



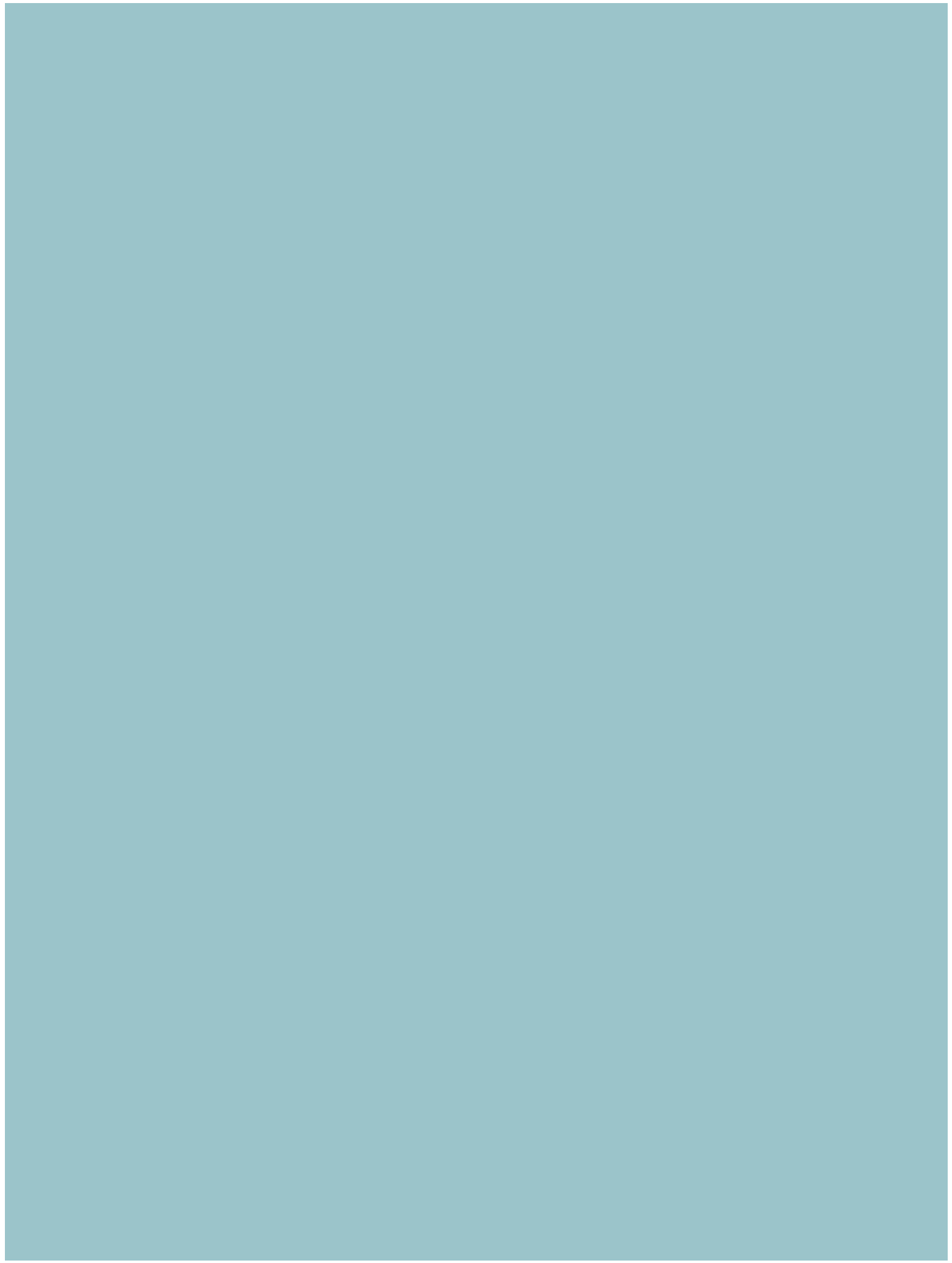
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# Restoring Prosperity

Transforming Ohio's Communities for the Next Economy



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# Contents

Executive Summary	<i>ii</i>
Preface from Greater Ohio	<i>xii</i>
I. Introduction	<i>1</i>
II. From the Macroeconomy to Metropolitan Regions: Ohio and the Next Economy	<i>8</i>
III. Build on Prosperity-Driving Assets	<i>17</i>
IV. Catalyze Transformative Changes in Governance	<i>33</i>
V. Engage and Lead the Federal Government	<i>42</i>
VI. Conclusion: Pulling it All Together	<i>47</i>
Endnotes	<i>51</i>





# Executive Summary

*Ohio, like most other states in the country and particularly its neighbors in the Great Lakes region, is still reeling from the “Great Recession.” This economic crisis, the worst in a half century, has devastated economies across the globe. While economists have declared that the recession has abated, it will be a long time before the businesses, households, and government treasuries across the country, and specifically in the state of Ohio, shake off the effects. And when the recession’s grip finally breaks, what will Ohio’s economy and landscape look like?*

The choices that Ohio’s people and its leaders make—starting now and continuing over the next few years—will determine that answer. Ohioans can decide whether to shy away from manufacturing after the loss of so many jobs, or to transform the state’s old manufacturing strengths, derived from its role in the auto supply chain, into new products, markets, and opportunities. They can decide to opt out of the national shift to a lower-carbon economy, or to be at the forefront of developing clean coal and renewable energy industries and jobs.

They can choose a workforce system that is aligned to the true metropolitan scale of the economy and oriented to the needs of workers and employers. They can choose transformative transportation networks over more roads; smaller, greener, stronger cities; collaboration and regional cooperation to save money, reduce duplication, and bolster regional competitiveness. And instead of trying to go it alone in the 21<sup>st</sup> century global marketplace, they can maximize the federal resources on offer to support Ohio’s economic transformation and choose to compete effectively for new federal investments.

This report, *Restoring Prosperity: Transforming Ohio’s Communities for the Next Economy*, lays out some of the specific policy options that will help Ohioans restore the prosperity that the state enjoyed for much of the 19<sup>th</sup> and 20<sup>th</sup> centuries, but that it has been struggling to regain for at least a decade, if not longer.

Ohioans have implemented important policies to respond to serious challenges or sweeping opportunities in the past, such as the Clean Ohio Fund, the Third Frontier, and Edison Centers. State leaders today are working on land use reforms and bold approaches to innovation and advanced energy. State agencies such as the Department of Development, the Board of Regents, and the Department of Transportation have all crafted strategic reports in the last few years that show that they recognize the need for transformation in the kinds of approaches, policies, and goals the state pursues. The legislature’s Compact with Cities Task Force, the Joint Select Committee on the Impact of the Changing Automobile Industry in Ohio, the Commission on Local Government Reform and Collaboration, and public-private partnerships such as the Auto Industry Support Council are also grappling with how to move Ohio’s economy forward. And some chambers of commerce,



regional organizations, and other civic, corporate, and philanthropic groups around the state are likewise engaged in the same effort for their regional economies. This report complements these old and new efforts.

Given all this existing work, why does the state need the Restoring Prosperity agenda? This effort differs in important ways from the excellent work described above.

- First, it recognizes Ohio's metropolitan regions, which encompass cities, suburbs, and rural areas, as the key to the state's future prosperity. Metropolitan regions are the key functional units in the global economy today, and their ability to thrive will depend on their ability to collaborate.
- Second, this report understands Ohio in the context of a federalist system. So it talks about the partnerships necessary to bring prosperity across metropolitan regions, between metropolitan regions and the state, and between the state and the federal government. It also draws on the federalist notion, championed by Justice Louis Brandeis, of states as laboratories of democracy, and points out what Ohio can learn from the policy innovations emerging from other states, and how Ohio can itself lead other states in adopting new responses to new problems.
- Third, in its understanding of the complementary roles of the private and public sector, and recognition of the value of philanthropies, universities, and other non-profit institutions, this report represents a mix of traditional ideological positions. The recommendations call for more public investments, but with a business focus on how investments are made. The report advocates for significant changes in how state and local governments organize themselves, not because efficiency is an end in itself, but because these efficiencies, consolidations, and realignments will free up scarce resources to meet more pressing priorities, save taxpayers money, and will better align government with the metropolitan scale at which the modern economy operates.

Ultimately, economic health will come from a strong, innovative, flexible private sector in the state. Even if the state could afford it (which it cannot, even in non-recessionary times), it is not possible for public spending alone to restore prosperity. Moreover, even the most imaginative, energized government cannot replace a strong

private sector, and policies cannot compensate for fundamental weaknesses in markets. But if the state government adopts the policies recommended here, it will go far in laying the groundwork for private sector strength, filling holes that the private sector will not, and creating the conditions in which markets, places, *and therefore people* can flourish.

#### *From the Macroeconomy to Metropolitan Regions: Ohio and the Next Economy:*

The deep pain the recession has inflicted on the state may obscure the fact that the economy, now recovering from its binge of real estate speculation and financial sleight of hand, is realigning to fit Ohio's existing and emerging strengths. Three hallmarks of the next economy are that it will be export oriented, driven by new, lower-carbon energy sources, and innovation led. Thus, it will draw on some capacities, such as manufacturing products and developing services for the global market, that Ohio has relied on for decades. But it will require a relentless pace of innovation, adaptation, and embrace of new markets and processes—by no means a return to the past. The next economy will also push Ohio to move more aggressively, even fearlessly, in areas where it has shown new strengths, such as the growing renewable energy sector, and in innovation.

The next economy has a fourth key characteristic that also matters very much for Ohio: It will be metropolitan led. There is no U.S., or German, or Chinese, or Ohio economy, but rather a network of sophisticated, hyperlinked, and globally-connected metropolitan economies. These metropolitan regions create, and benefit from, a multiplier effect that results from linking human capital, innovative activity, infrastructure, and value-creation in goods and services in dense geographies. In short, metropolitan areas are where it all comes together.

Ohio exemplifies the power of metropolitan regions. In fact, its 21<sup>st</sup> century metropolitan regions are the successors to the cities and small towns that drove the state's 20<sup>th</sup> century economy, and are the places that are incubating the state's *next* economy. Today the seven largest metropolitan areas in the state house 70 percent of the state population and produce 80 percent of the state GDP. All sixteen of the state's metros constitute 81 percent of the population, 84 percent of the state's jobs, and 87 percent of the state's GDP.

Ohio's metropolitan regions are where the assets that will build and benefit from the next economy concentrate. The assets that will be most critical



for success in an export-oriented, lower carbon, innovation-led economy and that gather and strengthen disproportionately in urban and metropolitan places are innovation, human capital, infrastructure, and quality places.

**Innovation:** Ohio's seven largest metro areas concentrate slightly more than 75 percent of the state's patenting activity, and 82 percent of the state's knowledge jobs.

**Human Capital:** Ohio's metros in the nation's top 100 contain 81 percent of the state's adults aged 25 or older with at least a bachelor's degree.

**Infrastructure:** The largest metros account for nearly 100 percent of the state's air cargo and commercial passengers, and are where most of its ports are found, particularly relevant as the economy transitions to one based on exports, not consumption.

**Quality Places:** Ohio's top seven metros concentrate 62 percent of historic places statewide. Their concentration of assets and people create a level of market activity, public amenities (e.g., health facilities, theaters, restaurants, parks, and waterfront districts), and sense of place that is critical to attract and retain innovative firms and

talented workers. Their pockets of density are conducive to transportation options like biking, walking, and mass-transit, and energy-efficient housing options.

For Ohio to prosper in the next economy, and serve its taxpayers well, it needs to support the prosperity of its metropolitan regions. Because of Ohio's multiplicity of metros, concentrating on and investing in metropolitan regions as the economic drivers and the hubs of activity is practically a "leave no place behind" strategy. Almost every single Ohioan lives within an hour's drive of an urbanized area, and half of the state's population lives within 10 miles of an urban core. As OSU researchers have found "[A] bucolic landscape is not necessarily a sign that residents are not integrated with the nearby urban area." Because of sprawling development patterns in the state, more than half of rural Ohioans actually live within the boundaries of metropolitan areas. This metro orientation does not mean that only large cities receive state investments. It means instead that the state evaluates its investments based not on each county, city, or township getting an equal share, but on what investments will make the most sense in which places.

### *The Restoring Prosperity Agenda*

The Restoring Prosperity agenda that will use the strengths of Ohio's metropolitan regions to solidify Ohio's place in the next economy has three elements: 1) Build on next economy assets in metropolitan areas; 2) Catalyze transformative changes in governance to lower costs and boost competitiveness; and 3) Engage and lead the federal government.

#### **1. Build on assets in metropolitan areas**

There are four key metropolitan assets that should continue to drive Ohio's metropolitan investment agenda: innovation, human capital, infrastructure, and quality places.

Historically, Ohio is a state where private sector *innovation* has flourished: from the Wright Brothers' famous aviation invention; to Charles Kettering's development of the first electric cash register and automobile electric ignition system; to Harvey Firestone and Franklin Seiberling, Akronites who founded global rubber and tire companies, among many others. But lately, Ohio has slipped in measures of entrepreneurial strength. Ohio ranks in the bottom six states in the nation on several measures of entrepreneurship, according to a recent survey by the Kauffman Foundation. This Restoring Prosperity agenda plants the seeds for a new era of innovation and helps reenergize Ohio's entrepreneurial culture with the following recommendations:

- Preserve Third Frontier funding
- Find creative sources of funding for innovation-based economic development
- Significantly expand the state's advanced manufacturing network
- Create micro-investment funds

Ohio's firms, whether engaged in manufacturing products for export or those oriented to new energy sources, cannot compete and thrive unless they have a well-prepared workforce, and of course Ohio's workers cannot thrive unless they have the skills for well-paying jobs, with advancement opportunities, in secure and growing industries. The needs of employers and workers are bound up in *human capital*. While the state has made commendable efforts to reorganize its workforce system, particularly through the research, sectoral, and regional efforts under the Ohio Skills Bank umbrella, Ohio still needs better mechanisms for

connecting workers, especially low-skilled workers, to jobs, so this report directs Ohio to:

- Support Workforce Intermediaries across the state
- Substantially raise the number of Ohioans earning non-degree workforce certificates who enter long-term career paths

Maximizing the impact of the state's *infrastructure* is an important part of increasing the state's ability to transition to the next economy, as the state needs new transportation networks and multimodal freight facilities to get state-manufactured goods to international markets. Moreover, the type of infrastructure people use to get from place to place will also have an effect on the global challenge of climate change, which has quickly emerged as the main environmental problem linked to transportation. Ohio's current pattern of infrastructure spending by and large is not keeping up with the changing needs of the economy. While the state has made some promising moves in the direction of a wider range of transportation infrastructure, the state must go still further and create a new transportation strategy that enables more transportation options and positions the state for a low-carbon future, through the following steps:

- Elevate "fix-it-first" as the central principle guiding transportation investment decisions
- Analyze and track ODOT investment decisions on the basis of greatest returns on investment
- Create a state-wide sustainability challenge competition
- Change how infrastructure gets funded in Ohio in order to support transformative investments

*Quality places*, the fourth driver of prosperity, are where all the other prosperity drivers intersect and leverage each other. Ohio's quality places legacy presents a paradox that is found throughout older industrial cities of the Northeast and Midwest: These places have physical amenities like waterfronts and a mature parks system, interesting architecture, historic buildings, pedestrian-scale neighborhoods, and institutions like universities, colleges, museums, and medical centers. But at the same time, they suffer from decades of depopulation, job loss, and underinvestment, and their current physical footprints and land use patterns do not fit their current levels of population and economic activity. This reality

demands a new approach to land use and planning that aims ultimately to stabilize these places around or slightly below current population levels, while at the same time reaping the greatest benefits from their assets. To grapple with the challenge of its shrinking cities, this report directs Ohio to:

- Pass a legislative package of foreclosure prevention and corrective action bills
- Expand Ohio's land bank statute to apply to all the state's counties to help places address excess vacant land
- Develop an Anchor Institution Innovation Zone program
- Establish a targeted neighborhood revitalization strategy program
- Modernize Ohio's planning statutes
- Create a state-level "Walkable Waterfronts" initiative

## **2. Catalyze Transformative Changes in Governance**

The second element of the Restoring Prosperity agenda is a significant change in the structure of government and governance in Ohio. Because of the recession, Ohio's fiscal difficulties at the state and local level are severe, inescapable, and worsening. As a result, there is not enough low-hanging fruit left to pluck on the spending and revenue side to close the budget gaps that Ohio and its municipalities will face for the next biennium and likely beyond. In order to continue to make strategic investments and maintain decent levels of service provision, Ohio will have to do more to encourage money-saving or efficiency-enhancing consolidation and collaboration between local governments, including school districts. Ohio needs to move down the path of reforms that will either save money or yield better results for money spent, through consolidations where appropriate; much more aggressive efforts to encourage local governments to collaborate and share services across the board; and smarter, sharper alignments of the state's own policies and programs to make the most of scarce state resources.

As a first step, Ohio must shift *more K-12 dollars to classrooms*. Ohio ranks 47<sup>th</sup> in the nation in the share of elementary and secondary education spending that goes to instruction and ninth in the share that goes to administration. More pointedly, Ohio's share of spending on school

district administration (rather than school administration such as principals) is 49 percent higher than the national average. It appears from projections in other states and from actual experience in Ohio that school district consolidation, or at the very least more aggressive shared services agreements between existing districts, could free up money for classrooms. So this report urges the state to:

- Make the costs of school district administration transparent to Ohioans
- Push school districts to enter aggressive shared services agreements
- Create a BRAC-like commission to mandate best practices in administration and cut the number of Ohio's school districts by at least one-third

The state also needs to catalyze *local government collaboration*. Ohioans live and work amid a proliferation of local governments. The state has 3,800 local government jurisdictions, including 250 cities, 695 villages, and 1,308 townships. Ohioans have the ninth highest local tax burden in the U.S., compared to the 34<sup>th</sup> highest for state taxes. While the proliferation of local governments and the fragmentation of the state into tiny "little box" jurisdictions may satisfy residents' desire for accessible government, it also creates a staggering array of costs, such as duplication of infrastructure, staffing, and services, and a race-to-the-bottom competition among multiple municipalities for desirable commercial, industrial, and residential tax base. Perhaps most damaging is the fact that fragmented regions are less competitive than more cohesive metropolitan regions. To encourage collaboration, save costs, and boost competitiveness, the state should:

- Change state law to make local government tax sharing explicitly permitted
- Create a commission to study the costs of local government and realign state and local funding
- Catalyze a network of public sector leaders to promote high performance government
- Support the creation of regional business plans
- Reward counties and metros that adopt innovative governance and service delivery



Governmental fragmentation plagues not only Ohio's localities but also the state government, in the form of a multiplicity of unrelated programs and inconsistent regional delivery systems. So, the state must *break up program silos* to align and maximize state investments. For all the dollars flowing into the state's metropolitan regions—e.g., to businesses, schools, job training centers, housing, or infrastructure projects—funding is seldom targeted toward a unified goal or outcome, be it cultivating certain regional business clusters (and simultaneously building the workforce and infrastructure they need to grow and thrive), revitalizing particular neighborhoods (and improving the quality of schools, retail opportunities, and housing to attract and retain residents), or helping low-income families move into the middle class (and creating the career ladder jobs, strong work supports, and quality neighborhoods and schools they need to build skills and assets). The state cannot expect to improve its metropolitan regions, and its prosperity, without intentional, aligned, cross-agency efforts. This report recommends that the state:

- Align programs to make sure that state investments reinforce each other
- Establish a state-level cross-agency “healthy communities” initiative to develop new sustainable models for smaller cities
- Institutionalize a challenge grant program to reward regional comprehensive redevelopment and planning
- Implement a Community Development Action Teams (CDATs) program, particularly targeted at small and medium-sized communities
- Align state economic development program boundaries with metropolitan regions

### 3. Engage and lead the federal government

To fulfill the final element of the Restoring Prosperity agenda, Ohio needs to engage the federal government. One state cannot overcome the impact of a global recession entirely on its own. Restoring prosperity in Ohio will require a purposeful alignment of federal and state priorities, policies, and practices. Ohio must be strategic in thinking about forthcoming federal investments in clean energy or support for manufacturing, for example, and it should take an even bolder approach towards the federal government's flow of funds.

The federal government recognizes its own role in intentionally setting the United States on the fast track to the next economy. There are federal funds available for the state and its metropolitan regions to use to make the necessary transition to an export-oriented, lower-carbon, innovation-fueled economy. There are also monies for innovative regional planning and land use projects, which Ohio's communities could use in their reinvention as smaller, stronger places. Ohio must *position itself to compete* for these funds, showing a united front and a clear vision aligned with federal goals. Places that have organized initiatives and can deliver smart proposals will likely attract federal interest and investment. This report recommends that Ohio:

- Secure an Energy Innovation Hub
- Take advantage of federal support for clusters
- Use federal Sustainable Communities funds to support smaller, stronger Ohio cities

In addition to seizing on short-term opportunities, the state should also *take a leadership role* with the federal government, advising its efforts and rallying similarly situated states and communities to shape the direction of federal policy. To that end, the state should:

- Press federal policy-makers to earmark funds for operations and planning for the new county-wide land banks through an NSP III or another federal program
- Put the needs of places that are not growing on the sustainability agenda
- Press federal agencies to explicitly reward multi-jurisdictional land use and transportation plans
- Support a cross-agency policy agenda to assist auto communities
- Develop a list of nationally significant projects based on merit-based criteria for potential application to a National Infrastructure Innovation and Finance Fund
- Encourage the federal government to create incentives for shared service delivery programs
- Organize for a National Advanced Manufacturing Laboratory

This is an ambitious agenda—39 policy prescriptions in all—some of which the state can and should act on immediately, others that are better suited for the medium or long term. These recommendations are the result of a long process of engagement by the Greater Ohio Policy Center and the Brookings Institution, which began in mid-2007 with a series of roundtables and small convenings on workforce issues, economic development, transportation, and neighborhood revitalization. In Fall 2008, after a year's worth of additional meetings and listening sessions across the state, Greater Ohio and Brookings held a summit attended by over 1,000 people, including local and state business, political, and civic leaders, at which we released a preliminary report that laid out the importance of metropolitan areas in Ohio's communities, established the outlines of some of the recommendations contained in this final report, and launched the Restoring Prosperity Initiative.

The summit and the financial market collapse that followed it drove us to re-evaluate our agenda. We heard at the summit that Ohioans were eager for a deep agenda on governance, so we commissioned new research to address the problems of fragmentation. Then the recession started to strangle state and local budgets, so we looked for ways that the state could cut spending in some places in order to free up funds for investment elsewhere. And the talk of "a great reset" and the desire to understand "what comes next" caused us to focus on the broader context of Ohio's revival and the elements of the emerging economy.

During the past year, we have seeded additional research, held new convenings, listened to more experts within and outside of Ohio, and received feedback from every corner of the state, and from business, civic, political, and philanthropic leaders, including the First Suburbs Consortium, metropolitan chambers of commerce, Metropolitan Planning Organizations, community development corporations, local editorial boards, and small community chambers of commerce.

In addition to working with the people representing organizations on our Restoring Prosperity Steering Committee, we have conducted a peer-to-peer workshop to educate leaders from medium-sized communities across the state about this agenda and elicit feedback; with PolicyBridge, the Fund for our Economic Future, and other Cleveland partners, we hosted the Restoring Prosperity to Cleveland mini-summit attended by hundreds of Clevelanders who shared their opinions; and were hosted by the Cincinnati metropolitan area's Agenda 360 leaders. We have worked closely with local, non-profit, citizen, and downtown organizations including Downtown Dayton Partnership, Neighborhood Progress, the Allen County 2020 Commission, Hamilton Chamber of Commerce, and the Ohio Farm Bureau. Leaders from universities of Cincinnati and Akron, and Youngstown State and Ohio State universities contributed to this process as well. We are extremely grateful for all their contributions and their partnership, which have strengthened this report and sharpened its relevance and will continue to make implementation of this agenda possible.

