

Horse and Buggy Tax Structure Holding Ohio Back

An analysis of county sales tax revenue and implications for land use policy and renewed economic prosperity

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Summary & Conclusions

This report demonstrates the increasingly regional nature of retail spending patterns in the state of Ohio between 1992 and 2009 by quantifying disparities in counties' sales tax revenue collection. The new report's findings support Greater Ohio's previous calls for governance reform to provide modern vehicles for economic regrowth and tools to help regions build on their assets and achieve greater efficiencies and cost savings. Broadly speaking, the total amount Ohioans spend on retail goods has changed little over time, especially relative to income, but *where* they spend their money has changed considerably. This study illustrates that Ohio's county-based sales tax structure is not well-suited to the regional way we live and shop and raises several important implications for policy makers striving to modernize Ohio's governance and tax structures to bolster regional strengths and successfully compete in an ever globalizing economy.

This study demonstrates that Ohioans frequently shop in counties where they do not live, especially when another county has newer or better retail options. New malls on the periphery of large metro regions draw shoppers from the entire region. This new pattern of spending impacts local counties and governments who rely on sales tax revenue to provide services. Counties at the core of a region have experienced declines in sales tax revenue as new malls in neighboring counties outperform older retail centers. Meanwhile, counties with large, new retail centers enjoy increases in sales tax collection. The major conclusions from this analysis are:

- ***Retail spending in Ohio takes on a distinctly regional pattern with new, large retail centers drawing customers across county lines and from the greater region.***
- ***Relying on sales tax increases as a solution to revenue disparities is short-sided and does not address the structural problem in Ohio's taxing policy that precipitates these disparities.*** Failing to correct the structural basis of these issues could contribute to a continued spiral downward for counties without large sales tax generators and puts even prosperous counties at risk as development continues to spread further from the core. Therefore, part of a coordinated regional strategy should be to refocus new development in areas with existing development rather than greenfields.
- ***Thirty percent of Ohio counties captured as much or more sales tax revenue as was expected and 70 percent of counties captured less.***
- ***A county's ability to capture sales tax revenue is often out of its control,*** since the introduction of new shopping destinations in an adjacent county can have significant impacts on neighboring counties, and rural counties with small populations have limited tax capacity.
- ***A discrepancy exists between regional shopping trends and the current system of county-level based taxation, which was developed in 1934 before households had multiple automobiles and highway infrastructure made regional travel efficient.*** This system of local rather than regional taxation exacerbates disparities between prospering counties with the newest retail options and all other counties, even while the region as a whole experiences very little net change in spending.

- ***The dependency on sales tax revenue has increased from 1992 to 2009.*** In 1992, only 9 percent of counties had reached their sales tax limit and 71 percent were within a half penny of the limit. By 2009, 47 percent of all Ohio counties have reached their sales tax limit and additional 45 percent are within a half penny of the limit. This increased dependence on the sales tax as a source of revenue can decrease the competitiveness of underperforming counties by forcing them to either increase taxes or decrease services.
- ***High county sales tax rates alone do not seem to discourage shopping in a county, especially when new retail options are available there.*** Places with higher sales tax rates and new retail offerings have seen steady increases in their capture rates over time. Yet several of the worst performing counties also have high sales tax rates, illustrating their heightened dependence on sales tax revenue to support operations.

Policy Recommendations

Several opportunities exist to recalibrate public policy in Ohio to reflect the growing appreciation that *Ohioans' increasingly regional way of life demands a restructuring of government and taxation systems to match.* This analysis demonstrates that antiquated methods of taxation, still in place from earlier eras, are not appropriate for modern lifestyles and serve to exacerbate disparities between neighboring counties instead of reinforcing the combined strength of the overall region. Because of the existing mismatch in our taxation structures and our living patterns, *relying on sales tax increases is not the solution to the sales tax disparity problem.* To correct this structural mismatch, Greater Ohio recommends the General Assembly adopt the following policies:

