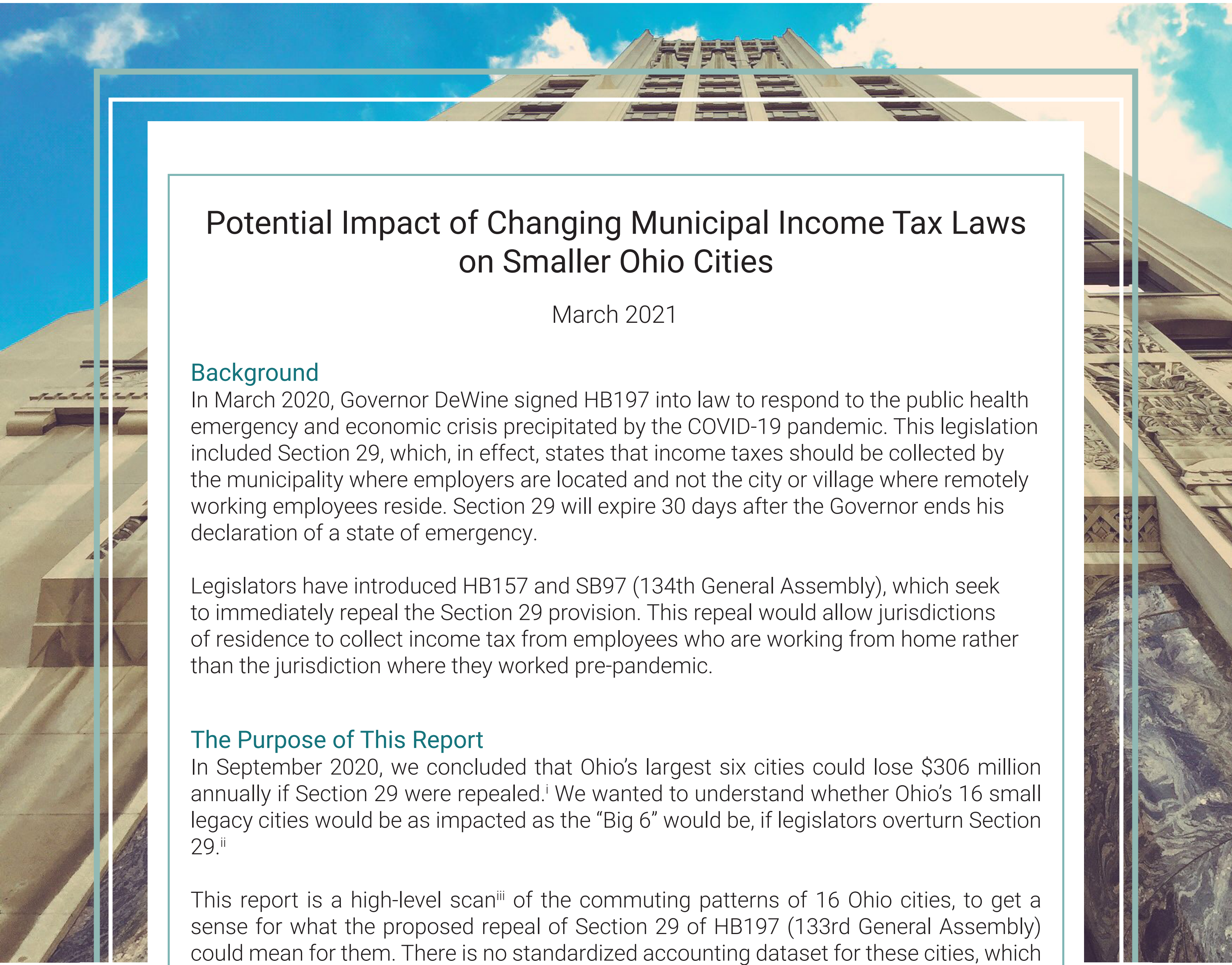

Potential Impact of Changing Municipal Income Tax Laws on Smaller Ohio Cities

March 2021

Background

In March 2020, Governor DeWine signed HB197 into law to respond to the public health emergency and economic crisis precipitated by the COVID-19 pandemic. This legislation included Section 29, which, in effect, states that income taxes should be collected by the municipality where employers are located and not the city or village where remotely working employees reside. Section 29 will expire 30 days after the Governor ends his declaration of a state of emergency.

