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NE Ohio-Cleveland Metropatterns

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Northeast Ohio Economic Revenue Study:

Northeast Ohio Metropatterns

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Ameregis**

**DRAFT
February 2008**

Introduction and Overview

Analysis of demographic and fiscal trends in Northeast Ohio shows how uncoordinated, inefficient development and competition for tax base are threatening every community in the region—from the most impoverished to the most affluent.

- Job and income growth in the region have trailed the nation and other comparable metropolitan areas for decades.
- The region continues to consume previously undeveloped land despite that fact that its population is not growing.
- The ability of local areas to finance local public services varies dramatically from place to place.
- The region shows some of the highest rates of segregation by race and income in the nation.

A variety of factors are responsible for these trends. Some, like major declines nationally in manufacturing sectors that were once the core of the region's economy, are largely beyond the scope of local policies. And others, like the highly fragmented nature of local governance in the region, are rooted in long-standing tradition. However, other metropolitan areas facing similar problems have fared better. In particular, metropolitan areas that have developed institutions to reduce incentives for inefficient inter-local competition for economic activity and to coordinate land use and economic development planning on a regional scale have consistently out-performed Northeast Ohio.

Here are the report's main findings:

The idea that the suburbs are free of fiscal and social stresses is a myth. Two-thirds of suburban residents in the 10-county study area live in communities that are struggling with social or fiscal stress. One group of suburbs has problems typically associated with large cities, including weak tax bases and significant and growing poverty in schools. Another group of fully-developed areas shows lower poverty than the stressed suburbs but has weak tax bases, slow growth and growing social needs. Despite the fact that the region as a whole is growing very slowly, a group of middle and outlying suburbs is facing growth-related costs with modest, largely residential tax bases. Just a small share of the population lives in affluent suburbs with expensive housing, plentiful commercial development and strong tax bases.

The region's communities are highly divided by income, race and fiscal conditions. Despite some success stories in the area's central cities and inner suburbs, most of the region's growth and the opportunities that accompany growth are occurring in outlying areas. Despite the fact that overall regional population has been stagnant, households and economic activity in the region continue to move outward, consuming previously undeveloped land. The resulting social and fiscal inequities are greater than they need to be.

All types of communities are hurt by the way the regions are growing. The Cleveland and Youngstown regions are increasingly segregated by income and race. Central cities

remain troubled, and a growing group of suburbs is experiencing similar social strains. Despite little or no population growth, the region continues to sprawl outwards. Low-density development is threatening valuable farmland and natural habitat. Growing traffic congestion is threatening the quality of life for many residents.

Across the state, Ohio's state and local finance system pits local governments against one another in a competition for tax base and deprives many of its neediest schools of adequate funding. Without changes to the development policies shaping the state, there is no reason to believe these patterns will not continue, with a core of stressed communities growing larger, and a ring of sprawl devouring even more land around it.

All types of places would benefit from regional reforms.

Regional cooperation offers the best hope for strengthening communities, preserving the environment and increasing quality of life for all citizens:

- **Tax reform** can stabilize fiscally stressed communities, help communities pay for needed public services and reduce incentives for inefficient inter-local competition contributing to the current pattern of development.
- **Cooperative land-use planning** can help communities coordinate development, revitalize stressed neighborhoods and conserve open space.

- **Metropolitan governance** can help address issues that cross municipal boundaries and ensure that all communities have a voice in regional decision-making.

Change is possible. Cooperative strategies like these offer a viable path for the Cleveland and Youngstown regions to meet their great challenges. They are already in place in various forms throughout the country, and have thoughtful advocates in the 10-county area. They can encourage environmentally sensitive development, reduce inequalities among communities, encourage regional economic development efforts and expand the opportunities of the state's most vulnerable residents.

Northeast Ohio Metropatterns

The Northeast Ohio area—defined in this report as Ashland, Ashtabula, Carroll, Columbiana, Cuyahoga, Geauga, Lake, Lorain, Mahoning, Medina, Portage, Richland, Stark, Summit, Trumbull and Wayne Counties—is struggling with problems associated with slow and unbalanced growth. Job and income growth lag behind the nation and other similar metropolitan areas; the region is sprawling despite the fact that population is not growing; poverty and its consequences are distributed very unevenly across the region; and significant differences in the ability of local governments to pay for services make it difficult for many local governments in the region to meet public service needs.

Many parts of the region still face relatively high social costs, associated with high or increasing poverty, or with low, declining or stagnant resources. At the same time, local areas engage in inefficient competition with each other to try to control as large a slice as possible of the region's tax base pie, rather than working together to increase the size of the total regional pie.

This work describes these trends and highlights the policy alternatives available to counteract the negative and enhance the positive in the way the region is growing. The work begins by documenting the types of places found in the core 12 counties of the study area. This is followed by analysis of how the region has grown in recent years and analysis of the fiscal status of the region's local governments. The report concludes

with a description of the policy alternatives available to promote orderly and economic development across the region.

Community Classifications

The fiscal health of local areas is determined by a variety of factors affecting both their ability to raise revenues and the costs associated with their social and physical needs. In order to account for a range of factors, this report relied on a statistical technique called cluster analysis to identify groups of communities sharing fiscal, social and physical characteristics. (See page 10 for a description of the clustering process.)

The results show that, like virtually all metropolitan areas in the U.S., the Cleveland region cannot be simply divided into two parts—central cities and suburbs. In fact, the clustering process revealed five types of suburban communities in the region, each with its own strengths and challenges. (See Map 1 for the communities included in each group and Table 1 for a summary of the characteristics of the community types.)

Central cities: The region's two central cities boast attributes—downtowns, attractive older homes and central locations—that provide clear opportunities for revitalization. But despite these strengths, they remain severely stressed overall, with high and growing poverty, severe racial segregation and aging infrastructure. Home to 21 percent of the households in the Cleveland region, Cleveland and Akron must provide for great social need with tax bases significantly below average and growing at slower-than-average rates, factors that

discourage investment and dramatically limit the opportunities of residents.

Stressed: The region's most stressed suburbs are a combination of fully developed inner suburbs and older areas further from the core. These 66 cities and townships represent 34 percent of regional households (42 percent of suburban households). As a group, they have very low property tax bases, high poverty in schools, declining population and aging infrastructure, and few jobs per resident household. Stressed communities include nearly all of the suburbs bordering Cleveland; Coventry, Barberton and Cuyahoga Falls, bordering Akron; and outlying fully developed areas like Canton and Elyria.

At-risk suburbs: Home to 22 percent of the Cleveland region's households and 28 percent of suburban households, these suburbs are a mix of inner suburbs close to Cleveland and Akron and outlying residential areas near the fringes of the region. Although there is considerable variation, on average, these communities have below-average property tax bases that are growing more slowly than average. Despite the advantage of either central locations or lots of developable land, growth rates in these areas are either modest or negative and they are home to few of the region's jobs.

Some at-risk areas are already showing signs of stress, like increasing poverty in schools or low tax bases. Others are still outwardly healthy, with little poverty in their schools and relatively high average household incomes. But they too

exhibit signs, like slow-growing tax-base, that foreshadow future problems.

Developing suburbs: Home to 20 percent of the region's households in 2006, these areas are fast-growing, low-density, middle-class communities. They have moderate tax bases—higher than the regional average as a group—but many have few jobs and must finance the costs of growth with very small commercial-industrial tax bases. Over time the costs of growth—new schools, roads, parks and police—can exceed the modest fiscal resources available in these areas. Most of the developing suburbs lie in the band of second and third ring suburbs between Cleveland and Akron.

Suburban job centers: Home to just 4 percent of the region's households, these areas are home to a large share of its expensive homes and commercial activity. In fact, as a group, their residential tax base per household is more than twice the regional average and their commercial industrial tax base per household is more than five times the regional average. These factors help them provide high quality public services at low tax rates.

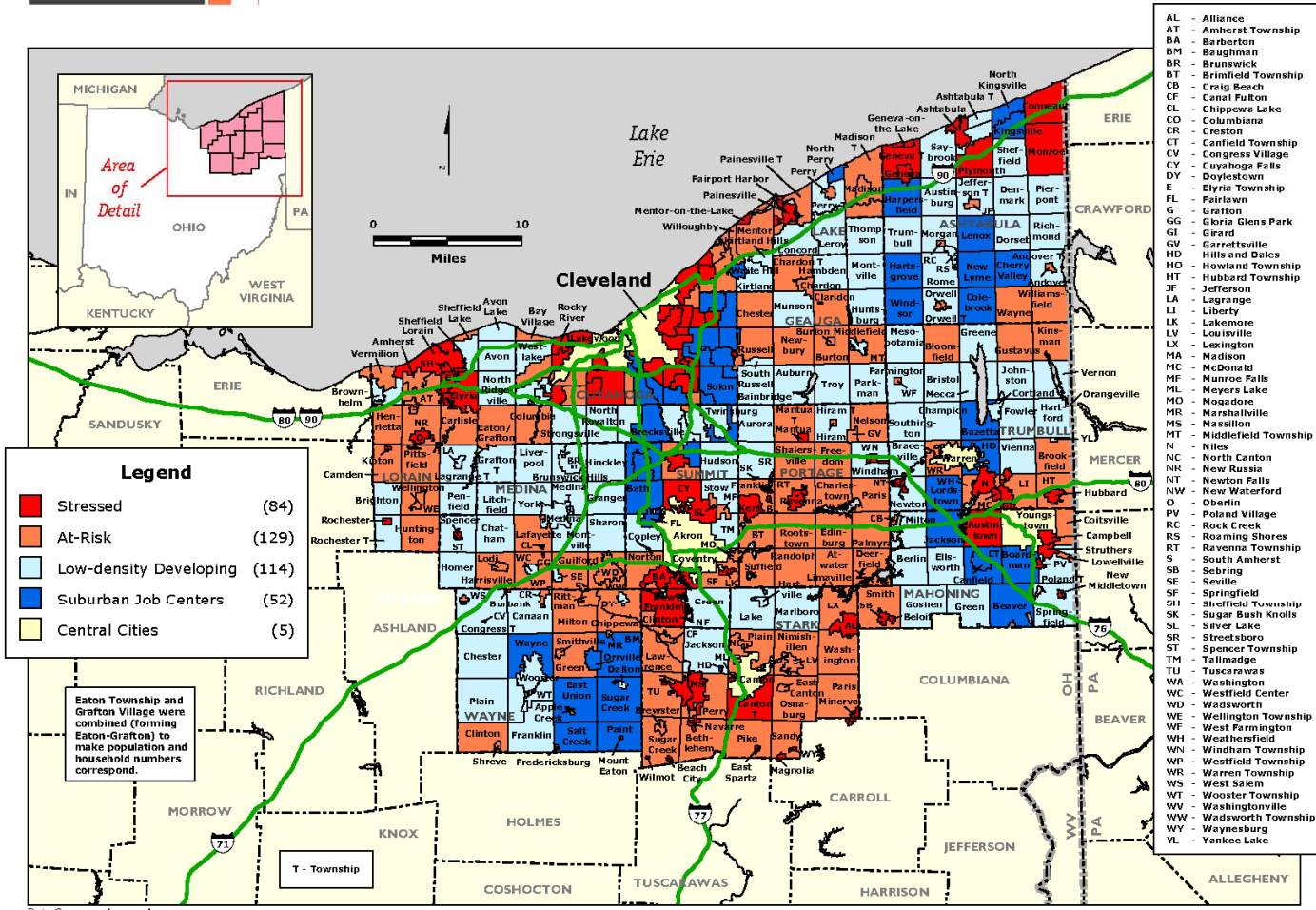
All types of communities are hurt by the way the region is growing. Central cities and stressed suburbs must provide public services in high-cost, high-need environments with limited tax bases. At-risk suburbs also must cope with limited, largely residential tax bases while facing the costs associated with either population decline (in fully-developed inner suburbs) or population growth (in developing outer areas). Low-density developing suburbs must cope with very rapid

growth with modest, largely residential tax bases. Even high tax capacity suburban job centers face extra costs associated with the way the region is growing, including congestion and extra costs associated with non-resident in-commuters.

