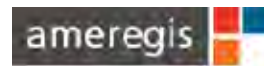


# Northeast Ohio Economic Revenue Study

# Northeast Ohio Metropatterns

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## INTRODUCTION AND OVERVIEW

Analysis of demographic and fiscal trends in Northeast Ohio shows how uncoordinated, inefficient development and competition for tax base are threatening every community in the region—from the most impoverished to the most affluent.

- Job and income growth in the region have trailed the nation and other comparable metropolitan areas for decades.
- The region continues to consume previously undeveloped land despite that fact that its population is not growing.
- The ability of local areas to finance local public services varies dramatically from place to place.
- The region shows some of the highest rates of segregation by race and income in the nation.

A variety of factors are responsible for these trends. Some, like major declines nationally in manufacturing sectors that were once the core of the region's economy, are largely beyond the scope of local policies. And others, like the highly fragmented nature of local governance in the region, are rooted in longstanding tradition. However, other metropolitan areas facing similar problems have fared better. In particular, metropolitan areas that have developed institutions to reduce incentives for inefficient inter-local competition for economic activity and to coordinate land use and economic development planning on a regional scale have consistently out-performed Northeast Ohio.

*Here are the report's main findings:*

**The idea that the suburbs are free of fiscal and social stresses is a myth.** Two-thirds of suburban residents in the 10-county study area live in communities that are struggling with social or fiscal stress. One group of suburbs has problems typically associated with large cities, including weak tax bases and significant and growing poverty in schools. Another group of fully-developed areas shows lower poverty than the stressed suburbs but has weak tax bases, slow growth and growing social needs. Despite the fact that the region as a whole is growing very slowly, a group of middle and outlying suburbs is facing growth-related costs with modest, largely residential tax bases. Just a small share of the population lives in affluent suburbs with expensive housing, plentiful commercial development and strong tax bases.

**The region's communities are highly divided by income, race and fiscal conditions.** Despite some success stories in the area's central cities and inner suburbs, most of the region's growth and the opportunities that accompany growth are occurring in outlying areas. Despite the fact that overall regional population has been stagnant, households and economic activity in the region continue to move outward, consuming previously undeveloped land. The resulting social and fiscal inequities are greater than they need to be.

**All types of communities are hurt by the way the regions are growing.** The Cleveland and Youngstown regions are increasingly segregated by income and race. Central cities

remain troubled, and a growing group of suburbs is experiencing similar social strains. Despite little or no population growth, the region continues to sprawl outwards. Low-density development is threatening valuable farmland and natural habitat. Growing traffic congestion is threatening the quality of life for many residents.

Across the state, Ohio's state and local finance system pits local governments against one another in a competition for tax base and deprives many of its neediest schools of adequate funding. Without changes to the development policies shaping the state, there is no reason to believe these patterns will not continue, with a core of stressed communities growing larger, and a ring of sprawl devouring even more land around it.

**All types of places would benefit from regional reforms.**

Regional cooperation offers the best hope for strengthening communities, preserving the environment and increasing quality of life for all citizens:

- **Tax reform** can stabilize fiscally stressed communities, help communities pay for needed public services and reduce incentives for inefficient inter-local competition contributing to the current pattern of development.
- **Cooperative land-use planning** can help communities coordinate development, revitalize stressed neighborhoods and conserve open space.

- **Metropolitan governance** can help address issues that cross municipal boundaries and ensure that all communities have a voice in regional decision-making.

**Change is possible.** Cooperative strategies like these offer a viable path for the Cleveland and Youngstown regions to meet their great challenges. They are already in place in various forms throughout the country, and have thoughtful advocates in the 10-county area. They can encourage environmentally sensitive development, reduce inequalities among communities, encourage regional economic development efforts and expand the opportunities of the state's most vulnerable residents.

## NORTHEAST OHIO METROPATTERNS

The Northeast Ohio area—defined in this report as Ashland, Ashtabula, Carroll, Columbiana, Cuyahoga, Geauga, Lake, Lorain, Mahoning, Medina, Portage, Richland, Stark, Summit, Trumbull and Wayne Counties—is struggling with problems associated with slow and unbalanced growth. Job and income growth lag behind the nation and other similar metropolitan areas; the region is sprawling despite the fact that population is not growing; poverty and its consequences are distributed very unevenly across the region; and significant differences in the ability of local governments to pay for services make it difficult for many local governments in the region to meet public service needs.

Many parts of the region still face relatively high social costs, associated with high or increasing poverty, or with low, declining or stagnant resources. At the same time, local areas engage in inefficient competition with each other to try to control as large a slice as possible of the region's tax base pie, rather than working together to increase the size of the total regional pie.

This work describes these trends and highlights the policy alternatives available to counteract the negative and enhance the positive in the way the region is growing. The work begins by documenting the types of places found in the core 12 counties of the study area. This is followed by analysis of how the region has grown in recent years and analysis of the fiscal status of the region's local governments. The report concludes

with a description of the policy alternatives available to promote orderly and economic development across the region.

## COMMUNITY CLASSIFICATIONS

The fiscal health of local areas is determined by a variety of factors affecting both their ability to raise revenues and the costs associated with their social and physical needs. In order to account for a range of factors, this report relied on a statistical technique called cluster analysis to identify groups of communities sharing fiscal, social and physical characteristics. (See page 10 for a description of the clustering process). The results show that, like virtually all metropolitan areas in the U.S., the Cleveland region cannot be simply divided into two parts—central cities and suburbs. In fact, the clustering process revealed five types of suburban communities in the region, each with its own strengths and challenges. (See Map 1 for the communities included in each group and Table 1 for a summary of the characteristics of the community types.)

**Central cities:** The region's two central cities boast attributes—downtowns, attractive older homes and central locations—that provide clear opportunities for revitalization. But despite these strengths, they remain severely stressed overall, with high and growing poverty, severe racial segregation and aging infrastructure. Home to 21 percent of the households in the Cleveland region, Cleveland and Akron must provide for great social need with tax bases significantly below average and growing at slower-than-average rates, factors that

discourage investment and dramatically limit the opportunities of residents.

**Stressed:** The region's most stressed suburbs are a combination of fully developed inner suburbs and older areas further from the core. These 66 cities and townships represent 34 percent of regional households (42 percent of suburban households). As a group, they have very low property tax bases, high poverty in schools, declining population and aging infrastructure, and few jobs per resident household. Stressed communities include nearly all of the suburbs bordering Cleveland; Coventry, Barberton and Cuyahoga Falls, bordering Akron; and outlying fully developed areas like Canton and Elyria.

**At-risk suburbs:** Home to 22 percent of the Cleveland region's households and 28 percent of suburban households, these suburbs are a mix of inner suburbs close to Cleveland and Akron and outlying residential areas near the fringes of the region. Although there is considerable variation, on average, these communities have below-average property tax bases that are growing more slowly than average. Despite the advantage of either central locations or lots of developable land, growth rates in these areas are either modest or negative and they are home to few of the region's jobs.

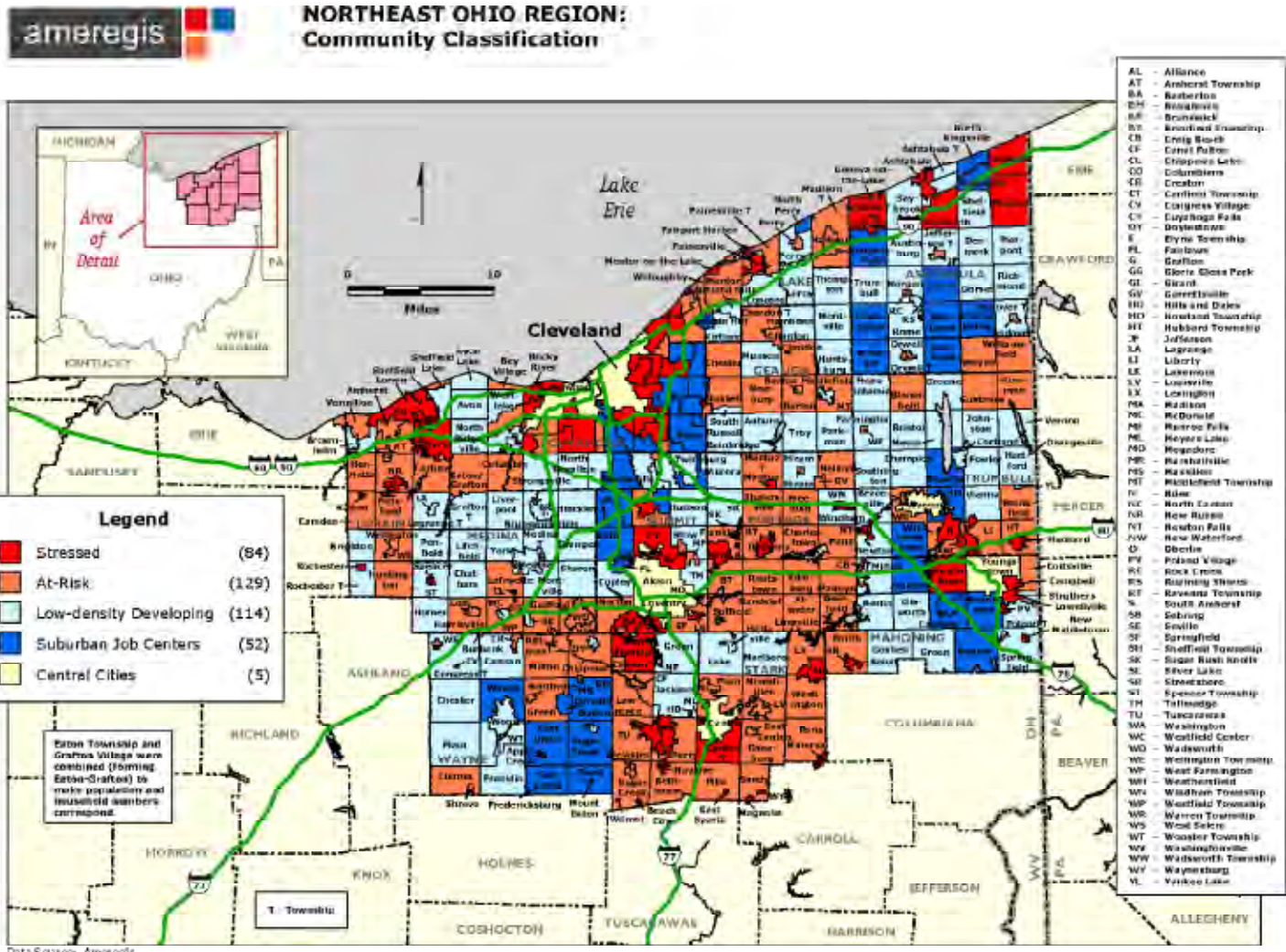
Some at-risk areas are already showing signs of stress, like increasing poverty in schools or low tax bases. Others are still outwardly healthy, with little poverty in their schools and relatively high average household incomes. But they too exhibit signs, like slow-growing tax-base, that foreshadow future problems.

**Developing suburbs:** Home to 20 percent of the region's households in 2006, these areas are fast-growing, low-density, middle-class communities. They have moderate tax bases—higher than the regional average as a group—but many have few jobs and must finance the costs of growth with very small commercial-industrial tax bases. Over time the costs of growth—new schools, roads, parks and police—can exceed the modest fiscal resources available in these areas. Most of the developing suburbs lie in the band of second and third ring suburbs between Cleveland and Akron.

**Suburban job centers:** Home to just 4 percent of the region's households, these areas are home to a large share of its expensive homes and commercial activity. In fact, as a group, their residential tax base per household is more than twice the regional average and their commercial industrial tax base per household is more than five times the regional average. These factors help them provide high quality public services at low tax rates.

All types of communities are hurt by the way the region is growing. Central cities and stressed suburbs must provide public services in high-cost, high-need environments with limited tax bases. At-risk suburbs also must cope with limited, largely residential tax bases while facing the costs associated with either population decline (in fully-developed inner suburbs) or population growth (in developing outer areas). Low-density developing suburbs must cope with very rapid growth with modest, largely residential tax bases. Even high tax capacity suburban job centers face extra costs associated with the way the region is growing, including congestion and extra costs associated with non-resident in-commuters.

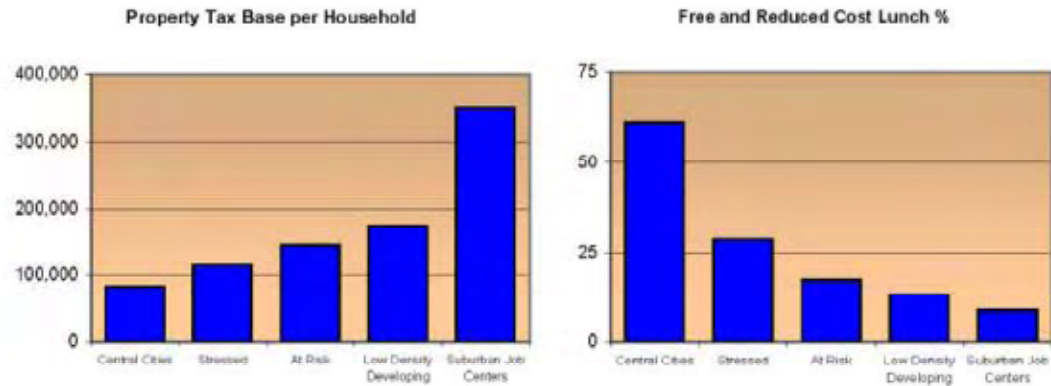
# MAP 1



**Table 1: Characteristics of the Community Types: Cleveland-Akron-Youngstown Area**

Community Type	Number	2006 Percentage of Regional Households	2006 Property Tax Base per Household	2004	1996-2006 Growth in Households	2000 Jobs per Resident Household	2006 Households per Square Mile	2000 Median Age of Housing
				Percentage of Elem. Students Eligible for Free or Reduced Cost Lunch				
Central Cities	5	22	82,341	61	-4	1.2	1,366	53
Stressed	84	29	113,993	29	-1	0.6	939	46
At risk	129	22	145,089	17	5	0.6	169	36
Low Density Developing	114	21	174,162	13	22	0.7	68	28
Suburban Job Centers	52	6	350,378	9	9	1.7	97	34
Region	384	100	149,664	17	7	0.7	207	36

All values except number of communities and percentage of regional households are medians.



## COMMUNITY CLASSIFICATION: HOW IT WORKS

This study relies on a statistical procedure called cluster analysis to assign municipalities to groups that are as internally homogeneous and as distinct from one another as possible, based on specified social, fiscal and physical characteristics.<sup>1</sup>

The characteristics used to cluster Northeast Ohio area communities were:

- 2006 property tax base per household
- 2004 percentage of elementary students eligible for free or reduced-cost lunch
- 2000 jobs per resident household
- 1996-2006 growth in households
- 2000 median age of housing stock
- 2006 households per square mile

These variables provide a snapshot of a community in two dimensions—its ability to raise revenues from its local tax base and the costs associated with its social and physical needs. Fiscal capabilities are measured by property tax base. Ideally, payroll tax base would also be included but this measure is available for only the municipalities where the tax is used. However, property tax base per household correlates with payroll tax base per household, implying that it is a relatively good proxy for overall tax base. The jobs per household measure also serves as a good proxy for the payroll tax, as well as serving as a good measure of demand for local services from non-residents.

“Need” measures were selected to capture a range of local characteristics that affect costs. The poverty rate is a proxy for several factors that can affect public service costs. Low incomes are associated with greater need for services and increased costs of reaching a given level of service. Density is another important predictor of cost. Very low densities can increase per-person costs for public services involving transportation—schools, police and fire protection—and for infrastructure—roads and sewers. Moderate to high densities, on the other hand, can help limit these costs.

Similarly, population declines and large population increases tend to increase the per-person costs of long-lived assets like sewers, streets or buildings. When population declines the costs of these assets must be spread across fewer taxpayers. When population is growing rapidly, the costs of new infrastructure tend to fall disproportionately on current residents (compared to future residents) because of the difficulty of spreading the costs over the full lifetime of the assets. Finally, median age of the housing stock is a commonly used proxy for the age of infrastructure—older infrastructure is more expensive to maintain.

Because of their unique characteristics and internal heterogeneity, the central cities were placed in their own group before clustering. The analysis was completed only for the 12 core counties of the region. Ashland, Carroll, Columbiana and Richland counties were excluded from this part of the analysis. Because of their largely rural nature, their municipalities did not lend themselves well to the community classification which is designed to highlight differences across the suburban areas within larger labor and housing markets.

## SOCIAL SEPARATION AND SPRAWL

The wide diversity of community types in Northeast Ohio reflects the fact that its communities are highly, and increasingly, divided by income, race and fiscal condition.

This segregation occurs for many reasons, but in part because local governments in Ohio are highly dependent on locally generated tax revenues to pay for public services—everything from schools and parks to police and fire. That reliance has led to a fierce competition for developments that generate more in taxes than they cost in services. That usually means trying to attract big commercial projects and high-end housing, while limiting the land available for other needed land uses like affordable housing. But in the end, only a few places “win” this race.

Among the results of wasteful competition is great variation in tax base among communities, and great inequalities in the level of services they can provide. While tax-base rich communities can provide high-quality services at reasonable rates, fastgrowing places with low tax bases often struggle to keep up with the onslaught of new residents and the schools, roads and sewers they require.

Older at-risk communities, burdened with stagnant tax bases, must cut services or raise taxes to provide the level of service desired by residents. Either choice puts them at a disadvantage in the regional competition for jobs and residents.

Despite some revitalization successes in Cleveland and some of its inner suburbs, the overwhelming movement of opportunity in the region is outward. Gains in population, tax base, household income and jobs are occurring in outlying communities, at the expense of the core.

For example, Cuyahoga County lost 7 percent of its population and nearly 50,000 manufacturing jobs between 1996 and 2006. At the same time, Medina County’s population grew by 13 percent, and its employment grew by more than 24 percent.<sup>2</sup>

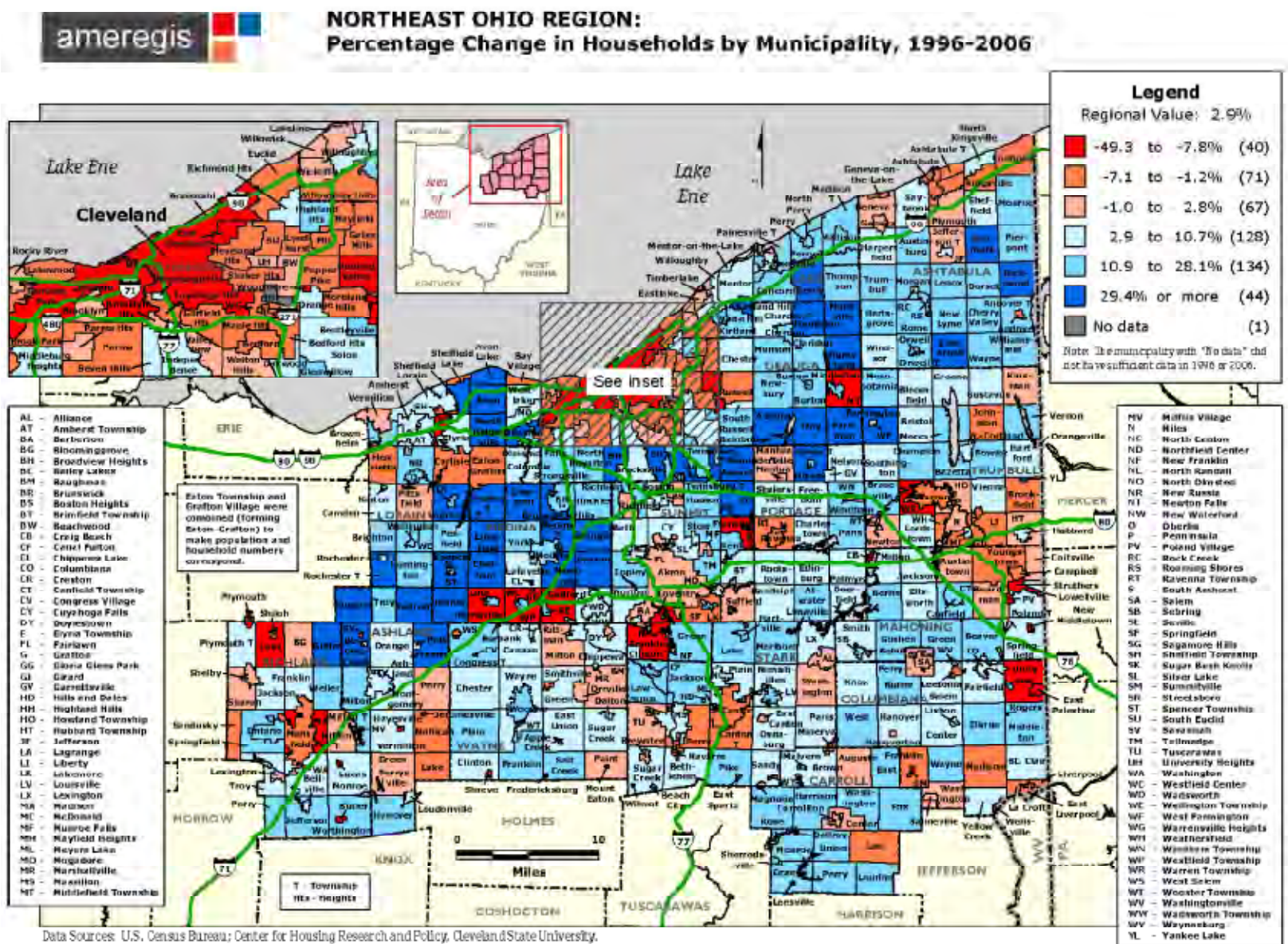
Sprawling development contributes to a devastating pattern of social stratification that is dividing the region by income and race. Communities in the region are highly segregated, with poor people of color disproportionately located in the cities of Cleveland, Akron, Canton, Youngstown and Warren and a growing group of distressed suburbs—places with low and slow-growing tax bases.

