



# THE BUCKEYE INSTITUTE

## The Buckeye Institute Policy Brief

### Local Government Funding Reform: Cost-Saving Alternatives to State Revenue Sharing

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**March 7, 2019**

#### Introduction

Ohioans rightly appreciate their local governments and leaders. Local officials are often friends, neighbors, and respected members of the community, which makes them responsive to their constituents in ways that state and federal officials are not. Too quickly and too often, however, Ohio's local governments turn to Columbus in search of more state revenues to help pay for local projects and services. In the early days of the Kasich Administration, Ohio reduced revenue sharing levels from its Local Government Fund (LGF) as a cost-saving measure for the state.

Today, calls for increasing state funds and LGF revenue sharing especially can be heard across the state from Ashtabula to Cincinnati and from Athens to Toledo.<sup>1</sup> Such calls are understandable and not surprising, but they should largely go unanswered because—despite the nursery school proverb, sharing is not always caring—there are better ways to spend taxpayer money and help Ohio's local governments than by simply writing another check from the Statehouse.

Before resorting to pre-Kasich Administration revenue sharing, state and local policymakers should take a hard look at local cost-saving measures and spending alternatives rather than syphoning more money from the LGF. Options to consider include:

- No More Unfunded Mandates on Local Governments.
- Spend State Resources on Specific, Critical Needs.
- Share State Revenues with Local Communities in Need.
- Local Funding and Projects for Core Community Needs.
- Local Governments Sharing Local Resources.
- More Spending Transparency, More Local Accountability.

Taking these steps will play to the strengths and advantages that local governments offer their constituents, while reducing the fiscal burdens that are often, regrettably, place on state resources and taxpayers.

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<sup>1</sup> Andy Chow, **Ohio Counties Want Governor Candidates to Restore Revenue**, WOSU.org, July 24, 2018.

## Needed: Local Government Funding Reform

Ohio's local government structure dates back nearly two centuries, a vestige of the 19<sup>th</sup> century's "horse and buggy" days<sup>2</sup> when travelling long distances was difficult and local elected officials actually needed to be local in order to be effective.<sup>3</sup> For better or worse, that structure allowed local governments to proliferate across the state during the 20<sup>th</sup> century even as transportation became more efficient and the need for local leaders less severe. Today, in addition to county, city, and township governments, Ohio's local governmental units include port authorities, library districts, solid waste authorities, and sewer districts, to name just a few<sup>4</sup>—creating structural inefficiencies and financial waste, and risking a lack of proper oversight.<sup>5</sup>

The state's layered labyrinth of local government is expensive and complicated for taxpayers. As a percentage of income, Ohio's local tax environment ranked 10<sup>th</sup> *worst* in the nation at 4.5 percent in 2014-2015,<sup>6</sup> even as Ohio's state tax rated among the best nationally.<sup>7</sup> Adding to the cost is the complexity of Ohio's municipal income tax structure, ranked worst in the country and requiring businesses and residents to spend countless hours and pay professional service fees to decipher and comply with their various municipal tax obligations.<sup>8</sup>

Compounding the costs levied by Ohio's local government structure have been understandably popular revenue sharing and redistribution programs designed to augment local coffers with state-collected tax dollars. The LGF, for example, takes a certain percentage of total state general revenues and redistributes them to local governments.<sup>9</sup> Unfortunately, this 1930s-holdover program may actually do more long-term economic harm than good to municipalities and local communities.

Local governments are designed to foster political accountability for local officials by keeping the source of their revenues and the services they pay for close to home. The LGF undermines that advantage and accountability by separating the money source from the services provided and the officials responsible for providing them.

Using state-collected money to displace locally-raised funds empowers local officials to pay for riskier or less beneficial programs, projects, and services all while deflecting future blame for poor

<sup>2</sup> Greg R. Lawson, *Joining Forces: Consolidation Will Help Ohio's Local Governments if Compensation Package Costs are Properly Managed*, The Buckeye Institute, October 2011.

<sup>3</sup> *Ibid.*

<sup>4</sup> Richard A. Ross, Ph.D. and Timothy S. Keen, *Beyond Boundaries: A Shared Services Action Plan for Ohio Schools and Governments*, June 13, 2012.

