Paid to Sprawl:

Subsidized Job Flight from Cleveland and Cincinnati

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Executive Summary

One hundred and sixty-four small and medium-sized business establishments with an estimated 14,500 employees received lucrative tax breaks as they merely moved around within the Cincinnati and Cleveland metropolitan areas. These subsidized relocations were overwhelmingly outward bound and by many measures, especially in the Cleveland region, fueled suburban sprawl.

By dispersing jobs away from the two urban cores, the relocations contributed to disparities in wealth and opportunity among localities in the regions. They moved jobs away from areas with higher rates of poverty and people of color to more affluent and less racially diverse areas. And by moving mostly to locations that are not served by public transportation, they denied job opportunities to carless workers and denied thousands more any choice about how to get to work.

The relocation-sprawl problem is more pronounced in the eight-county Cleveland metro area: the subsidized relocations there occurred proportionately more often; they were somewhat more sprawling; they involved slightly larger subsidies; and they affected more employees per firm than the five Ohio counties of the Cincinnati region.

In the Cleveland metropolitan area, four-fifths of the moves were outbound and they took jobs an average of more than five miles away from the central city. In the Cincinnati region, almost three-quarters of the relocations were outbound and they took jobs an average of almost 3 miles farther out. In the two regions combined, 23 facilities moved outward 10 miles or more.

The relocations moved thousands of jobs away from transit corridors, reducing job opportunities for low-income workers who can only reach work via public transportation. Carless workers are disproportionately people of color. The moves also reduced commuting choices for workers who can afford a car.

In the Cincinnati metro area, 30 relocations moved jobs from sites that were transit-accessible to places that are not, while only eight did the opposite. Another 52 remained transit-inaccessible in their new location, while only 11 remained accessible. A similar pattern occurred in Cleveland: 25 companies moved from a location that was transit-accessible to one that was not, while only seven did the reverse. Twenty-five facilities moved from one inaccessible location to another, and only six remained accessible.

Many, if not most, of the subsidized relocations involved the sole facility of a small or medium-sized business; a small number of the moves were apparently branch plants of national or multinational companies. In Cincinnati, they affected about 80 employees per move; in Cleveland, about 100. All told, an estimated 14,500 jobs were moved.

One hundred and fifty-two (or 93 percent) of the relocations occurred between 1996 and 2005, when all of the moves were into

Enterprise Zones (EZs). From 2006 through 2010, the EZ program became less lucrative because of changes made to Ohio's corporate property tax system. At the same time, a successor program, Community Reinvestment Areas (CRA), became more popular. But because of the recession, the number of relocation deals declined sharply in the two metro areas: over those five later years, there were only seven relocations into CRAs and five into EZs.

The relocations into EZs between 1996 and 2005 (94 in Cincinnati and 58 in Cleveland) involved an estimated 13,400 jobs. The EZs typically abated up to 75 percent of real and personal property taxes for as many as 10 years (the maximum allowable without school board approval). Of the 152 deals, the value of the abatements is available for 116; they total $29.7 million. Applying the regional averages ($223,000 per facility in Cincinnati and $317,000 in Cleveland) to the remaining 36 EZ deals suggests a total of $39.3 million.

A CRA can eliminate 100 percent of real property taxes for up to 15 years (corporate personal property taxes on machinery and equipment no longer exist in Ohio). The value of the CRA and EZ tax breaks granted from 2006 through 2010 cannot be estimated because CRA records usually fail to include that information. But deals made during that time period exempted at least $37.4 million worth of property from property taxes for as many as 15 years.

Many of the deals were also automatically entitled to or likely qualified for various other economic development subsidies from the State of Ohio (such as investment tax credits and/or training grants); those are not as well disclosed and are not estimated here.

In the Cleveland region, the localities that gained and lost businesses are quite distinct: the biggest gainers were Streetsboro (gained 6), Aurora (gained 5), and Avon (gained 5) and the biggest losers were Cleveland (gained 2 and lost 11), Twinsburg (gained 2 and lost 6), and Mentor (lost 5).

