

MARCH 7, 2017 TESTIMONY OF JOHN FRIGGE, TROY CITY AUDITOR

Ohio House Ways and Means Committee, Chairman Rep. Tim Schaffer Presiding

Good {morning} Chairman Schaffer and members of the House Ways and Means Committee. My name is John Frigge and I am the elected City Auditor for the City of Troy. Thank you for the opportunity to speak regarding the Governor's proposals to impact our local municipal tax. In short, Troy is adamantly opposed to the centralized collection of business net profits, the changes to the Local Government Fund distribution formula, and the elimination of the "throwback provision."

First, turning over collections of municipal income taxes would, in our opinion, have a very detrimental effect on the business climate in the state, contrary to the claims of the State Tax Commissioner and his special interest groups. We collect municipal income taxes for 2,205 businesses in Troy each year. We have never had one complaint about the complexity of filing. On the contrary, we provide personal service and human contact to each and every business that contacts us with questions about filing with the City. We have received compliments on that service. Anyone who has attempted to resolve a state tax question finds it virtually impossible to talk to a human being, let alone set up a meeting to discuss any problems. The state's on-line filing system is broken and is costing millions of dollars to repair – repairs that we're told won't even be made by next year.

We dispute the collection costs that the Tax Commissioner has selectively included in his analysis. It does not cost Troy 4.28% to collect municipal income tax. Rather, in 2016, our operating costs were \$347,000 to collect \$18,733,214 or 1.8%. So, is it a "bargain" if the state charges us 1% v. our 1.8%? Absolutely not. The state has very little auditing or enforcing capability. Troy, on the other hand, audits every one of the 2,205 returns that are filed and we enforce slow- or non-submitting companies. As a result of our rigorous, 100% auditing and enforcement, we have recovered over a million dollars for our taxpayers in just the last three years, including \$919,575 from just ONE company (\$179,046 in 2014; \$352,629 in 2015; \$387,900 in 2016).

Second, the provisions to change the Local Government Fund formula, which Troy uses to provide basic services such as police, fire, and EMS will further penalize Troy. In 2016, Troy received 56% less than we did in 2007. Not including all of the declines we saw between 2008 and 2015, the difference in those two years alone cost us $\frac{3}{4}$ of one million dollars (\$779,527) in general fund revenues. Now, the governor wants to change the formula yet again, pitting our community against every other community by using a subjective, if not arbitrary calculation that is complex, vague, and nearly impossible to understand. Troy's LGF collections will stay

stagnant through 2019. If history is any indication, who knows if we'll have any LGF after 2019. We are being penalized in the future for having a slightly higher municipal income tax base than the state average. So, Troy gets penalized for its successful economic development and quality of life, which, by the way, benefits not only our community but the state as a whole.

In 2016, we were warned that the legislature wanted to talk about further revisions to the municipal income tax system. We were promised that 2017 would be another year of interested party meetings and thoughtful discussion about how we can all make our tax system better for Ohioans. Putting tax reform into the Governor's proposed budget not only preempts that thoughtful discourse but, frankly, adds to the already high level of distrust between the state and its municipalities. So, we join our colleagues in urging you to eliminate these provisions – centralized collection of any kind, LGF formula changes, and throwback - from the biennial budget and we stand ready to meet in 2017 to discuss rational and revenue neutral changes to the municipal income tax system in Ohio.

Thank you very much for your time and attention, Chairman Schaffer.