

**A Review of  
Regional Tax-Based Revenue Sharing Programs and  
the Establishment of Regional Asset Districts**

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Prepared by  
the Office of Policy and Management  
for  
the Planning and Development and  
the Finance, Revenue and Bonding Committees  
of the Connecticut General Assembly

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## Statutory Requirement

This report was prepared to fulfill the requirements specified in Public Act No. 07-239, *An Act Concerning Responsible Growth*. As codified in Connecticut General Statutes (CGS) Section 4-124t, that Act directs the Office of Policy Management (OPM) to:

- 1) Conduct a review of Regional Tax-Based Revenue Sharing Programs that includes, but is not limited to, a study of:
  - Available models of such revenue sharing programs;
  - Adaptations that may be needed in such programs for use in Connecticut;
  - Effect on property taxes and on a municipality's grand list; and
  - Other possible effects on both municipal and regional finances.
  
- 2) Conduct a review of the establishment of Regional Asset Districts that includes, but is not limited to, a study of:
  - Any available models of regional asset districts;
  - Adaptations that may be needed in such programs for use in Connecticut; and
  - Other possible effects on both municipal and regional finances.

CGS Section 4-124t requires OPM to submit a report by July 1, 2009 to the Planning and Development and the Finance, Revenue and Bonding Committees of the Connecticut General Assembly with the results of its review and with recommendations relating to the initiation of revenue sharing programs and the establishment of regional asset districts.

This report is intended to provide the committees of cognizance with information, analysis, and illustrative options for their members' consideration.

## Introduction

This report sets out to put the concepts of regional tax-based revenue sharing and regional asset districts into a larger context by first examining several pertinent topics relating to Connecticut's tax structure, the local property tax, the cost of municipal services, the "fiscalization" of land use, and the need for regional growth planning. These topics address the inter-relationships among the issues of taxation, land use and economic growth, and they are critical to a full understanding of the recommendations contained in this report. In addition, Appendix B of this report includes a review of existing state statutes that allow Connecticut municipalities to pursue either joint municipal or regionally-based initiatives.

Regional tax-based revenue sharing involves each municipality designating some part of its assessed value base, or a stream of tax revenues, for inclusion in a regional pool of assessed values or tax revenues that is then divided among all municipalities in the pool by a specific formula, often involving total population and other variables. The goal of such a program can be to reduce competition for new business and industry among communities, to address fiscal disparities among communities, and/or to encourage regional land use planning and environmental protection.

A Regional Asset District (RAD) is a special taxing district that can tax any income, item or transaction the state can tax in order to fund civic, cultural and recreational facilities and attractions that serve more than one municipality. In general, in states where RADs exist, the respective statutes are permissive. They allow for the voluntary creation of such districts by local communities, and allow them to levy a tax and then distribute a portion of the total amount collected to the asset district. The goal of creating these districts is to spread the costs beyond the municipality or private entity operating a place-based asset that benefits the entire region.

Over the course of preparing this report, OPM staff posed a number of questions which are included below to help the reader gain insight into the myriad considerations that OPM factored into its recommendations:

- What are the desired outcomes of such programs from both a state and a municipal government perspective?
- Can such programs help to make Connecticut a more competitive place to do business and improve the quality of life of its residents?
- Will such programs provide municipalities with greater control over how they develop, in accordance with each town's unique vision?
- What are the ramifications of limiting potential regional revenue sharing resources to state-levied taxes, as opposed to locally-levied taxes and/or user-based fees?
- Which municipalities might be perceived as winners or losers in the process?
- What types of incentives could help offset such winner/loser perceptions?
- What are the parameters regarding regional boundaries within which municipalities would be expected to operate?
- Should each designated region have the flexibility to determine its own priorities and administrative procedures, such as through an inter-municipal agreement?
- How can state government better focus its limited resources in a manner that addresses regional priorities?
- What level of government should control the purse strings for implementing regional priorities?

OPM recognizes that the current economic and fiscal situation is vastly different from the time period when CGS Section 4-124t was enacted in 2007. As a result, the recommendations contained in this report can be seen as either inopportune or timely, depending on one's point of view.

That is to say that while some of the recommendations contained in the report may not be a best fit for some municipalities at this particular time because of the fiscal situation we find ourselves in, they may well be appropriate for implementation when that situation improves in the future. On the other hand, the time may be right for other municipalities to look at alternative models for sharing scarce resources or providing services on a shared basis.

### **Connecticut's Tax Framework**

Before discussing various national models for regional tax-based revenue sharing and regional asset districts, it is important to understand Connecticut's tax framework because it is different from that of other states cited in this report.

Connecticut's tax framework comprises a relatively simple yet complementary structure with few layers. Connecticut imposes a single state sales tax and a single state income tax. Municipalities are limited to taxing real property, motor vehicle and personal property used for business purposes, as well as real estate conveyances.

There are 169 cities and towns in Connecticut. Each provides various services, such as public education, police and fire protection and public road maintenance. Overwhelmingly, the local property tax finances these services.

Local governmental officials administer property assessment and tax collection, although state law governs the manner in which a municipal assessor determines property assessments and the procedures that tax collectors use to collect property taxes. State law also authorizes a number of property tax exemptions, credits and abatements.

Some cities and towns contain special taxing districts, such as fire districts, that provide services through an agreement with the larger municipality. The assessment determination made by the local assessor is the basis for the tax that a district levies.

### **Property Tax Burden**

It is also important to understand how the state and its municipalities generate revenues to provide various services. Compared to other states, Connecticut's municipalities would seem to be highly dependent on local property taxes to finance municipal services. However, a 50-state survey conducted by the National Conference of State Legislators (NCSL) in 2001 yielded varying results, based on three different methodologies for conducting a comparative analysis of state, county and municipal taxes.

In January 2008, Connecticut's Office of Legislative Research published an updated analysis of the NCSL survey using 2005 data (Report #2008-R-0018). That report concluded that Connecticut ranked fifth highest in the amount of property taxes collected on a per capita basis, but that it ranked 23<sup>rd</sup> highest based on taxes paid as a percentage of personal income.

Although municipal budgets are funded primarily by local property taxes, state aid plays an important supplemental role by helping municipalities to fund municipal services without imposing a greater burden on residents and businesses that pay those property taxes. Examples of state aid include the Education Cost Sharing Program, Town Aid Road grants, the Distressed Municipalities Property Tax Reimbursement Program, and payments-in-lieu of property taxes for manufacturing machinery and equipment and certain tax-exempt real estate (i.e., State-owned Real Property, Private Colleges and General/Free Standing Chronic Disease Hospitals).

Aid to municipalities currently makes up about seventeen percent of the overall state budget. State funding amounts on average to about twenty three percent of total local budgets. However, as pressure mounts on the state budget, such as the current recessionary period, municipalities face the prospect of flat or reduced state aid and inevitably the need to balance their budgets through higher property taxes, increases in fees, and/or reductions in the cost of local services.

### **Cost of Municipal Services**

Understanding the cost of municipal services and how those services are paid for by using various revenue sources is important in order to evaluate alternatives. Regardless of the ongoing debate over Connecticut's tax framework, the fact remains that the annual cost of funding municipal services has been rising at a faster rate of growth than municipal grand lists. Although many municipalities have made significant reductions in discretionary programs, costs related to educational services and employee health care – two of the fastest growing items in their budgets – have been more insulated from similar reductions because they are largely bound by existing contracts.

Unfunded state mandates on municipalities also contribute to the high cost of local government. In order to address a number of municipal concerns during this period of state fiscal uncertainty, the state can reduce the number of unfunded state mandates on municipalities and consequently lessen the burden on local property taxpayers. For example, Governor Rell's recommended budget for the FY 2010 – FY 2011 biennium promoted mandate relief by:

- Requiring a two-thirds majority vote of the General Assembly to enact any costly state mandate;
- Suspending binding arbitration for two years; and
- Delaying for two years the in-school suspension mandate.

In addition to reducing the overall cost of unfunded state mandates on municipalities, there is also the need to build upon recent efforts to help municipalities find innovative ways to provide public services more efficiently. One such effort is the Regional Performance Incentive Program (RPIP) authorized by CGS Section 4-124s. This \$8.6 million program provided twenty-four grants to eleven regional planning organizations (i.e., regional planning agencies, regional councils of governments and regional councils of elected officials) to encourage municipalities to participate in municipal shared services projects on a regional basis, with the goal of producing measurable economies of scale and lowering the costs and tax burden related to the provision of such services.

For example, RPIP grants to the Northeastern Connecticut (NECCOG), Southeastern Connecticut (SECCOG), Valley (VCOG), Windham (WINCOG) and Capitol Region (CRCOG)

Councils of Governments have enabled those regions to provide web-based geographic information system (GIS) mapping services for their member municipalities that otherwise might not be able to individually afford the annual cost associated with a GIS technical services and associated hardware, software and maintenance costs. In addition, CRCOG contracted for color digital orthophotography (aerial photography) flight services which provided a uniform data set for the region, and resulted in significant savings for its member municipalities relative to the cost if each were to have procured such services individually.

