Revenue Sharing
January 2005

The Executive Committee suggested that Bluegrass Tomorrow should look more closely at the concept of regional revenue sharing, find out a little more about it and discuss whether it might be or might not be appropriate for this region.

BASIC ISSUE: The basic concept is fiscal disparity. Fiscal disparity means that there are pronounced differences in revenue raising capacity between local governments in the same metropolitan area. Fiscal disparity also means that it is hard for similarly situated local governments to offer the same bundle of services and to maintain their infrastructure. If you have a community with very high value property and low population, it's going to find it a lot easier to provide services than a community with very low value property or property that is declining in value in a large population. The latter community, the community with what we would call low fiscal capacity is simply going to have to work a lot harder on a per capita basis to provide services. Competition among local governments is good. It keeps them on their toes. It provides for better services but how do you get these sharp conflicts in revenue raising capacity on a metropolitan basis.

GENERAL ISSUES:

- Issue is disparity in revenues between communities with differing job and population growth rates.
- Every community in the region must participate or it will not work.
- Revenue sharing favors communities with high residential growth rates.

Basic Purposes:

The basic purposes of sharing tax bases are (from National Association of Industrial and Office Properties):

(1) To reduce competition among communities for non-residential properties to add to their tax bases, since such properties added to any community also add to the pool shared by all communities;

(2) To create a fairer distribution of tax benefits from properties in each community that imposes costs upon surrounding communities too;

(3) To reduce disparities in assessed values per capita among communities within the same region so as to provide more equalized (but not equal) bases for financing local government services, including education; and

(4) To permit regional land-use planning across a territory that contains parts of several different municipalities, each of which would not receive equal shares of future developments if rational plans were adopted for the region as a whole.

Possible PROS:

- Eliminate the disparity between the haves and the have-nots.
- Potential for true regional planning, as the revenue shared could come with strings attached.
- Could regional revenue sharing be used as an incentive to make good local decisions?
    - Use the motivation of self-interest to improve locally to get more of a regional share.
    - Conversely, poorly performing communities could be penalized by a reduction in regional share.

- In theory, revenue sharing reduces competition among localities for non-residential properties, provides fairer sharing of taxable assessed value bases among all those communities with costs increased by the creation of new properties located in just one of them, creates greater equality among per-capita assessed value bases across the entire region, and can make possible land-use planning that is more rational from the viewpoint of the entire region encompassed. The third of these advantages is especially important in regions where some communities are burdened with high fractions of low-income residents but low per-capita assessed values. These communities cannot afford to provide basic social services to their residents anywhere nearly equal in effectiveness to those provided by wealthier communities. This situation both creates a "non-level playing field" among children raised in these different communities, and also may fail to provide many of them with basic educations and other services necessary to make them effective citizens in a high-technology world marked by global competition.

- In addition, this technique enables local officials representing a majority of residents in the region to form a political coalition supporting regional arrangements in the state legislature, even if representatives of localities where a minority of the region's residents oppose such arrangements. This coalition possibility can in theory overcome the ability of a minority of residents within a region to block the implementation of effective regional arrangements by refusing to participate in them voluntarily, even if a majority of the region's residents support those arrangements. Regional tax-base sharing in effect can create an incentive for representatives from localities containing a majority of the region's residents to support this—and possibly other—regional arrangements because their communities will gain higher tax bases per capita than they would achieve without tax-base sharing.

- Revenue Sharing can be viewed rightfully as a tool to both promote regional growth and the health of the core city. Revenue sharing depends on mutual financial incentives for the participating jurisdictions. Commercial and industrial growth beneficial to a region often stems from decisions made by private industry following joint municipal investments in public infrastructure. Wealthier jurisdictions are moved not by charity but mutual financial interests. Revenue Sharing favors communities with high residential concentrations, as the revenues are generated on new commercial and industrial growth. It promises to reduce but not eliminate competition between jurisdictions.

