



Dare to Share:

A Review of
Tax-Revenue Sharing
in the United States

A Report of the Ohio Chapter of the Sierra Club

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Tax-Revenue Sharing in the
United States*

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Dare to Share: A Review of Tax-Revenue Sharing in the United States

Introduction

Given the dynamics of the global economy, experts tell us that regions—not cities or the suburbs surrounding them—will be the units of economic competition. Only regions have the necessary scale and diversity to compete in the global marketplace.¹

The above quote comes from William Burleigh, CEO of E.W. Scripps Co., a publishing company based in Cincinnati, at the annual meeting of the Greater Cincinnati Chamber of Commerce a few years ago. Mr. Burleigh lamented the fact that Cincinnati, which comprises 243 political jurisdictions, including thirteen counties in three states covering 3,800 square miles, is not seen by the rest of the world as a cohesive region. In fact, Burleigh told the Queen City's top business leaders that many people view Cincinnati "as a divided and bickering place where decisions of major moment seem to grow hopelessly entangled in public-private gridlock."²

Unfortunately, the situation in Cincinnati is repeated across Ohio. Multiple governmental units fragment Ohio's many urban centers. The fragmentation does not allow the state's regional economies to act as one; in fact, they have often worked at odds. Competition between Ohio's cities and suburbs often pulls companies from one municipality to another, but rarely increases the economic prospects of the state's metropolitan regions.

Despite Burleigh's pleas for regional cooperation for the Cincinnati metropolitan area, now four years later, no regional agenda has been established for Ohio's second largest metropolitan region. In fact, no regional framework has been established in *any* Ohio metro.

Even in Columbus—which Burleigh and many others identified as one of a handful of cities that is running faster than most of the competition—has taken a significant step backward. A recent split by Franklin County from the Mid-Ohio Regional Planning Commission to create a separate planning commission for only the township portion of the county has begun a hotly contested debate about the future growth of Ohio's fastest growing metropolis. This debate has generated fierce editorials from *The Columbus Dispatch* against such divisiveness. The paper wrote, "The nation is moving toward regional planning. From the perspective of professional planners and reasonable lay people alike, it is the only approach that makes sense."³ Also according to the *Dispatch*, Ohio public officials are making matters worse for the state's cities by creating a plan that would strengthen the powers of townships and limit the growth of incorporated municipalities—further weakening the strength of cities and creating a more divisive and fragmented environment.⁴

Despite the obvious obstacles in creating an elected regional government (the only one in the U.S. covers the Portland, Oregon region), regional tax-revenue sharing arrangements allow for regional

¹ Burleigh, William R. Speech given to Cincinnati Chamber of Commerce. November 14, 1997.

² Ibid.

³ Editorial. "Backward to the Future," *Columbus Dispatch*, October 20, 2000, p. A12.

⁴ Ibid.

governance without a truly regional government.⁵ It allows an urban area to pool resources as a region, but provide services at an individual level.

A collection of communities can act as a region without eliminating local governments, without requiring boundary changes, and without the loss of individual community identity. Tax-revenue sharing concepts have a proven track record and have been a topic of economics literature since at least 1950.⁶

The Problem

Governmental fragmentation and competition are big problems in Ohio. The state has eighty-eight counties, 941 cities, 1,310 townships, and 666 school districts. Combined with special districts such as transit or port authorities, Ohio has 3,597 governmental units, the sixth highest number of governmental units in the nation, despite being thirty-fifth in land area and eighth in population.⁷ That's like having a separate government for every 3,000 people.

One member of Congress called this fragmentation a factor behind the organizational crisis of local governance stating, "Nowhere but in America have so few been governed by so many."⁸

Metropolitan areas face a contradiction: "the large-scale fiscal and social needs of urban areas require the centralization of local governments into larger, fewer and more efficient units [but] human needs require the decentralization of local government toward the neighborhood, where the people are."⁹ Tax-base sharing addresses this issue by pooling resources over a greater area but allowing for specialized delivery of services. As a Minnesota public official commented on the relative ease of tax-revenue sharing, "All tax-base sharing needs is one part-time auditor with a computer."¹⁰

Metropolitan areas are in a highly competitive environment in attracting new development. Often, a development occurs in a region because of what the region, not what a particular city, village or township has to offer. The base theory of tax-revenue sharing is that there are many "one of a kind" developments in a region, an airport, super regional mall, university, etc., and the municipality that is fortunate to house such an economic generator should not be the only place to reap its tax revenue.

