

Improving Economic Health and Competitiveness Through Tax Sharing



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Improving Economic Health and Competitiveness Through Tax Sharing

An Environmental Law Institute Issue Paper¹

The Brookings Institution's report, *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania*, found that Pennsylvania ranks low among the states on demographic and economic trends, and high on sprawl and abandonment of previously developed lands, and that these trends undermine competitiveness and fiscal health.²

Many have observed that Pennsylvania's system of local taxation reinforces these undesirable effects.³ However, the Pennsylvania legislature has created the opportunity to use a new tool – tax sharing – that in the right circumstances can create a fiscally sound competitive climate. Experiences with this tool in Pennsylvania and elsewhere show that it can be a valuable asset to municipalities.

Local Tax Competition

Currently, cities, boroughs, and townships all compete for tax base. The winners win, the losers lose. No local government goes out of business, but instead some areas experience fiscal distress, vacant and abandoned properties, loss of jobs, underutilized school buildings, and high tax rates; while others attempt to deal with rising populations, not enough schools and classrooms, inadequate roads, decisions about providing additional police and fire protection, and choices about building new facilities. In recent years, nearly four acres of land has been converted to developed uses for every household added to the Commonwealth, the highest rate in the nation.⁴ The Pennsylvania Economy League finds that “the migration of communities toward fiscal decline is statewide.”⁵

The following scenarios play out repeatedly in Pennsylvania.

An older borough's major manufacturer closes, taking a quarter of the borough's assessed property value with it, and resulting in lost jobs and declining home values for

workers living in the borough and adjacent township. Property tax revenues drop precipitously, as well as local earned income taxes.

The Commonwealth upgrades a four-lane limited access road, creating a new interchange in a rural township. Suddenly the land is valuable for fast food restaurants, a freight loading facility, motels, and low-rise office parks. The increased value created by the public in general goes directly to the fortunate township's tax base.

A city's business district struggles as retail stores are replaced with community service agencies, thrift shops, and check cashing operations. Property tax rates rise, the school population has more special needs students, and the existing housing stock is regarded by prospective purchasers as too small and having inadequate yards. The adjacent townships zone for larger lots and new housing, and build schools as fast as they can get the bond issues approved; big box stores line the traffic-choked roads. Reliance on volunteer fire departments and state police means that suburban costs are lower, but communities have difficulty keeping up with the demand for services.⁶

Pennsylvania's winner-take-all approach to taxation means that in declining jurisdictions tax rates climb – discouraging the location of new businesses and depressing the value of existing housing, leading to abandonments and foreclosures. Meanwhile, the gaining jurisdictions have every incentive to favor development with low rise commercial buildings fronting on state-funded and patrolled roads, and approving larger residential lots with more expensive housing in order to maintain a higher tax base with lower demand for services (even as taxes rise to support the increased population).

As a result of the tax system, the location of individual businesses has become a major preoccupation for economic development, deal making, rezoning, and economic incentives – all of which prevents a focus on regional wellbeing and quality of life, and regional competitiveness vis-à-vis other states. This taxing system was set up long ago when Pennsylvania was a national powerhouse in population, industrial manufacturing, transportation, communications, natural resources, chemicals, metallurgy. Today the picture is different – population growth is slow; manufacturing is giving way to service jobs; and growing financial services and high tech sectors seek quality of life to attract and maintain a very mobile work force. Competition with other states and countries is fierce.

Solutions

So how should a decision maker deal with a diverse group of over 2500 municipalities when some are expected to do well fiscally and others not to do well? You can choose to do nothing at all. You can focus on the distressed areas, either preventively, or more often after they fail, using Pennsylvania's Act 47 for distressed municipalities. You can prescribe statewide solutions, such as redistributions of general revenues, gaming revenues, or economic development grants. You can dole out tax breaks, such as Keystone Opportunity Zones. Or you can try to help out older homeowners and low-income residents, wherever they may live, in order to reduce the impact on at least some citizens.

But another approach is to pool risks and opportunities – to treat tax revenues less like a windfall and more like an intentional investment. This approach has a chance in Pennsylvania. While adverse fiscal and land use effects are particularly pronounced in Pennsylvania, other jurisdictions have had to confront many of these same issues. Tax sharing is one of the techniques they have used.

Tax Sharing

Tax sharing recognizes that sometimes taxing schemes have undesirable effects on land

development choices and municipal fiscal health. In brief, tax sharing pools some portion of the revenues that would normally go to a taxing jurisdiction (such as a municipality) with similar revenues from other jurisdictions, and then allocates the pooled revenues by formula to support common services, agreed objectives, or ordinary government purposes. The taxes placed in the pool typically are derived from *new* sources of revenue or *increased* revenues resulting from economic development and increases in values, thus assuring that no participating municipality has to forego any revenue that it is already receiving. Shared revenues may be derived from real property taxes, sales taxes, or other taxes, depending on state laws and the revenue sources they authorize local governments to tax.⁷

The rationale for sharing of some portion of tax revenues recognizes that there is a disconnect between taxable value and a property's need for municipal services. For example, a commercial center may produce traffic jams in an adjacent municipality, while its taxable value is captured solely by the township within which it lies. Likewise, an economic development strategy may seek to produce jobs in a particular region of a state, but site selection may be strongly influenced by individual municipalities' competition for tax base, the relevant property tax rates, and the availability of alternative sites with or without differences in taxes.

Tax sharing seeks to overcome these mismatches of market signals and service requirements in order to meet specific objectives, usually determined by the participating local governments. Tax sharing can be particularly useful in –

- supporting a regional economic development strategy,
- providing for redevelopment of a large tract of industrial or commercial land that crosses municipal boundaries,
- funding shared municipal services without consolidation of governments,
- fairly sharing the windfall that results from land value increases resulting

from state or federal transportation expenditures,

- preventing adjacent jurisdictions from cannibalizing one another's commercial development to the detriment of one or more communities and the lands they control, and
- realizing the benefits of multi-municipal planning, and shared services agreements.

In 2000, the Pennsylvania legislature specifically authorized the use of this technique by cooperating municipalities and counties through amendments to the Municipalities Planning Code,⁸ although tax sharing has been available under other Pennsylvania laws for years.

Practical Experience

Tax sharing can have many benefits for the regions and localities that engage in it. Because revenue sharing diminishes at least some of the fiscal disparities between neighboring localities, it can remove some of the competitive disadvantage between jurisdictions, and potentially lead to greater cooperation between jurisdictions' development. More cooperative development efforts could lead to better and more comprehensive regional level planning that takes into account transportation and housing needs, among others. It could also lead to increased competitiveness for the region as against other areas of the state or nation.

Tax revenue sharing can help to stabilize urban areas by allowing those areas to maintain a quality of life that is attractive to residents and a fiscal environment that is attractive to businesses, thus preventing a downward fiscal spiral. Tax sharing can also avoid environmental damage, not only because of better development planning, but also because specific localities might be more willing to preserve land and watershed resources they would otherwise seek to develop. A local government would more likely consider forgoing development on environmentally sensitive areas within its borders, if it knew revenues would be available from development in adjacent areas.

