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LOCAL TAX BASE SHARING : AN INCENTIVE FOR INTERGOVERNMENTAL COOPERATION

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Executive Summary

Local tax base sharing among local governments can help align the interests of cities and counties to fulfill regional economic development goals. This study explains the rationale for tax base sharing among local governments and presents general principles for policy design and implementation. The discussion offers an important starting point for informed consideration and debate.

The Need For Coordination Among Local Governments

Local governments are primarily concerned with the well-being of residents within their jurisdiction boundaries. Although appropriate and desirable, in some cases, several aspects of local government behavior can adversely affect the pace and pattern of economic development elsewhere in the surrounding region. These aspects include:

- *Inter-jurisdictional tax base competition.* Local governments that are in close proximity face incentives to compete for economic development and its attendant benefits. Competition among local governments for residents within a region is beneficial in that it puts pressures on them to provide tax-service packages to residents in a cost-efficient manner and in keeping with their willingness and ability to pay. At the same time, though, individual jurisdictions have an incentive to add to their nonresidential tax bases to improve (or forestall declines in) their fiscal health by lowering across-the-board tax rates and services below that which current residents would otherwise desire.
- *Industry recruitment efforts by local governments.* Local governments often have an incentive to offer subsidized services, specialized infrastructure, or tax breaks in order to recruit commercial or industrial development. Cities or counties can end up offering greater subsidies in the form of infrastructure, fee or tax abatements, or other benefits than they would without nearby competing locales. This type of competition for industry reduces the net fiscal benefit of the development to residents.
- *Locally unwanted land use (LULU).* Local land use regulations that prohibit certain LULUs like power plants, transmission lines, pipelines, and waste landfills can eliminate infrastructure that is important to many industries, and thereby reduce the attractiveness of the surrounding area for future development. But part of the benefits of these land uses in a jurisdiction accrue to the surrounding locales. Because residents of the local jurisdiction cannot fully capture the benefits of the LULUs

themselves, they have even less incentive to accept those land uses. The danger is such behavior can end up prohibiting the LULU throughout the region, with the region losing the attendant jobs, tax base, and other net benefits from the activity as well as other industries that would be attracted to the region by the LULU.

- *Flight-from-blight.* The long run migration from the inner cities to outlying suburbs is driven by concentrations of urban poverty in the older central portions of metropolitan areas, coupled with rising household housing demand from income growth and aging urban infrastructure in central cities. But even when all of the local governments in the region can benefit as a whole from counteracting these intra-regional population migrations, no single jurisdiction has the sole ability or incentive to counteract the economic forces at work.

Rationale For Tax Base Sharing Among Local Governments

Tax base sharing is often justified as a means of achieving a more equitable distribution of tax revenues across jurisdictions, but this argument does not hold up to scrutiny. The concern for equity justifies *statewide* rather than regional revenue sharing among local governments. But there are other rationales for tax base sharing.

- Local tax base sharing can help align local governments' policies when the development policies of one government impose benefits or costs on the residents of neighboring jurisdictions. A statewide approach to correcting this type of problem is inappropriate when such spillover benefits or costs of local government economic development efforts vary by type or extent across regions.
- Local tax base sharing may be justified when effective industry recruitment or economic development requires a coordinated "team effort" by two or more local jurisdictions. For example, adequate support for an industrial park or retail development might require highway and bridge improvements that extend across jurisdiction boundaries or rights-of-way for pipelines, high tension power lines, power substations, etc., crossing surrounding locales. Tax base sharing can give fiscal rewards to all of the affected local jurisdictions, giving them a clear incentive to join the cooperative effort needed to make the economic development yield its greatest net value to the region.

Principles For Local Tax Base Sharing

There are two competing models or approaches to local tax base sharing. In the *pure sharing model*, the local governments pool all or part of the revenues from their respective tax bases and then reallocate the revenues among them according to an agreed upon formula. In the *regional service model* the local governments contribute revenues to a common pool, which is then used to support the provision of services to the residents of all of the contributing jurisdictions.

The Incentive Effects Of Tax Base Sharing

Introducing tax base sharing among local governments, while correcting some deficiencies in intergovernmental fiscal relationships, also alters incentives. Tax base sharing schemes must recognize these incentive effects and weigh them against other desired outcomes on a case-by-case basis.

- Pure sharing is most effective for promoting inter-jurisdictional cooperation when the region comprises few local governments.
- Tax base sharing distorts voters' perceived costs of government provided services, leading to greater spending than fully informed voters would otherwise support.
- Tax base sharing on a regional basis will also increase the incentive for each jurisdiction to prevent LULUs and free-ride on the development efforts of others.

Structuring A Local Tax Base Sharing Scheme

In addition to these incentives effects, other aspects must be considered when deciding how to structure the appropriate base sharing model. They are:

- *The decision-making framework.* In the *top-down approach*, tax base sharing is structured at the state government level. It violates the third principle of fiscal federalism, that the jurisdiction closest to voter-taxpayers undertake the responsibility for the policy but makes it easier for the state government to over-ride any dominating parochial voter interests. In the *bottom-up approach*, tax base sharing is structured by the participating local governments. It allows residents maximum input into the decision-making process but can lead to gridlock or dominant larger jurisdictions.
- *Centralized vs. decentralized governance.* To what extent will the local governments involved in the sharing arrangement subject themselves to regionally-centralized decision-making? If the local governments retain the power to fulfill the obligations to which they agreed, decision-making is fully decentralized and any regional body created takes on a

coordinating role. On the other hand, the tax base sharing agreement can also be structured to give a regional body decision-making powers over the regional tax rate or spending on a regional public service, a centralized decision-making framework.

- *Dynamic flexibility and lifespan.* How is the agreement to be structured to adapt to growth? Decisions about the lifespan of the tax base sharing agreement, how it can be modified in the future, the process for renewal or rescission, etc., also need to be addressed at the outset.
- *Tax base definition.* The choice of tax base, whether nonresidential property, all real estate, or sales tax, will determine the incentives effects of the sharing scheme, as explained above.
- *Interaction with other development policies.* The tax base sharing agreement among local governments will also have to deal with other industrial development incentives or homestead exemptions under the control of the affected jurisdictions.
- *Uniformity.* If the top-down approach is followed, then state policy must retain sufficient flexibility to address the different types of issues that face locales in these different economic regions.

Tax Base Sharing In The U.S.

There are few examples of tax base sharing in the U.S. Two of the best known examples are the regional Minneapolis-St. Paul Metropolitan Council, Minnesota, and the tax base sharing agreement between the City of Charlottesville and Albemarle County, Virginia. Although both cases rely upon property tax base sharing, there are several important differences between them, including the following.

- Charlottesville-Albemarle case is an example of pure tax base sharing. The Metro Council incorporates both models of tax base sharing; regional property taxes are used to support select regional services as well as pure base sharing among the local governments in the seven counties.
- The two cases are on opposite extremes in terms of governance. The Minnesota case relies upon the top-down method of establishing regional cooperation--the Metro Council is a creature of the State government, its membership appointed at the state level. The Virginia case, in contrast, provides an example of the bottom-up approach. The Metro case covers almost 190 local governments; the Virginia case covers two local governments.

- The Charlottesville-Albemarle agreement covers all property, residential and nonresidential, while the Metro Council covers only nonresidential property.

Coordinating Local Governments in Georgia

Several aspects of inter-jurisdictional cooperation and competition in Georgia are relevant.

- The current practice of offering fiscal incentives to industry to locate within a particular locale reveals a pattern of competition for economic development and illustrates the need for a degree of inter-jurisdictional coordination among cities and counties in the state.
- The Special Purpose Local Option Sales Tax (SPLOST) in Georgia demonstrates that county and city governments are both able and willing to coordinate their fiscal structures when the number of affected local governments is small and the benefit of joint policies is clearly defined. The current arrangements do not, however, incorporate tax base sharing across counties.
- The limited experiences with city-county consolidation in Georgia suggests that bringing countries and cities together within a consolidated regional government structure is not an attractive alternative to tax bas sharing for coordinating their behavior.

Introduction

This study examines whether or not local government revenue sharing schemes, like local tax base sharing, can be used to align local government development incentives to better meet the regional economic interests. While advocates often base their support for local tax base sharing proposals as a means of achieving a more equitable distribution of tax revenues across jurisdictions, such arguments do not hold up to scrutiny. Instead, equity arguments adequately justify statewide base sharing in the form of fiscal power equalization grants. The rationale for tax base sharing must rest on other principles. The discussion here argues that, for the Georgia case, local tax base sharing can be justified in either of the following two broadly defined situations. First, local tax base sharing can help align individual local governments' policies when the development policies of one government imposes benefits or costs on the residents of neighboring jurisdictions. A statewide approach to correcting this type of problem is inappropriate when the spillover benefits or costs of local government economic development efforts are region-specific, varying by type and extent across different areas in the state. Second, local tax base sharing may be justified when effective industry recruitment or economic development requires a coordinated "team effort" by two or more local jurisdictions. For example, adequate support for an industrial park or retail development might require highway and bridge improvements that extend across jurisdiction boundaries or rights-of-way for pipelines, high tension power lines, power substations, etc., crossing surrounding locales.

Introducing tax base sharing among local governments, while correcting some other deficiencies in the regional fiscal relationships, also alters local government incentives. Therefore, any argument for tax base sharing must recognize these incentive effects and weigh them against other desired outcomes on a case-by-case basis. The purpose of this study is not to advocate the blanket use of tax base sharing among local governments in Georgia, but rather to identify the rationale for such policy and present general principles concerning how the policy can affect incentives within and across different tiers of governments. This information, we believe, represents an important starting point for informed consideration and debate.

The discussion is organized as follows. The next section examines the rationale for local tax base sharing, drawing out the connection between economic development policies and tax base sharing and presenting the economic principles for designing such schemes. The following section then turns to two alternative models of tax base sharing, the pure sharing model and the regional service model. The study next considers two widely known experiences with tax base sharing in the U.S., the property tax base sharing in the Minneapolis metropolitan area and the sharing between Charlottesville and Albemarle County in Virginia. It reexamines and compares each in light of the principles of tax base sharing established in the previous two sections. The penultimate section of this study examines three aspects of local fiscal relations in Georgia that are relevant to the tax base sharing discussion: inter-jurisdiction competition for economic development, sales tax sharing among school districts, and local government consolidation. The final section offers a brief summary and conclusion.