The GIS mapping services that NECCOG provides its member municipalities could also assist them in implementing the provisions of Section 2 of Public Act 09-60, *An Act Concerning A Municipal Option To Delay Revaluation, A Program Allowing Regional Revaluation And The Repeal Of The Municipal Option To Make Annual Assessment In Property Values*, which Governor M. Jodi Rell signed into law on May 15, 2009. It allows two or more municipalities to designate an entity, which may be a regional planning organization, as the coordinating agency for a regional revaluation program that the municipalities would agree to implement by entering into an inter-local agreement under CGS Section 7-148cc. NECCOG estimates that a cost savings of 50% per year for each of its 12 member municipalities would result from implementation of a regional revaluation program, over the cost each municipality would incur by contracting individually for the services of a certified revaluation company.

Under RPIP, CRCOG was awarded a grant to facilitate the development of a regional police training campus for 21 participating towns in its region, for an estimated total savings of approximately \$7.5 million. The campus will be developed on land owned by the Town of Rocky Hill, and will include firearms, K-9 and SWAT training in an indoor simulated environment.

In the Northwestern Connecticut and Litchfield Hills Regions, eight towns agreed to share the services of two professional planners. Each of the eight towns previously budgeted between \$1,000 and \$5,000 per year for planning services (collectively \$20,000). The Regional Planning Collaborative has not only reduced these modest planning costs by half, but with the assistance provided by the planners has also resulted in six of the towns receiving grants totaling \$235,460 under the Housing for Economic Growth Program (HOMEConnecticut).

These examples show that where services are regionalized savings may be realized and dependence on local taxes may be reduced. Additional information about existing cooperative ventures in Connecticut is provided in Appendix A.

### **“Fiscalization” of Land Use Decisions**

Land use planning and regulations can be heavily affected by the way local governments finance their operations or services. While traditional land use planning is intended to ensure a balanced and comprehensive approach to meeting local economic development and resource conservation goals, “fiscalization” of land use decisions can occur when there is pressure to maximize the revenue generating capacity of land in order to fund current municipal services.

For example, in states that allow local governments to levy sales taxes, the result typically can be a bias toward commercial development in order to maximize retail sales. In other states, like Connecticut, where municipalities are reliant primarily on property taxes to fund local services,

the bias can be toward commercial, industrial, and age-restricted residential developments that are generally perceived as having a net positive impact on local budgets because of their lower public service costs. While these types of land use decisions can yield positive results in the short-term, they come with a risk that the potential longer term impacts on the community and region, such as traffic congestion, loss of open space and farmland, fragmented ecosystems, and reduced quality of life, are not fully considered in the overall decision-making process.

From a local fiscal perspective, higher density residential housing is among the least desirable of land uses due to the perception that it consumes more in public services than it generates in tax revenue. Many Connecticut municipalities are reluctant to modify their zoning regulations to allow for higher density residential or mixed uses because the market has supported the more traditional development options. However, recent interest expressed by over 50 municipalities in applying for technical assistance grants under the Housing for Economic Growth Program (HOMEConnecticut) indicates that there is likely an underserved segment of the population that would prefer living in areas where they can walk or ride a bike from home to stores, work, or school.

Interestingly, the most “desired” forms of development sought under “fiscalization” of local land use decisions may not produce the intended results. For instance, a May 1995 study prepared for the Trust for Public Land by Ad Hoc Associates, entitled, “*The Effects of Development and Land Conservation on Property Taxes in Connecticut Towns*”, indicated that increased commercial and industrial development may actually increase both the tax rate and the rate of residential development, because both newly created jobs and the expanded services provided locally, actually enhance the residential desirability of the community. This may actually increase the demand for public services, thereby leading to an increase in local property tax rates and a more ambitious search for tax ratables (properties) that may eventually destroy the character of the community.

Demographic trends also have broad implications on municipal and state budgets. In the near future, for example, there will be fewer younger workers entering the workforce relative to the number of retiring “baby boomers”. The manifestation of this trend is reflected in many communities both by the proliferation of age-restricted residential developments and the current lack of desirable and affordable rental and starter housing for younger residents.

Under Connecticut’s current tax system, land is a limited financial resource or commodity that must be managed effectively in order for each municipality to meet both its current and future obligations. Urban, suburban and rural communities all face different, yet related, budget pressures. Any future efforts to promote either regional tax-based revenue sharing and/or regional asset districts should, therefore, emphasize the importance of having each community clearly articulate its conservation and development goals, so that there can be a clearer understanding of the fiscal implications of meeting those goals.

### **Regional Growth Planning**

In addition to ongoing municipal and state efforts to reduce the cost of government services, there also needs to be a concurrent effort to develop and market a coordinated strategy to strengthen Connecticut’s economy. Nationwide trends indicate that the Northeast in general and Connecticut in particular, will continue to gain a disproportionately smaller share of jobs and

population relative to faster growing regions of the country. Not only do these trends have implications on federal funding formulas and Congressional representation, but they also threaten the quality of life for those that remain in Connecticut.

There is broad consensus that Connecticut's 169 cities and towns cannot individually compete effectively against other more highly-coordinated metropolitan areas in other states. From a state/regional perspective, providing local subsidies for businesses to move from one municipality to another after they have already decided to locate in the area is unnecessary and can even be counterproductive. While this may result in the perception of economic growth in one municipality, a neighboring municipality will likely be faced with a corresponding loss in its tax base and an increase in the number of underutilized or abandoned facilities.

In a number of metropolitan areas across the country, core cities have the ability to annex unincorporated county land on the suburban fringe. This is not an option in Connecticut, as all land is already incorporated. This inability to gain new land for development puts Connecticut municipalities at a distinct disadvantage, since they are constrained by their geographically restricted boundary lines and the fact that they often contain large tracts of existing developed land. Connecticut's home rule tradition and reliance on the property tax appear on the surface to be incompatible with regional growth planning. However, there are opportunities to provide the necessary incentives for municipalities to voluntarily forge regional alliances, so they can pursue their mutual goals.

A number of building blocks for promoting regional growth planning have already been put in place. For example:

- Governor M. Jodi Rell's Executive Order No. 15 created Regional Roundtables to "invite the ongoing participation of city and town officials and foster the development of planning agendas tailored to the specific needs of different parts of our state, starting with new transit corridors";
- CGS Section 4-124s authorizes the Regional Performance Incentive Program that provides incentives for regional cooperation and service delivery;
- CGS Section 16a-35c requires OPM to develop recommendations for the delineation of boundaries for Priority Funding Areas for incorporation into the next revision of the State Plan of Conservation and Development;
- The Department of Economic and Community Development (DECD) has prepared the first Economic Strategic Plan as required by CGS Section 32-10 to help in the delineation of boundaries for Priority Funding Areas as mentioned above;
- As per PA 10-168, DECD is working to reinvigorate the Comprehensive Economic Development Strategy (CEDS) process to leverage federal funds for projects in regions approved by the Federal Economic Development Administration (US EDA) that would implement projects that have already achieved regional consensus;
- Pursuant to CGS Section 16a-4c, OPM will be completing an evaluation of regional planning organization boundaries by January 1, 2012 that could provide the General Assembly with options for the administration of potential future regional initiatives; and
- The provisions of Public Act 09-80, *An Act Concerning Membership On Regional Planning Agencies*, which Governor M. Jodi Rell signed into law on June 2, 2009, should help enable more direct involvement by the municipal chief elected officials of the municipalities that are members of Connecticut's five regional planning agencies.

Regional growth planning can begin with an assessment of each region's strengths and weaknesses, including an inventory of physical assets and natural resources that are deemed important to each municipality and/or region. Absent such an assessment, achieving consensus among the participating municipalities on a set of regional priorities would be difficult, if not impossible. Such priorities should provide the framework for each region to develop a vision within which its member municipalities can work. Topics for consideration at the regional level might include, but would not be limited to:

- Transit-oriented development potential around new and existing transit corridors;
- Housing needs for the region's workforce;
- Potential for municipal cost savings through shared services;
- Regional marketing for economic development and cooperative development revenue sharing;
- Regional capital improvement priorities;
- Sustainable regional agriculture/aquaculture and supportive industries;
- Safeguarding public and private drinking water supply sources and protection of other regionally important natural and cultural resources;
- Regional sewage treatment capacity and future sewer service and avoidance areas; and
- Uniform GIS coordination to ensure access to accurate mapped data for various types of infrastructure, environmental resources and public facilities.

Regional growth planning can be effective within the context of Connecticut's home rule system, if it provides for appropriate incentives for voluntary participation, local control over any shared regional revenue source(s) and related decision-making, and formal regional bodies that coordinate priority projects, mediate dispute resolution, and provide analysis on opportunity cost determination. Examples of opportunity costs include the cost of not developing land in a public water supply watershed to protect the quality of public drinking water supplies and reduce the future cost of treatment, or the cost of not developing farmland in order to promote local food production and the preservation of community character.

Regional growth planning is both technically complex and politically challenging, but the greater challenge in the long run may be in maintaining the existing system without a more strategic plan for managing the cost of government in Connecticut.