- ***Legislation that makes regional revenue pooling permissive.*** Allowing regions to pool resources regionally paves the way for robust regional economic development and infrastructure development, and mitigates the antiquated tax structure which fosters unhealthy competition within a region. Revenue pooling can help undercut the impulse to poach businesses or compete across boundaries by spreading the benefits of new 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.*** Permissive legislation could provide for mergers of city and county jurisdictions and result in consolidated service districts and governance, increasing value for the taxpayer and creating a better business climate, such as “Unigov” in Indianapolis and Marion County. For a more in-depth discussion of specific tools and policies, please see: Greater Ohio Policy Center 2012-2013 Budget Response, <http://www.greaterohio.org/files/pdf/go-budget-response-2011.pdf>.
- ***Creation of 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. For a more in-depth discussion of specific tools and policies, please see: Greater Ohio Policy Center 2012-2013 Budget Response, <http://www.greaterohio.org/files/pdf/go-budget-response-2011.pdf>.

Methodology Overview

This memo describes changes in county sales tax revenue collection within the state of Ohio.¹ Since sales tax revenue² are collected at the county level, the study focuses on the county as the geographic unit of analysis.

The analysis utilizes “capture rates” to examine whether a county collected as much revenue as was to be expected based on the population of the county and the incomes of the people who live there. Counties with a capture rate of 100 percent collected as much county sales tax revenue as would be expected in a year. Counties with a capture rate greater than 100 percent collected more revenue than was to be expected, indicating that the county successfully attracted shoppers from outside the county. Counties with a capture rate less than 100 percent failed to capture their expected share, indicating that residents from that county left that county to shop elsewhere.

Figure 1: Sales Tax Capture Rate Definitions

Sales Tax Capture	Definition
> 100%	County captured more revenue than is expected based on the population and income of county residents. This county drew shoppers from other counties.
100%	The county captured an amount of sales tax revenue equal to what was expected.
< 100%	The county captured less revenue than is expected. County residents left the county and traveled elsewhere to do their shopping.

Discussion

Thirty percent of Ohio counties had sales tax capture rates equal or better to those expected, and 70 percent captured less than expected. Figure 2 shows that the majority of Ohio counties did not collect as much sales tax revenue as their resident population would be expected to generate.

Figure 2: County Sales Tax Collection Performance

Sales Tax Revenue Collection	Number of Counties	Share of Counties
Less than expected	62	70%
As much as expected	2	2%
More than expected	24	27%

¹ The data sources for all figures in this report are the following: Population estimates and per capita income for counties, state and metropolitan statistical areas come from the Bureau of Economic Analysis' (BEA) Regional Economic Information System (REIS) database, Tables CA 1-3; county and state total sales tax revenues and county sales tax rates come from the Ohio Department of Taxation's Tax Data Series table S3 for all years used in this study; the Marginal Propensity to Consume Taxables (MPCT) variable, which was used as a multiplier to adjust for per capita income in the county sales tax capture formula, derives from a previous study conducted by Tom Wisemiller, <http://greaterohio.org/files/policy-research/aug-2004-sale-tax-report.pdf>, who used the Bureau of Labor Statistics' Consumer Expenditure Surveys from 1998 to 2003 to create a constant variable that estimates how an increase and/or decrease in per capita income affects consumer spending on taxable items.

² It should be noted that sales tax revenue data include automobile sales tax revenue which may slightly increase or decrease a county's sales tax capture rate because automobile revenue are distributed to the county where the automobile owner resides rather than the county where the automobile was sold. In addition, counties that employ large numbers of temporary workers may also have elevated sales tax capture rates because employers pay a sales tax to use the services of temporary employees.

