



Greater Ohio Policy Center 2012-13 State Budget Response

Executive Summary

Governor Kasich's budget takes important first steps in challenging local governments to modernize, but Ohio needs more tools to realize the vision of more efficient local government and ensure a return to prosperity for Ohio. Beyond just cutting local governments costs, the challenge facing Ohio is restructuring government to unleash the vast potential of Ohio's regional strengths -- while simultaneously improving efficiencies and streamlining costs. By eliminating unnecessary duplication in services, the state can provide critical tools for making strategic investments in our assets to grow our economy and improve quality of life. If the state does not make permissive and clear the legal pathway for mergers, consolidations, shared services, regional governance, and revenue sharing, the budget proposals will only serve to worsen the status quo, which Greater Ohio agrees is not serving the state well. Local governments may respond with attempts to further raise taxes, undercutting the Governor's aim of creating an environment for jobs.

To move Ohio's economy into the 21st century, increased efficiency and savings MUST be combined with strategic and targeted investment. Creating mechanisms and funds for investments is critical anywhere, but particularly in Ohio where most of our cities, towns, villages, and counties are already economically depressed. Cuts alone will not bring about a climate of prosperity. In order to efficiently restructure local government in a way that maintains quality of life, streamlines efficiencies, and increases economic competitiveness, we strongly recommend that the Governor's budget and legislative package include additional tools for local governments beyond those already proposed. Greater Ohio proposes modifications and introduction of new legislation, as well as the creation of some new state programs and policies, to smooth the transition from the existing, antiquated structure of local governance to a modernized one. Local governments need tools to invest proactively, leverage the potential of existing assets, and amplify regional economic potential so we can successfully contend in an increasingly global economy.

Greater Ohio agrees with Governor Kasich that when it comes to local government in Ohio, the status quo is not a winning strategy.

- 86 percent of states have fewer governments per square mile than Ohio
- Ohio has 41.3 local governments per county and the national average is 27.9 local governments per county.
- Ohio has moved from 9th highest in local tax burden to 6th highest among the fifty states, while the state burden has stayed stable at 33rd.

- Ohio ranks 22nd nationally in instructional payroll spending, but its non-instructional payroll is 8th highest nationally (as a percentage of personal income)

However, reducing local government spending alone is not enough to return Ohio to prosperity. The underlying structure of local government in Ohio must change, and the State should drive this change. We strongly recommend that the 2012-13 budget bill and subsequent legislation incorporate the following tools:

- **Create a Governance Reform Commission** to oversee the modernization of Ohio’s local governments by providing innovative leadership on governance reform, collecting data on local governments to help set efficiency standards, and offering technical assistance for local governments that are merging or initiating other new governance structures
- **Create a framework for pooling resources regionally** to pave the way for robust regional economic development by creating a regional revolving loan fund for needed infrastructure funding and economic development projects.
- **Make permissive mergers, consolidation, shared services, and alternative governance structures and eliminate any legal and constitutional barriers.** This could provide for a merger of city and county jurisdictions that results in consolidated service districts and governance, increased value for the taxpayer and a better business climate.
- **Develop a protocol for collecting data on local governments’ costs and level of services,** like the Cupp report for education, so that the Governance Reform Commission can create efficiency standards, evaluate the performance of local governments, and develop other indicators of performance.

The current structure of local government in Ohio is problematic, because it:

- Thwarts regional coordination that can beget increased national and international competitiveness
- Incentives unhealthy competition between neighboring jurisdictions that taps local governments’ resources and does not yield a net public benefit
- Creates redundancies in service delivery and raises costs
- Is supported by revenue, some of which, could be reprioritized into strategic investments

Mergers, consolidations, and shared services should be incentivized and in some cases mandated, in order to facilitate:

- Improved economic competitiveness via regional cooperation
- Cost reductions
- Increased funding for strategic investments in Ohio’s many important assets



Greater Ohio Policy Center 2012-13 Budget Response and Local Government Restructuring Toolkit

Governor Kasich's proposed budget asserts that Ohio has too much local government and that a modern economy calls for streamlining operations to save costs and increase the state's economic competitiveness. The budget reduces the amount of government spending in Ohio by enacting significant cuts to the Local Government Fund (LGF), changes in the distribution of the Tangible Personal Property Tax (TPPT) and Public Utility Tangible Property Tax (PUTP), and potentially the elimination of the estate tax. In order to offset these funding cuts, the budget offers the promise of cost savings generated by collective bargaining reform, a reduction in unfunded mandates, and benefits from other, as yet unspecified, legislative changes.