These pressures help drive the outward growth of the region. Between 1970 and 2000, despite the fact that population in the 16-county region grew by less than 5 percent, the amount of developed land increased more than 60 percent. (Map 2) This seemingly anomalous combination is the result of large population declines in the core of the region coupled with growth on the fringes. (Map 3)

The region’s sprawl compares poorly with other large metropolitan areas. Some of this is due to its high rate of local government fragmentation. As Figure 1 shows, more fragmented metropolitan areas tend to be sprawling faster than



# MAP 3



those with less fragmentation.<sup>3</sup> Among the 50 largest metropolitan areas, the Cleveland metro shows both a high rate of sprawl and a high degree of governmental fragmentation. However, its sprawl rate is even higher than would be predicted by its high rate of fragmentation—indicated by the fact that Cleveland’s sprawl rate is above the predicted line in Figure 1.<sup>4</sup> Interestingly, two of the metropolitan areas showing the greatest difference between actual and predicted sprawl rates are the Twin Cities and Portland, the two large metropolitan areas with the most extensive regional planning systems in the country.

Much of the growth in the region happened not in municipalities, but in unincorporated townships. Development in these communities often “leapfrogs” far beyond the established urban edge. In fact, during the 1990s, population growth was faster in Ohio townships located between 10 and 20 miles from major urban areas than in those located within 10 miles.<sup>5</sup> Piecemeal development in these places, which often lack adequate planning capacity,<sup>6</sup> adds to public service costs and hastens the decline of farming. It also helps explain why Cleveland is one of the Sierra Club’s “Most Sprawl-Threatened Cities.”<sup>7</sup>

Jobs have followed people to the suburbs. Indeed, many areas in the suburbs are now commuting centers, with jobs outnumbering households. (Map 4) This growth fuels enables population growth even farther out in the fringes as fewer and fewer workers are tied to job locations in the central cities.

Many of the region’s jobs are still in Cuyahoga County. (Top panel, Figure 2) In 2005, roughly 40 percent of the region’s 1.7 million jobs were there. However, the region’s core county is losing ground. This can be seen in the growth data. (Bottom panel, Figure 2) Between 1995 and 2000, a period of strong job growth in the region, Cuyahoga County captured roughly its share of regional growth—48 percent of job growth during the period occurred in Cuyahoga. However, between 2000 and 2005, a period of sharply declining job counts, Cuyahoga absorbed 58 percent of the region’s job losses.

Figure 1: Fragmentation and Sprawl in the 50 Largest Metropolitan Area

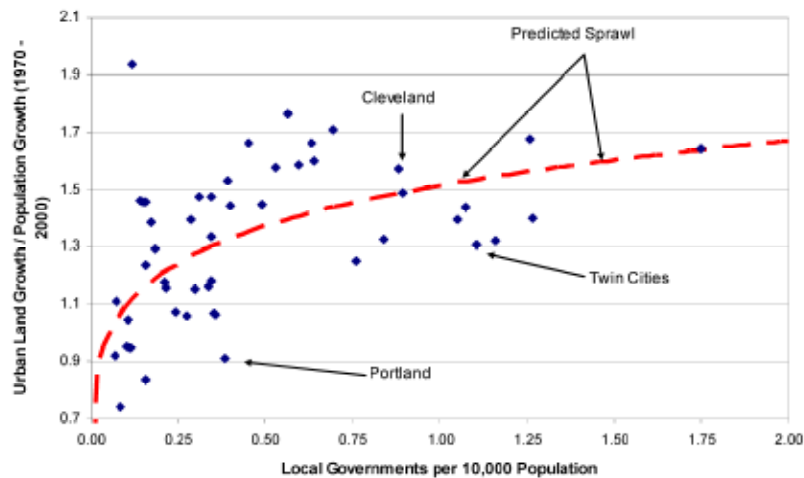
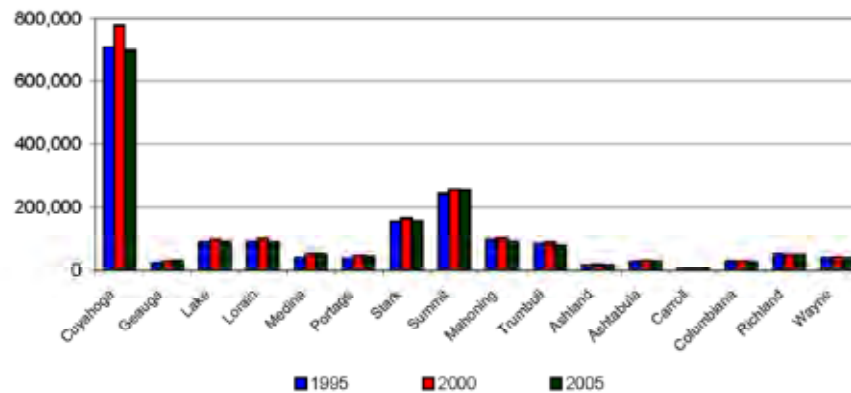
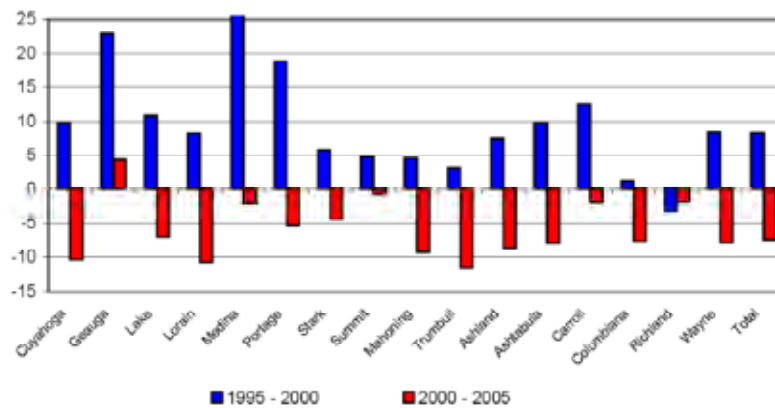


FIGURE 2

Jobs: 1995, 2000, 2005 by County



Percentage Change in Jobs: 1995-2000, 2000-2005 by County



The effects of unbalanced growth harm entire regions, not just individual low-tax base communities. A 2002 study by the U.S. Geological Survey, for example, showed that high levels of bacteria and viruses in the Cuyahoga River were largely due to sewage overflows in Akron's combined sanitary and stormwater sewers—a problem that limits recreational use of the river in a large number of downstream communities, and one leaders of tax-strapped Akron say they simply can't afford to fix.<sup>8</sup>

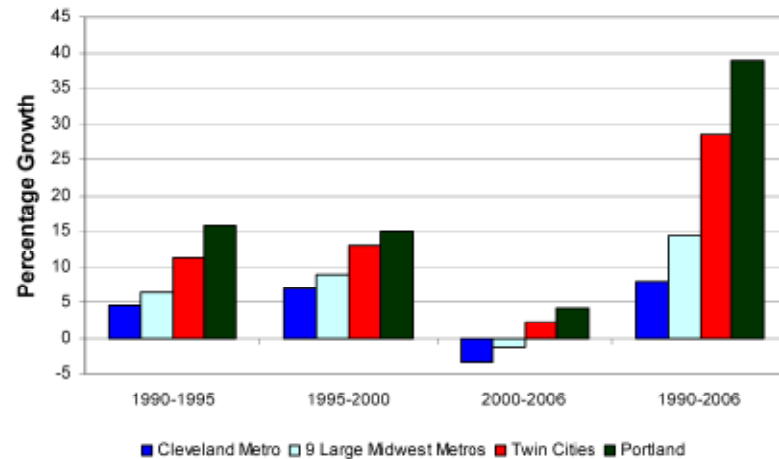
Coupled with ample land for new housing and expanding transportation networks in other parts of the region, the socioeconomic decline of the region's core communities also contributes to the region's sprawling growth. This sprawl, which leads to the loss of farmland and green spaces and overwhelms small communities with congestion, is shown clearly in the Cleveland region by long-term patterns of population decline in the core and rapid growth in cities and villages at the edge.

These facts help demonstrate that, for better or worse, the wellbeing of different parts of metropolitan areas are linked.<sup>9</sup> In fact, the problems of declining neighborhoods, congested highways and degraded natural resources cannot be solved by communities working alone. Rather, they are regional problems requiring regional solutions.

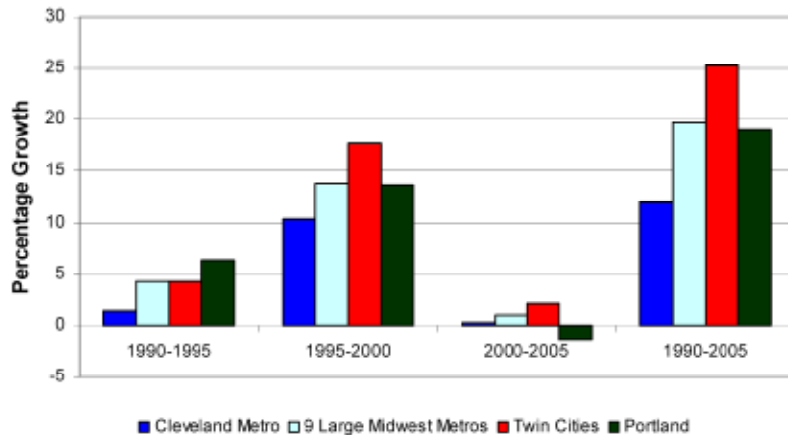
The region's problems go beyond unbalanced growth within the area, however. The regional economy as a whole has performed very poorly. Comparisons to other metropolitan

areas show this clearly. Figures 3 and 4 show growth rates since 1990 for jobs and per capita income. Not only does the Cleveland metropolitan area lag behind the two large metropolitan areas with the most extensive regional planning systems (the Twin Cities and Portland) but it also trails other large Midwestern metropolitan areas.<sup>10</sup>

Figure 3: Job Growth, 1990 - 2006



**Figure 4: Real Personal Income Per Capita Growth, 1990 - 2006**



Sprawling development also contributes to a pattern of social separation that divides regions by income and race. As in most metropolitan areas, Cleveland area residents are highly segregated. The social divide is clearly reflected in its schools. In 1997 and 2000, the Ohio Supreme Court ruled that the state’s system for financing education fails to provide a “thorough and efficient system of common schools throughout the state.”<sup>11</sup> The court cited continued over-reliance on local property taxes for funding, as well as structural deficiencies in the state’s basic aid formula and inadequate funding for school facilities.

Ohio’s unbalanced school finance system hurts many communities, including developing suburbs that depend

primarily on residential properties for tax base, and older communities serving large shares of low-income students.

The well-being of schools is so important because they are leading indicators of community health. When the perceived quality of a school declines, it can set in motion a vicious cycle of middle-class flight and disinvestment.<sup>12</sup> Many schools in older suburbs are now showing the same patterns of social change that occurred a generation ago in central cities. Decline in the core helps drive rapid growth on the edge, a pattern that stresses both places.

These patterns have especially harmful effects on people of color. In part due to subtle discrimination in the housing market, they are much more likely than whites to live in high-poverty areas.<sup>13</sup> That means that segregated schools are very likely to be poor schools.

**Concentrated poverty:** The effects of poverty and other social needs in a region are often assumed to be confined to a few small neighborhoods. In reality, social separation and sprawl not only cause immediate harm to core cities, older inner-ring suburbs and fiscally-stressed developing suburbs, but also harm the rest of the region as well. As poverty intensifies in a community, those who can afford to will often choose to move away, depressing property values there and in surrounding areas. This flight threatens even high-capacity developing suburbs with eventual decline. Polarization limits the entire region’s ability to generate economic growth.



Poverty in Cleveland area schools is highly concentrated in the region's urban centers and adjacent suburban areas. School districts in these areas must serve high-need student populations with inadequate resources. Map 5 (percentage of elementary students eligible for free and reduced-price lunch by school, 2004) shows the areas of the Cleveland region with higher-than-average concentrations of elementary students eligible for free or reduced-price lunch by school district in 2004. Many of the elementary students in the region eligible for the free lunch program attend schools in just three of the region's school districts (Cleveland, Akron and Lorain).

Map 6 (change in percentage points of elementary students eligible for free lunch by school, 1994-2004) shows that the areas with increasing poverty in schools aren't just in the central cities of Cleveland and Akron. The most significant increases tend to be in the stressed and at-risk inner suburbs around the central cities.

Concentrated poverty is important for several reasons. When school poverty reaches certain thresholds in a community, many middle-class families with children flee to other communities. This flight, in turn, negatively affects the housing market in the community and often creates a vicious cycle of disinvestment.<sup>14</sup> As in most metropolitan areas, the most recent waves of transition in Northeast Ohio are in inner suburbs. However, the overall pattern shows a clear outward movement over time. The resulting transitions can be very rapid—so rapid that they can overwhelm the resources of individual communities.

Regional responses are necessary. Regional land use planning can limit the extent to which social and fiscal problems become concentrated in specific areas. Regional tax-base sharing can reduce the fiscal incentives for inefficient competition for taxbase that contributes sprawling development patterns. And regional economic development efforts can increase the size of the “pie” to be divided among the different parts of the region.

Schools often experience social change faster than neighborhoods do because families with no children in the public school system (empty nesters, the young, and families with children in private schools) will often remain in a neighborhood past the time when most families with schooled children in public schools flee. This can ease the increase in overall poverty rates. But ultimately, in most cases, when schools in a community reach certain thresholds of poverty and segregation, middle-class households of all types (i.e., households with residential choices) choose to live in other areas.

The flight of the middle class from a community strains both old and new communities. In fast-growing communities at the edge of the region, the middle class is streaming into increasingly overcrowded schools, a pattern that strains fiscal resources.

But the more powerful harms of this flight accrue to the people left behind in communities of concentrated poverty. High concentrations of poverty affect individual residents and their families as well as the community as a whole. Studies have found that poor individuals living in concentrated poverty are

far more likely to become pregnant as teenagers,<sup>15</sup> drop out of high school,<sup>16</sup> and remain jobless<sup>17</sup> than if they lived in socio-economically mixed neighborhoods. These types of outcomes dramatically diminish the quality of life and opportunity for residents who live in areas of concentrated poverty.

Similarly, the concentration of poverty and its attendant social isolation make education, job search and general interaction with mainstream society difficult. The problems associated with concentrated poverty—everything from high crime to poor health—place a significant burden on municipal resources and discourage investment. The impact of concentrated poverty also extends into the larger regional economy by reducing the regional pool of skilled workers and otherwise creating a less attractive environment for economic growth and development.

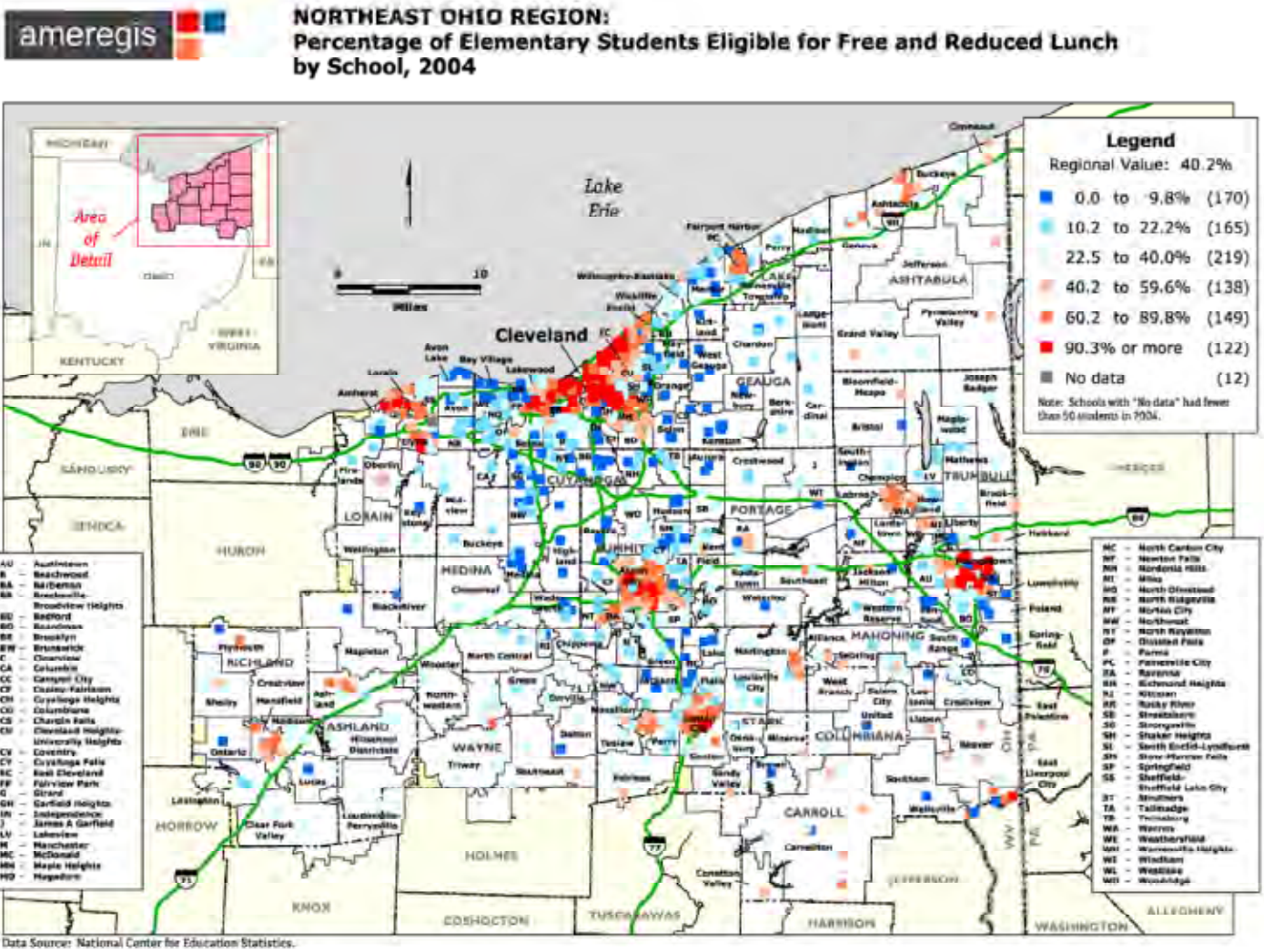
This pattern of concentrated poverty especially harms people of color, who are much more likely than whites to live in high-poverty areas, in part due to subtle discrimination in the housing market.<sup>18</sup> Racial separation mirrors the poverty patterns. The Cleveland region's schools are among the most segregated in the country and poverty and race interact in ways greatly detrimental to minority students. It is clear from Map 7 (percentage of non-Asian minority elementary students by school, 2004) that the schools with the highest concentrations of non-Asian minority students are also high-poverty schools.

