Revenue (Tax) Sharing:
An Approach to Managing Change

This is one of four approaches in the AMM Reference Series, which is the second step in the AMM's *Tools for Change* Program. For information on the first step, AMM's Municipal Health Checklist, or about the other approaches in the Reference Series, see www.amm.mb.ca

Municipalities can manage change by recognizing interconnections with each other through development of revenue sharing agreements.

The most common revenue sharing agreement is for sharing property taxes with a neighbouring municipality. Tax sharing enables the redistribution of some portion of municipal tax revenue between two or more municipalities who recognize their interconnectedness and/or who jointly support regional services needed to attract and maintain residents and industrial/business development. Tax sharing is often used in conjunction with service sharing, as an alternative way to allocate revenue to municipalities who provide regional services.

Regional strength and competitiveness has become key to the strength and viability of individual municipalities.

Tax sharing agreements recognize that a municipality's entitlement to tax revenue solely on the conventional basis of location within municipal boundaries does not always reflect the contributions of the municipality to the strength and success of the region.

Municipalities that share taxes recognize they share more than just a boundary with their neighbouring municipalities.

Globalization and other forces have changed the requirements of industry and citizens, so that their needs now often include larger amounts of land, major infrastructure services and, in the case of industry, significant work forces. In many cases, these needs can no longer be met, or met most cost effectively, by a single municipality. Today, one municipality may supply a work force and the lifestyle amenities necessary to attract and keep that work force, while another municipality supplies the land and infrastructure to support the industry that sustains the workforce.

Tax Sharing: Managing Municipal Change

In order to remain strong, municipalities must often now be part of a strong region that can deliver the range and scale of amenities demanded by ratepayers and industry/business. Tax sharing allows municipalities to share benefits, costs and risks with other municipalities.

Tax sharing creates win/win situations.

Tax sharing balances a regional approach to economic development and service provision with local autonomy:

- **As part of a strategy to support the provision of cost-effective services on a regional basis:**
  - Tax sharing allows both the short-term and long-term costs and benefits of shared services to be balanced and recognizes the interconnectedness of municipalities.
  - Tax sharing can compensate surrounding municipalities for the increased costs arising from new residential or industrial/business development.

Revenue sharing promotes and requires regional thinking.

- **As part of a regional economic development strategy for attracting industry/business to the region:**
  - Tax sharing can eliminate counterproductive inter-municipal competition while promoting regional competitiveness, as well as strengthening the relationship between municipalities.
  - Tax sharing is often used in combination with service sharing to support the provision of regional services essential to attracting new industrial/business development.

Everyone benefits when a new industry moves to the region.

- **As an alternative to municipal boundary adjustment:**
  - Tax sharing enables municipalities to achieve development objectives and deliver services in a coordinated fashion while maintaining local autonomy as separate municipalities.

Just as tax sharing can be used for a variety of purposes, it can also be applied in a variety of ways. The terms of any tax sharing agreement can be tailored to ensure that an agreement will achieve its intended purpose.

To develop a tax sharing agreement that works for your municipality, three key components must be decided upon:

- **Which properties' tax revenue will be shared:**
  - All properties?
  - Only industrial/business properties?
  - Only a specific property, such as an agricultural processing plant?
  - All properties within a defined geographic area, such as an industrial park?

- **What portion of tax revenue from the designated properties will be shared:**
  - All tax revenues?
  - All new tax revenues from new assessment - the "incremental taxes"?
  - Only a portion of the "incremental taxes"?

- **On what basis will tax revenue be redistributed amongst participating municipalities:**
  - Equally amongst participating municipalities?
  - Based on costs incurred, assessment base, population, or some other criteria?

Tax sharing agreements can be tailored to your municipality's situation and needs.

Recognizing the potential value of these arrangements, *The Municipal Act* expressly permits municipalities to share taxes and to develop the arrangements that best suit the participants and reflect their contributions.

Some scenarios where tax sharing could be effectively applied include:

Establishment of a major agricultural processing plant in a rural area:

- This type of new industry will likely have a substantial impact on a nearby urban centre. Increased traffic could lead to deterioration of urban infrastructure, and some necessary services may only be available from the urban centre.

- A service sharing agreement could be developed to supply services for the plant, but the longer term impacts of increased demand for services (such as a shortened life span for sewage treatment plant) may not be accounted for in a service sharing agreement.

Tax sharing can be used in combination with service sharing to recognize the long-term costs and benefits of regional service delivery.