## **Review of Regional Tax-Based Revenue Sharing Programs**

CGS Section 4-124t calls for OPM to review models of regional revenue tax-based sharing and to make recommendations on their possible application in Connecticut. The preceding review of taxation, land use and economic growth established the context within which OPM developed its recommendations.

Regional tax-based revenue sharing itself involves the pooling of some portion of a revenue stream among participating municipalities and then distributing that portion in a manner that seeks to achieve an identified purpose(s). While state legislatures can play a role in setting the general parameters for such programs, the actual details for administering the program should be determined locally and implemented on a voluntary basis through regional consensus.

Among the models studied from other states, there are two principle outcomes that regions sought to achieve from regional revenue sharing programs: 1) to provide greater equity between wealthier and poorer municipalities in the distribution of fiscal resources; and 2) to reduce inter-municipal competition for economic development by promoting a higher degree of regional coordination for land use and infrastructure planning. In the latter instance, the impetus for regional revenue sharing has typically been based on the realization by individual municipalities that the current local tax system forces them to expend significant resources competing against one another to attract and retain jobs, instead of focusing their collective strength as a region to better compete against other regions both nationally and internationally.

While addressing fiscal disparities has been a central theme behind a number of regional revenue sharing models in other states, Connecticut's strong home rule system is likely to be more adaptable to a revenue sharing concept that focuses on a bottom-up approach to prioritizing investments in both the physical infrastructure (i.e., transportation, water and wastewater systems) and the "green" infrastructure (i.e., water supply watershed lands, forest blocks and open space land) of a region to better address economic development, environmental health and quality of life issues. In addition, particularly in regard to funding education, state government has been given an important role in reducing disparities in education funding between cities and towns.

The key to implementing any such model is inter-governmental collaboration; from determining the appropriate level of government control over a regional revenue stream, to determining acceptable and equitable revenue sharing arrangements and identifying regional priorities. A strong regional framework is necessary to develop a regional vision and to address any real or perceived imbalance among municipalities, since realistically, any revenue sharing program will result in some municipalities being net gainers and others being net losers. For example, one of the reasons for a municipality to participate on a regional basis is that it might be cost prohibitive for a single municipality to undertake a task and therefore, it would be advantageous to join with another municipality to perform that task in a more cost effective manner.

## Available National Models of Regional Revenue Sharing Programs

Table 1 reflects a sampling of some of the models for illustrative purposes. Although these examples derive their regional revenue sharing streams from either the property tax or sales tax, it is conceivable that any other type of taxes or user fees could work as well. Unlike Connecticut, some states allow local governments to levy other taxes besides the property tax, such as local sales or income taxes.

**Table 1. Summary of Models of Regional Revenue Sharing from Other States**

	<b>Hackensack Meadowlands, NJ</b>	<b>Minnesota</b>	<b>Montgomery County, OH</b>	<b>Monroe County, NY</b>
<b>Purpose</b>	To compensate municipalities for impacts of land use decisions	To reduce fiscal disparities	To reduce fiscal disparities	To reduce fiscal disparities
<b>Funding Sources</b>	Fourteen member municipalities contribute 40% of their post-1970 baseline share of property taxes to a common pool	40% increase in Commercial-Industrial property assessment goes into a pool	Increased sales tax by 0.5% for economic development and county-wide growth contribution rate for government equity	4% local sales tax
<b>Funding Distribution</b>	Each municipality receives compensation for its share of school students and its percentage of land relative to the region's total, while a stabilization factor caps annual fluctuations at 5%	Based on formula that takes into consideration the jurisdiction's population and fiscal capacity	70% from tax increase earmarked for economic development; Government equity funds are distributed according to population	Approximately 50% to city; 25% to county; remaining 25% distributed by formula to city, towns, villages and suburban schools

While many states, including Connecticut, have enabled inter-municipal revenue sharing agreements (for example, CGS Section 7-148bb and CGS Section 7-339a through 7-339l), the Hackensack Meadowlands of New Jersey and the Minneapolis-St. Paul region have legislated

large-scale property tax base sharing. Other national models presented below derive their revenue from the sales tax.

1. Hackensack Meadowlands (New Jersey) Model

The purpose of the Hackensack Meadowlands model in New Jersey was to minimize the fiscal impacts of land use regulations. The Hackensack Meadowlands revenue sharing program was created to protect wetlands by reducing competition for new development in the 14 municipalities and 2 counties that are a part of the program.

The Hackensack Meadowlands Master Plan for the area, adopted in 1972, formed a regional approach to zoning. As it was being developed, legislators saw a need to create a tax revenue sharing plan 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 nontaxable uses. The tax sharing plan was designed to balance inequities whereby each community would get a proportionate share of the property taxes from "new" (post 1970) development, regardless of where it occurs.

Taxes are assessed and collected in the Meadowlands in the same manner as for other properties. After county taxes are paid, the amount remaining is divided into the amount collected on taxable properties existing in 1970 and those existing post-1970. The post-1970 amount is subject to the tax sharing plan.

Each community retains 60 percent of the incremental revenues above the 1970 baseline level. The remaining 40 percent is put into a revenue-sharing pool. Two types of payments are generated from this pool. The first payment compensates communities for the school pupils living within the Meadowlands district boundaries. This payment is calculated by multiplying the incremental increase in schoolchildren since the base year by a per pupil cost. After the school payments have been made, the remaining revenues are shared among the 14 municipalities based on their proportion of the total land area in the Meadowlands District.

2. Minneapolis-St. Paul (Minnesota) Model

One of the longest running and most successful revenue sharing programs is the Minneapolis-St. Paul model, which, although it has yet to be replicated elsewhere, embodies principles of tax equity mechanisms. The Minnesota Fiscal Disparities Act of 1971 was designed to improve equity in the distribution of fiscal resources and promote regional planning objectives. Communities in the seven county Minneapolis-St. Paul region share a portion of the growth in their commercial-industrial property tax bases.

Minnesota's Fiscal Disparities Act of 1971 recognized the implications of tax revenue 'chasing' on land use planning. The 1971 act created a regional revenue sharing mechanism where 40 percent of the tax base increase in commercial/industrial (C/I) property assessments went to a metropolitan 'pool' for redistribution based on population and overall tax base. (Residential property tax increases are not included.) C/I property includes all businesses, offices, stores, warehouses, factories, gas stations, parking structures, as well as public utility property and vacant land which is zoned commercial or industrial.

The growth in value considered is the total change in net tax capacity since 1971, including the effects of new construction, inflation, demolition, revaluation, appreciation, and depreciation. Small rural and suburban communities in this metro area have benefited most from the infusion of funds, allowing them to enact growth controls and resist sprawling commercial development that might otherwise have been sought to infuse capital into local tax bases.

The distribution of the pool is based on fiscal capacity, defined as equalized market value per capita. This means that:

- If the municipality's fiscal capacity is the same as the metropolitan average, its percentage share of the pool will be the same as its share of the area's population.
- If its fiscal capacity is above the metro average, its share will be smaller.
- If its fiscal capacity is below the metro average, its share will be larger.

### 3. Montgomery County (Ohio) Model

Montgomery County, Ohio has been operating a revenue-sharing program with its municipalities, including Dayton, since 1992. There are two separate but interrelated components to this program - the Economic Development Fund (ED Fund), which enables participating jurisdictions to apply for grants each year and the Government Equity Fund (GE Fund), which provides each participating jurisdiction with the opportunity to profit from economic growth in the County, regardless of where the growth occurs.

ED fund - The overall purpose of the ED fund is to assist townships, villages and cities in promoting economic health and in taking advantage of economic opportunities for their citizens. This fund, which contains an amount the Board of County Commissioners determines each year, enables communities to fill funding gaps and take advantage of strategic economic opportunities. The Fund primarily supports public infrastructure improvements critical to particular economic development projects.

Policy guidelines focus priority on projects that:

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

GE fund - The overall purpose of the GE fund is to share some of the economic benefits (i.e., increased revenue) resulting from new economic development among the jurisdictions of Montgomery County. Specifically, the goal of this fund is to:

- Foster productive interlocal competition in pursuing economic development opportunities.
- Strengthen the fiscal capacity of local governments to promote regional economic growth.
- Share the costs and benefits of economic growth to promote economic health in all communities.

- Promote reasonable and environmentally sound development practices.

Participating townships, villages and cities in Montgomery County make annual contributions into the GE fund based on a single countywide growth contribution formula and receive annual distributions resulting from a distribution formula which is based on population. In general, the combined effect of the two formulas result in net distributions for declining, stable or slow growth jurisdictions and net contributions for fast growth jurisdictions.

Selection criteria focus priority on projects that:

- Leverage from other public and private sources.
- Discourage intra-county business relocations.
- Meet existing local government policies and regulations.
- Limit speculative investment.
- Avoid substituting Economic Development Fund support for other funding.
- Are ready to be implemented.

#### 4. Monroe County (New York) Model

In New York, local sales taxes are levied by counties and a portion is then distributed to municipalities, generally based on their proportion of the county's population base. After passage of the Morin-Ryan Act in 1985, Monroe County altered its distribution formula to provide more revenue to the City of Rochester.

