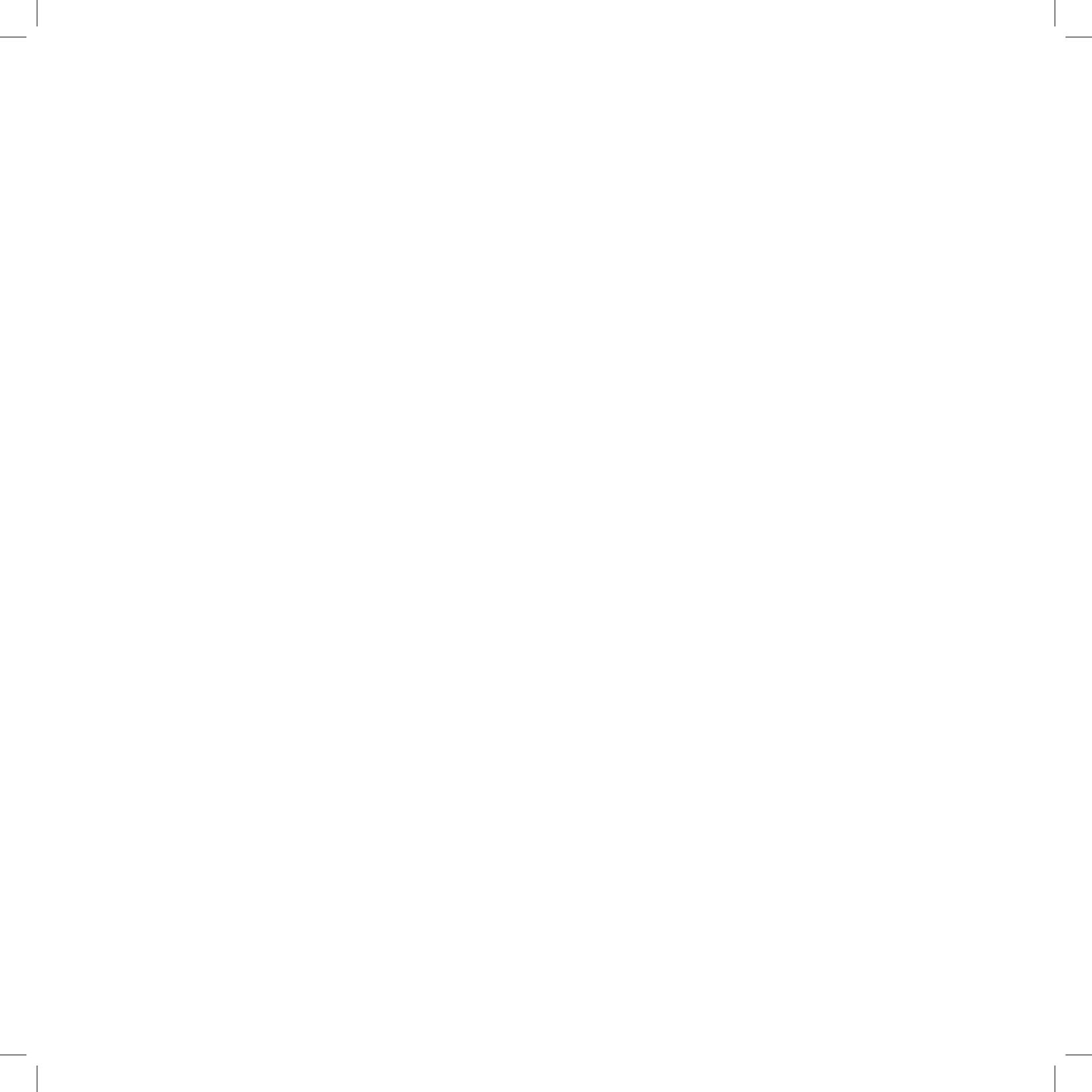


**Stronger Municipalities Mean a
Stronger Ohio Economy:
*A Strategic Framework
& Action Agenda***





Introduction: *Stronger Municipalities Mean a Stronger Ohio Economy*



Ohio's diverse municipal sector is working hard to address ongoing fiscal and operational issues as it partners with private and nonprofit organizations to improve job creation and retention. The sector's strengths relate to its historic dynamism and to its entrepreneurial efforts to revitalize its many city-states and the regions they include. Its challenges are connected to structural economic pressures, many associated with a globalizing economy, and state policy issues, including funding cuts to municipalities.

