

INCOME TAX BOARD

City of Findlay
February 24, 2020

MINUTES

ATTENDANCE

Members Present: Mayor Christina Muryn, Don Rasmussen, Susan Hite, Jim Staschiak II, Jeff Wobser.

Staff Present: Andrew Thomas and Kathy Launder.

APPROVAL OF MINUTES

Auditor Staschiak requested that the following be added after first paragraph of Revenue Estimates in the November 6, 2019, meeting minutes: Auditor Staschiak asked and Mr. Thomas stated the \$7,050,000.00 business income tax projection estimated for 2020 was arrived at by adding an approximate \$4,000,000.00 of business tax projections to the approximated \$3,000,000.00 in waved/deferred payments reported to City Council throughout the year.

Motion to approve minutes of the November 6, 2019, meeting subject to the addition, by Auditor Staschiak, second by Treasurer Hite. Motion passed 5-0.

NEW BUSINESS

Year-To-Date Collections: Thomas reported that as of February 21, 2020, year to date collections over this date last year: Employer Withholding is up 13.022%; Individual collections are down 9.929%; and Business collections are down 77.840%. He commented that he is happy with the employer withholding numbers. Business collection is to be expected because we will be getting extension payments for 2019 in April. Thomas stated that everything is as expected in the Business collections. On the Employer Withholding collections, the increase is not expected. Two months in a row having good withholding is good news.

Collections, Estimates, Delinquencies: Thomas distributed the Annual Collection Report. Thomas reported that 2020 is not going to be as good as hoped. We can project out what 2021 and 2022 will look like. For the Employer Withholding and Individuals took an average of the compound annual growth rate. The business side, things will be flat for 2020, 2021, and 2022.

Auditor Staschiak look at Individual withholding if we look at what we projected for the 2019 budget on withholding we projected during the budget cycle, late 2018, early 2019 about \$20.5 million is what we were projecting for 2020 for payroll withholding. The updated projection in 2019 for 2020 is about \$19,165,000. That's a \$1.394 million difference and would like to talk about for the record for this meeting. If you do the math, if you divide \$1.394 million by 1% that's \$140 million. \$140 million is 1300 \$100,000 per year jobs in the difference in withholding. We talked last time that the revenue coming in now at the 13% is good. Do we think we will see the reduction overall in the withholding?

Thomas stated that he wouldn't look back at 2018 for 2020 projections. When he weighed in on the projections for 2020, he would use how he thinks 2019 would end. The 2018 number would be invalid since a whole year had gone by.

Auditor Staschiak we ended up not that far away on the 2019 withholding and Thomas is using standard multipliers on the projections. Auditor Staschiak still trying to get head around how in an economy as strong as ours is and unemployment as low as it is and employment as high as it is how we can be still projecting such a low growth on the W2 income when instinct would say it would be higher. Have you given any more thought to that, have you pursued any more avenues looking into

where we might be missing payroll collections or anything else that may have happened out there that may have affected W2s this year.

Thomas stated he is always going to be conservative. Look at compound annual growth rate. Look at where some of those figures were to get to some these numbers here but the W2s although a lot of them come in are not due until Monday. Not all of them are going to be in. It takes some time to get them in, even though three fourths of them come in electronically. So then we have an opportunity to reconcile to make sure they submitted everything they were supposed to and then we can compare to what they remitted from the entire year for 2019 with 2018 to see if there was anything there that would jump out.

Mayor Murn stated that one of the things we discussed with unemployment being so low right now we are not adding a lot of jobs locally where we are really growing that number. We are getting that 1.2, some will be in pay raises but we are really not expanding our withholding.

