

# Tax Competitiveness Report

Cities compete not only the quality of the community but also on the cost to live there.

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### State and Local Tax Scenario's

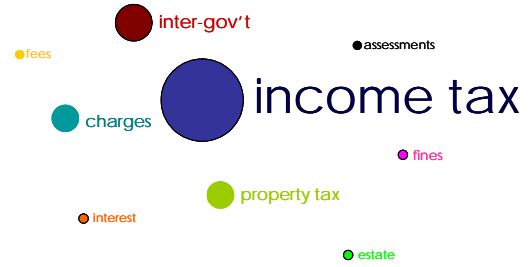
### State Tax Profile

### Commercial Activity Tax Changes

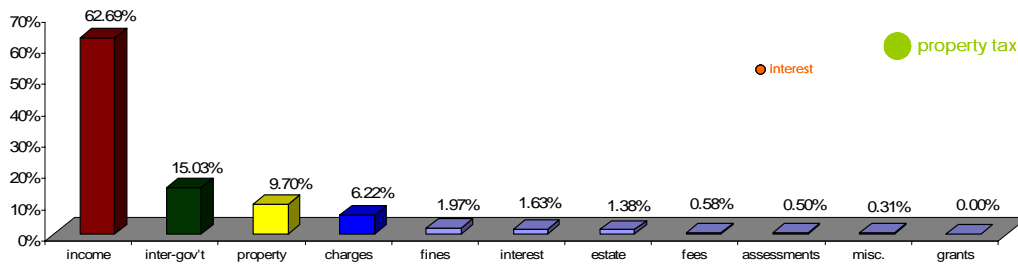
# City of Kent Tax Revenues

The city has a number of revenue categories but in reality income taxes are the best indicator of the city's financial health as they contribute 4 times more than the next closest revenue source and 1 ½ times more than all the other categories combined.

## Relative Revenue Sources



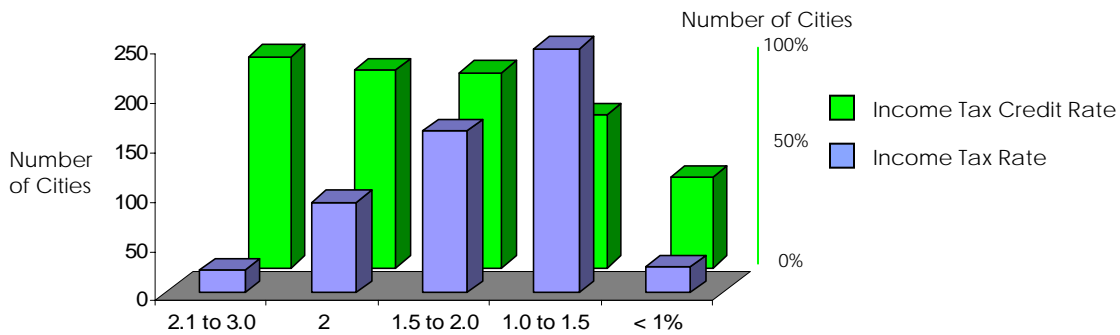
## 2005 City of Kent Revenue Distribution



## OHIO INCOME TAX RATES AND CREDITS

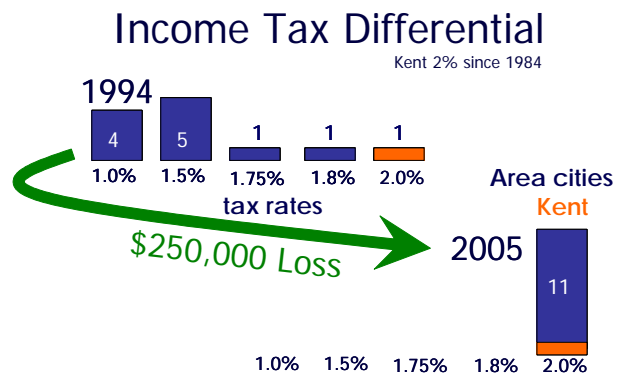
Kent adopted a 2% income tax rate in 1984 and it has not changed in the last 22 years. A survey of 600 cities in Ohio reveals that 21% of the cities have an income tax rate between 2 and 3%, 74% have a rate between 1 and 2%, and 5% are under 1%. (see blue bars in chart below). Those cities with high income tax also have the highest credit rates. For example the cities with income tax rates between 2 and 3% give an average credit of 94%; cities between 1 and 2% give an average credit of 84%; and cities less than 1% credit an average of 42% (see green bars below).

