In addition to that grant, Senator Coley and Representative Rutherford helped secure an additional \$1.0M ODNR grant to support roadway improvements for Spooky Nook Sports Complex whose total value is expected to exceed \$100M. I invite you to come to Hamilton to see the transformation of the rustbelt town into a vibrant, authentic, urban environment. It is truly awesome!

## **The City of Hamilton**

Hamilton has a population of about 62,000, 635 FTE employees, and an all-in funds budget of \$307M. We are the only city in Ohio to own all four of our utilities, water, wastewater, electric and gas. Our budget is much larger than other similar sized cities and is one of the ten largest in the State.

## **Testimony in Opposition of Central Collections**

I would like to speak with you today to express the City of Hamilton's opposition of centralized collection of business tax returns as proposed under the Governor's proposed budget contained in House Bill 49. While it is admirable that this administration has increased the State's rainy day fund from 89 cents to over \$2.0B from 2010 to 2016, I believe it is time to regroup and rethink about what made Ohio a great state to live, work and play. The current plan to take away local control of tax administration appears to be an attack on the provisions of Home Rule guaranteed under Article XVIII of the Ohio Constitution. Local control is needed for various reasons such as ensuring timely cash flows, enforcement, forecasting and sense of community.

City personnel are the "boots on the ground" for enforcement. Whether it be a meter reader, code enforcement officer or auditor, losing local control of collections make the entire system less efficient.

Currently, the City of Hamilton collects about \$26M annually in local income tax and for the Indian Springs JEDD it has with Fairfield Township. With a personnel budget of \$544K, our cost of collections is about 2.1%. Under the proposal contained in HB49 the City would pay the State of Ohio a 1% administration fee on the approximately \$2.6M in business net profit taxes collected annually. This small amount, about \$26,000, certainly doesn't seem to be worthwhile to the State and the loss of local control into a bigger organization such as the State certainly seems like the same model deployed by the IRS. Should you ask a taxpayer which office they would prefer to call, my thoughts are the local tax office would win hands down over being launched into the abyss of the IRS phone tree. This is because we personalize the experience because we can also tell them what this week's concert is, where the post office is and how they can report issues and concerns to public safety.

If centralized collections operates in a manner similar to the Ohio Utilities Pass-Through, it will greatly reduce our city's ability to forecast cash flows and will also reduce the ability to react to change due to the delayed reporting of information. For those of you not familiar with that program, a number of years ago legislation was passed to centrally collect the net profits of utility companies with the State distributing revenues based on the underlying company's business activities. While Tax Administrator in Springfield, I was asked to issue a \$22,000 refund without any documentation. When I contacted the State of Ohio to gain guidance, the State employee faxed over a section of the ORC stating I was prohibited from receiving any information and was ordered to cut the check or pay interest on the refund amount should it not be issued within the allotted time.

Maintaining local control would produce a more equitable outcome because the local presence and knowledge of taxpayers in the community builds taxpayer accountability. It is likely a utility account was opened, or a building permit issued or maybe there might be someone on staff who lives nearby with personal knowledge of the business that would make auditing the account more accurate.

Additionally, without a breadth of knowledge of who is paying and how much, revenues would be difficult to forecast. For example, Hamilton was the recipient of job announcements totaling 2,182 new jobs in 2015 and 2016, however, our year to date income tax revenues are down by about 3% for 2017. Without our Tax staff having granular knowledge of each account, which would happen by losing local control, it would make it difficult to determine the appropriate plan of action needed. In this case, one of the new out of state employers had not set up an account in a timely manner.

In addition to the forecasting concerns previously mentioned, the quarterly distribution of revenues also seems to be somewhat onerous to cities considering the unpredictable nature of corporate net profits and the limited cash reserves of some cities. Since the administration of business returns would be assigned to the State, I assume quarterly payments on net profits would also fall to the State as well. Depending on the collaboration between the State and the locality (if it is similar to the State Utility Pass-Through model, it would be none) localities would have little working knowledge of their major employer's business behavior and have less time to react to bad news since distributions will be delayed due to quarterly filing of taxes. The City of Hamilton has already experienced something similar to this with the

State because it places delinquent income tax and EMS accounts with the Ohio Attorney General's Office. During the last quarter of 2015, the State collected nearly \$83,000 for the City of Hamilton; however, it was reduced to about \$7,700 during the same time period of 2016 due to software problems. Despite the City placing additional accounts, the work on the accounts and the expected revenue simply stopped. As you know when an account ages it loses value, so while it is not easily calculated, the City was harmed when this occurred.

### **GASB 77 and Valuing Economic Development Incentives**

Beginning with 2016, Hamilton, like all other cities, is required to track, value and report its economic development tax abatement agreements in its financial statements as part of the Comprehensive Annual Report or CAFR process. Tracking the value of the abatements and tracking milestones to enforce the job creation tax credits agreements (JCTCs) will become more difficult should we lose local control of the tax information. Additionally, cross-checking the information with employer-reported information has historically found that the recipient seems to put themselves in a better position than the actual numbers reported on their tax returns. This system of checks and balances would be hurt.

### **Closing**

In closing, I echo many of the sentiments that either have been shared or will be shared by those speaking in opposition of the centralized collection proposal contained in the Governor's budget; however, I'd like briefly discuss the difficult position being faced by most local municipal governments.

State Auditor, Dave Yost, recently released the Financial Health Indicators for each government and strategically released them as the State's budget process was getting underway. At the August 2016, Ohio GFOA conference in Columbus, he received a rousing applause as he indicated the cuts on local government have got to stop because they are eroding their financial viability. As our report card indicates, the City of Hamilton is doing reasonably well, with two cautionary outlook and two critical outlook grades of the seventeen taken from our CAFR. Of the most concern to me was #11, Condition of Capital Assets. The City's book value of assets, which is its purchase amount minus depreciation, was about 78%. This means that over three quarters of the expected useful life of our capital assets had been used.

My concern is that the continued attacks on the City of Hamilton's revenue sources, of which I perceive this as being another one, is making it more difficult for us to provide services and keep well maintained infrastructure in order to maintain the State's attractiveness for commerce.

In a recent letter, State Tax Commissioner, Joe Testa, said the antiquated tax code is a drain on efforts to move Ohio forward. My comment to that is so is Ohio's aging infrastructure and as special interests make repeated runs on the local income tax without an alternative plan to replace lost revenues we will fall behind. This movement needs to be seen for what it is, an attempt to make winners and losers while reducing important facts for political gain. No one can argue that growing the State's rainy day fund to its current level while allowing taxpayers to keep more of their hard-earned money is a bad thing, however, it cannot come at the expense of safe, well maintained infrastructure for our families and commerce to travel upon. Centralized collection will make winners and losers and unfortunately local government has been sporting a losing streak of late. Although we'd like to keep a small public safety staff and reduce expenses, Hamilton, like many other cities, has additional expenses due to the heroin epidemic. In 2016, City EMS staff administered over 1,300 doses of Narcan and our pharmaceutical line-item has increased 150% since 2010 to treat those addicted. Additionally, those addicted to the drug commit whatever deed is necessary to get their next fix. So we can ill-afford additional adjustments to our revenues centralized collections is sure to bring.

Meager candidate pools, decline of job offers that present a significant step up and internal applicants unwillingness to take a promotion are just a few examples of how the ongoing attack on local income tax has already affected the City of Hamilton and has reduced the number of people willing to choose local income tax administration as a career. While I value the fine work done by RITA and CCA, choosing to join a Council of Government should be just that...a choice. Forcing cities into a one-size fits all model, similar to the IRS, will not produce the most good for the most people as democracy was designed to do.

Thank you for your time