Sustainable Ohio

How to Fund Ohio's Cities in the 21st Century

Greg R. Lawson, Rea S. Hederman Jr., and
Andrew J. Geisler

THE BUCKEYE INSTITUTE

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Executive Summary

Ohio's local communities rely heavily on a broken municipal income tax system for their revenue. The outmoded tax structure stymies growth, unfairly burdens many taxpayers with double taxation, and imposes expensive compliance requirements that punish small businesses.[1] The COVID-19 pandemic expedited the long-anticipated shift to telecommuting for Ohio's workforce, and that shift may sound the death knell for the state's municipal income tax regime by severing the required legal "nexus" between the municipality and the nonresident taxpayer. State and local policymakers must act quickly and strategically to transition toward a more sustainable, long-term municipal revenue source.

Municipal income taxes are an outlier nationally—and for good reason. Of the three most common forms of local government taxation, income taxes are the most economically damaging and far less efficient or stable than property or sales taxes. Taxes on wages or earnings discourage work and productivity, and are comparatively susceptible to short- and long-term changes in volatile labor markets. Telecommuting is the most recent workforce phenomenon to expose the vulnerabilities of the local income tax, and Ohio would be wise to acknowledge the tax's defects and abandon it. The vast majority of states already have, and none of the fastest growing cities in America have an income tax structure like Ohio's.[2] Even peer communities in neighboring states have managed to achieve a more balanced blend of revenue sources.[3]

Moving away from local income taxes and toward a property or sales tax regime will take time and planning, and will not be easy. Strategically, Ohio should pursue several courses of action simultaneously. First, policymakers should take advantage of the significant federal aid currently flowing from Washington to make some of the transitional difficulties easier.[4] Second, state and local leaders will

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[1] Greg R. Lawson, **Municipal Income Tax System is Punishing for Ohio's Businesses**, *The Columbus Dispatch*, April 17, 2014.

[2] See the comprehensive annual financial reports for each municipality as outlined in the Appendix of this report.

[3] See the comprehensive annual financial reports for each municipality as outlined in the Appendix of this report. See also, ***City of Indianapolis, Indiana Comprehensive Annual Financial Report, Year Ended December 31, 2020***, Indy.gov; ***City of Louisville, Kentucky Comprehensive Annual Financial Report, July 1, 2019-June 30, 2020***, LouisvilleKY.gov; and ***City of Nashville, Tennessee Comprehensive Annual Financial Report for the Year Ended June 30, 2020***, Nashville.gov.

[4] Andrew J. Tobias, **Cleveland, Ohio governments to get big money as part of new federal stimulus plan. How will they spend it?**, Cleveland.com, March 19, 2021.

need to use tax revenue more responsibly and find creative ways to reduce spending, share resources, and avoid overspending on non-core services. And finally, abandoning local income taxes for more sustainable revenue streams will require rethinking local economic development policies, including tax abatements and zoning rules, that currently erode the property tax base.

Such a significant transition—even if strategically planned and executed—will not happen overnight and state-level support will be necessary. But failure to act now will likely result in major service disruptions for residents and bleaker long-term economic prospects for Ohio.

Ohio's Broken Municipal Income Tax System: An Explanation

The COVID-19 pandemic unexpectedly accelerated the long-anticipated rise of telecommuting in Ohio.[5] For all of its advantages and benefits for workers, businesses, and families, this rapidly emerging workforce reality presents new challenges for the main source of revenue for most Ohio cities—the municipal income tax. State and local leaders must confront those challenges now to avoid major service disruptions for residents in the near future.

As The Buckeye Institute has cautioned previously, Ohio's municipal income tax is notoriously flawed and unfair.[6] It was a flawed and unfair tax long before the pandemic and yet more than 600 of Ohio's municipalities levy it—giving Ohio one of the worst local tax regimes in the country. [7] The statewide average municipal tax rate is 1.4 percent, with a high of three percent levied in Parma and 2.5 percent in larger metropolitan areas.[8] But the rates themselves do not convey the two major problems that the local income tax structure present: double taxation and compliance burdens.

Double taxation occurs because the municipal tax is a commuter tax initially levied at the taxpayer's "principal place of work" and assessed again where the taxpayer resides. Every local taxpayer whose municipality of residence fails to offer a full credit for municipality taxes paid elsewhere pays a double tax. Some jurisdictions offer taxpayers credits to avoid double taxation, but more than one-third of the tax-levying municipalities do not.[9] In turn, this double taxation and its various credits and reporting requirements then create significant compliance burdens for employers, especially small businesses.

