Finance Committee Meeting
Tuesday, May 16, 2023 - 5:00 PM
AGENDA

1. Call to Order
2. Investment Presentation - Brian Carter 5/3 Bank
3. Discussion - Income Tax Increase
    a. RITA examples
    b. Revenue tax projections
4. RITA Account Review
    a. Account Review May 11, 2023
5. Other Business
6. Adjourn

1. Example 1: Tax Rate of 2.0% with a 100% credit up to a credit limit of 1.50%
2. Example 2: Tax Rate of 2.0% with a 100% credit up to a credit limit of 1.00%
3. Example 3: Tax Rate of 1.5% with a 100% credit up to a credit limit of 0.50%

Per your request, using the latest complete full year tax collection information available (tax year 2021), estimated **annualized projections** were compiled as to the additional revenue the City of Johnstown could receive from implementing a change being considered in the tax rate structure. The projection numbers will differ from previous projections compiled as a more recent tax year (2021 versus 2020) was used.

Three alternative tax rate structures were considered:

1. Example 1 = 2.0% tax rate with 100% credit up to 1.5% credit rate limit
2. Example 2 = 2.0% tax rate with 100% credit up to 1.0% credit rate limit
3. Example 3 = 1.5% tax rate with 100% credit up to 0.50% credit rate limit

The estimate of the annualized projected increases in revenue are as follows:

| Account Type | Example 1 | Example 2 | Example 3 |
|---|---|---|---|
| Withholding | $1,569,600 | $1,569,600 | $784,800 |
| Net Profit | $226,300 | $226,300 | $113,150 |
| Individual | ($220,300) | $80,200 | $12,350 |
| TOTAL | $1,575,600 | $1,876,100 | $910,300 |

The construction of the business complex for Intel in the neighboring community of New Albany brings a high degree of potential for additional municipal taxes for the City of Johnstown. However, due to the uncertainty to forecast the expansion of the residence and business bases in the City of Johnstown, the potential of this project was not considered as factor in the compilation of the additional revenue from a change in the tax rate structure.

The tax credit would only apply to the Individual accounts. Thus, the increase in revenue from the Withholding and the Net Profit accounts would essentially double in Examples 1 and 2 with the tax rate doubling from the current 1.0% to the proposed rate of 2.0%, and increase by 50% in Example 3 with the tax rate increasing from the current 1.0% to 1.5%.

Below are some analysis notes for each of the three Example Scenarios being considered regarding the projected revenue estimate for the Individual accounts:

**EXAMPLE 1: 2.0% Tax Rate with 100% Credit up to 1.5% Credit Limit**

The application of the credit to the Individual accounts would offset somewhat the impact of the tax rate increase for those Johnstown residents working in other municipalities. Residents working in other municipalities having tax rates that are 1.5% or greater would be eligible for the full 1.5% credit. Thus, for those residents, the proposed 1.0% increase in the Johnstown tax rate would be more than offset by the credit being given. This situation would actually result in those residents having their tax liabilities to Johnstown decrease. They are currently paying at a 1.0% tax rate and their tax liabilities would be reduced to an equivalent 0.50% tax rate (2.0% tax with a 1.5% credit).

The chart below is an estimate of the percentage of Johnstown residents that work in municipalities outside of Johnstown with various tax rates, and those that work within the city:

| **Workplace Tax Rate** | **Percentage of Residents** |
|---|---|
| Johnstown | 22.3% |
| 0.00% | 13.7% |
| 1.0% | 2.6% |
| 1.5%+ | 61.4% |
| TOTAL | 100% |

This breakdown of where the residents work is important since the degree of change in tax liability depends upon the tax rate of the municipalities in which the residents work. For example, since the credit would be attained from taxes paid to another municipality, it would not apply to the residents working within Johnstown as well as other workplaces having no tax (0.0%). These residents would incur a doubling of their tax liability (tax rate increasing from the current 1.0% to a new rate of 2.0% with no credit).

Johnstown residents working in another municipality with a 1.00% tax rate would not encounter a change in their tax liability currently being paid to Johnstown.

A resident working in another municipality with a 1.50% or greater tax rate would encounter a decrease in their tax liability currently being paid to Johnstown.