The Rationale for Local Tax Base Sharing

State and Local Perspectives on Development Policy Goals

The goals of state economic development policy focus on jobs, sustained growth, equity, and fiscal goals. Specific economic development activities, however, are pursued at both the state and local levels. Because local governments' constituencies have narrower interests than regional or state interests, local government development goals will in general differ from those of the state.

State Perspective on Economic Development

State government goals for economic development can be summarized as the following:

> *Jobs.* The first goal is to retain existing jobs by retaining existing industries in the state and to bring new jobs to the state by attracting new firms or by expanding existing firms' facilities. This sometimes entails active recruitment and countering inducements like tax relief offered by other states. More fundamentally, though, it requires that the state establish and maintain a stable business-friendly economic environment. This includes reducing unnecessary regulation and compliance costs, maintaining an efficient and fair legal system, as well as maintaining a stable and well-administered tax system. It also includes pursing policies to maintain or improve the quality of life for state residents. Many industries are more footloose now than in the past, and are no longer tied by transportation costs or communications technology to specific regions in order to be close to key resources, suppliers, or customers. Therefore, retaining or attracting firms also requires that the state pursue policies to maintain or improve the quality of life for state residents, amenities that make it easier for firms to attract and keep high caliber employees in the state.
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> *Sustained growth.* Another goal for the state is to pursue a mix of employers in the state to increase employment stability over the business cycle. The goal of sustained growth also requires identifying and attracting or retaining those industries with long term growth potential over declining industries. In addition, it means bringing in firms in industries that will stimulate the development of industrial clusters as an impetus for further rounds of economic growth in the state.
>
> *Equity.* This goal has several dimensions. The state economic development should decrease disparities in wealth across regions within the state. It should also decrease disparities between groups of residents within the state.

Fiscal conditions. The last goal is to improve state and local government fiscal conditions. This provides one channel through which state and local governments can further enhance the well-being of the population, providing tax capacity to reduce the burden of financing existing public services on individual taxpayers while meeting the increasing demands of a growing population and industry base.

Local Perspective on Economic Development

While the above represent appropriate goals for the state, it is clear why individual local governments would pursue policies that do not necessarily coincide with those goals. As is appropriate, local governments are primarily concerned with the well-being of residents within their jurisdiction boundaries. The concerns of the residents of other jurisdictions, near or far, take a secondary role in local government decision-making. Local government officials who consistently fail to meet the demands of their own residents can count on being replaced through the democratic process; the immediacy of jurisdiction residents therefore tends to dominate desires or concerns expressed by others.

What this implies is that, because they must respond to a narrower constituency, local governments will not always pursue development policies that are consistent with a broader regional or state perspective. Yet, many local government decisions directly or indirectly affect the pace and pattern of economic development in the region or state. Some local policies will have deleterious effects on the economic development in the surrounding region while enhancing the well-being of the residents of the immediate locale. In these cases, the question becomes one of an appropriate state response: what changes in the fiscal structure of local governments are needed to provide them with incentives to coordinate or cooperate with other localities when pursuing economic development policies? And, to the point of this study, does local tax base sharing, however implemented, help align local incentives with broader state or regional development goals?

Inter-jurisdictional tax base competition. Within the context of a federal system, local governments that are in close proximity face unavoidable competitive pressures for economic development and its attendant benefits.[1] There are both benefits and costs associated with fiscal competition among local governments within a region. The benefits arise because competitive relationships impose market-like pressures on local governments to provide tax-service packages to residents in a cost-efficient manner and in keeping with their willingness and ability to pay. At the same time, though, inter-jurisdictional fiscal competition can devolve into a "race to the bottom," with each jurisdiction attempting to augment its own tax base to improve its fiscal position (or keep it from degenerating any further) resulting in lower tax rates and a lower level of publicly provided services than residents would otherwise desire.[2]

Industry recruitment efforts by local governments. In addition to the above effects, the explicit development policies undertaken by local governments will not in general mesh with the broader regional or state development goals. There is an incentive for each government to offer subsidized services, infrastructure, or tax breaks (tax abatements, etc.) in order to garner the additional tax base that comes with certain commercial/industrial development. The coordination problem arises because each individual jurisdiction has the same incentive; to the extent that jurisdictions within the same economic region are competing for the same firms to expand existing or place new facilities, jurisdictions can end up offering greater subsidies in the form of infrastructure, fee or tax abatements, or other benefits than they would without competing locales. The preference for tax base accretion is evident from taxing and spending behaviors, as noted earlier. Anderson and Wassmer (1995) find evidence of competition among local governments in the Detroit MSA in their use of abatements and other tax incentives. Further evidence is presented by Lewis and Barbour (1999). They conducted a survey of California cities showing that annexation decisions are influenced by the desire to capture existing concentrations of retail development for their sales tax base. It also appears that this type of inter-jurisdictional competition occurs at the state level (McHone, 1987). Tax abatement has become a widely used

[1] Sjoquist (1982), Schneider (1986), Zax (1989), and Eberts and Gronberg (1990) provide relevant empirical studies on this point.
[2] See, for example, the studies by Turnbull and Niho (1986) and Wilson (1986). The subsequent theoretical literature on this point has grown to be substantial.

development policy by state and local governments. Whether such wide use is a consequence of the competitive pressures to match offers made by other governments or is the result of emulating successful development strategies of other states is not yet clear from the statistical evidence, although the anecdotal evidence suggests the former.

Regardless of the source of the pressure to offer tax abatements or other development incentives, the recruiting region obtains the economic benefits associated with the new plant or the expanded operations. The greater inducements in the form of tax relief, however, leave residents with fewer net benefits from the development, although, of course, the indirect effects via any income and employment multipliers will accrue to the jurisdiction. To the extent that competing industry recruitment efforts can be reduced through inter-jurisdictional coordination, residents will capture a greater portion of the net benefits from the development.

Locally unwanted land uses (LULUs) and free-riding. Local governments are charged with the responsibility of providing a wide variety of services to residents. While all of these services affect the quality of life of residents, hence the attractiveness of the locale to footloose industries, the way that each individual local government handles transportation, water, sewerage, education, and recreation issues directly affects regional economic development. Adequate transportation infrastructure, water supply, and sewerage system capacity are factors that are necessary to support plant expansion or attract new industries to the area. Local land use regulations that prohibit certain LULUs like power plants, transmission lines, pipelines, and waste landfills can eliminate infrastructure that is important to many industries, and thereby reduce the attractiveness of the surrounding area for future development. The problem with such LULUs is that part of the benefits of these land uses in a jurisdiction accrue to the surrounding locales. Because residents of the local jurisdiction cannot fully capture the benefits of the LULUs themselves, they have less incentive to accept those land uses.

At the same time, local governments have an incentive to engage in free-riding. If the LULUs locate in another part of the region, sufficiently far away to avoid the negative consequences of the facilities, all residents of the region will enjoy the spillover benefits that come with them. The danger of free-riding is that it can end up prohibiting the LULU throughout the region, with the region losing the attendant jobs, tax base, and other net benefits from the activity as well as other industries who would have otherwise been attracted to the region by the LULU.

For example, all jurisdictions within the region can tout the availability of excess electric power generation capacity in the region as an attractive feature when recruiting firms that require plentiful stable energy supplies. Only the residents within sufficiently close proximity to the power plants, however, have to directly deal with the unattractive or unwanted aspects of that activity. Therefore, residents in all of the jurisdictions have the incentive to free-ride by prohibiting the power plant from locating nearby while enjoying the benefits when the plant locates elsewhere in the region. The problem with such free-riding, of course, is that it can lead to all jurisdictions adopting similar prohibitions, leaving the region without the power generating capacity that would have proven to be attractive for further economic development.

Flight-from-blight. While the phenomena explained above apply to all locales, whether in a heavily urbanized area or not, localities within and on the borders of metropolitan areas face additional migration-related issues. The flight-from-blight intra-regional migration is a consequence of spatial concentrations of urban poverty in the older central portions of metropolitan areas, coupled with changing household housing demand patterns, aging urban infrastructure, and income growth.

Even when all of the local governments in the region can benefit as a whole from counteracting these intra-regional population migrations, no single jurisdiction has sufficient incentive to counteract the economic forces at work. The poorer interior jurisdictions suffering out-migration cannot reduce tax rates enough or increase the quality of services enough to foreclose the migration. And Turnbull and Niho (1986) show how even the beneficiary jurisdictions in this type of migration pattern have incentives to adjust their tax rates and spending levels to reinforce the pace of migration.

Defining Areas of Responsibility for Local Governments

The widely accepted principles of fiscal federalism assign appropriate responsibilities for municipal, county, special districts, and state governments. These principles help guide the subsequent discussion of local tax base sharing.

- The first principle is *boundary matching*, that the boundary of the jurisdiction matches the boundary of the area over which the publicly provided service extends. This brings individuals who receive benefits from local government actions into the decision-making process by making them residents of the jurisdiction.
- The second principle is *benefit matching*, that those individuals who benefit from the publicly provided services are also responsible for financing them. Benefit matching makes it easier for residents of a jurisdiction to balance the benefits of local governmentally supplied goods and services against their economic cost, the latter measured directly through user fees and local taxes. Benefit matching reduces the tendency for residents to view additional government spending as if it were "free" or costless to society.
- The next principle is that responsibility for providing and financing a particular service to the population be assigned to a government on the *lowest tier* of the federalist structure consistent with boundary and benefit matching. The underlying notion is that the closer the government to the taxpayer-voters, the more responsive the government to voters' wishes. A series of studies by Turnbull and Djoundourian (1994), Turnbull and Chang (1998), and Turnbull and Mitias (1999) show that local government fiscal behavior is most responsive to its residents in small and medium size municipalities and less responsive for higher level county and state governments. Research by Bloom and Ladd (1982), Holtz-Eakin and Rosen (1989), and Romer, Rosenthal, and Munley (1992) show a similar result for the size of the jurisdiction: jurisdictions with smaller total populations are better at reflecting the economic interests of resident taxpayers than are larger jurisdictions.

As a practical matter, economies-of-scope in government operations make it more efficient to make a single jurisdiction responsible for providing a wide range of public services, say from public safety to refuse collection. As a consequence, local governments undertake some policies and activities that generate costs or benefits that fall on residents of surrounding jurisdictions. This need not be problematic in a federalist system; it simply creates a role for government on a higher tier in the federal structure to employ an intergovernmental grant scheme that creates the proper incentives for local governments to account for the effects of their policies on other parties.

