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Presentation to the Ohio Regional Economic Development Alliance Study Committee
Thomas Bier, PhD
Associate of the University, Cleveland State University
December 20, 2018

Co-Chairs Hambley and McColley; members of the committee: Thank you for the opportunity to present on matters concerning collaborative economic development among local governments.

My name is Thomas Bier. I am retired from Cleveland State University where I had been director of the Center for Housing Research and Policy in the Maxine Goodman Levin College of Urban Affairs, and coordinator of the Ohio Housing Research Network. Previously I was a housing planner for the Cleveland-area metropolitan planning organization (NOACA). I have over 40 years of experience with regional housing dynamics and impacts on communities and elected officials. Some conclusions I've reached are these:

- Local officials have virtually no incentive to collaborate for economic development because the “winning community” will get the employer, the jobs, and new tax base while the other collaborators get nothing.
- The dominant issue for all local officials is *their own* tax base, which compels them to do whatever they can to increase it and protect it—and not waste their time on something that might help another community.
- Tax bases vary greatly across a multi-county region such as Cleveland-Akron. At one extreme is a community thriving with development and growth, typically an outer suburb. At the other extreme is a community experiencing decline, deterioration, abandonment. Until 30-40 years ago decline was almost exclusively in the central city. But now some suburbs have aged to where they have serious problems. The other jurisdictions in the region are scattered between those extremes. That pattern is typical of Ohio's metropolitan areas.
- The range in condition exists to a large extent because public policy and practice strongly support the development of new communities on farmland while giving little support to renewal and redevelopment of built-out, old communities. The development impact of a highway widening or new interchange, for example, far, far exceeds the impact of the state's programs intended to “preserve and improve” housing stock. Places with worn and obsolete real estate are expected, per home rule, to produce renewal and redevelopment essentially *on their own*. But the root problem is inadequate tax base. Thus decline worsens and spreads—and pushes people to move.
- The natural pattern of population movement (and shifting economic strength) is toward new and renewed places and away from aged declining ones, leaving the least

attractive properties abandoned and infrastructure underutilized. In Northeast Ohio recent tax-base impacts have been dramatic. Between 1994 and 2017:

- The city of Cleveland lost \$2.4 billion (-30%) of its residential tax base (adjusted for inflation)
- The inner suburbs of Cuyahoga County (18 that share a border with Cleveland) lost a combined \$4.8 billion (-25%)
- The remaining suburbs of Cuyahoga County gained \$2.9 billion (+9.4%) for a ***net Cuyahoga loss of \$4.4 billion (-7.6%)***
- ***Adjacent counties (see map) gained \$16.6 billion (+59%)***

That extreme tax-base disparity fosters a climate of winners and losers and forces officials and their residents into defensive, anti-collaborative positions. (The city of Columbus, and thus Franklin County, minimized such a condition by annexing new communities. The land area of Columbus is 223 square miles; Cleveland, 77.) The loss of tax base creates pressure on the losers to compensate by raising rates, which makes them less attractive as places to live and do business. It's a vicious circle. Some of the highest property rates in the state are in Cuyahoga's aged inner suburbs, while outer communities have relatively low rates because development automatically produces new revenues.

If officials are to engage in collaborative economic development, they need a meaningful incentive. They must directly gain something concrete, otherwise collaboration beyond superficial (such as joint purchasing and mutual aid agreements) will not happen.

I have long marveled at Minnesota's Fiscal Disparities Program. It reflects the reality that the region, not individual communities, produces growth, and thus all communities should share in success. The Minneapolis-St. Paul region has been engaged in tax-base growth sharing since 1975. All 179 independent jurisdictions in the seven-county region gain from economic development *irrespective of where it is located*. Each year, communities that have growth in their commercial and industrial tax base keep 60 percent of it while sharing 40 percent with communities that have less or no growth. The contributors do not lose something they already have; they gain, but less than they would if there was no sharing. The result after 43 years is modest tax-base disparity and *regional cooperation*. (Tax payers are not affected. Their bill is the same as if there was no sharing.) In 2016, \$561 million was shared. Eighty jurisdictions were contributors and 99 were recipients. One's position as a recipient or contributor can change from year to year. When the program started, both Minneapolis and St. Paul were recipients. Lately, Minneapolis has been a contributor and St. Paul a recipient.