## Ohio Cities Income Tax Rate and Income Tax Credit Distribution



## KENT INCOME TAX CREDIT REVENUE LOSSES

Kent has a 100% income tax credit which means anyone that lives in Kent but works in a neighboring city is given 100% credit for any income taxes that they pay in the city where they are employed. Kent residents only have to pay Kent the difference between what they pay in their city of employment and their Kent income tax. Over time the gap between what other cities charge and Kent charges has significantly narrowed as the other cities have raised their rates costing Kent \$250,000 a year in credited income tax revenues.

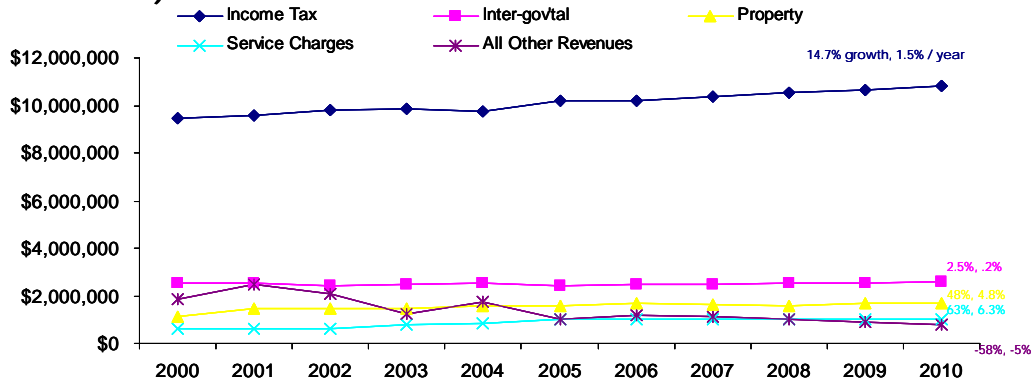


REVENUE GROWTH FORECAST

A review of the city's principle revenue sources indicates no-effective-net growth in any of the revenue categories (see chart below) from 2000 to 2005. In every category, revenue growth has failed to keep pace with inflation growth, resulting in a net loss of purchasing power.

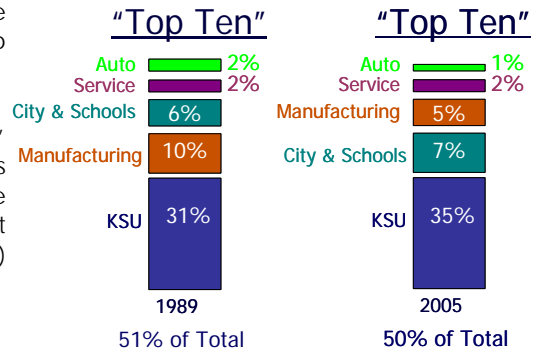
For projection purposes, current declining and flat line trends are extended out thru 2010 since there is nothing to indicate an imminent change in the performance of any of these categories.

**Revenue Performance and Growth Forecast (2000 to 2010)**



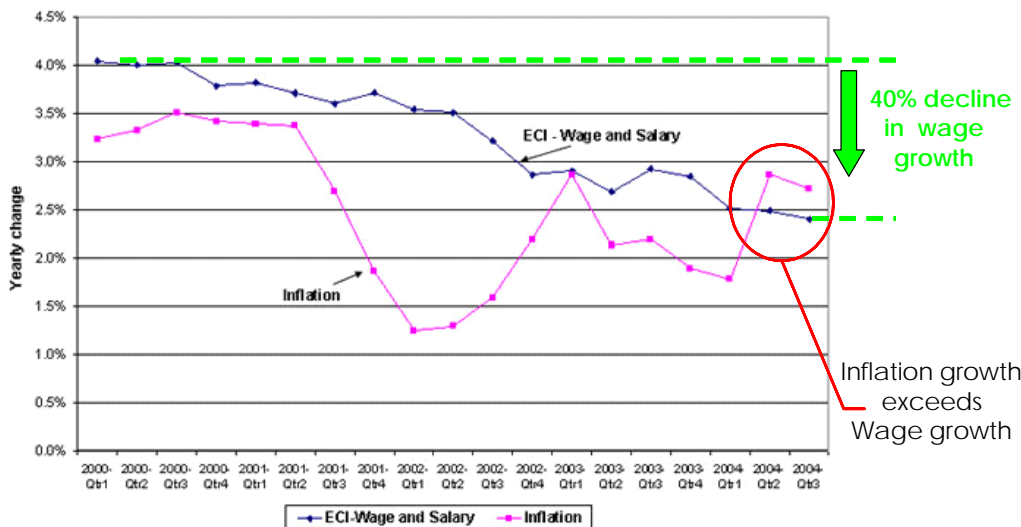
Another trend noted in the economic data observed from 1989 to 2005 is the further concentration of income tax receipts on employment at Kent State University. The narrowing distribution of income tax sources reflects the replacement of lost high paying manufacturing jobs in Kent with lower paying service jobs. As a result, private sector income tax contributions have continued to shrink and the public sector share of the base (including KSU) increased in proportional share from 37% to 42%.