Greater Ohio agrees with Governor Kasich that when it comes to local government and economic growth in Ohio, the status quo is not a winning strategy.

- 86 percent of states have fewer governments per square mile than Ohio
- Ohio has 41.3 local governments per county and the national average is 27.9 local governments per county.
- Ohio has moved from 9th highest in local tax burdens to 6th highest among the fifty states, while the state burden has stayed stable at 33rd.
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In Franklin County, for example, there is one local government for every 16,668 people.

FRANKLIN COUNTY LOCAL GOVERNMENTS, 2002

County	1
City	25
Townships	17
Special Districts	9
School Districts	17
Total Governments	69

Why does this matter?

Layer upon layer of local government decreases our ability to compete nationally and internationally as coordinated regions and increases the chances of one jurisdiction “poaching” business from its neighbors; a strategy that has no discernable positive impact to the public.

This high incidence of local government creates a structure of government operations that is highly fragmented and uncoordinated across a county or region. In other words, each of the forty-two cities and townships in Franklin County, for instance, are motivated to compete locally to maximize their own tax base for survival rather than existing within a structure that encourages them to join together to compete as a region on the global stage.

Some redundancies exist within these governments that, if streamlined, could generate cost savings.

As proposed by the Governor, local government should share services where this makes sense. This was the case in the Orville-Rittman School District Administrative Compact that maintained the two separate school systems, but merged administrative functions, shared some teachers across the districts and generated a savings of \$270,000 in its second year. Every opportunity for collaboration and sharing services should be seized.

By eliminating unnecessary duplication in services, the state can make strategic investments in our assets to grow our economy and improve quality of life.

Despite poor state and national economies, Ohio remains a leader in several industries, such as logistics and education and we have strong potential to grow our export markets in a variety of sectors. In order to maintain our existing competitive advantages and unleash the full market potential of other areas, we must be willing to make strategic investments that will have significant multiplier effects in our economy and the physical places where we live and work. These investments will range from fixing congested freeway interchanges, to seeding venture capital investment, supporting anchor institutions, to developing catalytic projects in neighborhoods. Investing in this way will provide the backbone for innovation and entrepreneurship in Ohio, allowing us to realize the Governor’s vision of competing anywhere around the globe from Indiana to India.

Without significant amendments to the ORC to provide strong incentives and appropriate mandates for mergers and collaboration and to allow for the above mentioned strategies as well as; local governments may:

- Respond to reductions in state funding with attempts to raise local taxes
- Struggle to provide basic services, like public safety and trash pick-up, that result in significantly diminished quality of life and attractiveness of Ohio’s cities and towns
- Lack the means to make the types of investments in their communities that allow them to respond to market demands, or foster attractive and safe places to live and grow the economy
- Experience blight and disinvestment for an extended time before figuring out on their own how to merge/share services, etc.

Without adequate tools for restructuring government, places that are currently struggling to stay afloat will flounder even further and affluent places will be forced to rely even more heavily on raising local sources of tax revenue, an inadequate strategy for long-term growth.

POLICY TOOLS

Governor Kasich's budget takes important first steps in challenging local governments to modernize, but Ohio needs more tools to realize the vision of more efficient local government and ensure a return to prosperity for Ohio. To smooth the transition from the existing, antiquated structure of local governance to a modernized one, Greater Ohio proposes several legislative adjustments, new pieces of legislation, and the creation of some new state programs and policies.

