



COMMUNITY DEVELOPMENT • 1140 Terex Road • Hudson, Ohio 44236 • (330) 342-1790

MEMORANDUM

Date: November 14, 2023
To: City Council
From: Katie Behnke, Economic Development Manager
CC: Jeff Knoblauch, Assistant City Manager, Finance Director
Greg Hannan, Community Development Director
Re: Summit County Intergovernmental Memorandum of Understanding for Job Creation and Retention and Tax Revenue Sharing

Background

The City of Hudson participates in the Summit County Intergovernmental Memorandum of Understanding for Job Creation and Retention and Tax Revenue Sharing (“MOU”) which aims to encourage collaboration among communities in Summit County and dissuade poaching of major employers through incentives. The MOU has been adopted by all but two communities (Stow and Twinsburg Township). From 2014 to 2018, the city collected an additional \$302,908 in income taxes for jobs that moved to Twinsburg under an incentive. Beginning with 2022, the city has paid the City of Green a portion of our income taxes collected from Diebold Nixdorf as they received a Jobs Creation Grant as part of their relocation to Hudson. The full agreement and signatory pages are attached as an addendum to this memo.

Following the discussion in the City Council Workshop on March 14, 2023, Staff reached out to other Economic Development professionals within Summit County to discuss the future of this agreement. Feedback was extremely limited as many communities within the county do not have fully dedicated Economic Development professionals. Staff discussed the MOU with the Economic Development team at Summit County and requested an annual review meeting as allowed by the agreement by all participating communities. The meeting was held on November 7, 2023.

November 7, 2023 Countywide Meeting Summary

The meeting began with an overview of the history of the agreement which confirmed that the purpose of the agreement was to limit incentives offered between businesses moving within the county. The agreement allows communities to set whatever tax sharing parameters in place they agree to but provides a standard sharing formula in the event no other terms are agreed upon. In practice, most revenue sharing agreements have adopted the standard sharing formulas outlined in the MOU.

Several key topics were addressed during the discussion, including:

1. Should the triggering threshold for Tier Two be increased from \$3,500,000 in payroll dollars (\$70,000 in income tax) as it has not been adjusted for inflation or otherwise since

the agreement's inception in 2009/2010. Feedback was mixed on this issue. Many larger communities felt that regularly adjusting this baseline for inflation made sense while small communities expressed some hesitation to increase. The Summit County ED Office will propose language for this change to be voted in during the next meeting. Using the US Bureau of Labor Statistics CPI Inflation Calculator, \$3,500,000 in 2010 adjusted to 2023 dollars is approximately \$5,000,000.

2. The City of Hudson raised the issue that the \$3,500,000 Tier Two threshold should be considered in both directions. Currently, the agreement states that if the payroll has averaged \$3,500,000 or more for the departed community, tax sharing should occur at the Tier Two formula. However, in an instance where offices are being consolidated and not all positions are retained or when employees are being moved to a work from home or hybrid model as part of the transition, the amount of payroll leaving the destination community may not be the amount of payroll coming into the destination community. There was broad consensus that this threshold should be reviewed in both directions. The payroll leaving the departed community and entering the destination community should exceed \$3,500,000 to trigger Tier Two sharing. The Summit County ED Office will propose language for this change to be voted in during the next meeting.
3. The Summit County ED Office noted that the agreement does not specify that the tax sharing is limited to withholding income tax. In practice, no communities were sharing net profit tax. There was broad consensus that the agreement should be revised to only apply to withholding income tax. The Summit County ED Office will propose language for this change to be voted in during the next meeting.
4. The City of Akron noted that employees are requesting refunds when their tax has been withheld properly for their work from home or hybrid arrangements. The agreement does not currently allow for a true up or adjustment of the revenues shared. Some communities were already making this adjustment in practice and there was broad consensus that a true up mechanism should be formally added to the agreement. The Summit County ED Office will propose language for this change to be voted in during the next meeting.
5. The City of Cuyahoga Falls requested that example revenue sharing agreements or templates could be added to the appendix of the agreement to improve consistency. There was broad consensus that this would be helpful and the Summit County ED committed to drafting templates to be used going forward.
6. The City of Cuyahoga Falls raised concern that the MOU defines an incentive broadly as “a financial or “in kind” benefit offered by a community to an employer or business of **such a nature that it would provide a reasonably operated employer or business with an incentive to relocate...**” Specially, the team felt that this left too much room for interpretation. Some communities felt that the broad nature was intentional and meant to encompass any type of incentive that could be conceived down the road. Other communities felt that more clearly defining incentives as property tax abatements, income tax grants, or infrastructure improvements. The Summit County ED Office will propose language for this change to be voted in during the next meeting.
7. The City of Hudson raised whether Tier One sharing was a critical need. This tier is for payroll of less than \$3,500,000 (\$70,000 in income tax) only when an incentive was offered. The concern was whether this represents a material change in tax for any community that needs to be shared. There was not support for removing the Tier One tax sharing requirements and no formal proposals will be made related to this issue.

Next Steps

The Summit County Economic Development Office will be distributing proposed changes for review by the participating communities and hosting a follow-up meeting in December to either vote on the changes or further refine the proposed amendments. Any amendments to the agreement will be effective beginning July 1, 2024.

At this time, Staff requests Council's feedback on the proposals so that Staff may vote in alignment with Council's views in the December meeting. Note, should Council want to withdraw from the agreement all together, it would require a resolution and 180-day notice. The 180-day notice is waived if Council will not approve or accept a proposed modification to the agreement. It would be helpful to have this context heading into the December countywide meeting as well.