The 1996-2005 relocations in the Cincinnati region are more complicated: some localities there both lost and gained numerous firms. Cincinnati lost 17 but also gained 7; Hamilton lost 5 but gained more than twice as many (11); and Sharonville lost 5 but also gained more (7). Other net gainers were Evendale (gained 12 and lost 2), Miami Township (gained 8 and lost 5), Fairfield (gained 8 and lost 4), Forest Park (gained 6 and lost 2), and Union Township (gained 6 and lost 1). Big net losers were West Chester Township (gained 1 and lost 12), Blue Ash (lost 6), and Woodlawn (gained 3 and lost 6).

Our interviews with local development officials on both ends of the 1996-2005 relocations—and numerous disputes and debates since, especially in the Cleveland area—suggest that tax-base competition is alive and well in both metropolitan regions and that job subsidies are routinely involved. Many officials feel they are forced to offer subsidies as proof that they are truly interested in a footloose firm. Capturing that unpleasant feeling, one official rued, "EZs are like jail sentences; eventually they are over."[1]

The relocating facilities were identifiable thanks to 1994 changes in Ohio's Enterprise Zone law, which require companies moving into an Enterprise Zone from within the state to receive a waiver from the Ohio Department of Development. Companies receiving waivers are recorded in the state's Enterprise Zone Annual Reports, and outcomes for all Enterprise Zone deals were until recent years disclosed online within the state's annual Enterprise Zone data base. (That information has disappeared as the quality of EZ disclosure has deteriorated.)

Our findings suggest these policy improvements:

- *The State needs to actively encourage and incent the creation of regional systems for economic development cooperation among local governments.*

The relocations documented here, our interviews, and other disputes make it painfully clear: local development officials in neither metro area have a functional region-wide network for cooperation, even when companies seek to pit neighboring communities against each other. By contrast, officials in the Dayton metro area (Montgomery County) have for many years used a cooperative system and some modest financial "carrots" to jointly promote their region's economy. Building upon that precedent and ongoing efforts in Cuyahoga and Summit counties in the Cleveland area, the State of Ohio should use its enabling powers over incentives and other levers and resources to encourage and reward the formation of strong regional systems that deter poaching and promote cooperation. Local officials deserve State leadership to help them stay focused on the things that really matter: the linkages, skills, infrastructure and quality of life of a whole metro area, not one suburb or even one county. The meaningful unit of competition in economic development is a metro area, not a locality.

- *Install a state online disclosure system that covers all economic development subsidy programs.*

It should provide company-specific, deal-specific data on the source and value of the job subsidy, the number of jobs the company is obligated to create, the level of wages and benefits required, the geographic location of the project site—and then outcome data at least annually on how well the company is meeting its obligations and whether it has been subject to any "clawback" or other penalties for any performance shortfalls. Ohio's Enterprise Zone program meets some of these transparency standards, but CRAs are less accountable and since 2008, the quality of disclosure for EZs and that of two other major job-subsidy programs (Job Creation Tax Credit and Job Retention Tax Credit) has seriously deteriorated, contrary to the national trend. Making all economic development deals readily transparent to the public would improve public participation and help public officials be more strategic and deliberate in their use of incentives.

- *Make transit-accessibility a requirement to qualify for a subsidy in metro areas.*

Illinois gives an extra subsidy—and California and New Jersey give subsidy-application preference—to certain deals that are accessible via transit or that meet other anti-sprawl criteria. Making more jobs accessible by transit will create more opportunity for low-income Ohioans, reduce traffic congestion, reduce tax-base stress by promoting more efficient use of infrastructure, and reduce greenhouse gas emissions that drive global warming.

- *Consider regional tax-revenue sharing in all Ohio metro areas.*

When sprawl undermines the tax base of older areas, it undermines public services, creating another outward “push” factor on jobs. The Twin Cities Fiscal Disparities Act—and to a more limited extent Montgomery County, Ohio’s Economic Development/Government Equity (ED/GE) program—provide for some regional sharing of commercial-industrial property tax revenue, making tax-base competition less attractive and creating a structural incentive for regional cooperation. Many local leaders in the Cleveland metro area are ready for tax-revenue sharing: mayors from the entire 16-county northeast corner of the state voted in 2008 to pursue a new regional agenda that would include a regional tax revenue-sharing agreement.

Ohio’s land use challenges are complex and to be sure, they have many other causes in addition to EZ- and CRA-subsidized relocations. But subsidy reform is tangible and doable: the Dayton-area precedent and innovations from other states demonstrate how Ohio’s economic development incentives can become part of the solution for more intelligent land use, a stronger economy, and a healthier tax base.