A number of areas have tried tax sharing arrangements, and their experiences illustrate how such programs can be implemented.

Homestead, Pennsylvania

In 1986 U.S. Steel Corporation closed the last of its operations at the Homestead Works, for a century one of the largest steel-making operations in the world. Located on the Monongahela River, just south of Pittsburgh, the Homestead site comprised over 400 acres of riverfront property in the boroughs of Homestead, West Homestead, and Munhall. The loss of the mill operations cost the area tens of thousands of jobs, devalued the majority of the real estate tax base for the borough of Homestead, and left a contaminated brownfield site. In 1988, the Park Corporation entered into a deal to purchase the industrial site and demolish the vacant mill structures. Allegheny County and the Commonwealth of Pennsylvania provided grant funding for an access road and bridge to serve the property, and a portion of the land was redeveloped as an amusement park (the Sandcastle) and a machine shop on the site of the former Mesta Machine Company in West Homestead. But the bulk of the land remained vacant. Then in a deal that closed in 1998, Park Corporation sold a 265-acre portion of the land to Continental Real Estate Corporation. The deal included an innovative tax sharing strategy involving the three boroughs, the Steel Valley School District, and the Allegheny County Redevelopment Authority.

Continental proposed to develop the land using a unified approach to design of the supporting infrastructure and to marketing of the site, while planning for a mix of uses, including retail, residential, office, and light industrial. With leadership from the redevelopment authority and in response to proposals by the developer, the boroughs agreed to coordinate their zoning ordinances for the Waterfront site, both in order to improve the marketing prospects for the site and to facilitate development planning. If the three communities had acted independently in zoning for potential uses that had the most value in property tax revenues or the least demand for municipal services, then the developers would

have been left to try to connect the fragments, to construct an *ad hoc* system of roads and utilities, to market an uncoordinated set of products, or to struggle with the boroughs over which ones got the commercial and industrial development and which the housing. Instead, the boroughs turned to inter-municipal cooperation under existing Pennsylvania law. They realized that if new tax revenues from the redevelopment would benefit *all* of the communities, it would not matter in which borough the first development activities occurred. Nor would municipal boundaries and fiscal goals dictate which type of development would occur on which parcel -- thus improving the marketability of the entire project.

This cooperation was authorized by Pennsylvania's Intergovernmental Cooperation Law (Act 177 of 1996),⁹ which provides that "two or more local governments in this Commonwealth may jointly cooperate...in the exercise or in the performance of their respective governmental functions, powers or responsibilities" or may by ordinance "delegate or transfer any function, power or responsibility" to other local governments.¹⁰

The three boroughs entered into four agreements concerning the site. The Revenue Sharing Agreement shares the increased tax revenues from the *entire development* among the respective boroughs in accordance with a formula, after payment of obligations under the other three agreements: the Waterfront Tax Increment Financing District Agreement (also signed by the school district and the county redevelopment authority), a Dedication and Maintenance Agreement for infrastructure built by the developers but dedicated to the boroughs, and a Main Street Development Agreement to support redevelopment on the old main street commercial district (Eighth Avenue) adjacent to but not directly within the Waterfront district.

Here's how the tax sharing scheme works. The agreements defined a 265-acre tax increment financing (TIF) district¹¹ with a duration of 20 years (until 2018). The land within the district is assessed and taxed by the taxing entities (the boroughs, school district, and county) normally, each collecting its own taxes and applying its

own millage rates. The taxing entities deposit the tax receipts on the parcels within the district into a segregated account. Each taxing entity is first entitled to the tax receipts equal to the assessment on the base value of the parcels (value before redevelopment) times the applicable millage rate.¹² This provision guarantees that the boroughs and other taxing authorities get no less than they otherwise would have received had the land remained undeveloped. The Allegheny County Urban Redevelopment Authority maintains the Tax Increment Financing (TIF) Fund, which gets the tax receipts in excess of the base amount. The TIF Fund is used to pay defined "project costs," which include infrastructure and development costs, including the interest on bonds issued by the Authority to support infrastructure and capital improvements.

To this point, the plan is similar to TIF arrangements anywhere in Pennsylvania. However, following payment of TIF costs and indebtedness each year, remaining tax revenues in the TIF Fund are distributed to the taxing entities as follows: The school district receives an amount proportional to its percentage contribution to the TIF Fund.¹³ The remaining amount (belonging to the county and boroughs) is first charged annually with \$120,000 to support a Maintenance Fund to maintain, repair, and operate public roads within or providing access to the site, and second \$100,000 annually to support a Main Street Development Fund in order to assure that the new TIF development does not undermine but supports development in existing areas outside the TIF and especially along the Eighth Avenue business district. These payouts are attributed on a percentage basis to the county and boroughs. The Maintenance Agreement lasts the same period as the TIF, 20 years, while the Main Street Development Agreement is a 15-year agreement. Finally, the county gets its share of remaining tax revenues, and the boroughs collectively divide their share.

But rather than divide the borough tax funds based on the tax contribution from the lands within each borough (assessed value of individual parcels times the millage rate), the Revenue Sharing Agreement, a 30-year

agreement, provides that the boroughs will divide the net revenues among the boroughs based on the amount of land from the former mill site that lies within the boundaries of each jurisdiction. Thus, the percentages remain stable for the duration of the agreement, and the benefits of the *entire development* are divided among the boroughs regardless of the location of particular apartments, stores, restaurants or parking lots. Homestead Borough receives 49.8 percent, Munhall Borough 30.01 percent, and West Homestead 20.19 percent of the boroughs' net revenues. This distribution will persist ten years past the end of the TIF.

Each of these agreements has tax sharing components. The Maintenance Agreement addresses expenses that might otherwise be difficult to parcel out among the boroughs, and the Main Street Agreement benefits economic development along a corridor that runs through all three boroughs although it does not designate funding on a borough-by-borough basis but rather makes it available to strengthen the commercial corridor. And the Revenue Sharing Agreement recognizes that the real estate tax revenue increases are really the result of the overall project rather than the happenstance of one store or one apartment building falling within the boundaries of one borough or another. At the same time, each borough is guaranteed its base taxes, and is free to raise or lower its borough-wide millage rate, thus preserving its initial position and maintaining flexibility.¹⁴

The agreements produced substantial reinvestment and large-scale development of various parts of the site, including big-box stores, restaurants, offices, housing, and light industry. The \$300 million Waterfront development is continuing to expand and has attracted millions of visitors each year to its commercial enterprises.¹⁵ The bonds for the Waterfront TIF infrastructure totaled \$29 million.¹⁶ Each year approximately 40 percent of TIF Fund revenues are used for debt service, while the remaining 60 percent are returned to the taxing entities. While the fiscal health of the three municipalities has not entirely been restored (Homestead Borough remains a distressed community under Pennsylvania's Act

47), the revenue sharing agreement made it possible to undertake and market a redevelopment project that would have been infeasible otherwise.¹⁷

Allegheny County Regional Asset District

An entirely different form of tax sharing was authorized by the Pennsylvania legislature in 1993. The Allegheny County Regional Asset District law provides for a local one percent sales tax (additional to the state sales tax) on goods sold in Allegheny County.¹⁸ Half of the tax is designated to support regional assets including museums, parks, the zoo, stadiums, and cultural and performing arts groups, while the other half is shared among the county and municipal governments using a formula that takes into account both population and property value. The RAD provides municipalities annually with about \$36 million in shared revenues. Local governments use the shared revenues for any general revenue purpose. The municipal share is determined by calculating weighted tax revenues using a formula that is designed to benefit those communities whose per capita property values are lower than per capita property values in the county as a whole.