Auditor Staschiak stated that's his concern. We put the CRA in place so that we would give the businesses the opportunity to receive that break on real estate taxes from anywhere from 5-10 years but one of the major trades is that we would receive income tax from all the jobs that were added. He is concerned. Is there a way we could look into this a little deeper to make sure that the incentives that we are giving in that language is appropriate because if it is to going to lead to more revenue, then what are we gaining? If you gain a company and the tax laws don't allow them to pay more business tax. Auditor Staschiak commented that he is not saying that is what is happening, he would like to explore it more in an informative way and how we can explore it, because we should be seeing in the biggest, best economy that we have experienced with the lowest unemployment and the highest employment that we have seen since 1998 we should be seeing significantly higher growth in the W2 income. It seems common sense that if you look at the statistics something seems off if these numbers come in where Andrew is projecting. Auditor Staschiak thinks they should be 2-3% higher than what we are projecting currently for 2020 withholding.

Thomas stated that he wouldn't be surprised if 2020 did come in higher.

Thomas explained the Withholding comparison report.

Thomas followed up on the question Auditor Staschiak had regarding withholding for foreign nationals. That is one of the things the Withholding Comparison Sheet will show. Is there an employer that is down? If they were withholding at one time. Looking for any significant numbers in those regions and Thomas talked with other cities to find out what they are experiencing anything in terms of trying to fill jobs and they are not seeing anything. Thomas made sure this was included in a letter in case there is any confusion, there is no exclusion or exemption for foreign nationals. The letter was sent out last week and included a copy of Findlay's Income Tax Ordinance and Ohio Revised Code.

Auditor Staschiak stated last year throughout the year, Thomas was reporting to Council that we had \$2.8 million in waived estimate payments on the business tax side. One of the reasons he wanted to make sure the clarification was in the minutes earlier regarding that so our \$7,050,000 of revenue projection for business tax that we use for the budget. In November 18, Thomas projected \$7,050,000 for the business tax and by December 11 at the budget review the projected business tax dropped to \$2,355,000. That's a \$4.7 million drop. Staschiak thinks the Board needs to talk about that a little bit to understand it. For the record would like Thomas to explain it so that everyone is on the same page because Auditor Staschiak doesn't think the public will understand particularly with a report the entire year that we had \$2.8 million in revenue that we were expecting and was included in the revenue projection of \$7,050,000 and how it dropped to \$2,355,000 for this year for all business revenue whether it had been deferred or not.

Thomas stated that the reports of January through September would have been what we were expecting to receive in 2019 for 2018. Then in October, November, December we do a shift, that's when the calendar year extended returns start come in. In October 2019, we would state what we should receive in 2020. The premise behind the report is how much money are we not collecting throughout the year because we don't take the estimate payments. Ideally those are going to be based on two things: their formal projections that they issue to us and/or their tax returns from the previous year until we hear otherwise, because by default their estimate declaration for the following year will be 100% of the previous year. We are going to use any information available to us to see whether or not we are far off from it. Thomas thought that he was low on the estimate. December 11 we heard otherwise. The portion of 2020 was a shot in the dark anyway. He said all along that nobody is going to know in 2019 what anybody is going to do in 2020.

In the meeting in November, Thomas said that when he mentioned the collection figures that we would have to keep the 2020 numbers the same as 2019 so there was no growth there. That is going to be true but based on a much lower number.

Auditor Staschiak asked how we are going to explain as elected officials to the public, the report tells City Council that we are expecting \$2.8 million in estimate payments that we did not collect, we deferred or waived, we did not collect money that we could have that we are entitled to collect and we used that number to project \$7 million business tax and now we are all of a sudden we are saying that \$7 million is not coming, \$2.3 million is coming in. How do we explain that in layman terms to the public that the \$2.8 million just isn't there.

Thomas stated it is essentially the same volatility as we experienced back in 2008. We said all along that business collections are very volatile. We are at the mercy of the businesses on what their profits are attributable to Findlay and what they report to us.

Mayor Muryn stated that many discussions have been held regarding this. And what the story is, what the message is that that report is saying is that if they were making those estimate payments, that's how much we would have received and there were a couple entities that came back and their revenue was significantly lower. So what they are actually going to pay to us is going to be significantly lower. Yes, because we are having that double count now that we are no longer using that process it's kind of double hitting us. That's really the large impact.

