Local Jobs for America Act Would Bring Relief to Ohio Communities

A Brief From

Policy Matters Ohio

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Policy Matters Ohio, the publisher of this study, Policy Matters Ohio, is a nonprofit, nonpartisan policy institute dedicated to researching an economy that works for Ohio. Policy Matters seeks to broaden debate about economic policy by doing research on issues that matter to working people and their families. With better information, we can achieve more just and efficient economic policy. Areas of inquiry for Policy Matters include work, wages, education, housing, energy, tax and budget policy, and economic development.

Issue Brief:
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Wendy Patton, Senior Associate

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Executive Summary

The recession that spanned the last two years decimated the American economy, eliminating eight million jobs. For Ohio, it was another hard blow following a decade of loss. Almost 11 percent of Ohio's employment base, 587,743 jobs, vanished between 2000 and 2009. Employment levels dropped by 255,400 jobs between December 2008 and December 2009 alone. This extraordinary blow to a weakened regional economy was cushioned by swift federal action. The American Recovery and Reinvestment Act, passed in February of 2009, added more than two million jobs nationally, according to the non-partisan Economic Policy Institute. As the private economy shows signs of recovery, however, local governments feel the whiplash. The budgets of local governments typically lag behind economic conditions by about a year-and-a-half to three years. Sales and income tax revenues lag in many places, and foreclosure continues to erode the property tax base. Local governments will be faced with budget deficits for a long time. New rounds of layoffs and cuts in public services threaten the nascent recovery.

In this issue brief, we review trends in public finance at the local level in Ohio. Cities in northeast Ohio served by the Regional Income Tax Agency (RITA), generally smaller jurisdictions, saw a decline of 7.5 percent in income tax collections between 2008 and 2009. County sales tax collections in January of 2010 held steady over the prior year following a plunge of more than ten percent between 2008 and 2009. By now, slightly more than four percent of AFSCME Council 8 members, 2,000 local public employees, have been pink slipped. At least 1,780 teachers have been laid off. Citizens have been warned to arm themselves in counties where sheriffs' departments have laid off most of their staff. Almost half of the cities and towns on the State Auditor's fiscal emergency or fiscal watch list landed there within the past two years.

The Local Jobs for America Act, proposed by U.S. Representative George Miller of California, with co-sponsor legislation under development by U.S. Senator Sherrod Brown of Ohio, is an important tool to address this new crisis in the economy. Specifically, the Local Jobs for America Act invests $75 billion over two years in local communities to hire and retain staff. It provides funding for 50,000 on-the-job private sector training positions. It also includes provisions already approved by the House of Representatives: $23 billion to help states support 300,000 education jobs, $1.18 billion to improve police operations and put 5,500 law enforcement officers on the beat, and $500 million to retain, rehire and hire firefighters. The Congressional Black Caucus, the National Association of Counties, the National League of Cities, and the U.S. Conference of Mayors have endorsed this proposal.

Maintaining services and employment in all of our communities is critical to prevent a downward spiral as laid off workers continue to seek jobs in the wake of the eight million jobs eradicated in the past two years. There are signs that the national and regional economies are stabilizing. Waves of layoffs at the local level could upset a precarious balance. The Local Jobs for America Act can provide a necessary bridge to maintain our communities as a new foundation for a more stable economy is pieced together at all levels.

Local Jobs for America Act Would Bring Relief to Ohio Communities
Review of financial condition in Ohio's local governments

Overview of the Local Jobs for America Act of 2010

The most recent recession has decimated many sectors of the economy, but for Ohio, it was another hard blow following a decade of loss. The recession early in the decade, which ended in the nation as a whole near the end of 2001, lingered in Ohio from a labor market perspective. Almost 11 percent of Ohio's employment base, 587,743 jobs, vanished between 2000 and 2009.[1] According to the Ohio Department of Jobs and Family Services, employment in Ohio fell by 255,400 jobs between 2008 and 2009 alone.[2] A weakened regional economy took another extraordinary blow, cushioned only by swift federal action.