Critical short-term steps

We urge several critical steps be taken in the short-term to allow for this essential restructuring. The following are the top four steps the Governor and General Assembly should enact in order to create a systematic way of managing strategic, structural governance reform:

- **Create a Governance Reform Commission** to oversee the modernization of Ohio's local governments by providing innovative leadership on governance reform, collecting data on local governments to help set efficiency standards, and offering technical assistance for local governments that are merging or initiating other new governance structures
- **Create a permanent framework and tools for pooling resources regionally** that paves the way for robust regional economic development. One suggestion is using the potential phase out of the estate tax to seed regional revolving loan funds for needed infrastructure funding and to act as an insurance fund for local governments. Regional revenue sharing should be a permissive structure that allows local municipalities to contribute a portion of the growth in their tax base to a regional pool that is then reallocated based on regional priorities, such as economic and infrastructure development. Revenue sharing can help undercut the impulse to poach businesses or compete across boundaries by spreading the benefits of new property tax growth beyond just the local jurisdiction boundaries to the broader region
- **Make permissive mergers, consolidation, shared services, and alternative governance structures and eliminate any legal and constitutional barriers.** This could provide for a merger of city and county jurisdictions that results in consolidated service districts and governance, increases value for the taxpayer and creates a better business climate, such as so-called "Unigov" in Indianapolis and Marion County
- **Develop a protocol for collecting data on local governments' costs and level of services,** like the Cupp report for education, so that the Governance Reform Commission can create efficiency standards, evaluate the performance of local governments, and develop other indicators of performance

Menu of Additional Policy Tools

Included here are additional policy tools to foster the necessary restructuring of local government and to bolster economic growth.

Amend Existing Legislation

- a. Amend labor laws so that the consolidation of municipalities or a cross-jurisdictional agreement is not considered an unfair labor practice.
- b. Simplify Joint Economic Development District (JEDD) and Joint Economic Development Zone (JEDZ) legislation to make it more useable. For example, give each municipality the explicit authority to make tax sharing permissible, rationalize boundary disputes, and provide direction for jurisdictions that have different income tax rates.
- c. Amend ORC Chapter 302 to expand the forms of alternative county governmental structures permitted. Revise chapter 709.43 to streamline the manner that townships and municipalities are required to put a merger question on the ballot.
- d. Review and revise Chapter 307.14-307.18 to allow counties to regionalize services beyond political boundaries, particularly to allow administrative functions to be carried out by a multi-county structure.

Introduce New Legislation

- e. Direct revenue during the phase out of the estate tax to regional pools that will be used to seed regional revenue sharing [Ohio's Local Government Reform and Collaboration Commission report that a regional COG could administer the program via an amendment to Chapter 167 of ORC and minor amendments to Chapters 319, 321, 322, 718, 5705].
- f. Pass legislation needed to make regional revenue sharing seeded through the estate tax phase out.
- g. Introduce a blanket piece of enabling legislation that allows local governments to collaborate on service delivery and protects them from liability for doing so. This would enable townships and municipalities to create joint operations, which is currently not permitted by the ORC.
- h. Pass a statute that prevents obstructionist derailment at the local level and streamline the process by which mergers and other consolidations are approved by the voters.

Develop New State Programs & Policies

- i. Compel consolidations by defining appropriate population per land area levels for townships and counties.
- j. State Auditor's office should be able to require standardized auditing and recordation procedures for local governments. Local governments will then be expected to generate

data on their finances and spending that adhere to the standardized series of categories set by the Auditor's office so that municipalities across the state can be compared to each other.

- k. Set aside money to defray the upfront costs associated with mergers that could otherwise make consolidations cost prohibitive, particularly in an austere budget environment.
- l. Create a permanent Governance Reform Commission that will collect data on local governments to help set efficiency standards, provide technical assistance for local governments that are merging, and will oversee the modernization of Ohio's local governments.
- m. Develop a plan to consolidate services that will result in taxpayer savings while maintaining service levels at or near current levels.
- n. Create a challenge grant that rewards regional collaboration. For example, any county that, as a whole across all governmental boundaries, is ranked the state's most efficient, gets \$10 million additional to split as it sees fit.
- o. Encourage the creation of regional economic development plans that develop a coherent regional strategy for how to target economic development funds in a way that generate critical mass and have the greatest multiplier effect.
- p. ORC should acknowledge MPOs, which could lay the groundwork for regional revenue sharing, regional planning, link competition for funding and grant opportunities to regional level.