

REGIONAL STRATEGIES: THE USE OF INTERLOCAL REVENUE SHARING AND COLLABORATION TO CREATE ECONOMIC DEVELOPMENT

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THE PROBLEM

As a result of a number of events which have occurred recently with respect to federal and state budget and fiscal policies, recessionary economic conditions, together with ever increasing demands for public services, have put local governmental units under ever increasing pressure to attempt to identify alternative sources of revenue. This negative impact is especially felt by those communities that have structurally weak fiscal bases. These are often the same communities that are experiencing the highest tax rates and have the greatest number of residents who are intense consumers of essential public services. These groups of fiscally weak communities are often referred to as “service centers.”

Many of these problems which structurally weak local governments are facing could be addressed by states through various approaches, including the assumption of certain major service responsibilities, such as education and welfare, state operated fiscal assistance programs targeted to those communities with the greatest need or the possible development of state mandates and policies that would either require or encourage interlocal revenue sharing arrangements. Because most state governments today are already experiencing significant problems with their own budgetary/fiscal structures, it appears unlikely that state assistance of one form or another is a realistic mechanism for addressing these problems.

INTERLOCAL REVENUE SHARING

Various forms of local revenue sharing have been identified in recent years as an effective and politically acceptable means of reducing interlocal fiscal disparities among municipal governmental units and creating economic growth, without specifically disturbing the overall principles of municipal home rule.

Interlocal revenue sharing programs have been employed in order to counteract the fiscal and economic inequities that result from concentration of economic growth, which tends to be self-perpetuating in certain metropolitan areas. In many instances, local governmental units establish their own land use and zoning policies, which are directed to the realities of the fiscal consequences of different forms of economic development. Consequently, various governmental units attempt to attract development that brings in tax dollars and, through various means, generate economic development that produces more revenue than the public services that they require. This type of local activity tends to reinforce traditional parochial barriers and philosophies and the “community against community” inefficient competition that exists with respect to typical single-community based economic development models and projects. The State of Maine is a good example where there are 489 separate municipal government units in a state with a total population of 1.2 million people. Maine’s former Commissioner of Economic and Community Development, Steven Levesque, once referred to the Maine situation as the “tax base chase” and noted that the local home rule control most Mainers deem important comes at a very high cost to local taxpayers.

Interlocal revenue sharing programs have proven that municipalities can significantly reduce the negative impacts of this type of intergovernmental economic competition and policy. In many instances, existing revenue sharing programs have not been developed specifically as a means of redistributing revenue among local communities. They have traditionally been established for the purpose of achieving less ambitious and more politically acceptable objectives, such as: the reduction of interlocal competition for tax rich and commercial activity, the protection of particular regions from the effects of sprawl development and from development pressures in environmentally sensitive areas, and the promotion of interlocal collaboration on economic development projects of regional significance.

There is a growing interest in pursuing interlocal revenue sharing in one form or another. This growing interest results from the trend of reduced federal and state aid to local governmental units, negative impacts resulting from the competition among local communities in a common region and the significant and growing problems local governmental units are experiencing in connection with raising sufficient revenue to meet an ever increasing demand for public services. Interlocal revenue sharing is viewed as a politically acceptable means of attempting to address the increasing disparities in local fiscal conditions and structures.

THE MAINE MODEL

One recent and unique example of interlocal revenue sharing was the creation in 1998 by the Maine Legislature of The Kennebec Regional Development Authority (KRDA). It is a quasi-municipal self-governing entity having 24 separate and distinct municipal communities as its participating members. The KRDA has as its focused economic development purpose the creation of a 300-acre high technology-based business park known as FirstPark, located adjacent to Interstate 95 in the community of Oakland, Maine. One of the unique features of the KRDA is the fact that the 24 participating communities vary in size from a population of 530 to more than 20,000. The 24 communities as a whole do not comprise a contiguous cluster of communities and are located in two counties.

The Town of Oakland has entered into an Interlocal Revenue Sharing Agreement, permitted under a Maine statute (30-A M.R.S.A. §5751, et seq.), with each of the other 23 participating communities that provides for the Town of Oakland to share in perpetuity the real estate and personal property tax revenue that will be generated from the development of the property within the FirstPark project. It was projected, in a feasibility study conducted prior to commencement of the FirstPark project, that over the next 20 years, the increased tax base valuation resulting from the development of the FirstPark project will generate between \$25 and \$30 million of real estate and personal property tax revenues to the Town of Oakland, all of which will be shared by that community with the other 23 member communities of the KRDA.

Under existing Maine law, there were three negative impacts to the Town of Oakland as the host community for FirstPark, which were addressed in the Interlocal Revenue Sharing Agreement. These negative impacts are that, as a community's tax valuation base increases, the amount of local revenue sharing and local school subsidy it receives from the State of Maine decreases and the amount of its share of the Kennebec County tax increases. In order to hold Oakland harmless with respect to these negative impacts, the Interlocal Revenue Sharing Agreement permits the Town of Oakland to retain sufficient tax revenue to offset these negative impacts in any given year as the valuation of the FirstPark property increases before it distributes the remaining tax revenue to itself and the other 23 communities.