The American Recovery and Reinvestment Act, passed on February 17 2009, added more than two million jobs, according to the non-partisan Economic Policy Institute.[3] Signs of a fragile recovery are emerging on a national basis, but local governments are now caught in the whiplash. Sales tax and income tax revenues are declining. Foreclosures continue to ravage the property tax base. The budgets of local governments typically lag behind economic conditions by about a year-and-a-half to three years. This means that despite a slowly growing economy, local governments will still be faced with tens of billions of dollars in budget deficits for a long time.[4]

Legislation has been proposed in Congress to stabilize the local government sector, just as the American Recovery and Reinvestment Act stabilized key sectors in the national economy. Local Jobs for America Act, proposed by U.S. Representative George Miller of California, with co-sponsor legislation under development by U.S. Senator Sherrod Brown of Ohio, is an important tool to foster ongoing economic recovery in Ohio and the United States.

The Local Jobs for America Act of 2010 (LJAA) would provide assistance for America's local governments and school districts to prevent the recession from dismantling public services and further weakening local economies at a time of high need. Specifically, the Local Jobs for America Act invests $75 billion over two years in local communities to hire and retain vital staff, and provides funding for 50,000 on the job private sector training positions. It also includes provisions already approved by the House: $23 billion to help states support 300,000 education jobs, $1.18 billion to improve police operations and put 5,500 law enforcement officers on the beat,[5] and

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[1] George Zeller, Economic Indicators: Jobs and Earnings Trends in Ohio Counties, Third Quarter 2009Update (May 2010) at http://www.georgezeller.com/qew0309.pdf

[2] Ohio Department of Jobs and Family Services and US Department of Labor Bureau of Labor Statistics, Current Employment Statistics.

[3] Ross Eisenbrey, "The Recovery Act Worked," Economic Policy Institute, February 17, 2010 at http://www.epi.org/economic_snapshots/entry/the_recovery_act_worked/

[4] Christopher Hoene, "City Budget Shortfalls and Responses: Projections for 2010-2012," National League of Cities, Washington, D.C: National League of Cities, 2009.

[5] The police funding under the bill goes to the COPS program, which is designed to enhance community policing efforts. Funds under COPS can be used for technology, equipment, improved organizational infrastructure, and a number of other things besides direct hiring of more police officers. That's what explains why the amount of funding for this part of the bill does not translate into the number of new jobs per dollar that one would expect -- because this is not merely hiring more people into existing programs, but actually trying to help local police forces create or expand innovative programs, money may go to a variety of uses besides hiring. This makes the job creation numbers

$500 million to retain, rehire and hire firefighters. The Congressional Black Caucus, the National Association of Counties, the National League of Cities, and the U.S. Conference of Mayors have endorsed this proposal.

Senator Sherrod Brown is working on a companion bill in the Senate. His bill, like the Miller bill, would provide a bridge for local governments forecasting steep revenue declines from the recession. Maintaining services and employment in urban centers and rural communities provides a critical support while laid off workers find new work to replace the eight million jobs eradicated in the past two years.

In this issue brief, Policy Matters Ohio looks at trends in tax collections and employment in Ohio's local governments and school districts. We find that fiscal difficulty is widespread. We conclude that the LJAA is an important tool to help Ohio's economy recover from long-term recessionary conditions in the labor market.

Financial Condition of Ohio Communities

Newspaper stories from across Ohio indicate that over half the counties in the state have cut budgets, raised taxes or had layoffs in 2009 or 2010. The fiscal situation in cities and towns is worse than that of the counties, where sales tax response to recovery is not helping.[6] A perception of danger to basic civic structures is growing: The Plain Dealer and the Columbus Dispatch have reported that basic safety is a concern to residents in places like Union County, Richland County and Ashtabula County; in Ashtabula County citizens were warned by a local judge to arm themselves.

Layoffs in the public sector have the same impact as layoffs in the private sector: they weaken the local economy. While many studies have been conducted to identify the spin-off effect in the local economy of employment by sector, a conservative estimate identifies public sector jobs as having a spin-off or 'multiplier' effect of 1.6: in other words, for each $1.00 in the paycheck of a police officer or a schoolteacher, an additional $.60 is generated in the local economy, with a cumulative impact of $1.60. The loss of employment diminishes the economy by more than the salary of the individual because of the multiplier effect. This is not to diminish the individual harm of layoffs: public sector layoffs, like private sector ones, increase distress for individuals and families, raise costs for safety net programs, and cause long-term harm for children whose families fall into poverty after job loss.