The regional assets law recognizes that metropolitan regions benefit as a whole from certain public assets, like parks, museums, and civic facilities, which in fairness should be supported by a broader funding base, and further recognizes that the revenues generated from sales taxes may come from residents of whole regions or even visitors rather than just residents of particular municipalities. The RAD approach could be authorized by the legislature for other parts of the Commonwealth, authorizing others to agree to adopt it.

Charlottesville-Albemarle County, Virginia

Another successful tax sharing agreement involves the City of Charlottesville, home to the University of Virginia, and the surrounding Albemarle County, site of most local economic development in the last several decades.

Virginia's cities are not subject to county governments nor do county taxes apply within cities; school districts do not have their own taxing authority, but depend upon the city or county they serve.

For the last several decades Virginia state law has vacillated between allowing and prohibiting cities from annexing adjacent county land. One annexation moratorium was lifted in 1979 and reinstated in 1987.¹⁹ In 1982, Charlottesville and Albemarle County adopted an Annexation and Revenue Sharing Agreement, ratified by their voters.²⁰ The City had approached the County with a proposal to annex 10 square miles of urbanized county land in exchange for a moratorium on further annexations.²¹ The area in question contained a mall "and other important commercial and industrial revenue generators," but the cost of providing services for the additional residents would have been relatively small, making annexation attractive to the City.²² The County responded with a counter offer and negotiations began. The Commonwealth of Virginia provided support in the form of financial aid and formal mediation.

The Agreement provides that the City will not annex County land, and requires each jurisdiction to contribute, each year, to a common revenue sharing fund thirty-seven cents for each one hundred dollars of value of taxable real property within their boundaries. Charlottesville and Albemarle then divide and redistribute the pooled funds using a fiscal equalization formula that accounts for differences in population and relative tax effort. The use of the shared revenue is not restricted to any particular use.

The revenue distribution formula is fairly simple. First, a population index and relative tax effort index are calculated for each jurisdiction. The population indices are computed by dividing each jurisdiction's population by the sum of the population for both jurisdictions. The relative tax effort is determined using the 'true real property tax rates' for the two jurisdictions as determined by the Virginia Department of Taxation, and is similarly determined by dividing each jurisdiction's true real property tax

rate by the sum of the rates for both jurisdictions. A composite index is then calculated for each jurisdiction by averaging its relative population index with its relative tax effort index. Finally, the total pooled contribution is multiplied by each jurisdiction's composite index to determine the share payable to each. For example, if Albemarle County's population increases relative to Charlottesville's population, its population index will increase and, assuming the jurisdictions' relative tax efforts remain stable, its composite index and distribution amount will increase.

Once the distribution amounts are determined, the net transfer of funds is calculated by subtracting each jurisdiction's contribution from its distribution. A positive total denotes money to be received and a negative total denotes money to be transferred. However, under the Agreement, the amount transferred by a jurisdiction cannot exceed one tenth of one percent of the total locally assessed value of taxable real estate for that jurisdiction (taxable value x 0.0010).

The Agreement includes a tax provision that prohibits either community from enacting commuter or payroll taxes, unless both have the right to do so. The Agreement has no expiration date, but remains in effect unless and until, "the county and city are consolidated into a single political subdivision; or the concept for independent cities presently existing in Virginia is altered by the State law in such a manner that real property in the City becomes part of the County's tax base; or the County and City mutually agree to cancel or change the agreement."²³

The Agreement has maintained the fiscal health of the City and minimized competition between the City and County for tax base. It has consistently resulted in a net transfer from the County to the City. The first year of the agreement it generated about \$1 million for the City. The sharing plan reached and has remained at the maximum of 10 cents on the County's tax base for the last several years. In recent years, Albemarle County has paid the City about eight million dollars a year.²⁴ If the original

annexation had gone through, most of the commercial area along a major state highway in Albemarle would have been located in the city. One expert in the field recently noted that twenty years later, Charlottesville's income has declined by 31% relative to county income."²⁵ However, the tax sharing agreement maintained the fiscal health of the City while avoiding battles over the location of economic development.

Building on the Charlottesville-Albemarle experience, in 1983, Virginia's General Assembly passed legislation to specifically allow revenue sharing agreements, authorizing local governments to share the "benefits of the economic growth of their jurisdictions" in exchange for a moratorium on or end to annexation proceedings.²⁶ The legislature in 1996 later provided broader authority for revenue, tax base, or economic growth sharing agreements between cities and counties not related to annexation.²⁷ Both types of agreements are subject to voter approval because they are type of long-term debt under the Virginia Constitution.²⁸ Several Virginia cities and counties have entered into tax sharing agreements under both laws.

Montgomery County, Ohio's ED/GE Program

The older industrial city of Dayton, Ohio and its suburbs also have a tax sharing program. Ohio's governance system includes numerous townships, cities, and villages across 88 counties.²⁹ Montgomery County includes the city of Dayton, and a dozen suburban cities, six suburban villages, and twelve independent townships. Historically, Montgomery County was one of the Midwest's most prosperous industrial centers. Until the early 1970's the county had been home to large manufacturing operations such as Dayton Tire and Rubber, the Dayton Press and the National Cash Register Company.³⁰ By the late 1980's, however, many of these operations had closed or downsized, and Dayton and Montgomery County faced increasingly difficult economic situations. The County's population peaked in 1970. As population declined, the wealth moved away

from Dayton into the suburbs or out of the County.

The County also experienced problems facing many other local governments: rising public service costs, unexpectedly low tax revenues, and cutbacks in federal and state aid. Area business leaders criticized local governments for wasting time and energy on duplicative development efforts and political infighting. The area's image suffered, and the local jurisdictions had difficulty attracting new or expanding companies. Local officials became concerned about the City and County's futures.