**Income Tax Contributions**



In what has been coined the "jobless economic recovery" new jobs have not kept pace with the amount of lost jobs and although productivity reached all-time highs, wage and salary growth have actually declined by 40% in the last 4 years. For the first time inflation growth (pink line below) surpassed wage growth (blue line) in 2004.

Figure 2: Nominal wage growth compared to inflation, 2000-2004



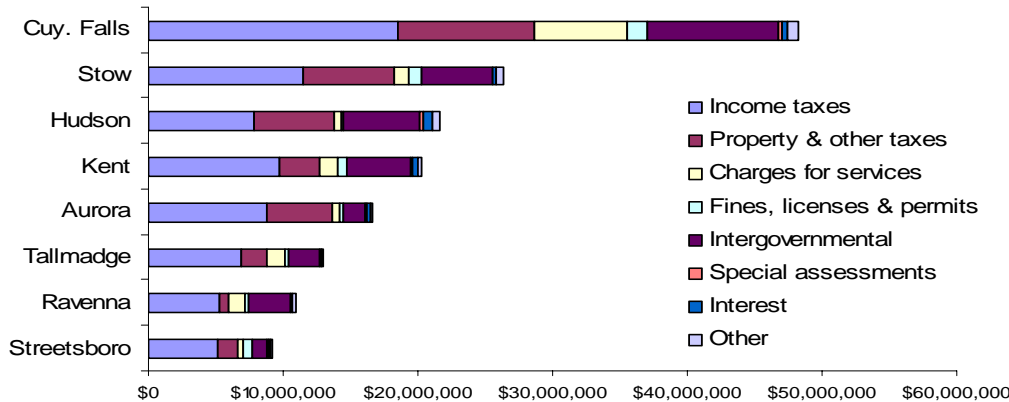
The declining trend in wage growth constrains the ability of income tax revenues to hold their ground against increasing rates of inflation, further contributing to the overall erosion of the city's revenue base.

# Kent Tax Position in Region

Using Annual Financial reports prepared by each city in the region, comparisons were able to made for revenues that are received in each city.

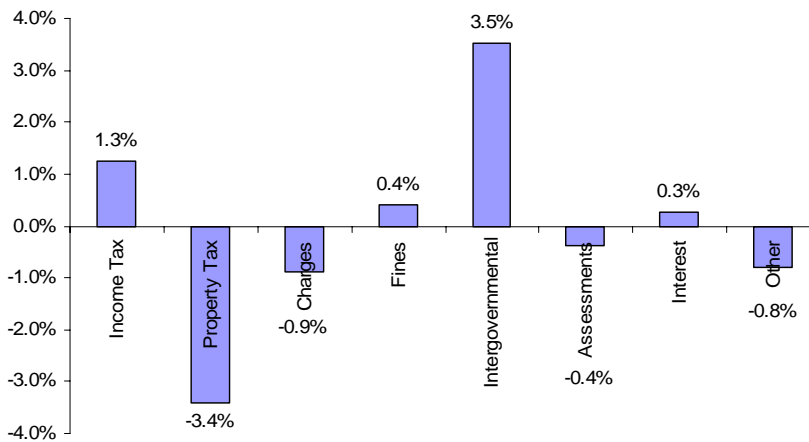
Of the regional peer cities, Cuyahoga Falls has the greatest annual revenues at nearly \$50 million a year. Kent has the fourth largest total revenues at \$20 million.