Ohio is not unique in seeing an increase in local financial distress in response to the recession. An October 2009 survey of primarily midsize and smaller counties across the nation, administered by the National Association of Counties, found that 56 percent of the responding counties began their fiscal years with projected budget shortfalls of up to $10 million. Trouble

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harder to estimate, and lower.

Footnote 5 (continued) - This is one of the reasons why the main piece of the bill -- the $75 billion piece -- is so critical. This is the place where we project that a much greater number of police and firefighters will be hired, since these funds are not for anything but employment, and both police and fire are eligible uses of these funds. Although it sometimes gets talked about as if this piece is the "police and fire" part of the bill, the truth is that we need the $75 billion piece to enable local cities and counties to reverse layoff plans and ensure an adequate sized police and fire force.

[6] Counties and transit agencies in Ohio rely on sales taxes; municipalities rely on property or income taxes.

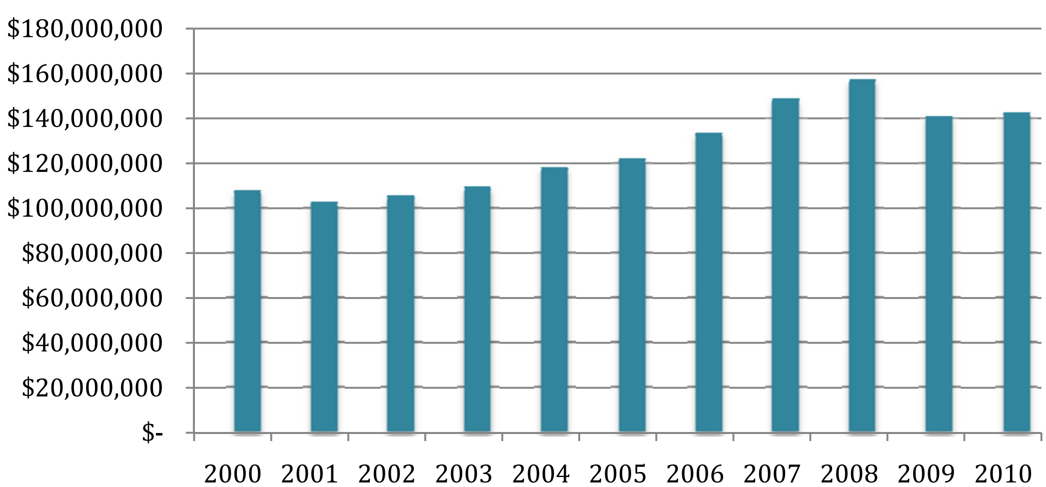
was on the horizon in Ohio last summer as the President of the County Commissioners Association of Ohio gave testimony to a committee of the Ohio General Assembly:

> *"Many counties already have initiated substantial budget reductions which, in some counties, have risen to as much as 20% cuts to agencies' and departments' budgets. Layoffs and job abolishments are becoming the norm as we struggle to balance our county budgets back home."*[7]

A Scan of County Fiscal Conditions

In May of 2010, Policy Matters Ohio asked county auditors about budget conditions. Few responded, some citing budget cuts, staff layoffs and reduced hours. Of the few respondents that provided current data (a mix of urban and rural counties) revenue loss between 2005 and 2010 ranged from .5 percent to 6.8 percent in total; between 2008 and 2009, declines ranged from 1.2 percent to 6.4 percent. A comprehensive portrait of revenue trends on the county level is given in month-to-month sales tax collections data from the Ohio Department of Taxation (Figure 1). Collections in the month of January of the current year show flat but not declining growth of sales tax revenues over monthly collections a year earlier. This follows a sharp decline of ten percent registered in monthly collections the prior year. These figures are not adjusted for inflation.