The Act allowed the City to receive a disproportionate share of sales tax revenues to address its service and educational needs. Due to the shortfall that was created by the revenue sharing formula, when the County asked for access to additional revenue by increasing the local portion of sales tax by 1 percent, many of the local recipients of sales tax revenue wanted a portion of those revenues, as well.

For the revenue generated by the original 3 percent sales tax, under the new system, the City is entitled to half of the growth in revenue countywide using the previous year as a base. After this growth is taken off the top, the County receives 25 percent, the City receives a share proportionate to its share of the County's population, suburban schools receive one-third of the remaining funds, and town and villages receive the remainder. The Morin-Ryan Act capped the City's total share at 35.63 percent. In addition, the Morin-Ryan Act protected suburban schools, towns and villages by requiring that any shortfall in the amount that they received under the new distribution formula would be made up by funds from the County.

Distribution of the revenue generated by the additional 1 percent sales tax is as follows: suburban schools receive 5 percent (distribution to each district based on enrollment); towns receive 3 percent (distribution based on population); villages receive 1.25 percent (distribution based on population).

The City of Rochester and Monroe County then divide the remaining 90.75 percent so that total revenue to each (from the 3 percent and 1 percent portions) is equal.

## **Adaptations Needed for Use of Models in Connecticut**

Adaptation in terms of regional revenue sharing in Connecticut might be based on the following principles:

1. Stable Revenue Source

The funding mechanism should assist local governments in preserving basic services. Because these funds can help provide funds for critical public services, the source should be dependable and predictable for the municipality from year to year.

2. Ensure Equity

The revenue sharing mechanism should provide for a fair distribution of revenues, particularly with respect to municipalities with declining property tax revenue and low-income or shrinking populations.

3. Reward Regional Cooperation

Regional cooperation is essential in making more efficient use of limited resources. By distributing revenue regionally, in addition to individual communities, regional revenue sharing should encourage municipalities to work together to enhance future revenue rather than to compete for increasing local tax bases. The new revenue sharing concept should also eliminate barriers to intergovernmental collaboration and recognize communities that engage in joint service delivery. For example, CGS Section 7-148bb allows for two or more municipalities to share real and personal property tax revenue. More examples of current statutes that allow for two or more municipal cooperation are listed in Appendix B.

While the concept is relatively straightforward, putting tax sharing into practice is more complex. The sources of funds contributed to revenue pools vary widely in jurisdictions throughout the nation. The funds can take the form of property taxes, income taxes, sales taxes, business taxes, utility taxes, taxes imposed on occupational license fees, or taxes imposed on things such as machinery and equipment in a new industrial park. Some tax sharing systems involve a combination of taxes. Sometimes revenues contributed to the pool come from new tax rate increases (additional mills). In other cases, a base year is established and a portion of funds generated after that base year is contributed to the pool. Other systems negotiate a share of tax collections generated by current mill or tax rates by sharing some portion of increased property assessments.

There are different techniques for implementing this program. Some examples are as follows:

- By sharing the revenue from the commercial-industrial (CI) tax base or residential tax base or both;
  - For example, a 40% increase in the CI property assessment can be dedicated to a pool which can be shared by various participating municipalities. This can be done by setting a baseline year and following either of these two options:
    - Contributions from all of the CI properties (existing and new); or
    - Contributions from all of the new CI properties.
- By increasing the state sales tax or sharing a portion of the existing sales tax;
  - For example, dedicating 1% of the existing state sales tax to this common pool or increasing the state sales tax by either 0.5% or 1.0%.
- By allowing the municipalities to levy additional taxes;

- For example, allowing municipalities to levy a 0.5% or a 1.0% local sales tax or hotel tax.

The formulas used to distribute funds across communities also differ. Some formulas take into account total commercial/industrial property value per person in the political jurisdiction. Others use growth in property and income taxes compared to a base year. Still others distribute revenue on the basis of school district enrollment or population size. Some systems also use formulas to define what constitutes a poorer community versus a wealthier community and then distribute funds accordingly. The size of the tax sharing pool varies widely, but typically the revenue pool grows over time.

The redistributive formula can also take the following approach:

- It can be aggressively redistributive – using local tax base or poverty rates as a primary component.
- It can be relatively neutral – using local population or household counts.
- It can also be designed to compensate local areas for extra costs of public services.

### **Effects on Property Taxes and Municipal Grand Lists**

The following are some of the effects if a tax-based sharing concept is implemented:

- Initially, some municipalities will be “net losers” of shared tax revenues while some municipalities will be “net gainers” of shared tax revenues.
- Because there may be reduced competition for businesses, grand lists for some municipalities may grow slower and for some municipalities they may grow faster than normal.
- Depending on how the program is structured, some of the revenue collected may be used for property tax relief for municipalities.
- The program may, depending on its structure, ultimately reduce (not completely eliminate) inequalities in the tax base, tax rates and local public services.

### **Other Possible Effects on Municipal and Regional Finances**

Overall, there could be positive effects once the tax-based revenue concept is implemented. These possible benefits are:

- Because municipalities may be less inclined to compete for businesses, they may offer fewer tax abatements, thus saving municipalities the cost of the abatement.
- By encouraging development in areas where infrastructure already exists, the costs associated with extending the needed infrastructure and associated sprawl can be avoided. By doing so, the state can preserve natural air, water and habitat resources for future generations.
- Appropriately sited development may reduce traffic congestion and environmental impacts.
- Depending on how the program is structured and implemented, funding priorities may be assigned for projects that are of regional significance.

### **Benefits and Challenges of Regional Tax-based Revenue Sharing**

#### Benefits

- Helps in funding the provision of public services.

- Reduces competition for new business and industry among communities.
- Can address fiscal disparities among communities.
- Encourages regional land use planning and environmental protection.
- Encourages business and industry to locate in areas with an availability of infrastructure to support them.
- Facilitates other planning goals such as preserving open space or maintaining a vibrant downtown.
- Encourages suburbs and central cities to cooperate on regional economic development goals (projects of regional significance).
- May lead to a more equitable distribution of tax burdens and public services.
- Promotes orderly urban development, regional planning, and smart growth by reducing the impact of fiscal considerations on the location of business and residential growth and of highways, transit facilities, and airports.

### Challenges

- Regional tax-based revenue sharing tends to redistribute assessed value tax bases from communities that have high bases per capita to those that initially have low bases per capita.
- Such tax-based sharing is highly controversial because some communities are “net losers” of tax bases, and, therefore, considers themselves harmed rather than aided.
- There is less incentive for “net gainers” to be more fiscally responsible.
- Other factors like geographic location and proximity to major markets, educational attainment, and relative cost may have more to do with economic development than regional cooperation.
- Building true inter-municipal consensus based on regional fairness and equity and not based on traditional “horse trading” methodologies through which each municipality gets in line, waiting to take a turn to get funding or regional approval for a project.
- Potential diversion of state sales or other revenues from the state’s general fund.

## **Review of the Establishment of Regional Asset Districts**

Regional Asset Districts (RAD) operate in a manner similar to special tax districts but on a larger geographical area. They provide financial support for facilities or attractions such as arts and cultural institutions, entertainment venues, parks and other recreational pursuits. These types of facilities may help boost the local and regional economy, and they also help to define the region's identity for marketing purposes. While it is conceivable that regional asset districts can be a component of a larger regional revenue sharing program, the body of this report treats the two subjects as separate and distinct.

Providing RADs with access to a supplemental revenue source beyond the property tax of the host community can help to ease the extra costs associated with maintaining certain public, private or non-profit facilities that draw visitors from across the region and beyond. Host communities typically bear the added cost of providing necessary resources for parking and traffic management, policing, and public works maintenance. In cases where the regional asset is a non-profit facility that is exempt from local property taxes, the tax burden on local businesses and residents can be exacerbated.

Two primary factors have driven the development of existing regional asset districts:

(1) *The desire to use a region rather than a single community as a more equitable basis for imposing a culture tax.* A driving force behind the creation of the Metropolitan Zoological Park and Museum District in St. Louis, Missouri, was the realization that many of the cultural institutions' audiences and members lived in the counties surrounding St. Louis, although the attractions themselves were located in the city itself.

2) *Drastic federal reductions in funding for the National Endowment for the Arts that began in the mid-1990s and caused reductions in state funding for the arts.* Regional asset districts arose as an alternative funding mechanism, such as in Salt Lake County, Utah, where a coalition of state and regional arts and civic leaders supported such a district.

In states that have adopted the concept of a regional asset district, a portion of the sales tax collected in a region is dedicated to the support of the district.

It is important to note that the State of Connecticut is currently utilizing state taxes and revenues to support a number of the regional assets (e.g. Connecticut Science Center, the Palace Theater in Waterbury, etc.). Regional Asset Districts could either replace or supplement these existing resources. Another important consideration is whether any additional revenues related to these districts should go fully to the assets being subsidized, or if some of the funds should go to the general fund of host municipalities.

Regardless of whether a state chooses to define regional asset districts in a broad or narrow context, it is critical that a collaborative inter-governmental approach be taken in building consensus around the definition of RAD, the type of funding mechanism to employ, and the stability and predictability of the ensuing revenue stream.