Some might consider gain sharing to be "taking from the rich and giving to the poor" or "social engineering." But if the program has been economically detrimental to residents and employers, that is not apparent. In 2015, the Minneapolis-St. Paul region had a median

household income of \$71,000 compared with \$51,000 in the Cleveland-Akron region. And between 1975 and 2015, the number of jobs increased 894,000, while the Cleveland-Akron region gained 225,000. After 1990, the difference was even greater: 422,000 vs. 68,000. The two regions have the same number of counties and about the same size population. The fact that the program has been operating for 43 years suggests that most participants support it.

I recognize that establishment of such a program in Ohio would be unlikely if pursued through the legislature, as was done in Minnesota (which led to a Supreme Court challenge). But the legislature can and should provide a potent incentive for officials to form an alliance and engage in growth sharing.

And the state needs to structure taxes so as to regionally balance new outer attractiveness with old inner attractiveness. The fact that one can live in a township and not pay a resident income tax is strong incentive to leave a city, any city not just the old. The state can express its commitment to old places and regional balance by providing a tax credit to homeowners in communities where the average house is 50 or more years old.

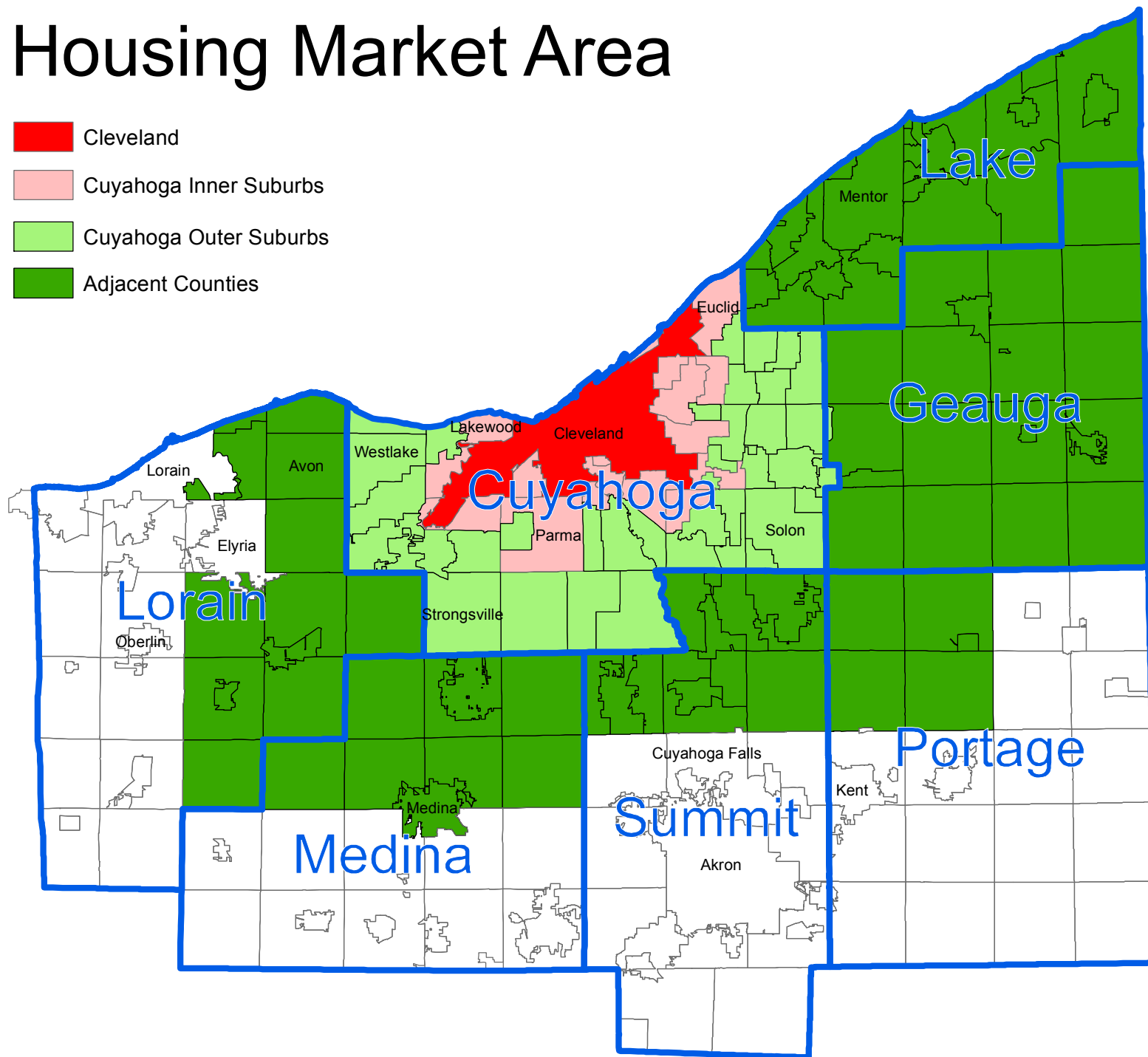
The state has a constitutional responsibility to ensure “equal protection and benefit” of its citizens. It readily promotes the development of new communities, which is fine. But that promotion fuels movement from, and weakening of, established communities. The state then holds the weakened places solely responsible, or nearly so, for their condition by providing scant support for renewal and redevelopment—as if to say, “You have home rule; it’s your problem, you fix it” even though the state greatly exacerbates the problem. That is anything but equal protection. Further, wealth in the form of property value is shifted from owners in old places to owners in new ones. As an agent of that redistribution (inadvertent as it may be) the state fails in its responsibility to ensure equal protection.