**Peer City Revenue Distribution By Revenue Source**



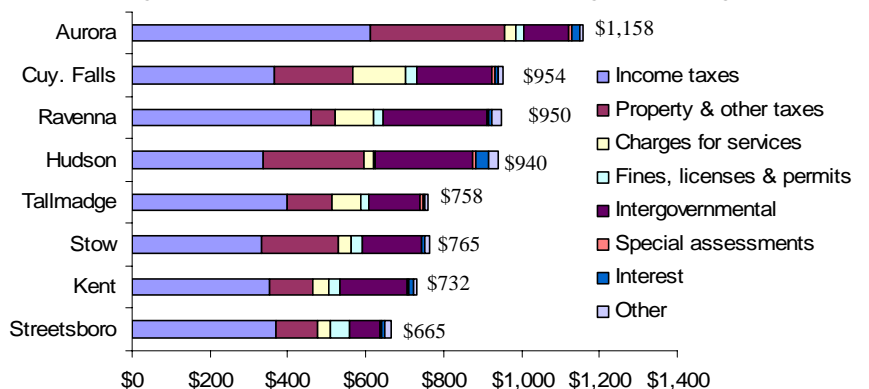
Taking those same revenues and reviewing the differences across the revenue sources on a percentage basis, it is possible to see where Kent lags or leads the regional averages. It is important to note that Kent property taxes lag despite the fact that Kent property tax millage rates are high due to the lower property valuations in Kent as compared to some of the peer cities.

**Kent Revenue Distribution by Source, Over/Under Regional Average**



On a per capita basis, Kent is one of the lowest cost cities in the region. With a regional average of \$865 in revenues received per capita, meaning Kent residents contribute \$133 less per year than the average in total.

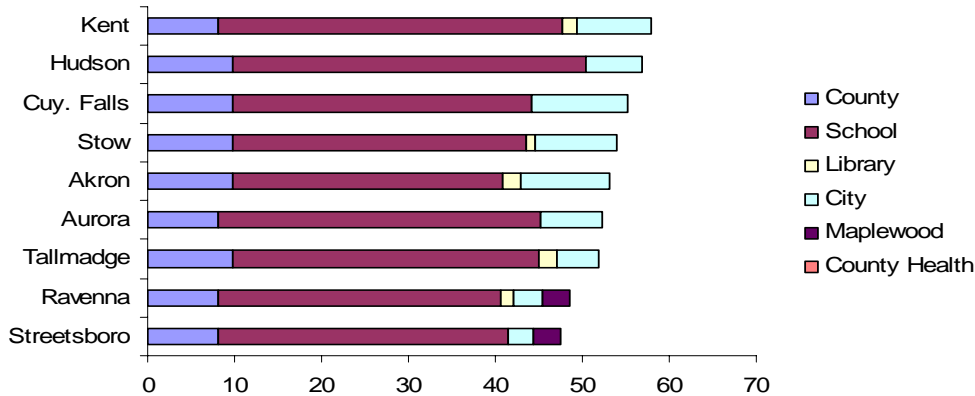
**Peer City Revenues Received Per Capita by Source Type**



# Kent Property Tax Millage Rate

Property tax is generated by applying the established millage rate to the assessed value of property. Kent's effective millage rate is the highest in the region (even before the new 6 mils school levy). The chart below compares the total millage burden and illustrated where the property tax revenues get allocated.

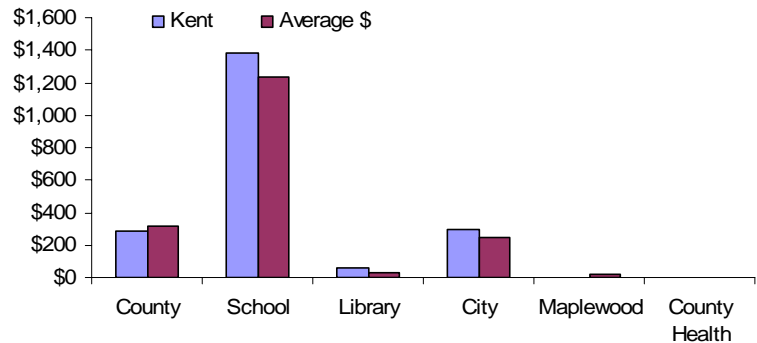
**Peer City Effective Property Millage Comparison**



A large portion of Kent's property tax is allocated to city schools. Only the City of Hudson has a higher school allocation than Kent in the region and Kent exceeds the regional school average by 12%.