Map 1



NORTHEAST OHIO REGION: Community Classification

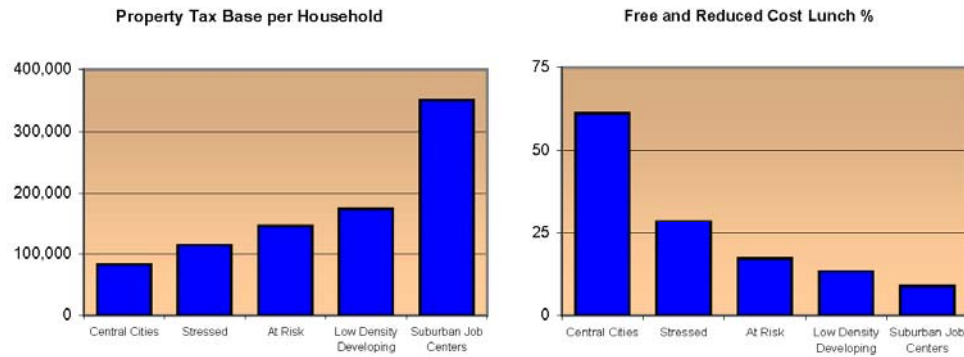


Data Source: Ameregis.

Table 1: Characteristics of the Community Types: Cleveland-Akron-Youngstown Area

Community Type	Number	2006	2006	2004	1996-2006	2000	2006	2000
		Percentage of Regional Households	Property Tax Base per Household	Percentage of Elem. Students Eligible for Free or Reduced Cost Lunch				
Central Cities	5	22	82,341	61	-4	1.2	1,386	53
Stressed	84	29	113,993	29	-1	0.6	939	46
At risk	129	22	145,089	17	5	0.6	169	36
Low Density Developing	114	21	174,162	13	22	0.7	68	28
Suburban Job Centers	52	6	350,376	9	9	1.7	97	34
Region	384	100	149,664	17	7	0.7	207	36

All values except number of communities and percentage of regional households are medians.



COMMUNITY CLASSIFICATION: HOW IT WORKS

This study relies on a statistical procedure called cluster analysis to assign municipalities to groups that are as internally homogeneous and as distinct from one another as possible, based on specified social, fiscal and physical characteristics.¹

The characteristics used to cluster Northeast Ohio area communities were:

- 2006 property tax base per household
- 2004 percentage of elementary students eligible for free or reduced-cost lunch
- 2000 jobs per resident household
- 1996-2006 growth in households
- 2000 median age of housing stock
- 2006 households per square mile

These variables provide a snapshot of a community in two dimensions—its ability to raise revenues from its local tax base and the costs associated with its social and physical needs. Fiscal capabilities are measured by property tax base. Ideally, payroll tax base would also be included but this measure is available for only the municipalities where the tax is used. However, property tax base per household correlates with payroll tax base per household, implying that it is a relatively good proxy for overall tax base. The jobs per household measure also serves as a good proxy for the payroll tax, as well as serving as a good measure of demand for local services from non-residents.

“Need” measures were selected to capture a range of local characteristics that affect costs. The poverty rate is a proxy for several factors that can affect public service costs. Low incomes are associated with greater need for services and increased costs of reaching a given level of service. Density is another important predictor of cost. Very low densities can increase per-person costs for public services involving transportation—schools, police and fire protection—and for infrastructure—roads and sewers. Moderate to high densities, on the other hand, can help limit these costs.

Similarly, population declines and large population increases tend to increase the per-person costs of long-lived assets like sewers, streets or buildings. When population declines the costs of these assets must be spread across fewer taxpayers. When population is growing rapidly, the costs of new infrastructure tend to fall disproportionately on current residents (compared to future residents) because of the difficulty of spreading the costs over the full lifetime of the assets. Finally, median age of the housing stock is a commonly used proxy for the age of infrastructure—older infrastructure is more expensive to maintain.

Because of their unique characteristics and internal heterogeneity, the central cities were placed in their own group before clustering. The analysis was completed only for the 12 core counties of the region. Ashland, Carroll, Columbiana and Richland counties were excluded from this part of the analysis. Because of their largely rural nature, their municipalities did not lend themselves well to the community classification which is designed to highlight differences across the suburban areas within larger labor and housing markets.

Social Separation and Sprawl

The wide diversity of community types in Northeast Ohio reflects the fact that its communities are highly, and increasingly, divided by income, race and fiscal condition.

This segregation occurs for many reasons, but in part because local governments in Ohio are highly dependent on locally generated tax revenues to pay for public services—everything from schools and parks to police and fire. That reliance has led to a fierce competition for developments that generate more in taxes than they cost in services. That usually means trying to attract big commercial projects and high-end housing, while limiting the land available for other needed land uses like affordable housing. But in the end, only a few places “win” this race.

Among the results of wasteful competition is great variation in tax base among communities, and great inequalities in the level of services they can provide. While tax-base rich communities can provide high-quality services at reasonable rates, fast-growing places with low tax bases often struggle to keep up with the onslaught of new residents and the schools, roads and sewers they require.

Older at-risk communities, burdened with stagnant tax bases, must cut services or raise taxes to provide the level of service desired by residents. Either choice puts them at a disadvantage in the regional competition for jobs and residents.

Despite some revitalization successes in Cleveland and some of its inner suburbs, the overwhelming movement of opportunity in the region is outward. Gains in population, tax base, household income and jobs are occurring in outlying communities, at the expense of the core.

For example, Cuyahoga County lost 7 percent of its population and nearly 50,000 manufacturing jobs between 1996 and 2006. At the same time, Medina County’s population grew by 13 percent, and its employment grew by more than 24 percent.²

Sprawling development contributes to a devastating pattern of social stratification that is dividing the region by income and race. Communities in the region are highly segregated, with poor people of color disproportionately located in the cities of Cleveland, Akron, Canton, Youngstown and Warren and a growing group of distressed suburbs—places with low and slow-growing tax bases.

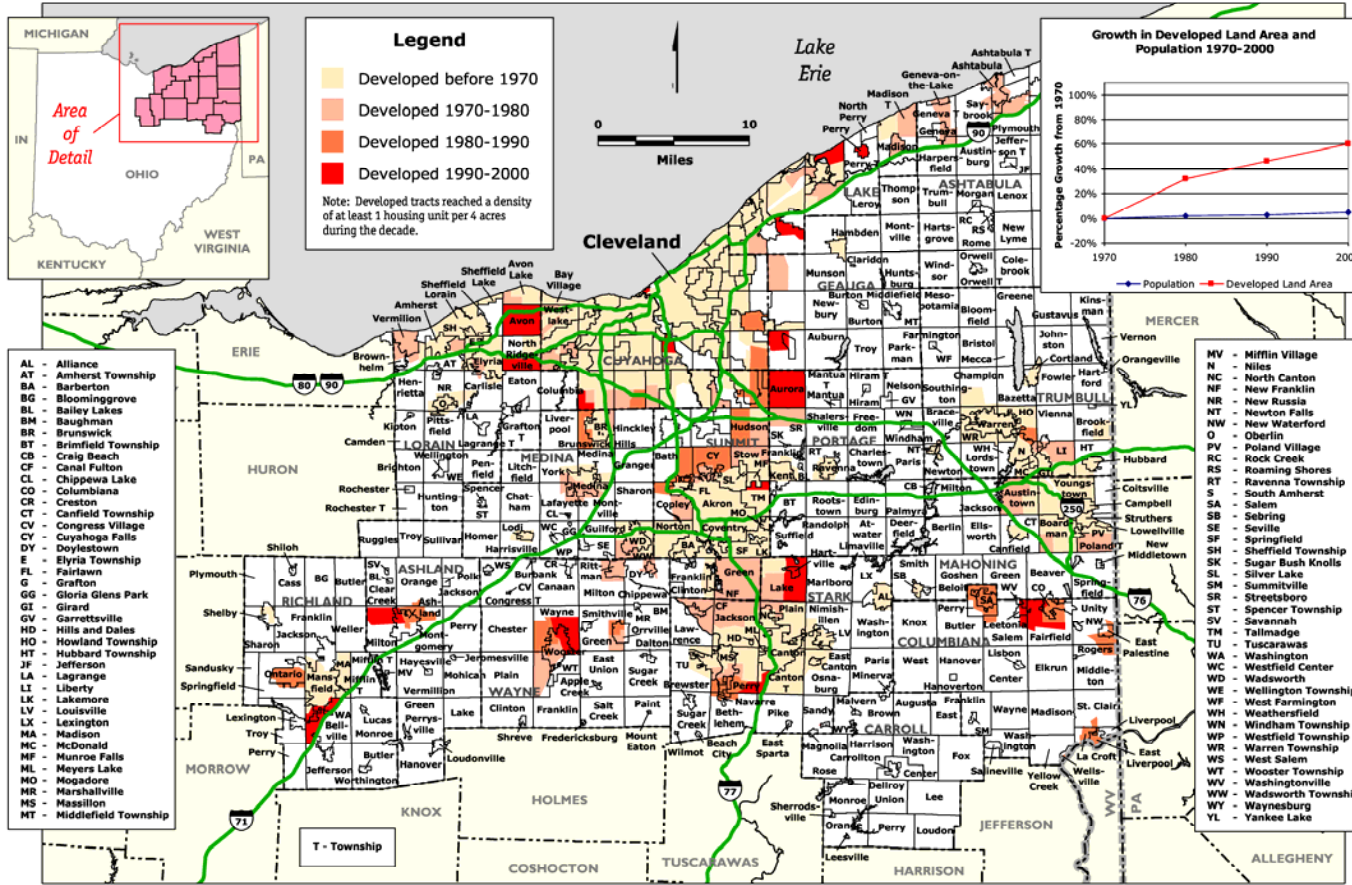
These pressures help drive the outward growth of the region. Between 1970 and 2000, despite the fact that population in the 16-county region grew by less than 5 percent, the amount of developed land increased more than 60 percent. (Map 2) This seemingly anomalous combination is the result of large population declines in the core of the region coupled with growth on the fringes. (Map 3)