Continuation of disparity at the scale of \$4.4 billion lost in Cuyahoga County vs. nearly \$17 billion gained on the other side of the county line surely will impair Northeast Ohio’s future and cost the state substantial benefits. The state’s role in preventing that future is, of course, critical. But the primary responsibility is local. The region’s mayors, council members and county officials have to want a different future, a future not of winners and losers but of collaborative growth and shared gain. A turning point may be at hand; willingness for change may be greater than what one might assume. But ice needs to be broken, leadership expressed. This committee is positioned to be instrumental in meeting the need. I wish you well.

Thank you for your attention to this particularly important matter. I welcome your comments and questions.

Housing Market Area

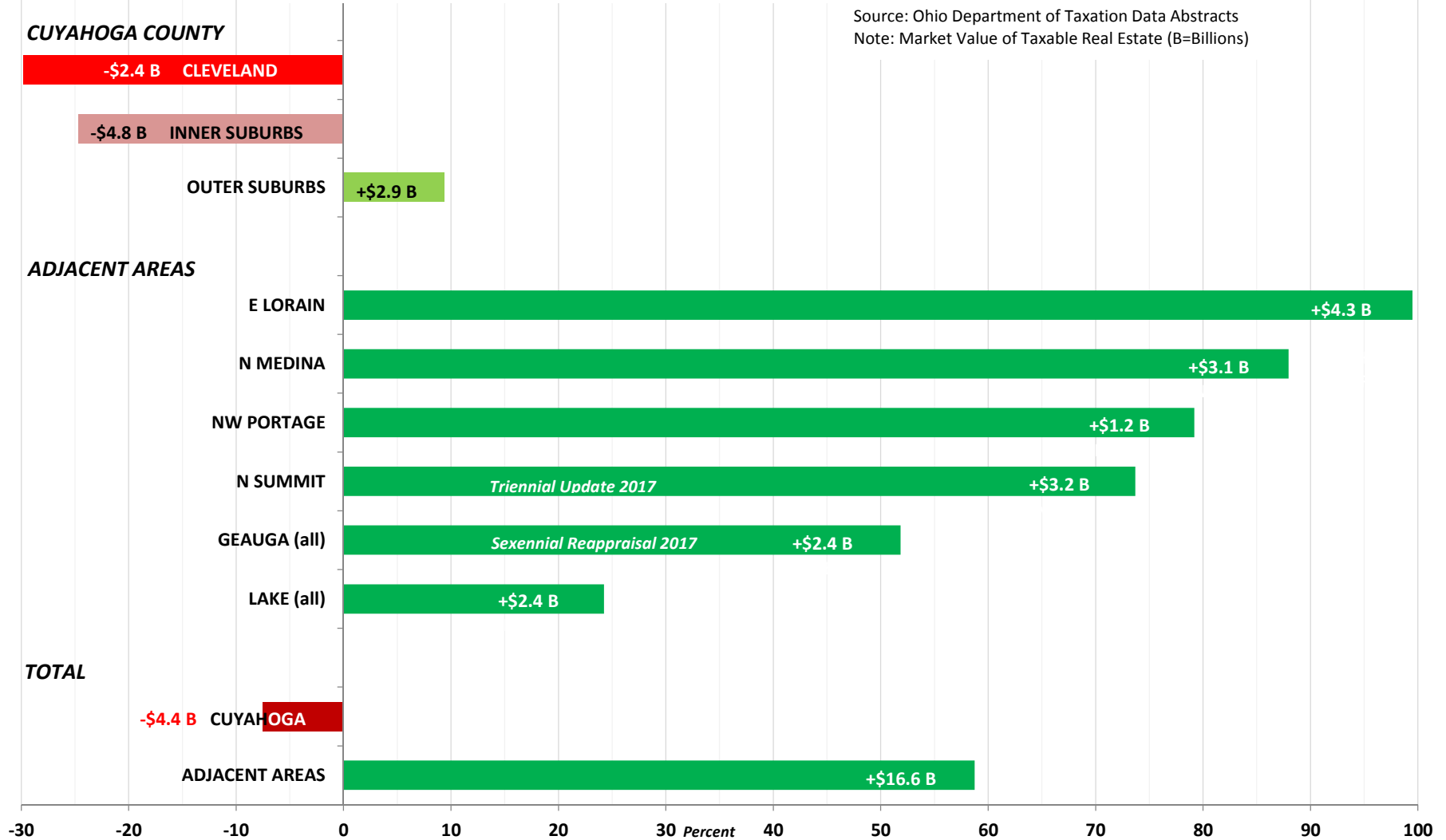
- Cleveland
- Cuyahoga Inner Suburbs
- Cuyahoga Outer Suburbs
- Adjacent Counties



Value of *Residential* Real Estate: Cuyahoga County and Adjacent Areas

Percent Change 1994-2017 (adjusted for inflation)