Legislators have introduced HB157 and SB97 (134th General Assembly), which seek to immediately repeal the Section 29 provision. This repeal would allow jurisdictions of residence to collect income tax from employees who are working from home rather than the jurisdiction where they worked pre-pandemic.

The Purpose of This Report

In September 2020, we concluded that Ohio's largest six cities could lose $306 million annually if Section 29 were repealed.[i] We wanted to understand whether Ohio's 16 small legacy cities would be as impacted as the "Big 6" would be, if legislators overturn Section 29.[ii]

This report is a high-level scan[iii] of the commuting patterns of 16 Ohio cities, to get a sense for what the proposed repeal of Section 29 of HB197 (133rd General Assembly) could mean for them. There is no standardized accounting dataset for these cities, which prevents us from confidently undertaking a more in-depth analysis.

This report broadly illustrates the potential impacts of this proposed legislative change. It is intended to help state policymakers and city leaders understand these impacts. This report is not an exhaustive analysis of city finances and should not be used for local budgeting purposes.

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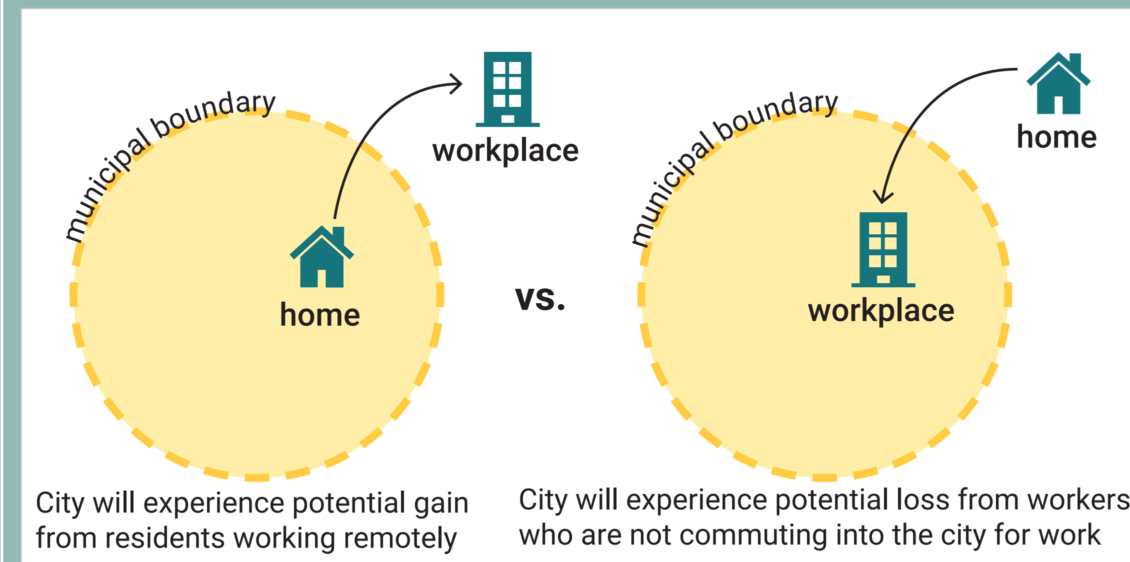
Main Conclusions

- Across the board, repealing Section 29 will bring more financial loss than gains to Ohio municipalities.
- Commuting patterns are an important initial data screen to determine whether proposed statutory changes will mean an increase or decrease in municipal income tax revenue for municipalities.
- 10 of Ohio's 16 small legacy cities can anticipate a loss in municipal income tax revenue, based on commuting patterns alone. This is 62.5% of Ohio's Reinvention Cities.
- 6 of 16 small legacy cities in Ohio can potentially anticipate an increase in municipal income tax revenue based on commuting patterns alone (37.5% of all Reinvention Cities), but for most cities the increase is likely to be incredibly modest.
- In places projected to experience gains, significant additional factors will further reduce possible gains beyond what is suggested by commuting patterns alone.
- The Regional Income Tax Agency (RITA) estimates 85% of the 300 municipalities they serve would experience net losses, while only 15% of their client-municipalities could experience net gains.
- The percentage of a municipality's workers who are able to work from home is an important factor in estimating impact and one that varies significantly by place.
- One city's municipal income tax loss rarely translates to another city's clear gain.
- Millions of dollars will be lost from Ohio's large and small communities. Few communities will "win" and many more will lose if changes to Section 29 move forward.

