



Chair Oelslager, Vice-Chair Scherer, Ranking Member Cera and Members of the House Finance Committee. My name is Kevin Robison and I'm the Director of Taxation for the City of Dublin and Chair of the Ohio Municipal League Tax committee. I would like to express how House Bill 166 will affect the centralized collection of municipal net profit returns by the State Tax Department. Language in the Budget Bill related to Ohio Revised Code Sections 718.83, 718.85, and 718.90 will have significant effect on the net profit opt-in distributions made to municipalities. Under these changes the State would require municipalities to remit to the Treasurer of State full payment within thirty (30) days for any negative account balance notified by the State, or the State will be authorized to reduce or eliminate these municipal distributions.

Primarily the programming in the software developed for the administration by the State for the opt-in accounts has been the cause of these negative report balances. The handling of taxpayer estimated declarations, refunds, and credits are directly causing these problems. Based upon the February 2019 statistics published on the State Tax Department's website the majority of cities have negatives on their distribution reports and 157 cities with an overall negative distribution from the State. For this reason, the State Tax Department asked for and received a \$2,000,000 payment from the State Controlling Board to cover these negative distributions to the cities.

With these proposed changes to Ohio Revised Code Section 718 the State would be able to take monies credited to taxpayers due to negative account balances caused by other taxpayers due to administrative programming policies. Additionally, if these account balances are still negative the State may take monies filed and paid to other municipal tax sources such as the Municipal Taxation of Electric, Electric Light, and Telephone companies administered by the State under Ohio Revised Code Section 5745 to satisfy the deficiencies. Also, property taxes of real and public utility properties settled by the county auditor may

be taken. Tracking the tax revenues from the State centralized administration and collection of the municipal net profit tax will become even more burdensome and may create issues with outside auditors verifying the accuracy of payments made by taxpayers.

The City of Dublin has identified all of the taxpayers that have opted-in for the State administration and collection of the municipal net profit returns. For tax year 2017 the revenue we received from these coded taxpayers for the time period of January 1, 2017 through April 30, 2017 was \$ 859,884.00. During the same time period in tax year 2018 the revenues dropped to \$324,712 and have dropped even further to \$ 164,367 in tax year 2019. These drops in tax revenues from these opt-in accounts are affecting the cash flow of cities and ability to provide expected city services. My feeling is that revenues will continue to drop further in June due to the State's current software programming of how returns showing refunds and credits will be treated. With my 27 years of experience in third party administration we never experienced these negative transactions from the use of our software.

I have personally been involved with a municipal working group with Tax Commissioner McClain to evaluate and solve problems with the State administration of municipal net profit returns. Many of these issues were caused by the policies in the centralized collection of municipal net profit returns being rushed into the previous Budget Bill. I feel that we have had good conversations on how to resolve these issues with the negative distributions of tax revenues. More time is needed to further discuss the ramifications of this language in the Budget Bill and ask that the language be removed to allow for Interested Party meetings between the State Tax Department and municipalities for a better resolution to these issues.

In conclusion, the Ohio Municipal League and I believe that the language included in HB 166 impacting future distribution of municipal net profit tax revenue should be removed from the budget bill and introduced as a stand-alone bill so that a solution to the issues in software programming and administrative challenges can be reached jointly between the Department of Taxation and municipalities. The success of this process is vital to all stakeholders, and we welcome the opportunity to be part of this process.

Proposed Legislative Changes in Budget Bill Relating to Municipal Net Profit Collections

Declarations/Refunds/Credit Returns and/or Balance Due Returns are filed by Taxpayers through the State Opt-In Program

Municipality Reimburses the State

State will issue a distribution of funds to Cities less negative amounts on the "Monthly Net Profit Distribution Report"

If a City's net overall transactions result in a negative distribution report; no funds will be remitted to the municipalities
PROPOSED 718.83(C)
Would require municipalities to reimburse the State within 30 days

If account continues to be negative overall and no reimbursement is made:
PROPOSED 718.83 (D)(1)
Would allow the State to reduce the following month's distribution by the amount up to the negative transactions

If account continues to be negative:

PROPOSED 718.83 (D)(2)
Would allow the State to reduce the municipal 5745.05 MUNICIPAL UTILITY INCOME account distribution. (Note: This is a completely different tax and should not be comingled with the State of Ohio municipal net profit accounts)

If account continues to be negative:

PROPOSED 718.83(D)(3)
Would allow the State to request money under O.R.C. 321.24 – Settlement by County Treasurer (less county auditor-allowance of fees reduction) to satisfy the municipal net profit deficiency. (Note: This is a completely different tax and should not be comingled with the State of Ohio municipal net profit accounts)

The proposed legislation changes allow the State numerous methods to seize monies from different funds to satisfy municipal net profit opt-in deficiencies. This will create an accounting nightmare and a major issue for outside auditors. In addition, many local municipalities have noticed a significant decline in revenue as a result of this process

HB 166 - BUDGET BILL, SECTION 718

BACKGROUND

On March 15, 2019, Governor Mike DeWine released his proposed biennial State Operating Budget for FY20-FY21.

In the bill are proposed amendments to Ohio Revised Code Section 718, which would have a significant effect on the net profit opt-in distributions made to municipalities. Under these changes, the state would require municipalities to remit to the treasurer of the state within 30 days full payment for any negative account balance notified by the state, or the state would be authorized to reduce or eliminate these municipal distributions. Our concern is the programming and administration by the state of the opt-in accounts is what is causing the negative balances.

WHY IT MATTERS

Under this proposed amendment, the state would be able to appropriate monies credited to taxpayers because of negative account balances caused by other taxpayers due to administrative programming policies.

If these account balances remain negative, the state could take the monies filed and paid to other municipal tax sources, such as the municipal taxation of utilities, to satisfy the deficiencies. Additionally, property taxes of real and public utility properties settled by the county auditor could be appropriated by the state.

The proposed amendment would allow the state numerous methods to confiscate monies to satisfy these municipal net profit opt-in deficiencies affecting tax revenues. Taking money from different municipal funds to satisfy the deficiencies is not the intended use for these funds and could create legal issues, as well as auditing concerns.

BOTTOM LINE

- When returns are filed showing refunds and credits, they will be reflected as negatives on the opt-in net profit accounts.

- These changes will adversely impact the municipal tax revenues received.
- The proposed amendment will greatly increase the time municipalities will spend monitoring the state opt-in accounts.
- The current methodology has caused the State Tax Department to request \$2 million to fund the negatives shown within the system as programmed.

RECOMMENDED ACTION

Remove from the budget bill the proposed language that relates to ORC 718.83, 718.85 and 718.90, and calls for a progressive seizure of municipal funds needed to satisfy the false negatives.

Pass legislation that will specifically state municipalities would be required to remit a check to the state Tax Department within 30 days of notification to the municipality, so one check may be issued directly to the taxpayer. Failure of the municipality to remit a timely check would result in the reduction in the next monthly distribution paid by the state. Seizing of municipal revenues from other sources shall not be allowed to satisfy negatives as reported on the municipal net profit administration.

Pass legislation that will specifically state the credit carry-forward will be allocated to municipalities based upon the ratio of the income attributed to municipalities as shown on their prior year annual return.

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