

Inter-Municipal Cooperation: Sharing of Expenditures and Revenues



ICURR Intergovernmental Committee on Urban
and Regional Research
Comité intergouvernemental de recherches
urbaines et régionales **CIRUR**

Enid Slack

***Inter-Municipal Cooperation:
Sharing of Expenditures and Revenues***

by
Enid Slack

with the assistance of
Ian Wight



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Foreword

On behalf of the Intergovernmental Committee on Urban and Regional Research (ICURR), we are pleased to present Enid Slack's publication *Intermunicipal Cooperation: Sharing of Expenditures and Revenues*. This is ICURR's fourth report on municipal finance, a field of research that continues to be a major concern for ICURR and its sponsors, the provincial and territorial ministries of Municipal Affairs and the Canada Mortgage and Housing Corporation.

Confronted by provincial downloading of services, municipalities are seeking ways to increase efficiency and cut costs so that they do not have to reduce service levels or raise property taxes. In this context, municipalities have attempted to reduce costs in a number of ways. Experiences with privatization and similar alternatives were documented by Michael Skelly in an ICURR report entitled *Alternative Service Delivery in Canadian Municipalities* (1996). Amalgamation with neighbouring municipalities to take advantage of economies of scale is examined in five Canadian case studies soon to be published by ICURR as *The Effects of Municipal Consolidation in Canada in the '90s*.

The present report reviews some Canadian and American examples of intermunicipal cooperation, yet another form of alternative service delivery. The case studies provide examples of cooperative purchasing, sharing of facilities and equipment and even sharing of personnel. On the other hand, where tax sharing exists in Canada, it usually applies to single-industry towns who share from their industrial tax base with neighbouring municipalities. It is hoped that these various examples will help Canadian municipalities in their restructuring efforts.

ICURR would like to thank Dr. Slack for the enthusiasm, commitment and dispatch that always characterize her work with us.

André Lanteigne
Executive Director

Dr. Claude Marchand
Research Director

Intergovernmental Committee on Urban and Regional Research

Author's Biography

Dr. Enid Slack is an economic consultant specializing in public policy research in the area of public finance, with special emphasis on municipal and educational finance. Dr. Slack has been president of Enid Slack Consulting Inc. since 1981 and teaches a graduate course on urban public finance at the University of Toronto. She received a B.A. from Glendon College, York University and an M.A. and Ph.D. in economics from the University of Toronto.

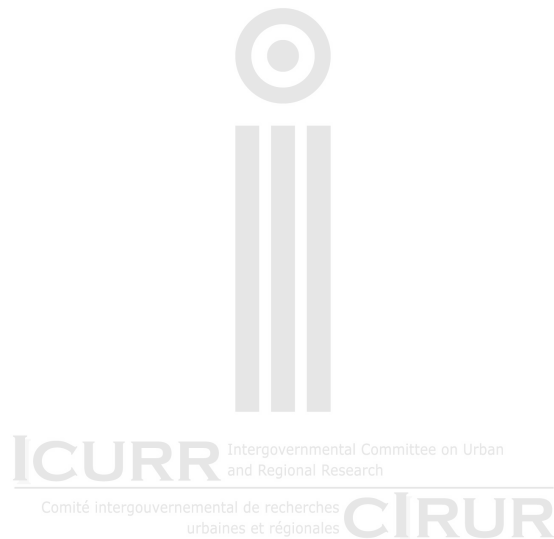
Dr. Slack consults to a variety of clients in Canada and abroad, including school boards, municipal, provincial, territorial and federal governments, government commissions and private companies. She acted as a Special Advisor to the 1996 Greater Toronto Area Task Force and was a member of the Who Does What Panel in Ontario. Dr. Slack has co-authored books on property taxes and on urban public finance in Canada and has published numerous articles on municipal and provincial government finance. She has written two previous reports for ICURR: *The Land Use Implications of Alternative Municipal Financial Tools: A Discussion Paper* and *Development Charges in Canadian Municipalities: An Analysis*.



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Executive Summary

Governments at all levels are seeking ways to cut costs. At the municipal level, the drive for efficiency has come from a number of sources. Shrinking provincial-municipal transfers combined with taxpayer resistance to increases in the property tax have put pressure on municipal finances. At the same time, provincial governments have increasingly mandated more functions to be performed at the local level. The result of these combined forces is that municipalities are seeking ways to increase efficiency and cut costs so that they do not have to reduce service levels or raise property taxes. In this context, municipalities have attempted to reduce costs in a number of different ways: turning to the private sector to provide services, amalgamating with neighbouring municipalities to take advantages of economies of scale in service delivery and cooperating with other municipalities to provide services.

This report reviews some Canadian and American examples of inter-municipal cooperation in the delivery of services. Inter-municipal cooperation includes expenditure sharing where municipalities cooperate to provide services and generally share the costs associated with the delivery of the service. Inter-municipal cooperation also includes cases of tax sharing where municipalities share tax bases or tax revenues even where there are no expenditure-sharing arrangements. This type of tax sharing is most common in Canadian municipalities where an industry locates in one municipality and the workforce lives in another municipality. Tax sharing ensures that the tax burden is shared fairly among the beneficiaries of local services.

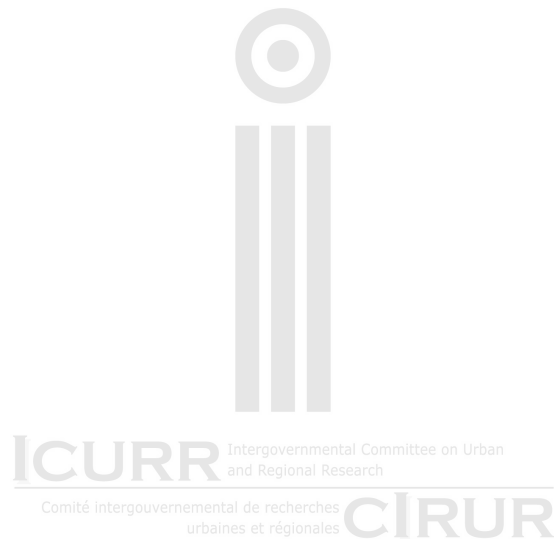
The driving force behind expenditure sharing is cost savings. By cooperating to provide services, municipalities can take advantage of economies of scale in service provision that are achieved when a large population is served. The case studies provide examples of cooperative purchasing, sharing of facilities and equipment and even sharing of personnel. Not only can municipalities provide services at a lower cost; they may also be able to increase service quality or provide services that they could not have afforded on their own.

Tax sharing is not particularly common among Canadian municipalities, in part because provincial transfers have played such a large role in reducing fiscal inequities and, in part, because of the existence of regional government structures in large urban areas. These governments already involve tax sharing among their constituent municipalities. Further, voluntary tax sharing is not particularly popular with those municipalities that are required to give up tax revenues. Where tax sharing exists, it usually applies to single-industry towns that share taxes from one industry with neighbouring municipalities. The Canadian case studies summarized in this report are generally of this type.

The main advantages of expenditure sharing relate to the potential for lowering costs and improving the quality of services at the local level. The main advantages of tax sharing relate to the equitable sharing of tax burden among the users of local services. The main problem with inter-municipal cooperation—expenditure sharing and tax sharing—is the potential lack of accountability when tax decisions are made by a different jurisdiction than expenditure

decisions. Inter-municipal commissions or committees established to make decisions about service delivery may not be accountable to the taxpayers and consumers of each of the cooperating municipalities.

Further research on how to make sharing arrangements work better in terms of accountability to taxpayers and consumers, and in terms of fairness for each of the municipalities involved in the arrangement, would assist municipalities seeking to cooperate. Empirical research that compares the impact on costs of a range of alternatives—inter-municipal cooperation, municipal amalgamations, and private sector delivery—would provide municipalities with a basis of comparison on cost savings.



Chapter 1

Introduction

The changing nature of local governments over the past two decades reflects the broader economic and political context within which these governments operate. Governments at all levels are seeking ways to cut costs by downsizing, privatizing, and introducing competitive forces into the public sector. At the municipal level, the drive for efficiency has come from a number of sources. On the revenue side, shrinking transfers from the provinces have been combined with taxpayer resistance to increases in the property tax. On the expenditure side, provincial governments have increasingly mandated more functions to be performed by local governments. In Ontario, for example, municipalities have been given increased responsibility for funding a number of services that were formerly cost-shared with the Province. The result of these combined forces is that municipalities are seeking ways to increase efficiency and cut costs so that they do not have to reduce service levels or increase property taxes.

As a result of these funding pressures, municipalities have also had to reconsider "what kind of business they are in" (Tindal and Tindal 1995, 11). They not only have to determine what services they can afford to provide but they also have to find different kinds of arrangements that ensure that local services are provided efficiently. Municipal governments are learning that they no longer need to provide the services themselves, but rather can arrange for those services to be provided by others. As Osborne and Gaebler (1993) note, policy decisions can be separate from service delivery: municipalities can engage in the "steering" functions and leave the "rowing" functions to the private sector, other local governments or special purpose bodies. As Tindal and Tindal (1995, 11) note:

If Canadian municipalities continue to define themselves only in relation to how many services they can afford to provide directly on their own for their inhabitants, they are facing a bleak future of permanent financial constraint. If, however, they can recast themselves as governing bodies whose primary role is to help their communities give expression to collective feelings and concerns and then to reach out and seek partnerships which will generate the resources which can address these community concerns, their future may only be limited by their imaginations and cooperative spirit.