Figure 3: County Sales Tax Capture Rates, 2009

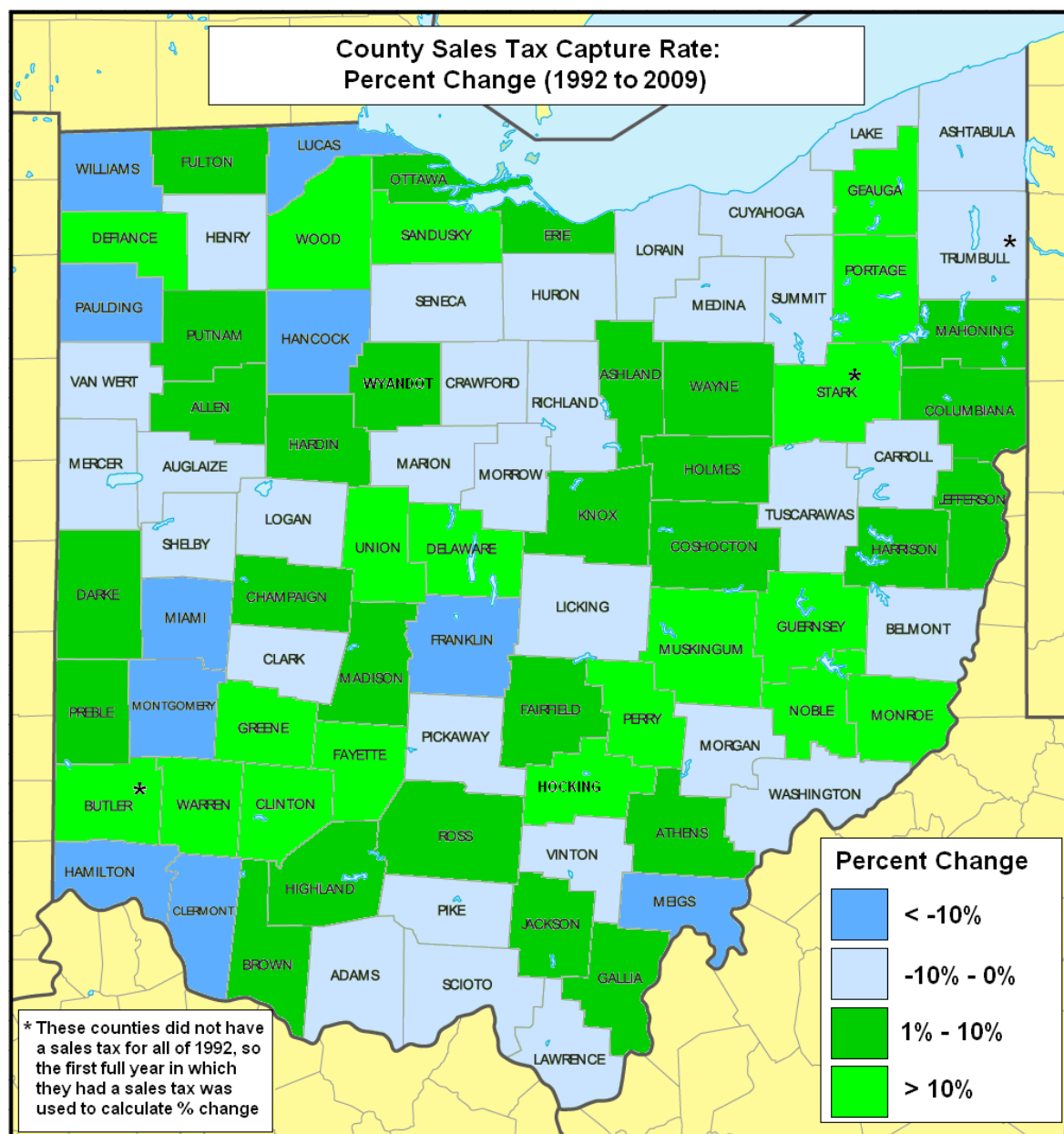


Analyzing sales tax capture rates overtime reveals that 53 percent of counties saw an increase in their sales tax capture rates, while 47 percent experienced a decrease, see Figure 4. Figure 5, depicts the change over time and which counties experienced growth or decline in their sales tax capture rates. Counties in blue experienced a decline in their sales tax capture rates, while those in green experienced an increase.

