Budget

Congress must support states, communities

It’s not a partisan issue: Communities struggle across Ohio in the pandemic recession

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Across Ohio, people are doing their part to take care of themselves and each other by wearing masks, staying home, and supporting local businesses. The COVID-19 pandemic and the recession it is causing are taking a toll on millions of Ohioans who have lost their jobs, gotten sick or are trying to balance work and caring for children. Public services are critical to helping people make ends meet after they lose income and health insurance. The COVID-19 virus creates new demand for emergency and public health services. At the same time, Ohioans count on their local governments to provide basic public services such as clean water, trash pickup, traffic control and much more. Ohio’s thousands of communities as well as the state government are struggling to keep providing the basics because revenues from taxes and fees have decreased with high levels of unemployment. Congress has sent aid, but it’s not big or flexible enough to get through the recession. Federal lawmakers must do better.

The state budget deficit is expected to be $2.1 billion over the next 12 months. The budgets of programs millions of Ohioans depend on – like Medicaid – have already been cut. Local communities are in the same position, facing budget shortfalls as needs rise and tax collections fall. In Ohio, state and local governments have cut almost 66,000 jobs since the recession began. Cuts to public sector jobs deepen the recession, particularly in Ohio’s rural areas where jobs in schools and local government are often a mainstay of the economy.

While the budget shortfalls of big cities have received national attention, fiscal crisis in smaller cities and rural areas will cause deep and lasting damage.

State and local governments must balance their budgets and cannot borrow to meet operating deficits. During crises they rely on the federal government to backstop and support them. With the Coronavirus Aid, Relief and Economic Security (CARES) Act, Congress provided Ohio’s state and local governments $4.5 billion, but these funds can only be used for new costs related to COVID-19. They cannot be used for basic services, so they cannot help with budget shortfalls. The state has around $1.5 billion in CARES Act money that has not been allocated or distributed but can’t use it for the pandemic-induced budget gap. State lawmakers sent $350 million of CARES Act funds to localities, but the same restrictions apply. The city of Cambridge, Ohio has $301,000 in CARES act money but can’t use it for the $500,000 budget shortfall it faces. The funds must be spent in a tight time frame. Local governments must return unused funds to the state by October 15 for redistribution; the state will return remaining funds to the federal government at the end of the year.

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5 Zarroli, Jim. “Cities Have Never Seen A Downturn Like This, And Things Will Only Get Worse,” NPR, May 20, 2020 at https://n.pr/3fjg9fm
Forecasters are beginning to recognize how deep this recession will be and how long it will last. National unemployment of 13.3% in May is expected to remain far higher than pre-recession levels through the end of 2021; Ohio’s rate – 13.7% in May - is higher than the national rate.\(^7\) In the past, Ohio has recovered more slowly from recessions than the nation.\(^8\) Nationally, budget shortfalls of state and local governments are expected to top $555 billion over the course of the next three years, even after they spend all of their rainy day funds.\(^9\) In an Ohio Municipal League survey of local officials, the most common expected length of the recession was 12 to 18 months, well into 2021.

In this paper we focus on the economic problems of Ohio’s local governments. We interviewed officials of 16 Ohio municipalities that vary by size, location and political leaning. All are acting to address or prevent fiscal crisis. In addition, we relied on the Ohio Municipal League’s survey on COVID-19 response among members (conducted in June 2020); throughout this paper, we highlight comments that are particularly representative of various aspects of the fiscal crisis. The primary take-away of the interviews and survey is that Ohio’s communities need federal aid that is sufficient to support the provision of basic public services and jobs throughout the recession.

**Local government finance in Ohio**

Ohio’s stay-at-home order started on March 23, 2020. A month later, hundreds of thousands of Ohioans were laid off. By the middle of June, 1.4 million Ohioans had sought unemployment compensation. The fiscal crisis in households quickly became a fiscal crisis in local governments.