<sup>5</sup> **Who We Are**, Regionalcouncils.org (Last visited February 26, 2019). See, for example, the "Councils of Governments," voluntary multi-government bodies intended to share services or costs. Unfortunately, even the State Auditor has lost track of these councils. See, Jona Ison, **Ohio "Shadow Governments" Evade Scrutiny**, *Chillicothe Gazette*, September 4, 2016 ("Every year we find a couple of these we didn't even know existed. I'm concerned we've got these shadow governments going outside public scrutiny.").

<sup>6</sup> **State and Local Tax Comparisons: 2014-2015**, Ohio Department of Taxation (Last visited February 26, 2019).

<sup>7</sup> *Ibid.*

<sup>8</sup> Morgan Scarboro, Scott Drenkard, and Rea S. Hederman Jr., *Ohio Illustrated: A Visual Guide to Taxes and the Economy*, Tax Foundation and The Buckeye Institute, June 7, 2017. See also, Greg Lawson and Scott Drenkard, **In the State Tax Battle, the Tar Heels Soar Above the Buckeyes**, *Forbes*, September 23, 2013.

<sup>9</sup> **Local Government Fund**, Ohio Department of Taxation (Last visited February 26, 2019).

spending decisions. Redistributed revenues from Columbus unfortunately allow local officials to overspend today as they avoid making the harder choices that will benefit constituents tomorrow. Thus, in the long-run the LGF, and similar redistributive programs, exacerbate fiscal waste and undermine local responsibility.

### **Wanted: Alternatives to More Revenue Sharing**

The expensive inefficiencies fostered by Ohio's antiquated local government structure will not be resolved by more "free money" from Columbus. Instead, local governments and communities must pursue viable creative, cost-saving spending measures in order to restore accountability and fiscal discipline across the state—and state leaders should help them do it. State and local policymakers should consider the following alternatives to the all-too-common calls for more and more state revenue sharing.

#### *No More Unfunded Mandates on Local Government*

Many costs that local governments face arise as they attempt to comply with demands made by the state—demands that Columbus too often declines to pay for. State policymakers must be more circumspect about local finance when asking or requiring local governments to do the state's bidding. Unfunded mandates—ranging from schools to criminal justice to environmental concerns—must be eliminated in order for local governments to have any chance of sticking to their budgets and meeting the needs of their constituents.

#### *Spend State Resources on Specific, Critical Needs*

State policymakers should be more specific and clear when offering revenue assistance to local governments for infrastructure, emergencies, or crisis situations—such as natural disasters or the opioid epidemic—to provide state funds for the specific purpose for which the funds are needed. Rather than simply deposit state revenues into a local government's broad "general fund" account—as the LGF currently does—state tax dollars should be appropriately designated for local accounts specifically used to address the specific need at issue.

#### *Share State Revenues with Local Communities in Need*

State policymakers should engage in revenue sharing with local governments and communities that genuinely need state revenues to provide critical goods and services to constituents. Since not all municipalities enjoy the same revenue-generating tax bases, policymakers need to critically examine which local governments are really unable to pay for their services using funds collected at the local level.

State officials can and should distinguish between those local communities that have robust tax bases capable of covering the costs of their own programs and those that do not. Those communities with adequate revenue-raising capacity should not be showered with additional state tax dollars that have been collected from other communities across the state.

#### *Local Funding and Projects for Core Community Needs*

Local officials should generally keep local spending priorities focused on the core functions of government, namely public safety and infrastructure. Although parks, public recreation facilities, or museums may be reasonable if approved by local residents, local governments should avoid

funding large-scale projects, programs, or services that do little to meet the core needs of local taxpaying constituents while saddling them with long-term costs. Notorious examples of such projects include athletic stadiums and the more recent proliferation of government-owned broadband services.<sup>10</sup> Research has demonstrated that such heavily subsidized projects tend not to live up to the economic hype offered by their advocates.<sup>11</sup>

Focusing local spending on managing and serving core needs and responsibilities will better keep local spending in line with local resources. To help local governments maintain that focus, the state should resist providing costly, state-funded bailouts when local leaders overspend on projects that fail to deliver the promised benefits.

### *Local Governments Sharing Local Resources*

Local governments can spend local money and use local resources more efficiently by cooperating and sharing their resources and services among themselves. Cooperative purchasing and shared government services will help local governments use taxpayer funds more effectively, making local communities less dependent on revenue-sharing from Columbus.