Commuting patterns are an important initial data screen to determine whether proposed statutory changes will mean an increase or decrease in municipal income tax revenue for cities. A simple analysis comparing the number of non-resident employees working in a city[iv] with the number of city residents who work outside the city can help determine whether the location potentially stands to gain or lose from proposed changes to Section 29 of HB197 (133rd General Assembly).

Pre-Pandemic Commute Patterns Determine Potential Impacts of Proposed Change to HB197



Workers employed outside their city of residence have the potential to deliver increased municipal income tax revenue to their home city if they work from home and Section 29 is repealed. If repealed and workers are working remotely during the pandemic, municipal income tax would be paid to their place of residence rather than to the city where their pre-pandemic workplace is located.

On the flip side, non-resident workers who work in the city have the potential to cause losses in municipal income tax collection to the city if the revenue is redirected to the place where they live instead of the municipality where they work.

Broadly speaking, we assume that a city with more workers who live elsewhere than residents who work elsewhere would likely face revenue losses if laws that govern municipal income tax collections for remote workers are changed. We assume this because the revenue that the city would potentially gain from its residents will not equal the revenue lost from work from home commuters who would be paying income taxes elsewhere. We discuss other important factors beyond net commuter numbers, below.

10 of Ohio's 16 small legacy cities (aka Reinvention Cities) could anticipate a net loss in municipal income tax revenue, based on commuting patterns alone. 62.5% of the Reinvention Cities contain more non-resident workers who work in the city than city residents who work outside the city. This dynamic sets them up to experience a loss in municipal income tax revenue if HB157 or SB97 is passed.

For example, in Zanesville, there are 6,818 city residents employed outside the city and 15,540 non-city residents who work in the city. This means there are 8,722 more people coming into Zanesville for work than residents leaving the city to work elsewhere. This surplus of commuters makes Zanesville and other cities with similar commuting patterns vulnerable to a net loss of income tax revenue. Table 1 details the commuting patterns in 16 of Ohio's smaller cities.

Table 1: Analysis of Commuting Patterns in Ohio's Smaller Legacy Cities and their Impact on Municipal Income Tax Revenue*

*data are for workers regardless of work from home status

City	Potential Municipal Income Tax Revenue Gain *(Number of city residents employed outside city)*	Potential Municipal Income Tax Revenue Loss *(Number of non-city residents employed in city)*	Estimated Net Impact on Municipal Income Tax Revenue *(Difference between Columns A and B)*
Zanesville	6,818	15,540	Significant Loss
Youngstown	17,011	24,827	Significant Loss
Mansfield	11,356	19,036	Significant Loss
Springfield	15,464	21,992	Significant Loss
Lima	10,884	16,553	Moderate Loss
Portsmouth	4,236	9,702	Moderate Loss
Chillicothe	5,760	10,547	Moderate Loss
Warren	11,074	11,946	Small Loss
Massillon	12,876	13,812	Small Loss
Elyria	19,425	19,642	Negligible Loss
Sandusky	8,897	7,993	Negligible Gain
Xenia	8,893	5,711	Gain
Marion	11,490	7,718	Gain
Middletown	18,885	14,874	Gain
Hamilton	23,975	15,766	Gain
Lorain	22,828	9,065	Gain

Source: Greater Ohio Policy Center, 2021; U.S. Census On The Map, 2018

6 of 16 Reinvention Cities (aka small legacy cities) could potentially anticipate an increase in municipal income tax revenue based on commuting patterns alone, but the increase is likely to be incredibly modest, if not negligible, for most. As shown in Table 2, 37.5% of the Reinvention Cities had more workers likely to generate an increase in income tax revenue than a decrease. Sandusky has such a small potential gain that it is most likely negated by additional factors that are not factored in to this calculation, as discussed below. Middletown, Marion, Hamilton, Xenia, and Lorain, roughly resemble "bedroom communities" in that they house more residents who work elsewhere than workers who live elsewhere.

Having larger numbers of residents working elsewhere could cause the proposed policy changes to yield an increase in municipal income tax revenue for these cities. For these cities, the number of residents who work elsewhere and may be working from home due to the pandemic ranges from 636 in Xenia to 2,753 in Lorain.

These potential gains as a share of the city's overall municipal income tax base range from 4% to 9% for Middletown, Marion, Hamilton, and Xenia. Lorain, however, stands out as the city most likely to experience a modest gain in municipal income tax since the potential gain is 20% of their overall municipal income tax base. Nevertheless, these numbers are inflated and will likely be reduced by other known, but unquantifiable factors discussed in the following sections.

Table 2: How Significant is the Potential Income Tax Gain Some Cities May Experience?