Pervasive telecommuting adopted during the pandemic has exacerbated this problem and now raises state constitutional concerns that may threaten this

[5] Patrick Coate, ***Remote Work Before, During, and After the Pandemic***, National Council on Compensation Insurance, January 25, 2021.
[6] Greg R. Lawson, **Municipal Income Tax System is Punishing for Ohio's Businesses**, *The Columbus Dispatch*, April 17, 2014.
[7] Joseph Bishop-Henchman, **Guess Which State Has the Worst Local Income Taxes**, Tax Foundation, September 23, 2013.
[8] Tax Foundation and The Buckeye Institute, ***Ohio Illustrated: A Visual Guide to Taxes and the Economy***, 2017.
[9] *Ibid*.

municipal revenue stream. Although the Ohio Supreme Court has held the commuter-based municipal income tax to be constitutional,[10] the court has also explained that there must be a sufficient nexus between the municipality and the workers it taxes, such as the worker's use of municipal roads and public safety services while working within the city.[11] Telecommuting effectively negates that legal nexus for thousands of Ohio workers who have been (and may continue) working remotely without setting foot in their office building's municipality.

Without the historical nexus provided by use of municipal roads and utilities, municipalities may no longer tax nonresidents who do not utilize any of their services. Consequently, jurisdictions that rely heavily on commuter-taxes to balance their budgets will soon struggle to provide their core resident services without the additional revenue raised by the nonresident municipal income tax. And as Cincinnati Mayor John Cranley warned, "[t]here's no way Cincinnati or Columbus or any city can survive or thrive if local governments suffer the catastrophic loss of revenue that we are projecting now."[12]

Precise municipal revenue impacts due to telecommuting remain impossible to calculate as employers continue to assess their post-pandemic work structures and cities are left to wonder how many former commuters will ultimately return to work within their borders.[13] But data from the Regional Income Tax Authority (RITA) allowed the Greater Ohio Policy Center to estimate a loss of $105 million per year for the 300 smaller municipalities serviced by RITA if 30 percent of workers work remotely full-time.[14] Greater Ohio anticipated a $306 million loss of revenue for Ohio's six largest municipalities.[15]

Such estimates depend on the remaining percentage of full-time remote workers after the pandemic, but pre-pandemic telecommuting trends suggest policymakers should take them seriously. In 2019, for example, only six percent of Americans worked *primarily* from home.[16] That number increased to nearly 25 percent when

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[10] Sam Benham and Mackenzie Damon, ***Municipal Taxation: Nonresident Income***, Ohio Legislative Service Commission, April 12, 2021.
[11] *Ibid.*
[12] ***City Fiscal Conditions 2020***, National League of Cities, 2020.
[13] Robert Higgs, **Cities Still in Limbo on How Post-Pandemic Normal Will Hit Commuter Income Taxes**, Cleveland.com, July 26, 2021.
[14] Erica Spaid Patras, ***Potential Impact of Changing Municipal Income Tax Laws on Smaller Cities***, Greater Ohio Policy Center, March 2021.
[15] Erica Spaid Patras, ***A Mortal Threat to Ohio's Economic Competitiveness: SB352, HB754, and the Buckeye Institute Lawsuit***, Greater Ohio Policy Center, September 2020.
[16] Patrick Coate, ***Remote Work Before, During, and After the Pandemic***, National Council on Compensation Insurance, January 25, 2021.

remote work included bringing work home or checking work e-mail at home,[17] and it rose to roughly 33 percent for college-educated professionals and management workers.[18] The telecommuting trend may be permanently expedited due to the pandemic and, given the income levels of many telecommuters, municipalities should prepare accordingly for significant ongoing revenue losses.

Fortunately, despite Mayor Cranley's pessimism, Ohio and its cities have hope—provided that they act quickly and prudently. Thanks to federal relief funds, city coffers are flush with cash and their tax receipts have held up better than expected during the pandemic.[19] State and local leaders should use the time bought with federal aid to revamp the outmoded local taxation system to align with the new remote workforce. Ohio's municipal income tax regime is a national outlier, and other states and cities have found fairer and more effective ways to raise revenue. State and local policymakers should work together to transition to more sustainable municipal taxes that reflect the new realities of a remote workforce and do not burden taxpayers with double taxation and compliance complexities. Such a transition will be difficult but necessary.

Thus far, legislative efforts to alleviate the burdens and simplify the tax for businesses and taxpayers have only provided limited help. In 2014, legislation standardized tax bases, net operating loss carryforwards, and various administrative procedures across jurisdictions.[20] The General Assembly later created a one-stop online portal for small businesses to file and pay their net profit taxes rather than filing in multiple municipalities.[21] Such reforms ameliorated some of the regime's burden, but did not eliminate them or cure the double taxation problem.