- The principle of *uniformity*, or of non-discriminatory policy, requires that the state government, for example, apply the same intergovernmental grant formula to all lower level governments in the state.

The principle of *uniformity* is a type of equal protection clause and is enshrined in many state constitutions. In Georgia, however, this is not a binding constraint when dealing with regional differences. The legislature can (and does) create policies that vary across regions. Nonetheless, adhering to this principle can prevent a higher level government from implementing the appropriate intergovernmental grant scheme to correct inter-jurisdictional externalities that are uniquely regional. This is particularly relevant to local economic development policies that require the cooperation of two or more cities or counties. The intergovernmental grant scheme that would elicit the appropriate cooperation between the local governments in question needs to be sculpted to their particular situation. Applying the identical grant criteria to other locales within the state (following the principle of uniformity) would most likely create incentives for those other jurisdictions to behave inappropriately relative to their own specific situations.

Even though Georgia is not constitutionally constrained to follow uniformity, the principle remains relevant as a practical matter. Intergovernmental grant programs supported by general revenues have to muster enough political support (or at least avoid the wrath of voters) across the state to pass through the legislature. This makes it unlikely that a state aid program narrowly targeted on one region could be enacted without some benefits directed to county or municipal governments other regions of the state.

Whether uniformity is constitutionally mandated or effectively enforced by the realities of political decision-making, statewide intergovernmental grant schemes are not likely to create the incentives for locales to adopt cooperative development policies. Local tax base sharing, however, represents one set of tools for eliciting such region-specific cooperation.

Rationale for Local Tax Base Sharing

The prevalent justification offered for local tax base sharing is equity-based; the idea is to increase fiscal equity by allowing locales suffering relative decline to tap the faster growing tax bases of other locales. These equity-based arguments for local tax sharing, however, do not hold up to scrutiny. Equity arguments are based on the notion that it is "fair" for one jurisdiction to receive taxes that are raised from other jurisdictions that are "better off" in some sense. But if we accept that a locale with a declining tax base should be supported by taxes levied on residents in surrounding locales with healthier tax bases, our notion of what is "fair" must extend beyond the single region under examination. That is, if the equity argument is valid, then the comparison of the "worse off" and "better off" jurisdictions cannot be restricted to only one region of the state. Equity requires that *all* of the similarly situated "well off" jurisdictions be taxed to raise revenues for the identified "worse off" locales. It follows that equity-based arguments more adequately justify statewide base sharing in the form of fiscal power equalization grants rather than policies that reallocate resources among local governments in only one region. Regardless, there is a different role for local tax base sharing that does not depend upon equity.

As discussed above, there can be differences between local and regional development policy interests. In such cases, local tax base sharing can be used to align local development incentives to better meet the broader regional goals. Specifically, local tax base sharing can be justified in either of the following situations:

1. There are spillover benefits or costs associated with existing local government economic development efforts that fall on residents in other jurisdictions in the region. These spillover benefits or costs do not, however, extend outside the surrounding region. Further, the specific type of spillover benefits or costs vary across regions in the state. Under the principle of uniformity, therefore, a statewide approach would be inappropriate.

2. Effective industry recruitment or economic development requires a coordinated multiple local jurisdiction "team effort". This joint effort may be in the form of coordinated infrastructure (e.g., access roads or bridges, sewer and water lines to an industrial park or shopping center, right-of-way for power transmission towers, etc.) or the joint finance of tax incentives.

Introducing tax base sharing among local governments, while correcting some deficiencies in their fiscal relationships, also alters local government incentives, as explained below. Therefore, any argument for tax base sharing must recognize these incentive effects and weigh them against other desired outcomes on a case-by-case basis.

Alternative Models of Local Tax Base Sharing

There are two competing models of local tax base sharing. In the first, the *pure sharing model*, the local governments pool all or part of the revenues from their respective tax bases and then reallocate the revenues among them according to an agreed upon formula. The second is the *regional service model*. In this model, the local governments contribute revenues to a common pool, which is then used to support the provision of services to the residents of all of the contributing jurisdictions. Although not necessary, this approach can entail establishing a government body comprising the area covered by the local jurisdictions in question. This body is assigned the responsibility for using the pooled tax revenues to provide public services to residents of the constituent local governments, in accordance with the fiscal federalism boundary-matching principle.

Incentive effects of tax base sharing. Tax base sharing by itself introduces incentives for local governments to change both their fiscal behavior and their development efforts. The specific incentive effects vary according to the way in which tax base sharing is set up; nonetheless, there are some general relationships that pertain.

In the pure sharing model of local tax base sharing, base sharing reduces the reward from adding to one's own tax base while increasing the reward from adding to other jurisdictions' bases. The larger the number of local governments involved in the sharing arrangement, the smaller the incremental reward from adding to other jurisdictions' bases. Thus, pure sharing is most effective for promoting inter-jurisdictional cooperation when the region comprises few local governments.[3]

There is another incentive effect of base sharing that is unrelated to the development activities of local governments. In general, greater reliance on intergovernmental grants tends to foster fiscal illusion by voters, which in turn tends to increase local government spending. Oates (1988) and Turnbull (1998) offer an overview of this phenomenon and present empirical evidence of how fiscal illusion

[3] This is an incentive characteristic common to all reward-sharing schemes. For example, profit-sharing in private firms is most effective for motivating cooperation among groups of workers when the number of workers is small.

affects public spending. Even though there are no recent empirical studies of fiscal illusion or its effects for Georgia, we can at least get a feel for how important these effects can be by using the results for other states. The recent study of fiscal illusion by Mitias and Turnbull (2001) finds that taxpayers in Indiana, Illinois, Ohio, Michigan, and Wisconsin systematically underestimate the additional local taxes needed to increase county spending, a misperception that leads them to support significantly higher county spending than they otherwise would desire. The empirical results from Mitias and Turnbull's (2001) study of county governments and Turnbull and Djoundourian's (1994) study of municipalities suggest that fiscal illusion leads taxpayers to support one to five percent more local spending by local governments in Georgia.[4] Given that such fiscal illusion arises from complex intergovernmental fiscal relationships, and given that local tax base sharing represents this type of a fiscal complication, it is reasonable to expect that tax base sharing will exhibit fiscal illusion characteristics similar to existing intergovernmental grants.

The regional service approach to local tax base sharing provides a different means of eliciting cooperation. In this model, regional tax revenues are used to support a narrowly defined service with regional impact, like mass transit or drinking water. Alternatively, the service can be provided directly by the local governments provided that the agreement includes a restriction that all shared revenues must be dedicated to the specified service. In either case, the regional service decision reflects the broad regional net benefits weighed at the inception of the cooperative agreement. Nonetheless, the incentive to free-ride that arises in the pure sharing scheme also holds for both modes of regional service provision.

There are other aspects to consider as well. Base sharing increases the gains to each locale from cooperating with other jurisdictions to spur economic

[4] Denote the percentage increase in spending arising from a percentage reduction in the perceived tax price of spending as β. Mitias and Turnbull (2001) calculate the proportion of understatement in the tax price of spending as (0.2)(Aid receipts/General Expenditures), which is 0.078 for Georgia local governments based on data from the *City-County Data Book* (1994). Estimates of β range from 0.153 to 0.192 for county governments (Mitias and Turnbull, 2001) and 0.297 to 0.620 for municipal governments (Turnbull and Djoundourian, 1994; Turnbull, 1998). Using these estimates, the increase in Georgia local government spending attributable to fiscal illusion lies between (0.153)(0.078) and (0.620)(0.078), or 1.2 percent to 4.8 percent.

development. At the same time, however, tax base sharing on a regional basis will also increase the incentive for each jurisdiction to prevent LULUs and engage in more free-riding on the development efforts of others. These deleterious incentive effects can be reduced or eliminated by defining the sharing agreement over a narrow portion of the tax base that is responsive to observable actions by each locale. Because free-riding incentives increase with the number of jurisdictions involved or the size of the affected region, this once again suggests that local tax base sharing will be most successful in mitigating free-riding when either the number of jurisdictions that are a part of the scheme is small or when there is an outside body capable of serving as a mediator when constructing the sharing agreement and as an independent monitor thereafter.

In addition to these incentives effects, other properties must be considered when deciding how to structure the appropriate base sharing model.

The decision-making framework. There are two approaches to the decision-making: top-down and bottom-up. In the *top-down approach*, tax base sharing is structured at the state government level. In the *bottom-up approach*, tax base sharing is structured by the participating local governments. The top-down approach violates the third principle of fiscal federalism explained above, that the jurisdiction closest to voter-taxpayers undertake the responsibility for the policy. On the other hand, the top-down approach also makes it easier for the state government to over-ride any dominating parochial voter interests that lead to inter-jurisdictional externalities.

The bottom-up approach allows constituent residents maximum input into the decision-making process. It can also, however, lead to gridlock or dominant larger jurisdictions. Further, the rule used to express constituent resident interests and concerns will in general affect the structure of the tax base sharing agreement. Democratic voting by individuals on referenda or by jurisdictions weighted by locality population give the most populous cities or counties dominant decision power. Other jurisdiction-based voting rules can lead to complicated voting rules and decision-making gridlock.

At the same time, however, bottom-up sharing policy design can still be effective when the number of jurisdictions involved is small and the participants clearly recognize their potential mutual gains from structuring an appropriate sharing agreement. One of the examples discussed below provides an illustration of this case. The small numbers case turns out to be extremely important in actual application; we anticipate that it represents the majority of potential tax base sharing situations for municipalities and counties lying outside the major metropolitan areas in the state.

Centralized vs. decentralized decision-making. A related aspect that must be addressed at the outset of any sharing arrangement is the extent to which the local governments involved in the sharing arrangement are going to subject themselves to regionally-centralized decision-making. If the sharing agreement is constructed as a purely cooperative venture then the local governments themselves retain the power to fulfill the obligations to which they agreed; decision-making is fully decentralized and any regional body created takes on a coordinating role. On the other hand, the tax base sharing agreement can also be structured to give a regional body decision-making powers over the regional tax rate or spending on a regional public service, a centralized decision-making framework.

Dynamic flexibility and lifespan. The spatial extent of the relevant region can sometimes change over time as economic growth occurs. So, how is the agreement to be structured to adapt to growth possibilities? As the affected region of scope of a development project increases over time, is the original sharing agreement to be scrapped and an entirely new agreement created (with possibly more local governments involved) or is there to be a procedure for amending the existing system to incorporate the new areas into the tax base sharing agreement? In addition, a decision about the lifespan of the tax base sharing agreement, modifications, the process for renewal or rescission, etc., also need to be addressed at the outset.