The city's share of the Kent property tax amounts to approximately \$200 for general government support and \$92 for Kent parks and recreation.

**Property Tax Millage Per Capita: Kent vs. Regional Average**

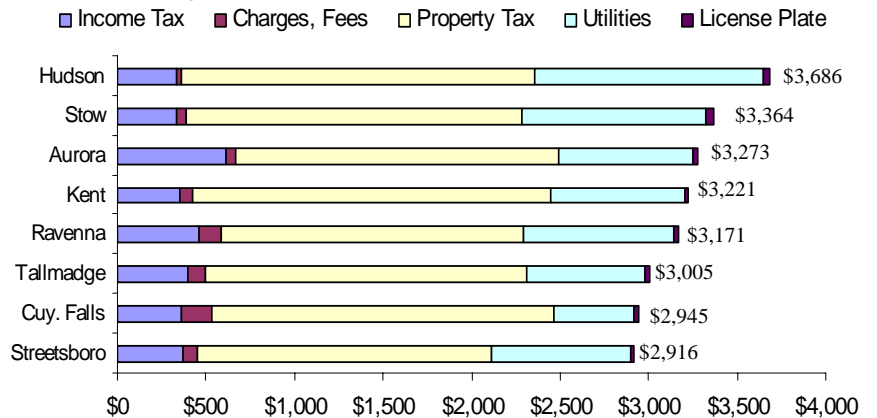


# Cost of Living Estimation

By adding the per capita costs for income tax, charges, fees, property tax, utilities and vehicle plate fees for "average" families, it is possible to derive a comparative cost of living estimate for Kent.

Using this comparison methodology Kent is right at the average cost burden for all the regional cities at \$3,221 per capita per year.

**Peer City Cost Burden Per Capita**



# Local Tax Options Summary

## 1. Income Tax Increase

### Facts

Kent income tax rate at 2%

Last increase 22 years ago in 1984

Largest single source of revenue in City - approx 62% of governmental revenues, \$10.3 million/year

KSU = 35% of Total

Very slight growth year over year - less than 2%

Lost \$250,000 from tax credits to surrounding communities that raised their rates to 2%

Annual income tax on \$50,000 salary = \$1,000

A .25% increase in income tax raises \$1.7 million in new revenues

On average, 1,250 jobs (@\$40,000 salary) generate \$1,000,000 in taxes at 2% tax rate

### Pro's

Only existing revenue source that correlates to impact of KSU on City services

Good timing – correlate to reduction in state income taxes – for no net impact on homeowner

Raise the greatest amount of new revenues

No impact on Senior Citizens

Taxes on income have built in inflationary or COLA factor, relatively stable

### Con's

Requires voter approval

## 2. Reduce Income Tax Credit

### Facts

Income Tax Credit applies to people that live in Kent but work elsewhere, approximately 6,000 people

Current Income Tax Credit at 100%

Reducing Tax Credit to 50% generates \$2.1 million in annual revenues

A 1% reduction produces \$42,000 in new revenues

### Pros

Does not require voter approval, Council authorization only

### Cons

Only impacts Kent City residents, not employees from other cities that work in Kent

Generates less income than rate increase since 86.1% of taxes come from employee withholding

Requires additional capital to meet Charter Allocation requirements

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### 3. Reduce Income Tax Charter Allocation to Capital

#### Facts

Current City Charter requires 25% of Income tax revenues (\$2.4 million) be used for capital needs  
Every 1% reduction makes \$100,000 of capital cash available for operating needs

#### Pros

Frees-up capital cash for operating deficit

#### Cons

Kent has significant infrastructure capital needs  
Requires voter approval

### 4. Property Tax Increase

#### Facts

1 mil increase generates \$320,000 or \$31.50 per \$100,000 assessed value of property  
68% of property tax goes to schools, 14% to County, 10% to City, 5% to Parks, 3% Library  
Kent residence assessed at \$100,000 pays \$2,000 in property tax

#### Pros

High correlation of taxpayer to service

#### Cons

Requires voter approval to levy  
Unless periodically replaced, this is a "flat" or "static" revenue source that doesn't grow  
Compete with school and other entities on ballot  
Subject to change by the state legislature  
Impacts fixed income property owners  
Kent State University is not subject to property tax

### 5. License Tax Increase

#### Facts

Current license tax set at \$20 per vehicle  
Average of 2 vehicles per home  
Raising license fee to \$25 produces \$125,000 in new revenues

#### Pros

High correlation between user and tax - i.e., car owners to street maintenance  
Ease of collection - collected by BMV, sent monthly to City  
Does not require voter approval

#### Cons

Relatively small amount - approximately \$125,000 annually

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# State and Local Tax Scenario's

The recent changes in the state tax code will result in a reduction of an "average" state income tax bill by an estimated 22% or \$254 over the next 5 years. For years the state has shifted the costs for services to local governments in the form of unfunded mandates and reduced intergovernmental dollars. The new reduction of state income tax may provide an opportunity to try to recapture a portion of the reduction for local needs.

