POLICY MATTERS OHIO

CLEVELAND: 3631 PERKINS AVENUE SUITE 4C - EAST • CLEVELAND, OHIO, 44114 • TEL: 216/361-9801 • FAX: 216/361-9810
COLUMBUS: 300 EAST BROAD STREET, SUITE 490 • COLUMBUS, OHIO, 43215 • TEL: 614/ 221-4505 • FAX: 614/ 224-8132
HTTP://WWW.POLICYMATTERSOHIO.ORG

Comments of Wendy Patton, Policy Matters Ohio
Township Trustees, Feb. 12, 2011

A wave of new interest in cities and towns, accompanied by analysis and reports and events, was launched well before Wall Street melted down and well before the economic whiplash hit state and local governments. New ideas about approaching redevelopment and encouraging new kinds and patterns of development were already under discussion when the recession hit. Today, those reports are hard to separate from the reports advising on how to survive the current fiscal crisis.

Townships are pioneer territory, the new frontier on the urban edge. Predating the state, and with limits on both taxation and on responsibilities, townships represent: a good deal, an opportunity to consider, just over the hill, a short drive, room to grow, an opportunity for lower costs. An economical choice. This growth imperative does not impact all of Ohio's thirteen hundred townships, but those nearer to the cities may host growing populations as a result of outward expansion of cities - which may require increasing services, and that may be a challenge in these economically difficult times.

Last spring we tried to gauge the fiscal condition of Ohio's local governments – a tough thing to do: the ones who would talk to us had such reduced staffing in the auditor's office that getting data was onerous. We found, from those who would talk, that Ohio's local governments have seen sharp revenue declines over the past two years. We found that small cities in northeast Ohio that pool collections through the Regional Income Tax Agency averaged a 7.5 percent drop in income tax collections between 2008 and 2009, while the state's six largest cities anticipated shortfalls ranging from three to more than 16 percent of their general funds. Local government lags economic conditions by a year and a half to three years, because of the timing of tax collections. Townships, with revenues based on property taxes, may be the hardest hit.

Compound that with the phase out of payments for the tangible personal property tax, a state budget deficit that drives talk of deep cuts in the local government fund, and the proposed elimination of the estate tax, and the fiscal problems you face can be- maybe should be – considered frightening. Anthony Upton of Greene Township testified at the hearing on the proposed elimination of the estate tax on Wednesday. Over the past 15 years, the estate tax has provided 44 percent of their general fund budget and the local government fund, another 21 percent. Loss of funding of this magnitude is hard to imagine. I expect others are in similar circumstances.

Ohio's township sector is not bloated. In 2007, the census reported that under the definitions used by the census, 20 states had townships. Ohio is the 7th most populous state in the nation, and had the 6th most townships, behind Kansas and North Dakota, among others. Ohio ranked 8th in number of township employees per capita and 9th in township trustee payroll per capita. Not out of line with density. But in the recession, plants are shuttered; stores close; revenues fall. Blame is part of the game: too expensive! not efficient! not competitive! Citizens – voters - watch and wait for a sign of improvement – for a new factory, a housing development, a ribbon cutting. Desperate for new revenues, stewards of the public trust seek the tools to renew competitiveness, but the most commonly prescribed way is a little mysterious: raise revenue is by lowering revenues. Attract jobs by cutting taxes. That hasn't worked at the state level – the tax overhaul of 2005 cut state taxes by 2 billion dollars a year, but by 2009, Ohio's share of the nation's jobs has dropped by a little over 10%.

Raise revenues by lowering revenues. Attract companies by tax expenditure, tax cuts, tax credits, tax abatements, lowering taxes, cutting taxes, eliminating taxes. The rainmaking process of economic development remains rather magical. What measures success? Year over year, republican and democrat, Ohio's governors win the Site Selection magazine silver cup for economic development, then get pilloried and sacked for job loss. This game is played out across roughly 2300 jurisdictions in Ohio: counties, cities, villages and townships engaged in competition for jobs, while the real driving forces in the private economy are the credit markets, international trade and currency, the housing crisis, international investment decisions and technological development.