When he was state auditor, Attorney General Dave Yost began sharing stories about how local governments can share services,<sup>12</sup> and the online inventory of equipment, ShareOhio, helps local governments share expensive equipment—such as fire engines—to cut down on the costs of “buying new.”<sup>13</sup> According to *Beyond Boundaries*, park districts, traditional schools, and higher education institutions have already embraced some shared vehicle purchasing with participation rates of 40 percent, 35.1 percent and 32.4 percent respectively.<sup>14</sup>

Similarly, local governments can share maintenance, property, and personnel costs by sharing buildings, public facilities, and employees. The city of Mason and Mason City Schools in Warren County, for example, have saved an estimated \$10 million in capital costs by sharing property for a combined school and community center.<sup>15</sup> The city of Green and Green City Schools in Summit County shared an administration building, pooled their healthcare costs, and share the county sheriff’s police and dispatch services—saving more than \$1.5 million in a \$24 million budget.<sup>16</sup> And local governments can enter cost-saving, staff-sharing arrangements that allow certain personnel to split time between jurisdictions.<sup>17</sup> Reading City Schools and Three Rivers Local School District in Hamilton County, for instance, share a treasurer, saving each school district approximately \$55,000 to \$66,000 per year.<sup>18</sup>

<sup>10</sup> Johnny Kamps, **Ohio City May Ask its Residents to Increase Property Taxes for Municipal Broadband**, *Watchdog.org*, September 26, 2018. See also, Greg R. Lawson, **Broadband “GON” Wrong: Remembering Why Government-Owned Broadband Networks are Bad for Taxpayers**, The Buckeye Institute, February 14, 2018.

<sup>11</sup> Dennis Coates, **Growth Effects of Sports Franchises, Stadiums, and Arenas: 15 Years Later**, working paper, Mercatus Center, September 2015.

<sup>12</sup> **SkinnyOhio.org**, Ohio Auditor of State (Last visited February 26, 2019).

<sup>13</sup> **ShareOhio.gov**, Ohio Auditor of State (Last visited February 26, 2019).

<sup>14</sup> Richard A. Ross, Ph.D. and Timothy S. Keen, **Beyond Boundaries: A Shared Services Action Plan for Ohio Schools and Governments**, June 2012.

<sup>15</sup> **Successful Examples of Shared Services**, Office of Budget and Management (Last visited February 26, 2019).

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

<sup>18</sup> Richard A. Ross, Ph.D. and Timothy S. Keen, **Beyond Boundaries: A Shared Services Action Plan for Ohio Schools and Governments**, June 2012.

Smaller communities should consider service consolidation for their constituents. Some local governments are simply ill-equipped to satisfy even the core needs and demands of their communities efficiently. Neighboring communities, however, could pool and consolidate resources to provide basic or updated services and facilities rather than fail to provide them on their own.<sup>19</sup> Local school districts have engaged in similar consolidation for decades,<sup>20</sup> and the city of Marion and Marion County consolidated their health departments in 2008, saving an estimated \$150,000 after one year.<sup>21</sup>

Other states have examined and recommended sharing and consolidation as viable cost-saving measures. Indiana, for example, recommended shifting services (though not outright consolidation) from townships to counties in order to reduce costs through synergies.<sup>22</sup> And a New Jersey commission explored local government consolidation and service sharing, and recommended implementing something similar to the Base Realignment and Closure process that the U.S. Defense Department uses when closing military bases.<sup>23</sup>

#### *More Spending Transparency, More Local Accountability*

Local governments should look for ways to make their spending more transparent. The more transparent the spending, the more accountable local officials will be held by their constituents—the taxpayers.

Ohio increased its own spending transparency under former State Treasurer Josh Mandel when it implemented the nation’s best spending-transparency tool: the Ohio Checkbook.<sup>24</sup> This tool, built to expand on The Buckeye Institute’s own public spending database,<sup>25</sup> empowers taxpayers with valuable information, allowing them to ask well-informed questions and hold state and local officials accountable for their spending decisions.

Local governments can employ similar tools and tactics to make it easier for voters to understand what their leaders have bought with their hard-earned money. By increasing transparency and accountability, local governments will ultimately prove more efficient and less reliant on state-collected tax dollars to meet their fiscal needs.