As was the case with the school lunch maps, Map 8 (change in percentage points of non-Asian minority elementary students by school, 1994-2004) shows that the schools with increasing minority enrollment are not in the central cities, but again are

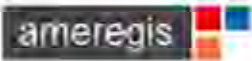
the schools in the inner, stressed suburban areas around the central cities.

A growing body of research documents the interconnectedness of metropolitan economies. Unbridled competition for tax base discourages regional cooperation necessary to attract new business and often leads to unbalanced growth that creates a spatial mismatch between new jobs and available workers. When social and economic separation is minimized, the region is stronger.

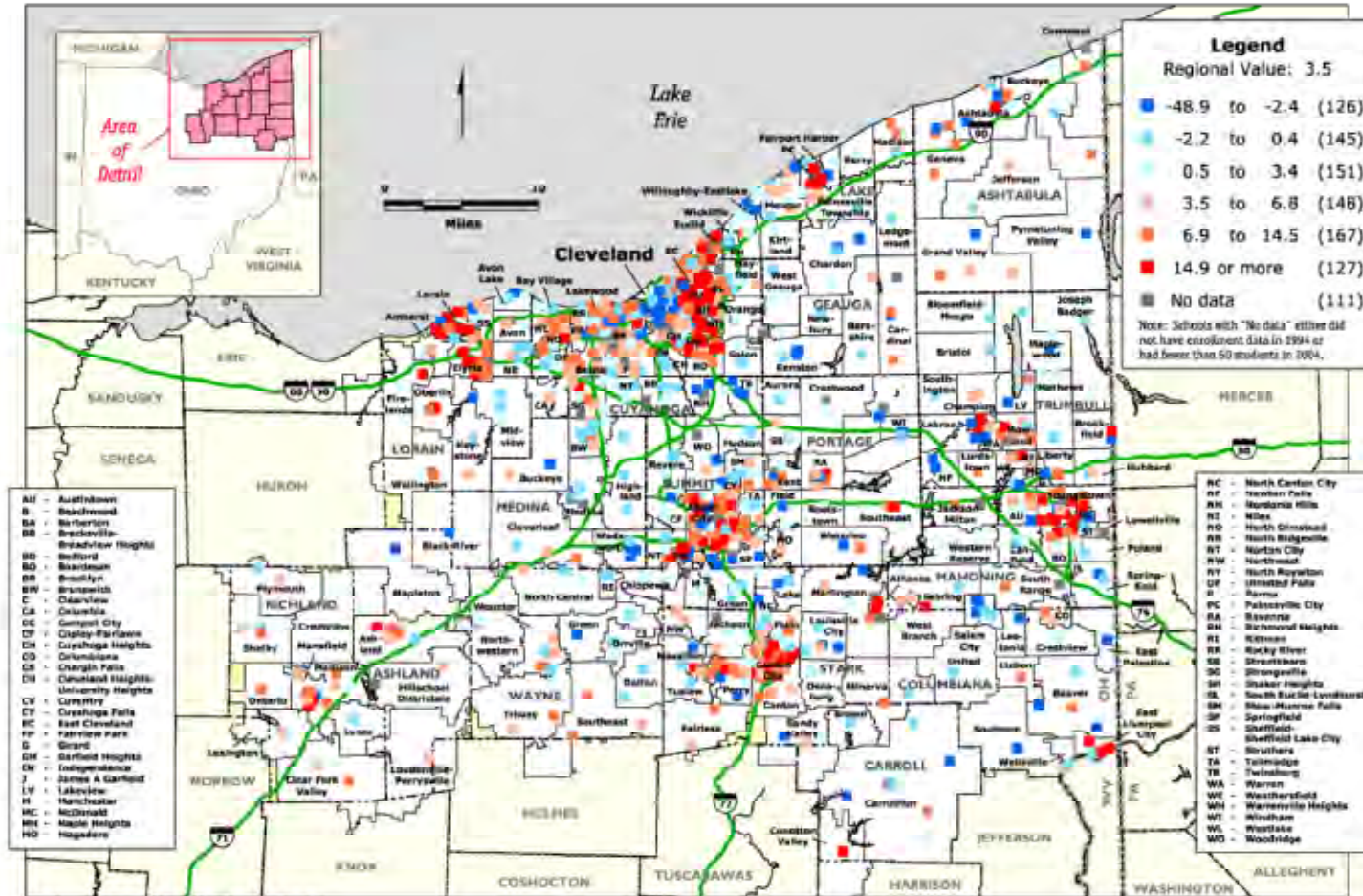
# MAP 5



# MAP 6



## NORTHEAST OHIO REGION: Change in Percentage Points of Elementary Students Eligible for Free Lunch by School, 1994-2004

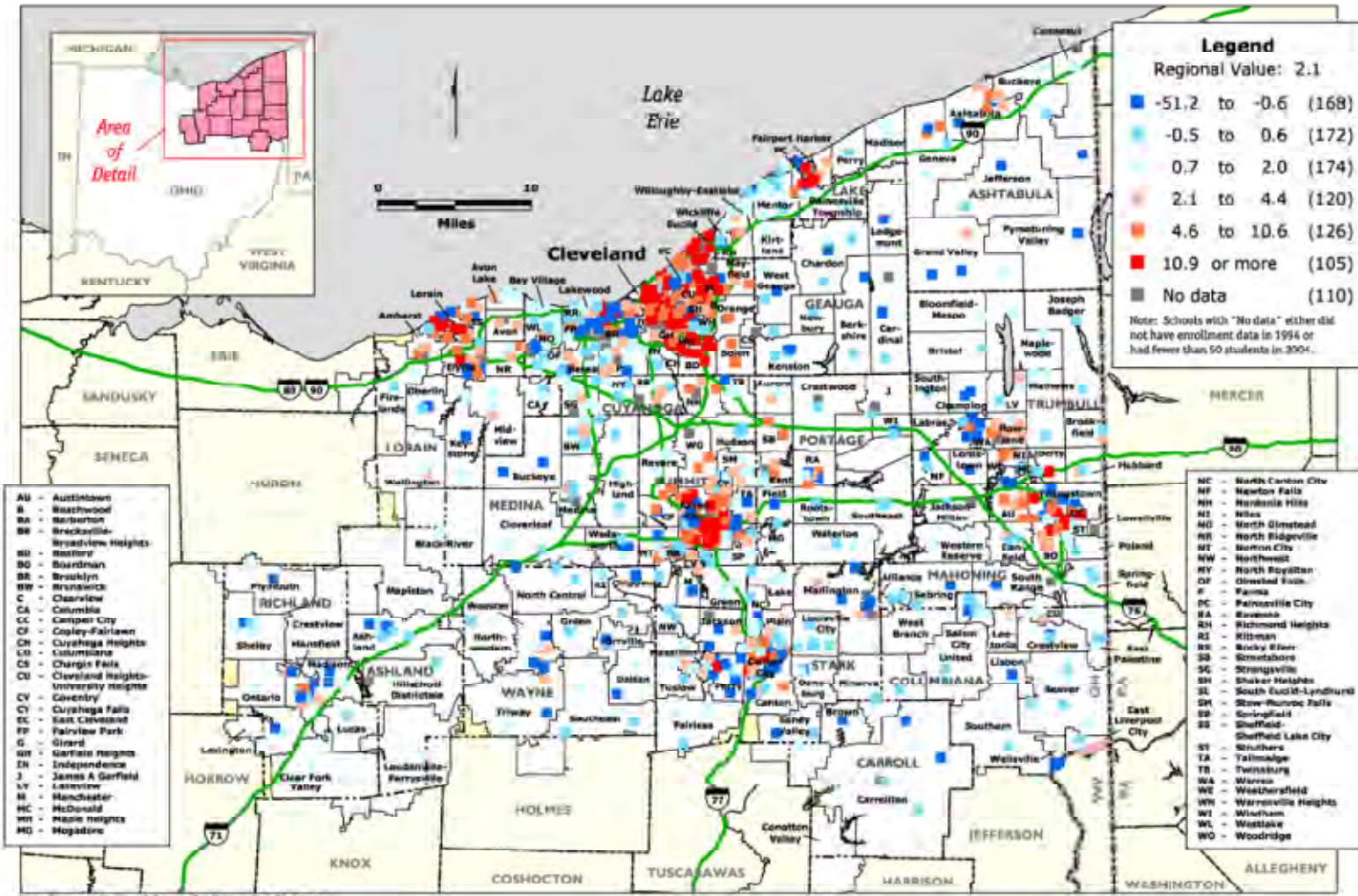




# MAP 8



## NORTHEAST OHIO REGION: Change in Percentage Points of Non-Asian Minority Elementary Students by School, 1994-2004



## FISCAL INEQUALITY

Northeast Ohio has a relatively fragmented system of local government, and its municipal governments rely heavily on locally generated tax revenues to pay for public services. The primary local taxes are the traditional property tax and the local income tax. Municipalities in Ohio rely much more heavily on income-based taxes than in most other states.

Communities face significant, often overwhelming, pressures to compete for development that will expand their property and payroll tax bases. These pressures often drive local land-use planning decisions, encourage sprawl and increase economic and social disparities.

Localities pay attention to the net effect that any new development will have on local revenues and expenditures—on whether the proposed development “pays its way.” To win the most profitable land uses, local governments may offer public subsidies or infrastructure improvements. But perhaps the most common approach is “fiscal zoning”—making land-use decisions not based on the suitability of the land or the longterm needs of the region, but on the tax revenue a development can generate right away in a small part of the region. For example, many communities lay out great tracts of land for commercial development, regardless of whether it is the most appropriate use for the location.<sup>19</sup>

This competition is costly in several ways. First from the entire region’s perspective, it is wasteful of public resources. Public sector time, effort and money is likely to be expended to affect

the location of businesses that would have located somewhere in the region anyway. Second, the competition can contribute to vicious cycles of decline. If a business relocates from one municipality to another, the loser must either raise tax rates to maintain revenues or decrease the amount or quality of services, diminishing its attractiveness to businesses in the next round of competition. Third, such uncoordinated competition often makes the task of providing regional infrastructure more expensive than it has to be. Finally, the income tax (either combined with a property tax or on its own) increases the fiscal benefits to localities of business compared to residential development. This can lead to inadequate provision of housing, especially affordable housing.

The most unusual feature of the local fiscal environment in Ohio is the income tax. Although the availability of this tax provides some advantages by diversifying local revenue systems and providing some potential to tax non-resident consumers of a locality’s public services, it is unlikely to provide all of the fiscal benefits that it promises.

While a local payroll tax appears to be taxing resident workers and non-resident commuters, much of the tax is actually borne by local businesses. Businesses in a high payroll tax municipality are likely to bear the brunt of any tax differentials in the form of wage premiums paid to workers. Those in professions with employment opportunities throughout the region will opt for a job in a high payroll tax place only if they are compensated for the extra cost in some way. This generally means higher wages.

Businesses therefore have a strong incentive to avoid income taxes when making location decisions. This should be particularly true of labor-intensive businesses with high wages – the Holy Grail for local economic development planners. Differences in income tax rates across the region are great enough to create these location incentives.

In addition, the surest way for a business to avoid the extra cost associated with higher than average payroll taxes is to locate in unincorporated townships.<sup>20</sup> In other words, the tax pushes businesses to locate in the parts of the region least likely to have the necessary supporting infrastructure already in place.<sup>21</sup>

Maps 9 and 10 show the distribution of property tax base across the region and how it has changed in recent years. Fiscal disparities are relatively wide. Property tax base per household ranged from just \$20,649 per household in Chagrin Falls Township to more than a million dollars per household in Hunting Valley Village. There are 16 cities, villages and townships across the region with property tax bases less than \$75,000 per household while, at the same time, there are 12 cities and villages in Cuyahoga and Lake Counties with property tax bases of more than \$500,000 per household.

In 2006, the ratio of the tax base in the 95th percentile place – the municipality or township with a tax base greater than 95 percent of places in the region – to that in the 5th percentile place was 5.4. This means that the 5<sup>th</sup> percentile municipality would have to assess a property tax rate 5.5 times higher than the 95<sup>th</sup> percentile place in order to generate the same revenues per household.

The lowest tax bases tend to be in the region's central cities, their nearby suburbs, and in the outermost parts of the region. The highest tax bases can be found in a band of suburbs between Cleveland and Akron.

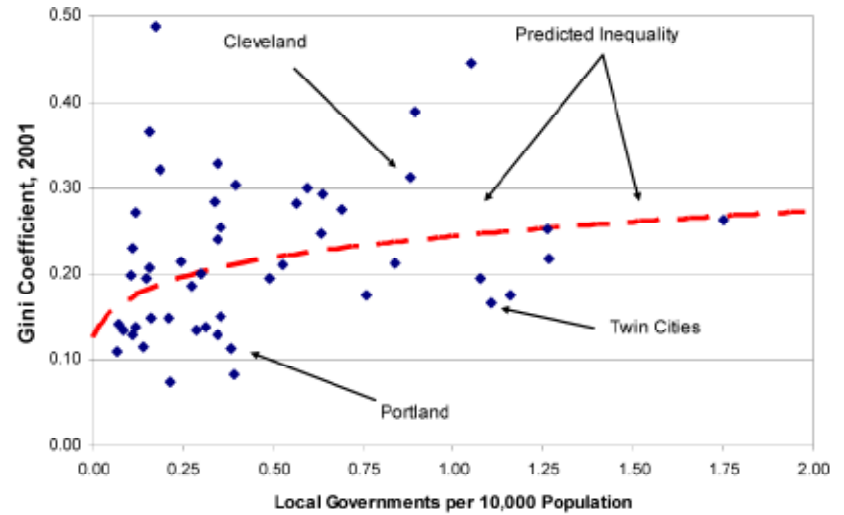
Property tax base growth patterns show a much different pattern. (Map 11) Overall, they reflect the way the region is growing, with the highest rates of growth in outer areas and lower rates of growth in core areas in and near the central cities.

One reason for the area's fiscal inequities is its high degree of local government fragmentation. Figure 5 shows that more fragmented metropolitan areas tend to show greater inequities in local tax bases.<sup>22</sup> Among the 50 largest metropolitan areas, the Cleveland metro shows both a high degree of fiscal inequality and a high degree of governmental fragmentation. However, its inequality rate is even higher than would be predicted by its high rate of fragmentation—indicated by the fact that Cleveland's inequality rate is above the predicted line in Figure 5.<sup>23</sup> As with sprawl, two of the metropolitan areas showing the greatest difference between actual and predicted sprawl rates are the Twin Cities and Portland, the two large metropolitan areas with the most extensive regional planning systems.

The implications of property tax base disparities this wide are important. Municipalities at the low end of the spectrum face a very difficult choice between providing regionally competitive levels of local public services like police and fire protection by assessing tax rates that are higher than their regional

counterparts – sometimes much higher – and assessing competitive tax rates while providing much lower than average local services. Either combination puts them at a serious disadvantage when competing for new residents or businesses. Tax base disparities of this magnitude clearly create the potential for vicious cycles of decline in low tax base places.

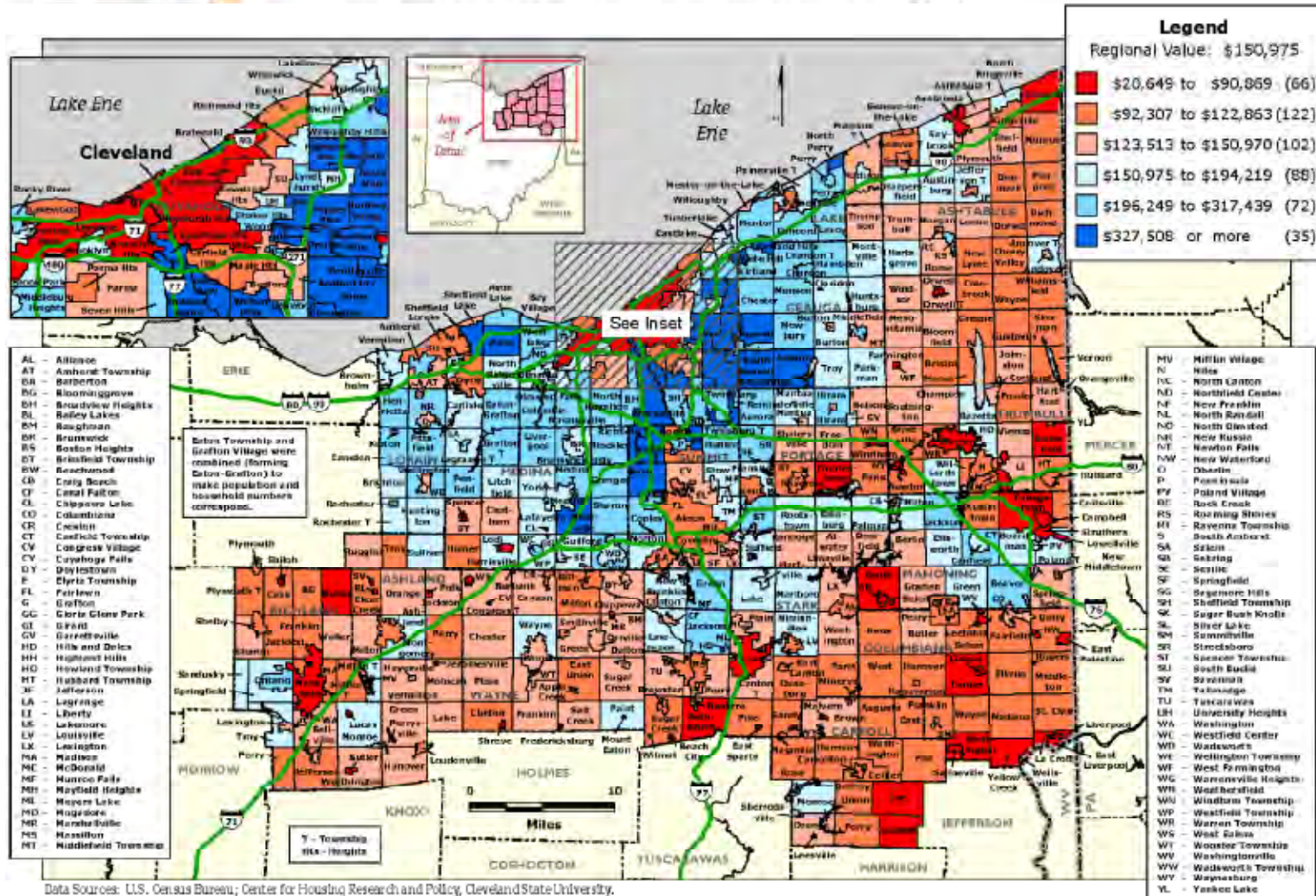
**Figure 5: Fragmentation and Fiscal Inequality in the 50 Largest Metropolitan Area**