This report is not the end of the Restoring Prosperity agenda, but rather the beginning. The upcoming 2010 elections will be a time of intense policy debates about where they state is going and how best to get there. In 2011, Ohioans will consider whether to have a constitutional convention, at which they could make major changes in how the state's local governments are structured and formed. The Restoring Prosperity agenda is relevant to these opportunities and many more emerging across the state.

We hope that this report, with its description of the next economy, its agenda for how the state can thrive in this emerging economic context, its argument for governance reform, and its description of an aligned state and federal approach, will help the state regain control of its destiny and restore prosperity to its people.

## The Restoring Prosperity Agenda

1

### Build on Assets

#### Short-Term Recommendations

##### Build on Innovation

Preserve Third Frontier funding  
Find creative funding for innovation-based economic development

##### Build on Human Capital

##### Build on Infrastructure

Elevate “fix-it-first” as the central principle guiding transportation investment decisions  
Analyze and track ODOT investment decisions on the basis of greatest returns on investment

##### Build on Quality Places

Pass a legislative package of foreclosure prevention and corrective action bills  
Expand Ohio’s land bank statute to apply to all the state’s counties to help places address excess vacant land  
Develop an Anchor Institution Innovation Zone program

#### Medium-Term Recommendations

Significantly expand the state advanced manufacturing network

Support Workforce Intermediaries across the state

Create a state-wide sustainability challenge competition  
Change how infrastructure gets funded in Ohio in order to support transformative investments

Establish a targeted neighborhood revitalization strategy program  
Modernize Ohio’s planning statutes  
Create a state-level “Walkable Waterfronts” initiative

#### Long-Term Recommendations

Create micro-investment funds

Substantially raise the number of Ohioans earning non-degree workforce certificates who enter long-term career paths



## The Restoring Prosperity Agenda

### 2

#### Reform Governance

##### Short-Term Recommendations

##### Shift Spending to Classrooms

Make the costs of school district administration transparent to Ohioans

Push school districts to enter aggressive shared services agreements

##### Catalyze Local Government Collaboration

Change state law to make local government tax sharing explicitly permissive

Create a commission to study the costs of local government and realign state and local funding

Catalyze a network of public sector leaders to promote high performance government

##### Align State Programs and Investments

Align programs to make sure that State investments reinforce each other

Establish a state-level cross-agency (e.g., ODOD, ODOT, OEPA, OHFA, OBOR, and ODJFS) “healthy communities” initiative, modeled on the existing cross-agency federal sustainability initiative, to develop new sustainable models for smaller cities

Institutionalize a challenge grant program to reward regional comprehensive redevelopment and planning

Implement a Community Development Action Teams (CDATs) program, particularly targeted at small and medium-sized communities, that requires community-driven project proposals and cross-agency team responses at the Administrative level

##### Medium-Term Recommendations

Create a BRAC-like commission to mandate best practices in administration and cut the number of Ohio’s school districts by at least one-third

Support the creation of regional business plans

Align state economic development program boundaries with metropolitan regions

##### Long-Term Recommendations

Reward counties and metros that adopt innovative governance and service delivery

## The Restoring Prosperity Agenda

### 3

#### Engage Federal Government

##### Compete for Current Federal Funds

Secure an Energy Innovation Hub

Take advantage of federal support for clusters

Use federal Sustainable Communities funds to support smaller, stronger Ohio cities

##### Shape Government Approach to Ohio

Press federal policy-makers to earmark funds for operations and planning for the new county-wide land banks through an NSP III or another federal program

Put needs of places that are not growing on the sustainability agenda

Press federal agencies to explicitly reward multi-jurisdictional land use and transportation plans

Support a cross-agency policy agenda to assist auto communities

#### Short-Term Recommendations

#### Medium-Term Recommendations

Develop a list of nationally significant projects based on merit-based criteria for potential application to a National Infrastructure Innovation and Finance Fund

Encourage the federal government to create incentives for shared service delivery programs

Organize for a National Advanced Manufacturing Laboratory



# Preface from Greater Ohio

*Dear Greater Ohio Partners, Restoring Prosperity stakeholder network, and fellow Ohioans:*

The Greater Ohio Policy Center is pleased to present this *Restoring Prosperity* report produced in partnership with the Brookings Institution Metropolitan Policy Program. It represents the culmination of a rich, multi-year collaboration between the two organizations, begun by Greater Ohio holding small meetings around the state following the release of Brookings' national Restoring Prosperity report in 2007, and punctuated by a statewide summit held in September 2008 in Columbus that launched the public kick-off of the Restoring Prosperity to Ohio Initiative. Since then, Greater Ohio and Brookings have worked to refine the policy agenda while implementation has begun. Greater Ohio and its state and local partners have introduced the framework for shaping Ohio's "next economy" that includes a confluence of prosperity drivers—innovation, human capital, infrastructure, and quality places—and new ways of governing, and pressed for new local tools that align with these prosperity drivers, such as an expanded landbank; a program to build on our "anchor" institutions and other local, institutional assets; and better alignment of place-based state policies with each other and with local practices. And we have seen progress in several areas. Now we have opportunities to work with federal partners as well.

However, the current crisis is profound; even deeper and more serious than when we embarked on this Initiative. We know that these current economic circumstances necessitate an immediate call to action, so this report contains short and intermediate action steps that are responsive to the current economic and budgetary crises. But implementing this plan must include a healthy mix of short, medium, and long-term efforts, so it is distinguished by the long-term framework for sustained growth and prosperity it offers. Using the roadmap outlined in the report, Greater Ohio, in conjunction with its partners, will continue to press forward on legislative reforms and administrative fixes and generate new policy ideas that align with innovative local practices in land use, transportation, place-based economic development and other areas, consistent with the organization's "smart growth" mission, while stimulating partner organizations with alternative expertise to act in other areas. Just as Greater Ohio's mission embraces urban, suburban, exurban, and rural parts of the state—by promoting growth in existing areas and limiting further land development in and preserving green spaces—this policy agenda emphasizes that urban and metropolitan centers are the engines of the state's economy, existing alongside rural and Appalachian areas. Revitalizing our built environment, concentrated in our urban and metropolitan regions, also secures a future for our rural and Appalachian areas. This report represents a significant milestone in the implementation of Greater Ohio's "smart growth" agenda for the state; and it provides a bipartisan strategy for recovery and revitalization of Ohio's economy, while enhancing the strong sense of community and the high quality of life that Ohioans cherish.

Ohio is in a state of transition—moving from a primarily manufacturing-based economy to one rooted in new technology and alternative energy; from a state dominated by jurisdictional fragmentation, to regional economies that compete globally; from a place of bifurcated urban and rural interests, to one of greater interdependence; and from a state of large, industrial cities, to one whose cities have shrunk in population and tax base. With the release of this report and its ground-breaking recommendations, Ohio has an opportunity to pilot new programs and act as a national testing ground thus easing this transition and reversing the state's course. To do so, we need to make fundamental changes in how the state operates and in local thinking. If we act together with a sense of urgency, we can embark now on this process. We look forward to continuing work with our terrific partners to advance this agenda now and for the future betterment of all Ohioans.

# Introduction

*Ohio, like most other states in the country and particularly its neighbors in the Great Lakes region, is still reeling from the Great Recession. This economic crisis, the worst in half a century, has devastated economies across the globe. While economists have declared that the recession has abated, it will be a long time before the businesses, households, and government treasuries in the U.S., the states, and specifically the state of Ohio, shake off the effects. And when the recession's grip finally breaks, what will Ohio's economy and landscape look like?*

The choices that Ohio's people and its leaders make—starting now and continuing over the next few years—will determine that answer. Ohioans can decide whether to shy away from manufacturing after the loss of so many jobs, or to transform the state's old manufacturing strengths, derived from its role in the auto supply chain, into new products, markets, and opportunities. They can decide to opt out of the national shift to a lower-carbon economy, or to be at the forefront of developing clean coal and renewable energy industries and jobs.

They can choose a workforce system that is aligned to the true metropolitan scale of the economy and oriented to the needs of workers and employers. They can choose transformative transportation networks over more roads; smaller, greener, stronger cities; collaboration and regional cooperation to save money, reduce duplication, and bolster regional competitiveness. And instead of trying to go it alone in the 21<sup>st</sup> century global marketplace, they can maximize the federal resources on offer to support Ohio's economic transformation and choose to compete effectively for new federal investments.

This report, *Restoring Prosperity: Transforming Ohio's Communities for the Next Economy*, lays out some of the specific policy options that will help Ohioans restore the prosperity that the state enjoyed for much of the 19<sup>th</sup> and 20<sup>th</sup> century, but that it has been struggling to regain for at least a decade, if not longer.

Ohioans have implemented important policies to respond to serious challenges or sweeping opportunities in the past, such as the Clean Ohio Fund, the Third Frontier, and its Edison Centers. State leaders today are working on land use reforms and bold approaches to innovation and advanced energy. State agencies such as the Department of Development, the Board of Regents, and the Department of Transportation have all crafted strategic reports in the last few years that show that they recognize the need for transformation in the kinds of approaches, policies, and goals the state pursues. The legislature's Compact with Cities Task Force, the Joint Select Committee on the Impact of the Changing Automobile Industry in Ohio, the Commission on Local Government Reform and Collaboration, and public-private



partnerships such as the Auto Industry Support Council are also grappling with how to move Ohio's economy forward. And some chambers of commerce, regional organizations, and other civic, corporate, and philanthropic groups around the state are likewise engaged in the same effort for their regional economies. This report complements these old and new efforts.

Given all this existing work, why does the state need the Restoring Prosperity agenda? This effort differs in important ways from the excellent work described above.

- First, it recognizes Ohio's metropolitan regions, which encompass cities, suburbs, and rural areas, as the key to the state's future prosperity. Metropolitan regions are the key functional units in the global economy today, and their ability to thrive will depend on their ability to collaborate.
- Second, this report understands Ohio in the context of a federalist system. So it talks about the partnerships necessary to bring prosperity across metropolitan regions, between metropolitan regions and the state, and between the state and the federal government. It also draws on the federalist notion, championed by Justice Louis Brandeis, of states as laboratories of democracy, and points out what Ohio can learn from the policy innovations emerging from other states, and how Ohio can itself lead other states in adopting new responses to new problems.

- Third, in its understanding of the complementary roles of the private and public sector, and recognition of the value of philanthropies, universities, and other non-profit institutions, this report represents a mix of traditional ideological positions. The recommendations call for more public investments, but with a business focus on how investments are made. The report advocates for significant changes in how state and local governments organize themselves, not because efficiency is an end in itself, but because these efficiencies, consolidations, and realignments will free up scarce resources to meet more pressing priorities, save taxpayers money, and will better align government with the metropolitan scale at which the modern economy operates.

Ultimately, economic health will come from a strong, innovative, flexible private sector in the state. Even if the state could afford it (which it cannot, even in non-recessionary times), it is not possible for public spending alone to restore prosperity. Moreover, even the most imaginative, energized government cannot replace a strong private sector, and policies cannot compensate for fundamental weaknesses in markets. But if the state government adopts the policies recommended here, it will go far in laying the groundwork for private sector strength, filling holes that the private sector will not, and creating the conditions in which markets, places, *and therefore people* can flourish.



### *Taking stock*

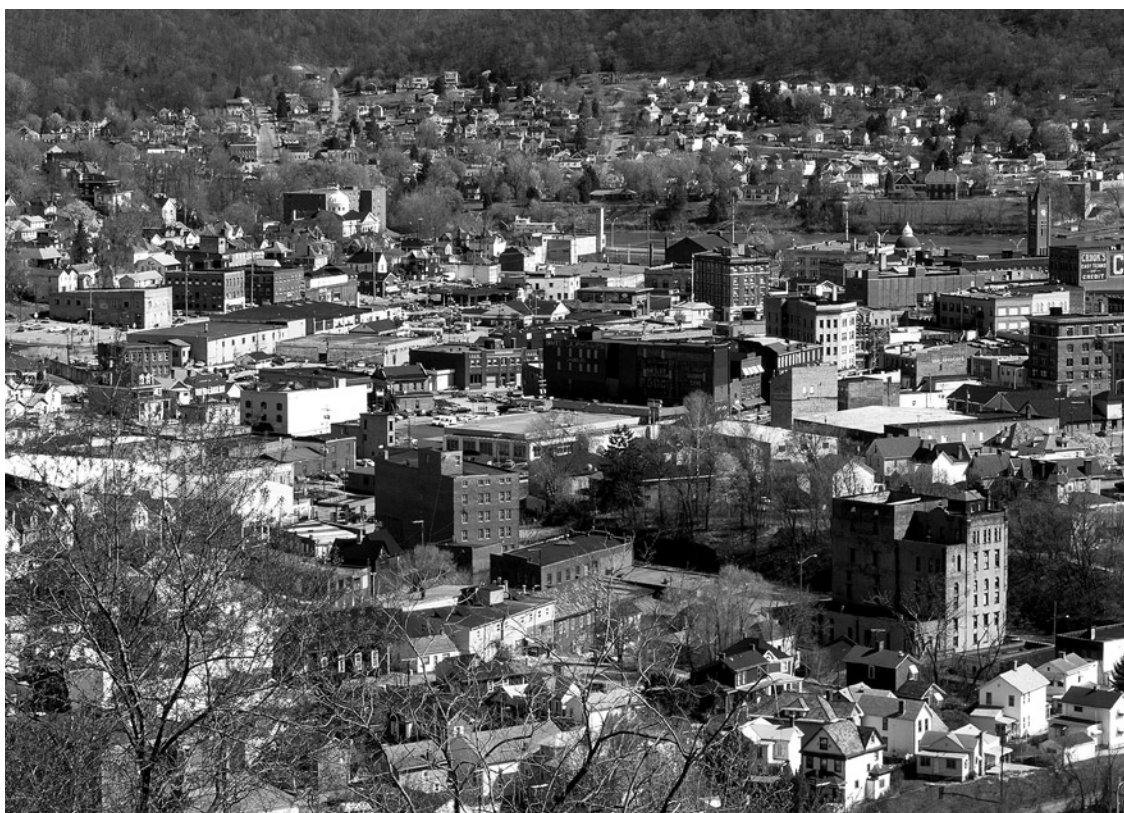
Ohioans should not aspire to a post-recession “return to normal.” The hard truth is that the “normal” Ohio economy for several years prior to the recession was weak. The state never quite recovered from the economic downturn in 2001.<sup>1</sup> Its once-mighty manufacturing sector lost 268,000 jobs from January 1999 to December 2007—before the recession hit.<sup>2</sup> Ohio underperformed the national average on employment in every industry from 2000 to 2008.<sup>3</sup> Ohio’s shrinking industries are declining faster than its growing industries are gaining ground. Employment decline in shrinking industries is more severe, and employment gains in growing industries are weaker, than in the nation as a whole.<sup>4</sup> Ohio’s median household income level outpaced that of the nation for the 30 years between 1950 and 1980, but by 2008, the median Ohio household made \$47,988, compared to the national median of \$52,029.<sup>5</sup>

The global recession has worsened Ohio’s economic situation, along with that of many of its peer states, inflicting intense pain on families and communities. While national Gross Domestic Product (GDP) managed to grow just a bit in 2008—less than one percent, Ohio’s GDP declined by 0.7 percent that year, largely because of declines in manufacturing, construction, finance, and insurance.<sup>6</sup> Indiana saw

a 0.6 percent decline, Kentucky a 0.1 percent decline, and Michigan a 1.5 percent fall.<sup>7</sup> These are four of only 12 states where GDP shrank in 2008. Ohio ranked 45<sup>th</sup> in the nation by 2008 GDP growth rates.<sup>8</sup> This trend persisted deep into 2009, with Ohio’s largest metros enduring some substantial Gross Metropolitan Product (GMP) declines from their peak to the third quarter of 2009.<sup>9</sup>

As credit seized up, firms shed jobs and were reluctant to hire, driving up the statewide unemployment rate from 5.8 percent in December 2007 to 10.9 percent in December 2009.<sup>10</sup> Between December 2007 and November 2009, Ohio lost an additional 149,600 manufacturing jobs.<sup>11</sup> All of Ohio’s metropolitan regions except Sandusky have lost jobs, and most have lost them faster than the U.S. as a whole.<sup>12</sup>

The foreclosure crisis hit Ohio early, and still continues to ravage Ohio’s cities and towns. Every large metropolitan region in Ohio saw its share of real estate owned (REO) properties increase between the second and third quarters of 2009. While Cleveland and Akron have leveled off, many of Ohio’s metros—Youngstown, Toledo, and Columbus, in particular—were still seeing their REO rate increase dramatically, more than twice as fast as the nation as a whole over this period.<sup>13</sup>



The recession has also had a staggering effect on state and local finances. Income tax receipts dropped by 35.6 percent from April 2008 to April 2009 as the recession tightened its grip on Ohio families.<sup>14</sup> Overall, FY 2009 saw a 12 percent drop in state General Revenue Fund tax receipts, a loss of more than \$2 billion and the biggest shortfall in half a century.<sup>15</sup> The state faced excruciating choices in the last biennial budget. For example, it preserved the K-12 and higher education funding dollars that focus directly on classroom education (and in fact increased the share of General Revenue Fund dollars sent to school districts through foundation funding), but cut other parts of the public school and higher education budget, as well as spending on human services, particularly the state Department of Mental Health, and child care assistance, among other areas.<sup>16</sup> More than 50,000 state employees have agreed to 20 furlough days over the next biennium and a wage freeze.<sup>17</sup>

The outlook will not improve for Ohio, or for most states, in the near term. A national forecasting firm foresees state wage and salary income growth in Ohio FY 2010 to be negative, the first time this has happened in 30 years.<sup>18</sup> Estimates of the budget shortfall for the next biennium range from \$4 billion to \$9 billion.<sup>19</sup> National projections show that states' revenues will not recover to pre-2007 levels until 2013–2016. And even when current

revenues rebound, Ohio and other states “will be faced with a huge ‘over hang’ in needs and will have to accelerate payments into their retiree pension and health care trust funds, as well as fund deferred maintenance and technology and infrastructure investments...[and] rebuild contingency and rainy day funds,” as the National Governor Association notes. The NGA concludes bluntly, “The bottom line is that states will not fully recover from this recession until late in the next decade.”<sup>20</sup>

Local governments are also struggling with smaller budgets. As Ohio approached 2010, the state's six largest cities were facing a collective deficit of \$166 million.<sup>21</sup> Cincinnati closed the largest budget gap of any Ohio city, \$51.5 million, by borrowing millions from reserve and emergency funds, cutting overtime allowance, and eliminating bonuses in 2010, as an alternative to cutting more than 200 full time jobs—including 112 police officers and 47 firefighters, as originally planned.<sup>22</sup> In Cleveland, a \$22 million shortfall was addressed by implementing a monthly trash collection fee and by negotiating with city employees to accept a series of concessions or face job cuts.<sup>23</sup> Smaller cities and suburbs faced similar challenges as they approached 2010 with deficits of \$4.5 million in Canton, \$3 million in Elyria, \$2.6 in Zanesville, \$1.1 million in Centerville, and \$500,000 in Portsmouth.<sup>24</sup>





As with the state, the local outlook is not expected to improve even as the recession officially abates. In fact, it will worsen over the next 18 to 24 months. Localities tend to rely on the property tax, which is fairly stable at the beginning of a recession, but then drops later.<sup>25</sup> Ohio's municipalities receive 60 percent of their funding from real property taxes.<sup>26</sup> Given the continuing rise in foreclosures, the property tax drop is likely to be significant and long-lasting. The upshot, according to a Brookings/National League of Cities report, is that "cities and other localities will be contending with increasing budget pressure for the next several years."<sup>27</sup> Because of its own challenges, the state will not be in a position to be generous with its aid to localities.

In these extraordinarily trying circumstances, state leaders must accomplish two tremendously difficult tasks as the worldwide recession's effects continue to grind away across the nation and Ohio. First, they must mitigate the immediate impact on people, firms, and places—spikes in unemployment, insufficient credit availability, and a tidal wave of foreclosures. This report does not focus on these admittedly critical issues. Rather, it addresses the second obligation of Ohio's leaders: the need to set a path for prosperity in the future.

### *Moving ahead*

As the following chapter explains in more detail, the U.S. economy is moving in the direction of more exports, new sources of energy, and ever increasing economic returns on knowledge, ideas, and innovation. Ohio must transform its economy to better align with these imperatives. The purpose of this report is to describe steps that will push the state further and faster along the process of transformation. We recommend the following three-part agenda: 1) continue and sharpen the state's strategic investments in prosperity-driving assets; 2) radically restructure government; and 3) lead the federal government so its policies work for Ohio, and other older industrial states.

This report will be released just days after the state's filing deadline for the 2010 elections. The policies and ideas laid out here are meant to spur state and federal action in 2010, and even more ambitiously to provide a blueprint for candidates from all parties in the 2010 statewide races. This agenda is not Republican or Democratic. It is pragmatic, business-aware, and reform oriented. Whether we recommend reforms, consolidations, or more spending it is always in the service of advancing the next economy in Ohio. The focus is prosperity, not ideology.





The next chapter explores the contours of what the next economy might look like. It will be export-oriented, lower-carbon, and innovation-driven. Ohio has strengths, some nascent, some well-established, in all these areas. Most importantly for the state, the next economy will be solidly centered in metropolitan areas because metropolitan areas contain the assets that the next economy will depend upon and value. Ohio is a metro-rich state, with 40 of its 88 counties and 81 percent of its people included in its 16 metropolitan areas.

The third chapter begins to lay out the details of the Restoring Prosperity Agenda. First, **Ohio needs to realize the potential of the assets in its metropolitan regions.** Brookings research has identified four assets that drive metropolitan, and therefore statewide, prosperity. These are: **innovation**, the ability to invent, develop, and employ new products, processes, policies, and business models to establish competitiveness at a global scale; **human capital**, a workforce with education and skills that are continuously improved and upgraded; **infrastructure**, the roads, rails, seaports, and airports that move people to jobs and goods to markets efficiently; and finally **quality places**, which attract people and businesses with a mix of vibrant, distinctive, walkable neighborhoods,

natural and cultural amenities, and a strong sense of place. Chapter three describes how the state should invest in these assets and leverage them to maximize its economic strength.

A second element of the Restoring Prosperity agenda is governance reform. **Ohio needs to change how school districts are divided, how local governments interact with each other, and how state programs and policies are delivered and organized, both as a response to its fiscal crisis and to make its metropolitan areas more competitive in the global economy.** Chapter four provides specific recommendations on how to achieve these reforms. Governance reform is not the complete cure for Ohio's fiscal difficulties, but it is part of the solution.

Finally, **Ohio needs to better engage the federal government** by seizing the immediate opportunities to start building the next economy that federal funding presents, and by pushing and leading the federal government to help hard-hit industrial states find their footing in the next economy.

The two organizations behind this report, Greater Ohio Policy Center and the Brookings Metropolitan Policy Program, have held meetings,

surveyed experts, and conducted research on both statewide conditions and national trends to forge a way for Ohio to regain a strong footing in the economy, and create the kinds of quality places its people desire and deserve. As such, this report is informed, and inspired, by the innovation that Ohio's metropolitan areas are generating. These metros have the seeds of the state's future prosperity, in individual firms such as Xunlight in Toledo, organizations such as the National Polymer Innovation Center in Akron, JumpStart and BioEnterprise in Cleveland, and the Youngstown Business Incubator, and institutions like the Ohio State University, Battelle, the University of Akron, the Cleveland Clinic, the University of Dayton Research Institute, to name just a handful. With these ingredients, the people, ideas, and new approaches to problem solving, the state can be solidly on the path to prosperity. This report aims to help Ohio harness these strengths.