Auditor Staschiak it should hit us in a positive way because we deferred it. He went on to comment that if we are saying the business tax is only going to only be \$2 million, and in Thomas's last report to Council said the waived estimate payments, it was December, this is the November report that said \$2.8 million was \$500,000. So are we saying the business revenue that we are projecting for 2020 from your perspective is only \$1.8 million, not counting what was deferred? Thomas stated the money that we are going to receive in April is going to be a lot less than we thought. The business section, the 2020 growth should be the same as what was given to the Mayor, \$2,355,000 should be pretty accurate for 2020. Auditor Staschiak of that \$2,355,000 does that include the \$500,000 on the report that was given to Council most recently, December year end report. Thomas stated the December year end would have included it. October and November report would have been way off, December should be more accurate. Auditor Staschiak asked does the \$2,355,000 include the \$500,000. Thomas stated that it does. Auditor Staschiak stated so the core business receipts for 2020 are \$1.8 million. So we are going from about \$4.3 million in 2019 to \$1.8 million in 2020. Thomas stated that he doesn't agree with Auditor Staschiak's statement. Auditor Staschiak commented of the \$2,355,000 and the report to Council that said \$500,000 was pushed forward into 2020, does he subtract the \$500,000 from the \$2,355,000 or add it to it. Thomas stated you shouldn't do anything. It's accounted for. Auditor Staschiak stated if he subtracts it off, pretend we didn't waive or defer those payments into 2020 the core business tax receipts then that we projected for 2020 is only \$1.8 million so what we're saying is the business projection in 2019 we collected about \$4.3 million in business in 2019 and that is going to drop to \$1.8 million in 2020 during a big economic boom, how do we explain that. Thomas stated that

the \$4.3 million and the \$2.3 million is apples to apples. Thomas stated that it is the volatility of the business tax. Auditor Staschiak pressed on as why the tax revenues came in half. Mayor Muryn stated that there is really not a way for us to answer that. Mayor Muryn met with a business who was willing to try to help us explain and that was just the change. Councilman Wobser asked so there was no difference in their business. Mayor Muryn stated that there are lots of things that are always changing in their business but as they went through they said they haven't changed their process in how they report business tax to the City of Findlay and this was the reportable amount.

Auditor Staschiak that we are in this situation where had we collected the monies properly as every other city in the state collected we would have \$2.8 million more to pay tax refunds out of should the request for the refund came in then we would have collected interest and income off that money while we sat on it so for \$2.8 million/\$3 million we would have received about \$60,000 that we would have gotten interest income that would have paid something for us. So we got hurt by this policy in this particular year.

