The Ruth Ratner Miller Center for Greater Cleveland's Future

Cleveland State University
Maxine Goodman Levin College of Urban Affairs

Ratner Miller Center Notes

Regional Governance for Economic Development

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I. Approaches to Regional Governance

Several regions have developed new governance systems to meet regional economic development goals and to coordinate neighboring municipalities' responses to common problems. Some communities have developed unified or consolidated city/county governments or agencies to coordinate and implement economic policies. Other areas have constructed their own federalist structure that assigns some responsibilities to a regional government, while other services remain the responsibility of existing townships, towns, and cities. In still other areas, inter-governmental agreements have evolved to codify the cooperation required to efficiently address the challenges generated by economic growth, decline, and stagnation. A few regions have even developed revenue-sharing programs to divide the taxes generated by new development, thus minimizing conflict over the location of economic development. In contrast to these numerous and varied governmental reform efforts, many regions— declining, stable, and growing—have decided against any substantial reconfiguration of local governments.

In trying to determine if different structures would better support a region's economic development goals, scholars and administrators have focused on the critical concepts of governance and government. Governance refers to the processes of public decision-making designed to achieve collective interests. Government refers to a specific structure created to secure and implement policies designed to achieve a set of goals endorsed by the elected leaders of a representative democracy for the advancement of a community. Governance occurs whether there is one unified government or a myriad of governments providing a diverse range of services to a citizenry.

The purpose of this note is to identify different forms of government that can be used to enhance the governance of economic development for any region, including the Greater Cleveland area. Improving the governance of economic development does not have to entail the dissolution of any form of government or the relinquishing of control of key assets by any government.

Miller (2002), in *The Regional Governing of Metropolitan America*, identifies four broad approaches to metropolitan governance: coordinating regionalism, administrative regionalism, fiscal regionalism, and structural regionalism. Each of these broad categories provides instructive guidance with regard to the identification of realistic options for Greater Cleveland. The four typologies are useful for categorizing models found in other regions as well the existing regional governance and governments already in place in Greater Cleveland.

Coordinating Regionalism: This approach develops a strategic regional plan and strives to coordinate local municipal strategic plans to fit within the integrated whole. Most metropolitan areas have an organization that deals with regional issues such as a council of government or a planning commission. These governing organizations, frequently composed of a board of mayors and other locally elected officials, were created in response to federal requirements, such as the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) that required each metropolitan region to identify a Metropolitan Planning Organization (MPO) to decide how federal funds are allocated.

Most existing MPOs primarily serve as ad hoc forums and do not have a functioning regional plan. **San Diego** and **Seattle** both have supervisory MPOs that oversee compliance and report on progress but implementation is performed locally. **Minneapolis/St. Paul** and **Portland** are the only regions with MPOs with statutory authority to develop a regional plan and to require changes or force local compliance with that plan. The **Northeast Ohio Areawide Coordinating Agency (NOACA)** is also an example of coordinating regionalism. It provides the official regional transportation plan for five counties in Northeast Ohio. Since it receives federal funding to do this, it has some control over implementation.

Administrative Regionalism: This approach, the most common, transfers some service delivery or economic development responsibilities from municipal governments to either special districts or to the county. The services transferred can be limited to one or to a series. A special district created for economic development could take on zoning, land use, incentives, etc. or just part of economic development such as a port authority, transportation, or environmental protection. About half of all special districts are bigger than one municipality, and about 34% are countywide or bigger[1]. This approach to regionalism is quite common because it can

must be binding. It does not have to be a new government structure, but the cooperating jurisdictions must be tied by more than just a voluntary agreement that might be broken at any time. It likely involves giving up some political autonomy to allow the regional body some oversight or control. That is not always palatable to local elected officials. Nor will citizens necessarily support this type of change.

One solution is to only focus regional efforts on service delivery (i.e., transportation, water, sewer). These collaborative arrangements can be supported purely as an issue of economy of scale. However, the economic odds may be so stacked against cities right now that focusing only on service delivery may not be sufficient. Regional governance may be the only way to address social inequity and fiscal disparity between jurisdictions.

Most observers of regional governance agree that these arrangements come about from a crisis or an opportunity that mobilizes the community leadership. Often regionalism takes hold when mandated by the state or federal government. MPOs like NOACA only gained some teeth when the federal government mandated that transportation planning occur at a regional level and distributed funding accordingly. Likewise, state law created Portland's and Minneapolis/St. Paul's regional governments. Some experiences do take hold locally with neighboring jurisdictions agreeing to tackle shared problems. Regional solutions can grow as trust grows.

IV. Next Steps

As always, conversations regarding regional governance end with, "What is the next step?"