In this context, municipalities have attempted to reduce costs in various ways. Municipal annexations and amalgamations have been used to form large municipalities that could achieve economies of scale in service delivery and potentially reduce costs. This assumes that the larger the population being served, the lower the costs per capita for services such as water, sewers, and roads. Hirsch (1959) provides empirical support for economies of scale in water and sewers; subsequent studies have found economies of scale in transportation as well.

Municipal amalgamation and restructuring are fairly common across Canada, most recently in New Brunswick, Nova Scotia and Ontario. It is not clear, however, that these amalgamations have led to cost savings. Indeed, recent studies (for example, Kushner, Masse, Soroka and Peters 1996) suggest that amalgamations and annexations actually increase costs. In any event, some municipalities are beginning to realize that economies of scale might be achieved in other ways, such as by contracting out service delivery to the private sector or through inter-municipal cooperation. If two or more municipalities combine to deliver a service, then a larger population is served and costs can potentially be reduced. It may not be necessary to expand municipal boundaries to achieve cost savings.

The main objectives of inter-municipal expenditure sharing are to save costs and to improve service delivery. An important aspect of expenditure sharing relates to how the costs of services are shared among the participating municipalities. Cost sharing is designed to ensure that those who enjoy the benefits from a service pay the cost. There are other circumstances, however, where *revenue* sharing is important but where it is not necessarily related to inter-municipal cooperation in service delivery. For example, one municipality can benefit from the services provided by another municipality without an explicit inter-municipal agreement and without paying for them.

One case is where a large industry locates in a rural municipality. This industry would generate substantial tax benefits to the municipality in which it is located. The costs of providing services to that industry (such as water, sewers, roads) and to the employees who may reside in other communities (such as social services, libraries, and recreation facilities) will, in large part, be incurred outside the municipality. A second case is where a development occurs in a rural jurisdiction on the periphery of an urban municipality. The development would have the benefit of lower taxes (when compared to the neighbouring urban municipality) and its residents would also benefit from using services in the urban municipality where they may work and enjoy entertainment. This spillover of benefits to rural developments for which the urban municipality is not compensated is often the cause of boundary adjustments. Some form of tax sharing could be used to ensure that the tax burden is shared fairly among the beneficiaries of local services.

This paper reviews some Canadian and American examples of inter-municipal cooperation with respect to providing services (expenditure sharing) and revenue sharing (particularly, tax sharing). It evaluates the effectiveness of expenditure sharing in terms of cost and service delivery. The paper also evaluates tax sharing among municipalities to achieve a fairer distribution of costs. It concludes with a discussion of the advantages and disadvantages of inter-municipal cooperation and makes some suggestions for further research.

Chapter 2

Principles for Evaluating Inter-Municipal Cooperation

In evaluating inter-municipal expenditure and revenue sharing arrangements, the following basic principles are applied:

- **Equity:** Costs and benefits should be shared fairly across the community. In terms of the ability to pay criterion, this means that individuals should pay for government goods and services according to their ability. The benefits received criterion says that individuals should pay for public services according to the benefits they receive from the service.
- **Efficiency:** The services delivered should achieve the maximum value with the available resources. Resources should be used to produce the goods and services that are desired by consumers at least cost. Resources should not be wasted.
- **Cost-Effectiveness:** The service should be provided at the least cost.
- **Accountability:** Consumers and taxpayers should know who can be held accountable for service provision and the taxes or user charges they pay for these services. The service delivery agent needs to be accountable and responsive to consumers and taxpayers. One aspect of accountability is simplicity: the way in which public services are financed needs to be simple and transparent so that it is understandable to consumers.

For tax sharing, the main emphasis is on equity since the primary rationale is to share the costs of public services fairly among the recipients. At the same time, accountability is important because consumers of the service should know who levied the charge and who is responsible for service provision. These two principles may conflict: equity may require that taxes levied in one jurisdiction be paid to another jurisdiction. If this is the case, accountability may be difficult to achieve at the same time as equity.

In terms of expenditure sharing, the focus is on efficiency and cost-effectiveness. The rationale for expenditure sharing is to reduce costs and use resources efficiently. As with tax sharing above, however, there is a tradeoff between efficiency and effectiveness on the one hand and accountability on the other hand. Sharing expenditures with another municipality can reduce costs but it makes it difficult for taxpayers and consumers to know who is responsible for service delivery.

Chapter 3

Expenditure Sharing

The way in which expenditures are shared can range from complete independence where municipalities provide the service themselves to a comprehensive metropolitan government where a separate entity is created that is fiscally and politically independent. An American study (Connecticut 1990) summarized a continuum of arrangements:

- *complete independence*: the functions are performed at the municipal level.
- *contract services*: one or more municipalities contract with another municipality or the private sector to provide the service.
- *regional planning*: municipalities voluntarily join together under a statutory framework to work out regional issues.
- *voluntary regional programs*: municipalities voluntarily join together to provide a service on a regional basis; each municipality retains control over its own service.
- *multi-jurisdictional programs*: municipalities join together to form an entity with direct representation from each of the participating municipalities; the budget is also influenced by member municipalities.
- *single purpose regional districts*: municipalities form a separate regional entity to perform a specific service; the governing board and the budget are independent of the member municipalities.
- *comprehensive metropolitan*: an entity is created to handle a variety of services for a geographic area that is larger than an individual municipality; the entity is politically and fiscally independent of its underlying municipalities.

In the Canadian context, examples can be found for each of these types of intergovernmental arrangements. In large metropolitan areas, comprehensive metropolitan governments and single purpose regional districts or commissions are fairly common. In smaller communities, as Skelly (1996, 9) notes, the most common types of intergovernmental arrangements are those in which a local government pays another government to deliver a service (contract services) or those in which two or more local governments plan, finance and deliver a service together (voluntary regional programs). These types of arrangements are common among smaller municipalities because the provision of services can be easily shared among several neighbouring municipalities. By pooling their resources with others, smaller municipalities can provide a service that they might not have had the resources and expertise to provide on their own.

3.1 Expenditure Sharing: Canadian Case Studies

Inter-municipal agreements and boards have been used in several Canadian provinces. Some examples are provided below and are summarized in Table 1.

British Columbia Regional Districts

Regional districts were introduced in B.C. in 1965 to provide a framework for the inter-municipal delivery of services. All municipalities and most unincorporated areas belong to districts. A regional board is comprised of elected municipal officials who are appointed to the regional board. The number of members and the number of votes on the regional board vary by population size. The voting system (described in Saskatchewan 1993) requires a high level of consensus for general decisions while allowing member municipalities to decide on and pay for services administered in their area by the regional board.

Regional districts can provide a wide variety of services ranging from airports to health centres to theatres. They can provide services to only one part of the district or to the entire regional district. Decisions on whether or not the regional district will provide the service are referred to local councils. As noted in Saskatchewan (1993, 3), the voluntary nature of service decisions provides for "flexibility and diversity in the provision of functions." The regions can "fill a service gap" if municipalities agree, but each municipality is not required to agree to every service being provided.

Elected officials from voting districts (unincorporated and rural areas) and municipalities that have decided not to accept a service cannot vote on that particular service in the regional district council, however. This rule applies largely to what are referred to as local and extended (discretionary) services. The authority to provide these services is provided through the Letters of Patent given by the provincial government to each regional district.

Regional districts receive their funding from local governments. Since the regional district provides a number of different services and not every area receives the same services, the cost of each service in each municipality in terms of property tax levies has to be calculated. Local councils can then decide whether it is worth receiving the service from the district on the basis of the costs and benefits of the services.

The advantage of the regional district model is that it permits a number of diverse organizational, functional and financial arrangements that can reduce the number of special purpose bodies and provide an alternative scale for the delivery of services. Municipalities still retain control over local budgets for services delivered by the district. There are some disadvantages, however. In particular, the regional districts lack the authority to implement policies. It has been argued in planning, for example, that none of the municipalities are obligated to respect the regional plan (see Slack 1996, 33). The *Growth Strategies Statutes Amendment Act*, Bill 11 (1995) introduced inter-regional and intra-regional growth strategies to B.C. that may alleviate some of these problems.

Alberta Regional Services Commissions

In Alberta, regional services commissions are used to deliver a number of utility services, including water, sanitary sewers, waste management and storm sewers, on a regional scale. These commissions are supported mainly by user fees and have the authority to approve their own budgets. The legislative framework for them is *The Alberta Regional Municipal Services Act, 1983*. The regional services commissions are established on a voluntary basis and set up by Orders in Council.

There are currently 14 regional services commissions in Alberta: six for water, three for sewage, three for solid waste, one utility services commission for water and sewer, and one sewer and solid waste commission. Commissions are required to operate on a full cost recovery basis. Rates are charged directly to consumers and cover both operating and capital costs. Commissions do not requisition tax levies from municipalities. Regional services commissions are autonomous bodies; municipalities cannot vote on commission budgets. The provincial government provides grants to commissions to assist in their formation and operation.

Saskatchewan Inter-Community Cooperation Program

The Inter-Community Cooperation Program (ICC) was established in 1993 to encourage municipal governments to form partnerships to deliver services. One example of the program is the West Central Municipal Government Committee (Saskatchewan 1995). This committee represents 29 municipal governments which have come together to assist one another with local government operations. Each municipality has identified the financial, human and mechanical resources available for sharing. These resources are made available to other communities on a rental basis.