These recommendations are the result of a long process of engagement by the Greater Ohio Policy Center and the Brookings Institution, which began in mid-2007 with a series of roundtables and small convenings on workforce issues, economic development, transportation, and neighborhood revitalization. In Fall 2008, after a year's worth of additional meetings and listening sessions across the state, Greater Ohio and Brookings held a summit attended by over 1,000 people, including local and state business, political and civic leaders, at which we released a preliminary report that laid out the importance of metropolitan areas in Ohio's communities, established the outlines of some of the recommendations contained in this final report, and launched the Restoring Prosperity Initiative.

The summit and the financial market collapse that followed it drove us to re-evaluate our agenda. We heard at the summit that Ohioans were eager for a deep agenda on governance, so we commissioned new research to address the problems of fragmentation. Then the recession started to strangle state and local budgets, so we looked for ways that the state could cut spending in some places in order to free up funds for investment elsewhere. And the talk of "a great reset" and the desire to understand "what comes next" caused us to focus on the broader context of Ohio's revival, and the elements of the emerging economy.

During the past year, we have seeded additional research, held new convenings, listened to more experts within and outside of Ohio, and received feedback from every corner of the state, and from business, civic, political, and philanthropic leaders, including the First Suburbs Consortium, metropolitan chambers of commerce, Metropolitan Planning Organizations, community development corporations, local editorial boards, and small community chambers of commerce. In addition to working with the people representing organizations on our Restoring Prosperity Steering Committee, we have conducted a peer-to-peer workshop to educate leaders from medium-sized communities across the state about this agenda and elicit feedback; with PolicyBridge, the Fund for our Economic Future and other Cleveland partners, we hosted the Restoring Prosperity to Cleveland mini-summit attended by hundreds of Clevelanders who shared their opinions; and were hosted by the Cincinnati metropolitan area's Agenda 360 leaders. We have worked closely with local, non-profit, citizen and downtown organizations including Downtown Dayton Partnership, Neighborhood Progress, the Allen County 2020 Commission, Hamilton Chamber of Commerce, and the Ohio Farm Bureau. Leaders from the universities of Cincinnati and Akron, and Youngstown State and Ohio State universities contributed to this process as well. We are extremely grateful for all their contributions and their partnership, which have strengthened this report and sharpened its relevance and will continue to make implementation of this agenda possible.

Despite the long process that has led to this document, it is not the end, but rather the end of the beginning of the Restoring Prosperity agenda. There is much more to come. With its partners, Greater Ohio will continue working on the ground to shepherd these ideas into legislation and policy and refining the agenda to match the evolving conditions in the state and its metropolitan areas.

Ohio can flourish in the 21<sup>st</sup> century. The Restoring Prosperity agenda explains how. We believe that Ohioans can implement this agenda with vigor and imagination, and have a future that outshines even their proudest eras of the past.



# From the Macroeconomy to Metropolitan Regions: Ohio and the Next Economy

*Out of the tumult of the recession, three characteristics of the world's, the nation's, and therefore Ohio's next economy are emerging. According to Lawrence H. Summers, the director of the National Economic Council, "The rebuilt American economy must be more export-oriented and less consumption-oriented, more environmentally-oriented and less fossil-energy oriented, more bio- and software-engineering oriented and less financial-engineering oriented..." His remarks are echoed by Jeffrey Immelt, chairman and CEO of the General Electric Company, who included in his ingredients of an American industrial renewal, the need to "become a country that is good at manufacturing and exports," "win where it counts in clean energy," and "invest in new technology."*

Ohio will thrive or struggle over the next several years to the degree that it can capitalize on, and help create, an economy that is export-oriented, lower carbon, and innovation led. The state has real strengths in each of these areas. Its leaders must take the additional steps necessary to translate these strengths into broad prosperity.

## *The Next Economy: Oriented towards Exports*

As Howard Rosen of the Peterson Institute for International Economics recently explained to the U.S. Senate, "The only way out of the economic mess we currently find ourselves in, without causing more damage at home and abroad, is to significantly increase U.S. exports. Exporting is no longer just an option for the U.S. economy; it is an imperative."<sup>30</sup>

Exports appear to be uniquely important in promoting economic growth. Economists posit that exporting forces companies to adapt to more rigorous competition and promotes "learning-by-doing," and therefore sparks innovation. There seem to be beneficial spillover effects from exports

as well: firms established in close proximity to exporting firms experience faster productivity growth.<sup>31</sup>

Exporting firms have higher production and sales than other firms; they have larger workforces (on average exporting firms have almost twice the number of workers as firms that produce goods for the domestic market); they pay workers more, and are more likely to provide health and retirement benefits.<sup>32</sup> Alexander Mas, chief economist at the Department of Labor, recently told Congress that an increase in U.S. export intensity "has the potential to create hundreds of thousands of new, good-paying jobs," and reduce income inequality by raising the income of many working-class and middle-class employees.<sup>33</sup>

While Ohio could grow its economy by either exporting more to other countries or to other parts of the United States, the likely drop in U.S. consumption and the rapid growth in nations such as Brazil, China, and India suggests the state should focus mainly on international exports. Indeed, in 2008, the state Department of Development set

a goal of increasing export growth by 10 percent over the next decade.<sup>34</sup> In the medium term, international export growth is likely to come from the quickly growing sectors that have emerged in this last decade: slight growth in services (which have been more resilient during the recession) such as telecommunications, business and technology, and royalties and licensing; and manufactured goods, such as primary and fabricated metal, machinery, and chemical goods. This latter category is particularly relevant for Ohio, since its largest metropolitan areas are very strong in machinery, metal, and chemical exports. Ohio has already made important strides in improving the business climate, in general and for exports, with tax reforms made over the last five years.<sup>35</sup> The president of the Ohio Manufacturers' Association has observed that Ohio now has "the best tax structure for an export-oriented, goods-producing state in the country."<sup>36</sup>

According to data from the state's International Trade Division, the state's export economy looks fairly strong. Ohio is the seventh largest exporter of goods (by value) in the nation, and the value of Ohio's exports has grown each of the last 11 years.<sup>37</sup> While the overall state GDP fell 0.7 percent from 2007 to 2008, the state's exports grew by just under \$3 billion during that time.<sup>38</sup> Ohio is also gaining a firm foothold in the rapidly growing markets of Brazil, China, and India. These countries are the state's third, fourth, and nineteenth most important export partners (again measured in terms of the value of exports). Ohio's exports to Brazil increased 47 percent from 2007 to 2008, exports to China grew by more than 20 percent, and exports to India rose 27 percent (albeit from a very small base) over that same time.<sup>39</sup> Machinery is the leading export to all three of these countries, with electrical machinery second or third, and optic and medical instruments also ranked high.

#### Top Ranked States by Exports (2008 Value)

Rank	State	2006	2007	2008	% Share 2008	% Change 07 to 08
	<b>Total All States</b>	<b>\$1,036,634,650,440</b>	<b>\$1,162,479,299,253</b>	<b>\$1,300,135,649,517</b>	<b>100.0%</b>	<b>11.8%</b>
1	Texas	\$150,890,067,958	\$168,228,620,315	\$192,143,622,940	14.8%	14.2%
2	California	\$127,770,793,810	\$134,318,906,761	\$144,813,262,592	11.1%	7.8%
3	New York	\$59,131,681,664	\$71,115,801,477	\$79,596,240,386	6.1%	11.9%
4	Washington	\$53,057,756,262	\$66,370,054,130	\$66,884,598,480	5.1%	0.8%
5	Florida	\$38,557,545,807	\$44,858,050,410	\$54,271,960,951	4.2%	21.0%
6	Illinois	\$42,134,675,259	\$48,896,249,905	\$53,444,521,690	4.1%	9.3%
<b>7</b>	<b>Ohio</b>	<b>\$38,161,413,584</b>	<b>\$42,562,233,016</b>	<b>\$45,487,881,861</b>	<b>3.5%</b>	<b>6.9%</b>
8	Michigan	\$40,499,792,371	\$44,555,349,131	\$44,871,354,173	3.5%	0.7%
9	Louisiana	\$23,476,817,989	\$30,318,911,145	\$41,926,763,308	3.2%	38.3%
10	New Jersey	\$27,230,577,285	\$30,836,468,846	\$35,478,964,909	2.7%	15.1%
11	Pennsylvania	\$26,358,528,010	\$29,195,435,464	\$34,448,470,930	2.6%	18.0%
12	Massachusetts	\$24,056,968,000	\$25,351,439,596	\$28,292,500,188	2.2%	11.6%
13	Georgia	\$20,113,252,153	\$23,365,865,349	\$27,509,316,873	2.1%	17.7%
14	Indiana	\$22,666,267,651	\$25,956,346,037	\$26,507,145,834	2.0%	2.1%
15	North Carolina	\$21,286,290,087	\$23,355,818,431	\$25,075,644,452	1.9%	7.4%
23	Kentucky	\$17,254,378,478	\$19,652,095,856	\$19,089,371,625	1.5%	-2.9%
36	West Virginia	\$3,240,059,159	\$3,987,020,782	\$5,630,719,670	0.4%	41.2%

Source: Ohio Department of Development

### Ranking Ohio Exports by Country (2008 Value)

Rank	Country	2006	2007	2008	% Share 2008	% Change 07 to 08
<b>Total All Countries</b>		<b>\$38,161,413,584</b>	<b>\$42,562,233,016</b>	<b>\$45,487,881,861</b>	<b>100.0%</b>	<b>6.9%</b>
1	Canada	\$18,603,106,852	\$19,796,654,928	\$19,918,176,082	43.8%	0.6%
2	Mexico	\$2,702,641,078	\$2,995,489,054	\$3,543,066,211	7.8%	18.3%
3	Brazil	\$516,003,524	\$1,334,743,003	\$1,962,946,862	4.3%	47.1%
4	China	\$1,303,825,071	\$1,498,252,418	\$1,818,056,609	4.0%	21.3%
5	Japan	\$1,444,746,404	\$1,542,562,463	\$1,511,496,289	3.3%	-2.0%
6	Germany	\$1,280,879,531	\$1,339,454,516	\$1,480,898,993	3.3%	10.6%
7	United Kingdom	\$1,220,694,915	\$1,424,446,905	\$1,475,171,415	3.2%	3.6%
8	France	\$1,009,733,139	\$980,506,744	\$1,120,513,848	2.5%	14.3%
9	Australia	\$659,088,778	\$683,091,995	\$776,488,045	1.7%	13.7%
10	Saudi Arabia	\$654,295,367	\$588,405,268	\$768,836,703	1.7%	30.7%

Source: Ohio Department of Development

Brookings has developed a method to estimate exports based on a metro's productive capacity in exporting industries.<sup>40</sup> This method also allows us to estimate service exports. Using our measure, Akron, Cleveland, Dayton, Toledo, and Youngstown are all in the country's top 20 large metros, as measured by export intensity (the percentage of metro output exported abroad). Cleveland is one of the top exporters to China, and has the 17<sup>th</sup> highest value of exports among the top 100 metros in the country. Overall, the seven largest metros in Ohio exported an estimated \$3.6 billion to Brazil, India, and China in 2007, and we expect this sum to grow rapidly over the next decade.

Ohio also competes fairly well in service exports. Services exports are also critical for competitiveness as Economy.com's Mark Zandi has argued.<sup>41</sup> Ohio's seven largest metros exported an estimated \$14 billion in services in 2007. The table below shows how these service exports compare to their respective economies and how the large Ohio metros compare to metros in other states. In four of Ohio's metros—Columbus, Cincinnati, Dayton, and Youngstown—service exports constitute a larger share of their economies than the average large metro. Most of these services—roughly three-quarters—are in categories such as tourism, intellectual property, the transportation of goods, financial services, and airfares.

### Service Exports as a Share of the Metro Economy in Ohio's Largest Metros

Metro	Service Export Intensity	National Rank Relative to 100 Largest Metros
Columbus, OH	3.93%	18
Cincinnati-Middletown, OH-KY-IN	3.85%	24
Dayton, OH	3.59%	34
Youngstown-Warren-Boardman, OH-PA	3.46%	46
Akron, OH	3.40%	52
Cleveland-Elyria-Mentor, OH	3.20%	68
Toledo, OH	2.97%	83
<b>100 Metro Average</b>	<b>3.41%</b>	

Source: Brookings calculations based on data from the U.S. Census Bureau's County Business Patterns and the Bureau of Economic Analysis

Ohio may be well positioned to compete in high-value services largely because of its wealth of higher education institutions. Indeed, a smaller but non-trivial share of service exports comes from the education of foreign students, especially in universities. According to a Brookings analysis of data from the International Institute for Education, colleges and universities in Ohio's top seven metros were educating 15,133 foreign students in 2008. The Board of Regents strategic plan aims to have international students account for 5 percent of total University System of Ohio enrollment (over 35,000 students) by 2017.<sup>42</sup> The proceeds generated an estimated \$410 million. Columbus, in large part because of Ohio State's presence, housed by the far most foreign students at 5,044, which makes it the 22<sup>nd</sup> largest metro provider of higher education to foreigners.

#### *The Next Economy: Fueled by New Energy*

The world economy is moving away from carbon-based fuels and towards new sources of energy, driven in part by state, national, and international goals and agreements.<sup>43</sup> Narrow discussions of the impacts of cap and trade regimes or of green jobs have obscured how profound a transition this will be. Shifting to new energy sources will affect the source of our energy, the cars we drive, the products we buy, the kinds of homes we live in, the shape and location of our communities, and how we get from one place to another.<sup>44</sup> This shift will also drive job creation, as the nation will need scientists to invent, entrepreneurs to take to

market, and workers to build solar panels, wind turbines, biomass plants, advanced fuel cells, and other efficient finished products. And new sources of energy are more job-intensive than traditional sources—one study found that per unit of energy, solar and wind energy yield more than five times the number of jobs as coal or gas.<sup>45</sup> Smart policy can amplify the job creation effects. Jeffrey Immelt, CEO of General Electric, estimates that 250,000 green jobs could be created if the U.S. set a renewable energy standard of 12 percent by 2012, up from 5 percent today.<sup>46</sup>

The new energy, lower-carbon economy holds both peril and promise for Ohio. Over 86 percent of the state's electric power currently comes from coal.<sup>47</sup> This dependence on coal drives up the carbon footprint of many of the state's largest metropolitan areas. In a survey of the lowest to highest carbon emissions per capita in the 100 largest U.S. metros, Cincinnati, Columbus, Dayton, and Toledo ranked in the bottom quarter (Toledo was 97<sup>th</sup>).<sup>48</sup> As the costs of carbon emissions rise, Ohio will have to use traditional sources of energy much more efficiently, use techniques such as carbon capture and sequestration or clean coal technology, and add significant amounts of new sources of energy if it wants to remain competitive for residents and businesses. It will also need a carbon management strategy that helps ease the transition to the new energy, lower-carbon economy, acknowledging that this takes time in a coal-producing state.







Fortunately, the state is already developing some of the products and processes that the market will demand, both in Ohio and around the world. State policies have been deployed to build a market for clean energy and energy efficiency technologies: the state has had an advanced energy portfolio standard—the seventh most aggressive in the nation—in place since 2008, alongside an energy efficiency standard that, per megawatt hour, is among the most aggressive in the nation; all new school buildings in Ohio must attain a LEED silver standard, which creates a market for construction, architectural, and related industries; and the state’s own stimulus bill in 2008 included investments in advanced energy and clean coal. Governor Strickland recently announced the Energy Gateway Fund, \$40 million in federal and state dollars to provide much-needed capital during the current credit freeze for new or growing advanced energy companies.<sup>49</sup>

Ohio ranks seventh in the nation for total green technology patents for 1998–2007, with particular strengths in battery technology, hybrid system technology, and fuel cell technology patents.<sup>50</sup> Ohio attracted \$46 million in venture capital investments in clean technology in 2008, more than triple the amount invested in the state the previous year.<sup>51</sup> Toledo is a national leader in the solar industry. The state is a critical part of the wind turbine supply chain, and Lake Erie shows promise as a source of wind energy.<sup>52</sup> A recent feasibility study found that a pilot project from two to ten windmills roughly five miles off the Cleveland shore would be both technically and environmentally feasible.<sup>53</sup>

The new energy economy is already creating jobs in Ohio. According to a recent report by the Pew Center on the States, Ohio’s number of clean energy jobs grew by more than 7 percent between 1998 and 2007 even as the overall number of jobs in the state contracted by 2 percent. The state ranks in the top six states in the country across several categories of new energy jobs.<sup>54</sup> The Ohio Department of Development indicates that more than 60,000 Ohioans work in jobs that support advanced or new energy supplies in the state.<sup>55</sup> New opportunities are likely to emerge in the energy efficiency industry: a study by McKinsey & Company for the Chicago Council on Global Affairs found that energy efficiency was the best and fastest way for Ohio and other Midwestern states to respond to carbon pricing regimes.<sup>56</sup>

Some have worried that the shift to new energy sources, and specifically the move away from coal and high-carbon fuels, will cripple Ohio. But this transition is going to happen sooner or later. The state can react to it as a crisis, or it can meet it as an opportunity. Ohio needs to prepare itself for the inevitable federal climate change legislation. To help in this transition, Ohio has a skilled manufacturing workforce, deep research capacity in advanced materials and design, and empty factories able to accommodate new uses. The large swaths of vacant land in its older cities could support urban agriculture, valued because it reduces the carbon costs of bringing food to market.<sup>57</sup> Climate action is a source of job creation in Ohio, as U.S. Senator Sherrod Brown noted when he said, “The climate bill is all about jobs.”<sup>58</sup>

### *The Next Economy: Driven by Innovation*

Innovation will be a critical aspect of generating competitive products and services to export abroad and becoming a leader in the low-carbon sector. The transition away from traditional energy sources will trigger breakthroughs in renewable energy technology, in infrastructure, and in building practices and technologies.<sup>59</sup> The orientation towards exports means a search for new or better kinds of products and processes that can compete in the global marketplace. Thus, innovation is the critical third element of the emerging economy.

Ohio has a strong innovation base to build on as it moves to the next economy. As noted above, Ohio is among the top 10 states in battery technology, hybrid system technology, and fuel cell technology patents.<sup>60</sup> Cincinnati, thanks largely to Procter & Gamble and General Electric, has a patent rate nearly double that of the U.S. as a whole. Cleveland, too, has a patent rate well above the national level.<sup>61</sup> The state is in the top ten nationally in science and engineering doctorates awarded; in academic research and development spending; and in small business innovation research awards, according to recent National Science Foundation data.<sup>62</sup> Its colleges and universities are also innovation engines: Case Western Reserve, Kent State, and the University of Akron are leaders in the Great Lakes

region and the nation as a whole in licensing new research and creating start-up companies based on institutional research.<sup>63</sup> The Ohio State University, the University of Cincinnati, and Battelle also make huge contributions to the state's innovation resources.

The state government recognizes the importance of innovation, and of investments in innovation. Ohio ranks fifth in the amount of funding state agencies spend on research and development (almost all of it outsourced to universities, private companies, or other non-state actors).<sup>64</sup> The state's marquee innovation-based economic investment program, the Third Frontier, has yielded \$6.6 billion in economic activity, including 41,300 jobs, from the state's \$681 million expenditure thus far.<sup>65</sup> An independent analysis of Third Frontier suggests that many of its benefits are yet to come, and one reason is that "it is likely that new products and processes being commercialized by Ohio companies and new industries which are emerging will be in a position of strength during the next global expansion."<sup>66</sup>

Ohio has also supported innovation by a focused effort to raise its college attainment rate, in part through freezing tuition rates at state colleges and universities for two years, and allowing only 3.5 percent growth in tuition for the current biennium.



### *Metropolitan Regions in the Next Economy*

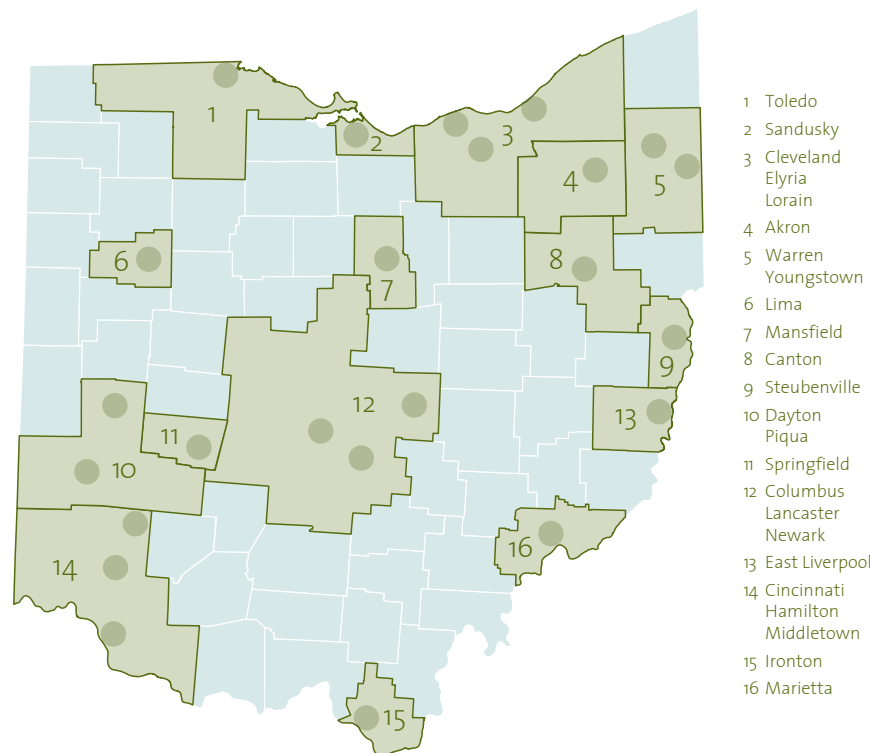
The next economy in Ohio, as in the U.S. as a whole, will be metro-led. There is no U.S. or German, or Chinese, or Ohio economy, but rather a network of sophisticated, hyperlinked, and globally connected metropolitan economies. These metropolitan regions benefit from what economists refer to as agglomeration, or geographically clustered activities. Agglomeration is an unwieldy term that means that metros are more than the sum of their parts. They create a multiplier effect that results from linking human capital, innovative activity, infrastructure, and value-creation in goods and services in dense geographies. A large body of evidence shows that dense populations and high concentrations of business activity accelerate and maximize economic outcomes.<sup>67</sup> Economists Edward Glaeser and David Maré note that metro areas, for example, speed the accumulation of human capital and then facilitate the movement of trained specialists across projects and industries as well as the interaction of users and producers.<sup>68</sup> Likewise, research from the Federal Reserve Bank of Philadelphia finds that patents not only proliferate markedly with increased employment density, but tend to be sited within the same

metropolitan area.<sup>69</sup> A European study found that infrastructure investments yield markedly higher payoffs in metropolitan areas than in non-metro areas.<sup>70</sup> In short, metropolitan areas are where it all comes together.

Ohio exemplifies the power of metropolitan regions. In fact, its 21<sup>st</sup> century metropolitan regions are the successors to the cities and small towns that drove the state's 20<sup>th</sup> century economy, and are the places that are incubating the state's *next* economy.

