

FINANCE COMMITTEE MINUTES
APRIL 20, 2009

The Finance Committee meeting was held on April 20, 2009, at North Royalton City Hall, 13834 Ridge Road. Meeting called to order at 6:30 p.m.

PRESENT: Committee: Chairman Mike Farrell, Vice Chair Gary Petrusky, Vince Gentile; Council: Dan Kasaris, John Nickell, Larry Antoskiewicz; Don Willey; Administration: Finance Director Karen Fegan; Other Attendees: Paul Marnecheck, Joanne DuMound

APPROVAL OF MINUTES

Moved by Mr. Gentile, seconded by Mr. Petrusky, **to approve the March 16, 2009 Minutes**. Yeas: 3. Nays: 0. **Motion carried.**

UNFINISHED BUSINESS

1. Monthly Finance report including tax collection status

Mrs. Fegan told committee members that if they have any questions regarding their monthly reports, she would answer those questions. She said that the tax collection update through April was distributed. She said we are down a little bit and she is keeping an eye on that. Mrs. Fegan said historically May is a huge collection month for the city since most people file their taxes in April.

2. Gas/Oil Well Revenues

Mr. Farrell announced that Mrs. Fegan had sent committee members information on gas/oil well revenues.

NEW BUSINESS

1. Review Earned Income

Mrs. Fegan said the committee had expressed interest in reviewing earned income, admissions tax and other issues in that field. She said as a starting point, she went through Section 880 (Earned Income Tax) and made some suggested changes and sent them to Council. She said most of these changes are state law that we are already following, suggestions from RITA because of changes in the state law and some other minor housekeeping issues. She said this would be an entire elimination of the Admissions Tax section (Chapter 892). She told the committee that she would answer any questions they might have regarding these changes.

Mr. Farrell asked if these changes are all added on by the State of Ohio. Mrs. Fegan said most of the changes have been added on by the State of Ohio. She said one of the compensations that we are adding, depending on what Council decides to do, is the section that deals with gambling winnings. She said she had further conversation today with legal counsel and RITA and they suggested we leave out the 1099 wording. Mr. Farrell asked if this language will be written off of RITA's procedure. Mrs. Fegan said the wording for the gambling winnings is wording that they are suggesting. She said there are communities that do have tax on gambling winnings and those that do not. Mr. Farrell asked if this is similar to the way Strongsville and Broadview Heights have their laws set up. Mr. Kasaris had the information in front of him and said that Strongsville does not tax the first \$600 of gambling winnings, Broadview Heights does not tax the first \$9,999 and Brecksville does not tax the first \$4,999. He said that 74 communities tax the first \$1.00.

Mr. Petrusky discussed Council's concern regarding senior citizens who play bingo and therefore, may be affected by this tax. Mr. Petrusky said he does not feel this tax will affect our seniors. He said that most seniors are not going to make enough money playing bingo wherein a 1099 would be issued. He continued by stating that even if a senior citizen does win, if they win less than \$600, a 1099 will not be issued. Mr. Gentile said the way the current tax code reads, it seems that when this tax was originally reviewed it was viewed more as recreation. Mr. Petrusky said anyone who receives a 1099 on gambling winnings has to pay tax on those winnings. Mrs. Fegan said the language in the current ordinance has been in existence since 2004. Mr. Kasaris said this tax might discourage people from going to local charitable events and spending money knowing that they have to pay city tax on it. Mayor Stefanik said if someone wins money at a charitable event, such as a raffle, that amount can be offset with other gambling losses throughout the year.

Mr. Antoskiewicz said a bonus for an employee versus winning money while gambling is different

because the bonus would be considered earned income where the gambling winnings would be luck.

Mrs. Fegan said this tax is certainly not going to solve the financial woes of the city. She said this tax, if imposed, is for that huge windfall where a resident wins a multi-million dollar jackpot.

Mr. Kasaris said he feels we need to look at what we want to use the revenue for. He asked if we want a tax to raise revenue or do we want to initiate a tax to make sure we do not miss out on a resident who may win a multi-million dollar jackpot. He said once we decide what we want to use the revenue for, we need to take a look at this tax possibly detracting from individuals attending charitable events. Mr. Petrusky said this ordinance would not force anyone to pay tax on their winnings; the IRS would have to be the one to force those individuals to pay tax on gambling winnings. The proposed ordinance would simply state that if you make a certain amount of money you have to pay taxes on it and if you make less than that, you do not have to pay tax on it. Mr. Kasaris said when claiming gambling winnings, some individuals are able to claim down to zero on their federal return, but then that individual will be faced with having to pay city tax on those winnings.

Mr. Farrell thanked Mrs. Fegan for the information she provided as he felt it was very helpful. He then asked the committee members if they want to pursue this tax and if so at what level do they want to pursue it.