In the late 1980's, the Ohio legislature authorized counties to institute an additional one-half percent sales tax. Montgomery County estimated that such a tax would yield about \$210 million dollars in revenues over a ten-year period. In 1989 the County implemented the tax and directed most of the money, \$140 million, toward general debt reduction and law enforcement with set-asides of \$50 million for economic development projects, \$10 million for low-income housing development, and \$10 million for arts and cultural programs.³¹ The County Commission hoped that these investments would strengthen the County's long-term economic base and lessen the need for future tax increases.

Based on recommendations by the Dayton Area Progress Council, the Montgomery County commissioners further concluded that the area would benefit from a tax-sharing arrangement to reduce fiscal disparities and to make the economic development program more effective. The County set up this program under state legislation that authorized each county to establish an office of economic development, "to develop and promote plans and programs designed to assure that county resources are efficiently used, economic growth is properly balanced and that county economic development is coordinated with that of the state and other local governments."³² County commissioners decided to use the economic development portion of the local sales tax as an incentive for local jurisdictions to participate in a tax-sharing program. In 1991, after negotiations with a task

force including representatives of municipalities, the commissioners passed the Economic Development/ Government Equity ("ED/GE") Program. The goals of the program are to "spur economic growth, as well as create regional cooperation between [the participating] jurisdictions."³³

ED/GE consists of two separate, but interrelated, funds. The Economic Development ("ED") Fund receives revenue from the county's half percent sales tax and provides economic development grants within the county. The Government Equity ("GE") Fund consists of inter-jurisdictional revenue sharing of a portion of local property tax and income tax revenues. Importantly, only jurisdictions participating in the GE tax revenue sharing program may apply for grants from the ED Fund.

The ED Fund receives \$5 million dollars annually from the one-half percent sales tax.³⁴ The County commissioners award grants semi-annually through a competitive process, based on the recommendations of an advisory committee comprised of fifteen representatives, mostly from participating jurisdictions, as well as three from the business community.³⁵ A jurisdiction applying for a grant may use the money for public infrastructure improvements or to assist private businesses and/or non-profit corporations within certain limits. The ED Fund dedicates the majority of its funds to priority projects that:

- Retain or expand local businesses
- Have a major impact
- Involve a collaborative effort by two or more communities
- Support economic sectors that have high growth potential
- Provide infill growth in areas already served by basic public infrastructure.

Selection criteria prefer projects that:

- Leverage additional funds from other public and private sources
- Discourage intra-county business relocations

- Limit speculative investment
- Avoid substituting Economic Development Fund support for other funding.³⁶

In addition to the main grant program, five percent of the annual fund (\$250,000) is set aside for the Opportunity Reserve fund, targeted at unanticipated but important economic development opportunities that arise outside of the regular ED funding cycles.³⁷

In order to be eligible for the sales-tax-generated ED Fund, jurisdictions must also be participants in the GE tax revenue sharing fund. Participating localities either contribute to or receive money from the GE Fund based on their relative growth in real property and income tax revenue over the previous three years. Tax revenue sharing is intended to promote regional economic growth by strengthening local governments' fiscal capacity, to share the costs and benefits of growth, to foster productive competition for development, and to promote reasonable and environmentally sound development practices. Recipients of GE funds may use the money for any economic development purposes in their jurisdictions.³⁸ The ED/GE Program Participation Agreement lays out the contribution and distribution formula for the revenue sharing GE Fund.

Calculating the GE contribution is a two-step process. First, the County determines a single "countywide growth contribution rate." The County first determines the total *growth* in both property and income tax revenues for all participating jurisdictions (not including school districts and county taxes) over the previous three years and divides that amount by three.³⁹ Then this result is divided by the increase in assessed real property valuations over the same period to generate the countywide growth contribution rate. (So, for example, if local real property tax and income tax revenues rose by \$6 million over a three year period while assessed values rose by \$400 million, the countywide growth contribution rate would be .005). The program calculations include both local property and income taxes because townships in Ohio, unlike cities, cannot levy local income taxes.

Therefore, a program that shifted only property tax revenues would burden townships by drawing from the entire tax base of each participating township, but only from a portion of each participating city's tax base.⁴⁰

Next, the contribution for each local government is determined by multiplying the countywide growth contribution rate by the sum of: 100 percent of the increase in the local government's assessed *value* of commercial and industrial property during the prior three years, plus 25 percent of the increase in the assessed *value* of residential property during the prior three years, plus 50 percent of the increase in property tax and income tax *revenues* during the prior three years.

The program caps a contribution by any municipality at thirteen percent of the growth of its own property and income tax revenues. In addition, growth in revenues from increases in millage and income tax rates over each three year period is removed from all calculations to avoid reaping a revenue-sharing windfall based on local ordinances rather than on actual economic growth. The total of all jurisdictions' contributions is the GE Fund for a given year.

The distribution to each jurisdiction is based solely on population. The total GE Fund is multiplied by the percentage of the population for which each jurisdiction accounts. Each jurisdiction's distribution amount is then subtracted from its contribution amount to determine whether it will make a payment to, or receive a payment from, the fund.⁴¹

In addition to the safeguards mentioned above, ED/GE includes several other protections that were negotiated during the development of the program. The program has a "settle-up" provision so that no jurisdiction ends up contributing more through tax-sharing than it receives in development grant money. Every three years, any jurisdiction that has been a net contributor to the GE Fund since the last settle-up receives a grant from the ED fund equal to its net contributions less any ED funds received during the period. This provision insures that no jurisdiction loses money over the life of the

program.

The ED/GE program has a specified time frame. Following litigation that determined the legality of the program, the first ED/GE period began in 1992 as a nine-year program. Twenty-seven of the County's twenty-eight cities, villages and townships voluntarily signed on.⁴² According to the original guidelines, a community could sign on only at the beginning and, once signed on, had to participate for the program's duration. The program was again renewed in 2001 for another ten-year term with all 28 of the County's existing jurisdictions choosing to participate.

The County established the ED/GE program in order to strengthen the local economy and create jobs in the region. In the initial nine-year period the program funded more than 200 projects with a total investment of nearly \$45 million from the ED fund. This money leveraged more than \$1.4 billion in State and Federal grants as well as private monies.⁴³ The County estimated that there has been retention/creation of over 30,000 jobs.⁴⁴ Significant projects have included: updating GM's clear coat paint facility which dissuaded the company from moving out of the area entirely, constructing new Relison facility in downtown Dayton, and converting a defunct Kettering Mall into a phone order center. "The merit of ED/GE is it brings together local governments into essentially an economic development discussion about what kind of economic development is good for the area," claims one expert in the field.⁴⁵