The negative outcomes associated with the state's municipal disinvestment are not limited to municipal finances and operations. Instead, they connect directly and profoundly to economic growth opportunities related to municipalities and their regional economies – economies that produce nearly 90% of Ohio's gross state product. This means that stable, effective municipalities – and a revitalized state-municipal partnership – are essential ingredients in Ohio economic competitiveness. It's no surprise that companies and investors increasingly take municipal vibrancy into serious consideration as they make business decisions. These realities mean that Ohio's municipal sector, much of which has yet to recover from the Great Recession (2007-2009), needs a new strategy and a revitalized state partnership to capitalize on its economic potential. The strategy outlined below is a path forward on this important front – a path that will lead to more jobs and a stronger state economy.



Strategic Framework

This Strategic Framework and Action Agenda represents the Ohio Municipal League's (OML's) current effort to better understand and address these policy and economic issues and to do so with the direct and substantive input of its members. This input has happened through various member outreach efforts, including a member survey and the creation of a member-based Project Advisory Group.

A central project goal is the creation of a staged strategy to help revitalize the state-municipal partnership and the municipal sector. *Stage One* focuses on: a) a municipal sector situation analysis highlighting the confluence of economic and policy forces that continue to challenge the state's municipal sector; b) better leveraging and utilizing municipal sector strengths and best practices, including a strong commitment to collaboration; c) targeted, results-oriented state investments in local infrastructure and organizational capacity building with a key goal of helping cities be stronger economic development partners; d) stronger state support for home rule and for fully funding state mandates on local governments; and e) measuring progress using the right metrics.

The same structural economic forces that have undermined – and continue to challenge – the state have destabilized Ohio’s municipal sector and represent its largest problem. Yet Ohio’s major metropolitan regions are its primary engines of economy growth. This is why it is so important to revitalize the state-municipal partnership.



At the heart of the issue is the decades-long shift from an industrial to an increasingly post-industrial, knowledge-based economy. This shift is strengthening global competitors in multiple sectors, including manufacturing, which was one of 20th century Ohio's greatest strengths. These economic patterns became more problematic with the Great Recession, which left most local communities and regions reeling with high rates of unemployment and under employment. It also exacerbated social problems, including drug addiction, which put even more pressure on local governments. Unfortunately, even a broader timeframe, ranging from 2000 to 2014, finds that Ohio's poverty rate increased 50 percent as reported by Greater Ohio Policy Center.

The state of Ohio responded to the Great Recession in a number of ways that both helped and hurt Ohio municipalities. Help came in the form of general continuity in the provision and financing of essential state services – and the expansion of Medicaid – combined with a lessening of the state tax burden on individuals and businesses. Pain came primarily in the double whammy of net tax cuts and a dramatic reduction in the earmarked portion of these state revenues going to the Local Government Fund. This revenue sharing reduction amounted to an estimated \$450 million loss in CY 2015 alone. The tax issue is part of an unprecedented decade (2005-2015) of state tax reform and related rate reductions that included the elimination of important local tax sources, including the estate tax and the tangible personal property tax.

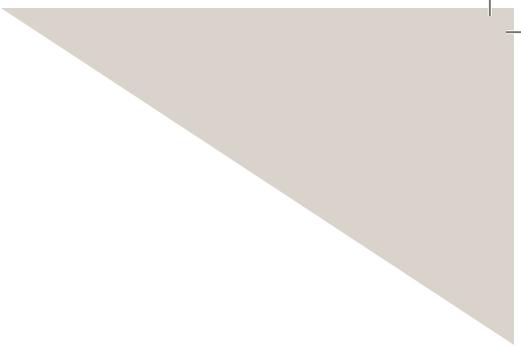


Though Ohio has stabilized and grown economically in the post-Great Recession period, most areas of the state have not fully recovered from the recession. This is reflected in many ways, including in the fact that three of America's ten most "economically distressed" cities (Cleveland, Toledo and Cincinnati) are in Ohio. This relates in important part to structural economic growth issues linked to Ohio's competitive challenges in a global economy, including the reality that in recent decades Ohio manufacturing employment has been cut in half as a percentage of state employment. From a trend perspective, these high-value, high wage jobs have often been replaced by lower paying service sector jobs. Meanwhile, the state's per capita personal income is below average nationally as is its educational attainment (37th) and workforce readiness. Not surprisingly, Ohio's state economy was recently ranked only 30th nationally. Meanwhile, these challenges have been highlighted by the fact that since the Great Recession ended, nearly of all new U.S. jobs have required post secondary education.