Mr. Gentile asked if we currently consider a royalty to be taxable. Mrs. Fegan said that our code does not specifically address this. She said the RITA regulations do include it and they are taxing it. Mr. Kasaris asked if our code does not tax royalties, how we are able to currently tax royalties. Mr. Kasaris asked what the difference is between gambling winnings and royalties. Mrs. Fegan said gambling income is something where it is specifically stated that it will be taxed. He then asked what other communities are doing with royalties. She said Mayfield Heights has used \$3,000 as its threshold for taxing royalties. Mr. Kasaris said if we are looking at royalties as income once it meets a certain level why not have it at the same level we do rental income which is also \$3,000.

Mr. Gentile said that if we do not get rid of the Admissions Tax, we should at least take it down from 3 percent to 2 percent. Mrs. Fegan said part of the reason the Admissions Tax was brought on at 3 percent was that the city thought the Avalon Party Center would bring in significant business. Mr. Willey said that he thought the Avalon was skirting the Admissions Tax by calling events charitable events in which case the tax was not charged. Mrs. Fegan said if an event is charitable, political or if they can show that the attendee is receiving something such as dinner, and they can come up with a dollar amount on that portion, the Admissions Tax will not be charged on that portion.

Mr. Farrell asked Mrs. Fegan for an example of a business in the area that is being charged the Admissions Tax. Mrs. Fegan said that the company that manages events at Carrie Cerino's has to pay this tax. She said Carrie Cerino's has been wonderful in conveying to their people that this tax is in existence and has to be paid. She said that golf courses, golf ranges and miniature golf courses are also included in this tax.

Mr. Kasaris, Mr. Gentile, Mr. Petrusky and Mr. Farrell feel we should abolish this tax.

Mr. Nickell said he feels we should keep the tax but cut it down to 2 percent.

Mr. Antoskiewicz feels we should keep the tax.

Mr. Gentile feels there is a lot more discussion needed on Earned Income as a whole.

Mr. Gentile asked if everyone is comfortable with having a \$3,000 threshold on royalties or should we change it to \$1.00. Mr. Petrusky feels we should change the amount to \$1.00.

Mr. Gentile said we should get some information on what other communities are doing and continue this

discussion at the next meeting.

Mr. Farrell asked committee members where we are with the gaming part of this tax. Mr. Petrusky said if an individual receives a 1099 for lottery winnings or gambling winnings then that person must follow federal guidelines. Mr. Antoskiewicz feels the threshold should be \$50,000. Mr. Kasaris said if we do this, he feels the threshold should be \$50,000. Mr. Willey said he does not support the gambling tax, but said if this tax were to get the majority vote, he believes the threshold should be set at \$50,000. Mr. Nickell feels the threshold should be at \$50,000 or at the lowest amount \$5,000. He did not want to go any lower than that. Mr. Gentile said he is in favor of redefining this as earned income once it hits or exceeds \$50,000. Mr. Farrell said he is against this tax.

Mr. Farrell said the committee will revisit this subject at the next meeting.

Mr. Kasaris asked about the rental income. Mrs. Fegan said that the current code (880.44) requires anyone who has a rental property in the city provide the city with a list of move ins and move outs on a monthly basis. This information is then passed along to RITA so they can do registration. This is used for major apartment complexes, not for single family homes. Mrs. Fegan said this can be tweaked if that is what Council wants to do. Mrs. Fegan will come up with some wording to include all rental property and it will be discussed at the next meeting.

Mr. Farrell discussed the road reconstruction projects that were discussed in the Streets Committee earlier in the month. Mr. Gentile suggested at the Streets Committee meeting that Council review this at the Finance Committee meeting to make sure no one was opposed to using notes versus bonds for these projects. No one was opposed.

Mr. Petrusky asked Mrs. Fegan how the new finance software is working. She said the first three days of training will be held in mid-May. She said the Finance Department will go live on the general accounting side on October 1, 2009 and go live on payroll on January 1, 2010. The utility billing will probably go live in April 2010. Mrs. Fegan said they are trying to retain account numbers as much as possible.

Mr. Kasaris discussed abating penalty and interest in the Income Tax Ordinance. Mrs. Fegan said that this is something that was put in shortly after she took office. She said there was some concern that if the tax administrator was abating requests for penalty and interest, there could be some abuse in this process. Mrs. Fegan said she has always been the one to abate penalty and interest. Currently the maximum amount is \$250.00 after that the Board of Income Tax Review is supposed to be called together. She said this board does not get paid and meets so infrequently that they currently do not have any members assigned to this committee. She said that if there is ever an abatement request that they want to appeal, there are only so many days to call the board together for this process. Mrs. Fegan said she would like to see the maximum amount set at \$1,000. She feels an abatement is a selected event, not an annual event and she will not abate interest, only penalty. Mr. Farrell asked how often Mrs. Fegan has to do this. She said this year she had a couple of requests from companies.

Committee members agree that the maximum amount should be \$1,000. Mrs. Fegan will change that in the Code.

2. Admissions Tax

This was discussed above.

ADJOURNMENT

Moved by Mr. Petrusky, seconded by Mr. Farrell to **adjourn the meeting**. Yeas: 3. Nays: 0. **Motion carried.**
Meeting adjourned at 7:34 p.m.