An earlier survey of partnerships among municipalities in Saskatchewan (Saskatchewan 1993) determined that the average urban municipality in that province in 1992 provided six services on an inter-municipal basis. There tended to be more partnerships for service delivery among the cities because cities generally have more services to provide. The services mostly commonly provided through inter-municipal arrangements were sewer and water, administration, road maintenance and landfill sites. Where there was provincial funding or legislation, partnerships were used for ambulance, emergency planning, hospitals, home care, rural development corporations, senior and low income housing, regional libraries and parks. In 70 percent of the cases, there were written agreements.

Ontario Case Studies

The urbanized portions of Ontario are characterized by regional and metropolitan governments that engage in expenditure and tax sharing on a formal basis. In these two-tier governments, the upper tier provides services to the whole region. These services generally include the municipal portion of social services, regional roads, and water. The upper tier has

no direct taxing authority but can requisition property taxes from the constituent lower tiers.

Expenditure sharing at the local level is also common among municipalities in Ontario. In each of following cases, the problems which originally led to the cooperation were elements such as the need to replace an obsolete facility, the need to cut back on operating costs while maintaining service levels and problems associated with providing services to users who cross boundaries.

Five case studies of municipal sharing are described in Ontario (1983):

- a purchase cooperative for purchasing small items (such as fuel, envelopes, photocopiers etc.) initiated in 1968 in the City of Peterborough. The cooperation involved the city plus a college, a university, hospitals, public utilities commission, school boards and a conservation authority.
- a shared computer facility initiated in 1973 between the City of Peterborough and the Public Utilities Commission for services such as accounting, payroll, and inventory.
- municipal use of a university facility arranged in 1979 between the City of Windsor, Essex County and the University of Windsor.
- joint recreation facilities and programs between the City of Pembroke and the Townships of Stafford and Pembroke initiated in 1980.
- a shared clerk-treasurer among the Townships of Atwood, Morson and McCrossan and Tovell.

Although these case studies are somewhat old, they do highlight the potential advantages of expenditure sharing: cost savings, better services, better community relations and better working conditions.

A more recent example of cooperative activities in Ontario can be found among school boards. The Metro Task Force on Cost Savings Through Cooperative Activities was established in 1994 to design models for the cooperative delivery of education services. The Task Force concluded that there is significant cooperative transportation activities across the province in the area of education. Indeed, it found that over 90 percent of coterminous boards are already sharing or planning to do it.

The most common model of cooperation used in the province is where two boards share bus routes but maintain separate transportation departments. In a second model, two school boards have combined forces by locating a single transportation department for both boards in one of the board offices. In a third model, more than two boards have come together to share bus routes. In a fourth model, two boards have come together and contracted with a private firm to facilitate the planning and development of an integrated transportation system.

Quebec Inter-Municipal Agreements

In the large urban centres in Quebec, regional structures are used to provide services of a regional nature. Outside the large urban centres, many municipalities in Quebec are too small and do not have sufficient resources to provide all the services that people want. For this reason, municipalities cooperate through inter-municipal agreements. These agreements take three forms: provision of a service by one municipality to another, transfer of powers to another municipality to offer a particular service, and inter-municipal commissions where municipalities cooperate in setting up a common service.

Some form of inter-municipal agreement can be found in every municipality in Quebec with the exception of Magog, La Tuque and Sept-Iles. In the majority of cases (78 out of 115), services are provided by the central city or there is a transfer of powers to the central city. The 23 central cities that are involved provide services to 260 local municipalities. The services most often provided through inter-municipal cooperation are public transit, police protection, water, wastewater, fire protection, waste management, recreation, parks and libraries.

Regional bodies have also been established to take over regional functions which transcend municipal boundaries. These regional bodies, known as MRCs (municipalités régionales de comté), are similar to counties in other provinces. The functions normally performed by these bodies are transportation, economic development and tourism.

Nova Scotia : Joint Expenditure Boards

Nova Scotia allows for indirect revenue sharing between municipalities through Joint Expenditure Boards, established under the *Assessment Act* (R.S.N.S. 1989, c.23). The relevant sections (98 to 102) deal with joint expenditure apportionment on the basis of total assessed value of taxable property plus an allowance for grant-in-lieu properties. Thus, cost-sharing of joint services is on the basis of a municipal unit's ability to pay through its assessment. If a participating unit acquires new assessment it will pay a higher proportion of the joint costs, and the other units will benefit by indirectly accessing the new tax base via the joint expenditure board mechanism.

There are approximately 20 Joint Expenditure Boards in Nova Scotia. The main board, in Cape Breton, provides social welfare primarily. It is the only board dealing with this function. The former Halifax Metropolitan Authority also operated primarily as a Joint Expenditure Board prior to the April 1996 formation of the amalgamated Regional Municipality. The joint boards provide a range of functions such as law enforcement, fire protection and general administrative services. While most of the expenditures are covered by provincial conditional grants, a substantial amount is in the form of unconditional transfers from other local governments.

3.2 *Expenditure Sharing: Some American Examples*

Inter-municipal expenditure and revenue sharing are more usual in U.S. jurisdictions than in Canadian jurisdictions for at least two reasons. First, the establishment of metropolitan governments in large urban centres is more common in Canada than in the U.S. Because these metropolitan or regional governments permit services to be provided on a regional basis by one government, the need for municipalities to cooperate to provide regional services is reduced. Second, provincial grants to municipalities in Canada reduce the fiscal disparities among municipalities and so reduce the need to share revenues. In the American examples below, expenditure sharing is often accompanied by tax sharing. For this reason, most of these examples could also be included in the section on tax sharing below.

Colorado: Scientific and Cultural Facilities (Regional Asset) District - Metropolitan Denver

In 1982, the Colorado state legislature ended direct financial support for the arts and sciences, forcing the major institutions to charge admission. Reduced support for these institutions resulted in the formation of the Scientific and Cultural Facilities District (SCFD). Though public funding was being generated primarily by the City of Denver, surveys revealed that most visitors to scientific and cultural facilities were residents of the suburbs and other parts of the state. Metro area residents recognized how important these institutions were for educational reasons and for a higher quality of life. The SCFD was created to provide a more equitable basis of public support.

In November 1988, voters in the six counties in metropolitan Denver approved a sales tax increase of one-tenth of one percent to support scientific and cultural facilities within the area. Proceeds from the tax produce about \$20 million per annum for the scientific and cultural community in the metro-region. In 1994, voters reaffirmed their support for the SCFD for a ten-year period.

Similar regional asset districts exist, or have existed, in the Denver area for a Major League Baseball Stadium and for Regional Transit (both districts are coterminous). The regional transit district, which dates from 1969, was one of the first such districts; it covers the whole urbanized area and is funded by a one-tenth of one percent sales tax.

Pennsylvania: Allegheny County (Pittsburgh Region) Regional Assets District

Legislation enacted in 1993 launched a government structure in Allegheny County to fund regional assets in southwestern Pennsylvania and to institute a tax restructuring of local governments, including the City of Pittsburgh (Turner 1995, 19). The legislation permits Allegheny County to levy a one percent local option sales tax and, at the same time, to create a special purpose area-wide unit of government known as the Allegheny Regional Asset District "to support, finance, co-ordinate and assure efficient and effective operation and development of regional assets" (Fisher 1995, 19). The assets to receive most of the funding include regional parks and libraries, sports facilities and special facilities such as the zoo.

By law, half the proceeds from the one percent local option sales tax are reserved for the District to support the facilities mentioned above; 25 percent of the proceeds go to the County to reduce property taxes and to eliminate the county's 'personal' property tax and 25 percent is allocated to the local governments within the County, based on a formula which is redistributive in nature. The municipal allocation is determined by a weighted-distribution, revenue-sharing type formula based on the current tax effort and current tax-base wealth (measured by the per capita market value of taxable real property).

Ohio: Cities of Norton and Barberton (joint economic development activities)

The Ohio legislature has enacted a number of statutory provisions which authorize localities to establish inter-local revenue-sharing arrangements to fund specific activities such as the creation of joint fire service, hospital and economic development districts. Of particular significance are the joint economic development districts authorized by Sec. 715.69 of the Ohio Revised Code.

The Cities of Norton (pop. 12,200) and Barberton (pop. 27,900) have negotiated a series of agreements in support of joint economic development efforts. Since 1985 they have established five joint economic development zones from which revenues are shared. Each of the zones is located within Norton and is served by utilities from the City of Barberton.

In return for Barberton's agreement to extend utility service within the zone, Norton has agreed to pay Barberton, on a quarterly basis, half of the income tax which it collects from employees of new businesses in the zone served by Barberton, and from employees added to the workforce by pre-existing businesses in the zone subsequent to their connecting to Barberton lines. It also hands over any increases in the net profits of pre-existing businesses. The agreement, which is subject to renewal, extends for a 50-year period, contingent upon the continued need for Barberton's utilities by the affected business and the adequacy of that city's utility services.

3.3 Summary of Canadian and American Case Studies of Expenditure Sharing

Table 1 provides a summary of the Canadian case studies in this report. It is by no means intended to be an exhaustive list of expenditure-sharing arrangements but rather to highlight some examples of how expenditure sharing can work. In the largely urbanized areas of the country, more formal arrangements exist among municipalities for providing services on a regional basis. In some cases, these are full metropolitan or regional governments (for example in Ontario and Quebec) while in others they are regional bodies that are more voluntary in nature (such as in B.C.).