The effect of these fiscal and economic forces continues to result in significant pressure on municipalities, and even on major metropolitan regions, which remain the state's most significant engines of economic growth. Yet it is also important to note that cities with the biggest problems often are those with the least capacity to help themselves by becoming more efficient and effective and raising local revenues. This is especially true because the Local Government Fund approach to revenue sharing often provides proportionally more to lower wealth municipalities and proportionally less to relatively wealthier municipalities.



Ohio Local Government and Municipal Sector Profile: *Strategic Challenges*



This strategy and advocacy project is shaped significantly by outreach to OML members through direct discussions and a member survey. Both provided powerful, experience-based commentary on the fiscal and economic pressures facing Ohio municipalities. These insights substantiate the conclusions of the report and its policy action agenda.

Survey examples include the following:

- Many cities report that funding issues resulted in increases in the repair and maintenance cycles of local infrastructure with 92.65% reporting they have had to delay significant road repair.
- Since January 2011, 72% of municipal respondents have replaced full-time employees with part-time employees and increased fees on citizens to maintain basic services.

One respondent summed up the challenges stating: “The need for capital funding for streets and other infrastructure is significant; however, there is an urgent need to protect, restore or expand funding for core services like EMS and police.”

There are 937 municipalities (including villages) in Ohio. While diverse economically and demographically, most continue to struggle with fiscal and economic pressures. This is even true for major metropolitan communities.

The impact of these patterns at the operational level is profound. Relatively fewer municipal resources has resulted in:

- Delayed infrastructure maintenance, repair and upgrading.
- Reductions in municipal employment and replacing fulltime employees with part-time employees; and greater use of out sourcing.
- Less capacity to provide services and to improve operational efficiency and productivity.
- Lower investments in public safety and fewer resources to address an escalating opiate drug addiction crisis.
- Fewer investments of time and treasure in economic development.
- Higher municipal taxes in certain cities amidst slow economic and related revenue growth in most municipalities.

What is negatively impacting local governments in Ohio is not any one issue – be it economics, tax policy or the recent move to require greater uniformity and local cost in the collection and administration of municipal income taxes – but rather the confluence of issues that, taken together, have a cascading and compounding effect on the municipal sector.

State Policies and Their Impact on Ohio Municipalities

The following chart was provided by the Ohio Mayor's Alliance. This 30-city data analysis shows the negative impact of a recent series of state tax and appropriation policy changes. These policies continue to result in the loss to municipalities of significant amounts of state and local revenue.

Sources:

Final certified fiscal audits for municipalities and other local government entities are available through the Auditor of State at <https://ohioauditor.gov/>.

CY 2014 LGF information available at http://www.tax.ohio.gov/tax_analysis/tax_data_series/local_government_funds/publications_tds_local/LG35CY14.aspx;

CY 2015 LGF information not yet available; 2014 share applied to 2015 county undivided LGF in 2015 to estimate distribution.