For Greater Cleveland, the next steps are to identify the one or two economic development issues that the current government system seems unable to resolve and to consider different forms of regional cooperation to improve the situation. Assembling land for different forms of development in older parts of the county and financing efforts to build new and renovated housing would probably emerge on most lists as issues critical to enhancing development and reducing the ongoing loss of population. Can the region's leadership commit to exploring the different governance options that can help the region resolve these issues? If so, then a public dialogue on regional governance can and should be initiated.

Footnotes

[1] David Y. Miller, *The Regional Governing of Metropolitan America*, University of Pittsburgh: 2002 (106).

[2] Miller, 112.

[3] Todd Swanstrom, "What we argue about when we argue about regionalism," *Journal of Urban Affairs*, Vol 23, 2001.

Cleveland State University
Maxine Goodman Levin College of Urban Affairs

Ruth Ratner Miller Center for
Greater Cleveland's Future
2121 Euclid Avenue, UR 340
Cleveland, OH 44115
http://urban.csuohio.edu/ruth_ratner_miller/

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allow for more efficient and effective delivery of a particular service (that transcends typical municipal service boundaries) while still respecting existing political boundaries and the desire for local control or responsibility for such services as education and public safety. **Cleveland's Sewer and Water District** is an example of administrative regionalism. A special economic development district encompassing all of Cuyahoga County is another potential example of a form of administrative regionalism.

Fiscal Regionalism: This approach places financial responsibilities and benefits for one or more services at the regional level. Some regions have cooperative strategies that recognize current political/economic boundaries but still encourage metropolitan or regional funding mechanisms for a single or variety of public purposes. In this way, the benefits from economic growth and the costs for securing that growth can be distributed across a region and competition can be mitigated between municipalities over property tax revenue and land use. Fiscal regionalism provides more equitable distribution of both costs and benefits of development.

One example of fiscal regionalism is a cultural asset district designed to help pay for cultural assets generally located in the central city but used by everyone. **Denver** has the Scientific and Cultural Facilities District, which supports the zoo, museums, performing arts, and other arts organizations with one-tenth of the 1% county sales tax. **Allegheny County, Pennsylvania** has the Allegheny County Regional Asset District to help finance the region's cultural/civic institutions: zoo, aviary, libraries, parks, and stadiums are funded through a .5% added sales tax. **Cuyahoga County and Cleveland's Gateway Redevelopment Corporation** also falls within this model.

Another, much more extensive example of tax-base sharing takes a regional source of revenue, such as the property tax or sales tax, and distributes the proceeds to local governments based upon agreed-to criteria that aim to equitably distribute the gains and benefits from development and growth. **Minneapolis/St. Paul** has such a program. In this seven-county region, 40 percent of a municipality's growth in commercial and industrial real estate valuation goes into a pool shared by all municipalities. The proceeds are distributed on a need-based formula. In effect, wealthier communities lose a little of the benefits of their economic growth while poorer communities gain a lot. A study of the measured inequality in the total tax base per capita between municipalities found that inequality was reduced by 20% between 1987 and 1995.[2] This approach can also create a more rational regional approach to development because each jurisdiction is not competing for the same revenue sources. Location incentives are minimized.

Montgomery County, Ohio also has implemented a tax-sharing policy that pools a portion of future growth in exchange for revenues from a common fund, but it guarantees that every jurisdiction is a net beneficiary. That is, unlike in the program in effect in the Minneapolis/St. Paul region, a wealthier municipality will never get less from the fund than it contributes. **Allegheny County, Pennsylvania** has a tax-base sharing plan that takes an additional .5% sales tax (over $60 million annually), gives the county 50% and distributes 50% to participating municipalities based on fiscal need. **Louisville and Jefferson County, Kentucky** have had a tax- sharing program from economic development for more than 10 years eliminating some of the competition for the location of businesses within the county and between all of the cities in the county.

Structural Regionalism: This approach involves changing the boundaries of one or more existing units of local government. This includes annexation and city-county consolidation. Annexation generally occurs when a city absorbs an unincorporated area, previously serviced by the county. **Columbus, Ohio** is one familiar example of growth through annexation. City-county consolidation is relatively rare and voters tend to reject this approach. The most recent example is the **Louisville/Jefferson County** merger in 2000 through a referendum. **Indianapolis** and **Marion County** created UniGov in 1969. This new form of governance consolidated economic development functions at the county level while permitting several cities to continue to exist for the local delivery of basic urban services including education. There are at least nine different police, fire, and school districts (for a total of more than 27 units of government) within the consolidated city/county of Indianapolis.

II. Cleveland's Regional Entities

Cleveland already has numerous regional governing entities assuming strategic roles in the region's governance. Some of these entities are limited to specific service delivery roles while others address broader planning needs; some involve formal governmental agreements while others are voluntary; and some are old and worthy of revisiting while others are new and just starting to make an impact. As the city of Cleveland and Cuyahoga County begin to explore the question of addressing more needs on a regional basis, they may want to examine the role these existing entities could play as well as consider new vehicles for regional governance.

