



LOCAL IMPACT: OHIO BUDGET

Cities fear another punch from legislature

Backers say tax bill will bring uniformity to byzantine system.

December 2, 2014

By [Laura A. Bischoff](#) and [Ed Richter](#)

Staff Writer

State funding cuts and law changes have delivered blow after blow to city budgets and now municipal leaders are begging state lawmakers not to go through with a local income tax streamlining bill that could deliver another financial blow.

And if House Bill 5 is passed in the Ohio Senate, local city officials said it could be devastating to their local budgets, making it that much harder to provide local public services.

A parade of local officials has lined up to say that House Bill 5 is bad news for their cities and villages. Innovation Ohio, a liberal leaning think tank, calculated that if approved, the legislation will cost Ohio cities \$82 million a year.

Meanwhile, business groups including the Ohio Chamber of Commerce and NFIB Ohio say it's needed to bring uniformity to Ohio's byzantine system where 592 cities assess and collect income taxes. Often businesses with employees who work in multiple cities have to file multiple returns and juggle a myriad of deadlines, rules and penalties.

In the big picture, cities are complaining that they're facing death by a thousand cuts, thanks to state officials. In January 2013, state leaders got rid of the estate tax — 80 percent of the revenues went to local jurisdictions. The state also recently phased out the tangible personal property taxes and instituted steep cuts to the Local Government Fund.

Now, lawmakers are moving to make traffic cameras cost prohibitive for cities to use. That will turn off a spigot of cash cities used to help their ailing budgets.

State cuts over the past four years to schools and local governments total \$1.86 billion, according to [CutsHurtOhio.com](#), which includes two liberal leaning policy research groups. City officials from Butler and Warren counties have expressed opposition to the bill.

“The real challenge about the bill are the amendments,” said Thomas Vanderhorst, Hamilton’s finance director.

Vanderhorst, whose 20 years of experience includes service as Springfield’s income tax administrator and a consultant for Dayton’s city taxation department, said the amendments are growing close to triple digits and that many of them could create more problems for municipalities, especially Hamilton’s projected \$42 million general fund budget for 2015.

In testimony before the Ohio Senate Ways and Means Committee, Vanderhorst said Hamilton has lost more than \$1.28 million between 2009 and 2014 in cuts to the Local Government Fund and the elimination of the Estate Tax. He also said this did not include the more than \$1 million a year in annual investment income. Vanderhorst said the city also saw decreases in income and real estate taxes during that time period.

As a result, Hamilton was forced to make a number of layoffs and budget cuts, he said.

“Our revenues were cut at a time when we needed the money the most,” Vanderhorst told the committee. “It wasn’t just one revenue that was cut. If House Bill 5 passes in a form that negatively impacts income tax, all of our major revenue sources will be negatively impacted.”

Middletown’s 2015 general fund budget will be \$27.9 million, but the cuts from the passage of House Bill 5 on the income tax side alone could cost the city about \$85,000 a year, said Sandy Mueller, the city’s income tax superintendent.

Mueller said one of the larger issues cities are facing with the bill is the five-year net operating loss requirement, something that Middletown already offers. She said the majority of the estimated \$85,000 relates to the changes made on how businesses are required file and pay.

Mary Hopton, Fairfield’s finance director, said the city would lose between \$200,000 and \$400,000 a year if House Bill 5 is signed into law.

Hopton said the bill contains provisions that make doing the city’s job much more cumbersome and costly. She said it will become harder for cities to balance their budgets because of the cuts.

“Without adequate revenues, how do we provide services,” she said.

Hopton said she and other local officials want to see a bill with revenue neutrality.

The village of Carlisle in Warren County has a general fund budget of nearly \$1 million. Officials there are also worried about the bill.

“It wouldn’t help if it passes, that’s for sure,” said Julie Duffy, Carlisle’s finance director. “I have no idea how the village can make that up.”

Duffy said the village would lose about \$60,000 a year on top of all of the other cuts if House Bill 5 passes. She said in 2001, Carlisle received just more than \$157,000 in local government funds. In 2014, she said the village received just more than \$32,000.

“That’s the challenge for the size of our community,” she said. “We’ve been trying to maximize our grant opportunities and scale back spending.”

Franklin City Manager Sonny Lewis said a conservative estimate is the city could lose as much as \$400,000 if the bill becomes law. Lewis said citizens expect their tax dollars to stay locally and don't want it going to the state.

"It's a chunk of change for a small city to lose," he said. "That money (\$400,000) could be used for a street paving contract."

Former Ohio tax commissioner Tom Zaino, who supports the bill, testified that the legislation simplifies and adds fairness to the municipal income tax system.

Likewise, Matthew Yuskewich, past chair of the Ohio Society of CPAs, noted that Ohio has 540 different sets of rules and regulations and in some cases the cost of complying with all the municipal tax systems is higher than the actual tax bills.

Ohio is one of 10 states where municipalities assess and collect income taxes from individuals and businesses. About 600 municipalities impose such taxes – only Pennsylvania has more local jurisdictions assessing income taxes.

City officials are complaining that the bill – as written – has loopholes that would shield executives' pension income and wages paid to professional athletes or entertainers who perform periodically in Ohio cities as well as change in how businesses' net profit returns can be taxed.

"The bottom line is the state is making it harder and harder for local governments to effectively govern," said Cincinnati Mayor John Cranley in testimony before the Senate Ways and Means Committee.

Some lawmakers want to go even further than House Bill 5. State Sen. Kris Jordan, R-Powell, introduced legislation in February that would eliminate cities' authority to assess income taxes on non-residents who work in the municipality but live elsewhere. Cranley said such a move "would literally destroy Ohio cities and Ohio as we know it."

Staff writer Cornelius Frolik contributed to this report.

Original Article: <http://www.journal-news.com/news/news/cities-fear-another-punch-from-legislature/njKTs/>