Tax base definition. The tax base to be shared needs to be defined as well: Nonresidential property versus all property; real estate versus all property; or sales or income taxes versus property taxes. The choice of tax base will determine the particular incentives effects of the sharing scheme, as explained above.

Interaction with other development incentives. The tax base sharing agreement among local governments will also have to establish a policy for dealing with other development incentives or homestead exemptions in the affected jurisdictions. For example, if the tax sharing agreement covers commercial/industrial property, how is the property in previously designated Tax Incremental Financing Districts (TIFs) or in similar programs to be treated? Is it subject to the regional tax or not? If exempt from tax sharing, can the TIF or similar development incentive be renewed by the local government or not? And will the local governments be able to create new TIFs within their jurisdictions?

If the tax sharing agreement extends over residential property taxes, then similar questions must be addressed for homestead exemptions and similar residential tax breaks.

Uniformity. If the top-down approach is followed, then the parameters of the sharing schemes need to recognize that most states comprise vastly different types of regional economies (e.g., urban versus rural) and that the policy advantage of local tax base sharing is the wide range of versions that can be adapted to deal with region-specific issues. State policy must retain sufficient flexibility to address the different types of issues that face locales in these different economic regions.

Two Examples of Tax Base Sharing: Minnesota and Virginia

While the federal and state governments widely employ tax base sharing in the form of intergovernmental grants, there are few examples of direct tax base sharing among local governments in the US. The question is, why is tax base sharing not commonly used at the local level?[5] Is this a good fiscal tool that is being left unused because state and local government officials are not aware of it? Or is it largely unused because it creates perverse incentives for participants? Or, are existing institutions not sufficiently flexible to allow tax base sharing to work?

It is difficult to argue that tax base sharing is a foreign concept to professionals in the public sector. After all, district power equalization and other types of equity-driven school finance reforms are examples of tax base sharing at the state level; most states have had to grapple with those issues from the mid 1970s to the present. There clearly is no lack of familiarity with the concept of tax base sharing.

Is local tax base sharing not a popular tool because it is not appropriate for solving many of the important regional issues? It appears that the most visible supporters for such sharing among local governments present purely fiscal motives, whether cloaked in equity arguments or couched in terms of revitalizing the urban cores of regions by allowing them to tap the tax bases of surrounding locales. Equity-based justifications, however, are not particularly compelling. After all, if inter-jurisdictional fiscal equity is the underlying concern, then there is no reason why the concern should not be statewide. But statewide tax base sharing has been widely practiced in the US in the form of fiscal power equalizing grant schemes.

Urban core revitalization, too, is not a compelling argument for local tax base sharing if it is based upon equity arguments. Urban core revitalization based on mutual gains, however, is another matter. The burden of using mutual advantage as an argument for local tax base sharing for this case is that the arguments must make the case that the residents of all of the jurisdictions must ultimately realize direct

[5] In light of the taxonomy employed in this study, one might argue that tax base sharing is not as rare as it appears on the surface, being more widely (and subtly) practiced in the form of regional service provision.

gains in the aggregate from the revitalization of the urban core. If the evidence is not compelling then tax base sharing is most likely going to be viewed by outlying locales as simply a revenue grab by the jurisdiction in the urban core. As pointed out earlier, though, there are other efficiency rationales for local tax base sharing, even though largely lost in the discussion thus far.

Finally, it is possible that tax base sharing is not widely used because the existing institutional structure makes it unwieldy or difficult to implement in most states. There may be difficult constitutional issues that are unresolved in some states or there may be interest groups who effectively resist fiscal reform in that direction, either because it is viewed as a pure reallocation mechanism or a revenue grab by declining central urban jurisdictions and older suburbs. Whatever the reason, local government base sharing is not likely to arise without a strong advocate for change in that direction.

It is nonetheless worthwhile to briefly consider several examples of tax base sharing schemes that have been implemented in the US, with an eye toward drawing lessons for Georgia. In some senses, the two examples presented here represent polar cases of tax base sharing at the local level. In the first case, the regional tax base is used, in part, to generate the revenues that support a separate regional governmental entity. In the second case, there is no regional body encompassing the local government jurisdictions. The revenues are used to support the general spending of two local governments that otherwise would be competing for the same tax base. In the first case, the revenues are dedicated to a well-defined set of narrow uses. In the second case, the revenues are used to support the general budget.

But there are also similarities in the two cases, as the ensuing discussion makes clear.

Case 1: Minneapolis-St. Paul Metropolitan Council, Minnesota

The Metropolitan Council is a governmental body with responsibility for both providing select regional public services and assisting development planning in the Twin Cities region in Minnesota. Its authority extends over a broad region comprising seven counties in which there are approximately 190 local governments and 2.5 million people.

History. The Metro Council was created by Minnesota state government in 1967 to help coordinate regional economic development planning. Accordingly, its first responsibility was to coordinate development of a regional sewer system. Although begun as a planning and coordination body, the Metro Council functions have expanded over time to include direct provision of ground transportation services and waste water management. At the same time, though, even the scope of its planning role has expanded; it now includes aviation, ground transportation, parks and open spaces, and water management. In addition, it administers Section 8 and other affordable housing assistance to households and housing grants to local governments. Other responsibilities include budget approval and issuing bonds for the Metropolitan Sports Facilities Commission (i.e., the Humphrey Dome) and a role in the capital budgeting process of the Metropolitan Airports Commission.

Although its role in the Twin Cities region has expanded since its inception, all of its current activities are still consistent with the initial impetus for the Metro Council, promoting regional economic development. That it retains a long term planning perspective and regional focus of the Metro Council is reflected in its regional growth plan, *Metro 2040*: to reduce urban sprawl, to preserve agricultural land, to create an urban land bank (land held in reserve for development after 2020), and to redevelop the urban core as well as other identified pockets of poverty in the regional economy.

Structure of the Metro Council. The Metro Council covers seven counties surrounding Minneapolis-St. Paul. There are 16 council members plus a chairman. All are appointed by the governor. The council is organized into three divisions: Community Development; Environmental Services; and Transportation. The divisions are overseen and supported by Regional Administration. The Sports Facilities and Airports Commissions are not under the Metro Council.

The Community Development Division is responsible for planning, analysis and providing guidance for cooperative development policies at the local level. Local governments, however, retain land use regulatory powers. The Environment Services Division's major duty is to run the regional wastewater treatment system. The Transportation Division's primary task is to run the regional bus and train systems.

The role of the property tax. Of particular interest to this study is the role of the regional property tax. Recall that there are two different models of local tax base sharing. In one, a property tax is levied throughout the constituent local governments and is remitted to a regional body to be used to support a service with regional impact. In the other, a property tax is levied throughout the constituent jurisdictions and is then pooled for disbursement among the local governments, either to support a specified locally-provided service or to be allocated according to local demands from the general fund. The tax base sharing undertaken in the seven county Twin Cities region encompasses both approaches.

The property tax base sharing was introduced in the Metro area with the passage of the Minnesota Fiscal Disparities Act in 1971. The stated purpose of the legislation was to "increase the likelihood of orderly urban development" by reducing inter-jurisdictional competition for business location and expansion, to create incentives for localities to coordinate their behavior "to work for the growth of the area as a whole," to increase "protection of the environment" by reducing fiscal pressure on municipalities to allow the development of flood plains and open spaces, and to provide help to those local governments on which "financial pressures are the greatest." The last goal, of course, is that of inter-jurisdictional equity within the Metro region.

The Act was implemented to have all of the municipal governments in the region share in the commercial and industrial tax base growth. Each municipality in the Metro region jurisdiction contributes 40 percent of the commercial and industrial property tax base growth that has occurred since the base year 1971. This base is used to both support the Metro Council's operations and the regional revenue sharing among the local governments.

Looking first at Metro Council operations, the Council obtains 25 percent of its revenues from the regional property tax, 45 percent from user charges for direct provision of waste water and transportation services by the Council, and 9 percent from federal and 29 percent from state funding sources.[6] The property tax base is an important component of Metro Council fiscal structure. It accounts for 75 percent of the budgeted revenues for the Regional Administration and Community Development Division and 32 percent of the Transportation Division revenues (the bulk of the later division funds come from user charges).

Turning to the revenue sharing role of the property tax, in recent years the annual pooled revenue has been about five times the size of Metro Council's share of the regional property tax that it uses to support its planning and service activities. The pooled funds are allocated to local governments based on their relative population and commercial/industrial property tax capacity; those with greater population or lower capacity are awarded a larger share. In recent years, the pooled fund has been around $360 million annually (allocated among 189 cities and townships). This aspect of the tax base sharing scheme is in effect a partial fiscal power equalization grant scheme for the seven county region.

Performance Issues

- One issue arises from the Metro Council's governance structure. The Metro Council is structured using the top-down approach. There has been some dissatisfaction with the lack of direct local government input or the lack of direct input by the region's residents in the selection of council members. A recent legislative effort to make the Metro Council an elected body failed in the late 1990s. And even though "there is no regional crisis that requires a governance change," there is support for a system with local input into the council member selection process and Metro Council policy design.[7]
- While the Metro Council's seven constituent counties fully contained the Twin Cities regional economy when created, subsequent growth in the economy has expanded the regional ties to include eleven surrounding "collar" counties. A current question concerns whether and how to integrate new counties into the Metro Council structure. It is not clear what would be the appropriate role for the

[6] These figures are based on the information from: *2001 Unified Operating Budget*, Metropolitan Council, St. Paul, MN (2000); *2000 Consolidated Financial Report*, Metropolitan Agencies, St. Paul, MN (2001); and *2001-2006 Capital Improvement Program and 2001 Capital Program and Budget*, Metropolitan Council, St. Paul, MN (2000).

[7] *AMM's 2001 Policy Positions: Metropolitan Agencies,* Association of Metropolitan Municipalities (2001).

state legislature in such an expansion. The expansion of the Metro jurisdiction can be complicated by reluctant collar counties. A related issue concerns the fact that the Twin Cities economic region now straddles the Minnesota-Wisconsin state border. Even though the economic region includes several counties in neighboring Wisconsin, there is no straightforward way to resolve the governance issues across state lines within the context of a body like the current Metro Council.