These points are outlined in the chart below:

| **Workplace Tax Rate** | **Percentage of Residents** | **Change in Tax Liability** |
|---|---|---|
| Johnstown | 22.3% | Double |
| 0.00% | 13.7% | Double |
| 1.00% | 2.6% | None |
| 1.50%+ | 61.4% | 50% Decrease |

Thus, about 36% of the residents may see a doubling of their tax liability, while 64% may not incur a change or may have a noticeable reduction from their current tax liability. This results in the net drop in revenue of $223,300 for this scenario shown in the chart above.

**<u>EXAMPLE 2: 2.0% Tax Rate with 100% Credit up to 1.0% Credit Limit</u>**

This scenario is very similar to that in Example 1 as to the importance of the credit being offered to reduce the impact of the tax rate increase from the current 1.0% to the proposed 2.0%. However, in this case, the credit would not reduce the tax currently being paid to Johnstown by some residents as in Example 1. The credit of up to 1.0% would just offset the rate increase to 2.0% for those residents working in other municipalities having tax rates of at least 1.0%.

The chart below is an estimate of the percentage of Johnstown residents that work in municipalities outside of Johnstown with various tax rates, and those that work within the city:

| Workplace Tax Rate | Percentage of Residents | Change in Tax Liability |
|---|---|---|
| Johnstown | 22.3% | Double |
| 0.00% | 13.7% | Double |
| 1.0%+ | 64.0% | None |

Thus, about 36% of the residents would have their tax liability double under this scenario with about 64% of the residents not incurring any change in the tax currently being paid. This results in the projected net increase in revenue of $80,200 as reflected in the chart above.

**EXAMPLE 3: 1.5% Tax Rate with 100% Credit up to 0.5% Credit Limit:**

This scenario is similar to that of Examples 1 and 2. Since the wages earned in municipalities having a municipal tax that is less than 1.0% is very miniscule (less than 0.02%), the chart from Example 2 applies. About 64% of the residents would have the 0.50% applicable credit offset the increase of 0.50% in the tax rate. About 36% of the residents would encounter an increase of just 50% in the tax liability to Johnstown, not the 100% (doubling) as being incurred in Example 2. Since the tax rate would be increased by 0.50%, the estimated revenue projection would be less than that in the other two Example scenarios (an increase of just $12,350 for the Individual accounts).

From a cash flow basis, there would be a ramp up period, typically a three-year interval, to realize the full impact of the tax rate structure change. The increase would be first realized from the Withholding accounts as the new withholding tax rate would readily be implemented and withholdings submitted. The change during the first year from the Individual accounts would predominantly represent changes to estimates made for that first year. Net Profit returns reflecting the first year of the new tax rate would not typically be filed until the next year.

The estimate revenue increases reflected in the chart below presents this ramp up period, and are based on a full year of collections on a cash basis beginning January 1:

| | YEAR 1 | YEAR 2 | YEAR 3 |
|---|---|---|---|
| Example 1 | $1,223,000 | $1,495,000 | $1,575,600 |
| Example 2 | $1,283,000 | $1,696,000 | $1,876,100 |
| Example 3 | $636,000 | $794,000 | $910,300 |

Al Dolezal
Regional Income Tax Agency

ACCOUNT REVIEW for the CITY of JOHNSTOWN
MAY 11, 2023

The Regional Income Tax Agency (RITA) is proud of the long term relationship we have with the City of Johnstown since November 1, 2009. We highly value the confidence you have in us by authorizing us to act as the agency to conduct the tax collection and administration activities on your behalf.

RITA has numerous unique capabilities that allow for us to most efficiently operate to maximize the degree of tax compliancy of the residents and businesses in Johnstown as well as the tax revenue collections being distributed to your municipality. The results of these tax administration functions outlined in this document support this view.

The purpose of this report is to provide to you a detailed review of the results of these unique tax collection activities that were conducted for 2019 - 2022. This summary is not meant to be all inclusive, but rather to highlight those services most visible to your residents and businesses. Other services include, but are not limited to, payment and form processing, customer services, auditing, full disaster recovery plan, and monitoring legislative changes as they pertain to municipal income tax. A full list of services being provided by RITA may be found at ritaohio.com. We would welcome the opportunity to review this information in a face-to-face session.