Thomas stated that comparing it to the fall of 2016 and we projected revenue for 2017, you will see we had a 42% drop and we knew in the fall of 2016 that's what was going to happen because of the process that was in place. Auditor Staschiak is more concerned about that we budgeted based on \$7 million that we provided and Council being told \$2.8 million was deferred and now we are in a position where we are being told \$2.3 million is actually going to come in. The question for this Board is what we need to tell Council. Mayor Muryn stated that we did bring it up in the budget meeting. She has already worked with the department heads to manage their expenses and have told them to wait on any non replacement hires to wait to see where things come in the next couple of months. I think it is one of those things that we continually have to adjust and adapt and manage the business appropriately. I think we are just going to have to watch it and adjust accordingly. Obviously, we can't do anything about the past. We would be in a situation now of refunding a significant amount of money so we are just going to have to manage it going forward. We can't affect it if this is what it is and we received what we received so now we are just going to work through it. She does think that by having folks pay their estimate payments, we are going to be able to obviously have a little bit better information over the rest of the year and we will work through it. The Mayor and Andrew have sat down with company representatives trying to better understand and wish there was a clear cut answer but in this situation there is really not. Auditor Staschiak posed question to Councilman Wobser at the budget meetings that he heard the number \$2 million and then afterwards looking at the reports it was \$4.7 million. That's significant. Staschiak is not aware that Council had any discussions about that. Councilman Wobser said that they have not. Mayor Muryn stated that as soon as Andrew notified the Administration that afternoon, he sent the updated amount which is consistent with that. Andrew stated he did send it out as soon as he was able to after learning of it. Auditor Staschiak stated that it's a big difference that he doesn't think Council understands. Thomas stated when you were preparing the budget for 2020, you were basically ignoring what we might receive in 2020 for 2020 because we were saying we wouldn't know. Basing the budget on the traditional way of not taking the estimate payments so if we are going to be down, we are only going to be down the \$2.6 million, not the \$7 million. Auditor Staschiak stated that we are budgeted in the black, about \$1 million. However, if the revenue number does come in \$4.7 million short, 80% of that-\$3.76 million-so you are going to be \$2.76 million short if this revenue projection is accurate and withholding doesn't come in high so you will be hitting an almost \$3 million deficit budget. Thomas stated that at the Council budget meeting all we really had was what we would receive in 2020 for 2019 at that point. We still had high hopes that 2020 would recover and that it wouldn't be an issue. Based on this sheet we know now that probably is not going to be the case.

Auditor Staschiak asked Councilman Wobser what should be shared with Council. Mayor Muryn stated in the last Council packet, we had all of the updated revenue projections so that's been in front of them. Mayor wants to clarify that this is not new news to them, that they have seen the numbers in front of them. Mayor doesn't want it to be construed that we are hiding anything. Going back to conversations with Auditor Staschiak and Thomas, we stated that we would hold tight and manage through it for the

next couple of months and see where things come in in April. We don't want to have a knee jerk reaction either. And have very clearly communicated with our department heads that this is a significant change, it's our responsibility to manage through it, that's the culture that has been instilled in our departments, and Mayor Muryn has full faith we will be able to do it. Auditor Staschiak stated that to the positive the department turned in \$980,000 more than they said they would turn in, so we have a cash balance of \$12 million so we are adequately reserved.

Councilman Wobser stated as much as we can distill this down would be best for understanding and inform at next Council meeting. We know it looks like we are going to be a lot less than we originally thought, however, Mayor Muryn is handling it internally. Don't know how much more we are going to have to handle it depending on what happens the rest of the year. Council has this idea that we've been running surplus and we haven't had to worry about money for a long time. Now things are changing and we need to start to manage in that direction. If things don't improve and we have to make drastic changes, don't want Council members wondering why. Mayor Muryn will draft letter for Council packet regarding this issue.

Thomas stated that in April 2020 we will collect for all of 2019, this is what we are calling an extension payment. We will get payments in April, June, September, December for 2020.

Legal Actions in Process and Contemplated: Thomas stated that garnishments are continually sent to the Law Director. The number of court cases for 2019 was 767 cases which is down from 2018 case count of 798. In 2017 we had 656. Wage garnishment cases in 2019 totaled 338, in 2018 was 235 which is a 40% increase. That is growing due to collecting for other cities, we have access to that information. Also, running through and getting W2s in, we had a lot of employers whose discs weren't working. We accept wage and tax data the same way the federal government does, but there is one little part for the local tax and it doesn't seem to work. We have offered for them to submit it on a .csv file as well so that helped a lot of them. Anything we can get electronically is a lot better than on paper. We get tax returns in system as soon as possible so that we can then pursue nonfilers, and then pursue the nonpayers. Mayor Muryn has done some social media posts for reminders to file taxes and will do more once we get closer to April deadline.

OTHER BUSINESS

Next Meeting: Meeting schedule for 2020: May 6, August 5, and November 4. All meetings will be held at 2:30pm in the third floor conference room of the Municipal Building.

Being no further business, the meeting adjourned.

Respectfully submitted,

Kathy K. Launder
City Clerk