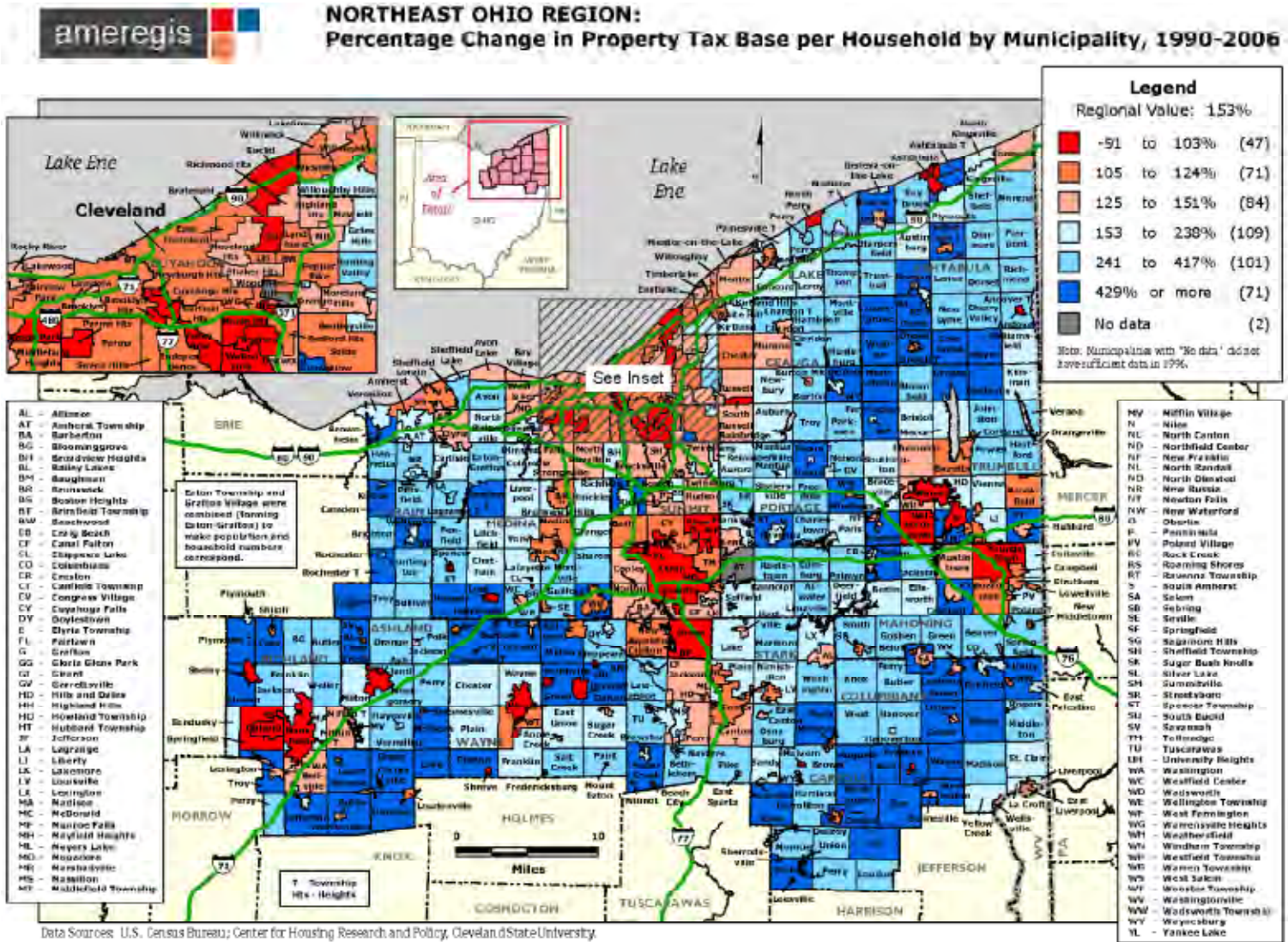
# MAP 9



## NORTHEAST OHIO REGION: Property Tax Base per Household by Municipality, 2006



# MAP 10



## LOOKING FORWARD: STRATEGIES FOR REGIONAL REFORM

Northeastern Ohio faces serious economic and social difficulties. Uncoordinated growth, widening fiscal disparities and concentrated poverty threaten the area's ability to grow consistently, or in ways that benefit all its residents. The fragmented nature of the political and planning system—more than 300 cities, villages and townships (many unincorporated) in 10 counties—makes it unlikely that reform at the local level alone will solve the region's problems. Solutions must focus on regional initiatives. Objectives for these initiatives should focus on:

- Promoting consistent growth in the region to benefit all its citizens.
- Achieving orderly, efficient and sustainable development practices.
- Increasing collaboration across governmental structures.

The policy areas where reforms are most needed to achieve these ends include:

- Fiscal reforms to reduce incentives for inefficient interlocal competition for tax base and narrow resource disparities among local governments.
- Smarter land-use planning.
- Strengthened metropolitan governance to give all communities a voice in regional decision-making.

In addition to addressing individual problems, these strategies are mutually reinforcing. Successfully implementing one makes implementing others much easier, both substantively and politically.

## FISCAL EQUITY

Tax-base sharing is one way to significantly improve both the equity and efficiency of the regional fiscal system. In such a system, a portion of local tax base is put into a regional pool which is then redistributed back to local areas based on some criteria other than their contributions to the pool.

The redistribution formula can take a variety of forms. It can be aggressively redistributive – using local tax base or poverty rates as a primary component, for instance. Or it can be relatively neutral – using local population or household counts. It can also be designed to compensate local areas for extra costs of public services. The age of the housing stock—a good proxy for the age of infrastructure—could be used in this way. In any of these cases, because contributions to the pool are based on local tax bases, the net effect of the system will be to reduce fiscal disparities across the region.

If the contribution formula is designed properly, tax-base sharing can also improve the efficiency of the local tax system. In the model used in the largest tax-base sharing system in the United States—the Twin Cities Fiscal Disparities program—communities contribute 40 percent of the increase in commercial-industrial property tax base to the pool, which is

then redistributed with a formula based on population and local tax base. On the one hand, the design reduces the incentives for communities to compete for tax base, because they do not keep all of the resulting revenues. On the other hand, because localities retain enough of the tax base to cover the costs of growth, the incentive is not so strong that local areas will be unwilling to allow new development.<sup>24</sup>

Tax-base sharing can thus be designed to serve several purposes. It can:

- Encourage joint regional or multi-jurisdictional economic development efforts by ensuring that all share in the benefits of regional growth;
- Complement regional land-use planning efforts by reducing the stakes for individual jurisdictions in the location of specific economic activities and by spreading the benefits of regional developments;
- Reduce the incentives for localities to compete with each for tax-base;
- Reduce inequalities in tax-base, tax rates and local public services.

As noted above, the Twin Cities Fiscal Disparities Program is the best existing example of regional tax base sharing. The Fiscal Disparities Program covers the seven core counties of the Twin Cities metropolitan area. There are more than 192 municipalities, 50 school districts and more than 100 special districts covered by the program. In existence since 1971, it pools 40 percent of the growth in commercial-industrial tax base since that time and redistributes it based on population of total local property tax base per capita.

As of 2004, 32 percent of the region's commercial-industrial tax base was in the pool and 64 percent of the region's population lived in municipalities that were net beneficiaries of the program. The program reduces tax base inequality in the region by about 20 percent, as measured by the Gini coefficient.<sup>25</sup> The effects are even more pronounced at the extremes of the distribution. The program reduces the ratio of the highest to lowest tax base per household from 25 to eight, and of the second highest to second lowest from 10 to four. The region's two central cities are affected in significantly different ways. St. Paul, with much of its prime real estate devoted to state office buildings and other non-profit purposes, is a major beneficiary of the program. Its average tax on a homesteaded residence is about nine percent lower than it would be in the absence of the program. Minneapolis, on the other hand, has had periods when it contributed more to the pool than it received from it and other times when it has been a net receiver.

In principle, tax-base sharing can be employed with any local tax. In Northeast Ohio, the primary candidates are the property tax and the income tax.

## REGIONAL LAND-USE PLANNING

Fiscal issues are only part of the reason for inequitable and inefficient growth occurring in Northeastern Ohio. The localized nature of planning also contributes to unbalanced growth. This arrangement makes it difficult to implement coherent policies in areas with regional implications, such as the environmental protection, housing, transportation or economic development. There are many costs associated with fragmented planning and unbalanced growth. Valuable agricultural land and sensitive open space is destroyed. Traffic congestion increases. Expensive public infrastructure is built on the urban edge, while existing facilities within cities are underutilized, and sometimes abandoned.

The localized nature of planning in Ohio—with power fragmented among thousands of governments—clearly contributes to unbalanced growth patterns. To cite just one example, in Medina County alone, planning duties are divided among three cities, seven villages and 17 townships.<sup>26</sup> The total 16 county study area for this work includes 485 cities, villages and townships—roughly half are unincorporated townships. This makes the region one of the most fragmented in the country.<sup>27</sup> Even the small amount of regional planning that occurs in the region is divided among four metropolitan planning organizations.

Outward growth, combined with policies that focus on building new infrastructure over maintaining the facilities already in place, hurt older places in and near the urban core.<sup>28</sup>

Considering that significant investments in infrastructure and housing have already been made in those areas, state (and often federal) investments in roads in previously undeveloped areas are a waste of taxpayers' limited resources. They not only encourage additional growth in outlying communities, they further divert resources from existing communities that arguably need them the most.

Developing a cooperative framework for land-use planning that encourages places to plan together for their common future and to consider the regional consequences of local decisions is an essential aspect of a regional reform agenda. This kind of thinking has been implemented in several states over the last 25 years and is receiving increasing attention across the country.

“Smart growth” is an efficient and environmentally friendly pattern of development that focuses growth near existing public facilities. Smart growth provides people choice in where they live and work and how they get around. Based on the premise that regions can make more efficient use of their land through cooperation rather than competition, smart growth initiatives essentially call for local planning with a regional perspective.

At least 16 states have already adopted comprehensive smart growth acts, and their ranks are growing. Regional land use planning efforts, like those required in Oregon's statewide program, help officials coordinate investments in roads,

highways, sewers and utilities. Concurrency requirements like those in Florida mandate that infrastructure be on-line by the time development takes place. In addition, there are a variety of agricultural and open-space preservation programs available, as well as incentives for the use of New Urbanist design principles.<sup>29</sup>

All these initiatives share goals: to reduce the destruction of open space and agricultural lands; to ease traffic congestion by creating an accessible and balanced transportation system; and to make more efficient use of public investments.

Ensuring that all communities in the region, particularly those with new jobs and good schools, strengthen their commitment to affordable housing is another essential component of smart growth planning because it helps to reduce the consequences of concentrated poverty on core communities. It allows people to live closer to work and provides them with real choices concerning where they want to live.

## REGIONAL GOVERNANCE

A primary theme of this study is that highly fragmented governance and planning systems like that seen in Northeast Ohio harm not just central cities, but all parts of the region. The resulting internecine competition intensifies social separation and sprawling development patterns and discourages the creation of coordinated strategies for dealing with these problems.

Effective, efficient regional efforts strike a balance by allowing local control over issues best addressed by local governments, while promoting cooperation on larger issues affecting the entire region, such as highway and sewer investments, affordable housing, transit, land-use planning, air and water quality and, perhaps most importantly in Northeastern Ohio, economic development.

A wide variety of options are available to improve regional decision-making. These include strengthening existing regional organizations, finding new ways to encourage inter-local cooperation, and creating new institutions to plan or provide services on a regional scale.

There are already regional institutions in place that can serve as a backbone for regional reform. For instance, the region is already home to four Metropolitan Planning Organizations, appointed bodies of local officials with power to make billion-dollar decisions on planning and funding regional transportation systems. These organization, other regional planning commissions and councils of governments in Ohio already have the power to undertake many planning functions, among them conducting studies, contracting with governments to provide planning assistance and coordinating local activities with other regional bodies and levels of government.<sup>30</sup> However, currently there are far too many of them to provided the region with a clear road map into the future.

Consolidated into fewer organizations and armed with greater powers, these existing organizations could made headway on a whole host of regional issues. Other models of governance,

including establishing new, freestanding bodies to oversee regional issues from land-use planning to transit—the model established in Portland, Oregon and Minneapolis-St. Paul regions—exist as well.

Regardless of what institutional options are used to consolidate planning powers, a good starting point is one implemented in the Twin Cities in the 1970s when the Twin Cities Metropolitan Council was first formed. One of the new organization's first tasks was a major study of where the region stood at that time, including an inventory of regional assets and infrastructure, and analysis. The result—The Metropolitan Development Investment Framework—provided the context for Council's regional development policies through the 1980s.

In the Northeast Ohio context, a study and plan of this sort would provide the background to determine which public functions—economic development, land use planning, libraries, parks, transportation, waste water collection and treatment, tax-base sharing are all possibilities—are best suited for inclusion in a regional organization, whatever its form.

In conclusion, it is unmistakable that the current system of highly fragmented with powers divided among many different actors, none of which have the mandate to exercise strong oversight functions is not serving the region well. There is a clear need to develop more accountable regional institutions to address the best interests of the region's diverse population.

## ENDNOTES

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<sup>1</sup> Grouping was accomplished using the K-means clustering procedure in SPSS. All variables were calculated as percentages of the regional average and standardized by the number of standard deviations from the mean so that the effects of variables with very wide variations did not overwhelm the effects of variables with narrower variations. For more on cluster analysis in general, and K-means clustering in particular, see StatSoft, Inc. Electronic Statistics Textbook (Tulsa, OK: StatSoft, 2002) at [www.statsoft.com/textbook/stathome.html](http://www.statsoft.com/textbook/stathome.html).

<sup>2</sup> Bureau of Labor Statistics and Bureau of the Census.

<sup>3</sup> Sprawl is measured by  $\{(urban\ land\ in\ 2000 / urban\ land\ in\ 1970)\} / \{(population\ in\ 2000 / population\ in\ 1970)\}$ . Fragmentation is measured by the number of local governments per 10,000 residents. The Cleveland metro is defined by the eight county Bureau of the Census definition, not by the 16 county area in Map 2. The eight counties include Ashtabula, Cuyahoga, Geauga, Lake, Lorain, Medina, Portage and Summit.

<sup>4</sup> The “predicted sprawl” line shows the simple regression line between the log of the sprawl ratio and the log of the fragmentation measure for the 50 largest metropolitan areas. The log-log relationship is the strongest specification with a simple correlation of .56 (significant at the 99 percent confidence level).

<sup>5</sup> Jason W. Reece and Elena G. Irwin, “Land Cover in Ohio’s Townships: An Analysis of Township Land Cover and Population Change” (Columbus: Ohio State University Extension Ohio Agricultural Research and Development Center, February 2002).

<sup>6</sup> Ibid.

<sup>7</sup> [www.sierraclub.org/sprawl/report98](http://www.sierraclub.org/sprawl/report98)

<sup>8</sup> Bob Downing, “Polio, hepatitis in Cuyahoga,” *Beacon Journal*, June 26, 2002; and Tom Breckenridge, “Cuyahoga River is unsafe, study shows,” *Plains Dealer*, June 27, 2002.

<sup>9</sup> Researchers have found, for example, that median household incomes of central cities and their suburbs move up and down together in most regions and that the strength of this relationship is increasing. They have also found that the metropolitan areas with the smallest gap between city and suburban incomes had the greatest regional job growth. Another researcher found that in large metropolitan areas income growth in central cities results in income growth and house-value appreciation in the suburbs. See Larry C. Ledebur and William R. Barnes, “All In It Together: Cities, Suburbs and Local

Economic Regions” (Washington, D.C.: National League of Cities, 1993); William R. Barnes and Larry C. Ledebur, *City Distress, Metropolitan Disparities, and Economic Growth* (Washington, D.C.: National League of Cities, 1992); and Richard Voith, “Do Suburbs Need Cities?” *Journal of Regional Science* 38(8) 445-464, 1998.

<sup>10</sup> The comparison Midwestern metropolitan areas include Chicago, Cincinnati, Columbus, Detroit, Indianapolis, Kansas City, Milwaukee, Pittsburgh and St. Louis. Growth in personal income per capita is corrected for inflation using the consumer price index for all goods and services in Midwestern metropolitan areas.

<sup>11</sup> *DeRolph v. State* (2000), 88 Ohio St.3d is the most recent of these rulings.

<sup>12</sup> See James S. Coleman, *Equality of Educational Opportunity* (Washington, D.C.: Government Printing Office, 1966); Gary Burtless, ed., *Does Money Matter? The Effect of School Resources on Student Achievement and Adult Success* (Washington, D.C.: Brookings, 1996); James Traub, “What No School Can Do,” *New York Times Magazine*, January 16, 2000.

<sup>13</sup> For a general discussion of housing discrimination, see John Yinger, “Testing for Discrimination in Housing and Related Markets,” *A National Report Card on Discrimination in America*, ed. Michael Fix and Margery Austin Turner (Washington, D.C.: The Urban Institute, 1998).

<sup>14</sup> See James S. Coleman, *Equality of Educational Opportunity* (Washington, D.C.: Government Printing Office, 1966); Gary Burtless, ed., *Does Money Matter? The Effect of School Resources on Student Achievement and Adult Success* (Washington, D.C.: Brookings, 1996); James Traub, “What No School Can Do,” *The New York Times Magazine*, January 16, 2000.

<sup>15</sup> Jonathan Crane, “The Effects of Neighborhoods on Dropping Out of School and Teenage Childbearing,” in *The Urban Underclass*, C. Jencks and P. Peterson. eds. (Washington, D.C.: Brookings Institution, 1991), pp. 299-320; Susan E. Mayer, “How Much Does a High School’s Racial and Socioeconomic Mix Affect Graduation and Teenage Fertility Rates?” in *The Urban Underclass*, pp. 321-41; Douglas A. Massey and Nancy S. Denton, *American Apartheid: Segregation and the Making of the Underclass* (Cambridge, MA: Harvard University Press, 1993), pp. 169-70; Dennis P. Hogan and Evelyn Kitagawa, “The Impact of Social Status, Family Structure, and Neighborhood on the Fertility of Black Adolescents,”

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American Journal of Sociology 90, no. 4 (1985): 825-55; Frank F. Furstenburg, Jr., S. Philip Morgan, Kristen A. Moore, and James Peterson, "Race Differences in the Timing of Adolescent Intercourse," *American Sociological Review* 52 (1987): 511-18; Elijah Anderson, "Neighborhood Effects on Teenage Pregnancy," in *The Urban Underclass*, pp. 375- 98; Sara McLanahan and Irwin Garfinkel, "Single Mothers, the Underclass, and Social Policy," *The Annals of the American Academy of Political and Social Science* 501 (1989): 92.

<sup>16</sup> Crane, "The Effects of Neighborhoods," pp. 274-320; Mayer, "Graduation and Teenage Fertility Rates," pp. 321- 41; Massey and Denton, *American Apartheid*, pp. 169-70.

<sup>17</sup> Massey and Denton, *American Apartheid*, pp. 180-82.

<sup>18</sup> For a general discussion of housing discrimination, see John Yinger, "Testing for Discrimination in Housing and Related Markets," *A National Report Card on Discrimination in America*, ed. Michael Fix and Margery Austin Turner (Washington, D.C.: The Urban Institute, 1998).

<sup>19</sup> See William A. Fischel, "Property Taxation and the Tiebout Model: Evidence for the Benefit View from Zoning and Voting," *Journal of Economic Literature* 30 (1992), pp. 171-77, for a discussion of fiscal zoning and why it occurs.

<sup>20</sup> The existence of unincorporated areas is not a necessary prerequisite for this process to occur. The Philadelphia wage tax, for instance, has had a much-documented effect on city employment, despite the fact that its metropolitan area is fully incorporated. See Luce, Thomas, "Local Taxes, Public Services, and the Intrametropolitan Location of Firms and Households," *Public Finance Quarterly*, Volume 22, no. 2, pp. 139-67, (1994).

<sup>21</sup> See Timothy Bartik, *Who Benefits from State and Local Economic Development Policies?* W.E. Upjohn Institute, 1991 for a summary of the effects of local tax differentials on business location decisions. For a specific analysis of the negative effects of wage-based tax on job growth in a large central city, see Thomas Luce, "Local Taxes, Public Services, and the Intrametropolitan Location of Firms and Households, *Public Finance Quarterly*, vol. 22, no. 2, pp. 139-67, 1994.

<sup>22</sup> Fiscal inequality is measured by the Gini coefficient. The Gini coefficient measures the difference between the actual distribution of tax base and a perfectly equal distribution. It varies between 0 and 1, taking on a value of 0 if the distribution is perfectly equal (all jurisdictions have the same tax base per household) and 1 if the distribution is perfectly unequal (one jurisdiction

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with only one household has all of the tax base). Fragmentation is measured by the number of local governments per 10,000 residents. The Cleveland metro is defined by the eight county Bureau of the Census definition, not by the 16 county area.

<sup>23</sup> The "predicted inequality" line shows the simple regression line between the log of the Gini coefficient and the log of the fragmentation measure for the 50 largest metropolitan areas. The log-log relationship is the strongest specification with a simple correlation of .34 (significant at the 99 percent confidence level).

<sup>24</sup> For a more extensive discussion of tax base sharing, see "Regional Tax Base Sharing: the Twin Cities Experience", Thomas Luce, in *Local Government Tax and Land Use Policies in the United States: Understanding the Links*, Helen Ladd, Lincoln Institute of Land Policy, 1998.