There are also many types of intergovernmental agreements for the provision of services in municipalities across Canada. These agreements are for joint purchasing, equipment sharing, shared facilities, shared inventories, shared services and co-ordinated functions. The nature of these agreements vary from fairly formal to just a handshake. With the exception of the informal arrangements, most of the examples of expenditure sharing required provincial

legislation. In particular, the more formal arrangements of regional districts, commissions or governments were enacted by provincial legislation.

In the American context, inter-municipal expenditure sharing is more prevalent than in Canada. The main reasons, as noted above, are the absence of regional and metropolitan governments in American jurisdictions and the lack of state transfers to reduce fiscal disparities across municipalities. The American examples of expenditure sharing are generally for services that spill over municipal boundaries, especially economic development, where a regional presence is required. In all three cases, state legislation was used to set up the expenditure/tax sharing schemes.

Where there is expenditure sharing in U.S. municipalities, it is generally accompanied by tax sharing. Tax sharing is more broadly based in American cities where local governments have access to income and sales taxes. In contrast, the Canadian sharing arrangements depend on property taxes and user fees.

Table 1: Examples of Expenditure Sharing in Canadian Municipalities

| <i>Province</i> | <i>Sharing Arrangement</i> | <i>Services</i> | <i>Funding</i> |
|------------------|--|--|--|
| British Columbia | regional districts | range of functions | assessment base |
| Alberta | regional services commissions | utility services | user fees |
| Saskatchewan | inter-community cooperation program | range of functions | services rented to municipalities |
| Ontario | metropolitan and regional governments | mainly roads, police and social services | assessment base |
| | cooperative purchasing & services, shared facilities, shared personnel | range of functions including education | assessment base |
| Quebec | urban communities | range of functions | assessment base |
| | inter-municipal cooperation: provision of services by one mun. to another, transfer of powers, commissions | generally for police, fire, transit, water, wastewater, waste management, recreation, parks, libraries | cost-sharing basis |
| Nova Scotia | joint expenditure boards | range of functions | provincial grants and grants from municipalities based on ability to pay |

3.4 *Issues Arising from Expenditure Sharing*

As noted above, inter-municipal cooperation can take many forms ranging from informal handshakes to more formal arrangements. When making such arrangements, municipalities should consider the following factors (NATaT 1989, 7):

- It is necessary to describe the service that is to be provided and to specify the desired level of service. As part of this description, there should be a list of the activities, functions, equipment to be used and other service-related factors.
- The financial responsibilities of each party need to be specified. In particular, it is necessary to identify how the costs are to be allocated among local governments. As discussed in more detail below, costs are generally allocated on the basis of population, services received, capacity used, assessed value or some combination of these. In-kind contributions, such as the use of equipment and labour in lieu of cash, should also be specified.
- It is necessary to specify who is liable for damages that may result from the service provision. The contractor should be required to carry liability insurance.
- There are issues of acquisition and ownership especially in cases of joint purchase or production arrangements. It is important to specify how joint property and equipment will be allocated when the contract is terminated.
- The length of the agreement and the procedures for terminating it also need to be established at the outset.

Allocating Costs

With respect to the issue of allocating costs among the participating municipalities, some further points can be made. Wherever possible, direct charging for the service should be used. This ensures an efficient allocation of resources. Consumers know how much it costs to provide the service to them and they can make consumption choices based on that knowledge. Suppliers know how much to provide, based on consumer demand and what consumers are willing to pay. In some cases, charging is not appropriate, for example where the beneficiaries cannot be easily identified or where it is too costly to exclude them. In these circumstances, services will be financed out of general municipal revenues.

Programs that are self-supporting, such as sewer and water facilities, building and housing code inspections or solid waste collection and disposal, can be charged for directly. A rate structure can be established that recovers all of the costs and retires the outstanding debt. Where services are financed out of general municipal revenues, the costs can be shared on an equal basis or on the basis of population or assessed values. In some cases, an additional property tax levy can be used.

As Kurtz (1990, 13-14) notes, the way in which costs are shared depends on how the benefits are shared:

- Sharing costs equally across municipalities is appropriate where the municipalities are similar in size and the benefits received are roughly comparable. Overhead costs are often charged on this basis.
- Sharing costs on the basis of population size is appropriate where the population in each municipality is served equally by the program.
- Assessed value measures the size of the tax base and the ability of each municipality to pay for the service. Where the direct beneficiaries can be identified in terms of the residency of the users, assessed value (equalized to reflect differences in assessment techniques across municipalities) is appropriate. Examples where assessed value is appropriate include recreation, libraries and transit.
- An additional property tax levy, such as a local improvement charge or special assessment, can be used. This ensures that those who receive the benefits pay the costs. A special levy of this sort is appropriate for capital expenditures that directly benefit property owners, such as sidewalks or streetlighting.

3.5 *Evaluation of Expenditure Sharing*

The literature provides a number of arguments in favour of expenditure sharing and also notes some shortcomings.

Advantages of Expenditure Sharing

Kurtz (1990) suggests that there are three reasons for inter-municipal cooperation: interdependence, efficiency, effectiveness. With respect to interdependence, he argues that political boundaries rarely coincide with the boundaries that achieve efficient service delivery. In other words, the size of the population and the geographic area most suited to achieve efficiencies are not usually the same as the area contained within the political jurisdiction. One could add to Kurtz' argument that even if the geographic area somehow did match for one service, it would be unlikely to match for another. The optimal-sized jurisdiction to provide water is unlikely to be the same as the optimal-sized jurisdiction to provide fire protection or roads or other services. Inter-municipal cooperation permits services to be delivered efficiently regardless of municipal boundaries.

Under efficiency, Kurtz suggests that economies of scale can be achieved through intergovernmental cooperation. First, municipalities can achieve savings from purchasing in quantity. To reach the critical threshold for price breaks, municipalities may have to cooperate to purchase services. Cooperation also allows municipalities to reach the critical threshold for municipal investments and borrowing. Pooling investments can result in higher returns; pooling borrowing costs can reduce interest costs.

Kurtz describes two other benefits of inter-municipal cooperation related to efficiency: distribution of overhead and maximum utilization of capital. Cooperation allows municipalities to share personnel costs. For example, one municipality on its own may not be able to support a manager. Two or more municipalities together, however, may be able to share the costs and the services of a manager. In the same way, capital equipment and facilities can be shared.

Finally, Kurtz talks about effectiveness, which he defines as getting the job done. Inter-municipal cooperation enhances effectiveness where a large number of people is needed, where the scope of the problem crosses municipal boundaries, where specialized equipment or personnel are required and where emergency needs exceed basic needs.

Disadvantages of Expenditure Sharing

Skelly (1995, 10) notes some of the potential disadvantages of inter-municipal cooperation such as the potential for service disruption if the agreement is not being fulfilled properly. This is especially problematic where the municipality is not delivering the service itself but is relying on others. He also cites discontent on the part of local citizens who might feel that provision by their own municipality would result in more responsiveness to their needs.

Where a special purpose body is established to deliver the service, problems of accountability and co-ordination can arise (see, for example, O'Brien 1994, Kitchen 1993 and Slack 1993). As Slack (1993, 120-21) notes, the lack of political accountability of most boards and commissions can result in inefficient resource allocation. The private sector is efficient because it is constrained by profit maximization and competition. Municipal departments are constrained by the political process which means that if voters are not content with service delivery (or cost), they will vote the government out of office. Special purpose bodies, especially autonomous boards, are not constrained in either way and thus have no incentive to be efficient.

O'Brien (1994, 99) highlights three flaws of inter-municipal agencies relating to accountability and coordination. In particular, committee or board members are usually preoccupied with work in their own municipality and rely heavily on the expertise of staff. They are not accountable to the public for the decisions made by the agency. Further, if inter-municipal agencies have a single purpose, serious efforts at coordination are required. Otherwise, no one is responsible for making the necessary trade-offs between services. On the other hand, if an agency is multi-purpose, it begins to look a lot like a municipality. O'Brien concludes by stating that "accountability and co-ordination are essential to local self-government. Democratic principles are of utmost importance to citizens, and effectiveness in implementing the democratic will is not possible without the efficiency of co-ordination."

Chapter 4

Tax Sharing

Tax sharing is defined by Pammer and Dustin (1993, 57) as a program that "requires local jurisdictions to contribute a portion of their tax revenues from growth to a regional pool, and these revenues are then distributed to participating jurisdictions. The collection and distribution of tax revenues is based on formulas." In the case studies which follow, tax sharing also includes the sharing of tax revenues in the absence of growth. Tax sharing requires legal authority and submission to a central revenue agent. It can be accomplished by legislation or voluntary agreements.

There are two important reasons for tax sharing: fiscal disparities and spillovers. Fiscal disparities among local governments can lead to policies that are counterproductive for the region as a whole. For example, favourable tax treatment in one community can attract industry to that community at the expense of another. Intra-regional tax-base sharing reduces the incentive to engage in tax competition among municipalities because everyone benefits when an industry moves into the region. Tax sharing allows municipalities to achieve economic development and land use planning objectives in a coordinated fashion rather than compete against each other for new development. Regional tax sharing permits municipalities to retain their local autonomy and, at the same time, share revenues from economic growth.

In terms of spillovers, municipal boundaries often do not encompass all of the costs and benefits associated with a new development. For example, a new industrial plant can bring additional revenues to the municipality in which it locates. The municipal costs incurred as a result of that development may be incurred in other municipalities, however. Workers may live in neighbouring municipalities, necessitating expenditures in those municipalities on roads, schools, recreational facilities and other services. Tax sharing can be used to compensate surrounding municipalities for the increased costs arising from the new development.