The onset of the COVID-19 pandemic and Ohio's subsequent stay-at-home orders highlighted and then compounded the burdens associated with municipal income taxes. To manage the pandemic's disruption and ease compliance burdens on employers, the 133rd Ohio General Assembly passed House Bill 197, which allowed employers to withhold taxes to the principal place of work until 30 days after the

[17] *Ibid.*
[18] *Ibid.*
[19] Andrew J. Tobias, **Cleveland, Ohio Governments to Get Big Money as Part of New Federal Stimulus Plan. How Will They Spend It?**, Cleveland.com, March 19, 2021; and Jarrod Clay, **Columbus Has Estimated $1 Billion in Resources for First Time in History**, ABC6onYourSide.com, July 23, 2021.
[20] **Summary of Key Provisions of Am. Sub. H.B. 5**, Ohio Society of CPAs, December 2014.
[21] **Municipal Tax Reform Brings Simpler Compliance**, Ohio Society of CPAs (Last visited December 9, 2021).

declared emergency expired.[22] But the scope of the legislation was unclear, leading to lawsuits, constitutional challenges, and ultimately House Bill 110 (passed by the 134th General Assembly) designed to clarify that taxpayers working outside the jurisdiction where their office is located may seek tax relief beginning in 2021.[23]

More robust reforms to Ohio's regrettable local tax regime are no longer avoidable. Pervasive and perhaps permanent telecommuting has made the state's municipal income tax unsustainable. A municipal revenue stream is about to run dry and now is the time for Ohio to find a more efficient, effective, and fair source of local tax revenue.

[22] **Amended Substitute House Bill 197**, 133rd General Assembly (Last visited December 9, 2021).
[23] **Amended Substitute House Bill 110**, 134th General Assembly (Last visited December 9, 2021).

LOCAL TAX SOURCES: A COMPARISON

Taxes increase the cost of goods and services. This makes them distortionary insofar as they change how individuals behave economically. The ideal tax system causes the least economic distortion while raising the necessary revenue. Local government revenues generally derive from three main sources: property taxes; sales taxes; and income taxes. Of these three types, economists generally regard real property taxes as the best and most efficient. As Ohio grapples with the new telecommuting reality, policymakers should understand the advantages and disadvantages of tax types, and the reasons to transition away from municipal income taxes and toward a property tax regime more capable of funding local jurisdictions.

Efficient tax systems need broad tax bases. The broader the tax base, the lower the tax rate needed to collect the requisite revenue to pay for government services. Narrowing tax bases, by excluding certain goods and services or offering tax credits that reduce tax liability, may seem desirable, but ultimately requires higher tax rates to offset the forfeited tax revenue.

Ohio localities offer large abatements to businesses that emigrate to Ohio or expand their operations. Such abatements last for years and may be worth tens of millions of dollars.[24] Municipalities make these deals hoping that the additional workers generate sufficient new tax revenues to outpace the tax abatements. Research shows, however, that these abatements and tax credits ultimately do not pay for themselves,[25] and although the enticed business may pay lower taxes, the residents must shoulder the burden to pay for the infrastructure and government services that support the business. The better approach keeps the tax base broad and the overall rates low for businesses and residents.

Property Taxes

Famed economist Milton Friedman once called taxes on real property "the least bad tax," because they cause the least economic harm per dollar of revenue

[24] Theordore Decker, **I'll gladly pay you Tuesday for $54.3 million in tax abatements today**, *The Columbus Dispatch*, March 25, 2021.
[25] Matthew D. Mitchell, Michael D. Farren, Jeremy Horpedahl, and Olivia Gonzalez, ***The Economics of a Targeted Economic Development Subsidy***, The Mercatus Center, November 2019.

raised.[26] The Organization for Economic Co-operation and Development (OECD) studied how different taxes affect economic growth and confirmed Professor Friedman's assessment and concluded that real property taxes provide the best form of taxation for encouraging economic growth.[27]

Not surprisingly, every state in the country levies property taxes—whether on real estate, automobiles, boats, or other vehicles—and most municipalities use them to pay for government services and public schools. Nationally, property taxes account for approximately three-fourths of all local government revenue.[28] Unfortunately, Ohio's property tax collections lag the national average at the state and local levels.[29] For example, in 2020, Columbus collected only $51.6 million from property taxes, accounting for just two percent of total city revenue.[30] Cleveland took in $58 million in property taxes for 3.7 percent of its revenue,[31] while Cincinnati generated $66.1 million from property taxes, six percent of city revenue.[32] By contrast, other nearby Midwest cities that raise revenue with multiple tax types have managed a more balanced combination. Louisville, Kentucky, for example, collected 17 percent of its total revenue in property taxes—nearly three times Cincinnati's percentage.[33] And Indianapolis, Indiana, roughly the size of Columbus, took in more property tax ($349.8 million) than local income tax ($303.8 million) in 2020.[34]

Ohio's under-utilization of property taxes means that Ohio cities forego the distinct advantages that real property tax regimes offer. First, real estate taxes rest upon a stable tax base provided by a known and largely fixed supply of land, making them less volatile than taxes on income or capital. Second, real property taxes do not

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[26] Fred E. Foldvary, ***The Ultimate Tax Reform: Public Revenue from Land Rent***, Civil Society Institute, January 2006.

