Policy Matters Ohio

Executive summary
January 2015

Hard times at city hall:

State cuts and lagging property values impact public services in many communities

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Many Ohio communities have not recovered from the recession. Ohio's Office of Budget and Management (OBM) fact sheets and forecasts illustrate slow growth and state funding cuts affecting Ohio's local government sector.

Key findings

Value of taxable property statewide not expected to recover to pre-recession levels until after 2017.

OBM figures indicate that state budget cuts will have reduced funding to locals by $418 million a year in 2015 compared to 2010.

As recession hammered tax base and state aid dwindled, local tax rates rose to provide necessary services, accounting for much of local tax revenue gains.

Almost a third of Ohio's communities lack GFOA recommended level of reserves or (in the case of townships) saw expenditures exceed revenues in 2012.

Since the recession, increases in effective tax rates have played an important role in maintaining the revenues that underpin local public services. Growth in property values flattened with the recession as new development halted or slowed and foreclosures eroded value. As values fell and even as they began to rebound, effective tax rates rose. From a statewide perspective, voted increases in just a handful of jurisdictions masked decline in other places.

Historical trends and OBM forecasts indicate property values on a statewide basis will not recover to calendar year 2008 levels until 2017. Between 2007 and 2013, local property taxes charged grew by .5 percent a year, on average, in 2013 dollars. Municipal income tax collections increased by a yearly average of .2 percent in 2013 dollars over the same time period and sales tax collections rose by an annual average of 1.3 percent in 2013 dollars. Local tax revenue as a share of the Ohio economy has remained virtually flat, at 2.34 percent of Gross State Product (GSP) in 2007 and 2.35 percent in 2013. Revenues from the three major local tax sources grew very slowly between 2007 and 2013, due in significant measure to changes in tax rates, which rose as the recession hammered property values and the income tax base.

Economic recovery has been geographically uneven. Just three of Ohio's ten largest cities had an uptick in median home sales prices between 2007 and 2013. Trends among suburbs vary widely: Lincoln Heights, near Cincinnati, has seen home values fall by 76.4 percent while nearby Indian Hill has seen values increase by 27.7 percent.

Foreclosures are still suppressing property values and the property tax base in many communities. Even with local initiatives, resources from the federal government, and money from a national mortgage settlement, the cost of dealing with this blight will run hundreds of millions of dollars, which presents a challenge to the budgets of many jurisdictions.

State budget cuts have compounded fiscal problems. Fact sheets from OBM highlight how the state has reduced funding to local government since 2010. These fact sheets show that across many programs for revenue sharing as well as for state-funded services that are delivered locally, state funding for local governments will have fallen by $418.2 million in 2015 compared to 2010. The result of local fiscal strain is fewer local government jobs. The number of people providing local public services in Ohio dropped by 41,100 between November 2007 and November 2014.

The impact of state cuts varies from place to place, but virtually no county or community has been untouched. The mayor of Cincinnati estimates that loss of state funding and estate tax revenues have cost the city $29 million a year. Cleveland lost $35.5 million a year. Dayton has lost $20 million since 2011 and as a result, has fallen behind in resurfacing streets, replacing police cruisers and garbage trucks, and demolishing vacant and abandoned buildings. The village of Orwell, in Ashtabula County, remains 35 percent below 2008 revenue levels and has struggled to provide adequate police and fire services. These are just four jurisdictions among the thousands that lost state aid. The dilemma is the same in all corners of the state.

The size of Ohio's local government reserves has received recent attention. The Governor has suggested that the size of local government reserves demonstrates financial recovery because most are higher than the state's, but the 5 percent reserve in the state's rainy day fund is far below the level recommended by the Government Finance Officers Association for smaller units of government (municipalities, counties and towns). According to this industry best practice, almost a third of the counties and municipalities listed in a Cincinnati Enquirer database lack adequate reserves for emergencies or unexpected expenses.

The economic recovery in Ohio has been slow and unevenly spread across communities, with many communities still seeing deep declines. Revenues from the three major local tax sources grew slowly since the recession, due in large part to rising effective tax rates. The Kasich administration forecasts increase in local revenues in 2014 and 2015, but OBM factsheets reveal that the state has reduced revenue sharing and program funding to local governments by hundreds of millions of dollars a year compared to 2010. Revenues needed to repair the damage of the recession are simply not available to many communities.

Local public services support our quality of life, protect family wealth and underpin opportunity. We all deserve sound, dependable services, and stable public finance. Ohio's communities need more support from the state and a period of stability - without cuts or threats - to recover, rehire and rebuild.