As Professor Tom Bier of Cleveland State University, Department of Urban Affairs, explained, it is the economy of the entire region that sets the stage for major economic development.¹¹ The entire economy of Greater Cleveland supports the success of the recently opened South Park Mall, despite being located in the relatively small community of Strongsville. Yet Strongsville keeps all the property and income taxes generated by the super regional mall.

Myron Orfield describes the phenomenon of concentrated growth in one area and concentrated decline in another in *Metropolitica*. Orfield states that each urban region tends to have a "favored quarter", a term coined by real estate consultants. These areas tend to have developments such as

⁵ Rusk, David. "Regional Governance Without Regional Government," *The Future of Cities* p. 41.

⁶ Fisher, Peter S. "Regional Tax-Base Sharing: An Analysis and Simulation of Alternative Approaches," *Land Economics*, November 1982, p. 497.

⁷ U.S. Census Bureau. *Statistical Abstract of the United States*. 2000, Table No. 491.

⁸ Ruess, Henry S. *Revenue-Sharing: Crutch or Catalyst for State and Local Governments?* p. 41.

⁹ *Ibid*, p. 54.

¹⁰ Aubin, Henry. "New Structures Are No Solution," *Montreal Gazette* November 4, 1999, p. B3.

¹¹ Bier, Thomas. "Rebuilding Cleveland," *The New American City Faces its Regional Future* p. 72.

super regional malls or, more routinely, the concentration of high-income households and suburban class A office space.¹² These areas also see a disproportionate share of new infrastructure such as roads and sewers. Ohio's metropolitan regions are no exception. In Cincinnati, it's the northeast corridor (Blue Ash, Indian Hills, Mason). Columbus' "favored quarter" is northwest (Grandview Heights, Upper Arlington, Dublin) and Akron's is also northwest (Fairlawn, Cuyahoga Falls, Bath).

Orfield states, "These communities can quickly drain off wealth and productive energies from the rest of the region" making it more difficult for the "unfavored quarter" to stay competitive.¹³ The goal of these communities is to "build a broad rich tax base to keep services high and taxes low."¹⁴ Orfield concludes, "The poorer the central cities and inner suburbs are, the faster they grow even poorer. The more successful the favored quarter is, the faster it grows more successful."¹⁵

Benefits of Tax-Revenue Sharing

Tax-revenue sharing has proven itself as an effective strategy in eliminating fiscal disparities within a region and helping to diminish the differences between "favored quarters" and declining areas. Tax-revenue sharing:¹⁶

- Helps balance revenues available;
- Allows for greater balance in local tax rates which can remove some of the competitive disadvantage certain communities face; and
- Helps diminish the degree of local inter-jurisdictional competition

Proponents claim that with tax-revenue sharing every jurisdiction of a region benefits from new development regardless of where the development takes place.¹⁷

The main benefit of tax-revenue sharing for major cities is that it assists the municipality most burdened with the need to deliver social programs and repair aging infrastructure with the financial means to provide those services and programs.

Why Ohio Needs Tax-Revenue Sharing

Ohio's major cities are in trouble. And the trends show their fate will worsen despite the best economy in Ohio in decades. In some Ohio cities, the problems are getting alarmingly severe.

Ohio's Major Cities Disproportionately House the Poor

Data compiled by the Federal Government (U.S. Census Bureau and the U.S. Department of Housing and Urban Development) show every Ohio major city over-burdened with poverty concentration and most with a diminishing tax and employment base to solve the problem.

Columbus and Toledo, both of which used annexation to "grow" their cities, have the largest share of their metropolitan population, Toledo with 54% and Columbus with 47% (Figure 1). Dayton and Cleveland, neither of which have grown in land area over the last several decades and both of which have experienced significant population loss, only account for 19% and 24% of their metropolitan

¹² Orfield, Myron. *Metropolitics: A Regional Agenda for Community and Stability*. p. 5.

¹³ Ibid., p. 6.

¹⁴ Ibid.

¹⁵ Ibid., p. 8

¹⁶ Rusk, David. "Regional Governance Without Regional Government," *The Future of Cities*. p. 49.