**1.0 Tax Collections and Distributions**

RITA provides semi-monthly deposits on the first and tenth workdays of each month directly into the City of Johnstown's bank account for the tax collections obtained. Below are the monthly gross collections that were distributed in 2022 and the prior three years for comparison purposes. Tax year 2019 was included so that the effects of the COVID-19 situation can be seen:

**GROSS DISTRIBUTIONS**

| MONTH | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| JANUARY | $188,174.15 | $145,830.72 | $142,596.01 | $174,222.81 |
| FEBRUARY | $206,788.85 | $225,415.99 | $185,058.36 | $187,665.37 |
| MARCH | $154,298.95 | $130,426.42 | $128,198.10 | $148,282.95 |
| APRIL | $245,804.14 | $212,223.00 | $192,520.73 | $170,761.73 |
| MAY | $352,150.83 | $297,612.71 | $204,425.33 | $315,858.41 |
| JUNE | $243,430.53 | $267,011.77 | $141,993.76 | $177,924.22 |
| JULY | $229,985.76 | $258,181.67 | $148,205.47 | $202,571.35 |
| AUGUST | $222,022.96 | $151,483.48 | $280,732.51 | $146,140.04 |
| SEPTEMBER | $194,314.58 | $168,697.18 | $151,232.77 | $133,849.08 |
| OCTOBER | $255,784.52 | $214,001.53 | $199,628.26 | $173,621.05 |
| NOVEMBER | $208,785.00 | $182,785.50 | $146,581.54 | $145,699.14 |
| DECEMBER | $152,126.85 | $186,385.89 | $136,475.09 | $116,887.67 |
| TOTAL | $2,653,667.12 | $2,440,055.86 | $2,057,647.93 | $2,093,483.82 |

Taking a closer look at the collections results, the chart below was compiled to reflect these gross distributions by type of account for the four year period as well as the percent changes for each year:

## GROSS DISTRIBUTIONS

| YEAR | WITHHOLDINGS | INDIVIDUAL | NET PROFIT | TOTAL | PERCENT CHG |
|---|---|---|---|---|---|
| 2022 | $1,565,404.43 | $867,818.72 | $220,443.97 | $2,653,667.12 | 8.8% |
| 2021 | $1,333,540.37 | $951,777.59 | $154,737.90 | $2,440,055.86 | 18.6% |
| 2020 | $1,158,572.78 | $777,599.07 | $121,476.08 | $2,057,647.93 | -1.7% |
| 2019 | $1,138,227.74 | $812,577.95 | $142,678.13 | $2,093,483.82 | 8.3% |

From an analysis of this collections data, the sources of the decrease of about 9% in the Individual accounts (2022 versus 2021) are the results of 10 Individual accounts decreasing by over $4,600 each in 2022 totaling a decrease of $60,686. The increase of about 42% in 2022 associated with the Net Profit accounts is due primarily from four accounts increasing by over $9,000 each in 2022 totaling an increase of $61,770.

The impact the COVID-19 situation can be detected in the data for 2020 versus that of 2019 and 2021.

### 2.0 Registrations

RITA utilizes all applicable resources at our disposal to identify all qualified taxpayers within your municipality. Our quest, like yours, is to ensure all taxpayers are contributing their share of the income tax revenues to your municipality to help finance your municipality's activities. The chart below displays our success in accomplishing this goal over the past four years:

## REGISTRATIONS

| SOURCE | 2019 | 2020 | 2021 | 2022 | TOTAL |
|---|---|---|---|---|---|
| Forms Registration | 10 | 2 | 3 | 3 | 18 |
| Employer W-2s | 102 | 128 | 72 | 116 | 418 |
| E-File Registrations | 26 | 33 | 31 | 37 | 127 |
| State Adds | 86 | 79 | 106 | 90 | 361 |
| Tax Form Processing | 149 | 129 | 176 | 158 | 612 |
| Tax Authority | 0 | 1 | 0 | 0 | 1 |
| Other | 27 | 16 | 24 | 28 | 95 |
| Total | 400 | 388 | 412 | 432 | 1,632 |

A brief description of some of these registration methods is provided below.