- Of the 32 communities that laid the foundation of the state's 20<sup>th</sup> century strength, 23 of the 32 are now in metropolitan areas, and 15 are in the largest 7 metros (see map below).<sup>71</sup> The other nine are also important hubs for their surrounding areas, and have many of the prosperity-driving assets of metropolitan regions.
- Today the seven largest metropolitan areas in the state house 70 percent of the state population and produce 80 percent of the state GDP.
- All sixteen of the state's metros constitute 81 percent of the population, 84 percent of the state's jobs, and 87 percent of the state's GDP.

*The cities and small towns that made Ohio strong in the 20<sup>th</sup> century have become the metropolitan regions that will power it in the 21<sup>st</sup> century.*<sup>73</sup>





Ohio's metropolitan regions are where the assets that will build and benefit from the next economy concentrate. The assets that will be most critical for success in an export-oriented, lower carbon, innovation-led economy and that gather and strengthen disproportionately in urban and metropolitan places are innovation, human capital, infrastructure, and quality places.<sup>73</sup>

**Innovation:** Ohio's seven largest metro areas concentrate slightly more than 75 percent of the state's patenting activity, and 82 percent of the state's knowledge jobs.

**Human Capital:** Ohio's metros in the nation's top 100 metros contain 81 percent of the state's adults aged 25 or older with at least a bachelor's degree.

**Infrastructure:** The largest metros account for nearly 100 percent of the state's air cargo and commercial passengers, and are where most of its ports are found, particularly relevant as the economy transitions to one based on exports, not consumption.

**Quality Places:** Ohio's top seven metros concentrate 62 percent of historic places statewide. Their concentration of assets and people create a level of market activity, public amenities (e.g., health facilities, theaters, restaurants, parks, and waterfront districts), and sense of place that is critical to attract and retain innovative firms and talented workers. Their pockets of density are conducive to transportation options like biking,

walking, and mass transit, and energy-efficient housing options.

For Ohio to prosper in the next economy, and serve its taxpayers well, it needs to support the prosperity of its metropolitan regions. Because of Ohio's multiplicity of metros, concentrating on and investing in metropolitan regions as the economic drivers and the hubs of activity is practically a "leave no place behind" strategy. Almost every single Ohioan lives within an hour's drive of an urbanized area, and half of the state's population lives within 10 miles of an urban core.<sup>74</sup> As OSU researchers have found "[A] bucolic landscape is not necessarily a sign that residents are not integrated with the nearby urban area." Because of sprawling development patterns in the state, more than half of rural Ohioans actually live within the boundaries of metropolitan areas.<sup>75</sup>

This metro orientation does not mean that only large cities receive state investments. It means instead that the state evaluates its investments based not on each county, city, or township getting an equal share, but on what investments will make the most sense in which places. Metros may need more transportation investments, while non-metropolitan areas benefit from additional broadband money. (See *Restoring Prosperity to All of Ohio: Why this Matters to our Rural and Appalachian Regions*, at the end of chapter three for more details on the rural benefits of the *Restoring Prosperity* agenda.)



## Transcending the Metro vs. Rural mindset

How can one claim that metropolitan areas actually are home to more than half of all rural Ohioans? Aren't "metropolitan" and "rural" opposites? The short answer is, no. The U.S. Census Bureau defines "metropolitan" as a core urban area of more than 50,000 people, the surrounding county, and the adjacent counties that are economically and socially connected, as measured by commuting patterns. Within metropolitan areas, one can find both urban and rural places, because "urban" and "rural" are determined essentially by population density. To be within a metropolitan area means to have an economic connection to a good-sized city or cities. Metropolitan is not a synonym for city or urban or suburban.

In fact, many Ohio counties that are perceived to be predominately "rural" are within the border of a metropolitan area because their residents participate in a larger regional economy. Counties such as Portage, Carroll, Brown, Geauga, Morrow, Preble, and Fulton display a number of rural characteristics. None of these counties has a city with a population greater than 28,000; in each, over 81 percent of land cover is more rural in nature (i.e. cropland, forest, wetland, or pasture) and less than 13 percent is urban (in five out of these seven counties, land cover is more than 93 percent rural and less than 6 percent urban); and all have a greater percentage of individuals employed in the agricultural sector than the state average. But all of these counties nevertheless are located inside a metropolitan area: Akron, Canton, Cincinnati, Cleveland, Columbus, Dayton, and Toledo respectively.

Commuting patterns of workers in these counties help explain why the counties are in the metropolitan orbit. Between 39 and 67 percent of workers in these counties commute out of the county to jobs in surrounding counties, and of these commuters, between 20.6 and 39.8 percent travel to the central county where the largest city in the metropolitan area is located. These commuting patterns suggest the intertwined patterns of working and living in urban, suburban, and rural environments that characterize metropolitan areas.

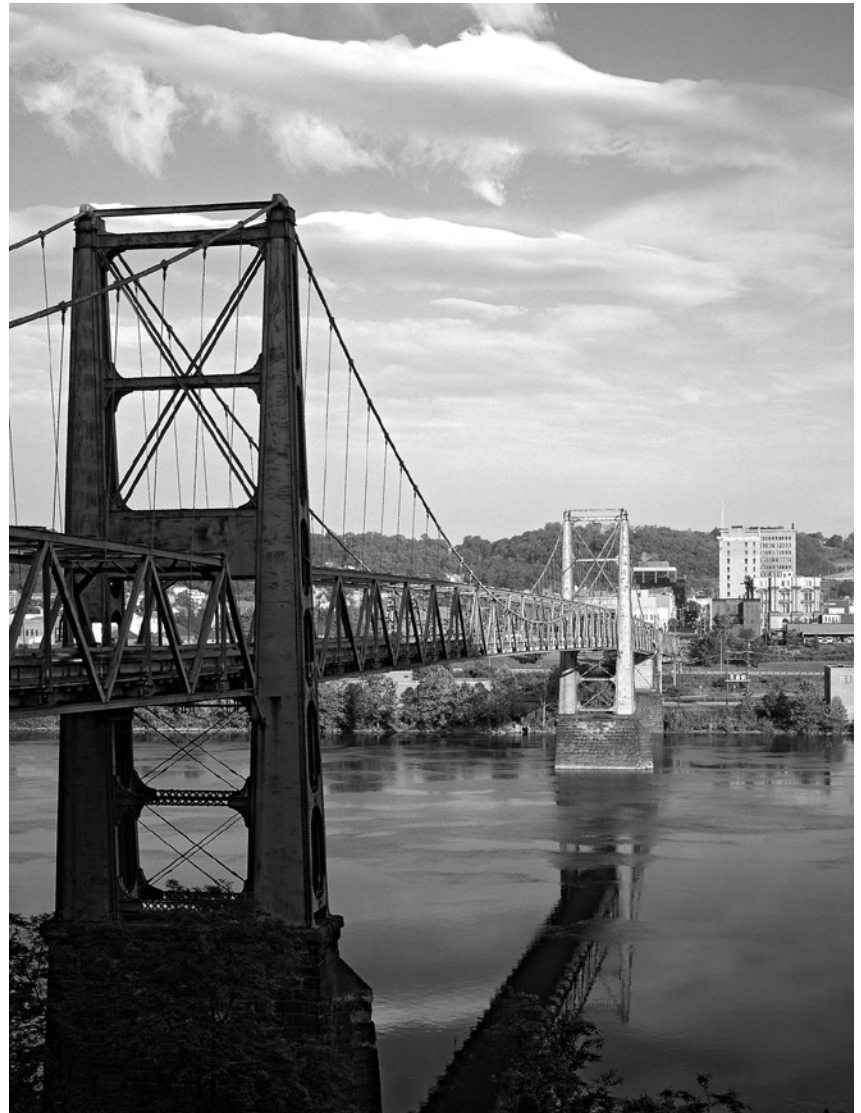
Sources: Census Bureau, American Community Survey 2006–2008.

Ohio Department of Development County Profiles: <http://www.odod.state.oh.us/research/files/so.htm>.

Ohio Department of Development Commuting Patterns by County <http://www.development.ohio.gov/research/files/P0005.htm>.

## Ohio and the Next Economy

The tremendous changes in the world economy over the last 18 months, and in fact the past several decades, have not been kind to Ohio's communities or its workers. It is understandable if Ohioans are wary of promises of the "new" and the "next," as unemployment approaches 11 percent, and state GDP struggles to move from negative to positive. But this quick tour of the elements and the geography of the next economy indicate that Ohio is in a position to gain from the changes ahead. Whether people find these potential gains robust and reassuring or speculative and distant, the fact is that the next economy is coming to Ohio, like it or not. Now is the time to take steps to capitalize on these emerging changes. The Restoring Prosperity agenda, explained in the next three chapters, lays out a few of these steps.



# Build on Prosperity-Driving Assets

*The Restoring Prosperity agenda that will solidify Ohio's place in the next economy has three elements: 1) Build on next economy assets in metropolitan areas; 2) Catalyze transformative changes in governance to lower costs and boost competitiveness; 3) Align with and inform federal priorities to maximize the potential of federal investments. This chapter focuses on the first of these steps, building on assets.*

Even as it has grappled with intense fiscal challenges, Ohio has not lost sight of the need to make significant investments to secure its future prosperity. The strategy laid out below is the one Ohio should follow to unleash the potential of the next economy by connecting macroeconomic trends to its metropolitan assets, which are innovation, human capital, infrastructure, and quality places.

## *Building on Innovation in Ohio's Metropolitan Regions*

Historically, Ohio is a state where private sector innovation has flourished: from the Wright Brothers' famous aviation invention; to Charles Kettering's development of the first electric cash register and automobile electric ignition system; to Harvey Firestone and Franklin Seiberling, Akronites who founded global rubber and tire companies, among many others. But lately, Ohio has slipped in measures of entrepreneurial strength. Ohio ranks in the bottom six states in the nation on several measures of entrepreneurship, according to a recent survey by the Kauffman foundation.<sup>76</sup> This Restoring Prosperity agenda plants the seeds for a new era of innovation and helps reenergize Ohio's entrepreneurial culture.

Ohio has been a pioneer in innovation-based economic development with programs like Third Frontier, which has a track record of returning \$10 for every dollar the state invests.<sup>77</sup> The state's Advanced Energy Portfolio Standard, enacted in 2008, spurred a market for clean energy sources and technology by mandating that at least 25 percent of all electricity sold in the state comes from alternative energy sources (including clean coal, nuclear power, and fuel cells) by 2025, and 12.5 percent come from renewable sources (e.g., solar, wind, biomass, or geothermal).<sup>78</sup> Half the renewable energy must be generated in Ohio, further bolstering local innovation and manufacturing. Ohio's state stimulus fund, passed last year, included \$150 million for advanced energy projects.

Ohio must capitalize on its strength in innovation, and apply this innovation not only to the new technologies and industries that will diversify the state's economy, but also to the state's traditional industries that, although significantly smaller than they once were, still make an important contribution to Ohio's economy.



### Short-term recommendations:

**Preserve Third Frontier Funding.** In the short term, Ohio must protect the Third Frontier. The state's premier technology based innovation program prepares Ohio for the next economy by strengthening innovation; it also supports research and commercialization in fuel cells, photovoltaics, and other forms of advanced energy that will help Ohio in a lower carbon economy. The budget crisis has forced state leaders to borrow Third Frontier's 2012 funds to spend in 2010 and 2011, and the program's ten-year term will expire in 2012. A resolution to put a bond issue on the May 2010 ballot to renew Third Frontier funding passed in the Ohio General Assembly as this report went to press. Voters need to continue to support Third Frontier as this is the worst possible time for Third Frontier funding to dry up. As an independent review of Third Frontier, by SRI International, found, "The experience of other states and clusters, such as Silicon Valley, Research Triangle Park, or Austin, is that it takes 20 to 30 years for regions to achieve the critical mass that becomes self-sustaining...Many [similar] efforts have failed due to lack of long-term support and innovation."<sup>79</sup> Ohio needs to send a strong signal, sooner rather than later, that it is committed to maintaining this program and creating stability for the technology-based businesses that it funds.

A top priority for the state must be protecting what makes Third Frontier great: It is driven by merit.<sup>80</sup> The SRI International review notes that part of Third Frontier's success has been its ability to align industry, universities, and research institutions, and, with the Edison Program, to create bridge organizations between companies, universities, federal laboratories, and other research centers.<sup>81</sup> All of these entities brought together by Third Frontier are in particular communities, usually within Ohio's metros. Spreading Third Frontier money across the state without regard to the underlying strength of particular clusters undermines its focus on place-based, place-specific clusters, and would weaken the program.

**Find creative sources of funding for innovation-based economic development.** As budget pressures continue, Ohio should find a range of creative sources of funding for Third Frontier and its broader innovation-based development programs. Make no mistake: The May ballot measure is critical, and Third Frontier is an excellent use of taxpayer dollars and the general

revenue fund: the SRI study found that Third Frontier generated "more than seven times the level of economic activity, more than six times the employment, and more than 11 times the wages and compensation compared to returning this money to taxpayers."<sup>82</sup> But Ohio needs to make sure its innovation funding is buffered against the ups and downs of the economic and budget cycles and from political gamesmanship. One promising model comes from the state of Kansas, which funds its bioscience authority with a percentage of the growth of state income tax withholding from workers in bioscience companies, using growth to pay for more growth. This mechanism is expected to generate more than \$580 million over 15 years.<sup>83</sup>

### Medium-term recommendation:

**Significantly expand the state's advanced manufacturing network.** Manufacturing has been hit very hard in Ohio, with 281,000 jobs lost between 2000 and 2008. The state predicts further job losses in the future, with manufacturing employment sliding 17.7 percent between 2006 and 2016.<sup>84</sup> Yet, as a report on the auto manufacturing industry in central Ohio by Cleveland State University's Ned Hill and others points out, "a loss of that magnitude in almost every other state would mean that its manufacturing capacity had ceased to exist; in Ohio more than 700,000 direct manufacturing jobs that produce more than 20 percent of the state's gross product were maintained."<sup>85</sup> Ohio is good at making things, with a higher concentration than the U.S. as a whole for 10 out of 18 manufacturing industries.<sup>86</sup>

Manufacturing depends on innovation, which the state can support by strengthening, dramatically, its state-wide advanced manufacturing network, as suggested by Ned Hill and others.<sup>87</sup> A stronger advanced manufacturing network will enable Ohio to solidify and build on areas of strength, and develop both new goods for growing markets like China and India and also new processes that are in demand worldwide. Ohio has incredible depth in research institutions relevant to some aspect of advanced manufacturing: The Ohio State University, Battelle, University of Dayton, University of Akron, Case Western Reserve University, Stark State Community College, several colleges with industrial design programs, and related federal programs at Wright-Patterson Air Force Base, and NASA Glenn. The state needs to work with these institutions to make Ohio the center of advanced manufacturing research and development.<sup>88</sup>





The Ohio Auto Industry Support Council could be the entity that further develops ties between manufacturers and research organizations, or the state could use its own convening power to create a large, strong, self-conscious network of institutions involved in advanced manufacturing, including manufacturers themselves, relevant Edison and Wright Centers, and the universities and federal labs named above. This convening can start the process of building the advanced manufacturing brand in Ohio. Polymer Ohio is a useful model here.

A second step is to make investments that drive applied research and partnerships between industry and academia. The relationship between the Center for Automotive Research and Ohio State and Honda, the ergonomics lab at Ohio State, with its major partners BMW and Honda, the Live Well Collaborative between the University of Cincinnati and various manufacturing and marketing companies, and the proposed agreement between the University System of Ohio and Procter & Gamble are potential models to replicate. Additionally, advanced manufacturing should be firmly ensconced in the Third Frontier (it already overlaps with existing targeted technology platforms such as power and propulsion and advanced materials). The various Edison Technology Centers that are doing contract applied research in manufacturing work (e.g., Edison Welding Institute, MAGNET—Manufacturing Advocacy and Growth Network, TechSolve) should coordinate their efforts, as they themselves have recognized.

## Stuttgart and Innovation:

Like the U.S., Germany has experienced measurable losses in manufacturing over the past 20 years. Germany's manufacturing and production industries declined from 40 percent in the early 1980s to 25 percent by 2007. In the 1990s, Stuttgart was particularly concerned with how this trend would culminate in the city and region—an area renowned for its car design and car manufacturing capabilities. In addition to DaimlerChrysler (Mercedes) and Porsche, approximately 300 automobile designers and suppliers are located in the region. With support from the state, the Stuttgart region focused on adapting its existing strengths in mechanical engineering and production into new and emerging markets. Funds were used to create Competence Centers, where large and small enterprises (mostly the latter) worked with universities to develop new technologies and products. Building on its strengths, Stuttgart's clean energy cluster is now flourishing. Hundreds of companies now design, develop or produce clean energy products, such as fuel cells, thermal technology, and solar panels. Nearby universities, such as the University of Stuttgart's Institute for Thermodynamics and Thermal Engineering is the largest testing center for thermal solar technology in Germany.

Sources: Statistisches Bundesamt, Germany's Federal Statistical Office, 2008.

Presentation on Governance and Cooperation in Stuttgart Region, Dr. Jurgen Ludwig, Verband Region Stuttgart, December 2006.

Presentation on the Introduction to the Competence Centre Initiative, Bertram Gaiser, Stuttgart Region Economic Development Corporation, 2008.

Stuttgart Economic Development Corporation, Hightech-Region Stuttgart: Clean Energy (Verband Region Stuttgart).

### Long-term recommendation:

**Create micro-investment funds.** The SRI International review of Third Frontier pointed to the need to adjust the program to provide more support for entrepreneurs.<sup>89</sup> However, there are other entrepreneurs and innovators in Ohio whose efforts are not a good fit for Third Frontier, yet still could contribute to the economy and civic life of their communities with small, early-stage investments. To support these efforts, the state should partner with existing economic development non-profits to create micro-investment funds.

The state has announced a new program that will provide up to \$5,000 in startup loans to would-be entrepreneurs, modeled on a program at Lorain County Community College.<sup>90</sup> Another example of the kind of work the state could consider supporting is the Civic Innovation Lab, a project currently funded by the Cleveland Foundation. The Lab supports community entrepreneurs in a variety of ways, including providing initial grants of up to \$30,000 for ideas that can improve the greater Cleveland economy, with the goal of creating a culture of entrepreneurship. The Lab's unique model provides a combination of start-up funds with volunteer mentorship from local business and civic leaders who are part of the local 22-member mentorship panel and take responsibility for guiding the next generation of entrepreneurs. According to an economic impact study undertaken by Cleveland State University, the Lab's "output impact" for 2008 was \$9.4 million, off of initial investments of approximately \$1.4 million. The employment impact was 128 jobs.<sup>91</sup> The lab's focus on community entrepreneurship, or projects that will have tangible benefit to the community (such as improved livability, innovation in new industries, talent retention) makes it unlike organizations that receive Third Frontier funding such as JumpStart and BioEnterprise, which focus more on traditional private entrepreneurship.<sup>92</sup>

Another idea, being discussed by one non-profit organization in Northeast Ohio, is a fund that would allow individual Ohioans to loan small amounts of money for projects like sustainability startups, minority-owned firms, or new firms in high-poverty areas. The state could explore partnerships, and perhaps allocate matching funds, for these micro-loan funds.<sup>93</sup>

These kinds of small investments could recharge the culture of entrepreneurship in Ohio's metropolitan areas, and throughout the state, that goes beyond the focus on technology-based business

development that the state supports so well with Third Frontier and similar programs.

### *Supporting Human Capital Development in Ohio's Metropolitan Regions*

Ohio's firms, whether engaged in manufacturing products for export or oriented to new energy sources, cannot compete and thrive unless they have a well-prepared workforce. Ohio's workers cannot thrive unless they have the skills for and access to well-paying jobs, with advancement opportunities, in secure and growing industries. The needs of employers and workers are bound up in human capital development.

There is a particularly troubling paradox in Ohio's human capital outlook: even during the state's long run of high unemployment, good jobs are going unfilled because employers cannot find skilled people to hire. A 2008 report reveals that 40 percent of Ohio employers say they have a hard or very hard time finding qualified workers.<sup>94</sup> Another survey of more than 1,000 Cleveland manufacturing companies by the Cleveland Industrial Retention Initiative found that one-third reported that finding skilled labor, even during the recession, was a challenge. There is anecdotal evidence that workers are reluctant to take manufacturing jobs.<sup>95</sup> Ned Hill and others report that when central Ohio's auto manufacturers look to hire, "It is the manufacturing engineers, the tool-and-die makers, the quality control workers, and the line managers that they cannot find. More than 30 percent of surveyed companies said that finding qualified machine operators was difficult."<sup>96</sup> While manufacturing's dramatic and well-publicized employment decline may dissuade some workers from pursuing manufacturing jobs, there are still expected to be more than 10,000 jobs each year in Ohio in "production" industries resulting from existing worker retirements.<sup>97</sup>

Additionally, Ohio's workforce efforts serve neither low-income workers nor employers very well. Data from various sources demonstrate that the number of low-income, dislocated, and hard-to-employ residents served by Ohio's workforce system is relatively low compared to other states, and has declined in recent years.<sup>98</sup> In the Cleveland region, the city and Cuyahoga County only recently merged their workforce systems, in response to the urging of numerous reports and evaluations.<sup>99</sup> Reports from other Ohio regions amplify this concern about regionally fragmented workforce systems.<sup>100</sup> Only 16 percent of Ohio's employers report that they use public workforce development services.<sup>101</sup>

While the state has made efforts to reorganize its workforce system—particularly through the research, sectoral, and regional efforts under the Ohio Skills Bank umbrella—Ohio still needs better mechanisms for serving employers and connecting workers, especially low-skilled workers, to jobs.

**Medium-term recommendation:**

**Support workforce intermediaries across the state.** The state should provide funding, via competitive grants, for a system of workforce intermediaries in ODOT's twelve economic development regions, perhaps as part of a revised and strengthened Ohio Skills Bank.<sup>102</sup> Workforce intermediaries with a “dual customer” focus, like WIRE-Net in Cleveland, the Marine Mechanic program at WSOS, The Southwest Ohio Regional Workforce Investment Board and the Greater Cincinnati Workforce Network in Cincinnati, and Columbus State Community College in Columbus are the critical links between the supply and demand side of a regional labor market, working with employers, educational institutions, workforce training providers, and workers.<sup>103</sup>

Workforce intermediaries serve as links and catalysts, connecting the existing elements of the workforce training system and employers within sectors and across regions. Workforce Investment Boards tend to focus on policy and strategic planning specifically related to the federal WIA program and the needs of unemployed clients, rather than the intricate, nuanced, and very specific needs of employers in regional industry clusters. As one analysis of the relationship between WIBs and intermediaries notes, “There is an important case to be made that WIBs and WIs can strengthen each other's performance. ... WIBs require implementing organizations to put together the partnerships needed on the ground to serve multiple customers and bring together different funding sources.”<sup>104</sup> Most importantly for Ohio, workforce intermediaries generally “serve a harder-to-employ population than many typical workforce development programs,” meaning that they can fill a hole that still exists in Ohio's workforce system.<sup>105</sup>

To lay the groundwork for the next economy, Ohio could target its funding to intermediaries in clusters such as advanced energy, fuel cells, and photovoltaics, so that employers can grow to meet demand for new energy products, and workers can find stable, well-paying jobs in a burgeoning industry.

## Workforce Intermediaries in Pennsylvania

Since 2005, the Commonwealth of Pennsylvania has provided grants to support workforce intermediaries, or industry partnerships (IPs) as they are called there, as a significant element of its workforce development programs. As of January 2009, there were nearly 80 partnerships across the state, involving more than 6,300 businesses, and providing training to more than 70,000 workers since 2005. Workers trained by IPs enjoyed wage increases of almost 7 percent in the first year. Of the businesses in IPs, 84 percent said that IPs and training have yielded significant productivity enhancements.

