

City of Independence, Ohio

"THE HEART OF CUYAHOGA COUNTY"

6800 BRECKSVILLE ROAD

INDEPENDENCE, OHIO 44131

(216) 524-4131

MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, June 25, 2021

Re: Finance Department Updates

Ohio Municipal Income Tax Laws

This very important issue still hasn't been cleared up yet in Columbus (Location of the Ohio House and Senate – the General Assembly). But if the goal of the General Assembly is to include changes to Ohio's local income tax laws in the State Budget, the deadline for that action is by the end of month, pretty much leaving the first few days of next week for all this to play out.

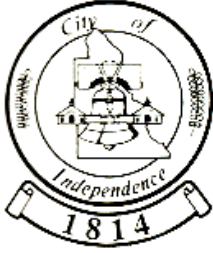
But even the Regional Income Tax Agency (RITA) is of the opinion that this issue is ultimately going to end up being decided by the Ohio Supreme Court. So no matter what new local income tax laws get included in the State Budget and don't get line-item vetoed by the Governor, this issue won't be entirely cleared up until the Ohio Supreme Court rules on it.

The two primary questions of these potential local income tax law changes are:

- What refunds will be allowed for employees who worked remotely during 2020 and/or 2021 and paid local income taxes to cities or villages that they did not work out of?
- How and where should income be taxed at the local level going forward?
 - Where the employer is located, no matter where the employee is located?
 - Where the work is actually performed, which may or not be where the employer is located?

RITA has estimated two projections for the cities and villages it collects and processes municipal income taxes for:

- Potential Long-Term Change if a post-pandemic pattern of remote work adjusts to 20% of work time. RITA estimates Independence's annual loss under this scenario at just over **\$3.5 million**



City of Independence, Ohio

"THE HEART OF CUYAHOGA COUNTY"

6800 BRECKSVILLE ROAD

INDEPENDENCE, OHIO 44131

(216) 524-4131

Ohio Municipal Income Tax Laws Continued

- The Estimated Refund Liability if all remote workers in 2021 who are eligible for refunds, seek one. RITA estimates Independence's 2021 "Transition Liability" to be in excess of **\$13.1 million**.

RITA collects and processes local income taxes for over 340 public sector entities in Ohio. It points out that some of those entities will be net "losers" if some of these various income tax law changes pass and are upheld as constitutional, but some of the entities it provides these services to will be net "winners." Therefore, it is not taking a stand either way on this issue.

One complication of this whole issue is the complexity of keeping track of employees and how many days are worked in the office, how many days are worked remotely, what communities that remote work is performed in, how the local taxes should be allocated, etc.

That is why RITA has been researching powerful technology options, including Artificial Intelligence, to determine if it could become the central local income tax collection agency in Ohio except for the six largest cities. RITA is trying to determine if remote work becomes an accepted and viable long-term business model, and income will be taxed where the work is performed, thereby complicating the calculation of it, can it provide the solution to that complexity since it already is the largest local tax collection and processing entity in Ohio?

City-School Collaboration

During discussions on the 2022 Tax Budget at this past week's Council Workshop, part of it was centered on the amount of financial resources that the City provides the School District. While some maintain that the City contributes "Zero" to the School District, it was noted that the City does provide a number of services to the School District that come with a significant cost to the City:

- School Resource Officers (SRO's) in the schools
- Snow Removal
- Tent Set-up and Break-down
- Rubbish Removal
- Facility Usage – Both indoors and outdoors
- Facility/Grounds Maintenance
- Campus Life Program
- Additional social support services



City of Independence, Ohio

"THE HEART OF CUYAHOGA COUNTY"

6800 BRECKSVILLE ROAD

INDEPENDENCE, OHIO 44131

(216) 524-4131

City-School Collaboration

It also needs to be remembered that in the late 1990's, the City acquired property from the School District at an above market price (\$2.2 million if I recall correctly) which allowed the School District to fund an addition to the Primary School.

Then the City contributed \$15 million of the \$33 million cost of the High School/Field House complex, with the voters agreeing to tax property owners for the other \$18 million.

Some newer residents may not know about the depth and breadth of current services and facilities provided to the School District that all come with a cost to the City, and quite likely aren't aware of the \$17.2 million+- in actual hard dollars that the City has provided to or partnered with the School District on.

So while it is fair to discuss and debate whether or not the City should contribute even more to the School District, those discussions and debates should always take place with the knowledge of current services/facilities provided and the over \$17 million that has benefited the School District during the past two decades.

Public Sector Pension Reform

A booming stock market has provided some short-term relief to the many public sector pension plans across the country that have promised more in benefits than can be actuarially provided. But even those equity (stock) gains haven't been able to make up for the huge unfunded liabilities that many public sector pension plans still have.

Some states have been able to adopt pension reforms to help provide the long-term stability and security that these public sector pension systems need. Among other states' efforts, Texas' reforms may set the model for public sector pension reform – *"the reforms would enable Texas to keep the promises made to current and retired workers but would stop making unsustainable pension promises to workers in the future"* (Wall Street Journal, Saturday/Sunday, June 19-20, 2021).