The region’s sprawl compares poorly with other large metropolitan areas. Some of this is due to its high rate of local government fragmentation. As Figure 1 shows, more fragmented metropolitan areas tend to be sprawling faster than

Map 2



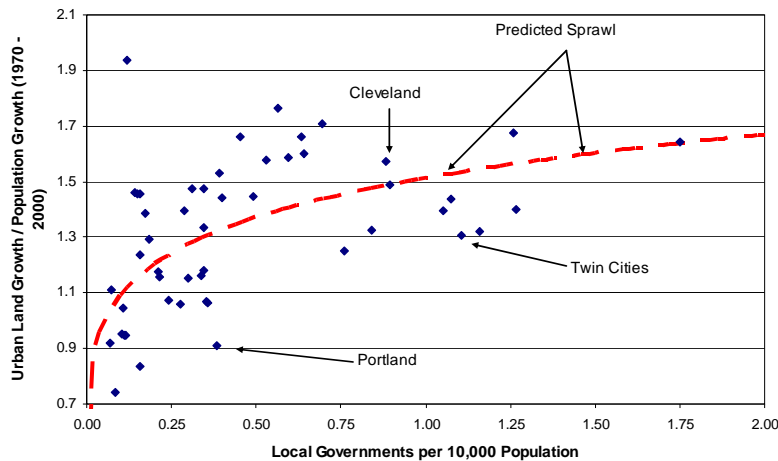
NORTHEAST OHIO REGION: Housing Development by Census Tract, 1970-2000



those with less fragmentation.³ Among the 50 largest metropolitan areas, the Cleveland metro shows both a high rate of sprawl and a high degree of governmental fragmentation. However, its sprawl rate is even higher than would be predicted by its high rate of fragmentation—indicated by the fact that Cleveland’s sprawl rate is above the predicted line in Figure 1.⁴ Interestingly, two of the metropolitan areas showing the greatest difference between actual and predicted sprawl rates are the Twin Cities and Portland, the two large metropolitan areas with the most extensive regional planning systems in the country.

Much of the growth in the region happened not in municipalities, but in unincorporated townships. Development in these communities often “leapfrogs” far beyond the established urban edge. In fact, during the 1990s, population growth was faster in Ohio townships located between 10 and 20 miles from major urban areas than in those located within 10 miles.⁵ Piecemeal development in these places, which often lack adequate planning capacity,⁶ adds to public service costs and hastens the decline of farming. It also helps explain why Cleveland is one of the Sierra Club’s “Most Sprawl-Threatened Cities.”⁷

Figure 1: Fragmentation and Sprawl in the 50 Largest Metropolitan Area

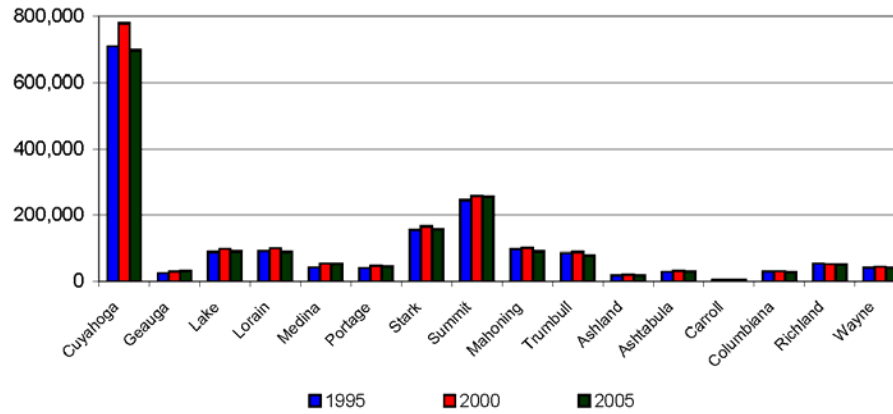


Jobs have followed people to the suburbs. Indeed, many areas in the suburbs are now commuting centers, with jobs outnumbering households. (Map 4) This growth fuels enables population growth even farther out in the fringes as fewer and fewer workers are tied to job locations in the central cities.

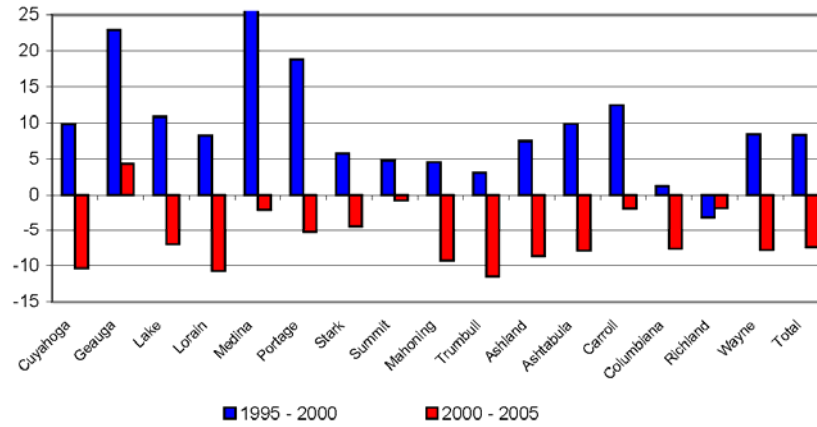
Many of the region’s jobs are still in Cuyahoga County. (Top panel, Figure 2) In 2005, roughly 40 percent of the region’s 1.7 million jobs were there. However, the region’s core county is losing ground. This can be seen in the growth data. (Bottom panel, Figure 2) Between 1995 and 2000, a period of strong job growth in the region, Cuyahoga County captured roughly its share of regional growth—48 percent of job growth during the period occurred in Cuyahoga. However, between 2000 and 2005, a period of sharply declining job counts, Cuyahoga absorbed 58 percent of the region’s job losses.

Figure 2

Jobs: 1995, 2000, 2005 by County



Percentage Change in Jobs: 1995-2000, 2000-2005 by County



The effects of unbalanced growth harm entire regions, not just individual low-tax base communities. A 2002 study by the U.S. Geological Survey, for example, showed that high levels of bacteria and viruses in the Cuyahoga River were largely due to sewage overflows in Akron’s combined sanitary and stormwater sewers—a problem that limits recreational use of the river in a large number of downstream communities, and one leaders of tax-strapped Akron say they simply can’t afford to fix.⁸

Coupled with ample land for new housing and expanding transportation networks in other parts of the region, the socioeconomic decline of the region’s core communities also contributes to the region’s sprawling growth. This sprawl, which leads to the loss of farmland and green spaces and overwhelms small communities with congestion, is shown clearly in the Cleveland region by long-term patterns of population decline in the core and rapid growth in cities and villages at the edge.

These facts help demonstrate that, for better or worse, the well-being of different parts of metropolitan areas are linked.⁹ In fact, the problems of declining neighborhoods, congested highways and degraded natural resources cannot be solved by communities working alone. Rather, they are regional problems requiring regional solutions.

The region’s problems go beyond unbalanced growth within the area, however. The regional economy as a whole has performed very poorly. Comparisons to other metropolitan areas show this clearly. Figures 3 and 4 show growth rates

since 1990 for jobs and per capita income. Not only does the Cleveland metropolitan area lag behind the two large metropolitan areas with the most extensive regional planning systems (the Twin Cities and Portland) but it also trails other large Midwestern metropolitan areas.¹⁰

Figure 3: Job Growth, 1990 - 2006

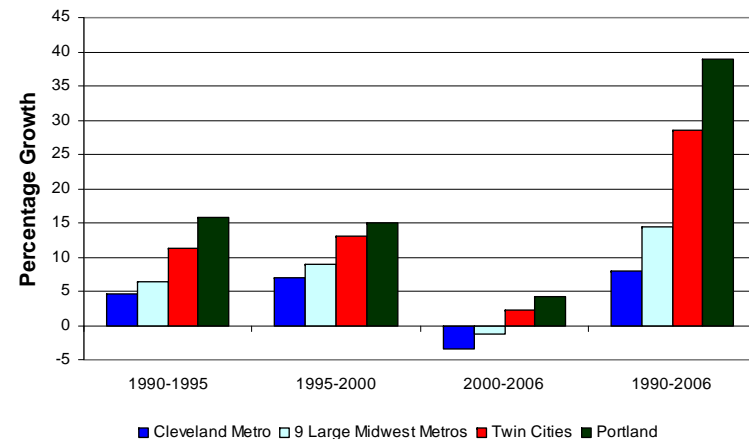
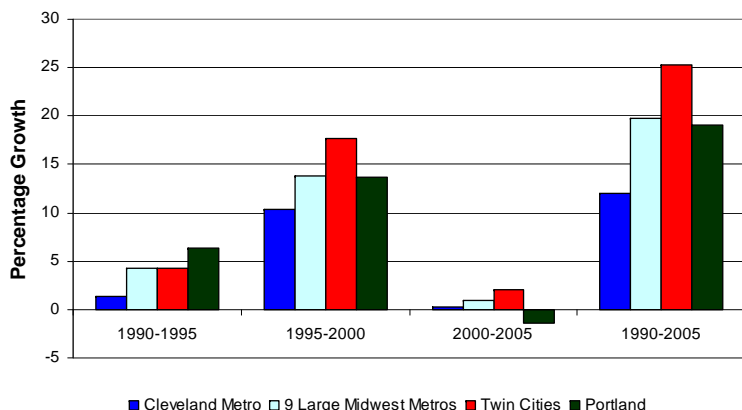


Figure 4: Real Personal Income Per Capita Growth, 1990 - 2006



Sprawling development also contributes to a pattern of social separation that divides regions by income and race. As in most metropolitan areas, Cleveland area residents are highly segregated. The social divide is clearly reflected in its schools. In 1997 and 2000, the Ohio Supreme Court ruled that the state’s system for financing education fails to provide a “thorough and efficient system of common schools throughout the state.”¹¹ The court cited continued over-reliance on local property taxes for funding, as well as structural deficiencies in the state’s basic aid formula and inadequate funding for school facilities.