[27] Asa Johansson, Christopher Heady, Jens Arnold, Bert Brys, and Laura Vartia, **Tax and Economic Growth**, working paper No. 620, Economics Department, Organization for Economic Co-operation and Development, July 3, 2008.

[28] Tracy Gordon, **Critics Argue The Property Tax is Unfair. Do They Have a Point?**, Tax Policy Center, March 9, 2020.

[29] The Tax Foundation, **Facts and Figures How Does Your State Compare 2021**, March 10, 2021.

[30] ***City of Columbus, Ohio Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2020,*** Columbus.gov.

[31] ***City of Cleveland, Ohio Comprehensive Annual Financial Report for Year Ended December 31, 2020,*** ClevelandOhio.gov.

[32] ***City of Cincinnati, Ohio Comprehensive Annual Financial Report for the Fiscal Year Ending June 30, 2020***, Cincinnati-Oh.gov.

[33] ***City of Louisville, Kentucky Comprehensive Annual Financial Report, July 1, 2019-June 30, 2020***, LouisvilleKY.gov.

[34] ***City of Indianapolis, Indiana Comprehensive Annual Financial Report Year Ended December 31, 2020***, Indy.gov.

discourage work effort or new business formation. Taxing structures on land may discourage some property development, but as one author argues, "the tax on land is…one of the few available means of raising public revenue that does not impede economic efficiency, because the fixed supply of land cannot be altered in response to the tax."[35] Third, real estate is harder to hide than fungible, liquid assets, making real property taxes more transparent and easier to administer. And finally, real property taxes are progressive rather than regressive taxes insofar as the larger or more valuable the real estate holding the larger the tax assessment.

Sales Taxes

Sales taxes raise revenue by taxing consumers at the point of sale. They tax consumption. Like real property taxes, sales taxes hold several advantages over income taxes and do not inflict severe economic damage.

First, sales taxes are more stable during recessions than income taxes.[36] Second, consumption taxes are relatively efficient taxes that do not penalize work, savings, or investment. In fact, sales taxes reward and encourage savings insofar as taxpayers do not pay the tax until they spend on taxable goods and services. As savings rise so do commercial investments in businesses, equipment, and labor, which in turn spur broader economic activity. These advantages and incentives tend to maximize both economic growth and tax revenues, making consumption-based tax systems popular in some countries.[37] Finally, local-level sales taxes are subject to local-level competition inasmuch as consumers can change their consumption habits and travel to lower-tax jurisdictions for their purchases, which helps keep local sales tax rates relatively low.[38]

Ohio uses several different consumption taxes, including a 5.75 percent sales tax at the state level, and gross receipts taxes, excise taxes, and general sales taxes at local levels. Counties and transit authorities, for example, may levy a sales tax in

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[35] Joan Youngman, ***A Good Tax: Legal and Policy Issues for the Property Tax in the United States*** (Puritan Press Inc., 2016), p. 3.

[36] H. Simon and M. Harding, **What drives consumption tax revenues?: Disentangling policy and macroeconomic drivers**, working paper No. 47, Organization for Economic Co-operation and Development, April 2, 2020.

[37] Asa Johansson, Christopher Heady, Jens Arnold, Bert Brys, and Laura Vartia, **Tax and Economic Growth**, working paper No. 620, Economics Department, Organization for Economic Co-operation and Development, July 3, 2008.

[38] Iksoo Cho, "**Local Sales Tax, Cross-Border Shopping, and Distance**," Proceedings: Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association, *National Tax Journal*, Volume 107 (2014) pp. 1–29,

addition to the state sales tax, but municipalities may not.[39] Cuyahoga County has the highest county sales tax at 2.25 percent, giving the county a total sales tax rate of eight percent.[40] And although the state's sales tax rate falls slightly below the national average, the combined state and local sales tax rate ranks Ohio twentieth in the nation and above the national combined-rate average.[41]

Income Taxes

According to the OECD, only corporate income taxes are more economically damaging than personal income taxes.[42] Taxing personal earnings discourages work, just as taxes on net profits discourage risk-taking, business formation, and commercial expansion. And compared to property and consumption taxes, income taxes offer less stable, more volatile revenue streams, and remain uncommon at the local level across the country.