Figure 4: Percent Change in Sales Tax Capture Rate

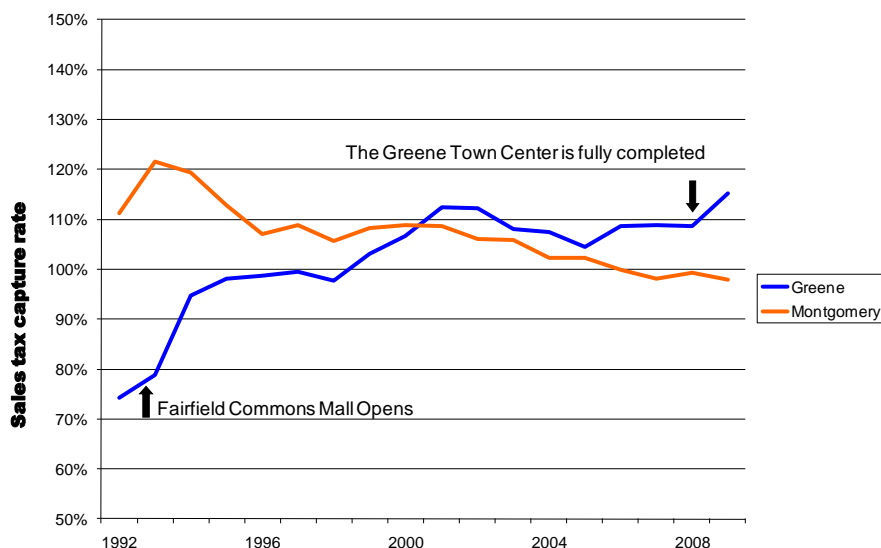
Change in Sales Tax Capture Rate	Number of Counties	Share of Counties
< -10%	10	11%
-9.9 - 0%	32	36%
0 - 9.9%	27	31%
> 10%	19	22%

Figure 5: Percent Change in County Sales Tax Capture Rates 1992-2009



Shoppers are likely to travel throughout a region for the newest and best retail options. As a result, an individual county's ability to collect revenue is heavily impacted when neighboring counties develop new retail destinations. Under Ohio's current taxing structure, a county's ability to generate sales tax revenue is directly tied to the financial success of the retail establishments located within its borders, regardless of what exists in neighboring counties. For example, Figure 6 compares the sales tax capture rates of Greene and Montgomery Counties in the Dayton region and depicts how dynamics between these two counties changed as new retail options were developed in Greene County.

Figure 6: Sales Tax Capture Rates of Greene and Montgomery Counties, 1992-2009



The graph shows that between 1993 and 1994 Greene County began a trend in which it rapidly captured an increasing amount of sales tax revenue, while the sales tax capture rate of Montgomery County declined. Not surprisingly, the upward trend of Greene and downward trend of Montgomery County coincide with the 1993 opening of a large shopping facility in Greene County located just a few miles from the Montgomery County border and was cemented later by the opening of Greene Town Center. In short, the data suggests that Greene County's new shopping mall had a dual fiscal impact for these counties: 1) it was able to recapture sales tax revenue from Greene County residents that formerly shopped in the larger retail centers of Montgomery County; and 2) the mall, perhaps due to its newness and size, was able to attract Montgomery County residents to shop and spend money in Greene County.

The overall quality of and demand for the retail establishments in a given county, relative to those of the surrounding counties, may indeed have a greater impact on shopping patterns than sales tax rate.