<sup>25</sup> The 20 percent decline in the Twin Cities represents a decline from .21 to .17.

<sup>26</sup> Patricia Burgess and Thomas Bier, "Public Policy and 'Rural Sprawl': Lessons from Northeast Ohio" (Cambridge, MA: Lincoln Land Institute of Land Policy, 1998).

<sup>27</sup> The seven-county Cleveland metropolitan area has the 23rd most local governments per resident among the 100 largest metropolitan areas

<sup>28</sup> First Suburbs Consortium, "Ohio's Aging Communities: A Call for State Attention by the Ohio First Suburbs Consortium" (March 2002, [www.firstsuburbs.org](http://www.firstsuburbs.org)).

<sup>29</sup> See Orfield 2002 for more discussion of land-use planning tools.

<sup>30</sup> Stuart Meck, "The Structure of Planning and Land-Use Controls in Ohio." Presentation to the Ohio-Kentucky-Indiana Council of Governments, June 2000, Fairfield, Ohio..

# Northeast Ohio Regional Economic Revenue Study

JOINT CENTER FOR POLICY RESEARCH

PUBLIC SERVICES INSTITUTE

LORAIN COUNTY COMMUNITY COLLEGE

SHARA L. DAVIS, DIRECTOR

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## STUDY OVERVIEW:

The Regional Economic Revenue Study is an initiative of the Northeast Ohio Mayors and City Managers Association to explore tax sharing strategies to enhance economic competitiveness within the 16 county region of Northeast Ohio. The study will examine operational tax sharing programs in other regions of the U.S. and determine the applicability of those programs to Northeast Ohio. The focus of the research is on government cooperation not consolidation or replacement of governments.

The research is funded by the Fund for Our Economic Future, a multi-year collaboration of more than 80 philanthropic organizations formed to advance a common and highly focused regional economic development agenda that can lead to long-term economic transformation for the region. The study is intended to identify action that can be taken among governments to help foster business growth and development, enhance government collaboration and efficiency, stimulate regional planning, and reduce disparity in the distribution of fiscal resources - all of which are priorities of the Advance Northeast Economic Action Plan.

The Regional Economic Revenue Study research team is comprised of Myron Orfield of Amerigis (national consultant), Tom Bier of the Center for Housing Research and Policy at Cleveland State University, and Shara Davis and Jim Trakas of the Public Services Institute at Lorain County Community College.

## What is the purpose of the study?

The study will explore tax sharing programs to address the following research questions:

- What operational tax sharing/pooling systems exist across the U.S.?

[For Select Case Studies:]

- o What was the impetus for these systems?
- o How is each administered (using what kind of tax structures and distribution formulas)?
- o How is each governed?
- o What are the benefits/impacts of each approach including unintended impact and lessons learned?
- What are the options for using pooled dollars in Northeast Ohio?
- What makes NEO unique relative to other areas that have successfully implemented tax sharing techniques?
- What can NEO accomplish legally (per existing state law) or what modifications to current law need to occur?
- What are the hurdles NEO will have to overcome to successfully launch a tax sharing initiative?
- What are the implications for NEO if tax sharing had been done 10 years ago and what are the likely outcomes if accomplished 10 years from now?
- What kind of tax sharing system is likely to garner support from the business community of Northeast Ohio?

A literature review, detailed case study of selected programs, modeling of the Twin Cities revenue sharing system, legal review of

existing tax sharing laws in Ohio, and in-depth interviews with key business leaders across the region comprise study methods used to address the above research questions.

### **What is tax sharing?**

In simplest form, tax sharing takes some portion of revenues generated from taxes and places the funds into a pool. The money in the pool is then distributed among participating communities based on a formula that takes into account individual community needs.<sup>1</sup> While the concept is relatively straightforward, putting tax sharing into practice is more complex.

Sources of funds contributed to revenue pools vary widely. The funds can take the form of property taxes, income tax, sales tax, business taxes, utility taxes, taxes imposed on occupational license fees, or taxes imposed on things such as machinery and tools in a new industrial park. Some tax sharing systems involve a combination of taxes. Sometimes revenues contributed to the pool come from new tax rate increases (additional mills). In other cases, a base year is established and a portion of funds generated after that base year are contributed to the pool. Other systems negotiate a share of tax collections generated by current mills or tax rates.<sup>2</sup>

The formulas used to distribute funds across communities also differ. Some formulas take into account total business/industry property value per person in the political jurisdiction. Others use growth in property and income taxes compared to a base year. Still others distribute revenue on the basis of school district enrollment or population size. Some systems also use formulas to define what constitutes a poor community versus a wealthier community and then distribute funds accordingly. The size of tax sharing pools vary widely. But, typically the revenue pool grows over time.

### **Why pool & share funds across communities?**

The literature review uncovered many reasons to engage in tax sharing. These include:

- Reducing competition for new business and industry among communities
- Promoting cooperative economic development (through new cultural facilities, affordable housing, or other improvements that make regions more attractive)
- Addressing fiscal disparities between communities
- Increasing revenue for distressed core cities, not otherwise likely at the same level that revenue sharing can produce
- Encouraging regional land use planning (and environmental protection)
- Preventing annexation battles
- Building political coalitions needed to make legislative changes that are encouraging of regional tax sharing arrangements

*Competition for business and industry among local governments is common.* When new business or industry locate within a particular area, that jurisdiction increases revenues through business taxes which surpass the cost of services (such as sewer or water) they must provide back to the business. In other words, the revenues generated are greater (or at least perceived as greater) than the expense. However, inter-jurisdictional competition can push prospective businesses away from an area altogether.

Many tax sharing systems are intended to curb this unhealthy practice of intergovernmental competition. For example, all taxing jurisdictions within the Twin Cities Fiscal Disparities Program contribute a percentage of their growth in commercial tax revenues to a regional pool. The remaining percentage stays with the jurisdic-

tion in which the business located to cover the costs of service to that business. Under tax sharing, there is less incentive to “capture” new business within a border because each participating community can gain at least some benefit from new business development no matter where it is located.<sup>3</sup> As another example, Virginia’s 1<sup>st</sup> Regional Industrial Facility Authority was formed by a group of cities, counties, and towns “to attract new employers to the region and enlarge the tax-base for all participating jurisdictions” versus those places in which businesses locate only.<sup>4</sup>

While very similar to reduced competition among governments, *promoting cooperative economic development* for the benefit of a broader area is another reason communities engage in tax sharing. The Allegheny County Regional Asset District uses pooled revenues to support cultural organizations including the zoo, Carnegie Library, and the Civic Arena and shares back one-quarter of the program revenues with municipalities. This is considered an economic development tool since areas with strong arts/cultural amenities are more attractive locations for some businesses.

The Montgomery County Economic Development and Government Equity (ED/GE) Program uses pooled dollars to support local infrastructure improvements which many municipalities could not afford. The improvements enhance overall attractiveness of the area and help keep business in areas with the infrastructure to support them.

*Reducing fiscal disparities between communities* is also an inherent impetus of many tax sharing systems. A good example is Monroe County, New York which shares a greater proportion of sales tax revenues with the City of Rochester to help the city respond to declining tax base, decreased revenues, and increased service needs. In fact, the city is “able to collect more funds from the local option sales

tax that flows through the county government than it could if it charged that tax only within its own boundaries”.<sup>5</sup> The Compact between the City of Louisville and Jefferson County is another example of a tax sharing program intended to address fiscal disparities. In this case, the county was experiencing higher growth in its tax base than the city. Similar to Monroe County, a greater proportion of pooled funds flow to the city than the county. In general, many tax sharing practices help create greater equity between poorer and wealthier areas through distribution formulas that benefit all participating jurisdictions but simultaneously help those communities lagging behind – often the core cities.

*Regional land use* is yet another common reason communities enter into tax sharing agreements. The most well known example is the Meadowlands District in New Jersey which created a regional land use plan with support from the entire region. The program seeks to preserve wetlands, park land, and open space and compensates or incents local municipalities for decisions that align with the Meadowlands Development Commission. While the Meadowlands NJ system is specifically focused on land use, many tax sharing systems encourage regional planning and strive to minimize sprawl and related costs associated with new highways, water, sewer and other infrastructure needed to support growth in new areas.

*Prevention of annexation battles* is yet another common reason to engage in tax sharing. Many of these systems are not regional in scope but there is a pooling of funds among multiple jurisdictions (usually among one county and numerous cities and towns). Examples of these systems include the Franklin-Southampton, Virginia system, the North McHenry Tax Sharing Agreement in Modesto California, and the Moses Lake-Grant County in Washington.

In addition to annexation, many school aid systems are in place

across the U.S. These tax sharing systems are valuable because they lower property taxes for the benefit of all. However, these systems tend only to redistribute funds across school districts.

The opportunity to form a political coalition with broad based support to engage the state legislature is yet another stated benefit of revenue sharing. According to some, the “[tax sharing] technique enables local officials representing a majority of residents in the region to form a political coalition supporting regional arrangements in the state legislature”.<sup>6</sup>

### **What case studies were selected for Northeast Ohio & why?**

While numerous forms of tax sharing exist across the U.S., the research team selected three programs for deeper investigation. These programs are: The Twin Cities Fiscal Disparity Program; the Allegheny Regional Asset District; and the Montgomery County ED/GE program. The selection criteria took into account the following:

- Original impetus of tax sharing programs and alignment with strategic priorities of the Advance NEO Ohio Economic Action Plan
- Regional or geographic scope
- Varied sources of tax revenues and distribution formulas to provide Northeast Ohio with different tax options
- Uniqueness of Ohio in relation to other states in which tax sharing is occurring

The impetus for tax sharing in Northeast Ohio should align with strategic priorities established in the Advance Northeast Ohio Economic Action Plan. These priorities include increased government collaboration and efficiency, economic growth and development in ways that recognize the importance of core cities, and promotion

of regional planning and equity. While most tax sharing systems by their very nature encourage government collaboration, the Twin Cities program is credited with creating equity, reducing competition for tax bases, and supporting regional land use planning.<sup>7</sup>

The ED/GE program and the Allegheny Regional Asset District also promote economic development and improvement in equity across political jurisdictions with specific attention on core cities. For example, “the reasons for local government revenue sharing in Allegheny County included growing fiscal disparities between the County’s wealthier and poorer communities and many public and private-sector leaders believed that, to be economically competitive, the region needed to address the issue of over-reliance on certain taxes which resulted from the loss of steel mills and also caused local tax rate increases so municipalities could continue providing services to residents”.<sup>8</sup> The high taxes, in turn, discouraged commercial and industrial redevelopment.

In Montgomery County, Ohio, a declining regional economy was also the impetus for tax sharing, particularly the fiscal constraints placed on the core City of Dayton. “Areas that are successful in attracting new businesses and increasing their tax base are net contributors to the Government Equity fund which helps the areas that are lagging behind”.<sup>9</sup> The programs in Pennsylvania and Ohio address extremely similar issues facing Northeast Ohio including economic decline and growing disparities between communities.

The scope of work for the Regional Economic Revenue Sharing study also calls for an “eye towards implementation of revenue sharing across a 16-county footprint” of the Northeast Ohio region. For this reason, the geographic scope of tax sharing systems was also taken into consideration. The Twin Cities and Meadowlands New Jersey programs are the most comprehensive tax sharing

systems in existence today. The Twin Cities program embraces 7 counties and many taxing jurisdictions across those counties. The Hackensack Meadows District encompasses 2 counties and 14 municipalities. While both of these programs involve multiple counties, the research team sought further investigation of one program versus both given the similarities between these two programs. The Twin Cities program was selected since it is the most comprehensive and has been in operation for the longest period of time. It is worth noting that no existing programs have participation from 16 or more counties as is desired in Northeast Ohio.

In addition to regional scope of programs, identification of tax options for Northeast Ohio is one of the stated research objectives for this study. As such, the research team chose programs that utilized different revenue and distribution formulas in order to weigh the options for our region. Contributions to the area wide tax base in the Twin Cities are based on growth in commercial/industry property values using 1971 as the benchmark year. Commercial and industrial property includes all businesses, offices, stores, warehouses, parking ramps, etc. and it also includes public utility property and vacant land which is zoned commercial or industrial. The growth is calculated by the total net change in capacity since 1971 including effects of new construction, inflation, demolition, revaluation, appreciation, and depreciation.<sup>10</sup>

Funds for the ED/GE program in Montgomery County are derived from an increase in county sales tax of 0.5% to a total of 6.5%. The fund has two components: an economic development component in which a portion of the funds are distributed through a grant process back to participating communities and a government equity fund which uses more sophisticated formulas to distribute funds and ensure greater equity among jurisdictions.<sup>11</sup>

The Regional Asset District in PA is funded by a 1% county sales tax.

While the source of funds is similar to Montgomery County, the distribution formulas are different. In Allegheny County, sales tax revenues are divided in 3 ways: support for regional cultural and recreational assets, a portion to county government, and a portion to municipal governments. The formula used to distribute funds to municipal governments is designed to benefit the area's poorer communities. In essence, those communities with *lower* than average per capita property value compared to the county average get more funds while those with *higher* than average per capita property value are provided fewer funds.<sup>12</sup>

Distribution formulas for the ED/GE program are much different. The pooled funds are distributed according to population. Those jurisdictions whose contribution to the fund (based on growth in property and income taxes) is greater than their share of the population are net contributors while those whose contribution is less than their share of population are net recipients.<sup>13</sup>

Overall, *contributions* to the revenue pool in the Twin Cities is based on growth in commercial and industrial values while the ED/GE program is based on growth in property and income taxes, and contribution to the Allegheny County fund is based on the total of all municipal tax revenues combined. *Distribution* of funds back to participating jurisdictions across the 3 programs vary by fiscal capacity of participating jurisdictions (Twin Cities), population size (ED/GE program), and property values per person (Allegheny County). Examination of these three programs will provide options for consideration within Northeast Ohio.

The ED/GE program was also specifically selected for further investigation given its position within Ohio. The research team felt it would help to investigate a fully operational program that came to fruition under the same state structure.

## CASE STUDY SUMMARY

### **Impetus for Tax Sharing:**

The three regions studied had various reasons for pursuing tax sharing and there were many similarities in the approaches used to make tax sharing a reality. Montgomery County, OH and Allegheny County, PA took action in response to poor economic conditions and growing disparities between communities. The Twin Cities of Minneapolis and St. Paul were concerned about coordination of regional infrastructure (water, sewer, etc), and comprehensive land use planning as it related to economic development.

Of particular importance to this study is the manner in which they ultimately succeeded. In each case, private sector and civic leaders studied and issued reports detailing the problems inherent to each area. Business, government, and civic leaders embraced study findings and deliberated over potential solutions ultimately deciding on tax sharing as the response. In each instance, the state legislature was approached and eventually enacted new laws to move tax sharing forward. These and other findings offer important insights for Northeast Ohio.

### **Montgomery County Ohio:**

The 1980's were a wake up call to Dayton, Ohio and its surrounding communities. Montgomery County saw two major threats to its economic prosperity: the automotive industry was in decline due to serious competition from Japanese automakers and The Wright Patterson Air Force Base was slated for closure by the federal government. Had they lost General Motors or the Air Force Base, the blow to the local economy would have been devastating.

The City of Dayton, in particular, was suffering severe losses. The

recession of the early 1980's coupled with the need to bring old industrial sites into compliance with new environmental laws was forcing many companies out of the city. Critically important to the local economy was General Motors which had at least seven facilities in Montgomery County along with their leading supplier A.C. Delco (now Delphi). Companies like General Motors were struggling to retain their competitive edge as a result of the recession, increased global competition, and new environmental standards.<sup>14</sup>

Environmental laws passed in the 1970's made once prime real estate within the city off limits for development due to the cost of bringing "brown fields" into environmental compliance. It was during this time of economic decline that communities desperate for business activity began wooing companies to new locations. New facilities were attractive to those who did not want to put money into their existing dwellings in order to meet the new environmental standards so many simply moved out of the City of Dayton to nearby communities.

At the same time, Dayton was also confronted with the possibility of losing the Wright Patterson Air Force base. Bases across America were being closed as the nation pulled back on defense spending. Wright Patterson was an old base that, according to the federal government, was not strategically located. It was the threat of losing this base, large manufacturers, and increased competition for people and jobs between communities that provided the impetus for change in Montgomery County.<sup>15</sup>

The first step leaders took in response to these economic pressures was to change the Dayton Chamber of Commerce into the Dayton *Area* Chamber. They also established a Miami Valley Chamber to work collaboratively with adjoining counties. The Miami Valley Chamber was initially established to rally region wide support in

the hopes of saving Wright Patterson. By working together, community leaders prevailed upon the federal government not just to keep Wright Patterson open but to expand its mission as a major research and development facility. It was desperate economic times combined with regional success in saving the Air Force base that propelled Montgomery County to consider further action.

In 1988, the Montgomery County Commissioners working in concert with the Dayton Area Chamber of Commerce, commissioned a study to look at the economic issues at hand and how to further deflect losses in the automotive industry. In 1989, a paper was issued detailing the transfer of jobs both within Montgomery County and outside of the county to neighboring Greene, Miami, Butler, and Preble Counties. The study concluded that this transfer of wealth had a crippling effect on the City of Dayton, its older suburbs, and the entire county.<sup>16</sup>

As a result, Montgomery County initiated a planning process that would embrace a countywide approach to economic development while simultaneously providing benefit to every community in the county. While a number of proposals were floated, the ultimate plan was a compromise of several ideas advanced by business community leaders, City of Dayton officials, and county commissioners.

Some of the ideas considered but rejected included: unlimited taxing authority by the county; building population based tax sharing into Ohio law (which was considered unacceptable to the suburbs); and tax sharing with no provision for equality in the distribution of funds.

The idea garnering the greatest support involved additional tax dollars to both keep business in the county and attract new business. Equally important, as disparities between communities were

growing the plan was intended to enable older and poorer communities to share in the wealth of business attraction. A .5% sales tax increase was ultimately identified as the ideal vehicle for change.<sup>17</sup>

With this strategy in mind, Montgomery County needed assistance from the state legislature. As a creature of statute, Ohio's Revised Code enumerates what taxes may be levied and for what purposes. Ohio law gives specific authority to counties to levy a sales tax but not to pool and share the revenues with other communities. The Ohio Revised Code does not allow municipalities to utilize the sales tax without specific authority. Also, while some communities were able to sign cooperation agreements, only cities and townships at the time were able to share revenues. Per state law, revenues could not be shared between cities. Some allowances were in place for annexation deals, but not for tax sharing at the level that Montgomery County envisioned. State authority was needed to pursue tax sharing.<sup>18</sup>

Today, many forms of regional cooperation and tax sharing exist in Ohio such as Joint Economic Development Districts, Tax Increment Financing Districts, and other agreements. But, the state maintains controlling authority for any such agreement, and if it is not specifically delineated, no other type of agreement is legal.<sup>19</sup>

Armed with a united political, business, and labor community around a concept; the Dayton team approached Lt. Governor Paul Leonard, the former Mayor of Dayton, with the plan. Lt. Governor Leonard arranged a sit down between Dayton Chamber officials and lame duck Governor Dick Celeste, Speaker of The House Vern Riffe, and Senate President Stanley J. Aronoff. It was House leader Vern Riffe who took the lead on behalf of Dayton. Senator Aronoff signaled his approval assuming he could get something in return for Cincinnati, which Riffe agreed to. Both leaders indicated

that their support would be contingent on legislators from Montgomery County agreeing to the tax sharing concept that the Commissioners and Chamber had agreed on in principal but was not yet assembled.

With a yellow caution light at their back, Dayton Area Chamber officials met with legislators from both parties in Montgomery County. Most legislators knew that something had to be done but they did not all favor a sales tax increase. As a result, the Dayton Area Chamber secured the support of organizations like the Ohio Municipal League and the County Commissioners Association to help build legislative support first conceptually and then specifically around the details of a plan.