For illustration purposes, Budget and Finance ran some projections of what the state tax changes will do on an individual household basis. From that baseline, 4 options (A, B, C, and D) were presented to show what impact alternative city tax rate changes would have on the net household level here in Kent.

The figures below illustrate that if the City raised its income tax rate to 2.25% (currently 2.0%) in order to fix the deficit, the average household tax bill would still be less than it was last year by an average of \$245 dollars. Barb Rissland will review these figures and each option in more detail during the workshop.

## U.S. Census Bureau

Average Family Size 2.89 (Use 3 for State Taxes)  
Median Family Income \$44,440

<b>State &amp; Local Income Tax</b>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Estimated Ohio Income Tax	\$1,109.00					
Reflects HB 66 Reduction		\$1,061.00	\$1,012.00	\$963.00	\$915.00	\$864.00
Kent City Tax						
A No Change	\$888.80	\$888.80	\$888.80	\$888.80	\$888.80	\$888.80
B Increase Rate to 2.25%	\$999.90	\$999.90	\$999.90	\$999.90	\$999.90	\$999.90
C Increase Rate to 2.50%	\$1,111.00	\$1,111.00	\$1,111.00	\$1,111.00	\$1,111.00	\$1,111.00
D Rate at 2.00% - Reduce Credit to 50%						
1 Work in Kent	\$888.80	\$888.80	\$888.80	\$888.80	\$888.80	\$888.80
2 Work in other taxing district	\$1,333.20	\$1,333.20	\$1,333.20	\$1,333.20	\$1,333.20	\$1,333.20
Total State & Local Taxes Combined						
Option A No Change	\$1,997.80	\$1,949.80	\$1,900.80	\$1,851.80	\$1,803.80	\$1,752.80
% Change		-2.40%	-2.51%	-2.58%	-2.59%	-2.83%
Option B Increase Rate to 2.25%	\$2,108.90	\$2,060.90	\$2,011.90	\$1,962.90	\$1,914.90	\$1,863.90
% Change		-2.28%	-2.38%	-2.44%	-2.45%	-2.66%
Option C Increase Rate to 2.50%	\$2,220.00	\$2,172.00	\$2,123.00	\$2,074.00	\$2,026.00	\$1,975.00
% Change		-2.16%	-2.26%	-2.31%	-2.31%	-2.52%
Option D Rate at 2.00% - Reduce Credit to 50% - Cap at 1.0%						
1 Work in Kent	\$1,997.80	\$1,949.80	\$1,900.80	\$1,851.80	\$1,803.80	\$1,752.80
% Change		-2.40%	-2.51%	-2.58%	-2.59%	-2.83%
2 Work in other taxing district	\$2,442.20	\$2,394.20	\$2,345.20	\$2,296.20	\$2,248.20	\$2,197.20
% Change		-1.97%	-2.05%	-2.09%	-2.09%	-2.27%



# State Tax Profile

One common measure of tax competitiveness is tax burden as a percent of income. The top five states where the tax burden as a percent of income is the highest are: Maine (13.5%), New York (12.9%), Ohio (12.0%), Minnesota (11.9%), and Hawaii (11.7%). The United States average is 10.6%. The District of Columbia is 12.8%