Ohio’s unbalanced school finance system hurts many communities, including developing suburbs that depend

primarily on residential properties for tax base, and older communities serving large shares of low-income students.

The well-being of schools is so important because they are leading indicators of community health. When the perceived quality of a school declines, it can set in motion a vicious cycle of middle-class flight and disinvestment.¹² Many schools in older suburbs are now showing the same patterns of social change that occurred a generation ago in central cities. Decline in the core helps drive rapid growth on the edge, a pattern that stresses both places.

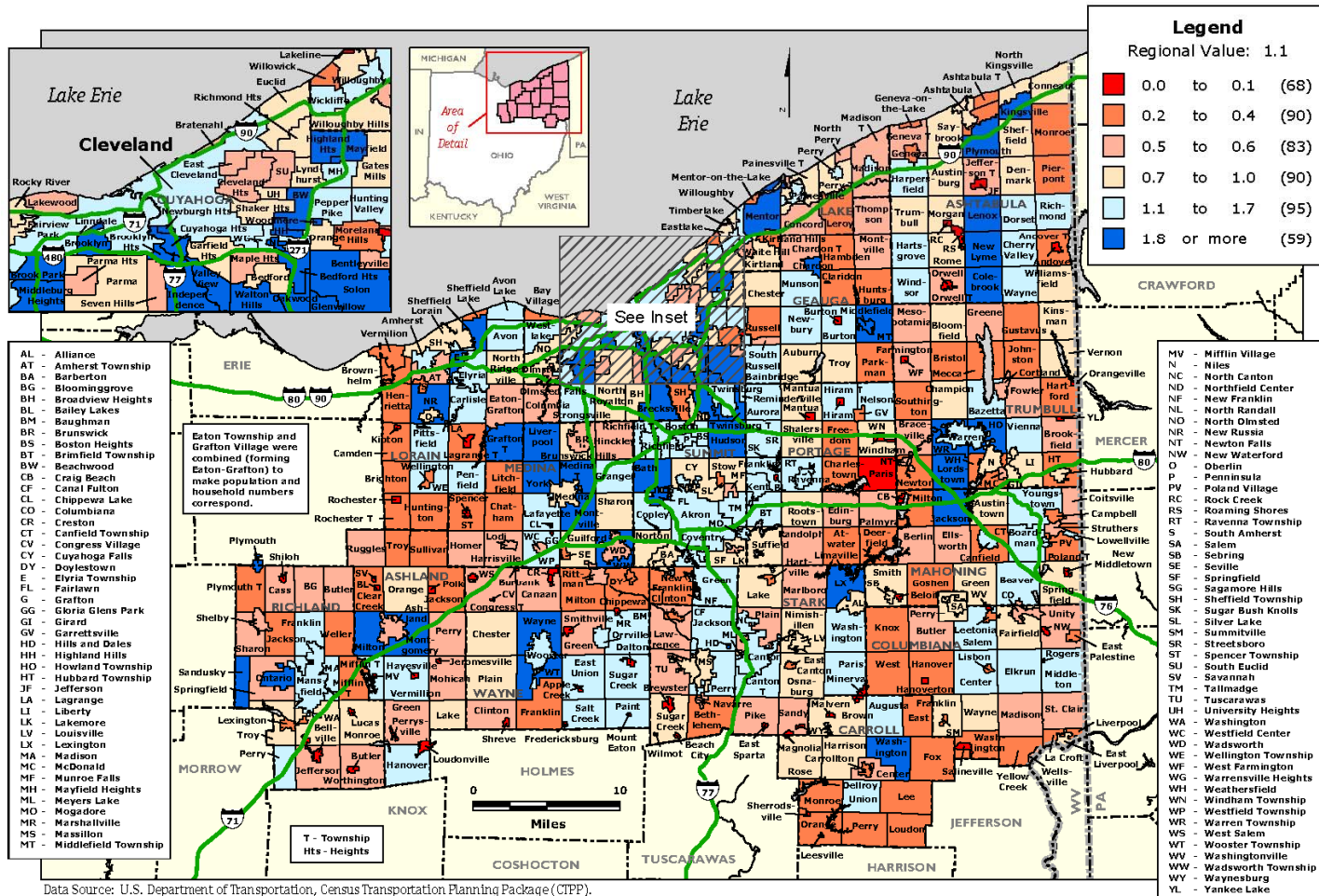
These patterns have especially harmful effects on people of color. In part due to subtle discrimination in the housing market, they are much more likely than whites to live in high-poverty areas.¹³ That means that segregated schools are very likely to be poor schools.

Concentrated poverty: The effects of poverty and other social needs in a region are often assumed to be confined to a few small neighborhoods. In reality, social separation and sprawl not only cause immediate harm to core cities, older inner-ring suburbs and fiscally-stressed developing suburbs, but also harm the rest of the region as well. As poverty intensifies in a community, those who can afford to will often choose to move away, depressing property values there and in surrounding areas. This flight threatens even high-capacity developing suburbs with eventual decline. Polarization limits the entire region’s ability to generate economic growth.

Map 4



**NORTHEAST OHIO REGION:
Jobs per Household by Municipality, 2000**



Poverty in Cleveland area schools is highly concentrated in the region's urban centers and adjacent suburban areas. School districts in these areas must serve high-need student populations with inadequate resources. Map 5 (percentage of elementary students eligible for free and reduced-price lunch by school, 2004) shows the areas of the Cleveland region with higher-than-average concentrations of elementary students eligible for free or reduced-price lunch by school district in 2004. Many of the elementary students in the region eligible for the free lunch program attend schools in just three of the region's school districts (Cleveland, Akron and Lorain).

Map 6 (change in percentage points of elementary students eligible for free lunch by school, 1994-2004) shows that the areas with increasing poverty in schools aren't just in the central cities of Cleveland and Akron. The most significant increases tend to be in the stressed and at-risk inner suburbs around the central cities.

Concentrated poverty is important for several reasons. When school poverty reaches certain thresholds in a community, many middle-class families with children flee to other communities. This flight, in turn, negatively affects the housing market in the community and often creates a vicious cycle of disinvestment.¹⁴ As in most metropolitan areas, the most recent waves of transition in Northeast Ohio are in inner suburbs. However, the overall pattern shows a clear outward movement over time. The resulting transitions can be very rapid—so rapid that they can overwhelm the resources of individual communities.

Regional responses are necessary. Regional land use planning can limit the extent to which social and fiscal problems become concentrated in specific areas. Regional tax-base sharing can reduce the fiscal incentives for inefficient competition for tax-base that contributes sprawling development patterns. And regional economic development efforts can increase the size of the “pie” to be divided among the different parts of the region.

Schools often experience social change faster than neighborhoods do because families with no children in the public school system (empty nesters, the young, and families with children in private schools) will often remain in a neighborhood past the time when most families with school-aged children in public schools flee. This can ease the increase in overall poverty rates. But ultimately, in most cases, when schools in a community reach certain thresholds of poverty and segregation, middle-class households of all types (i.e., households with residential choices) choose to live in other areas.

The flight of the middle class from a community strains both old and new communities. In fast-growing communities at the edge of the region, the middle class is streaming into increasingly overcrowded schools, a pattern that strains fiscal resources.

But the more powerful harms of this flight accrue to the people left behind in communities of concentrated poverty. High concentrations of poverty affect individual residents and their families as well as the community as a whole. Studies have found that poor individuals living in concentrated poverty are

far more likely to become pregnant as teenagers,¹⁵ drop out of high school,¹⁶ and remain jobless¹⁷ than if they lived in socio-economically mixed neighborhoods. These types of outcomes dramatically diminish the quality of life and opportunity for residents who live in areas of concentrated poverty.

Similarly, the concentration of poverty and its attendant social isolation make education, job search and general interaction with mainstream society difficult. The problems associated with concentrated poverty—everything from high crime to poor health—place a significant burden on municipal resources and discourage investment. The impact of concentrated poverty also extends into the larger regional economy by reducing the regional pool of skilled workers and otherwise creating a less attractive environment for economic growth and development.

This pattern of concentrated poverty especially harms people of color, who are much more likely than whites to live in high-poverty areas, in part due to subtle discrimination in the housing market.¹⁸ Racial separation mirrors the poverty patterns. The Cleveland region's schools are among the most segregated in the country and poverty and race interact in ways greatly detrimental to minority students. It is clear from Map 7 (percentage of non-Asian minority elementary students by school, 2004) that the schools with the highest concentrations of non-Asian minority students are also high-poverty schools.

As was the case with the school lunch maps, Map 8 (change in percentage points of non-Asian minority elementary students by school, 1994-2004) shows that the schools with increasing minority enrollment are not in the central cities, but again are