City	Net Number of Residents Working Elsewhere Who Could Generate Income Tax Revenue Gain	Number of those Workers who may be Working from Home (20%)	City's Municipal Income Tax Revenue Base *(Total Number Employed in the City)*	Best-Case Scenario Potential Gain as a Share of Existing Tax Base	Scale of Best-Case Scenario Potential Revenue Gain
Sandusky	904	181	10,985	2%	Neutral
Middletown	4,011	802	18,449	4%	Small
Marion	3,772	754	10,560	7%	Small
Hamilton	8,209	1,642	20,371	8%	Small
Xenia	3,182	636	7,165	9%	Small
Lorain	13,763	2,753	13,440	20%	Moderate

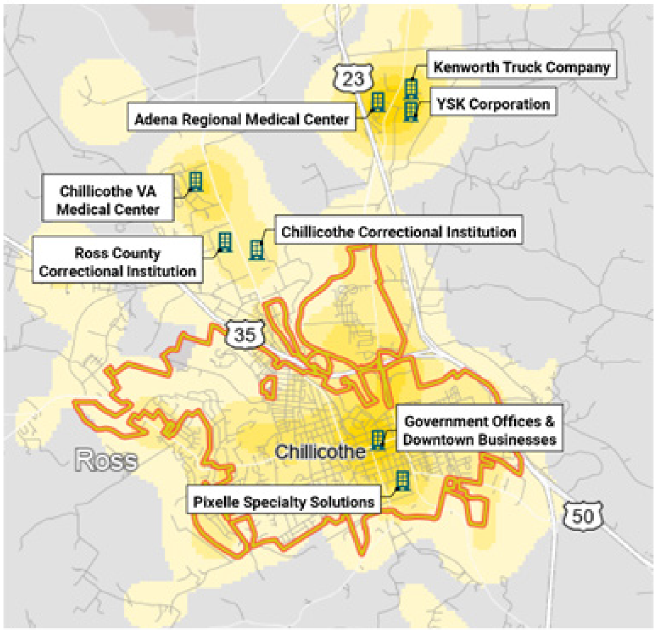
Source: Greater Ohio Policy Center, 2021; U.S. Census On The Map, 2018

The percentage of a municipality's workers who are able to work from home is an important factor in estimating impact and one that varies significantly by place. Understanding a municipality's major employment sectors, and the ability of those sectors to transition to remote work, is a critical part of understanding how the proposed changes to municipal income tax collection will impact revenue. As of February 2021, 35% of Ohio workers were working remotely due to COVID some or all of the time, according to the Census Pulse Survey.[v]

However, for this paper, we assumed a more conservative 20% of workers would work remotely. GOPC deflated this number to 20% based on anecdotal evidence that the shares of employees working from home in Ohio's smaller cities are less than in the larger ones. Map 1 of the Major Employers In & Around Chillicothe illustrates this reasoning.

Chillicothe's major employment sectors include medical centers (Adena Regional Medical Center and the Chillicothe VA), correctional institutions, manufacturing and light manufacturing companies (Pixelle Specialty Solutions, YSK Corporation, and Kenworth Truck Company), and public sector and professional service jobs.[vi] Global Workplace Analytics' assessments of 2016 American Community Survey data show Healthcare and

Map 1: Major Employers In & Around Chillicothe



Source: U.S. Census Bureau, OnTheMap Application and LEHD Origin-Destination Employment Statistics (Beginning of Quarter Employment, 2nd Quarter of 2002-2018)

Social Assistance and Manufacturing sectors, did not have high rates of employees working from home pre-pandemic.

In 2016, 4% of Healthcare and Social Assistance employees worked remotely, and 3% of the Manufacturing industry worked remotely. While these numbers may have increased somewhat during the pandemic, it stands to reason that these sectors are more reliant on in-person work and less able to accommodate remote workers than other sectors, such as office-based, professional services, jobs.

Additional key factors, beyond commuting patterns alone, will further reduce the increase cities may potentially experience. Data limitations prohibit us from further refining our calculations, but basic logic dictates that the following dynamics will further depress revenue generation in Ohio's small legacy cities:

- Incomes are not the same for in-city residents and commuters. These calculations assume non-resident city workers and city residents who work outside the city have equal incomes. It is unlikely that this is true since the income of center city residents tends to be lower than the residents living in suburbs, villages, and townships that surround the center city.