- In this case, a **tax sharing agreement** could be developed so that a portion of taxes paid by the processing plant are contributed to a reserve fund for future replacement of infrastructure in the urban municipality.

- The taxes shared could also be used to assist the urban municipality with expansion of services to new housing areas, especially if required to meet the needs of the industry's workforce, or expansion of recreational services.

Establishment of a rural residential development:

- In this case there is pressure for rural residential development on the fringe of an urban municipality. This development will require access to some of the services of the urban municipality, but the rural municipality involved does not want to address issues through a boundary adjustment.

- In this case, in addition to negotiating a service sharing agreement, the municipality may enter into a **tax sharing agreement** to pay the other municipality a portion of the taxes from this development to support infrastructure and other services.

Tax sharing can serve as an alternative to municipal boundary adjustments.

Expansion of urban industrial activities into a rural municipality:

- If an urban municipality lacks the available land to meet its growth demands and is expanding significantly into a rural area, a strategy to manage the joint impact of growth issues may be required.

- While one option might be for the urban municipality to apply to annex the developed area from the rural municipality, another option would be for the two municipalities to develop a **tax sharing agreement** that recognizes both the benefits (increased tax revenue) and costs of the development (increased demand for services/impact on infrastructure in the urban municipality) and redistributes taxes accordingly.

What can indicate tax sharing is an appropriate option?

Tax sharing may be an approach to consider when working with other municipalities to build a stronger region and strengthen your own municipality. Consider tax sharing if your responses to AMM's *Municipal Health Checklist* indicate:

- Your municipality already has a high degree of co-operative involvement with other municipalities, and wants to continue to build on past successes. (Consider your municipality's score to Indicator D: Inter-municipal Involvement.)

  Thinking on an inter-municipal or regional basis, and taking advantage of opportunities to work together, is becoming critical to maintaining a strong municipality.

- Your municipality wants to enhance its viability and increase revenue through new economic development and investment in the municipality but does not have, on its own:
  - Adequate suitable land;
  - The ability to finance or provide the level of services required; and/or
  - The required work force.

Thinking on an inter-municipal or regional basis recognizes that your neighbours' viability is important to your own viability.

Tax sharing is also deserving of consideration when:

- An unconventional approach is needed for providing regional services that are considered necessary to economic growth and development;

- Joint interests are strong, but maintaining local autonomy is important to the municipalities involved; or

- Conventional allocation of property taxes according to location doesn't fully recognize both the short-term and long-term costs and benefits of development and regional service delivery.

How to begin:

Consider what will be necessary to achieve your municipality's vision for the future:

- How will your municipality remain strong and viable?
  - Will local job opportunities be available to residents?
  - What other opportunities will be needed to maintain your municipality as a desirable community to live in?
- Do you see your municipality attracting new industrial/business development to achieve its vision?
  - What will be necessary to attract that growth?
  - Can you "do it alone"?
- Would tax sharing enable you to develop or access regional services necessary to your vision while maintaining local autonomy?

Does your municipality's vision for the future rely on the viability of a neighbouring municipality?

Consider the wide variety of options for tax sharing:

- Tax sharing is not a "one size fits all". Tremendous flexibility is possible in all aspects of such an arrangement.

Taxes can be shared through a variety of formulas.

Consider the potential for new growth if tax sharing is part of an economic development strategy:

- What is required to attract growth?
- What can each municipality contribute to the strategy?
- What benefits and costs are associated with the strategy?

What common interests could be addressed through tax sharing?

Discuss the concept with other municipalities that you would like to work with:

- Consider potential participants to an agreement, and identify common interests and benefits.
- Seek the involvement of enthusiastic community leaders who share your vision and can act as "champions".

A Preliminary Checklist:

✔ **Some things you may want to consider in an agreement to share taxes:**

- What is required to achieve your municipality's vision?

- Does your municipality share a common vision with other municipalities in your region?

- How could tax sharing be used to support this vision?
  - Could it support delivery of services on a regional basis to help attract economic development?
  - Would it enable your municipality to achieve its vision without a municipal boundary adjustment or municipal merger?

- Could tax sharing address common interests and offer benefits to all participating municipalities?

- What would a tax sharing agreement look like?
  - Which municipal taxes would be shared?
  - What amount of tax would be shared amongst participating municipalities?
  - On what basis would taxes be redistributed?

Does your municipality have a common vision with others in your region?

Identify common interests and mutual benefits.

For more information on tax sharing agreements and other *Municipal Approaches to Managing Change* see the Association of Manitoba Municipalities' website, at www.amm.mb.ca.