Possible CONS:

- **Pits communities against one another – how do you share wealth regionally that appears to be generated and needed locally?**
  Some communities have higher locally produced revenues – why should they share? They might say "Especially with a community that isn't working as hard or as smart."

- What if communities don't make wise choices with the money?
- Does this reward communities that aren't trying?
- Why try to prop up a community that isn't contributing to the region? A community that can't contribute to the region.
- Regional tax-base sharing tends to redistribute assessed value bases from communities that initially have high such bases per capita to those that initially have low such bases per capita. Of course, this redistribution is also one of the main advantages of the technique, but it does impose costs upon residents of the localities that are "net tax base losers" from the particular arrangements adopted.
- This disadvantage leads directly to another disadvantage. Such tax-base sharing is highly controversial because some communities are "net losers" of tax bases, and therefore consider themselves harmed rather than aided. These "net loser" communities almost always oppose this technique and will not participate in it voluntarily. But if they do not participate, the technique cannot distribute assessed value bases more equally among all communities in the region. Hence the technique can only be effectively implemented by having the state legislature compel all communities in the region to participate, whether they want to or not. This means the process of considering and adopting this technique is almost always controversial and confrontational, pitting representatives of the "net gainer" communities against those of the "net loser" communities. This occurs even though whether any given community is a "net gainer" or a "net loser" may change over time as new development patterns change spatially. Thus, generating support for regional arrangements through this technique creates hot political controversy, and is not a purely voluntary or consensual approach.
- Forming the political coalitions necessary to gain majority backing for any tax-base sharing arrangement that redistributes assessed values (even if only future ones) from wealthier communities to less wealthy ones creates great controversy among communities and legislators. Developers will be pressured by political representatives of both sides to take sides, and to make financial contributions to both sides.

HOW IT COULD WORK – An Analogy

Communities are not separate and completely individual. Instead they are operating as parts of a whole. To use a corporate analogy, each community can be seen as a division within the larger structure. Each community (division) could not succeed without the support and cooperation of the others. Much as corporate divisions need to pull together to make the whole succeed, each regional community needs to do the same.

Each community is really selling a single, regional product. No community is selling a truly local product. The benefits that appear to accrue because of local action really accrue because of the community's association with the larger region. All revenue streams flow from that association.

Thus if one business located in community A, communities B,C, and D should share some of the benefit.

Examples:
Minneapolis/St. Paul: Since 1971, the seven county Twin Cities region in Minnesota has had a form of tax sharing among the 187 jurisdictions in that area and here's how it works. Forty percent of the growth of the commercial and industrial tax base on a metropolitan basis goes into a regional pool and revenues from that pool are redistributed back to the 187 local governments on the basis of an allocation formula that takes into account the local government's ability to raise revenue, its fiscal capacity. This system in Minnesota has survived an appeal to both the Minnesota Supreme Court and the United States Supreme Court and over the years the impact of that has been such that the disparity between the wealthiest local government in the Twin Cities area and the poorest local government has changed from 47:1 to 11:1. This act has been in effect since 1971.

New Jersey: In the Hackensack Meadows District, in New Jersey, this technique has made it possible for a regional body to develop a land-use plan that is rational from the broader perspective of an entire region, even though that region encompasses parts of 14 municipalities and two counties, without causing fiscal disadvantages to any of the those 16 legal entities.

During the creation of the Master Plan, adopted in 1972, it became apparent that a tax sharing plan among communities was essential. The legislators saw the need to create a fiscal device to share the benefits of development as they zoned certain areas for industrial, commercial and residential use and others for parks, highways, open space and other non-taxable public uses. The Master Plan was created on the basis of the best possible use of land based on its location and needs. In approaching zoning on a regional basis, the possibility of financial inequities arose.

Simply stated, if a large section of Community A is zoned for a park and a large section of Community B is zoned for a major office, residential or warehouse project, then Community B should share some of the benefits derived from development.

The tax sharing plan was designed to balance these inequities so that the region could be developed as a unit with town-to-town equality. In short, each community will get a proportionate share of the property taxes from "new" (post 1970) development, regardless of where it occurs.