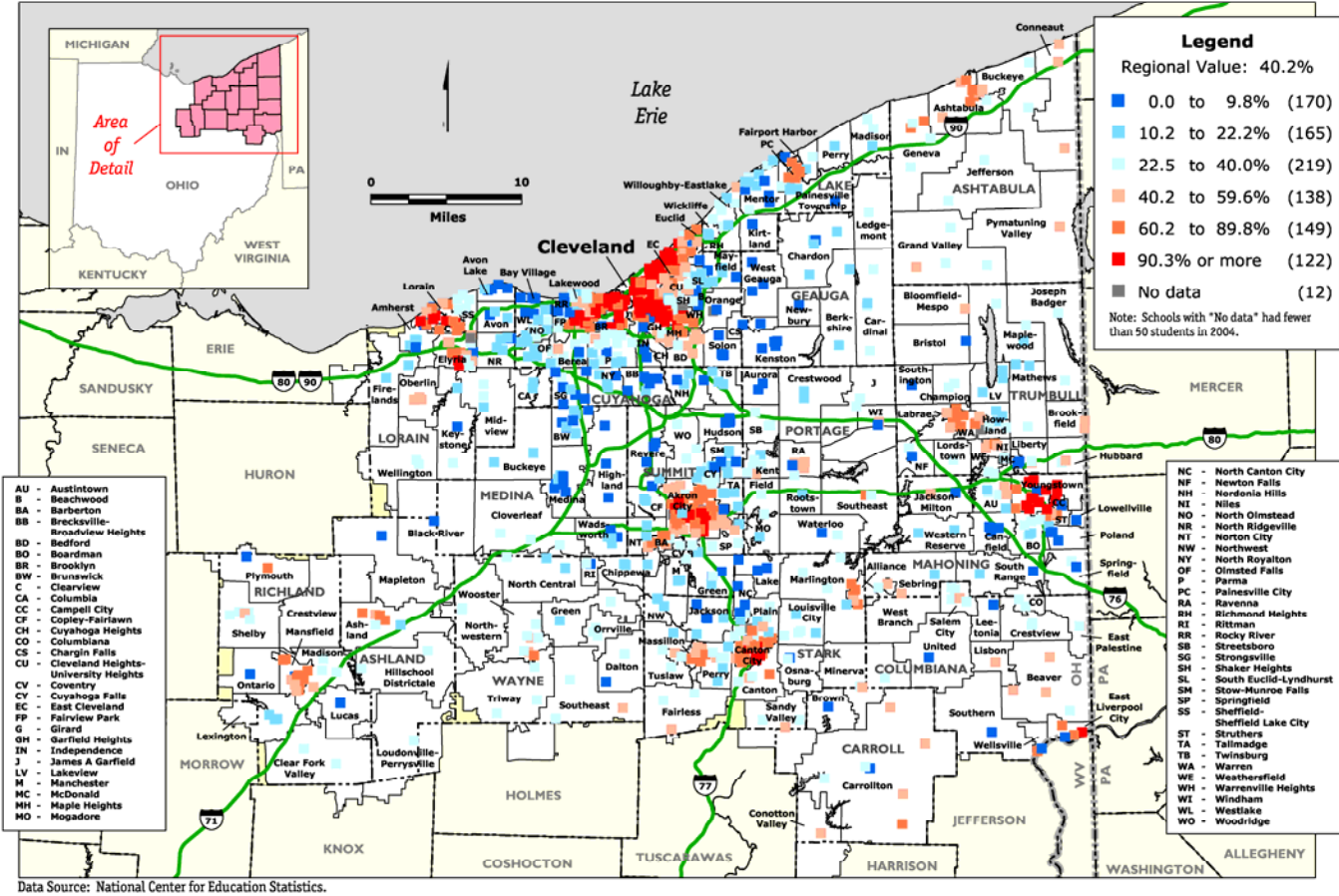
the schools in the inner, stressed suburban areas around the central cities.

A growing body of research documents the interconnectedness of metropolitan economies. Unbridled competition for tax base discourages regional cooperation necessary to attract new business and often leads to unbalanced growth that creates a spatial mismatch between new jobs and available workers. When social and economic separation is minimized, the region is stronger.

Map 5



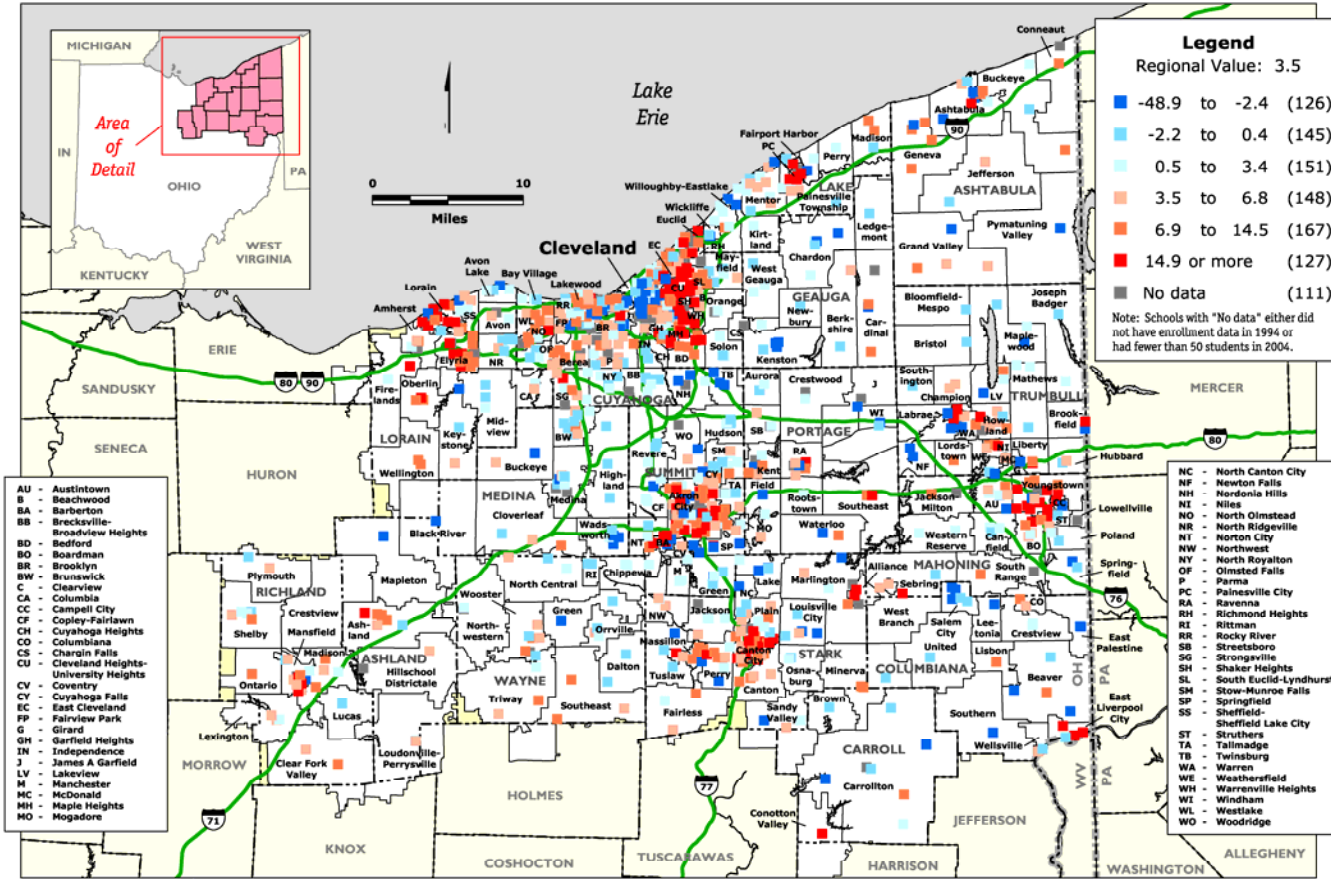
NORTHEAST OHIO REGION: Percentage of Elementary Students Eligible for Free and Reduced Lunch by School, 2004



Map 6



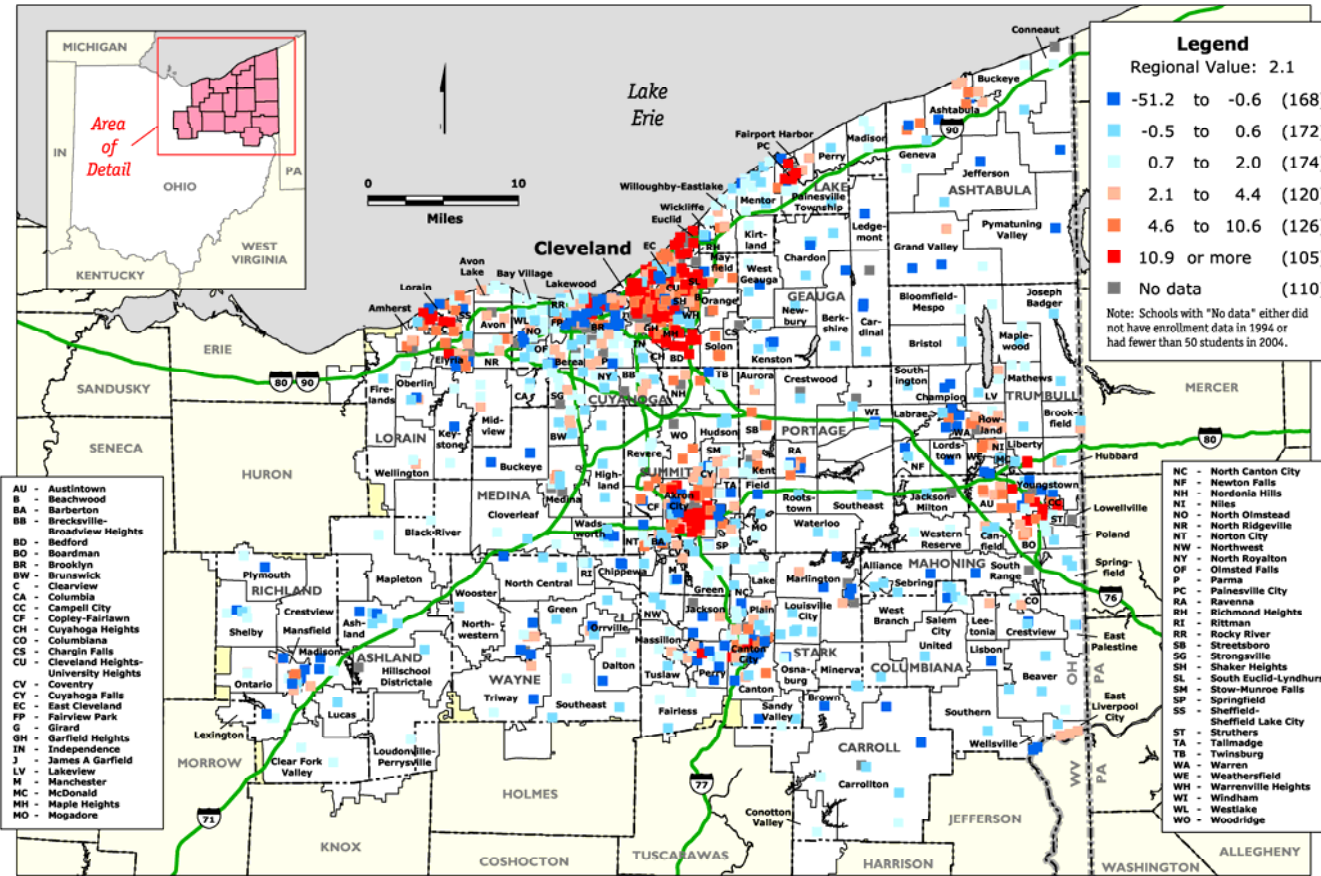
**NORTHEAST OHIO REGION:
Change in Percentage Points of Elementary Students Eligible for Free Lunch
by School, 1994-2004**



Map 8



NORTHEAST OHIO REGION: Change in Percentage Points of Non-Asian Minority Elementary Students by School, 1994-2004



Fiscal Inequality

Northeast Ohio has a relatively fragmented system of local government, and its municipal governments rely heavily on locally generated tax revenues to pay for public services. The primary local taxes are the traditional property tax and the local income tax. Municipalities in Ohio rely much more heavily on income-based taxes than in most other states.