- Financing issues continue to arise. Dissatisfaction with the persistent fiscal disparities in the region underlies the current political support for enlarging the tax sharing program. Recent proposals in the legislature envision extending tax base sharing to cover a larger fraction of the commercial tax base as well as including residential real estate.
- The Metro Council's powers and duties have expanded steadily over time. This process continues, with a recent proposal for the Council to take over water supply systems currently run by local governments. Like many successful organizations, it can be difficult to ascertain how much such expansion reflects meeting previously unmet demands and how much represents the natural tendency toward "mission creep." There is some countervailing sentiment for restricting the growth of the Metro Council's scope and powers by setting a high standard of proof for justifying such expansion.[8]

Case 2: City of Charlottesville-Albemarle County, Virginia

The tax base sharing agreement between the governments of the City of Charlottesville and Albemarle County presents a different type of example.

History. In Virginia, tax bases that fall within city jurisdiction boundaries escape county taxation. In a sense, cities and counties are on the same tier of the federalist structure and the familiar notion of counties and cities as vertically overlapping jurisdictions does not apply in Virginia.[9]

This unique relationship between county and city governments creates an incentive for tax base competition between city and county governments. Cities have fiscal incentives to annex surrounding unincorporated land to capture tax base growth on the fringe of the urban area. Counties, because they lose the annexed tax base to

[8] *AMM's 2001 Policy Positions: Metropolitan Agencies,* Association of Metropolitan Municipalities (2001).

[9] Only a few states have independent cities that resemble the county-city relationship in Virginia: Baltimore City in Maryland and Carson City in Nevada.

the city, have an incentive to resist annexation.[10] The surrounding county's only recourse is to fight annexation in the courts, a costly and time-consuming process.[11]

The goal of tax base sharing in this case was to eliminate the incentives to engage in costly legal battles over annexation. Tax base sharing can create an inter-jurisdictional fiscal relationship between cities and counties in Virginia that resembles the hierarchical or overlapping structure found in other states in the US. Through tax base sharing, both governments can tax the designated area, thereby eliminating the City of Charlottesville's motive for annexation.

The enabling legislation for such city-county agreements was in passed in 1979 to encourage "Economic Growth Sharing Agreements." This is the aspect that is of immediate interest to us, although it is worth emphasizing that the permission for tax base sharing was granted, but with state support in the form of financial aid and a formal mediation structure. The legislation provided greater financial aid to municipalities in order to reduce city incentives for annexation. The legislation also created the Commission on Local Governments, a body charged with studying annexation issues and serving as a mediator between local governments involved in annexation situations.

Role of the property tax. The agreement between the two governments establishes tax base sharing, coupled with the city's agreement not to engage in further annexations of county land. The shared property tax in the Charlottesville-Albemarle system resembles a fiscal power equalization scheme, even though the underlying motives are not equity based at all. There are differences with the Metro Council example considered earlier. First, shared revenues are not restricted to specific functions. Second, whereas the sharing system in Minnesota incorporates only a part of nonresidential property tax base, the Charlottesville-Albemarle tax base sharing agreement encompasses the entire tax base, residential as well as commercial.

[10] In other states county and city governments overlap vertically, so that city annexation does not remove property in the annexed area from the county tax roles. Thus, although counties may have other rationale for fighting annexation of unincorporated areas in Home Rule states like Georgia, lost tax base is not one.

[11] Johnson (1985) estimates that annexation cases during 1965-1971 took from 2-9 years to settle and cost taxpayers an average of $7,000,000 per case.

In this system, the city and county contribute fixed proportions of their real estate tax revenues (that is, both contributing at same tax rate) to a revenue pool. This pool is divided between the two governments using a fiscal equalization-type formula to account for differences in population and relative tax effort. Tax base growth in either jurisdiction increases pooled revenues (given the fixed millage rate), providing greater revenues for both governments. Changes in relative population or tax effort over time lead to changes in the equalization index used to calculate each jurisdiction's share of the pooled revenue, enhancing the revenues of one while reducing the revenues of the other.

So, what has been accomplished with the revenue sharing agreement between the two governments? The goal of tax base sharing in this case was not to get the affected governments to coordinate their behavior, except in the limited sense of refraining from mutually destructive legal battles. In this respect, the tax sharing agreement was successful; both governments obviously avoided incurring potentially high legal costs.

In addition, the agreement modifies the incentives to pursue further economic development. The county, for example, gets a smaller share of the tax base growth from new development up front, but the sharing agreement eliminates the costly inevitable future loss of at least some of the tax base to annexation. The sharing does appear to reduce marginal incentives for the county, but this reduction is illusory. Economic development at and beyond the urban fringe is protected from full city capture, giving the county government a greater incentive to pursue (or at least not inhibit) such development than before the agreement. The relevant comparison is the current fraction of additional tax base versus zero percent of the additional tax base as a result of successful annexation of county development efforts by the city. The county enjoys stronger fiscal incentives for pursuing development.

Further alignment of development incentives was perhaps unintended, but the city now has an incentive to coordinate with the county in outlying economic development since it will share in the growth. Whereas before it had the incentive to behave as a free-rider on this point, waiting for development in the unincorporated region and then annexing after the fact, it now has an incentive to behave as a full partner with the county.

Finally, the agreement reduced uncertainty about the taxable status of property in areas ripe for annexation. To the extent that such uncertainty stymies economic development, this reduction in uncertainty stimulates private investment and yields further fiscal benefits to both governments.[12]

Dynamic flexibility and lifespan of the agreement. Regarding the other aspects of tax base sharing schemes presented earlier, the lifespan of the agreement is not an issue in this case. The sharing agreement between Charlottesville and Albermarle County has no expiration date, but the enabling legislation requires automatic expiration if Virginia ever changes the city-county separation status, that is, once the factors motivating its creation disappear. Likewise, dynamic flexibility does not enter either, since the nature of the problem between the city and county ensures that no additional cities or counties will need to be parties to this particular agreement in the future.

Centralized versus decentralized decision-making. The agreement itself is cooperative and voluntary; hence, the decision-making framework follows the decentralized model. Nonetheless, the coordinating body set up by state plays a role in the process. Even though each sharing agreement in Virginia involves only a few governments, the legislature apparently recognized that such a body would be needed to help fashion the cooperative agreements despite the strong incentives of each government to reach sharing agreements.

Comparing the Two Cases

Fiscal equity versus funding coordinated development effort. First, the Metro Council case incorporates both models of tax base sharing. The Metro Council uses regional property taxes to support regional services, including acting as a regional development coordinator. As discussed earlier, this is one way to implement effective

[12] See Besley (1995), Bohn and Deacon (2000), Edmiston (2001), North and Thomas (1973), and Turnbull (2002) for empirical evidence and analysis regarding the investment incentives effects of uncertainty in the legal environment, regulations, or taxation.

tax base sharing while avoiding the perverse incentives for local governments to free-ride or increase their resistance to LULUs. This assumes, of course, that the regional service has some impact on economic development of this type. In the Metro Council case, its duties were narrowly defined to adhere to the regional development context and the regional property tax funds are restricted to only those activities.

At the same time, though, the regional tax base sharing also uses the pure sharing model. The legislative history points out that equity arguments underlie the motivation for this aspect of the sharing arrangement.

In contrast, the Charlottesville-Albermarle case relies upon the regional-service model of tax base sharing. While the structure appears on the surface to fall into pure tax base sharing, the sharing agreement elicited the necessary cooperative behavior between the two governments. They avoided costly annexation battles and have additional incentives to coordinate effort in future development. In keeping with the role of the tax base sharing in this case, shared revenues need not be dedicated to a narrow set of specifically regional uses.

Top-down versus bottom-up. The two cases are on opposite extremes in terms of governance. The Minnesota case relies upon the top-down method of establishing regional cooperation. The Metro Council is a creature of the State government, its membership appointed at the state level. The Virginia case, in contrast, provides an example of the bottom-up approach. The cooperation, of course, required the help of an independent body to act as a mediator, but the agreement is essentially the creature of the two governments that were directly involved.

Of course, the Metro Council in Minnesota encompasses almost 190 local governments in its domain. It is precisely in this type of large numbers environment that the incentives effects of regional revenue sharing for cooperation is the weakest. Using the top-down approach coupled with the regional service model eliminates many of those difficulties. In the Virginia case examined here, of course, only two governments were involved. This is precisely the situation in which we expect that bottom-up cooperative agreements can be used to their best effect.

Effects on residential taxpayers. The net effect of a redistribution intergovernmental grant program on local taxpayers varies across jurisdictions. Nonetheless, we can make some broad generalizations for these two cases. Jurisdictions with relatively high tax capacity contribute more to the regional tax pool than they receive back as shared revenues. Taxpayers in these jurisdictions therefore bear a greater burden than they would without the tax base sharing scheme. Johnson (1985) reports that taxpayers in Albemarle county experienced a 15 percent increase in their property taxes when implementing tax base sharing. In the Twin Cities case, of course, residential property is not included in the shared base. The residents of high tax capacity jurisdictions nonetheless must shoulder a greater share of local property taxes with the net loss of nonresidential property tax revenue relative to the pre-sharing situation. Residents of low tax capacity jurisdictions shoulder less of the local tax burden under inter-jurisdictional base sharing.

In addition, the empirical study by Mitias and Turnbull (2001) shows that greater intergovernmental revenue sharing increases taxpayer fiscal illusion, in turn leading to greater local spending and taxes to support the additional spending. Greater complexity in the public budget and fiscal decision-making system creates a greater level of fiscal illusion for voters (Oates, 1988; Turnbull, 1998). Therefore, since a tax base sharing system represents a significant complication in the fiscal structure of local governments, we expect that the more extensive or the broader the coverage of the revenue sharing scheme, the greater the attendant fiscal illusion distortion. This factor by itself leads to a greater increase in the Twin Cities region taxpayers' net burdens under tax base sharing than experienced by the Charlottesville-Albemarle County taxpayers.

The Case for Tax Base Sharing in Georgia

The Georgia Legislature recognizes the need for coordination of local development strategies from a more regional perspective than individual local governments are typically capable. Recent legislation begins to address the need for institutions for coordinating local government development efforts, in terms of both service provision and industry recruitment. The Service Delivery Strategy Law (1997) establishes a framework for reducing conflicts and coordinating the delivery of services though various formal channels of cooperation at the county level, including mutual assistance and contracting, as well as resolving conflicting land development goals and regulations between municipal and county governments. In 1998 legislation created twelve Regional Advisory Councils (RACs) in order to promote a regional perspective for local economic development strategies. It is too early to see how the duties and powers of these and other institutions should be refined or augmented in order to effectively coordinate local government efforts within a regional context. Nonetheless, in principle, forums for coordination among local governments do exist in Georgia.