Figure 1: January sales tax collections in Ohio counties, 2006-2010 (nominal dollars)

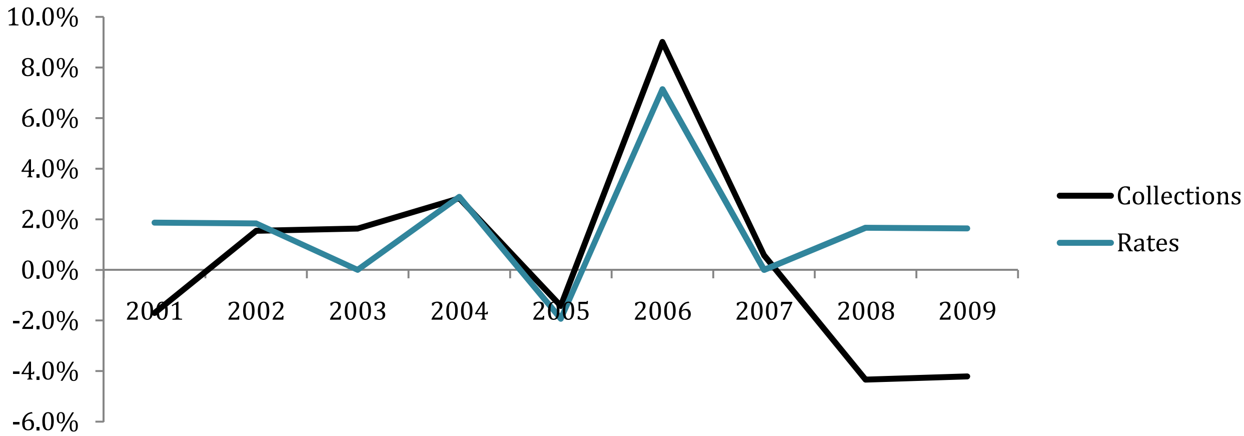


Source: Policy Matters Ohio based on Ohio Department of Taxation Monthly Sales Tax series

Thirty-one Ohio counties have raised sales tax rates over the decade in response to the weak economy. The unweighted average sales tax rate has increased from 1.07 cents to 1.25 cents since 2000, yet the increased effort has not yielded the revenues to maintain services in the face of recession and inflation. As Figure 2 shows, collections increased on an inflation-adjusted basis to a peak in 2004 and 2007, then declined steeply, despite modest increase in tax rates in some counties.

[7] Testimony of Kerry Metzger, President of the County Commissioners Association of Ohio to the Senate Finance and Financial Institutions Committee, May 15, 2009.

Figure 2: Change in county sales tax collections compared to change in county sales tax rates (adjusted for inflation)



Source: Policy Matters Ohio based on Ohio Depart Taxation Monthly Sales Tax series. Inflation adjustment is based on Consumer Price Index for All Urban Consumers (Bureau of Labor Statistics).

A Scan of City Fiscal Conditions

Cities show a deeper level of economic distress. Figure 2 demonstrates how collections of sales taxes correspond very closely to rate hikes. They also mirror the economy, so improving conditions strengthen revenue collections. Cities and towns, however, are dependent upon property tax and income tax, which lag economic conditions because of the timing of collection and because there is a time element in loss of income and value.

General revenue fund deficits averaging ten percent were projected in December for six of the state's largest cities (Table 1). This has changed since that time; some cities have taken

Table 1: Projected budget deficits of largest Ohio cities (in thousands of dollars) 2010

City	General fund	Projected budget shortfall	Shortfall as % of GRF
Cleveland	$665	$20	3.0%
Columbus	$541	$23	4.3%
Cincinnati	$322	$51	15.8%
Toledo	$241	$40	16.6%
Akron	$155	$12	7.7%
Dayton	$153	$20	13.1%

Source: The Columbus Dispatch, December 2009; nominal dollars[8]

Measures to strengthen their revenue base (the city of Columbus passed a half percent increase in the local income tax) while others anticipate continued severe shortfalls in the coming fiscal year: Cincinnati, for example, anticipates a level of deficit similar to the current one in the coming fiscal

[8] Robert Vitale, "Cities Confront Budget Deficits, The Columbus Dispatch, December 28, 2009 at http://www.dispatchpolitics.com/live/content/local_news/stories/2009/12/28/copy/city_taxes.ART_ART_12-28-09_A1_MOG4078.html?sid=101

year. Smaller cities face declining revenues as well (Table 2). Of a dozen small cities responding to a request for financial information, revenues declined by an unweighted average of 5.15 percent in the first quarter of 2010 as compared with the first quarter of 2009.

