

Who Wins and Who Loses With Hamilton County's Issue 7?

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On March 17, Hamilton County voters will cast their vote on historic economic changes to our region's tax system. Issue 7 proposes to raise the county sales tax from 7% to 7.8% while reducing the City of Cincinnati's income tax from 2.1% to 1.8%. This proposal is unprecedented in Ohio. None of the large Ohio cities have cut income tax rates in the last two decades. In fact, several cities, including Canton, Cleveland, Columbus, and Dayton, have increased their income tax rate to 2.5%.

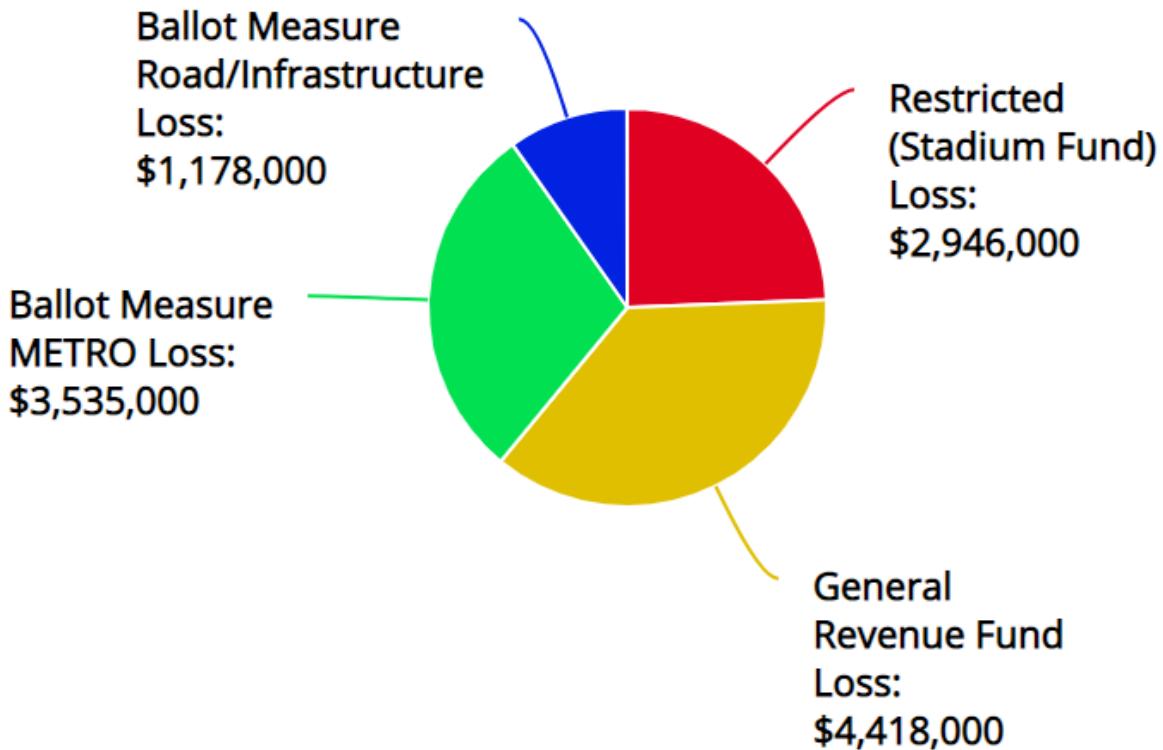
Much of the discussion in the community has emphasized the additional revenue for public transit and infrastructure, but the financial gains to the City of Cincinnati from the tax cut are significant. People respond to incentives; and with a 1.8% income tax rate, more individuals and corporations will relocate to the City. Based on research data from leading economists, we estimate that the City's income tax revenue will increase by \$13 million a year from new earnings generated in the City. These additional earnings will also benefit Hamilton County. The county will collect an additional 4.5 million in sales tax revenue from the additional dollars spent in the region.

However, the same economic laws that cause new dollars to flow into Cincinnati also apply to the sales tax increase. One of the first lessons taught in Economics 101 is that when prices go up, demand goes down. If the sales tax goes into effect, a cart of groceries that cost just over \$99 in Hamilton County will cost nearly \$100 with the additional 0.8 percent sales tax. Not only will existing shoppers purchase less in Hamilton County, many will travel to neighboring counties to shop. Butler County only has a tax rate of 6.5%, and right across the Ohio river in Kenton County, the sales tax rate is only 6%.

As a result of these behavioral changes, government tax collections experience "leakage." If the tax rate doubles, governments do not collect double the amount of tax revenue. In fact, when Hamilton County increased the sales tax by 0.25 percent in 2015, we found that the county only collected about 96% of the potential amount. Based on our analysis of the 10 Ohio counties that increased their sales tax in the last decade, we optimistically estimate that Hamilton County will only collect about 95% of the potential amount.

So when proponents claim that the 0.8 sales tax will raise \$130 million dollars for public transit and infrastructure, the actual collection will be about \$4.6 million dollars less every year. That difference might seem small, but over a ten-year period, the actual money available for public transit and infrastructure will be about \$50 million less than projected. The impact on Hamilton County's general revenue fund will be felt more immediately, however. After the 0.25 sales tax for the Cincinnati Museum Center was redirected to the general revenue fund, the county forecast approximately \$120 million in the fund moving forward. When the sales tax increase goes into effect, the general revenue fund will experience a shortfall of about \$4.4 million every year because of changes in shopping behavior from higher taxes.

For a government that was recently struggling to make ends meet, this may create additional pressure to reduce services. There will also be less money available for the voter-approved stadium tax—likely meaning the property owners will receive even less of a property tax rollback. If the shortfall to the stadium tax fund, the general revenue fund, and Issue 7 projects are combined, Hamilton County will see a funding gap of about \$12 million every year.



We are not suggesting how anyone should vote on Issue 7. The City of Cincinnati will certainly benefit, while Hamilton County tax collections will be less than projected. Public transportation and infrastructure will also see significant investments. We want everyone, including government officials, to know how tax collections will be affected from these historic economic changes. To see the calculations behind our analysis, please click the link below.

[Issue 7 Analysis](#)

Note: This report was a joint effort of Michael Jones, Executive Director of the Kautz-Uible Economics Institute at the University of Cincinnati, and Benedict Leonardi, Economics and Mathematics student at the University of Cincinnati.