This section discusses several aspects of tax base sharing and inter-jurisdictional cooperation in Georgia. We can only briefly examine a few examples of tax base sharing (which is currently narrowly limited in application) or regional coordination in Georgia; the breadth and depth of examples and discussion of each are not meant to be comprehensive. The examples here pertain to issues concerning inter-jurisdictional competition, tax base sharing, or small scale regional governance.

Local Competition for Economic Development

However labeled in different applications, local tax abatements offer the reduction of property or other local taxes as an inducement for firms to expand an existing plant or build new facilities within a specific jurisdiction.[13] This is a popular policy tool that is widely believed to be an effective inducement for acquiring new

[13] "Tax abatement," as the term is used here, indicates an agreement between a private firm and a local government to reduce the firm's local net tax burden, typically for a fixed period of time.

investment or retaining existing facilities. Its appeal, however, is blunted by competition among different local jurisdictions for development capital. The problem is particularly acute when the competing local jurisdictions are within the same economic region.

Overview of the recruitment process. Using our earlier discussion as a point of departure, the systematic approach to industry recruitment for economic development requires coordination among jurisdictions and often sharing the expertise of analysts and experts. In Georgia, either the state (e.g., Georgia Department of Industry, Trade, and Tourism) or a regional development authority could serve this purpose. Since new regional authorities can be created by a legislative act, in principle there should be no difficulty putting together a public authority with the access to the appropriate technical expertise and responsibility for policy coordination.

Ideally, the recruiting jurisdiction identifies specific industries that fulfill its growth goals before initiating the process. The next step is to identify specific individual firms as candidates or allow the firms to identify themselves by expressing interest in location or applying for benefits. Once the specific candidates have been identified and contacted, the next step is perhaps the most difficult: negotiation between the recruiting government and the target firm to set the parameters of the tax abatement or other financial inducement that will bring the firm to the locale. This stage can be complicated by the target firm negotiating sequentially or simultaneously with several different locales while weighing the competing inducements. Finally, the firm makes its facility location or expansion decision.

There are some complications and special considerations for local governments in Georgia. Some local governments can employ tax abatements or similar benefits using constitutional development authorities (those established by local constitutional amendments) if they are granted such power. In other cases, the effect of a tax abatement can be accomplished through the legislative creation of a development authority that acquires title to the property coupled with a lease arrangement with the firm, with provisions for the firm to obtain title at the end of the abatement period. Thus, even without explicit abatement powers, local governments in Georgia can enact what is in effect a tax abatement through one or the other of these channels.

Costs of using abatements. There are potential costs associated with using tax abatements or similar inducements to stimulate economic development. Consider some costs that are relevant our discussion:

- *Forgone tax revenue.* By construction, the jurisdiction appears to lose tax revenues by offering tax abatements--the foregone revenue on the tax exempt property. This is somewhat illusory, though, since the jurisdiction that successfully recruits the firm would not have had *any* of the firm's assets in the jurisdiction in the absence of the abatement. If the analysis and negotiation are done correctly, the firm will generate (through direct and indirect effects on the local economy) economic benefits that exceed the foregone tax revenue from the abatement in any case. Thus, whether or not the abatement represents a true fiscal cost to the locale depends upon how effectively the policy makers used the tool to recruit firms. Nonetheless, strong inter-jurisdictional rivalry for the target firm can prompt local governments to reduce significantly the net gain from recruitment when the target firm uses the competing offers to lever a larger abatement from the ultimately successful locale.
- *Tax equity effects.* Giving a tax abatement to firms in one industry creates different effective tax rates for different firms in different industries. The incidence of business taxes on customers, resource suppliers, and owners varies across industries and across time as market conditions change. It is difficult to even hazard a guess about how differential tax treatment of different industries in the same locale alters tax burdens across different workers and consumers, except to note that there is no reason to expect these effects to conform to accepted notions of horizontal and vertical equity.
- *Tax efficiency effects.* First, tax abatements are given only to those firms who can credibly threaten to locate or relocate their operations elsewhere. The policy therefore creates a competitive disadvantage for existing firms in the locale who do not have the ability to credibly threaten to move. Second, the tax abatement requires higher tax rates on the remaining narrower base. Higher tax rates levied on a narrower base, however, generally lead to greater distortions in the allocation of resources in the economy, indirectly reducing social welfare.

All of the above are costs that exist whether or not there is competition among jurisdictions for economic development. Nonetheless, these costs are greater when jurisdictions end up offering more valuable inducements to win the competition for the firm's investment in the locale. The competition can be between the locale and other possible locales within the state as well as locales outside the state. Of course, state government policy cannot address deleterious effects of competing with other states' local governments, but it can address intra-state competition.

The relevant question is, how intense is the competition between local jurisdictions within Georgia for economic development? The data portrayed in Figures 1 and 2 are based on survey responses to frequency of fiscal inducements for recruitment or industry retention ranging from "never" (0) to "regularly" (4). Figure 1 shows the counties that use tax abatements or similar development incentives "regularly" (shaded) to recruit new industry and those that use these tools infrequently or not at all. Figure 2 shows the pattern of fiscal incentives offered by counties to retain existing industry. The data for these two maps are drawn from a survey of local governments conducted by the Department of Community Affairs in 1999 and 2000. There is a definite clustering of counties reporting that they regularly use tax incentives, whether to recruit new or retain existing firms. This can be interpreted as evidence of inter-jurisdictional competition effects in the adoption of tax abatements, although this is only a preliminary assessment. Nonetheless, proximity to other counties using tax abatements appears to affect a county's choice of development strategy. There does not, however, appear to be a relationship between the degree of urbanization and the tendency to use these development tools.

This picture of inter-jurisdiction competition in Georgia is, of course, only suggestive at best. Rigorous statistical analysis of tax abatements across local governments is needed before we can adequately assess the strength of any inter-jurisdictional competition effects in Georgia. Such a study is a prerequisite for fully informed discussion of policy options at the state level.

In general, though, what are the broad policy options that state government can choose from to reduce or eliminate the potential for costly competition for economic development between local governments in Georgia? If it turns out that the competition among jurisdictions is strong enough to lead to the deleterious effects discussed earlier, one possibility is to forbid local use of tax abatements or similar

FIGURE 1. DEVELOPMENT INCENTIVES FOR NEW INDUSTRY

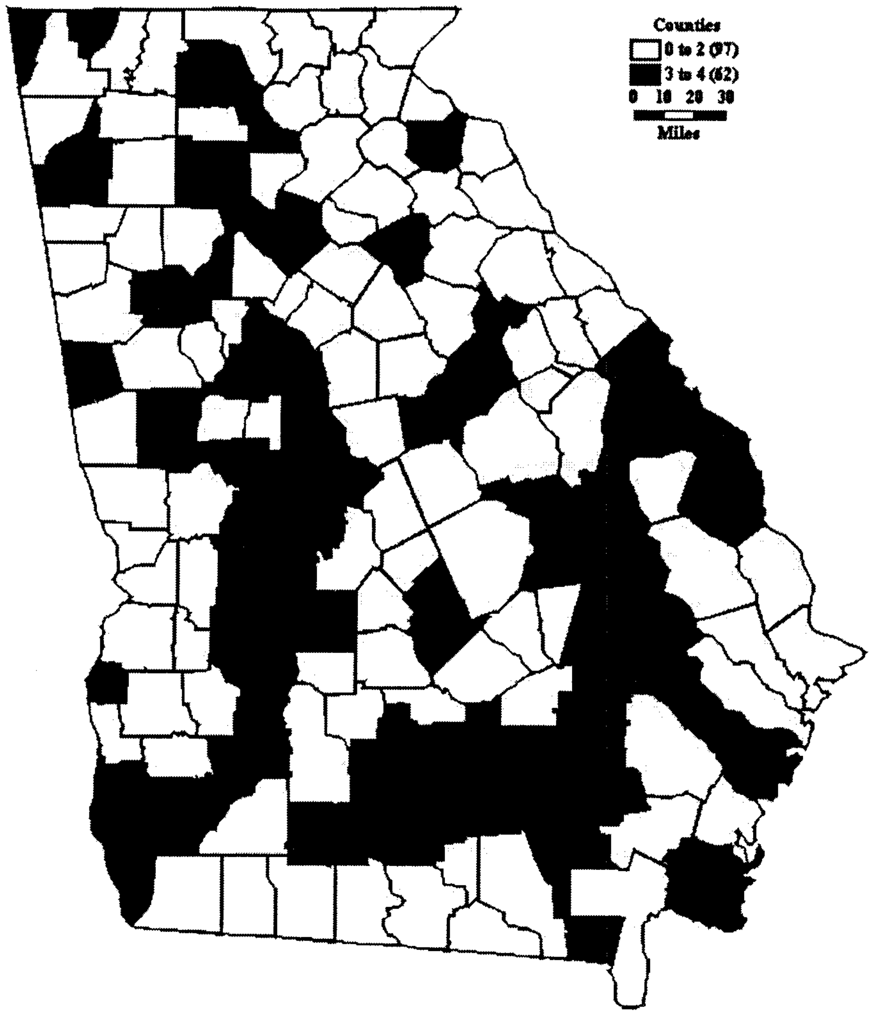
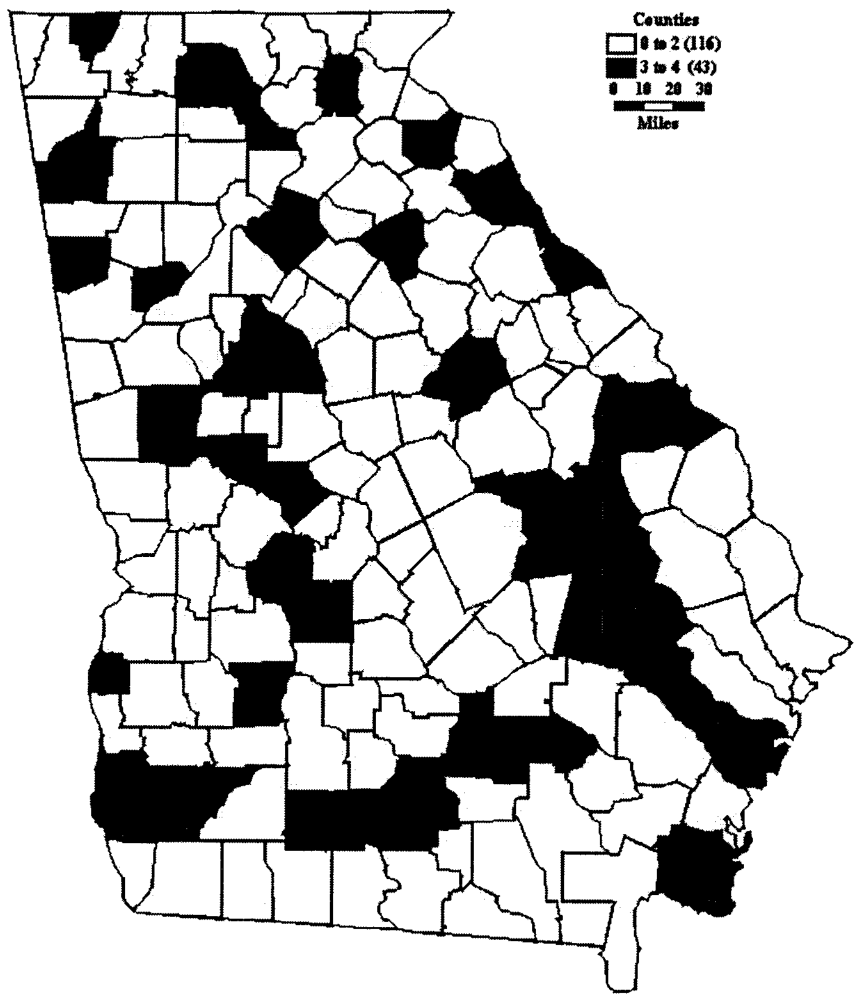