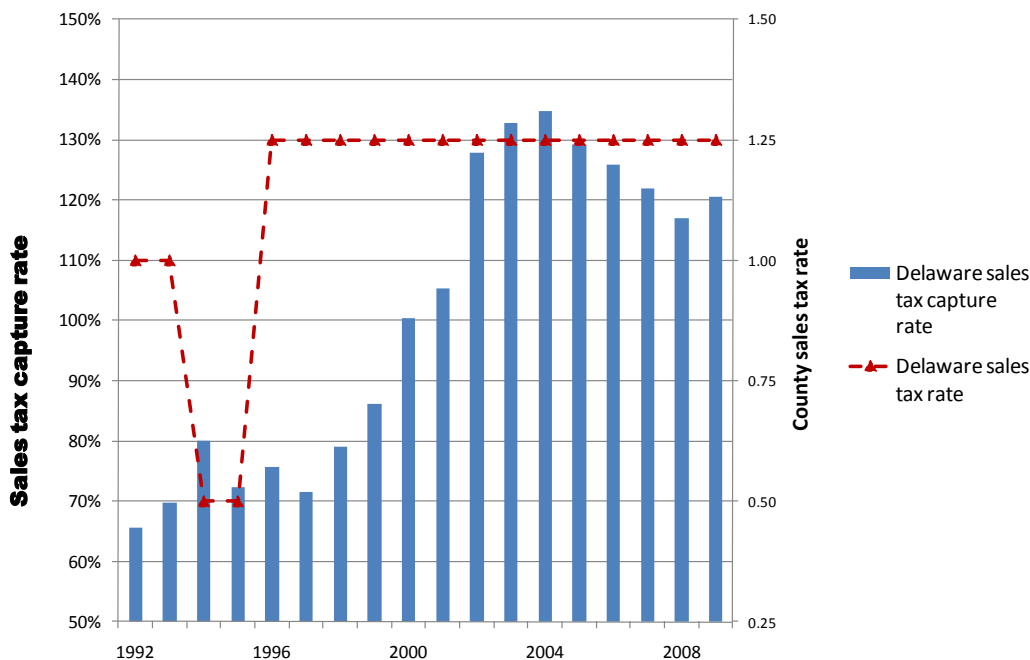
The sales tax capture rate data for Ohio's 88 counties show little support for the idea that sales tax rates greatly impact regional shopping patterns. Figure 7 shows that for the ten counties with the largest amount of sales tax revenue per capita, five had the highest sales tax rate possible, 1.5 percent, and four had a sales tax rate of 1.25 percent. It is also interesting to observe that of the bottom 10 counties on this same measure, there is a mix of sales tax rates. The fact that some of these counties have maxed out their sales tax limits or have relatively high sales tax rates demonstrates the pressure on some low-performing counties to increase revenue by raising taxes.

Figure 7: Relationship between Sales Tax Rate and Per Capita Sales Tax Revenue Collection

Sales Tax Rate	Number of top 10 grossing counties	Number of bottom 10 grossing counties
0.50%	0	2
0.75%	0	2
1.00%	1	3
1.25%	4	1
1.50%	5	2

The central Ohio region offers an example of this dynamic. Figure 8 details the sales tax capture rate of Delaware County juxtaposed against the sales tax rate and demonstrates that shoppers do not necessarily gravitate to counties with the lowest tax rate since sales tax capture rates increased in Delaware County during the same time the sales tax rate was also increased. Interestingly, Delaware County achieved these gains despite the fact that it had a county sales tax rate that was two and a half times larger than that of Franklin County, which had a sales tax rate of .5% from 1992 to 2004 when it was briefly increased to one percent and then reduced to .75 percent in 2008.

Figure 8: Delaware County Sales Tax Capture Rates Compared with Sales Tax Rates, 1992-2009



The discrepancy between regional shopping patterns and Ohio's county-based sales tax structure creates a situation where overall spending in the region changes little, but the locations where spending happens, change significantly. This dynamic is illustrated in Figure 9, which illustrates the change in regional spending patterns for the area of central Ohio covered by the Columbus MSA. The MSA covers Delaware, Fairfield, Franklin, Licking, Madison, Morrow, Pickaway, and Union counties. From 1992 to 2009 the per capita sales tax revenue of this region increased by \$9 per capita, consistent

with an overall increase in income in the region. Yet during this time, total spending decreased in the central county of Franklin and increased in the region's edge counties. From 1992 to 2009, Franklin lost 12 percent of its share of the region's sales tax revenue. Delaware County lead the way by increasing its share by an additional 9 percent. Fairfield County increased its share of spending by 2 percent and Union County by 1 percent. All other counties remained the same during this time period. To those familiar with the area, this dynamic is not surprising given the shift in retail spending patterns stimulated by the introduction and build-out of the Polaris shopping district. Because the Polaris retail orbit straddles both Franklin and Delaware Counties, some of the potentially negative impact to Franklin County is mitigated. Nevertheless, the impact of Polaris on each county's sales tax revenue is clear.