Communities face significant, often overwhelming, pressures to compete for development that will expand their property and payroll tax bases. These pressures often drive local land-use planning decisions, encourage sprawl and increase economic and social disparities.

Localities pay attention to the net effect that any new development will have on local revenues and expenditures—on whether the proposed development “pays its way.” To win the most profitable land uses, local governments may offer public subsidies or infrastructure improvements. But perhaps the most common approach is “fiscal zoning”—making land-use decisions not based on the suitability of the land or the long-term needs of the region, but on the tax revenue a development can generate right away in a small part of the region. For example, many communities lay out great tracts of land for commercial development, regardless of whether it is the most appropriate use for the location.¹⁹

This competition is costly in several ways. First from the entire region’s perspective, it is wasteful of public resources. Public sector time, effort and money is likely to be expended to affect

the location of businesses that would have located somewhere in the region anyway. Second, the competition can contribute to vicious cycles of decline. If a business relocates from one municipality to another, the loser must either raise tax rates to maintain revenues or decrease the amount or quality of services, diminishing its attractiveness to businesses in the next round of competition. Third, such uncoordinated competition often makes the task of providing regional infrastructure more expensive than it has to be. Finally, the income tax (either combined with a property tax or on its own) increases the fiscal benefits to localities of business compared to residential development. This can lead to inadequate provision of housing, especially affordable housing.

The most unusual feature of the local fiscal environment in Ohio is the income tax. Although the availability of this tax provides some advantages by diversifying local revenue systems and providing some potential to tax non-resident consumers of a locality’s public services, it is unlikely to provide all of the fiscal benefits that it promises.

While a local payroll tax appears to be taxing resident workers and non-resident commuters, much of the tax is actually borne by local businesses. Businesses in a high payroll tax municipality are likely to bear the brunt of any tax differentials in the form of wage premiums paid to workers. Those in professions with employment opportunities throughout the region will opt for a job in a high payroll tax place only if they are compensated for the extra cost in some way. This generally means higher wages.

Businesses therefore have a strong incentive to avoid income taxes when making location decisions. This should be particularly true of labor-intensive businesses with high wages – the Holy Grail for local economic development planners. Differences in income tax rates across the region are great enough to create these location incentives.

In addition, the surest way for a business to avoid the extra cost associated with higher than average payroll taxes is to locate in unincorporated townships.²⁰ In other words, the tax pushes businesses to locate in the parts of the region least likely to have the necessary supporting infrastructure already in place.²¹

Maps 9 and 10 show the distribution of property tax base across the region and how it has changed in recent years. Fiscal disparities are relatively wide. Property tax base per household ranged from just \$20,649 per household in Chagrin Falls Township to more than a million dollars per household in Hunting Valley Village. There are 16 cities, villages and townships across the region with property tax bases less than \$75,000 per household while, at the same time, there are 12 cities and villages in Cuyahoga and Lake Counties with property tax bases of more than \$500,000 per household.

In 2006, the ratio of the tax base in the 95th percentile place – the municipality or township with a tax base greater than 95 percent of places in the region – to that in the 5th percentile place was 5.4. This means that the 5th percentile municipality would have to assess a property tax rate *5.5 times higher* than the 95th percentile place in order to generate the same revenues per household.

The lowest tax bases tend to be in the region's central cities, their nearby suburbs, and in the outermost parts of the region. The highest tax bases can be found in a band of suburbs between Cleveland and Akron.

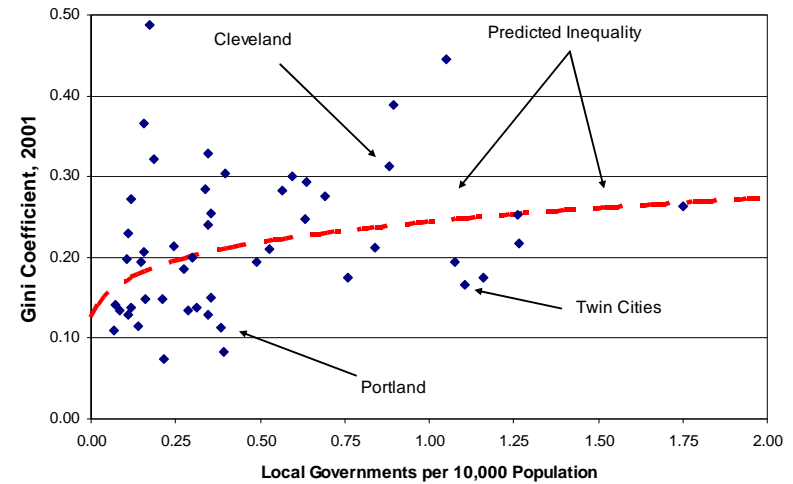
Property tax base growth patterns show a much different pattern. (Map 11) Overall, they reflect the way the region is growing, with the highest rates of growth in outer areas and lower rates of growth in core areas in and near the central cities.

One reason for the area's fiscal inequities is its high degree of local government fragmentation. Figure 5 shows that more fragmented metropolitan areas tend to show greater inequities in local tax bases.²² Among the 50 largest metropolitan areas, the Cleveland metro shows both a high degree of fiscal inequality and a high degree of governmental fragmentation. However, its inequality rate is even higher than would be predicted by its high rate of fragmentation—indicated by the fact that Cleveland's inequality rate is above the predicted line in Figure 5.²³ As with sprawl, two of the metropolitan areas showing the greatest difference between actual and predicted sprawl rates are the Twin Cities and Portland, the two large metropolitan areas with the most extensive regional planning systems.

The implications of property tax base disparities this wide are important. Municipalities at the low end of the spectrum face a very difficult choice between providing regionally competitive levels of local public services like police and fire protection by assessing tax rates that are higher than their regional

counterparts – sometimes much higher – and assessing competitive tax rates while providing much lower than average local services. Either combination puts them at a serious disadvantage when competing for new residents or businesses. Tax base disparities of this magnitude clearly create the potential for vicious cycles of decline in low tax base places.

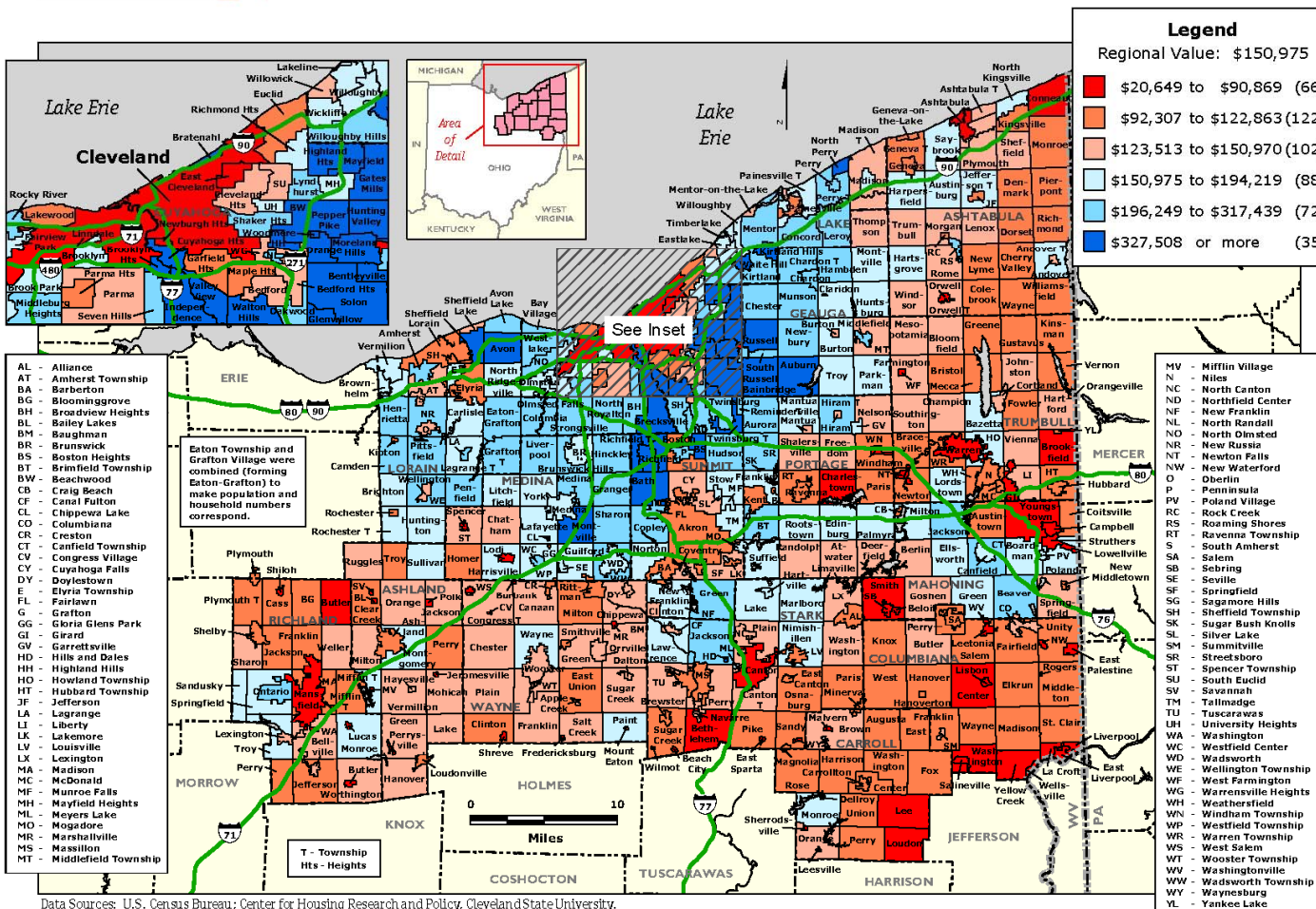
Figure 5: Fragmentation and Fiscal Inequality in the 50 Largest Metropolitan Area