Unfortunately, local governments and their elected officials have little incentive to pursue these creative, cost-saving and accountability alternatives so long as state-collected funds are readily redistributed from Columbus. The LGF may help some communities alleviate financial burdens in the short-term, but unchecked revenue sharing is unsustainable for the state and local governments in the long-run.

<sup>19</sup> Greg R. Lawson, *Joining Forces: Consolidation Will Help Ohio’s Local Governments if Compensation Package Costs are Properly Managed*, The Buckeye Institute, October 2011.

<sup>20</sup> Ohio School Boards Association, *School Consolidation: A Study by the Ohio School Boards Association*, January 2011.

<sup>21</sup> Greg R. Lawson, *Joining Forces: Consolidation Will Help Ohio’s Local Governments if Compensation Package Costs are Properly Managed*, The Buckeye Institute, October 2011.

<sup>22</sup> *Ibid.*

<sup>23</sup> Joint Legislative Committee on Government Consolidation and Shared Services, *Final Report*, December 1, 2006.

<sup>24</sup> *Ohio Checkbook*, Ohio Treasurer of State (Last visited February 26, 2019).

<sup>25</sup> *Sunlight and Major Kudos to OH Treasurer Josh Mandel*, The Buckeye Institute, December 4, 2014.

## **Conclusion**

Ohio's local communities deserve local governments and leadership that meet their needs and use their funds to do it responsibly, efficiently, and sustainably. Relying heavily on state-collected funds redistributed from taxpayers in distant districts undermines the accountability, fiscal discipline, and cooperative efficiency required to achieve that goal.

The status quo must change.

The state, for its part, must end the burdensome practice of issuing unfunded mandates to local governments. In turn, instead of routinely looking for tax-funded handouts from the state, local governments should reorder their spending priorities to focus on the core needs of their constituents, resist the temptation to buy beyond their means, and find ways to share and pool local resources with neighboring communities to make their projects and services more efficient and cost-effective.

And instead of subsidizing local inefficiencies and exacerbating bad spending habits with state funds, state policymakers should look carefully at the local capacity for raising revenue and ensure that local governments spend state money on the designated purpose for which it was given.

Reducing local dependence on shared state funding today will make Ohio's local governments more accountable and responsive, giving Ohio and her local communities a better tomorrow.

## About the Author



Greg R. Lawson is a research fellow at The Buckeye Institute with expertise on Ohio's budget, local government, state and local taxes, education and education funding, transportation funding, and occupational licensing.

Lawson also serves as Buckeye's liaison to the state government policymakers where he educates policymakers in the legislative and executive branches on free-market solutions to Ohio's challenges. In this role, he is regularly called on to testify before legislative committees on policies that impact Ohio's families and the state's economy.

With nearly 20 years of experience working on seven state budgets, Lawson is a recognized expert on Ohio's budget, and is the co-author of *Principled Spending: Using Ohio's Capital Budget to Benefit Ohioans*. He has a deep knowledge of state and local taxes, and how Ohio funds Medicaid, education, and transportation. He is the author of the *Piglet Book*, The Buckeye Institute's biennial publication outlining areas of government waste, and develops Buckeye's biennial Top 10 Worst Capital Budget Requests list.

A recognized expert in the school choice movement and on occupational licensing, Lawson is the co-author of *Education Savings Accounts: Expanding Education Options for Ohio* and *Still Forbidden to Succeed: The Negative Effects of Occupational Licensing on Ohio's Workforce*. Lawson is also the author on several reports dealing with local government funding and reform, including, *Revenue Sharing Reform: On the Road to Ohio's Recovery* and *Joining Forces: Rethinking Ohio's Government Structure*.

Prior to his position at Buckeye, Lawson served in the Ohio General Assembly as a Legislative Service Commission fellow. He then went on to several government affairs roles focusing on numerous public policy topics, including Medicaid, school choice, transportation funding, and Ohio's Building Code. He also has a background in fundraising, grassroots organizing, and communications and served on the boards of two Columbus-based charter schools.

Lawson is a frequent speaker across the state of Ohio and is regularly quoted in media outlets throughout the state. His writings have appeared in most major Ohio newspapers including *The Cincinnati Enquirer*, *The Plain Dealer*, and *The Columbus Dispatch*, as well as national publications including *Forbes*. He also regularly provides commentary on policy and Ohio's political landscape on Ohio's premier public affairs programs.



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