¹⁷ Ibid.

populations respectively. While Toledo and Columbus have participated in the growth of their regional economies, Dayton and Cleveland have been “cut off” by suburban communities and, therefore, not as able to generate a tax-base significant enough to ameliorate the problems of poverty concentration.

The difference between city share of metropolitan population and city share of metropolitan poverty shows Ohio’s cities are taking a much larger share of poverty than what they should. The greatest concentration of poverty is in Cleveland and Dayton. Again, Toledo and Columbus have a lower burden but still have considerably more persons in poverty than their populations suggest. If a city’s share of the region’s poverty matched its share of the region’s population, then column 6 of Figure 1 would show 0%. Anything above 0% is the excess poverty burden carried by the city.

Figure 1: Poverty and population inside city limits as share of the metro area, 1990.¹⁸

	Percent of Metropolitan Population Inside City Limits	Percent of Metropolitan Poverty Inside City Limits	Persons in Poverty Inside City Limits	“Fair Share” of Metropolitan Poverty Inside City Limits	Difference Between Actual and “Fair Share” of Persons in Poverty	Difference in Percent Between Actual and “Fair Share” Persons in Poverty
Akron	34%	63%	48,751	26,310	22,441	85%
Cincinnati	25%	52%	86,886	41,772	45,114	108%
Cleveland	24%	59%	143,482	58,365	85,116	146%
Columbus	47%	71%	110,012	72,825	37,187	51%
Dayton	19%	46%	50,694	20,939	29,755	142%
Toledo	54%	76%	63,105	44,838	18,267	41%

Similar conclusions are made when a comparison is made of metropolitan jobs and poverty. Cleveland and Akron have the greatest imbalance of jobs to poverty while Cincinnati and Columbus have the least imbalance (Figure 2). The greater the imbalance between a city’s job base (a significant portion of its tax base) and its poverty concentration indicates its ability to provide services. Any ratio above 1.0 in column 3 of Figure 2 shows a burden of poverty in relation to a city’s job base.

Figure 2: Percentages of poverty and jobs inside city limits.¹⁹

	Percent of Metropolitan Poverty Inside City Limits 1990	Percent of Metropolitan Jobs Inside City Limits 1992	Ratio of Percentage Poverty to Jobs Inside City Limits
Akron	63%	40%	1.6
Cincinnati	52%	40%	1.3
Cleveland	59%	30%	2.0
Columbus	71%	56%	1.3
Dayton	46%	29%	1.6
Toledo	76%	56%	1.4

Ohio’s Major Cities Are Losing Employment While the Suburbs Boom

Between 1992 and 1997, HUD tracked job growth in Ohio’s major cities and their suburbs. Ohio’s six largest cities generated 45,000 new jobs while their suburbs added 338,000!²⁰ Growth in Ohio’s

¹⁸ U.S. Census Bureau, *1990 Census*, 1990.

¹⁹ U.S. Census Bureau, *1990 Census*, and US Department of Housing and Urban Development, *The State of the Cities 2000*.

suburbs occurred 7.5 times faster than in major cities. Only the City of Columbus, which has been aggressive in its use of annexation, has generated significant job growth (Figure 3). In fact, Columbus accounted for *more* than the entire total of job growth in Ohio's major cities. The remaining five cities would show a net loss of 2,500 jobs without Columbus' job growth. Cincinnati is performing the worst. The Queen City lost 17,500 jobs between 1992 and 1997 while its suburbs added 103,000. Even Cleveland, which claims to have made a comeback in the 1990's, generated only 1 job in 10!

Figure 3: Change in number of jobs, 1992-'97.²¹

	Job Change Inside City Limits	Job Change Suburbs
Akron	2,475	31,183
Cincinnati	-17,530	103,381
Cleveland	8,031	80,848
Columbus	47,386	53,706
Dayton	-1,474	40,232
Toledo	5,939	24,428

The analysis of job growth shows that not only are Ohio's cities a relatively small portion of their regional economies; yet burdened by high rates of poverty concentration, but they are quickly losing market share. Ohio's major urban centers are losing the political and financial resources to create change. Without annexation or the benefits of tax-revenue sharing, the future of Ohio's cities is worsening.