A most unique resource RITA has for identifying non-registered taxpayers is the agreement with the tax department of the State of Ohio to utilize its income tax filings to compare such filed returns against the account records in our database. This verification method is referred to as State Adds. With a non-registered taxpayer being identified, an account is automatically created in our database with an associated letter being sent to notify the taxpayer of this action and to inform them of filing requirements. The success of generating additional tax revenue from this process is presented in Section 3.2 State Adds Program of this document.

The E-File Registrations noted in the chart refers to taxpayers accessing our very robust website to create their own accounts. To operate in a most efficient and cost conscious mode, we feel it is best to mechanize functions that will minimize RITA's costs by effectively managing the costs involved for human intervention.

For Withholding Accounts, businesses are required to submit records of all the W-2 statements they issue to their employees. RITA has been innovative by designing an application program that can compare the W-2 statements that had been filed electronically to determine if an account exists in our tax database. If not, one can be automatically created with a corresponding letter being issued to advise the taxpayer of this action. In the chart, this registration process is referred to as Employer W-2s.

Another method that has been effective in the creation of accounts involves the identification of the new residents through the use of water and sewer registrations. With notices from the municipality of the names and addresses of new residents, our Records Management Department can issue letters to notify the resident of the tax filing obligations, and provide a Registration Form to be completed and returned. Also, notifications are received from the municipality from sales of houses, annual rental property owner notifications of their renters under contract, and word-of-mouth detections of new residents. These notices typically fall under the "Tax Authority" or "Other" categories displayed on the chart.

## 3.0 Compliance Program Activities and Collection Results

The results of the major compliance and registration resources used by RITA are covered in this section with a list of the results accomplished over the past few years.

### 3.1 Federal Tax Information (FTI) Program

Per an agreement RITA has with the Internal Revenue Service (IRS), RITA's Federal Tax Information (FTI) Department annually receives data extracts from the IRS. These data files are comprised of taxpayers who file an income tax return with the IRS, and list their addresses as being within the State of Ohio. A specially designed in-house program compares a taxpayer's IRS Form 1040 information to the data contained in our tax system to identify non-filers or under tax reporters on the municipal returns filed.

The goal of the FTI department is to take this confidential IRS data and leverage it with delinquent or under reporting taxpayers to bring them into municipal income tax reporting compliance. Once a taxpayer voluntarily supplies their income documentation to the FTI department, the information becomes no different from any other RITA income tax data and can be entered into our tax system.

Below are the annual results for the identification and tax collection efforts of our FTI Department with residents within Johnstown:

**FEDERAL TAX INFORMATION (FTI) PROGRAM**

| YEAR | LETTERS ISSUED | IDENTIFIED LIABILITIES | COLLECTIONS | COST |
|---|---|---|---|---|
| 2019 | 234 | 44,105.00 | 73,476.00 | 0.00 |
| 2020 | 89 | 42,573.00 | 61,337.00 | 0.00 |
| 2021 | 144 | 122,719.00 | 108,192.00 | 0.00 |
| 2022 | 94 | 19,829.00 | 46,109.00 | 0.00 |
| TOTAL | 561 | 229,226.00 | 289,114.00 | 0.00 |

The collections can be higher than the identified liabilities as the tax liabilities identified in prior years are being collected. The activities performed by the FTI Department in bringing additional tax revenue to a municipality are part of the standard tax collection programs conducted year-round at no additional cost to the RITA family members.

### 3.2 State Adds Program

In Section 2.0 above, the State Adds Program was described. Through the responses received from the letters issued that advised the residents of their municipal tax obligations, tax liabilities are identified with payments being received, including assessed penalties and interest. Below is a summary of this activity for Johnstown over the past four years as a standard operating process with no additional costs:

**STATE ADDS PROGRAM**

| YEAR | LETTERS ISSUED | IDENTIFIED LIABILITIES | COLLECTIONS | COST |
|---|---|---|---|---|
| 2019 | 83 | $4,781.05 | $4,750.73 | $0.00 |
| 2020 | 88 | $9,448.03 | $7,236.29 | $0.00 |
| 2021 | 121 | $16,084.30 | $16,311.95 | $0.00 |
| 2022 | 82 | $2,714.01 | $764.52 | $0.00 |
| TOTAL | 374 | $33,027.39 | $29,063.49 | $0.00 |

The State Adds activity during 2022 was conducted in November while the process during 2021 was performed in April, resulting in additional time for responses to the issued letters to be received.

