Regionalist Paper No. 11

Funding Regionalism
What are the Options?

Whether there is only one regional administration or coexisting local and regional administrations, the totality of needed government functions remains the same—provided responsibilities are allocated to avoid duplication. Thus regionalism need not add to the tasks to be performed nor add to the cost of government.

Indeed, one purpose of a regional approach to local governance activities is just the opposite—to reduce costs by achieving economies of scale while gaining more effective decision-making and more professional administration. Several metropolitan areas in the United States and Canada have regionalized over the past forty years[1] and, as intended, they have achieved both more credible long range planning and more economical and effective management of government functions. Regionalism ideally should result in more bang-for-the-buck.

Adequate funding is a requirement for competent governance and management of complex region-wide issues involving transportation, land use, the environment, sprawl, health care, and economic development. Several funding options are available, including taxes, user fees or service charges, inter-government agreements, revenue and service sharing, subsidies, grants, private contributions, and borrowing using one or more of the other revenue sources for repayment.

Taxes: Government at federal, state, and local levels funds itself primarily with taxes. The basis of a tax may be income, sales of goods or services, real estate, personal property, or some specific type of transaction. Taxes differ from other sources of funding in that the basis on which they are collected is normally not directly related to how the resulting revenue will be spent

Taxes on real estate are the primary source of funds for Hampton Roads local governments. Local councils control real estate taxes by selecting a tax rate that is multiplied by assessed property values set by locally employed appraisers. Second in importance are the legislature's appropriations of state income tax and sales taxes by the legislature. Federal grants and fees on services supplement local budgets. Localities do

[1] See Regionalist Paper No. 8, *Regionalism As Advanced Elsewhere; the Spectrum of Regional Structures that has arisen in North America: What are Our Options?*

not use an income tax, although the charter of the City of Norfolk permits a local income tax.

Tax revenues vary somewhat with the business cycle. To deal with this uncertainty and advance a regional mast transit objective, Pennsylvania created a long-term tax base to rescue and stabilize the Greater Philadelphia Southeast Public Transit Authority.[2]

As a source of funding for regional organizations, direct taxing authority is rarely encountered, but Metro Portland and Twin Cities Metro are two important examples. Instead, in Hampton Roads and elsewhere, local governments use their taxes to provide subsidies, membership dues, or in-kind manpower and services to regional organizations. As regional organizations acquire broader responsibilities, the concept of direct tax authority could find further application.

User fees or service charges: Here the revenue is collected in exchange for a service. As a general rule, regional authorities established to gain economies of scale and tasked with clear technical functions are designed to be self supporting through such fees. Sometimes the fees are paid on behalf of the users by their municipalities. Although they may be empowered to borrow to build facilities, such authorities have no taxing authority to cover operations. The various State-established Regional Authorities in Hampton Roads - for trash disposal, bus service, airports, etc. - are funded primarily in this manner but may also require subsidies and grants. Others, notably the Virginia Port Authority, are required to operate as independent businesses without government support.

Inter-governmental agreements: Two or more local governments often enter into joint agreements to coordinate responsibilities across borders without creating a separate regional organization. These may involve police, fire, first responders, and many other government tasks, even including schools (as in Williamsburg and James City County). Localities also often develop joint purchasing contracts to gain economies of scale. These may include purchase of school buses, contracts for vehicle maintenance and parts, insurance programs, pooling of investment funds, and other functions. The scores of such agreements among Hampton Roads governments demonstrate the high degree of regional cooperation that already exists. The regional function in these cases is supported financially from each government's own departmental funding sources. Voluntary inter-governmental agreements are a productive method for promoting and achieving regional cooperation, something short of regional governance, but nonetheless, most useful.

[2] Neal R. Peirce, *Citistates: How Urban America can Prosper in a Competitive World,* (Seven Locks Press, Washington, D.C., 1993), p. 14.

Shared revenues-shared services[3]: The concept of shared revenues and shared services, or project funding, is a form of inter-governmental agreement wherein two or more local governments share in creating a regional facility, such as an industrial park, arts pavilion, or stadium. In such projects the participating communities contribute to the investment and, by some agreed formula, they receive their share of net revenues produced by the rents, entrance fees, and other income generated by the project. Shared revenue–shared services agreements often must be approved by the state and they may require citizen approval via referenda.