In the last fiscal year, industry partnerships competed for grants ranging from \$5,000 to \$65,000 for initial development or expansion, and grants of up to \$200,000 for training incumbent workers. Even in an excruciatingly difficult budget environment, the Commonwealth continues to fund IPs, allocating \$7.2 million for incumbent worker training through IPs and \$2 million for building IPs in the latest budget. Commonwealth leaders intend to tap federal funds to add an additional \$2 million for IP support. The Commonwealth's effort represents the largest scale investment in workforce intermediaries in the U.S.

Grants are sought by lead applicants that include WIBs or groups of WIBs, Ben Franklin Technology Partners (roughly analogous to Ohio's Edison Technology Centers), non-profit workforce intermediaries, and business consortia such as chambers of commerce. The Commonwealth requires that its local workforce investment boards are represented in industry partnerships, and WIBs serve as the fiscal agent for the grant funds. All state funds must be matched by private funds (both cash and in-kind services).

Sources: Stephen Herzenberg, Sandi Vito and Howard Wial, “Building the Human Capital Infrastructure of a Productive and Equitable 21<sup>st</sup> Century Economy: Lessons from Pennsylvania,” unpublished paper, July 2008.

Commonwealth of Pennsylvania, Department of Labor and Industry, “Industry Partnership Development & Training Guidelines,” FY 2009-2010, available at [http://www.paworkforce.state.pa.us/portal/server.pt/community/industry\\_partnerships/12885](http://www.paworkforce.state.pa.us/portal/server.pt/community/industry_partnerships/12885).

“Industry Partnerships in Pennsylvania” April 2009, available at [http://www.paworkforce.state.pa.us/portal/server.pt/community/industry\\_partnerships/12885](http://www.paworkforce.state.pa.us/portal/server.pt/community/industry_partnerships/12885).

<http://www.workforcepa.com/>.



#### Long-term recommendation:

**Substantially raise the number of Ohioans earning non-degree workforce certificates who enter long-term career paths.** There are many good jobs in Ohio that require some post-high school education, but not necessarily a bachelor's degree. In fact, by 2016, half of Ohio's jobs will be these "middle-skill" jobs. Ohio needs to raise the number of non-degree workforce certificates earned from adult workforce centers and community colleges. There are several ways to do this. The state can make movement between the two seamless, so that students and their credits can easily go from one to another, which the Ohio Board of Regents has pledged to do in its strategic plan.<sup>106</sup> The new Manufacturing Certificate, announced in the Governor's State of the State speech, may play a role here as well. The Ohio Shifting Gears Initiative, funded by the Joyce Foundation, also offers ways to streamline an individual's pathway to a technical certificate (and an associate's degree). And the state needs to reward community colleges and adult workforce centers for increasing the number of students who complete non-degree programs. But then the state needs to hold itself accountable for linking these certificate programs to quality employment. It needs to determine how many certificate earners find career-track jobs, as opposed to short-term employment, and then set an ambitious goal to steadily raise that number.

#### *Supporting Infrastructure Investments in Ohio's Metropolitan Regions*

Maximizing the impact of the state's infrastructure is an important part of increasing the state's ability to transition to the next economy, as the state needs new transportation networks and multimodal freight facilities to get state-manufactured goods to international markets. Moreover, the type of infrastructure people use to get from place to place will also have an effect on the global challenge of climate change, which has quickly emerged as the main environmental problem linked to transportation. Transportation is the single largest contributor to the nation's carbon footprint, greater on a national scale than industry, homes, or commercial buildings. As noted earlier, five of the seven largest metropolitan areas in Ohio have higher per capita carbon emissions from transportation than the overall metropolitan average.<sup>107</sup>

The state recognizes that infrastructure development must keep up with "the changing needs of an economy even during times of economic tumult, realizing that an investment in Ohio's infrastructure is an investment in Ohio's economic growth."<sup>108</sup> But Ohio's current pattern of infrastructure investments by and large are not keeping up with the changing needs of an economy along the lines described in this report.





In Ohio, major transportation infrastructure investments are biased towards roads, a tilt that is enshrined in the state constitution, which limits the use of the motor fuel tax receipts to highway uses.<sup>109</sup> Less than one percent of total transportation spending goes to public transit, or, put another way, Ohio spends only \$1.42 per capita per year on public transit, far, far less than its peer states of Michigan (\$19.91), Illinois (\$38.12), and Pennsylvania (\$66.14).<sup>110</sup> The result is a transportation infrastructure policy that does not fully reflect the needs of central cities in metros, nor does it position Ohio well for a future in which carbon, and therefore gasoline, will be more expensive. Even when using federal funds, which can be spent beyond roadways, Ohio still chooses to build roads over other transportation modes by a wide margin.<sup>111</sup> Such a tilted allocation system provides limited transportation choices for Ohio's residents and firms and is also inherently biased against larger metropolitan areas, which have the population density and physical grids that can support—and in turn ought to be supported by—transportation options beyond auto use.

Ohio has made some promising moves in the direction of a wider range of transportation infrastructure investments, such as the 3C rail line between Cleveland, Columbus, Dayton and Cincinnati, which recently won \$400 million in Recovery Act funds. This initial rail line is expected to be the beginning of a network of rail corridors in the state; future investments will increase trip speed and the number of round trips.

The state has also taken full advantage of its state infrastructure bank specifically to foster local project contributions and uses a rating system that prioritizes that goal.<sup>112</sup> The Strickland administration, in a report from its 21<sup>st</sup> Century Transportation Priorities Task Force, has directed ODOT to broaden its focus from traffic mitigation and infrastructure improvements to include urban, economic development, and environmental issues; ODOT's subsequent implementation strategy gives priority to cost/benefit analysis, environmental, land use, and smart growth planning factors in its project selection and emphasizes multi-modal transportation options.<sup>113</sup> These criteria have been incorporated into the TRAC (Transportation Review Advisory Council) process. But the state must go still further, particularly in positioning the state for a low-carbon future.



#### Short-term recommendations:

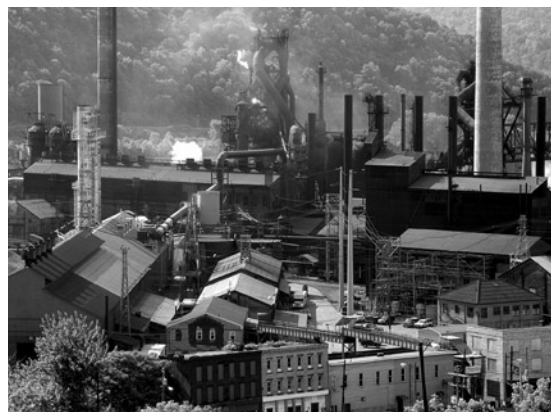
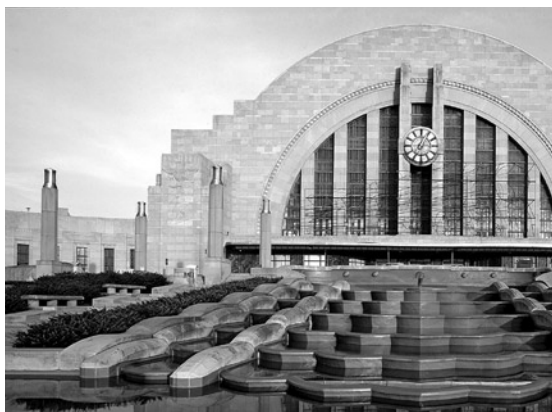
##### **Elevate “fix-it-first” as the central principle guiding transportation investment decisions.**

Fix-it-first means making system preservation a priority, an approach that is particularly appropriate in states like Ohio, in which population growth is slow, and new capacity runs the risk of draining vitality from existing communities. The 21<sup>st</sup> Century Transportation Priorities Task Force emphasized the need to prioritize projects using a fix-it-first approach, and the state has taken concrete steps towards implementing this recommendation. Other states offer useful models for how further to operationalize this commitment and embed it into their regular decision-making processes. In New Jersey, for example, the state transportation commissioner has declared that maintaining existing infrastructure rather than expanding the transportation system is NJDOT’s “core mission,” and notes that “the few projects that include widening complement the fix-it-first and mass transit projects in which NJDOT concentrates its investments. Capacity expansion is a last resort, and our expansion investments are limited to roadways on which traffic volume is causing serious congestion, threatening quality of life and safety.”<sup>114</sup> This recommendation aligns with the Compact with Cities Task Force recommendation that would prohibit the use of public resources for greenfield development, except in particular circumstances.<sup>115</sup>

##### **Analyze and track ODOT investment decisions on the basis of greatest returns on investment.**

Particularly when state dollars are so scarce, each one should bring the greatest return on investment possible. ODOT should subject all of its investment decisions to a hard-nosed analysis, asking which projects generate the greatest returns for the state, and prioritize projects according to a formula that incorporates cost-effectiveness, economic impact, carbon reduction, and matching low-income workers to jobs. Then, ODOT should use concrete outcome measures—e.g., higher wages and property values, lower cost of living indicators—for assessing progress. Utah has made some efforts in this direction that Ohio should investigate.<sup>116</sup> ODOT should also create a system so that Ohioans can track ODOT’s investment performance according to the standards of economic impact, carbon reduction, etc., described above. In Virginia, the DOT’s Dashboard system is a user-friendly clearinghouse, which provides complete financial data for projects and a three-level rating system for a project’s progress.<sup>117</sup> According to *Governing* magazine, this transparency has gotten impressive results: after the system came online, the percentage of projects completed on time rose to 87 percent from 27 percent prior to implementation.<sup>118</sup>





### Medium-term recommendations:

**Create a state-wide sustainability challenge competition.** As noted above, federal highway funds can be used for non-road purposes. The state should use its federal highway funds creatively and sponsor a state-wide sustainability challenge competition, to encourage metropolitan regions to devise a broad vision for reducing both congestion—the immediate need—and carbon emissions—the long-term necessity for the next economy—and reward those that can pull these disparate strands together with extra funding and extra flexibility in using those funds. Similar to ODOT's local collaboration grants, but much more ambitious, the sustainability challenge would fund the creation of plans encompassing transportation, housing, land use, economic development, and energy policies, and then reward the best plans with additional funds in these areas, plus greater flexibility to bend existing funding streams to coordinated programs. A federal sustainability challenge program was introduced in S. 1619, the Livable Communities Act, sponsored by U.S. Senator Chris Dodd.<sup>119</sup> This act could be a model for Ohio's legislation, scaled, of course, to Ohio's budget and needs.<sup>120</sup>

To further support the state sustainability challenge, the legislature should pass the proposed bipartisan Transportation Innovation Authority (TIA) bill that would encourage regional innovative transportation projects through public-private investments, thus providing local entities with another critical tool to fund a regional and more collaborative approach to transportation projects.<sup>121</sup>

**Change how infrastructure gets funded in Ohio in order to support transformative investments.** Any changes in the orientation or practices of ODOT will only have limited effect

if Ohio's funding system still tilts so strongly in favor of building roads. To make transformative investments that will respond to the imperatives of a new energy economy, like the 3C rail line, the state must make three significant changes. First, the state must change the highway funding formula, which now has only a tenuous relationship between funding and indicators of need like population, vehicle registrations, retail gasoline sales, or VMT.<sup>122</sup> This does not mean disinvesting in rural areas, although they may see less highway funding than they do at present. It means investing in the areas that exhibit the highest GDP return on investment. A greater metropolitan GDP means a greater state GDP, and greater prosperity for all Ohioans. Second, the state should pay for the maintenance of state highways that pass through cities with state funds, instead of stopping maintenance at a city's edge.<sup>123</sup>

Third, the state needs to investigate new funding sources for transformative multimodal projects such as inter- and intra-metropolitan rail service and robust multimodal freight facilities that Ohio needs more urgently than new roads.<sup>124</sup> This will have a high up-front cost, but trying to build out a transportation network one small piece at a time can lead to a situation in which the whole never coalesces to become more than the sum of its parts. Transportation networks are much more valuable (and effective) when they are fully connected. More connections between small networks make the entire statewide network more valuable, with a greater return on investment. Thus, the question should not be whether inter- or intra-metropolitan rail comes first, but rather how to think boldly and creatively about funding a transformative network. The Compact with Cities Task Force recommendation that Ohio consider finding a dedicated source of state funding for public transit is a complementary recommendation.<sup>125</sup>



### *Revitalizing Quality Places in Ohio's Metropolitan Regions*

Quality places, the fourth driver of prosperity, are where all the other prosperity drivers intersect and leverage each other. They are where innovative entrepreneurs can find the skilled workforce they need, and where infrastructure connects workers to jobs and goods to markets. They are places where density supports a wealth of cultural amenities, such as museums and sports arenas; or places where there are established, walkable neighborhoods with a strong sense of history; or places where natural amenities are unspoiled and still inspiring.

Ohio's quality places legacy presents a paradox that is often found in older industrial cities of the Northeast and Midwest: These places have physical amenities like waterfronts and a mature parks system, interesting architecture, historic buildings, walkable scale neighborhoods, and institutions like universities, colleges, museums, and medical centers. But at the same time, they suffer from decades of depopulation, job losses, and underinvestment, and their current physical footprint and land use patterns do not fit their current levels of population and economic activity.

In fact, every major Ohio city except Columbus has lost significant shares of its peak population, ranging from 20 percent in Toledo to over 50 percent in Cleveland and Youngstown—and Columbus owes its singular status to large scale suburban annexation since the 1950s. This is a long-term trend, and it is accelerating, with most cities showing greater loss between 2000 and 2007 than in the preceding decade. In most cases, not only the cities themselves, but their surrounding counties have also lost population.<sup>126</sup> Ohio's smaller cities are not immune to shrinkage. Steubenville's population fell 25 percent, and Marietta, Lima, Zanesville, and Sandusky dropped by more than

10 percent between 1980 and 2000.<sup>127</sup> Sustained population loss has had powerful consequences, above all in a significant excess supply of land, houses, and commercial buildings, which far exceeds demand.

That reality demands a new approach to land use and planning that aims ultimately to stabilize these places around or slightly below current population levels, while at the same time reaping the greatest benefits from their assets. Some localities have already started to grapple with the need to make their urban landscape fit their current reality, such as the Youngstown 2010 Plan, which pioneered the acceptance of the term “shrinking,” Cleveland, with its “Re-Imagining Plan,” and Dayton's emerging “Green and Gold” initiative. And the state has taken some promising steps, such as OHFA's support of Cleveland's Strategic Investment Initiative, and legislative efforts to stem the tide of vacant and abandoned properties statewide, such as new legislation that expedited the foreclosure process. However, more aggressive and sustained measures are necessary that: 1) stop the foreclosure crisis from worsening the problems of excess land; 2) recognize the need for new planning strategies that will reshape cities according to their current population size; and 3) leverage existing assets in Ohio's cities.

This section draws on the suggestions found in a forthcoming paper by Alan Mallach and Lavea Brachman, to be published by the Brookings Institution, with a much longer discussion of the status and implications of Ohio's many “shrinking cities” and related state policy recommendations. This is a rich area of exploration and opportunity for action in which Ohio could advance and implement cutting edge policies, and Greater Ohio anticipates focusing future efforts in this area.





#### Short-term recommendations:

**Pass a legislative package of foreclosure prevention and corrective action bills.** The Ohio legislature should enact legislation to prevent “bank walkaways” and provide protection during foreclosure actions for tenants, among other reforms.<sup>128</sup> The Compact with Cities Task Force final report outlined a suite of legislation essential to combat the neighborhood destabilization that derives from the concentrated number of foreclosures, for example HB 3, which would institute a short-term foreclosure moratorium among other things, and HB 323, which would reduce the amount of time from foreclosure to sheriff’s sale, and require stricter enforcement of nuisance abatement ordinances.<sup>129</sup> The Governor also supports foreclosure prevention legislation.<sup>130</sup>

**Expand Ohio’s land bank statute to apply to all the state’s counties to help places address excess vacant land.** A strengthened Ohio land bank statute has a dual purpose: to stabilize neighborhoods at risk of losing their market value and to provide comprehensive and strategic planning for cities whose physical footprint no longer matches their population size. The state legislature should pass land bank reform that provides for county-wide land banks throughout the state, beyond its current application in Cuyahoga County.<sup>131</sup> An active land bank can minimize negative impacts of foreclosed properties on the remaining owners and tenants in an area; make land available for new beneficial uses, either short-term or long-term, such as open space or community agriculture; assemble property in ways that maximize future redevelopment opportunities; and help communities remake themselves into greener places well-positioned for a low carbon future, among other positive benefits. Ultimately, additional statutory amendments that permit multi-jurisdictional land bank entities would be beneficial as the land bank entities could also

become a vehicle for cooperative regional planning and redevelopment strategies.

Michigan’s Genesee County Land Bank Authority—the model for the operation of the new Cuyahoga County Land Reutilization Corporation—demonstrates that a well-run land bank entity can successfully pursue multiple objectives. It not only can improve the community’s quality of life, but also can create significant fiscal benefits for the city and county compared to the laissez-faire practice of allowing land and buildings to be left in legal limbo or held indefinitely by speculators.

**Develop an Anchor Institution Innovation Zone program.** The state should pass legislation that enables an anchor institution innovation zone program, designating areas surrounding key anchor institutions such as universities and hospitals, in which the state would offer special tax and other incentives for residential and commercial development. The program would replace the expiring urban enterprise zone program but would create fewer and more systematically targeted areas than the enterprise zones. Cincinnati’s Uptown Consortium, a nonprofit organization comprising the Cincinnati Children’s Hospital Medical Center, Cincinnati Zoo and Botanical Garden, The Health Alliance of Greater Cincinnati, TriHealth, Inc. and the University of Cincinnati is a useful model of targeted investment around anchor institutions. The Uptown Consortium has secured over \$400 million for revitalization, improvement, and new construction in neighborhoods adjacent to many anchor institutions.<sup>132</sup>

By maximizing both the innovation and neighborhood development potential of Ohio’s universities and medical centers and other institutions, the zones would reinforce the Strickland administration’s “Ohio’s Hubs of Innovation and Opportunity” program, which was inaugurated in 2009 with the Dayton aerospace



hub centered around Wright-Patterson Air Force Base and the University of Dayton, and which will be expanded to other major metropolitan regions in Ohio this year. Under the anchor program, public and private institutions in the zones would be required to target their investments in ways that would maximize both economic growth and neighborhood revitalization in the surrounding areas.<sup>133</sup> This state program could leverage local tax abatements that are often offered to stimulate housing rehabilitation and/or new construction in downtowns or historic neighborhoods, if they are contained within an anchor institution zone, and would be particularly powerful if combined with a comprehensive redevelopment plan. The Compact with Cities Task Force recommendations call for hearings on this proposal.<sup>134</sup>

#### **Medium-term recommendations:**

**Establish a targeted neighborhood revitalization strategy program to direct state investments in housing, school construction, transportation, and other areas to neighborhood clusters that have retained market viability.** Ohio does not have the resources to restore every neighborhood in every one of its cities to its former strength. Spreading scarce resources thinly is tantamount to wasting them: They will not make a significant difference. Instead, in partnership with local leaders who identify meaningful projects in market-ready areas, the state should direct its neighborhood-level investments to areas that can realistically become or remain vital, healthy neighborhoods that can provide viable alternatives to far-flung, car-dependent places, making sure those investments are made in strategic ways. OHFA and ODOD are well-positioned to provide technical assistance to help cities start the process of identifying which neighborhoods are viable and should receive new investment, and which neighborhoods should not. The latter neighborhoods should be the subject of a different, long-term strategy to help residents who wish to leave find homes in new, viable neighborhoods or to live as safely as possible in their current residences.

#### **Modernize Ohio's planning statutes to provide more flexible planning and zoning tools at state, local and multi-jurisdictional levels.**

“The foremost conclusion of the Compact with Ohio Cities Task Force is that the existing paradigm of single-jurisdictional planning is not only antiquated but also harmful to every community in Ohio.”<sup>135</sup> It is hard to be more direct and precise than that. Ohio's planning statutes should be reexamined and modernized to meet the changing demands of city and regional planning in older cities and their metropolitan areas, to link land use regulation to comprehensive planning efforts, and to encourage inter-municipal and regional cooperation and coordination in planning and land use. Specifically, the Speaker of the Ohio House, the Senate President, and the Governor should appoint a joint taskforce to review Ohio's antiquated planning statute.<sup>136</sup> Since this same issue is a challenge in several Midwestern states, Ohio could lead the way in establishing a Midwestern version of similar comprehensive planning and zoning laws that are more widely in place on the East and West Coasts and that have been successfully utilized to both stimulate and guide growth and development.<sup>137</sup>

**Create a state-level “Walkable Waterfronts” initiative that supports local efforts to revitalize urban riverways and lakefronts.** Many Ohio cities, from Hamilton to Toledo, Dayton to Cleveland, and Youngstown to Marietta, are built on waterways that present opportunities for recreational use and quality of life enhancement, as well as economic development. Ohio should create a “Walkable Waterfronts” initiative to support local efforts to make waterways more accessible and attractive by removing roads, cleaning up brownfields, creating greenways connected by underutilized properties that typically line these waterways, and “daylighting” streams buried by now-unused developments. This effort would allow Ohio's cities' natural amenities to draw people and jobs into places with existing infrastructure. The Walkable Waterfronts initiative could be part of aligning existing state programs (see chapter four), including the Clean Ohio Fund and the Job Ready Sites Program, in a targeted, place-based manner that is aligned with local efforts.



## Learning from Re-Growth Strategies in Leipzig, Germany

Leipzig, Germany is a possible model of depopulation, re-planning, and renaissance for Ohio's cities. Before unification, the city declined from a population of 713,000 in 1933 to 530,000 in 1989. The situation deteriorated after the fall of the Berlin Wall in 1989, and Leipzig's population dropped further to 437,000 by 1998 with 90,000—or nearly 90 percent—of its manufacturing jobs lost. But in 2000, the city responded with a smart targeted set of systemic “shrinking city” strategies. As part of a comprehensive plan, between 2001 and 2007 9,200 units were demolished in Leipzig, done in tandem with both rehabilitation and new construction in targeted areas, and a “greening strategy.” The city made concentrated investments in stable neighborhoods aimed at drawing the middle class back to the city and built on its iconic assets as an old Medieval city with a two-and-a-half century rich cultural history (e.g., as the home of Goethe and Bach) and its institutional assets as a university town (Leipzig University). The city's reconfiguration strategy, coupled with targeted economic development investments, have stabilized its population and boosted economic activity, including a slight rebound in manufacturing jobs. These strategies have helped attract roughly 65,000 people back to the city since 1998. Leipzig benefited from federal assistance, specifically the German government “Stadtumbau Ost” (urban conversion) program, which is a partnership between the federal, state, and local governments initiated in 2002 to help address similar problems of population loss, job loss, and vacant housing facing cities and towns throughout East Germany.

Coupled with these targeted and asset-based investments by the city of Leipzig in its neighborhoods and infrastructure, Leipzig sits in a formerly industrial region where private businesses have come together to take advantage of the new energy economy. Two glass production companies located outside Leipzig—in the so-called “Solar Valley” region—have leveraged their historic production skills and technology and collaborate to train workers with new skills to produce photovoltaics and solar energy that drive their new economy. (This is similar to the new direction of Toledo's historic glass industry that has also leveraged its technology to transition into the photovoltaics industry.) This European example illustrates that the strategies advocated here, with the right combination of public and private sector efforts, have proven results.