In Ohio, the main local government institutions are municipalities, townships, counties and schools. By and large, schools depend on property taxes, counties on sales tax and many cities and villages rely on the income tax.\(^10\) Municipalities and counties also use property tax levies to fund specialized services, including for seniors, people with developmental disabilities, mental health and addiction services, libraries, parks, emergency and other services. In the pandemic recession, municipal budgets are in the red with the loss of income tax collections and counties are struggling with loss of sales tax revenues. The fiscal crisis to schools and special purpose

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\(^7\) Bureau of Labor Statistics News Release at [https://www.bls.gov/news.release/laus.nr0.htm](https://www.bls.gov/news.release/laus.nr0.htm)


\(^10\) Townships rely on counties for many - not all, but many - services.
funds that depend on property taxes have not yet fully emerged since property taxes are paid semi-annually.

The CARES Act provided $4.5 billion to Ohio’s state and local governments to get through the crisis. That money must all be spent on activities and programs to specifically address the virus, so it can’t be used to fix the budget shortfalls in state and local government treasuries, even though those shortfalls are a direct result of the pandemic. Both of Ohio’s senators are in favor of loosening the restrictions on those funds.11

Fiscal problems emerge across communities

During the week of July 6, 2020, Policy Matters Ohio and the Ohio Mayors Alliance called cities across the state to ask about current and projected budget shortfalls, actions taken to address the budget situation, and use of federal CARES Act money, which the state had just distributed to counties and jurisdictions with populations of less than 500,000.12 The list (see Appendix) included cities in urban and rural counties, mid-sized and small cities, and suburbs. We found some jurisdictions addressed budget shortfalls through unexpected revenue, cash carryforward or budget reserves; others could lose up to 25% of their operating budgets. Cities are getting CARES Act funds from a variety of federal sources, but for specific purposes or restricted use. Nine of the 16 officials interviewed had implemented layoffs or furloughs.

Budget shortfalls of cities spill over into the local economy. Public administration and education jobs make up over 10% of the employment base in many rural counties, and over a third of all employment in counties like Athens, with a university.13 Public sector layoffs compound private sector problems as local buying power declines, threatening retail and service jobs that depend on consumer demand.

The city of Cuyahoga Falls faces a funding gap of $7 million, almost 4% of their budget. They have implemented a hiring freeze. The city is located in Summit County, which received its own allocation of federal funds and may match the state’s CARES Act distribution to jurisdictions in the county, doubling Cuyahoga Falls’ $1.6 million allocation. However, much of the money cannot help with the budget shortfall due to restrictions on use of the funds. It cannot be used for expenses that received appropriations in the current budget. Federal guidance clarifies that payroll for public safety, health, emergency services and human services can be covered by CARES Act funds, but Ohio’s Office of Budget and Management

12 Five counties and the city of Columbus were large enough to receive a distribution of federal CARES Act funds directly from the federal government.
13 Ohio Labor Market Information, County Economic Profiles at https://ohiolmi.com/home/economicprofiles
has specified that such cuts must be for time and activities directly related to the COVID-19 pandemic. So while the budget shortfall is caused by the pandemic, CARES Act funds cannot provide the backstop communities need.

Some cities are hopeful that Congress will provide additional aid and flexibility this fall, others are not. Mayor Berger of the city of Lima is not. Lima has a $6 million shortfall and is looking to reduce city employment by 40 positions (10%). The city received a CARES Act distribution of $1.2 million and will use $200,000 of that for new expenses directly related to COVID-19, but the balance will be used for community needs like purchasing and distributing facemasks for residents and expanding access to wireless services for students. The city of Parma faces a budget deficit of $2.4 million (4.5% of the general fund budget) and will receive CARES Act funds of about the same amount, but city officials believe they can only use a small portion of this, mainly for supplies and equipment.