Table 2 below summarizes selected models of regional asset districts from other states which have utilized either a portion of the sales tax or hotel tax as a funding mechanism. Other potential revenue sources could include a portion of property taxes from municipalities within a region or proceeds from user fees, such as a surcharge on admission tickets.

**Table 2. Summary of Models of Regional Asset Districts from Other States**

	<b>Colorado</b>	<b>Kansas-Missouri</b>	<b>Missouri</b>	<b>Pennsylvania</b>	<b>Utah</b>
<b>District Name</b>	Scientific and Cultural Facilities District	Kansas & Missouri Metropolitan Culture District	Cultural and Performing Arts District	Allegheny Regional Asset District	No separate district, County levies tax
<b>Purpose</b>	Fund local and regional cultural and scientific organizations	Support cultural facilities and activities	Promote and foster arts and cultural institutions	Support civic, cultural, and recreational entities, libraries, parks	Fund recreational and zoological facilities, etc.
<b>Governance</b>	9 member board	Metropolitan Culture Commission	15 member commission	7 member board of directors	County legislative body and 7 member advisory body
<b>Funding Sources</b>	0.1% sales tax	Up to 0.25% sales tax	Up to 3.75% hotel tax	1% sales tax	0.1% sales tax
<b>Funding Distribution</b>	60% goes to 4 regional institutions and remainder to others	Commission's discretion for projects meeting statutory criteria	Unspecified	50% goes to district, 25% to county and 25% to municipal govt. to reduce taxes	30% recreational facilities, 12.5% zoological facilities, 52.5% botanical and cultural organizations

**Available National Models of Regional Asset Districts**

Regional Asset Districts (RADs) are special taxing districts created by municipalities to tax any income, item or transaction in order to fund civic, cultural and recreational facilities and attractions that serve more than one municipality. In general, in states where RADs exist, statutes are permissive. They allow for the voluntary creation of such districts by local communities, and allow them to levy a tax and then distribute a portion of the total amount to the asset district. The goal of creating these districts is to spread the costs beyond the municipality or private entity operating a place-based asset that benefits the entire region.

1. Allegheny County, Pennsylvania

In the early 1990s, the City of Pittsburgh found itself providing a disproportionate amount of funding for the region's arts, cultural and recreational activities.

The legislature in 1993 approved creation of the first regional mechanism—the Allegheny Regional Asset District—to address tax reform and to stabilize funding for important regional institutions, or “assets.”

The Allegheny County Regional Asset District is a unique national model for combining tax relief, support for regional assets, and funding for municipal expenses. The creation of the District provided a countywide vehicle for county/city cooperation and ended attempts to shift asset funding responsibilities from one level of government to another.

Tax revenues are divided three ways: 50% goes to support regional cultural and recreational assets, 25% goes to county government and 25% is shared with municipal governments.

Its sole source of funding is a 1 percent sales tax. The Allegheny Regional Asset District Board awards grants from one-half of the proceeds of the funds collected to the district, and distributes these grants to civic, cultural and recreational entities, including libraries, parks, and sports facilities. The distribution is made by a seven-member Board of Directors appointed by the County Chief Executive, the Mayor of Pittsburgh, and one person elected by the six appointees. There is also a 27-member advisory board that facilitates public input and comments on policies and procedures.

The other half of the tax proceeds goes directly to county and municipal governments based on a statutory formula. It is estimated that 25 percent of the collected tax comes from individuals outside Allegheny County who come to work, shop and use the regional assets funded by the tax. The tax is easy to collect and administer because it is an add-on to the existing state sales tax.

2. Denver Regional Asset District

Denver's Scientific and Cultural Facilities District (SCFD), covering seven counties in the metropolitan area, was created by voters in 1988 to provide a consistent source of unrestricted funding to scientific and cultural organizations. The voters ratified legislation passed by the Colorado State Legislature in 1987 that outlined eligibility definitions and the district funding formula. Since then, the district has provided more than \$480 million to more than 300 organizations in the arts and natural and cultural history via a 0.1-percent retail sales and use tax (one penny on every \$10). Distributions are made by a 10-member board appointed by city and county elected officials and the Colorado Governor, following guidelines in the authorizing legislation. Denver-area voters renewed approval of the district tax in 1994 and again in 2004.

The board's duties include hiring staff, providing for the distribution of SCFD tax funds, reviewing and reporting on the expenditure of those funds, and calling for and administering a ballot initiative for the renewal of the tax.

The initial SCFD tax had a sunset date of June 30, 1996. Since then, the voters have twice renewed the SCFD tax and it has been extended through 2018.

The original act specifies how funds are allocated within each tier. By law, 33% of the Tier 1 funding goes to the Natural History Museum, 26% each to the zoo and art museum, and 15% to the Botanical Gardens. Tier 2 funding is allocated among the eligible institutions in proportion to their annual operating income and paid attendance, with both factors weighed equally. Tier 3 funding is allocated to each county in proportion to the sales tax collected in the county. In each of the counties, a cultural council reviews applications and distributes grants. In Denver, which is a consolidated city and county, the council is appointed by the city council. In the remaining five counties, the council is appointed by the county commissioners.

The enabling legislation provided the SCFD distribution formula of 65 percent to the Big Four (the Denver Art Museum, the Denver Zoo, the Denver Botanical Gardens, and the Denver Museum of Nature and Science), or "Tier I," 25 percent to the mid-sized performing and exhibiting organizations (annual operating income of above \$900,000) or "Tier II," and 10 percent to the smaller cultural groups operating at the county level (the "Tier III" organizations). Currently these percentages are adjusted to 65.5, 21, and 13.5 percent respectively.

Each of the districts described above was created due to a recognition that an entire region benefits from major regional assets, but an individual city cannot afford to support such investments and infrastructure alone. For example, CGS Section 10-397(a) allows creation of Tourism Districts to promote conventions, recreational and tourism activity in the district. More examples of current statutes that allow for two or more municipal cooperation are listed in Appendix B.

### **Adaptations Needed for Use of Models in Connecticut**

Reductions in federal and state funding for regional assets have driven the development of regional asset districts. There are different techniques for funding a regional asset district program. The different options are as follows:

- Authorize a local sales tax (anywhere from 0.1% to 1%).
- Allow the levy of a 5% hotel tax.
- Allow a tax based on an additional mill(s) on property tax collections.
- Allow a surcharge on ticket sales (1% or \$1 extra, etc.).
- Assess fees such as user fees and impact fees
- On a broader basis, use discretionary funds to incentivize investment in regional asset districts or priority funding areas that promote responsible growth.

The funds collected can be redistributed based on various formulas. For example,

- 50% of the revenue collected goes to the District.
- 25% of the revenue collected goes for municipal tax relief.
- 25% of the revenue collected goes for local revenue sharing program.

## **Other Possible Effects on Municipal and Regional Finances**

Overall, there could be positive effects once the program is implemented. These benefits are:

- It creates a revenue source dedicated to easing the extra costs of maintaining an asset or facility such as the Mark Twain House, Hartford Convention Center, and the Palace Theatre.
- It provides a significant and stable source of revenue that is paid by the host community related to traffic, parking, policing, road and sidewalk maintenance.
- It eliminates huge state subsidies that are provided for their upkeep and thereby divert those funds from other important initiatives.
- It also reduces reliance by the host community on its taxpayers.

## **Benefits and Challenges of Regional Asset Districts**

### Benefits

- Regional asset districts help spread the costs beyond the municipality or private entity operating a place-based asset that benefits the entire region.
- There is increasing research showing that regions that have arts and cultural attractions may have a competitive advantage in business attraction, retention, and workforce education.

### Challenges

- Regional asset districts can face opposition based on a number of factors, including:
  - The ingrained habit of “free-riding” as communities become accustomed to using resources in one part of their region without having to support them.
  - The belief that funding arts and culture is not an essential or important government function.
  - Resistance to the use of a regressive tax such as a sales tax (a frequent form of regional asset district taxation) to fund arts and culture.
  - Diversion of sales or other revenues from the state’s general fund.

## **OPM Recommendations**

In 2007, the General Assembly's Office of Program Review and Investigations conducted a study of Connecticut's Regional Planning Organizations. That report included the finding that "a major challenge for state policy makers is to balance regional needs that facilitate the long-term development of the state, with the long-held preference of retaining control and decision-making at the local level of government.

OPM recommends that any legislative initiatives stemming from this report be locally based and organized through regional consensus. Regional Planning Organizations (RPOs) provide an existing framework to coordinate any such efforts. Eleven of the fifteen RPOs also serve as the designated Metropolitan Planning Organizations (MPOs) for federal transportation planning purposes within their respective regions.

Both Governor M. Jodi Rell and the General Assembly have supported recent efforts to promote voluntary, incentive-based programs to help local governments realize cost savings and other efficiencies through both inter-municipal and regional agreements. Any new initiatives should be addressed incrementally by building upon these recent efforts without marginalizing Connecticut's home rule tradition.