Figure 9: Location of Retail Spending in Central Ohio Counties (Columbus MSA), 1992 & 2009

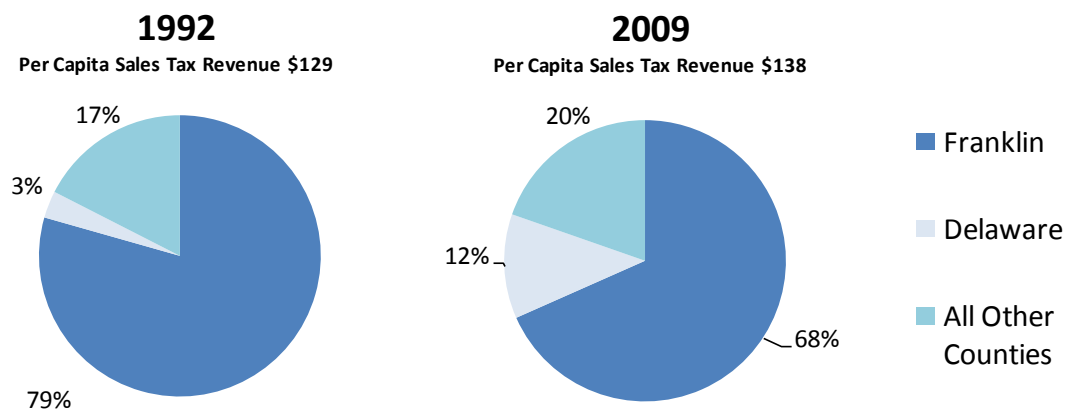
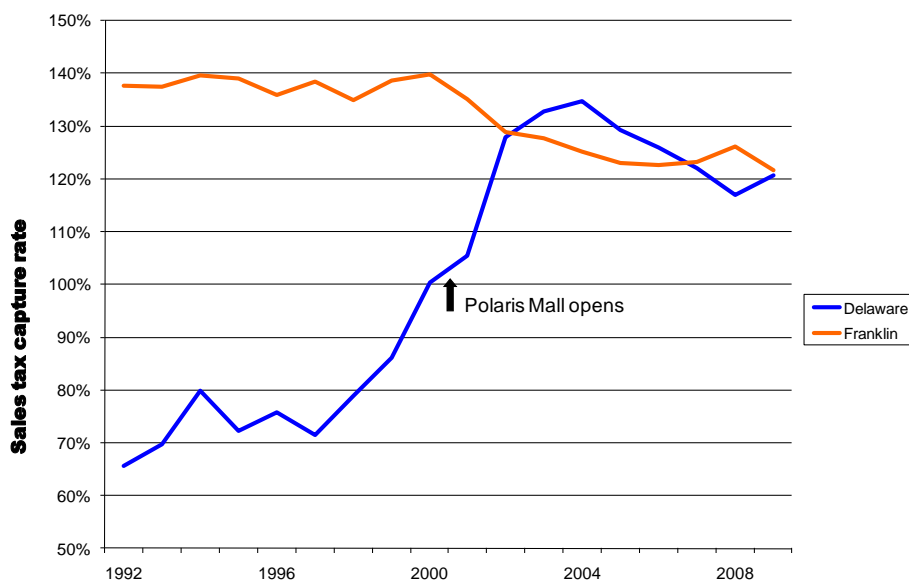


Figure 10 illustrates the relationship between Franklin and Delaware Counties as the population of Delaware County boomed and Polaris opened.

Figure 10: Sales Tax Capture Rates of Franklin and Delaware Counties, 1992-2009



Counties with underperforming retail options may be tempted to raise sales tax rates to combat declining revenues. This dilemma is especially problematic for small, rural counties where it is unlikely that new retail developments will locate in the near future. However, raising sales tax rates is not a long-term solution and a majority of counties have reached or are nearing their tax ceiling. Figure 11 shows whether counties can legally continue to raise their sales tax rate and by how much. Forty-seven percent of all Ohio counties have reached their sales tax limit and additional 45% are within a half penny of the limit. These charts underscore a larger conclusion of this analysis which is that relying on raising the sales tax in these counties is not the solution to these disparities and the solution must be made through strategic alignment of the relationship between taxation and the lifestyles of Ohioans.

Figure 11: County Sales Tax Rates, 1992 & 2009

