

**March 7, 2017, Testimony Offered Before  
The Ohio House Ways and Means Committee**

by Mike Barhorst, Mayor, City of Sidney, Ohio

Good morning, Chairman Schaffer, Ranking Member Rogers, and members of the Ways and Means Committee. I am Mike Barhorst, Mayor of the City of Sidney. Sidney, with a population of 21,229, is located on Interstate 75 about half-way between Cincinnati and Toledo. Sidney is the county seat of Shelby County.

Sidney is fortunate to have a large industrial base – in fact, you may know that Shelby County has more manufacturing jobs per capita than any other county in Ohio. Sidney is one of the few communities in Ohio that daily imports workers from surrounding towns and counties to fill the estimated 34,983 jobs that exist in our community.

I stand before you this morning in opposition to the Governor's recommendation that the state take the first step in collecting the municipal income tax by collecting the net profits tax – now introduced as House Bill 49. Based on 2016 results, in Sidney's case, the current proposal would mean that 26%, or approximately \$5.1M of the \$19.8M collected, would have been received by the State and eventually distributed to Sidney.

As you may also know, for many years, Sidney has opposed attempts by our state government to take over collection of the municipal income tax. These attempts follow the state's successful slashing of the Local Government Fund, elimination of the estate tax, and reimbursement of tangible personal property tax – ideas touted as making Ohio more "competitive" that have already cost the City of Sidney millions of dollars.

These continued assaults have made the City of Sidney more dependent now than ever before upon the municipal income tax to provide the revenue to pay for vital City services such as police protection, fire and emergency services, roadway and infrastructure replacement, economic development, and public recreation.

The centralized collection of taxes is contradictory to the idea of smaller, less intrusive government – an idea the Republican Party has promoted for some time. In addition, the centralized collection of the income tax is yet *another* challenge to the home rule powers granted to local municipalities by Ohio's Constitution.

Although prior estimates of the state's fee to collect the income tax have ranged from 3-8%, the current proposal pegs the initial fee at 1%. Using 2016 results, this would have meant the City of Sidney would pay the State of Ohio \$51,000,

as this fee would have been applied to both our permanent 1.5% income tax levy and any special tax levies, such as the additional 0.25% street tax levy.

We (and our colleagues across the state) believe that this is the Governor's "foot in the door" for total state centralized collection of income taxes. When enacted, this would cost the City of Sidney hundreds of thousands of dollars annually.

The auditing of Sidney income tax returns and pursuit of non-compliant and delinquent taxpayers are best handled at the local level. Business net profits returns are generally more complex and require extensive knowledge of federal tax laws. For those reasons, our Income Tax Administrator audits all business returns, with our Assistant Finance Officer performing a final review, ensuring that all applicable deductions are supported and that all taxpayers are paying their fair share. There are no assurances that the state would audit returns in the same thorough fashion. In fact, the Governor's fact sheet states that they would "audit returns when appropriate". While business might appreciate not having their returns audited, it is a question of fairness – proper auditing insures that all businesses pay their fair share.

There is no provision as to how municipalities would be able to verify that returns and refund requests are correct. In fact, taxes currently collected by the State for entities such as municipalities that receive revenue from the state by utilities within their corporate 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 the amounts received or have the amounts verified as being accurate.

I have a real concern about funds being collected in Columbus and being returned to the city in a timely manner. My experience with the few dollars that flowed from the state to the school with which I was associated for four decades was that the state held them longer and longer so that they could eke out the small amount of interest. Municipalities should not have to borrow money to operate because the state is collecting and holding their funds. Money currently collected in Sidney is available immediately.

The Governor's proposal would require all businesses file and pay their municipal income tax electronically through the Ohio Business Gateway (OBG). The OBG has been available to businesses for many years.

While we have made this payment and filing option available to Sidney businesses, very few opt to use the system. OBG is known for having significant programming and software flaws and has been severely underfunded for a number of state budget cycles.

I would strongly recommend that the State take steps to improve the OBG portal as a solution for Ohio businesses to remit payments and filing information directly to municipalities, and not to the Ohio Department of Taxation for processing.

Governor Kasich has framed nearly every recommendation that has been made that negatively impacts municipalities as being “pro-business”. In fact, despite all the decisions that have been made over the course of the past half dozen years, job growth in Ohio lags the rest of the country.

When I speak with the major employers in Sidney, something I in fact do frequently, their concerns are not the concerns about which I am testifying today. In fact, one of our major industries is about to announce a major investment. When I last met with them, they did not ask for any incentives and in fact when asked, stated that they did not want to do anything that in any way harmed the city or the local school system – how refreshing – if only this body could adapt the same approach.

In closing, let me state that Sidney continues to be negatively impacted by the confluence of issues which have had a compounding, negative effect on our ability to serve our citizens. We cannot afford still another. Although time constraints will not allow me to address other provisions of the bill, know that I am opposed to them as well. I would respectfully request that House Bill 49 be allowed to die in committee.

Thank you for your time and attention. I am happy to attempt to answer any questions you may have regarding this matter.