Sources: Personal interview with City of Leipzig City Planner. October 24, 2009.

Alan Mallach, “Shrinking Cities: A Living Cities Blueprint,” Working Draft, 2008.

Jörg Plöger, “Leipzig City Report” (London School of Economics: Centre for Analysis of Social Exclusion, 2007) available at [www.eprints.lse.ac.uk/3622/1/Leipzig\\_city\\_report\\_%28final%29.pdf](http://www.eprints.lse.ac.uk/3622/1/Leipzig_city_report_%28final%29.pdf).

## Restoring Prosperity to All of Ohio: Why this Matters to our Rural and Appalachian Regions

Ohio is a paradoxical state, because while it is highly urbanized, more than 25 percent of Ohio's land cover is forest and over 50 percent is farmland, and much of this rural landscape is found throughout Ohio's 48 non-metropolitan counties.<sup>138</sup> This report has focused primarily on a state strategy for revitalizing the metropolitan areas that historically have been Ohio's primary driving economic forces and on demonstrating the degree to which urban and rural economies and lifestyles have become blended and interdependent through the connectivity of metropolitan regions. Stronger and healthier urban and metropolitan areas make for stronger and healthier towns, including those located in rural areas of the state that are outside the metropolitan orbits as well as those located in the Appalachian region. Indeed, thousands of Ohio Farm Bureau members responded to a Council Discussion Guide by the Ohio Farm Bureau describing the rural perspective on "Restoring Prosperity to Ohio."<sup>139</sup> Moreover, many aspects of the Restoring Prosperity paradigm apply to all of Ohio, providing a robust framework for rural sustainability as well.

### Rural Ohio's Stake in the Restoring Prosperity Strategy

The Restoring Prosperity agenda benefits rural Ohio in at least three general ways: first, reinvesting in the cities and suburbs that have already been built up is the counterpoise to preserving farmland and open space for enhanced quality of life and also sustaining the state's agricultural economy; second, Ohio's urban and rural poor share common destinies and characteristics and can be similarly assisted through implementation of new strategies; and third, Ohioans' increasing interest in "food security," in consuming "local food," and thus in relying on local food production, points to a synergistic relationship between rural and metropolitan economies and needs that this strategy helps sustain. Between 2006 and 2008, the number of Ohioans who occasionally or frequently purchased locally grown or produced food increased from 76 percent to 79 percent.<sup>140</sup>

First, preserving rural Ohio—and the associated agricultural way of life and economy—depends on revitalizing our built environment. Together, the state's food and agricultural economy of \$98.2 billion per year, or approximately 20 percent of the state's economy as a whole, represent Ohio's largest single industry and will be bolstered by farmland preservation.<sup>141</sup> Over the last several decades, land development patterns have eliminated large tracts of prime farmland.<sup>142</sup> Between 1982 and 1997 Ohio lost 11.7 percent of its farmland, and from 2002 to 2007, the state lost an additional 626,872 acres or 4 percent<sup>143</sup> of its total farmland while the state population grew by 3 percent, a sign of sprawl without growth.<sup>144</sup> These patterns of development are not economically or environmentally sustainable for rural areas that are losing their key asset—rich land for agriculture—nor for urbanized areas that are drained of people and economic vitality. Reinvesting in our metropolitan areas will make them more attractive places to live, work, and play, and will preserve farmland by curbing our pattern of outward expansion.

Second, the urban and rural poor unfortunately share common conditions—the poorest are found in both inner city urban neighborhoods and the most rural countryside; in fact, Appalachia contains 18 of the top 20 most impoverished counties in Ohio.<sup>145</sup> Rural and urban poor are often similarly isolated and disconnected from employment opportunities, and their communities suffer from similar blight, such that they could benefit equally from some of the Restoring Prosperity recommendations. In some cases this might include the reconfiguration of workforce training, so that rural Ohio residents could benefit equally from state investments in workforce intermediaries that are aligned with the business clusters of rural Ohio. In other cases creating better access to effective modes of public transportation is appropriate, and realizable if the state shifts federal—or the state's own—funds away from highway construction to invest in public transportation that serves the rural areas. Additionally, some of the very same foreclosure prevention tools that metropolitan area communities need would help stabilize these rural communities, by addressing similarly high foreclosure rates in rural areas.





Third, Ohio is unique among industrialized states in its close proximity between its metropolitan regions and rural areas that are rich in productive farmland and act as the “bread basket” in the quest for local food supplies and less reliance on foreign food sources. A study by the Ohio Department of Agriculture found that if Ohioans increased their consumption of Ohio-produced food by 10 percent it would create an additional \$7 billion in revenues for Ohio farms.<sup>146</sup> Ohio farmers should take advantage of the emerging local food movement and their proximity to metropolitan markets to further bolster an important driver of Ohio’s economy. The symbiotic relationship between rural and urban areas becomes more evident, with metro areas supplying necessities such as health care, jobs, and retail opportunities, and Ohio’s farms providing a crucial and proximate source of produce and milk products. Ohio has a competitive advantage in the food and agricultural industries and the state should provide resources to strengthen these industries such as funding to better market the benefits of buying Ohio-produced food.

### **Leveraging Ohio’s Appalachian Region’s Assets with the Restoring Prosperity Paradigm**

Since Appalachian Ohio is fundamentally rural, the general benefits of the Restoring Prosperity agenda discussed above apply equally to Appalachia. However, the place-based Restoring Prosperity agenda is particularly applicable to Appalachian Ohio—both because of its unique geography, that is, as a solitary region covering the entire Southeastern corner of the state,<sup>147</sup> and due to its history as an energy-producing area. Moreover, Appalachian Ohio is endowed with its own set of assets and characteristics for which the Restoring Prosperity agenda can act as a lever for sorely-needed economic revitalization.

Ohio’s Appalachian region, which includes 32 of Ohio’s 88 counties,<sup>148</sup> covers a full one-third of the state. The region is overwhelmingly rural, with less than 4 percent of its land cover/use being classified as urban, 64 percent as forest, and nearly 30 percent as cropland or pasture.<sup>149</sup> By all measures, it is more impoverished than any other part of the state. According to indicators used to measure socioeconomic well-being developed by the Appalachian Regional Commission (ARC), 15 of Ohio’s 32 Appalachian counties<sup>150</sup> are either distressed or at risk in terms of poverty, income, and unemployment.<sup>151</sup> Aspects of the Restoring Prosperity agenda are relevant and can act as a catalyst, if appropriately tailored, to strengthen



the Appalachian region. First, the region has assets, in the form of anchor institutions and its natural beauty, that should be leveraged and form the backbone of a desperately needed new economy; second, the region is trying to nurture innovation and has begun to plant seeds for new energy businesses that need to be nourished; and, third, applying the principle of “fix-it-first” widely throughout the region would redound to the benefit of the older communities that dominate the region.

First, then, the region must maintain and enhance investments in its anchor institutions, such as Ohio University (OU) and Hocking College. With five campuses located throughout the Appalachian region, OU already: 1) acts as a source of technical assistance and higher education for the Appalachian community; 2) engages in economic and community building activities; and 3) attracts outside talent into Appalachian Ohio. By appropriately investing, such as providing business development and location incentives in and around these anchor institutions, Ohio will facilitate these communities’ transition to a new economy and development.

Second, the Appalachian region’s historic role in providing the materials to build and power our cities took a toll on its environment. In a meaningful reversal, the next economy for Ohio laid out in this report has a place for alternative and renewable energy and innovation, which can contribute to rural Ohio’s growth. As Ohio uses innovation to move to a lower carbon economy, Appalachia has an opportunity to remain competitive by investing in its emerging alternative energy sector through OU’s Innovation Center or the Appalachian Center for Economic Networks (ACEnet). Appalachia will be poised to remain Ohio’s leading producer of energy if it invests locally in alternative energy startups, such as Third Sun Solar and Wind Power, and continues to contribute to clean coal technology.<sup>152</sup> Programs and organizations aimed at enhancing human capital in Appalachian Ohio are critical to the region’s competitiveness, if tied to these new sectors of the economy. Regional workforce intermediaries should target retraining Appalachian residents formerly employed in coal mines to emerging advanced manufacturing industries in the alternative energy sector so as to bolster “on-the-ground” programs like the “Jackson 10 in 10,” an initiative dedicated to creating 10,000

new jobs in Appalachian Jackson County over the next 10 years by both determining and leveraging industries with growth potential and creating a more collaborative local business environment.<sup>153</sup> Transitioning towards more environmentally friendly energy and away from more destructive forms of energy production, such as fossil fuel extraction, is also protective of Appalachia’s natural landscape.

Finally, as in Ohio’s metro areas, Appalachia would benefit from the Restoring Prosperity agenda’s call for prioritizing funding to “fix-it-first” projects, in order to garner the greatest return on existing investments and protect one of its greatest assets, its natural beauty. By fixing existing bridges and roads, Appalachia can maintain its crucial transportation linkages while simultaneously protecting its two most precious resources, its historic communities and scenic landscape. Investing in Appalachia’s towns and small cities will help protect the natural environment found throughout the region, which attracts millions of visitors. Indeed, protecting Appalachia’s more rural and scenic landscape not only preserves the beauty of the region, but also acts as a generator of wealth, as tourism is estimated to generate \$3.2 billion for the region and employs nearly 59,000 people.<sup>154</sup> As a corollary, Appalachia would benefit more by developing its broadband infrastructure than building new road capacity, in order to break the region’s historic isolation and connect to the global market and the world economy.

Poignantly, for over a century, many of the factories and the fortunes of the industrial age were fired by natural resources extracted from Appalachia—some would claim America’s industrial heritage was built on the back of the Appalachian region. So it is appropriate that an agenda that facilitates the transition from the industrial era to a new 21<sup>st</sup> century economy includes a new energy economy in which Appalachia can take part.

The Restoring Prosperity principles, then, of fostering a new innovation and energy-driven economy and making targeted, asset-driven, and strategic place-based investments, provide a framework for rural sustainability too, by fundamentally protecting the rural way of life, building on rural and Appalachian Ohio’s strengths and promoting desperately needed rural prosperity.

# Catalyze Transformative Changes in Governance

*The second element of the Restoring Prosperity agenda is a significant change in the structure of government and governance in Ohio. Ohio needs to start down the path of reforms that will either save money or yield better results for money spent, through consolidations where appropriate; much more aggressive efforts to encourage local governments to collaborate and share services across the board; and smarter, sharper alignments of the state's own policies and programs to make the most of scarce state resources.*

As noted at the outset of this report, Ohio's fiscal difficulties at the state and local level are severe, inescapable, and worsening. As a result, there is not enough low-hanging fruit left to pluck on the spending and revenue side to close the budget gaps that Ohio and its municipalities will face for the next biennium and likely beyond. In order to continue to make strategic investments and maintain decent levels of service provision, Ohio will have to do more to encourage money-saving or efficiency-enhancing consolidation and collaboration between local governments, including school districts. To get the greatest benefit from its existing expenditures, Ohio will have to align its programmatic investments and redraw state administrative boundaries so that they are unified and reinforcing to the extent possible.

## *Shifting K-12 Dollars to Classrooms*

Ohio ranks 47<sup>th</sup> in the nation in the share of elementary and secondary education spending that goes to instruction and ninth in the share that goes

to administration. More pointedly, Ohio's share of spending on school district administration (rather than school administration such as principals) is 49 percent higher than the national average.<sup>155</sup> Payroll expenditures tell the same story. Ohio ranks 22<sup>nd</sup> nationally in instructional payroll spending as a percentage of personal income, but its non-instructional payroll as a percentage of personal income is the 8<sup>th</sup> highest in the nation.<sup>156</sup>

In FY 2008, K-12 education comprised the largest share of state spending—39 percent or \$8.65 billion.<sup>157</sup> Can the state afford, and do Ohioans want, the current proliferation of 611 school districts and consequent duplication of some administrative costs?

It appears from projections in other states and from actual experience in Ohio that school district consolidation, or at the very least more aggressive shared services agreements between existing districts, could free up money that can be reinvested in classrooms.<sup>158</sup>



#### Short-term recommendations:

**Make the costs of school district administration transparent to Ohioans.** The Ohio Department of Education's District Profile contains information on district size, per pupil expenditure on administration, per pupil expenditure on instruction, total per pupil expenditure, and revenue data. The Department should require school districts to publicize their own ratio of administration to instructional spending per pupil. Statewide, the ratio of administrative to instructional spending across school districts is about 21 cents of administrative spending to one dollar of instructional spending. That number varies from as much as 68 cents in Jefferson Township (Montgomery County) to 11 cents in Lakewood (Cuyahoga County). School districts should also have to publish the amount of overall per pupil spending that goes to administration versus instruction, local spending as a share of overall district spending, and how their numbers compare to the state average in these categories. This information should appear prominently on district websites and in at least one annual communication with parents and taxpayers, so that these constituencies can see how much school and district administration costs compared to instruction, and if their particular district has above-average administrative costs. This is where the conversation about school district collaboration and consolidation should begin, with hard data, widely publicized in an understandable fashion

**Push school districts to enter aggressive shared services agreements.** ODE does not determine the balance of administrative versus classroom spending in each district: That is a local decision. But ODE should encourage, and ultimately require, school districts to share services, ranging from personnel to health care. A study of several New York school districts in the Binghamton region suggests that creating a "federation model" could save \$12 to \$16 million a year for the 15 districts involved. The model posits centralizing services

such as transportation management, maintenance garages, bus routing and dispatching, facilities management, energy management, and core building operations and joint strategies for reducing health care and special education costs. If this strategy were replicated across the state of New York, taxpayers could realize \$87 to \$137 million a year.<sup>159</sup> Presumably similar savings can be found in Ohio.

There are also home-grown models of savings from consolidation. A 2006 study by Mercer Consulting found that a single health care benefits plan for Ohio school districts, while difficult to achieve, would save \$130 to \$175 million a year.<sup>160</sup> On a smaller scale, the Orrville City (1,600 students) and Rittman Exempted Village Schools (1,100 students) districts already share a superintendent and treasurer, and are collaborating on purchasing, services for children with special needs, payroll, and accounting services, saving \$270,000 a year by doing so. The savings helped pay for two additional elementary school teachers in the Rittman district.<sup>161</sup>

Ohio has a very promising, foundation-funded, initiative in Greene County to identify and remove the barriers to shared service delivery between school districts and develop models for sharing services and saving money that could be replicated throughout the state. The initiative will focus on six areas: advanced placement instruction and other curriculum areas/programs; administrative and financial services; information technology; contracted services and agreements; special education instruction and programs; and transportation.<sup>162</sup>

Building on the Greene County effort, or perhaps through a parallel and complementary effort, ODE can offer technical assistance to school districts looking to share services and collaborate, or could run a competition similar to ODOD's competition for Local Government Services and Regional Collaboration Grants.

**Medium-term recommendation:**

**Create a BRAC-like commission to mandate best practices in administration and cut the number of Ohio's school districts by at least one-third.**

The governor and state legislative leaders from both parties should appoint a high-level education reorganization commission with two tasks. First, it should undertake a well-staffed study of the current costs of K-12 administration and propose specific ways individual districts can reduce those costs. As noted above, ratios of administrative to instructional spending vary widely across the state, and even within the same county. In Montgomery County, for example, the proportion of administrative spending to instructional spending can vary from as little as 13 cents on the dollar in Centerville to 68 cents to the dollar in Jefferson. To give their recommendations teeth, the state should tie state formula aid to districts' willingness to implement these cost-saving measures.<sup>163</sup> This effort will complement the bottom-up efforts in Greene County that focus on the savings from shared services.

Second, the commission should develop a plan to reduce the number of school districts in Ohio. Many states that have studied the issue of school consolidation have set an ideal post-consolidation district size of 2000 to 2500 students.<sup>164</sup> The majority of Ohio's districts are smaller than this (58 percent have fewer than 2000 students). For

example, Pennsylvania and Indiana studies indicate that in those states, consolidation efforts should aim to produce districts with 2500 to 3000 and 2000 to 4000 students, respectively.<sup>165</sup> Pennsylvania Governor Ed Rendell proposed that the state go from 500 school districts to 100.<sup>166</sup> If Ohio aimed to have no district smaller than 2,500 students, it would end up with 411 districts, down from its current number of 611.<sup>167</sup>

Studies indicate that consolidations, although politically difficult, yield savings. An examination of past New York State consolidations concludes that "Overall, consolidation is likely to lower the costs of two 300-pupil districts by over 20 percent, to lower the costs of two 900-pupil districts by 7 to 9 percent..." leading New York's State Commission on Local Government Efficiency and Competitiveness to project annual savings from small school consolidation of \$158 to \$189 million.<sup>168</sup> The commission ultimately recommended giving the state school commissioner the authority to require school district consolidations and changing state aid formulas to provide strong incentives for school consolidation.<sup>169</sup> Standard & Poor's study on behalf of the Pennsylvania Legislative Budget and Finance Committee identified 88 districts that had the greatest potential for cost savings from consolidations and concluded that savings could reach \$81 million.<sup>170</sup> Maine has realized savings of \$36 million a year from its consolidation efforts.<sup>171</sup>







### *Catalyzing Local Government Collaboration*

Ohioans live and work amidst a proliferation of local governments. The state has 3,800 local government jurisdictions, including 250 cities, 695 villages, and 1,308 townships. Compared to the nation as a whole and peer states (IL, IN, KY, MI, PA, WV), Ohio spends more on local payroll and less on state payroll. Total local government payroll in Ohio is 10 percent above the national average and 17.5 percent above the peer state average, but state payroll, by contrast, is 2.5 percent lower than the national average and 16.6 percent lower than peer states' average.<sup>172</sup> This reflects a choice to provide more services through local governments than the state, which may have advantages in matching service levels to local preferences, but disadvantages in loss of efficiencies of scale, and other problems described below. This preference for local service delivery may be why, measured as a percentage of per capita income, Ohioans have the ninth highest local tax burden in the U.S., compared to the 34<sup>th</sup> highest for state taxes.<sup>173</sup>

While the proliferation of local governments and the fragmentation of the state into tiny “little box” jurisdictions may satisfy residents’ desire for accessible, responsive, small governments, it also creates a staggering array of costs. The most obvious is that the many separate jurisdictions in a given region often duplicate infrastructure, staffing, and municipal services. Many services such as fire protection, emergency management, and police services, among others, have a range in which average costs per-capita decline as the population increases; small jurisdictions simply cannot reach

those economies of scale. A lack of regional coordination means that municipalities miss out on quantity discounts from joint purchasing arrangements. These diseconomies are further sharpened by the fact that small jurisdictions tend to have correspondingly small tax bases to fund their variety of services. And jurisdictions are even further undermined by the race-to-the-bottom competition among multiple municipalities for desirable commercial, industrial, and residential tax bases.

All of these factors mean that Ohio’s many municipal governments are structurally unequal to their growing challenges, particularly during a recession. As the Compact with Cities Task Force warns, “Ohio’s individual cities and townships have taken on expenses that are unsustainable, and the state’s ability to assist them is limited. Regional approaches to collaboration and coordination are necessary to preserve services to Ohioans and achieve affordability.”<sup>174</sup>

Second, the many “little box” governments within Ohio’s regions—all with their own parochial interests and priorities—are simply too fractured to develop a unified vision for economic development and mobilize regional stakeholders to realize it. Ohio’s governance map ensures that in almost every region scores of archaic boundaries artificially divide regions that otherwise represent single, interrelated social, economic, and environmental communities. Such divisions will always complicate efforts to carry out cross-boundary visioning, plan cooperatively, or coordinate decision making across large areas. These divisions mean that Ohio’s

metropolitan regions are woefully hobbled when it comes to competing on the global scale. Research shows that metropolitan fragmentation exerts a negative impact on competitiveness and weakens long-term regional economic performance. This is partly because excessive decentralization weakens the downtown cores that attract young workers and that foster greater access to ideas and technologies. This is also due to the fact that parochial jurisdictions are spending their time competing against each other rather than working together to compete in the world economy. As regional governance scholar Jerry Paytas of Carnegie Mellon University explains:

*“Long term competitiveness requires flexibility and fragmented regions are less likely to mobilize the consensus for change. Fragmented regions divide the regional constituency, offering opponents of change more opportunities, forums and even institutional support to resist change. Unification encourages serving the regional constituency rather than parochial interests.”*<sup>175</sup>

Third, fragmentation facilitates segregation by race, class, and ethnicity. This leads to a spatial mismatch between jobs and workers as economies decentralize and minority workers and poor workers remain concentrated in places—central cities and older suburbs—far from areas of growing employment.

Fourth, fragmentation exacerbates sprawl, decentralization, and the draining of Ohio’s core cities and older suburbs. This means intensified levels of regional collaboration and cooperation around the state are necessary for the dramatic restructuring and “remaking” needs of the state’s distressed urban cores. As noted above, metropolitan regions do not thrive when the core cities at their heart are struggling, and Ohio will not be strong unless its metros are strong. Linking cities and their metropolitan areas in the planning and implementation stages of redevelopment is crucial. In making that link, it is important to recognize that suburbs comprising these metropolitan areas vary widely. At one end of the continuum lie older, inner-ring “first” suburbs built early in or towards the middle of the 20<sup>th</sup> century. These first ring suburbs, that usually lie adjacent to or near city boundaries, have come to share many of the same characteristics and similar signs of distress as their cities—i.e. aging infrastructure, deteriorating schools and commercial corridors,

and inadequate housing stock. Like cities, these older communities require reinvestment and redevelopment. The Ohio First Suburbs Consortium, a public-private collaboration, was created to press the state to scrutinize public policies and public dollars to explicitly reinvest in Ohio’s older, built-out communities and their infrastructure (schools, bridges, sewers, and roads). Ultimately, at the grassroots and state policy levels, recognition of their similar conditions and a partnership between cities and their first suburbs are essential elements to forging regional collaboration and overcoming fragmentation.

Given these costs of fragmentation, it is no wonder that the Compact with Ohio Cities Task Force recently concluded, “Future prosperity in this state hinges upon sharing municipal services, coordinating economic and transportation construction, and maximizing investments by directing them to locations in a region where they will leverage the highest payoff.”<sup>176</sup>

Ohio’s leaders understand the importance of local collaboration, as evidenced by the Compact’s 20 recommendations, the legislatively created Commission on Local Government Reform and Collaboration, plus various efforts by the Strickland administration, such as the \$1 million Local Government Services and Regional Collaboration grant program. The state auditor currently receives financial statements from local governments, but they vary in form and content. The state auditor would be the logical repository for a statewide reporting system on the costs of local government, so people can see what Ohio’s multiplicity of governments actually costs them, and start a realistic conversation about whether they want to bear those costs.

But the state must do still more to spur collaboration between Ohio’s local governments. As the Compact with Cities Task Force also notes, “...the state is currently limited in the amount of financial incentives it can offer to encourage a regional approach [therefore]...it is crucial that local leaders begin to tailor partnerships with their neighbors and seek out the economies of scale and efficiencies of collaborative planning that this approach offers.”<sup>177</sup> This is true, but the state can also be creative within its spending limits in encouraging collaboration, as the recommendations below show.

### Short-term recommendations:

**Change state law to make local government tax sharing explicitly permissive.** Tax base sharing plans allow all the communities in a region to benefit from economic growth, unlike the conventional winner-take-all model in which one jurisdiction reaps the vast majority of the benefits of a new retail center or factory despite costs that are spread across a region. The successful tax base sharing agreement in Montgomery County, ED/GE, required the state legislature's approval for townships to share their inside millage revenues.<sup>178</sup> The more ambitious tax sharing effort in the NEO-RPI plan in Northeast Ohio may also require legislative approval. (While the Northeast Ohio Mayors and Manager's Association, which sponsors NEO-RPI, has been advised by two Ohio attorneys that their tax-base sharing efforts are permitted under existing state law, research commissioned by Brookings and Greater Ohio indicates that legislative action is required for the plan to be put in effect, and the Compact with Cities Task Force seems to concur.<sup>179</sup>) An explicit statement from the legislature that tax base sharing is permitted would be welcomed.