Without substantive debate in the legislature, a general proposal was cobbled together that allowed for: a .5% sales tax to be enacted in Montgomery County specifically for the creation of an economic development fund; the county to share taxes with participating municipalities (which was not legal under Ohio law), and the local county and communities to work out a specific plan and formula once the bill became law. This language was added as an amendment to House Bill 173, a measure about motor vehicle registrations. It was passed by both chambers and signed into law by the Governor. The entire process took about one year from the point at which Montgomery County leaders had first approached the Lt. Governor.<sup>20</sup>

With legislative authority to levy a sales tax for purpose of creating an economic development fund and sharing taxes across political jurisdictions, Montgomery County Commissioners deliberated on the details of the tax sharing program with input from the community, business sector, organized labor, and various municipal corporations. While the enabling legislation allowed for a framework to

be established, the specifics of how the proceeds of the sales tax would be utilized still needed to be developed. At public meetings and mark up sessions of the county commission, as well as an ad hoc committee of elected officials from municipalities in Montgomery County, officials debated just how the money would be split as well as the specific formula that the ED and GE programs would utilize.

The Montgomery County debate pitted inner ring suburbs, the cities of Dayton and Kettering, and the more prosperous outer ring suburbs against one another. While there had been general agreement by the majority of communities and the commissioners that “something” should enable the communities to make bold moves at the local level by the state legislature, the difficult work was around how to slice the pie, with disagreements ensuing about distribution of funds.<sup>21</sup>

The Cities of Kettering and Dayton along with the inner ring suburbs pushed for population based distribution formula while the outer ring suburbs opposed this approach. While ultimately a relatively fair compromise enabled the formula to be developed, the wealthier outer ring suburbs felt that their constituents paid the bulk of the new tax and received less in return.<sup>22</sup>

Eight of the suburbs involved opposed the plan and worked vociferously against it. In the end, several forged an acceptable compromise (to be noted in the next section) while four communities sued the Board of County Commissioners to stop the program. The Ohio Supreme Court upheld the program as legal and Ohio law was amended to account for such an arrangement.

### **Allegheny County Pennsylvania:**

Pittsburgh Pennsylvania of the 1980's was a shadow of itself from the 1880's. Its economy, by and large, was still dependent on heavy industry, but like the City of Dayton, this industry was struggling to retain its competitive edge and the city was experiencing significant financial distress.

During the industrial age, steel, automotive and coatings industries dominated the marketplace making Pittsburgh an attractive place for many. The wealth and rise of labor unions made Pittsburgh a "go to" city for poor and working class people as well as immigrants from Eastern Europe who were frustrated by the triple "isms" of the 1900's: imperialism, fascism, and communism.

It was during this period of economic growth that industry leaders created and later donated to the city many arts and cultural amenities that made Pittsburgh a major destination place. Throughout the late 1890's through the 1920's, a museum of art, a symphony and hall, an aviary, a zoo, and substantial land for parks and recreation were donated by families like the Carnegies, the Mellons, and others to the City of Pittsburgh.

By the 1980's, however, a different picture emerged. The steel industry sought non-unionized states and countries to produce its product. Environmental laws put Pittsburgh into "non-attainment" status, which made locating new industry in the area very difficult. Infrastructure aged, and industries moved out of a high tax, high crime city to suburban and rural destinations nearby. This in turn, created growing disparities between communities.

The great assets of Pittsburgh; a city park system and golf courses, Carnegie Hall (concert Hall for the Symphony), Pittsburgh Zoo, Aviary Zoo, the Conservatory and Botanical Gardens, Aquarium,

and Art Museum were going down hill fast. City revenues were stagnant and these cultural gems started to fall apart. Staff could not be hired, building maintenance dwindled to basic repairs, and fewer people visited the facilities.

Pittsburgh's Mayor Sophie Masloff and the Allegheny Conference on Community Development (a business advocacy organization) began strategizing about how to preserve regional assets so that Pittsburgh could retain its status as a preferred destination. Like the City of Dayton, people were moving away from the city, its assets were deteriorating, and communities began competing against one another for people and jobs.

In 1991, with the help of city administration, The Allegheny Conference put together a report detailing decline in revenue for the City of Pittsburgh, decline in quality of its most precious assets, and competition among communities within the county as significant issues. The report was not widely circulated but did receive some play in the local press.<sup>23</sup>

The Allegheny Conference swung into action emboldened by business leaders interest in seeing the cultural assets restored to greatness and the creation of a more thriving economy in Allegheny County. County Commissioners and the Mayor sat down with members of The Conference and key state legislators from the region to hammer out a plan. They knew that the city could not impose a tax hike on residents and since most downtown visitors and business leaders lived outside of city limits, a countywide approach was needed.<sup>24</sup>

After several tries and disagreements between the county and city in 1991 and 1992 about how to proceed, officials came up with a compromise plan. Under leadership of The Conference, a plan

emerged which allowed Allegheny County to increase the sales tax by 1%. The proceeds would be divided in the following way: 50% to a Regional Assets District with responsibility for overseeing cultural amenities, 25% to the County of Allegheny, and 25% to all municipalities within the county.

The Regional Assets District (RAD) was designed to look after the upkeep and operations of the aforementioned arts and cultural institutions. This included parks over certain acreage and libraries (which became a selling point of the RAD since libraries in Pennsylvania were inadequately funded and new monies could be used to expand these facilities).<sup>25</sup>

Several times, plans were brought to the Legislature and Governor Bob Casey. Pennsylvania state law allows for a statewide sales tax but no community had the authority to execute a sales tax on their own. The only exception was the City of Philadelphia which had been granted this authority in the mid-1970's at the request of Mayor Frank J. Rizzo to balance the city budget and keep Philadelphia out of default.

While Philadelphia had set a precedent, the Allegheny County plan was met with resistance in the legislature. Some legislators believed that the Philadelphia exception was necessary to avoid economic catastrophe and they did not believe that Pittsburgh was in similar jeopardy. Additionally, there was strong opposition to the plan by retail merchants of Pennsylvania and some legislators believed this sector would suffer as a result of the proposed initiative.<sup>26</sup>

In response, The Allegheny Conference recruited an all-star cast of business leaders to lobby on behalf of its initiative. The Chairman of the Board for Volkswagen America was designated as leader of the initiative since Volkswagen had thousands of jobs in Allegheny

County. He also had warm relationships with Pennsylvania state officials and strong credibility on a wide range of topics.

Despite these efforts, various plans were debated by the Legislature and the initiative died during 1992 and early 1993. No proposals were considered acceptable to a majority of the local delegation and the Governor and legislative leadership refused to move any bill or amendment forward until broader support was garnered.

A key advantage to Allegheny County was that the Governor, a majority of the County Commissioners, Allegheny County legislators, and the Pittsburgh Mayor and Council were all Democrats. The lone GOP Commissioner opposed the measure, but was not a major obstacle. Because Allegheny County was able to establish a united front among Democrats, The Allegheny Conference lobbyists were eventually able to secure broad based support for tax sharing within the state legislature.<sup>27</sup>

However, it was not without compromise that a new law would be enacted. The first compromise involved governance structure which will be detailed later in this report. Political patronage had long been a reality in Pittsburgh and the county wanted to assure that city politicians would not spend county money on city priorities alone. There was general support for tax sharing, but several legislators had different ideas about how to spend the money. In fact, it was the issue of how to spend revenues generated from the sales tax that had killed one of the earlier initiatives.

It was at this point in time that Capital Gains and Inheritance Tax took center stage. Fortunately, Allegheny County was unique in Pennsylvania in that it had a taxing authority on capital gains and certain pension income. This tool had been in use since the 1930's and was little known since it seemingly only impacted wealthier

constituencies. But by the early 1990's, the tax was being applied on retirement income of steelworkers and a trove of middle and working class individuals who, initially, were not intended to be impacted. Several legislators with large segments of steel retirees in their districts argued that the only way they would support revenue sharing was if the tax, that only Allegheny County had, be eliminated and the revenue replaced with proceeds from the sales tax. Other legislators argued that property taxes be reduced to help their constituents.<sup>28</sup>

With these two major and many minor compromises out of the way, The Governor, (a lame duck), legislative leaders, and local authorities agreed to a tax sharing plan for the county which included the following: the County Commissioners could impose the tax by majority vote; each community had to "buy in" to the plan by passing an ordinance or resolution within one year; and the Pennsylvania Department of Revenue would collect and administer the tax for a manageable fee.

On December 14, 1993, legislative leaders kept their word to Allegheny County and the City of Pittsburgh. By voice vote, an amendment enacting the RAD was added to an unrelated bill about duties associated with county coroners. The sponsor of the coroner bill had his name removed from the measure, but House Bill 659 passed with little fanfare and was signed into law as Public Law 77.<sup>29</sup>

With a one year time line in place, Allegheny County Commissioners passed a one cent sales tax with a 2-1 vote. Then The Allegheny Conference fanned out to local communities under the guidance of the inventor of the plan, Pittsburgh's Finance Director Jim Turner, to persuade municipalities to become part of RAD.<sup>30</sup>

As with the case of Dayton, Public Law 77 was immediately challenged in Court under the home rule section of the Pennsylvania Constitution. The state prevailed at every level of the courts in quickly decided cases, and by 1994 the court challenges were dismissed and the program could become operational. Painstakingly, advocates sat down with individual mayors, councils, and trustees to explain to them the value of the tax sharing. The appeal of property tax relief for residents, eliminating the tax on retirement savings, and building additional libraries and parks inspired every community in Allegheny County to pass a resolution supporting their community's participation in RAD.

Since the program was initiated, RAD responsibilities have grown. Because the program was deemed successful by the political, civic, business, and news community, the RAD was used as a vehicle to assist with one more asset; sports facilities. The multi-purpose Three Rivers Stadium was deemed obsolete for The Pittsburgh Pirates of The National League and not modern enough for The Pittsburgh Steelers of The National Football League.

In 1997, Pittsburgh authorities needed to stop the drain of public tax dollars into Three Rivers Stadium. Like Cleveland Municipal Stadium before it, Three Rivers was municipally owned and leased to the Steelers ownership to run. This program was no longer effective in the mid-1990's nor was it economically sustainable. Through innovation and forethought, civic leaders shifted responsibility for the ballparks away from the city to an operating authority under RAD like had been done years prior to help sustain Pittsburgh's arts/cultural institutions. RAD floated bonds backed by a tax on ticket sales, paid off the remaining debt of Three Rivers Stadium, and built PNC Park for The Pirates, and Heinz Field for the Steelers. The State of Pennsylvania shouldered one third of the entire cost. Some private dollars were invested while Allegheny

County ticket buyers funded the rest.<sup>31</sup>

Without RAD, new ball-parks would have been very difficult to accomplish. Because RAD was a functioning entity with many accomplishments under its belt, the stadiums went under their purview. While RAD did not advocate for this structure, they brought credibility, expertise, and experience to the equation. Today, Stadium bonding and operations are a component of RAD, authorized by the voters of Allegheny County. Equally important, sharing of revenues with municipalities was intended to curb unhealthy competition for business and growing disparities between the city of Pittsburgh and surrounding areas.

#### **The Twin Cities, Minneapolis-St. Paul Metropolitan Area:**

In multiple phases since 1957, the State of Minnesota has created a seven county Metropolitan Planning Agency. Initially, The Metropolitan Council was established as a coordinating agency for regional water and sewer services. In subsequent years, the Council was given broad taxing authority, authority to share tax revenues, and responsibility for comprehensive land use planning. Eventually the Council's duties were expanded to create "livable cities" within the region.<sup>32</sup>

To start, in 1957 the Minnesota Legislature created a precursor to the MetCouncil. The Metropolitan Planning Commission was created as an advisory group to study what a strong regional authority might accomplish for the Twin Cities and surrounding areas.

In the mid 1960's, The Minneapolis Citizens League (later the Citizens League of The Twin Cities) advocated for the formation of a Metropolitan Council which took in Minneapolis, St. Paul, and their growing suburbs. Joining the Citizens League was the League

of Women Voters, and the League of Minnesota Municipalities. Believing that environmental preservation was important and that existing infrastructure (like roads, water, sewers, etc.) was insufficient to handle rapid growth, the Minnesota legislature and Governor embraced the concept.<sup>33</sup>

Urban sprawl and maximizing the state's investment in infrastructure were driving forces behind the creation of the MetCouncil. Rapid growth was occurring and the U.S. Government's major highway program had recently been put in place across the state. Governor Harold Levander embraced the plan as an opportunity to create a metropolitan area "without borders" and instill both healthy and orderly growth for the region.<sup>34</sup>

The debate that raged amongst political and business leaders in the area was not *if* something should be done, but *how*. Two competing proposals were generated: One called for the creation of an elected body with broad powers of regional coordination, and one called for the opposite: an appointed council with limited powers. Ultimately, a hybrid approach was taken. It was decided that members of the Metropolitan Council would be appointed by the Governor (terms ending with the appointing Governor's term) and given broad operating powers. Over the years there have been attempts to change this governance structure but none have prevailed.

The new Metropolitan Council was given planning responsibility over 300 separate governmental entities including 22 special districts, 188 municipalities, and seven counties. The initial charge involved coordination of infrastructure services across the seven counties and orderly growth of the region. The initial legislation did not grant the authority that we see today, but subsequent powers were added over time.

The impetus for the MetCouncil stemmed from problems that are familiar to many big cities, growing suburbs, and rural areas. Communities were competing against each other for business, people, and housing, thus creating winners and losers across the region.<sup>35</sup>

Transportation was inadequate, expensive, and woefully unequipped to handle growing needs of the region. Pollution from old septic systems and new under performing and expensive sewer systems threatened the health and safety of the region and its ecosystem. Additionally, unspoiled land was being used for new development which was transferred from one part of the region to another, taking away green space and exasperating transportation and infrastructure issues.

As a result, in 1969 the Council lobbied for and received legislative authority to create a regional sewer system. A tax base sharing system followed in 1971, and a regional park system was formed in 1974.<sup>36</sup>

In 1969, just two years after its formal establishment, the Legislature formally empowered the Council to take over the region's wastewater treatment. This first major challenge required years of work and decades of construction, but today the seven county region has a waste water system that can adequately support its needs and future growth.

Tax base sharing was also considered at this point in time. Companies were moving out of the central cities which had the infrastructure to support them to areas that were ill equipped to handle the growth. This also threatened land and environmental preservation. Tax sharing was initiated to minimize the impact of job transfer, the inequities this caused for people in inner cities, and to protect open land and green space.

The Fiscal Disparities Program was first conceptualized in 1969 but as was the case in Pennsylvania, Twin Cities legislators initially could not agree on the details of tax sharing and the issue died in the final two years of Governor Levander's administration. However, the debate helped frame the argument, and revenue sharing—a popular concept for big cities highlighted by The Nixon Administration—was viewed as a legitimate way to help aging cities with crime, education, and environmental problems.<sup>37</sup>

When Governor Wendell Anderson took office after the 1970 election some political horse trading led to historic changes in Minnesota. The tax sharing program (also known as the “Minnesota Miracle”) came into being during this session of the Legislature and produced programs and policy changes that would prove to be substantial.

Governor Anderson was elected to office on a pledge to lower the state's property taxes. With the new administration came new political capital. The MetCouncil was still young but its reputation was solid. Leaders saw tax base sharing as the next logical conclusion to orderly growth.<sup>38</sup>

Once again, The Citizens League helped build momentum with a report in answer to problems in The Twin Cities and larger problems in the state. With the backdrop of Minnesotans upset about high property taxes and the way schools were funded, the time was ripe for major change in tax laws. The Citizens League pulled together research and fostered the concept of tax sharing as an answer to the political and economic development problems of the area. The League prepared another report on the concept of tax sharing and how by utilizing it, it could further prevent sprawl, put a halt to annexation and community consolidation, and bring the region together around economic development issues.

By mid-1971, with major tax shifts and changes being heavily debated, the Legislature was split on the concept of tax sharing across the seven county metropolitan area. Some legislators opposed the idea on philosophical grounds while some opposed it based on district issues which generally did not support the Twin Cities on most issues. Tax sharing was not much of a partisan issue but it was a regional issue.

Opponents of the concept believed that it would discourage business growth throughout the region as “donor” communities would no longer try to lure jobs to their areas and there was general resentment of unsuccessful communities being bailed out by successful communities. Philosophical arguments about a move to creeping socialism were mentioned, but this was Minnesota with a long tradition of Progressive politics dating back to the 1890’s.<sup>39</sup>

The Twin Cities Tax Sharing bill passed the Minnesota House by a large margin with a strong coalition of metropolitan and rural legislators. The State Senate passed the bill by only one vote in more contentious debate.<sup>40</sup>

The compromise that became law, and has not been changed since 1971, was to allow for 40% of the growth of commercial and industrial taxes to be pooled and distributed by formula across the region. The Minnesota Fiscal Disparities Act of 1971 came at the right time in the state’s history with a Governor who was keenly interested in lowering property taxes and the Twin Cities Communities concerned about annexation, development issues, and the infighting for jobs and new housing starts.

As occurred in both Ohio and Pennsylvania, several communities sued the state over revenue sharing but courts found the program

constitutional and four years later its implementation was assured. The Fiscal Disparities program was designed with the realities of the modern age in mind. Its primary goal is to see the entire region benefit from growth, thus minimizing the competition and transfer of jobs from one community to another. Of primary importance was to systematically replace the multitude of stand alone infrastructure agencies and assure the money was in place to accomplish regional goals.

Programmatically, Fiscal Disparities seeks to invest in all communities by fostering regional cooperation with an emphasis on redevelopment of infrastructure. At the time of its inception, development of new land was rampant. This program made land use planning and preservation a major thrust.

With 40% of the growth of commercial and industrial tax base going into a regional pool, the money is re-distributed on a per capita basis and adjusted by a measure of local property wealth. Communities with lower property wealth (deemed fiscal capacity in Minnesota) receive a weighted larger share of the area wide tax base pool.<sup>41</sup>

The Fiscal Disparities Program remains largely unchanged since 1971. Public officials and private think tanks alike believe that the “Minnesota Miracle” changes, debate on national revenue sharing, initial success of the MetCouncil, and political climate in Minnesota in the early 1970’s made for a unique confluence which allowed this program and the broader concept of effective regional planning to move forward. In fact, these factors were so unique that many speculate that this type of change would be difficult to replicate today.<sup>42</sup>

Not long after tax sharing was brought to full fruition, the MetCouncil was awarded care for, and preservation and planning

of a regional park system. In 1974, the MetCouncil, with money appropriated by the Legislature, created a regional park system which also enabled them to preserve land across the region.

Also in 1974, the Metropolitan Housing and Redevelopment Authority (HRA) was created by an act of the Legislature. The HRA managed the federal government's affordable housing programs for communities that had limited capacity to do so on their own. With authority in roughly half of the communities within the seven county region, the HRA works closely with the MetCouncil.

Just a couple of years later, the Minnesota Legislature passed the Metropolitan Land Planning Act allowing the MetCouncil to serve as a comprehensive planning authority. As a result, in 1976 the Council could require comprehensive local and regional land use plans that would direct the future of the entire region. This critical change was requested by the MetCouncil and local legislators, and complimented authority over the regional park system and tax sharing components already in place.

In 1995, the Legislature enacted the Livable Communities Act. The program consists of three types of grants that work in concert to improve the livability of existing communities. The grant programs offer dollars for affordable housing, clean up of brown fields for re-development, and for what is called "efficient and connected development".

Today, the MetCouncil offers both a vision and comprehensive plan for the region. The 2030 Strategic Plan provides for specific goals related to growth and redevelopment under balanced conditions and under authority of the MetCouncil. The public continues to be engaged in planning processes with the Council holding public meetings frequently.<sup>43</sup>

## CONSIDERATIONS FOR NORTHEAST OHIO

In all three cases . . .

- People were moving out of core cities
- Businesses were following people into outlying areas
- The exodus of people and business caused growing fiscal disparities between communities (given the loss of tax revenues for some communities and gain in revenues for others).
- Greater competition for people and jobs between communities developed.
- Additional land was being developed without sufficient infrastructure to support the growth in these areas.

In each case, private sector and civic leaders studied and issued reports detailing the problems inherent to their respective areas. Leaders deliberated over potential solutions ultimately deciding on tax sharing as the response.

All three areas sought to reduce competition between governments, to minimize fiscal disparities, and to preserve regional assets through tax sharing arrangements.

In all three instances, fund distribution was heavily debated and was also designed in part, to benefit poorer communities. The debate in Northeast Ohio is likely to be similar to the debates in both Alleghany and Montgomery counties:

- There were disagreements at all levels of government (i.e., among state legislators; between county and city governments, etc.) about distribution of funds.
- Dissention existed over net contributors versus net recipients (typically core cities and their inner ring suburbs).
- There was push back about using population based

distribution formulas.