Toledo faces a budget deficit of $25.5 million and has implemented both furloughs and layoffs. The $10.1 million in CARES Act funds will be used for eligible personnel expenditures for public safety staff and supply purchases related to COVID response (personal protective equipment and other measures). Middletown, which sits on the border of Warren and Butler Counties, has a budget shortfall of $1.7 million, about 5.5% of its budget. City officials are delaying capital projects and have instituted a hiring freeze. As with Toledo, some of the $1 million in CARES Act funds will be used for allowable salary expenditures in the areas of public safety and health.

Some cities have avoided immediate layoffs or cutbacks thanks to rainy day funds of their own. Wooster, in Wayne County, is covering a $650,000 (5%) shortfall with a budget reserve. CARES Act monies will be used for supplies, emergency services and installation of cameras, doorbells and plexiglass barriers. City officials are uncertain of what 2021 will bring, as they have already dipped into budget reserves.

Other cities do not have an immediate budget shortfall. The city of Ashland does not expect a funding gap this year but is cautious about capital projects and expenditures; 11% of the city’s employment base is concentrated in education and public administration jobs. The city of Marion in Marion County has a higher concentration of jobs in these sectors, at 14% of its employment base. Marion does not have a deficit at this point, thanks to an unexpected payment from the state’s Bureau of Workers Compensation, but the auditor is worried: “We are not through 2020 yet, we may see losses ahead.” The greater concern is fiscal losses in 2021. The $841,939 in CARES Act funds will address immediate and long term needs of Marion: police and fire expenses, COVID-related equipment and medical supplies, cleaning and safety supplies, installation of automatic/touchless doors, faucets, and toilets, upgrades of information technology to allow work from home. The small town of Mount Gilead has no shortfall at present but warns there may be a dip in revenues ahead. Capital projects have been put on hold, although city officials are using the $61,754 of CARES Act funds for

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15 Ohio Office of Budget and Management at https://bit.ly/2Cn5QZ1
physical improvements like plexiglass barriers on playgrounds and a drive-through for administrative offices.

The Appendix includes all responses to the interviews. We found many Ohio communities are delaying construction projects, curtailing expenditures and instituting layoffs and furloughs. The job losses not only affect the provision of government services, but also add to state unemployment. Delayed projects ripple through the construction sector and further slow the local economy.

Costs rise in the recession—What’s COVID-related and what’s not?

The Ohio Municipal League surveyed members in June of 2020 and found well over half of respondents faced not only falling revenues, but rising costs. These costs are often indirectly driven by the pandemic, so CARES Act money cannot be used to help with them. Respondents mentioned shortfalls in water fees, due in part to residents’ inability to pay, but also from other, more subtle, pandemic-related causes: “The water departments have had an increase [in costs] over time. The main factor is obtaining parts, conducting repairs, and waiting for deliveries due to the closures of many businesses and the slow-down of parts suppliers.”

Another respondent noted that COVID-19 restrictions had affected the amount of citations issued, causing a reduction in mayor’s court proceeds, an important source of revenue for many cities. The fact that some Ohio communities rely on citations, with their own problematic history of over policing, racial profiling and other abuses,17 speaks to the systematic defunding of local government over the past decade in Ohio.18

Local government services are delivered by people, so cutting payroll is the primary way municipalities cut costs. About a quarter of respondents to the Ohio Municipal League survey reported instituting furloughs

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17 Maciag, Mike, “Addicted to Fines: Small towns in much of the country are dangerously dependent on punitive fines and fees.” Governing, September 2019 at https://bit.ly/3h5hTcR

18 Over the past eight years, state policymakers cut revenue sharing in half. They eliminated the tangible personal property tax but provided reimbursement for revenue lost; these reimbursements were phased out. They abolished the estate tax. Motor fuel taxes shrunk and casino revenues did not grow enough to replace the losses. By the end of 2021, local governments will be getting $1.3 billion a year less - adjusted for inflation - than they got in 2011, the last budget year before the cuts started in the budget for 2012-13. See Patton, Wendy, “Ohio’s 2020-21 Budget,” Policy Matters Ohio, November 7, 2019 at https://bit.ly/2CBAWw6
or layoffs. Public sector layoffs compound local economic decline, as explained in the Southeast Ohio Community Leaders’ Action Plan for Regional Recovery.¹⁹

This is not a short-term crisis. Of the 117 survey respondents who gave an estimate of how long the COVID crisis would last, the typical response was 18 months. Uncertainty abounds: Of the 255 respondents, fewer than half ventured a guess. Several respondents felt the challenge would be eliminated within a month or two; some thought it would last three to five years, and some commented that it would not end – that this challenge of illness and recession is the new normal.