**Create a commission to study the costs of local government and realign state and local funding.** The current Ohio Commission on Local Government Reform and Collaboration is doing valuable work investigating the ways that other states have encouraged collaboration and local government reform, and in seeking to understand how Ohio's laws can be adjusted to encourage more reform. But the current fiscal crisis forces the state to push even further ahead: it has to get very serious, very fast on how much Ohio's current local government structures cost, and see if there are ways to lower those costs. The state is not in a position to support the current local government arrangements, nor are localities (by which of course we mean taxpayers). Ohio must create a new commission to build on the work of the existing local government reform commission and make forceful recommendations on consolidations and collaboration.

**Catalyze a network of public sector leaders to promote high performance government.** Just as Ohio's local government leaders need to collaborate within their own metropolitan area, they also need to collaborate across metropolitan areas and share ideas on lowering costs and improving service

delivery. To facilitate this, the state should use its convening power to catalyze an inter-metropolitan network of public-sector leaders, which would enable them to share best practices for lowering costs while providing better services, to learn from high-performing businesses, and to receive training in implementing a range of private-sector-inspired process improvements (such as Lean and Six Sigma). Ohio's business, university, and philanthropic leaders could serve as mentors and advisers to the network.<sup>180</sup> Network members should commit to reducing their base budgets by 5 percent while improving service quality. This focus on structural changes is particularly critical given the lean years ahead for local governments. Rather than making indiscriminate across-the-board cuts, cities and public agencies need to engage in significant, permanent restructuring that will help them survive in the short term and thrive once the recession ends.

One model the state could use is the High Performance Government Network, a member-driven not-for-profit corporation that works with Indiana cities.<sup>181</sup> The Network helps its member cities develop a plan to improve performance, provides low-cost training to government employees, and matches government leaders with private sector officials who use tools such as Lean and Six Sigma in their companies. Ft. Wayne, Indiana, was able to reduce its base budget by 10 percent over the course of eight years by implementing high performance principles developed for businesses, saving taxpayers more than \$30 million.<sup>182</sup> The Network estimates that if all Indiana counties, municipalities, special districts, and school districts used performance tools to reduce their base budgets by 5 percent, taxpayers would save more than \$1.2 billion.<sup>183</sup>

### Medium-term recommendation:

**Support the creation of regional business plans.** The long-term health and competitiveness of Ohio's regions demands that Ohio's regional leaders establish strong partnerships where they do not already exist, and strengthen them where they do. The state, for its part, can facilitate this process by supporting the creation of regional business plans. These plans would be used to guide, shape, and reorient the way the state spends its economic development, transportation, higher education, and related dollars in particular regions. These plans may also lay the groundwork for governance reform and tax-base sharing. Northeast Ohio has

developed the Advance Northeast Ohio action plan (<http://www.advancenortheastohio.org/actionplan>), and the Cincinnati region has its Agenda 360 plan, (<http://www.cincinnati360.com/>), which might serve as useful models for other Ohio regions.

The state should provide financial and technical assistance for regions that lack these plans to bring business leaders, the various region-based state economic development personnel, and local government administrators together to define the unique strengths of the region, identify how those strengths match where the global economy is headed, and to use this knowledge to create a vision and strategy for economic growth. Coalitions of rural counties and municipalities should also be eligible for this assistance, as long as the expected plan will cover several different jurisdictions.

#### **Long-term recommendation:**

##### **Reward counties and metros that adopt innovative governance and service delivery.**

Providing resources to spark new ideas and build capacity for cooperation is an intermediate step in what should be a long-term state effort to advance governance reform. To really spur collaboration, innovation, and savings, the state needs to use local investment dollars as “carrots,” giving bonus points or other means of priority consideration for projects involving multi-jurisdictional collaboration. In order to receive priority funding for certain state economic development incentives, for example, regions could be required to justify how their use of the incentives fits into their regional business plan.

The most aggressive option would be for the state to follow the lead of New Jersey and link a portion of state aid to savings and efficiencies gained through collaboration. A 2007 New Jersey law requires the state Local Finance Board to establish performance measures that promote cost savings in municipal service delivery, and requires municipalities to submit an annual performance report based on those measures. Once these measures have been in place for two years, \$34 million in state aid will be distributed to reward those municipalities that meet the measures. The New Jersey law requires states to use this aid to reduce local or county taxes.<sup>184</sup> Ohio could follow that course or let municipalities decide to invest their savings in other measures that would promote economic development, inclusion, or sustainability.<sup>185</sup>

## **Building on Collaboration Across Ohio**

In seeking to encourage collaboration, the state has a strong base to build on. Ohio’s municipalities are not averse to collaboration and cooperation to promote economic development or to reduce costs. In the former category are arrangements such as the ED/GE tax base sharing program in Montgomery County, various Joint Economic Development Districts (JEDDs) between cities and townships, and Cooperative Economic Development Agreements (CEDAs), and the emerging, ambitious effort of NEO-RPI to secure tax base sharing and cooperative land use planning in northeast Ohio.

Cost-saving collaborations include initiatives such as the Northeast Ohio Sourcing Office, a cooperative purchasing and services program that services communities in 13 counties, and has saved money through pooled purchase of auto parts, fuel, and maintenance services. Cincinnati, Dayton, Kettering, and Montgomery County’s Southwest Ohio Purchasing for Government arrangement allows the member communities to share administrative tasks involved in bidding and purchasing supplies such as rock salt and chemicals. Hamilton County’s 50 local governments participate in the county’s Government Cooperation and Efficiency Project to share and improve services and reduce costs.

At a smaller scale, local governments in Northeast Ohio proposed 39 different collaborations in the recent EfficientGovNow competition sponsored by Advance Northeast Ohio. If all 39 proposals were implemented, local governments in the region would see almost \$40 million in one-time savings and \$22 million in annual savings. The three winners of the competition expect to see savings from collaboration ranging from \$60,750 annually, indefinitely (for the Mahoning River Corridor Redevelopment Project) to \$1.3 million a year for the next 25 years (for the Westshore Regional Fire District Project). The total savings for these projects is \$222,000 in one-time savings, and \$1.6 million in annual savings.

These collaborations not only save costs, they can lay the groundwork for more beneficial and powerful agreements in the future. Jack Dustin and Myron Levine of Wright State University credit “the new way of thinking initiated by ED/GE discussions” for helping four communities in the greater Dayton area agree to a tax sharing plan in 2005, to cushion them from the effects of job cuts and plant closures at the Delphi Corporation. As Dustin and Levine explain, “The four communities that were the sites of Delphi plants agreed to share local income tax revenues from any facility (or facilities) that Delphi ultimately decided to keep open. Each community agreed to receive the same proportion of the taxes paid by Delphi that it received in 2004, no matter where in the county the remaining Delphi plant was situated. The agreement ‘shared the pain’ of the reduced municipal tax yields that would accompany Delphi’s cutbacks. The agreement essentially reduced the risk to each locality, as its site could be one that Delphi would ultimately decide to close. The joint approach also limited Delphi’s ability to play one locality against the other in search of ever greater concessions.”

Sources: Jack Dustin and Myron A. Levine, “New Directions for Ohio Local Government,” Draft Working Paper prepared for Brookings Institution Metropolitan Policy Program (2009).

Mark D. Partridge and Jill Clark, “Our Joint Future: Rural-Urban Interdependence in 21<sup>st</sup> Century Ohio” Prepared for Greater Ohio and Brookings Institution (July, 2008).

Presentation, “Ohio Auditor of State, Summit on Local Government Sustainability,” November 19, 2009.



### *Breaking up program silos to align and maximize state investments*

Governmental fragmentation plagues not only Ohio's localities but also the state government, in the form of a multiplicity of unrelated programs and inconsistent regional delivery systems. Ohio's executive agencies were established to administer policies and programs focused on distinct areas, such as providing social services, moving people and goods, and attracting and retaining jobs and businesses, among many others. But sensible divisions of specialization too often become rigid silos that inhibit coordination across related programs, complicate local efforts to make change, and befuddle private sector actors who cannot figure out how to get their needs met. They also inherently limit place-based targeting of multi-agency resources. Indeed, single-purpose programs and policies were the most frequently mentioned barrier to redevelopment of distressed places in a recent roundtable of local leaders and state policymakers representing these places.<sup>186</sup>

The result is this: for all the dollars flowing into the state's metropolitan regions—e.g., to the businesses, schools, job training centers, housing, or infrastructure projects located within them—funding is seldom targeted toward a unified goal or outcome for these communities, be it cultivating certain regional business clusters (and simultaneously building the workforce and infrastructure they need to grow and thrive), revitalizing particular neighborhoods (and improving the quality of schools, retail opportunities, and housing to attract and retain residents), or helping low-income families move into the middle class (and creating the career ladder jobs, strong work supports, and quality neighborhoods and schools they need to build skills and assets). The state cannot expect to improve its metropolitan regions, and its prosperity, without intentional, aligned, cross-agency efforts.

#### **Short-term recommendations:**

**Align programs to make sure that state investments reinforce each other.** The state already implements several successful economic development programs, such as the Clean Ohio Fund, the Job Ready Sites program, Third Frontier, and the emerging Ohio Skills Bank, and there are new sources of funds such as ODOD's "Hubs of Innovation" program, and Recovery Act allocations. The state should, where appropriate, make an effort to implement these programs as an ensemble, so

that it would, for instance, grant Clean Ohio Fund money for a new industry and then authorize a local Skills Bank to undertake workforce training that is linked to this new business. These different investment decisions do not require any new funding, but merely require targeting existing funding in new ways potentially more beneficial for local economic development prospects, getting a greater return on the state's investment.

**Establish a state-level cross-agency (e.g., ODOD, ODOT, OEPA, OHFA, OBOR, and ODJFS) "healthy communities" initiative, modeled on the existing cross-agency federal sustainability initiative, to develop new sustainable models for smaller cities.** The Initiative's primary objective would be to "de-silo" and create programs that link affordable housing policy with workforce retraining and specialized cluster business sector development. The Initiative could also implement transit-oriented development and other recommendations that mirror what the federal government hopes to do with its sustainable communities effort (discussed more in chapter five).

**Institutionalize a challenge grant program to reward regional comprehensive redevelopment and planning.** The state experimented with a small, short-term competitive grant program for comprehensive, inter-jurisdictional planning in 2009. It should extend that program to establish it permanently. In many places, regional planning means county-wide planning, since the top 16 Ohio cities and their first ring suburbs are situated within single counties. Counties could be made responsible for undertaking this regional planning by reallocating funds from small planning grants.

**Implement a Community Development Action Teams (CDATs) program, particularly targeted at small and medium-sized communities, that requires community-driven project proposals and cross-agency team responses at the Administrative level.** The CDATs program, modeled on the Commonwealth of Pennsylvania's successful "CATs" (community action teams), would be an Administrative program that requires communities to coalesce around an identified catalytic project that they present to the state for permitting and any available resources. Multiple agencies (e.g., OEPA, ODOD, ODOT) could be represented on the Administrative team responding to the proposed community project, depending upon the project needs and type. (The Strickland administration had recommended such a program

in its spring 2009 original Executive Budget, but in the course of intensive budget negotiations it was left out of the final budget.) Again, this program would not necessarily require additional funding, since it demands only that the state agencies exercise current functions in a more efficient manner and collaboratively, and it could be executed by repurposing and utilizing existing funds differently.

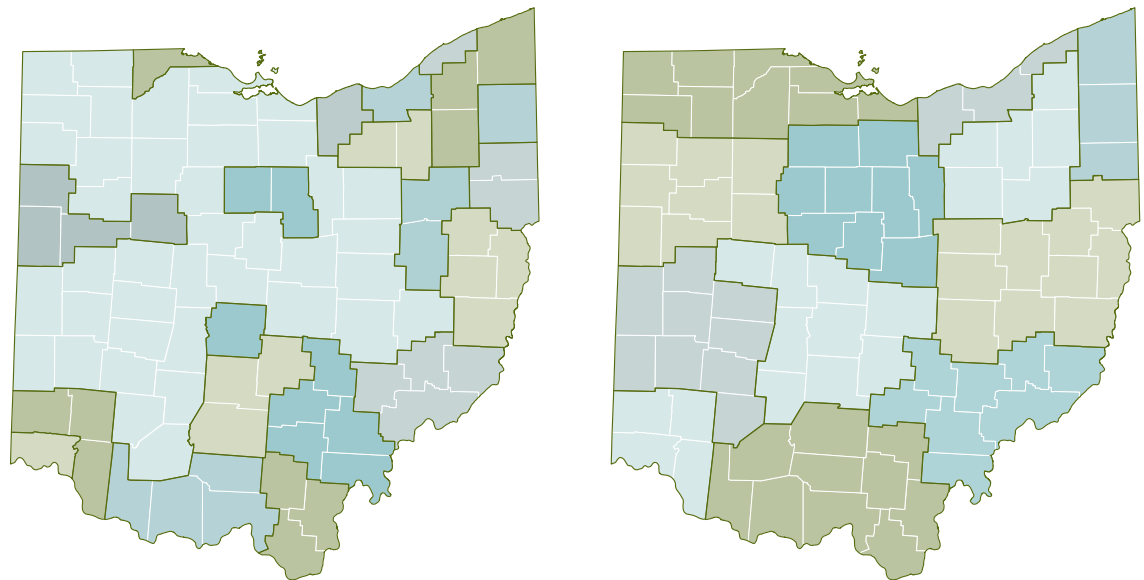
**Medium-term recommendation:**

**Align state economic development program boundaries with metropolitan regions.** The need to align and regionalize economic development is a consistent theme among Ohio researchers and also appears repeatedly in the plans of other states, and even parts of other nations, to bolster their own economies.<sup>187</sup> But Ohio seems to have a different set of administrative regional maps for just about every state economic development program (and just about every other state program).<sup>188</sup> As the Mid-Ohio Regional Planning Commission

observed in its study on Ohio's agency districts, there is "no consistency between U.S. Census metropolitan areas and any other service or program boundaries," nor across economic development, human services, or natural resources programs. Greater Ohio and Brookings' own research finds that the state's 20 workforce investment areas and its twelve economic development regions are radically misaligned, as the startlingly dissimilar maps below demonstrate.

The global economy is based in metro regions, which trade with each other, compete with each other, and learn from each other. Ohio needs to support a sense of regional identity and awareness of the regional economy through its own economic development programs. Alignment according to a common geography, such as the ODOD economic development regions, will also presumably make it easier for state and local officials to blend and align state investments, as recommended above.

*Ohio's workforce investment areas (left) bear little or no relationship to its economic development regions (right).*



# Engage and Lead the Federal Government

*So far, this report has focused on what the state must do to support metropolitan areas, both in terms of policy initiatives and changes in governance. Ohio needs to make the connection between the macro and the metro—between global economic trends and the metropolitan areas in which they will be realized. But as Ohio policymakers reexamine practices and policies to reflect the next economy, as they focus on their metropolitan assets, address the physical restructuring in Ohio's cities, and grapple with difficult but necessary changes in governance, they will need federal help. Restoring prosperity in Ohio will require a purposeful alignment of federal and state priorities, policies, and practices.*

Federal government spending is a powerful force in Ohio. As of last September, the federal government had awarded \$9 billion in Recovery Act funds to the state.<sup>189</sup> In FY 2008, the federal government sent more than \$17 billion in grants to the state of Ohio—an amount that's more than half of the state's annual GRF and local government spending.<sup>190</sup> Most federal funds come to states encrusted with regulations, requirements, and vocal constituencies that resist change, so states hardly have a free hand in spending federal funds as they wish. But that does not mean that Ohio cannot be strategic in thinking about forthcoming federal investments in clean energy or support for manufacturing, for example. Nor does it mean that Ohio cannot take an even bolder approach towards the federal government's flow of funds.

## *Competing aggressively for currently available federal funds*

The federal government recognizes its own role in intentionally setting the United States on the fast track to the next economy, as evidenced by provisions in the Recovery Act, various programs in the FY 2010 budget, and bills that have been introduced in Congress. There are federal funds available for the state and its metropolitan regions to use to make the necessary transition to an export-oriented, lower-carbon, innovation-fueled economy. There are also monies for innovative

regional planning and land use projects, which Ohio's communities could use in their reinvention as smaller, stronger places. Ohio must position itself to compete for these funds, showing a united front and a clear vision that is aligned with federal goals. Places that have organized initiatives and can deliver smart proposals will likely attract federal interest and investment.

## **Short-term recommendations:**

**Secure an Energy Innovation Hub.** The Department of Energy is likely to support several dozen energy innovation hubs over the next decade. These hubs will be multi-million dollar collaborative efforts to “advance highly promising areas of energy science and technology from their early stages of research to the point where the risk level will be low enough for industry to move them into the marketplace.”<sup>191</sup> The DOE FY 2011 budget requests \$34 million for a new hub on batteries and energy storage. Given Ohio's Third Frontier investments in fuel cells and alternative energy (which includes an energy storage component) and its focus on transforming research into market-ready products, plus the state's very strong network of research institutions, Ohio must compete for this hub. A successful bid will draw on the resources and strengths of institutions across the state, and therefore should be coordinated at the state level.

### **Take advantage of federal support for clusters.**

The Ohio Department of Development has identified nine industry clusters in the state, many of which are supported by Third Frontier or Edison Program funding. In fact, Ohio is more advanced in understanding and supporting clusters than the federal government. The federal government's FY 2010 budget gives modest support for planning grants to identify local clusters for development and funds to start a federal clusters research and information center to catalyze cluster development through good data. The FY 2011 federal budget includes another round of cluster funding across several agencies, including the Economic Development Administration and Small Business Administration. Ohio needs to develop a plan to capitalize on the federal government's interest in clusters, perhaps by seeking a federal planning grant for a cluster that is just emerging or a cluster that is not well supported by existing state spending.

Another opportunity for Ohio to take advantage of federal interest in clusters would come from the SECTORS Act of 2009 ("Strengthening Employment Clusters to Organize Regional Success Act"), introduced by Ohio Senator Sherrod Brown. The act would award grants to local industry-based organizations to enhance the competitiveness of the industry, improve workforce skills, and coordinate state and local economic development activities. The SECTORS Act appropriately recognizes the employment aspects of clusters, calling for federal support for "[I]dentifying and aggregating the training needs of multiple employers, helping postsecondary educational institutions and other training providers align curricula and programs to meet industry demand, and improving job quality through improving wages, benefits, and working conditions for workers." The SECTORS Act, if it passes, will have a greater impact in Ohio if the state is already organizing and supporting workforce intermediaries aligned with employment clusters, as recommended in chapter three.

**Use federal Sustainable Communities funds to support smaller, stronger Ohio cities.** HUD has proposed a Sustainable Communities Initiative, a \$150 million competitive grant program to reward collaborations between municipalities and MPOs around creating integrated regional development plans. The FY 2011 budget proposed almost \$700 million in Sustainable Communities funds. The state could use this competition to build on the bold new strategies outlined under the Quality

Places section in chapter three. Specifically, Ohio could be the site of a HUD demonstration project on Sustainable Communities, which would support collaboration and changes in underlying land use laws.

To make HUD assistance truly transformative, Ohio must have different laws in place. For example, the state needs a strong land bank law that applies to every county in the state and recognizes the long-term challenges that beset local land markets; new state planning enabling laws that allow for new kinds of land uses, often closely integrated; foreclosure laws that get properties out of limbo and into beneficial use quickly; and incentives and tools for cross-boundary coordination. The state also needs to help localities prepare for and maximize federal assistance by providing incentives for comprehensive planning and modernized planning statutes to provide for stronger local and multi-jurisdictional planning and zoning tools.

### *Shaping the federal government's approach on priorities that matter to Ohio*

There are several ideas bubbling up throughout the federal government that would lead to more federal support for Ohio's efforts to restore prosperity. These are emerging efforts that state leaders have a chance to shape and inform. The federal government is poised to act in subtle but systemic ways to move states and metropolitan regions towards collaboration and targeting resources. To give a high profile example, The White House Council on Automotive Communities and Workers represents the beginning of a national commitment to helping regions, such as Southwest and Northern Ohio, devastated by the loss of auto industry jobs. Ohio's elected officials should take a leadership role with the federal government, advising its efforts and rallying similarly situated states and communities to shape the direction of federal policy.

### **Short-term recommendations:**

**Press federal policy-makers to earmark funds for operations and planning for the new county-wide land banks through an NSP III or another federal program.** The Ohio legislature is considering passage of new land bank legislation that would expand county-wide land bank authority to nearly 30 counties throughout the state, based on a population threshold. These land banks are organized to be self-financing, to cover the costs of property maintenance and general operations.



A small federal funding stream would allow them to undertake demolition and site preparation as a precursor to new uses (such as urban agriculture), and to engage in comprehensive planning activities that lay the groundwork for redevelopment, particularly in areas in which land bank properties are concentrated so as to avoid “single parcel” redevelopment strategies and pave the way for private-sector activity. These planning activities would complement larger, citywide (but also nascent) efforts underway in cities like Cleveland (Reimagining Cleveland) and Dayton to repurpose properties.

**Put the needs of places that are not growing on the sustainability agenda.** The Livable Communities Act of 2009 (S. 1619) creates a comprehensive planning grant program building on the HUD/DOT/EPA Sustainable Communities Initiative. Ohio’s congressional delegation should work to ensure that the grant program’s sustainability criteria explicitly encompasses the particular needs of distressed cities that are not struggling with growth, but rather with population loss that threatens their ability to sustain themselves over the long term.

State leaders should also coalesce around two proposals from Ohio’s congressional delegation. The Community Regeneration, Sustainability, and Innovation Act (or CRSI), co-sponsored by Congressman Tim Ryan, would create a new, competitive grant program within the U.S. Department of Housing and Urban Development (HUD), similar to U.S. EPA’s successful Brownfields pilot grant program, which would provide funds for cities and metropolitan areas experiencing large-scale property vacancy and abandonment due to long-term employment and population losses.<sup>192</sup> Ohio Congressman Mike Turner has introduced legislation, which he hopes to include with the CRSI Act, that would allow any future neighborhood stabilization money to be used to help keep people in their homes, not just for homes that have already been abandoned. In fact, following Alan Mallach’s suggestion, Ohio’s congressional delegation should consider merging CRSI and the Livable Communities Act, which would make targeted programs such as those in the Regeneration Act a subset of a larger comprehensive metropolitan planning initiative.

Also tied to the HUD/DOT/EPA Sustainable Communities partnership, The Center for Neighborhood Technology and Living Cities have

developed the Broadening Urban Investment to Leverage Transit (BUILT) in Ohio project, in conjunction with the state’s major cities, to develop urban revitalization strategies for the state that reduce the household cost of living and identify opportunities for redevelopment. The state should commit to this effort and use federal resources to turn these opportunities into reality.

**Press federal agencies to explicitly reward multi-jurisdictional land use and transportation plans.** Federal policies should reward counties and political jurisdictions within a metropolitan area for adopting regional transit plans and cross-jurisdictional comprehensive land use and reuse plans. As one example, Congress should amend the existing federally-required transportation planning process for states and MPOs to make it more outcome-focused and integrated, and to empower metropolitan areas. Local leaders need incentives to cross municipal and state borders (the state line issue is particularly relevant to Cincinnati, Youngstown, and Toledo), and federal incentives work. The Neighborhood Stabilization Program (NSP) II encouraged (almost inadvertently) comprehensive, regional planning, and in a sharp deviation from past practices, Youngstown-area jurisdictions developed a regional proposal. While Youngstown did not receive an NSP II grant, the very act of coming together to create a regional proposal tends to build trust and foster further cooperation.