30 City Data Analysis: The Impact of State Tax and Appropriation Changes

City	CAFR General Revenue 2015 (A)	Estate Tax Cut (B)	Estate Tax Cut %	2015 LGF Cut	LGF Cut %	TPP/KWH Cut	TPP/KWH Cut %	TOTAL CUT	Total Cut %
Beavercreek	\$20,473,503	\$723,186	3.4%	\$478,342	2.3%	\$578,358	2.7%	\$1,779,886	8.0%
Cincinnati	\$536,089,000	\$16,044,505	2.9%	\$16,691,808	3.0%	\$3,174,399	0.6%	\$35,910,712	6.3%
Cleveland	\$512,083,000	\$3,389,080	0.7%	\$32,348,613	5.9%	\$6,361,244	1.2%	\$42,098,937	7.6%
Columbus	\$963,083,000	\$7,960,351	0.8%	\$26,661,343	2.7%	\$4,635,500	0.5%	\$39,257,193	3.9%
Cuyahoga Falls	\$37,068,341	\$1,068,758	2.8%	\$1,629,659	4.2%	\$891,346	2.3%	\$3,589,762	8.8%
Dayton	\$153,218,303	\$714,633	0.5%	\$8,597,791	5.3%	\$1,790,642	1.2%	\$11,103,066	6.8%
Dublin	\$104,569,000	\$685,810	0.7%	\$514,675	0.5%	\$148,357	0.1%	\$1,348,842	1.3%
Elyria	\$33,706,607	\$717,849	2.1%	\$1,705,041	4.8%	\$408,872	1.2%	\$2,831,762	7.8%
Euclid	\$32,382,939	\$637,238	1.9%	\$1,779,295	5.2%	\$803,559	2.4%	\$3,220,091	9.0%
Fairfield	\$32,956,649	\$504,083	1.5%	\$915,950	2.7%	\$538,763	1.6%	\$1,958,796	5.6%
Findlay	\$28,585,991	\$1,577,126	5.2%	\$631,562	2.2%	\$453,572	1.6%	\$2,662,260	8.5%
Grove City	\$34,260,651	\$302,730	0.9%	\$730,334	2.1%	\$200,427	0.6%	\$1,233,491	3.5%
Hamilton	\$38,570,125	\$2,457,665	6.0%	\$1,334,998	3.3%	\$465,866	1.2%	\$4,258,529	9.9%
Kettering	\$55,725,416	\$2,513,525	4.3%	\$930,241	1.6%	\$526,648	0.9%	\$3,970,415	6.7%
Lakewood	\$41,408,869	\$782,036	1.9%	\$2,276,216	5.2%	\$331,675	0.8%	\$3,389,927	7.6%
Lancaster	\$26,918,040	\$716,635	2.6%	\$1,044,152	3.7%	\$223,466	0.8%	\$1,984,253	6.9%
Lima	\$20,726,253	\$771,559	3.6%	\$1,176,008	5.4%	\$181,784	0.9%	\$2,129,352	9.3%
Mansfield	\$33,634,759	\$936,716	2.7%	\$1,794,548	5.1%	\$471,621	1.4%	\$3,202,884	8.7%
Middletown	\$31,921,000	\$677,615	2.1%	\$1,609,404	4.8%	\$1,423,645	4.3%	\$3,710,663	10.4%
Newark	\$26,142,022	\$789,358	2.9%	\$1,427,055	5.2%	\$260,969	1.0%	\$2,477,381	8.7%
Springfield	\$46,211,000	\$898,189	1.9%	\$2,165,602	4.5%	\$414,003	0.9%	\$3,477,794	7.0%
Strongsville	\$50,336,507	\$935,299	1.8%	\$657,526	1.3%	\$720,407	1.4%	\$2,313,232	4.4%
Toledo	\$212,998,000	\$3,218,508	1.5%	\$10,432,923	4.7%	\$2,195,089	1.0%	\$15,846,521	6.9%
Warren	\$22,197,608	\$430,961	1.9%	\$791,299	3.4%	\$46,043	0.2%	\$1,268,303	5.4%
		High	6.0%	High	5.9%	High	4.3%	High	10.4%
		Low	0.5%	Low	0.5%	Low	0.1%	Low	1.3%
		Average	2.4%	Average	3.7%	Average	1.3%	Average	7.0%

A General Fund Revenue as reported in Consolidated Audited Financial Reports on file with Auditor of State

B Estate tax cut based on average collections, 2008-2012

C Distributions to municipalities from individual counties' undivided local government funds are estimated for 2015 based on the total 2015 CULGF and share the municipality received in 2014; combined with municipal direct LGF to determine total received

Municipal Sector Change Strategy

The fiscal, economic, policy and political realities facing Ohio municipalities are powerful. Powerful problems require powerful solutions and, often, a staged, multi-year approach to change. The strategic focus outlined below relates directly to these problems.

The hypothesis at the heart of this change strategy is that a smart, revitalized and results-oriented state-local government partnership can produce better outcomes and a “win-win” relationship for the state of Ohio and its economically and governmentally essential municipal subdivisions. This includes better leveraging municipal strengths and best practices.

This staged strategy is built upon the OML’s core organizational values as follows:

- Advancing economic development and job creation
- Protecting public health and safety
- Ensuring an adequate infrastructure
- Providing good, ethical government and fiscal responsibility



Strategic Framework

This framework includes strategically important, high-impact policy initiatives essential as initial steps toward a revitalized state/local partnership and a more effective municipal sector.