Summary and recommendations

Ohio’s state and local governments are providing critical services to keep society moving during the pandemic recession. Federal aid sent to date is being put to good use, but it is restricted and cannot be used to address the sudden, deep shortfalls that have opened up in the budgets of many municipalities large and small, urban and rural, led by Republicans and Democrats. Many local leaders in Ohio expect the crisis to last through 2021. They look to the federal government for support in a crisis, and this is a crisis.

Additional, flexible funding for state and local governments is urgently needed going into 2021. The U.S. House of Representatives passed the “HEROES Act” in June to deliver a new round of federal aid. The Senate returns to Washington in late July amid a surging pandemic and deepening recession. Senators must join Representatives in providing new aid to stem the downward spiral of the economy and support recovery.

¹⁹ Southeast Ohio Community Leaders’ Action Plan for Regional Recovery, June 10, 2020. This report was developed by 20 officials from cities, counties, schools, human service agencies, economic development agencies, foundations, non-governmental organizations, hospitals and businesses located in and serving southeast Ohio.
Survey questions:

1. What is your updated estimated budget shortfall in real dollars and as a percentage of your overall budget?
2. What fiscal changes are you making in response to or to prepare for the economic downturn?
3. Have you had to furlough or lay off employees and do you anticipate layoffs in the future if you do not see any additional fiscal relief from Congress?
4. How much have you received in CARES Act funds and how do you intend to utilize those funds?

Note - Interviews were conducted by the Ohio Mayors Alliance and Policy Matters Ohio the week of July 6, 2020. CARES Act allocations are taken from the Ohio office of budget and management spreadsheet, “SB301 allocations to political subdivisions using FY2018 CULGF.xls.” There may be variation between the state projection and the actual distribution that occurs through the county distribution.

Municipal responses:

ASHLAND:
1. Expected shortfall in real dollars as a percentage of overall budget:
   No shortfall at present
2. Changes in response to/preparation for the economic downturn:
   We are being cautious about capital expenditures and projects.
3. Furloughs/layoffs:
   No - we are just being cautious
4. Amount of CARES Act funds received and plans to use them?
   $777,170 in CARES act funding; will defray expenses directly related to the pandemic.

CAMBRIDGE:
1. Expected shortfall in real dollars as a percentage of overall budget:
   $500,000, 25% of budget
2. Changes in response to/preparation for the economic downturn:
   Hiring freeze has been implemented; council is meeting to decide on further changes.
3. Furloughs/layoffs:
   40 administrative staff and 20 municipal court staff are on reduced hours through the workshares program. What further steps we take depends on what the federal government provides
4. Amount of CARES Act funds received and plans to use them?
   $304,623; we’ve used $2500 for cleaning and supplies.

CINCINNATI:
1. Expected shortfall in real dollars as a percentage of overall budget:
   $73.4 million; 17% reduction from the prior year budget. The City furloughed staff and have taken drastic staffing reductions for FY 2021.
2. Changes in response to/preparation for the economic downturn:
The City cancelled the police and fire recruit classes for FY 2021; increased expenses related to COVID-19 in the Health, Police and Fire Departments.

3. Furloughs/layoffs:
The City furloughed staff and have frozen all vacant positions; the FY 2021 Budget is balanced but not structurally balanced. Will need additional federal dollars to avoid further layoffs.