Ohio's Major Cities Continue to Lose Businesses While the Suburbs Boom

Data on business establishments between cities and suburbs paints an even bleaker picture than employment. Overall, Ohio's six major cities lost 215 businesses between 1992 and 1997, while their suburbs added 14,124 new enterprises. Every major city in Ohio, except Columbus, lost business establishments, but even in Columbus, only 1,625 businesses were added while its suburbs added 2,289 (Figure 4). Cincinnati again fared the worst, losing 777 businesses in the city, while its suburbs added 4,578 new enterprises.

Figure 4: Change in business establishments, 1992-1997.²²

	Net Change in Business Establishments in City Limits	Net Change in Business Establishments in Suburbs
Akron	-246	1700
Cincinnati	-777	4578
Cleveland	-367	3988
Columbus	1625	2289
Dayton	-163	753
Toledo	-287	816

Columbus is the only city in Ohio that is staying competitive with its suburbs. Columbus has done this by creating a highly 'elastic' city according to urban scholar and author David Rusk. Columbus' elasticity—through annexation—has created a city that has rapidly grown from 39 square miles in 1950 to over 214 square miles today. The City of Columbus now spreads into two adjoining counties;

²⁰ US Department of Housing and Urban Development, *The State of the Cities 2000*.

²¹ Ibid.

²² Ibid.

some ten school districts operate within the city limits. But even with this dynamic growth, Columbus is slowly losing market share to its suburbs.

Without the use of annexation, Ohio's major cities must find a way to participate in the growth of their regional economies. Tax-revenue sharing, with a proven track record, could be the vehicle to achieve desired goals of stabilizing Ohio's major cities and their metropolitan regions, therefore stabilizing the economy of the entire state.

Tax-Revenue Sharing Can't Do it All

Tax-revenue sharing does not completely address the battle against sprawl, but it does put in place a mechanism for more unified policies that address land use development. Unnecessary urban expansion can still occur. In fact, expansion can occur beyond the boundaries of the revenue sharing districts if its boundaries are not inclusive enough. In addition, tax-revenue sharing does not eliminate the pockets of poverty found primarily in major cities, but it can provide major cities with the resources to deliver services where they are needed most. Tax-revenue sharing does not address the need to provide low-income and affordable housing throughout the region, but again, it can stabilize the financial strength of the central city, positioning itself to better address the issue. Finally, tax-base sharing helps major cities, but does not have the same impact as consolidation of governments or annexation.²³ Land use reform and rail transit are still needed to shift current development patterns towards walkable, mixed-use, and mixed-income neighborhoods and away from low-density, car-dependent sprawl.

Examples

Twin Cities: Fiscal Disparities

The seven-county area around the Twin Cities of Minneapolis and St. Paul implemented a weak form of a regional government but also an ambitious tax-base sharing plan called "fiscal disparities." To even the playing field between old and new, rich and poor parts of the region, a tax-sharing plan was devised to distribute revenue from growth among 187 municipalities, 49 school districts and seven counties.²⁴ Each community in the area contributes 40 percent of their new commercial-industrial assessed value into a pool. The money is then redistributed to each community through a formula that takes into account each community's population and its property tax base.

In effect since 1971, the fiscal disparities program is achieving its goal. The gap in the commercial-industrial tax base between the have and have-not municipalities shrank from a 15-to-one ratio to five to one.²⁵ The City of Minneapolis fluctuates each year between giving and receiving and pulled in about \$600,000 in 2000.²⁶ About \$100 in revenues per person per year is generated from fiscal disparities.²⁷

²³ Von Sternberg, Bob. "Scholar Ties Woes to Suburbs," *Minneapolis Star Tribune*. April 19, 1996, p. 3B.

²⁴ Wright, Steve. "Minnesota Legislator Believes Regional Solutions Save Cities," *Columbus Dispatch*. November 10, 1998, p. 4D.

²⁵ Aubin, Henry. "Minneapolis: A Model for Montreal," *Montreal Gazette*. November 3, 1999, p. B3.

²⁶ Peterson, David. "Fiscal-Disparities Pool Has \$26 Million More for Metro-Area Cities," *Minneapolis Star Tribune*. January 21, 2000, p. 2B.

²⁷ Rusk, David. "Sprawl and Race," *The New American City Faces its Regional Future*. p. 45.