The central focus of the strategic framework is designed to answer two important and practical questions: How can the OML do a better, more effective job advancing the organizational and public policy interests of its members; and how can the municipal-state partnership be improved and to what extent does this require new state resources focused on helping municipalities become more efficient, effective and innovative; and being better economic development partners?



Stage One: ***Strategic Action Initiatives***

Stage One (2017-2018) strategic initiatives recommend state and local action and related statutory changes to strengthen the state-municipal partnership, including strategic, results-oriented state investments in municipal sector effectiveness. Importantly, these initiatives are proposed at the conceptual level consistent with the intent of a strategic framework. Further details will be provided in the OML's 2017-2018 Public Policy Agenda and in subsequent policy work, which will be aligned with this document. Proposed action initiatives include the following efforts to pivot to a win-win state-local government partnership that benefits both sectors and the citizens they serve:

1. Phase-In Restoration of Local Government Fund (LGF). Strengthen Municipalities and Their Regional Economic Competitiveness.

In order to address severe and ongoing local economic challenges and related municipal service problems, Ohio should revitalize its local government partnership. The central focus of this approach is to help all local political subdivisions better help themselves and the state and improve job creation and economic growth in the process.

LGF funding has been cut substantially beginning in CY 2011. Advanced primarily to address a temporary economic crisis, these cuts are still in place. The LGF receives each month an amount equal to a designated percentage of tax revenue received by the state General Revenue Fund (GRF) during the preceding month. In FY 2006-2007 and for years before then, the LGF funding earmark percentage was 3.68%. After years of transitional change, the current funding percentage is 1.66%. This cut amounted to an estimated \$453 million in CY 2015 compared to what would have been generated at the 3.68% earmark.

- Future LGF funding should be restored in an orderly and gradual manner beginning in FY 2018 until the funding level returns to the 3.68% revenue earmark level. In an effort to target highest priority needs, it makes sense that during the phase-in period revenues generated by increases in LGF tax revenue earmark percentages would not be used to provide municipal personnel compensation increases.
- This results-oriented approach also means that it could make sense to temporarily earmark a portion of these increases for urgent issues, such as essential infrastructure projects, which would protect public health and safety and advance economic competitiveness.

2. Increase the state motor vehicle fuel tax (MFT) to address growing backlog and evolving need for new state and local transportation infrastructure projects in a state with the 5th highest vehicle miles traveled in the United States and very low ratings of the condition of its transportation infrastructure as highlighted in a 2015 Ohio Department of Transportation report.

The rationale for this investment connects to two important points: Ohio having \$5.6 billion in unfunded major highway projects and receiving poor scores (“D” grade for roads) for transportation infrastructure; and the essential need for a high quality transportation infrastructure in order for Ohio to compete successfully in the 21st century economy. The MFT has not had an increase in over 10 years despite growing infrastructure needs. Unfortunately, there has also been a lack of federal leadership in this area evidenced by the huge and growing backlog of federally financed projects and the fact that the federal gas tax has not been increased since 1993. Having a secure, safe and adequate 21st century transportation infrastructure relates directly to public health and safety and to economic competitiveness.

The state should make a major down payment on this work by:

- Increasing the 28-cent per gallon motor vehicle fuel tax and earmarking at least the current, formula-based portion for local transportation infrastructure projects. As an example, a 10-cent per gallon increase would generate an additional \$600 million per year. This increase would, in turn, provide local governments (using the existing earmark) over \$70 million per year for local government transportation projects. This would allow Ohio to begin to catch-up with a huge and growing backlog of state and local transportation projects and do so in a manner that would be manageable from a state and local government perspective and with regard to the capacity of the state's transportation construction industry.
- Studying growing public transit needs and adjusting funding as necessary for an increasingly essential transportation service that receives very little state-only support (\$0.63 per capita in 2012).
- OML will partner with the state in advocating for more federal transportation funding. As a federal "donor" state, Ohio represents nearly 4% of the U.S. population, but gets less than 2% of federal transportation funds (\$1.4 billion).