The area within the Town of Oakland that comprises the FirstPark project has been designated by the town and the State of Maine as a “tax increment financing district” under an existing state law. This designation permits the Town of Oakland to shelter the development within the FirstPark project from these negative impacts for a period of up to 30 years so that it will not be required to utilize a portion of the tax revenue generated from that development, which is estimated to be between \$7 and \$8 million over the first 20 years, to offset those negative impacts. The Maine Tax Increment Financing statute (30-A M.R.S.A. §5241, et seq.) permits the Town of Oakland to distribute this additional tax revenue, which it normally would retain to hold itself harmless from the negative impacts of development, to the KRDA so that it may be used for economic development purposes and in promoting the development of the FirstPark project.

In order to promote the creation of the KRDA and the development of the FirstPark project, the State of Maine awarded the KRDA a \$1 million community development block grant to be used as part of the funding for the first phase of the infrastructure development of the project. The KRDA was also successful in obtaining a \$1 million development grant from the Economic Development Administration and has issued \$3.5 million in tax-exempt revenue bonds to fund the \$5.2 million cost of acquiring all land, the cost of permitting and the development of approximately 65% of the infrastructure. This funded infrastructure development includes the underground installation of all utilities, including but not limited to, state of the art fiber optic based telecommunications technology. The 24 member communities are “investing” in the FirstPark project by supporting the initial costs of the operating budget, as well as the debt service on the revenue bonds needed for the development and marketing of the project. Including these 24 communities also had the effect of sharing, and thereby reducing, the risk involved in the development of the FirstPark project. The KRDA was also successful in negotiating a partnership agreement with Verizon, which resulted in FirstPark being designated a “Verizon Smart Park.” This agreement will result in benefits derived from joint national marketing of the FirstPark project by the KRDA and Verizon and the investment by Verizon of approximately \$1.5 million in fiber optic based digital telecommunications facilities that will serve the businesses located within FirstPark.

Through the FirstPark project, it is expected that approximately 3,000 direct jobs and another 3,000 indirect jobs will be created in the region through the development of the project and the businesses to be located within the Park. The creation of these high-paying, high-quality technology-based jobs, together with the above-described revenue sharing features of the project were clearly the major motivating factors for the votes that were taken by the legislative body of each of the 24 participating communities to enter into this collaborative effort. The presence of the FirstPark project, with its resulting creation of jobs and the sharing of the tax revenue generated by the development activity, also served as a unifying factor which helped those communities to overcome the existing traditional parochial competitive barriers between them.

After six years of operation, the KRDA has created approximately 1,200 direct jobs within FirstPark. Approximately \$300,000.00 in taxes will be distributed this year to the 24 participating communities through the Interlocal Revenue Sharing Agreement.

OTHER OPTIONS

There are also some other examples of revenue sharing, such as the tax base sharing program that exists in the seven-county Minneapolis/St. Paul area of Minnesota. Tax base sharing is unique in that it involves the actual transfer of a portion of a governmental unit’s tax base to a

common pool where it is subject to an area wide tax rate. Tax base sharing, through the establishment of a single area wide tax rate on the shared resource space, is intended to reduce the role of local tax differentials with respect to location decisions made by developers. In comparison, revenue sharing involves the sharing of some portion of a governmental unit's revenue receipts with other local governmental units, each of which retain full autonomy over rates applied within their respective jurisdictions.

Because of current negative fiscal forces, there is also a great deal of interest across the country in pursuing other types of limited regionalization short of actual consolidation of existing local governmental units. A group of communities could significantly reduce the impact of the current fiscal forces they are facing by entering into regional compacts with neighboring local governmental units, resulting in greater delivery efficiencies for public services (i.e., education, fire and police protection, public works and emergency 911 call services) supported by a partial sharing of either taxes and/or tax base among the participating communities.

SUMMARY

There is a growing interest throughout the country in the concept of interlocal revenue sharing and regionalization of the delivery of governmental services. The motivation for the creation of such programs results from the significant fiscal disparity that has developed among local governmental units, the reduction of the role of the federal government in domestic programs, the significant budgetary problems which most of the states are presently facing, and the overall recognition of the significant advantages that can be realized from promoting economic development projects and the creation of jobs and additional revenue sources for local governmental units on a regionalized basis. Revenue sharing, when combined with the more efficient regionalized delivery of certain local governmental services, is also an attractive means for groups of local governmental units to effectively deal with the fiscal problems they are presently facing.

From a political standpoint, the enactment of state laws which encourage and permit the establishment of local revenue sharing programs and regionalized delivery of governmental services appears to be far more achievable than other more radical solutions, such as governmental unit consolidations/annexations, the establishment of regional governmental units, or the establishment of mandatory revenue sharing programs.

Although interlocal revenue sharing programs will not address all local governmental unit concerns and problems, they do represent a vehicle which can be used to alleviate interlocal fiscal disparities, to reduce interlocal competition and contention and to serve as a basis for regionalized economic development projects (such as the KRDA's FirstPark project) resulting in significant high-quality job creation and new tax revenue sources for the participating communities.

[NOTE: Some of the information contained in the parts of this article which describe Interlocal Revenue Sharing and Other Options were taken from an undated article entitled "Interlocal Revenue Sharing: Practice and Potential" prepared for the National League of Cities by Roger S. Richman and M.H. Wilkinson.]

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