Nevertheless, Ohio municipal taxes apply to earned wages, net business profits, and rental activity in each taxing jurisdiction, with taxes on wages applying to residents and nonresidents. Many municipalities offer credits to residents who pay municipal taxes in other jurisdictions, but they may not be 100 percent credit, and some municipalities offer no credit at all. Thus, some local income taxes compound, with marginal tax rates exceeding the state income tax rate for some workers. Such a regime discourages labor and labor market participation, driving up unemployment, shrinking the tax base, reducing personal and commercial productivity, and making Ohio a municipal tax policy outlier. Ohio, for instance, is one of only four states in which some local municipalities collect more than ten percent of their revenue from municipal income taxes, making its income tax system a national and regional anomaly.[43] Only Pennsylvania has more municipalities levying income taxes than Ohio. And Ohio local governments derive 41 percent of their revenue from local income taxes—the second highest percentage in the country.[44]

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[39] County Commissioners Association of Ohio, **County Permissive Sales and Use Taxes**, Handbook Ohio County Commissioners, chapter 18, August 2019.

[40] Ohio Department of Taxation, **Rates listed by county and transit authority**, 4th quarter 2021.

[41] The Tax Foundation, **Facts and Figures How Does Your State Compare 2021**, March 10, 2021.

[42] Asa Johansson, Christopher Heady, Jens Arnold, Bert Brys, and Laura Vartia, **Tax and Economic Growth**, working paper No. 620, Economics Department, Organization for Economic Co-operation and Development, July 3, 2008.

[43] ***The Tax Policy Center's Briefing Book: A Citizens' Guide to the Fascinating (Though Often Complex) Elements of the US Tax System***, The Tax Policy Center, May 2020.

[44] Jeff Chapman, **How Local Governments Raise Their Tax Dollars**, PewTrusts.org, July 27, 2021.

Meanwhile, Louisville, Indianapolis, and a host of other Midwest cities have successfully raised necessary revenue with local property and sales tax structures, and do not rely so heavily on economically harmful income taxes. More broadly, none of the 10 fastest growing cities in America[45] obtained any of their revenue from local income taxes in 2020.[46] Instead, most of the top growing cities rely more heavily on property taxes in their revenue source combination than Ohio municipalities do. By contrast, according to a recent survey, not a single Ohio city ranks in the top 25 for net migration among millennials.[47]

[45] Thomas Barrabi, **10 fastest-growing US cities revealed in 2020 Census**, FoxBusiness.com, August 12, 2021.
[46] See the comprehensive annual financial reports for each municipality as outlined in the Appendix of this report.
[47] Ben Geier, **Where Millennials Are Moving**, SmartAsset.com, March 30, 2021.

Toward a Better Local Tax System: A Strategy

Ohio's state and local leaders need to strategically transition to a more sustainable municipal funding system better suited to a changing workforce. Such a transition will take time, perhaps decades to accomplish, and will likely require temporary federal aid and long-term state assistance. A sound strategy for achieving a better local tax structure should include prudent use of federal assistance, spending local resources more responsibly, and rethinking local development plans and policies.

Leverage Temporary Federal Aid

Temporary federal aid flowing from Washington to the states provides Ohio municipalities with a golden opportunity to begin shifting to more sustainable revenue streams without feeling the full financial weight of that transition. Ohio expects to receive an estimated $12 billion from Washington, of which $6.6 billion will go straight to municipalities, counties, and townships. Those dollars will remove much of the anticipated short-term strain on local budgets. Driven largely by federal aid, Columbus expects to have $1 billion in resources for the first time in its history in 2021.[48] And Cleveland should receive $500 million in federal money over the next two years.[49] Such sums are not recurring and cannot be counted on to fund long-term municipal expenses, but they can be used to build, reinforce, and repair physical and public health infrastructure before local revenues begin to shrink.[50] For example, many Ohio cities have been spending millions of dollars on necessary repairs and upgrades to their degraded sewer systems.[51] Leveraging federal dollars now to offset the cost of such repairs will free up future local revenue. In turn, this will help to ensure that spending on core services, such as public safety, will not be diminished if and when local revenues decline. State and local leaders should use the federal largesse prudently as they collaboratively plan their transition to a more sustainable local tax structure.

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[48] Jarrod Clay, **Columbus Has Estimated $1 Billion in Resources for First Time in History, City Auditor Says**, ABC6onYourSide.com, July 23, 2021.
[49] Andrew J. Tobias, **Cleveland, Ohio Governments to Get Big Money as Part of New Federal Stimulus Plan. How Will They Spend It?**, Cleveland.com, March 19, 2021.
[50] **Coronavirus State and Local Fiscal Funds**, Home.Treasury.gov (Last visited December 9, 2021).
[51] Amanda Garrett and Doug Livingston, **This is Akron: Residents are Drowning in Sewer Bills**, WKSU.org, March 17, 2019.

