Revenue Sharing Case Studies

While many other places in the U.S. utilize similar point of sale criteria for disbursing sales tax dollars, some places have different methods. The following examples, which include states, regions, and counties, show how some of these have been implemented.

New York

Disbursement Method: Permissive

The State of New York collects a 4 percent sales tax and authorizes counties to impose a sales tax rate of up to 3 percent, although the majority of counties in the State have received legislative authorization to impose a higher sales tax rate. Most counties share a portion of their sales tax revenues with local governments located within the county. Many, but not all of these arrangements are based on population. Some counties provide a set portion of the revenues to cities and then divide the remaining funds to towns and villages based on population. For example, Monroe County, New York utilizes this method:

Monroe County, New York

Disbursement Method: Population

Monroe County levies a 4 percent sales tax, which is divided into two portions representing 3 percentage points and 1 percentage point. Of the revenue generated from 3 percent of the sales tax, the City of Rochester receives half of the annual growth in revenue. Of the remainder, Monroe County receives 25 percent, the City of Rochester receives an amount proportionate to their share of the county population, suburban school districts get one-third, and other municipalities in the county receive the remainder based on population and property value.

For the 1 percentage point portion, suburban school districts receive 5 percent based on number of pupils, towns receive 3 percent based on population, and villages receive 1.25 percent based on population. The remainder is divided between Rochester and the county, such that the total revenue received from both pots are equal.

Minneapolis-St. Paul, Minnesota

Disbursement Method: Tax Base

In the 7-county Minneapolis-St. Paul region, each municipality is required to pool 40% of the increase in commercial and industrial property value since 1971 in a regional tax base. Increase in value includes new construction, inflation, demolition, revaluation, appreciation, depreciation. The regional tax rate on this shared tax base is calculated using the weighted average of the local property tax rates of all participating jurisdictions in the previous year. Distribution of the pool is based on property tax capacity. The formula used is the municipality’s population multiplied by a ratio of the region-wide property value per capita to the municipality’s property value per capita. While this method of distribution is used to allocate property tax revenues, it could be used as a basis for allocating any revenue source.

Michigan

Disbursement Method: Tax Base; Population

The Michigan state constitution requires that a portion of sales tax revenues be shared with local governments on a per capita basis. In addition, state statute requires an additional portion of sales tax revenue be shared with local governments. Michigan used a multi-pronged approach for sharing this additional portion of sales tax revenues between 1998 and 2007. This arrangement included four formulas:

- A share of revenues from FY 1998 which is a phase out provision of the old system;
- A ratio of the state average per capita property value to the local government's per capita property value;
- A weight factor based on the type and size of the local government;
- Yield equalization, where if a local government's per capita property value is lower than a guaranteed level, the municipality receives the difference times their local property tax rate, up to a statutory maximum rate. This per capita payment amount is multiplied by the local government's population. The guaranteed amount is equivalent to the total sales tax disbursement divided by the state population.

Meadowlands District, New Jersey

Disbursement Method: Land Area

The Meadowlands District consists of two counties and 14 municipalities. After county property taxes are paid, 40% of property taxes collected on properties existing after 1970 are put into a shared pool. First, schools are paid a given amount per pupil for any increase in the number of pupils since the base year, 1970. The remaining funds are disbursed to municipalities based on their proportion of total land area. Therefore, municipalities get a share of tax revenue from new property development, regardless of where in the region it occurred. Since municipalities with lots of undeveloped land get a share of tax revenue from new developments, the arrangement encourages municipalities to preserve natural lands rather than develop the land for increased tax revenue.

Ohio

Disbursement Method: Permissive

Counties and certain municipalities receive a 3.68 percent share of all general revenue tax collections. The counties can disburse the funds to local governments based on a statutory method or under an alternative method. State statute requires that the alternative method be approved by the county board, as well as certain municipal and township boards, depending whether a large city is located in the county.

Montgomery County, Ohio

Disbursement Method: Set aside; Population

Montgomery County (home of Dayton, Ohio) increased its sales tax rate by a half a percent in 1989. 70 percent of the new funds are used for economic development projects in the county. These funds are shared with local governments through a grant process. The fund prioritizes projects that involve collaboration between more than one community, provide infill development, can leverage other public or private resources, and do not encourage relocations of existing Montgomery County businesses to other locations within the county. These projects have included a bringing a minor league baseball team and stadium to Dayton, building transportation and utility infrastructure for a new industrial park, and offsetting the costs of a facility expansion that included a regional stormwater retention system.

In order to share the benefits of the economic development projects across the county, local governments must contribute property and income tax revenues to a pooled fund based on portions of the increase in property valuation and the increase in local income tax revenues in the past three years. These pooled funds are disbursed to local governments on a per capita basis. There is a "settle-up" provision, which requires that over the life of the program, no local government will contribute more to the pooled funds than they receive in economic development grants.

Portland, Oregon

Disbursement Method: Set aside

The 3-county Portland metropolitan area set up a regional government, the Metro Council, in 1992. The Metro is funded by a region-wide property tax as well as fees for regional services such as waste disposal. The Metro's programs include capital projects and operation of parks and green spaces, solid waste disposal facilities, the Oregon Convention Center, the Oregon zoo, and the Portland Center for the Performing Arts. The Metro also is engaged in land use and transportation planning.

Allegheny County, Pennsylvania

Disbursement Method: Set Aside; Tax Base

Allegheny Regional Asset District levies a 1 percent sales tax in the county. Half of the revenues go to regional cultural facilities such as the zoo, the Carnegie Library, and the Civic Arena. These "regional assets" submit funding requests to the RAD Board of Directors. Funding decisions are made at public meetings and require a supermajority of six of the seven Board members. The remainder of the revenues is split equally between Allegheny County and municipal governments. Municipalities receive the funds based on a formula weighted to help distressed communities. The formula is:

$$\frac{\text{Aggregate per capita market value}}{\text{Municipal per capita market value}} \quad \text{X} \quad \frac{\text{Municipal tax revenue}}{\text{Aggregate weighted tax revenues}}$$

This method of distribution provides additional funding to governments with lower property values, and also rewards governments for raising own-source revenue, or "tax effort."

Tennessee

Disbursement Method: Population

The State of Tennessee disburses sales tax revenues to local governments based on population. However, unlike Illinois, income tax revenue is disbursed to local governments based on the location of the taxpayer.

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