It is incumbent upon the state as a whole to recognize that global economic competition is not a short-term issue, but rather a long-term trend that requires robust strategies to attract growth industries. In order to make Connecticut more attractive to business and industry, the state must offer both a stable fiscal climate and a local government structure that is empowered to act entrepreneurially. Municipalities, working on a regional basis, are in the best position to adapt to the changing economic landscape.

Because municipalities have a natural tendency towards risk aversion, both politically and fiscally, there is a recognized role for the state to provide a relief valve to allow perceived risks to be spread across a larger region. This can be accomplished over time by channeling a greater share of discretionary state funding toward regional priorities that are well-articulated, strategic in nature, and that have gained consensus among affected municipal chief elected officials.

Based on the effectiveness of these administrative efforts, municipalities might be inclined to pursue additional resources beyond discretionary state funding, in order to further their regional goals. OPM believes that any necessary enabling legislation to provide for a regional revenue stream should be supported by the municipalities that choose to participate.

OPM recommends that any formal regional revenue sharing agreements be based on the sharing of a portion of the growth in each participating municipality's property tax base related to economic development, as opposed to other state-administered revenue streams. This, in turn, could help reduce the potential "fiscalization" of land use pressures on individual municipalities. Such a concept would likely have only a minimal fiscal impact on the state, that being the provision of an appropriate level of resources to fund RPO administrative efforts.

OPM believes that statutory requirements for it to conduct an analysis of the boundaries of logical planning regions designated or redesignated under CGS Section 16a-4a by January 1,

2012, and to prepare the next revision to the Conservation and Development Policies Plan for Connecticut (State C&D Plan) for consideration by the General Assembly in 2013 offer opportunities to develop a coordinated inter-governmental approach to regional growth planning.

It should be noted that the next State C&D Plan revision must include recommendations for the delineation of boundaries for priority funding areas (PFAs), in accordance with CGS Section 16a-35c. The Continuing Legislative Committee on State Planning and Development will play an important role in establishing the parameters and criteria for PFAs, and in determining whether a regional asset district concept might also play a role in that process. Regional Roundtables, as established under Governor Rell's Executive Order No. 15, can also assist in the development of regional inventories of physical assets and natural resources that would provide baseline information for developing regional growth strategies.

The Office of Fiscal Analysis (OFA) utilizes a tax-incidence model to assess the fiscal impacts of potential changes to state tax policy. This model, as developed based on the existing statutory framework, can assess statewide impacts. Due to the limitations in the type of data collected by OFA, analysis cannot determine local and regional impacts.

The General Assembly may want to consider commissioning a tax-incidence analysis, which could provide a critical tool in terms of future considerations of regional initiatives.

An unbiased comparative analysis of the relative impacts of changes on a variety of taxpayer groups, including a breakdown by income level or by municipality of residence, could be an invaluable tool for state law makers and policy makers should there be an interest in pursuing either regional revenue sharing or regional asset district concepts. Such an analysis could help in understanding the potential impacts from changes in various revenue streams, so that there would likely be fewer unintended consequences resulting from any future adjustments to the state's tax structure.

The General Assembly recently authorized the City of New London to study a split rate tax system (which is also known as land value taxation - LVT). Proponents of such a system argue that it encourages economic development, because taxing improvements at a lower rate than land provides an incentive for construction activity and greater density. Opponents argue that such a system is regressive and does not spur development if there is insufficient demand for new improvements.

The City of New London chose to undertake the study authorized by Public Act 09-236, and reported to the General Assembly's Planning and Development and Finance, Revenue and Bonding Committees. A review of the results of this study indicated that the land value taxation is not the model of taxation that can benefit the City of New London, its taxpayers, and its citizens. It was determined that the current system was a better alternative than the five (5) LVT models presented.

In summary, OPM offers the following recommendations for consideration:

### **Regional Revenue Sharing**

- Maintain or enhance current system whereby state aid to municipalities is the main method of reducing fiscal disparities, with the potential use of targeted or dedicated revenue sources.
- Supplement existing state aid with sharing of local property taxes.
- Like Minnesota, the growth in Grand Lists related to commercial/industrial growth could be shared among towns in a region.
- Continue to focus existing and new state resources for infrastructure, brownfield remediation, open space, business subsidies, etc., in a way that is consistent with state and local plans of conservation and development. This focus could be better coordinated by using Regional Planning Organizations in the same manner as they are currently used to coordinating the use of certain transportation funds.
- Regional cooperation is essential in making more efficient use of limited resources. By distributing revenue regionally, in addition to individual communities, the state will encourage municipalities to work together to enhance future revenue rather than to compete for tax base. The new revenue sharing concept should also eliminate barriers to intergovernmental collaboration and recognize communities that engage in joint service delivery.
- Allow two or more towns to fund, through their general fund or bonding, projects aimed at economic development and allow those towns to determine the method of sharing any rewards or risks from these initiatives. This would involve towns helping to fund projects located in another town(s), allowing them to participate as an “investor”. The state could provide some funding for these initiatives as well. This would be more of a project by project approach.

### **Regional Asset Districts**

- Require more regional input into the distribution of existing subsidies now made to individual institutions (after determining what regional entity would be utilized in this regard).
- Supplement or replace existing subsidies with other revenue sources (e.g., additional charge per ticket) to fund regional assets. (This would require a new or existing entity to administer these funds.)
- On a broader basis, use discretionary funds to incentivize investment in regional asset districts or priority funding areas that promote responsible growth.

## **Appendix A**

### **Examples of Local Government Cooperative Ventures in Connecticut**

Voluntary cooperative ventures have proven to be useful to a number of municipalities in Connecticut. Municipal leaders have shown a willingness to participate in voluntary cooperative approaches when they help to provide cost effective solutions to local problems. General areas of local government cooperation include:

- Education & Library (e.g., adult education, inter-district educational service, library services, magnet schools, regional school district)
- Economic, Housing & Transportation (e.g., economic development commissions, enterprise zones, housing)
- Environmental (e.g., air pollution control, port authorities, resource recovery, water pollution control programs)
- Health & Human Services (e.g., children & youth programs, emergency medical services, fire services, police, recreation, public safety)
- Other (e.g., civil preparedness, regional planning organizations, inter-local agreements)

Connecticut's inter-municipal arrangements vary substantially in purpose, formality, organizational structure, and financing. Their purposes cover a broad spectrum of activity, ranging from simple, low cost equipment sharing arrangements, to sophisticated and relatively expensive regional recycling programs and other complex administrative and educational activities. Some programs are informal in structure, while others involve formalized agreements, balanced representation requirements, and financial participation. Some are organized on a durational basis, while others have operated for decades. Despite these differences, virtually all such cooperative relationships, whether authorized by specific state or federal legislation or informally created, are formed when two or more municipalities or boards of education voluntarily agree to address a situation on a joint basis.

The predominant common characteristics of Connecticut's inter-municipal cooperative ventures are that:

- they are single purpose in nature;
- they are specialized to meet well defined goals;
- participation is voluntary;
- financial contributions are self-regulated;
- program effectiveness is evaluated locally; and
- administrative requirements are minimal.

These characteristics allow municipalities and boards of education to maintain administrative control over the cooperative ventures. Voluntary inter-local agreements are advantageous in Connecticut's strong home rule climate in that they do not threaten local autonomy and do not constitute a step toward regional government or usurpation of local powers. While Connecticut municipalities and boards of education have safeguarded their local autonomy, they have routinely demonstrated their willingness and ability to work cooperatively with other cities and

districts, when such action can result in operationally efficient and cost effective solutions to common problems.

The following are examples of voluntary local government cooperative ventures in Connecticut:

- Estuary Region Household Hazardous Waste (HHW) Facility  
There is an agreement between nine municipalities of the CT Estuary Region to share HHW facility for the collection of household hazardous waste and consumer electronics. This facility is located in Essex and is managed by the Connecticut River Estuary Regional Planning Agency (RPA) under the agreement between the RPA and the nine municipalities.
- Northeastern CT Regional Animal Control Facility  
This program began in August of 2004. Currently, the program serves the towns of Brooklyn, Canterbury, Pomfret, Sterling, Killingly, and Woodstock (a seventh town is expected to join in July 2009). The program has three basic goals:
  - Quality/humane service for domestic animals;
  - Prompt professional service for residents; and
  - Cost effective approach for member towns.

This facility is staffed by a full-time animal control officer (ACO) who also serves as the program director, three part-time ACO's, and secretarial/administrative staff provided through NECCOG. All paperwork related to animal control is handled by NECCOG. This includes all state reports and license renewals each spring. There is always an ACO on duty; services are available twenty-four hours a day, three hundred sixty-five days a year.

- Lake Waramaug Inter-Local Commission  
The towns of Kent, Warren and Washington formed this inter-local commission to address shared concerns regarding the deterioration of water quality in Lake Waramaug. The Commission is comprised of representatives from member towns including the first selectmen. In addition to environmental projects, the Commission plans and coordinates general lake improvements.

Costs of the Commission are prorated to member communities based on the estimated percentage of lake front for each of the towns. Lake research, monitoring, and capital projects may be funded through local allocations and grants from state and federal agencies and private organizations.