Tax sharing can take three forms (see B.C. 1982, 55):

- *Bartered property sharing*: This type of sharing involves two (or more) municipalities dividing up individual property between them on an arbitrary basis. For example, bartered property sharing is used in cases where one mine is located in one municipality and the other mine is located in another, and where the revenues from the mines do not reflect the different expenditure needs or capacities of the municipalities or the size of the mine assets. The combined assessment of the mines in the two jurisdictions is thus allocated to each municipality on some basis other than the location of the mines. For example, it may be divided on the basis of expenditure needs or ability to provide services as measured by the overall assessment base of each municipality.

- *Localized revenue sharing*: Where an asset is located in one of two municipalities, an agreement is struck on how the tax revenues will be shared. A tax rate is struck for the asset and the host municipality levies the tax. The tax yield is pooled and redistributed.
- *Pooled tax-base sharing*: In this case, the assessment base itself is shared by creating an assessment pool. The assessment pool is allocated to each of the participants on the basis of a sharing formula. The participating municipalities strike a single, uniform tax rate to be levied on the pool and the proceeds are redistributed among them according to a formula.

With respect to pooled tax-base sharing, there are several ways to redistribute assessment, depending on the ultimate objective of pooling:

- Under a geographic approach, the assessment is assigned according to proximity to the industrial site, with the largest proportion of the funds remaining with the host municipality.
- Assessment could be distributed on the basis of population: more assessment is assigned to the largest municipalities presumably on the assumption that expenditure needs are greater where there is a larger population.
- Assessment could be assigned on the basis of the workforce's residential location. This distribution mechanism assumes that the fiscal impact on the host municipalities is proportional to the residential distribution of the workforce. Assessment is thus distributed in proportion to the distribution of the workforce.
- Another distribution mechanism entails assigning assessment according to the municipal costs of the expenditures required to be made by the municipalities to provide services.
- Distribution of assessment could be on the basis of fiscal capacity (as measured by the size of the municipality's assessment base). In other words, there would be a direct link between the costs to the municipality and its ability to pay.

Pooled tax-base sharing is commonly used to fund education in Canada. In some provinces, for example Alberta, the provincial government sets uniform mill rates on residential and non-residential property and the revenues are pooled. An example is the Alberta School Foundation Fund (ASFF). The funds are distributed to school boards by the Province of Alberta based on a formula designed to reflect ability to pay. Other provinces have similar tax-base sharing arrangements for education. The rationale behind this approach to funding education is to ensure that everyone has access to a comparable level of education throughout the province regardless of the size of the tax base in the jurisdiction in which they live.

4.1 Tax Sharing: Canadian Case Studies

Tax-sharing arrangements between municipalities are not commonly used in Canada. Those cases that do exist are generally mandated or facilitated by a provincial government; purely “voluntary” arrangements between municipalities are virtually absent. This section highlights some Canadian examples of tax sharing.

British Columbia

The existence of the regional district system in B.C. means that tax sharing automatically occurs for municipalities within the district. Expenditures made on behalf of municipalities in the district are funded by requisitions against the tax bases of the benefiting areas.

In addition to the regional district system, there are other examples of tax-revenue or tax-base sharing arrangements in B.C. These have in common the presence of a regionally significant industrial tax base, such as a mine, located in one municipality but impacting at least one other municipality. The cases are located in the remoter rural resource regions of B.C., where regional districts are much more sprawling in extent, and not generally so well-developed in their servicing reach and scope. Cooperation between the affected municipalities in achieving tax-sharing arrangements has been of varying significance: the most significant players have tended to be the Province and the industries.

British Columbia: Village of Taylor/City of Fort St. John Localized Revenue Sharing

The first sharing scheme instituted in B.C. was a tax-revenue sharing arrangement between the Village of Taylor and the City of Fort St. John in 1975. Taylor is host to petrochemical industrial developments and nearby Fort St. John hosts much of the industrial workforce. As with most other arrangements in B.C., this one was facilitated by the Province’s Letters Patent approach, whereby the provincial government customizes a municipality’s ‘constitution’ beyond that prescribed in the standard authorizing legislation. Initially, the Village of Taylor was required to share 50 percent of the first 20 mills of tax revenues received from the general municipal tax on the industries with the City of Fort St. John. This was later amended to 23 percent. The arrangement is currently being reviewed in the context of the latest B.C. tax sharing initiative involving the Peace River Regional District as a whole (see below).

British Columbia: Peace River Regional District

The most recent initiative is in the Peace River Regional District. There, the Province provides the District with designated infrastructure improvement funding drawn from a special provincial tax levy. This provincial tax is applied to certain classes of industrial and utility assessment in the unincorporated areas of the regional district. The levy represents a form of industrial revenue sharing by the province with the regional district. The Province also provides a matching grant to the regional district to distribute on the basis of an equalized per capita tax base.

The arrangements are derived from the Province's recognition of the district's limited access to the gas and oil industry tax base which is widely dispersed throughout the rural area of the region. The district's member municipalities are acknowledged as the service centres to industry in the area, providing the necessary infrastructure for the industry and its workers, the majority of whom reside within the boundaries of the municipalities. Recent industry growth is recognized as placing additional demands on the deteriorating municipal infrastructure. Under this scheme, municipalities in the district gain access to the region's industrial tax base to provide infrastructure.

British Columbia: Elk Valley Industrial Tax Base Sharing

The Elk Valley Industrial Tax Base Sharing Agreement was the first complex tax-base agreement in B.C. when it was initiated in 1982. The agreement is designed to spread the benefit of several coal-mining developments in the Elk Valley to the main municipalities (the Districts of Elkford and Sparwood, and the City of Fernie). The Province is involved in establishing a "blended" tax rate, whereby all the mining properties are treated equally for tax purposes, even though they are located in different municipalities. All are taxed at the same rate, reflecting the mining companies' collective responsibility to their host communities, while still ensuring that their individual contributions are based on a measure of their ability to pay.

The municipalities benefit to the extent that they house the mines' workforce. Though the arrangement started off as a pure tax-base sharing agreement tied to a measure of municipal fiscal need, in recent years the Province has intervened to limit the total amount of tax revenues flowing to municipalities from the mines. It has thus become more of a tax-revenue-sharing arrangement controlled by the Province.

British Columbia: Greater Trail Regional Services Financing Arrangement

Greater Trail is a distinct sub-region located in the extreme southwest corner of the Regional District of Kootenay Boundary. The main tax base is that associated with the Cominco properties in the City of Trail. The initial arrangements were made to enable all the municipal and electoral areas in the sub-region roughly coincident with the area of residency of the Cominco workforce to benefit from the machinery and equipment assessment associated with the Cominco mine in Trail. At the time (1981) municipalities could not tax such assessment, while regional districts could. The benefit of regional district taxes was extended through a "regionalization" of the tax-cost funding of six local service functions in five municipalities and two electoral areas, the most notable being fire protection and recreation.

British Columbia: Other Inter-Municipal Arrangements

The simple inter-municipal arrangement between Taylor and Fort St. John (see above) has been repeated in an agreement between the City of Prince Rupert and the District of Port Edward. An agreement was initiated in 1980 in relation to the Ridley Island coal port/grain terminal complex. More recent revenue-sharing arrangements exist between the District of

Logan Lake and the Village of Ashcroft in relation to the Highland Valley Copper Mine (initiated in 1989), and between the Village and District of New Hazelton in relation to the Recap Carnaby sawmill development (initiated in 1990).

All of these cases have in common the triggering effect of a boundary adjustment application by one municipality, with the Province implementing the adjustment in conjunction with a supplementary Letters Patent provision requiring the main benefiting party to share a portion of the industrial tax revenues with the other party. They are also all fairly narrow tax-revenue sharing, rather than tax-base sharing arrangements, which tend to limit the exposure of the taxed industry.

Alberta

The benefiting arrangements in Alberta are generally of two types: those that have roots in Alberta's former "Improvement District" system, and those that relate to annexation disputes in the Edmonton metropolitan area. The geographical distribution of cases is decidedly northern and western, confined to the more recently settled and still comparatively sparsely populated areas of the province.

Alberta's municipal legislation is unique in its clear authorization of tax-sharing arrangements between municipalities, but the take-up of this power has been negligible. More significant for a time was the Industrial Tax Transfer (ITT) Program operated by the Minister of Municipal Affairs in his capacity as the reeve (chief political official) of each Improvement District. Improvement Districts originally had their own legislation which enabled the Minister to levy the Industrial Tax Transfer but it was only used in about one-third of the Improvement Districts. ITT could only occur in Improvement Districts because the legislation for incorporated municipalities forbids them to levy special purpose taxes on selected industrial properties.

The program involved the designation as "Industrial Improvement Districts" of those Improvement Districts with large concentrations of industrial tax base and containing urban centres within their boundaries that serviced this industry. This triggered a surtax on the industrial properties to finance payments to the included urban municipalities in the order of \$60 for every worker (and their dependents) living in the urban municipality but working in connection with the industry within the Improvement District.

The recent incorporation of the Improvement Districts has effectively terminated the program, although some of the former Improvement Districts (now Municipal Districts) have continued to make payments to the urban municipalities within their boundaries. This accounts for several cases in the inventory below, though it is less clear if these should be considered tax-sharing arrangements because the Municipal District contributions now seem to be coming out of general municipal revenues, rather than from the proceeds of a surtax on industry.