Table 2: First quarter 2010 revenues of small cities in Ohio, compared with prior year

City	Revenue, first quarter		
	2010	2009	% Change
Ashtabula	$6,325,408	$6,590,176	-4.00%
Athens	$5,876,599	$7,187,591	-18.20%
Dover	$10,866,642	$11,804,011	-7.90%
Mansfield	$26,329,573	$25,303,823	4.10%
Marietta	$1,499,590	$1,755,992	-14.60%
Middletown	$5,423,619	$6,216,288	-12.80%
New Philadelphia	$5,191,421	$4,809,399	7.90%
Newark	$23,052,531	$22,410,868	2.90%
Portsmouth	$7,961,315	$8,748,639	-9.00%
Springfield	$8,216,482	$8,668,436	-5.20%
Zanesville	$16,107,521	$16,073,432	0.20%
Total revenue change and average percent change (unweighted)	$116,850,701	$119,568,655	-5.15%

Source: Policy Matters Ohio based on telephone interviews and requests, May 2010
Note: Dollars are not adjusted for inflation. Sample was not randomly selected.

Deficits in these places are not resulting from high levels of expenditures. Expenditures in these cities have already dropped at about the same rate as revenues, as budgets have been cut and layoffs implemented. (Table 3). The unweighted average for declines in expenditures among the respondents was 6.95 percent.

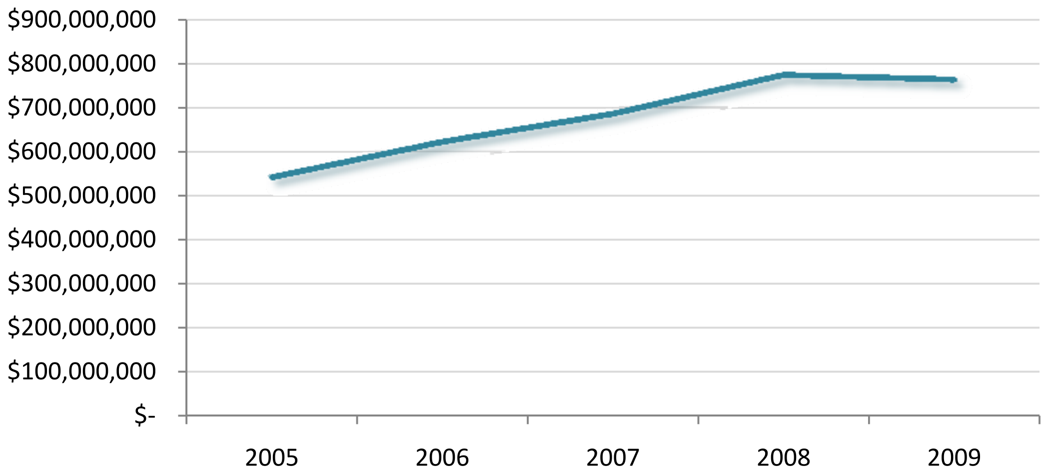
Table 3: First quarter expenditures of small cities in Ohio, compared with prior year

City	Expenditure, first quarter		% Change
	2010	2009	2009-10
Athens	$8,079,166	$7,600,551	6.30%
Dover	$11,028,303	$10,150,784	8.64%
Mansfield	$25,303,823	$30,191,082	-16.19%
Marietta	$1,794,955	$2,615,950	-31.38%
Middletown	$7,280,062	$7,679,206	-5.20%
New Philadelphia	$4,735,574	$4,667,831	1.45%
Newark	$22,240,222	$22,779,660	-2.37%
Portsmouth	$6,785,083	$7,667,360	-11.51%
Springfield	$8,725,872	$10,246,653	-14.84%
Zanesville	$15,920,235	$16,649,278	-4.38%
Total expenditure change and average percent change (unweighted)	$111,895,305	$120,250,364	-6.95%

Source: Policy Matters Ohio based on telephone interviews and requests, May 2010
Note: Dollars are not adjusted for inflation. Sample was not randomly selected.