3. Develop a State/Local Infrastructure Study Commission. Propose Right Sized State Bond Issue For Voter Consideration.

- The rationale for this proposal is rooted in Ohio's significant non-transportation related state and local government infrastructure needs and their relationship to public health and safety and to economic competitiveness and job growth. This proposal recommends an analysis of clean water and wastewater needs that builds upon U.S. EPA (2011-2012) surveys that estimated aggregate Ohio needs at \$26.7 billion over 20 years. Additionally, efforts should be made to evaluate other infrastructure issues, including environmental and tele-communications investments that can help drive economic growth.
- These and other capital needs combined with local and state operating budget fiscal constraints argue for the reasonable use of state bond funds to pay for these projects. This means that the Commission should evaluate the cost and scope of these infrastructure needs and then recommend an appropriately sized statewide bond issue for consideration by Ohio voters. The Commission should also focus on ways to better manage the state's multi-agency administration of this complex policy area.

4. No New Unfunded State Mandates or Home Rule Erosions.

- OML asks the state to create no new unfunded state mandates or new state laws or rules that erode home rule while providing much needed, albeit limited, flexibility for municipalities to raise additional local revenues.
- A leading example of this flexibility would be to increase or remove the cap on local permissive license fees.





5. Resolve Health Insuring Corporation Sales Tax Termination Fully and Effectively For Both State and Local Governments.

- At the state level, this tax is used to help pay for the major and expanding cost of Medicaid. It is applied solely to Medicaid managed care premium payments and generates \$550 million a year for the state and because of the county “piggy back” sales tax it generates nearly \$200 million annually for county governments, a portion of which is shared with municipalities. The federal government is outlawing this tax effective June 30, 2017.
- The OML encourages the state to resolve this issue fully by finding replacement revenues for both state and local governments.

6. Addressing the Heroin and Opioid Epidemic. Create Public Safety Action Fund.

A new congressional report labels Ohio the “face of the nation’s opioid epidemic.” Drug overdoses have become the leading cause of accidental death in Ohio, surpassing auto accidents since 2007. Combating this epidemic will require a multi-jurisdictional, multi-agency approach at all levels of government, including Ohio’s municipal sector, which is working at the high-cost front lines of the problem. The OML recommends the following:

Statewide Drug Addiction Taskforce

Ohio should create a statewide taskforce focused on developing a coherent, well-coordinated strategy to address the crisis of opiate and other drug abuse. Without this approach, Ohio may go down a more individualized and reactive path – an approach that may not get at the root of the problems. Importantly, this taskforce should give early consideration to improving data-collection efforts and information sharing between state and local law enforcement and public health officials. The taskforce’s work should include the creation of a strategic plan of action with deep input from local government leaders. Creation of this taskforce should be a top priority today.

Ohio Public Safety Action Fund

This new state fund would support the strategic directions of the state and its Drug Addiction Taskforce. Strategies and tactics would include support for evidence and community-based public, non-profit and public-private initiatives. Because the drug crisis is so urgent, state funds should be identified very soon. Unless there are better alternatives, consideration should be given to using otherwise lapsing funds and/or Ohio’s Budget Stabilization Funds.

7. Pivot to new, “win-win” state-local government relationship. Begin with OML leadership and member initiatives to enhance municipal sector effectiveness and productivity through collaborative efforts to:

- ***Create a Municipal Best Practices Center***

This OML center will serve as a forum that helps take best practice reforms forward more effectively. This new smart government solutions forum will help the sector measure progress and work more collaboratively within its own ranks and with state policy makers using regional and other forums; it will also facilitate the sharing of knowledge and know-how thereby improving professional development, training and technical assistance. The center will work with state university public affairs schools as appropriate.

- ***Create a State of the Cities Report***

This biennial report, which the OML will issue in the Fall of even numbered years, will be a status report on the condition of Ohio’s diverse municipal sector. It will include the creation of a separate, but related, ***Ohio Municipal Sector Dashboard*** that helps stakeholders gain greater clarity around key issues and conditions impacting Ohio’s municipal sector. ***The State of the Cities Report*** will also reflect the results of a new, biennial ***State of the Cities Survey***, which will be a new OML initiative.

- ***Build on on-going collaborative work***

Take shared services and related strategies to the next level to enhance local and regional collaborations that drive efficiencies and improve outcomes.



Conclusion

The OML will work in collaboration with its members to advance this Strategic Framework and Action Agenda for the benefit of Ohio's municipalities and the citizens they serve. It's a "win-win" strategy that works well for both state government and Ohio's municipal sector. And the return on investment will pay dividends for years to come in more vibrant communities and a stronger, more robust Ohio economy producing good paying jobs across the state.



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