Map 9



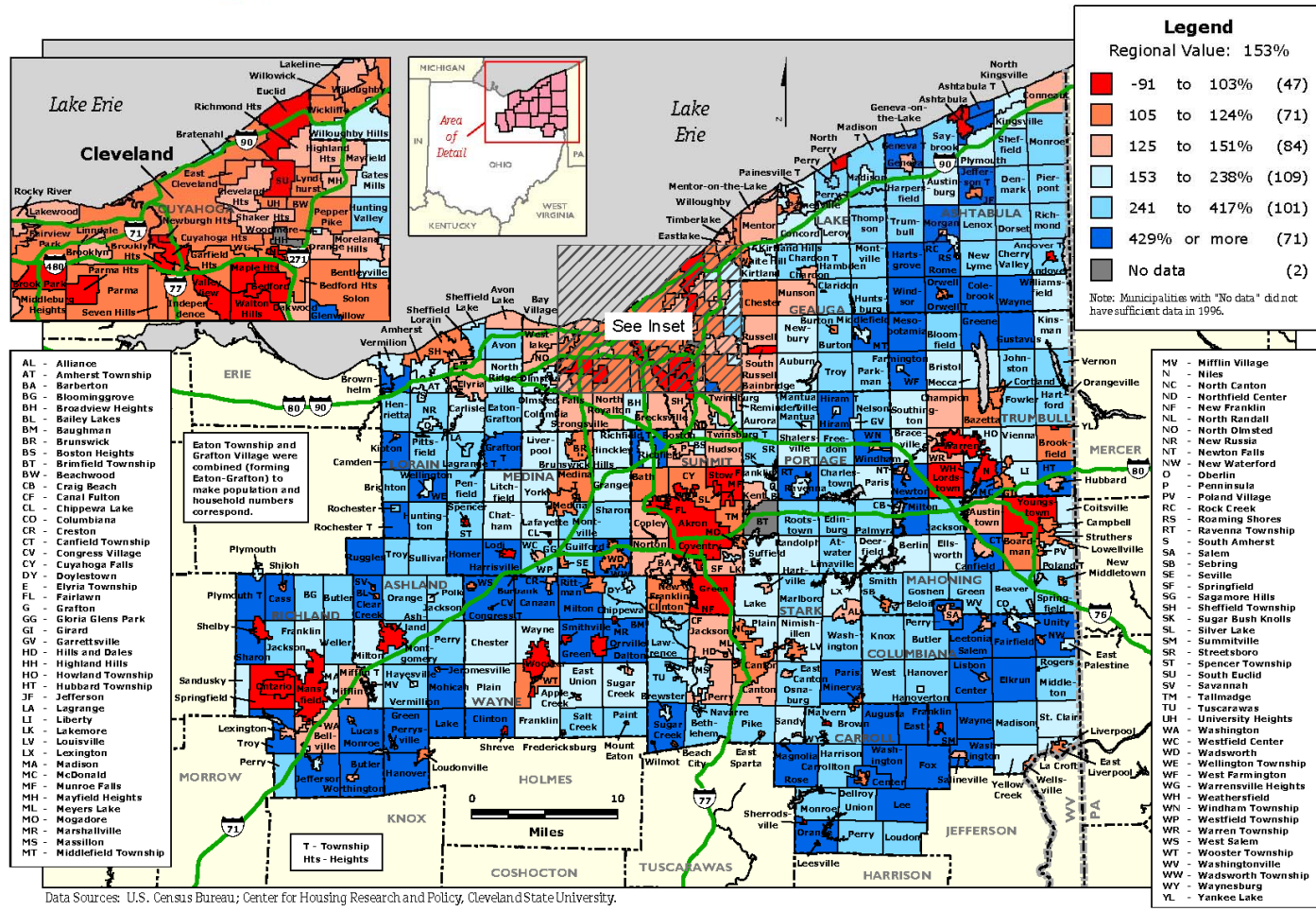
NORTHEAST OHIO REGION: Property Tax Base per Household by Municipality, 2006



Map 10



**NORTHEAST OHIO REGION:
Percentage Change in Property Tax Base per Household by Municipality, 1990-2006**



Looking Forward: Strategies for Regional Reform

Northeastern Ohio faces serious economic and social difficulties. Uncoordinated growth, widening fiscal disparities and concentrated poverty threaten the area's ability to grow consistently, or in ways that benefit all its residents. The fragmented nature of the political and planning system—more than 300 cities, villages and townships (many unincorporated) in 10 counties—makes it unlikely that reform at the local level alone will solve the region's problems. Solutions must focus on regional initiatives. Objectives for these initiatives should focus on:

- Promoting consistent growth in the region to benefit all its citizens.
- Achieving orderly, efficient and sustainable development practices.
- Increasing collaboration across governmental structures.

The policy areas where reforms are most needed to achieve these ends include:

- Fiscal reforms to reduce incentives for inefficient inter-local competition for tax base and narrow resource disparities among local governments.
- Smarter land-use planning.
- Strengthened metropolitan governance to give all communities a voice in regional decision-making.

In addition to addressing individual problems, these strategies are mutually reinforcing. Successfully implementing one makes implementing others much easier, both substantively and politically.

Fiscal Equity

Tax-base sharing is one way to significantly improve both the equity and efficiency of the regional fiscal system. In such a system, a portion of local tax base is put into a regional pool which is then redistributed back to local areas based on some criteria other than their contributions to the pool.

The redistribution formula can take a variety of forms. It can be aggressively redistributive – using local tax base or poverty rates as a primary component, for instance. Or it can be relatively neutral – using local population or household counts. It can also be designed to compensate local areas for extra costs of public services. The age of the housing stock—a good proxy for the age of infrastructure—could be used in this way. In any of these cases, because contributions to the pool are based on local tax bases, the net effect of the system will be to reduce fiscal disparities across the region.

If the contribution formula is designed properly, tax-base sharing can also improve the efficiency of the local tax system. In the model used in the largest tax-base sharing system in the United States—the Twin Cities Fiscal Disparities program—communities contribute 40 percent of the increase in commercial-industrial property tax base to the pool, which is

then redistributed with a formula based on population and local tax base. On the one hand, the design reduces the incentives for communities to compete for tax base, because they do not keep all of the resulting revenues. On the other hand, because localities retain enough of the tax base to cover the costs of growth, the incentive is not so strong that local areas will be unwilling to allow new development.²⁴

Tax-base sharing can thus be designed to serve several purposes. It can:

- Encourage joint regional or multi-jurisdictional economic development efforts by ensuring that all share in the benefits of regional growth;
- Complement regional land-use planning efforts by reducing the stakes for individual jurisdictions in the location of specific economic activities and by spreading the benefits of regional developments;
- Reduce the incentives for localities to compete with each for tax-base;
- Reduce inequalities in tax-base, tax rates and local public services.

As noted above, the Twin Cities Fiscal Disparities Program is the best existing example of regional tax base sharing. The Fiscal Disparities Program covers the seven core counties of the Twin Cities metropolitan area. There are more than 192 municipalities, 50 school districts and more than 100 special districts covered by the program. In existence since 1971, it pools 40 percent of the growth in commercial-industrial tax base since that time and redistributes it based on population of total local property tax base per capita.

As of 2004, 32 percent of the region's commercial-industrial tax base was in the pool and 64 percent of the region's population lived in municipalities that were net beneficiaries of the program. The program reduces tax base inequality in the region by about 20 percent, as measured by the Gini coefficient.²⁵ The effects are even more pronounced at the extremes of the distribution. The program reduces the ratio of the highest to lowest tax base per household from 25 to eight, and of the second highest to second lowest from 10 to four. The region's two central cities are affected in significantly different ways. St. Paul, with much of its prime real estate devoted to state office buildings and other non-profit purposes, is a major beneficiary of the program. Its average tax on a homesteaded residence is about nine percent lower than it would be in the absence of the program. Minneapolis, on the other hand, has had periods when it contributed more to the pool than it received from it and other times when it has been a net receiver.

In principle, tax-base sharing can be employed with any local tax. In Northeast Ohio, the primary candidates are the property tax and the income tax.

Regional Land-Use Planning

Fiscal issues are only part of the reason for inequitable and inefficient growth occurring in Northeastern Ohio. The localized nature of planning also contributes to unbalanced growth. This arrangement makes it difficult to implement coherent policies in areas with regional implications, such as the environmental protection, housing, transportation or economic development. There are many costs associated with fragmented planning and unbalanced growth. Valuable agricultural land and sensitive open space is destroyed. Traffic congestion increases. Expensive public infrastructure is built on the urban edge, while existing facilities within cities are underutilized, and sometimes abandoned.

The localized nature of planning in Ohio—with power fragmented among thousands of governments—clearly contributes to unbalanced growth patterns. To cite just one example, in Medina County alone, planning duties are divided among three cities, seven villages and 17 townships.²⁶ The total 16 county study area for this work includes 485 cities, villages and townships—roughly half are unincorporated townships. This makes the region one of the most fragmented in the country.²⁷ Even the small amount of regional planning that occurs in the region is divided among four metropolitan planning organizations.

Outward growth, combined with policies that focus on building new infrastructure over maintaining the facilities already in place, hurt older places in and near the urban core.²⁸

Considering that significant investments in infrastructure and housing have already been made in those areas, state (and often federal) investments in roads in previously undeveloped areas are a waste of taxpayers' limited resources. They not only encourage additional growth in outlying communities, they further divert resources from existing communities that arguably need them the most.

Developing a cooperative framework for land-use planning that encourages places to plan together for their common future and to consider the regional consequences of local decisions is an essential aspect of a regional reform agenda. This kind of thinking has been implemented in several states over the last 25 years and is receiving increasing attention across the country.

“Smart growth” is an efficient and environmentally friendly pattern of development that focuses growth near existing public facilities. Smart growth provides people choice in where they live and work and how they get around. Based on the premise that regions can make more efficient use of their land through cooperation rather than competition, smart growth initiatives essentially call for local planning with a regional perspective.

At least 16 states have already adopted comprehensive smart growth acts, and their ranks are growing. Regional land use planning efforts, like those required in Oregon's statewide program, help officials coordinate investments in roads, highways, sewers and utilities. Concurrency requirements like those in Florida mandate that infrastructure be on-line by the time development takes place. In addition, there are a variety of agricultural and open-space preservation programs available, as

well as incentives for the use of New Urbanist design principles.²⁹

All these initiatives share goals: to reduce the destruction of open space and agricultural lands; to ease traffic congestion by creating an accessible and balanced transportation system; and to make more efficient use of public investments.

Ensuring that all communities in the region, particularly those with new jobs and good schools, strengthen their commitment to affordable housing is another essential component of smart growth planning because it helps to reduce the consequences of concentrated poverty on core communities. It allows people to live closer to work and provides them with real choices concerning where they want to live.

Regional Governance

A primary theme of this study is that highly fragmented governance and planning systems like that seen in Northeast Ohio harm not just central cities, but all parts of the region. The resulting internecine competition intensifies social separation and sprawling development patterns and discourages the creation of coordinated strategies for dealing with these problems.

Effective, efficient regional efforts strike a balance by allowing local control over issues best addressed by local governments, while promoting cooperation on larger issues affecting the entire region, such as highway and sewer investments, affordable housing, transit, land-use planning, air and water

quality and, perhaps most importantly in Northeastern Ohio, economic development.

A wide variety of options are available to improve regional decision-making. These include strengthening existing regional organizations, finding new ways to encourage inter-local cooperation, and creating new institutions to plan or provide services on a regional scale.