Northeast Ohio Areawide Coordinating Agency (NOACA): NOACA is a federally mandated MPO with 38 board members proportionately representing five counties. It currently provides regional planning for transportation and air and water quality because it has federal funding and/or existing expertise in these areas.

NOACA could assume a more substantial role in regional planning in general or in other specific areas such as economic development or homeland security. It has the governance structure in place to provide representation to all collaborating local governments. NOACA does not, however, have an enforcement mechanism. Except in cases where it controls the purse strings (i.e., transportation planning), any regional agreements would rely upon voluntary implementation.

Team NEO: This recent addition to Cleveland's regional governing entities is an example of coordinating regionalism. It encompasses 13 counties, and its board members include business leaders. Team NEO's goal is regional economic growth by retaining local companies, helping them grow, and attracting new businesses. Membership, however, is voluntary and its success depends upon each local jurisdiction and its business leadership deciding that its best interests lie in acting as a region and cooperating instead of competing with neighboring jurisdictions for businesses and economic development. Government collaboration is voluntary.

First Suburbs: This consortium of inner ring suburbs is also a voluntary forum without any supervisory or enforcement role; however, it is an excellent first step for these municipalities to work together as they realize their economic development efforts would be enhanced through unified approaches to common challenges. First Suburbs provides a forum to address joint economic development planning, and potentially, a more extensive and supportive model for regional governance of economic development.

Port Authority: With members of the port authority appointed by both the mayor of Cleveland and Cuyahoga County commissioners, this organization is an example of administrative regionalism. It has some similar elements to Indianapolis's consolidated city/county government, in which the city council and mayor jointly appoint individuals to authorities. However, in this case, no boundaries have changed; the city and county have created an entity with authority over specific services. A port authority can assume important roles in economic development throughout a region and illustrates what can be accomplished through forms of cooperation and regional development.

Gateway Redevelopment Corporation: Similar to the port authority, this agency's board members are appointed either by the mayor of Cleveland or the Cuyahoga County commissioners. The redevelopment corporation differs from the port authority in that its scope is far more specific and involved only the building of Jacobs Field and Gund Arena and the maintenance of these facilities and their related infrastructure. This is an important model, as it implicitly recognizes that the entire county (and greater Cleveland region) benefits from development within the central city. It is a form of fiscal regionalism dedicated to a single purpose, a cultural asset.

If the basic unit of the economy is a region, some regional governance may well be appropriate for transportation, infrastructure development, the financing of needed services, education, and a supportive tax/regulatory environment.

Tax Base Sharing: The earnings tax currently administered represents a form of tax base sharing as long as jobs remain in the city of Cleveland, as the tax is paid based on where a job is located and not where an individual resides. Communities whose residents work in another city may pass a supplemental tax, but the revenue generated by the residential component does not reduce the revenue received by the city in which the job is located. This means that thousands of workers in Cleveland who live in other cities pay a tax to the city, and their total income tax is thus shared. The possibility of introducing more tax-base sharing mechanisms to Cuyahoga County is worth exploring.

This approach does not interfere with political boundaries, but it can lead to more equitable growth and a more rational path for development. The costs of economic development are not always borne by the government in whose boundaries it occurs. For example, the new Legacy Village shopping mall undoubtedly helps the city of Lyndhurst's tax base, but it also causes negative externalities including traffic congestion and deforestation that affect neighboring municipalities. It may also affect retail and restaurant revenues in surrounding areas as well as downtown Cleveland's efforts to revitalize. If the entire county shared in all future commercial and industrial economic growth, the costs and benefits of location decisions could be weighed on a regional basis.

III. Arguments for Regionalism and the Potential Obstacles

The discussion of the best scale for local government is rooted in the founding treatises on public administration in the United States, the United Kingdom, and France. Canada, the Netherlands, and Israel have each added their own important contributions to the dialogue across the last 50 years, and some of the newest models for economic development are to be found in metropolitan Toronto and Amsterdam.

The recent focus on competitive advantage for economic development has added new luster to discussions on regionalism, as have the excessive costs attributed to sprawl and their implications for slower-growing areas. As faster-growing areas such as Atlanta, the Dallas/Fort Worth region, greater Phoenix, and Southern California have encountered significant infrastructure and environmental problems, the issue of metropolitan governance has been renewed. If the basic unit of the economy is a region, some regional governance may well be appropriate for transportation, infrastructure development, the financing of needed services, education, and a supportive tax/regulatory environment.

David Rusk has also argued that regional governance is needed to help address the problems of the center city. Poverty is increasingly concentrated in inner cities. Regional policies could help mitigate this concentration through land use-planning, fair-share housing plans and revenue-sharing programs. Researchers have documented other positive results from less fragmented governance: negative externalities from uneven development are reduced, quality of life as measured by commuting time and perception of neighborhood quality is increased, and economic and racial segregation decreases in less fragmented regions.[3]

However, research also appears to show that to be effective, regional governance