

Senator Scott Oelslager
Chairman,
The Ohio Senate Finance Committee
Senate Building, 1st Floor
Columbus, OH 43215

Chairman Oelslager, Vice Chair Manning, Ranking Member Skindell and members of the Senate Finance Committee:

I am Dr. Marilyn Crumpton, Interim Health Commissioner for the City of Cincinnati, appearing on behalf of the City.

The City of Cincinnati strongly opposes several measures, announced by the Senate, changing HB 49 as passed by the House, because they threaten significant financial harm to the City's budget and impose an unproven and inefficient State portal in place of efficient and proven local control of municipal income tax collection. The Three (3) current proposals "Centralized Collection, elimination of the "Throwback Provision" and changes to the Local Government Fund ("LGF").

"Centralized Collection"

The proposed budget would centralize municipal income taxes, allowing Ohio businesses to "opt-in" and have the Ohio Tax Commissioner serve as the sole administrator of the municipal tax on net profits for the municipalities in which the business files, charge a 1% administrative fee, and make monthly disbursements of the funds to each municipality. The proposed centralization negatively impacts the City's budget in several ways. First, based on an anticipated "opt-in" participation rate of 14%, the 1% administrative fee adds an additional cost of \$70,000 per year to the City of collecting its own taxes. Second, the Ohio Department of Taxation is unlikely to perform the high quality review of the City's unique tax structure that is currently performed by the City's Tax Division. The City anticipates this will negatively impact municipal revenues by increasing adjustments, which would result in a total estimated loss of at least \$170,000 in revenue collected annually from businesses operating in Cincinnati. Third, the monthly disbursements and a solitary due date for all business returns, regardless of fiscal year end, will disrupt the City's liquidity and require it to more stringently structure its financial transactions, while depriving the City of collecting full interest on its deposits.

The ability to file business net profit taxes with the Ohio Business Gateway has been available since 2003, yet only an estimated 25 of 13,000 Cincinnati based businesses have opted to use the

Ohio Business Gateway. In exchange for the smooth functioning of the City's present scheme, the budget proposes that businesses that voluntarily file net profit taxes with the Ohio Business Gateway will be administered by the Ohio Tax Commissioner and a unique set of tax laws, rules and regulations. All disputes or inquiries will be directed to Columbus instead of to the local Tax Division which is available in-person, via phone, and online during regular business hours with local knowledge and ready access to records. Given the natural advantages of the status quo it makes little sense to opt for an unproven system that will reduce local revenues in exchange for no appreciable benefit to the State, its citizens, or its businesses.

“Throwback Rule”

The City of Cincinnati also strenuously opposes the so-called 'Throwback Rule,' which would change the sales portion of the three step allocation formula used to source a business' net profits to where the services are performed. Elimination would effectively create a "nexus to nowhere" treatment of the current "throwback" provision in municipal tax ordinances, essentially preventing the tax provision from being enforced for the sales of tangible personal property from warehouse and distribution centers originating in municipalities. The elimination of the “throw-back” rule was originally proposed in 2014 and included in HB 5. It was defeated at that time by this chamber for good reason. The projected revenue loss of its newly proposed elimination to the City is \$750,000 in its first year.

Local Government Fund (“LGF”)

The State has been reducing the Local Government Fund (LGF) revenue to the City for several years, and the dismal State revenue projections do not bode well for reinstating or even maintaining recent levels of LGF. The House budget bill proposes the State revert to the traditional allocation scheme for LCF. Historically the City has experienced major revenue reductions since 2010 of over \$116 million due to state reductions to LGF and the elimination of the Estate Tax.

The recent, currently proposed, further cuts are even more troublesome. These include:

- \$35.3 million redirected from the Municipal LGF Supplement Distribution Fund to support statewide programs to address the opioid crisis, further limiting municipal resources to treat the epidemic on the front lines.

- \$24 million redirected from the Municipal LGF Supplement Distribution Fund to support all 1,300+ Ohio townships and very small villages with a population below 1,000. The legislature recognizes that there are very financially successful townships in Ohio, but still revenues intended to support cities and villages will subsidize Ohio's unincorporated areas.

- With the reduction in overall state revenues and a smaller total state General Revenue Fund, analysts are forecasting that LGF distribution levels will decrease by almost \$90 million dollars over the biennium.

As a health care professional serving on the frontlines of combating the opioid epidemic in Cincinnati, which has been hit particularly hard, it makes no sense to either divert, or impair,

resources that the City of Cincinnati or other cities across the State of Ohio need for addressing their local imperatives.

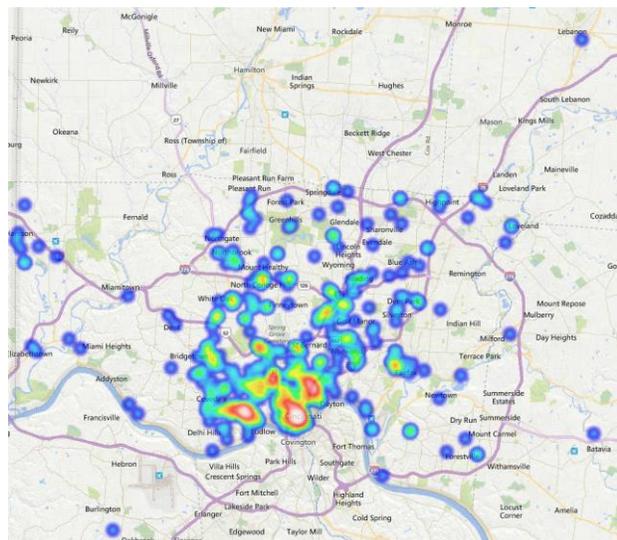
Implications for the City of Cincinnati

The City of Cincinnati unfortunately bears the brunt of the heroin epidemic compared to surrounding municipalities. Hamilton County data indicate that over half of all heroin related overdoses occur inside Cincinnati City limits. While surrounding municipalities are also experiencing unprecedented heroin related overdoses and fatalities, taxing first responders, school systems, families and communities, the City of Cincinnati experiences a concentration of this epidemic. For instance, in just one of the City's fifty-two neighborhoods 154 overdoses presented in local hospitals over the course of 2016. This does not even capture the 68% of cases that are revived by Fire and Police but refuse transport to the hospital.

Due to the extensive nature of this epidemic, first responders are reporting multiple visits to the same household and first responder compassion fatigue is requiring further intervention. See the video below demonstrating the impact on the City's Fire and Police Departments.

<http://www.cincinnati.com/story/news/politics/2017/06/13/gop-wants-take-local-money-pay-opiate-fight/392078001/>

Below, local data captured from the Office of Performance and Data Analytics at the City of Cincinnati depicts the immense concentration of police driven responses (from the Fusion Center report) in April 2017.



Due to the total negative impact to the City of Cincinnati's budget and that there exists minimal benefit to the State or businesses, we strongly urge you to reject the centralization of municipal

income tax collection, implementation of the throwback rule and restore the LGF to previous funding levels.

Thank you for your time, and I would be happy to address any questions the committee has.