**Support a cross-agency policy agenda to assist auto communities.** The federal government is acutely aware of the challenges not only of the domestic auto industry, but of the communities whose workers made the auto industry strong and have suffered intensely from its recent difficulties. The Brookings Metropolitan Policy Program has devised a suite of federal policy actions to revive auto-impacted communities, which will be presented in detail at an auto communities summit this Spring. Ohio leaders should lend their vocal support to this agenda. These policies are not aimed at giving special preferences to domestic automakers, but rather, much like the Restoring Prosperity agenda for Ohio, seek to create the conditions in which the next economy can take root. Thus, they would benefit all of Ohio’s metropolitan regions (see sidebar for these ten policy ideas).

## Brookings' Recommendations for a Federal Response to Auto-Impacted Communities

### Innovation

**Support innovation in the auto sector:** The federal government should support innovation to improve the fuel efficiency of motor vehicles, through activities such as supporting R & D on more fuel-efficient vehicles (e.g., via lighter-weight car bodies and more fuel-efficient powertrains) and improving auto supplier access to R & D.

**Invest in advanced manufacturing:** The federal government should invest in the competitiveness of the nation's manufacturing base by creating a national laboratory for advanced manufacturing, administering a program of competitive grants for self-organized groups of manufacturers (at either the regional or the national level) to solve common problems, and expanding and reforming the Manufacturing Extension Program (MEP).

**Invest in R & D around energy technology and green products/processes:** The federal government should invest in a suite of supports to promote "green oriented" R & D in the region, building on new federal supports for energy research, and proposals in the Midwestern Governors Energy Security and Climate Stewardship roadmap.

**Support the growth of global knowledge services exports:** The federal government should invest in accelerating the global export/reach of the region's (and nation's) higher education and medical research sectors by supporting the expansion of their presence and services around the globe, and through policies that help attract international talent to U.S./Great Lakes institutions and communities.

**Translate innovation to new firms and entrepreneurs:** The federal government should support auto communities in their efforts to develop entrepreneurs and new enterprises by providing training and support to entrepreneurs, helping existing firms exploit new product lines, linking entrepreneurs to capital, and developing programs to commercialize the innovation/invention base in the region.

### Human Capital

**Develop a stronger adjustment strategy for incumbent and dislocated workers:** The federal government should allow flexibility and integration of a number of federal workforce funding streams to dramatically enhance incumbent/dislocated auto worker training, while providing needed supports to help workers as they transition.

**Support/enhance auto community colleges:** The federal government should reform its workforce policies to better take advantage of and expand community colleges' ability to provide education and training that meet the unique, difficult, and diverse needs of both workers and employers in auto communities.

### Infrastructure

**Support a competitive infrastructure agenda:** The federal government, in collaboration with states, metropolitan areas, and the freight-rail industry should develop a comprehensive, multi-modal freight transportation plan focused on how to more efficiently and effectively move goods across the Great Lakes region, including across the US-Canadian border.

### Quality Places

**Invest in land reconfiguration and right-sizing strategies:** The federal government should invest in strategies to help states and localities develop and implement plans focused on the reconfiguration and repurposing of land and economic activity around the reality of sustained population loss.

**Invest in smart water use and water cleanup efforts:** The federal government should coordinate and increase its support for cleaning and restoring the Great Lakes and its waterways, as well as invest in the development of sustainable water technologies that will help improve both the environment and the economy of the region.

### Medium-term recommendations:

**Develop a list of nationally significant projects based on merit-based criteria for potential application to a National Infrastructure Innovation and Finance Fund.** The FY 2011 budget request seeks to create a special financing entity for infrastructure. This national infrastructure fund would evaluate and fund infrastructure projects of substantial regional and national significance, providing federal grants, loans, and loan guarantees to projects requiring substantial federal investment. Ohio should develop a list of qualifying projects based on specific and empirical data showing the economic, environmental, and social equity benefits of such projects. Even if the fund is not created on the federal level, the exercise of identifying projects that span areas of infrastructure (roads and rails to ports and pipes) and developing supporting evidence based on facts, rather than politics, could be a model for how Ohio should evaluate and fund its own major infrastructure projects in the future.

**Encourage the federal government to create incentives for shared service delivery programs.** In its regulations and grant guidelines, the federal government could encourage not just multi-jurisdictional planning, but shared service delivery. Like regional planning, shared service agreements, driven primarily by cost efficiencies, establish the all-important element of trust that lays the foundation for future and more sophisticated cross-jurisdictional collaboration or governance.

Ohioans, historically and culturally, have resisted thinking and acting regionally, because of the central importance of local control—and fear of the loss of it—as well as opposition to wealth transfer that is perceived to occur with the regionalizing of services. Local governments have often utilized the power of home rule both defensively as a shield and offensively as a sword; that is, to endow themselves

with additional police powers (and related social services that result in additional layers of local boards, commissions, and other governing bodies) and protect themselves from regionalization. As noted in chapter four, localities have started to open up to metropolitan action, and the state and the Compact with Cities Task Force have made encouraging more regional action a priority. But federal incentives are also necessary because the state is limited in how far it can go to create regionalism because of perceptions about what home rule means in Ohio as well as actual state court rulings and constitutional interpretations.

**Organize for a National Advanced Manufacturing Laboratory.** U.S. Senator Brown and Professor Ned Hill of Cleveland State University have each developed proposals for a federally sponsored National Advanced Manufacturing Laboratory, possibly in Columbus, which would focus on research that leads to the renewal of America's manufacturing base through alignment with the imperatives of the new economy, including carbon reduction in materials design, fabrication, and production; logistics, global production systems, and supply chain management; and alternative fuel vehicle systems. The strength of this proposal rests on Ohio's state-wide resources such as manufacturing diversity, its wealth of research institutions across the state, and its fortunate geography that makes it proximate to other states' research institutions. Chapter three recommended that Ohio enhance its state advanced manufacturing network, which is a compelling goal even if there were no federal lab proposed. The network, though, is the perfect opportunity for Ohio to prove that these varied institutions across the state can work together, share their strengths, and reach across state lines to make Ohio a true hub of innovation. The state seems to be moving in this direction, by making Ohio's Edison Centers a part of the manufacturing extension program in Ohio.

# Conclusion: Pulling it All Together

*The Restoring Prosperity Agenda's elements of building on assets and aligning with federal policy fit the contours of the emerging economy.*

*Elements of the  
Next Economy  
demand* ≡

*Restoring  
Prosperity  
Policies  
which  
align  
with* ≡

*Federal  
Responses  
to produce* ≡

*Potential Gains  
for Ohio*

## Export-oriented

Enhance the state advanced manufacturing network—so that Ohio can solidify and build on existing areas of strength, and develop not only new goods for growing markets like China and India, but also new processes that are in demand worldwide.

Support Workforce Intermediaries—in manufacturing clusters where there are a high number of replacement jobs or in advanced manufacturing sectors to keep Ohio's manufacturing base strong, even though it is smaller than it once was.

Link low-income residents of central cities to sector-based workforce strategies—so that manufacturers have a capable workforce and urban residents have career-ladder jobs.

Change how infrastructure is funded in Ohio to support transformative investments—so that Ohio can create new transportation networks and multimodal freight facilities to get state-manufactured goods to international markets.

Create a strategy to take advantage of federal support for clusters, many of which will have traction in the export economy.

Create a federal advanced manufacturing laboratory.

Support industry clusters, e.g., the SECTORS Act, FY 2011 funding for cluster grants, data gathering, and related efforts.

Support a cross-agency policy agenda to assist auto communities.

Job conservation in manufacturing as industries pivot to products that are in demand in growing markets.



*Elements of the  
Next Economy  
demand* ≡

*Restoring  
Prosperity  
Policies  
which  
align  
with* ≡

## Lower carbon

Preserve Third Frontier funding and merit-based principles—so that Ohio continues to fund research and development to advance commercialization of advanced energy products, fuel cells, and photovoltaics.

Support Workforce Intermediaries—in key clusters like advanced energy, fuel, cells and photovoltaics, so that employers can grow to meet demand for new energy products, and workers can find stable, well-paying jobs in the industry.

Commit to a formal policy of fix-it-first—so that ODOT transportation investments support the state’s existing communities, rather than creating more far-flung settlement patterns.

Analyze ODOT investment decisions on the basis of greatest economic returns—including the price of greenhouse gas emissions and fuel, so that Ohio is building the appropriate infrastructure for a lower carbon world.

Create a state-wide sustainability challenge competition—so that Ohio’s metropolitan regions (and non-metros, for that matter) can develop plans to reduce both congestion and greenhouse gas emissions through innovative land use and transportation strategies.

Expand Ohio’s land bank statute to apply to all the state’s counties to help places deal with an excess of vacant land—so that they can remake themselves into greener communities with walkable neighborhoods that can compete with greenfield developments.

Establish a targeted neighborhood revitalization strategy program to direct state investments in housing, school construction, transportation, and other areas to neighborhood clusters that have retained market viability—so that these neighborhoods can provide alternatives to far-flung, car-dependent neighborhoods.

Modernize Ohio’s planning statutes to provide more flexible planning and zoning tools at state, local, and multi-jurisdictional levels—so that localities can work together to create regional plans for transportation and livability.

Create a state-level “Walkable Waterfronts” initiative that supports local efforts to revitalize urban riverways and lakefronts—so that Ohio’s cities’ natural amenities can draw people and jobs to places with existing infrastructure and transit systems.

*Federal  
Responses  
to produce* ≡

Create a federal advanced manufacturing laboratory.

Provide new federal investments that support Ohio’s existing investments in energy, e.g., an Energy-DII hub.

Use federal Sustainable Communities funds to support smaller, stronger Ohio cities.

Reward multi-jurisdictional land use and transportation plans.

*Potential Gains  
for Ohio*

A firmer footing in the lower carbon economy.

Globally competitive energy efficient products and processes for export.

New market valuation of its older, dense neighborhoods centered on assets.

*Elements of the  
Next Economy  
demand* 

*Restoring  
Prosperity  
Policies  
which  
align  
with* 

## Innovation fueled

Preserve Third Frontier funding and merit-based principles—so that Ohio continues to build on its proud heritage of innovation and the talent and funds that are drawn to innovation in the state.

Find creative sources of funding for innovation-based economic development—so that innovation funding is buffered from the ups and downs of the economic and budget cycles.

Create micro-investment funds—to tap into the wide range of innovation, particularly in the civic realm, that Third Frontier does not address.

Support Workforce Intermediaries—because at their best, intermediaries are not just workforce training organizations, they are also innovation intermediaries.

Develop an Anchor Institution Innovation Zone program to maximize both the innovation and neighborhood development potential of Ohio's universities and medical centers and other institutions.

Support metro business plans, so regions can define their own path forward in the innovation economy.

Create a strategy to take advantage of federal support for industry clusters, because clusters promote product and process innovation.

*Federal  
Responses  
to produce* 

Create a federal advanced manufacturing laboratory.

Support sustainable communities initiatives which will increase density and livability.

Support industry clusters.

Provide new federal investments that support Ohio's existing investments in energy, e.g., Energy-DII hub.

*Potential Gains  
for Ohio*

An economy that is oriented towards new and growing sectors.

Increased investment in growing companies.

Good jobs in stable or growing firms and industries.

Smaller but stronger cities with a high quality of life.

Regions that compete together in the global economy, rather than municipalities that compete amongst themselves.

The recommendations on governance reform and collaboration undergird this agenda in several ways. They provide potential for savings at a time when state and local budgets will be severely constrained for the next several years, and these savings can be redeployed in other, more useful ways. Perhaps even more critical than the immediate budgetary impacts, governance reform and collaboration described in chapter four encourage Ohio's metropolitan areas to act as economic units, which is what globally competitive regions do. The federal government can support this effort to act regionally in a variety of ways, from providing initial capitalization for county-wide landbanks to encouraging shared services agreements. As has been repeated throughout this report and throughout the Restoring Prosperity project, metropolitan areas concentrate the assets that will help shape the next economy.

At the outset, this report noted that this array of policy prescriptions was not the end of the Restoring Prosperity agenda, but rather the beginning. The Compact with Cities Task Force has recently presented its policy agenda. The upcoming 2010 elections will create the setting for intense policy debates about where the state is going and how best to get there. In 2011, Ohioans will consider whether to have a constitutional convention, at which they could make major changes in how the state's local governments are structured and formed. The Restoring Prosperity agenda is relevant to all of these opportunities.

We hope that this report, with its description of the next economy, its agenda for how the state can thrive in this emerging economic context, its argument for governance reform, and its description of an aligned state and federal approach, will help the state regain control of its destiny and restore prosperity to its metropolitan regions and the state and its people as a whole.

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- 36 Joe Hallett, "With the state in trouble, the governor's race won't be pretty," *The Columbus Dispatch*, January 10, 2010 available at [www.dispatchpolitics.com/live/content/editorials/stories/2010/01/10/halcolio.ART\\_ART\\_01-10-10\\_G5\\_M5G8C6L.html?sid=101](http://www.dispatchpolitics.com/live/content/editorials/stories/2010/01/10/halcolio.ART_ART_01-10-10_G5_M5G8C6L.html?sid=101).
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- 155 Philip A. Trostel, "Ohio State and Local Government Payroll and Expenditure," Unpublished paper prepared for the Brookings Institution Metropolitan Policy Program, 2009, Table 6, Table 8.
- 156 Ibid., table 6.
- 157 Legislative Service Commission, "Ohio Fact Sheet 2008" (2008) available at [www.lbo.state.oh.us/fiscal/publications/biennial/ohiofacts/Sep2008/PublicFinances.pdf](http://www.lbo.state.oh.us/fiscal/publications/biennial/ohiofacts/Sep2008/PublicFinances.pdf).
- 158 Some might argue that Education Week's recent designation of Ohio's public schools as the nation's fifth best means that the status quo is acceptable. That fifth-best ranking was earned with an overall grade of a B-minus. Ohio's school children should strive for higher, and so should its public school system. Catherine Candisky, "Ohio's schools climb to 5<sup>th</sup> best in nation: Broad Assessment Bestows B-Minus," *The Columbus Dispatch*, January 14, 2010.
- 159 New York State Commission on Local Government Efficiency and Competitiveness, "Savings Estimates" (2008) available at [http://www.nyslocalgov.org/pdf/Savings\\_Estimates.pdf](http://www.nyslocalgov.org/pdf/Savings_Estimates.pdf). Some might question whether this scale of savings would apply to Ohio, given that New York has 8 million more residents than Ohio. The New York study, though, focused on small school districts, not New York City schools, which serve a population of 1.1 million students in a city of 8 million people. For more information, see New York State Commission on Local Government Efficiency and Competitiveness, "21<sup>st</sup> Century Local Government" (2008) p. 39, available at [http://www.nyslocalgov.org/pdf/LGEC\\_Final\\_Report.pdf?pagemode=bookmarks](http://www.nyslocalgov.org/pdf/LGEC_Final_Report.pdf?pagemode=bookmarks).
- 160 Mercer Health and Benefit, "A Spectrum of Opportunities: The Report to the School Employees Health Care Board" (Schools Employees Health Care Board, 2006) available at <http://sehcb.ohio.gov/Portals/0/pdf/Third%20Party%20Documents/MercerFinalReport12-20-06.pdf>.



- 161 Scott Ebright, "Cowboys & Indians Learn to Share" OSBA Journal, Sept. 2009, p.13-15. The Rittman-Orrville Compact is available at <http://osba-ohio.org/files/rocompact.pdf>.
- 162 "Greene County School Districts: Shared Service Delivery Initiative," Project Overview, Wright State University Center for Public and Urban Affairs, 2009.
- 163 Maine has implemented and New York has recommended tying state aid levels to school district reforms in their states. For the Maine reforms, which recently survived a ballot initiative to repeal them, see "School Administrative Organization," available at <http://www.maine.gov/education/reorg/index.html>. For New York's recommendations see, New York State Commission on Local Government Efficiency and Competitiveness, "21<sup>st</sup> Century Local Government" p. 43.
- 164 The optimal district size may in fact be somewhat larger than 2,500 students. One study finds that "The 'optimal' (that is, lowest-cost) district enrollment is approximately 6,000 students for total costs, 1,500 to 3,500 students for operating or instructional costs, and just over 1,000 students for transportation costs. Even for total costs [another study] found that 90 percent of the cost savings are exhausted when a district reaches 1,500 pupils." William Duncombe and John Yinger, "Does School District Consolidation Cut Costs?" Working Paper 33 (Syracuse University Center for Policy Research, 2001), available at <http://www.cpr.maxwell.syr.edu/cprwps/pdf/wp33.pdf>. Another very careful literature review concluded that, "The best that can be said at this point is that districts below the 750-1,000 range do not have efficient cost structures, and thus would benefit most from consolidation, and that districts in the range of 3,500 to 6,500 students are in the most cost effective size range." Donald E. Pryor and Charles Zettek Jr., "Thinking Beyond Boundaries: Opportunities to use Regional and Local Strategies to Strengthen Public Education in the Broome-Tioga Region" (Center For Government Research, Inc., 2004), available at [http://www.nyslocalgov.org/pdf/Beyond\\_Boundaries.pdf](http://www.nyslocalgov.org/pdf/Beyond_Boundaries.pdf).
- 165 Legislative Budget and Finance Committee, "Study of the Cost-Effectiveness of Consolidating Pennsylvania School Districts" (Pennsylvania General Assembly, 2007); Indiana University Center for Urban Policy and the Environment, "Streamlining Local Government: We've got to stop governing like this" (Indiana Commission on Local Government Reform, 2007).
- 166 Pennsylvania Office of the Governor "2009-2010 Executive Budget Facts" available at [www.governor.state.pa.us/portal/server.pt/gateway/PTARGS\\_0\\_2\\_24980\\_2985\\_368304\\_43/http%3B/pubcontent.state.pa.us/publishedcontent/publish/cop\\_general\\_government\\_operations/pagov/media/latest\\_news/09\\_10\\_fs\\_schoolconsolidation\\_final.pdf](http://www.governor.state.pa.us/portal/server.pt/gateway/PTARGS_0_2_24980_2985_368304_43/http%3B/pubcontent.state.pa.us/publishedcontent/publish/cop_general_government_operations/pagov/media/latest_news/09_10_fs_schoolconsolidation_final.pdf).
- 167 Because of low population densities in some areas of the state, it may not be feasible for every Ohio district to have 2500 or more students.
- 168 New York State Commission on Local Government Efficiency and Competitiveness, "Savings Estimates" p.2.
- 169 New York State Commission on Local Government Efficiency and Competitiveness, "Comprehensive List of Recommendations" (2008), available at [http://www.nyslocalgov.org/pdf/Comprehensive\\_List\\_of\\_Recommendations.pdf](http://www.nyslocalgov.org/pdf/Comprehensive_List_of_Recommendations.pdf).
- 170 Standard and Poor's School Evaluation Services, "Study of the Cost-Effectiveness of Consolidating Pennsylvania School Districts, Part 1 of 2, Statewide Analysis" Prepared for the Pennsylvania Legislative Budget and Finance Committee (2007), available at <http://lbfc.legis.state.pa.us/reports/2007/289.PDF>.
- 171 "School Administrative Organization," available at <http://www.maine.gov/education/reorg/index.html>.
- 172 Philip Trostel, "Ohio State and Local Government Payroll and Expenditure."
- 173 Richard A. Levin, "A Brief Review of State and Local Taxation in Ohio."
- 174 Compact with Ohio Cities Task Force, "Recommendations for Redevelopment and Smart Growth in Ohio," p. 19.
- 175 Jerry Paytas, "Does Governance Matter? The Dynamics of Metropolitan Governance and Competitiveness," Working Paper, Carnegie Mellon Center for Economic Development, 2001, p. 23. See also, David K. Hamilton, David Y. Miller and Jerry Paytas, "Exploring the Horizontal and Vertical Dimensions of the Governing of Metropolitan Regions" Urban Affairs Review 40 (2) (2004): 147-182.
- 176 Compact with Ohio Cities Task Force, "Recommendations for Redevelopment and Smart Growth in Ohio," p. 9.
- 177 Compact with Ohio Cities Task Force, "Recommendations for Redevelopment and Smart Growth in Ohio," p. 9.
- 178 Jack Dustin and Myron A. Levine, "New Directions for Ohio Local Government," Draft Working Paper prepared for Brookings Institution Metropolitan Policy Program (2009).
- 179 Personal communication from Alan Weinstein and Kermit Lind, Law and Public Policy Program, Cleveland-Marshall College of Law; Compact with Ohio Cities Task Force, "Recommendations for Redevelopment and Smart Growth in Ohio," p. 20.
- 180 For example, OSU's Fisher School of Business provides training in Lean and Six Sigma methods, and many Ohio companies and institutions (such as the Columbus Metropolitan Library, to give just one example) themselves use these methods and could serve as mentors to local government leaders.
- 181 See [www.hpgnetwork.com](http://www.hpgnetwork.com).
- 182 Tom Schuman, "Network of Success: Governments Benefit From High-performance Tools," *BizVoice/Indiana Chamber*, Jan/Feb. 2009, pp. 34-35.
- 183 Ibid.
- 184 New Jersey P.L. 2007, Chapter 54, available at [http://www.njleg.state.nj.us/2006/Bills/PL07/54\\_.PDF](http://www.njleg.state.nj.us/2006/Bills/PL07/54_.PDF).
- 185 For more on this idea, see Mark Partridge and Jill Clark, "Our Joint Future: Rural-Urban Interdependence in 21<sup>st</sup> Century Ohio."
- 186 "Shrinking Cities: Aligning Federal and State Policy Opportunities, Assembling Promising Local Practices" Roundtable, sponsored by Greater Ohio Policy Center, December 15, 2009, Dayton, OH.
- 187 See, for example, Ned Hill and others, "Driving Ohio's Prosperity," New York State Commission on Local Government Efficiency and Competitiveness, "21<sup>st</sup> Century Local Government" p. 22-23, Jennifer Vey and others, "Preliminary Report: Restoring Prosperity," p. 33-34.
- 188 Mid-Ohio Regional Planning Commission, "A Comprehensive Look at Ohio's State Agency Districts and Program Areas" (2008), available at <http://www.morpc.org/pdf/OhioAgencyDistricts.pdf>.
- 189 "Estimated Funds Coming to Ohio as Announced by Federal Agencies," available at [http://recovery.ohio.gov/docs/charts/OhioARRA\\_Data\\_Chart\\_091709.pdf](http://recovery.ohio.gov/docs/charts/OhioARRA_Data_Chart_091709.pdf). (September 2009).
- 190 A total of \$90 billion in federal dollars was received by individuals or entities in Ohio, but most of the funds were in direct payments to individuals, procurement, or salaries and wages, over which the state has no discretion. Bureau of the Census, "Consolidated Federal Funds Report for Fiscal Year 2008" Table 2.
- 191 "Energy Innovation Hubs," available at <http://www.energy.gov/hubs/>.
- 192 For more information, see the National Vacant Properties Campaign fact sheet on CRSI, "Support the Community Regeneration, Sustainability, and Innovation Act of 2009 (S. 453/H.R. 932), available at [http://www.vacantproperties.org/documents/CRSIFactSheet\\_000.pdf](http://www.vacantproperties.org/documents/CRSIFactSheet_000.pdf).



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