### 3.3 Non-Filer/Delinquency and Subpoena Programs

This optional program consists of two possible activities: a Non-Filer/Delinquency Program and a Subpoena Program. With authorization from the municipality, resident taxpayers with active accounts are identified who have not filed one or more required tax returns for the municipality. Letters are issued to advise the taxpayers of the situation with the expectation of the returns being filed within the allotted time of 30 days. This segment of the program can be run without the Subpoena section, if desired. This program is run with no added expense to the RITA member municipality.

Below are the results of the last four Non-Filer programs that have been conducted for Johnstown:

**NON-FILER/DELINQUENCY PROGRAM**

| YEAR | LETTERS ISSUED | IDENTIFIED LIABILITIES | COLLECTIONS | COST |
|---|---|---|---|---|
| 2017/2018 | 1,463 | $140,093.42 | $64,972.70 | $0.00 |
| 2018/2019 | 1,318 | $34,896.72 | $16,066.60 | $0.00 |
| 2020/2021 | 1,385 | $114,780.19 | $49,342.07 | $0.00 |
| 2021/2022 | 1,516 | $47,539.38 | $30,499.03 | $0.00 |
| TOTAL | 5,682 | $337,309.71 | $160,880.40 | $0.00 |

The Non-Filer and the Subpoena programs are typically run from June to the following May of the next year.

The second part of this program, the Subpoena Program, if authorized by the municipality, involves sending an administrative subpoena letter if no response is received within 30 days from the issuance of the Non-Filer Program letter. The results could involve taking the taxpayer to court. The cost for this program has been reduced from $8.00 per letter issued to just $1.00 per letter.

Below are the results of the Subpoena Programs that have been conducted for Johnstown:

**SUBPOENA PROGRAM**

| YEAR | LETTERS ISSUED | IDENTIFIED LIABILITIES | COLLECTIONS | COST |
|---|---|---|---|---|
| 2018/2019 | 1,056 | $193,483.47 | $60,850.73 | $8,448.00 |
| 2021/2022 | 1,324 | $139,770.53 | $47,062.56 | $1,324.00 |
| TOTAL | 2,380 | $333,254.00 | $107,913.29 | $9,772.00 |

**3.4 RITA Legal Program**

The Legal Program is a robust program offered to all RITA municipalities. It provides standard services in handling issues such as bankruptcies, estate claims, and foreclosures. Also offered are auxiliary litigation related services for civil suits that include all of the typical prejudgment related services and attendance at court hearings at a minimal cost that are typically billed back to the taxpayer involved in such actions. RITA utilizes the services of a reputable experienced law firm to provide any post judgement collections needed that are outside RITA's litigation services.

Below are the results of collections activities conducted by our Legal Department for Johnstown:

**LEGAL PROGRAM**

| YEAR | LAWSUITS ISSUED | IDENTIFIED LIABILITIES | COLLECTIONS | COST |
|---|---|---|---|---|
| 2019 | 66 | $86,260.67 | $66,559.58 | $11,427.71 |
| 2020 | 33 | $49,210.88 | $39,808.22 | $6,562.13 |
| 2021 | 21 | $46,709.87 | $29,936.92 | $4,709.96 |
| 2022 | 32 | $56,069.63 | $37,549.28 | $5,701.13 |
| TOTAL | 152 | $238,251.05 | $173,854.00 | $28,400.93 |

The cost associated with the program are typically paid by the taxpayers involved. Also, our records have identified 120 accounts with liabilities totaling $136,292.53 as having potential for legal actions.