There are already regional institutions in place that can serve as a backbone for regional reform. For instance, the region is already home to four Metropolitan Planning Organizations, appointed bodies of local officials with power to make billion-dollar decisions on planning and funding regional transportation systems. These organization, other regional planning commissions and councils of governments in Ohio already have the power to undertake many planning functions, among them conducting studies, contracting with governments to provide planning assistance and coordinating local activities with other regional bodies and levels of government.³⁰ However, currently there are far too many of them to provided the region with a clear road map into the future.

Consolidated into fewer organizations and armed with greater powers, these existing organizations could made headway on a whole host of regional issues. Other models of governance, including establishing new, freestanding bodies to oversee regional issues from land-use planning to transit—the model established in Portland, Oregon and Minneapolis-St. Paul regions—exist as well.

Regardless of what institutional options are used to consolidate planning powers, a good starting point is one implemented in the Twin Cities in the 1970s when the Twin Cities Metropolitan Council was first formed. One of the new organization's first tasks was a major study of where the region stood at that time, including an inventory of regional assets and infrastructure, and analysis. The result—*The Metropolitan Development Investment Framework*—provided the context for Council's regional development policies through the 1980s.

In the Northeast Ohio context, a study and plan of this sort would provide the background to determine which public functions—economic development, land use planning, libraries, parks, transportation, waste water collection and treatment, tax-base sharing are all possibilities—are best suited for inclusion in a regional organization, whatever its form.

In conclusion, it is unmistakable that the current system of highly fragmented with powers divided among many different actors, none of which have the mandate to exercise strong oversight functions is not serving the region well. There is a clear need to develop more accountable regional institutions to address the best interests of the region's diverse population.

Endnotes

¹ Grouping was accomplished using the K-means clustering procedure in SPSS. All variables were calculated as percentages of the regional average and standardized by the number of standard deviations from the mean so that the effects of variables with very wide variations did not overwhelm the effects of variables with narrower variations. For more on cluster analysis in general, and K-means clustering in particular, see *StatSoft, Inc. Electronic Statistics Textbook* (Tulsa, OK: StatSoft, 2002) at www.statsoft.com/textbook/stathome.html.

² Bureau of Labor Statistics and Bureau of the Census.

³ Sprawl is measured by $\{(\text{urban land in 2000} / \text{urban land in 1970})\} / \{(\text{population in 2000} / \text{population in 1970})\}$. Fragmentation is measured by the number of local governments per 10,000 residents. The Cleveland metro is defined by the eight county Bureau of the Census definition, not by the 16 county area in Map 2. The eight counties include Ashtabula, Cuyahoga, Geauga, Lake, Lorain, Medina, Portage and Summit.

⁴ The “predicted sprawl” line shows the simple regression line between the log of the sprawl ratio and the log of the fragmentation measure for the 50 largest metropolitan areas. The log-log relationship is the strongest specification with a simple correlation of .56 (significant at the 99 percent confidence level).

⁵ Jason W. Reece and Elena G. Irwin, “Land Cover in Ohio’s Townships: An Analysis of Township Land Cover and Population Change” (Columbus: Ohio State University Extension Ohio Agricultural Research and Development Center, February 2002).

⁶ Ibid.

⁷ www.sierraclub.org/sprawl/report98

⁸ Bob Downing, “Polio, hepatitis in Cuyahoga,” *Beacon Journal*, June 26, 2002; and Tom Breckenridge, “Cuyahoga River is unsafe, study shows,” *Plains Dealer*, June 27, 2002.

⁹ Researchers have found, for example, that median household incomes of central cities and their suburbs move up and down together in most regions and that the strength of this relationship is increasing. They have also found that the metropolitan areas with the smallest gap between city and suburban

incomes had the greatest regional job growth. Another researcher found that in large metropolitan areas income growth in central cities results in income growth and house-value appreciation in the suburbs. See Larry C. Ledebur and William R. Barnes, “All In It Together: Cities, Suburbs and Local Economic Regions” (Washington, D.C.: National League of Cities, 1993); William R. Barnes and Larry C. Ledebur, *City Distress, Metropolitan Disparities, and Economic Growth* (Washington, D.C.: National League of Cities, 1992); and Richard Voith, “Do Suburbs Need Cities?” *Journal of Regional Science* 38(8) 445-464, 1998.

¹⁰ The comparison Midwestern metropolitan areas include Chicago, Cincinnati, Columbus, Detroit, Indianapolis, Kansas City, Milwaukee, Pittsburgh and St. Louis. Growth in personal income per capita is corrected for inflation using the consumer price index for all goods and services in Midwestern metropolitan areas.

¹¹ *DeRolph v. State* (2000), 88 Ohio St.3d is the most recent of these rulings.

¹² See James S. Coleman, *Equality of Educational Opportunity* (Washington, D.C.: Government Printing Office, 1966); Gary Burtless, ed., *Does Money Matter? The Effect of School Resources on Student Achievement and Adult Success* (Washington, D.C.: Brookings, 1996); James Traub, “What No School Can Do,” *New York Times Magazine*, January 16, 2000.

¹³ For a general discussion of housing discrimination, see John Yinger, “Testing for Discrimination in Housing and Related Markets,” *A National Report Card on Discrimination in America*, ed. Michael Fix and Margery Austin Turner (Washington, D.C.: The Urban Institute, 1998).

¹⁴ See James S. Coleman, *Equality of Educational Opportunity* (Washington, D.C.: Government Printing Office, 1966); Gary Burtless, ed., *Does Money Matter? The Effect of School Resources on Student Achievement and Adult Success* (Washington, D.C.: Brookings, 1996); James Traub, “What No School Can Do,” *The New York Times Magazine*, January 16, 2000.

¹⁵ Jonathan Crane, “The Effects of Neighborhoods on Dropping Out of School and Teenage Childbearing,” in *The Urban Underclass*, C. Jencks

and P. Peterson. eds. (Washington, D.C.: Brookings Institution, 1991), pp. 299-320; Susan E. Mayer, "How Much Does a High School's Racial and Socioeconomic Mix Affect Graduation and Teenage Fertility Rates?" in *The Urban Underclass*, pp. 321-41; Douglas A. Massey and Nancy S. Denton, *American Apartheid: Segregation and the Making of the Underclass* (Cambridge, MA: Harvard University Press, 1993), pp. 169-70; Dennis P. Hogan and Evelyn Kitagawa, "The Impact of Social Status, Family Structure, and Neighborhood on the Fertility of Black Adolescents," *American Journal of Sociology* 90, no. 4 (1985): 825-55; Frank F. Furstenburg, Jr., S. Philip Morgan, Kristen A. Moore, and James Peterson, "Race Differences in the Timing of Adolescent Intercourse," *American Sociological Review* 52 (1987): 511-18; Elijah Anderson, "Neighborhood Effects on Teenage Pregnancy," in *The Urban Underclass*, pp. 375-98; Sara McLanahan and Irwin Garfinkel, "Single Mothers, the Underclass, and Social Policy," *The Annals of the American Academy of Political and Social Science* 501 (1989): 92.

¹⁶ Crane, "The Effects of Neighborhoods," pp. 274-320; Mayer, "Graduation and Teenage Fertility Rates," pp. 321-41; Massey and Denton, *American Apartheid*, pp. 169-70.

¹⁷ Massey and Denton, *American Apartheid*, pp. 180-82.

¹⁸ For a general discussion of housing discrimination, see John Yinger, "Testing for Discrimination in Housing and Related Markets," *A National Report Card on Discrimination in America*, ed. Michael Fix and Margery Austin Turner (Washington, D.C.: The Urban Institute, 1998).

¹⁹ See William A. Fischel, "Property Taxation and the Tiebout Model: Evidence for the Benefit View from Zoning and Voting," *Journal of Economic Literature* 30 (1992), pp. 171-77, for a discussion of fiscal zoning and why it occurs.

²⁰ The existence of unincorporated areas is not a necessary prerequisite for this process to occur. The Philadelphia wage tax, for instance, has had a much-documented effect on city employment, despite the fact that its metropolitan area is fully incorporated. See Luce, Thomas, "Local Taxes, Public Services, and the Intrametropolitan Location of Firms and Households," *Public Finance Quarterly*, Volume 22, no. 2, pp. 139-67, (1994).

²¹ See Timothy Bartik, *Who Benefits from State and Local Economic Development Policies?* W.E. Upjohn Institute, 1991 for a summary of the effects of local tax differentials on business location decisions. For a specific analysis of the negative effects of wage-based tax on job growth in a large central city, see Thomas Luce, "Local Taxes, Public Services, and the Intrametropolitan Location of Firms and Households," *Public Finance Quarterly*, vol. 22, no. 2, pp. 139-67, 1994.

²² Fiscal inequality is measured by the Gini coefficient. The Gini coefficient measures the difference between the actual distribution of tax base and a perfectly equal distribution. It varies between 0 and 1, taking on a value of 0 if the distribution is perfectly equal (all jurisdictions have the same tax base per household) and 1 if the distribution is perfectly unequal (one jurisdiction with only one household has all of the tax base). Fragmentation is measured by the number of local governments per 10,000 residents. The Cleveland metro is defined by the eight county Bureau of the Census definition, not by the 16 county area.

²³ The "predicted inequality" line shows the simple regression line between the log of the Gini coefficient and the log of the fragmentation measure for the 50 largest metropolitan areas. The log-log relationship is the strongest specification with a simple correlation of .34 (significant at the 99 percent confidence level).

²⁴ For a more extensive discussion of tax base sharing, see "Regional Tax Base Sharing: the Twin Cities Experience", Thomas Luce, in *Local Government Tax and Land Use Policies in the United States: Understanding the Links*, Helen Ladd, Lincoln Institute of Land Policy, 1998.

²⁵ The 20 percent decline in the Twin Cities represents a decline from .21 to .17.

²⁶ Patricia Burgess and Thomas Bier, "Public Policy and 'Rural Sprawl': Lessons from Northeast Ohio" (Cambridge, MA: Lincoln Land Institute of Land Policy, 1998).

²⁷ The seven-county Cleveland metropolitan area has the 23rd most local governments per resident among the 100 largest metropolitan areas.

²⁸ First Suburbs Consortium, “Ohio’s Aging Communities: A Call for State Attention by the Ohio First Suburbs Consortium” (March 2002, www.firstsuburbs.org).

²⁹ See Orfield 2002 for more discussion of land-use planning tools.

³⁰ Stuart Meck, “The Structure of Planning and Land-Use Controls in Ohio.” Presentation to the Ohio-Kentucky-Indiana Council of Governments, June 2000, Fairfield, Ohio.