Local income tax collections also show diminished capacity in spite of increased effort. The Regional Income Tax Agency (RITA) collects income taxes for 182 jurisdictions across the state (175 municipalities and 7 economic development districts), representing about 7 percent of the state population. Between 2008 and 2009 total municipal income tax revenues collected by RITA statewide dipped by $10 million dollars, about 1.4 percent (Figure 3). However, during this time frame, the number of communities for which RITA collected income taxes increased by 19 jurisdictions, a total increase of 10.4 percent. Revenues of these newcomers added $41 million dollars to total collections. Without the addition of these new clients, total income taxes collected by RITA would have declined by 6.7 percent between 2008 and 2009.

Figure 3: Total collections of the regional income tax agency (RITA) in Ohio (nominal dollars) (*Revenues decline despite 10 percent increase in number of jurisdictions)*

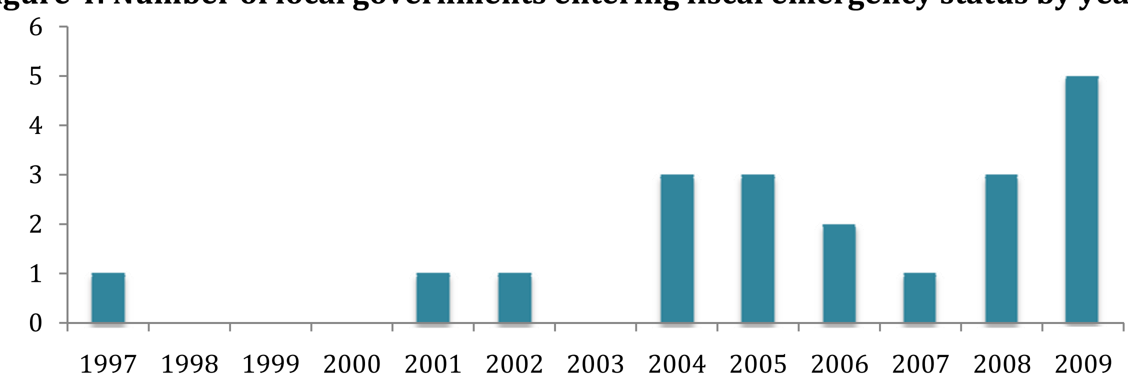


Source: Policy Matters Ohio based on unaudited data for 2009 provided by the Regional Income Tax Agency

Communities in the northeast region of Ohio have faced greater budget problems than the state as a whole. Between 2008 and 2009 income tax revenues in northeastern Ohio municipalities plunged by 7.5 percent, excluding the newcomers - communities collecting income taxes through RITA for the first time in 2009 (See Appendix A).

The State Auditor's website reflects a growing number of local jurisdictions in fiscal emergency. While the total share of entities on the auditor's list remains small, 25 percent of the municipalities on that list were added in 2009; 40 percent since 2008. (Figure 4).

Figure 4: Number of local governments entering fiscal emergency status by year



Source: Policy Matters Ohio based on data from the State Auditor's Website

The downward drift in local public finance has been cushioned by federal stimulus dollars in some places and by increased revenue effort in other places. Across Ohio, schools have reported significant layoffs, especially in cities (Table 4). Diverse factors beyond the scope of this report play into changes in school district finances in Ohio. The recession, however, and the pressure it has put on the state budget as well as local budgets, has contributed to instability.

Table 4: Some of Ohio's announced school district layoffs, 2009-2010

School district	Announced layoffs
Cleveland	800
Lorain	183
Medina	158
Toledo	275
Dayton	75
Columbus	164
Parma	50
Mansfield	78

Source: Policy Matters Ohio, based on local press announcements

Summary and Conclusion

The combined effect of layoffs in schools, public services and emergency management systems weakens the civic structure across the state. The federal stimulus provided badly needed fiscal stabilization for states, allowing legislators to devise plans for state finances. This review of Ohio local government finances shows a steepening decline in resources across the months of the recession and throughout the state. The Local Jobs for America Act could provide the same kind of stabilization for local government as the federal stimulus did for the states, allowing time for recovery and planning for a better foundation for the coming decade.