Feedback from participating municipalities supports the proposition that the program has done more than simply create some jobs.⁴⁶ Almost all municipalities agree that the program helps provide a coordinated effort to address economic development by helping prioritize projects, heightening awareness, and broadening the focus of participating jurisdictions. The revenue-sharing aspect of the program has had minimal effect in dealing with fiscal disparities because net contributions/distributions are small for any single jurisdiction. But it likely has two important effects. First, localities quickly become aware of changes in the economic outlook of other governments in their area. And

second, such downturns are more difficult to ignore because the impacts on the region are more explicit through the sharing scheme. Evidence that the communities' regional awareness has been heightened came in the late 1990s when nine localities voluntarily entered into an economic development revenue sharing agreement supporting the Riverscape revitalization effort in Dayton. Local suburbs had recognized that "downtown is important to their futures, too."⁴⁷

Minneapolis-St. Paul Metropolitan Area

In 1971, Minnesota passed state legislation establishing a commercial and industrial tax-base sharing program in the Twin Cities area. The Fiscal Disparities Act⁴⁸ affects the largest amount of revenue of any tax-base sharing program in the United States. The counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington, including 187 municipalities and 49 school districts were covered in the initial program.⁴⁹ Initially delayed by litigation, in which the Minnesota courts ultimately upheld the law, the Act took effect in 1975 and remains in force today, more than thirty years later.⁵⁰

The Fiscal Disparities Act's two purposes are "improving equity in the distribution of fiscal resources, and promoting regional planning objectives."⁵¹ By redistributing a portion of the *increases* in local tax revenues resulting from *new* commercial and industrial development in the region, it seeks to encourage municipalities "to work for the growth of the area as a whole" and to increase "protection of the environment" by avoiding undesirable development of flood plains and open spaces.⁵²

The contributions are property tax revenues derived from 40 percent of the *growth* in the value of commercial and industrial (C/I) property over the value of such property in 1971, which is the fixed base year. C/I property includes all businesses, offices, stores, warehouses and factories. It also includes property owned by public utilities and vacant land that has been zoned commercial or

industrial. To determine each municipality's contribution to the Areawide Tax Base, the municipality's 1971 C/I net tax capacity is subtracted from its current C/I net tax capacity. This total is then multiplied by 40 percent.⁵³ The pool (Areawide Tax Base) is taxed at a common millage rate, and then the proceeds are then redistributed using a formula based on each jurisdiction's population and fiscal capacity.

Distribution of the pooled monies is based on a Distribution Index. The Distribution Index is determined by multiplying each municipality's population by a ratio representing its relative fiscal capacity. (This ratio is determined by dividing the average fiscal capacity of all municipalities for the previous year – the equalized market value of all property *per capita* – by the municipality's own fiscal capacity for that year.) Thus, if a municipality's fiscal capacity is the same as the regional average, its share of proceeds will be equal to the percentage of regional population its population comprises. If it has a below-average fiscal capacity, it will receive more; and if it has an above-average fiscal capacity it will receive less. The Distribution Index for each municipality is turned into a percentage and is then multiplied by the Areawide Tax Base to determine the municipality's distribution amount.

Every jurisdiction now applies two rates – the Areawide Tax Rate that applies to the fiscal disparities portion of C/I property and the local tax rate that applies to all other property. To determine the rates to be applied to a C/I parcel, the municipality will determine what percentage of its total C/I assessment is equal to 40 percent of C/I growth. It will then apply the Areawide Tax Rate to that percentage and the local tax rate to the remainder of the parcel.⁵⁴

Overall, the fiscal disparities program functions much as it did in 1975, though the legislature carved out special arrangements for unique situations. In 1986, the legislature modified the fiscal disparities program for development of the Mall of America. From 1988 through 1999, the city of Bloomington received an annual amount from the regional fund in addition to its normal share to cover interest on the bonds that the city

sold to finance highway improvements.⁵⁵ Bloomington will repay the sum starting in 2006 by artificially increasing Bloomington's contribution value. Also, beginning in 1995, the regional governance entity, the Metropolitan Council, received a special distribution from the regional fund, which is available to municipalities participating in a housing incentives program for the cleanup of polluted lands in the metropolitan area.⁵⁶

By 1998 about 28 percent of the total value of all C/I property in the region was part of the shared tax base.⁵⁷ Net contributors have been primarily wealthy suburbs that have seen the development of malls, office complexes and industrial parks along the suburban interstate or near the airport. In 2004 the Mall of America alone accounted for \$18 million of the revenue pool, of which \$4.4 million was distributed to other jurisdictions. Of the Twin Cities, St. Paul has consistently been a recipient and currently receives about \$8.5 million in taxes from C/I properties outside its borders. This has allowed the City to avoid raising taxes on its residents and remain more competitive with the suburbs for population and business locations.⁵⁸ Minneapolis has been both a recipient and contributor, affected largely by the "office boom" of the early nineties. Between 140 and 150 towns and older communities consistently receive more than they contribute. By 2000 the regional revenue pool had reached over \$408 million in annual shared revenues, although this total has declined somewhat in recent years due to a regional decline in growth.

Fiscal disparities have been reduced. One report suggests that the gap in the C/I tax base per capita between the poor and affluent municipalities shrank to 5:1 from a 15:1 ratio. Another study conducted in the early 1990's reported that the differential between the communities with the highest and lowest C/I tax bases per capita had been reduced to 4 to 1, but would have been 22 to one without the agreement.⁵⁹

In 1996, Minnesota enacted a similar tax-base sharing program for the counties and municipalities of the Iron Range area – the

economically depressed region of northeastern Minnesota.⁶⁰

Other Tax Sharing Experiences

In the New Jersey Hackensack Meadowlands region, fourteen local governments share in the increased revenues from a development district partly within each of their boundaries.⁶¹ In 1972, the state created a commission to produce a plan for economic development and wetlands conservation in this northern New Jersey region. In order to ensure that economic development did not produce windfalls for local jurisdictions that received particular economically valuable taxable facilities while disadvantaging those with conservation parcels, the legislation provided for a tax revenue sharing plan. The plan applies only to incremental increases in taxable property since 1970. Each jurisdiction contributes 40 percent of the effective property tax revenues (less county taxes) on this increased value to a common pool. The pool funds are then distributed in two ways – first to communities with school children living within the development district, in order to compensate them in part for the incremental increase in schoolchildren since the 1970 base year; and second, after this distribution, the remaining funds are divided proportionally among the local governments based on their percentage share of the total land area of the district.⁶² The tax-sharing municipalities have a median property tax rate lower than that of surrounding municipalities and the state as a whole, have gained jobs, and have more conserved open space than surrounding municipalities.⁶³

Maine has authorized municipalities to enter into agreements to "share all or a specific part of the commercial, industrial, or residential valuation located within their respective communities" in order to "increase the likelihood of orderly development" and to "provide an incentive for coordinated multi-community economic development."⁶⁴

Kentucky also provides for sharing of "revenues" among cities, counties, and other local governments through "interlocal agreements."⁶⁵ Such agreements are intended to

facilitate cooperation “with other localities on a basis of mutual advantage and thereby to provide services and facilities in a manner and pursuant to forms of governmental organization that will accord best with geographic, economic, population, and other factors influencing the needs and development of local communities.”⁶⁶

New Hampshire authorizes the sharing “all or a specific part of the commercial, industrial, or residential assessed valuation” within airport boundaries among two or more municipalities by agreement, specifying a duration of at least ten years for the agreement and the need for a formula for distributing the property taxes. The taxes must be assessed by the municipality within which the property is located and at the rate applicable to property in that municipality.⁶⁷

So what would it take?