Peter Fisher, in “Regional Tax-Base Sharing: An Analysis and Simulation of Alternative Approaches”, acknowledges that since the Minnesota plan focuses on growth, it incorporates a large disincentive for communities to compete with each other for new business development.²⁸

The Minnesota plan faces some problems. One study concluded, “Contributions of tax base to the metropolitan pool are based not on the total tax base per capita but only on *increases* in a *portion* of the tax base (commercial and industrial property). A bedroom community that begins to see new commercial or industrial development will have all of this development as part of the revenue sharing plan. Contrast that with a city that saw most of its industrial property developed before the creation of the revenue sharing plan. This city will contribute little to nothing.”²⁹

Another problem is that the Minnesota plan requires that all distributions be positive. Thus, a wealthy community that sees no growth in industrial and commercial property will still receive a positive distribution. The Minnesota plan will not shift tax base away from these types of wealthy communities.³⁰

Dayton: Economic Development / Government Equity Program
Dayton communities formed a similar arrangement called the Economic Development / Government Equity program (ED/GE) but used \$5 million in economic development grants as an inducement. In 1992, a 9-year pact on joint economic development and tax sharing was signed by 29 of the 30 local cities, villages, and townships. ED/GE guarantees that every government will be a net beneficiary through an economic-development fund.³¹

ED/GE is funded through a 0.5 percent county sales tax. The funds, expected to total \$50 million over ten years, are provided for capital and research projects to spur economic growth. The program is also designed to encourage regional cooperation and help the county compete in a global economy.³²

The Dayton plan is on a much smaller scale than the one in Minnesota since it only amounts to \$1 per resident of Montgomery County per year in pooled revenues compared with \$100 per resident in the Twin Cities arrangement.³³ University of Buffalo researchers found that “slow progress on most issues has caused many to lose interest in the idea of regionalism.”³⁴ Another report in 1997 found that ED/GE had made “only marginal strides in creating jobs and boosting wages for county residents.”³⁵

Pittsburgh: Allegheny Regional Asset District
In the early 1990s, Pittsburgh, the surrounding municipalities, and Allegheny County took a giant step towards regionalism through tax-revenue sharing. Act 77, passed by the Pennsylvania General

²⁸ Fisher, Peter S. “Regional Tax-Base Sharing: An Analysis and Simulation of Alternative Approaches,” *Land Economics*, November 1982, p. 512.

²⁹ *Ibid.*, p. 501.

³⁰ *Ibid.*, p. 511.

³¹ Miller, David. “Fiscal Regionalism: Metropolitan Reform Without Boundary Changes,” *Government Finance Review*, December, 2000, p. 7.

³² Stewart III, Mizell. *Dayton Daily News*. February 4, 1992, p. 2B.

³³ Rusk, David. “Sprawl and Race,” *The New American City Faces its Regional Future*. p. 46.

³⁴ Schulman, Susan. “Seven Metro Areas Illustrate Scope of Approach,” *Buffalo News*, April 20, 1997, p. 4C.

³⁵ Mendell, David. “No Edge to ED/GE Program,” *Dayton Daily News*. September 28, 1997, p. 1B.

Assembly in 1993, created the Allegheny Regional Asset District (ARAD). Act 77 had three goals: to provide more funding for regional assets, promote intergovernmental cooperation, and to provide new revenues to local government.

There were several reasons behind this effort. The City of Pittsburgh traditionally had been the primary funder for assets such as the zoo, conservatory, and even Three Rivers Stadium while a majority of their patrons tended to be from outside the city of Pittsburgh.³⁶ The fiscal disparity between municipalities in the region was growing due in large part to a loss of industrial tax base. In 1948, 73 percent of the business activity in the county took place in Pittsburgh. By the 1980s, the figure had fallen to 38 percent.³⁷ Finally, local governments were seen as too dependent on “nuisance taxes” such as an amusement tax that made the region less competitive.³⁸

ARAD was created in conjunction with a 1-percent countywide local option sales tax. Half of the revenues support the region’s various efforts through ARAD. The other half is distributed to the county and its 128 municipalities for tax reform. University of Buffalo researchers found this to be “a stable means for supporting areawide assets.”³⁹

The tax was expected to generate \$144 million in 2000. Half of this money went to libraries, stadiums, parks museums, the zoo, the conservatory, the aviary, and cultural and performing arts groups. One-fourth of this total went to the county for tax relief. The remaining portion was distributed to Pittsburgh and the other municipalities.