Just as there are many different types of inter-local arrangements, there are many different funding mechanisms and financial requirements. Many inter-local cooperative agreements involve only modest expenditures and, in some cases, none at all. In practice, the administrative costs related to inter-local arrangements and staff needs are minimized, with each participating municipality agreeing to pay for its share of service or staff time. Because so many of these arrangements are voluntary, each municipality can periodically assess the effectiveness of the particular program to determine if membership and financial participation is warranted. Even with mandated and/or more formal inter-local organizations, maintenance of local discretion and financial control is of paramount concern.

Budgets for the inter-municipal organizations range from zero, in the case of some equipment sharing arrangements, to tens of thousands of dollars for joint animal control services and hazardous waste collection days, to hundreds of thousands of dollars for health districts, visitors' bureaus and regional planning organizations, to millions of dollars as in the case of the Metropolitan District Commission.

In looking at the range of cooperative ventures, funding arrangements fall into one or more of the following categories:

- Town Contributions
- State Grants
- User Fees
- Private Contributions
- Federal Grants
- Sale of Products
- In Kind Contributions.

## Appendix B

### Existing State Statutes Enabling Joint Municipal or Regionally-Based Activities

While pertinent tax laws are relevant within the overall context of this report, the focus of this Appendix is primarily on state statutes governing municipalities (Title 7), zoning, planning, housing, economic and community development and human resources (Title 8), and commerce and economic and community development (Title 32).

Summarized below are a number of examples of existing state laws that enable municipalities to enter into either regional or inter-municipal agreements for myriad purposes, such as to pursue economic development, regional and charter schools, and municipal shared services jointly. A potential shortcoming of these statutes is that there is no real context for municipalities to consider the regional implications of their decisions or how to address the mitigation of regional impacts.

#### **Public Act 09-231 – AN ACT CONCERNING REGIONALISM**

This legislation authorizes chief elected officials of two or more municipalities that are members of the same federal economic development district, established under 42 USC 3171 to initiate a process to enter into mutual agreement to: (1) promote regional economic development and (2) share the real and personal property tax revenue from new economic development. The agreement shall: (1) specify that municipalities agree not to compete for new economic development and (2) specify the types of new economic development projects subject to the terms of the agreement.

#### **Public Act 09-60 - AN ACT CONCERNING A MUNICIPAL OPTION TO DELAY REVALUATIONS, A PROGRAM ALLOWING REGIONAL REVALUATIONS, AND THE REPEAL OF THE MUNICIPAL OPTION TO MAKE ANNUAL ADJUSTMENTS IN PROPERTY VALUES**

Section 2 of this act authorizes any two or more towns to enter into an agreement to establish a regional revaluation program. Towns participating in such an agreement must provide for the revaluation of all parcels of real property encompassed within such towns at the same time and not less than once every five years, or must annually revalue approximately one-fifth of all such parcels over a five-year period. The act specifically allows a regional planning organization to be the coordinating agency to oversee a regional revaluation program.

#### **CGS Sec. 7-136n - Joint issuance of bonds by two or more municipalities**

This statute authorizes two or more municipalities to jointly issue bonds at their discretion, subject to the approval of the legislative body of each municipality. These bonds can be issues for the purposes of paying all or any part of the cost of any project or activity, including acquisition of necessary land and equipment therefor, entered into jointly. The municipalities may issue such types of bonds as they may determine, including, without limiting the generality of the foregoing, bonds payable as to principal and interest: (1) From their revenues generally; (2) exclusively from the income and revenues of a particular project; or (3) exclusively from the income and revenues of certain designated projects, whether or not they are financed in whole or in part from the proceeds of such bonds. Any such bonds may be additionally secured by a pledge of any grant or contribution from a participating municipality, the state or any political

subdivision, agency or instrumentality thereof, any federal agency or any private corporation, copartnership, association or individual, or a pledge of any income or revenues of the municipalities, or a mortgage on any project or other property of the municipalities.

**CGS Section 7-137 - Regional economic development commissions**

The statute authorizes any two or more towns, cities or boroughs having economic development commissions to join in the formation of a regional economic development commission. The area of jurisdiction of the regional commission shall be coterminous with the area of the municipalities so joining. Any municipality which has joined in the formation of a regional commission may thereafter withdraw by the adoption of an ordinance to that effect. The economic development commissions of the municipalities comprising the regional commission shall jointly determine the membership of the regional commission. A regional commission shall have the same duties and authority, in respect to its area of jurisdiction, as a municipal commission has in respect to the municipality.

**CGS Section 7-148bb - Agreement between municipalities to share revenue received for payment of property taxes**

This statute authorizes the chief executive officers of two or more towns, cities, or boroughs to negotiate an agreement to share real and personal property tax revenue. The public must have an opportunity to participate during the negotiation process. Each participating municipality's legislative body must approve the agreement by resolution. The agreement must contain all of the provisions on which the municipalities agree and procedures for amending, terminating, and withdrawing from it. The provisions can identify the tax revenue to be shared and collection and distribution mechanisms. Municipalities can enter these agreements notwithstanding other state laws, charters, or home rule ordinances.

**CGS Section 7-148cc - Joint performance of municipal functions**

This statute authorizes two or more municipalities to “jointly perform any function that each municipality may perform separately”. Each municipality is required to approve the agreement for joint action in the same manner as provided for the approval of an ordinance. The terms of each agreement shall establish a process for withdrawal from such agreement and shall require that the agreement be reviewed at least once every five years by the body that approved the agreement to assess the effectiveness of such agreement in enhancing the performance of the function that is the subject of the agreement.

**CGS Section 7-277a - Police Assistance Agreements**

This statute authorizes two or more municipalities to enter into an agreement for the temporary assignment of police personnel from one municipality to another. The agreement allows the chief executive officer of a participating municipality to request assistance from other participating towns when he or she determines it to be necessary "to protect the safety or well being of his municipality." For example, East Windsor and its neighboring municipalities (South Windsor, Manchester, East Hartford, Coventry, Glastonbury, Windsor, Hartford and the Connecticut State Police) have entered into an agreement to cooperate on mutual police assistance.

**CGS Section 7-339a through 7-339l - Inter-local Agreements**

Chapter 105 of the Connecticut General Statutes authorizes public agencies to develop and implement inter-local agreements to provide for a number of shared services, equipment and other assets. The legislative body of any public agency may vote to enter into an inter-local

agreement with any other public agency. Such action may be taken after a proposed agreement is submitted to the legislative body of each potential participating member and a public hearing is conducted. Once the legislative bodies have approved an agreement, an Inter-Local Advisory Board comprised of representatives from each of the participating agencies is formed. Agreements may provide for the contracting of services, personnel, and equipment between or among participating agencies, and must include certain specified provisions, such as cost sharing, the resolution of disputes and the receipt of state or federal funds.

### **CGS Sections 7-339m through 7-339t - Municipal special services districts**

These statutes allow the legislative body of any municipality to adopt an ordinance establishing a Special Services District(s) (SSD) to promote the economic and general welfare of its citizens and property owners through the preservation, enhancement, protection and development of the economic health. The SSD may levy a tax on real property within such district.

The following are examples of special services districts that have been created under these statutes:

1. **Business Improvement District, Hartford**

The Hartford Business Improvement District (HBID) was established by a municipal referendum among taxable property owners in October of 2006. The district raises funds by charging an extra 1 mill to the assessments of the property owners within the district. HBID's priorities are public safety, cleanliness and beautification, marketing and promotion, and advocacy to make the district a more attractive place to live and do business.

The HBID 2008-09 budget provides for nine Security Ambassadors to provide a safe, reassuring presence and six Cleaning Ambassadors and one Operations Manager. The beautification program places new flower planters throughout the District and graffiti is removed within 24 hours of its appearance. The HBID also provides services such as additional marketing and promotion of the Downtown and Asylum Hill neighborhoods.

2. **Downtown Special Services District, Stamford**

Stamford's Downtown Special Services District (DSSD) was established by city ordinance in 1992. The district raises funds by charging surcharge on the real property tax, which generally averages between 4% and 5% of the mill rate that the city establishes. The DSSD provides the following services: (1) safe, clean and green, (2) marketing and special events, (3) retail recruitment and retention, and (4) economic development.

3. **The Town Green Special Services District, New Haven**

The Town Green is a 27-block special services district located in downtown New Haven. The District's mission is to improve ownership values and the urban appeal of Downtown New Haven for the betterment of the Greater New Haven region. Since its inception in 1996, the District has operated an ambitious cleaning and landscaping program, "Downtown Ambassador" guide service, cooperative retail and restaurant promotions, and other projects to foster a clean, safe and vibrant downtown.

By collaborating with numerous downtown and area organizations, including museums, theaters, Market New Haven, Inc., Yale University, the Greater New Haven Chamber of Commerce, the Arts Council for Greater New Haven, the City of New Haven and the Greater

New Haven Convention and Visitors Bureau, the District has served as a catalyst to make dramatic and sustainable improvements to the image and reality of downtown New Haven.