Subsidies. Where local governments create a regional organization that does not generate revenues from operations, a portion or all of the costs are covered by subsidies provided by the controlling governments. The costs are usually apportioned under a formula based on the populations of the participating governments. Examples in Hampton Roads include the Planning District Commission and Metropolitan Planning Organization. A similar formula is used by the public schools to fund the public broadcasting station, WHRO, which also relies on grants and private contributions.

Grants. Since World War II grants have become a substantial source of funds not only for states and local governments but also for metropolitan regions. Donors include federal and state governments as well as private foundations. Grants are available for all manner of programs and projects in education, highways, mass transit, health care, housing, parks and recreation, veteran's affairs and other human services projects, to name just a few.

Federal grants[4] make up the largest proportion of this source of funds. They always have strings attached. Increasingly, federal grants require grantees to have metropolitan planning and management, a metropolitan allocation formula for the funds awarded, and provision for widespread citizen awareness. Grants for transportation, housing and the environment have been most typical of this approach.

Increasingly also, the availability of such funding stimulates creation of a regional organization to receive and manage the funds. For example, to apply for and to obtain matching federal funds for transportation, a region must have a Metropolitan Planning Organization. Hampton Roads has a Metropolitan Planning Organization that is administered by the Hampton Roads Planning District Commission.

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[3] See Regionalist Paper No. 12, *Revenue Sharing as a Component of Regionalism: What are the Issues?*
[4] See Regionalist Paper No. 4, *Federal Support for Regionalism: Understanding Trends and Available Resources.*

Regional entities as the vehicle for managing federal funds: There is an ongoing and strong trend to require that federal funds be applied for the greater good. In particular, this means the "greater metropolitan good", as is evident in the continuing flow of Congressional legislation. The bar steadily rises as requirements move beyond the need for metropolitan planning and metropolitan allocation of funds to requiring the formation of regional organizations, assurances of conformity with related environment, land-use or other projects, greater citizen involvement, and social impact statements. In short, the trend is away from funding just single topics, say highways, to funding that has assured comprehensive and constructive impacts. The idea of requiring that federal funds from any federal department be managed by a duly-established regional body have been the subject of discussion for many years. This trend continues, and metropolitan-wide linkages along these lines are evident in recent legislation. In his latest book, "*New Visions for Metropolitan America*", Anthony Downs[5] calls for the creation of Regional Allocation Agencies to handle such matters. This suggests there would be considerable advantage to think through and mold such an organization in Hampton Roads.

Private Contributions. Regional initiatives are often undertaken through public-private partnerships. In these cases the projects or organizations are usually funded not only by subsidies from the participating governments but also by contributions or dues paid by participating private businesses or individuals. Examples in Hampton Roads include the Hampton Roads Partnership and the Hampton Roads Economic Development Alliance, both of which collect "membership dues" from participating board members.

Borrowing. Under the state constitution or state-approved charters, cities, counties and towns have authority to borrow by issuing long-term bonds or short-term notes. The ability to repay is based on their taxing powers. Likewise, the charters for most regional political sub-divisions established by the state, such as Regional Authorities (for water, sanitation, airport, and transit authorities), also have bond-issuing authority. However, without taxing power, these entities must rely for repayment either on their operating revenues or on subsidy pledges from the controlling municipalities. Bond financing is used for large projects requiring multi-year revenues for repayment. Notes are used for short-term needs related to gaps in operating cash flow.

Summary. Financially, the objective of regionalism is to improve services while lowering costs—unless, as with all governance matters, an increase in spending can be justified because it will produce increased benefits.

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[5] Anthony Downs, *New Visions for Metropolitan America*, (The Lincoln Institute of Land Policy for The Brookings Institution, Washington, D.C., 1994) p. 170.

This brief review of funding sources suggests that how regional functions should be financed depends on the organizational structure in which they are cast. A basic consideration is whether the regional activity can be self-supporting from its own operations, either through taxes or fees, or whether it must depend on public subsidies, grants, or cost-absorbing inter-government agreements, or on private contributions—or some mix. However, the important structural issues relate less to funding and more to such basic features as state authorization for the organization, the leadership of elected officials representing communities involved, open and transparent planning to ensure citizen review, and a charter that adequately empowers the organization to carry out its regional mission.

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