The legal basis for the Intermunicipal Tax Sharing Account is contained in Chapter 9 of the New Jersey Meadowlands Commission and Redevelopment Act as amended by Chapter 103, Public Law, 1972. A New Jersey Supreme Court decision was handed

down in May 1972, upholding the constitutionality of the tax sharing section of the Act and the formula as it now applies.

HOW IT WORKS

The application of the tax sharing formula is really quite simple. Taxes collected from ratables (property valuation) existing in the Meadowlands portion of a community before 1970 are not subject to the tax sharing procedure. The municipality retains its full taxing collection powers. Properties in the Meadowlands portion of the town are taxed in exactly the same manner as all other properties. The first step in the tax sharing formula calls for payment of county taxes by the municipality. What remains, minus the amount collected on ratables existing in 1970, is subject to the tax sharing plan.

Each community then directly retains 60 percent of the revenues left after payment of county taxes and deduction of pre-1970 ratables. Each community also receives a payment for school pupils living in District residential development equal to the cost of educating these children and, finally, each town receives a payment reflecting the percentage of property the community has in the Meadowlands District.

Communities whose total credits are larger than the amount subject to tax sharing receive payments from the tax sharing fund; communities whose total credits are less than the amount subject to tax sharing pay into the tax sharing fund. THE COMMISSION RECEIVES NO MONEY FROM THE FUND; IT SERVES MERELY AS THE ROUTING AGENT.

Projections made by the Commission indicate that, at full development, each Meadowlands community will have an excess of tax monies beyond the cost of delivering services to the Meadowlands portion of that community.

Pittsburgh: Allegheny Regional Asset District

In the early 1990s, Pittsburgh, the surrounding municipalities, and Allegheny County took a giant step towards regionalism through tax-revenue sharing. Act 77, passed by the Pennsylvania General Assembly in 1993, created the Allegheny Regional Asset District (ARAD). Act 77 had three goals: to provide more funding for regional assets, promote intergovernmental cooperation, and to provide new revenues to local government.

There were several reasons behind this effort. The City of Pittsburgh traditionally had been the primary funder for assets such as the zoo, conservatory, and even Three Rivers Stadium while a majority of their patrons tended to be from outside the city of Pittsburgh. The fiscal disparity between municipalities in the region was growing due in large part to a loss of industrial tax base. In 1948, 73 percent of the business activity in the county took place in Pittsburgh. By the 1980s, the figure had fallen to 38 percent. Finally, local governments were seen as too dependent on “nuisance taxes” such as an amusement tax that made the region less competitive. [39]

ARAD was created in conjunction with a 1-percent countywide local option sales tax. Half of the revenues support the region's various efforts through ARAD. The other half is distributed to the county and its 128 municipalities for tax reform. University of Buffalo researchers found this to be "a stable means for supporting areawide assets."

The tax was expected to generate $144 million in 2000. Half of this money went to libraries, stadiums, parks museums, the zoo, the conservatory, the aviary, and cultural and performing arts groups. One-fourth of this total went to the county for tax relief. The remaining portion was distributed to Pittsburgh and the other municipalities.

The formula used to distribute the funds favors poorer cities and takes into account municipal per capital market value and tax revenue. Distributions of sales tax revenue have allowed financially strapped cities to hold down property tax rates and increase municipal services at the same time. The median per capita allocation for the county's most financially stressed cities was $158 compared to $69 for the 11 least stressed.

Also see: the NFL – "the king of revenue sharing," the Southeastern Conference, others include the following "Experts:"

Myron Orfield
Stuart Meck
David Rusk
Curtis Johnson
Lincoln Land Institute
American Planning Association
Minneapolis/St. Paul

Possible Next Steps by Bluegrass Tomorrow:

- Organize an education seminar with pros, cons, experiences presented;
- Organize a revenue committee to visit places/experts to learn more;
- Visit with local leaders to gage sentiment relative to this topic.