	Tax Burden Rank	Tax Burden as a Percentage of Income	Tax Burden Per Capita	Income Per Capita
United States	-	10.6%	\$4,072	\$38,376
Alabama	46	8.8%	\$2,881	\$32,599
Alaska	50	6.6%	2,598	39,499
Arizona	32	10.1%	3,350	33,156
Arkansas	27	10.3%	3,088	29,999
California	15	10.9%	4,451	41,022
Colorado	38	9.8%	\$4,098	\$41,987
Connecticut	9	11.3%	6,018	53,152
Delaware	48	8.4%	3,426	40,964
Florida	39	9.7%	3,566	36,734
Georgia	25	10.4%	3,564	34,327
Hawaii	5	11.7%	\$4,496	\$38,269
Idaho	31	10.2%	3,159	31,031
Illinois	14	10.9%	4,335	39,902
Indiana	12	11.0%	3,796	34,647
Iowa	26	10.4%	3,709	35,807
Kansas	18	10.7%	\$3,885	\$36,209
Kentucky	20	10.7%	3,383	31,639
Louisiana	11	11.0%	3,463	31,358
Maine	1	13.5%	4,719	34,935
Maryland	19	10.7%	4,996	46,562
Massachusetts	28	10.3%	\$5,047	\$49,203
Michigan	16	10.8%	3,965	36,751
Minnesota	4	11.9%	4,930	41,363
Mississippi	29	10.2%	2,924	28,591
Missouri	34	9.9%	3,509	35,408
Montana				
Nebraska	42	9.5%	\$3,108	\$32,719
Nevada	6	11.6%	4,294	36,999
New Hampshire	43	9.5%	3,758	39,683
New Jersey	49	7.3%	3,136	42,707
New Mexico	17	10.8%	5,234	48,590
New York	36	9.9%	\$3,031	\$30,642
North Carolina	2	12.9%	5,734	44,571
North Carolina	23	10.5%	3,526	33,732
North Dakota	37	9.8%	3,421	34,808
Ohio	3	12.0%	4,332	36,054
Oklahoma	40	9.6%	\$3,129	\$32,661
Oregon	35	9.9%	3,492	35,300
Pennsylvania	24	10.4%	4,057	38,849
Rhode Island	8	11.5%	4,629	40,331
South Carolina	30	10.2%	3,213	31,480

Ohio State-Local Tax Burden Compared to U.S. Average (1970-2006)										
Year	State				U.S. Average					
	State-Local Tax Burden	State Rank (1 is highest)	Federal Tax Burden	State Rank (1 is highest)	Total Tax Burden *	State Rank (1 is highest)	State's Tax Freedom Day	Average State-Local Tax Burden	Average Federal Tax Burden	Total Tax Burden*
1970	8.1%	47	19.3%	25	27.5%	47	April 11	9.8%	19.5%	29.4%
1971	8.3%	45	18.3%	27	26.6%	46	April 08	10.1%	18.5%	28.6%
1972	8.7%	44	19.2%	23	27.9%	44	April 12	10.4%	19.3%	29.7%
1973	8.4%	42	19.5%	25	28.0%	44	April 13	10.2%	19.7%	29.9%
1974	8.3%	46	20.0%	31	28.3%	45	April 14	10.2%	20.4%	30.6%
1975	8.5%	44	18.7%	21	27.2%	40	April 10	10.2%	18.8%	28.9%
1976	8.3%	46	19.5%	19	27.8%	39	April 12	10.3%	19.4%	29.6%
1977	8.2%	48	19.7%	23	27.9%	41	April 12	10.2%	19.6%	29.9%
1978	8.1%	46	20.3%	18	28.4%	39	April 14	9.8%	20.2%	30.0%
1979	7.9%	47	20.6%	21	28.6%	41	April 15	9.4%	20.7%	30.1%
1980	8.1%	44	20.6%	27	28.7%	41	April 15	9.4%	20.9%	30.3%
1981	8.3%	40	21.4%	24	29.7%	38	April 19	9.4%	21.6%	31.0%
1982	9.2%	31	20.2%	28	29.4%	34	April 18	9.7%	20.7%	30.3%
1983	9.6%	24	19.0%	35	28.5%	31	April 15	9.7%	19.7%	29.4%
1984	9.5%	23	18.7%	33	28.2%	34	April 13	9.8%	19.4%	29.2%
1985	9.5%	26	18.9%	34	28.4%	34	April 14	9.9%	19.7%	29.6%
1986	9.6%	25	18.8%	32	28.4%	32	April 14	10.0%	19.7%	29.7%
1987	9.8%	28	19.7%	31	29.5%	32	April 18	10.2%	20.5%	30.7%
1988	9.7%	31	19.3%	37	29.0%	39	April 16	10.2%	20.3%	30.5%
1989	9.8%	28	19.5%	37	29.2%	38	April 17	10.2%	20.5%	30.7%
1990	9.7%	30	19.3%	39	29.0%	39	April 16	10.3%	20.2%	30.5%
1991	10.0%	30	19.1%	39	29.0%	37	April 16	10.5%	19.9%	30.4%
1992	10.1%	26	18.9%	39	28.9%	36	April 16	10.6%	19.6%	30.2%
1993	10.1%	25	19.2%	35	29.3%	34	April 17	10.5%	19.9%	30.4%
1994	10.3%	23	19.5%	38	29.9%	34	April 20	10.5%	20.4%	30.9%
1995	10.6%	18	20.0%	36	30.6%	30	April 22	10.5%	20.8%	31.3%
1996	10.6%	15	20.4%	32	31.0%	24	April 24	10.4%	21.3%	31.7%
1997	10.4%	19	20.6%	36	31.0%	34	April 24	10.3%	21.8%	32.2%
1998	10.6%	15	21.0%	34	31.6%	30	April 26	10.4%	22.4%	32.8%
1999	10.7%	12	20.8%	40	31.6%	30	April 26	10.4%	22.5%	32.9%
2000	10.9%	14	21.2%	38	32.1%	30	April 28	10.4%	23.1%	33.6%
2001	11.1%	8	20.5%	36	31.6%	23	April 26	10.5%	22.2%	32.6%
2002	11.0%	9	18.2%	38	29.3%	22	April 17	10.3%	19.7%	29.9%
2003	11.1%	6	17.2%	42	28.3%	20	April 14	10.2%	18.7%	28.9%
2004	11.3%	4	17.1%	37	28.5%	20	April 14	10.3%	18.6%	28.9%
2005	11.9%	4	18.6%	38	30.5%	16	April 22	10.7%	20.2%	30.9%
2006	12.0%	3	19.2%	38	31.3%	16	April 25	10.6%	21.0%	31.6%