The research we conducted on the fiscal condition of local government here in Ohio, led to work with Senator Sherrod Brown to promote ongoing federal aid. We worried that without that, the recovery that the first stimulus had created would wash out in a wave of public sector layoffs at the local level. Last year's proposed Local Jobs for America Act would have made available additional federal dollars to help local government through this financial valley of death. It didn't happen. Although the Recovery Act helped a lot, cutting job loss in half and creating 3 to 4 million jobs during the depths of the recession, it was not sufficient, given the size of the housing crash, to underwrite a robust recovery. Interestingly, we see parallels with the great Depression: Roosevelt needed to prolong his spending on public jobs at the end of the 1930s, but was forced by congress to cut back. An emerging recovery was weakened for another 3 long years. We fear history repeating itself.

Last years' reports on local governments endorsed a number of strategies for improvement, and these strategies are sometimes suggested as solutions to the fiscal crisis: collaboration, joint administration, and cooperative economic development strategies. Local governments already collaborate on services. This is common in townships, according to Wednesday's testimony, particularly in fire services. Finding ways to increase collaboration, would, of course, be welcome. Joint administrative systems might offer financial traction over time in large enough communities. Economic development collaboration through joint districts and with revenue sharing may make sense, although in some cases, jurisdictions just need to decide: what am I? A municipality or a township?

Various models of revenue sharing have been proposed. One model involves a township getting a water and sewer extension from a city and in return for the city's rights to impose an income tax on a new firm locating in a township. But say that factory draws related growth, leading to service needs beyond what townships typically provide, such as increased road engineering, traffic controls, schools, recreation, and so forth. You, the township trustee, face political pressures to maintain that good deal people came looking for – with low taxes, minimal services, low costs. Your ability to meet growing needs may be politically limited. Meanwhile, cities where infrastructure and urban services already exit, empty out. Past investment is abandoned as old infrastructure decays. We cannot afford this – we have not been able to for a long time – now we face sort of a financial Armageddon in state and local public finance. So – we see dangers with these new revenues sharing arrangements – they facilitate locations that are not sustainable over time. Those using theses arrangements need careful, comprehensive, long-term cost benefit analysis – what services may be needed, what they may cost, the forecast arc of growth and the long term plan plan for maintenance – and, a fund for legal and other fees over time.

The greatest danger to citizens today is how this state budget plays out. The latest Quinnipiac poll shows the Ohio voter is disenchanted with sale of assets, with privatization, with spending cuts, with tax hikes – the only thing a majority of the respondents to the poll favored was a balanced approach to the budget shortfall – one that includes revenue.

Voters want to see legislators take a balanced approach to the budget that incorporates revenues. There are ways to do this that do not land on the middle class family and that increase equity, balance and accountability in the state's system of revenues. Together with other changes, the 2005 remake of the tax system is costing Ohio $2.1 billion a year in net revenue. On a biennial basis, that's half of the $8 billion budget gap. There are sound approaches to restore fiscal stability. Leadership could make the state revenue system more fair by restoring the top income-tax bracket on top earners. They could restore accountability by scrutinizing tax expenditures - $7.7 billion dollars worth. They could balance the system by ensuring that the new corporate tax system generates the revenue that the old.

Voters want a balanced approach that also includes spending cuts. There is spending that can be shrunk. Most of what the public sector does is needed. Schools, public safety, universities, a safety net: These are things Ohioans need and use. Some policies, however, cost more and deliver less: sentencing nonviolent, low-level offenders to costly prisons, giving new tax abatements despite dramatically lowered corporate tax rates, and shifting elderly residents from more economical at-home care to nursing homes.

The public sector creates the conditions under which the private sector may thrive. We have a long and interesting road ahead of us this spring as the state deals with its budget crisis and as you work through the issues of public finance in your townships. There are no easy answers. I look forward to hearing the discussion following this panel.