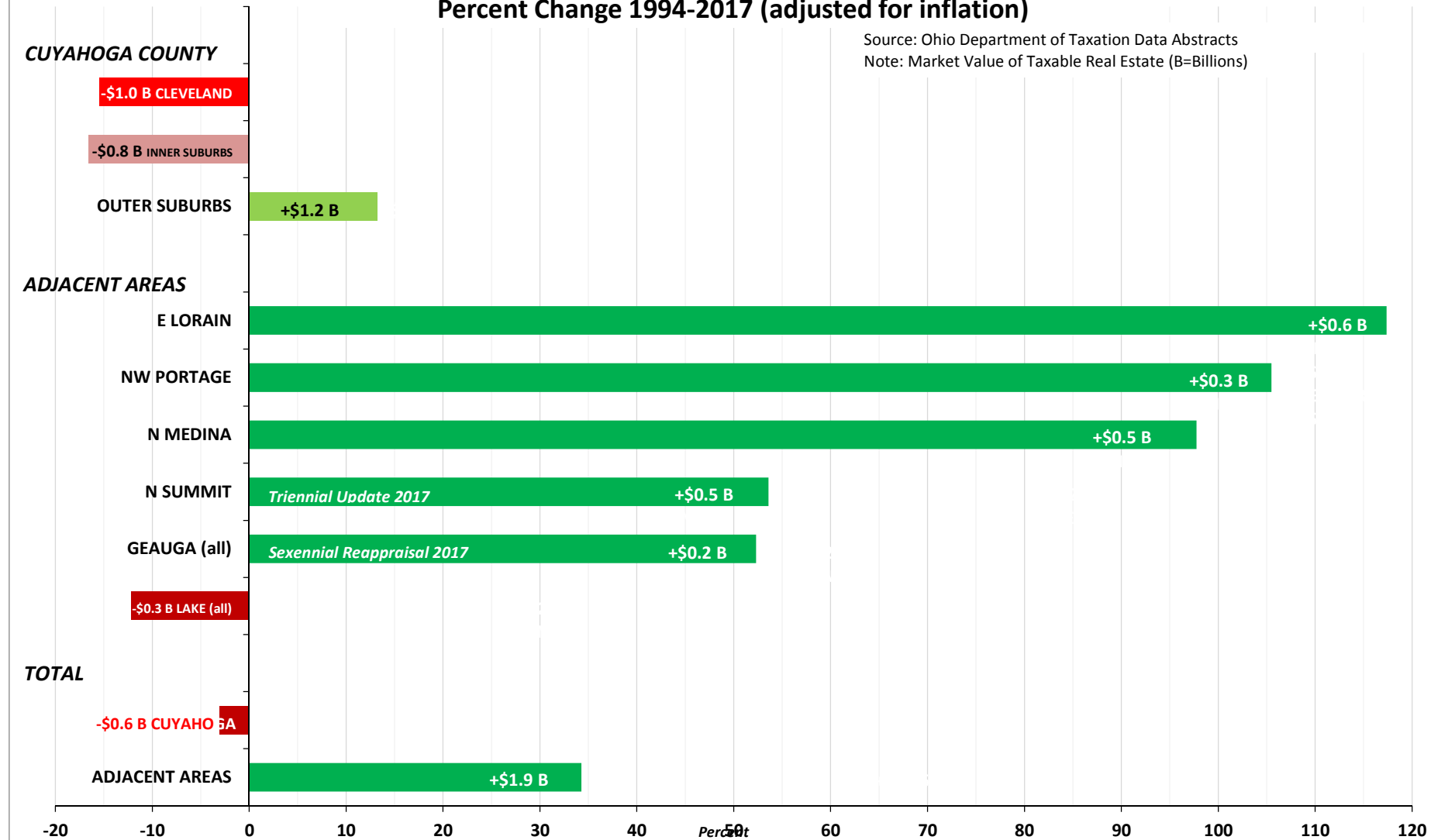
Source: Ohio Department of Taxation Data Abstracts
Note: Market Value of Taxable Real Estate (B=Billions)



Value of *Commercial* Real Estate: Cuyahoga County and Adjacent Areas

Percent Change 1994-2017 (adjusted for inflation)

Source: Ohio Department of Taxation Data Abstracts
Note: Market Value of Taxable Real Estate (B=Billions)



Value of *Industrial* Real Estate: Cuyahoga County and Adjacent Areas

Percent Change 1994-2017 (adjusted for inflation)

Source: Ohio Department of Taxation Data Abstracts
 Note: Market Value of Taxable Real Estate (B=Billions)