At the same time, the literature review and case studies reveal 10 reasons to engage in tax sharing:

- Ability to address fiscal disparities between communities.
- Reduced competition for businesses and people between communities in a single region.
- Property tax relief.
- Increased dollars to support public schools (depending on tax distribution formulas)
- Region wide coordination of infrastructure that is often too costly for any one political jurisdiction to tackle on its own (i.e., roads, water, sewers, etc).
- Business and industry encouraged to locate in areas with strong availability of infrastructure to support them (and vice versa: discourage new business and industry to locate in areas where existing infrastructure is not adequately available to support growth).
- Enhanced ability to incent or compensate local political jurisdictions for planning and decision making that aligns with regional goals.
- Prevention of annexation battles.
- Preservation of regional assets (i.e., cultural assets; open land; green space; parks; and the environment overall).
- Promotes government collaboration.

Regional planning authorities played an important role in the creation of tax sharing programs both in Pennsylvania (through the RAD) and Minnesota (through the MetCouncil). The value for these entities continues to grow as do the roles/responsibilities of these authorities.

## CONSIDERATIONS FOR NORTHEAST OHIO CONTINUED.

State legislative action was necessary to bring tax sharing to fruition in all three areas studied:

- Strong business advocates were used to lobby legislators for tax sharing.
- Additional support was necessary from organizations like the County Commissioners Association and the Ohio Municipal League in Ohio and the Citizens League, League of Women Voters, and the League of Minnesota Municipalities in Minnesota.
- Throughout each of the legislative processes, each project stalled, had failures, and was bogged down by unforeseen compromise.
- Once the enacting legislation was passed, each proposal was delayed by a lawsuit by one or several communities who felt strongly enough not to participate. All eventually lost, both in state and federal courts.

## GOVERNANCE & ADMINISTRATION OF TAX SHARING:

A strong and agreeable governance and administrative structure makes for a successful tax sharing program. The governance structures, revenue pooling formulas, and revenue distribution formulas vary by each of the three areas studied. The MetCouncil governance model is accountable to state government and highly sophisticated in its structure. The RAD and ED/GE governance structures are simpler in nature. Examination of these structures can stimulate new thinking for Northeast Ohio.

### **Montgomery County, Ohio:**

Sales tax revenues in Montgomery County are divided into two separate funds. The “ED” and “GE” are complimentary but the intent of each fund is different. About 70% of all sales tax monies are used for the Economic Development Fund which distributes money back to participating jurisdictions through a grant process. The program is intended to help townships, villages and cities take advantage of economic opportunities for their citizens. Specifically, the Economic Development Fund uses its resources to establish or expand commercial, industrial and research facilities and create and preserve job opportunities.<sup>44</sup>

The Economic Development Fund enables communities to fill funding gaps and take advantage of strategic economic opportunities. In fact, 5% of Economic Development Fund resources are specifically reserved for unexpected economic opportunities or threats that occur between funding cycles of the program (Opportunity Reserve Fund).

Five million dollars (\$5,000,000) was made available for the Economic Development Fund from sales tax revenues for the year

2001. In the remaining nine years of funding (2002-2010), the allocation will be five million dollars plus a percentage based on an established operating expense increase (as determined each year by the Board of County Commissioners). These resources can be used to support a broad range of economic activities. The Fund primarily supports public infrastructure improvements critical to particular economic development projects. However, the Fund also supports other legally - allowable activities that foster economic development.<sup>45</sup>

Policy guidelines give priority to the following types of projects: retain or expand local businesses; have a major impact on jobs in the county; are a collaborative effort involving two or more communities; support economic sectors that have high growth potential; and provide infill growth in areas already served by basic public infrastructure. Under this model, Montgomery County is choosing what it becomes. The guidelines emphasize specific industry sectors, which build upon existing regional strengths.

Industry sectors encouraged are: aerospace/avionics; automotive components, transportation; communications; composite materials; computer information technology; health care; manufacturing research/development; and tool & die manufacturing.

Examples of the criteria used for projects that have been funded in the past are: a high number of jobs (300+) are created, retained or attracted; tax base is significantly enhanced or an existing large tax base is preserved; large amounts of money are pumped into the local economy (via hotels, restaurants, entertainment, etc.) from tourism or special event; the character or image of Montgomery County is significantly enhanced (such as large convention or trade show); infill growth is encouraged; and project sites are already served by (or immediately adjacent to) water and sanitary sewer. Projects are given priority consideration if they leverage from other

public and private sources; discourage intra-county business relocations; meet existing local government policies and regulations; limit speculative investment; avoid substituting Economic Development Fund support for other funding; and are ready to be implemented.

Applications for those projects that create or retain non-basic jobs were limited to \$500,000 in 2001. In the remaining nine years of funding (2002-2010), the allocation will be \$500,000 plus a percentage based on an established operating expense increase (as determined each year by the Board of County Commissioners). Eligibility to participate in the Economic Development Fund is limited to political subdivisions that choose to be partners and are a party to the ten-year ED/GE Agreement. All but one Montgomery County community participates; the exception was the main party in the original lawsuit opposing the concept of ED/GE.<sup>46</sup>

Overall, the ED Fund provides resources to local governments to respond to changing economic opportunities and conditions, nurtures intergovernmental cooperation, allows for systematic development of communities, leverages other resources to create and retain employment, and further enhances Montgomery County's ability to compete successfully in a global economic marketplace.<sup>47</sup>

The ED's twin sister, the Government Equity Fund is intended to share some of the economic benefits (i.e., increased revenue) resulting from new economic development among participating jurisdictions of Montgomery County.

Specifically, the GE Fund: fosters productive inter-local competition in pursuing economic development opportunities; strengthens the fiscal capacity of local governments to promote regional economic growth; shares the costs and benefits of economic growth to promote economic health in all communities; promotes reason-

able and environmentally sound development practices. This is a protection against the "have and have not" scenario that concerned Montgomery County at the inception of this concept and was a key impetus for the creation of ED/GE.

Participating communities make annual contributions to the GE Fund based on a single countywide growth contribution formula. They receive annual distributions resulting from a distribution formula that is based on population. In general, the difference between the contribution and distribution formulas results in net distributions for declining, stable or slow growth jurisdictions and net contributions for fast growth jurisdictions.

The growth contribution formula for calculating the annual contributions to the Government Equity Fund for individual participating jurisdictions is calculated in two steps. First, a single countywide growth contribution rate is calculated:

$$\frac{1}{3} \text{ of Growth in Property \& Income Taxes} = \frac{\text{Growth Contribution Rate for } \underline{\text{Participating Jurisdictions Over Base Year}}}{\text{Increase in Assessed Valuation for Participating Jurisdictions Over Base Year}}$$

The single countywide growth contribution rate includes the growth in property and income tax revenues as both are affected by development in individual jurisdictions. Because each jurisdiction's access to and use of property and income taxes varies, neither tax source can be used alone in the growth contribution rate. The growth contribution rate calculation only includes the growth in revenues for participating jurisdictions. It does not include the growth in revenues for school districts or the county government's share of property taxes.

Only one-third (1/3) of the growth in property and income taxes over the base year is included in the growth contribution rate. None of the development prior to the base year is included in the growth contribution formula. One-third (1/3) was selected as a level that is low enough to permit the delivery of key jurisdiction services but high enough to distribute the benefits of development.

The base year is 1997 for both the contribution and distribution formulas. After the third year, the base year advances one year annually. An individual jurisdictions' contribution will, therefore, be based on its growth experience over the prior three years. Both the growth contribution and distribution formulas use independent, verifiable and annually updated data.<sup>48</sup>

Second, the contribution for *each jurisdiction* is calculated as follows:

<p style="text-align: center;">Individual Growth Rate 100% of Increase in Commercial Jurisdiction = Contribution X the Sum of:</p> <p style="text-align: center;">&amp; Industrial Property Assessed Contribution Rate Valuation Over the Base Year +</p> <p style="text-align: center;">25% of the Increase in Residential Property Assessed Valuation Over The Base Year +</p> <p style="text-align: center;">50% of the Increase in Property Tax Revenues Over the Base Year +</p> <p style="text-align: center;">50% of the Increase in Income Tax Revenues Over the Base Year (Montgomery County Ohio ED/GE website)</p>
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Growth in residential assessed valuation is adjusted to 25% since residential property represents a development investment in a community but it is not as directly tied to economic growth as is com-

mercial and industrial development. Increases in property and income tax revenues are included in the growth contribution formula since they also reflect the impact of economic development, along with the increases in assessed valuation.

The formula for calculating the annual distribution from the Government Equity Fund for individual participating jurisdictions is:

Individual Government Jurisdiction		
Jurisdiction Population	=	Equity X Total
Population of Distribution Fund Participating Jurisdictions (Montgomery County Ohio ED/GE website)		

This formula establishes a uniform rate for calculating distributions based on dividing the total of individual jurisdiction contributions over the base year by overall population of the jurisdictions. The distribution to individual jurisdictions is calculated by multiplying the uniform rate by the population of each jurisdiction. Population is a distribution method already used in a number of distribution formulas familiar to Ohio local governments (i.e., Local Government Revenue Assistance Fund). However, it is also controversial at times as has been seen with efforts of metropolitan planning organizations like the Northeast Ohio Areawide Coordinating Agency (NOACA).

A number of protections and safeguards are built into the process and the formulas to preclude contributions that are unduly burdensome and to provide jurisdictions with information critical to their internal planning processes.

For example, contribution and distribution calculations for individual jurisdictions are calculated before the fiscal year begins so that jurisdictions have this information in advance of preparing annual budgets. Jurisdictions are notified of net contributions due or net distributions expected. Contributions and distributions are made in April to allow time for initial collection of property and income taxes for the fiscal year (other legally allowable revenue sources may be used to meet the contribution obligation). Payment of sum obligation is due and payable by April 15 of each year. The County distributes net monies on or before April 30 of each year.

Additionally, the contribution (prior to the distribution) for individual jurisdictions will not be greater than 13% of their growth in property and income tax revenues from the base year to the comparison year. Net contributions will be less than 13% of the growth in property and income tax revenues since every jurisdiction receives a distribution based on their population. If there has been a decline in both property and income tax revenues from the base year to the comparison year, the jurisdiction contributes nothing.

All contributions are distributed in the same year as they are collected and can be used by jurisdictions for any purpose. Growth in revenues (property and income tax) due to millage and rate increases between the base years to the comparison year are factored out. Individual jurisdictions that experience fiscal problems beyond their control are considered for late contribution payments to the GE Fund.

The ED/GE Program provides for a settle-up provision every three years, by which the GE Fund contribution amounts of each member jurisdiction are compared to the dollar amounts each received through the ED Fund. If the member jurisdictions' contributions to the GE Fund exceed the amounts it receives from the

ED Fund, the jurisdiction is entitled to an allocation in the amount of such excess from the ED Fund balance. This allocation may be used by the jurisdiction at its discretion. The jurisdiction may also opt to apply the excess amount to an economic development project from the next distribution of the ED Fund, so long as the project qualifies for funding under the guidelines and criteria established by the ED/GE Advisory Committee. This was a crucial compromise component that helps make ED/GE effective. While some would argue that it is not truly equitable, the settlement pours cold water on potentially angry voters who do not want to see the fruits of their labor shared.

There are two funding cycles per year. Application packets are mailed to the participating jurisdictions two months prior to the application deadline. Funding notification is usually accomplished within six weeks of the deadline. The balance of funds remaining from the Spring cycle are available for the Fall cycle. The committee physically tours each potential facility and receives a presentation in advance.

Mechanically, the ED/GE Advisory Committee is made up of 15 members. Two are Montgomery County Commissioners, one representative each from the two largest cities in the county (Dayton and Kettering), three private sector employers chosen by the County Commissioners, and eight members from other jurisdictions in the county on a rotating basis of two or three year terms. This plan was established to assure representation, which it appears to have done that without much grumbling.

The Montgomery County Department of Community and Economic Development administer the ED/GE Program. The Department has been designated as the County Office of Economic Development under Ohio legislation. In addition, the Montgom-

ery County Office of Management and Budget is responsible for implementation of the GE Fund formulas.<sup>49</sup>

**Allegheny County, Pennsylvania:**

A governing board administers the RAD with a shared appointing authority by both City of Pittsburgh and Allegheny County officials. As mentioned before, the Board that disseminates funds was very controversial. Suburban officials and legislators did not want to see the county pay for a slush fund of the City of Pittsburgh. This was a major concern and stumbling block. It was solved with a balanced authority that requires a strong majority in order to fund any project.

No member of the Board may be an elected official, a former elected official, an appointed official, a registered Republican or Democrat, or be related to any elected officials or past officials. Clearly politics were seen as a significant problem which is reflected in the composition of the Board.<sup>50</sup>

The seven person Board is comprised of four individuals appointed by the County Executive (formerly the county commissioners, but Allegheny County went to a charter from of county government in 1995), two appointees of the Mayor of Pittsburgh, and a seventh member who is appointed by the other six members. Board members serve concurrent terms to those who appoint them while the last member serves a two year term.

This Board, with spending authority, also appoints a Citizens Advisory Committee who can make recommendations on worthy projects. This is a twenty seven person committee of citizens who serve four year terms and make policy and programmatic recommendations to the Board.

A small staff with an executive director run the day to day operations of RAD. Currently there are six employees and a legal counsel, up from three employees and the legal counsel at inception. These employees are paid for out of RAD funds. RAD is a separate entity from either the city or the county, and rents office space in a county owned building.<sup>51</sup>

With four main tasks, funding regional assets, supporting stadium operations, dividing money for Allegheny County, and dividing up money for the municipalities, RAD takes responsibility for one of those functions and delegates the other three. The RAD Board itself selects projects and institutions to fund as part of its “cultural assets” program. The Pennsylvania Department of Revenue (comparable to Ohio Department of Taxation) distributes the 25% share to individual communities based on population and also distributes the other 25% share to Allegheny County. The Department of Revenue allocates money to the general budgets of each community and the communities’ vote as to what to do with the money. Most communities attempt to reduce property tax with the proceeds and buy capital equipment.

Unlike Montgomery County where multiple priorities and formulas dictate dollar distribution, RAD funds discretionary programs, events, and places patronized by the people of Allegheny County. District grants “support and enhance regional assets in the areas of libraries, parks, cultural, sports and civic facilities and programs” according to their core mission statement. At its inception, RAD was allowed to fund large regional parks only. The RAD Board has since regretted that decision but has not asked the Pennsylvania legislature to change its original charge.

RAD has an annual budget process that begins with an application

process usually in June of each year ending with a budget adoption in December for the following year. Each proposed allocation requires the support of six members. All meetings and votes of the Board are conducted under the provisions of Pennsylvania's Sunshine Act. All applications are a matter of public record and the Board rarely goes into executive session unless legal or personnel decisions need consideration.

Distribution of funds are essentially at the discretion of the Board. It is not complex, but is competitive. At first only larger projects were funded. Today hundreds of institutions, special arts days or themes, and performing arts/cultural events are funded. It has truly become a community fund.<sup>52</sup>

The annual grants program has the following goals:

- To sustain and enhance the growth and quality of a diverse group of well-managed and financially sound District-based regional assets and programming in areas funded by the District.
- Extending the benefits of asset programming to the widest possible audience
- Encouraging the involvement of young people as both audience and participants in asset activities

There are two "Funding Categories" of RAD. Category A is characterized as operating support for ongoing activities of an arts or cultural organization. Support is typically unrestricted, meaning that RAD can fund operations, salaries, special projects, etc. Category B involves capital maintenance for repair of existing facilities, accessibility improvements, and new equipment or repairs to equipment. RAD is not the primary source of funding for new facilities but it does contribute to such costs on a case by case basis.

Applicants for these funds are governmental entities or non-profit,

tax-exempt corporations, duly organized and in good standing under Pennsylvania laws. They must provide programming or services of a regional nature in Allegheny County. There are some additional restrictions including adherence to EEOC laws.<sup>53</sup>

Pennsylvania Public Act 77 prohibits the District from funding any health care facility; institutions of elementary, secondary or higher education; any park less than 200 acres except for linear parks located in more than one municipality; any asset which fails to serve a significant number of residents outside of the municipality in which the asset is located; and any library which is not part of a library system serving multiple municipalities. As a result, regional cooperation is an intricate part of Public Act 77 and projects that are not regional in scope cannot be funded.

The Annual Grants Program does not typically fund: governmental-type services other than qualifying parks (examples include public safety and public works programs); local recreation programs, such as teams and leagues; economic and housing development agencies and programs; social/human service agencies and programs; parades, single or short term events or festivals; project grants for planning or feasibility studies; or historical monuments unless part of an otherwise eligible regional asset. Pennsylvania's Legislature does have a capital improvements and historical funding budget so historical monuments may receive public funding but not from RAD dollars.

A new special program called The Renaissance Grant Program was established in 2007 to commemorate Pittsburgh's 250th birthday in 2008. These grants will be awarded to groups and organizations that put together historical and commemorative themed presentations, productions, or exhibits to honor the city on its birthday.<sup>54</sup>

On the tax sharing side, it is a straight amount of dollars that the sales tax brings in, with the distribution simply being 25% to municipalities based on population, and 25% to the county of Allegheny. These funds are unrestricted, do not have to promote regionalism, or foster any particular goal other than tax relief and whatever else the county and communities deem necessary. Public Act 77 does not define the extent of tax relief, but it was at first dollar for dollar replacement revenue from the capital gains tax and a reduction in any form of property tax.<sup>55</sup>

Because of its very limited prohibitions, tax sharing is popular with elected officials. And, according to several surveys, tax sharing is popular with the public who would rather pay sales tax than property taxes. The Allegheny Council conducted one such poll while the idea was being debated in Harrisburg and the public generally supported the concept, with retirees and senior citizens being the most receptive. They also gain the most since their retirement income is not double taxed and people on fixed incomes are generally more wary of property taxes. Tradition shows that seniors also pay less sales tax, as they tend to shop less. Specific levels of property tax relief are discussed in the impact section of this document.<sup>56</sup>

**The Twin Cities Metropolitan Area, Minnesota:**

The current Metropolitan Council is comprised of 17 members, appointed by The Governor, with advice and consent of The Minnesota State Senate. Sixteen of the members serve geographic districts, similar to legislative districts, by population. These members must live in the districts they represent. The seventeenth member is appointed at large as chairman of the Council. The members' terms run concurrently to the term of the state Governor. This is unchanged since its inception.<sup>57</sup>

Duties of The Metropolitan Council (MetCouncil) are varied but take in the big picture issues of regional planning, air and ground transportation authority, water, sewer, parks, and natural resources. The MetCouncil oversees a regional water and sewer system, regional transit with both bus and rail, handles the airport authority, and the regional park system.

With such vast authority, the MetCouncil is a large entity. A seven county metropolitan property tax, state and federal dollars, and various user fees and fares contribute to the agency budget which took in and spent in 2006 over \$650 million dollars on these priorities.

MetCouncil revenues and expenditures for the most recent budget year were as follows:

<b>Revenues</b>	
State of Minnesota	\$209,897,811
Wastewater Fees/Service Charges	\$188,657,600
United States Federal Government	\$ 87,370,109
Transit Fares	\$ 81,369,073
Regional Property Tax	\$ 67,314,200
Other Sources	\$ 14,234,899
Total Revenues (FY 2006):	\$648,833,692
<b>Expenditures</b>	
Transportation	\$316,462,008
Debt Service	\$126,500,824
Environmental Services	\$110,584,100
“Pass Through”	\$ 81,028,589
Planning and Administration	\$ 19,054,036
Total Expenditures (FY 2006)	\$653,629,977

Note: Often times, the budgets do not add up completely because of debt service and the amount of pass through dollars to other public entities and from other entities. The difference is made up by reserve, or given to the reserve depending on the year.