**CGS Section 8-139 - Joint action by two or more municipalities**

This statute authorizes the legislative bodies of two or more municipalities to: (a) create a regional or metropolitan planning agency and to authorize such agency or the planning agency of any of such municipalities to make a comprehensive or general plan of the area included within such municipalities as described in section 8-127, and (b) exercise the powers granted in this chapter to the legislative body of any municipality. In all matters under this chapter requiring the approval of the legislative body, such approval shall be by the legislative body of each municipality only as to the portions of the redevelopment plan situated in such municipality.

**CGS Section 8-169j - Joint activity by two or more municipalities**

This statute authorizes two or more contiguous municipalities to enter into an agreement for the purpose of jointly carrying out a community development activity. Such an agreement may include provisions for furnishing municipal services to the project and sharing costs of and revenues from the project, including property taxes and rental receipts. The statute also authorizes each municipality that is a party to the agreement to make appropriations and levy taxes and issue bonds in accordance with current laws.

**CGS Section 8-196 - Joint projects**

Any two or more municipalities by vote of their respective legislative bodies may, through their respective development agencies, jointly initiate a development project where the project area is to be located in one or more of such towns, and after approval by the commissioner of the project plan therefor if any state aid is to be requested under section 8-190 or 8-195, enter into, and thereafter amend, an agreement for the purposes of jointly carrying out the project plan through their respective development agencies, which agreement may include provisions for furnishing municipal services to, and sharing costs of, and revenues, including property tax and rental receipts, from, the development project. A proposed form of the agreement to be entered into by such towns shall be included as part of the project plan. In furtherance of its obligations under such an agreement, each town which is a party thereto may make appropriations and levy taxes in accordance with the provisions of the general statutes and may issue bonds in accordance with section 8-192.

**CGS Section 32-224(f) - Provisions of joint municipal development projects**

This statute authorizes the implementing agencies of two or more municipalities, after approval by each municipality's legislative body, to jointly initiate a development project if the project area is to be located in one or more of such municipalities. After approval by the Commissioner of the Department of Economic and Community Development of the development plan for any project for which state aid is to be requested under CGS Section 32-223, such implementing agencies may enter into and amend an agreement to jointly carry out the development plan. Such an agreement may include provisions for furnishing municipal services to the project and sharing costs of and revenues from the project, including property tax and rental receipts. The development plan shall include a proposed form of the agreement to be entered into by the municipalities. Each municipality which is a party to an agreement may make appropriations and levy taxes in accordance with the provisions of the general statutes and may issue bonds in accordance with CGS Section 32-227 to further its obligations under the agreement.

### **CGS Sections 7-273b through 7-273n - Municipal Transit District**

Any town, city or borough may, by itself or in cooperation with one or more other municipalities, form a transit district. These districts are formed for the development, maintenance, and improvement of mass transportation systems within the state. Transit districts are governed by a board of directors appointed by the chief elected official or legislative body of each member town. Districts do not have the power to tax, but can impose service charges or user fees and can receive grants for specific purposes.

An example of a large Municipal Transit District in Connecticut is the Greater Hartford Transit District. The District is a quasi-municipal corporation operating under the authority of Chapter 103a of the Connecticut General Statutes. There are currently sixteen member towns, each of which appoints one to four Directors according to population, who collectively form the Board of Directors (i.e., the policy making body of the District). The day to day affairs are managed by the District staff. The District has broad powers to acquire, operate, finance, plan, develop, maintain and otherwise provide all forms of land transportation and related services including the development or renewal of transportation centers and parking facilities.

Examples of Municipal Transit Districts are as follows:

- Estuary Transit District
- Greater Bridgeport Transit Authority
- Greater Hartford Transit District
- Greater New Haven Transit District
- Greater Waterbury Transit District
- Housatonic Area Regional Transit District
- Meriden Transit District
- Middletown Transit District
- Milford Transit District
- Northeastern Connecticut Transit District
- Northwestern Connecticut Transit District
- Norwalk Transit District
- Southeast Area Transit District
- Valley Transit District
- Windham Region Transit District

### **CGS Sections 7-330 through 7-332 - Municipal District**

The legislative bodies of two or more municipalities may vote to create a municipal district for the purpose of performing any municipal function which the member municipalities of the district can perform themselves. Districts are governed by a board consisting of two members from each municipality who are appointed by the legislative body of that municipality. Any municipality with a population of over 5,000 is entitled to one additional representative for each additional 5,000 of population. Since the district has no independent power to tax, expenditures are simply pro-rated among member municipalities.

Regional Refuse Disposal District #1 is an example of a municipal district. It was formed in 1970 by the towns of Barkhamsted, Colebrook, New Hartford and Winchester when the Winchester Landfill, which was used by four area communities, was nearing capacity. The

member towns established the District and governing Board of Director's by vote of their town meetings. A charter and bylaws were adopted by the Board, members of which are appointed by the respective town's Boards of Selectmen to three-year terms. Colebrook withdrew from the District in 1991. The District continues to address the solid waste disposal needs of its member municipalities. The District's \$1.3 million budget is supported by fees charged for services and through assessments on each of the District's member towns.

### **CGS Sections 7-333 through 7-339 – Metropolitan Districts**

A Metropolitan District is a regional body formed when a central city establishes a relationship with any number of municipalities within the metropolitan area for the performance of any function, service or work that each municipality can perform on its own. Metropolitan districts are formed by a vote of the legislative bodies of participating municipalities or by the petition of the electors of those municipalities. Such a district may adopt a charter establishing its powers, duties, and means of financing. It is governed by a commission consisting of five to fifteen members selected by the legislative bodies of the participating municipalities.

### **CGS Section 10-397(a) - Tourism Districts**

All 169 cities and towns in Connecticut are members of one of the state's five regional tourism districts, pursuant to this statute. Each town has a representative on the Governing Board of the tourism district to which it belongs. The purpose of these districts is to promote conventions, recreational and tourism activity in the district. They are funded from proceeds of the hotel or lodging tax receipts from those facilities located within the district using a formula specified by statute.

An example of a tourism district is the Greater New Haven Convention & Visitors Bureau (GNHCVB). The GNHCVB is responsible for promotion of the Greater New Haven Convention and Visitors Bureau. The cities and towns that make up the GNHCVB are Bethany, Branford, Cheshire, Clinton, Durham, East Haven, Guilford, Hamden, Killingworth, Madison, Middlefield, Milford, Orange, New Haven, North Branford, North Haven, Wallingford, West Haven and Woodbridge.

The GNHCVB is a legislatively created organization, formed in 2003, responsible for promoting the Greater New Haven region as an attractive destination for leisure travelers, motor coach groups, sporting events, and meetings/conventions. The Bureau is funded by a percentage of the district hotels' gross tax receipts received by the State Department of Revenue Services.

The Bureau is governed by a 40 member volunteer Board of Directors; 19 members of the Board are appointed by the chief elected officials in the member municipalities, and the remaining 21 members are elected from the hospitality industry by the appointed members of the board. The staff of the Bureau is hired by the Board to carry out the day-to-day operations to the Bureau.

Examples of the statewide Tourism Districts include:

- (1) Central District – River Valley
- (2) Southwestern District – Fairfield County
- (3) Eastern District – Mystic County
- (4) South Central District – Greater New Haven
- (5) Northwestern District – Litchfield Hills

### **CGS Section 19a-241 - Health Districts**

This statute authorizes the legislative bodies of towns, cities and boroughs to unite to form district departments of health. It allows a board to manage the affairs of such a district. Each town, city and borough, which as voted to become a part of any such district, shall, by its board of selectmen, city council or board of burgesses, appoint one person to be a member of such board. Any town, city or borough having a population of more than ten thousand inhabitants, as annually estimated by the Department of Public Health by a method comparable or similar to that used by the United States Bureau of the Census, shall be entitled to one additional representative for each additional ten thousand population or part thereof, provided no such municipality shall have more than five representatives on a district board of health.

### **Special Act 511 of the 1929 CT General Assembly - Metropolitan District Commission**

The Metropolitan District (MDC) is a non-profit municipal corporation chartered by the Connecticut General Assembly in 1929 to provide potable water and sewerage services on a regional basis. A 29-member Board of Commissioners governs the policy-making of the District. Seventeen Commissioners are appointed by their respective town/city councils; 12 Commissioners are apportioned by the Governor and leaders of the Connecticut General Assembly. Commissioners are from the eight MDC-member towns: Bloomfield, East Hartford, Hartford, Newington, Rocky Hill, West Hartford, Wethersfield and Windsor. The Board sets policy and the District Manager and agency staff see that the policy is carried out.

The mission of the MDC is to provide its customers with safe, pure drinking water, environmentally protective wastewater collection and treatment and other services that benefit the member towns. The MDC provides quality water supply, water pollution control, mapping, and household hazardous waste collection to eight member municipalities and to portions of other towns in the region. Under a contract to the Connecticut Resources Recovery Authority, the MDC also handles waste transportation and processing operations associated with the Mid-Connecticut Project, a trash-to-energy facility serving more than 65 Connecticut municipalities. The MDC raises its revenue from its two main operations: water and sewer. The MDC bills the water customers directly for those services. The funding of sewer services is through taxation on member municipalities and a sewer user charge for tax exempt and high flow users.

## Appendix C

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