Spend Local Resources Responsibly

Any strategic plan to shift revenue structures will require local governments to tighten their proverbial belts and reallocate resources to "live within their means." Sustainable spending requires disciplined spending. Municipalities have grown accustomed to seeking state aid or taxing nonresidents (who pay the taxes but cannot vote) to pay for expensive special-interest projects that threaten their long-term solvency. That habit must be broken. Local governments should allocate their financial resources to meet core public safety and infrastructure needs, and should only ask for state assistance when such needs cannot be met with local funds. The Buckeye Institute has enumerated various cost-saving measures and spending alternatives to strengthen local government balance sheets while reducing the fiscal burden on taxpayers.[52] More responsible spending can be accomplished—here's how:

Designate Revenue Sharing Funds

Revenue sharing through Ohio's Local Government Fund (LGF), which dates back to the Depression era,[53] distributes state dollars to local governments with no strings attached. This practice has allowed local officials to spend beyond their locality's financial means, far exceeding their constituents' critical public safety and infrastructure needs. It should be re-examined.

Rather than deposit unconditioned LGF dollars into a local government's general fund, state money should be deposited in local government accounts designated for addressing a specific local government purpose or need. A more targeted allocation and deposit system will reduce local spending on unnecessary initiatives. Such a change will likely require a temporary increase in revenue sharing distributions as municipalities shift away from income-based taxes and reallocate their financial resources accordingly, but any distribution increase should never be promoted as anything other than temporary transitional aid.

[52] Greg R. Lawson, ***Local Government Funding Reform: Cost-Saving Alternatives to State Revenue Sharing***, The Buckeye Institute, May 7, 2019.
[53] Jill Thompson, Athens County Auditor, Presentation before the Local Government Officials Conference, "**Local Government Fund: Statutory vs. Alternative Formulas**," March 22, 2018.

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 residents may approve spending on-demand for recreational parks or other non-core facilities, municipalities should avoid spending base revenues on large ancillary projects such as athletic stadiums and government-owned broadband services.[54]

Sharing Local Government Resources

Municipalities can spend locally raised dollars more efficiently if they cooperate with other nearby communities and creatively share expensive resources, equipment, and services. In 2012, the Kasich Administration reported that park districts, traditional schools, and higher education institutions had successfully shared vehicle purchases, with participation rates of 40 percent, 35.1 percent and 32.4 percent respectively; and explained that local governments sharing maintenance, property, and personnel costs can yield significant taxpayer savings.[55] The city of Green and Green City Schools in Summit County, for example, shared an administration building, pooled their healthcare costs, and shared the county sheriff's police and dispatch services—saving more than $1.5 million in a $24 million budget.[56] Creative sharing of governmental resources can provide quality services more cost-effectively.

More Spending Transparency, More Accountability

Ohio has improved its public spending transparency, first implementing the Ohio Checkbook and then linking it to real-time spending through the Office of Budget and Management.[57] But municipalities can and should do better. More transparent

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[54] Hayleigh Colombo, **At Crew Stadium Groundbreaking, Ginther Vows 'Good Return for Taxpayers' from City's $113 Million Investment**, *Columbus Business First*, October 11, 2019; Courtney Astolfi, **Cleveland Indians Strike $435 Million Public-Private Partnership Deal for Progressive Field Renovation, 15-Year Lease Extension**, Cleveland.com, August 5, 2021; Marty Schladen, **Economists Pan Stadium Construction as Economic Development**, Ohio Capital Journal, November 22, 2021; Greg R. Lawson, ***Broadband "GON" Wrong: Remembering Why Government Owned Networks Are Bad for Taxpayers***, The Buckeye Institute, February 14, 2018.

[55] Richard A. Ross, Ph.D. and Timothy S. Keen, ***Beyond Boundaries: A Shared Services Action Plan for Ohio Schools and Governments***, June 2012.

[56] Randy Cole, ***Beyond Boundaries: A Shared Services Action Plan for Ohio Schools and Governments***, Office of Budget and Management, 2012.

[57] **Ohio Checkbook**, Ohio Treasurer of State & Ohio Office of Budget and Management (Last visited December 9, 2021).

spending means more accountable officials. Although many local governments have voluntarily joined the Ohio Checkbook, others have not. Tools like the Ohio Checkbook and real-time budgeting integration allow voters and taxpayers to see how their money is spent. That informed insight helps keep public officials accountable for their spending decisions. And that accountability makes government more efficient, more affordable, and its spending more sustainable.