Unlike previous structures identified, the MetCouncil has thousands of employees under a very large structure. Its governing board appoints a regional administrator who oversees day to day operations of the Council. With jurisdictional authority over so many areas, the Council is broken up into several areas and responsibilities. The primary areas of responsibility are as follows:

- *Community Development*; with responsibility for Planning and Growth Management as well as Housing and Livable Communities;
- *Environmental Services*;
- *Metropolitan Transportation Services*;
- *Metro Transit (the actual authority)*
- *Program Evaluation and Audit*

These specific segments are supported by a traditional public sector structure of public relations, public finance, etc. These functions represent the operational component of the MetCouncil. They compliment the visionary, or policy making component of the council which also has its own structure.<sup>58</sup>

Policy Making is structured differently with four main segments: regional commissions, standing committees for overall goals, advisory committees around these goals, and special committees that assure smooth operations of the council. The regional commissions deal with big ticket items like sports facilities, airports, parks and open spaces. The standing committees include environment, management, transportation, and community development. And

the special committees work on general issues of audits, litigation, investment, and a mayor's forum.

The Council is therefore a comprehensive service organization for the entire region with strong authority, its own building, and many employees. The MetCouncil has multiple jurisdictional authorities, meets frequently, has active committees, and actively solicits input and guidance from the public and public officials in the area.

Fiscal Disparities has been the twin sister of strong regional planning almost since the inception of the Metropolitan Council. The two concepts work complimentary together and drive the same goals and expectations. Buy in at the local and state level is very strong and the region views itself as a region.

The following is taken directly from The Minnesota Statute, Section 473F.08 itself, which spells out the funding formula for The Twin Cities Fiscal Disparities Program:

Subdivision 1. County auditor to determine. The county auditor shall determine the net tax capacity of each governmental unit within the auditor's county in the manner prescribed by this section

Subd. 2. Computation of net tax capacity. The net tax capacity of a governmental unit is its net tax capacity, subject to the following adjustments:

(a) There shall be subtracted from its net tax capacity, in each municipality in which the governmental unit exercises ad valorem taxing jurisdiction, an amount which bears the same proportion to 40 percent of the amount certified in that year for the municipality as the total preceding year's net tax capacity of commercial-industrial property which is subject to the taxing jurisdiction of the governmental unit within the municipality, bears to the total preceding

year's net tax capacity of commercial-industrial property within the municipality.

(b) There shall be added to its net tax capacity, in each municipality in which the governmental unit exercises ad valorem taxing jurisdiction, an amount which bears the same proportion to the area wide net tax capacity for the year attributable to that municipality as the total preceding year's net tax capacity of residential property which is subject to the taxing jurisdiction of the governmental unit within the municipality bears to the total preceding year's net tax capacity of residential property of the municipality.

Subd. 3. Apportionment of levy. The county auditor shall apportion the levy of each governmental unit in the auditor's county in the manner prescribed by this subdivision. The auditor shall:

(a) by August 20, determine the area wide portion of the levy for each governmental unit by multiplying the local tax rate of the governmental unit for the preceding levy year times the distribution value set forth in subdivision 2, clause (b);(b) by September 5, determine the local portion of the current year's levy by subtracting the resulting amount from clause (a) from the governmental unit's current year's levy;(c) for determinations made under clause (a) in the case of school districts, for taxes payable in 2002, exclude the general education tax rate and the portion of the referendum tax rate attributable to the first \$415 per pupil unit from the local tax rate for the preceding levy year;(d) for determinations made under clause (a) in the case of the Metropolitan Council, for taxes payable in 2002, exclude the transit operating tax rate from the local tax rate for the preceding levy year; and(e) for determinations made under clause (a) in the case of transit opt-out cities, for taxes payable in 2002, exclude the opt-out transit rate from the local tax rate for the preceding levy year.

Subd. 3a. Bloomington computation. Beginning in 1987 and each subsequent year through 1998, the city of Bloomington shall determine the interest payments for that year for the bonds which have been sold for the highway improvements pursuant to Laws 1986, chapter 391, section 2, paragraph (g). Effective for property taxes payable in 1988 through property taxes payable in 1999, after the Hennepin County auditor has computed the area wide portion of the levy for the city of Bloomington pursuant to subdivision 3, clause (a), the auditor shall annually add a dollar amount to the city of Bloomington's area wide portion of the levy equal to the amount which has

been certified to the auditor by the city of Bloomington for the interest payments for that year for the bonds which were sold for highway improvements. The total area wide portion of the levy for the city of Bloomington including the additional amount for interest repayment certified pursuant to this subdivision shall be certified by the Hennepin County auditor to the administrative auditor pursuant to subdivision 5. The Hennepin County auditor shall distribute to the city of Bloomington the additional area wide portion of the levy computed pursuant to this subdivision at the same time that payments are made to the other counties pursuant to subdivision 7a. For property taxes payable from the year 2009 through 2018, the Hennepin County auditor shall adjust Bloomington's contribution to the area wide gross tax capacity upward each year by a value equal to ten percent of the total additional area wide levy distributed to Bloomington under this subdivision from 1988 to 1999, divided by the area wide tax rate for taxes payable in the previous year.

Subd. 3b. Livable communities fund. (a) The Hennepin County auditor shall certify the city of Bloomington's interest payments for 1987 for the bonds which were sold for highway improvements pursuant to Laws 1986, chapter 391, section 2, paragraph (g), and

which were certified as an addition to the city of Bloomington's area wide levy for taxes payable in 1988.(b) For taxes payable in 1996 through taxes payable in 1999, the Hennepin County auditor shall certify the amount calculated by subtracting the amount certified under subdivision 3a from the amount in paragraph (a). For taxes payable in 2000 and subsequent years, the Hennepin County auditor shall certify the amount calculated in paragraph (a).(c) The Metropolitan Council may annually certify to the Ramsey County auditor the amount calculated under paragraph (b), or a lesser amount, but not to exceed \$5,000,000, to be used to provide funds for the cleanup of polluted lands in the metropolitan area.(d) The amount certified under paragraph (c) shall be certified annually by the Ramsey County auditor to the administrative auditor as an addition to the Metropolitan Council's area wide levy under subdivision 5.

Subd. 4. Tax rate; noncommercial property. In 1972 and subsequent years, the county auditor shall divide that portion of the levy determined pursuant to subdivision 3, clause (b), by the net tax capacity of the governmental unit, less that portion subtracted from net tax capacity pursuant to subdivision 2, clause (a). The resulting tax rate shall apply to all taxable property except commercial-industrial property, which shall be taxed in accordance with subdivision 6.

Subd. 5. Area wide tax rate. On or before August 25 of each year, the county auditor shall certify to the administrative auditor that portion of the levy of each governmental unit determined under subdivisions 3, clause (a), 3a, and 3b. The administrative auditor shall then determine the area wide tax rate sufficient to yield an amount equal to the sum of such levies from the area wide net tax capacity. On or before September 1 of each year, the administrative auditor shall certify the area wide tax rate to each of the

county auditors.

Subd. 5a. Governmental unit in two or more counties. If a governmental unit is located in two or more counties, the computations and certifications required by subdivisions 3 to 5 with respect to it shall be made by the county auditor who is responsible under other provisions of law for allocating its levies between or among the affected counties.

Subd. 6. Application to commercial-industrial property. The area wide tax rate determined in accordance with subdivision 5 shall apply to each commercial-industrial property subject to taxation within a municipality, including property located within any tax increment financing district, to that portion of the net tax capacity of the item which bears the same proportion to its total net tax capacity as 40 percent of the amount determined. The tax rate determined in accordance with subdivision 4 shall apply in the taxation of the remainder of the net tax capacity of the item.

Subd. 7a. Certification of values; payment. The administrative auditor shall determine for each county the difference between the total levy on distribution value pursuant to subdivisions 3, clause (a), 3a, and 3b, within the county and the total tax on contribution value pursuant to subdivision 6, within the county. On or before May 16 of each year, the administrative auditor shall certify the differences so determined to each county auditor. In addition, the administrative auditor shall certify to those county auditors for whose county the total tax on contribution value exceeds the total levy on distribution value the settlement the county is to make to the other counties of the excess of the total tax on contribution value over the total levy on distribution value in the county. On or before June 15 and November 15 of each year, each county treasurer in a county having a total tax on contribution value in ex-

cess of the total levy on distribution value shall pay one-half of the excess to the other counties in accordance with the administrative auditors certification.

Subd. 8a. Fiscal disparities adjustment. In any year in which the highest class rate for class 3a property changes from the rate in the previous year, the following adjustments shall be made to the procedures. (1) An initial contribution tax capacity shall be determined for each municipality based on the previous year's class rates.

(2) Each jurisdiction's distribution tax capacity shall be determined based upon the area wide tax base determined by summing the tax capacities computed under clause (1) for all municipalities and apportioning the resulting sum. (3) Each jurisdiction's distribution levy shall be determined by applying the procedures described in subdivision 3, clause (a), to the distribution tax capacity determined pursuant to clause (2).

(4) Each municipality's final contribution tax capacity shall be determined equal to its initial contribution tax capacity multiplied by the ratio of the new highest class rate for class 3a property to the previous year's highest class rate for class 3a property. (5) For the purposes of computing education aids and any other state aids requiring the addition of the fiscal disparities distribution tax capacity to the local tax capacity, each municipality's final distribution tax capacity shall be determined equal to its initial distribution tax capacity multiplied by the ratio of the new highest class rate for class 3a property to the previous year's highest class rate for class 3a property.

(6) The area wide tax rate shall be determined by dividing the sum of the amounts determined in clause (3) by the sum of the values determined in clause (4).

(7) The final contribution tax capacity determined in clause (4) shall also be used to determine the portion of each commercial/industrial property's tax capacity subject to the area wide tax rate pursuant to subdivision 6.

Subd. 10. Adjustment of value or net tax capacity. For the purpose of computing the amount or rate of any salary, aid, tax, or debt authorized, required, or limited by any provision of any law or charter, where such authorization, requirement, or limitation is related in any manner to any value or valuation of taxable property within any governmental unit, such value or net tax capacity shall be adjusted to reflect the adjustments to net tax capacity effected by subdivision 2, provided that: (1) in determining the market value of commercial-industrial property or any class thereof within a governmental unit for any purpose other than section previously described, (a) the reduction required by this subdivision shall be that amount which bears the same proportion to the amount subtracted from the governmental unit's net tax capacity pursuant to subdivision 2, clause (a), as the market value of commercial-industrial property, or such class thereof, located within the governmental unit bears to the net tax capacity of commercial-industrial property, or such class thereof, located within the governmental unit, and (b) the increase required by this subdivision shall be that amount which bears the same proportion to the amount added to the governmental unit's net tax capacity pursuant to subdivision 2, clause (b), as the market value of commercial-industrial property, or such class thereof, located within the governmental unit bears to the net tax capacity of commercial-industrial property, or such class thereof, located within the governmental unit; and (2) in determining the market value of real property within a municipality, the adjustment prescribed by clause (1) (a) hereof shall be made and that prescribed by clause (1)(b) hereof shall not be made.

Total Contributions and Distributions to and from the pool are equivalent. This formula has stood the test of time, with some changes based on specific local taxing situations warranting updates throughout the years, as is the case with specific issues relating to the City of Bloomington.<sup>59</sup>

## CONSIDERATIONS FOR NORTHEAST OHIO CONTINUED.

Northeast Ohio has numerous tax options:

- Contributions to the revenue pool are based on:
  - Growth in commercial and industrial values in the Twin Cities metropolitan area.
  - The ED/GE program is based on growth in property and income taxes.
  - Contribution to the Allegheny County fund is based on the total of all municipal tax revenues combined.
- Distribution of funds back to participating jurisdictions across the 3 programs vary by:
  - Fiscal capacity of participating jurisdictions (Twin Cities, Montgomery County & Allegheny County)
  - Population size (ED/GE program)
  - Property values per person (Allegheny County).

Northeast Ohio will need to consider tax options that garner broad based support and create balanced win/win scenarios for local governments.

Governance structures vary in their overall size and capacity. Given the tension between governments of Northeast Ohio, governance structures will need to be carefully considered and vetted across the region or mandated by the state legislature. State government is intimately involved in tax sharing administration in both Minnesota and Pennsylvania.

- The MetCouncil has accountability to the Governor.
- No elected or appointed government official can sit on the RAD Board and the PA Department of Revenue distributes funds back to local governments.
- The ED/GE governance structure is much less formal in nature and requires little personnel to run. However, it is also a structure that is wholly contained within county government.

## IMPACT OF TAX SHARING:

Each of the three regions examined boast significant accomplishments as a result of tax sharing. These include stronger intergovernmental cooperation, less competition between communities, and fewer disparities among jurisdictions. Some unique accomplishments include reduced property taxes in Allegheny County and more comprehensive land use planning in the Twin Cities region.

### **Montgomery County, Ohio:**

1. Montgomery County, the cities of Dayton and Kettering and the suburbs are attracting jobs in industry sectors that are strategic to the existing and future Dayton economy. The new industries are diverse but complimentary to the automotive and aircraft industries. The medical and technology sectors have also grown.
2. When Delphi announced that many jobs would be eliminated in the county, there were other jobs waiting for many of the workers. The area has successfully shifted from an automotive hub to a more diversified economy. The strategic focus on key industry sectors has lessened the blow of difficult times on the area's top industry's. The "old" Dayton would have not been able to absorb those losses.
3. Montgomery County and The Miami Valley view themselves as intricately related and regional cooperation has been strengthened. While no other county shares the resources, Dayton does help to locate jobs outside of the county and does not work against the success of the region, driving jobs to Indiana and elsewhere. Of the non-government focused metropolitan areas, it is the second healthiest economically behind the SW Ohio region of Cincinnati-Northern Kentucky, which has lower costs and less of a union tradition.

4. The older suburbs and the City of Dayton have not experienced the same population loss as Northeast Ohio or the Toledo area. The area is more stable and while the inner city and inner ring suburbs face great challenges, there are fewer communities and schools in dire financial straits than NEO or NWO.

### **Allegheny County, Pennsylvania:**

1. The City of Pittsburgh and its surrounding county have stronger assets at their disposal than they did two decades ago. The number of libraries has tripled since 1990, as have the number of parks in the area. The lead institutions that RAD set out to save (the aviary zoo, the zoo, the symphony and its structure, the art museums, the botanical gardens) attract people from throughout the county, region, and nation with their quality.
2. The Citizens of Allegheny County benefit from lower property taxes and an elimination of capital gains and retirement earnings tax. These also have a tangible positive affect on marketing Allegheny County to attract and retain jobs in the area.
3. Sports facilities, a contentious issue, have an authority and were built and are maintained in a cost effective manner. The community also owns them, not the team owners, which assures stability and a better quality facility.
4. Local communities cooperate more than ever with joint park, library, fire, police, and other service districts. While some of these arrangements existed before RAD, they are encouraged and accepted more often by citizenry. Ultimately, these services are less expensive than most of the state, which is just the opposite of the pre-RAD days.
5. Allegheny County is known as an arts and cultural mecca which has helped attract industry to the region. The RAD not only sponsors much more arts and cultural opportunities, but a vibrant arts and culture community is also attractive to business leaders looking for a diverse workforce.

### **The Twin Cities Region, Minneapolis-St. Paul Minnesota:**

1. The most comprehensive and one of the best planned regions in the nation is the result of the tax sharing and complimentary comprehensive planning in The Twin Cities. With good planning, has come a substantial decline in urban sprawl, preservation of green space, utilization of existing and well planned infrastructure, and no losers in the economic development game.
2. While at first The Twin Cities themselves were heavily subsidized from the regional tax pool, they are now net contributors showing that 40 years of tax sharing has strengthened the core cities.
3. Waste Water Treatment: The Twin Cities are nationally recognized as one of the biggest success stories of regional cooperation with rates significantly lower and water much cleaner than the rest of the nation. The result is eight separate regional waste water treatment plants which service over 600 miles. Since they work together, the problems of the past have been alleviated. 2007 estimates are that the waste water system operates at a 25% less cost than comparably sized systems across the country.
4. Public Transit is a cohesive part of The Twin Cities model. Formerly, there were private bus companies that had old fleets, poor service, and not enough routes to satisfy the needs of citizens. Today The Twin Cities are one of the few areas that have used mass transportation policy effectively. A strong public bus system combined with light rail opportunities and solid economic development planning has made Minneapolis-St. Paul and surrounding areas very attractive for mass transit users. The Transit system was incorporated into the MetCouncil in 1994.
5. Regional Park System: What started out as a call for 31,000 square acres of parkland is now 51,000 acres. In its long term 2030 strategic plan, The Council hopes to acquire another 17,000 acres for a total of 68,000 acres of parks in the region. Over 33 million people utilized the regional parks in 2006.

6. “Livable Cities” initiatives have had a real impact on desirability to live in the region. There is a fair ratio of affordable housing to regular housing. Well planned living areas with access to quality infrastructure reduces cost and enhances quality of life and desirability to live and work in all areas of the region.
7. Regional planning maximizes the region’s strengths. While some communities would certainly gain more without the model, all communities have actually benefited. Of substantial note on the planning side is that The State of Minnesota believes the region has saved nearly \$30 billion in transportation dollars for unneeded roads and interstate highways with sound, well planned development.
8. Contrary to many midwestern metropolitan areas, The Twin Cities has seen substantial population growth. Moreover, jobs are available for nearly 80% of the region’s graduates.

## **OPPOSING VIEWPOINTS**

Not everyone agrees about the effectiveness and value of tax sharing programs. Most argue that these types of programs promote waste and inefficiency in government and are contrary to basic American principals of competitiveness.

Most critics believe that regional tax sharing promotes inefficiency in government through the transfer of money from productive communities to those communities that have been less effective.

These individuals believe that tax base sharing inherently takes away incentive for high performing communities -especially when communities that are unsuccessful in the economic development field gain as much or more as those communities that have flourished.

Many argue that rewarding the unsuccessful municipalities provides

no incentive to change or operate differently into the future. Opponents believe that while some communities pay for these inequities, ultimately it is harmful to the entire region.

At the core of this argument is that productive communities should not be penalized for their accomplishments, but rather rewarded. In fact, this was the basic premise behind the law suits to prevent tax sharing programs from being implemented.

The Allegheny Institute in particular, a private think tank in Pittsburgh, Pa., devotes much of its research and thought to opposing tax sharing and the higher sales tax that Allegheny County residents pay. Their approach is that Pittsburgh and Allegheny County were losing jobs because of high cost, environmental law that made it difficult to do business in the area, inflexible local communities who mistreated businesses, and a union tradition that was no longer desirable to employers. Similar sentiments can be found in the Dayton area, as well as Minnesota at the time of the MetCouncil's founding.<sup>60</sup>

These critics claim that tax sharing covers up more deeply rooted deficiencies in government. Critics of The Twin Cities Model argue that tax sharing allows the MetCouncil to engage in social engineering that no government should have the power to do. They believe government is overextending its authority at a cost to taxpayers. This is particularly pointed out in the MetCouncil's stewardship of light rail, bus transportation, and affordable housing goals in communities. Opponents believe that many subsidize the few who use public transportation. They also believe that local government should not meddle in the private sector's location of homes, and that values are negatively impacted by the "Livable Cities" approach to affordable housing.<sup>61</sup>

The impact of tax sharing when it involves sales tax is also debatable. All three regions raised a sales tax or instituted a new sales tax to provide property tax relief. However, many feel that these regions are more expensive to retail consumers and can drive retail establishments out of the area. Allegheny County has studied this phenomenon and concluded that retail business was not affected. This research could not confirm similar studies in other regions.<sup>62</sup>

Opponents in Montgomery County object to the population base formula (i.e., the suburbs of Dayton have 2/3 the population and pay 2/3 the tax in Montgomery County). These opponents believe that surrounding counties, particularly Greene County and Miami County are more attractive to retail development, and indeed both communities have seen large increases in retail business as well as state infrastructure.<sup>63</sup>

Finally, many believe that it is other factors like geographic location and proximity to major markets, educational attainment, and relative cost that have much more to do with economic development than regional cooperation. They point to multiple projects in both Pennsylvania and Ohio where other communities landed large employers and that the regional approach was not that relevant in doing so.

Northeast Ohio will need to consider these opposing viewpoints as it explores tax sharing options for the region.

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Jim Turner is on the faculty of The University of Pittsburgh. He was lead  
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Albert Rater is President of Forest City Enterprises, a Cleveland based developer  
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Robert (Bob) DeBoer is Director of Policy Development for The Citizens  
League of the Twin Cities, Minnesota.

Ted Kolderie, Senior Associate, The Center for Policy Studies, St. Paul, Minne-  
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