4. Amount of CARES Act funds received and plans to use them?
$15.7 million in CARES Act dollars; $17 million from the County pass-through; to be used for police, fire and health staff to avoid layoffs. Also received $6.8 million in CDBG CARES funding and have used that for Human Services funding; additional dollars will be passed to the emergency shelter coalition.

CIRCLEVILLE:
1. Expected shortfall in real dollars as a percentage of overall budget:
$1.56 million, 6% of total budget
2. Changes in response to/preparation for the economic downturn:
Reducing expenditures; no cuts yet.
3. Furloughs/layoffs:
Not sure; we are sorting that out.
4. Amount of CARES Act funds received and plans to use them?
$452,265; distribution just received; uses have not yet been defined.

CUYAHOGA FALLS:
1. Expected shortfall in real dollars as a percentage of overall budget:
Estimated to be $7M, 3.8% of budget.
2. Changes in response to/preparation for the economic downturn:
We’ve seen many retirements and have a hiring freeze in place. Capital projects have continued as budgeted.
3. Furloughs/layoffs:
Laid off majority of our part-time workers.
4. Amount of CARES Act funds received and plans to use them?
We received $1.6 million in CARES from the State. Summit County initially received $94.4M. They are proposing to match the state funding.

DAYTON:
1. Expected shortfall in real dollars as a percentage of overall budget:
Currently 8% of original 2020 budget or $14M; similar gap in revenues currently projected for 2021 budget.
2. Changes in response to/preparation for the economic downturn:
Eliminated $8M in capital projects; Abolished 140 vacant positions; Instituted Voluntary Separation Program across organization incenting 96 individuals to retire early; Instituted hiring freeze; Restricted expenditures to essential only; Abolished 22 filled positions in service areas drastically impacted by COVID (Airport; Convention Center; Recreation/Golf)
3. Furloughs/layoffs:
Layoffs are currently underway related to the 22 filled positions abolished for 2020 budget; given bumping and additional retirements I cannot identify how many of the 22 abolishment’s will result in a layoff.
4. Amount of CARES Act funds received and plans to use them?
$8.2 million; this will be used to cover acquisition of PPE/sanitation supplies; HVAC and touchless environment modifications; additional equipment for first responders; broadband expansion; unexpected costs related to COVID; and technology enhancements related to remote working.
FINDLAY
1. Expected shortfall in real dollars as a percentage of overall budget:
   No shortfall at present; although expenditures exceeded revenues by between $1 and $2 million in 2020, the city has a strong cash carryforward that was used for the shortfall.
2. Changes in response to/preparation for the economic downturn:
   No funds have been cut for 2020. Some city leaders are talking about setting up a $500,000 rainy day fund.
3. Furloughs/layoffs:
   None.
4. Amount of CARES Act funds received and plans to use them?
   $563,135; of this, about $150,000 is already budgeted for COVID related expenses; city leaders will meet on how to allocate the remaining $400,000.

HANGING ROCK:
1. Expected shortfall in real dollars as a percentage of overall budget:
   $10,000, 5% of village budget
2. Changes in response to/preparation for the economic downturn:
   Mayor and administrative staff took a 50% cut in pay.
3. Furloughs/layoffs:
   We were down 2 police officers in February, out of a staff of 4 officers and two part-timers. We cannot replace them.
4. Amount of CARES Act funds received and plans to use them?
   The County has not yet distributed CARES Act funds.

LIMA:
1. Expected shortfall in real dollars as a percentage of overall budget:
   $6 million budget shortfall (2018 General Fund budget totaled $34.9 million)
2. Changes in response to/preparation for the economic downturn:
   Hiring freeze, furloughed employees, will establish retirement incentive program; We don’t believe there will be any assistance from the Congress, and that is why we are taking the steps outlined above.
3. Furloughs/layoffs:
   We need to reduce our headcount by roughly 40 positions (10%).
4. Amount of CARES Act funds received and plans to use them?
   $1.2 million; we’ve had $200,000 in COVID-related expenses for the city organization, so we are now looking at community uses, e.g., purchasing and distributing facemasks for residents, wifi access for students, etc.