Rethinking Local Development Strategies

In order to build a robust long-term tax base to fund essential services, state policymakers should rethink local economic development practices like tax abatements, certain tax incentives, tax increment finance (TIF) arrangements, and others. These tax giveaways favor big real estate developers and employers, shifting more of the tax burden onto families and small businesses, and misguidedly allow governments to pick economic winners and losers. In a transitioning local tax system, failing to reform these economic development practices will make it harder for municipalities to form a solid tax base that adequately funds essential services.

Policymakers can reform municipal economic development practices by tightening tax incentive requirements and by loosening zoning, building, and housing code requirements. Taking these steps would move Ohio toward a free-market economic development system that expands the supply and lowers the cost of housing, which would broaden the property tax base and level the state's development playing field.

Limit Tax Abatements and Giveaways

Ohio's tax system and local economic development practices are inextricably linked. Community leaders regularly agree to abate property taxes for a defined period and provide other tax incentives to encourage commercial and residential property development. Communities can confidently enter such arrangements because political leaders currently rely on municipal income taxes paid by nonresident commuters to make-up some of the forfeited revenue. But the new telecommuting era will soon change the math for many municipalities.[58]

Although moving away from property tax abatements could take years due to preexisting arrangements, policymakers can and should put guardrails around new tax incentives. Tax abatements, for example, should only be used to achieve

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[58] Erica Spaid Patras, ***A Mortal Threat to Ohio's Economic Competitiveness: SB352, HB754, and the Buckeye Institute Lawsuit***, Greater Ohio Policy Center, September 2020.

clear policy objectives and tax giveaways for developers should never be offered in neighborhoods that are already attractive for development.[59] As part of a broader transparency effort, Ohio should also maintain a publicly available database of current tax abatement arrangements to help voters and taxpayers understand where, when, and how their communities forfeit tax revenue.

State policymakers should also place administrative guardrails around the local use of economic development tools such as TIFs, Joint Economic Development Districts, and others. State law governs TIF arrangements and, in general, when a taxing authority and property owner enter a TIF agreement the taxing authority agrees to forego property tax revenue for a certain period in exchange for the property owner's promise to make infrastructure improvements, create jobs in the TIF district, and pay a service fee to school districts or other taxing authorities.[60]

Originally designed to cure urban blight, TIFs should be used to encourage development in areas not already attractive for developers. Unfortunately, they are now the dominant financing arrangement for many large development projects,[61] including Cleveland's Flats at East Bank, and are regularly used by wealthy communities like the City of Dublin and the City of Upper Arlington.[62] As with pure tax abatements, TIF arrangements should be public and transparent. The state should at least maintain a comprehensive publicly available database of these agreements so that taxpayers understand the bargains being made with their forfeited tax dollars.

Tax abatements are attractive tools for local officials to use, but the authority to grant them comes from state law. State—not local—policymakers must therefore establish statewide guardrails and guidelines governing use of these economic development tools to help local communities pour a stable foundation of property tax revenue.

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[59] Karen Robertson, **Take a tax abatement lesson from Columbus**, *The Cincinnati Enquirer*, January 20, 2020.

[60] **Ohio Revised Code § 5709.40, 5709.42, 5709.43 (2019)**.

[61] Benjamin Schneider, **CityLab University: Tax Increment Financing**, Bloomberg CityLab, October 24, 2019.

[62] Michelle Jarboe, **Cleveland City Council approves rare 60-year TIF deal for the Flats East Bank**, *Crain's Cleveland Business*, December 9, 2020; **What is a TIF? Tax Increment Financing**, DublinOhioUSA.gov (Last visited December 9, 2021); Nate Ellis, **Upper Arlington Voters overwhelmingly approve issue in support of community center**, *The Columbus Dispatch*, May 5, 2021.

Ease Zoning Regulations

Limiting tax abatements and retargeting development incentives are insufficient without corresponding reforms to Ohio's property development regulations—*i.e.*, zoning laws. In many Ohio communities, for example, local zoning rules make it illegal to build anything other than single-family homes.[63] M/I Homes CEO Bob Schottenstein once described central Ohio as "the side yard capital of America," due to the pervasive use of single-family zoning.[64] Municipalities across the country are reconsidering the favored position of single-family housing in municipal zoning codes[65] because such restrictions and other land use and building codes make housing scarce and significantly more expensive.[66] High regulatory costs discourage developers and home builders from building diverse housing types, and instead encourage them to build large apartment buildings or sprawling single-family suburban subdivisions.[67]

Less restrictive zoning rules would allow property owners and developers to develop their property with a less onerous, less expensive land entitlement process, and thus maximize their property's value. Maximizing property values will then maximize corresponding property tax revenue to the benefit of local communities.[68] And although municipalities can and should pursue zoning reform on their own, state policymakers should encourage such efforts and make it more difficult for local zoning boards to exclude viable uses of property.[69]

Tightening tax abatement requirements and loosening property development regulations will help Ohio communities move toward a more sustainable, diverse, broad-based property tax system.