Appendix A

Income tax collections in northeast Ohio cities served by the regional income tax agency

City	2009	2008	Change 08-09
Aurora	$10,262,979	$10,831,922	-5.3%
Avon	$9,402,957	$9,329,718	0.8%
Avon Lake	$7,667,458	$8,671,502	-11.6%
Bay Village	$4,534,840	$5,024,372	-9.7%
Beachwood	$18,123,201	$20,676,640	-12.3%
Bedford Heights	$7,937,592	$9,505,694	-16.5%
Berea	$10,238,990	$10,826,647	-5.4%
Boston Heights	$687,775	$601,868	14.3%
Brecksville	$13,331,290	$14,195,670	-6.1%
Broadview Heights	$8,793,840	$9,483,237	-7.3%
Brooklyn Heights	$4,743,658	$4,871,741	-2.6%
Chagrin Falls	$2,539,016	$2,640,942	-3.9%
Cuyahoga Heights	$6,539,445	$8,498,242	-23.0%
East Cleveland	$5,759,243	$6,024,807	-4.4%
Elyria	$18,793,511	$21,399,712	-12.2%
Fairborn	$10,920,748	$11,115,903	-1.8%
Fairview Park	$7,583,423	$7,964,566	-4.8%
Garfield Heights	$9,284,011	$10,803,430	-14.1%
Grafton	$1,229,819	$1,322,121	-7.0%
Highland Heights	$9,300,215	$10,000,497	-7.0%
Hudson	$16,120,442	$17,967,916	-10.3%
Independence	$22,449,304	$22,857,680	-1.8%
Kirtland	$2,949,901	$3,062,235	-3.7%
Lyndhurst	$5,885,599	$5,968,276	-1.4%
Macedonia	$5,888,767	$6,969,021	-15.5%
Maple Heights	$6,678,921	$7,163,314	-6.8%
Mayfield Heights	$10,228,297	$11,748,347	-12.9%
Mayfield Village	$9,461,334	$9,646,213	-1.9%
Middleburg Heights	$15,583,910	$15,998,886	-2.6%
Mogadore	$1,739,161	$2,081,971	-16.5%
Moreland Hills	$2,875,930	$2,931,837	-1.9%
North Lewisburg	$199,185	$217,038	-8.2%
North Olmsted	$12,396,684	$13,059,364	-5.1%
North Royalton	$11,886,507	$13,021,456	-8.7%
Oberlin	$5,402,859	$4,553,411	18.7%
Olmsted Falls	$2,631,396	$2,740,865	-4.0%
Orange	$2,550,493	$3,096,321	-17.6%
Pepper Pike	$3,993,134	$4,193,726	-4.8%
Richmond Heights	$4,164,114	$4,681,673	-11.1%
Seven Hills	$4,786,750	$5,100,866	-6.2%

Shaker Heights	$19,637,761	$21,116,021	-7.0%
Sheffield Lake	$1,849,410	$1,994,536	-7.3%
Sheffield Village	$2,306,653	$2,398,249	-3.8%
Silver Lake	$465,219	$509,761	-8.7%
South Euclid	$8,258,516	$8,382,216	-1.5%
South Solon	$34,435	$33,031	4.3%
Steubenville	$8,599,746	$8,716,248	-1.3%
Streetsboro	$7,525,669	$7,016,932	7.3%
Strongsville	$26,015,337	$27,989,714	-7.1%
Twinsburg	$16,483,760	$17,981,283	-8.3%
University Heights	$8,091,734	$8,075,554	0.2%
Westlake	$18,499,117	$19,376,043	-4.5%
Willowick	$2,272,385	$2,346,671	-3.2%
Youngstown	$41,173,950	$48,715,322	-15.5%
AVERAGE/SUM	**$476,760,391**	**$515,501,228**	**-7.5%**

Source: Policy Matters Ohio based on RITA collections data (2009 is unaudited); cities without two years' collection history, including Brooklyn, Kent, Tallmadge and Willoughby Hills, are not included.

Policy Matters Ohio is a non-profit, non-partisan research institute dedicated to researching an economy that works for all in Ohio. Policy Matters seeks to broaden debate about economic policy by providing research on issues that matter to Ohio's working people and their families. Areas of inquiry for Policy Matters include work, wages, and benefits; education; economic development; energy policy; and tax policy. Generous funding comes from the Ford, Joyce, Gund, Cleveland, Public Welfare, Annie E. Casey, Sisters of Charity and W.K. Kellogg Foundations, the Economic Policy Institute, and Greater Cleveland Community Shares. To those who want a more fair and prosperous economy... Policy Matters.

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