- Income tax credits further reduce likely in-city gains. The vast majority of cities have residence tax credit arrangements where a city offers residents who work outside their city and pay an income tax to their workplace municipality a discount or credit on their municipal income tax. This means that the city of residence is already receiving some amount of municipal income tax from residents who work elsewhere. If Section 29 is repealed, these cities will stand to capture an increased share of this payment, but because cities are already receiving some payment from residents working elsewhere, this influx won't amount to a 100% capture.

- Remote work rates likely vary between locations. We have already discussed how the ability to work from home will vary based on the type of employers in a region. Some regions have more jobs amenable to remote work, like office jobs, while other regions have fewer jobs compatible with remote work. These differences can also be found when comparing two jurisdictions in the same region: a central city may have office jobs, while jobs with less work-from-home potential, like manufacturing, may be located in adjacent villages or townships.

The calculations in this paper assume that the percentage of workers working from home is the same for non-resident city workers as is it for city residents who work outside the city. But, in reality, this will vary by place and the sector these workers are employed in. Cities with downtown office workers who live in nearby villages or townships are likely to lose a larger share of employees to remote work than surrounding jurisdictions with large manufacturing, retail, and hospitality sectors where employees must remain working in-person.[vii]

Projections for the City of Sandusky highlight the critical importance of these factors in arriving at an accurate analysis of this policy change. GOPC's high-level estimate based on commuting patterns alone shows Sandusky poised for a tiny gain in municipal income tax revenue. In contrast, a more in-depth analysis conducted by the Regional Income Tax Agency (RITA), and described in more detail below, is based on actual 2018 tax collection data estimates that Sandusky will lose $594,853 to $1,784,559, depending on the share of residents who work from home.

The RITA estimate is more accurate than GOPC's because RITA's data reflect the actual incomes of workers and residents and also accounts for all municipal residence tax credit arrangements in place. This case demonstrates how significant the additional factors described above can be at influencing the scale and impact of this policy change, and is especially true for municipalities that are only projected to receive small or moderate gains in municipal income tax by GOPC's high-level scan.

Research by the Regional Income Tax Agency (RITA) supports the finding that most cities can anticipate a loss in revenue, while a few communities may experience gains. The Regional Income Tax Agency (RITA) is an entity that provides municipal tax collection services for more than 350 municipalities and joint economic development districts in Ohio. RITA conducted an analysis of what changes in the net percentage of remote workers would mean for municipal income tax collection in the municipalities they serve.[viii]

Three hundred municipalities were included in RITA's analysis. These places range from tiny villages, like Mifflin and Catawba, to small towns like Chardon and Martins Ferry, to suburbs like Upper Arlington, Loveland and Cleveland Heights, and the city of Youngstown. Table 3 shows a summary of RITA's analysis, which looked at three different potential shifts in revenue: 10, 20 and 30% of employees working remotely.

Under all three scenarios, RITA forecasts 85% of the municipalities they serve will likely experience a reduction in revenue and only 15% of their members an increase in revenue. Consistent with our analysis, the places most likely to experience a gain in municipal income taxes due to increasing numbers of people telecommuting are bedroom communities: places with lots of residents who work elsewhere and few workers who live elsewhere coming in to work.

We considered whether these potential gains and losses amount to enough to either support hiring an additional firefighter or cause a reduction of one firefighter position (though, of course, how cities manage budget decreases will vary and may not include employee layoffs). We estimate the "all-in" cost of a firefighter position to be $65,000.[ix] Table 3 shows that under the three scenarios, 87 to 147 municipalities (29-46% of RITA's clients) will lose revenue of $65,000 or more. On the flip side, only 22 communities (6-7% of RITA's clients) will gain enough revenue to hire at least one new firefighter.

Table 3: Summary of Regional Income Tax Agency Work From Home Revenue Shift Projections

	Shift in Revenue					
	10%		20%		30%	
Cumulative impact on RITA's 300 Municipalities	$ (35,058,051.60)		$ (70,116,105.30)		$ (105,174,160.66)	
Municipalities that will:	*Number*	*Share*	*Number*	*Share*	*Number*	*Share*
Lose revenue	254	85%	254	85%	254	85%
Gain revenue	46	15%	46	15%	46	15%
Lose revenue equivalent to at least one employee *(<$65K)*	86	29%	119	40%	139	46%
Gain revenue to hire at least one employee *(>$65K)*	17	6%	18	6%	22	7%

Source: Regional Income Tax Agency, 2020; Greater Ohio Policy Center

One city's municipal income loss rarely translates to another city's clear gain. GOPC's analysis of commuting patterns suggests that foregone municipal income tax is dispersed among so many cities, villages, and townships, that there is not a one-for-one tradeoff between "winners" and "losers." RITA's data also do not show clear transfers of funds from one community to another due to remote workers.