FIGURE 2. DEVELOPMENT INCENTIVES FOR RETAINING EXISTING INDUSTRY



fiscal inducements, reserving those tools for the sole use by the state government. Another is to formally coordinate local government recruitment efforts externally at either the state or regional level; that is, formulate development goals at the regional level and then allow local governments to apply to a designated state or regional agency that is empowered to administer tax abatements when they fit in with the regional plan. Another option is to use tax base sharing for otherwise competing local governments.

The first option runs counter to the wishes of local government officials in Georgia. Survey evidence indicates that they would prefer greater latitude to pursue economic development than they now have (Melkers, Rushing, and Thomas, 2001). In addition, although it is true that restricting the use of abatements at the local level would eliminate local competition through this vehicle, it would also cripple Georgia local governments' abilities to effectively compete with local governments in other states. This might be particularly deleterious for Georgia municipalities and counties that border other states, especially those within metropolitan areas that straddle state borders. In sum, restricting the ability to use abatement in their recruitment efforts does not appear on the surface to be a useful approach.

The second option is essentially a relaxed version of the first. Rather than prohibit local government use of tax abatements or similar schemes, this option would enforce regional coordination by assigning these powers to a broader regional authority. This, too, can give rise to other problems associated with regional governance discussed earlier. Since the U.S. experience with true regional government is spotty at best, this does not appear to present a widely acceptable policy option.

Finally, tax base sharing represents an instrument that appears to be capable of restructuring jurisdictions' incentives to promote coordination. In addition to the broad principles discussed in the first part of this study, we note in this context that tax base sharing is feasible only for local governments that are in close proximity. Tax base sharing is not a tool that can coordinate the development efforts of local governments across the state from one another; if Valdosta is competing with Rome for the location of a new plant, tax base sharing will not provide appropriate incentives for cooperation.

Additionally, state policy would have to recognize that, if it is to be effective, tax base sharing must be flexible. The type of tax base sharing and the parameters of such an agreement will vary by application. In one case property tax base sharing may be appropriate for coordinating industrial park development. In another case sales tax base sharing may be appropriate for eliminating competition among local governments for retail centers. In sum, we should not expect successful tax base sharing to follow the same blueprint for all locations throughout Georgia. Since the development coordination issues will likely vary across Metropolitan Statistical Areas in the state as well as across metropolitan and rural regions, local governments in different regions would need be free to fashion the type of scheme best suited to solve their specific problem.

Drawing from the Metro Council example discussed earlier, the regional tax sharing scheme is based on growth in the nonresidential property tax base. This reallocates revenues from outlying jurisdictions to the older central jurisdictions in the metropolitan area, but it also reduces the incentive for outlying governments to accelerate the process of decentralization by luring commercial development from the center of the urban area with tax breaks or similar incentives.

The current debate in California over a sales tax sharing scheme among local governments provides a different example. In 1998, Proposition 11 propelled the idea of allowing local governments to share sales tax revenues into the public forum in that state. Recent legislation passed by the California State Assembly establishes a sales tax sharing regime for the six county Sacramento metropolitan area.[14] The proposed sales tax sharing scheme resembles in some respects the property tax sharing in the Minneapolis metropolitan area. One third of new revenues is to be allocated to the originating jurisdiction (the traditional formula determined by site of sale), one third is to be allocated based on each jurisdiction's share of the

[14] The sales tax sharing system had not yet passed the California senate at the time this report was written. See Lewis and Barbour (1999) for a summary of the legislation and discussion of the sales tax system in California.

metropolitan area population, and one third is to be allocated to jurisdictions that fulfill low income housing requirements. The focus of this sharing scheme, though, is more narrowly defined on retail development, rather than economic development overall.

As the periphery in urban areas grow, jobs and retail activity tend to move outward with the center of population mass. The relative growth of retail activity in the outlying parts of the metropolitan area reinforces the relative decline in the central city tax base that occurs over time, reinforcing the effects of increased demand for lower density housing stimulated by income growth as well as any flight-from-blight. In this context, the California tax base sharing scheme serves three functions. First, it satisfies an equity concern raised by central city proponents in that it allows the central city to draw revenues from the growing base of retail activity at the periphery, thereby offsetting the relative decline in revenues from its own retail base. Second, as a general principle, the more uniform the sales tax over a larger portion of the metropolitan area, the less the distortion in retail development that would otherwise be driven to lower sales tax sites. Thus, sharing a uniformly imposed sales tax among jurisdictions can enhance the efficiency of private investment by reducing the artificial distortions created by tax rate differentials across the metropolitan area. Third, the tax base sharing scheme removes some of the incentive for individual jurisdictions to offer competing economic development packages to retail developers in the hopes of each capturing a greater portion of the retail base in the urban area.

These examples are relevant to Georgia in that they illustrate that the appropriate tax base sharing scheme—property, sales, or some combination—will vary, depending upon the problem being dealt with.

Sales Tax Base Sharing

At the time of this report was being prepared, voters in the Atlanta and Fulton County School Districts had just renewed a one cent Special Purpose Local Option Sales Tax (SPLOST) proposal. This one percent tax replaces a sales tax that has been in effect since 1997.

This tax, which is similar in structure with SPLOSTs adopted in other Georgia counties, represents an interesting application of the pure tax base sharing scheme and shows the feasibility of small scale tax base sharing for a variety of purposes in Georgia. The tax will be levied throughout the county, but the city and county school districts will divide the proceeds based on their share of students: 45 percent for Atlanta; 55 percent for Fulton County districts. This type of agreement illustrates how the current laws of Georgia do allow for innovative intergovernmental relationships designed to address specific regional problems. Of course, one argument for levying such taxes only at the county level is that it is more costly to administer such a tax for the city or county school districts separately. But there is a more compelling rationale to consider.

The incentives problem confronting the city and county school systems in this case is tied to the fact that both lie within a large metropolitan area. Even the county school district cannot afford to ignore the competitive effects of its own tax policies. Given that the school boards preferred to rely upon a sales tax rather than greater property taxation, the city school district could not levy the tax unilaterally (even assuming that it had the legal power to do so) without placing its retail base at a competitive disadvantage. A one percent sales tax difference can be large enough to prompt many consumers to travel to shopping centers and malls that lie outside the city borders yet are still only a short distance away. By agreeing to also levy the sales tax, the county school district reduces some of this competitive pressure on retail activities within the city school district. Consumers now have to travel farther to avoid the tax. In addition, by including the county in the taxed area, the tax also covers the retail centers in North Fulton County, which draw a significant number of consumers from the surrounding counties. Thus, by sharing the tax on retail activity throughout the county, both county and city school districts are able to avoid shifting retail activity between the two jurisdictions and more fully exploit the ability of the important retail centers in the larger area (county) to draw revenues from surrounding communities. The proposed shared sales tax ameliorates the inter-jurisdiction tax competition for sales tax revenues between the two governments, although it does not coordinate with surrounding counties.

This type of agreement is flexible over time as well. The five year limit on the tax limits the lifespan of the tax base sharing arrangement, which makes it easier to modify the terms over time as the underlying economic relationship between Atlanta, Fulton County, and the rest of the urban area evolves. Further, having existing governments levy the tax solves the problem of implementing a scheme with appropriate input by the affected residents; control over its use and possible future extension lies in the hands of the school districts' residents.

How does this particular example of tax sharing compare with the proposed sales tax sharing in California discussed in the previous section? The rationale for that particular program is also tied to development incentives, but motivated by equity concerns as well. The city school district is not directly involved with offering tax incentives for economic development, so this type of tax sharing will not necessarily coordinate development efforts. The Atlanta-Fulton County School District sales tax sharing does, however, allow the school district in the central city to draw from the growing retail activity located farther out in the urban area. Whether intended or not, this does answer equity questions like those that arise in the California example.

As the periphery in urban areas grow, the relative growth of retail activity in the outlying parts of the metropolitan area reinforces the relative decline in the central city tax base that occurs over time. The California tax base sharing scheme allows the central city to draw revenues from the growing base of retail activity at the periphery, offsetting the relative decline in revenues from its own retail base. Further, the more uniform the sales tax over a larger portion of the metropolitan area, the less the distortion in retail development that would otherwise be drawn to jurisdictions with lower sales taxes. As important, the tax base sharing scheme removes some of the incentive for jurisdictions to offer economic development packages to retail developers in the hopes of capturing a greater portion of the retail base in the urban area.

A major difference between this example of tax base sharing in Georgia and the Metro and California cases is that the latter two encompass much of the affected metropolitan area while this particular Georgia example is more narrowly circumscribed. The sharing that occurs is among local governments contained in (and sometimes with) a single county in Georgia. There has been no widespread call for such sharing across county lines thus far.