### 3.5 P.E.P.S.I. Program (Processing Employer Provided Salary Information)

A creative program is being used called PEPSI (**P**rocessing **E**mployer **P**rovided **S**alary **I**nformation). Using electronically filed employer-provided W-2 information, the P.E.P.S.I. Program has automated the process of generating returns for delinquent taxpayers. Applicable taxpayers are sent letters notifying them that returns have been compiled for them from their employer provided W-2 information, and that a billing statement will follow. For Johnstown, this program has identified the following liabilities:

**PEPSI PROGRAM (Processing Employer Provided Salary Information)**

| TAX YEAR | IDENTIFIED LIABILITIES | COST |
|---|---|---|
| 2016 | $18,920.77 | $0.00 |
| 2017 | $16,338.51 | $0.00 |
| 2018 | $3,167.47 | $0.00 |
| 2019 | $3,864.15 | $0.00 |
| TOTAL | $42,290.90 | $0.00 |

### 3.6 RITA Collections Department Activities

The RITA Collections Department is comprised of full-time resources that are focused on obtaining payments to satisfy outstanding account balances. For those accounts which payments in full are not an option to the taxpayer, the collection agents utilize creating and monitoring payments plans. This process enhances the cash flow capabilities to the municipality involved. The results of the Department's activities over the past four years are summarized below:

**RITA COLLECTION DEPARTMENT ACTIVITIES**

| YEAR | COLLECTIONS | TRANSACTIONS | COST |
|---|---|---|---|
| 2022 | $92,295.22 | 560 | $0.00 |
| 2021 | $84,615.75 | 502 | $0.00 |
| 2020 | $98,532.17 | 607 | $0.00 |
| 2019 | $113,408.01 | 751 | $0.00 |
| AVERAGE | $97,212.79 | 605 | $0.00 |

### 3.7 Compliance and Collections Programs Summary

In summary, it has been shown that RITA has designed and implemented these major programs that have proven to enhance the efforts to bring accounts to compliance and maximize the tax collections for Johnstown. When the results of just these programs are compared to the allocated cost for the City of Johnstown to utilize RITA's services, the value RITA provides can readily been seen.

**COMPLIANCE and COLLECTIONS PROGRAMS REVENUE ATTAINMENT RESULTS**

| PROGRAM | 2022 | 2021 | 2020 | 2019 | COST |
|---|---|---|---|---|---|
| FTI Program | $46,109.00 | $108,192.00 | $61,337.00 | $73,476.00 | $0.00 |
| State Adds Program | $764.52 | $16,311.95 | $7,236.29 | $4,750.73 | $0.00 |
| Non-Filer Program | $30,499.03 | $49,342.07 | $16,066.60 | $64,972.70 | $0.00 |
| Collections Programs | $92,295.22 | $84,615.75 | $98,532.17 | $113,408.01 | $0.00 |
| **TOTAL ADDED REVENUE** | **$169,667.77** | **$258,461.77** | **$183,172.06** | **$256,607.44** | |
| **TOTAL RITA COST** | | **$62,907.00** | **$59,088.00** | **$51,390.00** | |

## 4.0 RITA Allocated Costs

RITA continues to strive to meet Agency goals and to uphold our mission to provide high quality, cost effective municipal tax services. Enhancing our processes and implementing new services are just two ways we work to further benefit our members.

In accordance with the Regional Council of Governments' Participation Agreement, the allocation of annual costs for the operation of the Regional Income Tax Agency is spread across all members based on the number of transactions and the collection amounts done for each member municipality. The annual costs allocated to Johnstown compared to the collections achieved have been as follows:

**RITA Collection Costs**

| YEAR | COLLECTIONS | ALLOCATED COSTS | COST/COLLECTION |
|---|---|---|---|
| 2022 | TBD | TBD | TBD |
| 2021 | $2,497,278 | $62,907 | 2.52% |
| 2020 | $2,077,560 | $59,088 | 2.84% |
| 2019 | $2,081,503 | $51,390 | 2.47% |
| | | | |
| AVERAGE | $2,079,532 | $55,239 | 2.66% |

Thus, over the past 3 noted years, Johnstown has had an average percentage cost of collections of 2.66%. This means that for every $100 of taxes collected for your municipality, only $2.66 went to the administrative cost of collections, registrations, customer service, auditing, compliance, record retention, etc., leaving the balance for your fire, police, street repairs, recreational expenses, and other community expenditures.