Millions of dollars will be lost from Ohio's large and small communities. Few communities will "win" and many more will lose if changes to Section 29 move forward. RITA's estimates suggest its membership annually could lose $105 million cumulatively if 30% of workers in these locations work remotely and proposed legislative changes were made to income tax collections. Combining RITA's estimate of $105 million and GOPC's estimate of $306 million for the "Big 6"[x] suggests millions of dollars could be lost from Ohio's large and small communities. As GOPC discussed in *A Mortal Threat to Ohio's Economic Competitiveness*, the city-level revenue losses could manifest themselves through deferred maintenance and investment in capital projects, reduced staffing among first responders, and missed economic development opportunities.

Conclusion

Many more places will lose revenue from a repeal of Section 29 as compared to the few places that will benefit. Adjusting the tax code is a complex proposition, which will require many different perspectives to ensure unintended consequences are minimized and mitigated. Severing this long-standing policy without a clear reform program in place will cause irreparable harm to communities and thus to the state's ability to retain and compete for businesses, workers, and residents.

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About the Greater Ohio Policy Center

The Greater Ohio Policy Center (GOPC) is a statewide non-profit organization with a mission to improve Ohio's communities through smart growth strategies and research. Our vision is a revitalized Ohio. GOPC is highly respected for its data-driven, nonpartisan policy analysis, research expertise, and policy development, and regularly provides expert analyses to public, private and nonprofit leaders at the local, state and national level.

This brief was researched and written by Erica Spaid Patras with assistance from Lindsey Elam and Alison Goebel. This brief was designed by Maria Walliser-Wejebe.

Endnotes

i Greater Ohio Policy Center, A Mortal Threat to Ohio's Economic Competitiveness: SB352, HB754, and the Buckeye Institute Lawsuit, September 2020. https://www.greaterohio.org/publications/income-tax-rebuttal

ii Ohio's 16 small legacy cities are listed here: https://www.greaterohio.org/reinvention-cities

iii The lack of a standardized data set of smaller cities' income tax receipts limits the depth of the analysis possible. Instead, we examine commuting patterns in these smaller cities, looking for trends identified in A Mortal Threat to Ohio's Economic Competitiveness, which suggest how a place will be impacted by the proposed changes to HB197. Additionally, we surveyed other in-depth research available in the state to complete the picture of how smaller legacy cities can expect to be impacted by the proposed changes. The estimates in this paper are meant to illustrate potential impact and guide policy evaluation; they are not designed to be used for budgeting purposes.

iv For ease of reading we talk about the experience of "cities" but research conducted by Regional Income Tax Agency (RITA) confirms these experiences are also shared by villages, which are also municipalities and can assess municipal income tax. Townships and counties do not collect municipal income taxes except in joint economic development districts and zones.

v U.S. Census Bureau Household Pulse Survey, Week 22: Transportation Table 1. Teleworking During the Coronavirus Pandemic, by Select Characteristics: Ohio. February 17-March 1, 2021. https://www.census.gov/data/tables/2021/demo/hhp/hhp25.html

vi Greater Chillicothe Ross County Development. "Why Ross County" n.d. https://gcrcd.com/why-ross-county/

vii In June 2020, the National Bureau of Economic Research released a working paper, What Jobs are Being Done at Home During the COVID-19 Crisis?, (Bartik, et al. 2020) which provided survey results on the prevalence of employees working remotely, defined as working from home at least two days per week. Analyses showed "considerable variation across industries," and working from home was "more common in industries with better educated and better paid workers" https://www.nber.org/papers/w27422

viii Regional Income Tax Agency, Work from Home Revenue Shift Projections, October 9, 2020

ix According to Indeed.com data, the average firefighter salary in Ohio is $43,389. Cities carry the additional costs of employer taxes and medical and retirement benefits firefighter. We believe $65,000 is a reasonable "all-in" cost a city might expect on a firefighter position. https://www.indeed.com/career/firefighter/salaries/OH

x Greater Ohio Policy Center, A Mortal Threat to Ohio's Economic Competitiveness: SB352, HB754, and the Buckeye Institute Lawsuit, September 2020. https://www.greaterohio.org/publications/income-tax-rebuttal