A revenue-sharing environment has also been created using alternate local government structures. In Alberta, the *Municipal Government Act* allows for the formation of specialized

municipalities. This legislation permits large hamlets like Fort McMurray and Strathcona (where populations exceed 25,000 residents) to share the tax base with the rural municipalities in which they are located. These municipalities may also have special local tax levies to pay for services specific to hamlets. Many villages have chosen to dissolve into rural municipalities to share in the tax base.

Alberta: Municipal District of Clearwater "Fee for Access" Agreement

The Municipal District of Clearwater was one of the first Improvement Districts in the recent restructuring period to be incorporated, in 1987. It is endowed with considerable oil and gas field-related assessment, the servicing and operating of which tends to be done by workers resident in the urban centres. The new Municipal District chose voluntarily to continue to transfer monies to the Town of Rocky Mountain House and the Village of Caroline under the new "fee for service access" agreements.

The base amounts of the agreements reflect the last round of transfers under the Industrial Tax Transfer Program, but the agreements provide for subsequent payments to increase (or decrease) in direct proportion to the annual percentage change in the Municipal District's total assessment of industrial properties, including electric power and pipeline assessments. In return, the agreements specifically assure that Municipal District residents will have access to Town or Village facilities on the same basis as their own residents. These are still special agreements, reinforced by the fact that the Municipal District also enters into separate function-specific agreements with the urban municipalities for fire protection, recreation, library, ambulance and disaster services.

Alberta: Municipal District of Greenview Municipal Tax Sharing

A roughly similar situation exists in Greenview (incorporated 1995) among the Municipal District and the Towns of Valleyview, Grande Cache and Fox Creek. The monies transferred are based on a basic one mill surtax on industrial properties. A specific distribution formula is used to determine the transfers to each Town, the proportion being based on a combination of previous Industrial Tax Transfer Program shares and populations. The municipal tax-sharing arrangements use the Province's enabling legislation and are additional to other service-specific cost-sharing agreements between the Municipal District and each Town. The arrangements constitute one of the rare examples of essentially voluntary, multi-municipality industrial tax sharing in Canada.

Alberta: Municipal District of Woodlands "Fee for Service" Agreement

The new Municipal District of Woodlands has replaced its former Industrial Tax Transfer to the Town of Whitecourt with a general "fee for service access" agreement which appears to be based on the Clearwater model. The Woodlands/Whitecourt arrangement emerges as a form of multi-service master agreement, whereby the Municipal District contributes to the Town's costs for certain services in return for equal access to these services by Municipal District residents. A fixed annual sum is involved; the Municipal District's contribution comes from general revenues (which are dominated by industrial property taxation). The

relevant service areas are numerous. Rather than being a form of tax-base or tax-revenue sharing, this is really more an example of expenditure sharing because the formula does not recognize differential need and ability to pay.

Alberta: Big Lakes and Town of Swan Hill Cost Sharing

A similar inter-municipal cost-sharing agreement exists between the Municipal District of Big Lakes and the Town of Swan Hills. The Municipal District has been attempting to avoid being drawn into similar agreements with other urban municipalities in its jurisdiction. No specific tax base is referenced, only a five-year set of declining lump-sum payments. The cumulative amount appears to have been established with reference to the Town's direct and indirect costs, including debt charges, for services that might be considered to benefit taxpayers in the surrounding part of the Municipal District. However, no people reside in this surrounding area, only industrial operations that employ workers resident in Swan Hills. The payments by the Municipal District amount to a specified 35 percent (no rationale given) of the Town's scheduled service expenditures. The agreement replaces all previous agreements for cost-sharing between the parties.

Alberta: Town of Slave Lake Inter-Municipal Master Agreement

Prior to the incorporation of the Municipal District in 1995 out of part of a large Improvement District, the Town of Slave Lake had pursued several unsuccessful efforts to restructure the local government in the area in order to give the town access to the industrial tax base in its hinterland. The master agreement arose in 1993 out of an unsuccessful effort at area local government development. The agreement deals not only with revenue-sharing but also with "inter-municipal cooperation structures" and with the "Improvement District's incorporation strategy." The latter two elements reflect the Town's abiding interest in a future amalgamation with the new Municipal District, or at least that part in the vicinity of Slave Lake. The Town recognizes that some of the benefits accruing to it through the development of a commercial retail assessment base as the region's service centre should be shared. This recognition reflects that Improvement District residents, through their purchasing, contribute to the development of this commercial/retail assessment base.

Saskatchewan Potash Tax Sharing Arrangements

With the development of potash mining in Saskatchewan in the 1960s, it was quickly realized that the few municipalities with mines within their borders had obtained a very large revenue source. Nearby urban centres argued that they incurred additional expenses on account of the mines, and so deserved a share of the potash mine tax revenues. Initially, the provincial government suggested collecting all the associated municipal taxes and placing them in the Province's general revenue fund.

At the time, only the municipal portion of the property tax was to be considered for sharing; education and hospital taxation was deemed not shareable. Some additional costs were anticipated for urban municipalities close to a mine but only smaller communities (with a population under 5,000) were included in the sharing scheme. Since the cost of increased

services was thought to decrease with distance from a mine, the maximum area of influence was set at a 20-mile radius, with special consideration if within 10 miles. The administration of the sharing scheme was assigned to a three-person Board, two persons from the Saskatchewan Association of Rural Municipalities (SARM) and an appointed provincial government representative. The Executive Director of SARM serves as the secretary-treasurer of the Board.

Municipal taxes collected by mine-hosting rural municipalities are turned over to the Board which then distributes them to benefiting municipalities. The amounts collected are based on application of a blended mill rate calculated by the Board for each of the three recognized potash mining areas (Pense, Esterhazy and Saskatoon-Lanigan). The Board calculates the applicable mill rate according to Section 8 of the Act, beginning with a determination of the area in square miles of that portion of each rural municipality within the prescribed 20-mile-radius area of influence. The number of square miles for each is multiplied by the actual mill rate applicable to that municipality for the immediately preceding year. The sum of these products is then divided by the grand total of square miles for the aggregate area of influence and the resulting mill rate is applied by the taxing rural municipalities in the area on the potash assessments in the year in which the calculation is made. The “Net Tax Shareable” for each of the three mining areas is set after allowance for certain statutory discounts, as well as a modest administrative expense.

The Board then distributes the shareable taxes to benefiting municipalities (41 rural municipalities and 46 small towns and villages across the three areas in 1994). The allocation process is prescribed by regulation, the initial one being Saskatchewan Regulation 318/68 filed on August 28th, 1968.

Saskatchewan: Town of Hudson Bay/Rural Municipality of Hudson Bay

A 1988 annexation by the Town of Hudson Bay of part of the adjoining Rural Municipality of the same name involved a Ministerial Order directing municipal tax sharing on two specified lumber mill properties (Samson Timber Company Ltd. and Saskatchewan Forest Products) in the annexed area. The resulting Memorandum of Agreement between the Town and the Rural Municipality provides for an equal sharing of the annual municipal taxes, or grants-in-lieu of taxes, from the “industrial complexes” constituted by the two named companies. Certain exceptions are specified, however, in recognition of some unique Town costs.

The taxes collected, based on the applicable Town rates, are first reduced by the value of 10 mills, the proceeds from this being retained by the Town for police function purposes. A further special levy of 11 mills is also deducted before establishing the final amount to be shared equally. However, the special levy relates to a contribution to a skating arena project and is earmarked for application against the associated debenture repayment. The proceeds from the 11 mills are forwarded by the Town to the Rural Municipality, which then pays back the same sum to the Town as an annual contribution to the arena project (until debenture maturity in 1999).

Ontario: Town of Marathon/Township of Manitouwadge Municipal Extra-Territorial Tax Act, 1988

The Hemlo goldfields which came on stream in 1985 in Northwestern Ontario are located in an unorganized township. The mines are within 50 miles of established communities, most notably the Town of Marathon and the Township of Manitouwadge. The Town's mayor lobbied the provincial government for some means by which the Town might access the goldmines' tax base, where many of its new residents were employed. The Province responded with a unique and unprecedented—for Ontario—piece of enabling legislation, entitled the *Municipal Extra-Territorial Act*.

The provisions of the *Municipal Extra-Territorial Act* may be triggered when a municipality formally requests application of the Act and then, in the words of the legislation, if “the Minister (of Municipal Affairs) is of the opinion that a municipality has experienced or will experience substantially increased expenditures as a result of a significant number of employees of businesses located in the municipal taxing area residing in that municipality.”

The legislation provides the means of establishing what mine tax base can be accessed by what municipality. The attributable tax base is subject to taxation as if it was a business in the municipality. The legislated formula for the annual determination of the “attributable commercial assessment from each designated business” includes assessment equalization measures. The resulting equalized assessment for each mine is allocated between the eligible municipalities in proportion to the percentage of the mine workforce in each. Another equalization factor is applied before the amount is effectively added to the municipality's own assessment base for budgeting and mill rate calculation purposes.

The only regulation dealing with designations under the Act is the one designating the three Hemlo mines and the two municipalities, Marathon and Manitouwadge (Ontario Regulation 623/88). The legislation could, in theory, apply in other areas with a rapid growth history or prospect on account of commercial developments in nearby unorganized territory. However, there has been no further use of the Act to date (though a 1989 North Timiskaming Local Government Study did contain several approving references to it).