Government Consolidation

The consolidation of two or more governments is one way to coordinate their policies. It is, however, both an extreme solution and rather uncommon in the US. Nevertheless, there have been three vertical consolidations between city and county governments in Georgia in the last 32 years: Columbus and Muscogee County in 1970, Athens and Clarke County in 1992, and Augusta and Richmond County in 1996. This section briefly considers the viability of consolidations as an alternative to tax base sharing.

We briefly focus on the consolidation of the City of Athens and Clarke County because it represents a recent consolidation (unlike the Columbus-Muscogee County case), yet it is not so recent that post-consolidation data is unavailable (as in the Augusta-Richmond County case). The Athens-Clarke County was justified, at least in part, by the argument that each was too small to fully exploit economies of scale in the governmentally supplied services. As a result, the city and county governments had developed a close functional relationship since the 1950s, using mutual contracting or joint provision to supply a range of services to residents. Another argument for formal consolidation was to help unify regional economic development policies. As is evident from Table 1, Clarke County represented 69 percent of the total population in the Athens MSA before consolidation, a rather large

TABLE 1. 1990 POPULATION SHARES

Area	Ratio
Athens City/ Clarke County	0.52
Athens City/MSA	0.36
Clarke County/MSA	0.69
Augusta City/ Richmond County	0.24
Augusta City/MSA - Georgia	0.16
Richmond County/MSA – Georgia	0.69
Richmond County/MSA - All	0.46

Source: Calculated from *City-County Data Book*, 1994.

proportion. And although Figure 3 indicates that the MSA was not enjoying an outstanding rate of growth in the decade immediately preceding consolidation (at least by Georgia's standards), the consolidated government nonetheless did attain a degree of regional governance.

Regardless of the initial motivation for the consolidation, the process itself was lengthy and drawn out.[15] The first enabling legislation for the city-county consolidation was passed by the Georgia Assembly in 1967. A subsequent consolidation plan finally passed voter muster in both the city and county in 1990—but only after having been defeated in one or the other jurisdiction in 1969, 1972, and 1982. The consolidation finally occurred in 1992.

What did the consolidation accomplish? The city and county had a close working relationship with respect to providing public services before the consolidation, so it appears that the "functional consolidation" of that period was to some extent more or less merely formalized by the act of consolidation. Still, as is revealed by the spending data reported in Table 2, per capita spending by all local governments in Clarke County before and after the consolidation increased rather dramatically both in absolute terms and relative to the average for Georgia counties. With respect to the latter, spending rose from 22 percent above the Georgia average before consolidation to 40 percent above the state average after consolidation, an

[15] It is not unusual for municipal incorporations to suffer repeated setbacks and take a long time. In this sense, the Athens-Clarke County consolidation does not appear to be extraordinarily drawn out.

TABLE 2. LOCAL GOVERNMENT DIRECT EXPENDITURE PER CAPITA

	1990-91	1996-97
Georgia Average	$1413.89	$2241.96
Clarke County	$1723.86	$3151.08
Percentage of state average	1.22	1.40

Source: Calculated from *City-County Data Book*, 1994

increase of 18 percent over the state trend. Of course, part of this increase was driven by greater than average household income growth in the county relative to the rest of the state, or other factors. The median household income increased about 15 percent in Georgia during 1989-1997. At the same time the median income in Clarke County rose about 47 percent. Using the range of parameter estimates from Turnbull and Djoundourian (1994) and Mitias and Turnbull (2001), a one percent increase in median household income leads to a .40-.60 percent increase in per capita spending by local governments. Thus, the high rate of growth in income in Clarke County can account for about a 6 to 19 percent increase in local government spending within Clarke County over the trend for Georgia. Income growth, and the ensuing increase in the demand for public services that comes with it, can therefore explain anywhere from one third to all of the increase in per capita spending by the local governments in Clarke County. This appears to provide some evidence that the Athens-Clarke County consolidation was in fact merely formalizing an already extant functional consolidation. The evidence provides at best weak support for the argument that the consolidation would lead to additional efficiencies (in which case the spending should increase by significantly less than 19 percent). Of course, these are only rough calculations and a more thorough analysis is required before we can reach a solid conclusion on this point. Selden and Campbell (2000) examine spending across categories and find that general administration costs did decline as a result of consolidation, but other categories did not. The consolidated government also realized savings in the form of lower borrowing costs from the improved debt rating of the combined government. These numbers are at least suggestive; if the consolidation was meant to reap significant gains in efficiency, such benefits may have been elusive thus far.

The consolidation did create a single governmental entity with regional pretensions; the county accounted for 69 percent of the MSA population in 1990 and 66 percent in 2000. However hedged or qualified, the consolidation effectively created a unified tax base and government for about two thirds of the metropolitan area's population. Further, the consolidation created a degree of regional governance while avoiding one of the major weaknesses of regional governance, that is, a lack of democratically elected representatives. This worked for the Athens-Clarke County case only because the entire metropolitan area is relatively small.

Looking at the data for the Athens-Clarke and Augusta-Richmond consolidations, some similarities and differences become evident. As is evident from Table 1, these two recent consolidations are similar to the extent that they involve small cities merging with surrounding counties each representing a relatively large proportion of the urban area. Further, the consolidated counties each had moderate population growth and modest fiscal capacity prior to consolidation. It therefore appears that coordinating rapid growth in the MSA was not the sole reason for consolidation in either case.

Did these consolidations allow the governments to coordinate local economic development policies? In the Athens-Clarke case, the greatest growth in the Athens MSA in the period preceding consolidation was in Oconee County, not Clarke. Still, because Clarke County accounts for two thirds of the total MSA population, to a great extent, consolidation brought the bulk of the MSA population into the single jurisdiction. In terms of development planning, consolidation did provide a basis for regional policy.

The Augusta-Richmond County case is complicated by the fact that the MSA crosses the state border with South Carolina. Nonetheless, the populations reported in Table 1 reveal that the consolidated government accounts for about two thirds of the MSA population in Georgia and approximately 46 percent of the total MSA population in Georgia and South Carolina. On the Georgia side of the border, at least, this consolidation comes somewhat closer to regionalizing governance.

When compared with the non-consolidated MSAs in Georgia, the central cities in the other medium and small Georgia MSAs (Albany, Macon, and Savannah) exhibit similar degrees of regional dominance relative to Athens prior to consolidation. Macon and Savannah each have 35 percent of their respective MSA populations—roughly the same proportion as Athens enjoyed prior to its consolidation. Albany has a slightly greater proportion, 41 percent. All three cities, however, were also much larger in absolute size than Athens and Augusta and contained greater proportions of their MSA populations than did Augusta prior to consolidation. Based on their population growth during the 1990s, none of these counties appear to have great pressures on them to deal with the consequences of rapid growth by Georgia standards during the decade. Although some of the other counties within their respective MSAs have enjoyed rapid growth (Bryan, Effingham, and Oconee, for example), they are all very small relative to the rest of their respective MSAs.

Finally, although there have been three city-county consolidations in Georgia, with two occurring in the last ten years, formal consolidation does not appear to be a popular alternative. There are only 29 such consolidated city-county governments in the US to date--out of over 3,000 county governments (Nelson, 1999). Further, in at least one case, the City of Baton Rouge-East Baton Rouge Parish, Louisiana, there is some support for reversing the 1947 consolidation in order to allow for greater minority representation in the local government. Thus, regardless of how appropriate vertical city-county consolidations appear for coordinating regional development and cost sharing in the two cases briefly discussed here, it is not likely to be the norm for the other MSAs in Georgia. To the extent that there is the need to coordinate the development incentives facing city and county governments, property or sales tax base sharing represent viable alternatives that fall short of the cumbersome process of formal consolidation. Further, even the limited experience with city-county consolidation in Georgia suggests that tying multiple counties and cities together within a consolidated regional government structure does not appear to be an attractive alternative to tax base sharing for coordinating their behavior.

Summary and Conclusion

This study presented a general analysis of tax-base sharing as a means of coordinating local government fiscal behavior. It explained the general principles concerning how such agreements should be structured as well as the types of situations in which they would likely be most effective. The study also presented two important cases of tax base sharing in the U.S., the property tax base sharing in the Metropolitan Council covering the Minneapolis urban area and the sharing agreement between the City of Charlottesville and Albemarle County in Virginia. These cases were used to illustrate the relevant principles established in the first part of the study.

The last section of this study briefly examined three aspects of local government behavior in Georgia that are relevant to our discussion of tax base sharing. The first considered the need for policy coordination among local governments competing for economic development. The current practice of offering fiscal incentives to industry to locate within a particular locale reveals a pattern of competition for economic development and illustrates the need for a degree of inter-jurisdictional coordination among cities and counties.

The second looked at the Atlanta School District-Fulton County School District sales tax sharing renewal within the context of the tax sharing framework laid out in this study. As an example of the Special Purpose Local Option Sales Tax (SPLOST) in Georgia, it demonstrates that county and city governments are both able and willing to coordinate their fiscal structures when the number of affected local governments is small and the benefit of joint policies is clearly defined. The current arrangements do not, however, incorporate tax base sharing across counties.

The third discussed an alternative method of aligning development or fiscal incentives among local governments, formal consolidation. Finally, even the limited experiences with city-county consolidation in Georgia suggests that tying counties and cities together within a consolidated regional government structure is not an attractive alternative to tax base sharing for coordinating their behavior.

Tax base sharing at a metropolitan or regional level is rare in the U.S., even though it is at the regional level that most advocates appear to envision its most prolific application. The principles of tax base sharing schemes offered in this study imply that such schemes are likely to be most effective in Georgia in situations in which the number of local governments involved is fairly small. As the Georgia discussion reveals, limited small scale sharing is already possible within the existing institutional structure in Georgia. Whether the existing institutional structure can be easily amended to accommodate tax base sharing at the regional level is a question that was not addressed here. Nonetheless, one lesson is that whether or not tax base sharing should be pursued is a question that must be answered on a case-by-case basis; any required enabling legislation must recognize this point.

There is the danger that tax base sharing can become a tool for simple "tax grabs." In addition, inter-jurisdiction equity arguments are often offered by advocates of tax base sharing. This study argued that neither tax grabs nor inter-jurisdiction equity offers an economically reasonable rationale for tax base sharing. It is clear that a careful study of potential uses in Georgia is necessary before identifying what the state government can (or should) do to encourage or discourage the use of this type of fiscal tool by local governments. As stated at the outset, the goal of this study was to explain general principles underlying tax bas sharing to provide a starting point for informed debate over this aspect of local economic policy options.

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