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CONCLUSION

The revenue raising landscape is about to change for most Ohio municipalities and the status quo income tax structure will prove unsustainable over the long-term as telecommuting becomes a widespread, permanent feature of the 21st century economy. Ohio must quickly and strategically transition away from its broken municipal income tax regime and toward a fairer, more stable, long-term blend of property and sales taxes to pay for core local government services. Such a transition will take time and effort, but it can be accomplished.

Several strategic steps will make the transition easier. State and local leaders should spend federal relief dollars wisely, avoiding unnecessary spending obligations, and focusing on needed infrastructure repairs that may be less affordable later. Local policymakers should spend local resources more responsibly and transparently, sharing expenses and services with nearby communities, and making spending choices clear and upfront for taxpayers. And Ohio should rethink its approach to local development by limiting tax abatements and giveaways, and easing zoning restrictions that artificially limit development and reduce property values.

A failure to act soon risks the long-term solvency of Ohio's local communities and the basic municipal services on which residents rely. Most cities across the country have long-abandoned distortionary local income taxes and gained surer financial footing with more efficient and less volatile property and sales taxes. Remaining a tax policy outlier will sacrifice consistent local revenue and make it harder for many municipalities to provide government services, attract and retain businesses and workers, and offer residents the economic growth and opportunity they deserve.

APPENDIX

Comprehensive annual financial reports for the 10 fastest growing municipalities in America between 2010 and 2011.

- **City of Buckeye, Arizona Comprehensive Annual Financial Report for Fiscal Year Ended on June 30, 2019**
- **City of Frisco, Texas Comprehensive Annual Financial Report for the Year Ended on September 30, 2019**
- **City on Conroe, Texas Comprehensive Annual Financial Report for Fiscal Year Ending September 30, 2020**
- **City of Meridian, Idaho Financial Transparency and Accessibility Portal**
- **New Braunfels, Texas Comprehensive Annual Financial Report for the Period Ending September 30, 2020**
- **City of South Jordan, Utah Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2020**
- **City of McKinney, Texas Comprehensive Annual Financial Report Fiscal Year Ended September 30, 2020**
- **City of Kent, Washington Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2019**
- **City of Goodyear, Arizona Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020**
- **City of Irvine, California Comprehensive Annual Financial Report for Fiscal Year June 30, 2019**

About the Authors

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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*

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A nationally recognized expert in healthcare policy and tax policy, Hederman has published numerous reports and papers looking at returning healthcare power to the states, the impact of policy changes on a state's economy, labor markets, and how to reform tax systems to spur economic growth.

Prior to joining Buckeye, Hederman was director, and a founding member of the Center for Data Analysis (CDA) at the Heritage Foundation, where he served as the organization's top "number cruncher." Under Hederman's leadership, the CDA provided state-of-the-art economic modeling, database products, and original studies.

While at Heritage, Hederman also oversaw the organization's technical research on taxes, healthcare, income and poverty, entitlements, energy, education, and employment, among other policy and economic issues. He was also responsible for managing Heritage's legislative statistical analysis and econometric modeling.

Hederman's commentary has been published in *The Washington Post*, *The Washington Times*, *National Affairs*, *The Hill*, National Review Online, and FoxNews.com, among others. He is regularly quoted by major newspapers and wire services, and has appeared on Fox News Channel, CNN, CNBC, and MSNBC.

Hederman graduated from Georgetown Public Policy Institute with a Master of Public Policy degree and holds a Bachelor of Arts from the University of Virginia.

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An expert in criminal justice reform, Geisler has deep knowledge of Ohio criminal sentencing and pretrial justice policy. He is author of *Evidence-Based Sentencing Reform: The Right Policy for Ohio*, *Senate Bill 3: Myth vs. Reality*, and *Reforming Bail Reform*. Geisler is also an expert in constitutional law and statutory interpretation and has testified before legislative committees and submitted public comments to federal agencies on these issues.

In addition to his work at Buckeye, Geisler is an adjunct professor at Otterbein University where he teaches constitutional law and other legal studies courses. Prior to joining The Buckeye Institute, Geisler earned his law degree from the Case Western Reserve University School of Law, as well as his master's degree in political science and his undergraduate degree in political science and journalism from Miami University.

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Sustainable Ohio: How to Fund Ohio's Cities in the 21st Century

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