\* May not add to total due to rounding.  
Source: Bureau of Economic Analysis, Department of Commerce, and Tax Foundation calculations.

As a result of the decline in high paying manufacturing jobs in Ohio, the state's per capita income relative to the other states dropped over the last 15 years while state and local taxes experienced modest increases.

This combination jumped Ohio from third from the bottom of the tax burden list in 1970 to third from the top in 2006 as measured by the percent of tax burden per capital income.



## Sweeping Ohio Tax Reform Enacted

Gov. Bob Taft signed H.B. 66, the biennial state budget bill for fiscal years 2006-2007, into law on June 30, 2005. The bill, effective July 1, 2005, made a number of significant changes to Ohio's tax code.

This reform of Ohio tax law affects most Ohio business and Ohio income taxpayers. Among the changes are an income tax cut, the phase-out of the tangible personal property and corporation franchise taxes, the elimination of a 10 percent tax rollback on real property classified as commercial, and the introduction of a new low-rate, broad-based Commercial Activity Tax (CAT) on a business's gross receipts.

### Tax Law Rate Changes under H.B. 66\*

Tax Year	Commercial Activity Tax	Tangible Personal Property (TPP) Tax			Corporation Franchise Tax***	Individual Income Tax
		Inventory	Manufacturing Machinery and Equipment (M&E)	Furniture & Fixtures		
2005	7/1—12/31 .06% (23% x .26%)	23%**	Existing — 25%**	25%**	100% x tax liability	4.2% cut across all brackets from 2004 rates
2006	1/1—3/31 23% x .26%	18.75%	New M&E: not taxable	18.75%	80% x tax liability	8.4% cut from 2004 rates
	4/1—12/31 40% x .26%		Existing — 18.75%			
2007	1/1—3/31 40% x .26%	12.5%	New M&E: not taxable	12.5%	60% x tax liability	12.6% cut from 2004 rates
	4/1—12/31 60% x .26%		Existing — 12.5%			
2008	1/1—3/31 60% x .26%	6.25%	New M&E: not taxable	6.25%	40% x tax liability	16.8% cut from 2004 rates
	4/1—12/31 80% x .26%		Existing — 6.25%			
2009	1/1—3/31 80% x .26%	No Tax	No Tax	No Tax	20% x tax liability	21% cut from 2004 rates
	4/1—12/31 .26%		No Tax			
2010	.26%	No Tax	No Tax	No Tax	No Tax	21% cut from 2004 rates

\*This chart is not a comprehensive summary of all tax changes. \*\*Same as 2004 rates. \*\*\*Certain companies, such as financial institutions, will continue to pay the full net worth tax.