MARION (MARION COUNTY)
1. Expected shortfall in real dollars as a percentage of overall budget:
   None at present (larger than anticipated state workers compensation payment offset budget shortfall)
2. Changes in response to/preparation for the economic downturn:
   None; we don’t yet know about 2021.
3. Furloughs/layoffs:
   None.
4. Amount of CARES Act funds received and plans to use them?
   $841,939, which will be used for police and fire, COVID-related equipment, medical supplies.

MIDDLETOWN:
1. Expected shortfall in real dollars as a percentage of overall budget:
   $1.7 million (5.5%) general fund budget shortfall.
2. Changes in response to/preparation for the economic downturn:
   Delayed capital projects and associated expenses.
3. Furloughs/layoffs:
Hiring freezes/delays; no furlough or layoffs yet, but this may come.

4. Amount of CARES Act funds received and plans to use them?
$1,034,511 – will be using for allowable public safety and health dept. salaries, misc. cleaning and safety supplies, installation of automatic/touchless doors, faucets, and toilets, I.T. upgrades to allow for work from home abilities and virtual meetings, other expenses necessary due to COVID-19.

MOUNT GILEAD
1. Expected shortfall in real dollars as a percentage of overall budget:
No budget deficit; may be a dip in revenues in 2021.
2. Changes in response to/preparation for the economic downturn:
Capital projects may be put on hold.
3. Furloughs/layoffs:
None
4. Amount of CARES Act funds received and plans to use them?
Using $61,754 in CARES act funds for plexiglass on playgrounds, a drive through for the administrative offices.

PARMA:
1. Expected shortfall in real dollars as a percentage of overall budget:
$2.4 Million, about 4.5% of General Fund Budget
2. Changes in response to/preparation for the economic downturn:
Overtime eliminated or reduced, delay hirings, only necessary purchases.
3. Furloughs/layoffs:
47 employees laid off from end of April through end of July. Possibly further reductions needed.
4. Amount of CARES Act funds received and plans to use them?
$2,364,204. Based on the 3 current criteria we believe we can only use a small portion of this, mainly for supplies and equipment.

TOLEDO:
1. Expected shortfall in real dollars as a percentage of overall budget:
$25.5 million budget shortfall; 2020 city budget passed in early March was $281 million.
2. Changes in response to/preparation for the economic downturn:
The proposed budget amendments include $8.6 million in expenditure budget reductions, which impact both labor and non-labor budgets.
3. Furloughs/layoffs:
The city furloughed all exempt employees for five days in 2020. Additionally, 29 employees were laid off. Possible that additional furloughs and/or layoffs could be needed.
4. Amount of CARES Act funds received and plans to use them?
$10.1 million; to be used for supply purchases related to COVID response (ex. personal protective equipment and other measures) and eligible personnel expenditures for public safety staff.

WARREN:
1. Expected shortfall in real dollars as a percentage of overall budget:
$2.5 Million; 2020 general fund budget was $28.2 million.
2. Changes in response to/preparation for the economic downturn:
Furloughs / Capital Budget Cuts / Reduced Overtime and Work-ups
3. Furloughs/layoffs:
Furloughs are in place and layoffs are possible.
4. Amount of CARES Act funds received and plans to use them?
The CARES Act distribution to the city will be $1.1 million. Additional funds include $703,000 for Community Development and $44,000 for Contact Tracing & Supplies. There has been low interest in business loans. City-wide, PPE supplies have assisted in non-profits like Christy House, Someplace Safe, and homeless shelters.

WOOSTER
1. Expected shortfall in real dollars as a percentage of overall budget: $650K, 5% of the budget.
2. Changes in response to/preparation for the economic downturn: We are using the budget reserve/cash carryover to cover the shortfall.
3. Furloughs/layoffs: Not at this time.
4. Amount of CARES Act funds received and plans to use them? Supplies, emergency services and modifications to municipal buildings - cameras/doorbells/plexiglass barriers.