Pennsylvania’s State Planning Board recently advised the governor and the legislature that addressing tax sharing and ways to make these techniques more straightforward and accessible in Pennsylvania should be considered among its recommendations to remove barriers to cooperation and provide incentives for improved governance.⁶⁸ Metro-York, a consortium of municipal and business leaders in York County, has proposed the creation of a local tax study commission to examine approaches to fiscal equity and alternatives to reliance on local property taxes, including review of the Twin Cities Fiscal Disparities Act and Allegheny County RAD approaches.⁶⁹

Some of the approaches reviewed above are currently available throughout the Commonwealth without further action by the legislature. Others will require legislative approval, either for pilot experiences or to allow such approaches where not currently allowed under state law. The Municipalities Planning Code Amendments of 2000 specifically authorizes tax revenue sharing among Pennsylvania municipalities and among municipalities and counties engaged in cooperative planning and multimunicipal agreements. Municipalities that have engaged in cooperative comprehensive planning and entered

into joint implementation agreements may provide for sharing of tax revenues and fees within the region covered by the plan.⁷⁰ The Intergovernmental Cooperation Law has already been used in Pennsylvania for tax sharing.⁷¹ And it is available to counties as well as municipalities. The MPC likewise allows counties to engage in intergovernmental cooperation agreements with municipalities in connection with cooperative comprehensive plans.⁷² Legislation modeled on the Regional Asset District could also be enacted by the legislature to enable additional tax sharing.

Pennsylvania’s Municipality Authorities Act provides for the creation of authorities that receive revenues and support particular facilities.⁷³ Adjacent municipalities, or counties and municipalities, could agree to create joint authorities to provide for shared facilities and services related to those facilities and provide for their support through appropriate fees that would perform much like tax sharing programs. Such fees or rates must be “reasonable and uniform” in the area served by the facilities, and for authorities providing business improvements or administrative services the charge is to be based on actual benefits.⁷⁴

Is it legal? Yes.

Many forms of tax sharing are legal currently, although some forms may require changes in law or alterations in order to meet state constitutional requirements. Pa. Const. Art. VIII, §1 provides that “All taxes shall be uniform, upon the same class of subjects, within the territorial limits of the authority levying the tax, and shall be levied and collected under general laws.” Real property is one class, so separate tax rates for portions of commercial real estate (as in the Minnesota Fiscal Disparities Act) may not be authorized absent changes in the state Constitution.⁷⁵ But focused taxes addressing specific subjects, where there is a corresponding benefit may be upheld.⁷⁶ And potentially even a Minnesota-style approach might be usable in Pennsylvania. Like Pennsylvania’s, Minnesota’s Constitution, Art. 9 §1, provides: “Taxes shall be uniform upon the same class of subjects, and shall be levied and

collected for public purposes.” The Minnesota Fiscal Disparities Act was upheld against a challenge that it was neither uniform nor reflected payment for “special benefits” received by the contributing jurisdictions. The Minnesota Supreme Court held “in terms of traditional balancing of benefits and burdens, the benefits conferred on residents of a particular municipality because of the location of commercial-industrial development within its boundaries may far exceed the burdens imposed on that municipality by virtue of the additional cost of serving and policing the particular development which has located there. It is the theory of the Fiscal Disparities Act that the residents of highly developed commercial-industrial areas do enjoy direct benefits from the existence of adjacent municipalities which provide open spaces, lakes, parks, golf courses, zoos, fair-grounds, low-density housing areas, churches, schools, and hospitals.”⁷⁷

Many other forms of tax sharing, such as those that impose uniform rates within the participating jurisdictions, while sharing the proceeds by formula, are plainly legal under Pennsylvania law. If this were not the case, the legislature would not have recognized tax sharing as a benefit of multimunicipal cooperation in 2000.

There will, of course, always be some naysayers: “we’ll lose control, it’ll never happen, where’s mine, it doesn’t deal with the real issue (taxes too high, schools too bad, jobs aren’t available), or Harrisburg will just screw it up,” to name just a few. But tax sharing has a welcome place in the Pennsylvania tool box for improving competitiveness, efficiency, and development.

The Next Step

Pennsylvania could take greater advantage of this important regional and cooperative development tool by –

- Adopting state legislation to make it simple to apply tax-sharing in selected areas of the Commonwealth (possibly in areas around third class cities or

townships with certain economic characteristics), or by

- Incentivizing pilot projects by local governments using existing tax-sharing authority.

The American Planning Association’s Growing Smart Legislative Guidebook provides model tax-base sharing legislation.⁷⁸ The model suggests legislative findings that:

certain of the metropolitan areas of the state are confronted with increasing social and economic polarization and wasteful sprawling development patterns... [including] social and economic needs grow[ing] in the central cities and older suburban communities... suburbs developing at the edges of regions but with insufficient property tax bases to support local services...and other developing suburbs [that] constitute a special sector of the region that dominates regional economic growth, has highly restrictive housing markets, [and] receives a disproportionate share of local infrastructure investment.⁷⁹

The model legislation identifies purposes to “break the intensifying mismatch between local needs and communities’ tax bases,” to remove the “economic incentives underlying exclusive fiscal zoning,” to “reduce the interregional competition for a tax base; and facilitate regional land-use planning efforts.”⁸⁰ Pennsylvania legislators should consider specific legislation tailored to Pennsylvania’s own needs and constitutional constraints. This may include legislation incentivizing multi-municipal agreements to share revenues from a portion of new development even when there is no multimunicipal comprehensive plan, or legislation requiring tax sharing where new economic value results from state investments (in interchanges, office buildings, state facilities). One approach might be to require or authorize dedication of a portion of property tax revenues from new commercial development on raw land to an economic development fund that benefits several adjacent jurisdictions, in areas where the development is itself a product of regional or state incentives.

Legislative and administrative incentives promoting the use of Pennsylvania's existing tax sharing authority may be most effective. A recent report for the Pennsylvania "Path to Prosperity Summit" in Harrisburg in December 2007 notes that "State financial and technical assistance have been important in encouraging regional cooperation" in Pennsylvania.⁸¹ Using this approach, state economic development funds or assistance could be linked by the Department of Community and Economic Development, the Commonwealth Financing Authority, and other entities, to the development of local programs with tax sharing components. This would ensure that public economic investment in a region lifts all economic and fiscal fortunes, and promote strategic thinking so that municipalities think about benefits and burdens beyond their own borders. Acting locally, but thinking bigger about the location of services, housing, environment, and development.