The formula used to distribute the funds favors poorer cities and takes into account municipal per capital market value and tax revenue. Distributions of sales tax revenue have allowed financially strapped cities to hold down property tax rates and increase municipal services at the same time.⁴⁰ The median per capita allocation for the county’s most financially stressed cities was \$158 compared to \$69 for the 11 least stressed.

Denver: Scientific and Cultural Facilities District

The Denver area created a similar district as Pittsburgh. In 1987, the Colorado legislature passed enabling legislation to allow a six-county region to create a regional cultural asset district. The Scientific and Cultural Facilities (SCFD) district was created in 1988 when voters ratified it by a ratio of three-to-one.⁴¹

The SCFD is a six-county district that collects a tenth of a percent sales tax. The funds are distributed to three “tiers” of cultural organizations: the “Big Four” (Denver Art Museum, the

³⁶ Jensen, Brian K. and James W. Turner. “Act 77: Revenue Sharing in Allegheny County,” *Government Finance Review*. December, 2000, p. 17.

³⁷ Miller, David. “Fiscal Regionalism: Metropolitan Reform Without Boundary Changes,” *Government Finance Review*. December, 2000, p. 8

³⁸ Jensen, Brian K. and James W. Turner. “Act 77: Revenue Sharing in Allegheny County,” *Government Finance Review*. December, 2000, p. 17.

³⁹ Schulman, Susan. “Seven Metro Areas Illustrate Scope of Approach,” *Buffalo News* April 20, 1997, p. 4C.

⁴⁰ Jensen, Brian K. and James W. Turner. “Act 77: Revenue Sharing in Allegheny County,” *Government Finance Review*. December, 2000, p. 19.

⁴¹ Hansberry, Jane. “Denver’s Scientific and Cultural Facilities District: A Case Study in Regionalism,” *Government Finance Review*. December, 2000, p. 14.

Denver Zoo, the Denver Botanic Gardens, and the Denver Museum of Nature and Science), the major performing arts organizations, and the smaller cultural institutions.⁴²

The Big Four organizations lost state funding in 1982, funding they had enjoyed for decades. The City and County of Denver provided about half of the funding for these institutions. The city and county were losing population and revenue to surrounding counties. The institutions discovered that most of their visitors were residents of the surrounding counties.⁴³

By 1999, the SCFD had revenues of \$33 million and distributed funds to more than 300 cultural organizations. The SCFD was scheduled to sunset in 1996 but voters extended the life of the SCFD through 2006 in a 1994 vote.⁴⁴

Conclusion

Peter Fisher in “Regional Tax-Base Sharing: An Analysis and Simulation of Alternative Approaches” offers two improvements on the traditional tax-base sharing model used most notably in the Twin Cities.⁴⁵ First, Fisher makes a case for a revenue sharing plan through the use of equalizing grant formula. Fisher also makes a case for implementing any tax-revenue sharing plan on a statewide level rather than limiting it to merely metropolitan regions. Because competition exists on a much larger scale than in metropolitan areas, statewide solutions should also be sought.

Tax-revenue sharing takes different forms in different communities. Minneapolis-St. Paul is the best example of tax-revenue sharing for a metropolitan region that should seriously be examined by Ohio communities, even with its limitations. Other joint economic development, regional asset, and cultural facility districts are effective tools worthy of further study.

There is no single solution to solve the myriad of problems facing Ohio’s cities, or the nation’s cities for that matter. One thing is certain: metropolitan regions that form a more cooperative environment, address the issues of poverty concentration in the core, and address uncontrolled growth on the fringe, will be more competitive in an increasingly global economy. Tax-revenue sharing will not solve all the problems facing urban centers, but it offers a way to promote regionalism without forcing communities to give up autonomy or distinct identities.

⁴² Ibid., p. 13.

⁴³ Ibid.

⁴⁴ Ibid., p. 15.

⁴⁵ Fisher, Peter S. “Regional Tax-Base Sharing: An Analysis and Simulation of Alternative Approaches,” *Land Economics*, November 1982, p. 511.