Quebec: Regional Tax for Transportation

An interesting example of tax revenue sharing is a regional tax for public transit in Quebec. In 1991, the Province introduced a regional tax of \$30 on drivers, with the revenues earmarked for public transit. The residents of six census metropolitan areas are required to pay an additional \$30 in addition to their license fee. The revenues are collected by the provincial automobile insurance company in those regional municipalities and turned over to the public transit organization that has responsibility for transit in these jurisdictions. This tax forces drivers to contribute to the costs of public transit from which they benefit indirectly through reduced traffic congestion, increased speed and less pollution.

Nova Scotia: Town of Windsor/District of West Hants (Joint Industrial Park)

The Town of Windsor and the District of West Hants, in Central Nova Scotia, have cooperated since 1980 in the joint operation of a provincially developed industrial park along part of their common boundary. Special provincial legislation enacted in June 1980 provided for the levying of a uniform tax rate on property in the industrial park. All revenues so derived from properties in the park were then required to be shared equally between the Town and the District regardless of where the property was located. This arrangement meant that the industries in the park would benefit from the generally lower rural tax rate.

Although the provincial government legislatively enabled Area Industrial Commissions formed by two or more municipal units to share taxes levied on an industry locating in the area, this particular industrial commission is the only joint commission (out of ten or so) in Nova Scotia that uses tax sharing.

A 1994 amendment to the 1980 Act has introduced more intricate arrangements in terms of the applicable tax rates. The park is divided by Provincial Highway 101. The initial legislative provisions remain in effect for property in the park on the *eastern* side of the highway. However, for properties in the park on the *western* side, the amendment specifies the applicable rate to be the *higher* of the two municipalities' (most likely to be the Town rate). This has facilitated expansion plans for the part of the park within the Town that caters primarily to retail and commercial uses. The taxes collected are still pooled and shared equally between the two municipalities.

4.2 Tax Sharing: Some American Examples

In addition to the Canadian examples, this section highlights some notable American examples of tax sharing.

Minnesota: Minneapolis-St. Paul Tax-Base Sharing

The example of tax sharing that has received the most attention in the United States is in Minnesota. The *Minnesota Fiscal Disparities Act*, which was passed in 1971 and came into effect in 1975, provides for a tax-base sharing program for a seven-county region surrounding Minneapolis and St. Paul. Under this program, a portion of each municipality's tax base is transferred to a common pool where it is subject to an area-wide tax rate. The pool is comprised of 40 percent of the *growth* in the commercial/industrial tax base; the remaining 60 percent remains under the control of each local municipality. The area-wide pool is distributed to municipalities on the basis of need. The residential tax base is not shared at all.

The single area-wide tax rate is intended to reduce the role of local tax differentials in locational decisions made by commercial and industrial taxpayers. The legislation that enacted tax-base sharing was eventually supported by all of the communities. As Richman and Wilkinson (1993) note, tax-base sharing was probably supported because it looked better than the alternatives of regional government or sharing of the entire commercial and industrial tax base.

The tax-base sharing scheme pools 40 percent of the growth in commercial and industrial assessment beyond the 1971 base. Each commercial and industrial property is taxed at two rates: an area-wide rate is applied to that portion of the assessment that is contributed to the area-wide pool; a local rate is applied to the remainder of the assessed value. The area-wide tax pool is then allocated to the same municipalities based on a formula that recognizes the existing disparity in overall per capita equalized assessment compared to the average for all the municipalities in the program.

Tax-base sharing has been credited with reducing the gap in the commercial/industrial tax base between the assessment-rich and assessment-poor communities in the metropolitan area. This program has also made regional competition slightly more fair. Because only a portion of the commercial/industrial tax base is shared, however, there still remain some inequities in the system. For example, cities dominated by high-valued residential properties with little commercial development have large per-household tax bases but contribute little to the tax pool. They do receive funds from it, however.

Ohio: Montgomery County, Economic Development/Government Equity Program

The Ohio legislature has enacted a number of statutory provisions which authorize localities to establish inter-municipal revenue-sharing arrangements. Included in such grants of authority are provisions authorizing revenue-sharing agreements in conjunction with the creation of joint fire service districts, hospital districts and economic development districts. Of particular significance are joint economic development districts, authorized by Sec. 715.69, Ohio Revised Code.

Montgomery County provides an example of voluntary tax sharing. Initiated in 1989 and implemented in 1992, the Montgomery County program is a county-wide initiative designed to induce a collaborative economic development effort and to establish a revenue-sharing arrangement among all the townships, villages and cities within the county's jurisdiction. Referred to as the ED/GE program, its dual facets are an Economic Development (ED) Fund and a Government Equity (GE) Fund. Under the terms of the program, Montgomery County committed to contributing \$5 million annually from a county-wide sales tax to the ED Fund to be distributed to eligible municipalities for county-approved economic development projects. In order to be eligible to apply for grants from that fund, municipalities must agree to participate in the county-wide revenue-sharing program (the GE fund).

The contribution formula rate uses one-third of the total county-wide increase in both property and income tax revenue, and divides this figure by the increase in the total county-wide assessed valuation. This calculation establishes a uniform contribution rate for all municipalities. To derive each community's contribution to the pool, the rate is multiplied by the sum of its growth in commercial/industrial assessed valuation, 25 percent of the growth in residential assessed valuation, and 50 percent of the increase in income and property tax revenues over the base year. This dollar contribution amount is limited to 13 percent of the jurisdiction's growth in property and income tax revenue. The size of the area-wide pool equals the sum of each municipality's contribution. Finally, the area-wide pool is distributed back to the communities based on their percentage of the total county

population. Jurisdictions that do not contribute to the pool because their assessed valuation or their tax revenues did not increase are still eligible for a share of the pool.

The ED Fund payments also constitute a form of revenue sharing. The county revenues deposited in the ED Fund are the proceeds of a county-wide sales tax. Since these funds are distributed on a per capita basis, jurisdictions with a weak commercial base become net beneficiaries of the program. It is expected that many of the projects financed with the assistance of grants from the ED Fund will have county-wide benefits.

Montgomery County's program is voluntary and it addresses both the inter-municipal fiscal disparity problems and the counter-productive competitive behaviour. In effect, the program merges economic development goals with tax sharing.

Colorado: City of Westminster / City of Thornton Revenue-Sharing Agreement

In Colorado, municipalities rely heavily on sales tax revenues. As a result, the location of a new commercial development, particularly a major shopping mall, is an issue of major consequence. Acting under broad state enabling legislation, some municipalities have entered into inter-municipal agreements containing revenue-sharing components. The most notable agreement was made in May 1986 between the Cities of Westminster and Thornton. It is a multi-faceted instrument covering the regulation of development and the revenues generated in an area of around four square miles, adjoining Interstate 25, in the environs of Denver. The agreement called for Westminster to annex that part of the area west of the Interstate, and for Thornton to annex the part to the east. Both cities were required to prepare jointly and adopt a master plan covering the development, including the provision of public services and the construction of facilities in the entire four-square-mile area. No development proposal can be approved by either City if it is inconsistent with the plan, unless both city councils give written consent.

In terms of revenue-sharing provisions, the agreement calls for the two jurisdictions to share property, sales, use, lodging, and admissions taxes collected in the agreement area. With respect to property taxes, revenues are divided based upon the percentage which each City's real property tax rate constitutes of the total of the two rates combined. In regard to sales, use, and admissions taxes, one-third of the receipts are retained by the jurisdiction which collects the tax, with the remaining two-thirds being shared, as in the case of property tax receipts. In the case of lodging taxes, all receipts collected from within the area are subject to sharing in the same fashion as the other shared revenue, except if one jurisdiction fails to enact such a tax. In that event, the city levying the tax retains two-thirds of the receipts, with the other one-third being passed on to the city not levying a lodging tax).

State of Michigan

The state of Michigan has facilitated the development of a number of inter-municipal revenue-sharing programs under the authority of the *Urban Cooperation Act* which dates back to 1967. Among the agreements developed under that legislation is a 1981 joint economic development initiative between the cities of Detroit and Hamtramck. This agreement involved the demolition of an antiquated automobile factory on a site extending into both jurisdictions and a revenue-sharing arrangement whereby one-third of all income and property tax collections would be allocated to Hamtramck, with the remainder being distributed to Detroit.

In 1984, the Michigan legislature enacted another measure which substantially broadened the opportunity for municipalities to enter into joint economic development activities and revenue-sharing arrangements. Municipalities may enter into agreements by which property may be conditionally transferred from one jurisdiction to another for a period up to 50 years. They may negotiate and reach agreement on a variety of matters including: the size of the area to be transferred; the application of municipal ordinances and other regulatory authority; the assignment of responsibility for service provision; collaboration on planning; authority for granting tax abatement and exemptions; procedures for dispute resolution; and the status of land at the end of the contract period. With respect to the latter, agreements may authorize an extension of the period of the transfer, the reversion of the property to the jurisdiction of the initial authority, or a permanent transfer to the host locality. As of July 1991, there were approximately 35 inter-municipal agreements established under the 1984 legislation. Virtually all of these agreements contain revenue-sharing arrangements.