References

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2. Brookings Institution, *Back to Prosperity – A Competitive Agenda for Renewing Pennsylvania* (2003).
3. E.g., Environmental Law Institute, *Chesapeake 2000 Tax Study* (2003).
4. U.S. Census, 2000 & 1990, and National Resource Inventory 1997(revised 2000) (annualized rate).
5. Pennsylvania Economy League, *Structuring Healthy Communities – Part 1: Revenue Generation and Fiscal Health* (2007), available at www.IssuesPA.net/publications/20662.
6. Pennsylvania Economy League, *supra* n. 5, found that 55 of Pennsylvania's 56 cities experienced a decline in relative fiscal health between 1970 and 2003, with the only exception being a new third-class

city that resulted from consolidation of a borough and township in 1994.

⁷ Tax sharing can be structured as the sharing of tax revenues under agreements, or the sharing of tax base (that which is taxed). Functionally, these can produce the same result, but Pennsylvania law seems more hospitable to sharing of tax revenues.

⁸ 53 Pa. Stat. Ann. § 11105(b).

⁹ 53 Pa. C.S. §§ 2301-2315; the 1996 law substantially expanded the opportunities for cooperation authorized under the prior law enacted in 1972, 53 P.S. 481-490.

¹⁰ 53 Pa. C.S. §§ 2303(a), 2304.

¹¹ Tax increment financing (TIF) dedicates the additional tax revenues that result from *increases* in property values within a development area (the "tax increment") to fund infrastructure and improvements for that area rather than as general revenues accruing to the taxing jurisdictions.

¹² The TIF agreement with the developers actually guaranteed that this base value would reflect a fair market value of no less than \$60,000 per acre.

¹³ The Steel Valley School District is excluded from the tax sharing plan because its district encompasses all three boroughs. Thus any increase in tax base in any of the boroughs benefits the school district equally.

¹⁴ Wage taxes and amusement taxes are not shared and are not part of the revenue sharing agreement.

¹⁵ Continental Real Estate sold a large portion of its investment at a profit in 2003, but continues to manage the project.

¹⁶ Continental Real Estate advanced funds for some of the infrastructure, which allowed construction to start, businesses to open and taxes to be anticipated before the initial sale of the bonds, which occurred 18 months later. This created a positive climate for sale of the bonds, indicating the availability of revenue to back the debt service. The proceeds of the bond sale were used, in part, to reimburse the developer.

¹⁷ An early and thorough evaluation of the Waterfront deal and its financial returns was done by Prof. Mary Jane Hirt of Indiana University of Pennsylvania, "Renaissance and Reality: Redevelopment of the USX Homestead Works Site (2002). Professor Hirt concluded that while benefits to the school district and county were substantial, the boroughs benefited only modestly from the TIF, and the net present benefit to Munhall was negative; however, following expiration of the TIF "the benefits should be substantial and continuous for the life of the development."

¹⁸ 16 P.S. §§ 6101-B – 6173-B. Section 6110-B created district. (Enacted in 1993, Dec. 22, P.L. 529, No. 77, §2)

¹⁹ John S. West & Carter Glass, IV, *Revenue Sharing: An Important Economic Development Tool For Virginia Localities*, Virginia Lawyer, April 2000.

²⁰ Annexation and Revenue Sharing Agreement of February 17, 1982.

²¹ Cole Hendricks, remarks at Symposium on Richmond Revenue Sharing: Imperative or Impossible? (Virginia Commonwealth University, April 22, 1997).

²² John L. Knapp, An Analysis of the Proposed Tax Sharing Agreement, Remarks at a Public Forum Sponsored by the University of Virginia, 1982.

²³ Id. The enabling legislation also requires automatic expiration if the State alters the current city-county structure.

²⁴ Robert W. Tucker, Letter from County of Albemarle Office of Executive to City of Charlottesville City Manager, October 2003.

²⁵ Reynolds, Laurie, *Intergovernmental Cooperation, Metropolitan Equity and the New Regionalism*, 78 Wash. L. Rev. 93 n. 213 (2003).

²⁶ Va. Code Ann. § 15.2-3400 et seq

²⁷ Va. Code Ann. § 15.2-13-1 et seq.

²⁸ Va. Const. Art. VII, §10(b), Va. Code § 15.2-3401.

²⁹ As of 2000 Ohio had more than 3,500 local government units, including 941 cities, 1310 townships, and numerous school districts and special purpose districts. Marc Conte, *Dare to Share: A Review of Tax-Revenue Sharing in the United States*, Ohio Chapter of the Sierra Club, 2001.

³⁰ David Rusk, *Inside Game, Outside Game*, Brookings Institution Press, 1999.

³¹ Montgomery County Resolution #89-790

³² See Oh. Rev. Code Ann. §307.7, which the courts have interpreted as authorizing contractual agreements between local governments, as well as allowing for eligibility requirements for the receipt of such funds. *City of Centerville v. Curran*, 1992 Ohio App. LEXIS 304 (2d Dist. 1992) (specifically authorizing the ED/GE program and its requirement that localities participate in the revenue sharing in order to receive grants).

³³ Montgomery County Community and Economic Development, *Montgomery County Economic Development/ Government Equity (ED/GE) Handbook, 2001-2010*.

³⁴ The funding for the ED program is contingent upon the County meeting its other fiscal obligations with a balanced budget. In 2004, the ED fund shrank for the first time to \$3million dollars, because a large portion of the one-half percent sales tax revenue was required to meet other basic services needs.

³⁵ Dayton and Kettering have permanent seats, while the other jurisdictions rotate through the remaining 8 seats.

³⁶ Montgomery County Community and Economic Development, *Montgomery County Economic Development/ Government Equity (ED/GE) Handbook, 2001-2010*.

³⁷ When the ED program was first established it also set aside ten percent of the funds for a Special/Research Projects Fund. This formal set-aside disappeared early in the program and such research projects are funded through the general ED fund.

³⁸ Montgomery County Community and Economic Development, *Montgomery County Economic Development/ Government Equity (ED/GE) Handbook, 2001-2010*.

³⁹ In other words, the growth is measured over a base year that is always three years prior to the actual year. (i.e. The base year for 1993 was 1990, 1994 was 1991, and in 2005 was 2002.)

⁴⁰ For townships, property taxes account for more than 80 percent of revenues, whereas cities may earn up to 85 percent of their revenues through other kinds of taxes. David Rusk, *Inside Game ,Outside Game*.

⁴¹ Net contributions/distributions received or made by many townships in recent years have generally been less than \$10,000 in any one year, according to sample analyses provide by Montgomery County. Countywide “only about \$600,000 a year has been shared among local governments,” according to David Rusk, The Rusk Report (Nov. 20, 1997). See also Lynn Hulsey, *RiverScape, ED/GE Show Cooperation*, Dayton Daily News, October 28, 2001 (\$840,265 contributed by jurisdictions in 2001),

⁴² Linda Gum, Evaluating the Performance of Montgomery County, Ohio's Economic Development/ Government Equity Program, The University of Oklahoma Economic Development Institute, 2000.

