

MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: May 29, 2020

Re: Finance Department Updates

Municipal Income Tax Revenue - I

To quickly review, Independence generally receives its Municipal Income Tax Revenue (MITR) from the Regional Income Tax Agency (RITA) in two installments each month – the largest portion, the “Advance,” around the first of the month, and then the smaller portion, the “Remainder,” around the middle of the month.

So while June’s Advance from RITA won’t be received by the City until Monday, June 1, RITA was able to communicate today what that **June Advance** will be. Following are the June Advances dating back to 2016:

<u>Year</u>	<u>June Advance</u>
2016	\$2,087,584
2017	\$2,196,883
2018	\$2,689,651
2019	\$2,350,927
2020	\$1,934,326

On a dollar basis, June’s Advance is a \$416,000 decline from June of 2019, and a \$755,000 decline from June of 2018.

On a percentage basis, June’s Advance is a 17.7% decline from June of 2019, and a 28.1% decline from June of 2018.

Since mid-March it has been consistently communicated that while it was going to be hard to predict with any level of certainty what Independence MITR declines for 2020 was going to be, it was fairly certain that Independence would financially “feel” the full effects of the economic fallout beginning in June. This is due to the delay from when MITR is withheld from employees until it is forwarded to RITA, and from when it is then forwarded from RITA to the City.

So June’s Advance being lower than any recent June is no surprise. We were fully expecting it to be down for at least two reasons: The worldwide economic slowdown caused by the shutdowns and “Stay-at-Home” orders, and the advancing of the tax filing deadline from April 15 to July 15.

We’ll see what June’s Remainder comes in at, and that at that time the City will have received six months of its MITR for 2020. Because the country is just now starting to re-open to a significant extent, it will likely be at least a number of months before MITR rebounds to historic levels. So it is expected that 2nd half 2020 MITR likely won’t reach 1st half 2020 levels. But that’s known, and it can be planned for.

Municipal Income Tax Revenue - II

The bigger issue regarding MITR is still the long-term impact of the whole remote working arrangements that many office-type environments have adopted at least initially as a short-term coping mechanism. The \$64,000 questions then are, will this remote working dynamic be just that – only a short-term coping mechanism? Or will remote work become a full-blown, long-term trend?

Initial indications are that it quite possibly can be the latter, as organizations across the country have barely missed a productivity beat with their initial attempts at significant remote work arrangements. But will the leveraging of ideas and collaboration be lost if employees work remotely and hardly/never come together to experience the positive dynamics of working in an office environment?

These are all questions that will be answered over time.

Mayor Kurtz and I participated in one of the Mayors and Managers Association on-line calls yesterday. This topic of remote work came up, with the resulting questions regarding the legality of taxing people at the local level who may no longer, or hardly ever, step foot in a municipality anymore.

One of the advisors to the Association is an attorney with significant state and local government experience in Ohio. This advisor was hesitant to be pinned down to any specific predictions as to how this whole remote work/tax issue will play out over the next few years.

But this advisor was fairly certain of two “general” predictions:

1. That there is going to be some form of a structural shift in local government taxation in Ohio over the next few years, and
2. That structural shift is unfortunately going to create winners and losers amongst all of Ohio’s cities, villages and townships.

Incoming Economic Development Director Jessica Hyser can’t start soon enough to commence the process of working with the Administration and Council to:

1. Recognize all of the new the economic, cultural and societal realities of 2020
2. Identify which of those new current realities might become long-term trends
3. Prepare plans/options for how the City can/will proceed forward

The long-term goal of that process is to ensure that if the Mayors and Managers Association’s advisor’s prediction of “winners” and losers” being created plays out, that Independence does all it can to ensure that it remains one of the “winners,” and that any threats to that status are turned into opportunities.