4.3 Summary of Canadian and American Case Studies of Tax Sharing

Although several examples of tax sharing were presented for Canadian municipalities, such arrangements are not particularly common in this country. These are summarized in Table 2. For the most part, it appears that the more urbanized provincial jurisdictions have opted for regional structures, while some less urbanized jurisdictions have been attracted to large-scale municipal consolidations as preferred forms of policy intervention. These approaches have the effect of “institutionalizing” tax sharing.

Tax sharing is infrequent in Canada, in part because provincial governments transfer funds to those municipalities with inadequate fiscal capacity. These transfers reduce the need for municipalities to engage in voluntary tax sharing. With reductions in provincial transfers in the last number of years and the expectation of more cuts in the future, however, tax sharing may take on increased significance as a way of addressing fiscal inequities.

Where tax sharing exists in Canada, it is generally designed to address problems arising from a single industry located in one municipality with the workforce located in another municipality or unincorporated area. In all cases, provincial legislation has been involved in arranging for the tax sharing and the provincial government has taken an important role in making it happen. In almost all cases, tax revenues are shared; in a few cases, tax bases are shared.

Tax sharing is more common in the United States. As noted earlier, the most likely reason is the dearth of regional government structures in that country. Unlike the Canadian cases studied, tax sharing in U.S. jurisdictions is generally associated with the sharing of expenditures such as economic development. An important aspect of tax sharing in the U.S. is to reduce the competitive behaviour of municipalities, which seek to attract development by lowering property taxes. Most of the U.S. tax sharing arrangements share tax revenues; the notable exception is in Minneapolis-St. Paul where the tax base is shared.

Table 2: Examples of Tax Sharing in Canadian Municipalities

| <i>Province</i> | <i>Program</i> | <i>Type of Sharing</i> | <i>Provisions</i> |
|------------------|---|--|--|
| British Columbia | Village of Taylor/City of Fort St. John | tax revenue sharing | Village shares 23% of first 20 mills of tax revenues |
| British Columbia | Peace River Regional District | industrial revenue sharing by province with district | provincial tax levy on industrial utility assessment in unincorporated areas |
| British Columbia | Elk Valley Industrial Tax Base Sharing | industrial tax base sharing | Province sets uniform blended tax rate on mining properties |
| British Columbia | Greater Trail Regional Services Financing Agreement | tax on mining properties | revenues used to finance 6 local functions in 5 municipalities and 2 electoral areas |
| Alberta | Municipal District of Clearwater Fee for Access Agreement | tax revenue sharing | Municipal District transfers money to municipalities on the basis of fee for service |
| Alberta | Municipal District of Greenview Municipal Tax Sharing | tax revenue sharing | one mill surtax on industrial properties distributed on basis of formula |
| Alberta | Municipal District of Woodlands Fee for Service Agreement | tax revenue/exp. sharing | Municipal District contributes to Town's costs in return for access to services by residents |
| Alberta | Big Lakes and Town of Swan Hill Cost Sharing | tax revenue/exp. sharing | Municipal District makes payments to Town's costs |

Table 2 cont'd : Examples of Tax Sharing in Canadian Municipalities

| <i>Province</i> | <i>Program</i> | <i>Type of Sharing</i> | <i>Provisions</i> |
|-----------------|---|------------------------|--|
| Alberta | Town of Slave Lake Inter-Municipal Master Agreement | tax revenue sharing | benefits of development of commercial/retail assessment base are shared with residents of Improvement District |
| Saskatchewan | Potash Tax Sharing Arrangements | tax revenue sharing | municipal taxes from mines are shared with benefiting municipalities |
| Saskatchewan | Town of Hudson Bay/Rural Municipality of Hudson Bay | tax base sharing | equal sharing of annual municipal taxes |
| Ontario | Municipal Extra-Territorial Act as applied to Marathon & Manitouwadge | tax revenue sharing | equalized assessment allocated to municipalities in proportion to location of mine workforce |
| Nova Scotia | Town of Windsor/ District of West Hants Joint Industrial Park | | uniform tax rate on industrial park along common boundary |

4.4 Evaluation of Tax Sharing

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There are advantages and disadvantages associated with tax sharing.

Advantages of Tax Sharing

Many advantages to tax sharing that have been enumerated in the literature (see, for example, Johnson 1984, 67). Some of these are listed, below:

- It has been argued, in American cities in particular, that relatively higher taxes in the central city have led to the outmigration of high income residential and non-residential taxpayers to the suburbs. Tax sharing between the city and suburbs reduces the potential for outmigration.
- Tax sharing eliminates the need for fiscal zoning—zoning designed to attract land uses that generate the highest taxes and the lowest expenditures. All municipalities benefit when a high-tax, low-expenditure taxpayer locates in any one of the municipalities that is part of a tax-sharing scheme.

- The need for annexation is reduced when there is tax sharing because fiscal disparities across municipalities can be alleviated and payment for services by residents outside the jurisdiction providing the service are now possible. In particular, where a single industry locates in one jurisdiction and generates tax revenues there but its workforce resides in another jurisdiction and demands local services, tax sharing is an alternative to annexation.
- Tax sharing provides important advantages in terms of increasing inter-municipal cooperation.

In summary, tax sharing involves a high degree of cooperation among municipalities while falling short of a wholesale municipal consolidation as a public policy response to inter-municipal fiscal inequity issues.

Disadvantages of Tax Sharing

The main disadvantages of tax sharing stem from a situation in which taxes are levied in one jurisdiction to pay for services in another. This arrangement reduces accountability because some residents are receiving services that are paid for by taxpayers elsewhere. One of the major drawbacks of tax sharing is the lack of interest to share taxes or tax bases on the part of the potential losers. As Chernick and Reschovsky (1995, 20) note: "The political representatives of those communities that would be net 'losers' under a tax-base sharing plan, or who believed they will be net losers at some point in the near future, will oppose tax-base sharing." Indeed, in the few Canadian cases cited, the provincial government took a major role in implementing tax-sharing schemes. In the American examples, some voluntary agreements were made, but they were generally tied to an expenditure program such as economic development.

Chapter 5

Summary and Conclusions

This paper has reviewed a number of case studies of inter-municipal cooperation in Canada and the United States. Inter-municipal cooperation includes expenditure sharing where municipalities cooperate to provide services and generally share the costs associated with the delivery of the service; inter-municipal cooperation also includes cases of tax sharing where municipalities share tax bases or tax revenues even where there are no expenditure-sharing arrangements.

The driving force behind expenditure sharing is to reduce costs. By cooperating to provide services, municipalities can take advantage of economies of scale in service provision that are achieved when a large population is served. Cooperation has taken the form of cooperative purchasing, sharing of facilities and equipment, and even sharing of personnel. Not only can municipalities provide services at a lower cost; they may also be able to increase service quality or provide services that they could not have afforded to provide on their own.

Tax sharing is not particularly common among Canadian municipalities, in part because provincial transfers have played such a large role in reducing fiscal inequities and, in part, because of the proliferation of regional government structures in large urban areas. Regional governments already involve tax sharing among their constituent municipalities. Further, voluntary tax sharing is not particularly popular with those municipalities that are required to give up tax revenues. Where tax sharing exists, it usually applies to single-industry towns, which share taxes from that industry with neighbouring municipalities.

The main problem with inter-municipal cooperation—expenditure sharing and tax sharing—is the potential lack of accountability when tax decisions are not made by the same jurisdiction as are expenditure decisions. In cases where an inter-municipal commission or committee is established to make decisions about service delivery, it is not clear how accountable it is to the taxpayers and consumers of each of the cooperating municipalities. When compared to the alternatives of annexation or amalgamation which automatically result in expenditure and revenue sharing, inter-municipal cooperation achieves a higher score on some criteria and a lower score on others. In terms of cost savings, it is interesting that most studies of amalgamation conclude that it results in higher costs for services—the opposite of the rationale for inter-municipal cooperation. In other words, inter-municipal cooperation is probably more successful at meeting the criteria of efficiency and effectiveness than is amalgamation.

Annexation and amalgamation do, however, result in a fairer distribution of the tax burden among constituent municipalities, an objective that is difficult to achieve on a voluntary basis. It thus achieves a higher rating on the equity criterion. Where the benefits of services spill over municipal boundaries, a boundary adjustment may be more successful at achieving the necessary cooperation than a voluntary approach. Finally, in terms of accountability,

annexation and amalgamation are likely to be more accountable because those making the expenditure and tax decisions are elected by local taxpayers.

Further empirical research that compares cost savings from amalgamation with cost savings from inter-municipal cooperation would provide useful information to municipalities seeking to deliver services more efficiently. It would also be useful to compare these two options with private sector delivery of services to determine which has been most effective in achieving cost savings.

In future, tax sharing may be of greater interest to Canadian municipalities as provincial transfers decline. At the same time, however, a large number of restructurings have already resulted in the amalgamation of smaller municipalities. The further downloading of services to the municipal level in some provinces, most notably Ontario, has also meant that greater efforts are being directed at municipal restructuring than at tax sharing, as a way to spread the increased tax burden. Tax sharing appears to be of interest where a municipality that has an industry and uses the services of the adjacent municipality is required to share tax revenues to pay for those services. Where several municipalities share services, a more formal government structure appears to be more common.

In conclusion, both expenditure-sharing and tax-sharing arrangements are appropriate in certain circumstances but they are unlikely to become the only instruments of service delivery and taxpayer equity in the future. There is more of a future for expenditure sharing than tax sharing in the absence of a government structure that requires it. Further work on how to make expenditure-sharing arrangements more accountable and fair to all concerned would assist municipalities seeking to engage in cooperative activities.

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