⁴³ Former County website at <http://www.co.montgomery.oh.us/Departments/com&econ/edge.html> (last visited July 2005)

⁴⁴ “Municipalities on board for ED/GE,” Dayton Business Journal, December 19, 2005).

⁴⁵ Lynn Hulsey, *RiverScape, ED/GE Show Cooperation*, Dayton Daily News, October 28, 2001 (quoting Professor Jack Dustin).

⁴⁶ Linda Gum, Evaluating the Performance of Montgomery County, Ohio's Economic Development/ Government Equity Program, The University of Oklahoma Economic Development Institute, 2000.

⁴⁷ Lynn Hulsey, *RiverScape, ED/GE Show Cooperation*, Dayton Daily News, October 28, 2001 (quoting Maureen Pero, president of the Downtown Dayton Partnership).

⁴⁸ Minn. Stat. § 473F.001 et seq.

⁴⁹ The current number of taxing jurisdictions currently covered is approaching 300, including 188 municipalities and 100 school districts. BC Research and Consulting, *Local Revenue Sharing Methodologies*, 2001.

⁵⁰ *Village of Burnside v. Onischuk*, 222 N.W.2d 523, 525 (Minn. 1974), cert. denied 420 U.S. 916 (1974) (“Although the formulas for achieving the purposes of the Act are complex in the extreme, the stated objectives are relatively simple. In order to prevent an ill-advised competitive scramble by individual units of government within the 7-county area for commercial-industrial development to improve their tax base, the act contemplates pooling 40 percent of the increase throughout the area of all commercial-industrial valuation subsequent to January 2, 1971.”)

⁵¹ Steve Hinze and Karen Baker, *Minnesota’s Fiscal Disparities Programs Twin Cities Metropolitan Area and Iron Range*, Minnesota House Research Department, 2000.

⁵² Minn. Stat. § 473F.01.

⁵³ The Twin-Cities program actually includes a one-year lag-time that has been eliminated from this explanation for simplicity.

⁵⁴ The House Research Department’s Report noted that the fiscal disparities program heightens the annual administrative burden. County auditors, assessors, and treasurers must not only determine the municipality’s local tax rate by dividing its property tax levy by its total net tax capacity, but must also: “determine each taxing district’s taxable net tax capacity, which is the actual tax base located within its boundaries minus its contribution to the area wide base; apportion the levy of each taxing district into an area wide portion and a local portion . . . [and] determine the local tax rate for each jurisdiction by dividing the local portion of the levy by its taxable net tax capacity.” Department of Revenue staff must annually determine the fiscal capacity for each city and town. An administrative auditor is elected by the other metropolitan auditors and is responsible for determining the distribution indices and the area wide tax rate. Steve Hinze and Karen Baker, *Minnesota’s Fiscal Disparities Programs Twin Cities Metropolitan Area and Iron Range*, Minnesota House Research Department, 2000.

⁵⁵ Minn. Laws 1986, Chap. 391

⁵⁶ Minn. Laws 1995, Chap. 255, Art. 2, §§ 11 – 13.

⁵⁷ This reached a high of 31.8 percent in 1992, but of course commercial and industrial property loses value as well as gains value. David Rusk, *Inside Game, Outside Game*, Brookings Institution Press, 1999, p. 240.

⁵⁸ Bill Toland, *A Blueprint for Tax Sharing: In Minnesota, Dividing The Spoils Helps Cities And Suburbs*, *Pittsburg Post-Gazette*, February 15, 2004.

⁵⁹ BBC Research & Consulting, *Local Revenue-Sharing Methodologies* (October 31, 2001), p. 5.

⁶⁰ Minn. Stat. Ch. 276A.

⁶¹ N.J.S.A. §§13:17-60 to 13:17-76.

⁶² BBC Research & Consulting, *Local Revenue-Sharing Methodologies* (October 31, 2001), p. 21.

⁶³ New Jersey Future, *Property Tax Reform: Smart Growth Recommendations from New Jersey Future* (September 2003).

⁶⁴ Me. Rev. Stat. Ann. Tit. 30-A, §§ 5751-5753.

⁶⁵ Ky. Rev. Stat. § 65.245. See generally §§ 65.210 - 65.300

⁶⁶ Ky. Rev. Stat. § 65.220.

⁶⁷ N.H. Rev. Stat. Ann. §§ 423-A:1 - 423-A:5.

⁶⁸ Pa. State Planning Board, 2006 Report, at pp. 24-29 (2006).

⁶⁹ E. Wilson, K. Moyer, & L. Clayberger, *Putting the pieces Together: Five Case Studies of Regional Cooperation in Pennsylvania* (November 2007)

⁷⁰ 53 Pa. Stat. Ann. § 11105(b): “Participating municipalities that have entered into implementation agreements to carry out a county or multimunicipal [comprehensive] plan as described in this article shall have the following additional powers: (1) To provide by cooperative agreement for the sharing of tax revenues and fees by municipalities within the region of the plan.” Municipalities that engage in joint municipal zoning also may share tax revenues and fees remitted to municipalities within the joint zone. 53 Pa. Stat. Ann. § 10619.2(C).

⁷¹ 53 Pa. C.S. §§ 2301-2315; the 1996 law substantially expanded the opportunities for cooperation authorized under the prior law enacted in 1972, 53 P.S. §§ 481-490.

⁷² 53 Pa. Stat. Ann. § 11102.

⁷³ 53 Pa. C.S. § 5601 et seq.

⁷⁴ See 53 Pa. C.S. § 5607(d)(9).

⁷⁵ “[W]e hold today that real estate as a subject for taxation may not validly be divided into different classes.” In re: Lower Merion Twp., 233 A. 2d 273, 276 (Pa. 1967).

⁷⁶ *Allegheny County v. Monzo*, 500 A. 2d 1096 (Pa. 1985) (hotel tax to finance convention center unlawful because the benefit received and the burden imposed were “disproportionate” as many of the class received no benefit because hotels were far from convention center), contrast *Leventhal v. City of Philadelphia*, 542 A. 2d 1328 (Pa. 1988) (upholding Philadelphia hotel tax convention center tax against claim by airport hotel).

⁷⁷ Village of Burnsville v. Onischuk, 222 N.W.2d 523, 532 (Minn. 1974), cert. denied 420 U.S. 916 (1974).

⁷⁸ S. Meck, et al., *Growing Smart Legislative Guidebook* (2002), at pp. 14-12 to 14-28.

⁷⁹ *Id.* §14-101(1).

⁸⁰ *Id.* §14-101(2).

⁸¹ E. Wilson, K. Moyer, & L. Clayberger, *Putting the pieces Together: Five Case Studies of Regional Cooperation in Pennsylvania* (November 2007), at p. 12.

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